

Lecture proposition: The Econometrics of Income and Social Mobility

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Abstract

Mobility can be measured between generations and is then based on scales of professional prestige or within a generation using income classes. The measurement of mobility implies the definition of transition matrices, requiring a first set of axioms for internal consistency. Mobility becomes socially desirable if transition matrices comply to the property of progressivity. Statistical inference, for estimation and testing is based on the use of panels and eventually on the use particular econometric models such as the ordered multinomial probit.

1 Detailed outline

The new literature about the World Income Distribution initiated by Lakner and Milanovic (2016) is concerned about the temporal evolution of the World Income Distribution. It aims at understanding if growth pro-poor, which means if the lower quantiles increased more the average growth rate. At the world level, this led to the elephant curve. However, when using the Growth Incidence Curve of Ravallion and Chen (2003), no assumption is made about the composition of each decile of the income distribution. There is no reason to assume that the same persons have moved or remained in the same quantiles. This is the Anonymous Growth Incidence Curve which ignore the question of social mobility. Two distributions are compared, without considering them as coming from a joint bivariate distribution. Bourguignon (2011) introduced the non-anonymous growth incidence curve, starting this time from a joint bivariate distribution and deriving a modified growth incidence curve, having different properties.

This new strand of literature relies in fact on the notion of income mobility, without treating it in details. The question of income and social mobility is an old one as it dates back to Prais (1955). This paper relies on the definition of a scale defining the prestige of professions with Erikson et al. (1979). It is thus more sociologically oriented. But it allows to define a certain number of interesting tools such as transition matrices, Markov processes and mobility indices.

Social mobility is not a desirable process in itself if it is just at random. Transition matrices have to comply to a certain number of axioms in order to be socially desirable as detailed in Shorrocks (1978). There is first the notion of monotonicity of a matrix with Conlisk (1990). The notion of progressivity of a

matrix is more difficult to define. There are basically two different approaches: Benabou and Ok (2001b,a) on one side and Atkinson (1981, 1983) or Dardanoni (1993) on the other side.

Statistical inference for measuring mobility relies first on the definition of income classes. There are three ways of doing this as detailed in Formby et al. (2004). Depending on the chosen way, mobility measurement may present opposed characteristics: absolute, relative to the mean or the median and finally transition matrices based on quantiles. Matrices can be estimated directly using panel or can be the result of an ordered multinomial probit.

Individuals have a biased perception of the income distribution as shown in Forsé and Parodi (2007). This misperception is extended to income mobility. The book of Alesina and Glaeser (2004) gave astonishing examples, comparing Europe and the US. The perception or misperception of mobility has dramatic consequences on the desire for redistribution and on the perception of the causes of poverty.

2 A potential validation mechanism

Homework based on real data and the reading of articles.

3 Period of lecturing

Twelve hours in modules of two hours, preferably during the second semester.

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