

The Great Gatsby Curve

Inequality, Economic Opportunity, and Public Policy
what do we care about? what do we measure? what should we do?

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What do we care about?

“At many stages in the advance of humanity, this conflict between the men who possess more than they have earned and the men who have earned more than they possess is the central condition of progress.”

— Theodore Roosevelt, 1910

“This kind of gaping inequality gives lie to the promise that’s at the very heart of America: that this is a place where you can make it if you try. We tell people—we tell our kids—that in this country, even if you’re born with nothing, work hard and you will get into the middle class. We tell them that your children will have a chance to do even better than you.”

— Barack Obama, 2011

How The Great Gatsby Curve got its name

On January 9th, 2012 I received an email from
Judd_N_Cramer@cea.eop.gov

Miles,

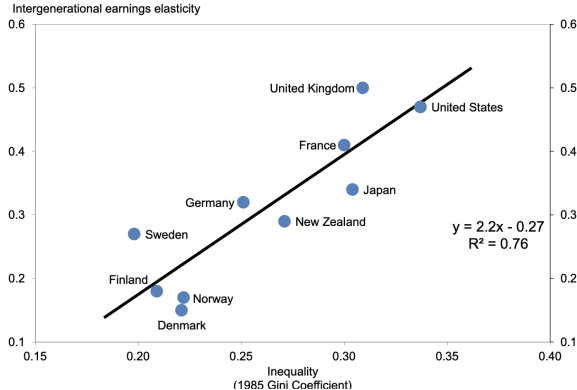
I am writing from the CEA. Chairman Krueger would like to know more about your IGEs. In particular, he would like to know where they were drawn from and whether you have them broken down by gender. Also, are there only earnings mobility data or do you have a measure of income mobility as well?

Many thanks.

*Judd N. L. Cramer
Staff Economist
Council of Economic Advisers*

Figure 7: “The Great Gatsby Curve”

Higher income inequality associated with lower intergenerational mobility



Source: [Corak \(2011\)](#), OECD, CEA estimates

Figure 1: The Great Gatsby Curve as presented by Alan Krueger in a speech to the Center for American Progress, January 12, 2012

“... it is harder today for a child born here in America to improve their station in life than it is for children in most of our wealthy allies—countries like Canada, Germany or France. They have greater mobility than we do, not less.”

— Barack Obama, 2013

The Great Gatsby Curve as a conversation in social science

The opening paragraphs of a 1997 paper by Anders Björklund and Markus Jäntti includes the following:

Our interest in a comparison of intergenerational income correlation between Sweden and the United States is motivated, in part, by the question whether the extent of cross-sectional inequality and intergenerational inequality are independent of each other. Is it possible that Sweden, which has less cross-sectional inequality, also has more intergenerational mobility?

— American Economic Review, 1997

Figure 3

Cross country earnings elasticities for fathers and sons and the return to tertiary education

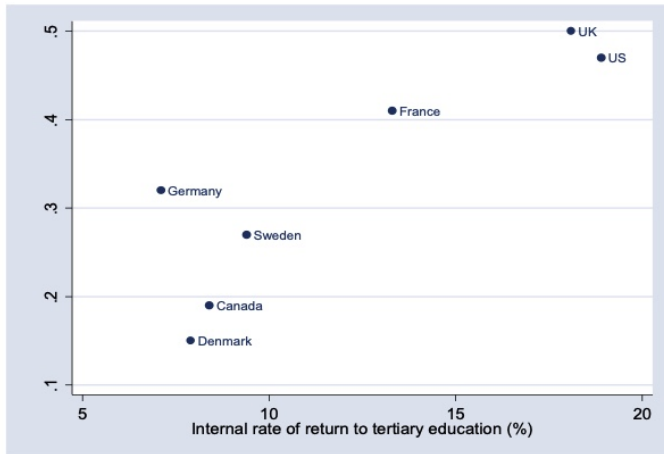


Figure 2: Miles Corak 2006, Research on Economic Inequality

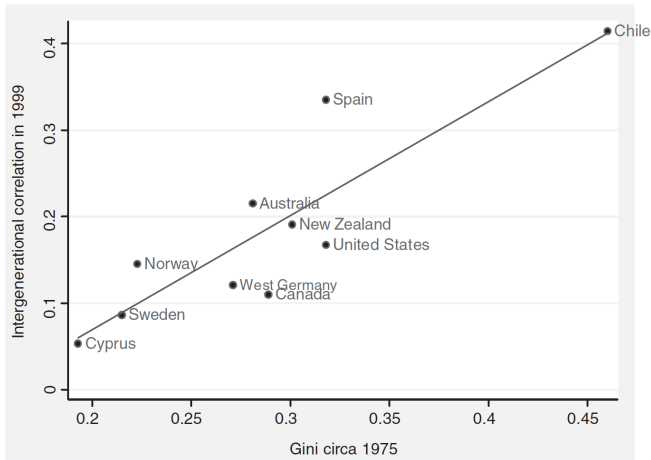


Fig. 2. Excluding former communist countries.
 $\rho = -0.19 + 1.32 * \text{Gini}$ ($t = 12.01$) $R^2 = 0.71$ (excl. Warsaw Pact).

Figure 3: Dan Andrews and Andrew Leigh 2009, Applied Economics Letters

b) 1995

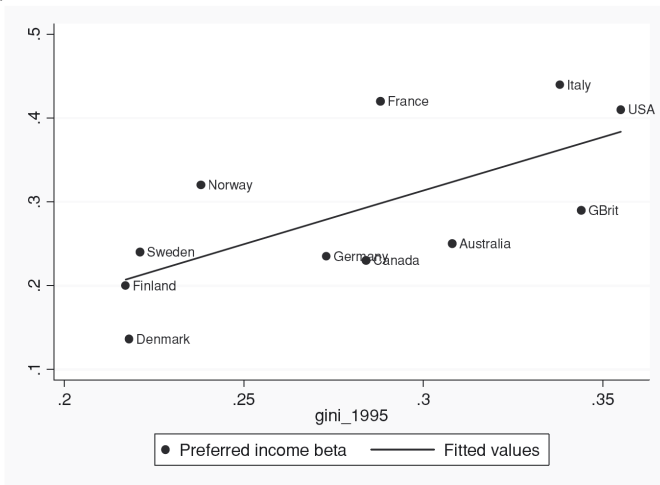
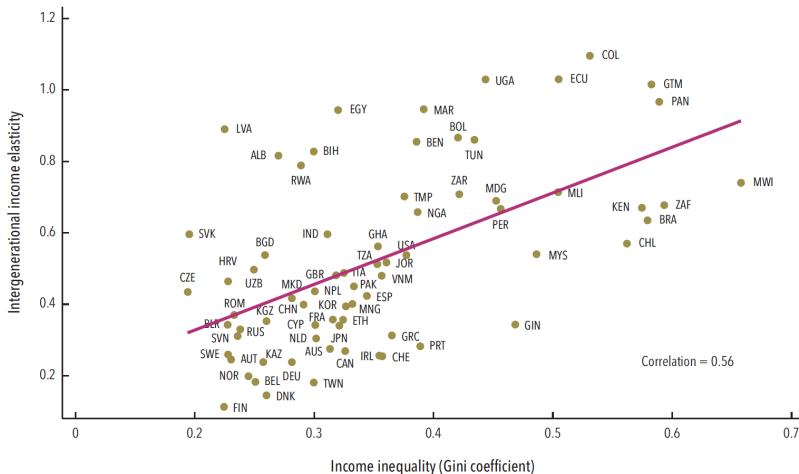


Figure 6. Associations between the Income Beta and Gini coefficient. (a) Early 1980s. (b) 1995.

Figure 4: Jo Blanden 2013, Journal of Economic Surveys

FIGURE 4.2 Higher relative IGM in income is associated with lower income inequality



Source: Equalchances 2018, compiled from multiple studies; estimates using GDIM 2018 and World Development Indicators for income inequality.

Figure 5: Roy Van der Weide et al 2018, Fair Progress, World Bank

R.H.Tawney clearly wrote that equality of opportunity can only be advanced in an environment of relative equality

It is true, of course, that a community must draw on a stream of fresh talent, in order to avoid stagnation, and that, unless individuals of ability can turn their powers to account, they are embittered by a sense of defeat and frustration. The existence of opportunities to move from point to point on an economic scale, and to mount from humble origins to success and affluence, is a condition, therefore, both of social well-being and of individual happiness, and impediments which deny them to some, while lavishing them on others, are injurious to both.

But opportunities to "rise" are not a substitute for a large measure of practical equality, nor do they make immaterial the existence of sharp disparities of income and social condition. On the contrary, it is only the presence of a high degree of practical equality which can diffuse and generalize opportunities to rise. The existence of such opportunities in fact, and not merely in form, depends, not only upon an open road, but upon an equal start. It is precisely, of course, when capacity is aided by a high level of general well-being in the milieu surrounding it, that its ascent is most likely to be regular and rapid, rather than fitful and intermittent.

— R. H. Tawney, *Equality*, 1931

What do we care about?

What do we care about?

The American Dream, and the American Lesson

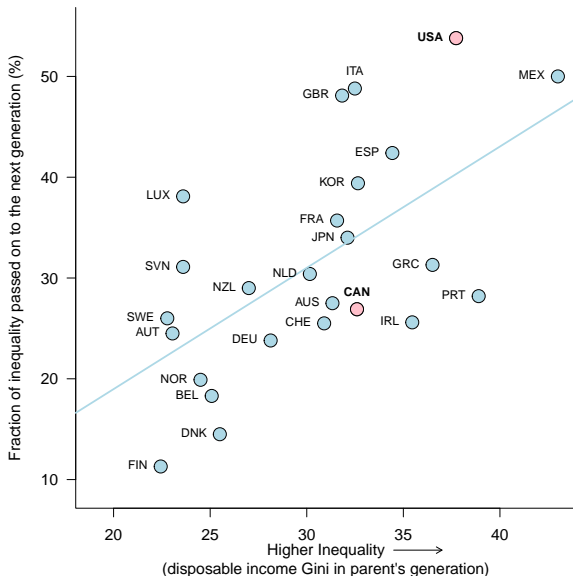
We care about self-realization that contributes to an expanding and inclusive community that in its turn enhances the capacities of citizens to become all that they can be.

- ▶ a sense of progress, of growth
- ▶ a sense of movement toward security and inclusion
- ▶ a sense of fairness

What do we measure?

The Great Gatsby Curve

raises three questions about how inequality threatens mobility



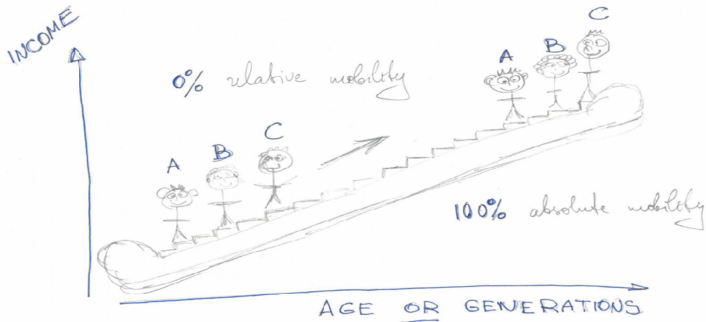


Figure 6: We care about absolute and relative intergenerational mobility for both instrumental and intrinsic reasons. Source: Yuri Ostrovsky

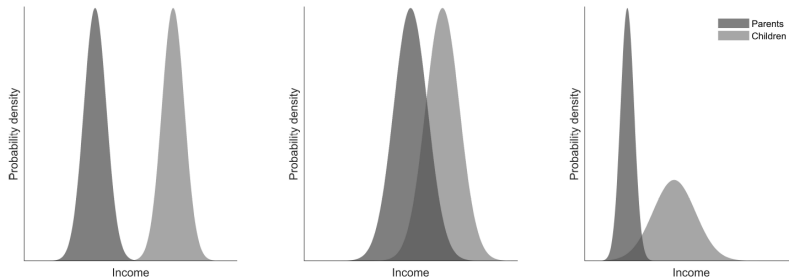
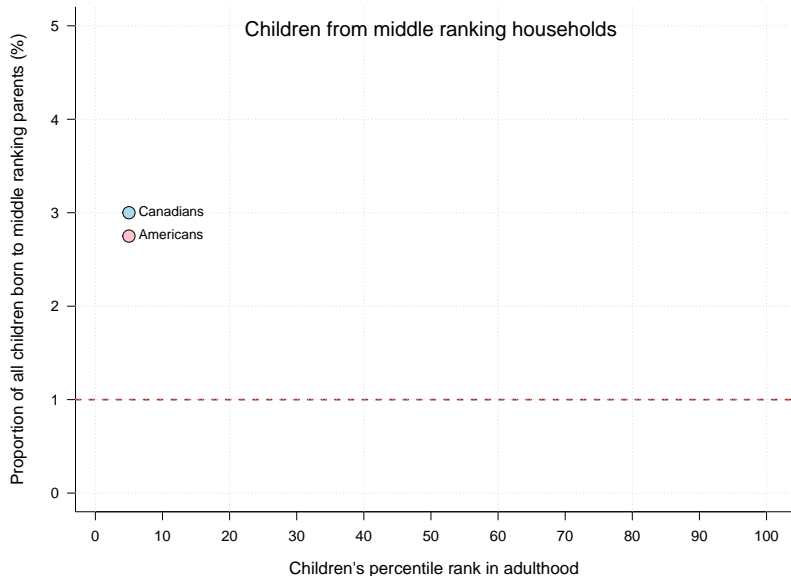


Figure 4: Descriptive scenarios of intergenerational changes in the income distribution. Left) No change in inequality between the two generations; growth is high enough so there is no overlap between the distributions, *i.e.* the poorest child is still richer than the richest parent. In this case absolute mobility will be 100% regardless of relative mobility; Middle) Inequality is still unchanged between the generations; growth is not as high as in the previous scenario. In this case the level of absolute mobility depends on relative mobility. In the extreme case of no relative mobility, absolute mobility will still be 100%, since the richest parent is mapped into the richest child and so do the second richest parent and child and so on. Realistically, because relative mobility exists, absolute mobility will be lower than 100%, and as relative mobility increases, absolute mobility would decrease; Right) Growth is as high as in the left panel, but inequality is higher among the children. This case is similar to the middle one – absolute mobility will be lower than 100% and as relative mobility increases, absolute mobility would decrease.

Figure 7: Absolute mobility, growth, and inequality. Source: Yonatan Berman, 2020.

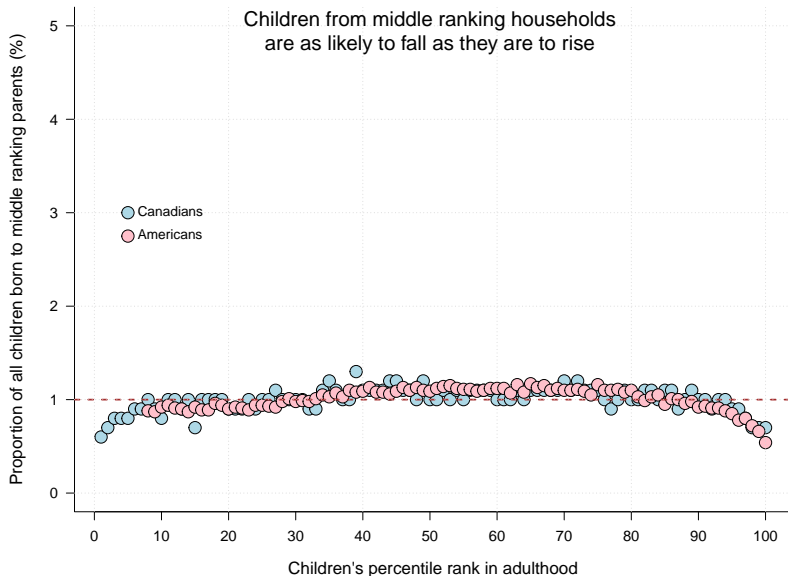
1. Resilience versus insecurity among the middle

intergenerational fluidity among the middle income class



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intergenerational fluidity among the middle income class



American households need
\$248,728 to stand among the top 5% on the 2018 income ladder,
twice as much as they needed in 1968 to reach the same rung

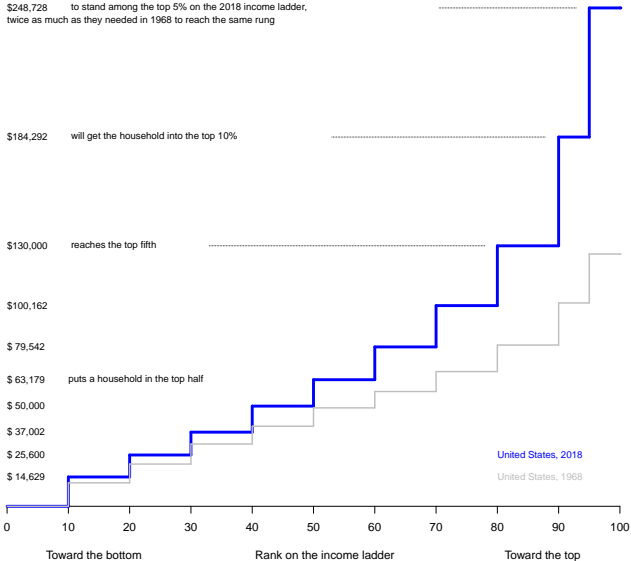
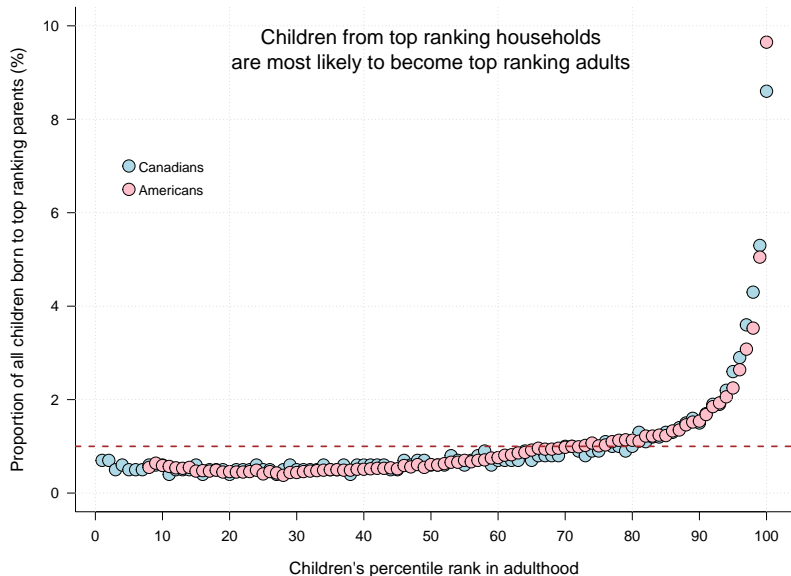


Figure 8: Climbing up the income ladder requires more and more money to make it over higher and higher thresholds

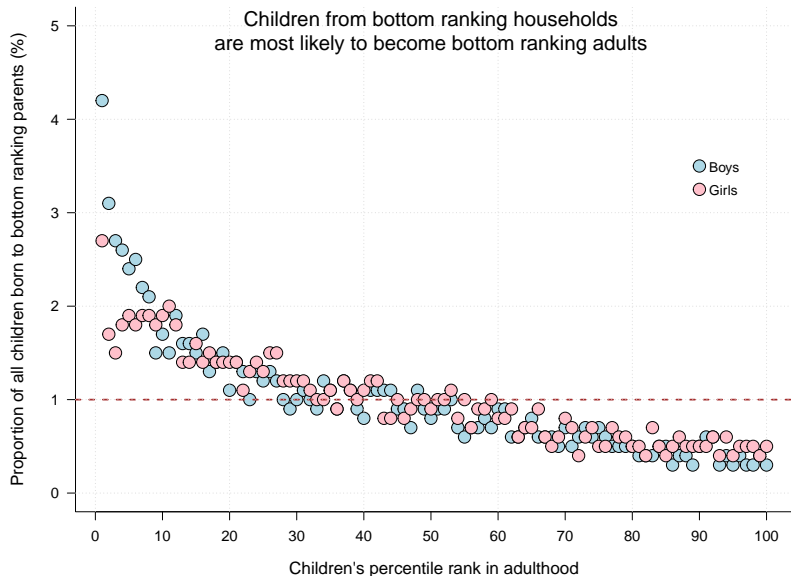
2. Inheritance and privilege at the top

an intergenerational cycle of high income



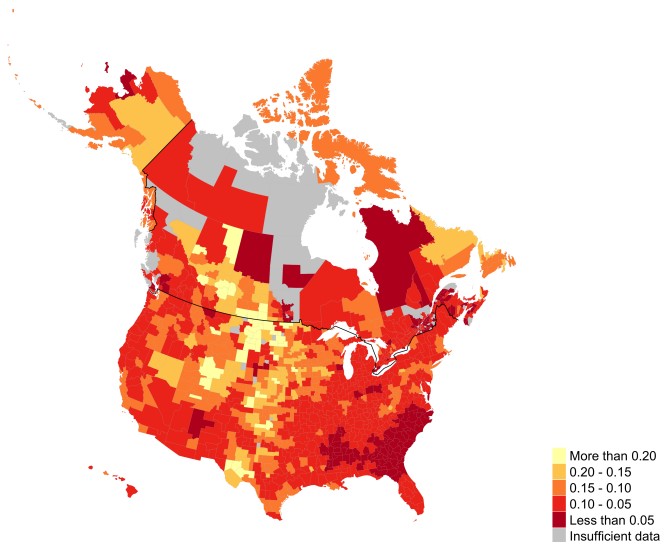
3. Inheritance and shame at the bottom

an intergenerational cycle of low income



Upward mobility, from bottom to top quintile

is mediated by community, . . . by geography and ethnicity



What do we measure?

What do we measure?

the mobility we care about

- ▶ growth, position, movement

the inequalities that matter

- ▶ in inheritances, in investments, in payoffs

using judicious comparisons

- ▶ between countries, among the communities within them, and across the distribution of resources

What should we do?

The Great Gatsby Curve as a conversation in public policy that is both evidence based and ethically grounded

Evidence: three forces determining the degree of social mobility

- ▶ three overlapping forces determine the extent and way in which inequality threatens mobility: the family, the “community”, and the labour market
- ▶ different types of inequality influence mobility in different causal ways
 1. an “**inheritance**”
 2. an **investment**
 3. a **payoff**

The Great Gatsby Curve as a conversation in public policy that is both evidence based and ethically grounded

Evidence: three forces determining the degree of social mobility

Ethics: three values to ground public policy

1. All humans are created equally, and have the right to be treated with dignity
2. Labour has preference over capital, and what is due through justice cannot be offered with charity
3. Wealth is created to be shared

From entitlement and shame to inclusion and dignity

1. **All humans are created equally, and have the right to be treated with dignity**

1.1 inequality erodes solidarity

- ▶ there is entitlement at the top because of an “availability” heuristic, and because of loss aversion

1.2 public policy should frame social discourse less in terms of merit or desert, and more in terms of luck

- ▶ at the top: in winner-take-all markets luck matters
- ▶ at the bottom: poverty as bad luck in a succession of life transitions

1.3 electoral reform to expand the franchise

- ▶ Demeny voting that respects the right of all citizens regardless of age, as discussed in John Wall's 2022 book *Give Children the Vote*

From entitlement and shame to inclusion and dignity

1. All humans are created equally, and have the right to be treated with dignity
2. **Labour has preference over capital, and what is due through justice cannot be offered with charity**
 - 2.1 enhance the dignity of work, and bargaining power of workers
 - 2.2 fairness in taxes and transfers
 - ▶ reduce preferential treatment of capital income
 - 2.3 robust income support at the bottom through a poverty reduction strategy
 - ▶ children
 - ▶ working age adults

From entitlement and shame to inclusion and dignity

1. All humans are created equally, and have the right to be treated with dignity
2. Labour has preference over capital, and what is due through justice cannot be offered with charity
3. **Wealth is created to be shared**
 - 3.1 quell insecurity and build resilience through “inclusive growth”
 - ▶ growth that is of relatively more advantage to the relatively disadvantaged with progressive taxation can foster reasonable equality of outcomes
 - 3.2 thick and robust insurance
 - ▶ student loans as income contingent
 - ▶ unemployment insurance as wage insurance
 - ▶ universal health care

What should we do?

What should we do?

move from entitlement, shame, and insecurity to inclusion, dignity and resilience by framing evidence based policies ethically

1. All humans are created equally, and have the right to be treated with dignity
2. Labour has preference over capital, and what is due through justice cannot be offered with charity
3. Wealth is created to be shared

The Great Gatsby, then and now

The Great Gatsby

did not receive good reviews because it was too close to biography

- ▶ In late September 1922, Scott Fitzgerald and his wife Zelda boarded a train in Minneapolis that took them to New York City
- ▶ Not quite two years later, on the morning of May 3rd, 1924, they boarded a ship departing from Pier 58 that took them to Cherbourg, France.
- ▶ In a rented villa in St. Raphaël, Fitzgerald wrote a book that would be published on April 10, 1925



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The American Lesson

F. Scott Fitzgerald died a sad, lonely, alcohol-addicted, man trying to piece together a living as a script-writer on the fringes of Hollywood

- ▶ his novel is really about the pursuit of status goods among the rich and near rich
- ▶ that this may matter for the rest of us is the cautionary lesson of the American Dream, the danger of organizing society as a race in the pursuit of one goal
- ▶ we might be better off by imagining other sources of identity, of building second-chance economies, and of resorting to inclusive metaphors for our communities

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