Dimensions of Income Mobility of Parents and Children, 1987-2012

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The views and opinions expressed are those of the authors and do not necessarily represent official Treasury positions or policy.

There are many dimensions of income mobility:

- Lifetime mobility:
  - How do individuals/households fare over 50/50 year periods?
  - How do individuals/households fare over their life cycle?
  - How much upward and downward mobility is there? The trend amount?
  - What are the effects of short-term variability/stability?
  - How long do people stay in the top income group?

- Inter-generational mobility:
  - How do children relate to their parents? Relative to the population? In real terms?
  - What is the average correlation between parent and child incomes? How much dispersion in outcomes?
  - Why do factors affect upward/downward mobility?

The results illustrate the importance of:

- The life cycle of income (many appear in the top and bottom at different times)
- The variability of income and turnover at the top.
- The dispersion of mobility outcomes.

Observations differ in whether they view the observed mobility as sufficient. These results are preliminary and incomplete.

Methodology for the Project

The sample for the research in the 1987-1996 IRS Statistics of Income Family Panel of about 87,000 tax families, including primary and secondary taxpayers and dependents. 1987 was the first year taxpayers were required to report Social Security numbers of dependents. Individual taxpayers and dependents were followed separately, regardless of the tax unit they are in. The analysis follows the cohort of dependents born 1969-1972 who were ages 15-16 in 1987. Their 1987 income class is based on that of their family. This group is followed from 1987 to 1996 then from ages 25-28 in 1997 to 40-43 in 2012.

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The dispersion of mobility outcomes.

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INCOME MOBILITY OF PARENTS

Movement of Parents Through the Income Distribution

by 1987 Income Class

Parents’ income positions rose as they reached peak earning years. Some reached retirement. Income positions of those in the top 1% in 1987 generally fell.

Likelihood of Parents Being in the Top or Bottom Income Class

Many are in the top or bottom quintiles at least once, but few are there in all years.

Outcomes vary by 1987 income class.

Real Income of Parents from 1987 to 2012

Real incomes of parents (adjusted for family size) generally rose as they reached peak earnings years. Real incomes of the top 1% in 1987 generally fell and were more affected by the business cycle.

INCOME MOBILITY OF THE 1969-1972 BIRTH COHORT

Movement of the 1969-1972 Birth Cohort Through the Income Distribution

by 1987 Family Income Class


Likelihood of 1969-72 Cohort Being in the Top or Bottom Income Class

Many are in the top or bottom quintiles at least once, but few are there in all years.

Outcomes vary by income class of parents in 1987.

Real Incomes of the 1969-1972 Cohort from 1987 to 2012

Real incomes of the 1969-1972 cohort generally rose as they reached “middle age”. Most children from the lowest income families generally did much better than their parents. Real incomes of those from families in the top 1% in 1987 were lower than their parents. Note that all comparisons are to the income of the parents in 1987. (Index 1987=100)