

# **Literature Review for MACS302 Project**

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## **Economic Inequality**

The entire world has witnessed great economic growth since the end of World War II. Of all the countries that survived the chaos, China has especially achieved remarkable economic success. However, despite the fact that China's Open and Reform Policy has injected massive stimuli to its economy, inequality has stood out to be the next topic of concern. As documented in Gan's paper, China has reached an Income Gini of 0.61 by their measure (2013), compared to 0.45 of the United States (2007), and 0.38 of China's neighbor Japan (2011). Alongside, there is a rich set of studies that branch into different dimensions of inequality. Besides income inequality, Zhang and Eriksson (2010) have looked into opportunity inequality in China, and Li et al (2011) has studied the mechanism that governs the translation from income inequality to consumption inequality. If we think of inequality as an unwanted factor harmful to the social well-being, we have to come up with strategies to remove or mitigate its intensiveness.

## **Intergenerational Mobility and Education: a bird's-eye view**

Instead of direct taxation and wealth redistribution, scholars have also bought prominence to intergenerational mobility. Corak (2013) included in his paper a plot of intergenerational earning mobility against social income inequality. The relationship is positive, which alluded to us the importance of studying intergenerational mobility. As Corak put it in his paper, the central value held by the broad concept of 'American Dream' is not the "outcome equality", but the "opportunity equality". In other words, all people should have equal access to the channel where they can move from bottom to up when they invest their time and endeavor. Meanwhile, they should also share a similar risk of moving down. This paradigm also

positively perceived by Chinese society. On top of all, education plays a critical role ensuring that people have more or less equal access to develop their intellectual capital and expertise for seeking well-paid occupations. From a theoretical perspective, Becker and Tomes (1979) have framed a theoretical construct to determine intergenerational mobility, primarily in terms of personal earnings. In their world of intergenerational inheritance, children's equilibrium income is jointly determined by their "market and endowed luck, the own income and endowment of parents, and the two parameters, the degree of inheritability and the propensity to invest in children". In this paper, they also suggested employing intergenerational income elasticity as a measure of mobility. In their later empirical work (1986), they found the intergenerational income elasticity to be 0.2, which implied mild income stickiness over generations and good opportunities to climb the social hierarchy. Their approaches were further refined by replacing income observations at a certain time stamp with their lifetime earnings. This could be realized by introducing other exogenous variables such as education and the working industry as instruments to make that prediction of lifetime income (Haider, 2006). We may try to emulate the approach by bringing into the paper more computationally enhanced tools.

## **Intergenerational Mobility and Education: in the United States**

There exist a good set of literature of how education might correlate to intergenerational mobility in the US. Previous research has uncovered two importance facts: the overall increase in people's education level does not lead to significantly lower inequality level (Chusseau et al, 2012); But higher education do play a centric role linking students from poorer families to better upward opportunities. What is threatening this 'opportunity inequality' are the financial constraints that contain them from winning in this admission game (Haveman and Smeeding, 2006). Empirically, Raj Chetty et al (2017) has documented some important results regarding

college education: parental income is a substantial determinant of children's access to college admission; conditional on what colleges children attend, those from rich families share similar earning outcomes with those from poor families. These statistics coincide with what was found earlier in other literature. Furthermore, Chetty points out that the proportion of students coming from poor families dropped essentially at schools where there had been most bottom-to-top-quantile mobility. This trend is alarming if the US society wants to maintain a fluid social structure.

### **Intergenerational Mobility and Education: in China**

Due to China's contractive economic and diplomatic policies in the early years, studies on social mobility in China started off a bit late. Some early research, by Cheng and Dai (1995), revealed general patterns of intergenerational mobility in modern China. Their research was broken down into several economic groups. They've collected evidence advocating upward mobility of people from farm origins and manual working class. However, for the working class, mobility is relatively rigid. Wu and Treiman (2007) accounted for rural-urban mobility, which disadvantaged rural-origin men by exposing them to a greater possibility of downward movement. The mobility across different social classes might be uniquely due to China's Hukou system that directed the rural and urban population to different administrative regimes. For our interest in income mobility and education, there are a few papers in documentation. A recent study by Gong et al (2012) calculated the intergenerational income elasticity to be 0.63 (compared to 0.2 of United States in the 80<sup>th</sup>), indicating that parents' economic position has a very persistent effect on the children's. Golley and Kong (2013) especially placed their stress on education mobility over generations. Their study found that children of the rural and migrant populations are more likely to endure less education than their parents, while children in urban areas seem to at least maintain the same level of

education as their parents. In this paper, we plan to measure the urban intergenerational economic mobility using another data source, and especially investigates what role does education play in the setting.

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