

Inequality, Life Chances, and Public Policy

How to Slide Down the Great Gatsby Curve

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*Leonard Cohen, a folk musician,
who started at the top and became a superstar*

Everybody knows that the dice are loaded

Everybody rolls with their fingers crossed

Everybody knows that the war is over

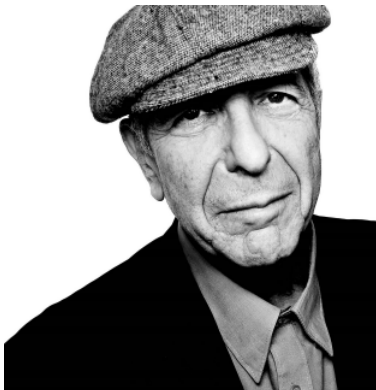
Everybody knows the good guys lost

Everybody knows the fight was fixed

The poor stay poor, the rich get rich

That's how it goes

Everybody knows



*Leonard Cohen, a folk musician,
who started at the top and became a superstar*



*Shania Twain, also an international
superstar, but who started at the bottom*

Three motivating questions

Social mobility and public policy
The determinants of social mobility
Social mobility in an era of rising inequality
Three concluding answers
Directions for public policy

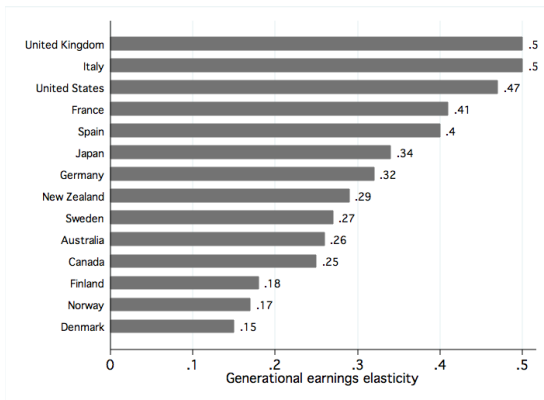
Social mobility varies across countries

Mobility varies with inequality

Inequality has been rising

1. Generational earnings mobility varies ...

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



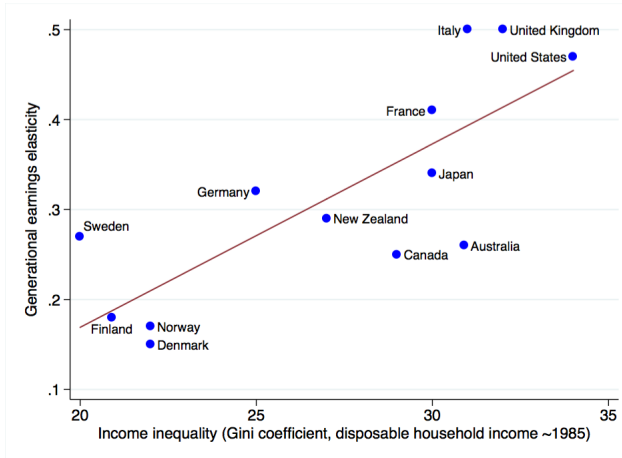
Source: Corak (2013).

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



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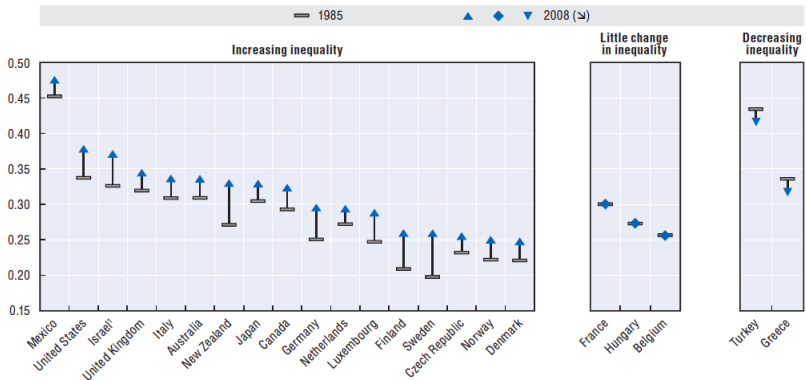
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3. Inequality has been rising in most countries, and ...

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.

Three motivating questions

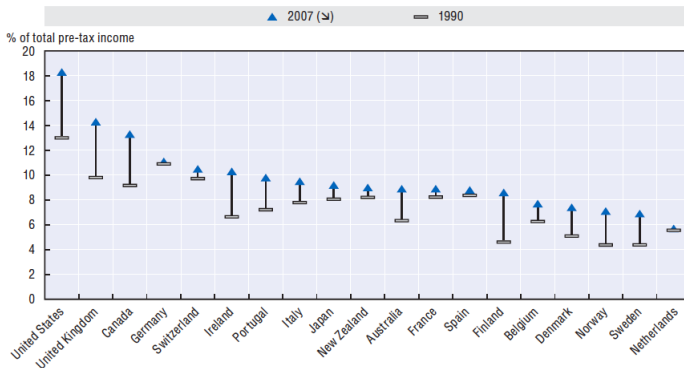
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3. ... in part this is because top incomes have increased are the societies experiencing more inequality likely to also experience less social mobility?

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)



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?
 - 1 eliminate the influence of social connections and family income in facilitating access to health care, education, employment?
 - 2 eliminate the influence of parental investments (time and money) that develop skills, beliefs and motivation?
 - 3 eliminate the consequences of the genetic transmission of ability?
 - 4 eliminate the influence of parents on preferences and aspirations?

A public policy target?

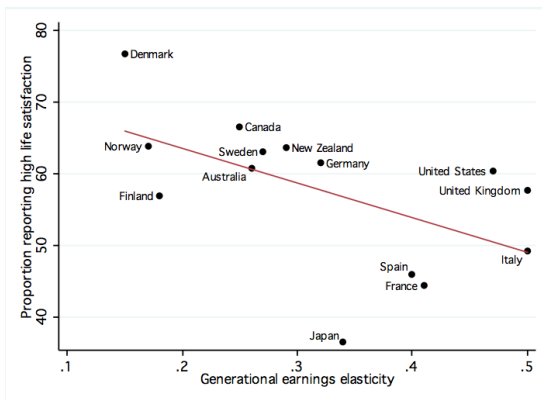
- A completely flat parent-child earnings gradient or a flatter gradient in a particular country is not necessarily a goal for public policy without this appreciation
- This said, more mobility is associated with higher life satisfaction

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More mobility, more life satisfaction

citizens are more likely to report high levels of life satisfaction in societies that have more mobility: in Canada two-thirds do so, in the UK less than 6 in 10



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

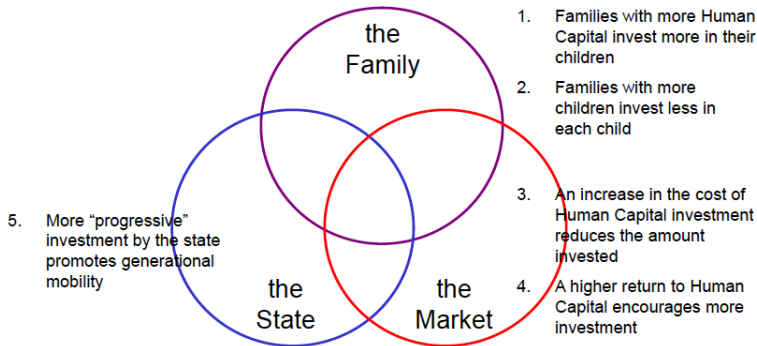
Public policies that are of relatively more advantage to the disadvantaged will promote upward mobility

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

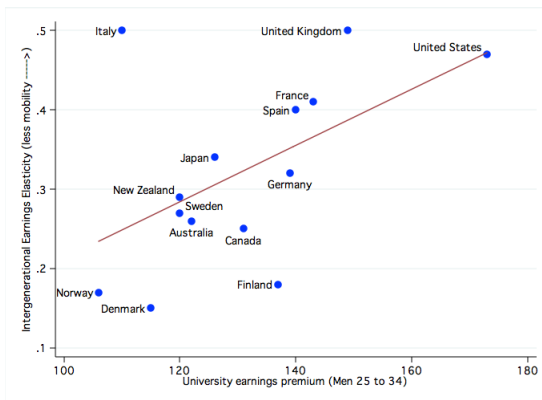
But public policy can also be of relatively more advantage to the advantaged, or reinforce market tendencies

- 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

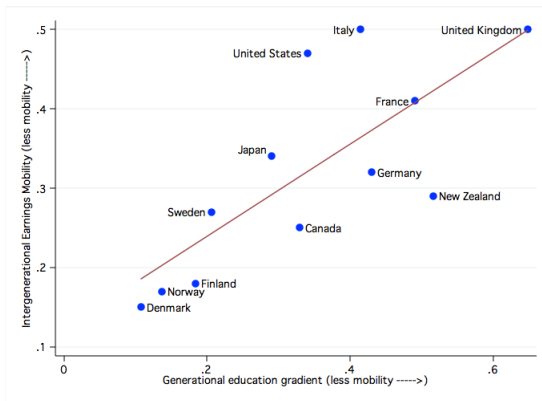


A higher return to education encourages more investment ... changing opportunities and incentives, and thereby determining the degree of mobility



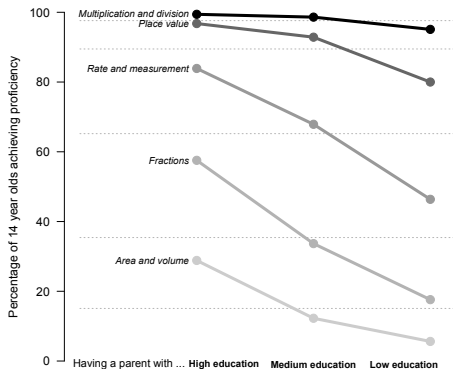
Source: Corak (2011) and Hertz et al (2007) for education gradient.

... 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



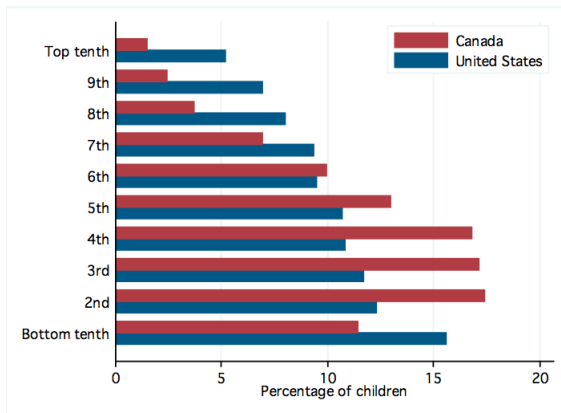
Source: Corak (2011) and OECD (2011) Table 8A.1 for University earnings premium, about 2009.

This gradient is evident in the teen and early years
Proficiency in math skills fades away among less advantageous 14 year old Americans



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



Money matters

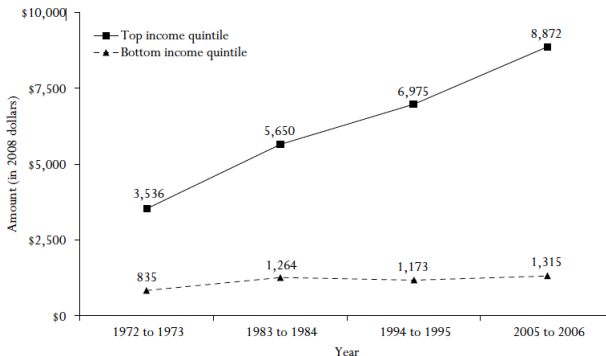
Families with more money invest more in their children, the race to university starts even during the early years

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

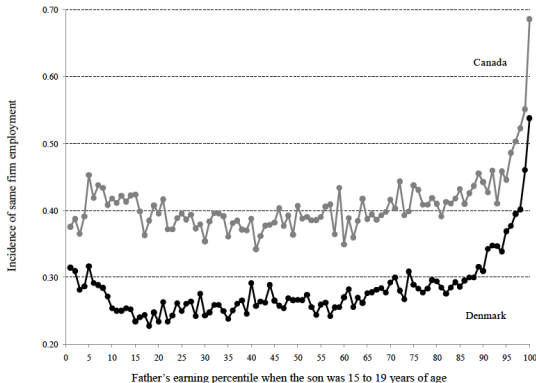


“Enrichment expenditures” in the United States: the amount of money families spend on books, computers, high-quality child care, summer camps, private schooling, and other things that promote the capabilities of their children. Source: Duncan and Murnane (2011).

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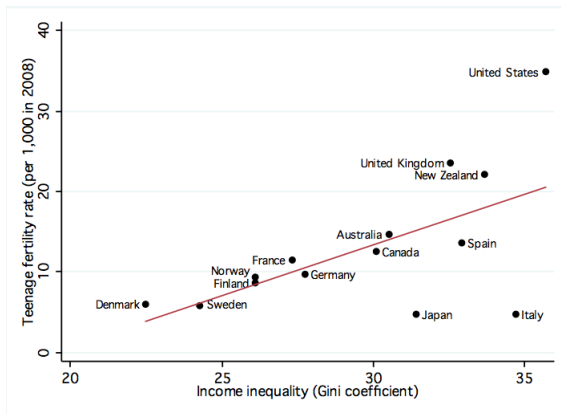
Money matters
The relatively advantaged
The relatively disadvantaged

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



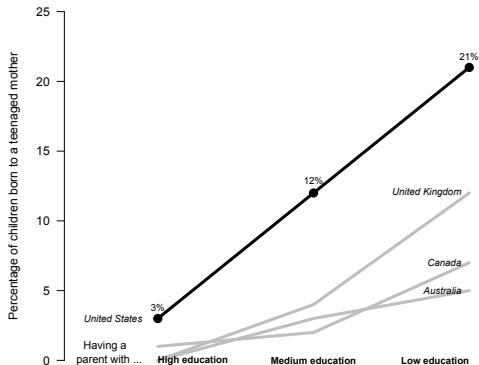
Source: Bingley, Corak and Westergård-Nielsen (2012)

Inequality and teenage mothers



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

Maternal Education and teenage births



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

Families, labour markets, and public policy

Family, market, and state determine the well-being of children. The capacities of families has been stretched to the limit, 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

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Recommendation 1: Policies to make work pay

Institute a Guaranteed Income for the working poor by subsidizing low-pay work, and adopting immigration and education policies to create high pressure economy for those with low skills.

- A job is central to material well-being, but many jobs increasingly do not pay enough to adequately support a family
- top-up wages with a conditional transfer based upon work effort like the earned income tax credit
- develop alternatives to university education that upgrade skills and move the service sector up a value chain: “an artisanal economy”
- limit low skill immigration, and promote immigration of high skill workers

Recommendation 2: Policies to reduce time stress

Broaden the scope and nature of family/care-giving leave permitted and give families more scope to re-allocate their time between market and non-market activities.

- A job may be central to material well-being, but without additional supports children and families are under considerable time stress that detracts from well-being in general
- The introduction and expansion of maternity/parental leave and leave for care-giving (possibly through unemployment insurance programs)
- Create a “family leave” that can be taken at the discretion of the parents regardless of the age of their children

Recommendation 3: Policies to promote human capital

Reduce disparities in the quality of education in a way that promotes a public system, encouraging “voice” rather than “exit”.

- Broad-based financing of education, rather than a narrow tax base of local property taxes
- Structure the system and parental involvement so that most engaged parents are promoting the public good alongside their personal good – limit choice?
- Less emphasis on evaluation and league tables as punitive, rather an aid to develop teaching as a high-quality, high-paid profession

Recommendation 4: More policies to reduce income inequality

Tax reforms that introduce more progressive taxation.

- Increase income tax rates, broaden the tax base
- Heavily tax rents in the business sector (particularly in resource driven economies)
- Permit income averaging over several years for tax purposes, for example offering rebates to families suffering permanent losses in income

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