A CHRISTIAN PERSPECTIVE ON INCOME MOBILITY

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A Christian perspective on income mobility in the United States is absent from today's policy debates. The Bible provides examples which reveal that income mobility was present when God's people were faithful and prospering. For many key biblical figures, income mobility was a path to prosperity. Today income mobility matters because the work we do in our vocations is our faithful service to God. The data indicate that income mobility here in the United States depends upon the degree of economic freedom and the size of government. States that increased economic freedom and reduced government spending as a size of their state economy during 1981-2007 had much higher income mobility and personal income growth. Recent declines in economic freedom in the United States and rapid increases in government spending and debt suggest that the income mobility of future generations will be reduced. Therefore, it is important for Christians to become involved in this policy debate so that our children and grandchildren will have increased opportunities to serve God in their work.

EXECUTIVE SUMMARY

Income mobility is a fundamental aspect of our American identity. We are largely a nation of immigrants who arrived in this country poor yet became rich. Income mobility is important not only because it is a path to prosperity, but because a society with a great deal of upward income mobility is one where Christians can serve God faithfully using their diverse gifts. Yet a Christian perspective on this aspect of the "American Dream" is largely absent in economic and theological literature. This paper argues that there are three reasons why income mobility ought to be regarded as good:

1) It was present in biblical times when God's people were faithful and prospering.
2) It is a means to prosperity for every person.
3) A society with income mobility is one in which all people can serve God faithfully in their work.

A society with a great deal of income mobility needs laws to maintain economic freedom. Not surprisingly, the origin of these laws can be found in the Ten Commandments. The sixth, eighth, and ninth commandments are essential for maintaining economic freedom. While economic freedom is a broad concept, it can be simplified by focusing on four essential elements. Economic freedom is fundamentally about:

1) personal choice
2) voluntary exchange coordinated by markets
3) freedom to enter and compete in markets
4) the protection of persons and their property from aggression by others

It is not enough to say that economic freedom promotes income mobility; the fact must be shown empirically. This paper compares the economic freedom of the fifty states with recent income mobility data for the period 1981 to 2007. These data indicate that:

- States with the largest increases in economic freedom had higher personal income growth, higher upward income mobility, and lower downward income mobility than states that did not become more economically free.

- States that reduced government spending as a size of their economy also had higher personal income growth, higher upward income mobility, and lower downward income mobility.

Combining these results with recent trends in economic freedom within the United States indicates that the income mobility of future generations may be in jeopardy. The United States has always been one of the ten most economically free countries in the world. However, recent economic freedom rankings indicate this is no longer the case.

If we as Christians value an opportunity society with a high degree of income mobility, then it is important for us to engage in the debate concerning the high level of government spending and debt that is weighing on us and future generations. This spending and debt will reduce the income mobility of our children and grandchildren. More importantly, there will be fewer opportunities to serve God faithfully in our vocations.

INTRODUCTION

God gives each of us unique gifts so that we may serve him faithfully in this world. Our ability to use our gifts to serve the Lord will depend, to a degree, on the type of society in which we live. Therefore, it is fitting that Christians are concerned about, and actively engaged in shaping, today's society and culture. Two topics of concern are income inequality and income mobility. As Christians, we have much to contribute to the discussion on these topics. While both are important, the focus of this paper is on income mobility.[i] The Bible can help us understand why as Christians we should value income mobility. However, valuing income mobility is different from understanding the aspects of our economy that maintain it. Here economic analysis can be helpful, especially with regard to the role of government and economic freedom in supporting income mobility. The analysis presented here indicates that more economic freedom and a reduction in the size of government are supportive of higher upward mobility and lower downward mobility in the United States.

Income mobility is a fundamental aspect of our American identity. We are a nation of immigrants who arrived in this country poor yet became rich. Each of us has experienced this aspect of the American Dream either personally or through family and friends. Each story is different. My grandfather was an orphan at the age of seven and was missing three fingers by his thirties. Yet what I find most remarkable is that all my memories of him involve visits to his wonderful home in the San Francisco Bay Area. Only in America could someone go from an orphan to relative prosperity with only seven fingers.

Yet a Christian perspective on this aspect of the American Dream is largely absent from economic and theological literature. The omission is often a result of associating income mobility with materialism. However, Christians should regard income mobility as good for several reasons. First, it was present in biblical times when God's people were faithful and prospering. Second, it is a means to prosperity for every person. My grandfather is not the only one who experienced upward mobility; similar upward mobility was experienced by many Old Testament figures. Lastly, a society with income mobility is one in which all people can serve God faithfully in their work. God wants his people to flourish and, as Paul says in 1 Corinthians 12:7, to use their unique gifts to serve Christ.

Just as God gave his people the law once they were free, we also need laws to maintain our freedom. An opportunity society, one with a great deal of income mobility, needs laws that maintain economic freedom. This is especially important today. For a long time, the United States was one of the most economically free countries in the world. However, that has changed over the last ten years. In key respects, the United States' economy has become much less economically free. Not only has overall economic freedom declined in the United States, but the size of the federal government and many state governments has substantially increased. Combining these trends with recent data on income mobility indicates that reduced economic freedom and increases in the size of government have a negative impact on income mobility. During 1981-2007, states that pursued policies less conducive to economic freedom and increased government spending as a share of the state economy had significantly lower personal income growth, less upward income mobility, and more downward mobility. The opposite was true for states that increased economic freedom and lowered spending; they experienced higher personal income growth, higher upward income mobility, and lower downward mobility.

These results relate specifically to current policy discussions. If we as Christians value an opportunity society with a high degree of income mobility, then it is important for us to engage in the debate concerning the high level of government spending and debt that is weighing on us and future generations. This spending and debt will reduce the income mobility of our children and grandchildren. More importantly, there will be fewer opportunities to serve God faithfully in our vocations.

INCOME MOBILITY IS GOOD

As we begin, it is important to clarify how this paper uses the term "income mobility." Income mobility is comprised of both upward and downward mobility. Typical use of the term tends to be either positive or neutral, meaning that sometimes the word implies upward mobility and other times it refers to both upward and downward mobility. In this paper, the term generally has a positive connotation and implies upward mobility. In any place where the meaning might be unclear, the phrases "upward" and "downward" mobility will specify exactly what we mean when we refer to "income mobility."

There are three overarching reasons why Christians should view income mobility as a positive occurrence. First, income mobility is a characteristic of the flourishing society that God desires for his people. The story of Israel's exodus from Egypt provides a good demonstration of income mobility as a characteristic of a flourishing society. In Exodus 3:8, God wants to liberate his people and "deliver them out of the hand of the Egyptians and to bring them up out of that land to a good and broad land, a land flowing with milk and honey." Here we see God intervening to lead his people out of a land where they could not flourish and into one where they could flourish. The assertion here is not that God specifically desired income mobility for his people. Rather God wanted his people to be free and to serve him faithfully. If they did this, he promised to give them a land where they could prosper. Such prosperity happens when income mobility is present.

Why does God want his people to live in prosperity—the land of milk and honey? First, God loves his creation and desired that his people flourish in the Garden of Eden. God's desire is still present despite our blundering in the garden. John Schneider, commenting on the Exodus story, calls it "the story of a God whose very nature it is to liberate the poor from the oppressions of poverty."[ii] Second, and more importantly, we can serve God more fully when we are flourishing as a people. This is why the Lord instructs Moses to tell Pharaoh in Exodus 4:22-23, "Thus says the Lord, Israel is my firstborn son, and I say to you, 'Let my son go that he may serve me.'" The people of Israel could not serve the Lord to their full potential while living as they did in Egypt. That is why he freed them and led them to the Promised Land where they could flourish.

The prosperity enjoyed by God's people leads to the second reason that Christians should view income mobility as good: income mobility provides a path to prosperity for each person. The experiences of Abraham (known as Abram for much of Genesis), Jacob, and Joseph provide good examples of this type of upward mobility. Abram begins his journey with some possessions. Genesis 13:6 recounts that by the time he and his nephew Lot, along with their families, leave Egypt after a sojourn there, they have so many possessions and livestock that they can no longer stay together. Later in life, Abraham becomes still wealthier. He sends his servant to find a wife for Isaac because he does not want him to marry a Canaanite woman. The servant tells his story to Rebekah's family in Genesis 24:35 and begins with, "The Lord has greatly blessed my master, and he has become great. He has given him flocks and herds, silver and gold, male servants and female servants, camels and donkeys."

It is important to note that Abraham comes by his wealth honestly and is a self-made man. In one incident, several kings take Lot captive during a war. Abram raises a small army and pursues them. He defeats Lot's captors and is able to recover all the people held captive and their possessions. In Genesis

14:21-23, the king of Sodom is grateful that Abram has defeated the invading armies and tells him, "Give me the persons, but take the goods for yourself." Abram replies, "I have lifted my hand to the Lord, God Most High, Possessor of heaven and earth, that I would not take a thread or a sandal strap or anything that is yours, lest you should say, 'I have made Abram rich.'" All Abram asks is to have the cost of his expedition covered. In a modern context one could say that Abram wanted to "pull himself up by his own bootstraps."

While Abraham begins his journey with some possessions, Jacob begins with nothing. He has to escape and flee because his brother Esau wants to kill him. Twenty years later, through serving his father-in-law, Jacob has become a wealthy man. After a quarrel with his father-in-law, he flees to return to his homeland. In Genesis 32:13-15, to appease his brother, whom Jacob still believes wants to kill him, he "took a present for his brother Esau, two hundred female goats and twenty male goats, two hundred ewes and twenty rams, thirty milking camels and their calves, forty cows and ten bulls, twenty female donkeys and ten male donkeys." The fact that he selected this livestock from his possessions implies that he owned still more livestock. This was even after he had been cheated out of most of the wages owed to him by his father-in-law.

Joseph's path to wealth was different. Whereas Abraham and Jacob begin their journey as free people, Joseph begins his on a much lower rung of the income ladder. He starts out as a slave, then becomes a prisoner in Pharaoh's jail. However, through his gift of the ability to interpret dreams, he becomes vizier of Egypt. He husbands the resources of Egypt during the seven years of plenty so that Egypt may prosper during the seven years of famine. As a result, Joseph, Pharaoh, and all of Egypt accumulate a great deal of wealth. Through this wealth the descendants of Abraham are able to survive and prosper—that is, until they are enslaved by a subsequent Pharaoh.

After the Exodus, there are additional examples of upward income mobility. Ruth, the daughter-in-law of Naomi, is faithful and willing to accept poverty and shame. Yet through her hard work and persistence she, along with Naomi, becomes prosperous. Ruth's story is significant as she is the grandmother of Jesse, who is still another example of income mobility. Jesse's son David begins life as a shepherd yet becomes king and the wealthiest man in Israel. Later, because Jehoshaphat is faithful to God and does not worship other gods, he and all of Israel prosper.

In considering these biblical examples, it is important to note the difference between income mobility in the modern world and in that of the ancient world. Today, most Americans will experience upward income mobility during their lifetime. However, in the ancient world, upward income mobility was a less common occurrence. The level of wealth then was also much lower than it is today. King David became an extremely wealthy man, yet he would most likely have gladly traded a great deal of his wealth for many items considered ordinary by today's standards. Despite the differences between income mobility then and now, these central figures in the Old Testament experienced a great deal of income mobility for their time. Each of these instances of income mobility highlights the way in which income mobility serves as a path to prosperity.

The third and final reason that Christians should view income mobility as good is that income mobility gives people the opportunity to serve God in their particular vocation or calling. They can serve and glorify God in their daily work. Hugh Whelchel makes this point in his recent book *How Then Should We Work?*[iii] Often as Christians we think that only pastors and ministers serve the Lord in their work. We often overlook the fact that the everyday, and often mundane, work of the laity is also in service to God. The work of the woman in Proverbs 31 illustrates this point. Not only is her diligence pleasing to God, but also her work is prominent throughout the passage. Because of this, she brings "good, and not harm" to her husband, as verse 12 notes. Proverbs 14:23 mentions that all labor is profitable. This profit is both monetary and spiritual. Obviously we must work to live, but we can also serve God in our labor. Paul says as much in 1 Corinthians 10:31: "So whether you eat or drink, or whatever you do, do all to the glory of God."

These three themes show the importance of income mobility in a flourishing society that God desires for his people. The type of society in which we can more fully serve our Lord is one with a great deal of income mobility. It is one in which we have the freedom to serve God according to our particular calling or vocation. Thus we are able to fully utilize our various gifts to build up the body of Christ. Paul explains in 1 Corinthians 12:7, while urging the Corinthians to remain united, that we all have unique gifts with which to serve God: "To each is given the manifestation of the Spirit for the common good." The Israelites were not fully using those gifts when they were all making bricks in Egypt.[iv] Nor can people today fully use those gifts if they live in a society with little mobility, opportunity, or diversity of vocations.

Why is the diversity of gifts associated with a prosperous and mobile society? The answer can be provided by the economic concepts of exchange and comparative advantage. We are more productive when we focus on using our gifts (comparative advantage) and then exchanging what we make with others who utilize their gifts. This process makes society as a whole more prosperous. Thus the freedom to use one's gifts to serve God and one another results in a flourishing society. Such freedom is very important. It was what the Israelites lacked in Egypt but had in the Promised Land. This freedom is just as important today as it was for the people of Israel long ago. The prosperity and mobility that God desires for his people are realized in a society that is free.

HOW THE BIBLE, ECONOMIC FREEDOM, AND INCOME MOBILITY RELATE

The Exodus story is fundamentally about freedom. In Egypt, the Israelites were not free to serve God in the way that God desired. In fact they were not even free to perform all their religious rituals because some involved sacrificing animals which the Egyptians believed to be sacred. God brought his people out of oppression so that they could flourish, but also so that they could be free. The freedom given to us by God is bound together with his love. In order for us to love God, we must be free to do so. However, the freedom that God envisions for us is not licentiousness. It is freedom under the law. We know this because one of the first things God did after giving the Israelites their freedom was to hand down the law through Moses. The law outlined how God's people were to remain faithful, giving them guidelines to flourish as a people.

For income mobility, the most important laws are those necessary for economic freedom. The four essential elements of economic freedom are personal choice, voluntary exchange coordinated by markets, freedom to enter and compete in markets, and the protection of persons and their property from aggression by others.[v] These fundamental aspects of economic freedom are necessary for a society to flourish. And it is clear that the Israelites, while in captivity, did not enjoy these freedoms.

The Economic Freedom of the World Project of the Fraser Institute compiles an annual index of economic freedom. The report, authored by James Gwartney, Joshua Hall, and Robert Lawson, assesses the degree to which the laws and institutions of 141 countries protect the economic freedom of their citizens. The report comprises all of the developed countries and most of the developing countries of the world. The Economic Freedom of the World (EFW) index is constructed for each country and is based on international data for five general categories called *areas.* These areas are the size of government, legal structure and the security of property rights, access to sound money, freedom to trade internationally, and the regulation of credit, labor, and business. While research indicates that good laws in each of these areas contribute to prosperity, they are also important for income mobility.[vi]

The size of government, the first area of the EFW index, evaluates a country on the size of its government spending as a share of the economy and the level of taxation. As government spending becomes a larger share of the overall economy, economic decisions are increasingly made in the political arena rather than by individuals, families, voluntary organizations, and communities. These political decisions are much more susceptible to being influenced by those with wealth. Thus, as government grows larger, spending and legislation can be used to limit income mobility, making it harder for those at the bottom of the income distribution scale to move up. This theme, in fact, is present at the beginning of the book of Exodus. Several generations after Joseph, the Israelites had become prosperous in Egypt. The rulers of Egypt no longer remember Joseph's contribution and became jealous of the rising prosperity of God's people. In Exodus 1:9-10, Pharaoh states, "Behold, the people of Israel are too many and too mighty for us. Come, let us deal shrewdly with them, lest they multiply." The Egyptian rulers enslaved the Israelites in order to maintain their wealth and power, thereby eliminating the economic freedom of the Israelites.

Some goods or services provided by government spending could increase income mobility. Government spending funds our schools, builds and maintains our roads and other infrastructure, supplies a national defense, pays police to keep us safe, and pays for legal services to protect our rights. Each of those aspects of government spending could contribute to increased income mobility. While those goods and services are not provided exclusively by the government, their provision is a common rationale for the existence of government.

Government spending beyond those goods and services can be counterproductive. As the size of government increases, a large portion of spending shifts from the provision of goods and services to transfer payments. While ostensibly designed to help the poor, transfers and subsidies often go from those in the middle of the income distribution to those at the upper end. In 2010, 13.8 percent of total government spending in the United States as a share of the economy, went toward goods and services that could potentially increase income mobility—education, roads, police, etc. In that same year, total government spending amounted to 42.5 percent of the economy.[vii] Therefore, total government spending was three times what was needed to provide these goods and services.

In addition, high levels of taxation lower income mobility because they decrease an individual's incentive to work and hinder one's climb up the economic ladder. Moreover, as Christians, we see value in the work people do because it is how they live out their vocation and calling. Higher taxes, therefore, reduce people's ability to live their vocation.

The second area of the EFW index evaluates a country's legal structure and security of property rights. This area relates directly to the commandments, "You shall not kill," "You shall not steal," and "You shall not bear false witness against your neighbor." Enforcement of these laws is necessary for the protection of persons and their property from aggression by others, one of the four essential elements of economic freedom. Murder and theft not only violate God's law but also lead to economic ruin. It is this aspect of economic institutions that most often makes the difference between countries that flourish and those that do not.

Murder and theft can be and often are used to maintain power and wealth. If someone is to honestly move up the income ladder, the person does so by hard work over a long period of time. However, if property rights are not protected, those who are already at the top can easily use theft, violence, and murder to maintain their wealth and status in society. Isaiah 10:1-2 warns, "Woe to those who decree iniquitous decrees, and the writers who keep writing oppression, to turn aside the needy from justice and to rob the poor of my people of their right." Moreover, when property rights are not protected by the legal system, people no longer have an incentive to try to move up the income distribution ladder because they know the fruits of their labor will be unjustly taken from them.

Engaging in contracts is an essential part of business. However, the system of contracts can break down when people lie and break contracts and the judicial system refuses to uphold agreements. If it becomes difficult for businesses to engage in contracts, then business will no longer flourish. This situation leads to decreased income mobility because the business world is the most important avenue for people to move to higher rungs of the income distribution. This is why it is essential for economic freedom and income mobility that a country's legal system enforces the ninth commandment.

The third area of the EFW index measures the consistency of a country's monetary system with price stability. High levels of inflation and hyperinflation reduce income mobility and the wealth of individuals and families. It is akin to theft because the purchasing power of an individual's wealth is stripped away and taken by the government. When hyperinflation occurs, individuals and families find themselves moving down the income distribution scale through no fault of their own. They are working as hard as they were before—perhaps even harder—but they find themselves poorer as a result of hyperinflation. For some time this phenomenon has not been a problem in the developed world; however, countries in the developing world still occasionally struggle with hyperinflation. A recent notable example is the hyperinflation in Zimbabwe. Thankfully, the situation there has ended as Zimbabwe now uses other currencies such as the South African dollar and the U.S. dollar.

The freedom to trade internationally, area four of the EFW index, measures the degree to which people in a country can engage in international trade. The key insight into why trade leads to human flourishing and increased income mobility was explained by Adam Smith in *An Inquiry into the Nature and Causes of the Wealth of Nations,* his 1776 book which became the foundation of the economics profession.[viii] Smith emphasized that it was the division of labor that brought about the wealth of nations.[ix] When labor is subdivided, people are able to specialize and become more productive. They create wealth by their higher productivity because they can create more with the same amount of input. The engine of growth requires trade in order to create wealth. Each individual specializes, becomes more productive, and trades with others, making society as a whole better off. This process is limited however by what Smith called the extent of the market. If a market is small, then opportunities for specialization are limited. When a market becomes larger, there are more opportunities for specialization and wealth creation. International trade allows for a much larger market and therefore facilitates wealth creation. When there are more opportunities for individuals and families to create wealth, there is more upward income mobility.

The additional opportunities brought about by international trade also allow for more opportunities to serve our Lord in new vocations and callings. Going back to the spiritual gifts mentioned by Paul, we know that we can each use our spiritual gifts in different ways to build up the body of Christ. Increased opportunities to use our gifts help us to be faithful to God and can lead to opportunities to bring others into a fuller communion in the body of Christ.

The focus of the last area of the EFW index, area five, is the regulation of credit, labor, and business. The intent of regulation is to protect people; however, regulations are often used to protect special interests rather than people. When regulations are used to protect special interests, they are chiefly designed to limit new competition. Barriers created by regulations make it difficult for new businesses to operate, thereby impeding the ability of some to move up the income ladder. An example that highlights the ridiculousness of some of these regulations is the licensing of florists in Louisiana[x]. Clearly there is no compelling reason why the licensing of florists is necessary to protect public safety. However, these regulations are favored by existing florists because the regulations allow them to limit the ability of others to enter the floral business. The licenses serve to enrich the existing florists and to block others from entering the market. In this way regulations are often used to serve the purposes of various special interests. They are used by those with wealth and power to deny others the ability to create wealth.

These five areas help to elaborate what economic freedom is. It is also helpful to briefly mention what economic freedom is not. The types of policies that have dominated all levels of our government for some time are best described as crony capitalism and not economic freedom. A government intervention that bails out some financial firms but lets others fail is not economic freedom. It is a common misconception of many to confuse support for businesses as synonymous with economic freedom.

As recent history has demonstrated, businesses often seek to limit economic freedom in order to gain an advantage in a particular market. Often, regulations that are meant to protect and serve the public interest are captured by powerful companies and used to their advantage. The doctrine of "too big to fail" is a good example. Large financial firms that were deemed as too big or too important to fail were willing to accept new regulatory requirements in exchange for a guarantee of future financial rescues from the government. Obviously, these firms would benefit from a government guarantee. But what goes largely unnoticed is that the firms also benefit from the new regulations. It is costly to comply with the regulations, and high costs drive smaller financial firms out of the industry and prohibit new firms from entering and competing. These actions by businesses solidify their power in the market and limit our economic freedom.

The preceding part of this section explains how government can do things to help guarantee economic freedom. When government plays a larger role in economic decisions, which is the essence of crony capitalism, economic freedom is reduced, leading to diminished opportunities and a decline in economic prosperity. In short, economic freedom is about freedom and equality before the law, while crony capitalism is about favoritism for the wealthy and powerful.

UNITED STATES UPWARD INCOME MOBILITY AND ECONOMIC FREEDOM

Thus far, we have examined the biblical and economic understanding of upward income mobility and the type of environment it requires. This section discusses the current research on United States income mobility and trends in economic freedom.

INCOME MOBILITY IN THE UNITED STATES

The overall results of research on income mobility in the United States during 1940-2005 are mixed. The research uses a measure that is the correlation between the income of one generation and that of their parents. This measure captures how well the income of the parent predicts the future income of the child. A high correlation suggests less income mobility because it implies that children from poor parents remain poor while children from wealthy parents remain wealthy. Using this measure, a research paper indicates that early trends of income mobility fluctuated. Overall, income mobility trended downward for individuals in the sample born between 1949 and 1953. However, for those born after 1953, income mobility increased.[xi] Research conducted over a similar time period found that the overall trend of income mobility depended upon the particular dataset used.[xii]

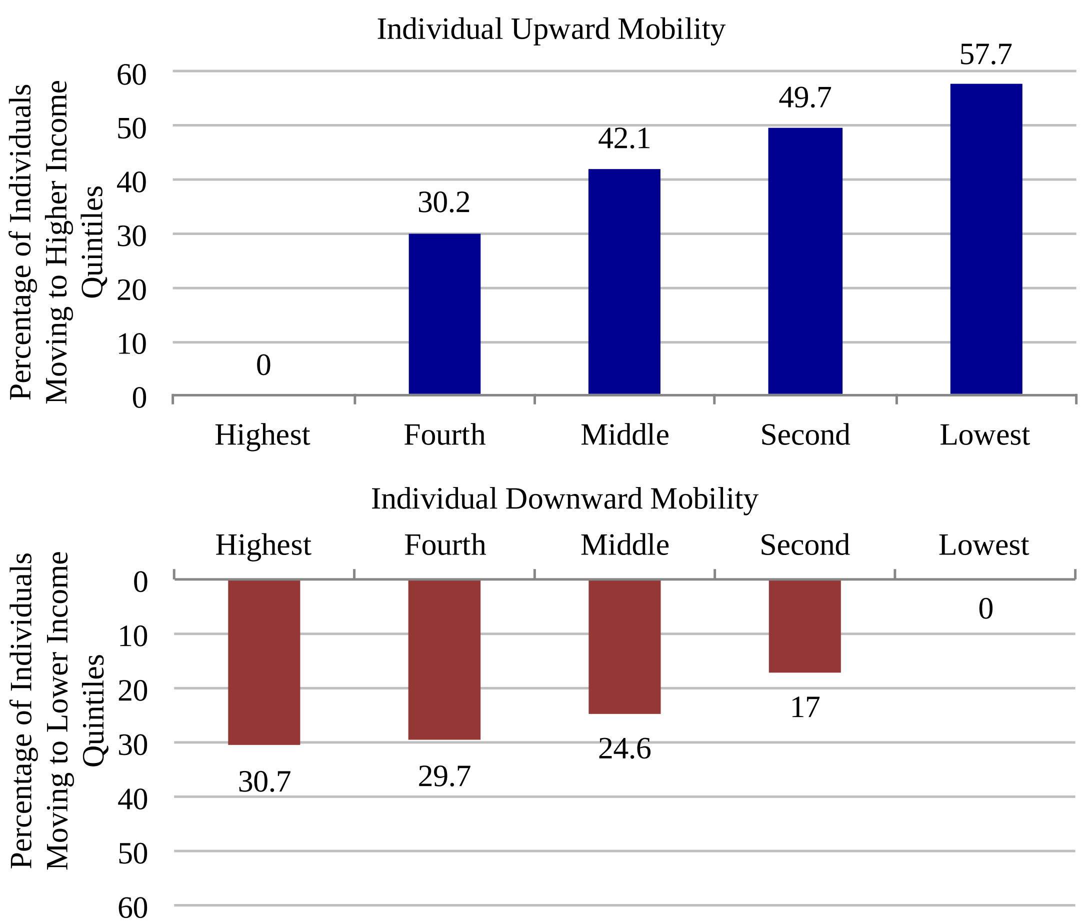
Another paper indicated that income mobility did not increase or decrease for individuals born during 1952 to 1975.[xiii] Two other studies achieved more conclusive results. These studies indicated that income mobility increased for those born during 1945-1972.[xiv] Rather than focus on the overall trend, another paper calculated what is considered to be a more accurate measure of the correlation between income levels of two generations. On a scale of zero to one, this paper derived a value of 0.4.[xv] A lower correlation is more desirable as it indicates higher income mobility. However, this value and other data, discussed below, indicate that there is certainly a great deal of income mobility in the United States.

Two recent studies highlight a different perspective on income mobility. The first, done by the United States Treasury Department in 2007, computes a measure of mobility across an individual's lifetime.[xvi] It calculates the percentage of individuals who moved to different income brackets during the ten-year period from 1996 through 2005. The total number of income brackets is five; therefore, each group is referred to as a *quintile* or *fifth*. This measure most closely captures the popular notion of someone starting with nothing yet becoming successful later in life.

Figure 1 presents data from this study on both upward and downward mobility. The labels at the bottom of each graph represent the income quintiles of each individual at the start of the period. The upper pane indicates that 57.7 percent of individuals in the bottom quintile in 1996 moved to a higher quintile by 2005. Slightly more than forty-nine percent of those in the second lowest quintile also moved to a higher group. Even a considerable percentage of individuals in the middle and second highest quintiles moved higher. Those in the highest income group can move no higher, so they have a value of zero in the upper pane of the figure.

The lower pane presents data on downward mobility during the same period. A little more than thirty percent of those in the highest income group fell into lower quintiles during the period. Smaller percentages of those who began the period in the other income groups also fell to lower quintiles. The overall figures suggest that there was much more upward mobility than downward mobility. In 1996, individuals were much more likely to move into a higher income quintile than a lower one by 2005. This study also examined the prior ten-year period, from 1987 through 1996, and found nearly identical results. Thus, the overall findings from this study indicate that there was a considerable amount of income mobility in the United States during the period from 1987 to 2005.

Figure 1: Upward and Downward Mobility in the U.S. 1996-2005.



Source: U.S. Treasury Department.

The second study, released in 2012 by the Pew Center on the States, examines the income mobility of children in relation to their parents.[xvii] While the unit of measurement in the previous study was the individual, the focus of this study is on the income of the family. The data represent the percentage of children's families in various income quintiles during 2002 through 2008 in relation to the income quintiles of the families they grew up in during 1967 to 1971. This measure indicates the ability of Americans to become more prosperous than their parents.

In the Pew study, the amount of upward mobility of a child's family in relation to the parents is similar to the United States Treasury study shown in Figure 1. However, downward mobility was greater in the Pew study than the figures for individuals in the Treasury study. In the Pew study, fifty-seven percent of families whose parents grew up in the lowest income group moved to higher quintiles, but sixty percent of those in the highest income group moved into lower quintiles. This suggests that in the United States, the possibility of downward mobility is higher between generations than throughout an individual's lifetime.

INCOME MOBILITY AND ECONOMIC FREEDOM IN THE U.S. STATES 1981-2007

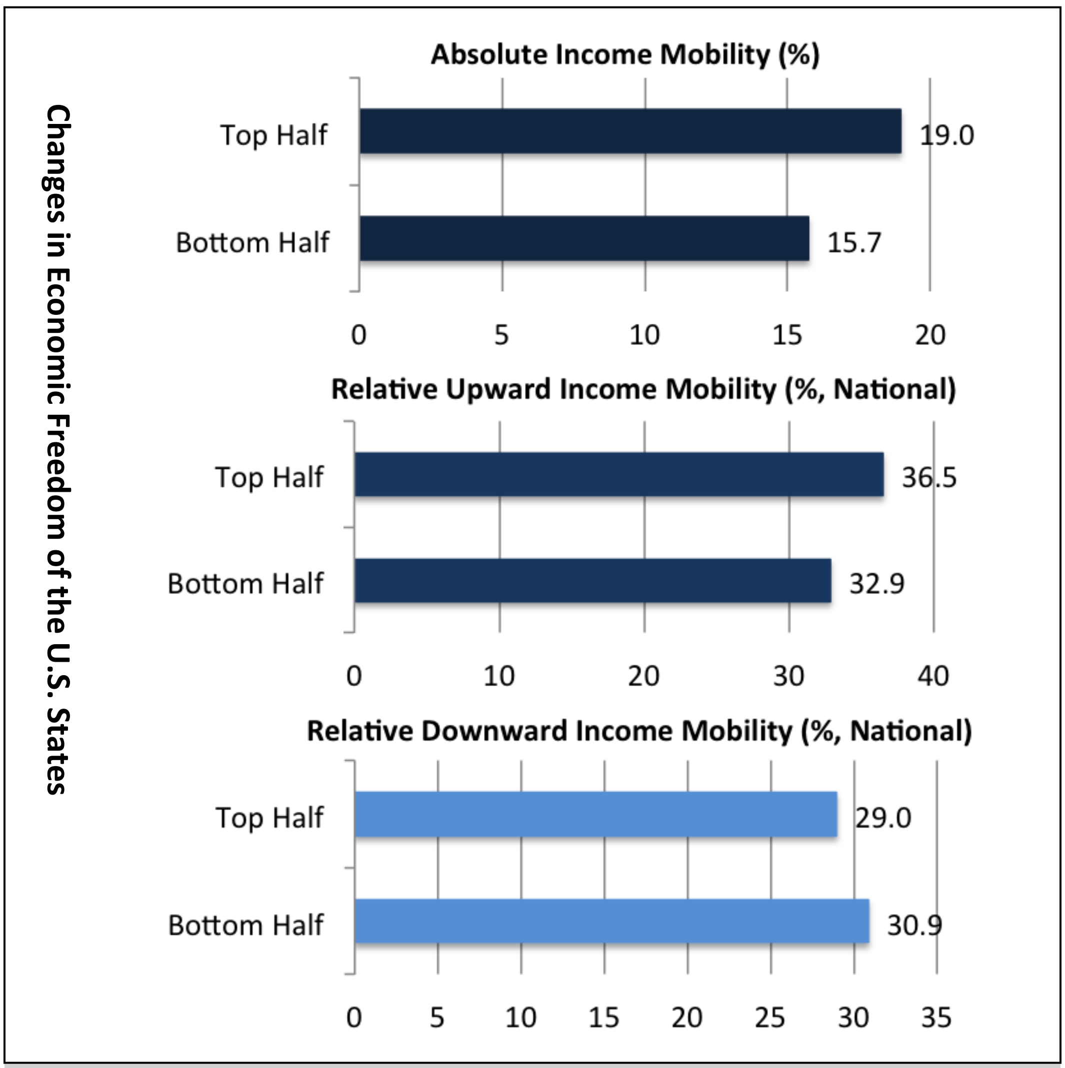
As Christians, we desire a society where everyone has an opportunity to move up the income ladder. The question always before us is how to maintain and improve this type of society? Should government involvement be the primary means for promoting income mobility, or should we largely rely on economic freedom? Convincing arguments can support each view. Schools, roads, and critical infrastructure are examples of government-supplied goods that may lead to increased income mobility. Economic freedom in the form of little to no government regulation allows entrepreneurs to try their hand at moving up the income ladder. To analyze these views further, it becomes necessary to turn to the data. A Pew Center study from 2012 allows us to do just that.

The study by the Pew Center on the States derived income mobility measures for all fifty states during 1978-2007.[xviii] For each state, the average income of individuals between the ages of thirty-five to thirty-nine is compared to their average income ten years later, at ages forty-five through forty-nine. This age range is considered to be an individual's peak earning years. Using this data, the Pew Center on the States constructed three measures: absolute mobility, relative upward mobility, and relative downward mobility.[xix] Absolute mobility is the percentage increase in income over the ten-year period. Relative upward mobility is the percentage of individuals who start in the lower half of the income distribution and move up at least ten percentage points over the ten-year period. Relative downward mobility is the percentage of individuals who start in the top half of the income distribution and move down by ten percentage points or more over the ten-year period.

While the income mobility measures for each state are new, a measure of economic freedom of each state within the United States is not new. The Fraser Institute, which publishes the Economic Freedom of the World Index mentioned above, also publishes an index of economic freedom for the United States and the provinces of Canada, titled the Economic Freedom of North America (EFNA) Index.[xx] This annual publication spans the period 1981 to the present. Similar to the EFW index, the EFNA index is an aggregate index that evaluates the states and provinces in several key areas: the size of government, government takings and discriminatory taxation, and labor market freedom. The index runs from a scale of zero to ten with higher values indicating more economic freedom.

With these two sets of data, we can examine the relationship between economic freedom and income mobility in the United States. The available income mobility measures end in 2007 and therefore do not include the impact of the financial crisis or the recession that followed. The figures listed below examine the relationship between economic freedom and income mobility using bar graphs. Appendix A lists additional figures that contain scatter plots of the data with a linear regression line.

Figure 2: The Relationship between Increased Economic Freedom and Income Mobility: States in the Top Half versus States in the Bottom Half 1981-2007.[xxi]



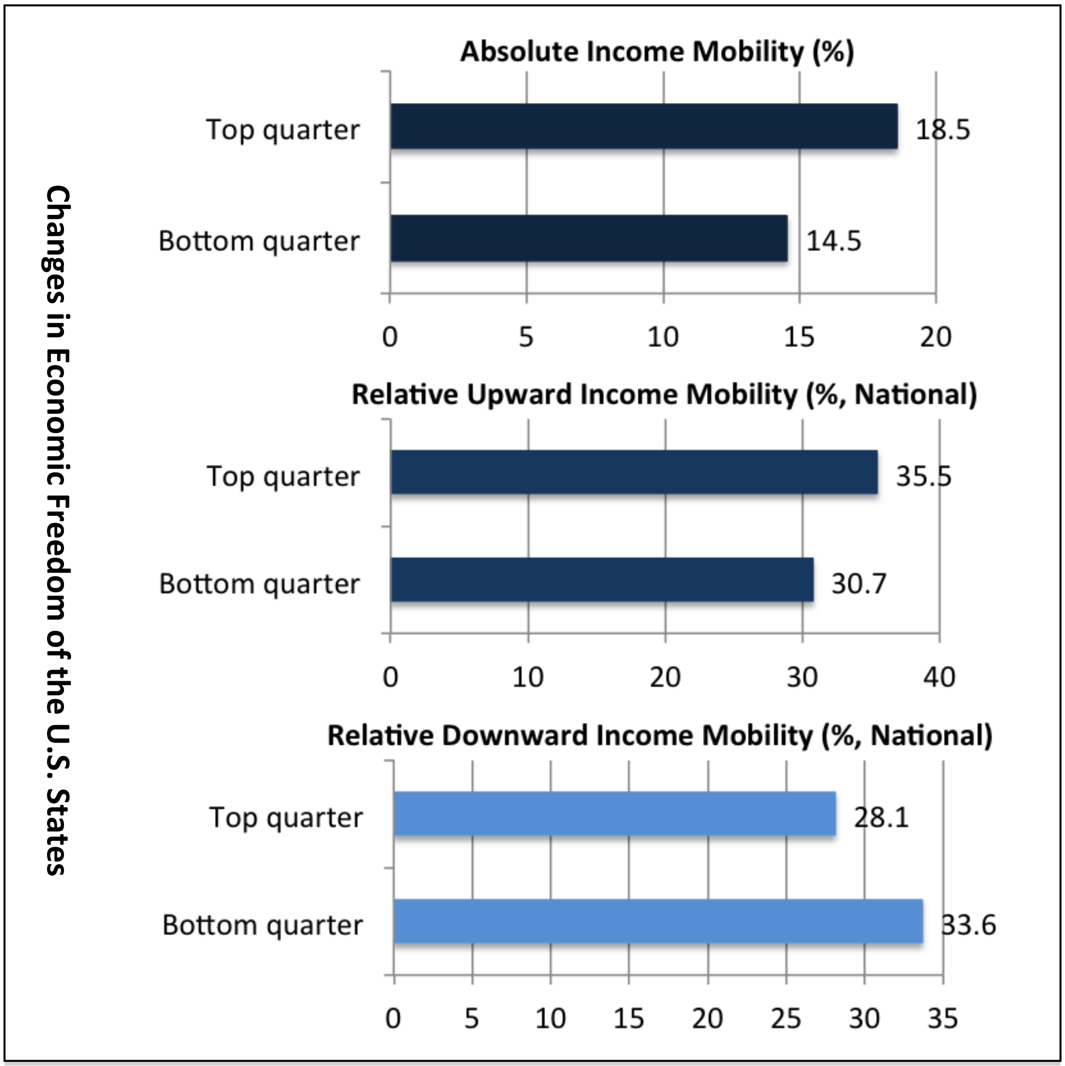
Source: Pew Center on the States and the Fraser Institute.

Figure 2 shows the relationship between the change in the economic freedom index for the fifty states during 1981-2007 and the average of the three measures of income mobility. The states are divided into two groups: the top half and the bottom half.[xxii] The states in the top half had the largest increase in economic freedom during the period, while the states in the bottom half had the lowest or no change during the period. As Figure 2 illustrates, the states with the largest increase in economic freedom had more upward income mobility and less downward mobility. On average, the states in the top half had an absolute income mobility of nineteen percent, while those in the bottom half had a mobility of only 15.7 percent. There is a similar difference for relative upward mobility. States in the top half on average experienced a relative upward mobility of 36.5 percent, while those in the bottom half experienced 32.9 percent. The difference between the two groups is smaller for downward mobility. The average relative downward mobility of the states that had the largest increase in economic freedom was twenty-nine percent, while it was 30.9 percent for the bottom group.

Instead of halves, Figure 3 examines the same data for the states in the top and bottom quarters.[xxiii] Again, the same pattern emerges. States that increased the amount of economic freedom during the period experienced more upward income mobility and less downward mobility. In fact, the difference in downward mobility between the more economically free and the less economically free groups is larger in Figure 3.

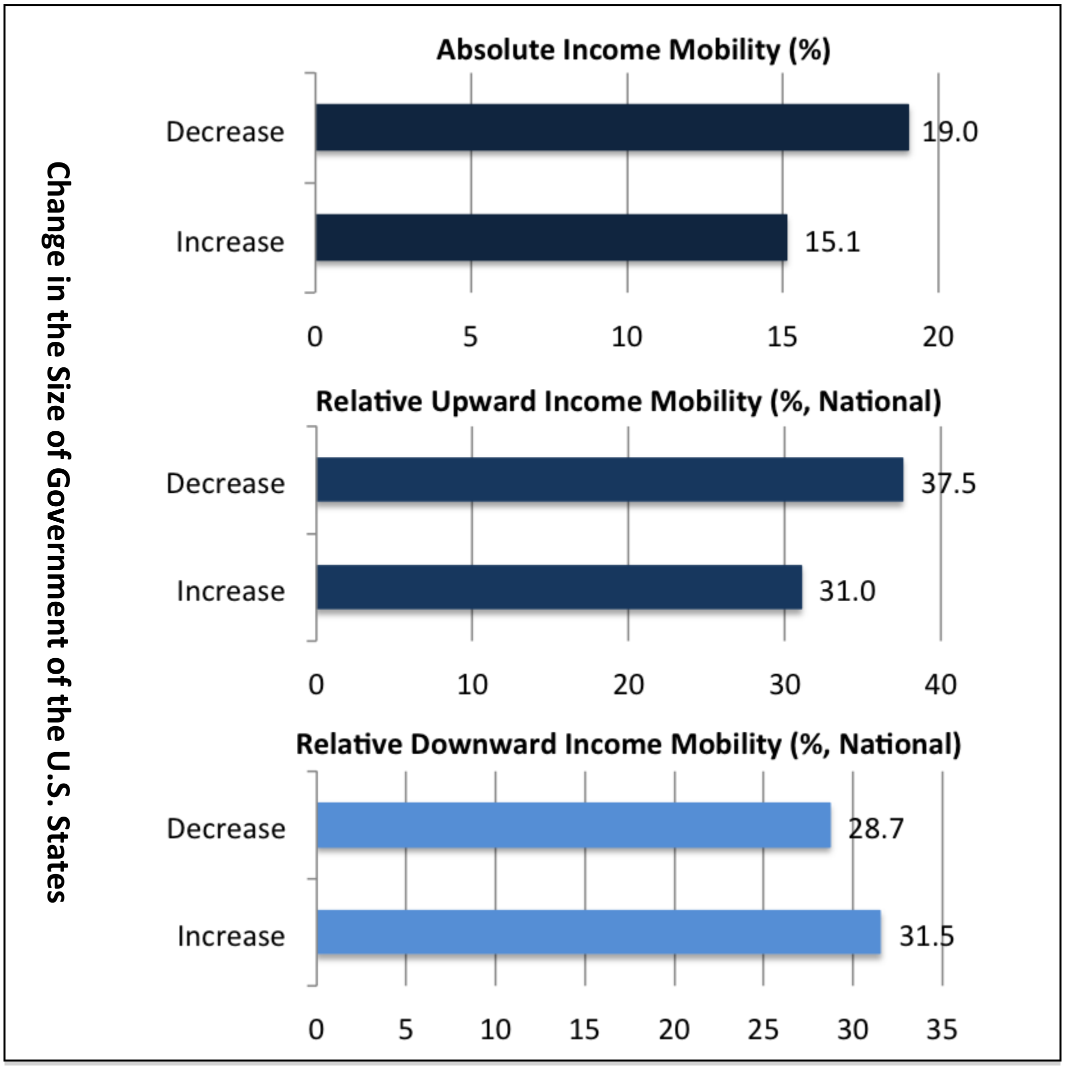
In Figure 4, the states are grouped according to whether they exhibited an increase or decrease in the size of government during the time between 1981 and 2007. This sub-category of the overall economic freedom index measures the consumption spending and transfer payments of each state as a share of the state's economy. The data shown in Figure 4 show an even larger discrepancy in average mobility measures between states with increasing or decreasing government size. States that decreased the size of government during the period had an average absolute mobility of nineteen percent, while those with expanding governments had an absolute mobility of 15.1 percent. The same pattern is true for relative upward mobility. An average of 37.5 percent of individuals in states with decreasing government size moved out of the lower half of the income distribution by ten percentage points or more, compared to thirty-one percent for the expanding government group. There was also less downward mobility in the states with decreasing government size. States that decreased in government size had downward mobility of 28.7 percent, while states that expanded the size of government had a downward mobility 31.5 percent.

Figure 3: The Relationship between Increased Economic Freedom and Income Mobility: States in the Top Quarter versus States in the Bottom Quarter.[xxiv]



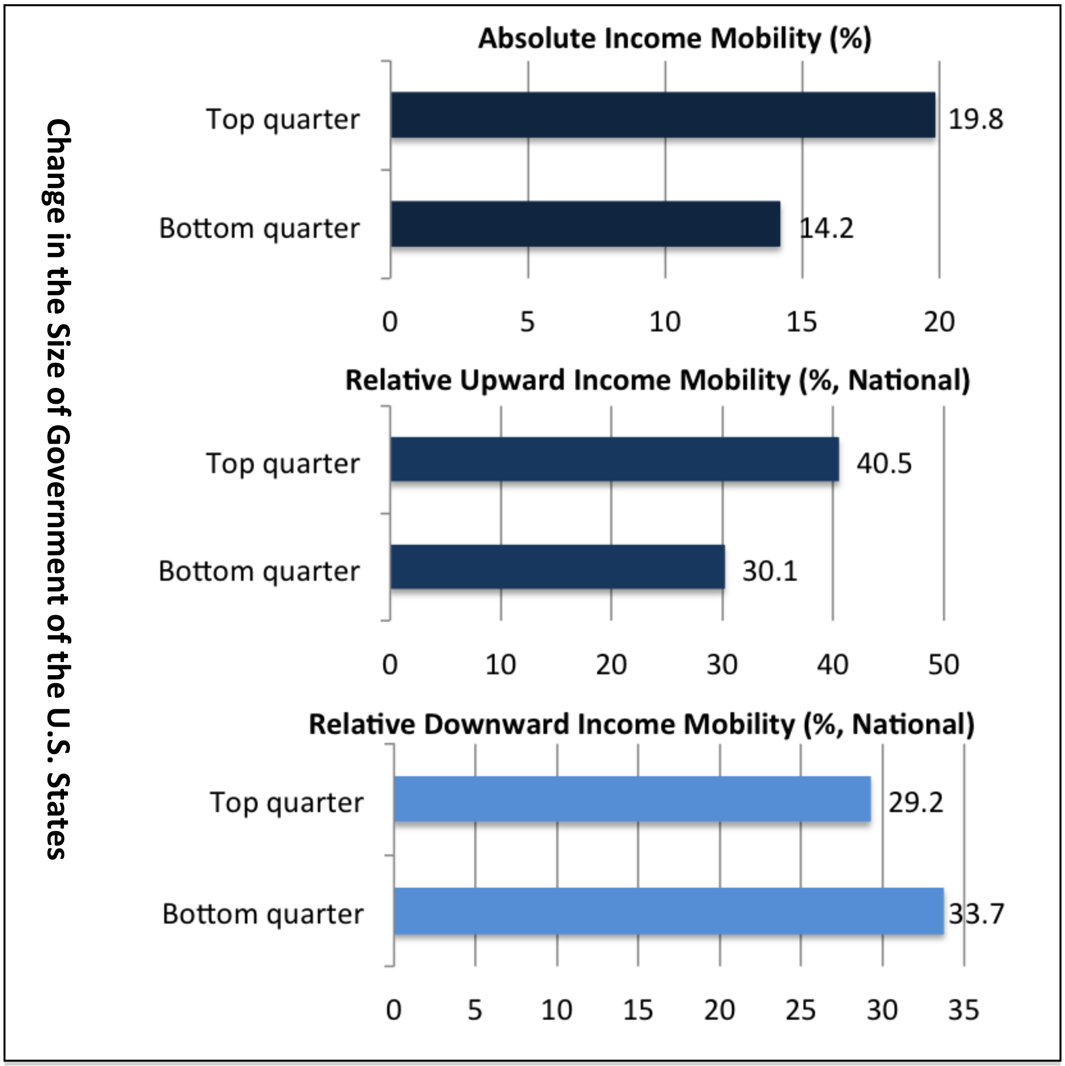
Source: Pew Center on the States and the Fraser Institute.

Figure 4: The Size of State Government and Income Mobility: Decreasing the Size of State Government versus Increasing State Government 1981-2007.[xxv]



Source: Pew Center on the States and the Fraser Institute.

Figure 5: The Size of State Government and Income Mobility: Decreasing the Size of State Government versus Increasing State Government—The Top Quarter and the Bottom Quarter 1981-2007.[xxvi]



Source: Pew Center on the States and the Fraser Institute.

Figure 5 shows a similar pattern. This figure includes only the states with the largest decrease or increase in government size. These data indicate a more pronounced difference between an individual's income mobility in states that decreased in government size compared to those that increased in government size. The top quarter of states with decreases in the size of government have an absolute mobility of 19.8 percent, while those in the bottom quarter with the largest increase in the size of government have 14.2 percent. For relative upward mobility the difference between the two groups is even larger. Relative upward income mobility of the states with the largest reductions in the size of government is 40.5 percent. Comparing this with 30.1 percent for the states with the largest increase in the size of government indicates a difference of more than ten percentage points. Similar to the other figures, relative downward mobility is lower in the states that reduced their size of government. States with the largest reductions in the size of government had downward mobility of 29.2 percent, while those with the largest increases had 33.7 percent.

These results suggest that economic freedom and the size of government matter when it comes to maintaining an economically mobile society. It appears that higher income mobility is supported through smaller government and more economic freedom. With this result in mind, we turn to recent trends in economic freedom here in the United States.

ECONOMIC FREEDOM IN THE UNITED STATES FROM 1990 THROUGH 2009

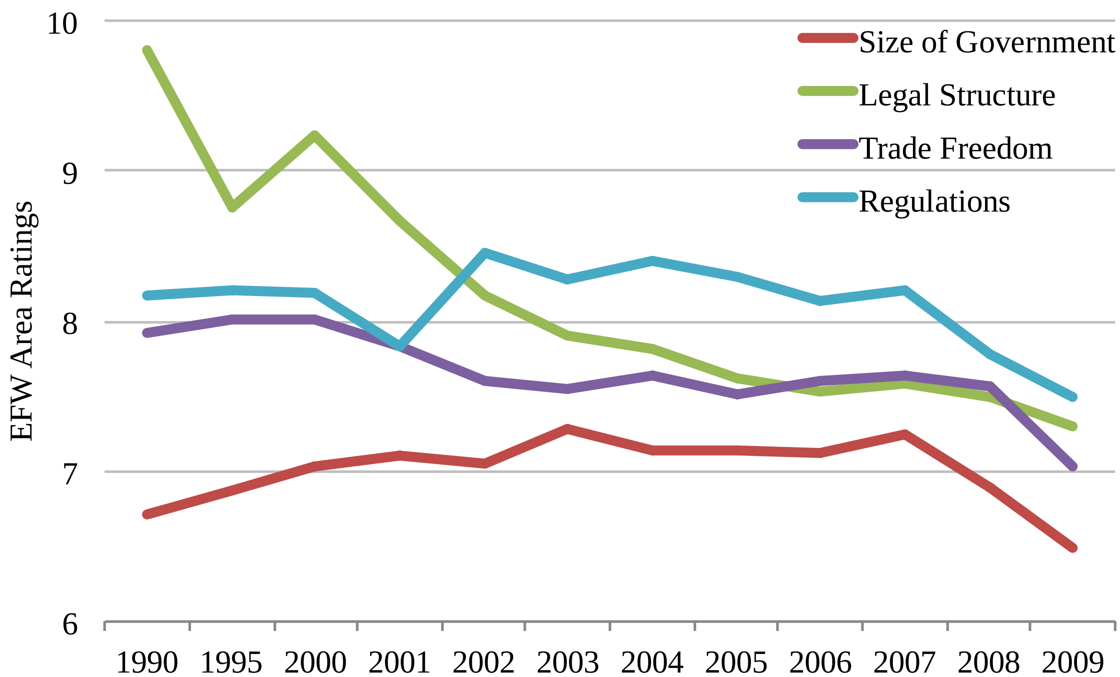
In every annual report of the EFW index, the United States always has been one of the ten most economically free countries in the world. This year, however, marks the end of that trend. When the latest EFW report is released, the United States will no longer be one of the ten most economically free countries in the world. This downward trend in economic freedom is not a recent phenomenon. It began roughly ten years ago.

Figure 6 plots data regarding economic freedom during 1990 through 2009. The graph contains four of the five areas of the EFW index: size of government (area 1), legal structure and security of property rights (area 2), freedom to trade internationally (area 4), and the regulation of credit, labor, and business (area 5). The monetary policy component (area 3) is excluded from the figure as it has remained unchanged at ten throughout the period. All developed countries and many developing countries have a value of ten in this area. Each area of the EFW index is scaled from zero to ten, with ten representing the most economic freedom.

The legal structure and security of property rights rating was the first to begin the downward trend. It has declined steadily with a brief halt in 2000. The importance of this area and its decline should be cause for concern. The protection of persons and their property is fundamental for a flourishing free society. It is not a coincidence that laws to protect these rights are in the Ten Commandments. They are that important. Examples of the erosion of these rights can be found in eminent domain cases, such as *Kelo vs. New London*, where the Supreme Court ruled that the homes and private property of law abiding citizens could by taken by the city and given to private developers.

The areas representing trade freedom and regulations began declining between 2000 and 2002. The downward trend in trade freedom indicates that the engine of growth highlighted by Adam Smith long ago will be impaired. As regulatory freedom declines, it will become harder and harder for people starting small businesses to overcome regulatory barriers. This situation will serve to protect established wealthy businesses and lead to lower income mobility.

Figure 6: Declining U.S. Economic Freedom: EFW Area Ratings 1990-2009.



Source: Economic Freedom of the World Annual Report, 2011.

Lastly, the size of government category began a steep decline in 2007. This decline is largely due to the increased government spending in response to the financial crisis and the recent recession. The consequences have included large budget deficits and mounting debt. It will be difficult for the United States to maintain the current level of income mobility under this fiscal situation. Increased spending, deficits, and debt will inevitably lead to higher future taxes. These taxes will reduce the incentive for people to work and invest, leading to a less economically mobile society.

It is important to remember that laws that preserve freedom are important not only for a society to flourish; they are important for each of us as we live out our daily vocations. We are all called to work in God's vineyard. To do this we must utilize the myriad of gifts bestowed upon us. We are able to do this to the fullest extent when we live in a society of laws that give us the freedom to do so.

CONCLUSION

Each of us is called to use our unique gifts to serve God in our work. The amount of income mobility present in society determines the extent to which we are able to fully utilize our gifts. When God's people were faithful and observed his laws, income mobility was part of their prospering society. Upward income mobility was a path to prosperity for many notable figures in the Bible. Abraham, Jacob, and Joseph stand out as key figures who personally walked this path. Today upward income mobility is important because it allows all people to serve God in their work. We can each use our unique God-given gifts more fully when we have more opportunities to do so. The Exodus story serves as a reminder that God wants his people to serve him as free people.

The economic freedom we enjoy in the United States is a critical part of promoting income mobility. Moreover, recent changes in the size of government have had a significant impact on income mobility. From 1981 to 2007, states with the largest increases in economic freedom and reductions in spending as a share of the state economy had significantly higher increases in personal income, higher upward income mobility, and lower downward mobility. These results indicate that our policies regarding economic freedom and government spending matter.

Recent declines in the economic freedom of the United States suggest that future generations will not enjoy the level of income mobility that is an essential part of the American Dream. Our laws once ensured that we were one of the ten most economically free countries in the world. Unfortunately, this is no longer the case. Higher levels of government spending will certainly increase debt for our children and grandchildren while reducing their economic opportunities. Such opportunities matter not only for monetary reasons; they matter because our vocations and our work are ways in which we can serve God. The more opportunities we have to use the gifts that God has given us, the more fully we can serve him. Therefore, it is important for Christians to be actively involved in today's policy debates on economic freedom and government spending. The future opportunities of our children and grandchildren depend upon it. We need to make sure that they have more opportunities to flourish and use their unique gifts to build up the body of Christ.

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Appendix A

Figure A1: Increased Economic Freedom in the U.S. States Is Associated with Higher Absolute Income Mobility.

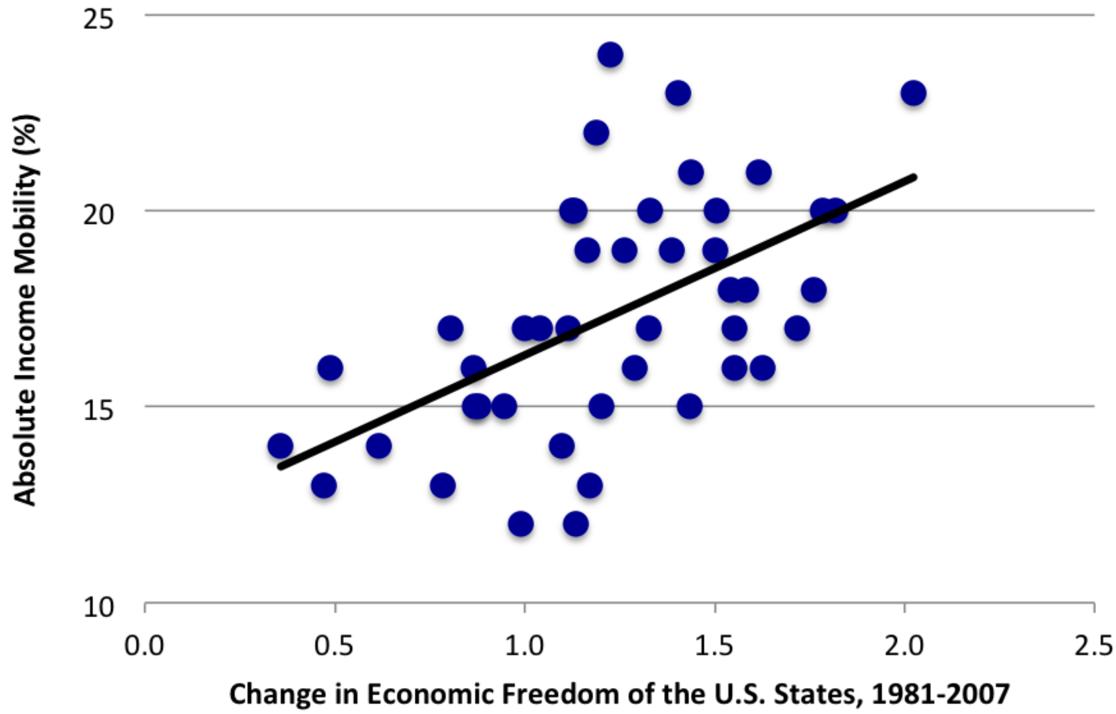


Figure A2: Increased Economic Freedom in the U.S. States Is Associated with Higher Relative Upward Income Mobility.

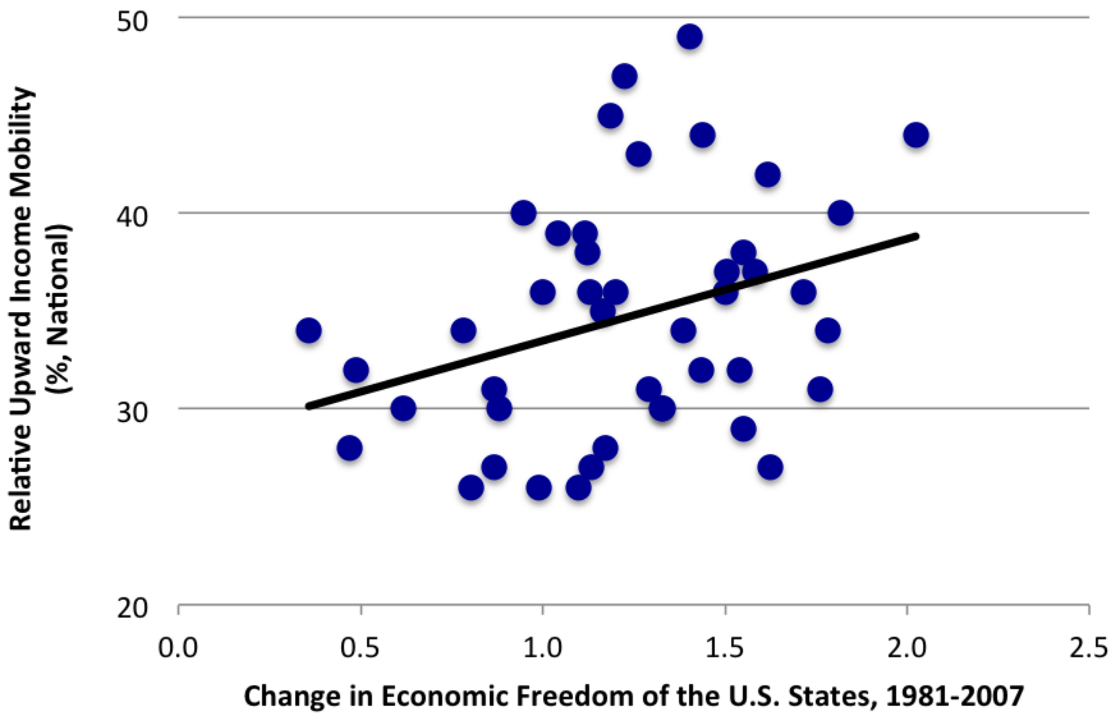


Figure A3: Increased Economic Freedom in the U.S. States Is Associated with Lower Relative Downward Income Mobility.

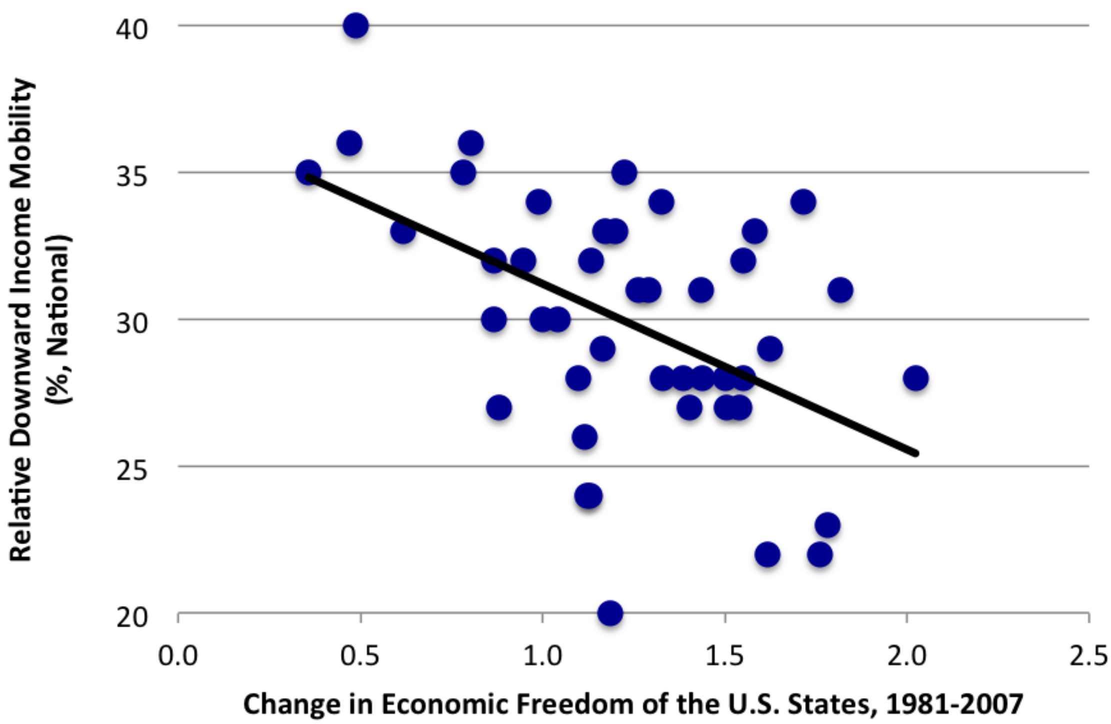


Figure A4: Growth in the Size of Government Is Associated with Lower Absolute Income Mobility.

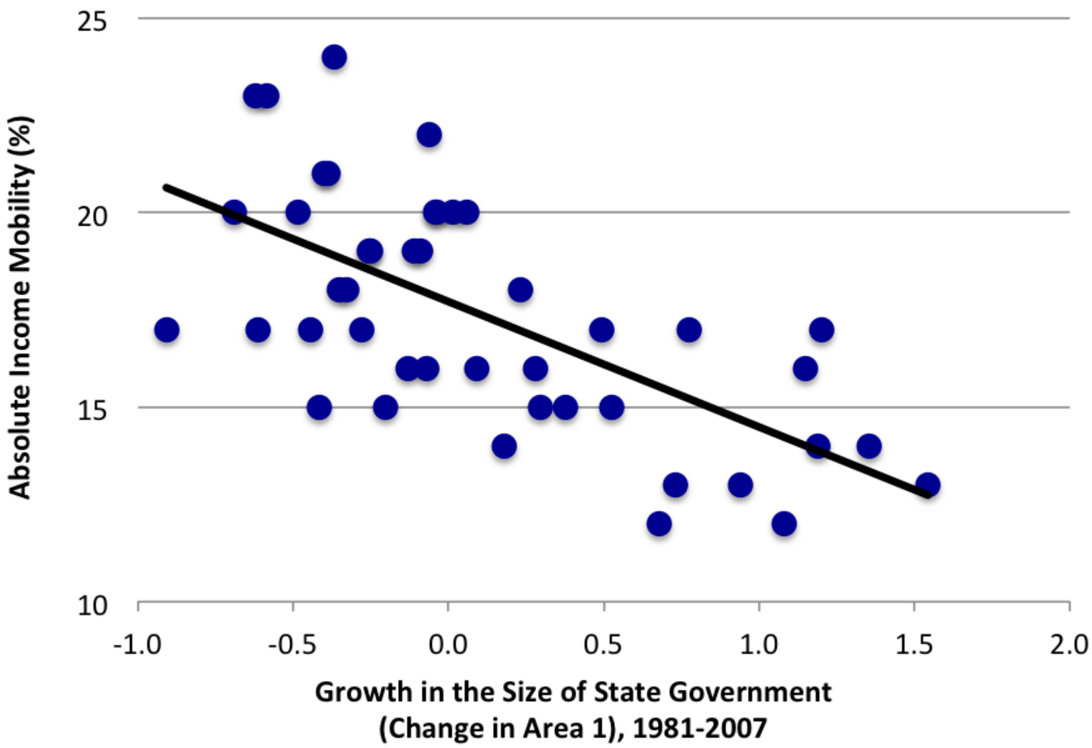


Figure A5: Growth in the Size of Government Is Associated with Lower Relative Upward Income Mobility.

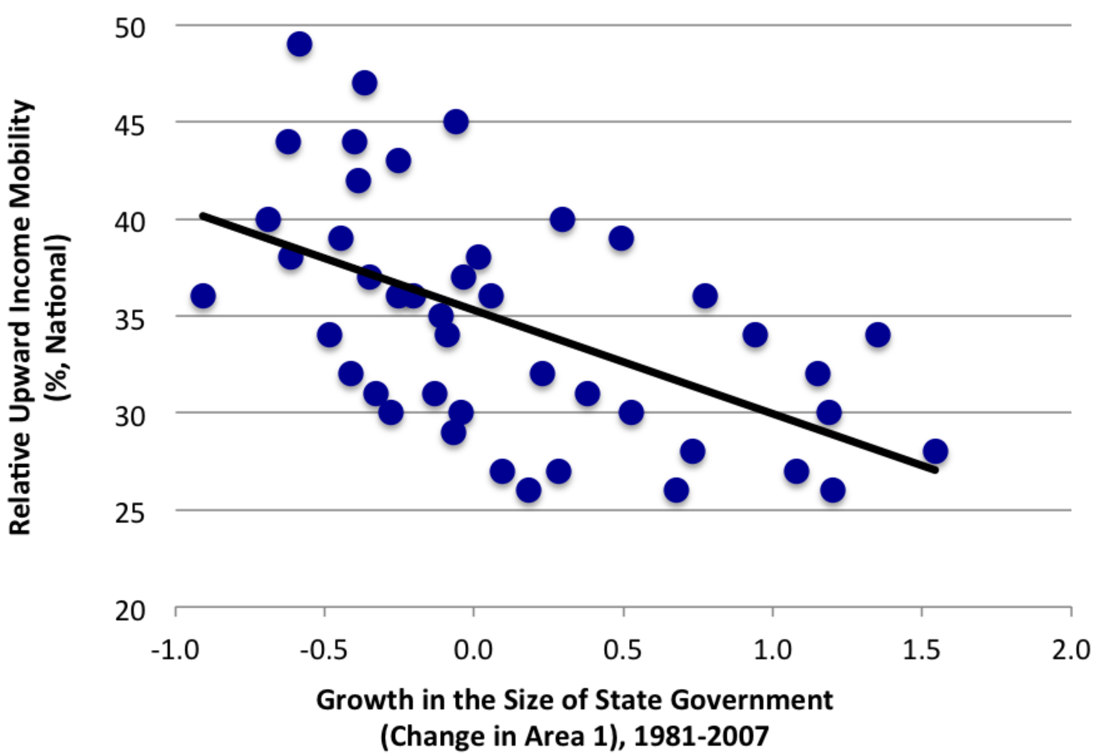
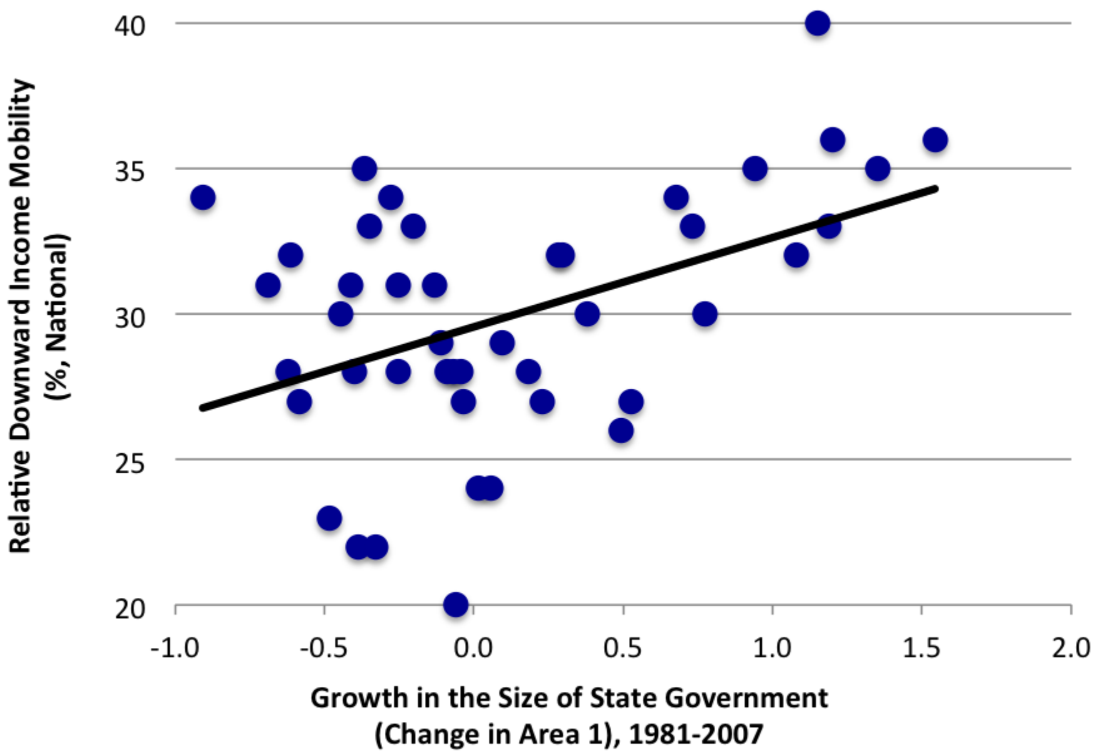


Figure A6: Growth in the Size of Government Is Associated with Higher Relative Downward Income Mobility.



[i] For a discussion of income inequality see the piece by Anne Bradley, "Why Does Income Inequality Exist? An Economic and Biblical Explanation," The Institute for Faith Work and Economics, accessed July 17, 2013, http://tifwe.org/research/income-inequality/.
[ii] John R. Schneider, *The Good of Affluence: Seeking God in a Culture of Wealth* (Grand Rapids: Eerdmans, 2002). The kindle ebook location of this quote is 858.
[iii] Hugh Whelchel, *How Then Should We Work? Rediscovering the Biblical Doctrine of Work*. (Bloomington: WestBow Press, 2012).
[iv] My intent is not to disparage the masonry profession. I merely point out that God does not want us *all* making bricks.
[v] James Gwartney, Joshua Hall, and Robert Lawson, *Economic Freedom of the World 2011 Annual Report* (Vancouver: Fraser Institute, 2012).
[vi] See these articles for additional information on the importance of economic freedom for economic growth: James D. Gwartney, Randall Holcombe, and Robert Lawson, "Economic Freedom and the Environment for Economic Growth," *Journal of Institutional and Theoretical Economics* 155 (1999): 643-663. Niclas Berggren, "The Benefits of Economic Freedom: A Survey," *Independent Review* 8 (2003): 193-211. Julio H. Cole, "Contribution of Economic Freedom to World Economic Growth, 1980-99," *Cato Journal* 23 (2003): 189-198.
[vii] For sources and information on this data, see Joseph Connors and Seth Norton, "The Scope of Government and the Wealth of Nations Revisited," A Report of the J. Dennis Hastert Center (2012).
[viii] The version of *The Wealth of Nations* used here is from Liberty Fund, copyright 1981.
[ix] The phrase *wealth of nations* is biblical in origin. See Isaiah 60:5 and Isaiah 66:12.
[x] Dick M. Carpenter, II, "Testing the Utility of Licensing: Evidence from a Field Experiment on Occupational Regulation." *Journal of Applied Business and Economics* 13 (2012): 28-41.

[xi] Susan E. Mayer and Leonard M. Lopoo, "Has the Intergenerational Transmission of Economic Status Changed?" *Journal of Human Resources* 40 (2005): 169-185.
[xii] David I. Levine, and Bhashkar Mazumder, "Choosing the Right Parents: Changes in the Intergenerational Transmission of Inequality – Between 1980 and the Early 1990s." Federal Reserve Bank of Chicago. Working Paper No. 2002-08 (2002).
[xiii] Tom Hertz, "Trends in the Intergenerational Elasticity of Family Income in the United States." *Industrial Relations* 6 (2007): 22-50.
[xiv] Mary Corcoran, "Mobility, Persistence, and the Consequences of Poverty for Children: Child and Adult Outcomes." In *Understanding Poverty,* ed. Sheldon Danziger and Robert Haveman. (New York: Russell Sage Foundation, 2001): 127-61.
Angela R. Fertig, "Trends in Intergenerational Earnings Mobility." Center for Research on Child Wellbeing, Princeton University. Working Paper No. 01-23 (2003).
[xv] Gary Solon, "Intergenerational Income Mobility in the United States." *American Economic Review* 82 (1992): 393-408.
[xvi] U.S. Department of Treasury. "Income Mobility in the U.S. from 1996 to 2005." Washington: Government Printing Office, 2007.
[xvii] "Pursuing the American Dream: Economic Mobility Across Generations," Pew Center on the States, accessed July 17, 2013,
http://www.pewstates.org/uploadedFiles/PCS_Assets/2012/Pursuing_American_Dream.pdf.
[xviii] "Economic Mobility of the States," Pew Center on the States, accessed July 17, 2003,
http://www.pewstates.org/research/reports/economic-mobility-of-the-states-85899383564.
[xix] There are technically five measures of income mobility in the Pew study. There are national and regional versions of the relative upward and downward mobility measures.
[xx] Avilia Bueno, Nathan J. Ashby, and Fred McMahon, *Economic Freedom of North America 2012 Annual Report* (Vancouver: Fraser Institute, 2012).
[xxi] **States in the top half are:** Utah, Oregon, Delaware, Virginia, Nevada, Tennessee, Maryland, New Hampshire, Washington, Georgia, Indiana, Pennsylvania, Illinois Massachussetts, Florida, Connecticut, Wisconsin, Iowa, North Dakota, South Dakota, Nebraska, Missouri, Colorado, and Rhode Island.
States in the bottom half are: Arizona, New Jersey, West Virginia, Minnesota, Alabama, Kansas, New York, Michigan, North Carolina, California, Ohio, South Carolina, Hawaii, Maine, Vermont, Texas, Arkansas, Mississippi, Kentucky, Oklahoma, Alaska, Idaho, Montana, Wyoming, Louisiana, and New Mexico.
[xxii] Due to data limitations, the Pew study groups nine states into three related groups. Alaska, Idaho, Montana, and Wyoming form one group; Iowa, North Dakota, and South Dakota form the second group; Maine and Vermont constitute the last group. As a result, dividing the states/groups into halves yields slightly different numbers of states in each group.
[xxiii] Again, the grouping by Pew of the nine states into three groups yields slightly different numbers of states in the top and bottom quarter.
[xxiv] **States in the top quarter are**: Utah, Oregon, Delaware, Virginia, Nevada, Tennessee, Maryland, New Hampshire, Washington, Georgia, and Indiana.
States in the bottom quarter are: South Carolina, Hawaii, Maine, Vermont, Texas, Arkansas, Mississippi, Kentucky, Oklahoma, Alaska, Idaho, Montana, Wyoming, Louisiana, and New Mexico.
[xxv] **States that decreased the size of government are**: Nevada, Oregon, Utah, Washington, Connecticut, Delaware, California, Florida, Massachusetts, Maryland, Rhode Island, New Hampshire, Virginia, Nebraska, Illinois, Colorado, Arizona, Missouri, Minnesota, Wisconsin, Georgia, New Jersey, Iowa*, North Dakota*, South Dakota*, Pennsylvania*, New York*. *Iowa, the Dakotas, Pennsylvania and New York had no change in the size of government over the period.
States that increased the size of government are: Kansas, Tennessee, North Carolina, Indiana, Arkansas, Hawaii, Texas, Michigan, Maine, Vermont, South Carolina, West Virginia, Ohio, Kentucky, Alabama, Alaska, Idaho, Montana, Wyoming, Oklahoma, Mississippi, New Mexico, Louisiana.
[xxvi]**States in the top quarter with the largest reductions in the size of government are**: Nevada, Oregon, Utah, Washington, Connecticut, Delaware, California, Florida, Massachusetts, Maryland, Rhode Island.
States in the bottom quarter with the largest increases in the size of government are: Maine, Vermont, South Carolina, West Virginia, Ohio, Kentucky, Alabama, Alaska, Idaho, Montana, Wyoming, Oklahoma, Mississippi, New Mexico, Louisiana.