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Public policies for equality and social mobility in Canada

A background paper prepared for the Canada 2020 event

Equality of Opportunity – a Canadian dream?

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About the paper and author

This paper was prepared as background for the Canada 2020 event 'Equality of Opportunity – a Canadian Dream?' Comments and suggestions are welcomed.

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1. INTRODUCTION

Inequality is on the rise in many rich countries, Canada included. The underlying causes are many and varied. As a result different groups are affected in different ways, and view the issue from different perspectives.

For some, growing inequality of outcomes raises an issue of fairness. Either it is merited, reflecting differences in talent and effort, and the widening gap in incomes should be accepted; or it is in some sense 'just not right' whether merited or not. For others, it is a matter of economic efficiency, the macro-economies of unequal societies being more unstable and more difficult to manage, or innovation and productivity growth being negatively affected. Other commentators view growing inequality in the context of societal utility, with individual well-being being lower in more unequal societies, which in part may reflect the loss of belonging to a collective project.[1]

In this paper I focus on an aspect of inequality that might engage all of these perspectives: the relationship between inequality and equality of opportunity. Higher inequality is typically associated with less mobility across generations: labour market outcomes are more closely tied to family background in more unequal societies. In other words, the greater the degree of inequality at a given point in time, the greater the fraction of inequality that will be passed on to the members of the next generation.

In particular, I analyze the relationship between inequality and mobility, suggest that the higher inequality that now characterizes earnings and incomes in Canada may risk lower opportunity and mobility for the next generation of children and youth. I present a range of policy prescriptions that might safeguard or advance mobility in Canada.

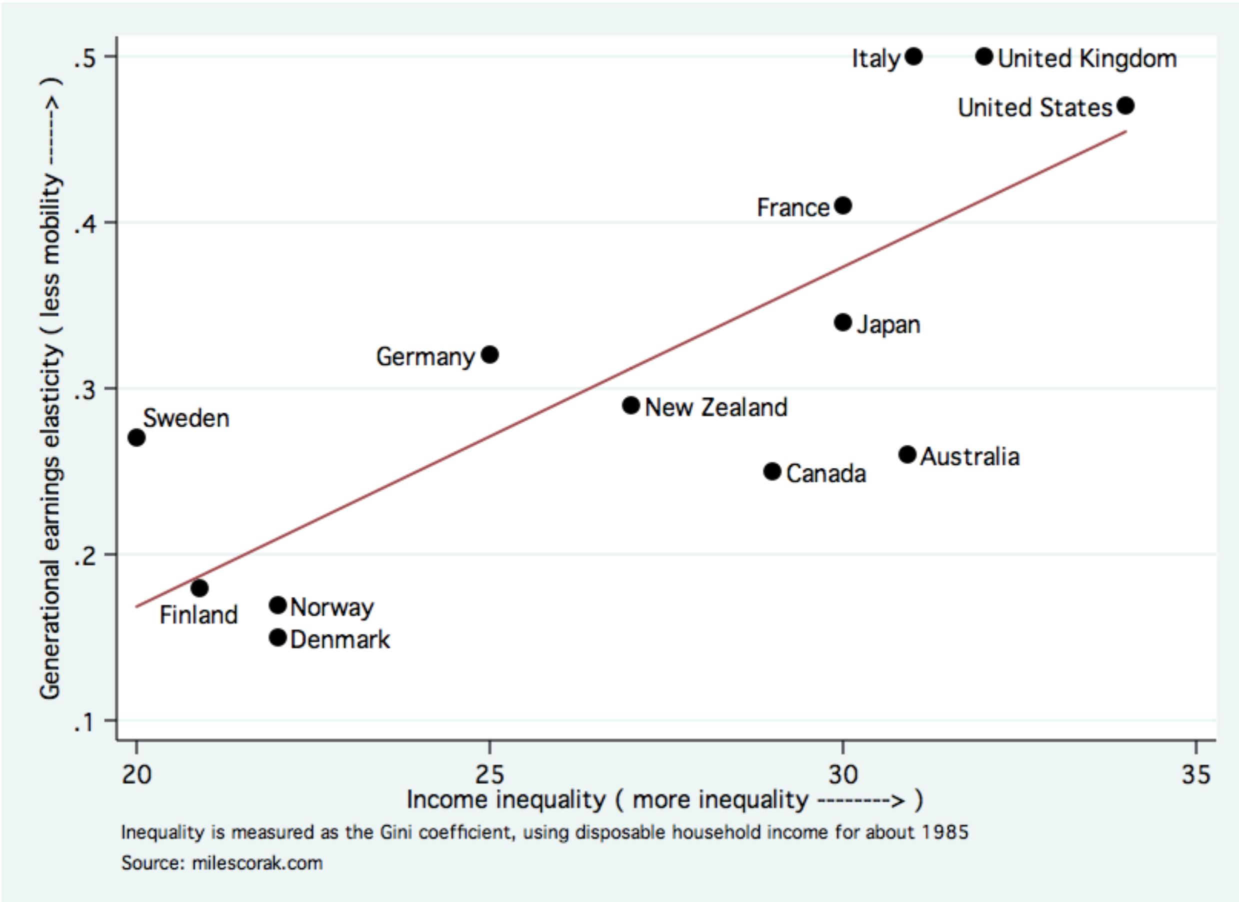
2. WHAT IS THE GREAT GATSBY CURVE (and why should you care)?

In a January 2012 speech, Alan Krueger, the Chairman of the Council of Economic Advisors to the President of the United States, gave a name to the empirical relationship a number of labour economists had uncovered between inequality and the fraction of relative parental economic advantage passed on to their children.[2] He christened this "The Great Gatsby Curve".

A version of the curve is depicted as Figure 1.[3]

In the figure, a horizontal movement from left to right shows greater inequality, as measured about 25 years ago. This is represented by a commonly used statistic, the GINI coefficient. Sweden, Finland, Norway and Denmark are the most equal countries represented, while Italy, the United Kingdom, and the United States the most unequal.

Figure 1
The Great Gatsby Curve: more inequality is associated with less social mobility



A vertical movement from bottom to top is associated diminishing generational mobility. The vertical dimension maps out what economists refer to as "the generational earnings elasticity", the percentage change in a child's adult earnings associated with a percentage change in parental earnings. Higher values imply less mobility, in other words a greater "stickiness" in earnings across the generations.

The generational earnings elasticity, or simply GENE for convenience, estimates the fraction of any relative advantage a parent may have that is passed on to the child. An estimate of 0.5 would imply that a son whose father made twice the average income in his generation would, as an adult, earn about 50% more than the average of his adult counterparts.

The GENE is calculated assuming this pattern would also hold if the father had below average earnings, showing the fraction of the gap from the average that would be closed in the next generation. In reality, estimates of relative mobility may not be the same at the very top and very bottom of the income distribution, but for present purposes this statistic is an appropriate catch-all indicator of generational mobility in relative status. Just as the GINI coefficient is often used as an overall indicator of the degree of inequality, so to the GENE can be used as an indicator of mobility or the fraction of inequality that is passed on.[4]

The Great Gatsby Curve illustrates two important points: that the degree of generational mobility varies across the rich countries; but also that it varies in a particular way, more unequal countries being characterized by less mobility.

About a generation ago (which is what this chart shows), the Canadian income distribution was significantly more unequal than that of the Nordic countries, but not as unequal as in the United Kingdom or the United States. This Canadian level of inequality was associated with a GENE of about 0.25, higher than the Finnish, Norwegian or Danish numbers, but about half of the estimate for the United States. A GENE of 0.25 implies that while there is an association between parental earnings and the adult earnings of the child, there would be little association between the income of a grandparent and a grandchild.

To some, the GENE is a marker of equality of opportunity, the only circumstances mattering being family income. From this perspective, the Great Gatsby Curve becomes a recipe for public policy. The prescription to a policy maker is: reduce inequality in the here-and-now, and you will reduce the tie between outcomes and family background, promote equality of opportunity, and thereby reduce the degree to which inequality perpetuates itself across generations.

It is not at all clear that this is a correct interpretation of the Curve, which is a description of outcomes rather than an arrow between cause and effect. The Great Gatsby Curve is an average gradient between a child's starting point and final adult outcomes. As such it embodies a whole host of gradients between socio-economic background and the outcomes of children at each stage in their development.[5]

For example, socio-economic background influences the in-utero environment and development during the early years, which in turn impacts cognitive, language and behavioural development. These factors feed up to affect educational outcomes and job market success. Children may benefit from having richer and more educated parents, but they are also influenced more generally by the values, sense of motivation, and the overall family culture that parents foster, which can be independent of economic status.

Parents also influence their children's development with monetary resources, meaning that the structure of the labour market, and the nature of jobs and pay, matter for children. More polarized and more turbulent labour markets can cast a shadow on child development by influencing not just the wage rates parents command but also the security of employment and incomes. Lower pay and longer working hours may mean less money and less time for children. More job changes may mean bigger changes in income and also changes in residence, the quality of schooling, and healthcare that may have long-term consequences for children.

Public policy also has a role to play in determining child development. Income and other supports can buffer families from labour market changes: the provision of affordable childcare can promote labour market participation, while healthcare and education are key factors in human capital formation.

The more "progressive" the design of these programs – that is, the more advantage they are to the relatively less advantaged – the more likely they are to loosen the tie between socio-economic status and outcomes, and promote generational mobility. The converse is also true: public policy can have just the opposite impact if it is of relatively more advantage to families that are relatively better off.

In sum, to understand the relationship between inequality and mobility, and how mobility might change as an economy becomes more unequal, it is necessary to understand how changes in inequality reflect changes in labour markets and jobs; to understand, in turn, how inequality is related to family resources and the quality of the family environment to which children are exposed; and finally to understand how it influences social choices and the capacity and effectiveness of public policy to level the playing field. The Great Gatsby Curve is an overall picture of how these forces mesh, interact, and ultimately lead to one measure of adult success: labour market earnings.

Comparing between countries

Not all of the cross-country comparisons implied by the Great Gatsby Curve are relevant for public policy. Canada or the U.S. will never be the same as Denmark. However, the differences highlighted by the Curve invite us to reflect on underlying causes and values and, on this basis, to imagine how they might be changed. Some comparisons might be more apt than others. In particular, Canada and the United States share a good deal more in common than they each do with Denmark, yet the many remaining differences between these two countries may influence child outcomes in a way that offers lessons for policy.

Canadian children on average, and particularly those who are less advantaged, live in families that have more parental resources than American children. They are more likely to be living with older, more educated parents and more likely to be living with both biological parents, and less likely to be living in single-parent families. Canadian parents are also more likely to have a greater proportion of time away from work that they can devote to family life.

U.S. earnings are more polarized than in Canada, and parents devote considerably more time to market activities than to family activities, with less formal childcare support. Greater inequality in labour market outcomes, and particularly higher returns to education, gives richer parents both more opportunity and more incentive to invest in the schooling of their children.

Overall, then, the extremes of childhood experience are greater in the United States. If Canadian children were placed in the American income distribution they would be most likely to be living in lower middle-income households: less likely to fall in the bottom 10% of the American income distribution, but also less likely to be in the top half and certainly in the top fifth.[6]

Public policy also differs between the two countries. In the United States public spending is notably of less benefit to the least well-off: healthcare is of varying quality and availability, and conditional and non-conditional transfers to families with children are more limited. Just as importantly the quality of schooling varies significantly more by socio-economic status than in Canada. In the United States primary and secondary schooling is financed in larger measure by local property taxation, and quality education is therefore reflected in housing prices, leaving the relatively well-off with better financed schools and higher quality teachers. This variation is also reflected in higher education, with there being a more limited community college system, a larger private component to university education, and much higher tuition fees overall.

All of these differences associated with families, labour markets, and public policy lead to less social mobility in the United States than in Canada. But it is important to note that the discrepancy between the GENE of the two countries is driven mostly by differences at the upper and lower income levels. There is a great deal of mobility across the generations in both countries for the broad middle-income groups. A key difference between the two societies is that a child born to parents at the top or to parents at the bottom is more likely to remain in the top or bottom as an adult in the United States than in Canada.

3. LABOUR MARKET DEVELOPMENTS and changing inequality in Canada

Has inequality increased in Canada? If it has, do Canadians risk sliding up the Great Gatsby Curve?

Yes, inequality has increased. A generation ago the Canadian income distribution was characterized by less inequality than the United States, and about twice as much social mobility. Three decades later the Canadian distribution is about as unequal as the United States was then. Does this mean the adult outcomes of children being raised during the 2000s are more likely to be determined by their family circumstances, that Canadians risk sliding up the Great Gatsby Curve? I suggest that this will depend, in part, upon what public policy choices we make in this era of higher inequality.

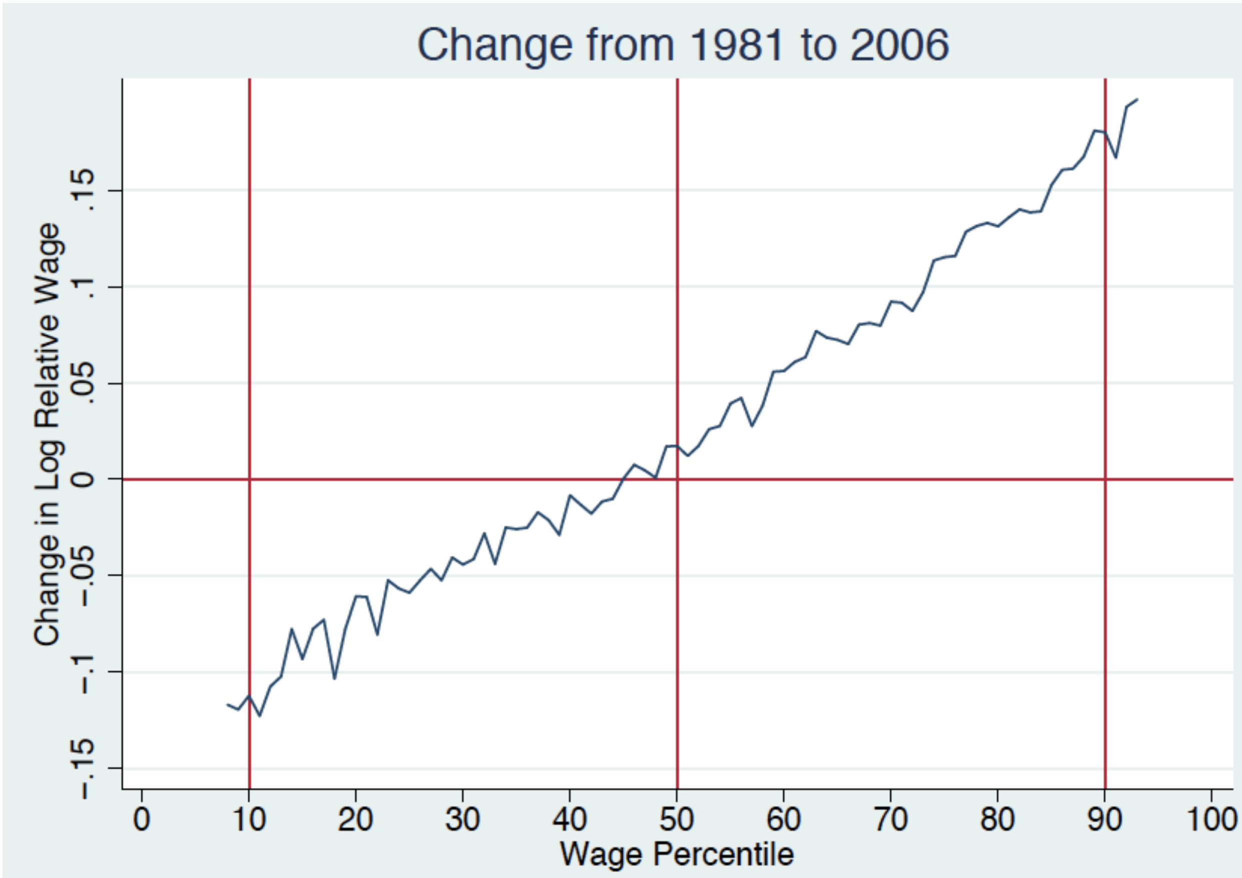
A first step in thinking about and developing policies for opportunity in an era of higher inequality is to understand how and why inequality has changed. I think of changes in inequality as reflecting, in the first instance, underlying drivers associated with labour markets and jobs. These, in turn, lead to changes in family structure and resources. Obviously the interaction is more complicated, but this can be a helpful starting point because some of these drivers – notably technological change and its interaction with freer trade – can reasonably be thought of as outside the control of families and some aspects of public policy.

In taking this first step it is important to start with wage rates because they reflect underlying changes in labour demand. Wages – or, more precisely, weekly earnings – in Canada have become much more polarized over the course of the last two or more decades, rising substantially for those in the upper half and falling for those in the lower half. This is a major contributing factor to higher inequality of annual earnings and incomes for families.

Figure 2 illustrates the trend by offering the percentage point difference in weekly earnings for each percentile in the wage distribution between 1981 and 2006.

Over this period the wage of the median earner, the earner exactly in the middle of the distribution – the 50th percentile – was essentially unchanged, rising only slightly. But weekly earnings for those in the upper half were higher in 2006 than in 1981, and increasingly so the higher the ranking. The weekly earnings of those in the top 10% increased by more than 15 percentage points over this 15 year period. In contrast, wage rates actually fell at all points in the lower half of the

Figure 2
Percentage point change in weekly wages between 1981 and 2006 for each percentile of the wage distribution



Source: David Green, presentation to the University of Ottawa using Statistics Canada, Census of Canada.

distribution, falling more the lower the ranking. The weekly earnings of those in the bottom 10% fell, roughly speaking, by more than 10 percentage points.

Why have wages have become more polarized? This, of course, is an important and puzzling question that has been given a good deal of consideration in the academic literature, and continues to be the subject of research. But the general story goes something like this: communication and information technologies have changed the nature of work. Though it is difficult to parse out their independent influence, it is fair to say that both of these factors have interacted, and that the influence of technical change has even been heightened by globalization.

Workers have been impacted differently depending upon the nature of their work, and their education and skills. Generally, workers who perform "routine" tasks are more likely to have been impacted negatively, whether these tasks are physical – associated with work on the stereotypical assembly line of decades past – or whether they are cognitive, associated say with the information management role middle managers in retail or other sectors used to perform. Computing technology can be readily applied to routine tasks, increasing efficiency and as a result displacing workers almost without regard to their seniority and years of experience. As Figure 2 suggests, the groups most affected by these changes need not be the lowest-skilled or lowest-paid workers.

Those in the lower-middle of the earnings distribution have also seen outright declines in the wages they can expect to earn for a week's work.

At the same time, workers who perform non-routine tasks, physical and particularly cognitive, have seen the rewards to their work effort go up, in some cases very substantially. Computing technology, for all its power, is much harder to apply to non-routine tasks involving highly personalized services, or high-level cognitive and creative tasks. Indeed it likely complements, rather than substitutes for, these types of tasks.

Wage rates have also been influenced by institutional changes in the labour market. Higher minimum wages, for example, have been shown to narrow the wage distribution, and an erosion of minimum wages in inflation adjusted terms can be expected to lead to more inequality.[7]

In addition, the declining influence of unions is likely also associated with higher inequality. If unions raise wages in sectors of the economy that are already more highly paid – such as healthcare – then differences in average wages between sectors will be greater and inequality will actually be higher. At the same time collective bargaining also has a tendency to narrow within-firm and within-sector wage differentials, which promotes more equality. This may happen when large parts of an entire sector are unionized, or influenced by collective bargaining within unionized firms, as in the auto sector.

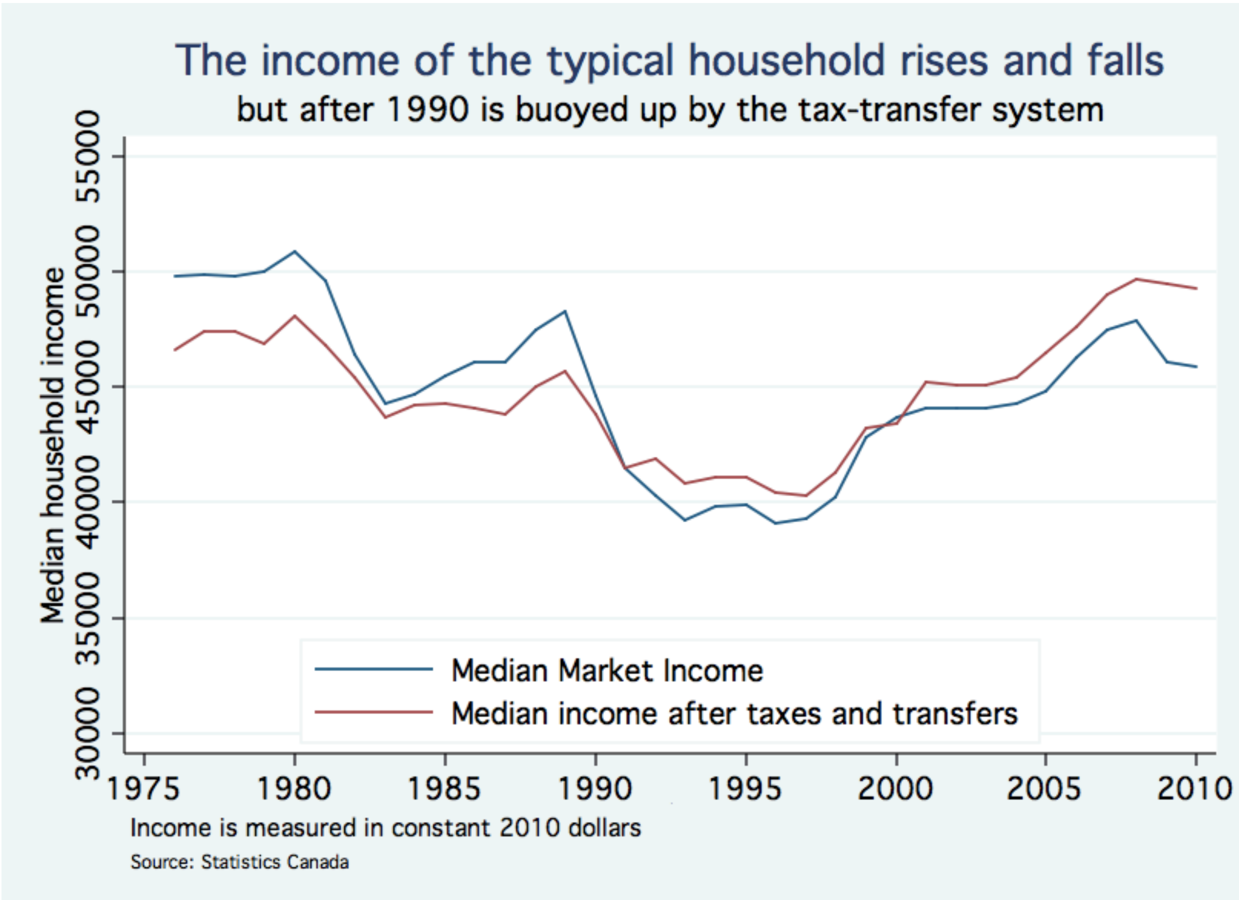
Generally, past research has found that while unions increase average wages, the narrowing of within-sector differences outweighs the widening of between-sector differences and the overall wage distribution becomes more equal. The declining influence of unions during the last two or more decades is likely, therefore, to have contributed to increasing inequality.[8]

As a result of all of these changes the typical Canadian household has not experienced an increase in its annual income over recent decades. During the late 1970s and early 1980s the typical family – which I take to be the family with median income – earned about $50,000 (corrected for inflation and measured with 2010 dollars). As Figure 3 illustrates, these earnings ebb and flow with the business cycle, but they have not regained this peak. In 2007, median family income stood at about $47,000 to $48,000.

The stagnant wage rates illustrated in Figure 2 play a role in determining this trend, which is also influenced by family formation and work intensity. But what is hidden underneath the trends displayed in Figure 3 is an increased tendency for both partners in the household to be working, and to be working longer hours, as well as a long-run tendency for both partners to have higher levels of education, to delay forming lasting partnerships and, ultimately, to have fewer children. The typical family is running harder in order to stay still.

Family incomes have certainly been helped by an upward trend in wage rates since the recession of the early 1990s, and also since about the early 2000s, reflecting, in large measure, increased labour demand for workers of all skill levels arising from the commodity price boom. Some researchers have suggested that the underlying trends associated with technical change have paused, or even reversed. The suggestion is that since the early 2000s investments associated with the restructuring of the workplace have slowed or even been completed.[9] If this is in fact the case, then the outlook for future wage growth is more pessimistic not just for those in the lower half of the earnings distribution, but also for those in large parts of the upper half.

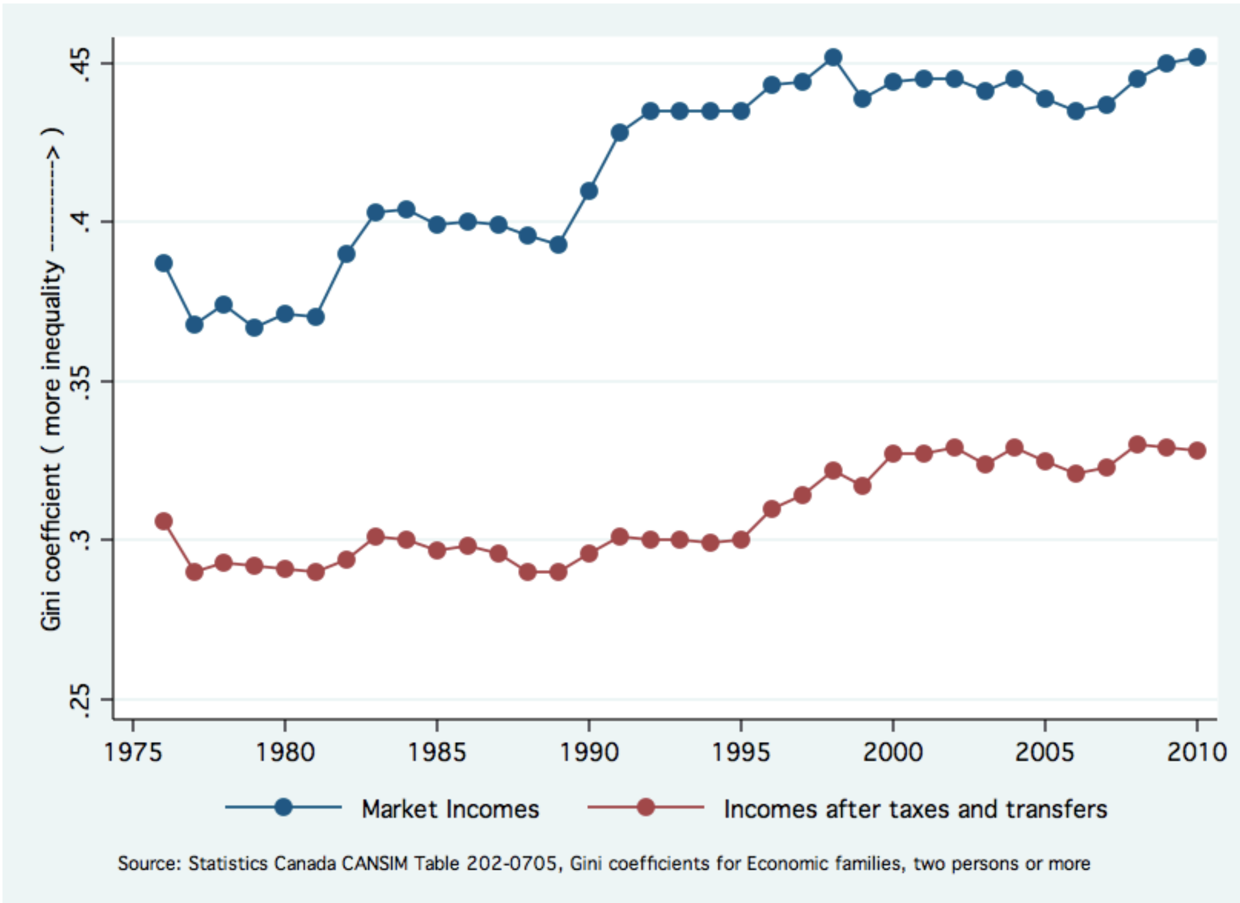
Figure 3
Annual Income of the Median Household



Higher education may be on its way to becoming less a gateway to higher-skilled jobs, and more of a way to jump the queue to get lower-paid jobs. As those with higher education cascade down the wage distribution, they will put even more downward pressure on the earnings of those with fewer credentials. To some degree this scenario seems to be playing out in the United States, but it remains to be seen how long-lasting and pervasive it will be. And while the picture is more clouded in Canada because of past growth in labour demand in the western part of the country, it may be an underlying structural trend that will become more evident with time, or in certain parts of the country, particularly if commodity prices begin to decline.

The upshot has been a noticeable increase in the overall level of inequality. While it is true that inequality of market incomes for Canadian households, as measured by the GINI coefficient, has not increased significantly during the 2000s, this perspective is too narrow for three reasons. The first, as 4 illustrates, is that there were notable increases during the 1980s and 1990s. This longer-term trend is important if we are to assess the impact on social mobility, as it reflects the environment within which younger families were raising the next generation of children whose adult attainments will ultimately reveal the next wave of social mobility.

Figure 4
Inequality of market incomes increased during the 1980s and 1990s, while inequality of disposable incomes increased only after the mid 1990s



Second, looking at the relative stability of market inequality since about the late 1990s does not present the whole picture because inequality as measured after-taxes and after-transfers has experienced the opposite trend, remaining constant up to about 1995 and then increasing. The tax-transfer system plays a very significant role in reducing market income inequalities. Figure 4 shows that during the late 1970s the GINI coefficient was lowered by about 0.07 points, a substantial change when compared to many other rich countries.

In addition, the entire increase in market inequality during the 1980s and up to about the mid 1990s was undone by the tax-transfer system, with the GINI being lowered by almost 0.15 points in 1995. Since that time, however, inequality of disposable incomes has risen. It is as if either the efficacy of the tax-transfer system to redistribute incomes was exhausted after 1995, or the political will supporting further redistribution of outcomes has reached its limit.

Finally, the third reason why the trend in market income inequalities during the 2000s is too narrow a perspective has to do with the limitations of the GINI coefficient. This statistic is most sensitive to changes in the broad middle of the income distribution. By its very construction, it is not able to reflect changes in the extremes, and it therefore needs to be supplemented with other

Figure 5
The share of incomes accruing to the top 1% has risen throughout the three decades since about 1980

tools. This is particularly important when examining changes during the three decades since the 1980s, because of the very significant rise in the fraction of total earnings accruing to those at the very top.

Figure 5 shows this increase, with the top 1% commanding a bit less than 8% of total incomes in the late 1970s and early 1980s, but accounting for a high of almost 14% in 2007, though somewhat less afterward with the onset of the recession.

In 2010 an annual individual income of about $200,000 to $215,000 dollars (depending upon whether capital gains are included in the income measure) was needed to make it into the top 1%. The average income in this percentile of the distribution was about $430,000 to $488,000, a figure that has, roughly speaking, doubled since 1982 (and increased even more for the top 0.1%). Over the same period, the average tax rate –the fraction of income paid in taxes – has fallen overall: it was a bit below 30% in 2010, slightly lower than in 1980, and significantly lower than it had been during the mid 1990s.[10]

There is no single explanation for rising inequality in Canada. Technological and institutional changes play important roles that influence groups differently. The academic literature has emphasized their importance to the highest earners, pointing to an economics of superstars for those in entertainment and other fields. But other institutional changes, such as those associated with corporate governance, CEO pay structures and evolving pay norms have also played a huge role in bolstering the fortunes of this group.[11]

In one sense, the top 1% is a select group: demographically it tends to be made up of older men with higher levels of education. But these individuals are a diverse group occupationally. About one-third are managers or senior mangers, yet almost 12% are health professionals, and a further 7% are professionals in business and finance. One-in-twenty of those in the top 1% of incomes work in the mining, oil and gas sectors.[12]

It is not immediately clear that growing inequality in top shares should influence social mobility. While there is a good deal more stickiness in the transmission of earnings between top earning fathers and their sons – the GENE for these families is twice or more higher than the 0.25 that characterizes the overall average degree of mobility – this group is, after all, a small percentage of the population and disregarding it does not appreciably change the average degree of social mobility.[13]

A bigger worry relates to the possibility that the top 1% command undue influence on public policy and the allocation of public funds. This tendency has been well documented in the United States[14], but is not as clear in Canada. This said, there is an increasing persistence of top income status over time, which may make this concern more salient.

While there is a certain amount of movement in and out of the top 1% each year – for example, about one-third of those in the top 1% in 2010 were not in the top 1% in 2009 – this movement does not usually involve substantial changes: most of it is the result of individuals in the top 5% moving back and forth across the top 1% threshold. During the mid to late 1980s just under 60% of those in the top 1% were always in the top 5% for five consecutive years, while two decades later this was about 75%.[15] In part this tendency may reflect lifecycle patterns in incomes, but it does suggest that the wealth distribution in Canada may eventually become more concentrated, though to the best of my knowledge there is no available evidence to document this tendency at present.

4. PUBLIC POLICY FOR INEQUALITY AND SOCIAL MOBILITY: accept, advance, and retreat

If public policy is to be used to promote social mobility it should focus on increasing upward mobility for those born to lower income families. To do this it needs to be "progressive," in the sense of being of relatively more benefit to the relatively disadvantaged.

There are three broad domains of relevant public policy: labour markets and human capital development; taxes and transfers; and family policy. Labour market and human capital policies should lean toward promoting job growth in a high-wage economy; tax and transfer policies should complement this, and promote equity without creating undue disincentives; finally, family policy should recognize the diversity of family and individual needs.

At the broadest level these policies should recognize that in an era of higher inequality parents and caregivers will need both income support and income insurance. Support and insurance should be provided in a way that promotes labour market engagement and puts children first by offering equitable access to high-quality human capital investment.

These challenges require policy makers to accept, to advance, and to retreat: accept some things that cannot or should not be changed, being certain to do no harm; advance in other areas in a spirit of experimentation; and retreat in a third range by removing barriers, disincentives and counter-productive initiatives.

4.1 Labour market policies and human capital development

Money matters for mobility, and the labour market is the major source of income for most families.[16] Indeed, labour market engagement should be promoted as the main source of income even for those in the lowest part of the earnings and skills distribution. Research has shown that to some degree children grow up to echo the work ethic, motivation, and occupational choices of their parents, so that young adults are more likely to rely on passive income support or unemployment insurance when their parents did so.[17]

If parents are to rely on labour market participation as the main source of household income, then it is critical that this income be adequate for families to participate normally in society. The trends described in Section 3 are not, however, encouraging: declining wages at the lower end are, in and of themselves, an incentive for non-participation and withdrawal from the labour market. For this reason, there is a need for public policy to lean against this wind to try to encourage a higher-wage economy at the lower end.

What are policy makers called upon to accept?

Globalization and technical change

It does not make sense to try to reverse these forces with counterproductive barriers to trade that ultimately lower productivity. This is not to say that policies cannot be introduced to address fairness in the distribution of the gains or the costs of adjustment to freer trade. But on the whole public policy should avoid doing harm by limiting the expansion of trade, or slowing investment in new technologies.

The importance of high quality and accessible health and education systems

Programs such as these, which are based on an ethic of universality, are something to be celebrated from the perspective of social mobility. Canadian healthcare is associated with better health outcomes for children, which is an essential aspect of human capital development. The Canadian education system, though its structure and some outcomes vary across the provinces, also makes a very positive contribution to mobility, as is apparent from our high scores on international educational rankings and the good progress made by child migrants. [18]

Public policy should avoid the development of two-tiered systems with a significant private sector component permitting financing and cream-skimming of children according to family background into tiered healthcare or schooling. Certainly there should be no public subsidization of private healthcare or schooling that is of more benefit to the relatively advantaged.

The legitimate role of unions and collective bargaining in wage determination

This is particularly important at the lower and middle parts of the earnings distribution. Making the organization of workers in under-represented and lower wage sectors more difficult limits the impact unions can have on raising wages and reducing inequality, as does direct intervention and limitations of the collective bargaining process. Public policy should avoid legislative changes that restrict these capacities.[19]

What are policy makers called upon to advance?

Subtle skills development that promotes an "artisanal" economy[20]

In such an economy, the wages earned by those in the lower half of the skills and earnings distribution are encouraged to rise by producing more highly-valued goods and services that high wage earners demand and can afford. Public policy needs to recognize that the returns to higher education, while being significant on average, vary for each individual: some young people may gain tremendously from the experience, while others may not at all.

Increasing the supply of relatively high-skilled individuals is important in meeting a rising demand and muting the rise in wages at the upper end of the wage distribution. But this does little to promote the wages of those not destined for university, and indeed may aggravate their plight if an excess supply of the high-skilled develops in the face of a stall in demand.

Offering construction workers the skills to engage in cabinet making, day-care providers the skills to engage in early childhood education, or opportunities for others to develop the skills and aptitudes to provide high quality and personalized services to the elderly are only three examples of what might be termed "artisanal" employment. Moving skills and employment up a value-added chain might allow the development of markets that lead to higher wage rates.

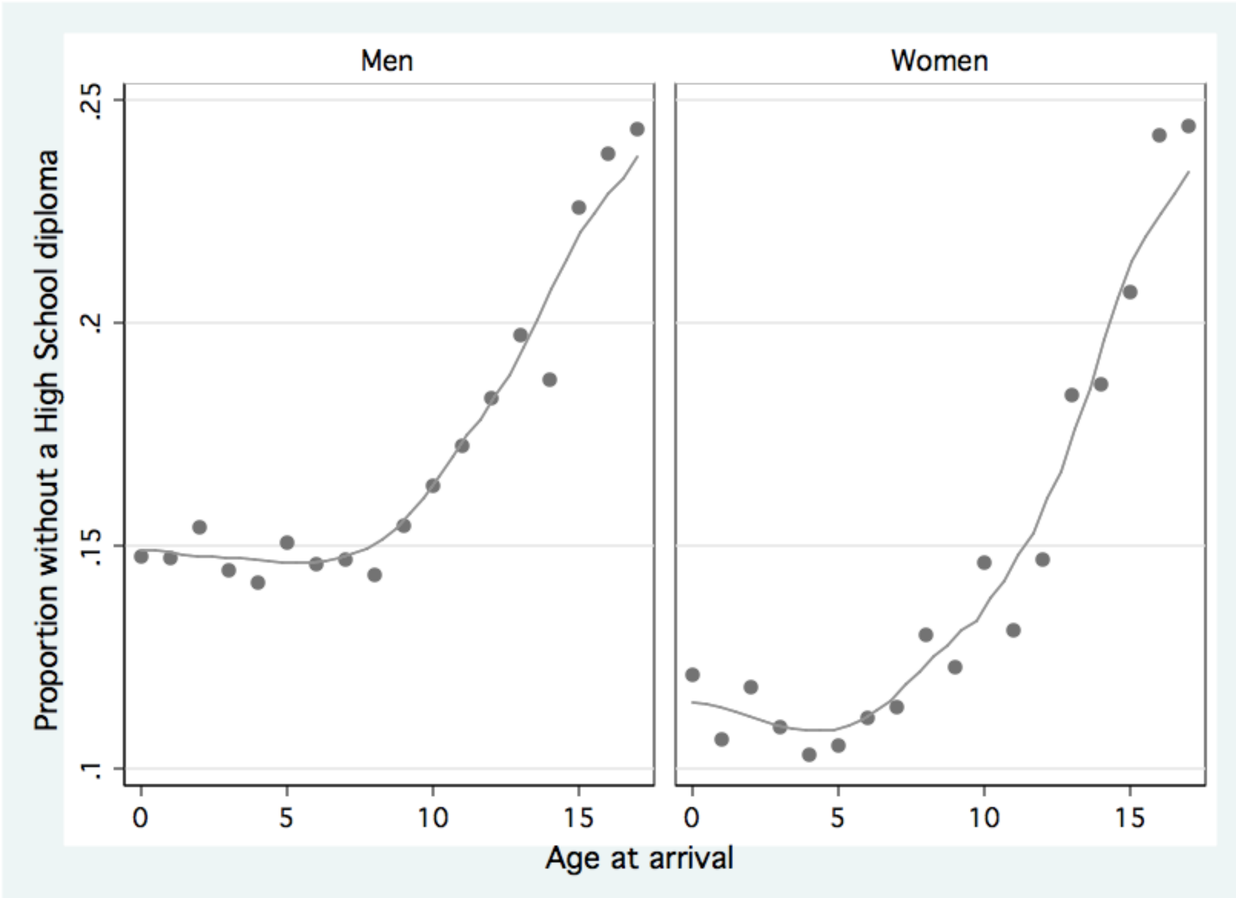
Geographic mobility

The location of work is a particularly important aspect of wage inequality in Canada. Recently wages have risen much faster in Alberta than in Ontario, for example. To seize these opportunities requires, in part, an ethic of mobility among the young. This should be fostered at a relatively early age through a broad-based program of high school inter-provincial student exchanges. The objective of these exchanges would be to lower the long-run attitudinal costs of changing province of residence as an adult. If these exchanges are to promote upward social mobility, it is important that participation be independent of family background.

Opportunities for those who do less well in the current schooling system

Public policy makers are called to advance the schooling and human capital of individuals who fall into underperforming "hot" spots. I highlight these groups without offering specific suggestions of how to address the challenges they pose. The first group, at the most general level, is boys. There is an increasing awareness that the primary and secondary schooling systems are not fully developing the capacities of some significant fraction of boys.

Figure 6
The chances of dropping out of high school increase distinctly for child migrants who arrive after about the age of nine



Source: Corak (2012) using Statistics Canada, Census of Canada.

The second group, again at a very general level, is made up of certain segments of youth in native communities.

Specific groups of child migrants, children who have come to the country from non-English or non-French speaking regions after about the age of nine, make up the third group. The challenges faced by this group are not as widely appreciated as those of the other two, but are well illustrated by Figure 6. The figure documents the chances of not having a high school diploma for a group of adults who came to Canada as children, younger than the age of 18, according to their age at arrival. This information is restricted to individuals migrating from countries that did not have English or French as an official language.

The chance of dropping out of high school does not vary for those who arrived young, and it is not much different than the overall Canadian average, but it changes distinctly for those arriving after about the age of nine or so, rising with each year thereafter. In part these patterns are associated with learning a new language (the capacity of doing so changing after the onset of puberty) and in part they reflect the social and cultural challenges of navigating an education system that may not be as sensitive or effective as it could be. Child migrants who are somewhat older when they arrive, particularly if they came to Canada as refugees fleeing situations in which their parents faced considerable stress, as well as child migrants and second-generation Canadians from certain visible minority groups, are at higher risk of not fully developing their skills and capacities. They therefore face a risk of more limited social mobility.[21]

Accessibility of higher education for disadvantaged groups

Access to higher education, and particularly university, is an important dimension of social mobility. This subject is often discussed in terms of the monetary costs associated with tuition and other expenses. While tuition fees have increased significantly since the early 1990s, so has the availability of grants and student loans. The implication is that simple financial cost may not be the most significant barrier to higher education for children from lower income backgrounds.[22]

Rather, it can be a lack of understanding of the real costs – both benefits and risks – of a university education. Risk is a significant factor: a recent study found that almost one in five undergraduate degree holders earn less than one-half the median Canadian income.[23] But the long-run benefits can also be very high. Some capable young people from less advantaged backgrounds hesitate to apply because they and their families have a clear awareness of the upfront costs, tend to overstate the risks, and have only a vague sense of lone-term benefits.

A student loan program in which future repayments are contingent on income would, in part, address this concern. Surprisingly the Canadian program that operates in this way, the "Repayment Assistance Program", has a lower than expected take-up rate. In part this may have to do with the fact that the information advertised to student borrowers is opaque and not appropriately timed. Application requirements are also burdensome.

Policy makers are called upon to advance the accessibility of this program, making adjustments to loan repayment schedules automatic when they are needed. At present, student borrowers qualify for the program if their monthly repayments after leaving post-secondary education exceed one-fifth of their family gross income. For such borrowers, the government will pay the interest on their loans for up to five years while the borrower's payments cover the principal. If no progress is made, government payments cover both interest and principal for a subsequent five years. Finally, the loan is forgiven if necessary. But to be eligible borrowers must reapply every six months.

When this program was introduced default rates on student loans halved but, surprisingly, have remained as high as about 14% (in 2009-10). This suggests that, in the first instance, some borrowers are not aware of the program, either upfront when they are applying for post-secondary education, or afterwards once they have left schooling.

Certainly efforts should be made to remedy this though better and more timely information. But it is now a well-accepted finding of "behavioural economics" that take-up rates for programs that are clearly of individual benefit will be lower than they should be when there are even small administrative costs to enrolling.[24] An even better approach would, therefore be to enroll borrowers into the program by default, based upon income tax returns and repayment history, much in the way that refundable tax credit programs are delivered.

From what areas are policy makers called upon to retreat?

Inequality in labour market outcomes is in part due to barriers to participation that restrict entry into certain professions, creating rents and artificially propping up wages. It is also due to the subsidization of other – particularly lower-paid – sectors encouraging more labour supply, less capital investment, and leading to even lower wages. These policies distort underlying price signals, prevent markets from functioning efficiently, exacerbate inequality, and skew social mobility.

Barriers to credential recognition in the professions, especially healthcare

Artificial barriers that limit entry to the professions restricts labour supply and contributes to higher wage rates at the upper end. They also limit workplace innovations that might identify lower-cost options for providing healthcare services, a potentially important growth area that would allow up-skilling of lower-paid workers.

Temporary Worker Program

At the other extreme the very significant expansion of the Temporary Worker Program – that, in effect, ties immigrants to particular employers and limits their ability to contract freely in the labour market – can be thought of as offering a wage subsidy to low-paid work. This increase in supply of low-skilled workers is a force tending to lower wages, and muting the development of excess demand for labour that would bid up wages and encourage more capital investment. In addition, temporary workers are often not permitted to bring their families to Canada, yet increasingly the program is being used as a gateway to permanent residency so that families do eventually come. There is a risk that disrupting families and bringing children to the country at an older age than they might have been may raise the challenges of longer run social mobility.

Minimum wages and unpaid internships

Higher minimum wages tend to lower inequality. Minimum wage increases in many provinces during the early–mid 2000s may have been a force leaning toward a higher wage economy during that period. Policy makers should therefore not retreat from current minimum wage levels (expressed in real terms).

They should, however, be mindful of the trade-offs in setting minimum wages. Overall, the negative employment impacts of higher minimum wages is likely not so significant that it reduces the total share of income going to workers – a 10% increase in minimum wages being roughly associated with perhaps a 3% or slightly lower reduction in employment. However, the effects are typically concentrated amongst certain groups, notably the young and women.[25]

An area of concern is unpaid internships. Employers are exempt from paying minimum wages when a job has a significant training component. This makes some sense when the training increases general skills, of use in all workplaces, as opposed to specific skills that increase worker productivity in a particular workplace. Allowing such internships also serves to minimize the potential negative effects of higher minimum wages on employment and training.

The problem is that only children from relatively well-off family backgrounds are in a position to accept jobs that pay nothing. Assuming these jobs offer training and skills that will raise future employability and wages, this policy is not progressive and does not promote social mobility from the bottom.

One way to retreat from unpaid internships is to offer all holders of these jobs a refundable credit through the tax system that is tied to family income background. If the capacity to accept an unpaid internship requires, in some measure, parental income support, then a program of public support geared to children of lower income backgrounds would serve to level the playing field.

4.2 Tax and Transfer policies

The Canadian tax-transfer system has not been any stronger a force in reducing child poverty in 2000 than it was in 1990.[26] While the post-1995 period saw significant increases in the use of the tax system to transfer incomes to families with children, this was coupled with cuts in other programs, most notably unemployment insurance. Further, as Figure 4 suggests, after about 1995 inequality of disposable incomes began to rise as taxes and transfers reached a limit in reducing inequality of market incomes. Since that time there has also not been any reduction of inequality in the lower half of the earnings distribution, indeed the fraction of individuals with incomes below one-half of the median income has been trending up slightly since the early 1990s.[27]

Labour markets, which determine wage rates and the returns to human capital, must certainly be the major source of incomes, but tax and transfer policies (including insurance that smoothes income variability) also play a clear role in determining the level of inequality and the promotion of opportunity. They are also important as the source of revenues for social investments in health and education.

What are policy makers called upon to accept?

Broad-based and progressive funding of education systems

Effective education represents the most fundamental and powerful means of promoting social mobility. Significant reductions in per pupil funding, or changes in funding that are less progressive should be avoided. Education funding based upon narrow property taxes leads to significant variations in the quality of schools and teachers across neighbourhoods. These variations are, in turn, reflected in housing values, and this ultimately restricts access to high quality education, disproportionately affecting the less advantaged. In part, this is one of the reasons countries such as the United Kingdom and the United States have lower rates of social mobility than Canada.[28]

Tax policy as an exercise in balancing trade-offs

Tax policy is extremely complex and will always entail trade-offs. A globalized labour market for the most talented, for example, puts a limit on the extent of marginal tax rates at the top and this needs to be accepted.

What are policy makers called upon to advance?

Income support and wage insurance

A guaranteed annual income adequate for families and their children to participate normally in society, which I take to mean roughly about half of median income, should be a goal of income transfer policy. But this should be implemented in a way that is conditional on work, with the ideal structure reflected in the design of the Working Income Tax Benefit (WITB), a program modeled after the Earned Income Tax Credit in the United States.

In spite of being increased significantly in 2009, after its introduction in 2007, the WITB remains relatively modest, offering a maximum of just under $1,700 to families with annual incomes in the neighbourhood of $10,000 to $15,000. It falls as incomes rise and phases out entirely just below $26,000.[29] Policy makers should advance the idea of raising the level of benefits and reducing the rate at which they are phased out so that the WITB extends further into the range of lower-middle incomes.

This measure can be complemented with appropriate minimum wages but, just as importantly, it could work in conjunction with the Employment Insurance program. I would argue that parts of this program should be fundamentally reformed so that it becomes a form of wage insurance, particularly for longer-tenure workers who suffer permanent layoffs. This would, in effect, deliver benefits with a design inspired by the WITB, the goal being to narrow the gap between the new wage and the original wage by appropriately topping up income.

The distinction between insuring a job and insuring wages is inconsequential if most jobs are alike in the skills they require and how much they pay. This may have been the case when unemployment insurance was originally conceived, but it is less true today, in an economy requiring workers to find re-employment in different sectors with different – likely lower – wage rates.

The distinction between unemployment insurance and wage insurance is particularly pertinent for workers who had jobs in sectors that paid above average wages, and who face permanent displacement and wage loss. In this sense, the risk to be insured is not so much the loss of a job, covering the time it takes to find a new job, but the loss of a wage, covering the drop in wage rates. Laid-off workers, given their human capital and location, may have to make a transition to new service sector job, or a job in another location, that is likely to pay a much lower wage.

An insurance program that insures the unemployment associated with job loss (such as that which we have now) implicitly encourages laid-off workers to resist accepting jobs in lower paying sectors in the hope they will be able to return to or find jobs suited to their human capital. An insurance program that offers benefits according to a percentage of the wage loss they suffer in accepting jobs in other sectors will encourage rather than retard the shift in employment to new sectors.[30]

The response of the current structure of the Canadian unemployment insurance program to this challenge has been the development of a significant envelope of funds delegated to the provinces for training purposes. There is no rationale for an insurance program to fund training programs. An insurance program is meant to offer reasonable income support in the face of losses, and while it might be argued that training increases the wage rate displaced workers might earn, there is little evidence to support this. It is likely not doing anything more than trying to facilitate the transition to a lower-paying job.

Tax smoothing

There is more volatility in incomes in a globalized high-tech economy, and the tax system should be designed to recognize this and buffer families and children.

The taxation system should permit individuals to average their earnings over a period of several years so that a single year of very high or very low income does not have important tax implications. A scheme of averaging will focus the tax system on overall lifetime income, rather than on annual income that could fluctuate significantly from year to year. If earnings fall in a particular year because of a layoff, then some of the taxes paid in previous years would be rebated.[31]

These changes, together with an enhanced WITB at the lower end of the wage distribution and with wage insurance at the lower-middle and middle parts, would lead to a more constant flow of income, insuring families from the uncertainties of a globalized and high-tech labour market.

Progressive taxation

The possibility of income averaging should be advanced in the context of increasing the progressive nature of the tax system, recognizing not only that those with substantial incomes are capable of self-insuring, but also that higher top shares imply an increased ability to pay.

Economists judge the functioning of the tax system in a number of ways: certainly the system should not be administratively cumbersome, and it should treat equals equally. But just as importantly it should not, to the greatest degree possible, introduce inefficiencies by causing individuals in a well-functioning market to change their behaviour. Finally, the tax system should raise more revenue where it will cause the least pain. The general presumption is that losing a dollar when you already have many causes less pain than when you have only a few. This principle of equal marginal sacrifice suggests that tax rates should be progressive: as income increases, the greater the fraction that should be paid in taxes. All other things being constant, rising top income shares call for higher top tax rates.

But all other things are usually not constant. The most obvious way to make the tax system more progressive is to introduce a higher tax bracket for top earners. Currently every dollar of earned income above $135,054 is taxed at the top federal rate of 29%. To make it into the top 1% in 2010 required an income of $215,800, well above the threshold for the top federal tax rate to kick in.[32] The potential downside is that a higher tax rate on the income earned above some higher threshold may lead top earners to work less, a reduction in their labour supply implying an efficiency cost. It is not clear how strong this disincentive would be. For one reason there is not as much empirical research as there should be documenting the responsiveness of labour supply among high earners to changes in tax rates. In addition, economic theory predicts that the impact is ambiguous, leaving open the possibility that higher marginal tax rates will increase, not decrease, labour supply.

My own view is that it is likely the work disincentives would not be significant. The more relevant labour supply decision concerns the possibility of encouraging a brain drain, and, in part, this is what put a limit on higher marginal tax rates by some provinces during the mid-1990s. In some measure, top earners in Canada owe their high incomes to a spillover from the US through the North American, or indeed global, labour market to which they belong.[33]

However, the downside of inducing a brain drain is probably not as great now as it was then, in part because the economic downturn has dampened the amount earned by those at the top (though this is already changing), but mostly because top marginal tax rates are slated to increase in the United States. If there was an acceptable balance between Canadian and American tax rates before the recent changes by the Obama administration, then there is at least some scope to reassert the relativities by raising Canadian top rates. Some economists have pointed out that a combined federal-provincial top marginal rate of 50% would not be out of line.[34]

It remains an open question, however, whether higher marginal tax rates would raise significant revenues even if there were no changes in labour supply.[35] This is because of tax planning that shifts the composition of income to lower-taxed sources. Any call for higher marginal tax rates at the top must go hand-in-hand with reforms to the tax base that move in the direction of taxing income at the same rate regardless of its source.

Higher taxation of incomes associated with "rents" – such as the appropriate taxation of income from natural resource exploitation – would, in principle, not lead to any behavioural changes. An inheritance tax that kicked in above some suitably-defined minimum amount would also promote both equity and equality of opportunity.[36]

If inheritances are not taxed, then a tax on all capital income, perhaps at a lower rate than earnings, should be included in the tax base. This would involve taxing the capital gains from the sale of a principal residence, again only above some threshold. The exclusion of capital gains from the principal residence is a significant tax subsidy to all taxpayers leading to distortions in savings and investment behaviour, but it benefits those at the top much more than the bottom. It not only to introduces a market distortion, but is also distributionally regressive.

From what areas are policy makers called upon to retreat?

Corporate tax cuts

There have been significant reductions in corporate taxation in Canada over the past years. It is not clear what has been gained from these changes in terms of higher investment and employment. This may change, as may our relative attractiveness to corporations, based on tax rates in Canada and other countries, especially the United States. Policy makers should, however, retreat from further cuts unless they have a clear sense of the benefits they are pursuing.

Unemployment insurance financing

Unemployment insurance is financed in an outdated way. This should also be an area for retreat. By not reflecting actuarial principles, the funding of this program offers a persistent subsidy to firms that are more inclined to engage in repeated lay-off and recall of workers.[37]

Tying the contribution rates of firms to their lay-off history may prove administratively cumbersome, though there are examples of some programs – such as Workmen's Compensation – that have an element of experience rating. It may, therefore, be more effective to develop a series of personal accounts in the unemployment insurance system in which the contribution rates of individual workers are linked to the balance between their past contributions and benefit receipt.

At the same time, maximum insurable earnings should rise so that ceilings on contributions also rise. To some extent this will ease the regressive nature of this payroll tax by requiring higher-earning individuals to contribute more.

Recently we have seen retreat in the unemployment insurance program. Benefits have been persistently reduced, without regard to the financing of the program. Moving forward, the erosion of benefits should be halted and perhaps even reversed, and the move to an actuarially fair system, involving reforms to contributions, should be the priority.

4.3 Family policy

The long-run attainments of children are determined not only by the monetary resources parents have to care for them and invest in their future, but also a whole host of non-monetary resources. These range from the amount of time parents have to spend with children, to attitudes to schooling and work, as well as the networks that allow parents to promote their children's welfare from the early years through to their entry into the labour force.

In more polarized and unequal labour markets, parents in all types of families work longer hours and struggle more intensely to balance work and family life. If there is a general call that the labour market should be the prime source of income, and if labour market and tax-transfer policies are increasingly geared to encouraging labour force participation – even among single parents – then there is also a clear need for public policy to address the trade-offs this may imply with respect to the needs of children. These relate not just to money but also to a positive and nurturing environment.

What are policy makers called upon to accept?

The importance of the early years

The returns to investments in the early years are higher than at any other point in the life cycle. Policy in support of families should take this into account, and accept the need for continued attention to the quality of early years investments that respects the diversity of family needs.

What are policy makers called upon to advance?

Flexibility

Flexibility is an important principle at every stage. In the early years, for example, the design of large, centrally administered childcare programs can limit the choices parents have with respect to part-time versus full-time arrangements. Later on, policy makers should advance employment arrangements that give parents the flexibility to balance work with family life.

The introduction of parental leave to care for newborn children through the Employment Insurance program is an important example that should be built upon. The birth of a child can be a stressful and challenging period in family life, and offering working parents the opportunity to receive income support during a period of leave from work that is almost one year in length has proved important in reducing time stress and putting the needs of children first.

Some children may require focused attention of this sort at different points in their lives. The Employment Insurance program should therefore enable a more general and flexible system of parental leave at all stages of family life. Families increasingly face demographic risks associated with marital disruption, child illness, the onset of disabilities, or other non-market events. Offering a generalized benefit stream in Employment Insurance to address these risks would address the continually evolving need to balance labour market engagement with non-market responsibilities.[38]

The Employment Insurance benefit structure could be designed to have higher maximum insurable earnings so that the incomes of a broad swath of mid career earners are more fully covered. It could also be based in some measure on personalized accounts from which families could draw depending upon the extent of their surplus. Lower-income households could be given more of a public subsidy within these accounts, but all families would have the flexibility to use their surplus to support a leave from work according to their own timing and purpose. In effect, the unemployment insurance program would be used to finance leaves from employment for whatever concern the individual deems to be important, allowing families not just to smooth income through periods of unemployment in the traditional sense, but also to smooth time through periods of intensive parental responsibility.

The voice of children in setting policy

It is presumptuous to assume that the effectiveness of public policy for child development can be best designed without clearly hearing the voice of children and their caregivers. The level of political engagement of all Canadians is increasingly a concern, but it is notable that parents – particularly single parents, with young children – are the least likely demographic to vote in federal elections.[39]

It might be reasonable to suggest that these patterns, in and of themselves, might lend a bias to public policy choices as inequality increases and the population ages. Older individuals, and those with more education working in higher-skilled occupations are more likely to vote. But, in addition, there is a broad bias by virtue of the simple fact that children are disenfranchised. Children's rights are not adequately recognized and they have a reduced political voice in setting social priorities.

There have been long-standing calls for governments to establish a Commissioner for Children who would review budgetary priorities from the perspective and interest of children.[40] A more direct and effective method of recognizing the priorities and needs of children would be to give them the right to vote. Until they reach the age of majority this right would be exercised by proxy, with the custodial parents given an extra vote for every child under their guardianship.

Such a scheme of voting has a long history, but it is now known as a "Demeny" voting, after the noted demographer, Paul Demeny, who put the idea forward in a 1986 publication.[41] Under such a voting system, just as society transfers economic resources to parents for the benefit of children, so it also transfers political resources. The actual design of a Demeny voting scheme requires discussion. Demeny suggested that each parent should be given the right to exercise an extra half vote for each child under their guardianship.

Some will be cautious about the idea of giving parents any extra votes at all, particularly in cases of abuse, when the family is not concerned with the welfare of children, or when children no longer reside with their parents. But economic resources are transferred to parents; the fact that they may not always be spent in the best interests of children is not an argument against providing families with income support. There is, though, a precedent in Canada and other countries of transferring economic resources intended for the child directly to the mother. This is based on empirical research documenting that household expenditures tend, on average, to reflect a child's needs more clearly when the mother's income and bargaining power in the household are higher.[42] In a similar way a Demeny voting scheme would give mothers, or when appropriate the custodial parent, the entire proxy vote for each child.

The bottom line is that if extending the franchise to children will increase the incentive for families to vote, it will offer a counter-balance to the growing and disproportionate influence of other groups. This may be a way of more fully expressing the concerns of children in the marketplace of political ideas and increasing the incentive for politicians to reflect these concerns in budgetary and policy priorities.

5. SUMMARY AND CONCLUSION

Inequality matters. It matters because it has the potential to shape opportunity.

Our perception of the significance of inequality depends to some measure on the degree of mobility, particularly inter-generational mobility, which is associated with it. Two societies that are equally unequal but are characterized by different degrees of mobility may have very different standards of living for their citizens, different levels of productivity and efficiency and, indeed, engender very different perceptions of fairness.

A society in which there is no change in relative standings across generations, where children grow up to occupy the same position in the economic hierarchy as their parents did – the rich raising children who grow up to be rich, the poor seeing their children becoming the next generation of poor – may well have lower levels of well-being if the broad majority of children are not able fully to develop their capacity to become all that they could become. This may lead to lower levels of efficiency and productivity and the society may well be considered less fair if access to jobs is determined more by inherited advantage than by individual talent and energy. A similarly unequal society with complete mobility across the generations, where adult outcomes are independent of family background, may have just the opposite outcomes: higher well-being, more productivity, and a shared sense of fairness amongst citizens.

It is important to know just where our societies stand between these two extremes and to appreciate differences between countries in both inequality and mobility, noting that more equal societies are typically characterized by greater relative mobility.

In the first part of this paper I have tried to describe this relationship, as it is summarized in the Great Gatsby Curve, pointing out that Canada had a moderate level of inequality about a generation ago, and that children raised during that period displayed a relatively high degree of generational mobility. Cross-country comparisons on these metrics are descriptive, and it is important to understand the underlying causes in order to draw appropriate inferences for public policy.

Overall income inequality reflects deeper inequalities that form the capacities and talents of children: inequalities in family structure and family resources, both monetary and non-monetary; inequalities in the structure of labour markets with which families must interact; and inequalities in the provision of public and community sources of support, income, and insurance. These three broad forces interact to determine the adult success of children. They are configured in different ways in different societies, and lead to different degrees of generational mobility.

This discussion raises a pair of related questions: has inequality increased? And, where it has, is there now a higher risk of lower mobility? In particular, has inequality increased in Canada, and does Canada risk sliding up the Great Gatsby Curve?

The second part of this essay documents the fact that inequality has indeed increased in Canada. Technology, free trade, and changing labour market institutions have all played a part, leading to a more polarized, unequal distribution of earnings and incomes. This means lower wages in the lower half of the distribution, higher wages in the upper half – including very high wages at the very top – and not much change at all for the typical household.

Does more inequality imply less opportunity for the next generation of children who will reach adulthood in the coming years and decades? I suggest that this will depend in part upon the public policy choices made in this era of higher inequality, and how effective they are: in fostering a higher-wage labour market, particularly among those in the lower half of the earnings distribution; in offering sufficient income support and income insurance through the tax-transfer system; and in fostering strong families and meeting their diverse set of needs in raising their children.

The final part of this paper discusses policy changes in these three domains – (i) labour markets and human capital development, (ii) taxes and transfers, and (iii) family – outlining how policy makers might be called to accept certain realities, advance new initiatives, and retreat from counterproductive policies.

An overall goal for policy makers should be to engender a high-wage labour market because of the simple reality that active labour market engagement is the main source of family income. If inequalities in the lower half of the earnings distribution are not too great, then lower income families will have reasonable levels of income allowing them and their children to participate normally in society. More money implies more mobility.

Tax and transfer policy has, in the past, played an important role in buffering and supporting families, and in muting the overall level of inequality. In an era of higher inequality it needs to continue to do this, but increasingly in a way that fosters labour market engagement. The policy changes I suggest are intended to offer income support but also income insurance. More money implies more mobility, but more uncertainty in monetary resources may imply less mobility.

Finally, if parents are required to be increasingly engaged in the labour market, then family policy must strive to help them balance family and work so that children continue to receive the time and attention – the whole host of non-monetary resources – needed for their full development. More money implies more mobility, but money is not everything: poverty of attention, experience and expectation are equally important determinants of adult success.

It is a very open question as to whether higher inequality will lead to less opportunity and mobility in Canada. The promotion of upward mobility from the bottom will require both effective and progressive public policies: effective in the sense of having causal impacts on the determinants of mobility, and progressive in the sense of being of relatively more benefit to the relatively disadvantaged. The effectiveness of policy can only be determined in a spirit of experimentation and evaluation, and certainly policy makers should strive to do no harm. But how progressive it can be is also an open question, higher inequality also influencing social choices by giving more voice to some groups than to others.

APPENDIX

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End Notes

[1] The argument that the macroeconomics of more unequal societies tend to be more unstable is based in part on Kaldor (1956) who argues that those with more income have a lower propensity to consume, and greater inequality therefore leads to deficient aggregate demand. Stiglitz (2012) echoes this theme. Wilkinson and Pickett (2009) argue that inequality has a negative impact on individual health and well-being.

[2] The speech by Mr. Krueger, "The Rise and Consequences of Inequality" was made at the Center for American Progress in Washington DC on January 12th, 2012.

[3] The version of the curve displayed in Figure 1 is taken from Corak (2012a). It is available in more detail at [http://milescorak.com/2012/01/12/here-is-the-source-for-the-great-gatsby-curve-in-the-alan-krueger-speech-at-the-center-for-american-progress/].

[4] For a discussion of the interpretation of generational earnings elasticity see Mulligan (1997) or Corak (2006).

[5] The underlying causes of the Great Gatsby Curve are discussed in Corak (2006, 2012a).

[6] The comparison between Canadian and American children is from Corak, Curtis, and Phipps (2011).

[7] The tendency of minimum wages to reduce inequality is presented in DiNardo, Fortin, and Lemieux (1996), and Fortin and Lemieux (2001). This literature is summarized in Fortin et al. (2012), as is the impact of unionization.

[8] DiNardo and Lee (2004) provide evidence on the limited impact of unions on wages in the US private sector during the period of rising inequality. Fortin et al. (2012) also summarize Canadian literature to suggest that about 15% of the growth in inequality during the 1980s and 1990s was due to the decline in unionization.

[9] The argument that the advance in technical change has paused after 2000 is based on a discussion with David Green. It should also be noted that a similar point has been made but with reference to trade, particularly trade with China, by Autor, Dorn, and Hanson (2013).

[10] See: [http://milescorak.com/2013/02/01/why-the-rich-dont-want-to-talk-about-inequality-and-why-the-99-do/]

[11] Explanations of increasing top shares are eloquently summarized in Freeland (2012), and from a more academic perspective in Veall (2012).

[12] Fortin et al. (2012)

[13] Corak and Piraino (2011)

[14] Hacker and Pierson (2010) and Bartels (2008)

[15] I made these calculations from Statistics Canada, CANSIM table 204-0001

[16] The causal role of monetary resources in determining generational mobility is discussed in Black and Devereux (2011), and with specific reference to Canada in Oreopoulos, Page and Huff Stevens (2008).

[17] That having a parent who received unemployment insurance leads to the child also receiving benefits is documented in Corak, Gustafsson, and Osterberg (2004), while the similar claim with respect to income assistance is based on information from Quebec from Beaulieu et al. (2005).

[18] Corak, Curtis and Phipps (2011), Bradbury et al (2012).

[19] The reference to the unionization of workers being made more difficult by legislation is drawn from the discussion in Fortin et al. (2012) who point out that since the 1980s in many provinces there has been a move from a card check procedure for initial certification of a workplace to mandatory voting. They claim this makes the unionization of workplaces more difficult.

[20] The notion of an "artisanal" economy is drawn from the ideas of Lawrence Katz of Harvard University.

[21] Corak (2008, 2012b)

[22] Corak, Lipps and Zhao (2005) examine the impact of tuition fees on university and college attendance by family background.

[23] Zeman, McMullen, de Broucker (2006) find that earnings of 18.5% of undergraduate degree holders earned less than half the median income. This reference and the subsequent discussion of the Repayment Assistance Program are informed by Wallace (2013).

[24] The reference to "behavioural economics" refers to an important and growing literature, part of which is summarized by Thaler and Sunstein (2008).

[25] The impact of minimum wage increases on inequality is discussed in Fortin et al. (2012). Gunderson (2007) addresses the trade-offs in designing minimum wages, particularly the impact on employment but also the degree to which they are targeted on groups most likely to be in poverty.

[26] The claim that the tax-transfer program has not contributed to lower child poverty is based upon an analysis by Chen and Corak (2008). This analysis controls for changes in demographics and labour markets, but is limited by not extending beyond the year 2000.

[27] The claim that there has not been a reduction in the lower half of the earnings distribution is based upon poverty rates in terms of the Statistics Canada LIM (Low Income Measure) that I obtained from Statistics Canada CANSIM table 202-0802. See the presentation available at [http://milescorak.com/2013/02/12/understanding-inequality-and-why-it-is-important/] for a graph from 1975 to 2010. The trend for a fixed poverty line based upon consumption patterns in 1992 (the Low Income Cut-off) is different, showing a significant decline since 1995.

[28] OECD (2012) documents the variations in funding and quality of education in the United States. The inference that this influences social mobility is mine.

[29] Information about the WITB is drawn from the 2009 federal government budget papers, available at [http://www.budget.gc.ca/2009/plan/bpc3b-eng.html].

[30] The development of wage insurance from a program of unemployment insurance is drawn from Corak (2012c), and based upon the ideas of Lalonde (2007).

[31] This discussion is from Boadway (2011)

[32] The federal income tax brackets and marginal tax rates can be found at the Canada Revenue Agency web site at [http://www.cra-arc.gc.ca/tx/ndvdls/fq/txrts-eng.html] and the threshold to be in the top 1% is from Statistics Canada CANSIM table 204-0001.

[33] That top earners owe their higher incomes to a spillover from the US is discussed in Saez and Veall (2005).

[34] Fortin et al. (2012) mention a top marginal rate of 50% as being reasonable, though it should be noted that Diamond and Saez (2011) discuss optimal tax rates in detail and suggest a rate of as high as 70 to 80%.

[35] Veall (2012) also offers a detailed discussion of the revenue generation that can be expected from high top rates, and the assumptions upon which they depend.

[36] Boadway (2011) discusses rents, resource taxation and capital gains taxation, while OECD (2011) addresses the design and trade-offs of estate and inheritance taxes, suggesting that the latter is preferred.

[37] The discussion of actuarial fairness and the use of personalized accounts in the unemployment insurance program is from Corak (2012c). Nakamura (1996) also mentions this design.

[38] Corak (2012c)

[39] Uppal and LaRochelle-Cote (2012)

[40] A policy advocated by UNICEF.

[41] A discussion of Demeny voting is available at [http://milescorak.com/2012/04/20/how-to-give-children-the-vote/], and the article written by Paul Demeny proposing the idea is Demeny (1986). Richard Posner (2012) mentions this voting scheme in the context of social mobility: [http://www.becker-posner-blog.com/2012/12/meritocracy-social-mobility-intergenerational-mobilityposner.html].

[42] That mother's income and bargaining power change household consumption patterns in a way that benefit children is most convincingly shown by Lundberg, Pollack, and Wales (1996) using a change in program design from the United Kingdom. But similar findings are also documented with Canadian data by Phipps and Burton (1998).