

# UPS AND DOWNS:

**DOES THE AMERICAN ECONOMY STILL  
PROMOTE UPWARD MOBILITY?**

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**ECONOMIC  
MOBILITY  
PROJECT**

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By forging a broad and nonpartisan agreement on the facts, figures and trends related to mobility, the Economic Mobility Project is generating an active policy debate about how best to improve economic opportunity in the United States and to ensure that the American Dream is kept alive for generations that follow.

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## E X E C U T I V E S U M M A R Y

## UPS AND DOWNS:

**DOES THE AMERICAN ECONOMY STILL  
PROMOTE UPWARD MOBILITY?**

As Americans face rising unemployment rates and greater uncertainty about the future in this current economic downturn, this report investigates the extent to which the American economy promotes upward economic mobility (in the form of income growth) and prevents downward economic mobility (in the form of income declines), and whether it does so to the same degree as in the past. There is widespread consensus that the current recession is likely to affect more families than any since the Great Depression. But more fundamental than the impact of any one recession is whether the United States has entered an era in which families must permanently lower their expectations for income growth and brace themselves for more and bigger income losses.

Focusing on the household incomes of working-age adults (those aged 26 through 59), the report assesses how income gains, drops, and recovery have varied from 1967 through 2004. The analyses include both short-term and longer-term fluctuations in income, examining how many people are able to recover from income declines, how long their recovery takes, and differences across demographic groups in both.

The findings indicate that the American economy promotes upward mobility over two- and ten-year periods just as well as it has in the past. Americans are no more likely to experience income drops than they have been in the past, and they recover from those drops at similar rates. Nevertheless, for many Americans—today as before—an income drop is a significant and permanent financial setback, and the current recession—like previous ones—will prove to be an unfortunate turning point for millions of families.

**FAMILY INCOME FLUCTUATIONS ARE THE NORM, BUT AMERICANS  
ARE MORE LIKELY TO EXPERIENCE INCOME GAINS THAN INCOME DROPS.**

- Over a given two-year period, roughly 45 percent of working-age adults have their real family incomes increase or decrease by more than 25 percent, a rate that has been relatively unchanged since 1969.
- About one in five experienced an income decline of more than 25 percent between 2002 and 2004, while one in four experienced such a decline between 1994 and 2004.
- In the most recent two- and ten-year periods analyzed (2002–2004 and 1994–2004 respectively), just over a third of working-age adults experienced an income decline of at least 5 percent. Given past trends, the share with a two-year loss of at least 5 percent could exceed 45 percent in the current downturn.
- However, almost half (46 percent) experienced a two-year income gain, and substantially more (58 percent) experienced a ten-year income gain.

## E X E C U T I V E S U M M A R Y

**HALF OF ADULTS WHO EXPERIENCE A ONE-YEAR INCOME LOSS OF MORE THAN 25 PERCENT RECOVER WITHIN FOUR YEARS, A RECOVERY RATE THAT HAS BEEN STABLE OVER TIME.**

- Of those experiencing such a loss in 1994, a fifth (19 percent) recovered within one year (by 1995), and another third (31 percent) recovered within four (by 1998). One-third, however, failed to recover even after ten years.
- Among adults experiencing a loss of 25 percent or less, 70 percent recovered fully within four years, and just 16 percent were unable to recover within 10 years.

**HALF OF THOSE EXPERIENCING LARGE TEN-YEAR INCOME LOSSES SUBSEQUENTLY EXPERIENCE LARGE TEN-YEAR INCOME GAINS, BUT HALF ALSO FAIL TO FULLY RECOVER IN THE SUBSEQUENT TEN YEARS.**

- About half of those who experienced an income drop of more than 25 percent between 1984 and 1994 saw gains of more than 25 percent over the next ten years (1994-2004).
- However, because an increase of 25 percent from a smaller income is less than a 25 percent drop from a larger income, some of these Americans fail to fully recover over the 20 years. Among all adults with an income drop of more than 25 percent between 1984 and 1994, just 51 percent recovered by 2004.

**DESPITE LOW RECOVERY RATES, AMERICANS WHO EXPERIENCE INCOME DROPS OVER TEN YEARS ARE JUST AS LIKELY OR MORE LIKELY TO RECOVER AS IN THE PAST.**

- The share of Americans recovering from an income drop of more than 25 percent, for instance, was 48 percent between 1978 and 1987, 48 percent between 1985 and 1994, and 51 percent between 1995 and 2004.

**PEOPLE WHO EXPERIENCE A LARGE TEN-YEAR INCOME DROP HAVE A TOUGH TIME KEEPING UP.**

- The typical adult experiencing an income decline of more than 25 percent between 1984 and 1994 had an average family income of \$57,825 over those years—16 percent lower than the average income for all adults over the period.
- In the subsequent ten years the median income of those same people fell even further behind: 39 percent lower than that for all adults.
- Most adults experiencing smaller income losses between 1984 and 1994 recovered in the subsequent 10 years, but their incomes over the entire 20-year period still lagged those of all adults by about \$5,000 per year.

**AGE, EDUCATION, AND LIVING WITH A PARTNER INFLUENCE AMERICANS' RISK OF EXPERIENCING LARGE INCOME GAINS AND DROPS.**

- The risk of experiencing a large income drop over two years has been and remains lowest for the youngest adults (those under age 46), whites, college graduates, and couples who get married or move in together.
- Notably, over time the risk of experiencing a large income drop has come down significantly for women who separate from their partners, while it has increased for men who separate from their partners, reflecting the narrowing gap between men's and women's earnings.
- Recovery from a ten-year drop is most common among college graduates and couples who live together.

# UPS AND DOWNS:

## DOES THE AMERICAN ECONOMY STILL PROMOTE UPWARD MOBILITY?

### INTRODUCTION

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The United States currently faces its worst economic downturn in over half a century. Moreover, the current recession follows an expansion in which median family income hardly budged. The economic performance of the first decade of the twenty-first century will not be recalled with fondness.

Yet, from a longer-term perspective, it is more important how effectively the economy promotes income growth for families and whether it does so more effectively today than it did in the past. Put another way, does the American economy still promote upward *absolute intragenerational mobility* and provide resiliency from downward mobility?<sup>1</sup>

A number of researchers have claimed that the incomes of Americans today are fundamentally shakier—more volatile—than they were in the past.<sup>2</sup> Such claims are not about individual recessions, such as the one in which we find ourselves today; they are about the frequency and magnitude of economic problems being worse today than in the past for a recession or expansion of a given breadth and depth. There is widespread consensus that the current recession is likely to do more damage to more families than any since the Great Depression. But more fundamental than the impact of any one recession is whether the United States has entered an era in which families must permanently lower their expectations for income growth and brace themselves for more frequent and bigger income losses.

This paper addresses this question by examining the short- and long-term income changes of Americans and assessing how patterns of income growth, decline, and recovery have varied over the years 1967 to 2004. Contrary to the claim that there has been an increase in income volatility, the analyses below find that over two-year



or ten-year periods, Americans are no more likely today to experience income drops than they were in previous decades. Nor are they any less likely to recover from income drops when they do occur. However, roughly twenty percent of working-age Americans experienced a drop in income of more than 25 percent over two years in the early part of the current decade, and the same share suffered a drop of that magnitude between 1994 and 2004. Most of these families fully recover—many of them quickly—but half of families experiencing a large drop over *ten years* do not recover over the next ten years and permanently fall behind their peers. These findings suggest that if the current downturn mimics recent ones, the economy will continue propelling most Americans upward, setting them back temporarily, if at all. However, the small minority who experience longer-term dislocation are at risk of a permanent hit to their economic standing relative to their peers.

The paper is divided into four sections, describing short-term changes in family income, recovery from short-term income declines, longer-term income changes, and recovery from longer-term income declines. In all of these analyses, two kinds of comparisons are made. First, trends from 1967 through 2004 are explored in order to determine whether the American economy facilitates upward absolute mobility as effectively as it has in the past. Second, within each period and across periods, differences between demographic groups are examined: between men and women, between whites and African Americans, and differences based on educational attainment, age, income level, and the presence of a spouse or partner. As with much of the research in this area, the Panel Study on Income Dynamics (PSID) is the data source for the analyses; see the Methodological Appendix for a description of how this data is used.

The focus throughout is on the household income of working-age adults—those 26 to 59 years old. Husbands and wives are included separately, each with the same household income, but children are not considered here. Furthermore, because the analyses do not adjust incomes for needs, changes in household size do not affect income unless the number of household members receiving income changes.<sup>3</sup> Finally, the analyses make no distinction between income changes that are anticipated—such as those that occur when children are born—and those that catch families off guard, such as job loss.<sup>4</sup>

## ABSOLUTE INTRAGENERATIONAL ECONOMIC MOBILITY

*Absolute intragenerational mobility* refers to an individual's or family's income growth in real dollar terms within a lifetime. Absolute mobility differs from relative mobility, which compares people against how their peers are doing. If most people's incomes go up over time, individuals can stay in the same position relative to their peers even while their absolute incomes rise. To be economically mobile in a relative sense, a person's position in the income distribution must change. Intragenerational mobility is distinguished from intergenerational mobility in that it compares families' incomes to their own previous levels rather than to those of their parents.

The typical family can experience upward absolute intragenerational mobility even while the typical income of the population as a whole remains unchanged. The resolution of this paradox lies in the fact that the family that has the typical income changes from year to year. To illustrate the distinction, consider a 30-foot high escalator in a department store in which people enter at the bottom and leave at the top at the same rate. The typical person at any point in time will always be halfway up the escalator, 15 feet from both floors. But by the same token, everyone who rides the escalator will experience 30 feet of "upward mobility" by the time they exit.

The analogy in terms of family incomes would be a society with steady entrance into and exit from the working-age years, with incomes increasing over everyone's life course. At any point in time, the typical income might be constant, but the typical person would experience upward mobility. In the real world, the economic ride of many Americans takes them steadily upward as younger workers, flattens

out in middle age, and then moves them downward as they cut back on their hours and retire. For some, however, within this basic pattern the path looks much like that of a roller coaster ride, with sharp drops, gains, or both. And still others follow a path that is fairly smooth but with gentle trips downward and upward as they get married, take time out to raise children, or go back to school. The varieties of experiences are almost limitless, and accordingly, this report attempts to summarize the diversity of Americans' economic paths.

To be sure, everyone can experience upward mobility over the course of his or her lifetime even while failing to achieve the economic success enjoyed by previous generations. This would be the case if, for example, the rate of income growth is the same as rates in the past, but incomes starting out are lower. To use the escalator analogy, it would be the difference between people entering the escalator on the third floor instead of the fourth. In both cases, people experience the same mobility, but the people starting on the third floor remain at a lower level when they exit the escalator. In actuality, if one looks at business cycle peaks and adjusts for inflation, the median income of U.S. household heads age 25 to 34 rose from \$46,630 in 1969 to \$48,451 in 1979, was essentially flat from 1979 to 1989, and grew to \$53,476 in 2000. Thus, working-age adults are actually beginning their escalator ride from successively *higher* floors over time.<sup>5</sup>

Alternatively, the magnitude of upward mobility can fall over time, either because income gains become smaller or less common, because income drops become bigger or more common, or because recovery from drops becomes less complete. This report examines trends in these movements over the past 40 years.



## I. SHORT-TERM CHANGES IN FAMILY INCOME

### SHORT-TERM FLUCTUATIONS IN FAMILY INCOME ARE THE NORM.

The PSID, conducted annually from 1968 to 1997, indicates that in any given year during that period, roughly 30 to 40 percent of working-age adults in the United States saw their inflation-adjusted family incomes increase or decrease by more than 25 percent from the previous year. However, because the PSID has been conducted only biennially since 1997, looking at income changes in recent years necessitates comparing incomes *two* years apart rather than year-to-year changes. Between 2002 and 2004, the most recent years available, fifteen to twenty percent of adults in the United States saw their income decline by more than 25 percent, while a quarter of adults saw income *gains* of that magnitude. Including changes between 5 and 25 percent, 37 percent of adults experienced an income loss of at least 5 percent, and fully 46 percent saw their income increase by at least 5 percent. Another 17 percent had a negligible loss or gain, that is, a loss of less than 5 percent or a gain of 5 percent or less.<sup>6</sup>

### THE NUMBER OF PEOPLE EXPERIENCING A LARGE SHORT-TERM INCOME CHANGE IN EITHER DIRECTION HAS BEEN FAIRLY STABLE OVER TIME.

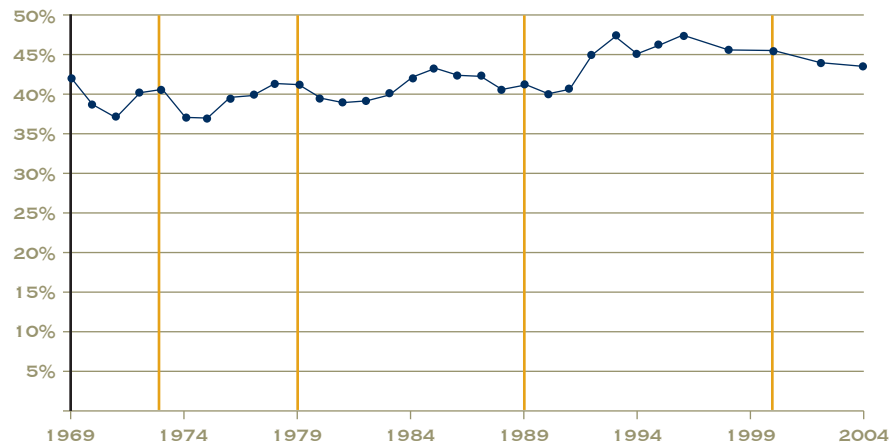
There are various ways to measure economic volatility. One simple approach is to look at the share of the population experiencing a change in income—either a loss or a gain—of more than 25 percent. The trend in this measure is shown in Figure 1.

There was little change in volatility from 1969 to 1991, with the percent of adults experiencing large income changes drifting upward a bit. From 1993 to 2004, volatility declined modestly. Between these two periods, however, volatility spiked, increasing from 41 to 48 percent in just two years and shifting permanently upward in the process.

Figures 2 and 3, which are discussed in detail below, reveal that the shift upward described in Figure 1 is the result of two dynamics: the chance of a large income gain rose after the 1990 recession, and the risk of a large income drop remained relatively high. In other periods of recovery, as shown in Figure 2, the risk of a large income drop declined notably, but not after the 1990 recession.<sup>7</sup>

FIGURE 1

## Share of Population Experiencing Two-Year Gains or Losses of More Than 25 Percent, 1969–2004

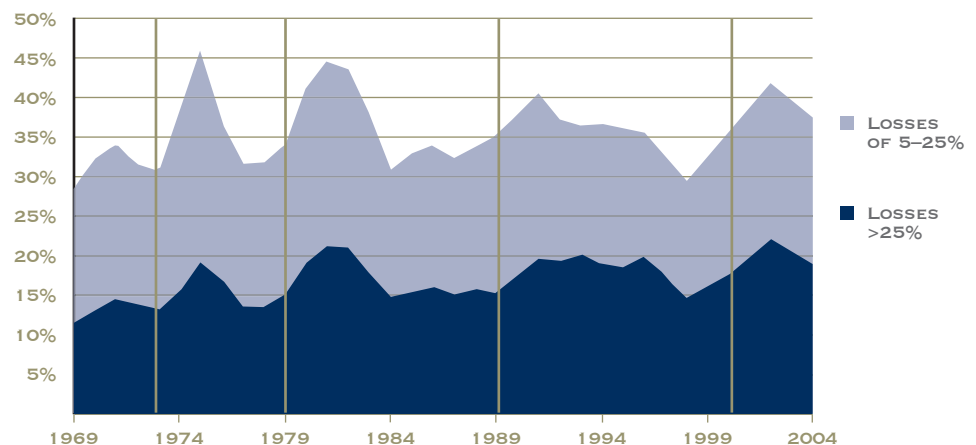


Note: Vertical lines indicate years of lowest unemployment for each business cycle (peak to peak, January 1980 to July 1981 omitted). The 1969–1991 and 1993–2004 periods are not strictly comparable (see the discussion in the text).

Are these patterns real, or might they simply reflect problems with the PSID data? As described in detail in the notes, it is likely that this apparent shift in the early 1990s reflects data inconsistencies.<sup>8</sup> This conclusion is reinforced by the fact that the risk of a drop of at least 5 percent shows the expected decline in the early 1990s (see Figure 2) and that the chance of an income gain follows the same pattern regardless of whether one considers a gain of 5 to 25 percent or of more than 25 percent (see Figure 3).

FIGURE 2

## Share of Population With Two-Year Income Losses, 1969–2004

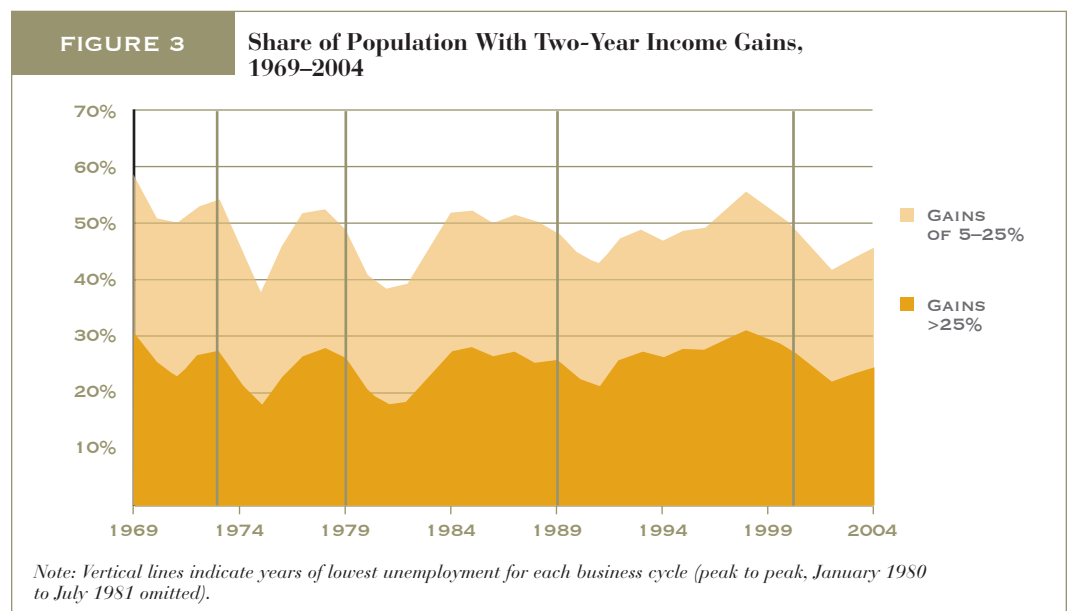


Note: Vertical lines indicate years of lowest unemployment for each business cycle (peak to peak, January 1980 to July 1981 omitted). For large income losses, the 1969–1991 and 1993–2004 periods are not strictly comparable (see the discussion in the text).

To get around this data problem, Figure 4 (shown on next page) shows how the chance of a 5 percent income change in either direction has evolved over time. The probability fluctuates within a narrow range between 82 and 87 percent. There is little change over time.

**AMERICANS ARE NO MORE LIKELY TO EXPERIENCE A LARGE TWO-YEAR INCOME LOSS THAN THEY WERE IN THE PAST.**

Figure 2 tracks the share of adults with non-negligible income losses over two years. From the mid-1970s through 2004, there is little evidence of a trend in the share of those experiencing a loss, with the conclusion differing depending on whether one compares peaks, low points, or years of low unemployment. Figure 2 *does* appear to show a small upward trend in the share experiencing large losses. However, as noted above, this rise most likely reflects data problems, and in reality, the risk of a large income loss is no higher than it was in the past.

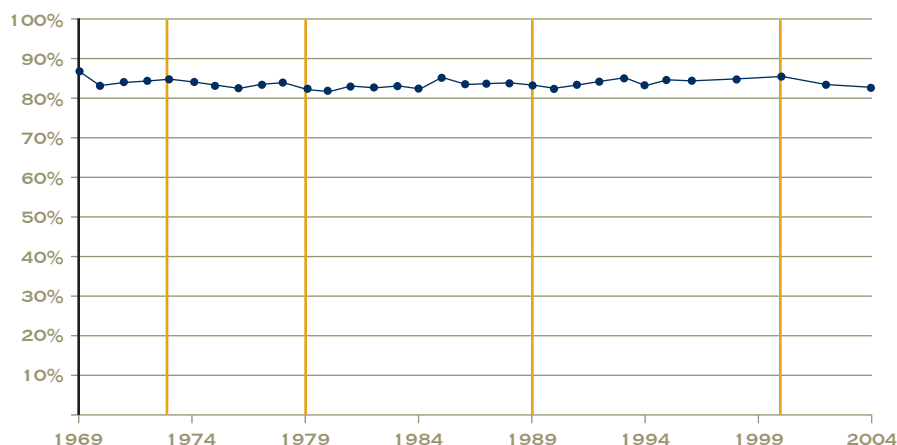


Americans are just as likely to experience large short-term income gains now as they were in the past. Figure 3 shows trends in two-year income gains. This graph mirrors the previous one: the peaks in Figure 2 are the low points, or troughs, in Figure 3, and vice versa. Again, there is little evidence of a trend in gains, and the patterns for large gains and smaller gains are similar.

Over time, then, there has been little change—beyond cyclical ups and downs—in the chances of large short-term income gains or declines. Also of note is that large income gains exceeded large income losses in every year except 1975, 1981, 1982, and 2002, when the economy was in or recovering from a recession.

FIGURE 4

Share of Population Experiencing Two-Year Gains or Losses of 5 Percent or More, 1969–2004



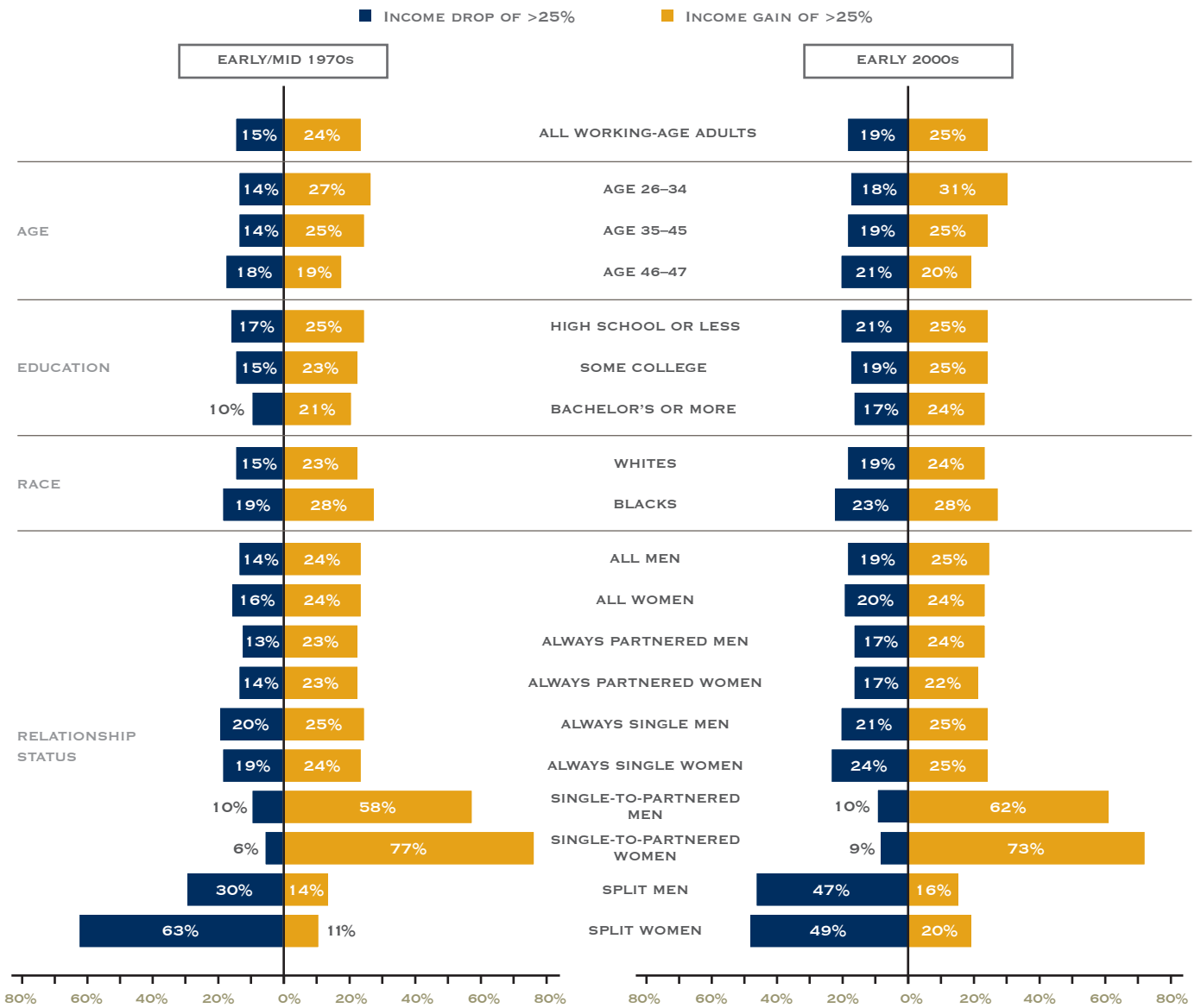
Note: Vertical lines indicate years of lowest unemployment for each business cycle (peak to peak, January 1980 to July 1981 omitted).

#### WHO EXPERIENCES SHORT-TERM UPS AND DOWNS?

There are notable patterns across demographic groups in short-term income changes. Figure 5 displays the likelihood of large two-year declines or two-year gains for different groups in the early- to mid-1970s and again in the early 2000s. While not all of these patterns are apparent from a comparison of these two time periods, historically, the risk of a large income drop has been higher for older working-age adults (aged 46–57), those with no more than a high-school education, African Americans, and, especially, couples who split up. However, in recent years the differences between several of these groups and others has narrowed. The risk of a large drop has been relatively small for adults under age 46, whites, college graduates, and adults who move in with a partner or get married. The likelihood of large income gains is highest among adults under age 46 and blacks, but especially among adults who move in together or get married.

While not reflected in Figure 5, in general, trends for subgroups follow the same cyclical patterns as in Figures 2 and 3. Over time, large gains among women who split from a partner have increased while large losses have declined. The opposite has been true for men who split from a partner. These trends reflect the narrowing gap between male and female partners' earnings as women's labor force participation and wages have grown more similar to those of men.

**FIGURE 5** Share of Population with Large Income Losses or Gains Over Two Years, by Demographic Group



Note: "Early/Mid 1970s" is the average of the figures for 1972, 1974, and 1976. "Early 2000s" is the average of the figures for 2000, 2002, and 2004.

## II. RECOVERY FROM SHORT-TERM INCOME DECLINES

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A particularly important public policy concern is how often, how quickly, and how fully those who experience short-term income losses recover. To answer these questions, the analyses in this section identify Americans experiencing short-term income losses of at least 5 percent at four points in the past forty years: 1968, 1974, 1984, and 1994. (Because all of these years fall within the period when the PSID was conducted annually, “short-term” losses in this section refer to *year-to-year* losses rather than two-year losses, as above.) The analyses then look at what happened to incomes over the subsequent ten years.<sup>9</sup>

Figure 6 displays for each period, and separately by the size of the income loss, how long it took adults experiencing losses to return to their income level prior to the decline.

### **HALF OF ADULTS WHO EXPERIENCE A SHORT-TERM INCOME LOSS OF MORE THAN 25 PERCENT RECOVER WITHIN FOUR YEARS, BUT ONE-THIRD FAIL TO RECOVER WITHIN TEN YEARS.**

In the most recent period for which data are available, which covers the years 1995 to 2004 for those experiencing an income loss from 1993 to 1994, one fifth of adults experiencing a loss of at least 25 percent fully recovered by 1995, one year later. Another 31 percent of adults recovered within four years. At the same time, 34 percent had yet to fully recover by 2004—ten years later. Among those experiencing smaller income losses, seven in ten recovered within four years, while just 16 percent had yet to recover by 2004.

### **RECOVERY TIME FROM SHORT-TERM LOSSES HAS BEEN FAIRLY STABLE IN RECENT DECADES.**

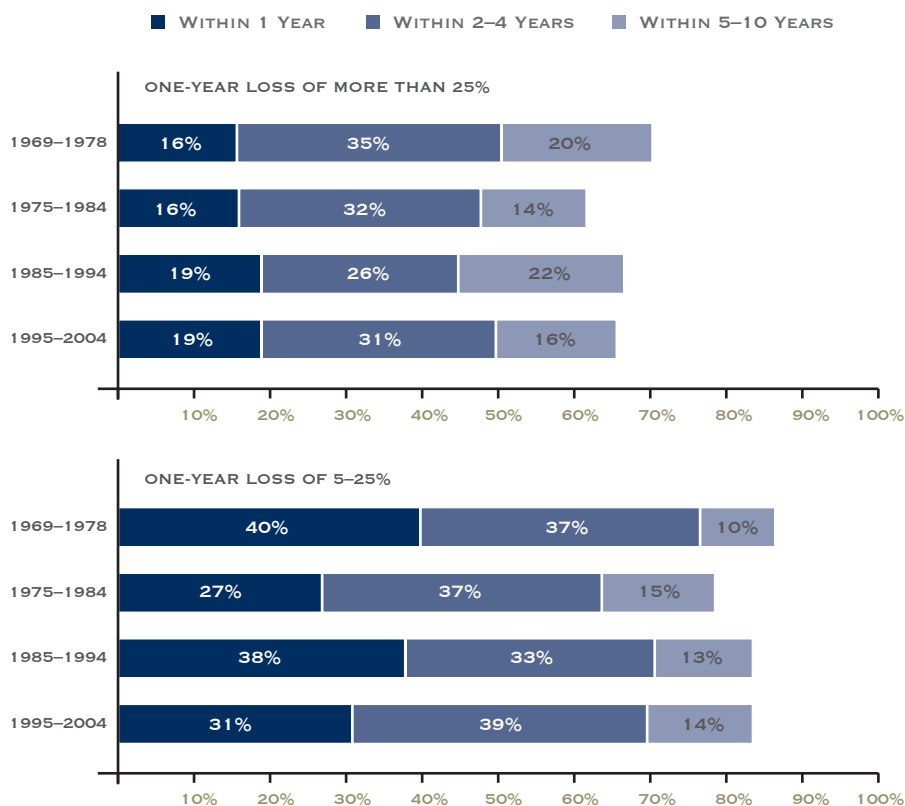
Looking at trends, what is most striking about these numbers is the consistency across the four periods. With some notable exceptions, the time to recovery is similar in each period. The share of adults who recovered from a large or small loss within ten years looks higher in the 1969–1978 period than it does in the three subsequent periods, though the differences are statistically significant only in the comparison to people in the 1975–1984 period.<sup>10</sup> The only other statistically



FIGURE 6

## Recovery Time From Income Loss, 1969–2004

Percent of Adults Recovering From a Short-Term Income Loss at Different Rates



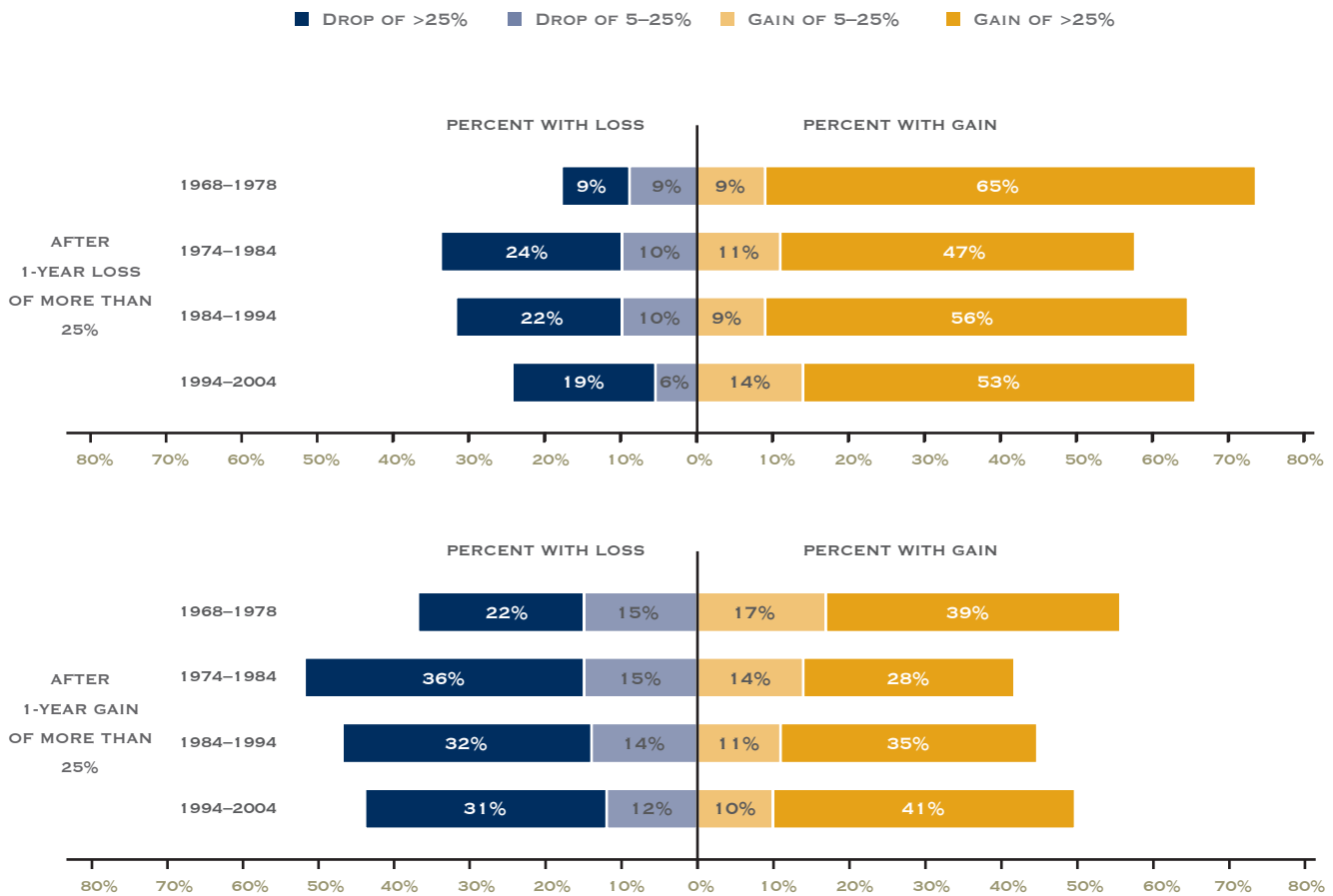
Notes: Although not reflected in the chart, people can and do subsequently experience another loss after recovering, so at the end of ten years some people who had recovered fully have incomes lower than their original level. Because of the switch in the PSID from annual to biennial surveys after 1997, it is not possible to observe income in every year for the most recent period examined. For consistency, the earlier periods are modified so that the corresponding years in those periods are dropped. That leaves only the first, second, fourth, sixth, eighth, and tenth years from which to ascertain whether recovery has occurred. Bars do not sum to 100 because chart reflects recovery rates only within ten years of experiencing an income loss.

significant difference is that the share of adults recovering in the first year after a small drop was lower in the 1975–1984 and 1995–2004 periods than it was in the other two periods.

Another way to look at the consequences of a one-year change in income is to consider how common gains and declines of different magnitudes were over the ensuing ten years. Figure 7 shows the breakdown of ten-year changes after a large one-year loss or gain for each of the four periods. Note that adults who experience, say, a 50 percent drop in income followed by a 50 percent increase are not necessarily as well off as they were when they started out. For instance, a 50 percent drop from \$20,000 leaves someone at \$10,000, but a 50 percent increase from \$10,000 leaves that person at \$15,000.

FIGURE 7

Percent With Ten-Year Income Losses or Gains Following a One-Year Loss or Gain



Note: Bars do not sum to 100 because those with a drop or gain under 5 percent are omitted.

**HALF OF AMERICANS WITH LARGE SHORT-TERM LOSSES SUBSEQUENTLY EXPERIENCE LARGE INCOME GAINS, BUT ONE IN FIVE SUFFERS FURTHER LARGE LOSSES.**

The most common experience for adults with large one-year gains or losses is to enjoy large gains over the next ten years. In the most recent period, which examines income changes from 1994 to 2004 after large losses or gains between 1993 and 1994, two-thirds of adults experiencing a large one-year loss subsequently saw income gains over the next ten years, the vast majority of them increases of over 25 percent. One in five, however, saw further large income declines. On the other hand, Americans with large gains between 1993 and 1994 were almost as likely to see losses over the next ten years as they were to see gains.

**AMERICANS EXPERIENCING LARGE SHORT-TERM LOSSES OR GAINS FARED AS WELL OR BETTER IN THE MOST RECENT PERIOD AS THEY DID IN COMPARABLE EARLIER PERIODS.**

Turning to trends, the first period, covering 1968–1978, clearly featured the strongest income growth. Adults experiencing a large loss from 1967 to 1968 were more likely than adults in the other periods to experience large income gains over the next ten years and less likely to experience a large income loss. Adults from the first period with large one-year gains were more likely than adults in other periods to have income gains over the next ten years (although the difference between the first and last periods is not statistically significant) and less likely to have large losses.

**AMERICANS WITH LARGE SHORT-TERM LOSSES FARED BETTER IN THE 1984–1994 AND 1994–2004 PERIODS THAN IN THE 1974–1984 PERIOD.**

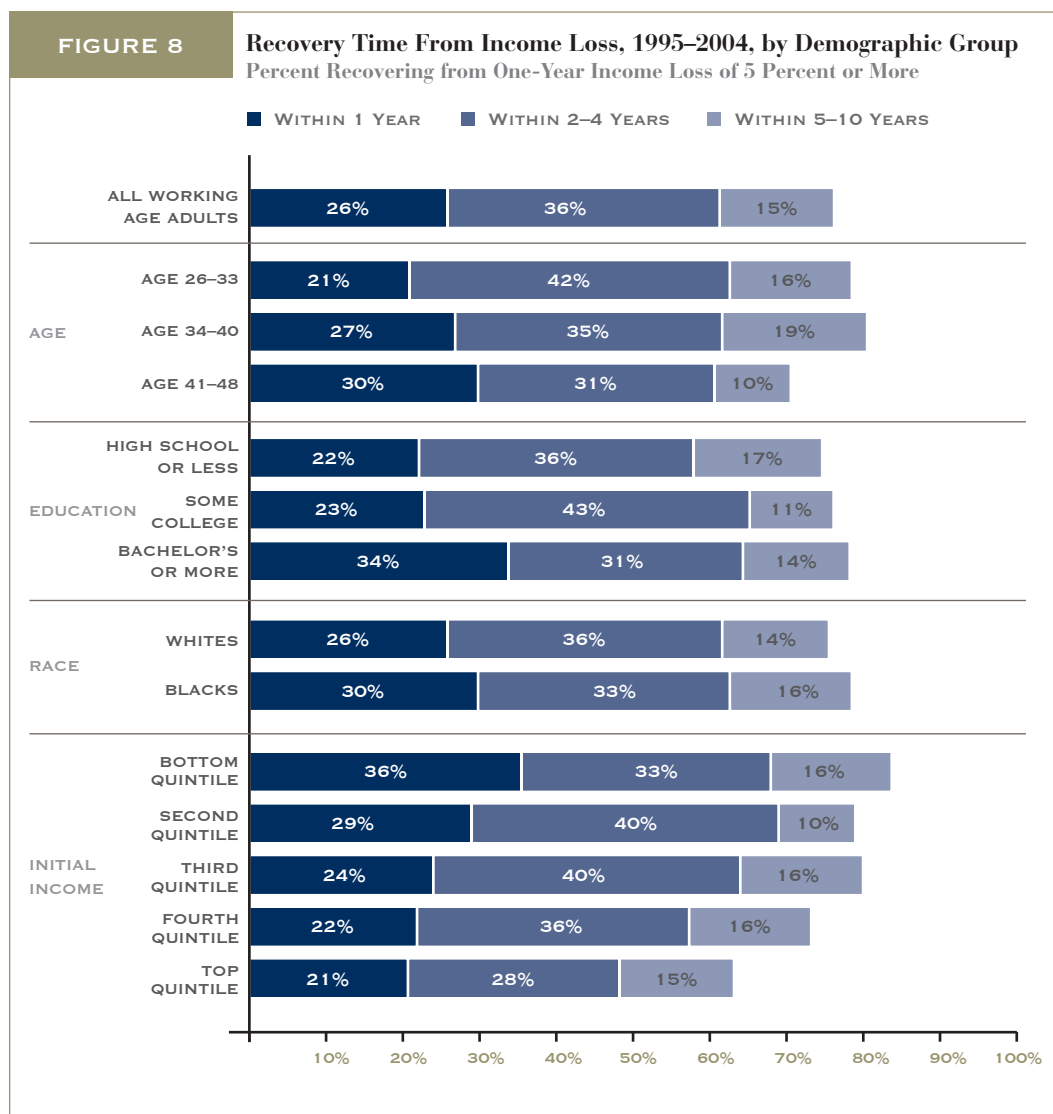
Those with large short-term losses were more likely to have large subsequent gains in 1984–1994 than in 1974–1984. They were more likely to have gains (large and small combined) in 1994–2004 than in 1974–1984. Recovery from large losses was as strong, or stronger, in the most recent period as it was in the previous two. Similarly, Americans with large short-term gains fared as well or better in 1994–2004 than they did in the previous two periods, in particular realizing more large gains over the subsequent ten years.

**A COLLEGE DEGREE PROMOTES RECOVERY, AND SINGLE WOMEN RECOVER FASTER THAN SINGLE MEN.**

Figures 8 and 9 show, for different groups, patterns of recovery among those who experienced an income loss of 5 percent or more from 1993 to 1994. Figure 8 indicates that immediate recovery (in the next year) becomes more likely at higher ages, less likely at higher initial incomes, and is higher for college graduates. Figure 9, which focuses on gender and changes in household composition, indicates that immediate recovery is higher among men and women who subsequently move in together or get married after a drop—and remain together—than it is for other groups. Immediate recovery is particularly *unlikely* among those for whom the initial drop occurs when they are under age 34, those who do not have a college degree, adults in the top 40 percent of the income distribution, and men who are single or who experience a breakup. Over a decade, essentially all women who

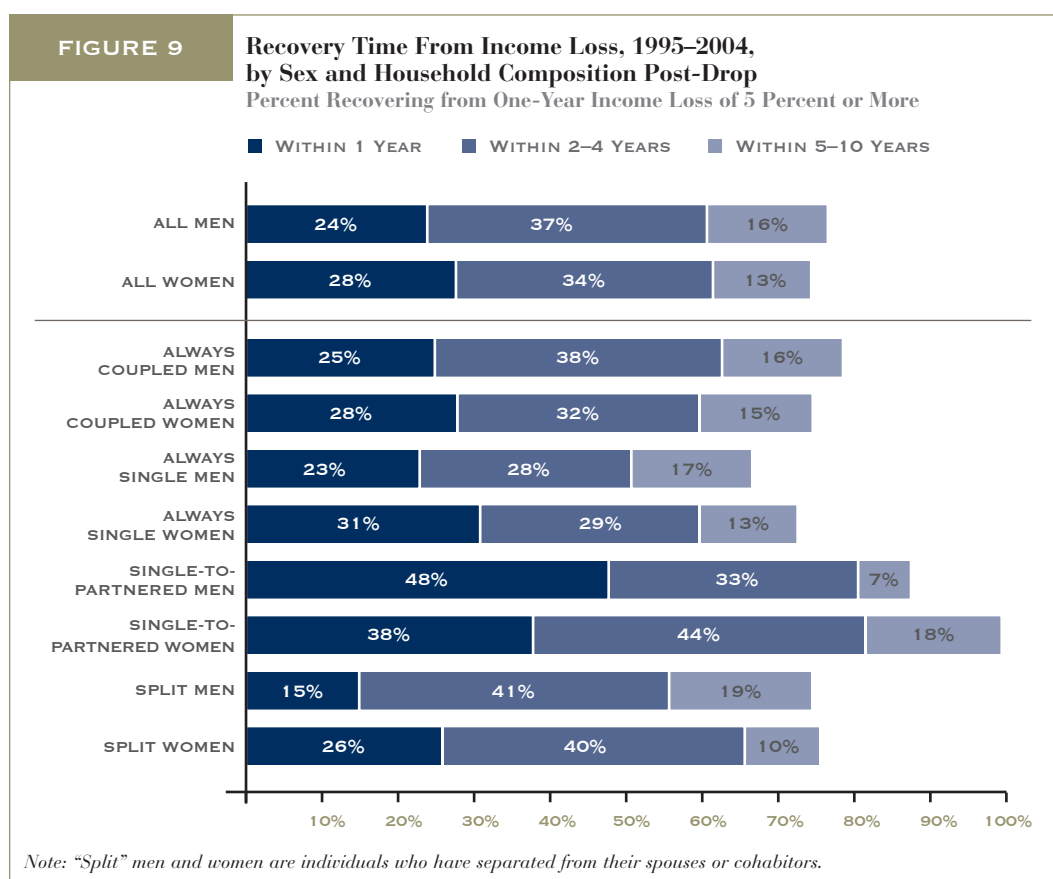
move in with a partner or get married and remain in the relationship fully recover from earlier short-term losses, and recovery rates are also 85 percent or more among men who move in or get married and adults who were initially in the poorest fifth of family income; however because sample sizes for those moving in or getting married are small, these results should be viewed skeptically. Recovery rates are below 70 percent only among continuously single men and the richest fifth of Americans.

These patterns must be considered in context however. Entering into a relationship is likely to increase per-person income much less than overall income. Recovery from an income drop of a given percentage is easier if income was low to begin with—25 percent of \$10,000 is just \$2,500, while 25 percent of \$100,000 is \$25,000.



Beyond these factors, what stands out is the importance of a college degree for a quick recovery, the stronger recovery of single women relative to single men, and the three in ten adults in their 40s who fail to recover from an income drop after ten years.

While the detailed results are omitted here for brevity, the data indicate that, compared with people who experienced income drops between 1967 and 1968, the big change has been the increased importance of college and the differences between single men and single women. Recovery rates from 1969 to 1978 did not differ by education or by gender among single adults.<sup>11</sup>



### III. LONGER-TERM CHANGES IN FAMILY INCOME

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Because short-term fluctuations clearly are flawed indicators of changes in longer-term living standards, this section looks at ten-year changes in income as a precursor to examining recovery from ten-year declines. The analyses again examine four periods: 1967–1977, 1974–1984, 1984–1994, and 1994–2004.<sup>12</sup> (See the Methodological Appendix for exact procedures in calculating income trends.)

#### **OVER A TEN-YEAR PERIOD, AMERICANS ARE MUCH MORE LIKELY TO EXPERIENCE A LARGE INCOME GAIN THAN A LARGE INCOME DROP.**

As the last column of Table 1 shows, when the 11.9 percent of Americans with a small income loss are added to the 22.9 percent with a large loss, 35 percent of working-age adults experienced a decline in income of at least 5 percent over the most recent ten-year period—almost exactly the share who experienced a decline over two years at the start of this period (shown in Figure 2). On the other hand 58 percent experienced a ten-year increase in income, significantly higher than the percent with a two-year increase (46 percent, shown in Figure 3). The share of adults experiencing a *large* income drop over ten years was similar to the share experiencing a large two-year drop—roughly twenty percent—but the share with a large gain was much higher than the share with a large two-year gain (46 percent versus 25 percent). These differences reflect the tendency of income to rise as workers gain experience, the tendency of people to recover from income drops noted above, and upward and downward mobility, which produces a churn of people experiencing income boosts and hits.

#### **THERE HAS BEEN LITTLE CHANGE IN THE PATTERN OF LONGER-TERM INCOME MOVEMENTS SINCE THE 1974–1984 PERIOD, AND MEDIAN INCOME HAS EXPERIENCED ROBUST GROWTH.**

Looking at trends, once again the notable feature is the consistency in the pattern of income changes over time. The 1967–1976 period clearly was stronger than the last three periods, with fewer people experiencing big drops and more seeing big gains. The most recent period looks slightly better than the previous two, with fewer adults experiencing losses and more experiencing large gains (although only the difference between large gainers in the second and fourth period is statistically significant). All of these patterns are reflected in the trend in the median ten-year income gain, which fell from 27 percent to 11 percent between the first two periods



and then rose to 17 percent by the most recent period. By this measure, then, the typical adult has been improving at an increasing rate over the past couple of decades. On the other hand, as the median ten-year income marches upward, achieving a percentage gain of a given size requires increasingly large absolute increases in income. The median income row in Table 1 shows that income measured over ten-year periods grew surprisingly robustly, given the conventional wisdom about the slowdown in income growth. Between the first and last periods, income measured over the long run grew by 22 percent. This robust growth is partly due to measuring incomes over ten years rather than one and partly due to the fact that population composition changes that may have put downward pressure on incomes are minimized by following the children of an earlier cohort of Americans.

TABLE 1

Distribution of Ten-Year Changes in Family Income, 1967–2004

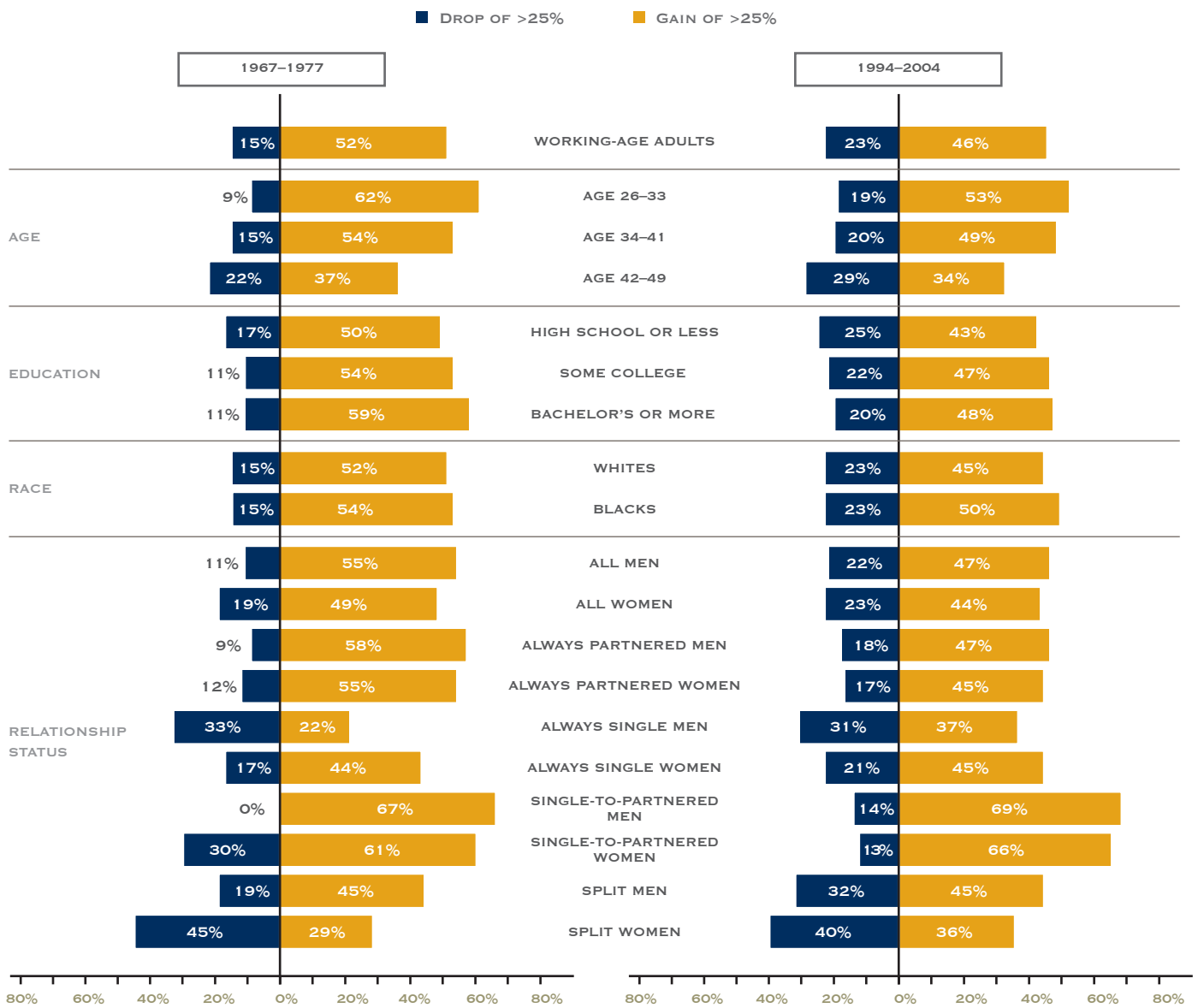
CHANGE IN INCOME	1967–1977	1974–1984	1984–1994	1994–2004
Loss of more than 25%	15.0	22.9	24.0	22.9
Loss of 5–25%	11.7	14.7	13.2	11.9
Gain or loss of less than 5%	7.1	6.9	6.0	6.9
Gain of 5–25%	14.8	15.3	12.0	12.9
Gain of more than 25%	51.5	40.2	44.8	45.5
Median gain over decade	27.2	11.4	15.9	16.9
Median yearly incomes (2006 \$)	\$62,747	\$67,356	\$70,923	\$76,319
Percentage change from previous period		7.3	5.3	7.6

#### OLDER ADULTS AND SINGLE MEN FARE WORSE THAN OTHERS.

Figure 10 compares the chance of a large drop or gain in income for a number of demographic groups, for the first and last periods in the data. In the 1994–2004 period, the risk of a large income drop over ten years is highest for men and women whose relationship ends, for continuously single men, and for older Americans. It is lowest for men and women who get married or move in together or who are continuously in such relationships, and for adults under age 40. Conversely, the chances of a large gain in income are highest for men and women who get married or move in together and lowest for single men, women whose relationships end, and older adults. There is comparatively little variation otherwise, perhaps surprisingly. Beyond the patterns related to changes in the number of earners, the relatively low recovery rates of adults in their forties and of continuously single men stand out.

Comparing the most recent period to the earliest period, the risk of a large income drop is generally larger and the chance of a large gain smaller in the later period, which is not surprising given Table 1 and the fact that the two periods cover different parts of the business cycle. The risk of a drop appears to have grown disproportionately among younger adults, men in general, and men whose relationship ends in particular. It also declined among women whose relationship ends.

**FIGURE 10** Share of Population with Large Income Losses or Gains Over Ten Years, by Demographic Group



### IV. RECOVERY FROM LONGER-TERM INCOME DECLINES

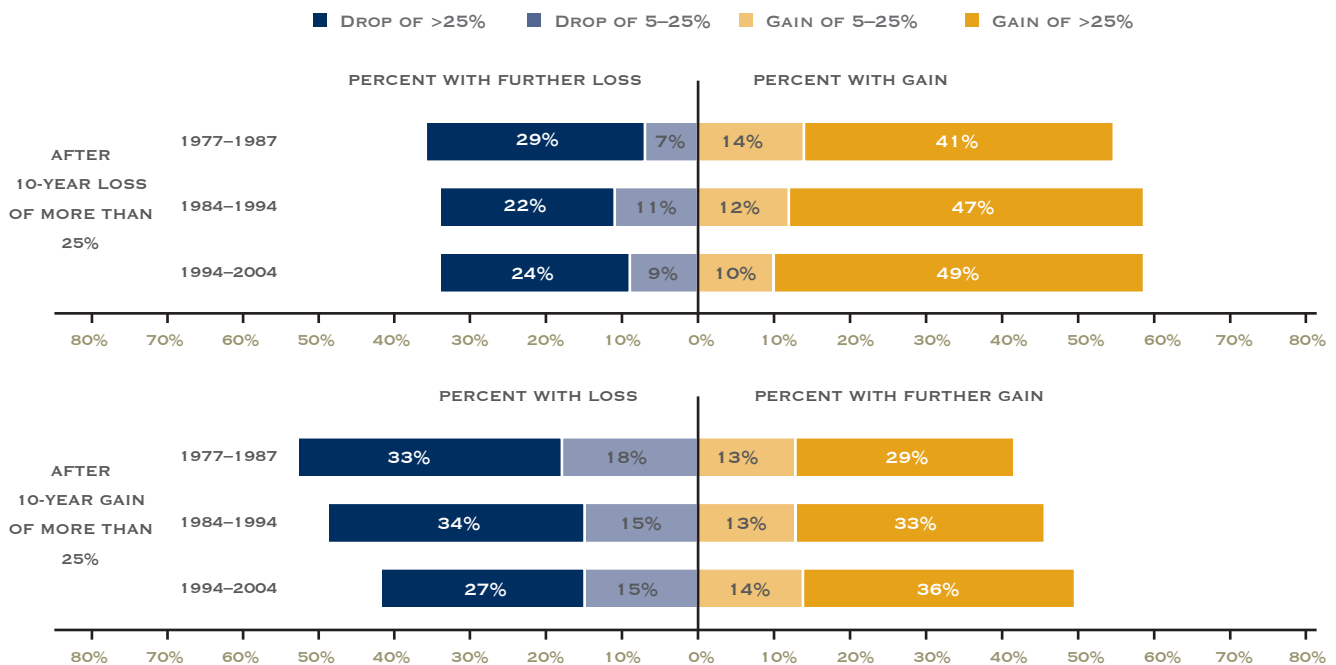
Finally, what are the consequences of experiencing income drops over a ten-year period? Figure 11 looks at people with large income declines or gains over ten years and examines how they fare in the subsequent ten years.

**HALF OF THOSE EXPERIENCING LARGE LONGER-TERM LOSSES SUBSEQUENTLY EXPERIENCE LARGE GAINS, BUT ONE QUARTER EXPERIENCE ADDITIONAL LARGE LOSSES.**

In the most recent period, half of adults experiencing a drop of more than 25 percent between 1984 and 1994 saw gains of more than 25 percent between 1994 and 2004. Another 10 percent saw smaller gains. By comparison, just over one-third of those experiencing large gains from 1984 to 1994 saw further large gains in the next ten years. On the other hand, one in four adults experiencing large declines had further large declines.

FIGURE 11

Percent with Further Ten-Year Income Drops or Gains After a Large Loss or Gain in Previous Ten Years



**RECOVERY RATES IN THE MOST RECENT PERIOD ARE AT LEAST AS STRONG AS IN THE TWO EARLIER TWENTY-YEAR PERIODS.**

In fact, there are only a few statistically significant differences in Figure 11—all of them among large gainers. The risk of a large drop after a large gain was lower in the most recent period than in the first two periods, and the chance of another large gain after a large gain was higher in the third period than in the first period (36 percent versus 29 percent).

**DESPITE SUBSEQUENT INCOME GAINS, PEOPLE EXPERIENCING A LONGER-TERM INCOME DROP HAVE A TOUGH TIME KEEPING UP.**

Another way to track the impact of longer-term income changes is to categorize Americans according to what happened to their income over ten years and then look at their incomes over the subsequent ten years. Figure 12 shows the typical adult's income when averaged over the first ten years, the second ten years, and the entire twenty-year period, shown separately according to how income changed in the first ten years.

The typical adult experiencing a decline of more than 25 percent in income between 1984 and 1994 had an annual income of \$57,825 over those years (see Figure 12). That was 16 percent lower than the median for all adults over the period and nearly \$14,000 per year lower than the median for adults with large gains. But in the subsequent ten years, from 1995 to 2004, the median income of those same people fell further behind, so that “large decliners” in the first ten years typically had incomes over the second ten years that were 39 percent lower than those for all adults and \$48,000 per year lower than adults who had large gains in the first ten years. In other words, while most “large decliners” see income gains over the subsequent ten years (as indicated in Figure 11), because their incomes are so low after the first ten years, the percentage gains are not enough to keep up with others, and their annual income over the second ten years remains lower than over the first ten years. The result of these dynamics is that over twenty years, the income of Americans experiencing a large income drop in the first ten years is 28 percent lower than the average American's income.

On the other hand, adults experiencing smaller income losses over ten years generally recover from those losses in the next ten years, as can be seen in Figure 12 by how similar their income is for the two ten-year periods. Although they

make up what they lost, the dip in the middle and the fact that they did not have much income *gain* over twenty years means that their income over the second ten years is still below that of the population as a whole. From 1995 to 2004, their median income was 16 percent, or \$13,000 per year, lower than that of all adults, and over twenty years, they lag behind the general population by 6 percent.

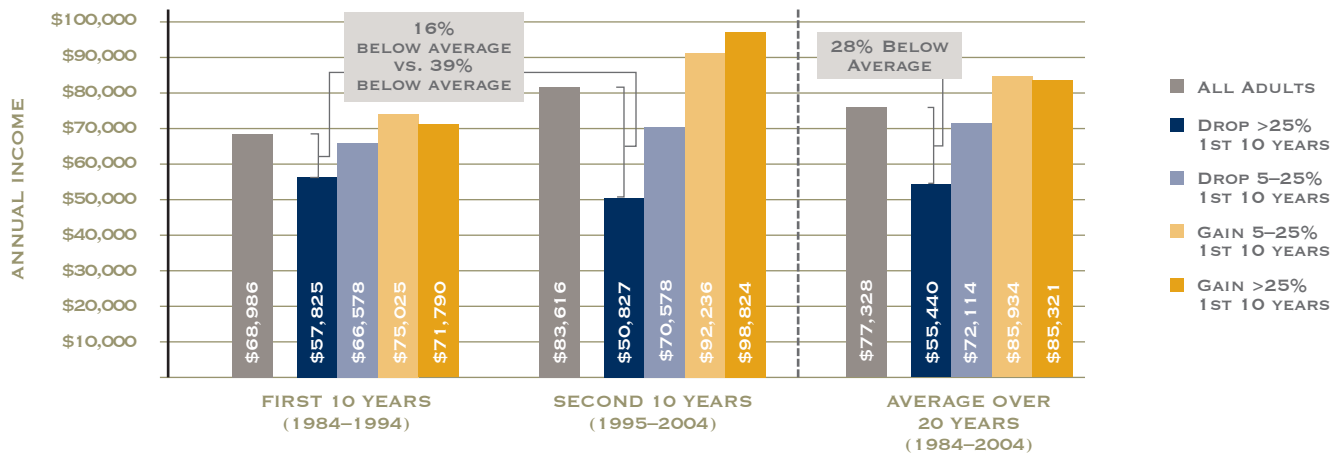
Adults experiencing income gains of 5 to 25 percent over the first ten years have annual incomes over these years 9 percent higher than the population as a whole. Their income in the second ten years is 10 percent higher than the population level, and over twenty years, their annual incomes are 11 percent above average.

The incomes over the second ten years of adults who saw large gains in the first ten years are typically around \$100,000 annually. This group actually comprised half of adults who were age 26 to 59 in every year over the whole twenty-year period. Being a relatively young group (those age 59 at the end of the period were not yet 40 at the start of it), their experiences are even more positive than the experience of all adults shown in Table 1. So great was the boost they received in the first ten years that their annual incomes in their second ten years were higher by \$27,000 per year. Over twenty years, however, their annual incomes were no higher than those of adults with a smaller gain in the first ten years. These dynamics reflect higher incomes among the small-gainers at the beginning of the twenty-year period. Smaller percentage gains in this group still leave them as well off as the big-gainers, who started out with less.

FIGURE 12

**Adults Experiencing a Large Ten-Year Loss Fall Even Further Behind Their Peers in the Subsequent Ten Years**

Median 10- and 20-Year Incomes, by Change in Income

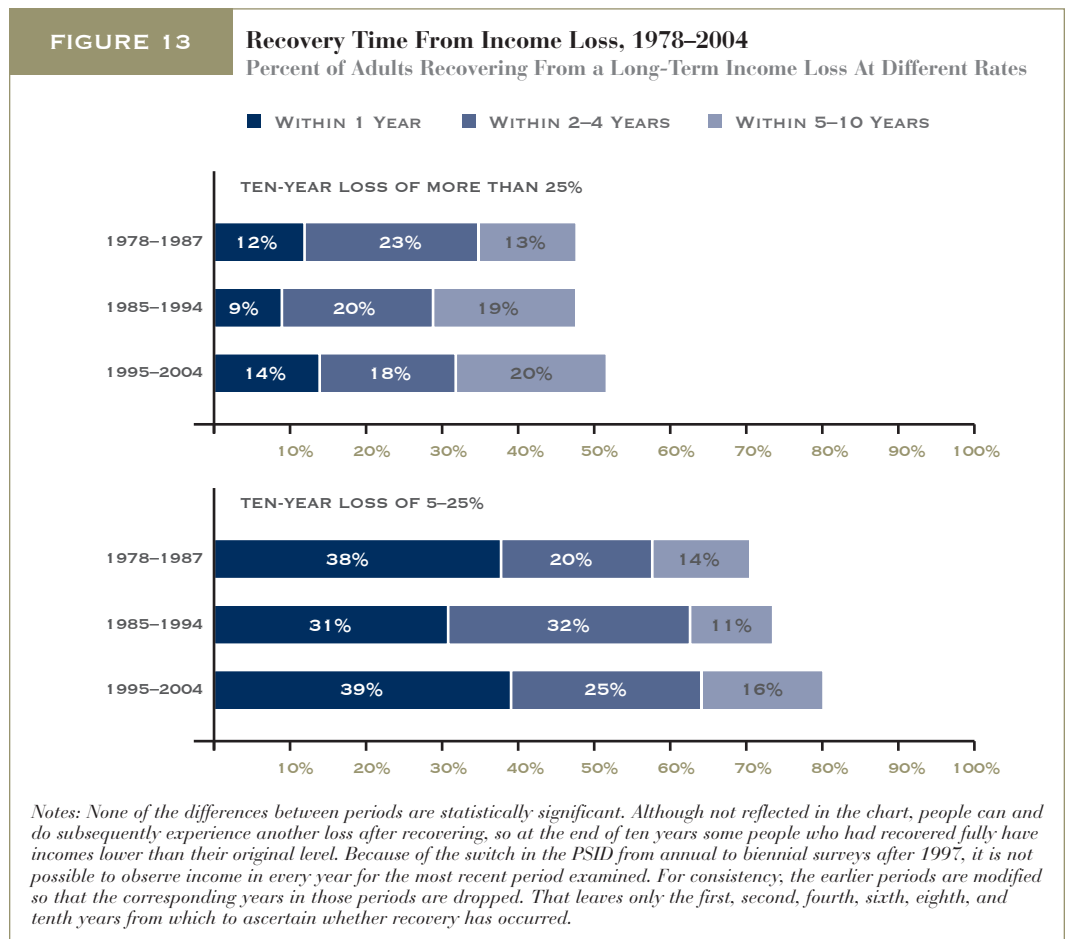


**HALF OF AMERICANS EXPERIENCING A LARGE DROP IN INCOME OVER TEN YEARS FAIL TO RECOVER OVER THE NEXT TEN YEARS.**

The final analyses presented here reveal most clearly how harmful a large ten-year drop in family income is. The top panel of Figure 13 shows that in the most recent period, 1995-2004, only half of adults (51 percent) recovered from a large income drop suffered over the previous ten years. The bottom panel indicates that recovery is stronger among adults experiencing a smaller ten-year income loss, with a majority recovering within four years. Even so, one in five fails to recover after ten years.

**OVER TIME, AMERICANS ARE RECOVERING FROM TEN-YEAR INCOME DROPS AT LEAST AS QUICKLY AS IN THE PAST.**

While the low rate of recovery from large ten-year drops is a reason for concern, Figure 13 also shows that consistent with the previous analyses, recovery from income drops is at least as strong as in the past. None of the differences across years in Figure 13 are statistically significant.





**A COLLEGE DEGREE PROMOTES RECOVERY FROM A TEN-YEAR INCOME DROP, WHILE THE CONTINUOUSLY SINGLE HAVE STRIKINGLY LOW RECOVERY RATES.**

Turning to demographic groups, Figures 14 and 15 show patterns of recovery for adults experiencing income losses of 5 percent or more from 1984 to 1994. Historically, while not entirely apparent in the figures for the most recent period, recovery is most likely for men, whites, and younger adults. Still, none of these historical differences compares with the difference today in recovery between adults continuously in a cohabiting relationship and adults continuously single. Over six in ten men who experience a long-term drop and who remain continuously single fail to recover after ten years, and the same is true for nearly six in ten single women. On the other hand, seven in ten continuously partnered adults recover from a large income loss.

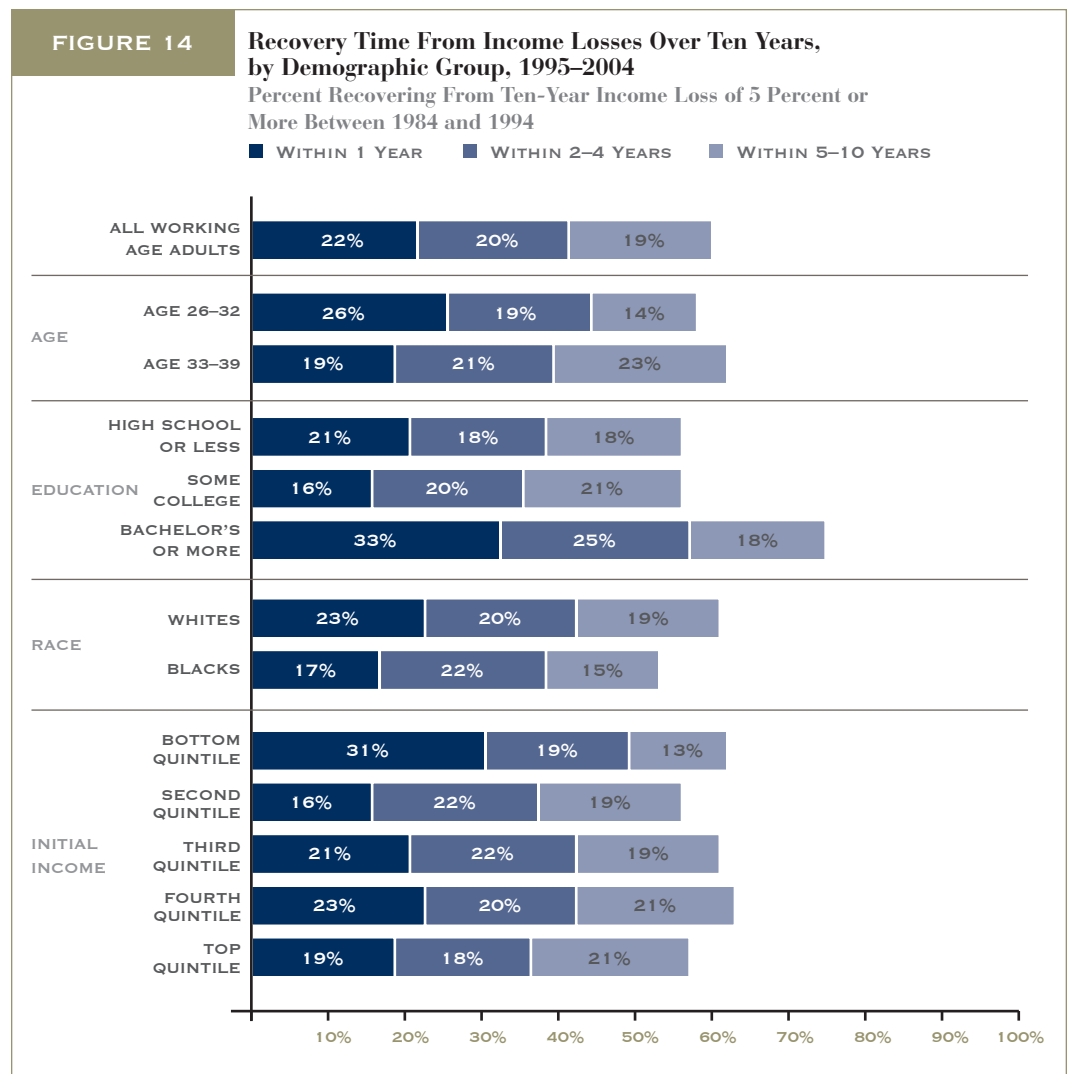
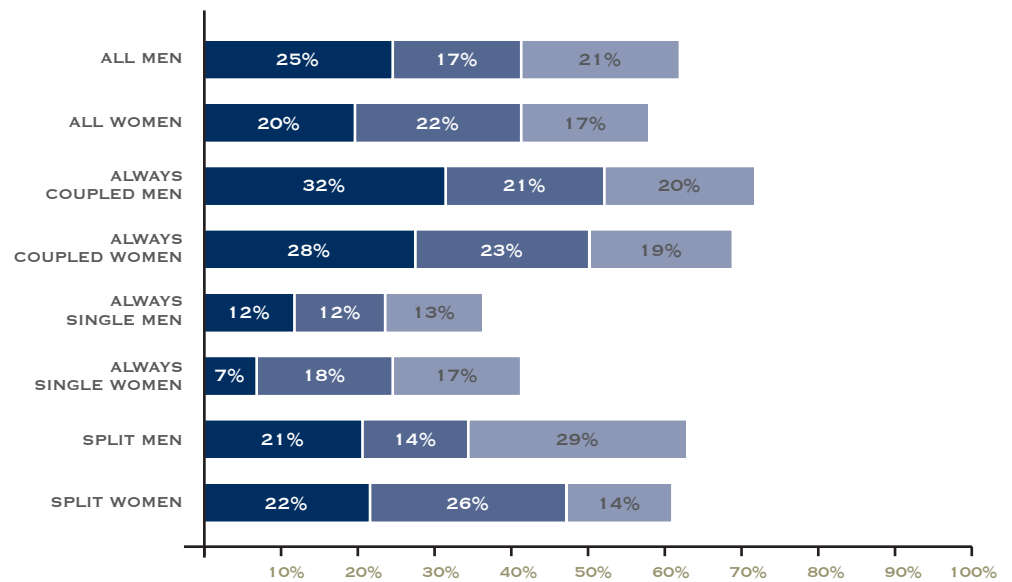


FIGURE 15

### Recovery Time From Income Losses Over Ten Years by Sex and Household Composition, 1995–2004

Percent Recovering From Ten-Year Income Loss of 5 Percent or  
More Between 1984 and 1994

■ WITHIN 1 YEAR ■ WITHIN 2–4 YEARS ■ WITHIN 5–10 YEARS



Note: “Split” men and women are individuals who have separated from their spouses or cohabitators.

## CONCLUSION

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A succinct answer to the question posed in this report's title is that, yes, the American economy continues to promote upward absolute mobility. Claims that income volatility has measurably increased for the average family are mistaken. Income gains over time outnumber income losses, and this is as true today as it was in the past. Furthermore, recovery from income losses is comparable to that of past periods. Overall, what stands out is how *minimal* changes have been over the past forty years.

Still, that things are no worse than they ever were does not mean that there are no problems. Large income losses are common, as is incomplete or inadequate recovery from them. Nearly a quarter of American adults experience a large ten-year drop in income, and they have only a fifty-fifty chance of recovery within the subsequent ten years. The evidence implies that in the current downturn, more people will experience large short-term income losses than large gains. Most of them will recover, but for some, the recession will be so disruptive that it produces large losses over a longer period. While economic risks are no more serious for these Americans than in the past, that will be little comfort for those affected.

When the economy does recover, it can be expected to raise family incomes once more, like a stalled escalator that starts back up after a delay. The impressive upward absolute mobility in the United States is surely behind the optimism that Americans exude even in the depths of recession. In polling for the Economic Mobility Project by Greenberg Quinlan Rosner Research and Public Opinion Strategies conducted in early 2009, 58 percent of Americans said that their standard of living was better than that of their parents, and 56 percent said it was easier for them to move up the income ladder.<sup>13</sup> This optimism mitigates the lack of relative economic mobility in the United States compared with that of other countries—the “stickiness” that keeps the children of the poorest parents poorer than their peers and the children of the richest parents richer. The same poll found that just four in ten Americans believed that it was a major problem that the United States has lower relative mobility than countries like Canada and Sweden.

However polling results such as these are interpreted, the analyses presented here suggest that when it comes to income volatility, the more things change, the more they stay the same. Things are not getting worse. Acknowledging this evidence does not weaken the equally true fact that for millions of Americans, things could be much better.

## APPENDIX

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### METHODOLOGICAL DETAILS

The University of Michigan’s Institute for Survey Research began the Panel Study of Income Dynamics (PSID) in 1968 by interviewing 5,000 families. Because the PSID was particularly focused on low-income transitions, the original survey participants consisted of a national sample and an oversample of low-income families. Sample weights were assigned to allow the two components to be used as representative of the population as a whole. Sample weights are regularly updated to make the PSID sample representative of either the 1968 population and its descendants (in most years) or the contemporary American population (in recent years).

The PSID interviewed the same people every year through 1997, after which the interviews were conducted every other year. A large number of the original participants dropped out and were no longer available to answer questions. To accommodate for these missing cases, the sample weights are adjusted each year to keep the PSID representative. Therefore, in all analyses in this report, the data are weighted by the person weights in the final year of the analysis, which depends on whether the analyses look at recovery or not and whether they look at short-term or longer-term changes.

The PSID adds new respondents by following the children of the original families once they go out on their own. However, since 1968, the American population has changed through the influx of new immigrants, particularly from Mexico and Latin America. In 1990, the PSID added 2,000 Latino households, including families originally from Mexico, Puerto Rico, and Cuba. Because this group did not represent the full range of post-1968 immigrants, it was dropped in 1995. A new sample of immigrant families was added in 1997 and 1999, but results from this group are not included in this study in order to be consistent with prior years. Therefore, the results here are representative of the original 1968 population and its descendants, rather than the national population in any year.<sup>14</sup>

Nonetheless, the PSID has been found to be remarkably consistent with the results from other, larger data sources. The “gold standard” for yearly data on socioeconomic conditions is the March supplement of the Current Population Survey (CPS). Researchers who have compared the PSID income and earnings distributions against the information from the CPS find that the PSID aligns very well with the findings from the CPS.<sup>15</sup>

The focus of this report is on adults who are responsible for their own well-being but not yet in retirement. The two major life transitions of entering the labor force and of retiring have a big effect on income. In order to study income paths between these transitions, all analyses are limited to people who are always older than 25 and younger than 60 (“working-age adults”). Because people move in and out of different families over the course of many years, the unit of analysis is the person, and each year’s family income is assigned to all working-age adults in the family that year. The PSID uses a somewhat expanded conceptualization of “family unit,” including the unmarried partners of the family head in most cases. Single individuals without children also constitute family units in the PSID.

Incomes are based on the pre-tax earnings of all family members plus any other source of money, including dividends, interest payments, rents, and transfer payments such as social security, unemployment insurance or welfare. The only exceptions are that windfall income such as lottery winnings, and lump-sum payments such as realized capital gains are excluded. All incomes are adjusted to 2006 dollars using the preferred Census Bureau price deflator (CPI-U-RS). PSID surveys ask about income received in the year prior to the survey, so income data is available from 1967 to 2004 (the 2005 survey being the most recent available).<sup>16</sup>

Many researchers adjust incomes by family size to facilitate comparisons of living standards between families of different sizes. This can be particularly important in comparing periods of time decades apart because fewer people today live in husband-wife couples, and more people are living alone. However, adjusting for family size creates situations in which a family can experience substantial income “losses” simply by having children or “gains” when, for instance, a child leaves home to begin college or a career. Because the most basic empirical question is about how income increases and declines have changed over time, the analyses presented in this report were run without adjusting for family size.

Many of the analyses in the paper examine income changes in percentage terms. The categories used are consistent: drop of more than 25 percent, drop of at least 5 percent but no more than 25 percent, drop or gain of less than 5 percent, gain of more than 5 percent but no more than 25 percent, and gain of more than 25 percent. When looking at “ten-year” changes, eleven years of data are used, reflecting the way that most people think about time intervals: to determine whether a person has aged a year, one compares ages in two years. When considering the time it takes to recover from an income drop, the ten years of data after a drop are used, since there are then ten points at which recovery is possible. When presenting median “ten-year” incomes, the period considered includes either ten or eleven years, as noted below, to keep analyses consistent within each section of the report.

In the analyses focusing on ten-year periods, ideally each of the periods would begin and end with a business cycle peak. But the last year of the data is 2004, which is three years after a business cycle peak. To make maximum use of the data available for historical analyses, either three or four periods are selected, all but the earliest of which begin and end mid-cycle. The first period is always chosen in order to use the earliest PSID data available, and as such, it always overlaps with the second period.

Because of the switch to biennial surveying after 1997, within the ten-year period from 1995 to 2004, only six PSID surveys were conducted. Earlier ten-year periods, however, include a full ten surveys. To make the estimates for each period consistent, it is necessary to exclude the data from the third, fifth, seventh, and ninth surveys within each of them—the same surveys missing from the 1995–2004 period. However, the results using all ten years of data where possible versus using just 6 years were basically identical.

As is noted in the report, there are many yearly variations in income that do not affect long-term living standards. Consequently, if ten-year income trends are determined by comparing the first and last years of some period, a large number of adults will have an unusual year in either one or both of these years. A better way to determine income trends over ten years is to use all of an individual's available income points and determine the best trend line over these years using linear regression analysis. In that case, the trend line gives beginning and end income estimates that differ from the actual beginning and end incomes in the data. In determining all ten-year changes, the regression-based incomes are used instead of the actual numbers (with one exception, noted below).

In all analyses that involve ten- or eleven-year periods, persons are excluded if they are missing more than one year of income data.

#### DEMOGRAPHIC SUBGROUP ANALYSES

**AGE.** Age is measured as of the first year in each analysis. In each section of the paper, adults are broken into groups based on age so that there are roughly equally sized ranges. Therefore, the actual groups used changes depending on whether recovery is analyzed or not and whether the analysis focuses on two- or ten-year changes.

**RACE.** The report presents results for whites and African Americans. There are too few people of other racial and ethnic origins in the PSID to present trends for them. The race of the “household head” as of the first year in each analysis is used for all family unit members.

**EDUCATIONAL ATTAINMENT.** The analyses use the educational attainment of the “household head” in the first year in each analysis for all family unit members. In order to ensure adequate sample sizes, adults are grouped into three categories: high school education or less, some college, and bachelor’s degree or more.

**RELATIONSHIP STATUS.** Because the PSID treats stable cohabiters as spouses and collects data on income earned by them, this report does not distinguish between cohabiting and married couples. When measuring relationship status over time, there are numerous possible combinations of relationship histories. For this report, relationship status is broken into four categories: always coupled, never coupled, entered into a relationship (without it ending), and ended a relationship. Note that there is an inconsistency in the way the PSID asks about family composition and income. In any survey, respondents report the income of the current year’s family members earned in the previous year. That may not be the same as the income of the previous year’s family members earned in the previous year, since family composition can change from year to year. Nevertheless, there is no good way to resolve this issue while still using all of the years available in the PSID. In the two-year and ten-year change analyses, relationship status is considered over the two- or ten-year period. In the recovery analyses, relationship status is considered over the ten-year recovery period.

**INCOME QUINTILES.** The analyses report trends in changes and in recovery from income drops separately for income quintiles, or fifths, of the income distribution. While it may seem that the best measure would define quintiles based on incomes at the start of a period, because approximately one-third of low-income people in any given year are there temporarily due to an isolated bad event, using the first year as their basis guarantees that low-income people will have the strongest income growth. Consequently, in these analyses, income quintiles are constructed on the basis of the income received over an entire period.

#### FOUR SETS OF ANALYSES

**TWO-YEAR CHANGES.** The report shows trends in two-year income changes measured from 1967–1969 to 2002–2004. Since the PSID was conducted every other year after 1997, it is not possible to show year-to-year changes for the entire 1967–2004 period. Age categories include persons 26 to 34 in the first year, 35 to 45, and 46 to 57. Relationship status examines changes between the two years. Income quintiles are based on incomes in the first year.

**RECOVERY FROM ONE-YEAR DROPS.** When examining recovery from short-term income drops, the drops are measured from year to year (for example, 1967–1968 rather than 1967–1969). This is possible because the recovery analyses require ten or eleven years of data subsequent to the income drop, meaning that the most recent drop occurs from 1993 to 1994, when the PSID was still conducted annually. The four periods included in the analyses examining recovery from short-term drops look at income changes from 1967–1968 and recovery from 1968–1978; changes from 1973–1974 and recovery from 1974–1984; changes from 1983–1984 and recovery from 1984–1994; and changes from 1993–1994 and recovery from 1994–2004. Age categories include persons 26 to 33 in the first year (from which the initial change in income is measured), 34 to 40, and 41 to 48. Relationship status considers changes across the recovery period rather than the two-year period during which income change is initially measured. Income quintiles are based on the combined incomes of the first and second years (the initial period during which income change is measured).

**TEN-YEAR CHANGES.** The ten-year-change analyses also consider four periods: 1967–1977, 1974–1984, 1984–1994, and 1994–2004. Age categories include persons 26 to 33 in the first year, 34 to 41, and 42 to 49. Relationship status considers changes over the entire period. Income quintiles are based on incomes averaged over the entire period. When estimating the median annual incomes in Table 1, a span of eleven years was used, since the rest of the table focuses on an eleven-year span.

**RECOVERY FROM TEN-YEAR DROPS.** Finally, the analyses that consider recovery from ten-year income drops look at three periods: changes from 1967–77 and recovery from 1977–1987; changes from 1974–1984 and recovery from 1984–1994; and changes from 1984–1994 and recovery from 1994–2004. The three periods included in the analyses examining recovery time look at recovery from 1978–1987, from 1985–1994, and from 1995–2004. The recovery time analyses use the actual change in income in the first ten years rather than regression-based estimates, since the goal is to determine how long it takes to return to the “year one” income level. Because the recovery analyses require individuals to have ten or eleven years of “recovery” data, the samples in these analyses are somewhat different from the analyses that just look at short-term or longer-term changes (which do not require that individuals remain in the data for such a long period). Age categories include persons 26 to 32 and 33 to 39 in the first year of the first ten years. Relationship status examines the entire recovery period. Income quintiles are based on the first ten-year period. When estimating the median annual incomes for each period, ten-year periods are used, excluding the eleventh year in the twenty-one-year span from the computations for both the initial “change” period and the “recovery” period.



## NOTES

- <sup>1</sup> Absolute intragenerational mobility refers to an individual's or family's income growth in real dollar terms within a lifetime. See text box on page 6 for a detailed definition.
- <sup>2</sup> Hacker, 2008; Warren, 2006; Wheary, Shapiro, and Draut, 2007; Gosselin, 2008.
- <sup>3</sup> As discussed in the Appendix, many analysts adjust income for household size to reflect the fact that a four-person household can get by as comfortably as a two-person household even if it has less than twice the income. This reflects "economies of scale." For example, having two children rather than one does not require a family to purchase a second television or car. The analyses here do not adjust for household size because the focus is on actual increases and declines in income, not changes in needs. However, initial results that adjusted for household size were similar to the results reported here.
- <sup>4</sup> If it were possible to focus only on unanticipated changes, the analyses would show fewer gains and declines in any given period, though the trends over time might look different. Gosselin and Zimmerman (2008) report evidence suggesting that the number of anticipated and unanticipated events affecting income has declined over time but that they tend to reduce income more when they do occur.
- <sup>5</sup> See <http://www.census.gov/hhes/www/income/histinc/h10AR.html>. These figures actually understate improvement in starting incomes because demographic changes left the pool of 25- to 34-year-olds relatively disadvantaged in later years compared with earlier ones. For example the percent of this age group that was black or Hispanic rose from 15.8 percent to 24.6 percent from 1970 to 2000 (see <http://www.census.gov/population/www/documentation/twps0056/tab01.pdf> and <http://www.census.gov/prod/2001pubs/c2kbr01-1.pdf>). Furthermore, the increase in single-person households and the decline in fertility mean that incomes are divided among fewer household members today than in the past.
- <sup>6</sup> Note that these estimates likely overstate the amount of true income change because of measurement error. Nevertheless, trends in income changes will be unaffected unless the amount of measurement error changes over time.
- <sup>7</sup> In analyses not shown, the data also revealed that the biggest gainers in the early 1990s had income gains as big as would be expected given past trends, but the typical person had somewhat smaller gains than in past recoveries, and the biggest losers had notably bigger income losses than in the past.
- <sup>8</sup> One way to answer this question is to compare the PSID income data to that in the Current Population Survey (CPS). Levels of income dispersion and trends in those levels align very closely from 1967 through 1988 or 1989. By 1990, however, a gap between the two opens up that never diminishes thereafter. Furthermore from 1992 to 1993 the PSID variances are even more out of line with the CPS (and even with neighboring PSID variances). These are the two years in which the diminished recovery in the PSID is most apparent. Notably, the lowered recovery in the early 1990s is not temporary but constitutes a shift affecting all subsequent years. That is also consistent with the permanence of the PSID–CPS divergence. It is well known that changes in the PSID administration in the early 1990s affected income estimates to some extent (Kim and Stafford, 2000; Gouskova and Schoeni, 2007; Dynan, Elmendorf, and Sichel, 2008; Nichols and Zimmerman, 2008). See Winship (2009) for a summary of the survey changes during this period.

Karen Dynan and Daniel Sichel of the Federal Reserve Board and new Congressional Budget Office director Douglas Elmendorf have noted that there is a spike in the PSID data from 1992 onward, and especially in 1993 and 1994, in the number of respondents who report \$0 incomes before or after reporting incomes of \$10,000 or more (Dynan, Elmendorf, and Sichel, 2007). Because the number reporting \$0 incomes before or after reporting incomes less than \$10,000 has not increased, they argue that the PSID administrative changes make the post-1991 data not directly comparable to the pre-1992 data.

Because the CPS variance trends are so stable (showing a steady increase in income variances after 1989), it is reasonable to believe that they are accurate, and that the PSID departures are due to changes in the PSID administration.

- <sup>9</sup> The first of these four periods includes the earliest data in the PSID (for 1967 and 1968) in calculating year-to-year losses, while the last ensures that the most recent PSID data (from 2004) are included in calculating ten-year recoveries. All four periods represent spans that end at similar points in the business cycle (in the middle of the cycle). The last two periods also begin in mid-cycle. Thus, the last two periods are the most comparable, while the first period is least comparable to them. Ideally the analyses would compare changes over full business cycles to one another, but the limitations of the data do not permit this.
- <sup>10</sup> When a difference is not “statistically significant,” that means it could have arisen by chance. Surveys comprise a relatively small number of people who stand in for the population as a whole. By chance, the people who end up being chosen to represent everybody else may look a bit different than they “should.” So the differences that are seen in survey data can be due to this “sampling error” rather than reflecting true differences in the population. When a difference is “statistically significant,” we can be reasonably sure that it is a real difference in the population.
- <sup>11</sup> Results available from the authors upon request.
- <sup>12</sup> These periods were selected to maximize the use of the years available in the PSID and to ensure comparable business cycles. Once again, all four periods represent spans that end at similar points in the business cycle, and the last two periods start at similar points in the business cycle.
- <sup>13</sup> For full polling results, including analysis and an interactive tool for creating tables, see [www.economicmobility.org](http://www.economicmobility.org).
- <sup>14</sup> Other sample restrictions include limiting the analyses to PSID “sample members” (who generally have a bloodline to the original 1968 sample) who are present in a household in a survey year.
- <sup>15</sup> See Gouskova and Schoeni (2007) for a discussion of this issue.
- <sup>16</sup> Because the PSID bottom-coded incomes at \$1 prior to 1994, all incomes of less than \$1 are recoded to \$1 in all years.

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#### ABOUT THE PROJECT

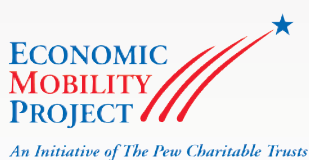
The Economic Mobility Project is a unique nonpartisan collaborative effort of The Pew Charitable Trusts that seeks to focus attention and debate on the question of economic mobility and the health of the American Dream. It is led by Pew staff and a Principals' Group of individuals from four leading policy institutes—The American Enterprise Institute, The Brookings Institution, The Heritage Foundation, The New America Foundation, The Peterson Foundation, and The Urban Institute. As individuals, each principal may or may not agree with potential policy solutions or prescriptions for action but all believe that economic mobility plays a central role in defining the American experience and that more attention must be paid to understanding the status of U.S. economic mobility today.

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