

# Three Facts about Inequality and Equality of Opportunity

what do we care about? what should we do?

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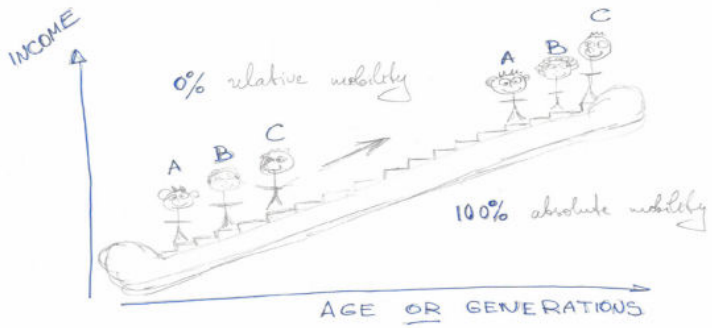
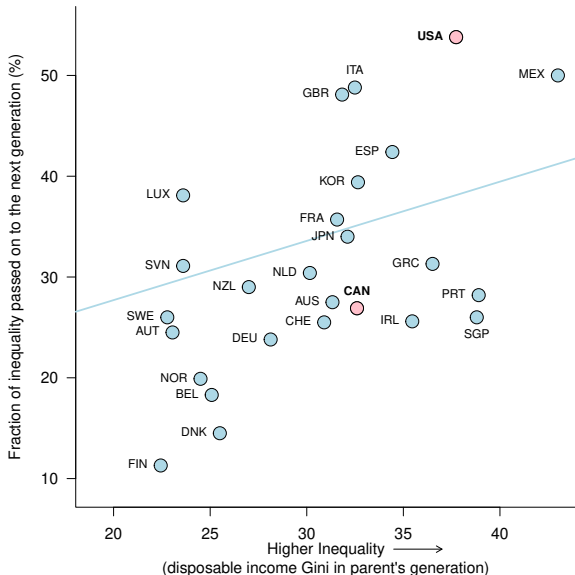


Figure 1: We care about both absolute and relative social mobility for both instrumental and intrinsic reasons

# Higher inequality threatens social mobility

access to opportunity is the channel through which this threat passes



# The Great Gatsby Curve

measuring intergenerational persistence is challenging

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

The outcome,  $Y$ , can be different things

- ▶ generally some measure of economic resources: income, permanent income, wealth
- ▶ long lags limit the timeliness and policy relevance, trends are challenging to discern
- ▶ an understanding of the underlying causal process permits a focus on other intermediate and relevant outcomes ... like educational attainment

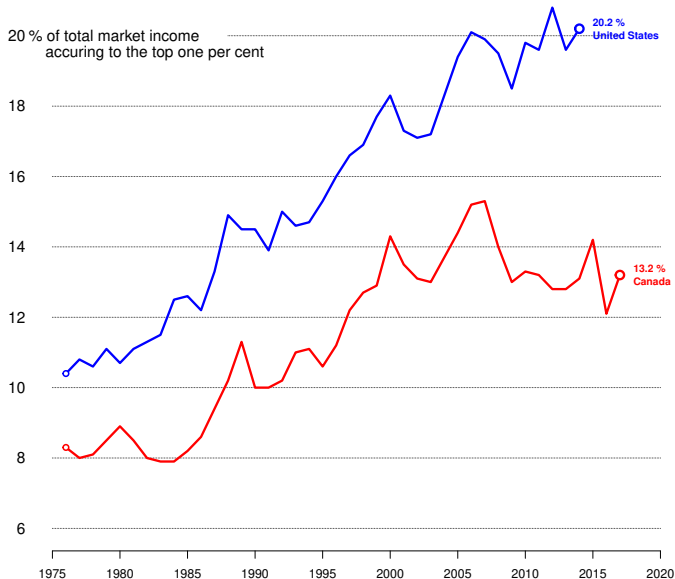
# The Great Gatsby Curve

intergenerational mobility varies for different underlying reasons

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

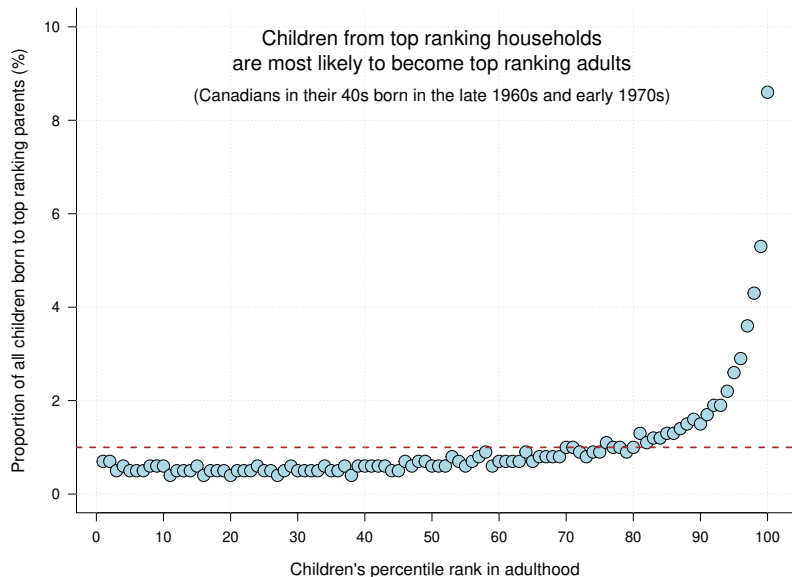
# 1. Inequality is on the rise

how does top end inequality matter for social mobility?



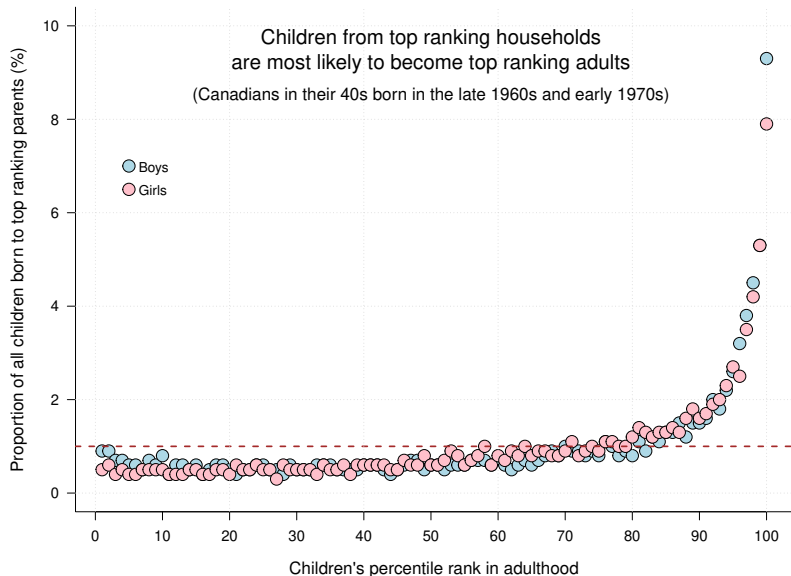
# 1. Inheritance and payoffs at the top

an intergenerational cycle of privilege



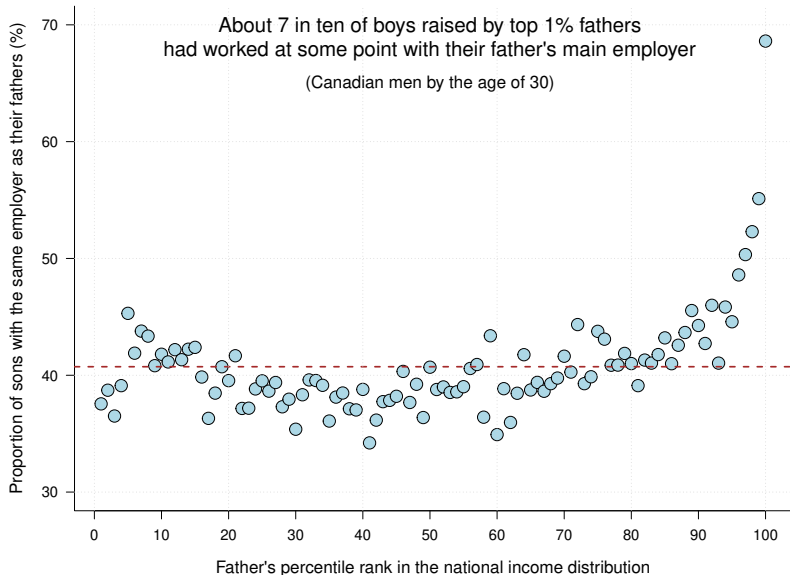
# 1. Inheritance and payoffs at the top

an intergenerational cycle of privilege that favours boys



# 1. Inheritance and payoffs at the top

cycles of privilege mediated by inheritance of jobs



# 1. Inheritance and payoffs at the top

How does top end inequality matter for policy to promote social mobility?

Whether or not we should worry about rising top-end inequality threatening intergenerational mobility will depend upon

## 1. **the intergenerational transmission of financial wealth**

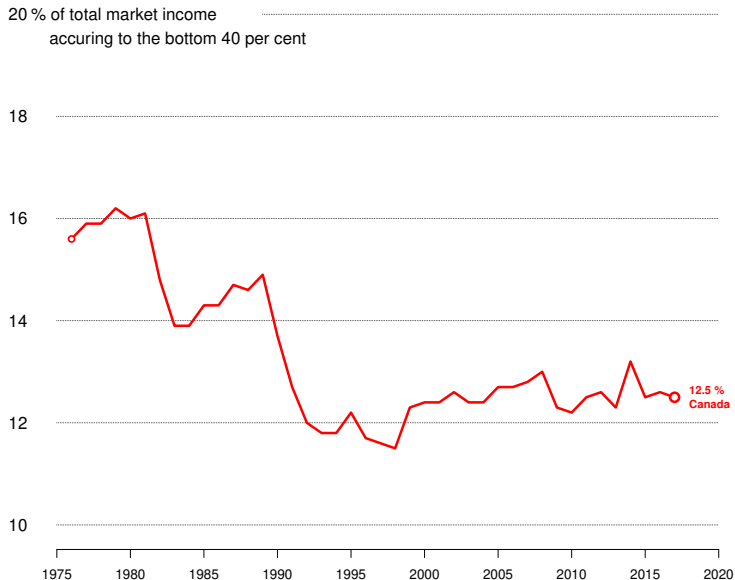
- ▶ equitable treatment of capital income versus labour income
- ▶ inheritance / estate taxation
- ▶ wealth taxation

## 2. **the impact on public policy for the broad majority**

- ▶ fairness in the tax system
- ▶ schooling, child care, and health care
- ▶ democratic decision making

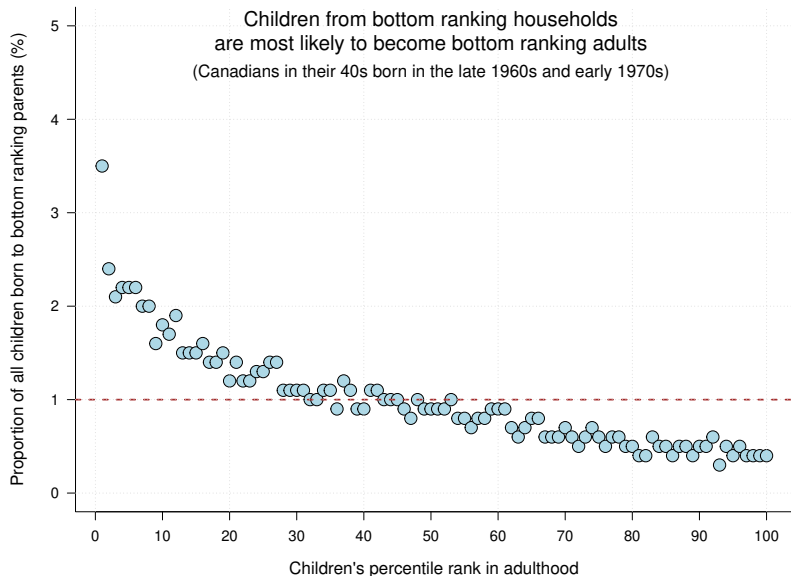
## 2. Inequality is on the rise

how does bottom end inequality matter for social mobility?



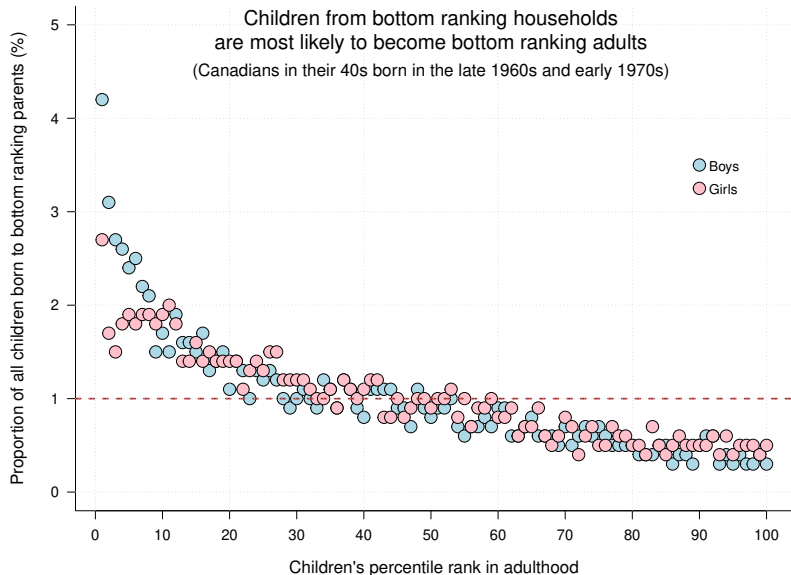
## 2. Inheritance and payoffs at the bottom

an intergenerational cycle of low income



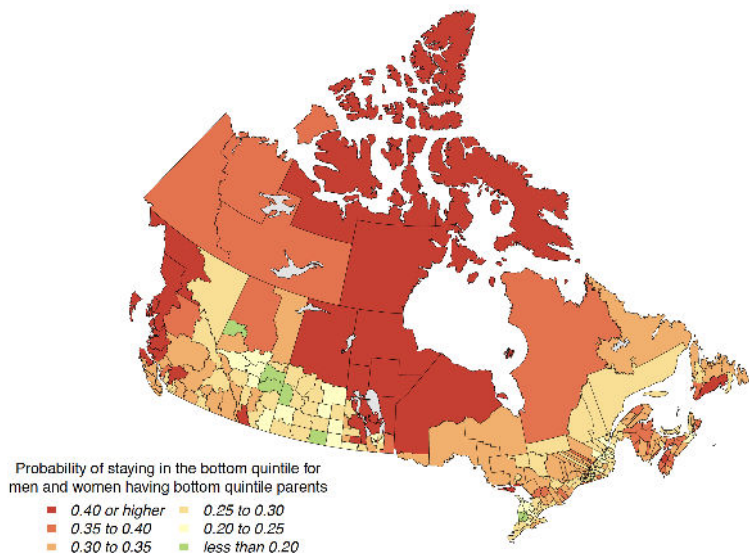
## 2. Inheritance and payoffs at the bottom

an intergenerational cycle of low income



## 2. Inheritance and payoffs at the bottom

cycles of low income mediated by geography and ethnicity



## 2. Inheritance and payoffs at the bottom

cycles of low income mediated by geography and ethnicity in the Québec City–Windsor Corridor

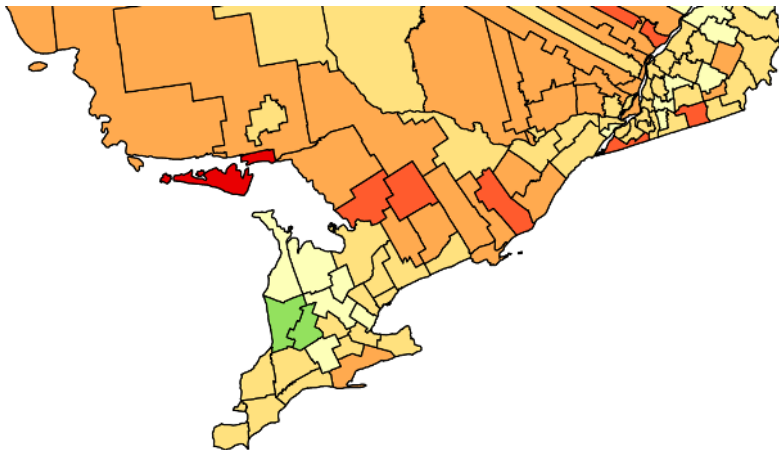
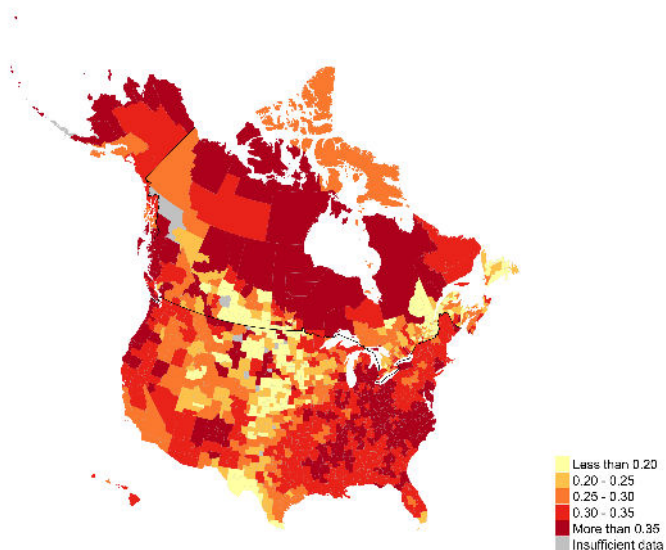


Figure 3: Cycles of poverty are less likely in parts of Southwestern Ontario

## 2. Inheritance and payoffs at the bottom

cycles of low income mediated by geography and ethnicity

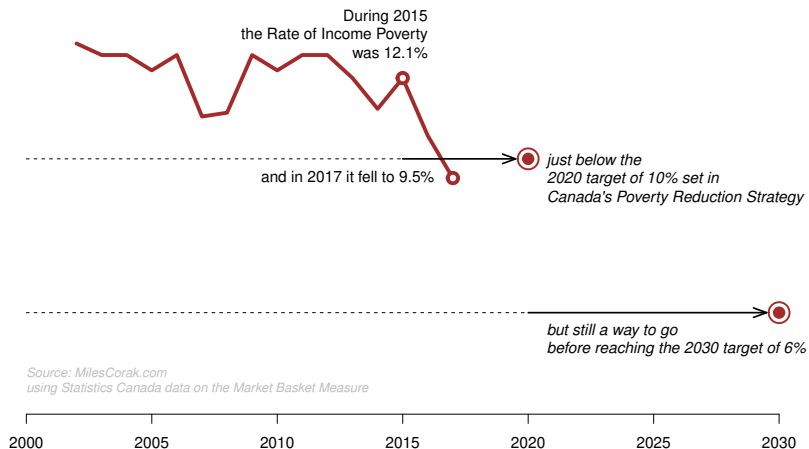


## 2. Inheritance and payoffs at the bottom

how does bottom end inequality matter for policy?

Canada's official rate of income poverty has fallen

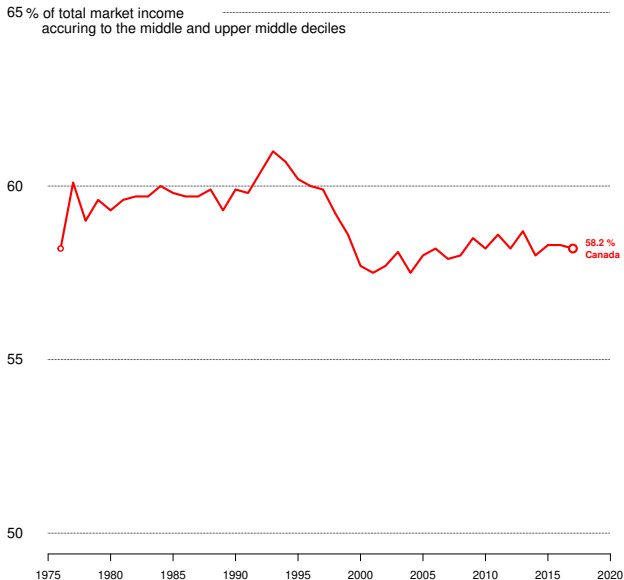
below one-in-ten for the first time, going below the interim target



Source: MilesCorak.com  
using Statistics Canada data on the Market Basket Measure

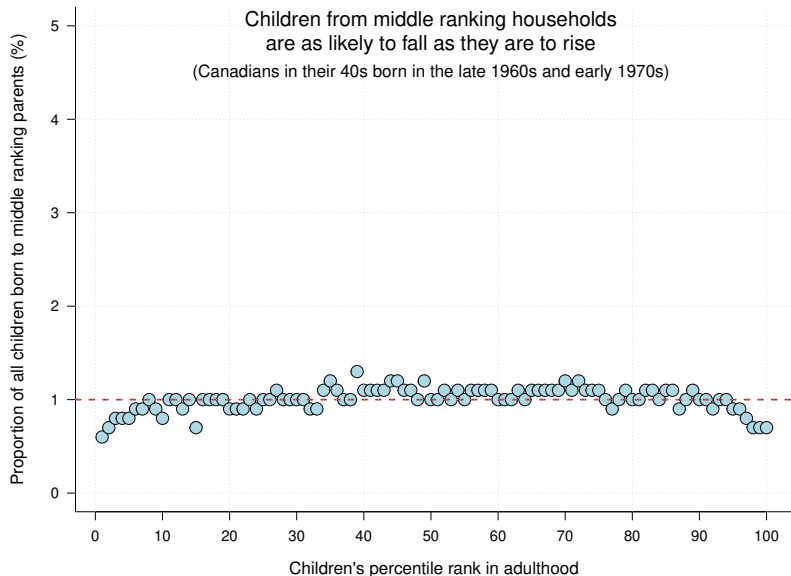
### 3. Inequality is on the rise

how do stagnating middle income shares matter for social mobility?



### 3. Investments and payoffs

intergenerational fluidity among the middle income class



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intergenerational fluidity among the middle income class fosters insecurity

#### Earnings declines surrounding layoffs in 2000 to 2003 — Men aged 46 to 55 in 1999

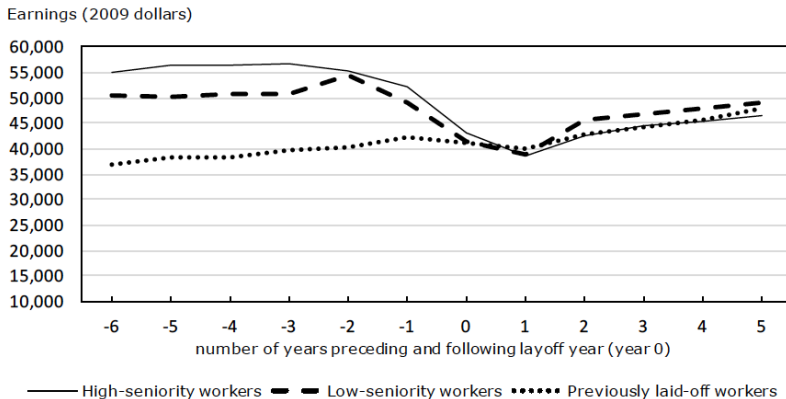
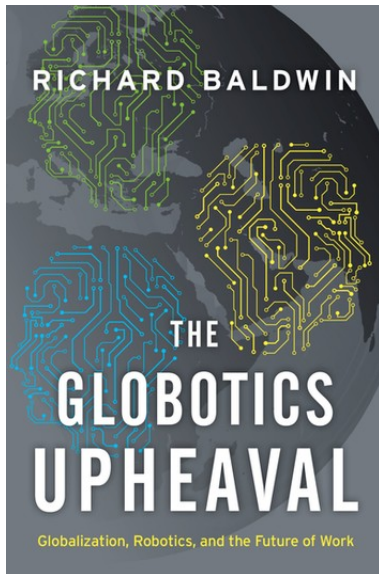


Figure 5: Laid-off high-seniority workers suffer permanent earnings loss

### 3. Investments and payoffs

the changing nature of work should be about managing transitions



'Inclusive growth' is economic and social development of relatively more advantage to the relatively disadvantaged

Equality of economic opportunities is an aspect of inclusive growth

1. For instrumental reasons

- ▶ equal opportunity fosters efficiency and productivity, and tempers the intergenerational transmission of inequality

2. For intrinsic reasons

- ▶ equal opportunity might be seen as being 'fair,' leading to less concern about resulting inequality of outcomes

'Inclusive growth' is economic and social development of relatively more advantage to the relatively disadvantaged

Equality of economic opportunities is an aspect of inclusive growth

An opportunity-enhancing menu for public policy

- ▶ recognizes three drivers of social mobility that influence the intergenerational transmission of inequality
  1. an **"inheritance"**
  2. an **investment**
  3. a **payoff**
- ▶ is explicit about the type of inequality that should be a concern: **top, bottom or middle ?**
- ▶ intervenes at the point in the production cycle holding the greatest marginal return:  
**before market, market, post-market**

At what stage of the economy does policy intervene?

	pre-production	production	post-production
What kind of inequality do we care about?	<b>bottom</b> endowment policies (health, education); UBI	minimum wage; job guarantee;	transfers (e.g., EITC); full-employment insurance policies
	<b>middle</b> public spending on higher education	"good job" policies; industrial relations & labor laws; sectoral wage boards; trade?; direction of tech. change	safety nets, social insurance policies
	<b>top</b> inheritance/estate taxes	regulation, anti-trust	wealth taxes

**Dani Rodrik**  
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Figure 7: A policy menu to promote opportunity and mobility for different types of inequality

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