

Inequality, Opportunity, Mobility: How to slide down the Great Gatsby Curve

Miles Corak

University of Ottawa, Ottawa Canada

World Bank

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Inequality matters for reasons ...

- Fairness
- Efficiency
- Opportunity

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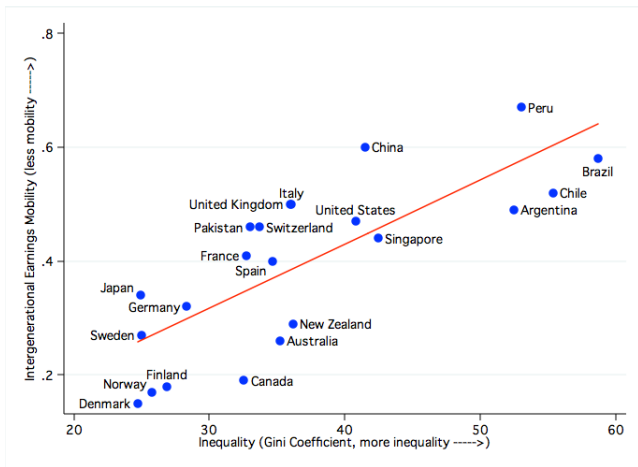
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The Great Gatsby Curve

mobility is lower where inequality is higher, but what are the underlying causes?



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

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

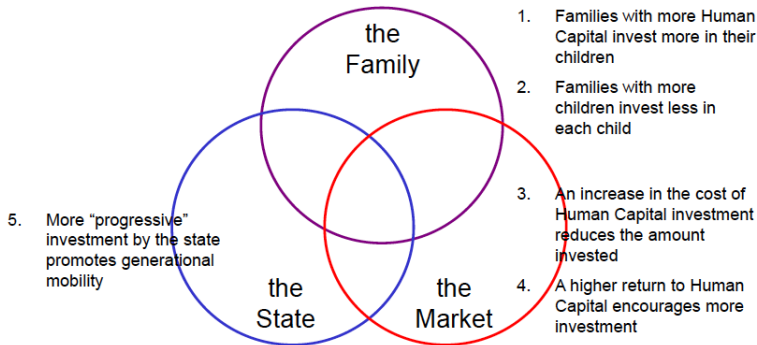
Public policies that are of relatively more advantage to the disadvantaged will promote upward mobility

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

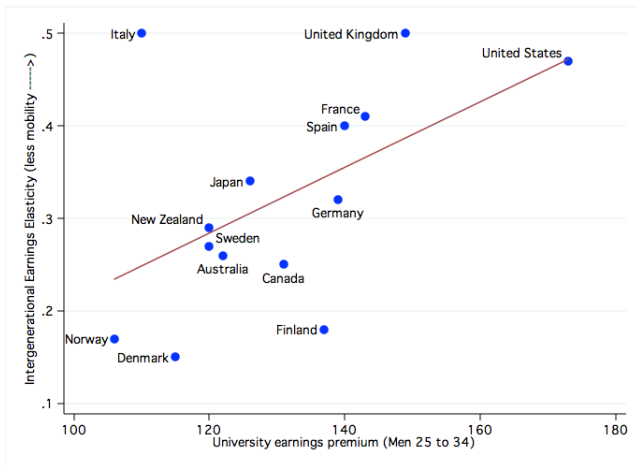
But public policy can also be of relatively more advantage to the advantaged, or reinforce market tendencies

- this is more likely in more unequal societies

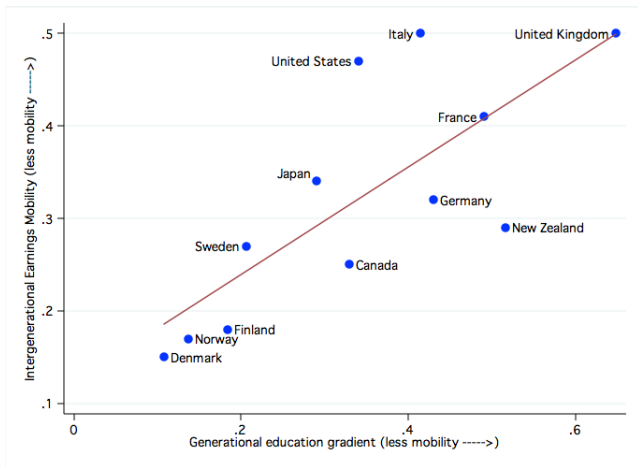
... but three broad institutions determine life chances
 the overlap and interaction between families, markets, and the state together determine social mobility – there is no “silver” bullet



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

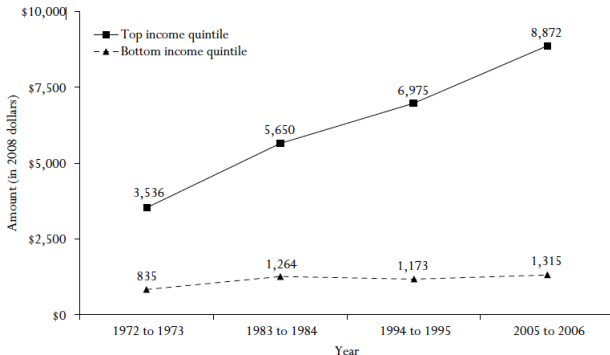


... but who has the capacity to make these investments?
Families with more human capital invest more in their children



Money matters

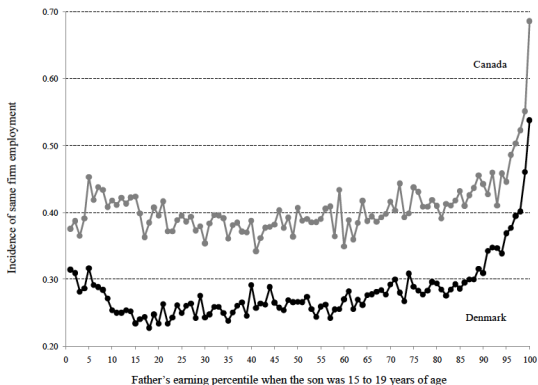
American families with more money invest more in their children enriching their lives outside of formal public schooling



“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).

Three concerns in an era of higher inequality

- 1 Social mobility as measured by generational earnings mobility varies across countries, and this variation should be a public policy concern
- 2 It varies with inequality but income 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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