changing jobs and moving up the income ladder

chapter two

The United States enjoys a dynamic economy where workers have the ability to change jobs frequently. Nearly all participants in the labor force switch jobs at some point. Several decades ago, U.S. workers on average would spend their entire careers with one or two employers. In contrast, younger Baby Boomers (people born between 1957 and 1964) held an average of 10.2 jobs from ages 18 to 38. This trend is almost certainly here to stay.[i]

Job turnover allows workers to move up the income ladder as they find new and better paying jobs. Understanding labor force turnover requires an understanding of the forces that influence it: wages, employee benefits, working conditions, worker confidence, and reactions to business cycles.

One reason that many people wish to come to the United States is the high potential for income mobility. In America, the relative ease of finding a job makes it easier to move up the income ladder.

Dynamic economic opportunity is one of the many advantages of the U.S. economy. The mobility and vibrancy of America's workforce brought America from recession to recovery. And income mobility remains an important measure of an individual's prospect for improving his or her economic situation. In a labor market as vibrant as America's, individuals who start at lower income levels can look forward to working up to higher income levels.

Turnover and Income Mobility

Everyone wants to get paid more for the work that they do, and there are two ways to do so. Either workers can get raises in their existing jobs, or they can change jobs and earn more in a new position. Many workers move up the income ladder by changing from one job to another. There is substantial turnover and labor mobility in the labor force. The existence of both of these in the U.S. economy is not coincidental.

Opportunity, as signaled by income mobility, is one of the most important considerations in an economy. According to many studies, American workers continue to enjoy substantial wage and income mobility, especially upward mobility. Income gains typically occur over time for most groups.

Extensive research has been targeted at determining the income mobility of American work-

ers and families. Surveys track people's incomes (and other demographic information) across a given time span from 1 to 20 years. At the beginning, and at subsequent regular intervals within the survey's duration, each person's income is ranked (either in comparison to the rest of the study sample, or to the whole population) and the ranks are grouped into standard income groups entitled "quintiles." The result of the basic approach allows a researcher to trace the portion of each original group that moved up or down the income scale in later intervals.

These studies find that income mobility remains substantial in the United States. Different approaches have led to varying determinations of the degree, distribution, and meaning of observed mobility, to be sure. However, the consensus remains that American workers continue to experience significant relative movement throughout the income distribution.

The results and key findings of several empirical studies examining income mobility in the United States are presented here to demonstrate this consensus regarding American workers' individual economic potential. In addition to these general studies, we present several research efforts aimed specifically at low-wage earners' mobility.

General Income Mobility

Most research into the income mobility of American workers relies upon data panels that follow people over time. These panels are constructed from government records or surveys. The studies either examine matched tax return data, long-term panel survey databases, or short-term Census Bureau reports. Though nearly all approaches yield conclusions of high mobility in general, the disparity in data and methodology contributes to the observed difference in the degree and concentration of mobility.

Two major studies explored income mobility by studying official tax return records. First, the U.S. Treasury Department's Office of Tax Analysis measures individual income mobility using a panel of individual income tax return data.[ii] Specifically, the tax returns of 14,351 individuals (who filed returns each year during the period examined) were tabulated over a ten-year period to determine each individual's income rank relative to the rest of the sample each year.

The Treasury study shows a clear picture of high inter-quintile mobility for the vast majority of workers. In particular, using a sample that includes a wide range of ages, mirroring the workforce as a whole, the Treasury study

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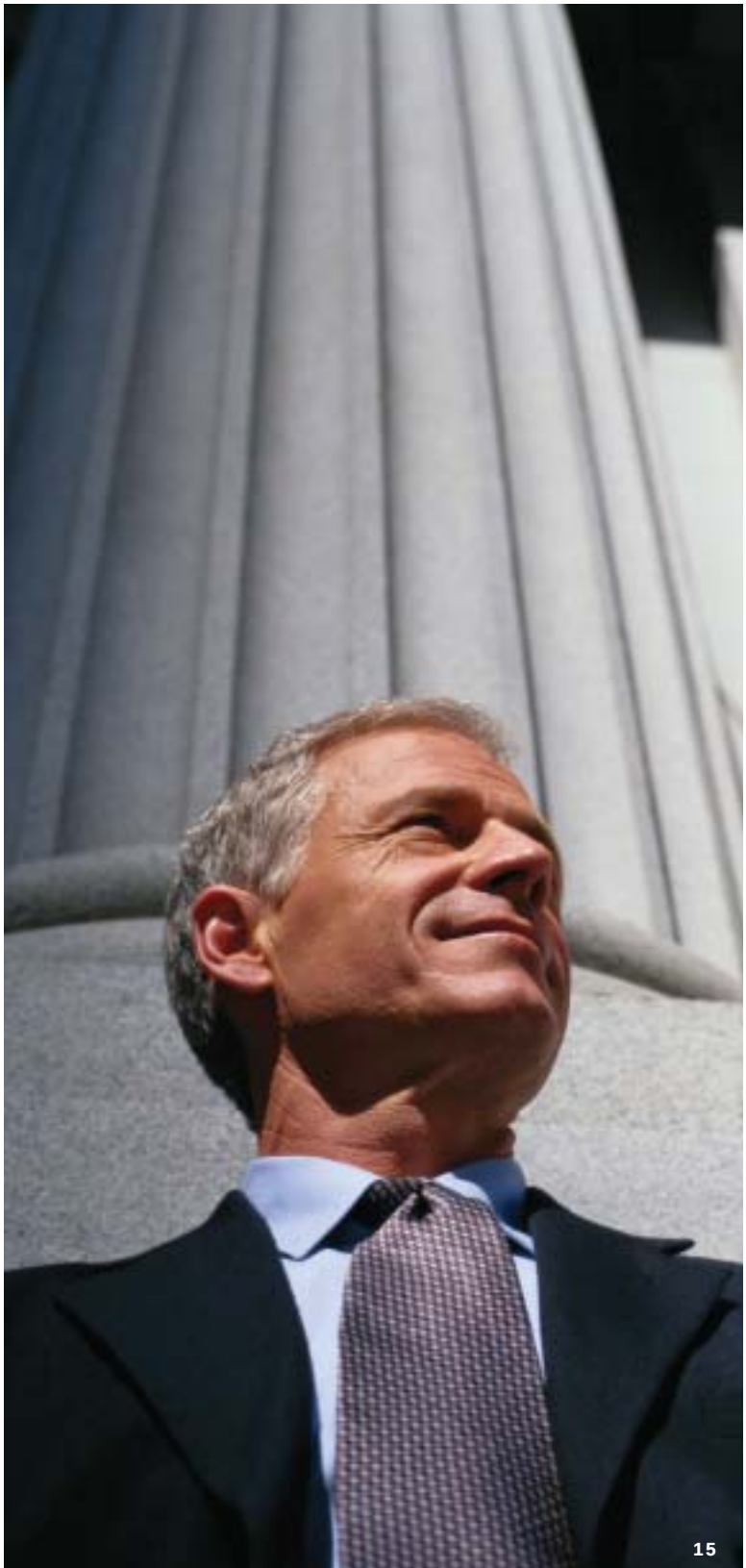
found that nearly 86 percent of those in the lowest income quintile at the beginning of the period had moved to a higher quintile ten years later, and were more likely to move to the highest quintile than to stay in the lowest. Fewer than 65 percent of those in the highest bracket at the beginning of the period remained there at the end.

In the middle brackets, no more than 40 percent of individuals remained in the same quintile in ten years. The findings clearly affirmed the high level of income mobility extant across income brackets.

Income tax records are only one of several data sources available to track income mobility. A number of research efforts have analyzed income mobility by utilizing data from the University of Michigan's Panel Study of Income Dynamics (PSID) database. In one noted study, researchers tracked groups of people over two ten-year periods. On average, 60 percent moved income quintiles.[iii]

The PSID research did reflect less movement from the lowest quintile to the fourth or fifth bracket. In particular, whereas two-fifths of those in the first quintile at the beginning of the Treasury study reached the highest two quintiles in nine years, between 8 and 11 percent did so in the PSID samples. However, the overall degree of movement from all brackets was slightly higher than in the Treasury study.[iv]

Federal Reserve Bank of Dallas researchers tracked a sample of nearly 4,000 individuals in the PSID database for 17 years. In a notable improvement over studies using official tax data like the Treasury study, the



Federal Reserve researchers were able to include data on unemployed, laid off, and retired individuals, as well as students.[v]

The results of the Dallas Fed study were even more remarkable than prior studies. Nearly 70 percent of all individuals moved one quintile or more, and 36 percent moved two or more brackets. Most strikingly, almost 95 percent of those in the lowest quintile in 1975 had moved upward by 1991, along with 72 percent from the second quintile. For every person who remained in the lowest quintile, six moved to the highest fifth.

Though the observed mobility was undoubtedly higher in the Federal Reserve study due to the length of the study, researchers also discovered that over one-half of the first quintile at the beginning of the study had reached the highest three brackets in less than four years. The data also reflected much more upward mobility compared with downward movement: of those individuals who did move one or more quintiles, 72.9 percent moved up in the income distribution, while less than a third moved down.

Some say that including students and the unemployed, as did the researchers in the Federal Reserve study, exaggerate the degree of income mobility in the United States. However, given that commonly used data on income distribution include students and the unemployed, leaving out these individuals in a study of income mobility would be a serious omission.

No one suggests leaving the unemployed out of income distribution calculations—for the same reason, they should not be left out of income mobility studies.

Boston College Professor Peter Gottschalk reexamined the basic elements of the Dallas Federal Reserve study two years later.[vi] Within the context of a broader discussion on inequality in the United States, Gottschalk revisited the same time window within the PSID dataset. The mobility figures from both studies are "certainly high enough to make the point that people are not stuck at the bottom or the top of the earnings distribution."[vii] In particular, nearly 68 percent of the bottom quintile's members moved up during the study, and more than a fifth of the bottom quintile reached the upper two quintiles. Barely half (53.9 percent) of the highest quintile's members remained by the end in 1991.

Examining mobility from a different angle, the Census Bureau used the Survey of Income and Program Participation (SIPP) records to determine the degree of volatility in individuals' economic well-being as measured by the change in the ratio of their income to the prevailing poverty standard.[viii] The study indicated that between 1985 and 1994, at least three-fourths of the population saw their income-to-poverty ratio increase or decrease by at least 5 percent. This shows that people do not remain in one income group, but move around. The Census report also examined correlations of positive and negative changes in income-to-poverty ratios with changes in income source, education, and family status. Additionally, the study indicated that of those with an income-to-poverty ratio of 1.00 or lower in 1993, more than half (52.7 percent) saw that ratio increase by 5 percent or more within a year.[ix]

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Mobility of Low-Income Workers

Though income mobility for the population at large is both important and sizable, the income mobility of low-wage workers is of greatest concern in domestic and international policy debates. Of particular interest is whether people who start close to the bottom of the income scale move up. Consequently, there have been many studies on minimum-wage-earner income mobility over the past ten years.

These show that even the lowest wage earners experience a high degree of mobility, though the extent of that mobility may depend upon individual choices, such as completion of high school. Economists Ralph Smith and Bruce Vavrichek examined SIPP data on mini-

mum wage workers from 1983 to 1987 and discovered that 63 percent of minimum wage workers increased their wage within a year, and 40 percent did so in four months of first receiving the minimum wage. Additionally, the data showed that both sexes were equally likely to receive wage increases.[x]

Professor James Long of Auburn University used the same SIPP variables from an updated set of samples (1992-93 panels) to calculate the wage and employment transitions experienced by minimum wage workers.[xi] Though fewer than 70 percent of minimum wage workers were still receiving hourly wages (voluntarily left employment or became salaried employees), more than four-fifths of those who remained were receiving higher wages in two years. The average wage increase within a year was 30.6 percent, and 40.3 percent within two years. As well as examining geographic and demographic factors related to wage gains, Long discovered that those who completed high school were more likely to see wage gains than those who did not receive their diploma.[xii]

Professors William Even of Miami University and David MacPherson of Florida State University employed a slightly different approach in their research, using CPS Outgoing Rotation Group matched data panels from 1979 to 1998.[xiii] Significantly, their research made clear that a majority of all workers aged 16 to 65 remain at the minimum wage for less than a year.

Even and MacPherson showed that for those in the lowest income quintile, the incidence of increasing one's wages was positively correlated with the number of hours worked each week.[xiv] However, even those working fewer than nine hours per week benefited from a median wage increase of nearly 7 percent, while those without a high school diploma saw an 8 percent median increase. In further research, Even and MacPherson determined that the minority of workers that did not enjoy significant wage growth within a year were often employees who had switched jobs or industries, frequently necessitating new training.[xv]

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American workers continue to experience significant income mobility, a circumstance that has not dramatically changed over several decades. Data controlling for different factors still demonstrate significant upward and downward income mobility for the United States.

Conclusions

The dynamism of our economy is reflected in a high degree of job turnover. Out of a labor force of 147 million, there were 47.1 million separations and 48.5 million new hires in 2003. Data show that the American labor economy is constantly changing and adapting to market conditions and new policies.

While some job turnover is involuntary, more often turnover is the result of people seeking and finding better jobs. Turnover is associated with the sustained level of mobility that has made the United States an attractive place to work. Maintenance of income mobility over an extended time frame—nearly half a century by consensus—is an accomplishment of U.S. workers and institutions that create opportunities. Combined with evidence on job turnover, this shows that many American workers will better themselves by changing jobs.

Seeing our labor force as dynamic, rather than static, illustrates the opportunities that are provided by entering the workforce. An economy that allows for labor market flexibility creates greater opportunities for its workers and contributes to more income mobility.

Notes

[i] BLS, "Number of Jobs Held, Labor Market Activity, and Earnings Growth among Younger Baby Boomers: Recent Results from a Longitudinal Survey" (Aug. 25, 2004).

[ii] U.S. Department of the Treasury, Office of Tax Analysis, "Household income mobility during the 1980s: A statistical assessment based on tax return data," *Tax Notes* 55, no. 9, special supplement (June 1, 1992).

[iii] Isabel V. Sawhill and Mark Condon, "Is U.S. income inequality really growing? Sorting out the fairness question," The Urban Institute, *Policy Bites* 13 (June 1992). The size of the Sawhill-Condon sample was not reported in available published versions of their research.

[iv] Ibid.

[v] W. Michael Cox and Richard Alm, "By our own bootstraps: Economic opportunity and the dynamics of income distribution," Annual Report, U.S. Federal Reserve Bank of Dallas (1995): 2-24.

[vi] Peter Gottschalk, "Inequality, income growth, and mobility: Basic facts," *Journal of Economic Perspectives* 11, no. 2 (Spring 1997): 21-40.

[vii] Ibid, 37.

[viii] Wilfred T. Masumura, "Moving up and down the economic ladder." *Current Population Reports: Household Economic Studies: Dynamics of Economic Well-Being: Income*, 1993 to 1994, U.S. Census Bureau (July 1998).

[ix] Ibid.

[x] Ralph E. Smith and Bruce Vavrichek, "The wage mobility of minimum wage workers," *Industrial and Labor Relations Review* 46 (Oct. 1992): 82-88.

[xi] James E. Long, "Updated estimates of the wage mobility of minimum wage workers," *Journal of Labor Research* 20, no. 4 (Fall 1999): 493-503.

[xii] Ibid.

[xiii] William E. Even and David A. Macpherson, "Rising above the minimum wage" Employment Policies Institute Study (Jan. 2000).

[xiv] Ibid.

[xv] William E. Even and David A. Macpherson, "The wage and employment dynamics of minimum wage workers." *Southern Economic Journal* 69, no. 3 (Jan. 2003): 676-690.