

SOCIAL MOBILITY IN MICHIGAN

Where do we go from here?

By Justin Callais





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By Justin T. Callais

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Contents

Introduction.....	1
How we measure social mobility	1
Barriers to social mobility	2
The four pillars of social mobility	2
Entrepreneurship and economic growth	3
Institutions and the rule of law	4
Education and skills development	4
Social capital.....	5
Social mobility in Michigan.....	6
Strengths	7
Improvements.....	8
Policy recommendations and conclusion.....	9
Appendix A: Full state rankings of social mobility	10
Endnotes	11

Introduction

“Social mobility” is a relatively recent phrase that came out of 20th century sociology, but it describes an idea as old as the United States: the right to pursue happiness endorsed in the Declaration of Independence. Implicit in that right is the hope that you can improve your lot in life by taking the initiative and working hard. While this is typically measured by comparing one’s economic situation to that of others, successful social mobility often includes broader goals, such as achieving one’s career goals or family ambitions. Unencumbered social mobility allows people to use their own talents to achieve what they consider to be “the good life.”

This report analyzes the level of social mobility in Michigan. It is based on a report published in 2023 by the Archbridge Institute called “Social Mobility in the 50 States.” That report ranked states based on a variety of factors that have an impact on social mobility, according to academic research.

Michigan earned a middling score, which should concern policymakers and residents. This report highlights some of the bright spots for the Great Lake State, but also identifies reforms that policymakers could make to boost social mobility. Perhaps most importantly, Michigan must improve its economic playing field and eliminate barriers that stand in the way of Michiganders who want to rise in the world.

How we measure social mobility

We rank states according to four pillars of social mobility, each of which includes subcategories keyed to measurable public or private actions. We measure how norms of government or society support or undermine each pillar. The pillars and their respective categories are:

Entrepreneurship and Growth

- Regulation
- Taxes
- Business dynamism

Institutions and Rule of Law

- Predatory state action
- Judicial system quality

Education and Skills Development

- Education quality and access
- Parent engagement and family stability

Social Capital

- Community activities and neighbors
- Charity

We rate each state’s performance in all of these areas to derive a 1-to-50 ranking among the states and a 1-to-10 overall score. Michigan ranks 30th among the states, just below Hawaii and above Pennsylvania, with an overall score of 4.81.

Some of the category results — such as Michigan’s relatively good performance on regulation and bad performance on charitable giving — may surprise followers of the state’s economy. But the overall ranking indicates that Michigan needs a change of direction. The home state of Herbert Dow, Berry Gordy and Henry Ford cannot afford to treat social mobility as an afterthought.

Barriers to social mobility

There are both artificial and natural barriers to social mobility. Artificial barriers are external factors that impede a person’s ability to improve his or her well-being. An individual cannot overcome these barriers alone. Artificial barriers include government laws or regulations that restrict one’s ability to earn a living, such as those requiring people and businesses to meet certain qualifications before they can legally engage in economic activity.

Natural barriers are hurdles people face to social mobility that are not created directly by government policy and are unlikely to be fixed with top-down policies. Families, communities and private institutions are better positioned to address these.

Artificial barriers impact both adults and children. Occupational licensing laws, which require people to complete needless training, pass tests and pay fees before they can legally work, are artificial barriers many adults face. But government policies that limit a child’s access to quality educational experiences form a type of artificial barrier, too. Policies that hinder a student’s ability to master foundational skills will have ripple effects into adulthood. These are just a few examples. Artificial barriers created by government policy are too many to count and impact nearly everyone.

People face natural barriers as well. These are often personal in nature and unique to the individual. For example, children raised in an unstable family environment face a sort of natural barrier. Research shows that people who are born into stable households have a better chance of success than those who are not. Adults face natural barriers, such as soft skills competency, geographical limitations to opportunities and inadequate social networks. Each of those can sufficiently restrict one’s chance at social mobility but cannot be fixed with top-down policymaking.

The four pillars of social mobility

In the Archbridge Institute’s report, “Social Mobility in the 50 States,” we identified four pillars of social mobility based on a review of the academic literature. Each of these pillars is made up of several components, which could be thought of as potential artificial and natural barriers to social mobility. We ranked the states based on how well their policies support these pillars, both by limiting artificial barriers and by discouraging the growth of natural barriers (to the extent public policy can do so). The rankings of all the states can be found in “Appendix A: Full state rankings of social mobility.”

Entrepreneurship and economic growth

One way to achieve social mobility is to improve your job or career, and the more state policy encourages entrepreneurship and economic growth, the better chance people have to improve their lives materially.

Entrepreneurship is crucial to people achieving their dreams. But entrepreneurship does not just benefit the entrepreneur or owner of the new business. Successful businesses bring new products and services to market, making consumers better off by providing less expensive and higher quality goods or meeting some other need. Similarly, entrepreneurs often provide better employment opportunities than would be available otherwise. When employees agree to take those jobs, they send the market a signal that they prefer these opportunities to other options. Finally, entrepreneurial activity is one of the key drivers of economic growth. Studies suggest that it can help explain one-third to one-half of the differences in economic growth at the international level.¹ Even within countries, entrepreneurship can be a large driver of economic development.²

Economic growth is also a crucial factor in social mobility. Economist Tyler Cowen argues societies need a “stubborn attachment” to economic growth, because it provides a means to increase standards of living, a prerequisite to social mobility.³

Based on the academic research, we identified these key drivers of economic growth and entrepreneurship in this pillar: regulation, taxes and business dynamism. Overly restrictive **regulations** stifle businesses and individuals, and as public choice scholars have pointed out, they are often used to restrict competition and improve the incumbent firm’s status in the economy. To capture this, we include measures of occupational licensing, state-level regulation stringency and minimum wage laws. Finally, as housing is one of the major budget lines in a household, we include a state-wide measure of housing/land-use restrictions. A government that greatly restricts the supply of housing provides fewer opportunities for people to move and makes it more expensive to live in a certain area, leaving less flexibility for other areas.

In introduction to economics courses, it is pointed out that **taxes** lower supply, making the goods more expensive and less available for consumers. However, it also creates a “deadweight loss” which are the goods that would have been provided without that tax. As such, we use the Tax Foundation’s rankings of State Business Tax Climate, which includes taxation rates for corporate and personal income, property, sales and unemployment insurance.⁴

While the previous two categories deal with the policies in place that restrict activity and economic growth, the **business dynamism** category looks at the overall environment of the state’s entrepreneurial economy. From the Economic Innovation Group’s Index of State Dynamism, we include measures of core startup rates, share of workers at young firms, growth in total firms, patents per capita, housing permits per capita, reallocation activity, labor force participation rates and migration levels. Each of these factors play a part in explaining the movement in these states toward a more vibrant economy that can drive growth and entrepreneurship in the state.

Institutions and the rule of law

The category of institutions and the rule of law captures the impact that predatory state action and the legal system can have on one's ability to achieve social mobility. This pillar is especially relevant to those at the bottom of the income ladder, as they often have fewer resources and political connections to use the legal system to their advantage and are disproportionately victims of predatory state action, including corruption. A large body of research has focused on the importance of institutions and legal systems in determining social mobility. Addressing these issues can help pave the way to a more equitable opportunity at mobility.

Predatory state action, or ways states harm residents, is measured by the amount of revenue collected by local governments from making residents pay fines or fees. This could be said to estimate the "excess" revenue that governments receive aside from taxes. It also includes survey data of journalists' perception of corruption in the state and how well the state ranks based on its civil asset forfeiture policies.

For **judicial system quality**, the index includes measures of access to justice, which score states based on their resident's abilities to receive equal justice under the law. The state's liability system was another component, which is scored based on surveys of lawyers and senior level executives. They were asked to grade the state based on its treatment of tort and contract litigation and class action suits, perceived trial judge impartiality and competence, and quality of the appeals system.

Education and skills development

Educational attainment and human capital development can be key predictors of future well-being. As our index takes a holistic approach to human development and mobility, this pillar aims to capture measures of lifetime learning from multiple points in life. This pillar is split into two key areas: **education quality and access** and **parental engagement and family stability**. The former includes grade school and secondary education performance while the latter captures the learning and soft skills obtained at home.

Education quality and access is assessed with average test scores for 4th and 8th graders in each state on the National Assessment of Educational Progress, often called "the nation's report card."⁵ To measure access in schooling, we use part of the Heritage Foundation's Education Freedom Report Card.⁶ We use six categories from it: education savings account laws, percentage of K-12 students who are eligible for a private school choice program, charter school law rankings, charter school quality measurements, homeschooling laws and regulations on teachers. These measures capture education quality and access generally at the primary education level.

We use three measures to estimate **educational quality and access** at the secondary level. Two come from the Foundation for Research on Equal Opportunity: median return on investment on four-year degrees from universities in the state and percentage of students with a positive return on investments from universities in the state. The final component is community college graduation rates.⁷

Parental engagement is crucial for children's future success. Engaged parents help children further their education and develop soft skills that are perhaps equally important for full development and realization. To measure this variable, we use survey data from the National Survey of Children's Health.⁸ We include statistics about the percentage of parents who read to their young children most days of the week, parental attendance in children's activities and proportion of household meals shared together on most days of the week.

Just as important as engagement is **family stability**, as children from more stable homelives tend to perform better later in life. To capture this, we measure the percentage of births in the last year to unmarried women and the share of households with single parents in each state. This information comes from the U.S. Census Bureau's American Community Survey.⁹

Social capital

The term social capital is often used to describe how individuals engage in communities and help each other. In academic research, scholars define social capital in a variety of ways depending on what they are studying. To address this challenge and make use of this variable, we incorporated the most commonly used measures of social capital in the studies that analyze the issue from a statewide perspective. Social capital seeks to measure the network of relationships that enables individuals to engage with one another in pursuit of certain goals. This is captured by two variables: community activities and charity.

Community activities are the relationships people have with others in their local neighborhood. We included measures of how many people attended a community event such as a public meeting. We also take account of the number of membership organizations per capita in a state, as well as the percentage of people who did favors for a neighbor.¹⁰

Finally, we measure "economic connectedness," a term coined by Harvard economist Raj Chetty and his team at Opportunity Insights. An important element of this connectedness is one's so-called bridging social capital, or the ability to connect and interact with people whose economic status is higher than one's own. People with more bridging connections are more likely to be socially mobile.* We use Chetty's measure of economic connectedness in each state, which is the share of high or above-median-income friends among people with low or below-median incomes.¹¹

Charity can play an important role in helping those in the community and can act as a complement or substitute for government aid programs. In this subcategory, we measure the percentage of people who reported giving a donation of at least \$25 in the last year, the number of nonprofits and religious congregations in the state, and the percentage of people who volunteered in the last year. We also include a measure of charity regulations, which gauges how states govern charities. We assume that the easier it is to start a charity, the more incentive residents will have to organize in order to solve local issues and address natural barriers to social mobility.¹²

* Bridging social capital contrasts with the less helpful type of social capital called bonding social capital. This typically measures the connections people have with peers in the same economic stratum as themselves.

Social mobility in Michigan



RANK: 1=best; 50=worst | SCORE: 10=best; 0=worst

MICHIGAN'S 2023 SOCIAL MOBILITY RANKINGS

	AREA / RANK		SUB-CATEGORY / RANK	
 U.S. RANK 30TH	 Entrepreneurship and Growth	25	○ Regulation	16
			○ Taxes	21
 Education and Skills Development	29	 Institutions and Rule of Law	○ Predatory State Action	26
			○ Judicial System Quality	22
 OVERALL SCORE 4.81	 Education and Skills Development	29	○ Education Quality and Freedom	34
			○ Parent Engagement and Stability	24
	 Social Capital	33	○ Community Activities and Neighbors	32
			○ Charity	42

EAST NORTH CENTRAL REGION



OVERALL U.S. RANKING

- 28 Rhode Island
- 29 Hawaii
- 30 Michigan**
- 31 Pennsylvania
- 32 Ohio

Michigan ranks 30th in the United States on our social mobility index, with a score of 4.81 out of 10. Some neighboring states like Ohio (32nd, 4.69) and Illinois (40th, 4.17) received similar scores, but other nearby states achieved noticeably better scores, such as Indiana (21st, 5.23) and Wisconsin (14th, 5.74). Michigan achieved an average ranking for each pillar, placing 25th in entrepreneurship and economic growth, 23rd in institutions and rule of law, 29th in education and skills development, and 33rd in social capital. These findings suggest that Michigan is a solidly middle-of-the-road state in terms of social mobility. In the next two subsections, we delve into more details about Michigan's scores.

Strengths

In terms of entrepreneurship and economic growth, while there are certainly areas for improvement (as explained below), there are some areas where the state is doing quite well. For starters, Michigan received a score of 8.95 on regulation stringency based on RegData from the Mercatus Center, the ninth-highest score in the country.¹³ This dataset estimates the number of restrictions in a state's regulatory code. Michigan's ranking suggests that the state does not burden businesses as heavily as other states with onerous regulatory policies that stifle entrepreneurship and economic growth.

Michigan also scores quite high on land-use regulations, as measured by the Wharton Residential Land Use Regulation Index, with a score of 7.83, which is also ninth in the country.¹⁴ The state's taxes rank in the middle, but Michigan does have lower than average tax rates on unemployment insurance.

Michigan scores pretty well on the second pillar of social mobility — institutions and rule of law — with particularly positive scores for predatory state actions. The state is toward the top in terms of not relying heavily on fines and fees, which come out to be just \$17 per person on average and are lower than in Illinois and Ohio.¹⁵

Michigan also has a relatively low corruption concern. Unsurprisingly, the state bests Illinois, but Michigan also came out ahead of Ohio and Wisconsin. In the local region, Indiana earned the best score for lack of corruption, tied with a handful of states around the country.¹⁶

When it comes to education and skills development, Michigan receives an above-average score for return on investment at universities. The median ROI for attending a Michigan university is more than \$150,000, and only 25% of students have a negative ROI from attending a Michigan university. This is notably higher than both Illinois and Indiana, but marginally lower than Wisconsin.

The second area of this pillar — parent engagement and family stability — is another place where Michigan shines. The state scores well above average for all three variables related to parental engagement, ranking higher than four neighboring states. Michigan also scored relatively well on certain indicators of social capital. In particular, the state received a 5.02 score in the percentage of neighbors doing favors for each other, which puts them higher than three of four neighboring states and above average overall nationally. Michigan's scores on charity regulations are also relatively high, putting the state right around the same score as its neighbors.

Improvements

Despite some positives for Michigan's level of social mobility, there is plenty of room to improve. For instance, the state ranks quite low on corporate tax policies, earning just a 3.92 score. While Michigan's rates are lower than those in most bordering states (except Indiana), they are higher than most other states in the country. The state's property tax rates, meanwhile, are relatively high compared to those of neighboring states. Indiana and Ohio, for example, receive some of the best scores in this area, and Wisconsin closely follows. However, property tax rates in all these states are better than in Illinois, which ranks among the worst states on tax rates.

Michigan scores consistently low on most measures of business dynamism, suggesting that there is much to be desired in the state's entrepreneurial environment. The share of workers at firms that are five years or younger was just 9%, leaving Michigan with a 3.33 score on the index. While this is higher than each of Michigan's neighboring states, it is much lower than the national average (tied with two states for 29th overall).

On a parallel bad note, growth in total firms in Michigan in 2021 was -1.3%, which is the worst among states in the region. The state ranked in the bottom six in the number of housing permits per 1,000 people, which is surprising given its relatively high score on land-use regulation. This suggests that while it may be relatively easy to build more housing, there may not be strong demand for new houses. Migration data support this possible explanation. Michigan had net migration of -0.22% in 2021, suggesting that more people left Michigan than moved into the state. Michigan ranked 41st nationally by this measure and lagged Indiana and Ohio.

While Michigan has some high scores based on institutions and rule of law factors, it sits toward the bottom for laws on civil asset forfeiture, receiving a grade of D- from the Institute for Justice.¹⁷ This is tied with 29 other states, including Ohio and Illinois. Indiana received a D, and Wisconsin scored an A-, the second best in the country. Fixing the laws in this state, especially given the number of states that score poorly as well, would go a long way toward making the state competitive in this area.

Michigan's K-12 education sector could use some help. It earned just a 4.5 score for student achievement, which is lower than each of its comparable Midwest states and in the bottom 20 overall. School choice and access is also quite low, just 3.83 out of 10. Community college graduation rates are among the lowest in the country, with just 22.5% of students graduating within six years. Michigan scores second to last on this measure, ahead of only Massachusetts.

Michigan has room for improvement in social capital as well. The percentage of people who attended a community event was just 11%, below all neighboring states except Ohio and in the bottom 20 overall. Charity is also pretty low in Michigan. On three of the four variables (charitable donations, nonprofit organizations and religious congregations, and volunteerism), Michigan was below average. Just 52% of residents reported giving a donation of \$25 or more in the last year, compared to 58% in Illinois and Indiana, 62% in Ohio and 60% in Wisconsin. Likewise, the number of nonprofits and religious congregations per 1,000 population was lower than all four neighboring states.

The same is true for volunteering. Just 29% reported volunteering at some point in the past year. The state fell below Indiana (33%), Ohio (31%) and Wisconsin (35%) and tied with Illinois (29%). The state's national rank was 32nd overall.

Policy recommendations and conclusion

Social mobility is a key component of human flourishing. States that make it easier for people to improve their status tend to have lower levels of corruption, better educational quality and access, functioning legal systems, less restrictive economic regulations, and higher levels of community engagement and charitable activity. While this social mobility index pegs Michigan as having mostly middling scores on these measures compared to other states, it still identifies several places where Michigan might improve its policies to boost social mobility.

Two areas stick out in particular: education and business dynamism. Children in Michigan lack access to quality educational opportunities compared to their peers in other states, according to the social mobility index. And while public universities tend to produce decent results, on average, community colleges in Michigan have one of the lowest graduation rates in the country. Gov. Gretchen Whitmer and the current state legislature seek to subsidize even more people to attend community college, but these programs will achieve little with such low graduation rates. Michigan needs to focus on improving educational quality. Policies that expand choice and create incentives for schools to improve should be prioritized.

Michigan also struggles with economic dynamism, with fewer new businesses operating in the state compared to its peers. Policymakers should make it easier for entrepreneurs by removing needless hurdles to starting a new business. This would require a significant departure from current state policies. The governor and legislature seem intent on simply subsidizing a select group of politically favored companies. Broad-based reforms that reduce the cost of starting, investing in and expanding new businesses would have a much better chance of improving the state.

This social mobility index is a valuable tool for policymakers to identify state policies that could be improved to boost Michiganders' well-being. Michigan finds itself in the middle of the pack nationally and has plenty of room for improvement. Policymakers cannot remove every barrier people might face when working to improve their lives, but state policies still can have significant effect. Higher levels of social mobility are correlated with lower levels of economic inequality and poverty, suggesting that efforts to this end will have positive ripple effects on other measures of well-being.

Appendix A: Full state rankings of social mobility

STATE RANKINGS

SCORES	TATE	RANK	SCORES	TATE	RANK	SCORES	TATE	RANK
6.24	Utah	1	5.47	Connecticut	18	4.50	Arizona	35
6.17	Minnesota	2	5.42	Washington	19	4.47	New Mexico	36
6.13	Montana	3	5.40	Kansas	20	4.25	New Jersey	37
6.13	Delaware	4	5.23	Indiana	21	4.21	California	38
6.12	Vermont	5	5.16	Missouri	22	4.18	Nevada	39
6.10	Wyoming	6	5.16	North Carolina	23	4.17	Illinois	40
6.04	North Dakota	7	5.16	Maryland	24	4.16	South Carolina	41
5.97	South Dakota	8	5.14	Massachusetts	25	4.15	West Virginia	42
5.97	Nebraska	9	4.96	Virginia	26	4.11	Kentucky	43
5.95	Alaska	10	4.87	Oklahoma	27	4.09	New York	44
5.91	New Hampshire	11	4.86	Rhode Island	28	4.05	Texas	45
5.85	Iowa	12	4.83	Hawaii	29	3.98	Georgia	46
5.84	Colorado	13	4.81	Michigan	30	3.56	Alabama	47
5.74	Wisconsin	14	4.78	Pennsylvania	31	3.51	Arkansas	48
5.70	Maine	15	4.69	Ohio	32	3.30	Mississippi	49
5.67	Idaho	16	4.69	Tennessee	33	3.09	Louisiana	50
5.61	Oregon	17	4.50	Florida	34			

*Numbers are rounded to the nearest hundredth.

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