

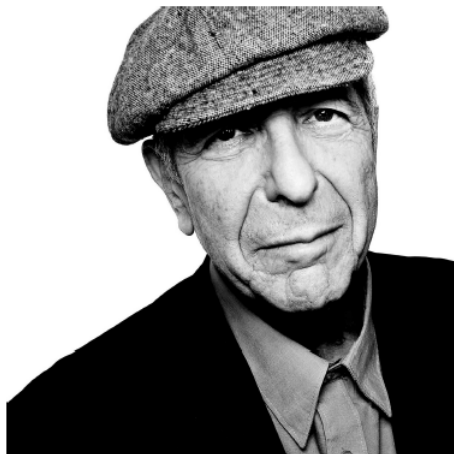
Inequality, Life Chances, and Public Policy

How to slide down the Great Gatsby Curve

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Lecture 2



*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

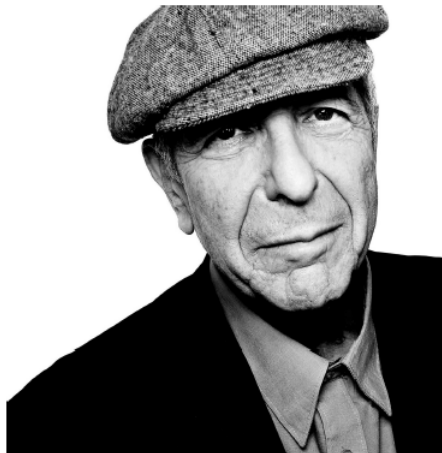
Everybody knows the good guys lost

Everybody knows the fight was fixed

The poor stay poor, the rich get rich

That's how it goes

Everybody knows



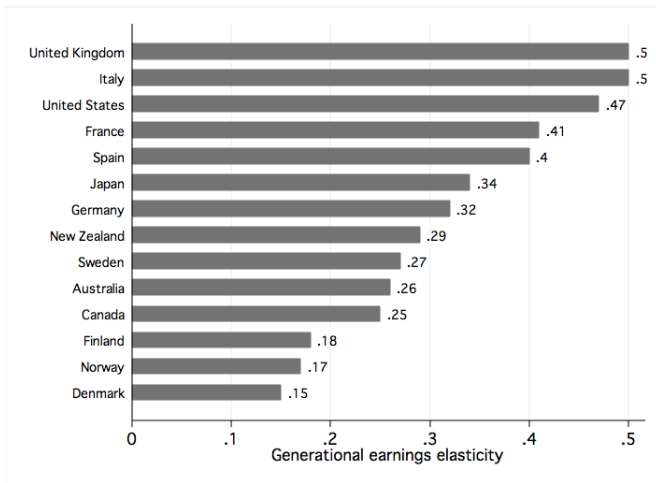
*Leonard Cohen, a folk musician,
who started at the top and became a superstar*



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

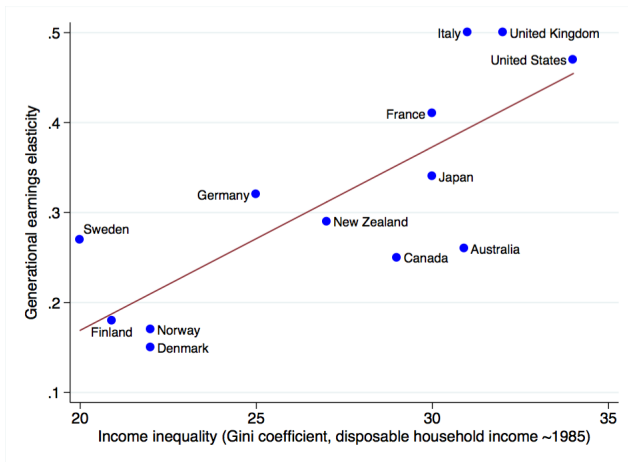
1. Generational earnings mobility varies ...

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



Source: Miles Corak (2013). *Journal of Economic Perspectives*, 27(3): 79-102. Figure 1.

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



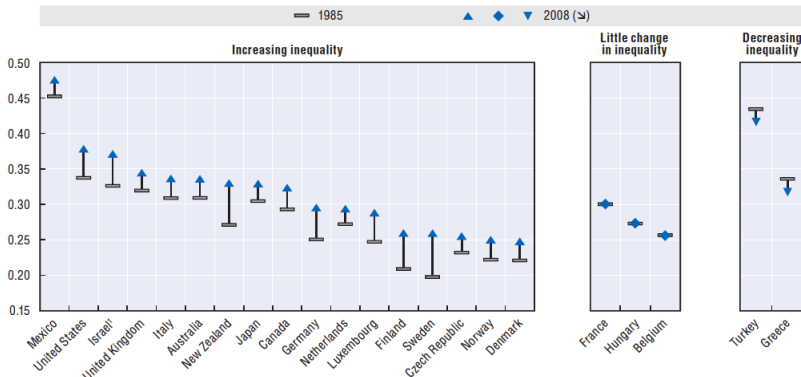
Source: Miles Corak (2013). *Journal of Economic Perspectives*, 27(3): 79-102. Figure 1.

3. Inequality has been rising in most countries

are the societies experiencing more inequality likely to also experience less social mobility?

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 based upon three facts

- 1 Generational earnings mobility varies, but does this require policy intervention?
- 2 The Great Gatsby Curve shows that mobility is lower where inequality is higher, but what are the underlying causes?
- 3 Are the societies experiencing more inequality likely to also experience less social mobility?

Generational earnings mobility as a marker of social mobility

$$\ln Y_{i,t} = \alpha + \beta \ln Y_{i,t-1} + \varepsilon_{i,t}$$

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
- There is a need for theory to clarify the causal relationships and their implications for policy

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

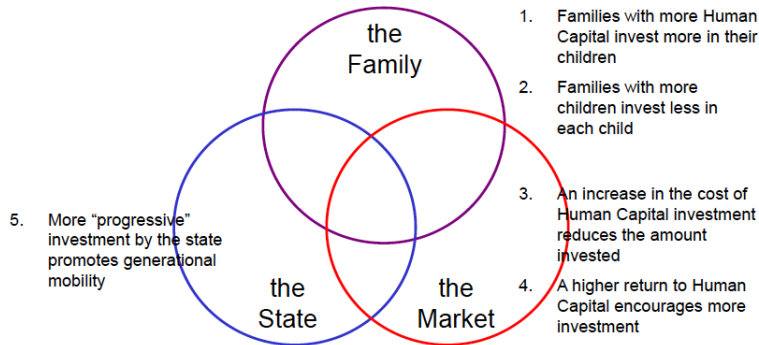
Public policies that are of relatively more advantage to the disadvantaged will promote upward mobility

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

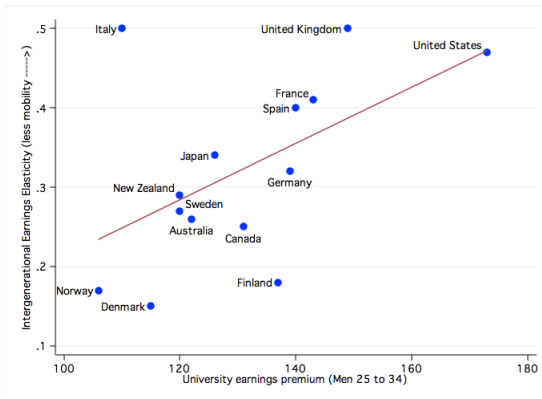
But public policy can also be of relatively more advantage to the advantaged, or reinforce market tendencies

- 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

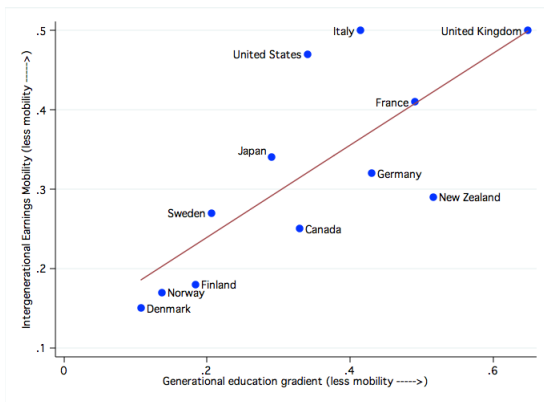


A higher return to education encourages more investment ...
changing opportunities and incentives, and thereby determining the degree of mobility



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

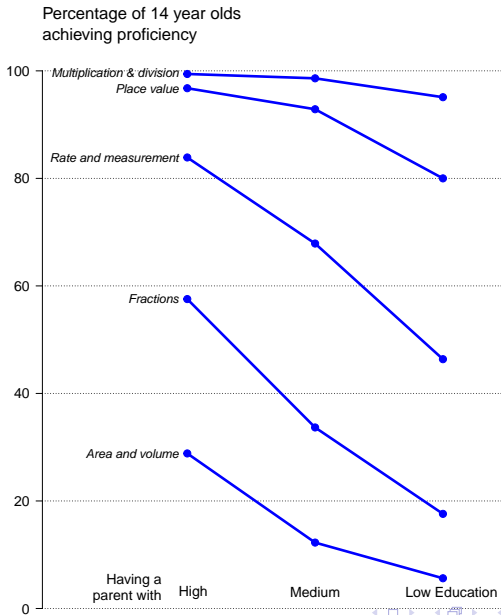
... but who has the capacity to make these investments?
Families with more human capital invest more in their children, in fact education outcomes are most closely tied to family background in the UK



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

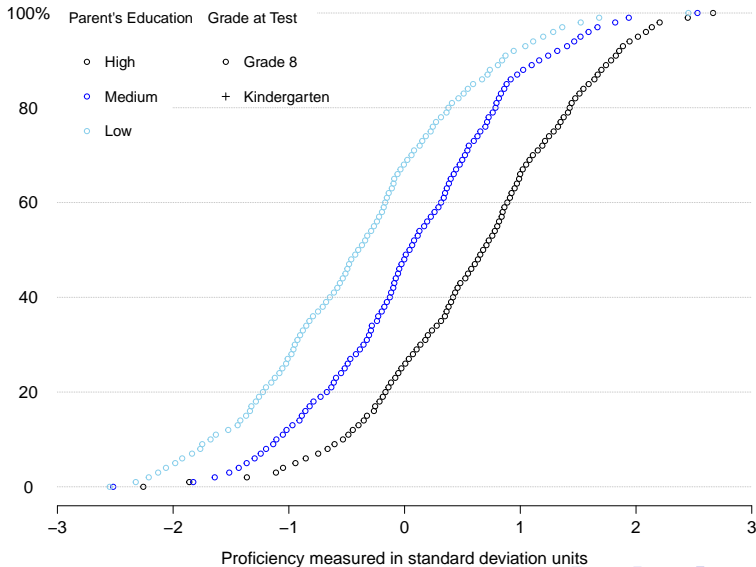
This gradient is evident in the teen years

Proficiency in math skills fades away among less advantageous 14 year olds



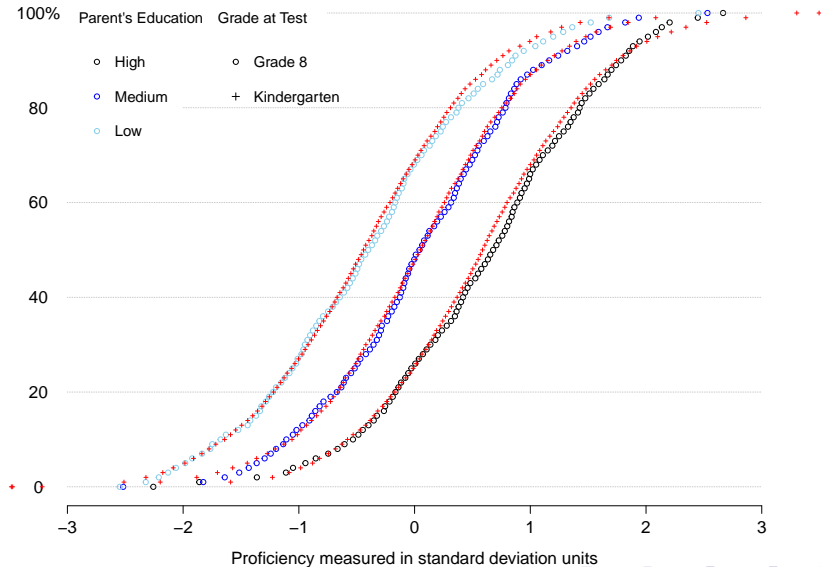
There are wide gaps in the math skills of US 8th graders

Percentage of children at or below
a particular level of standardized math test scores



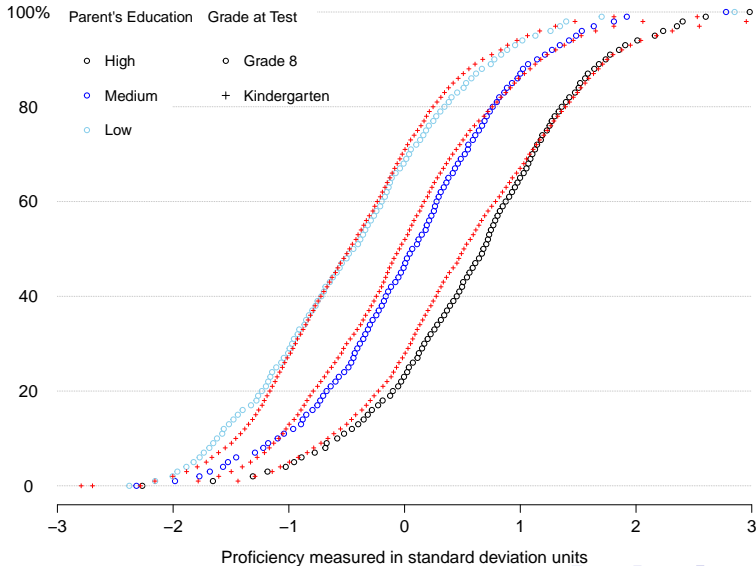
... but these gaps were evident in kindergarten

Percentage of children at or below
a particular level of standardized math test scores



The same holds for reading skills, but things are even worse

Percentage of children at or below
a particular level of standardized reading test scores



Money matters

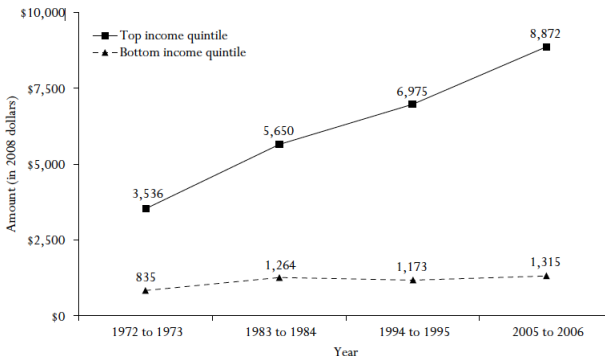
Families with more money invest more in their children, the race to university starts even during the early years

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

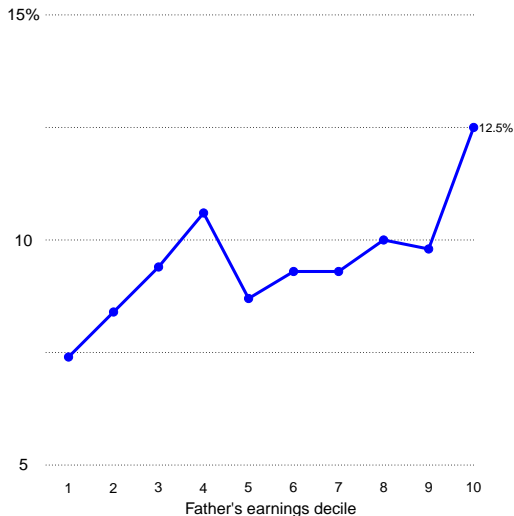


"Enrichment expenditures" in the United States: the amount of money families spend on books, computers, high-quality child care, summer camps, private schooling, and other things that promote the capabilities of their children. Source: Duncan and Murnane (2011).

More than money matters ...

Sons of top earners are more likely to have the same employer as their fathers'

Percentage of sons working
with the same firm as their fathers

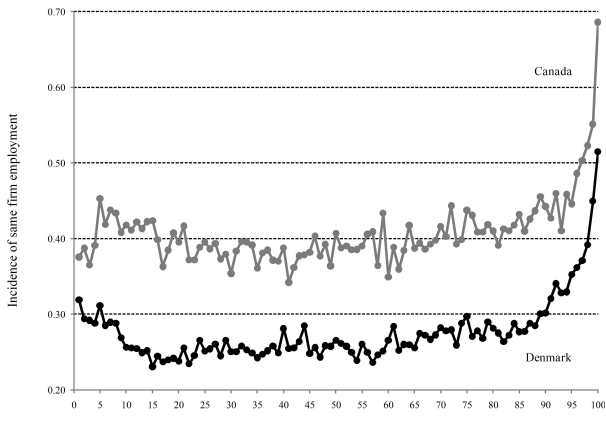


Source: Martha Stinson and Christopher Wignall (2014), US Census Bureau

More than money matters ...

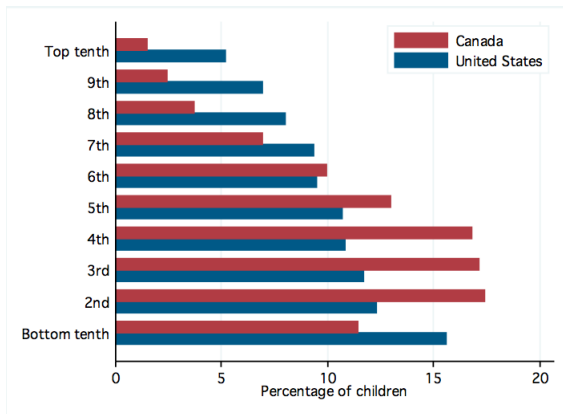
Paternal earnings and sons' employers in Canada and Denmark, similar patterns in the US

Proportion of sons currently employed or employed at some point with an employer their fathers had worked for in the past: Canada and Denmark, by fathers' earnings percentile



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

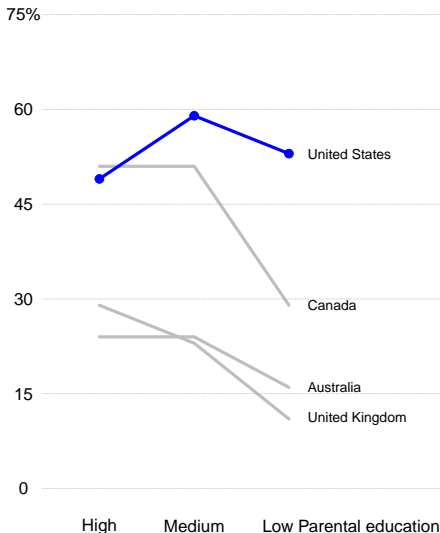


Source: Corak, Curtis, and Phipps (2011).

The balance between work and family

Parents with low education are more likely to be working full-time than in the US

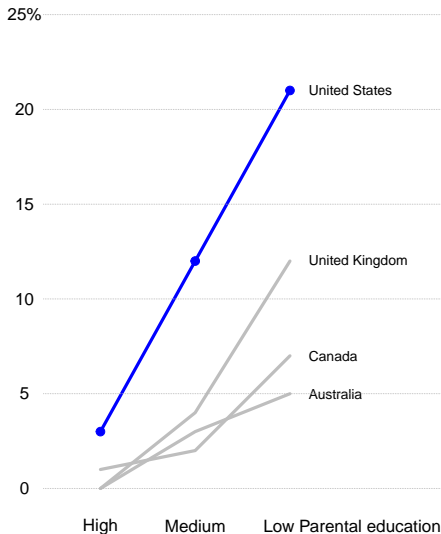
Percentage of children
whose mother works full time



Low “status” children face greater family disadvantages

1. They are more likely to have a teen mother, but particularly in the US

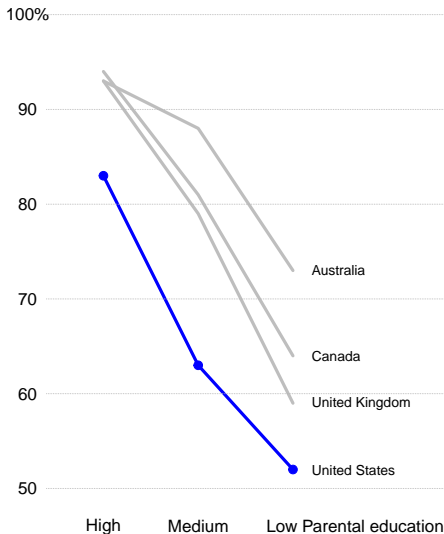
Percentage of children
born to a teen mother



Low “status” children face greater family disadvantages

2. They are less likely to be living with both biological parents at age 4/5

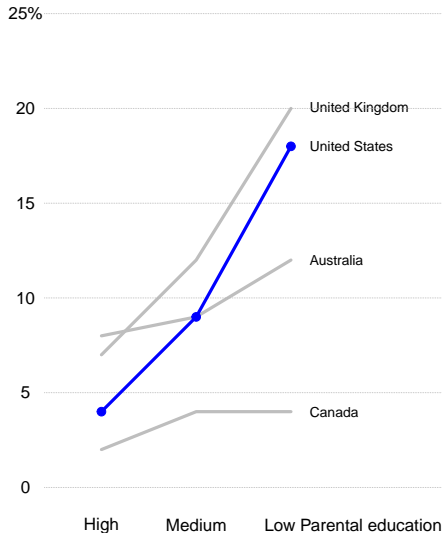
Percentage of children
living with both biological parents



Low “status” children face greater family disadvantages

3. Their mothers are more likely to be in poor or only fair health in the US and UK

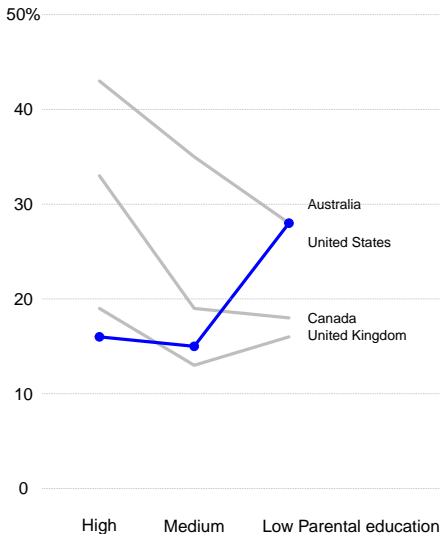
Percentage of children
whose mother is in poor health



Low “status” children face greater family disadvantages

4. In the United States they are more likely to be in immigrant family at age 4/5

Percentage of children
living with immigrant parents



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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