EXECUTIVE SUMMARY

UPS AND DOWNS:

DOES THE AMERICAN ECONOMY STILL PROMOTE UPWARD MOBILITY?

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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.

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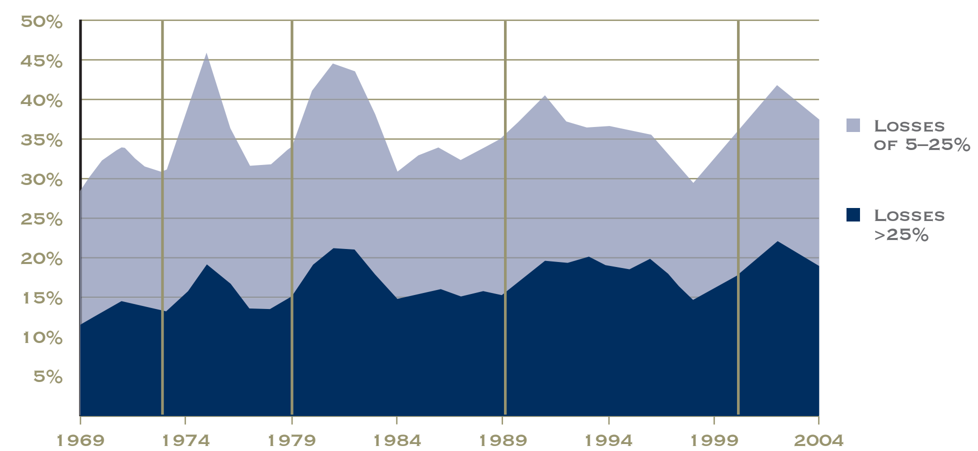
Family income fluctuations are the norm, but Americans are more likely to experience income gains than income drops.

- 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 or more, 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.

FIGURE 1 **More than One-Third of Americans Experienced a Two-Year Income Decline of at Least 5 Percent Between 2002 and 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).

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.

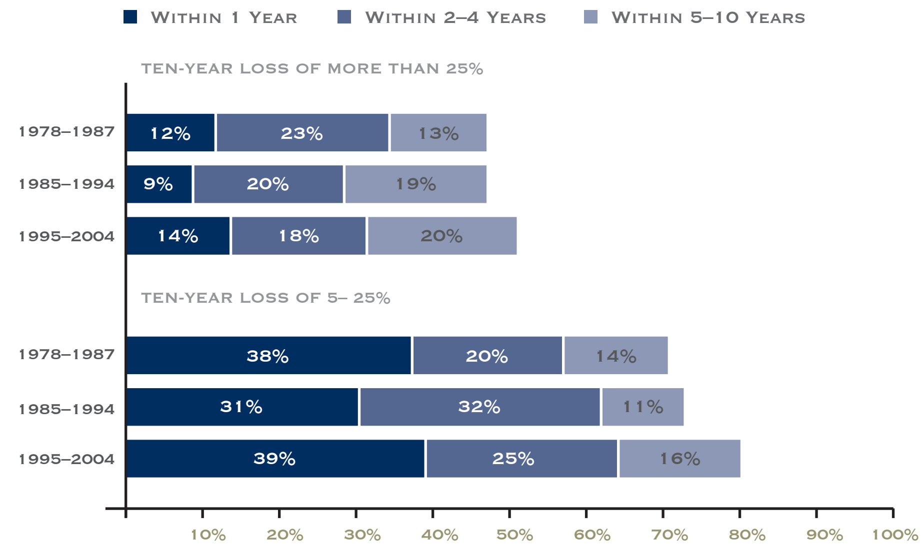
Half of those experiencing large ten-year income losses subsequently experience large ten-year income gains, but half also fail to fully recover in the subsequent ten years.

- 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.

FIGURE 2 **Only Half of those Experiencing a Longer-Term Drop Recover Within 10 Years**



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.

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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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