Economic Mobility in the United States
Daniel P. McMurrer, Isabel V. Sawhill

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The size of available economic rewards and the extent to which those awards are open to all individuals in a society are two critical factors in determining the extent to which a society's economic and social structure is believed to be fair and just by those who participate in it. And over the long term, these fundamental economic elements are likely to have a significant effect on the prevailing public mood within a society. The impact of these factors is even greater in a nation such as the United States, in which the national ideology is deeply rooted in the promise of equal opportunity for all.

It is well known that the rewards for success in the United States are great and that they seem to be growing larger every year. Numerous studies have reported that the income gap between the rich and poor in the United States has grown in recent decades. The ratio of mean income for the highest 20 percent of family incomes to the lowest 20 percent has increased from slightly over 7.0 in 1968 to slightly over 11.0 in 1994. 1 Inequality is lower if it is measured by consumption, rather than by income, although some studies have found that consumption inequality is growing at a similar rate to income inequality. 2 Further, the extent of economic inequality in the United States is greater than in most other countries. 3

The Relationship Between Size and Availability of Economic Rewards

The size of the economic rewards, however, is less important than the availability of those rewards. In a society in which all individuals receive an equal share of the rewards over a lifetime, the actual distribution in any given year is almost irrelevant, even if the rewards were quite unevenly divided every year. On the other hand, a society in which the same individuals received the largest economic rewards every year would look quite different than the previous society — even if the income distributions of the two societies looked exactly the same every year. In a society in which the availability of rewards is largely limited to certain individuals, however, the size of the rewards that are available does take on a new importance.

Economic historian Joseph Schumpeter compared the income distribution in a society to a hotel that is full of rooms that are always occupied, but often by different people. 4 In order to have the most complete picture of an individual's lifetime experience, we must know two factors: the quality of the various rooms in the hotel and the rate at which individuals switch rooms. Unfortunately, most available statistics in the United States are based on cross-sectional data that provides a snapshot of only a single moment in time. Thus, they are quite good at providing us with information on the quality of the rooms (i.e., we know the distribution of individual incomes each year), but they tell us little about how often individuals change rooms. 5 And without knowing how incomes change over time, we do not know how individuals' lifetime incomes are distributed.

Mobility in the United States

Given the increase in inequality in the United States in recent years, the questions of how much mobility is present and whether the degree of mobility has increased become even more important. A number of recent studies, discussed below, have examined this question. Those studies that have measured relative mobility are generally quite consistent with one another (see Table 1), finding that mobility is significant and has remained stable over time.

Sawhill and Condon (1992) use the Panel Study of Income Dynamics (PSID) to look at individuals who were between the ages of 25 and 54 in two different years (1967 and 1977), and examined what happened to their family income over the following decade. In attempting to determine the extent of economic mobility that existed, Sawhill and Condon use a technique employed by a number of the later studies discussed below. In a base year, they rank all incomes in their sample from highest to lowest, and then break them into five equal-sized income quintiles, with the top twenty percent in the highest quintile, etc. They then do the same to the incomes of the same individuals in a later year, breaking them into equal quintiles, and then examining the relative movement of individuals within the distribution (see Table 2 for an example of a transition matrix that results from such an exercise). 6
Perhaps the simplest measure of economic mobility is the percentage of individuals who move into a new income quintile. In both periods examined, Sawhill and Condon find that slightly over 60 percent of individuals were in a different family income quintile a decade later (60.5 percent between 1967-76, and 60.7 percent between 1977-86). Mobility rates were lower for individuals in either the lowest or highest quintiles (44 percent for the bottom quintile and 48 percent for the highest quintile between 1967-76; 47 percent and 50 percent, respectively, between 1977-86). Examing similar years using the PSID, Hungerford (1993) comes to similar conclusions regarding broad trends in mobility, as he finds significant mobility, but little change between 1969-76 and 1979-86.

Burkhauser, Holtz-Eakin, and Rhody (1996) also use the PSID. They examine wage and salary incomes from 1970 to 1991 for workers between the ages of 25 and 55. Like Sawhill and Condon, they find that rates of mobility have been remarkably constant over time. They examine one-year and five-year mobility, finding average one-year mobility rates of 27 percent overall (19 percent for the lowest quintle and 17 percent for the highest) in the 1970s, and 29 percent overall (19 percent and 16 percent, respectively, for the lowest and highest) in the 1980s. Average five-year mobility rates were 44 percent overall (38 and 22 percent, respectively) in the 1970s, and 45 percent overall (36 and 23, respectively) in the 1980s.

PSID analysis by Gottschalk, as reported in Mishel, Bernstein, and Schmitt (1997), finds that ten-year mobility rates were 58 percent in the 1970s (39 percent for the lowest quintile and 45 percent for the highest) and 57 percent in the 1980s (39 percent and 41 percent, respectively, for the lowest and highest). Over the long term, between 1968 and 1991, the overall mobility rate was 68 percent (see Table 2 for detailed matrix of transitions over this period).

Gittleman and Joyce (1995) use matched files from the March Current Population Survey from 1968 to 1992 in examining individual earnings of workers between the ages of 25 and 59. These data enable them to examine mobility for a large sample of workers, but only for one year at a time, as individuals are rotated out of the survey after 2 years. They use three different measures to examine mobility (or, more precisely, immobility): the correlation coefficient (i.e., the correlation between an individual's position in the income distribution one year and the following year), and two indices measuring movement within the distribution. All three measures indicate the same general trend for all samples examined: one-year mobility rates have remained generally constant between 1967-91, although they have demonstrated what appears to be a slight increase in mobility around the 1970s, and a slight decrease in mobility in more recent years. Unfortunately, however, the use of one year mobility rates makes the findings less useful in considering the more important question of longer term mobility rates.

Gittleman and Joyce also examine differences in earnings mobility across demographic groups. As might be expected, the authors find generally that the lower a group's average earnings, the more likely are individuals in that group to stay in the bottom quintile, and the less likely they are to remain in the top quintile. Thus, women and blacks are more likely to slip out of the top quintile, and more likely to remain in the bottom. They find that individuals in the highest quintile are slightly more likely to stay in the same quintile than are individuals in the lowest quintile. Similarly, a recent report by Eller (1996) examined the movement of those who live below the poverty line. He found that blacks and people living in female-headed households were significantly more likely to be "chronically poor" in 1992 and 1993, defined as living in poverty for all 24 months in that period.

Buchinsky and Hunt (1996) examine wage and earnings mobility between 1979 and 1991 for young people by analyzing data from the National Longitudinal Survey of Youth, a cohort study that follows a group of individuals who were between the ages of 14 and 24 in 1979. Including only those individuals not enrolled in school in a given year, they find a significant decrease in year-to-year mobility over time, for both wages and earnings. These trends hold true even after controlling for factors such as work experience and educational background, and similar trends prevail for both genders. This decrease in mobility is particularly pronounced for those individuals in the lower quintiles. They also find that individuals in the highest quintile are significantly less likely to move into a different quintile than individuals in any of the other four quintiles. These results are consistent with (but much larger than) the results found in Gittleman and Joyce. This finding is not consistent, however, with the PSID studies reported above, each of which found generally similar rates of mobility for both the highest and lowest quintiles.

It is necessary to note a number of the unique problems created by the data set used by Buchinsky and Hunt. Because their study is limited to young individuals, their results are much less generally applicable than the other studies discussed in this paper. Further, young individuals would be expected to be the most likely individuals to move rapidly through the income distribution, and the absence of any other age cohorts in this study makes it extremely difficult to disentangle age and year effects. Finally, the study includes only those individuals who are not enrolled in school in a given year, which biases their samples toward less-educated individuals. Particularly in the earlier years, when the sample was relatively young (e.g., between the ages of 15 and 25 in 1980), the group of individuals in that age range who are not enrolled in school is hardly typical of all young people in the U.S. population. For these reasons, this study necessarily contributes less to our understanding of overall trends in mobility than those studies (such as those using the PSID) that followed more fully representative samples over a longer period.

There are two additional studies that find a degree of earnings mobility that is much greater than that reported in any of the above studies: U.S. Department of Treasury (1992) and Cox and Alm (1996). The discrepancies between these studies and the others has been attributed in large part to differences in methodology, which reflect subtle but fundamental differences in the questions being asked by each study.

The Treasury study uses income tax return data between 1979 and 1988, tracking the adjusted gross income...
of a group of households that paid income taxes in all ten years examined. The study finds that 86 percent of individuals who were in the bottom quintile in 1979 had moved up by 1988. An individual in the bottom quintile in 1979, in fact, was more likely in 1988 to be found in the top quintile than in the bottom one.

The impressive degree of mobility found in the Treasury study has been attributed largely to two factors. First, the restriction of the sample to only those households that paid taxes in all ten years introduced a bias toward the economically successful, as only half of all households met this criteria. 13 Second, the study compared the 1988 incomes of those in the sample to the incomes of the population as a whole in 1988, thereby capturing the natural tendency of earnings to increase as individuals grow older, and identifying this as economic mobility. 14 That is, the average income of the sample would be expected to rise each year simply as a result of the individuals in the sample growing older and gaining more work experience. The average income of the population as a whole, however, would be expected to remain constant. 15 To count this increase in income as a component of "mobility" is to use a significantly different definition of mobility than was employed in the other studies discussed above.16 Because the Treasury study makes no effort to examine change in an individual's relative position within the sample itself, its results cannot be compared to the other studies.

Similarly, Cox and Alm (1996) find significantly higher levels of mobility than in most previous studies. They use the PSID to examine individual incomes between 1975 and 1991 for individuals who were age 16 or over in 1975. 17 They find that only 5.1 percent of individuals in the lowest quintile in 1975 remain in that quintile in 1991, while 29 percent of such individuals are in the highest quintile in 1991.

Like the Treasury study, Cox and Alm find extremely high levels of mobility in part because of the comparison group that determined the quintiles that they used. Most notably, they too compare the incomes of their sample (when everyone in the sample was over the age of 32) to the income of the population as a whole (in this case, including everyone over the age of 16). As a result, they too capture the natural increase in incomes with age and identify it as economic mobility. 18

Gottschalk (1996) retabulates PSID data on earnings to cover the period examined by Cox and Alm using more standard techniques for determining movement between quintiles. Like the other studies discussed in this paper, he finds substantial mobility over time, but much less than is reported by Cox and Alm. Between 1974 and 1991, he finds that 62 percent of the sample moved to a different quintile (58 percent for those originally in the lowest quintile, 56 percent for those in the highest). In the one year between 1974 and 1975, 39 percent moved to a different quintile (33 percent of the lowest quintile, 21 percent of the highest).

Cross-National Comparisons

How does the United States compare with other countries with regard to income mobility? We know that inequality is greater in the United States than it is elsewhere; does a higher rate of mobility serve to offset that inequality? The few studies that have compared mobility in the United States and other countries have concluded that, despite significant cross-national differences in labor market structures, mobility rates seem to be quite similar across countries.

The Burkhauser, et al. (1996) study discussed above compares earnings mobility in the United States and Germany during the 1980s, using the PSID in the United States and the German Socio-Economic Panel in Germany. The authors find remarkably similar rates of quintile-to-quintile movement in both countries for transition periods of between one and five years. As reported above, the one-year mobility rate in the United States during the 1980s was 29 percent. In Germany, it was 28 percent. The five-year mobility rate in the United States during the same period was 45 percent; in Germany, 44 percent. There are slight differences in the magnitude of the movements for those who change quintiles. Individuals are more likely to move one or two quintiles in the United States, while they are more likely to move three or four quintiles in Germany. 19

Duncan, et al. (1993) use a variety of national longitudinal data sets to study transitions out of poverty in seven countries for families with children 17 or younger during the early to mid-1980s. 20 Examining post-tax, post-transfer income, they find that one-year transition rates out of the bottom decile of the income distribution are generally quite uniform across countries, with rates in six of the seven countries between 21 percent and 27 percent (the rate in Sweden was 16 percent). The United States was near the middle of the distribution, at 23 percent.

Aaberge, et al. (1996) consider income mobility in the United States and three Scandinavian countries (Denmark, Norway, Sweden), but do not examine quintile-to-quintile transitions, and are therefore less comparable to studies discussed previously. Nevertheless, their results (using a mobility measure based on the Gini coefficient) also indicate that income mobility is quite similar in the United States and other countries with significantly different labor markets.

Conclusions

The bottom line? It is clear that there is substantial mobility — both short-term and long-term — over an average life-cycle in the United States. The studies reviewed above suggest that approximately one-quarter to one-third of the population moves into a new income quintile in any given year. Given a longer time horizon, an even greater percentage of individuals switch income quintiles — perhaps slightly less than one-half over a five-year period, and about 60 percent over a ten-year period.

At the same time, however, there is little evidence that this mobility has changed substantially over time. This indicates that the recent increases in inequality have not been offset by any increase in mobility. 21 Thus, the disparity in economic rewards is increasing, while there has been no positive change in the openness or
availability of those rewards to everyone in the population. There is also no evidence that mobility is significantly different in the United States than it is in other countries. This suggests that the United States has not only the highest year-to-year inequality in the industrialized world, but also likely has the highest lifetime inequality among similar countries.

Overall, therefore, it is possible that one cause of the increased in public discontent in the United States is the growth in the inequality of economic rewards, unaccompanied by any increase in the accessibility of those rewards to workers. An additional factor that may affect public attitudes is the extent to which mobility for young individuals today compares to that of previous generations, as well as how much their current standing is independent of that of their parents. We turn our attention to these questions in the next brief in this series.

REFERENCES

TABLE 1.
### MOBILITY RATES IN THE UNITED STATES, USING RELATIVE QUINTILE-TO-QUINTILE TRANSITIONS OVERALL MOBILITY RATE INTO DIFFERENT QUINTILE

<table>
<thead>
<tr>
<th>STUDY</th>
<th>YEARS</th>
<th>1-YEAR RATE</th>
<th>5-YEAR RATE</th>
<th>LONG-TERM RATE</th>
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<tbody>
<tr>
<td>Sawhill and Condon (1992)</td>
<td>1967-76</td>
<td></td>
<td></td>
<td>0.61 (9 years)</td>
</tr>
<tr>
<td></td>
<td>1977-86</td>
<td></td>
<td></td>
<td>0.61 (9 years)</td>
</tr>
<tr>
<td>Burkhauser, et al. (1996)</td>
<td>1970-79</td>
<td>0.27</td>
<td>0.44</td>
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<tr>
<td></td>
<td>1980-89</td>
<td>0.29</td>
<td>0.45</td>
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</tr>
<tr>
<td>Gottschalk (1996)</td>
<td>1974-75</td>
<td>0.39</td>
<td></td>
<td>0.62 (17 years)</td>
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<tr>
<td></td>
<td>1974-91</td>
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<td></td>
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<tr>
<td>Gottschalk in Mishel, et al.</td>
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<td>0.67 (23 years)</td>
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<tr>
<td></td>
<td>1969-79</td>
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<td></td>
<td>0.58 (10 years)</td>
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<tr>
<td></td>
<td>1979-89</td>
<td></td>
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<td>0.57 (10 years)</td>
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### MOBILITY RATE OUT OF TOP QUINTILE

<table>
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<th>STUDY</th>
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<tr>
<td>Sawhill and Condon (1992)</td>
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<td>1977-86</td>
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<td>0.17</td>
<td>0.22</td>
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<td></td>
<td>1980-89</td>
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<td>0.56 (17 years)</td>
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<td></td>
<td>1974-91</td>
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<tr>
<td>Gottschalk in Mishel, et al.</td>
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<td>0.58 (23 years)</td>
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<td></td>
<td>1969-79</td>
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<td>0.45 (10 years)</td>
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<td></td>
<td>1979-89</td>
<td></td>
<td></td>
<td>0.41 (10 years)</td>
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<tr>
<td>Gittleman and Joyce (1995)</td>
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### MOBILITY RATE OUT OF BOTTOM QUINTILE

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<td>Sawhill and Condon (1992)</td>
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<td>0.44 (9 years)</td>
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<td>1977-86</td>
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<td>0.47 (9 years)</td>
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<td></td>
<td>1980-89</td>
<td>0.19</td>
<td>0.36</td>
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TABLE 2.
INCOME MOBILITY TRANSITION MATRIX, 1968-91

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<tbody>
<tr>
<td>Lowest</td>
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<td>24.5</td>
<td>17.3</td>
<td>8.7</td>
<td>2.7</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td>Second</td>
<td>23.6</td>
<td>26.2</td>
<td>26.4</td>
<td>14.3</td>
<td>9.6</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td>Middle</td>
<td>13.6</td>
<td>21.8</td>
<td>20.2</td>
<td>26.2</td>
<td>18.2</td>
<td>100.0</td>
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<tr>
<td>Fourth</td>
<td>9.2</td>
<td>16.7</td>
<td>20.4</td>
<td>26.2</td>
<td>27.6</td>
<td>100.0</td>
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<tr>
<td>Highest</td>
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<td>10.8</td>
<td>16.1</td>
<td>24.5</td>
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<td>Total</td>
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<td>100.0</td>
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<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Gottschalk tabulations of the PSID, reported in Mishel, Bernstein, and Schmitt (1997).

Notes
1. U.S. Bureau of the Census, unpublished data, Series P60, Table F-1a. In addition, Weinberg (1996) reports that the most commonly used summary measure of income inequality — the Gini index — increased by over 16 percent for households since 1968. Average household income for the top income quintile grew by over 30 percent since 1968, while it grew by only 7 percent for the lowest income quintile.


4. See Sawhill and Condon (1992) for further discussion of this analogy.

5. There are a number of general factors that may significantly shape an individual’s movement through the income distribution. It is well known that individual income generally rises from young adulthood through middle age, and then begins to decline after about age 60. This is known as the "life-cycle" model, and it is supported by ample evidence from both cross-sectional and longitudinal survey data. Presumably, this dynamic reflects the tendency of wages to increase as a worker gains additional work experience but can also reflect economy-wide improvements in productivity that raise everyone’s wages. In addition, individual attributes may shape mobility. These include factors that are largely under an individual’s control, such as level of education completed, as well as other factors, such as gender, race, and socioeconomic background.

6. Note that, using this technique, in order for one individual to move up in the income distribution, it is necessary for another individual to move down. Because the income quintile cutoffs are set separately in the base year and the comparison year, an individual’s income must rise more quickly than the rest of the sample in order to move up to a higher quintile. This ensures that the analysis will not include the effects of broad economic forces, such as increased productivity, that affect most individuals in a distribution in the same way.

It should also be noted that the movement of individuals across quintiles is a relatively crude measure of mobility, as it does not capture the degree of the change in an individual’s income. For example, there is no distinction made between an individual whose income rises $20 and an individual whose income rises $20,000 when both move up one quintile in the distribution.

7. Another measure involves looking at income growth for particular individuals at various points in the income distribution. Although a number of studies have looked at this measure, their results are affected by
bias related to methodological issues in the selection of a base period from which to compare later earnings. To date, there has been no study that has successfully navigated all of the methodological challenges related to this issue.

Sawhill and Condon (1992) and Condon and Sawhill (1992), for example, examine the change in average family income of individuals in different starting quintiles over a ten-year period, finding that the incomes of those in lower quintiles increased by a greater percentage than the incomes of individuals in higher quintiles. As the authors of that study note, however, this result would have been expected, based solely on the fact that individuals at the bottom or top are often there as a result of a temporary income interruptions or windfalls, and that many individuals at the bottom are young and see their incomes increase as they gain experience.

Rose (1993) attempts to avoid this "reversion to the mean" by individuals with particularly high or low incomes by using 10-year averages in assigning quintiles. Using this method, he finds that incomes grew much more quickly for individuals in the top income quintiles. This finding, too, is not unexpected, given that one would expect that those with the largest income gains over a 10-year period would be most likely to be in the highest income quintile.

8. This is to be expected, given that such individuals can only move in one direction in the distribution, while other individuals can move either up or down.

9. One index measures the percentage of individuals who remained in the same income quintile for both years being examined. The other measures the percentage of individuals who remain in the same quintile or moved up or down one quintile (i.e., it would include everyone except for those who moved up or down two quintiles or more).

10. Gittleman and Joyce examined four different samples: men with positive earnings, women with positive earnings, men working full-time year-round, and women working full-time, year-round.


12. In addition, the characteristics of the individuals in the analyzed sample change dramatically over time. For example, in 1980, over half of the NLSY sample was omitted from analysis because they were still in school. By 1990, less than 10 percent of the sample was omitted for this reason.

13. In addition, the study notes that the method of sampling creates the potential for "survivorship bias," as the very young and the very old are less likely to be in the sample.

14. See Krugman (1992) for further discussion of the impact of these factors on the findings of the Treasury study.

15. This excludes the effects of economic growth, which would be expected to affect both the population and the sample equally.

16. Researchers make reference to two different types of economic mobility: relative and absolute. Relative mobility is the movement of an individual within a fixed group of individuals. Thus, for one individual to move up, another individual must move down. 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.

17. Gottschalk (1996) notes that individual income is not an appropriate measure, as the standard accounting units for such analyses are either individual earnings or family income.

18. See Gottschalk (1996) for additional discussion of the impact of methodology on the results of Cox and Alm.

19. Note that, in both countries, the vast majority of individuals who move between quintiles move only one quintile, and that the percentage of individuals who move 3 or 4 quintiles is quite small (e.g., in Germany, 3.8 percent of those who could move up 3 quintiles did so after 5 years; in the United States, the comparable percentage was 2.6).

20. The seven countries examined are Canada, France, West Germany, Ireland, The Netherlands, Sweden, and the United States. The authors of the study also examine Luxembourg, but the sample is made up of very few observations and is excluded for purposes of this discussion.

21. It should be noted, however, that there is another way of thinking about the relationship between mobility and the income distribution. As the income distribution spreads out — as it has in the United States — a larger increase in income is required for an individual to move into a higher quintile. Thus, if the same percentage of individuals are still moving up in the distribution (i.e., "measures of mobility have not changed"), it may be that the degree of mobility has actually increased. On balance, however, current evidence suggests that lifetime earnings are becoming more unequally distributed because any change in mobility has been more than offset by the greater inequality of rewards.

About the Authors

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.