Example 5.1
Social Mobility in the United States

Social mobility refers to the ability of people to move through the distribution of income over time. As noted in Chapter 5 of the text, the degree of social mobility within an economy can have profound effects on society's attitudes towards redistributing income and the government's ability to redistribute income, whatever the attitudes may be.

Sheldon Danziger and Peter Gottshalk have computed the social mobility in the U.S. based on data from the Panel Study of Income Dynamics (PSID). Recall that social mobility is measured by a transition probability matrix that indicates the movement of people from one position in the distribution in time, t, to all possible positions in the distribution in time, t+1. If the distribution is divided into quintiles, each element, ij, in the matrix shows the percentage of people who were in the ith quintile of the distribution in time t and are now in the jth quintile of the distribution in time t+1.

Table E5.1 (overleaf) reports Danziger and Gottschalk's findings on social mobility in the U.S. from 1968 to 2002, by quintiles. The entries are based on 580 individuals who were in the PSID sample in both years. For example, the second row of the table shows that, of the people who were in the 2nd quintile of the distribution (2nd from the bottom) in 1968:

- 19.8% had fallen to the 1st (lowest) quintile by 2002
- 25.4% remained in the 2nd quintile
- 25.7% had moved up to the 3rd quintile
- 16.1% had moved up to the 4th quintile
- 13.1% had moved up to the top quintile.

The 35-year period represents a bit more than one generation.

Table E5.1: Transition Probabilities Between 1968 and 2002
Based on Annual Income (%)

1968 Quintiles	2002 Quintiles					
	1st Quintile	2nd Quintile	3rd Quintile	4th Quintile	5th Quintile	Total
1st Quintile	34.2	23.9	24.3	10.1	7.6	100
2nd Quintile	19.8	25.4	25.7	16.1	13.1	100
3rd Quintile	12.1	20.4	16.6	26.6	24.3	100
4th Quintile	12.9	15.6	19.4	25.5	26.6	100
5th Quintile	21.0	14.4	13.5	21.6	29.5	100
Total	100	100	100	100	100	100

Source: We are grateful to Sheldon Danziger and Peter Gottschalk for providing the data upon request. The entries in the rows and columns may not quite sum to 100 because of rounding error.

The limits of social mobility are complete mobility and no mobility. If mobility were complete, every entry in the table would be 20%. Starting from any quintile in 1968, people had an equal probability (20%) of staying in that quintile or moving to any other quintile by 2002. If there were no mobility, then everyone would remain in the same place within the distribution. The diagonal entries in the table would be 100% and the off-diagonal entries would be zero.

The table shows that there is a very high degree of social mobility in the U.S. in little more than a generation. The transition probabilities are much closer to complete mobility than to no mobility. For instance, the majority of people in each quintile in 1968 were in different quintiles in 2002. The largest percentage of people who stayed in place were in the first quintile in 1968, and even here it was just slightly above 1/3. The great American dream is to be able to move up in the income distribution, and for people from the middle to the bottom of the distribution that dream appears to be more than just wishful thinking:

- Of those in the bottom quintile in 1968, 65.8% (= 100–34.2) were in higher quintiles by 2002
- Of those in the 2nd quintile, 54.9% (= 25.7+16.1+13.1) moved up to the 3rd, 4th, and 5th quintiles;
- Of those in the 3rd quintile, 50.9% (= 26.6 + 24.3) moved up to the 4th and 5th quintiles.

The high degree of upward mobility may explain why surveys show that people in the United States care more about process equity (equality of opportunity) than they do about end-results equity (equality of outcomes). The middle and lower income classes want to preserve their prospects for upward mobility.

The flip-side of upward mobility is, unfortunately, downward mobility:

- Of those in the 4th quintile in 1968, 47.9% (=12.9+15.6+19.4) were in one of the three lower quintiles by 2002
- Of those in the 5th quintile, 70.5% (=100–29.5) also moved down in the distribution.

Indeed, people can fall hard from their perches: 21% of those at the top of the distribution in 1968 fell all the way to the bottom of the distribution by 2002. The high degree of downward mobility from the top may explain the considerable amount of rent-seeking behavior in the U.S., such as large campaign contributions to politicians in exchange for legislation to maintain monopoly profits and the like. The rich know that staying rich is by no means a sure thing.

The high degree of social mobility also has consequences for a government's attempt to redistribute income. Suppose, for the sake of an example, that the federal government had instituted a lump-sum redistribution in 1968 that leveled everyone to the mean income, in line with Atkinson's three assumptions about the social welfare function discussed in Chapter 5. Suppose, also, that this had no effect on the transition probability entries. Think of the leveling policy as placing everyone in the middle of the distribution, the third row in the table. By 2002, the leveling would have unraveled almost completely. Only 1/6 of the population (16.6%) would still be in the middle of the distribution. Just over twelve percent would have fallen to the bottom of the distribution and 24.3% would have risen to the top, with 20.4% and 26.6% in the 2nd and 4th quintiles. The distribution would look far more uniformly unequal than equal. Thirty-five years is a long time, of course, so the leveling policy may have maintained a more equal distribution for quite a few years. Still, there can be no doubt that there are strong forces operating within the U.S. economy and society that generate a large amount of social mobility and push the distribution of income towards inequality over time, even if economists have no clear understanding about what those forces might be.