

## **Education, Ability, and Wealth: A Prospective Study**

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### **ABSTRACT**

Much is known about the role of education and ability in determining occupational chances and earnings or income. Much less is known about the determinants of wealth, possibly excepting inherited wealth. In this study, we will investigate differentials in the accumulation of wealth at ages 53 to 54 and at ages 64 to 65 in a cohort of male and female high school graduates who have participated in the Wisconsin Longitudinal Study (WLS) for nearly half a century. Key explanatory variables include gender, parents' incomes, adolescent cognitive ability, educational attainment, career success, and inherited wealth.

The WLS is a long-term study of a one-third random sample ( $N = 10,317$ ) of men and women who graduated from Wisconsin high schools in 1957 (and of their randomly selected brothers and sisters). Survey data were collected from the graduates or their parents in 1957, 1964, 1975, and 1993-94 and from a selected sibling in 1977 and 1993/94. New surveys of the graduates (and their spouses and widows) were begun in 2003 and will be complete by the end of 2004. These data provide a comprehensive record of social background, youthful aspirations, schooling, military service, family formation, labor market experiences, and social participation. Beginning in 1992-94, there are extensive, self-reported data on health and retirement. Survey data from earlier years have been supplemented by mental ability tests (of graduates and their siblings), measures of school performance, and characteristics of communities of residence, schools and colleges, employers, and industries.

In the 1993-94 round of the WLS, the content was extended to obtain detailed occupational histories and job characteristics; incomes, assets, and inter-household transfers; social and economic characteristics of parents, siblings, and children and descriptions of the respondents' relationships with them; and extensive information about mental and physical health and well-being. The graduate surveys included a 1-hour telephone interview, followed by a 20-page, self-administered questionnaire. Brief, close-out interviews were carried out with a relative of respondents who had died. Coverage of these areas has been expanded in the new round of surveys, which comprise a 75 minute telephone interview, followed by a 50 page mailout.

Given the population from which it is drawn, the WLS sample is not representative of all strata of society. All members of the primary sample—and 93% of their siblings—graduated from high school, as compared to an estimated 75% of Wisconsin youth in the late 1950s. There are only a handful of African American, Hispanic, or Asian persons in the sample. All African-American graduates of 1957 are now being recruited into the study, but this addition will yield only a small number of cases. In each of the post-1957 waves of the study, about two-thirds of respondents have lived in Wisconsin.

The WLS sample does otherwise appear to be broadly representative of white, non-Hispanic American men and women who have completed at least a high school education. Of all Americans aged 50 to 54 in 1990 and 1991, approximately 66 percent are non-Hispanic white persons who completed at least 12 years of schooling. For example, approximately the same portion of the WLS sample is of farm origin as national estimates for cohorts born in the late 1930s. As in the later, large, longitudinal studies of school-based samples, age variation occurs in repeated observations, rather than in cross-section.

In the 1993-94 follow-up the graduates were 53 or 54 years old when interviewed. In all, 8493 of the 9741 surviving members of the original sample were interviewed. Among surviving respondents to the 1993-94 surveys, we estimate that 85 percent will respond in the current the mail interviews and 87 percent of those will respond to the mailout. (Although data collection is not complete, the cases have been fielded as 10 independent subsamples, so we have been able to anticipate the final response rate.)

Net worth has been ascertained in the 1993-94 and 2003-04 surveys. Thus, we are in a good position to investigate overall differentials in wealth (and several of its components) and, in particular, to look at changes in wealth in the years immediately preceding retirement. The Health and Retirement Study (HRS) provides similar components of wealth in the years preceding retirement and in a nationally representative sample. We will compare estimates from the WLS with those from the HRS. However, the WLS data can be used to locate wealth trajectories in the context of parental incomes, gifts, and bequests; academic ability; educational attainments; and career experiences from adolescence to retirement. For example, the WLS ascertained parents' incomes from tax records in the years 1957 to 1960, and test scores during the freshman and junior years of high school have been obtained from records of the Wisconsin State Testing Service. Moreover, the WLS has ascertained histories of bequests and other transfers in both the 1993-94 and 2003-04 waves of the study.

Data collection for the 2003-04 wave of the study is not yet complete. However, data have been delivered and processed on a flow basis. More than 6000 telephone cases have been delivered, and we are quite confident of our ability to produce a finished paper in time for the PAA meetings.