Inequality and mobility over the past half century using income, consumption and wealth

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Abstract

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. Relatedly, increases in inequality may be contributing to decreasing 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.

We use the Panel Study of Income Dynamics (PSID), which has followed individuals and families over almost five decades. The PSID has been the benchmark source for measuring both intra- and inter-generational mobility, and it is the only data set with income, consumption and wealth. This paper builds on our previous work, which shows that there is less income mobility at lower wealth quintiles, and extends these results back to 1968. Following the methods in Fisher and Johnson (2006) and Fisher et al. (2016a), we impute consumption to the earlier years in the PSID to obtain measures of inequality and mobility for almost five decades. We find that consumption mobility is higher than income mobility, which is higher than wealth mobility. We also find that people with low wealth less likely to move up relative to others.

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).