Inequality and Mobility over the Past Half Century using Income, Consumption and Wealth

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Inequality in income, consumption, and wealth is increasing, and inequality in the joint distributions is increasing faster than inequality in any of the single distributions (Fisher, Johnson, Smeeding, and Thompson, 2016b). Relatedly, increases in inequality may be contributing to decreasing intergenerational mobility (Chetty, Grusky, Hell, Hendren, Manduca, and Narang, 2017). No single data set currently allows researchers to examine rising inequality in income, consumption, and wealth simultaneously with changes in intergenerational mobility.

The joint distribution of all three provides more information about well-being over the life-time. Wealth informs about past savings behavior and provides a future capacity to consume. Income higher than consumption indicates that the household is saving and is increasing future consumption, while income is lower than consumption indicates the opposite. Similarly, a household with high wealth but low income is very different than a household with high income and high wealth. Thus, studying the joint distribution of income, consumption, and wealth tells us something about past well-being, current well-being, and future well-being.

The PSID is the longest running household panel survey in the US. Beginning in 1968, it has collected data on the same families and their descendants, making it the cornerstone of data infrastructure for empirically based social science research. Since the PSID follows individuals and families over almost five decades, the PSID has been the benchmark source for measuring both intra- and inter-generational mobility.

This paper builds on our previous work (Fisher et al. (2016a)), in which we show that there is less income mobility at lower wealth quintiles. While half of those in the bottom income quintile in 1999 remain in the bottom in 2013, 60 percent of those in the bottom wealth quintile remain in the bottom income quintile in 2013, while only 20 percent of those in the top wealth quintile remain in the bottom income quintile. Wealth creates more stickiness at the top suggesting that intra-generational income mobility decreases

with wealth. We also find that almost one-quarter of people who are in the bottom income quintile are persistently stuck in the bottom for all 14 years.

In this paper, we supplement the existing data available in the Panel Study of Income Dynamics (PSID), which includes income every wave since 1968 along with intermittent measures of consumption and wealth. Following the methods in Fisher and Johnson (2006) and Fisher et al. (2016a), we impute consumption and wealth to the earlier years in the PSID to obtain measures of inequality and mobility over five decades. We also use methods in Yitzhaki and Schenkman (2012) to estimate joint measures of income and consumption inequality and mobility, and estimate mobility of income and consumption for the distribution of wealth (e.g., by wealth quintile). Similar to Fisher et al. (2016a), we expect the mobility to be similar across the three dimensions, with the top showing less mobility. The long PSID panel will also allow us to compare intra-generational mobility across cohorts, at least early in their adult lives. We can compare intra-generational mobility for the early Baby Boom cohort (those born 1946-1955) through Generation X. We will be able to assess whether intra-generational mobility differs for a generation that began their working career in a low inequality era (early Baby Boomers) to a generation that began their working career in a time of increasing inequality (Gen X).

References

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