



RESEARCH BRIEF

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From parent to child: Intergenerational earnings persistence across ethnic groups

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Key insights

This research brief summarises findings from a study of whether the earnings of workers in Aotearoa New Zealand is related to how much their parents earned. The correlation of earnings between parents and children is an important socioeconomic indicator - a high rate of mobility reflects a fair and fluid society where one's outcomes are not pre-determined by those of their parents or circumstances in their early life. In contrast, a low rate of mobility reflects a society in which inequality is entrenched and where success is more difficult to achieve for children from disadvantaged backgrounds. Ethnic differences in social mobility can reflect the persistent effects of systemic racism and other forms of discrimination on people's lives.

- We examine the contribution of intergenerational, intra-family earnings persistence to earnings rate inequality for six ethnic groups in Aotearoa New Zealand (European, Māori, Pacific peoples, Asian, MELAA¹, and 'other') for children born in 1986-1992. The study extends prior New Zealand literature by considering six ethnic groups, focusing on earnings rates rather than income or education alone, and utilizing a more comprehensive dataset and improved methods
- We find intergenerational persistence in earnings between and within ethnic groups. The overall degree of intergenerational persistence in Aotearoa New Zealand is similar to that of other OECD countries for which comparable measures are available.
- Over three-quarters of inter-family or inter-ethnic group inequality would dissipate within one generation if inequality were solely due to within family persistence. The longer-term stability of ethnic pay differences points to longer term systemic factors that perpetuate inter-ethnic inequalities
- The results suggest that the persistence of advantage (children of high-earning parents having high-earnings) is slightly stronger than the persistence of disadvantage (children of low-earning parents having low-earnings).

1 Middle Eastern, Latin American, and African ethnic group

- Earnings persistence reflects intergenerational persistence in characteristics such as qualifications and being employed in high-paying firms.
- Within ethnic groups, persistence is particularly low for Asian children, who around age 30 earn more than their parents did when the children were growing up. A key contributing factor is that the children have higher qualifications than their (relatively well qualified) parents.

Introduction

This research brief summarises an analysis of intergenerational earnings persistence in New Zealand, highlighting key findings on ethnic and gender differences, the importance of observable characteristics, and implications for policy and social equity. The study's use of rich administrative data and advanced econometric techniques provides robust evidence on the mechanisms perpetuating earnings inequality across generations.

Introduction and Research Context

We investigate the relationship between parent earnings and child earnings, to see whether durable inequalities within and between ethnic groups are perpetuated within families or reflect broader group-level patterns that may reflect discrimination or systemic racism.

The study addresses persistent earnings variation within and between ethnic groups in New Zealand, aiming to understand the role of intergenerational transmission of earnings in sustaining ethnic pay disparities. It distinguishes between transmitted advantage (high-earning parents passing on benefits) and transmitted disadvantage (low-earning parents passing on challenges) and assesses whether persistence can be explained by characteristics such as education, location, and access to high-paying employers. This research extends prior New Zealand literature by incorporating six ethnic groups, focusing on earnings rates rather than income or education alone, and utilizing a more comprehensive dataset and methods that mitigate measurement error bias.

Data

The study uses linked administrative data from the Statistics New Zealand Integrated Data Infrastructure (IDI), enabling a population-wide analysis that overcomes the limitations of previous studies based on smaller cohorts or survey data. This linkage includes birth records, census data, administrative welfare and immigration data, and employment surveys, allowing identification of parents who raised the child and capturing detailed earnings information.

The research identifies over 387,000 children born 1986–1992 with income data around age 30 and links them to approximately 688,000 parents. Analysis of earnings focuses on an Employment sample (288,000 children linked to parents with income data) and an Earnings Rate sample (198,000 children and parents both earning wages for at least six months in a year, excluding outliers).

Methods

Earnings are measured as consumers price index (CPI)-adjusted monthly wage and salary earnings, ranked nationally by cohort to enable relative and absolute persistence analyses. Relative persistence captures whether parental earnings (relative to other parents) is related to whether children's earnings (relative to other children) is high. Absolute persistence captures whether the level of earnings is high or low for some groups, conditional on what their parents earned.

The study uses rank-rank regression models to estimate the (relative persistence) relationship between parental and child earnings ranks, controlling for cohort effects, and a framework developed by Chetty (2020).

It is well known that measurement errors in parental earnings lead to understated levels of persistence. We address this using a novel econometric approach (using worker fixed effects from a two-way worker/ firm fixed effects regression as an instrumental variable), resulting in more reliable estimates. Covariate-adjusted models incorporate observable characteristics such as qualifications, location, and firm pay levels to assess their contribution to earnings persistence.

Findings

Intergenerational Earnings Persistence

The core finding is an overall IV-estimated rank-rank slope of 0.27, indicating that children inherit about one quarter of their parents' relative earnings advantage or disadvantage. This suggests that within-family persistence accounts for only a small part of sustained ethnic and family earnings inequality. The persistence is stronger at the upper end of the earnings distribution, implying that advantage is more durable across generations than disadvantage.

Table 1 reports ethnic variation in estimated persistence. It shows that relative earnings persistence is highest for Māori (0.31) and MELAA (0.29), and lowest for Asian children (0.18), who experience considerable upward mobility relative to their parents. Absolute persistence measures reveal that, conditional on parental rank, Māori and Pacific children have lower expected earnings ranks, while Asian children have higher ranks, reflecting significant intergenerational improvements.

Gender analysis indicates that daughters exhibit stronger earnings persistence than sons, with father-to-child links generally stronger than mother-to-child links. Persistence is highest for Māori across all gender combinations, and Asian children have the weakest persistence.

Adjusting for the fact that parents and children generally have similar observable characteristics shows that much of the intergenerational earnings persistence is explained by persistence in observable characteristics such as educational qualifications, location (notably Auckland residence), and employment in high-paying firms. Asian children's high upward mobility is largely account for by their higher qualifications and access to better-paying employers, while Māori and Pacific children face lower qualifications and less access to high-paying firms, contributing to lower earnings ranks. Controlling for these factors reduces the rank-rank coefficient by 0.12 to 0.19 across ethnic groups and narrows ethnic disparities in steady-state earnings ranks.

Table 1: Intergenerational earnings persistence (by ethnicity)

Ethnic Group	Relative persistence	Covariate-adjusted relative persistence
All	0.27	0.11
European	0.24	0.10
Māori	0.31	0.15
Pacific	0.25	0.11
Asian	0.18	0.05
MELAA	0.29	0.10
Other	0.21	0.09

Note: All measures are rank-rank coefficients, estimated using IV. A higher number indicates a stronger positive relationship between parental and child earnings. Covariate adjustment removes the influence of similarity of parent and child characteristics.

Income Source and Employment Persistence

The study also documents intergenerational persistence in employment. We examine patterns of wage and salary earnings (WAS), social assistance, and other income types. For example, 59% of children and 69% of parents have only wage and salary income, with a positive relative risk indicating correlation between parent and child income source patterns.

Employment intensity, measured by months employed per year is also persistent across generations. Children of parents with zero months employed are significantly more likely to have no employment themselves (relative risk 1.70), while high employment intensity (6–12 months) shows modest persistence, particularly among Māori, Pacific, and MELAA groups.

Summary and Implications

The study concludes that intergenerational earnings persistence in New Zealand is moderate and varies by ethnicity, with transmission of advantage more persistent than transmission of disadvantage. The findings imply that family-level persistence explains only a fraction of ethnic pay disparities, pointing to broader systemic factors including discrimination and structural inequalities in education, labour markets, and social contexts. The substantial upward mobility of Asian children is encouraging, indicating potential for rapid intergenerational earnings mobility despite existing barriers. However, persistent disadvantages for Māori and Pacific peoples highlight the need for targeted policies addressing both within-family and systemic causes of inequality.

The full research report is available at https://motu-www.motu.org.nz/wpapers/25_01.pdf (Alimi & Maré, 2025). Microsoft Copilot was used in the preparation of this research brief.

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