

The Great Gatsby Curve: Inequality and the End of Upward Mobility

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Was Jay Gatsby a crook, or was he the victim of a crooked system? Photo courtesy of Warner Bros.

Questions:

Does the American economic system fundamentally treat people differently based on how wealthy or how poor they are? Or do families and their personal values play the biggest role in economic mobility?

Does the American economic system create more income inequality, and make it more difficult for upward economic mobility than other countries?

Contributing authors

Miles Corak, a professor of economics at the University of Ottawa, explains the “Great Gatsby Curve” metaphor which was introduced by Alan Krueger, President Obama's outgoing chair of the Council of Economic Advisers.

“The Great Gatsby” the novel

Was Jay Gatsby, the ambitious protagonist in F. Scott Fitzgerald's novel, a crook who would stop at nothing to get ahead, or the victim of a crooked game, a system in which the rules are rigged against those with anything other than blue blood, regardless of their ambition? The novel, "The Great Gatsby", is certainly open to multiple interpretations, but that is precisely what makes a

novel great: characters and plot that not only challenge our deeply held beliefs, but also invite a different perspective depending upon the times we live in.

Fitzgerald's novel has long captured the American imagination because it speaks so directly to the belief that anyone with talent, energy and ambition can succeed no matter where they started off in life. This idea is still meaningful today, but is challenged in the new “Great Gatsby Curve” as inequality has soared in the last three decades. In fact, today’s economic divide between the rich and the poor has only been matched during the roaring 1920’s- the time when Fitzgerald’s book takes place.

Questions and facts to consider regarding the “Great Gatsby Curve”

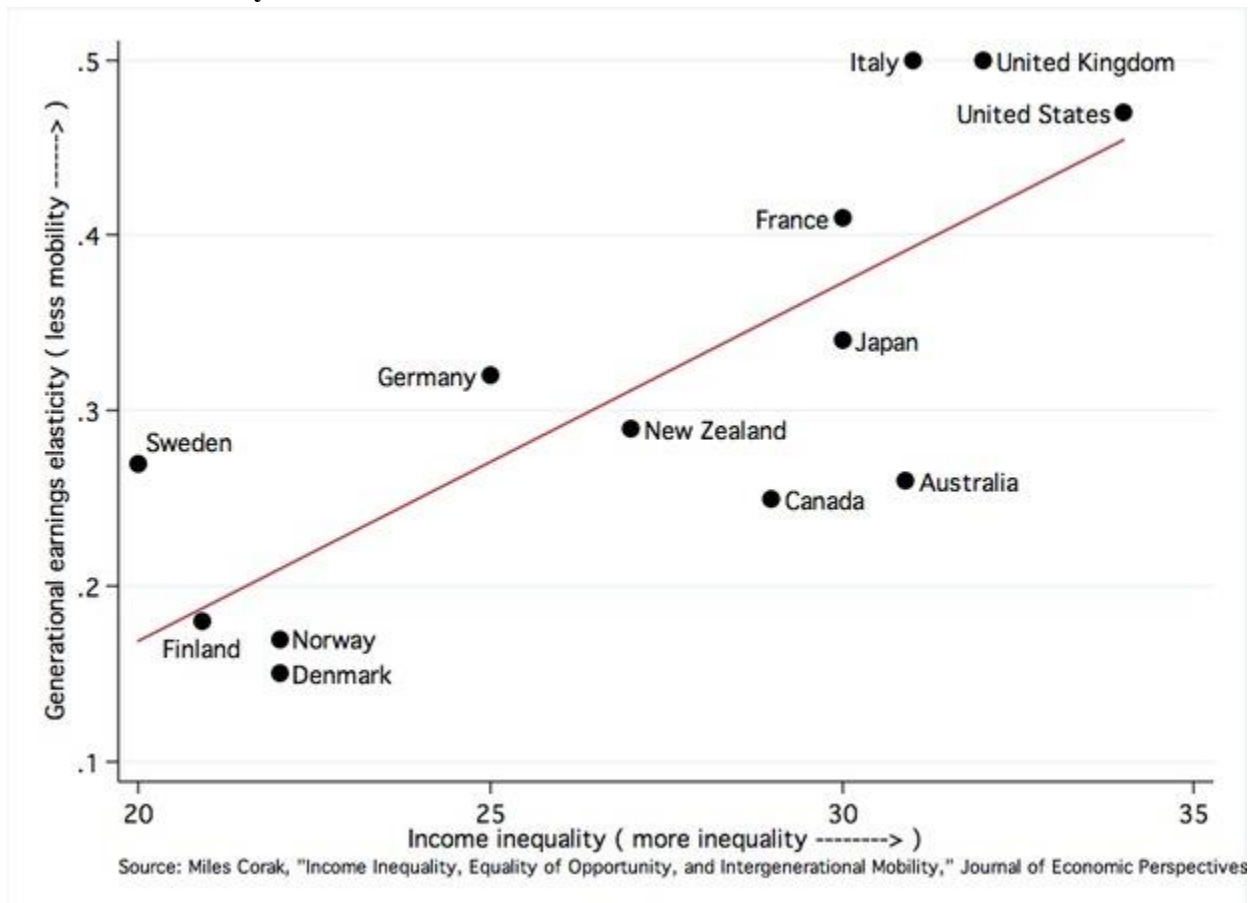
Is inequality a good thing that reflects the hard work, skills and ambition and offers a promise of a better future for the next generation? Or does inequality limit opportunities for the poor to create a better future for their children, and place unfair barriers to success regardless of their talent?

It is a fact that countries with greater inequality of incomes also tend to be countries in which families tend to pass on either the economic advantage or disadvantage to their children. This makes it harder to move up the ladder or down the ladder so to speak. This relationship, known as the “Great Gatsby Curve”, was introduced by economist Alan Krueger while he was working at the White House as President Obama’s chairman of the council of economic advisors.

Correlation does not imply causation

Before explaining the graph it is important to keep in mind the famous statistics/research that states, “Correlation does not imply causation.” What this means is that just because there is a strong relationship between two factors it does not mean one causes the other or vice versa. For example, one famous and odd statistic is that there are more murders committed during nights when a full moon is out. We need to be careful here because although there is a relationship (more full moons equal more homicides) it does not mean that full moons cause people to commit murder. Sometimes there are factors we cannot account for and so we can say that there is a strong relationship, but cannot conclusively say that one factor, all on its own, caused the other factor to either increase or decrease.

The “Great Gatsby Curve”



The graph above demonstrates the relationship between “income inequality” and “generational earnings” called the Great Gatsby Curve.

They are:

On the horizontal or “X” axis: “income inequality”- the more inequality between incomes the more concentrated the wealth is in wealthiest families. This shows that children from poor families are less likely to become richer than their parents when income inequality was higher. Meaning wealth was concentrated in fewer hands around the time those children were growing up and it effected their future chances to become wealthy. (White House)

On the vertical or “Y” axis: “generational earning”- the higher the elasticity (or stickiness) the stronger the relationship between what the parent made (poor or rich) and what the child will make. This means that in countries like Finland, Denmark, Norway and Sweden the relationship between what the parents had (or didn’t) effected what the earning of their children would make (rich or poor) less than 20 percent of the time.

Again, although we can see a strong relationship between the two factors, we cannot hold either one responsible for causing the other. However to completely dismiss the findings isn’t a good

idea either. If we do, we risk missing an important message about the possible underlying causes of wealth and poverty. Further, economic theory actually predicts such a relationship could exist, and so it is reasonable to compare the two and see if there is any relationship. Finally, comparing the two factors, inequality and economic mobility, is useful because it gives us a good starting point for understanding the underlying causes of economic inequality and that might give us an idea about how to fix this problem.

How this applies to the story of Jay Gatsby

There are two ways that we can understand this economic relationship as it applies to through the story “The Great Gatsby”:

1. **“Gatsby was a crook”** point of view- stresses the role of individual choice, and that we often make choices based on our family values. From this perspective, America's position on the curve, and particularly the relatively low rates of upward economic mobility of children raised by the lowest income households, could be caused by difficulties faced by the families themselves. Single parent families often face more economic obstacles, which can raise the risk of challenges for children as they grow up regardless of public policies trying to level the playing field. At the same time, top earners are not taking broader social responsibility by championing the values of social equality and upward economic mobility for everyone.
2. **"Gatsby was a victim of a crooked system"** point of view suggests that a labor market that has such great extremes in income is the driving force, and eventually that stops a parents' capacity to invest in their children's future particularly in areas of education. Parents with more education have more money to invest their children's education, and in an era of rising labor market inequality, not only do they have more resources, they have a much stronger incentive to see that their children in turn develop the skills that will lead to success.

Globalization and changes in technology have also played a role in the gap between resources as well as education. For families who have less exposure to globalization and technology their ability to earn more has stopped or even fallen because they can't keep up in the labor market because of their lack of skills and knowledge. Having to run harder just to stand still, so to say, these families not only have less money for their children's future, but also have less time to spend too because they are working longer hours and making less. This can increase stress in families making it harder to stay together and support each other through economic means.

On top of all this, some public policies are designed to favor the relatively well-to-do (wealthy). Access to high quality early childhood education and primary schools is often limited to those with wealth. For example, the wealthy may pay for high quality private school, or are able to live in more expensive neighborhoods where the public schools are very good. This puts the children of the wealthy on a direct path to the best colleges, where they will learn the skills they need to be successful in the labor market. From this perspective, America's position on the curve is the result of a disparity of access to high quality education which can determine access to the best jobs.

Economics can't always give us hard-and-fast truths, but it does give us more than just a metaphor. And while even facts we agree on can be interpreted as having different meanings, we should be clear that **the message underlying the "Gatsby Curve" is that the greater the economic inequality the less of a chance that one generation has to move up (or down) the economic ladder. This is important because it has the potential to shape the opportunity of the lives of all Americans.**