1. Background and Research Purposes

Entering the post-industrial era, income inequality is still prominent in most geographical areas despite rapid economic growth (Figure 1), which is especially severe in Anglo-Saxon (i.e., advanced) countries. Though based on functionalists' theory (e.g., Brown et al., 2013), upward mobility has allowed modern society to conduct talent selection and reduce inequality, the lack of intergenerational mobility remains an obstacle to social equality. Brunori et al.'s (2013) study found a positive association between the lack of intergenerational mobility and opportunity inequality, which leads to income inequality (Figure 2). As an effective measurement of the relationship between intergenerational mobility and income inequality, the Great Gatsby curve has rich economic applications and policy implications. This research first reviews the Great Gatsby curve's theoretical framework, which is followed by statistical data and explanatory models (i.e., causal factors). Then, it applies the Great Gatsby curve by illustrating the "Democratic inequality" paradox in the United States. Lastly, it critically draws conclusions and provides general recommendations for existing policies.

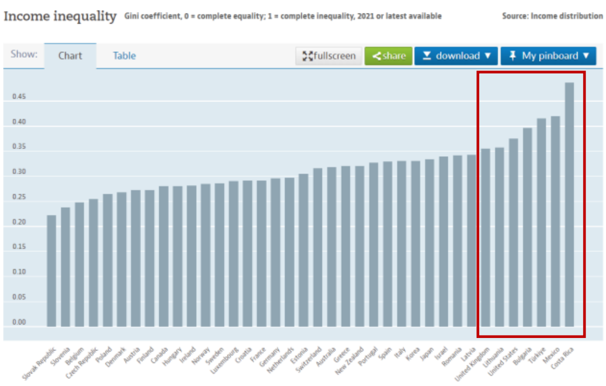

Figure 1. Income inequality in different countries, 2021. Source: OECD. (2023). Income inequality (indicator). doi:10.1787/459aa7f1-en

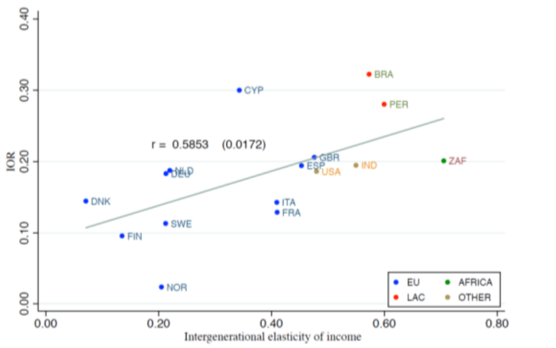

Figure 2. Inequality of opportunity and intergenerational mobility. Source: Brunori et al. (2013).

2. Theoretical Framework

Corak et al.'s (2013) study has laid the theoretical foundation of the Great Gatsby curve. Figure 3 presents the Great Gatsby curve derived from a comparison among countries. Specifically, the income inequality (i.e., x-axis) was measured by the Gini coefficient, while the lack of generational mobility (i.e., y-axis) was measured by generational earnings elasticity. This provides empirical evidence for the argument that there is a positive relationship between income inequality and the lack of intergenerational mobility. On the other hand, the lack of intergenerational mobility appears more prominent in countries that have more dispersed income structures, and most of them are Anglo-Saxon countries (e.g., the US and UK). Scandinavian countries (e.g., Sweden and Finland) scored low on both income inequality and generational earnings elasticity, showing more equal development opportunities for individuals from different family backgrounds.

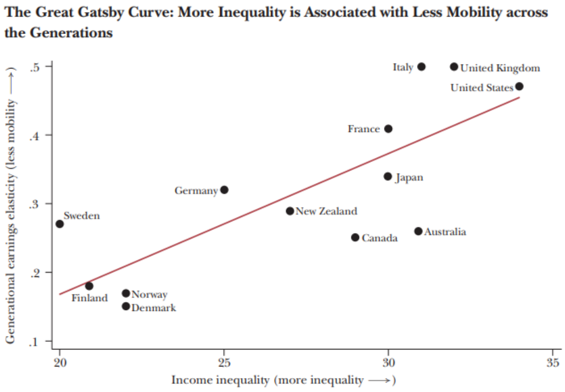

Figure 3. The Great Gatsby Curve. Source: Corak and OCED. (2013).

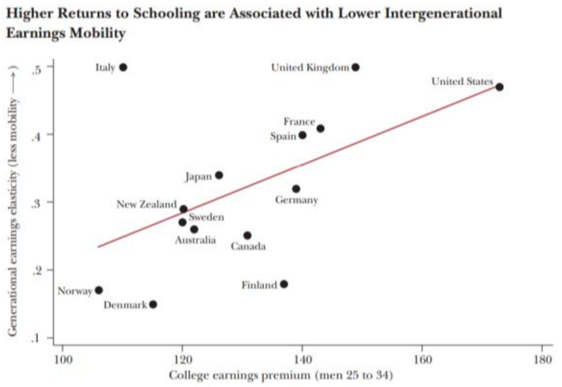

Figure 4. Generational earnings elasticity and college earnings Premium. Source: Corak. (2013). *Note*: X axis measures the income inequality (dispersion), Y-axis measures the lack of mobility.

Several causal factors of the Great Gatsby curve can be considered based on economic models that illustrate intergenerational inequality. Two prevalent models are the family investment model and the social model. These models are consistent with Bourdieu's (2018) class reproduction theory. Based on this theory, past inequality can replicate through economic, cultural, and social capital inheritance in future generations:

1) ***Family Investment model (human capital theory)***: According to Corak et al. (2013), rich parents who are better educated tend to spend more financial capital on improving the quality of children's education, while children from poor and less educated families have much less opportunities getting access to education. Based on the human capital theory, better-educated individuals tend to have higher skills, leading to higher wages and greater success in the workplace. Thus, the lack of intergenerational mobility in education opportunities can finally result in income inequality and polarization (Figure 4).

2) ***Social model***: Corak et al. (2013) indicated that the intergenerational inequality in employment has also contributed to the Great Gatsby curve. Through inheriting social and

network capital from parents, candidates from families who have worked for the same companies before are more likely to be employed due to nepotism, which favors rich families most (Figure 5). Though credentialism has played a more critical role in the neoliberalism era, the prevalence of referral is still reinforcing nepotism and intergenerational inequality.

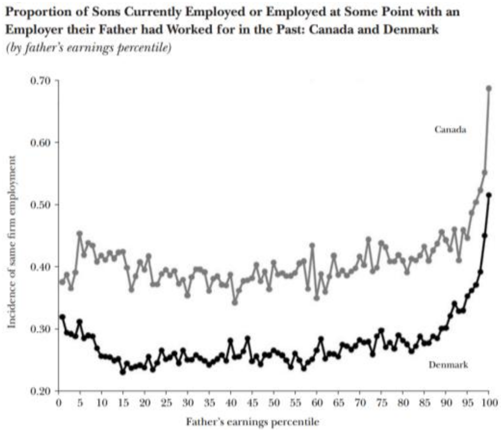

Figure 5. Proportion of sons currently employed or employed at some point with an employer their father had worked for in the past: Canada and Denmark. Source: Ermisch et al. (2012).

3. Theoretical Application: The "Democratic Inequality" in the US

Since the 1960s, US society has significantly emphasized the American Dream's spirit and individual efforts, providing rich opportunities for upward mobility. However, prior research has indicated the existence of the Great Gatsby curve in the US (Figure 6, Figure 7), showing that wealth disparity and institutional inequality (e.g., education) are still growing, further creating the "Democratic inequality" paradox.

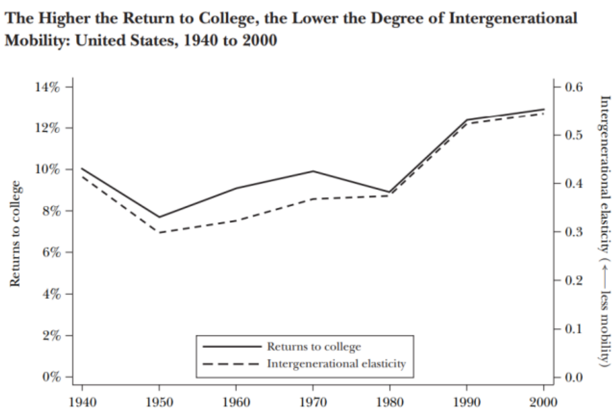

Figure 6. US Intergenerational elasticity and returns to college. Source: Mazumder. (2012). *Note*: Intergenerational elasticity measures intergenerational mobility, higher elasticity indicates lower mobility. Returns to college measures income inequality, higher returns indicate more income dispersion, showing higher income inequality and polarization.

Figure 7. The Great Gatsby curve for the US. Source: Calculation based on data from the Equality of Opportunity Project and the US Census Bureau (2013).

The family investment model and social model are also applicable in explaining US's Great Gatsby curve. Compared with the 55.7% increase in children's education expenses of families in the bottom 20% income group, children's education expenses in the top 20% income group have averagely increased 157% from $3,500 to $9,000 annually (Figure 8). This disparity can significantly exclude children from poor families from better education, especially from a college education that has the highest returns on income. Meanwhile, children from rich families in the US are more likely to acquire unpaid internships due to nepotism (i.e., network capital of parents) and low economic burden. The disparity in internship opportunities further reinforces human capital differentiation, contributing to higher intergenerational income inequality in the future.

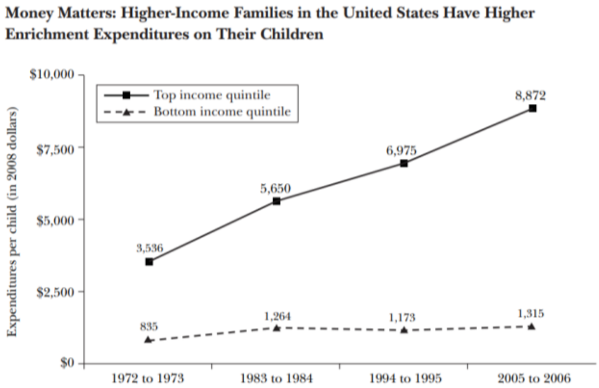

Figure 8. US Expenditures per child from 1972 to 2006 (in 2008 dollars). Source: Duncan et al. (2011).

Several existing public policies have taken action to fight against intergenerational inequality in the US. The first policy is increasing funding for preschool education to narrow the human capital gap. It is effective to expand the access of children from lower-income families to preschool education, which can ultimately result in higher employment and lower income inequality in society (Yoshikawa et al., 2013). Nevertheless, US's funding for education appears so uneven that the spending on college education is three times higher than elementary education (Corak, 2013), which favors students from higher-income families most because their financial conditions have allowed their college graduation rate to increase five times more than students from lower-income families in the past 30 years (Bailey & Dynarski, 2011).

The second policy is the Earned Income Tax Credit (EITC), which provides tax refunds to low- to moderate-income families in the US. Through taxing rich people and redistributing economic capital to lower-income families, EITC was proven to improve long-term development opportunities for children from less eligible backgrounds since it can narrow the income gap effectively by encouraging labor force participation and minimizing potential side effects of the dependency culture (e.g., Currie, 2009). However, family types and life stages that are exposed to EITC matter a lot. Children who were exposed at later ages from married families have reported more positive responses than those who were exposed young from single families.

4. Conclusion and Recommendations

To conclude, the Great Gatsby curve is an effective visualization of intergenerational income inequality, which can be applicable to analyze inequality in various geographical areas and cultures. The "Democratic inequality" paradox in the US is a typical presentation of intergenerational income inequality, which can be explained by family investment and social capital reproduction. Some public policies like increasing funding for expanding the access to higher education of children from lower-income families and strengthening refundable tax credits to the disadvantaged can be effective to fight against intergenerational inequality. Nevertheless, it is essential for policymakers to provide more equal higher-education opportunities by minimizing the economic burden of lower-income families through providing financial aid (e.g., scholarships and low-interest student loans) and enhancing college access programs. Meanwhile, they have to adopt the perspective of intersectionality (i.e., class, gender, race, marital status, etc.) when improving the equity of EITC. Several policies like subsiding childcare may have positive impacts on single families. Only through these ways can intergenerational income inequality be minimized and promote the spirit of equality in today's world.

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