‘Inequality is the root of social evil,’ or maybe not: Two stories about inequality and public policy
Sefton-Williams Memorial Lecture, University of Toronto

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March 19th, 2015
“At many stages in the advance of humanity, this conflict between the men who possess more than they have earned and the men who have earned more than they possess is the central condition of progress.”

— Theodore Roosevelt, 1910
Inequality is the root of social evil.
Story 1: Inequality is benign

1. Inequality has not increased
2. Even if it has, the consequences are benign
3. Even if they are not benign, there is little that can be done about it
4. Even if public policy has punch, the effort directed to a fight against inequality diverts attention from more pressing problems, like absolute poverty
Story 1: Inequality has not changed
market income inequality across all families is no different in 2011 than 15 years earlier

Inequality unchanged
0.50 (Gini coefficient)
higher values indicate higher inequality

Inequality unchanged
1996: 0.439
2011: 0.436
Story 1: Middle incomes have been on the rise
market income of the median household has increased by over $6,000 since 1996

Median market incomes on the rise
$55,000 inflation adjusted 2011 dollars

The income of the typical household has risen by almost $7,500 since 1996
Story 1: Poverty rates have fallen significantly; the poverty rate as measured by the Low Income Cut Off is lower than it has ever been.

15.2% (1996)
8.8% (2011)

The poverty rate has plunged to almost half of what it was 15 years ago.
Story 1: Top income shares have not risen much and have been falling as of late.

Top income shares rising then falling

14% of total market income accures to the top one per cent

1995: 10.3%
2012: 11.7%
Story 1: Besides ... social mobility is high in Canada.
only 25% of any relative economic advantage or disadvantage is passed across generations.

- in Italy, the UK, and the US about 50% of any relative economic advantage or disadvantage among parents is reflected in the relative standing of their children in adulthood.
- in Canada there is much more social mobility, almost by half.
- high degrees of intergenerational mobility might be taken to reflect fairness, and equality of opportunity.
Introduction
Story 1: Inequality is benign
Story 2: Inequality is a concern
Stories as conversation

Story 1: A benign equilibrium
our economy and public policy are meeting the concerns of the middle class

“middle class” concerns are being met by this new equilibrium

1. a sense of growth and progress
2. security through jobs
3. being treated fairly

inequality is benign, and “envy” is the only basis for any expressed concern, but this cannot be a basis for public policy and should be challenged.
“The affluence of the rich excites the indignation of the poor, who are often both driven by want, and prompted by envy, to invade his possessions. It is only under the shelter of the civil magistrate that the owner of that valuable property, which is acquired by the labour of many years, or perhaps of many successive generations, can sleep a single night in security. He is at all times surrounded by unknown enemies, whom, though he never provoked, he can never appease, and from whose injustice he can be protected only by the powerful arm of the civil magistrate continually held up to chastise it.”

— Adam Smith, 1776
Story 2
Inequality is a concern

1. inequality has increased
2. this has consequences—moral or material—for the well-being of the broad majority
3. it is both possible and necessary for public policy to do something about it
4. in addressing inequality policy will also solve other related problems like social exclusion
Story 2: Inequality has increased
market income inequality is higher than it was 30 to 40 years ago

Inequality rising
0.50 (Gini coefficient)
higher values indicate higher inequality
Story 2: Middle incomes have not risen in fact the market income of the median household is lower than in 1976

Median market incomes trending down
$55,000 inflation adjusted 2011 dollars

1976: $51,300
2011: $47,700

Household Median Income

In spite of growing since 1996, incomes remain lower than they were 35 years earlier.
Story 2: Poverty rates have remained unchanged
the poverty rate determined by the Low Income Measure has not improved at all

Persistent Poverty Rates
16% (head count ratio)


12.7%
1996:
12.6%
2011:
The poverty rate has not budged in 15 years with one in eight Canadians poor since 1996
Story 2: Top income shares have risen significantly. The top 1% share of income has risen by about 50% or more.

Top income shares rising

14% of total market income accrues to the top one per cent.
Story 2: Higher inequality leads to lower social mobility
the next generation will likely face less mobility if we slide up the “Great Gatsby Curve”
Story 2: A troubling equilibrium

our economy has not met middle class concerns and there is a need for public action

“middle class” concerns are not being met by this new equilibrium

1. no sense of growth or progress over the longer term
2. security is precarious when tied to firm specific human capital, or investments in general skills that don’t pan out
3. fair treatment threatened: limits to upward mobility, and a heightened threat of downward mobility (both intra- and inter-generationally)

inequality reflects greater labour market risks, threatens fairness creating on the one hand entitlement among the few and shame among many, a public policy response is required to battle the resulting social exclusion
“By necessaries I understand not only the commodities which are indispensably necessary for the support of life, but whatever the custom of the country renders it indecent for creditable people, even of the lowest order, to be without. A linen shirt, for example, is, strictly speaking, not a necessary of life. ... through the greater part of Europe, a creditable day-labourer would be ashamed to appear in public without a linen shirt, the want of which would be supposed to denote that disgraceful degree of poverty which, it is presumed, nobody can well fall into without extreme bad conduct. Custom, in the same manner, has rendered leather shoes a necessary of life in England.”

— Adam Smith, 1776

An Inquiry Into The Nature and Causes of The Wealth of Nations,
Book V. Chapter 2.
What now?

Public policy

Stories as conversation

What now?

Story 1: Inequality is benign
Story 2: Inequality is a concern

Introduction

Two Stories about Inequality
Stories, but is there a conversation?

William Watson: Ideas market works fine

"With open entry and lots of players it’s hard not to conclude that the market for ideas works. ... In the end, you the consumer get to decide. Which is what is so good about markets."

[Financial Post, August 26th, 2014.]
Stories as a conversation about public policy?
What do the middle class want and need? What do they share with everyone else?

Story 1: inequality is benign
1. a sense of growth
2. security through jobs
3. being treated fairly

Story 2: inequality is a problem
1. no sense of growth
2. security is precarious
3. fair treatment threatened