

How Much Do Americans Move Up and Down the Economic Ladder?

Daniel P. McMurrer and Isabel V. Sawhill

The half century since World War II can be divided into two periods. In the first period—from 1947 to 1973—family incomes rose at a healthy clip and the gains were more or less equally shared. Between 1973 and 1994, however, incomes rose more slowly and the gains were heavily tilted toward the top of the distribution (chart 1).

This story is hardly new. The disappointing rate of economic growth and the growing income gap between rich and poor in recent decades is by now well documented.¹ But there is another chapter in this story.

Inequality and Mobility

Most people look at the figures in chart 1 and conclude that America is becoming a bifurcated society. That is too hasty a conclusion. Although the distribution of income among individuals may be unequal in any given year, this does not necessarily mean it is unequal over their lifetimes. For various reasons, many individuals move up in the distribution over time, while many others move down. And the reasons for movement vary. A poor single mother who marries an accountant, for example, may

move up substantially in the year of the marriage. A well-to-do farmer whose crop fails may move way down that year. A young computer programmer who works hard may move up steadily year by year as she acquires more job experience.

Economic historian Joseph Schumpeter compared the income distribution to a hotel—full of rooms that are always occupied, but often by different people.² In order to have an accurate picture of an individual's experience over a lifetime,

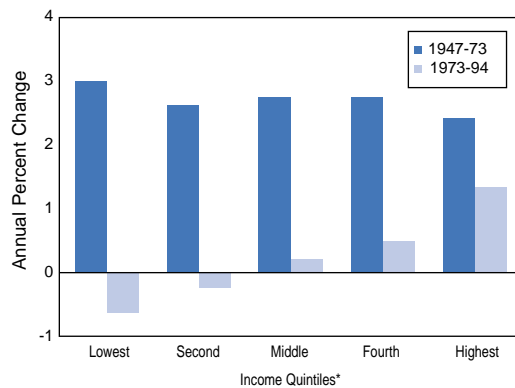
therefore, we must know not only the size of the different rooms but also the rate at which individuals switch rooms.

This switching goes on all the time and makes it difficult to interpret the standard statistics showing how the top (or bottom) 20 percent of the population has fared over some period of time.

Economists now understand that the amount of mobility is just as important as

the distribution of economic rewards in any given year, because it determines the extent to which inequality in the short term translates into inequality over the long term. For example, a very unequal distribution of income in any one year would be of little consequence in

Chart 1. Income Growth Has Been Unequally Distributed Since 1973



Source: Mishel and Bernstein, *The State of Working America 1996-97* (Economic Policy Institute, 1996).

*The lowest income quintile consists of the 20 percent of all families with the lowest income as measured by the Census Bureau. The second quintile consists of the second poorest 20 percent, and so forth.

a society in which individuals were constantly moving up or down the economic ladder, resulting in each receiving an equal share of the rewards over a lifetime. Conversely, a society in which there was very little mobility would have a very different character than the previous one—even if their annual income distributions looked exactly the same. Thus, a crucial question is: How much economic mobility is there?

Mobility in the United States

We know much less about mobility than we do about inequality. In recent years, however, a number of studies have used survey data to track the incomes of *the same individuals* over time.³ The most commonly used technique for analyzing their mobility is to rank their incomes from highest to lowest in a beginning year. Typically, this ranking breaks the sample into five equal-sized groups (quintiles). This is done again for the incomes of these same individuals in a later year. The percentage of individuals who change income quintiles between these two years is then used as an indicator of mobility. Because the focus is on relative position within the distribution, in order for one individual to move up, it is necessary for someone else to move down.⁴

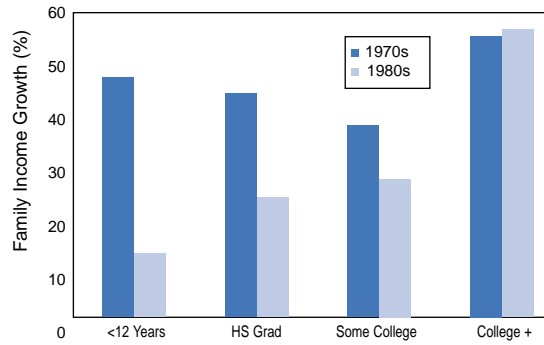
How Much Mobility?

These studies of *relative mobility* have produced remarkably consistent results, with regard to both the degree of mobility and the extent of changes in mobility over time.⁵ Mobility in the United States is substantial according to this evidence. Large proportions of the population move into a new income quintile, with estimates ranging from about 25 to 40 percent in a single year. As one would expect, the mobility rate is even higher over longer periods—about 45 percent over a 5-year period and about 60 percent over both 9-year and 17-year periods.⁶

Who Moves Up?

Which groups are most likely to be *upwardly* mobile in the income distribution? Evidence suggests that, in recent years, individuals with at least a college education are more likely to move up than any other group (chart 2).⁷ This is a significant change from the 1970s, when income increases were more evenly distributed across educational levels.

Chart 2. College Graduates Enjoyed the Most Income Growth in the 1980s



Source: Rose (1993). Rose used the Panel Study of Income Dynamics to calculate growth in real family income, after adjusting for family size, for adults ages 22 to 48 at the beginning of each decade.

International Comparisons

Although mobility in the United States is substantial, evidence indicates that it is no higher in this country than elsewhere. Indeed, the few studies that have directly compared mobility across countries have concluded that, despite significant differences in labor markets and government policies across countries, mobility rates are surprisingly similar.⁸

Other Measures of Mobility

Two widely reported recent studies of mobility in the United States found extremely high rates of mobility—rates that are much higher than those cited above.⁹ This results from differences in analytical approach.¹⁰ Most importantly, these studies examined *absolute* (rather than relative) mobility.¹¹ Under this definition of mobility, anyone who moves across a fixed threshold (established in the base year or for the population as a whole) is considered mobile regardless of his or her relative position within the distribution. As a result,

factors such as economic growth and the natural tendency of incomes to increase with age can cause almost everyone to appear mobile.

Mobility over Time

Although mobility in the United States is neither higher than it is in other countries nor as high (in our view) as suggested by studies of absolute mobility, there is nevertheless broad agreement among researchers that the year-by-year movement of individuals between income quintiles is substantial, and that lifetime earnings are more evenly distributed than annual earnings. But what about changes in mobility over time? In particular, what has happened to mobility since the early 1970s, when annual inequality began to increase?

The evidence on this point is clear: Mobility has not changed significantly over the last 25 years. Indeed, a number of different studies indicate that relative mobility rates in the United States—both short term and long term—have been remarkably stable (chart 3). Thus, Americans continue to move up and down in the income distribution at the same rate as they did in the past.

As a result, the recent increases in annual inequality have proceeded unchecked by any increase in mobility. An individual's income in any one year is always a poor predictor of lifetime income, but it is not a worse predictor now than it was in the past.

Summing Up

The incomes of American families change frequently. Some of the poor get richer, some of the rich get poorer, and for a variety of reasons: accumulation of job skills and experience, marriage and divorce, job change, addition or loss of a second paycheck, and business success or failure.

But despite this churning, overall rates of mobility in the United States have not changed over time. Thus, it

is fair to conclude that increases in annual inequality have worsened the distribution of lifetime incomes. Although the disparity in economic rewards has increased, the availability of those rewards—the probability of success or failure—has remained unchanged.

There has been one notable development within this broader picture, however. The mobility of those with little education has declined. Increasingly, a college education is the ticket to upward mobility.

The question of how much inequality is acceptable or appropriate in the United States is an issue on which there is no agreement (see discussion in brief no. 2). Still, it is somewhat disturbing to learn that the seemingly relentless growth in the inequality of economic rewards has been unmitigated by any increase in access to those rewards, especially for those with the fewest skills.

Notes

1. Attempts to adjust the data for changes in family size, for different measures of inflation, for the receipt of capital gains, or for income transfers and taxes, have not markedly changed the basic trends described above.

2. For further discussion of this analogy, see Isabel V. Sawhill and Mark Condon, “Is U.S. Income Inequality Really Growing? Sorting Out the Fairness Question,” *Policy Bites* #13 (1992, Urban Institute).

3. For a more detailed analysis of these studies, see Daniel P. McMurrer and Isabel V. Sawhill, “Economic Mobility in the United States,” No. 6722, Urban Institute (1996).

4. Thus, if average incomes are increasing over time as a result of economic growth, an individual’s income must rise more quickly than the rest of the sample in order to move up to a higher quintile.

Movement between quintiles is a relatively crude measure of mobility, as it does not capture the degree of change in an individual’s income.

5. These studies include Richard V. Burkhauser, Douglas Holtz-Eakin, and Stephen E. Rhody, “Labor Earnings Mobility in the United States and Germany During the Growth Years of the 1980s,” mimeo, Syracuse University (1996); Mark Condon and Isabel V. Sawhill, “Income Mobility and Permanent Income Inequality,” No. 6723, Urban Institute (1992); Maury Gittleman and Mary Joyce, “Earnings Mobility in the United States, 1967-91,” *Monthly Labor Review* (September 1995, 3-13); Peter Gottschalk, “Notes on ‘By Our

7. Stephen Rose, “Declining Family Incomes in the 1980s: New Evidence from Longitudinal Data,” *Challenge* (November-December 1993, 29-36).

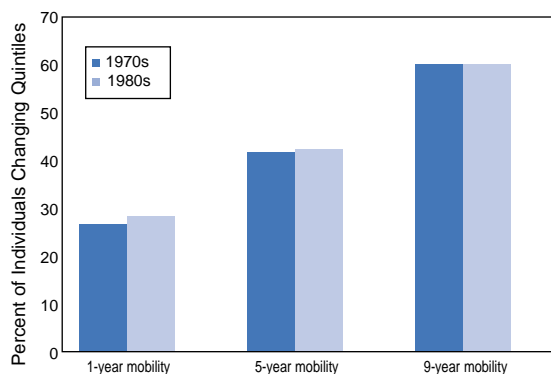
8. Rolf Aaberge, et al., “Income Inequality and Income Mobility in the Scandinavian Countries Compared to the United States,” mimeo, Statistics Norway (1996); Burkhauser, et al. (1996); Greg J. Duncan, et al., “Poverty Dynamics in Eight Countries,” *Journal of Population Economics* (1993, 215-234).

9. U.S. Department of Treasury, Office of Tax Analysis, “Household Income Mobility During the 1980s: A Statistical Analysis Based on Tax Return Data” (1992, U.S. Department of Treasury); and W. Michael Cox and Richard Alm, “By Our Own Bootstraps: Economic Opportunity and the Dynamics of Income Distribution,” *Federal Reserve Bank of Dallas Annual Report* 1995.

10. For additional discussion of these methodological questions, see Gottschalk (1996) and Paul Krugman, “The Right, the Rich, and the Facts: Deconstructing the Income Distribution Debate,” *American Prospect* (Fall 1992, 19-31).

11. Absolute mobility is the movement of an individual in relation to an external standard, usually defined by averages among the population as a whole. Thus, it is possible for all individuals in a fixed group to move up in relation to this external standard. Absolute mobility does not measure change in an individual’s relative position within a given sample, and is therefore not comparable to relative mobility.

Chart 3. Mobility Rates Have Not Changed



Note: Data for 1-year and 5-year mobility are from Burkhauser, et al. (1996); data for 9-year mobility are from Sawhill and Condon (1992). Time periods are slightly different. For 1-year and 5-year mobility, average rates for 1970-79 and 1980-89 are used; for 9-year mobility, 1967-76 is used for the “1970s” and 1977-86 is used for the “1980s.”

Own Bootstraps: Economic Opportunity and the Dynamics of Income Distribution,” by Cox and Alm,” mimeo, Boston College (1996); Thomas Hungerford, “U.S. Income Mobility in the Seventies and Eighties,” *Review of Income and Wealth* (1993, 403-417); and Sawhill and Condon, *Policy Bites* #13 (1992).

6. Over any period longer than one year, some individual movement between quintiles is not captured by the analysis. For example, an individual who is in the same quintile in both years examined (say, the first and ninth years) may still have moved between quintiles in the intervening years, although he or she would appear to have been “immobile” over the 9-year period.

For additional analysis of issues discussed in this brief, see Daniel P. McMurrer and Isabel V. Sawhill, “Economic Mobility in the United States,” Urban Institute, No. 6722 (1996).

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Isabel V. Sawhill is a Senior Fellow and holds the Arjay Miller chair in public policy at the Urban Institute.

Daniel P. McMurrer is a Research Associate at the Urban Institute.

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Designed by Robin Martell and
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Telephone: (202) 833-7200 ■ Fax: (202) 429-0687 ■ E-Mail: paffairs@ui.urban.org ■ Web Site: <http://www.urban.org>



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