

# Inequality and equality of opportunity

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***Public opinion rejects equality of outcomes, accepts the idea that skills and effort be rewarded, and accepts the resulting inequality “but only if there are equal opportunities”***

Strong majorities in many of the OECD countries **disagree** with the following statements :

- The fairest way of distributing wealth and income would be to give everyone equal shares
- It is just luck if some people are more intelligent or more skillful than others, so they don't deserve to earn more money

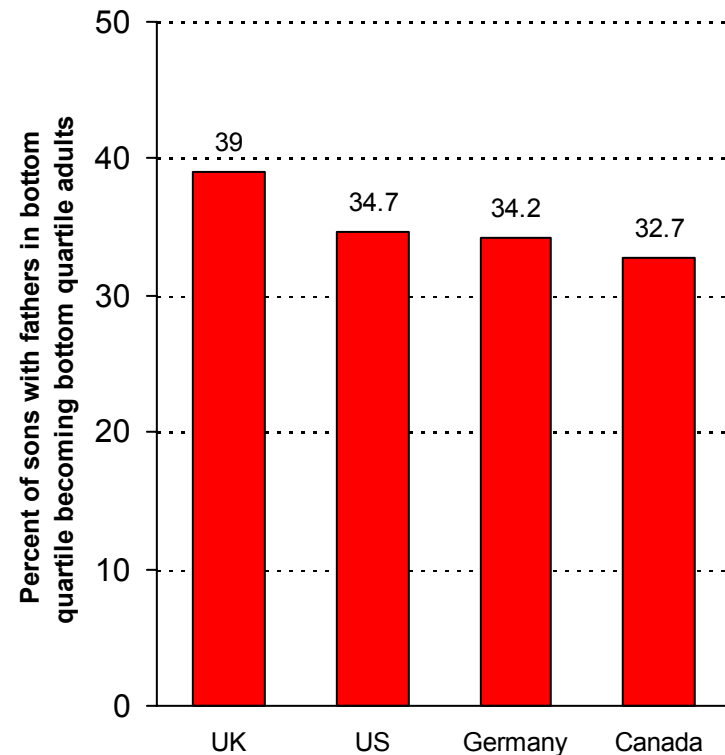
Strong majorities in many of the OECD countries **agree** with the following statements :

- People who work hard deserve more money than those who do not
- People are entitled to keep what they have earned even if this means some people will be wealthier than others
- It's fair if people have more money and wealth, but only if there are equal opportunities

# ***Generational cycles of low income are common in rich countries ...***

More than one-third of children born to low income parents (those in the bottom 25% of the earnings distribution) become low income adults

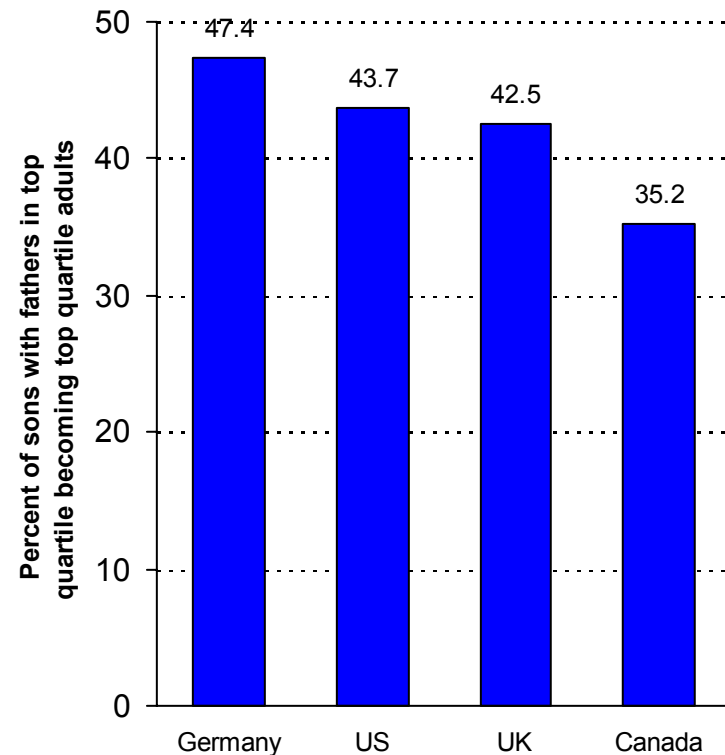
The pattern in the Nordic countries also suggests that a disproportionate fraction of low income children grow up to be poor adults



## *... and so are generational cycles of high income*

Over 40% of children born to high income parents become high income adults in Germany, the US and the UK, about a third do so in Canada

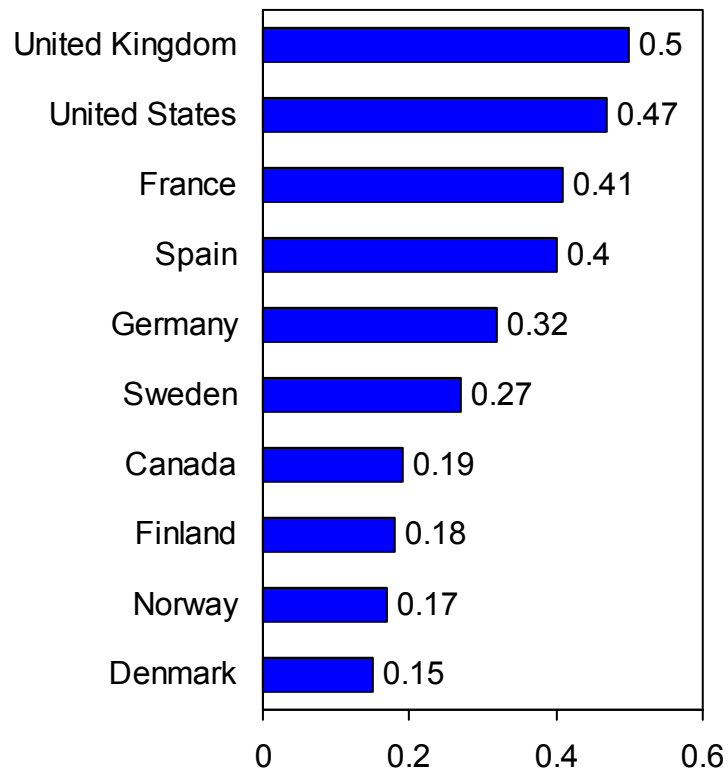
Similar patterns exist in the Nordic countries



## ***Three questions to motivate the discussion***

1. How much inequality is transmitted across the generations, and how do we compare to other OECD countries?
2. What causes the intergenerational transmission of inequality, and how are these factors changing?
3. What should public policy do?

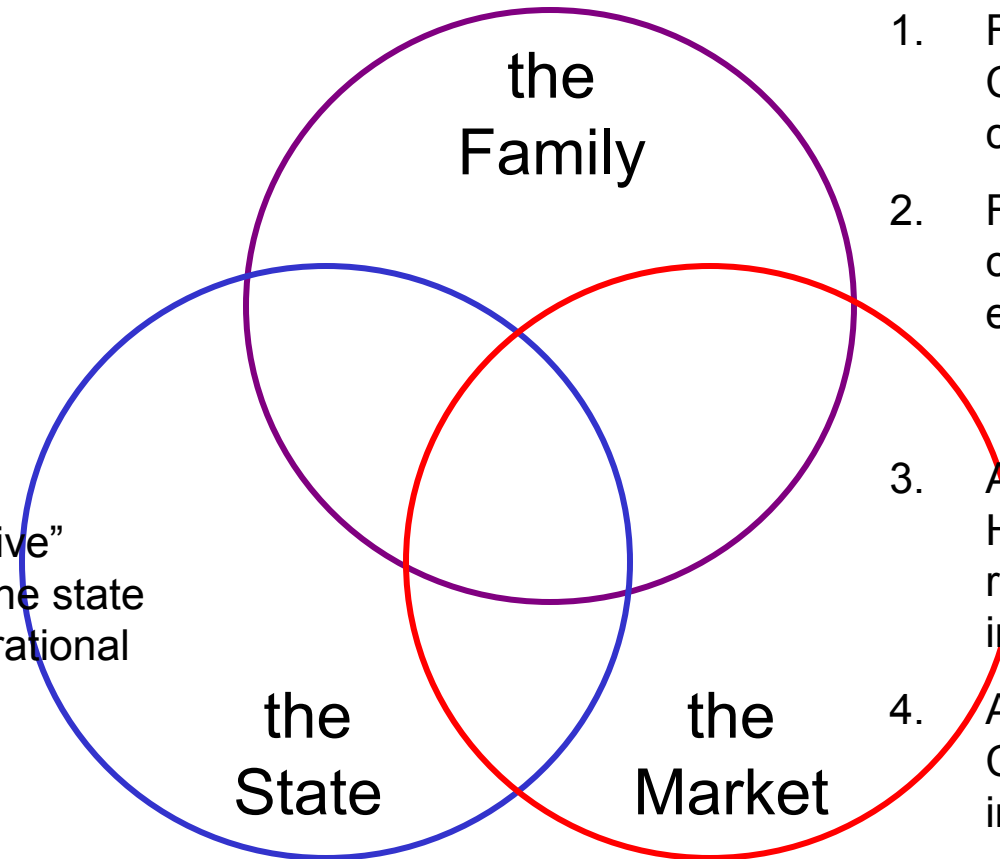
# ***In Canada about 20% of parental earnings advantage is passed on to children, placing us among the most mobile countries***



Countries differ in the extent to which family economic status is related to labour market success of children in adulthood

More than 40% of a parent's earnings advantage is passed on to children in France, the US and UK, less than 20% in Canada, Finland, Norway and Denmark

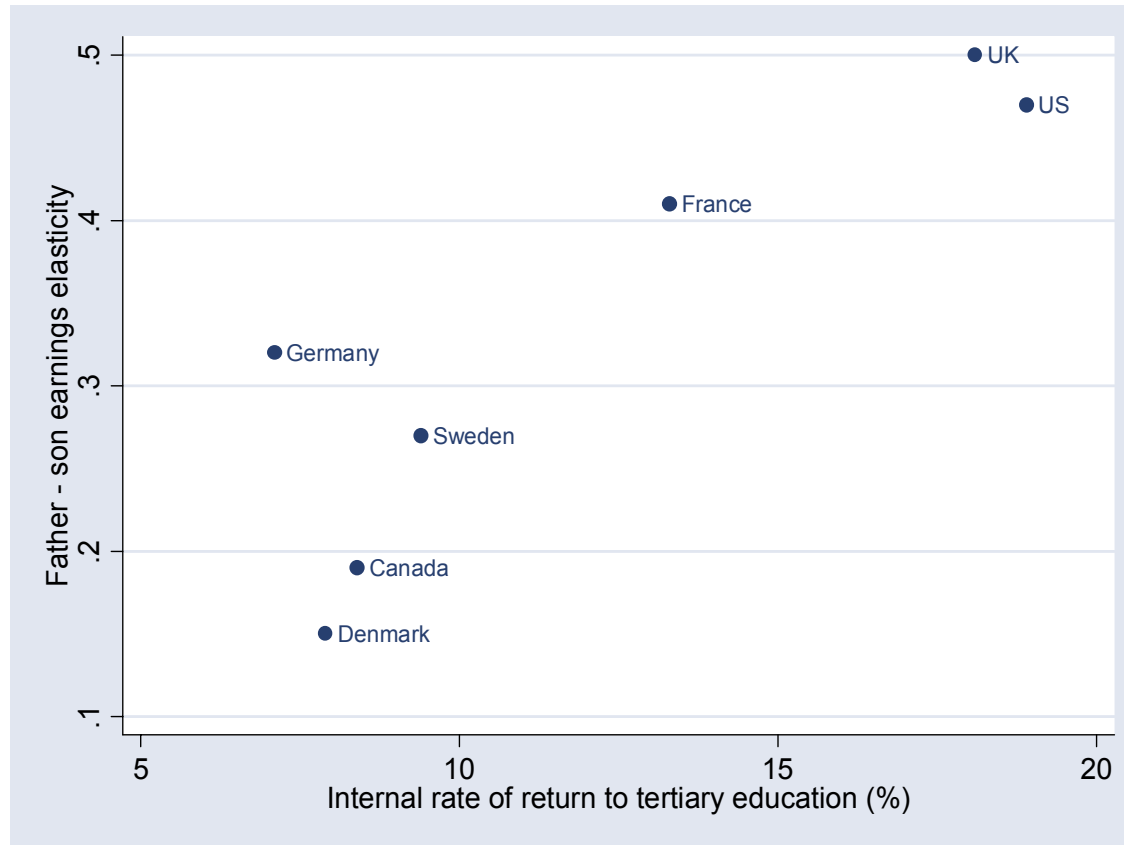
# ***Families, labour markets, and the state all play a role in determining the degree of intergenerational inequality***



1. Families with more Human Capital invest more in their children
2. Families with more children invest less in each child
3. An increase in the cost of Human Capital investment reduces the amount invested
4. A higher return to Human Capital encourages more investment

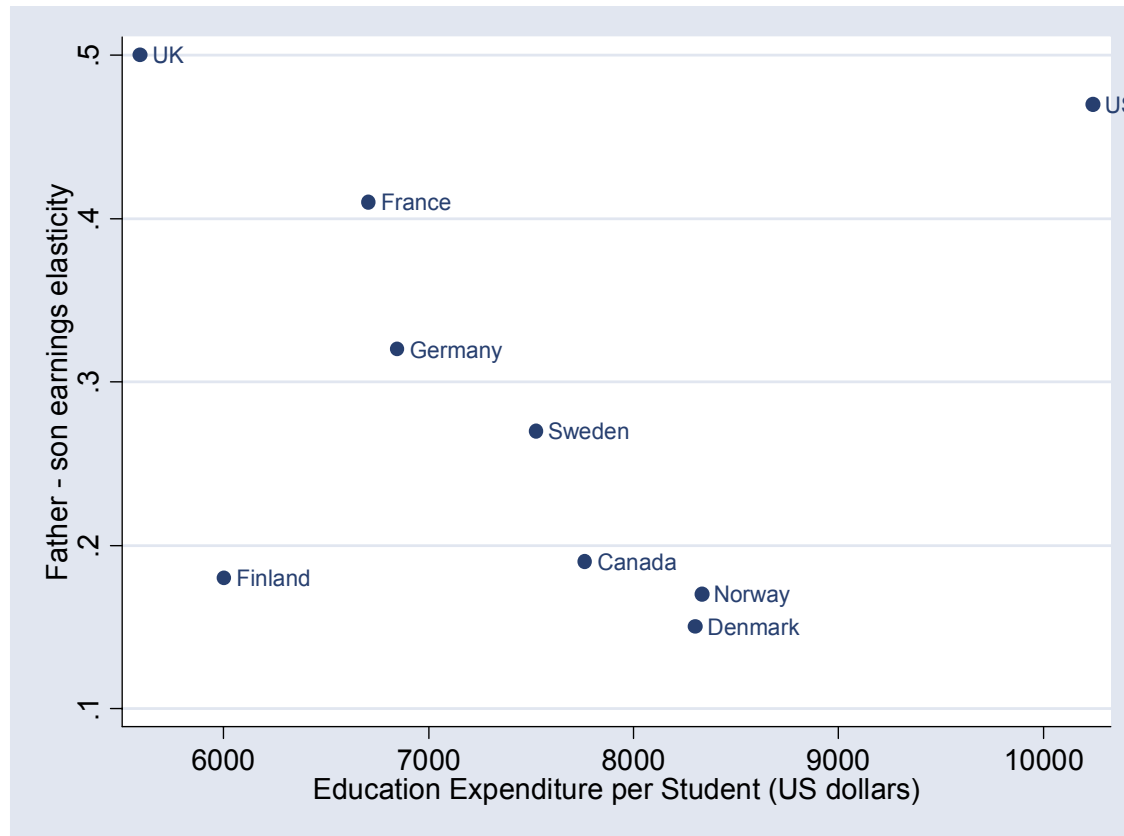
5. More “progressive” investment by the state promotes generational mobility

***The higher the returns to education ...  
the more inequality is transmitted  
across the generations***



2. What causes the intergenerational transmission of inequality?

***The higher the spending on education ...  
the less inequality is transmitted  
across the generations***

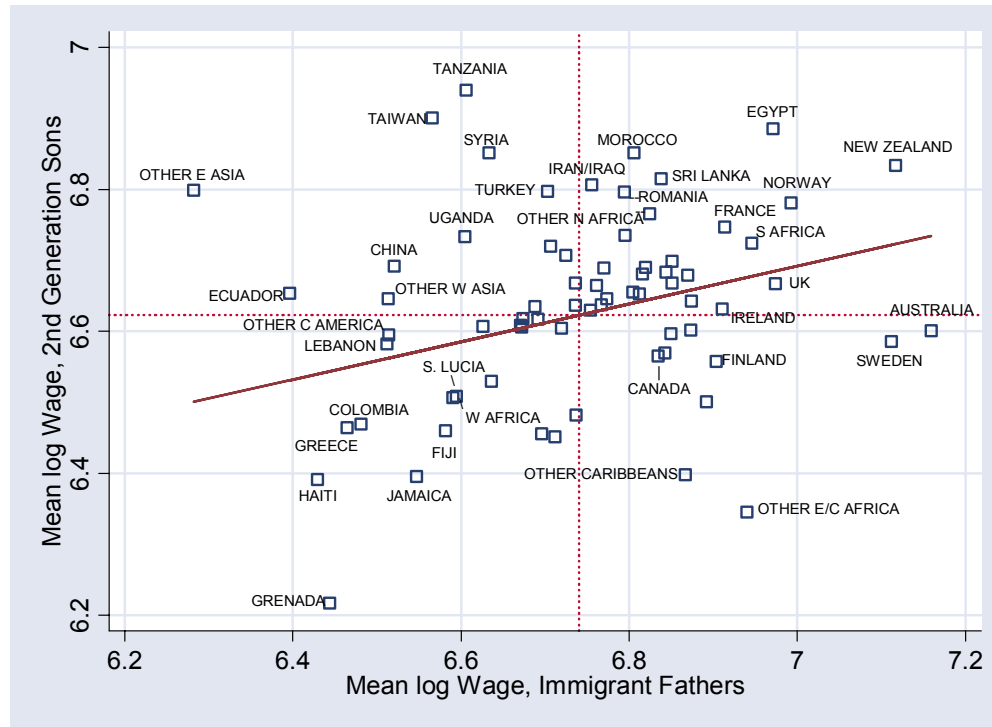


2. What causes the intergenerational transmission of inequality?

# ***Equality of opportunity requires progressive investments through a series of transitions important for adult outcomes***

socio-economic circumstances early in life →  
birth weight and cognitive/social/emotional development →  
readiness to learn →  
language development →  
problems in school and educational achievement →  
skills and mental well-being in adulthood →  
labour market success and job characteristics →  
stress, disability, mortality

***On average the transmission of inequality is the same for immigrants and their children, but outcomes vary by country of origin***



3. What should public policy do?

		<i>Son's</i> education greater than Canadian average		<i>Son's</i> education less than Canadian average	
		Earnings less than average	Earnings greater than average	Earnings less than average	Earnings greater than average
Father's education greater than Canadian average	Earnings less than average	11	27		
	Earnings greater than average	3	16		
Father's education less than Canadian average	Earnings less than average	2	6		4
	Earnings greater than average	1			

3. What should public policy do?

		<i>Son's</i> education greater than Canadian average		<i>Son's</i> education less than Canadian average	
		Earnings less than average	Earnings greater than average	Earnings less than average	Earnings greater than average
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3. What should public policy do?

# ***Low earnings across the generations for sons in spite of higher than average education***

- 1. Barbados**
- 2. Columbia**
- 3. Grenada**
- 4. Guyana**
- 5. Haiti**
- 6. Jamaica**
- 7. Japan**
- 8. Oceania**
- 9. St. Lucia / St. Vincent**
- 10. Trinidad**
- 11. West Africa**

- The majority of these 11 countries are Caribbean or surrounding South American
- Japan is an exception, the earnings of fathers and sons are essentially at the Canadian averages and it could just as easily be classified as above

## *In summary ...*

1. The nature of inequality matters
  - we want a society that is in some sense fair, in which inequality is not inherited
2. The structure of families, labour markets, and government investments have served us well in the past
  - but things are changing: families are more diverse, and labour market rewards and incentives put a greater premium on skills
3. Public policy should be “progressive” – that is of relatively more benefit to the disadvantaged
  - early childhood investments that are supported and amplified through the entire schooling system
  - particular attention to second generation boys from certain immigrant communities

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