

Inequality and Opportunity: How to slide down the Great Gatsby Curve

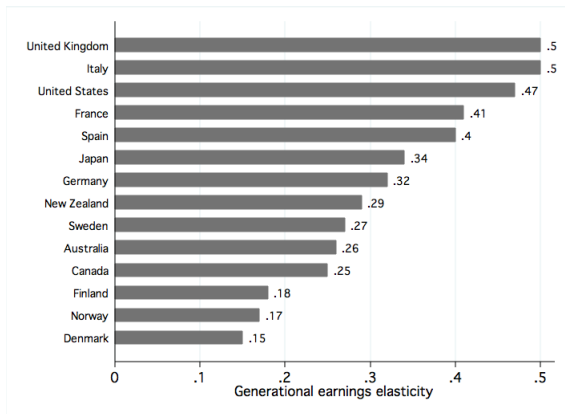
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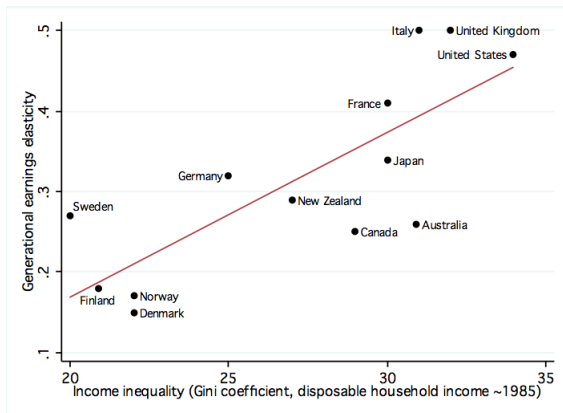
1. Generational earnings mobility varies ...

the US and UK are among the least mobile among the rich countries while Canada is among the most, but does this require policy intervention?



Source: Corak (2013).

2. Mobility is lower where inequality is higher what are the underlying causes?

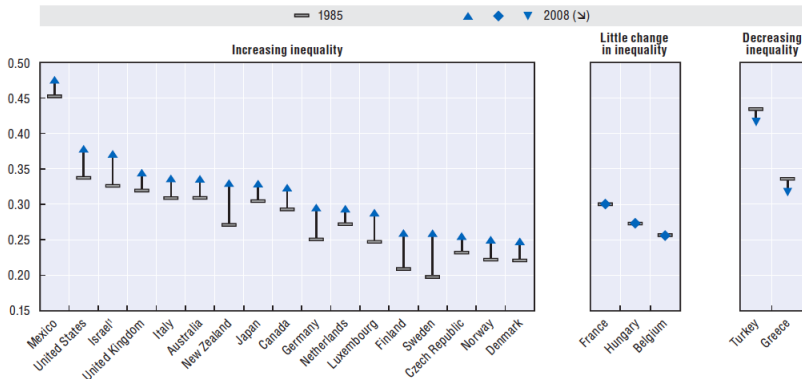


Source: Corak (2013).

3. Inequality has been rising in most countries, and ...

Figure 1. **Income inequality increased in most, but not all OECD countries**

Gini coefficients of income inequality, mid-1980s and late 2000s

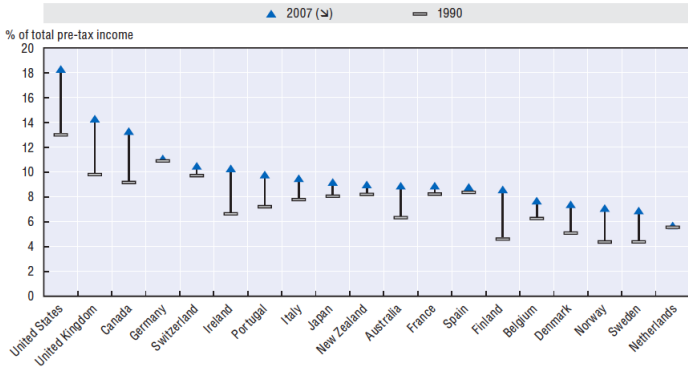


Source: OECD (2011) *Divided We Stand: Why Inequality Keeps Rising*, page 24.

3. ... in part because top incomes have increased are the societies experiencing more inequality likely to also experience less social mobility?

Figure 12. **The share of top incomes increased, especially in English-speaking countries**

Shares of top 1% incomes in total pre-tax incomes, 1990-2007 (or closest year)



Source: OECD (2011) *Divided We Stand: Why Inequality Keeps Rising*, page 39.

Generational earnings mobility as a marker of social mobility

The gradient between the career adult earnings of a child and that of his or her parents

- expressed in percentage terms, and indicating the degree of relative earnings mobility across the generations
- cross-country comparisons are often limited to father - son earnings
- no sense of absolute differences, or of directional changes

Earnings mobility and Equality of Opportunity

The degree of generational earnings mobility may be related to “equality of opportunity”, but only when we appreciate the underlying reasons

- Equality of Opportunity means that inequities of outcome are not defensible when they are the result of different “circumstances”
- What “circumstances” should policy makers seek to level?
 - eliminate the influence of social connections and family income in facilitating access to health care, education, employment?
 - eliminate the influence of parental investments (time and money) that develop skills, beliefs and motivation?
 - eliminate the consequences of the genetic transmission of ability?

A public policy target?

- A completely flat parent-child earnings gradient or a flatter gradient in a particular country is not necessarily a goal for public policy without this appreciation
- This said more mobility is associated with higher life satisfaction

The nature of public policy is a social choice determining social mobility ...

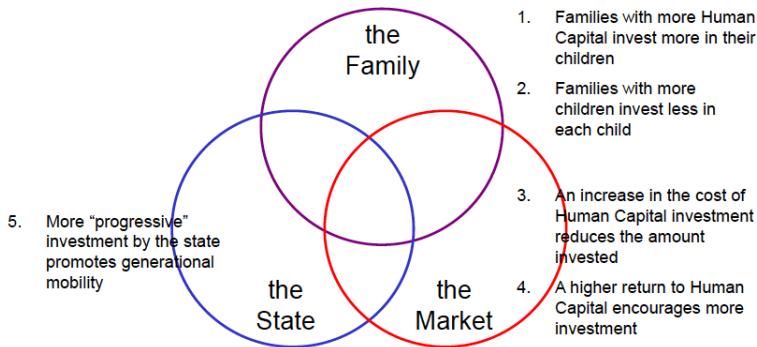
Public policies that are of relatively more advantage to the disadvantaged will promote upward mobility

- offering insurance by buffering families from shocks
- offering investment in human capital

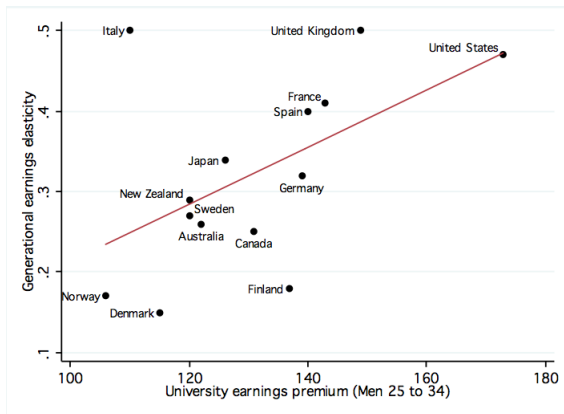
But public policy can also be of relatively more advantage to the advantaged, or reinforce market tendencies

- this is more likely in more unequal societies

... but three broad institutions determine life chances
the overlap and interaction between families, markets, and the state together determine social mobility – there is no “silver” bullet

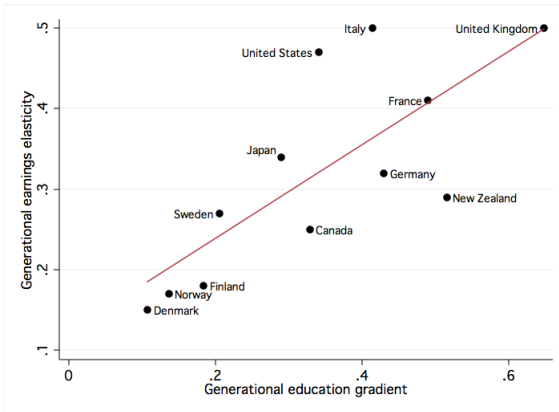


A higher return to education encourages more investment ... changing opportunities and incentives, and thereby determining the degree of mobility



Source: Corak (2013) and OECD (2011) Table 8A.1 for University earnings premium, about 2009.

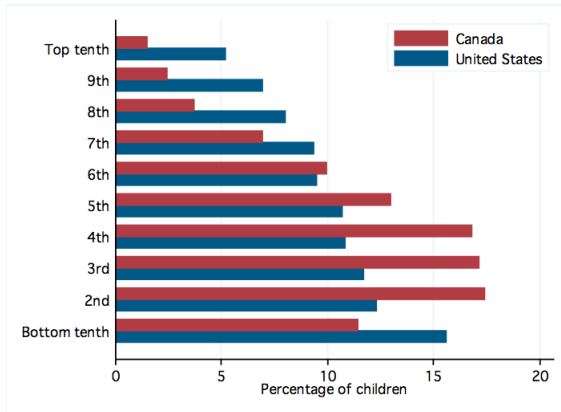
... but who has the capacity to make these investments?
Families with more human capital invest more in their children, in fact education outcomes are most closely tied to family background in the UK



Source: Corak (2013) and Hertz et al (2007) for education gradient.

Money matters more in unequal societies

Canadian incomes imply that children are less likely to live in households at the top and very bottom of the US income distribution than American children



Source: Corak, Curtis, and Phipps (2011).

Money matters

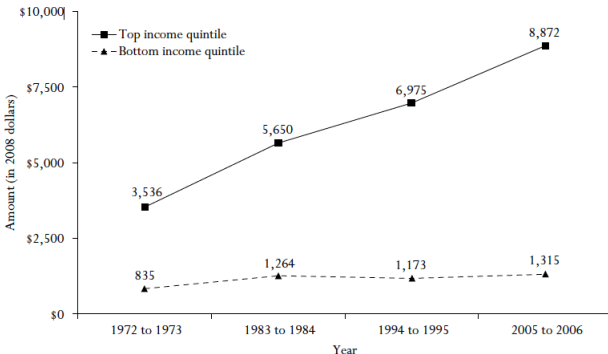
Families with more money invest more in their children, the race to university starts even during the early years

Among the 10 jobs for new graduates that did not exist 10 years ago, as compiled by *Forbes Magazine*, there are a few we would have all guessed: App developer; Market research data miner; Social media manager. But the magazine also listed something called “Educational or Admissions Consultants”, described in the following way:

“When a certain set of affluent parents watch their toddler stack his or her first set of blocks, they’re not lost in a moment of cute, they’re strategizing their child’s likeliness of getting into the right pre-school. These moms and dads will stop at nothing to secure the best education for their kids—which for many includes hiring an educational or admissions consultant to help ease the process of interviewing and testing into schools from preschool to college. Admissions consultants can be paid thousands of dollars for their skills—which often include personal connections with school administrators.”

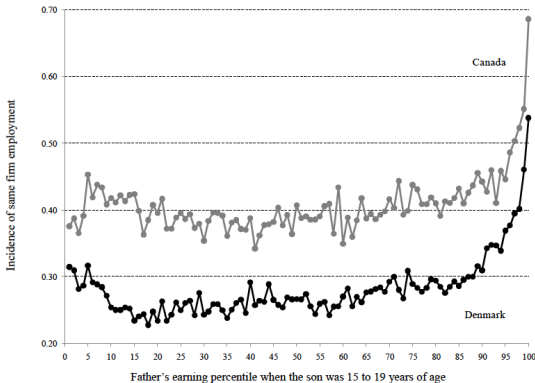
Money matters

Families with more money invest more in their children enriching their lives outside of formal public schooling



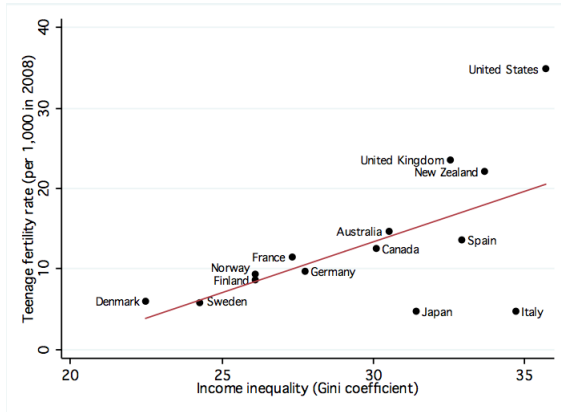
"Enrichment expenditures" in the United States: the amount of money families spend on books, computers, high-quality child care, summer camps, private schooling, and other things that promote the capabilities of their children. Source: Duncan and Murnane (2011).

... money also implies “connections” to jobs
most jobs are found through family and friends, and this constrains mobility particularly
at the bottom and top



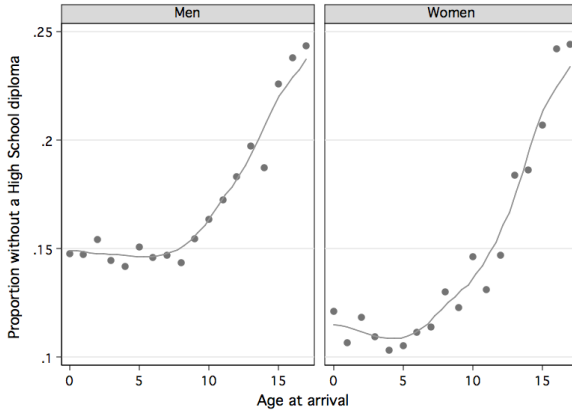
Source: Bingley, Corak and Westergård-Nielsen (2012).

Inequality and teenage mothers



Source: OECD Family Database, SF1.4: Chart SF2.4.D

Immigrant children arriving after the age of nine are more likely to drop out of Canadian high schools



Families, labour markets, and public policy

Family, market, and state determine the well-being of children. The capacities of families has been stretched, and there is significant time stress leaving children at risk of monetary and non-monetary poverty.

- Labour markets are more polarized, particularly for the young
- Families have adapted and changed as best as they can to shield children from poverty
 - age at first birth, marriage
 - fertility and single/teen motherhood
 - education
 - work intensity, participation of both parents and more hours
- Government policy has been neutral since the early 1990s (but not in UK)

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Three answers

- 1 Social mobility as measured by generational earnings mobility varies across the rich countries, and this variation should be a public policy concern
- 2 It varies with inequality but inequality is not the sole cause, it is a signal of a whole set of forces associated with family, market, and state
- 3 But with growing inequality, the more unequal societies will likely not experience more mobility without concerted and effective public policies

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