Comparative Research on Household Panel Studies

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Income Mobility in five Countries:
A Research Note

by

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Comparative Research on Household Panel Studies

This series presents the results of research projects based on the analysis of one or more household panel studies. Papers will cover the wide range of substantive topics and investigations of the particular problems of comparative research.

The series will contain, among other papers, the results of all of the work being carried out as part of the Panel Comparability (PACO) project, which was funded by the European Commission under the Human Capital and Mobility Programme (1993-1996). PACO aims to develop instruments for analyzing, programming and stimulating socio-economic policies, and for comparative research on policy issues such as labour force participation, income distribution, unpaid work, poverty, household composition change, and problems of the elderly.

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The editing of this series was done under the guidance of Marcia Taylor, PACO network coordinator at CEPS/INSTEAD (1993-1996).

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Income mobility in five countries: a research note

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Abstract

*Comparative international studies of income and occupational distributions are now almost a commonplace. The Luxembourg Income Study, for example, is now a standard source for the study of income (in)equality in developed societies. Less familiar (and, it is argued below, of greater substantive importance) are empirical studies of income and occupational **dynamics** (the only major extant example to date is the Erikson and Goldthorpe CASMIN dataset that focuses on intergenerational social class mobility). The PACO dataset is a forerunner of a number of longitudinal comparative panel data sources (others include the "Syracuse file" currently including a limited range of US, Luxembourg and German variables, and the new European Household Panel Survey) which will become a central source of evidence for discussions of social and economic policy. Unlike the ECHP however the PACO (and Syracuse) datasets have only been harmonised for international comparison in a retrospective fashion; so in addition to genuine national structural differences, researchers may find other effects which reflect national differences in the sizes and distributions of interview response errors (which are of particular importance where the focus is on comparative mobility rates). This note argues that the straightforward "first difference" panel technique deals with some, but not all, of the difficulties of using PACO-type data for the cross-national comparison of "mobility regimes".*

1. Liberty, equality.... and mobility

Liberty and equality are the great subjects of social science. They are sometimes treated as distinct from each other; the discussion of "liberty" is concerned with the nature of the rights and responsibilities associated with membership of a society; arguments about "equality" are concerned with the degree of difference in material circumstances among these members. But both ultimately come down to a single concern about the nature of social justice (since for example the degree of difference in circumstances within a society may in effect serve as an exclusion of some people from effective membership of that society).

Many of these arguments are really about social and economic *mobility*. People have trajectories through different positions in social space, experience different material and psychological circumstances at different periods in their histories. Arguments about the nature of rights and the propriety of social conditions are, more often than not, really about movements among these different social positions. (For example: the

Table 1

United States   (individuals' equivalised share of household income)

	Three year trajectory			number of "wealth" events			
	1985	1986	1987	rich three times	rich twice	rich once	ever rich
top wave one:	20						
top wave two:		15.5					
top wave three:			13.1	13.1			
lower wave three:			2.4		2.4		
lower wave two:		4.5					
top wave three:			1.3		1.3		
lower wave three:			3.1			3.1	
lower wave one:	80						
top wave two:		4.4					
top wave three:			2.5		2.5		
lower wave three:			2			2	
lower wave two:		75.6					
top wave three:			3			3	
lower wave three:		0	72.5				
longitudinal wealth status				13.1	6.2	8.1	27.4

Table 2

	3 year trajectory			number of "poverty" events			
	1985	1986	1987	poor three times	poor twice	poor once	ever poor
bottom wave one:	20						
bottom wave two:		15.5					
bottom wave three:			12.9	12.9			
higher wave three:			2.6		2.6		
higher wave two:		4.5					
bottom wave three:			1.5		1.5		
higher wave three:			3			3	
higher wave one:	80						
bottom wave two:		4.5					
bottom wave three:			2.1		2.1		
higher wave three:			2.4			2.4	
higher wave two:		75.5					
bottom wave three:			3.4			3.4	
higher wave three:			72.1				
longitudinal poverty status				12.9	6.2	8.8	27.9

ever wealthy <u>and</u> ever poor   0.5

Table 3

income mobility
longitudinal income quintile position

	Lorraine 1999-90	Luxembc 1989-90	UK 1991-93	US 1988-90	Hungary 1992-95]
always top	12.9	12.1	12.4	13.1	10.4
intermittently top	13.1	15.3	14.8	13.8	17.1
top and bottom	1.9	0.7	1.6	0.5	3.6
neither top nor bottor	42.4	44.1	41.3	45.2	39.4
intermittently bottom	19.3	15.3	20.2	14.5	19.9
always bottom	10.4	12.5	9.7	12.9	9.6
20%/sometimes ratic	1.58	1.43	1.58	1.40	1.66
20%/always ratio	0.52	0.63	0.49	0.65	0.48
always/somtimes rati	0.33	0.44	0.31	0.46	0.29

Table 4

wealth and poverty dynamics
twice median income (tmi) and half median income (hmi)

	1999-90	1989-90	1991-93	1988-90	1992-95]
always rich (>tmi)	3.6	2.9	9.7	8.3	5.7
intermittently rich	6.7	4.9	13.2	11.1	12.4
rich and poor	0.6	1.9	1.6	0.3	0.0
neither rich nor poor	76.6	84.1	40.5	52.9	52.7
intermittently poor	8.8	4.5	19.8	14.6	21.8
always poor (<hmi)	3.7	1.7	15.2	12.8	7.4
hmi/sometimes ratio	1.68	1.93	1.44	1.40	1.69
hmi/always ratio	0.47	0.40	0.60	0.65	0.43
always/somtimes rati	0.28	0.21	0.42	0.46	0.25
mean annual% <hmi	7.8	4.2	25.4	19.8	17.2

present in just one of these initial income vingtiles; her or his subsequent income career can be summarised into one or other of the seven categories listed in Table 5, (each of the trajectories is defined in relation to the annual changes in the individual's income ranking).

Table 5	Income trajectories	
1	**upwardly mobile**	sustained movement upwards by 3 or more centiles over 2 years
2	**down then up**	3 or more centiles down in year 1, but 3 or more centiles up from initial position in year 2
3	**up then stable**	3 or more centiles up in year 1, return to within 3 centiles of initial position in year 2
4	**stable**	remaining within 3 centiles of initial position over the two years
5	**down then stable**	3 or more centiles down in year 1, return to within 3 centiles of initial position in year 2
6	**up then down**	3 or more centiles up in year 1, but 3 or more centiles down from initial position in year 2
7	**downwardly mobile**	sustained movement downwards by 3 or more centiles over 2 years

We can then plot the distributions of these trajectories throughout the income range (Figures 1 to 4).

Note first the common features in these graphs:

- the generally diminishing incidence of upward movement as we pass from the bottom to the top of the initial income distribution;

- the corresponding increase in the incidence of downward movement as we move through the income distribution;

- and the very considerable ("trumpet shaped") incidence of income stability at the extremes of the initial income distribution.

But casual inspection of these plots also produces some very considerable cross-national contrasts. As examples:
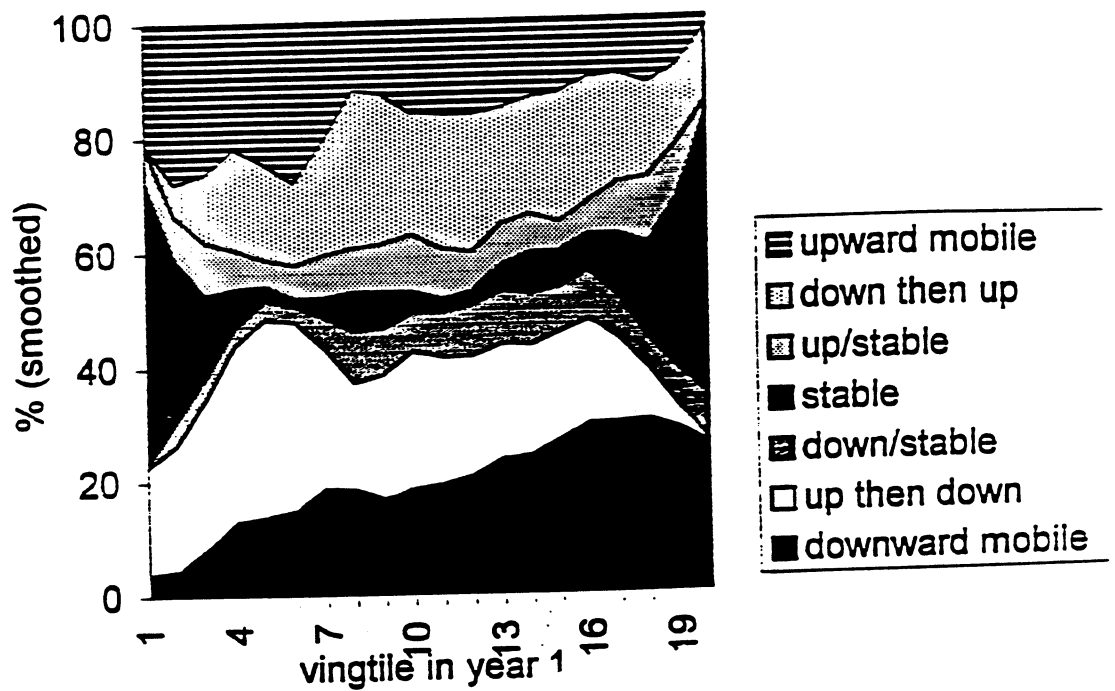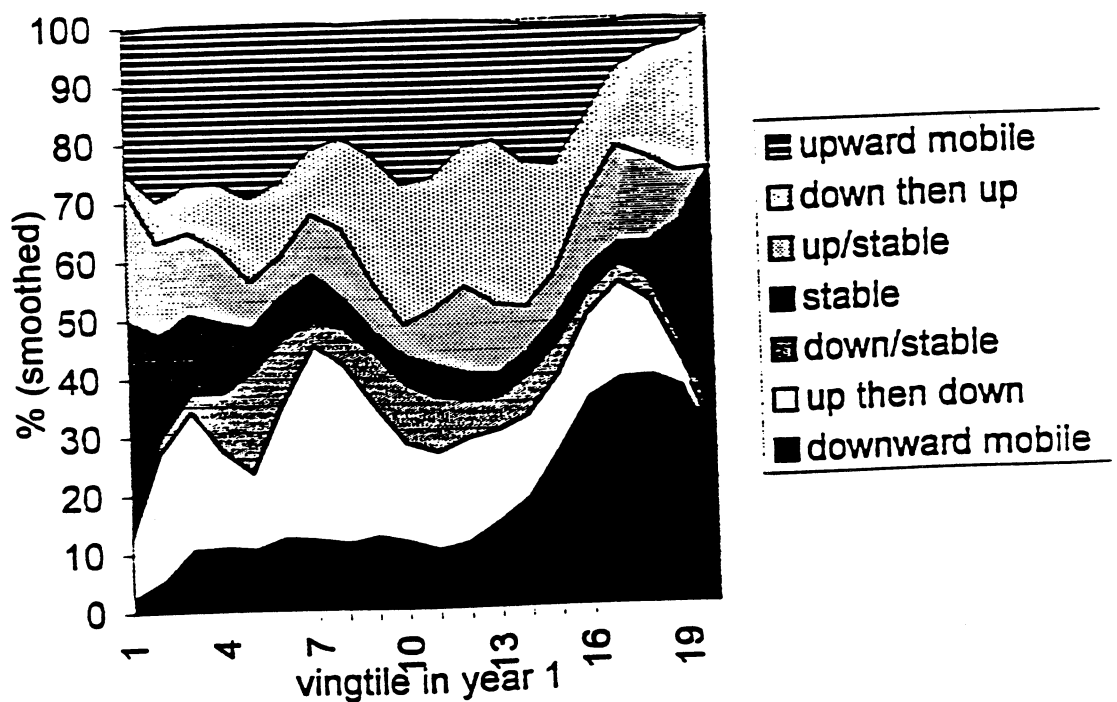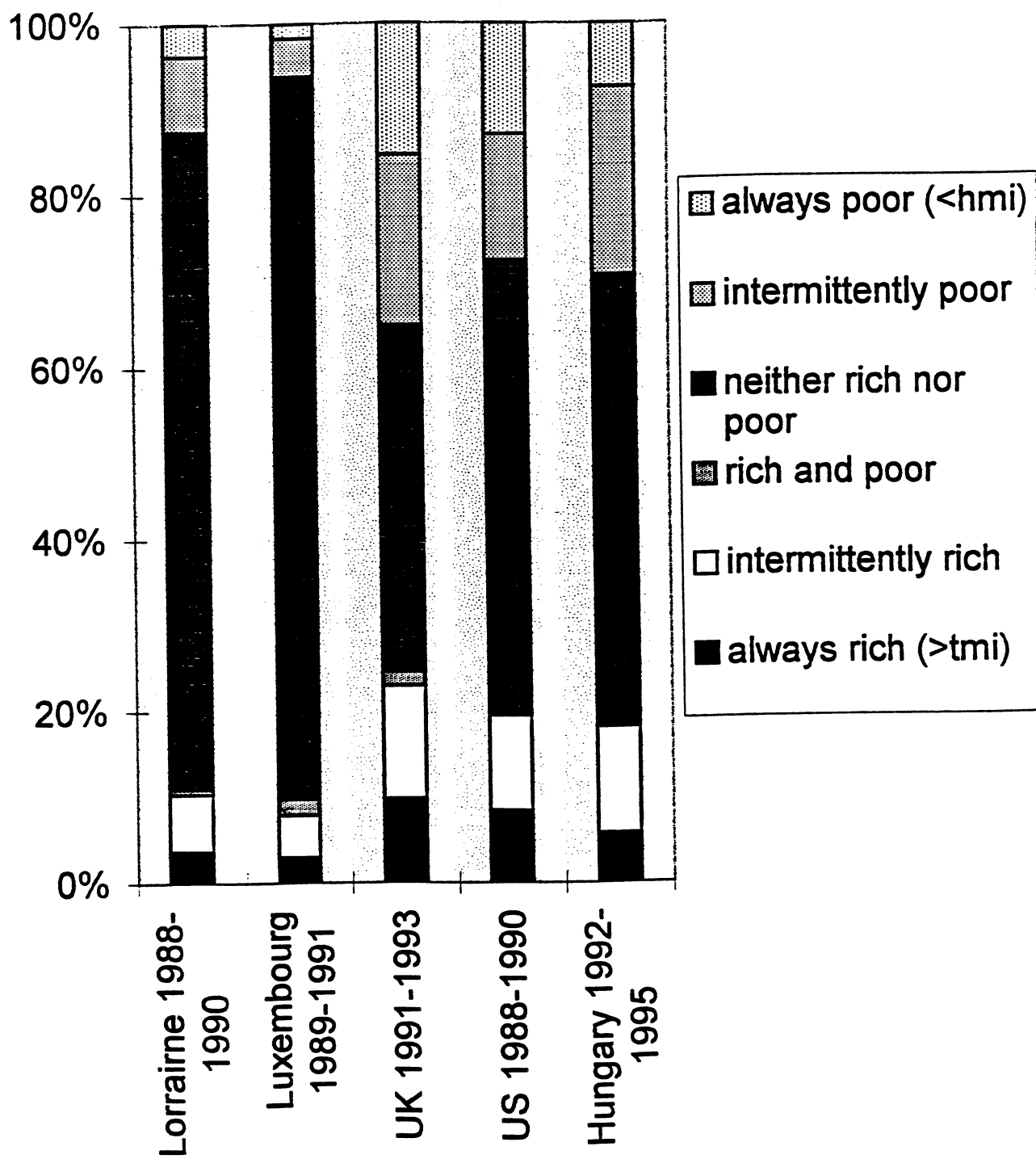
Figure 3

Lorraine 3-year income mobility

Legend:
- ≡ upward mobile
- □ down then up
- ▦ up/stable
- ■ stable
- ▨ down/stable
- □ up then down
- ■ downward mobile

Y-axis: % (smoothed), values 0, 20, 40, 60, 80, 100

X-axis: vingtile in year 1, values 1, 4, 7, 10, 13, 16, 19

Figure 4

Luxembourg 3-year income mobility

Legend:
- ≡ upward mobile
- □ down then up
- ▦ up/stable
- ■ stable
- ▨ down/stable
- □ up then down
- ■ downward mobile

Y-axis: % (smoothed), values 0, 10, 20, 30, 40, 50, 60, 70, 80, 90, 100

X-axis: vingtile in year 1, values 1, 4, 7, 10, 13, 16, 19

3-year income mobility: median income

Legend:
- always poor (<hmi)
- intermittently poor
- neither rich nor poor
- rich and poor
- intermittently rich
- always rich (>tmi)

Categories (x-axis):
- Lorraine 1988-1990
- Luxembourg 1989-1991
- UK 1991-1993
- US 1988-1990
- Hungary 1992-1995

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