

'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



Pope Francis ✓

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Inequality is the root of social evil.

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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

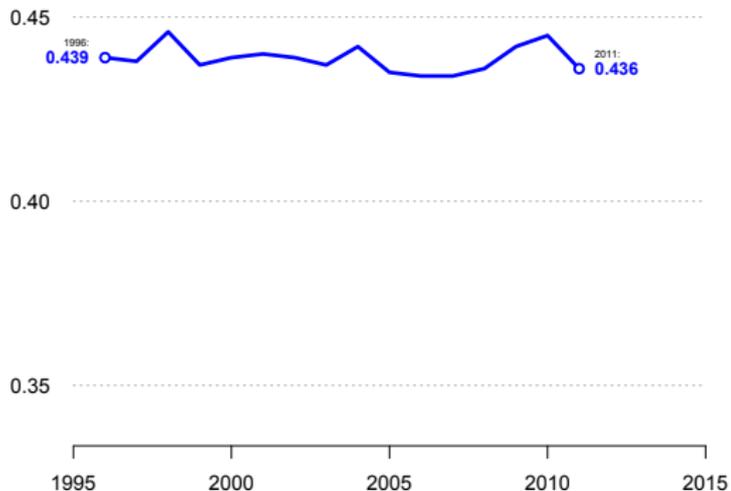
Story 1: Inequality has not changed

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

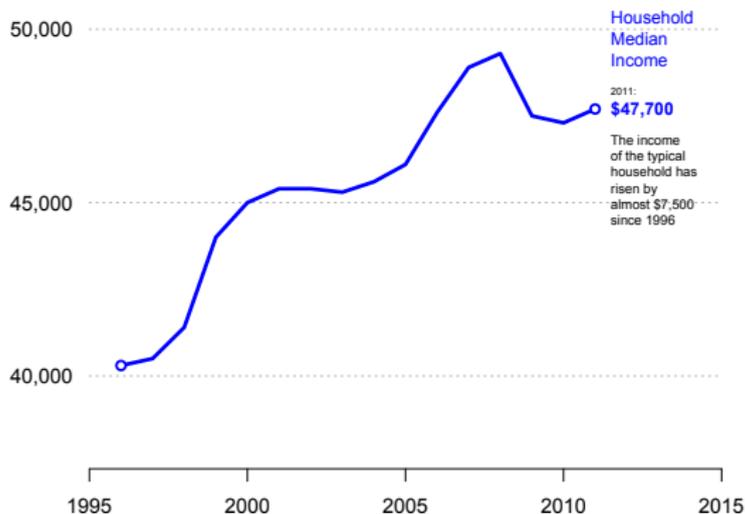


Story 1: Middle incomes have been on the rise

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

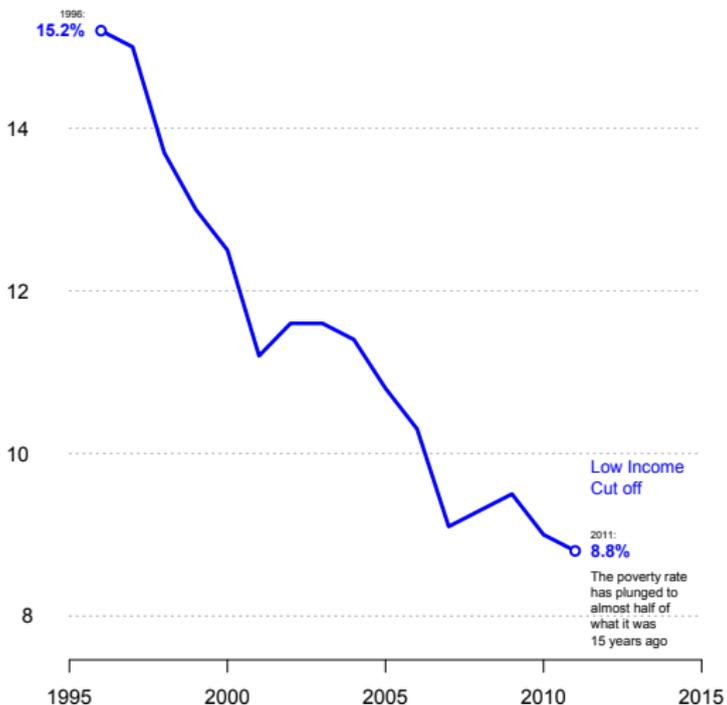


Story 1: Poverty rates have fallen significantly

the poverty rate as measured by the Low Income Cut Off is lower than it has ever been

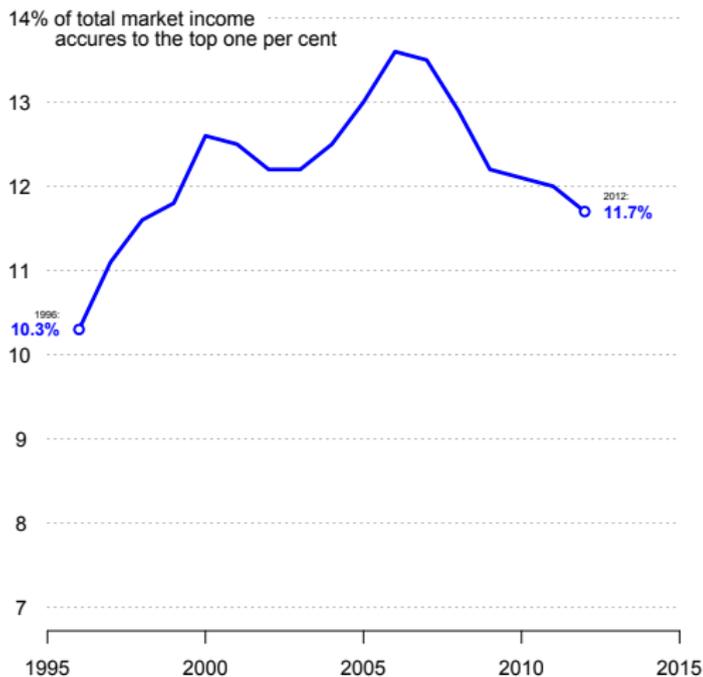
Plunging Poverty Rates

16% (head count ratio)



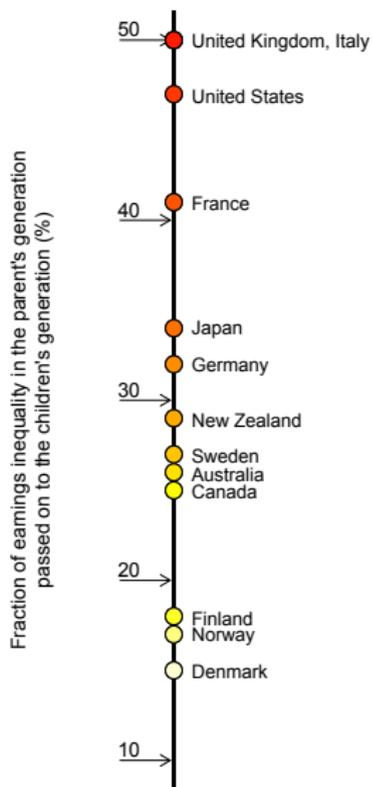
Story 1: Top income shares have not risen much and have been falling as of late

Top income shares rising then falling



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

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

An Inquiry Into The Nature and Causes of The Wealth of Nations,
New York: Modern Library, The Cannan Edition,
Book V.Chapter I.Part II, page 670.

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

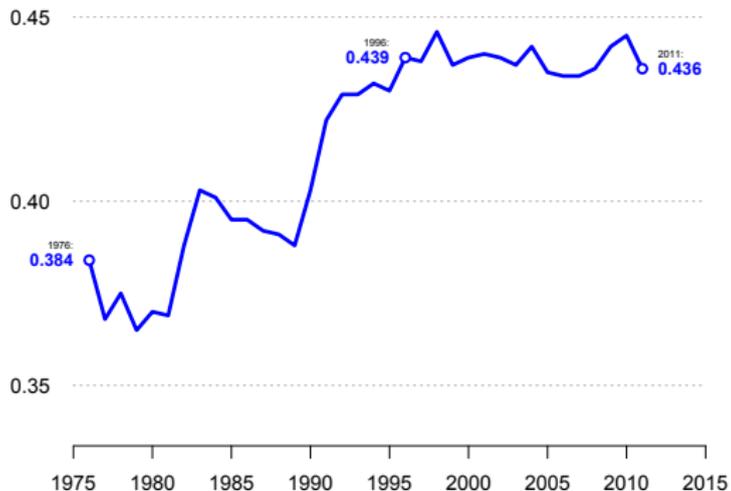
Story 2: Inequality has increased

market income inequality is higher than it was 30 to 40 years ago

Inequality rising

0.50 (Gini coefficient)

higher values indicate higher inequality

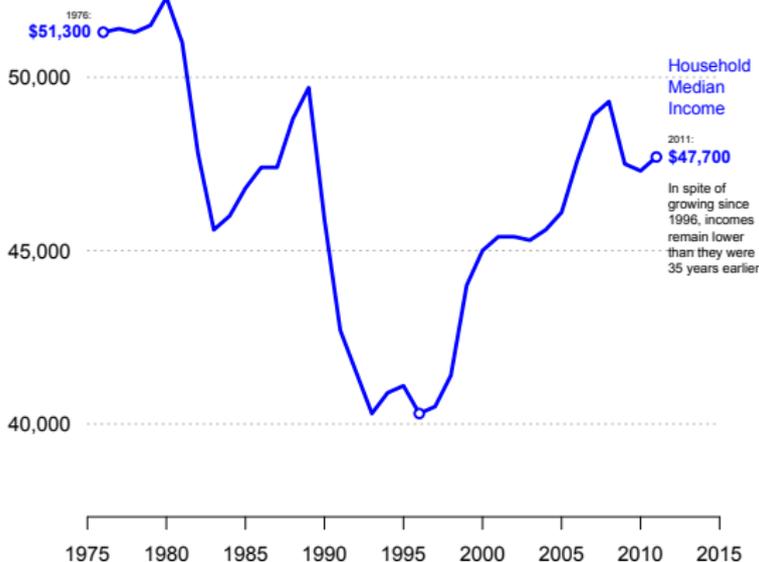


Story 2: Middle incomes have not risen

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



Household
Median
Income

2011:
\$47,700

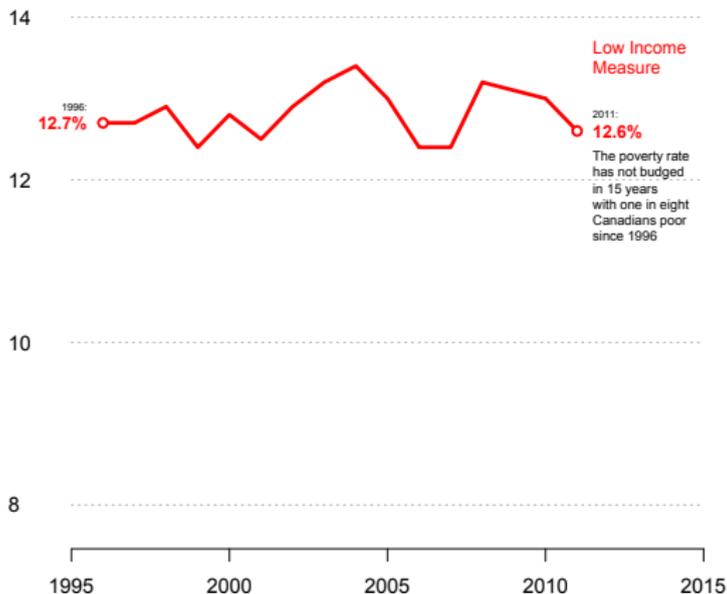
In spite of
growing since
1996, incomes
remain lower
than they were
35 years earlier

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)



Low Income Measure

1996:
12.7%

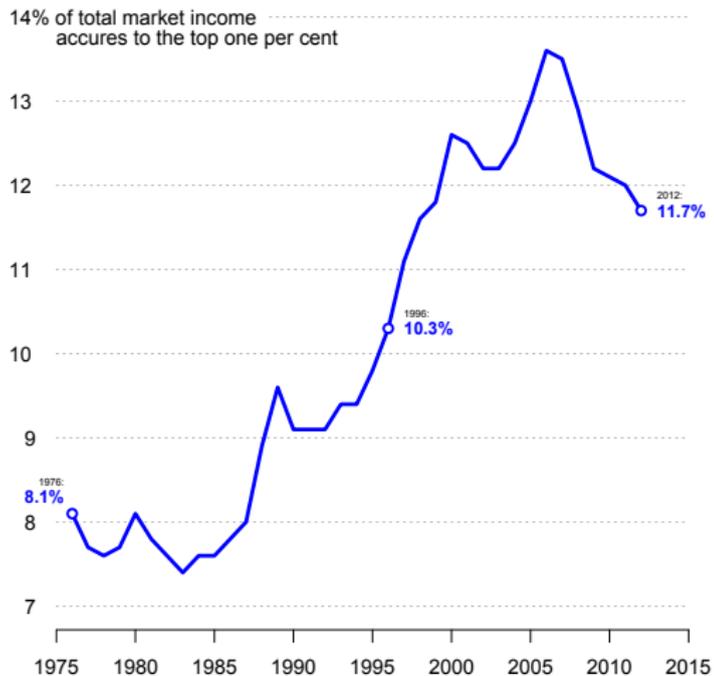
2011:
12.6%

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

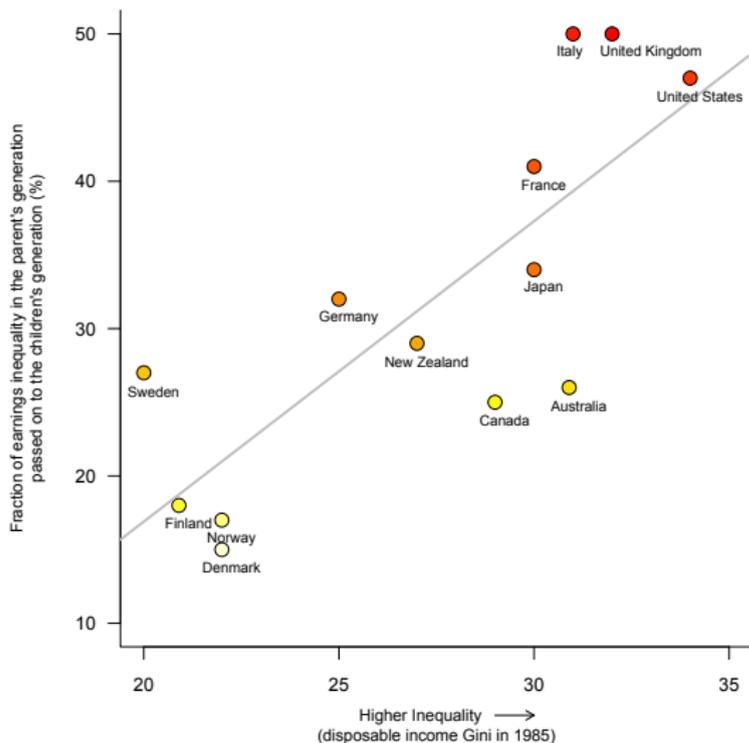
the top 1% share of income has risen by about 50% or more

Top income shares rising



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 necessities 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,
New York: Modern Library, The Cannan Edition,

Book V.Chapter 2..

Introduction

Story 1: Inequality is benign

Story 2: Inequality is a concern

Stories as conversation

What now?
Public policy

What now?

Stories, but is there a conversation?

William Watson: Ideas market works fine



WILLIAM WATSON | August 26, 2014 3:59 PM ET
[More from William Watson](#)



William Watson: Everyone's entitled to their own opinion, as the saying goes, but not to their own facts. Photo

"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.]



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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