

**INCOME MOBILITY IN THE U.S.
NEW EVIDENCE FROM TAX DATA
1987-1996 and 1996-2005**

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JERRY AUTEN & GEOFF GEE

Office of Tax Analysis, Treasury Dept

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Inequality Has Increased Over Time - Mainly at the Top

Income Quintile	Income Quintile Breakpoints(\$1,000s)			Ratio of Breaks to Median Income		
	1987	1996	2005	1987	1996	2005
Lowest	<12	<15	<19	<.5	<.5	<.5
Second	12	15	19	0.5	0.5	0.5
Middle	20	26	33	0.8	0.8	0.8
Fourth	30	39	51	1.2	1.2	1.2
Highest	45	61	83	1.8	1.9	2.0
Top 1%	171	285	464	6.7	9.0	11.2

ANOTHER PERSPECTIVE: INCOME MOBILITY

MANY ANALOGIES:

**“MOVING UP AND DOWN THE INCOME
LADDER”**

**“AN ESCALATOR” (HELPED BY ECONOMIC
GROWTH?)**

**SCHUMPETER: “A HOTEL WITH MANY ROOMS
OF VARYING QUALITY”**

“THE AMERICAN DREAM”

RECENT REVIVAL OF INTEREST IN INCOME MOBILITY -

- **LONG HISTORY OF STUDIES:
SAWHILL & CONDON (1992-1996)**
- **RECENT CBO AND FED STUDIES ON
INCOME VOLATILITY**
- **PEW-BROOKINGS MOBILITY
PROJECT**

TWO NEW TREASURY STUDIES

1987-1996 MOBILITY – 88,000 TAX RETURNS

1996-2005 MOBILITY - 97,000 TAX RETURNS

BASIC APPROACH:

**PRIMARY & SECONDARY TAXPAYERS AGE 25+
IN BASE YEAR TRACKED SEPARATELY**

**CASH INCOME = WAGES + INTEREST
+ TAX-EXEMPT INTEREST + ...
+ CAPITAL GAINS
+ ALL SOCIAL SECURITY BENEFITS**

USING TAX DATA FOR MOBILITY:

MORE ACCURATE INCOME REPORTING THAN SURVEYS, ESPECIALLY HIGH INCOME

HOW REPRESENTATIVE ARE TAX DATA?

AGE 25+ = 85% OF ADULT POPULATION

AGE 25-64 = 92.5%

AGE 65+ = 56%

LOW-INCOME NON-FILERS AN ISSUE

- INCENTIVE TO FILE FOR REFUNDS & EITC**
- SOCIAL SECURITY BENEFITS=84% OF TRANSFER INCOME**
- NOT ALL OF MISSING ARE POOR**

3 Measures of Mobility

- **MOBILITY RELATIVE TO THE TOTAL FILING POPULATION**
- **MOBILITY RELATIVE TO THE INITIAL PANEL POPULATION**
- **ABSOLUTE INCOME MOBILITY – ARE REAL INCOMES RISING OR FALLING?**

Measure 1: Income Mobility Relative to the Total Population

2005

1996	Lowest	Second	Middle	Fourth	Highest	Total	Top 1%
Lowest	42	29	14	10	5	100	0.2
Second	17	33	27	15	8	100	0.1
Middle	7	18	33	30	13	100	0.3
Fourth	4	7	18	40	30	100	0.3
Highest	3	3	7	18	69	100	4
Top 1%	3	1	2	5	88	100	43
Total	13	17	20	23	27	100	1

1ST MOBILITY MEASURE FINDINGS: 1996 FILERS RELATIVE TO ALL 2005 FILERS

- **56% MOVED UP OR DOWN BY QUINTILE**
- **BOTTOM 20% - 58% MOVED UP**
- **MIDDLE 20% - 42% MOVED UP**
- 25% MOVED DOWN
- **TOP QUINTILE - 31% MOVED DOWN**
- **TOP 1% - 57% MOVED DOWN**
- **OVERALL: 36% MOVE UP**
20% MOVE DOWN

**2ND MOBILITY MEASURE FINDINGS:
1996 FILERS RELATIVE TO EACH OTHER
NO NET UPWARD MOBILITY IN THIS MEASURE**

- **55% (vs 56%) MOVED UP OR DOWN**
- **BOTTOM 20% - 45% (vs 58%) MOVED UP**
- **MIDDLE 20% - 32% (vs 42%) MOVED UP
- 34% (vs 25%) MOVED DOWN**
- **TOP 1% - 60% (vs 57%) MOVED DOWN**

Measure 3: Absolute Income Mobility, 1996-2005

1996 Quintile	1996 to 2005 Income Change:			% Change Median Income
	Decreased	Increased <100%	At Least Doubled	
Lowest	18	32	49	91
Second	27	49	24	35
Middle	32	54	14	23
Fourth	36	55	9	17
Highest	45	46	9	10
Top 1%	65	22	13	-26
All	32	48	20	24

3RD MOBILITY MEASURE: ABSOLUTE INCOME MOBILITY

- **Median HH income rose 24%.**
- **Incomes rose for 68% of HH.**
- **Incomes fell 25%+ for 18% of HH.**
- **Bottom 20%: Median income rose 91%**
- **Middle 20%: Median income rose 23%**
- **Top 20%: Median Income fell 26%**

TAX DATA CAN SHOW INCOME CHANGES AT THE VERY TOP

- **TOP 0.01% = TOP 11,700 RETURNS**
- **ONLY 25% IN THE TOP 0.01% IN 1996
WERE IN THE TOP 0.01% IN 2005**
 - **BUT 80% REMAINED IN IN TOP 1%**
- **MEDIAN INCOME OF 1996 TOP 0.01%:**
1996 - \$11.6 MILLION
2005 - \$4.1 MILLION

After-Tax Income Mobility, 1996-2005

1996 Quintile	% with Increase in Real Income		% Change Median in Real Income	
	Pre-Tax	After Tax	Pre-Tax	After Tax
Lowest	81.7	81.7	90.5	90.3
Second	73	75	35	38
Middle	68	71	23	26
Fourth	64	68	17	21
Highest	55	59	10	15
Top 1%	35	53	-26	-23
All	68	70	24	29

**DID MOBILITY INCREASE OR
DECREASE, 1996-2005 vs 1987-1996?**

INCOME GAPS BECAME WIDER AT TOP:

RATIO OF TOP 1% CUTOFF TO MEDIAN:

1987 = 7 1996 = 9 2005 = 11

RELATIVE INCOME MOBILITY

**REMAINED VIRTUALLY UNCHANGED –
MOST CELLS WITHIN 1 PERCENTAGE
POINT.**

ABSOLUTE MOBILITY INCREASED

Income Mobility Relative to the Population Age 25-55

2005

1996	Lowest	Second	Middle	Fourth	Highest	Total	Top 1%
	41						
Lowest	(42)	30	14	10	5	100	0.2
Second	16	33	27	16	9	100	0.2
Middle	7	16	34	29	14	100	0.3
Fourth	4	7	18	41	30	100	0.4
					71		
Highest	3	3	6	17	(69)	100	5
							47
Top 1%	4	2	2	4	88	100	(43)
Total	13	17	20	23	27	100	1

LIFE CYCLE KEY ASPECT OF MOBILITY

1996 Age Group	1996 Median Income	% Change in Median Income by 2005
25-34	34,515	63
35-44	52,180	18
45-54	59,671	9
55-64	56,189	11
65+	49,888	14
All	48,684	24

Recap of Key Findings:

- **INCOME GAPS WIDENED FROM 1987 TO 2005**
- **OVER HALF (55-56%) CHANGED INCOME QUINTILES**
- **HALF (45-57%) OF BOTTOM 20% MOVED UP**
- **OVER HALF (57-60%) OF TOP 1% MOVED DOWN**
- **MEDIAN INCOMES ROSE FOR ALL GROUPS EXCEPT FOR THOSE IN THE TOP 5% IN 1996.**
- **RELATIVE INCOME MOBILITY UNCHANGED IN THE FACE OF WIDER INCOME GAPS – BECAUSE ABSOLUTE MOBILITY INCREASED**