Key Points

- Social mobility is higher in societies with smaller income differences between rich and poor.
- If we want our children to have equal opportunities in life, reducing income inequality is the most important step we can take towards achieving that goal.
- London School of Economics researchers and the OECD demonstrated separately that social mobility in Britain is worse than in comparable rich market democracies.
- Britons in their early forties have lived in a more unequal country and experienced less equality of opportunity than their fathers experienced.
- The widely respected Institute for Fiscal Studies (IFS) commented in a comprehensive review of the academic literature: "[it is] likely to be very hard to increase social mobility without tackling inequality."

Introduction

It is often suggested that large income differences are fair if social mobility is high and people can arrive at a level in society that reflects their effort and talent. But an accumulation of new research evidence shows that bigger income differences between rich and poor are a powerful constraint on social mobility. As the income gap increases, life chances for children from less privileged backgrounds reduce and the idea of a level playing field becomes an even more distant prospect.

The 'American dream'–that people from the poorest backgrounds can make it to the top – is less likely to be true in the USA now than in its more equal past. Indeed it is less likely to be true in the now very unequal USA than in any other rich developed society–except the UK. [1,2,3,4,5] There is a consistent tendency for social mobility to be higher in countries with smaller income differences. As U.S. President Barack Obama said in December 2011 ". . . gaping inequality gives lie to the promise at the very heart of America: that this is the place where you can make it if you try." [6]

The research evidence has been widely recognised in expert commentary from across the political spectrum in recent months:[7,8,9,10]

- Paul Krugman, Nobel laureate in economics, professor at Princeton University, drew attention to it in his *New York Times* column.[7]
- In Britain, the report of the National Equality Panel concluded that the evidence was sound.[8]
- In a presentation on increasing inequality given at the Center For American Progress, the chair of the President's Council of Economic Advisers, Alan B. Krueger, emphasised the relationship between rising inequality and decreasing social mobility.[9]
- Jared Bernstein, another U.S Government advisor, has also written about the negative effects of vast income inequalities on social mobility.[10]

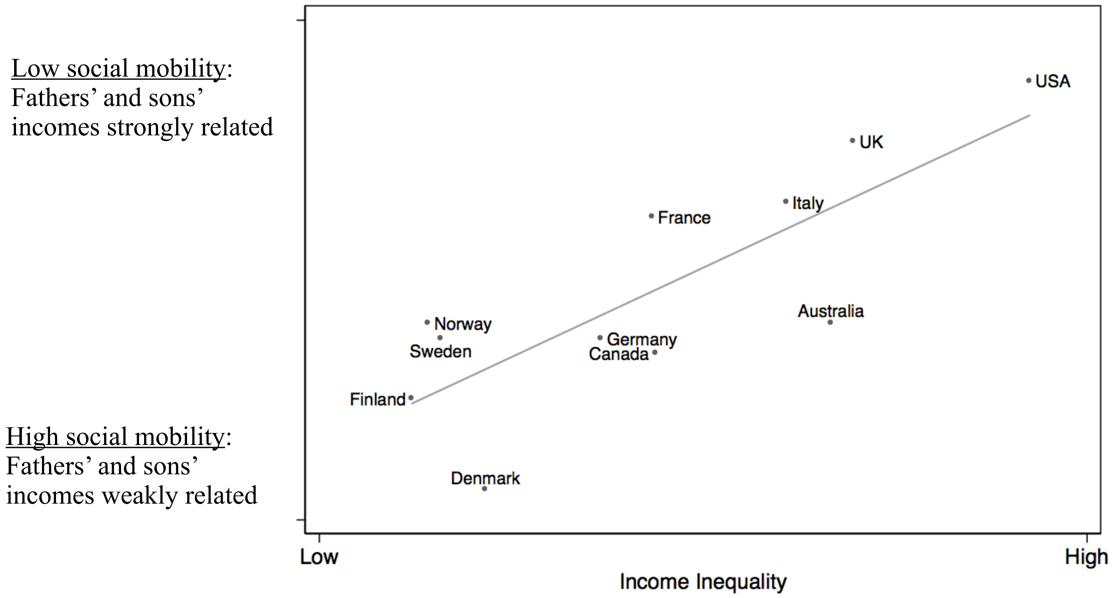
Why this matters

Social mobility is often used to justify large pay gaps. Yet if we are really interested in promoting mobility and more equal opportunities, we need to reduce the overall scale of income differences. One injustice cannot excuse or balance another, it merely results in a double injustice. And this is not simply a matter of justice or fairness for individuals. The country as a whole would benefit from increasing social mobility. When people are excluded from opportunities because of their background, their talent is wasted. Because so many politicians, judges, CEOs and senior people in business and the civil service have similar backgrounds, our institutions are more at risk of being out of touch with the majority of the population and will be geared primarily to the needs of people at the top of the income distribution.

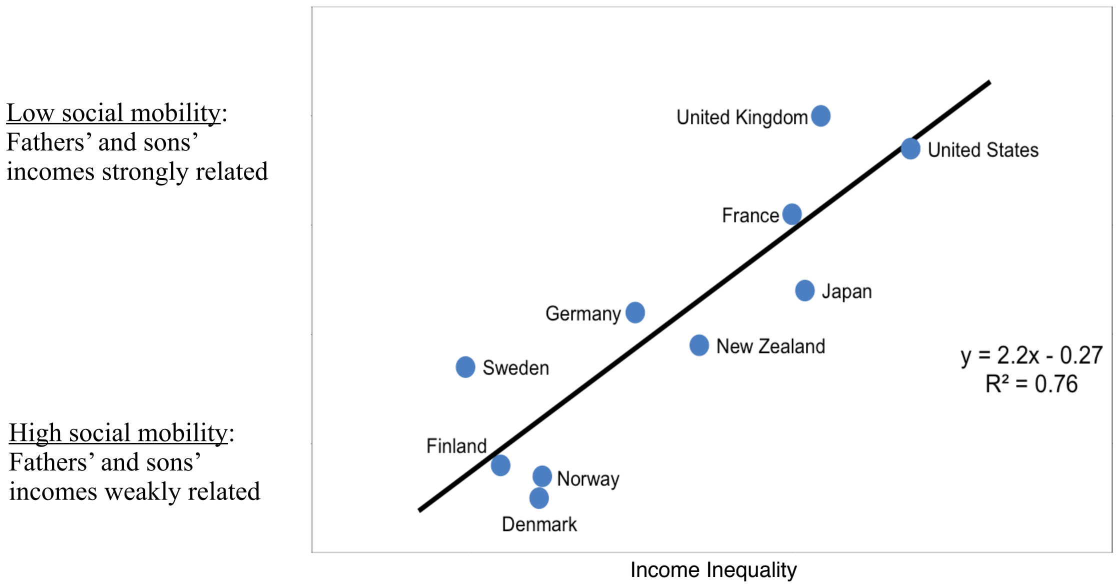
The evidence

When comparing social mobility in different countries, researchers usually measure income mobility – the extent to which rich parents have rich children and poor parents have poor children. In one well-known study, for example, researchers from the London School of Economics compared data from eight wealthy democratic countries.[4] Comparing fathers and sons, they tested whether the incomes of fathers were correlated with the incomes of their sons when they reached comparable ages. Comparing the incomes of fathers and sons* in this way is commonly used in economic research as a way of measuring the "stickiness" of a person's income to their family's background (i.e if you are born poor, how likely you are to remain poor).

Looking at social mobility in 11 member countries of the Organisation for Economic Development and Co-operation (OECD)–from the most socially mobile societies of Denmark, Finland, and Norway to the least socially mobile United Kingdom and United States–researchers found that the most socially mobile societies were also more equal.[12]



Both graphs show that countries with bigger income differences have less social mobility. The slopes are calculated independently from different data. The first uses income mobility data analysed by Professor Jo



Blanden from the London School of Economics (2009) and income inequality data from the United Nations Human Development Report. In the second, Alan Krueger (2012) shows almost exactly the same tendency towards diminished intergenerational mobility using independent data for ten countries analysed by

University of Ottawa Economics Professor Miles Corak (2011) and income mobility data from the OECD.[2,9]

Social mobility has slowed while inequality has risen

In the 1980s, income differences widened dramatically in the UK. Economists from the London School of Economics compared the social mobility of Britons who were born in 1958 to those born in 1970. They found that people who were born in 1970 had a smaller chance of moving into a higher income stratum than those who were born and grew up during times of greater income equality.[4] Widening income differences meant that those born rich were more likely to stay rich, and those born poor to stay poor.

Some explanations of why greater inequality decreases social mobility

People have suggested that in more unequal societies the social ladder becomes steeper or the rungs on the ladder become further apart. These are merely analogies, but below we summarise five mechanisms from the economic research base that demonstrate how inequality can constrain social mobility.

Marrying within your class

"Assortative mating"–that is people's tendency to marry others in a similar social strata (whether by wealth or profession) also contributes to intergenerational income chances (Blanden 2005). International comparisons of marital matching suggests that people in more unequal countries are less likely to marry someone in a different class. In the UK and the USA people are less likely to marry people with dissimilar social and economic backgrounds than they are in the more equal Nordic countries (Finland, Sweden, Denmark, Norway). Bigger income differences seem to restrict the choice of marriage partners in the same way as it restricts social mobility.[13,14]

Residential segregation of rich from poor

The location of the family home is another important factor in determining a child's opportunities, and studies have found that a parent's neighbourhood choice affects the income of their children.[15] Wealthy families tend to segregate themselves from less well off families, creating homogenisation of socio-economic status in different areas. Research suggests that residential segregation of rich and poor increased while income differences widened in the US and Britain. [16, 17]

In the USA this also affects educational attainment in low income areas because of the lack of public and private investment in these neighbourhoods. Harvard University Professor of Economics Michael Kremer provides evidence for the USA and estimates that increased segregation would significantly decrease intergenerational mobility.[18]

Family and friend networks

There are other secondary effects which may reinforce the effects of social segregation. Tufts University researchers Yannis Ioannides and Linda Datcher Loury provide a comprehensive review of the evidence about job information networks on employment. They conclude that using friends and relatives to find a job tends to increase the probability of success.[19] If the quality of information networks vary by neighbourhood we can expect that higher status neighbourhoods are likely to provide better jobs and reserve work for those who belong to more exclusive social and economic networks–further aggravating the social and economic exclusion of those not privy to such networks.

Inherited wealth

French economist Thomas Piketty shows that inherited wealth perpetuates inequality in living standards regardless of the correlation between parents and children's earnings. [20] This in turn changes the opportunities open to people. Access to credit is limited by whether people have collateral. Individuals who do not inherit wealth are much likelier to face challenges in investing in education or other financial assets which may increase their social status. Access to credit and the initial pool of wealth that an individual may be able to draw on will partially determine employment opportunities. Andrew Newman of the Centre for Economic Policy Research and Boston University has conducted research on how occupational choice (wage earning, self–employment, etc.) is partly determined by wealth. [21]

Psychosocial obstacles

Observations from sociology and psychology also help to explain how inequality of income increases the inequalities of opportunity. Downward prejudices (or more simply, snobbery and discrimination) flourish in hierarchical societies. Material differences increase social distances. The elites have the “right” schools, cultural markers of status and way of speaking.[22] The more hierarchical a society, the more obvious the differences in status become and the more they are likely to attract downward prejudice and stigma.[23] Lacking these cultural markers of status increases the obstacles to social mobility. Young people from less well-off backgrounds risk losing out on opportunities for better higher education and jobs.

Finally, what are called ‘stereotype threat’ experiments show how recognition of social differences diminishes performance among those who are made to feel at a social disadvantage. Take, for example, a young person from India. Ask him to take a test and observe as he performs according to his ability. Next, ask a young person to announce his caste publicly before taking the test, and watch as he performs, not according to his ability as before, but according to his caste.[22] If he is from a low caste he will perform less well when his low caste is made known. [24,25] Similar experiments have shown the damaging effects on performance of even subtle prompts which make people aware of their disadvantage in terms of class, ethnicity or gender.[26,27] So the knowledge that society defines you as lower than others actually causes you to perform less well on a test.

Conclusions

The evidence suggests that social mobility–along with other indicators of health and social wellbeing–would be improved by even small reductions in inequality. As the economists Samuel Bowles and Herbert Gintis have written: “Rather than pursuing an abstract (and to our minds unattractive) objective of zero intergenerational correlation, a better approach might be to ask which mechanisms of intergenerational transmission seem unfair, and to direct policies accordingly.” [28] By reducing income inequality to levels more like those of the Scandanavian countries we would increase equality of opportunity, and help ensure that all our children are able to fulfill their potential. Even smaller reductions, to match levels of inequality in Canada or Germany could improve the life chances for the next generation of children in the UK.

**This Research Digest does not willingly exclude women but, partly because comparisons of mothers’ and daughters incomes are strongly influenced by long-term increases in women’s employment rates, research has focused primarily on the incomes of fathers’ and sons.*

Further Reading

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