

Discussion of:  
The Earnings Premium of First-Degree Nepotism in the Chilean  
Formal Private Sector

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*The views and findings expressed here are those of the author's and do not necessarily reflect the views of the Federal Reserve Bank of Cleveland or the Federal Reserve System.*

# Basic Idea and Main Results

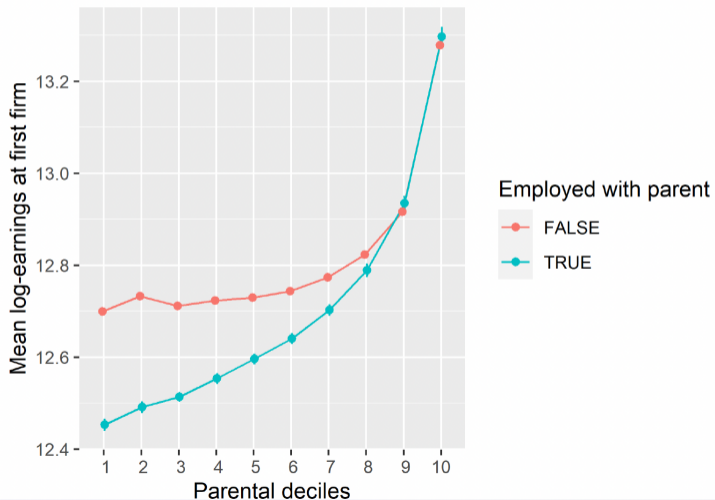
- ▶ The paper studies the effects of parental assistance to children at entry-level jobs (nepotism):
  - ▶ Documents empirically the effect of being employed with parents in Chile's formal sector
  - ▶ Develops non-causal (projections) and causal analyses (exact matching)
  - ▶ Focus on results across parental income distribution
- ▶ Main results:
  - ▶ At the bottom of the distrib., uncond. earnings are lower for children whose first job is with parent
  - ▶ After controls, interactions, and matching: the wedge persists
  - ▶ Opposite result when compared to developed countries: assortative matching and intergenerational mobility (Chetty et al.'s agenda)

# Takeaway Lessons and Strong Suits

- ▶ Takeaway Lessons:
  - ▶ Parental income rank matters, absorbs substantial part of the negative effect
  - ▶ Firm fixed effects are key, poor parents provide opportunity at low quality firms
  - ▶ Developing economies can be surprising: needs mechanism
- ▶ Strong Suits:
  - ▶ Interesting topic, good data, and clear question
  - ▶ Counter-intuitive result, but consistent across analysis
  - ▶ Good clue of potential mechanism: low-productivity small businesses

# Main Figure:

Figure: Mean log(Earnings<sup>c</sup>) by treatment status across parental deciles



# Discussion of the Paper: Comments and Suggestions

## ▶ Comments:

- ▶ Informality margin should be key, how is that currently in Chile?
- ▶ Are these parent-firms low with productivity? How far are they from informal?
- ▶ Is this a model of entrepreneurship? Is this a mom-and-pop part of the economy?
- ▶ Education, parental rank, firm fixed effect - decompose forces
- ▶ How families at the top distinguish themselves

## ▶ Suggestions:

- ▶ Explore more “social capital” literature - what drives mobility?
- ▶ The answer might shed light into what traps poor children into low-paying jobs, or how to move up

# Discussion of the Paper: Suggestions and Edits

- ▶ More suggestions:
  - ▶ Make strategy for further steps clear: will this be purely causal empirical exercise? Model for mechanism? Can we decompose without one?
  - ▶ Answer might help identify where to focus - stylized facts are interesting already
  - ▶ Hard to consider sectoral choice without model
- ▶ Editorial (free disposal):
  - ▶ Summary stats table not quite clear
  - ▶ No discussion of best approach? IV?
  - ▶ Odd choice of controls in exact matching - why not same as before?