Changing Fortunes: income mobility and poverty dynamics in Britain

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LSE events

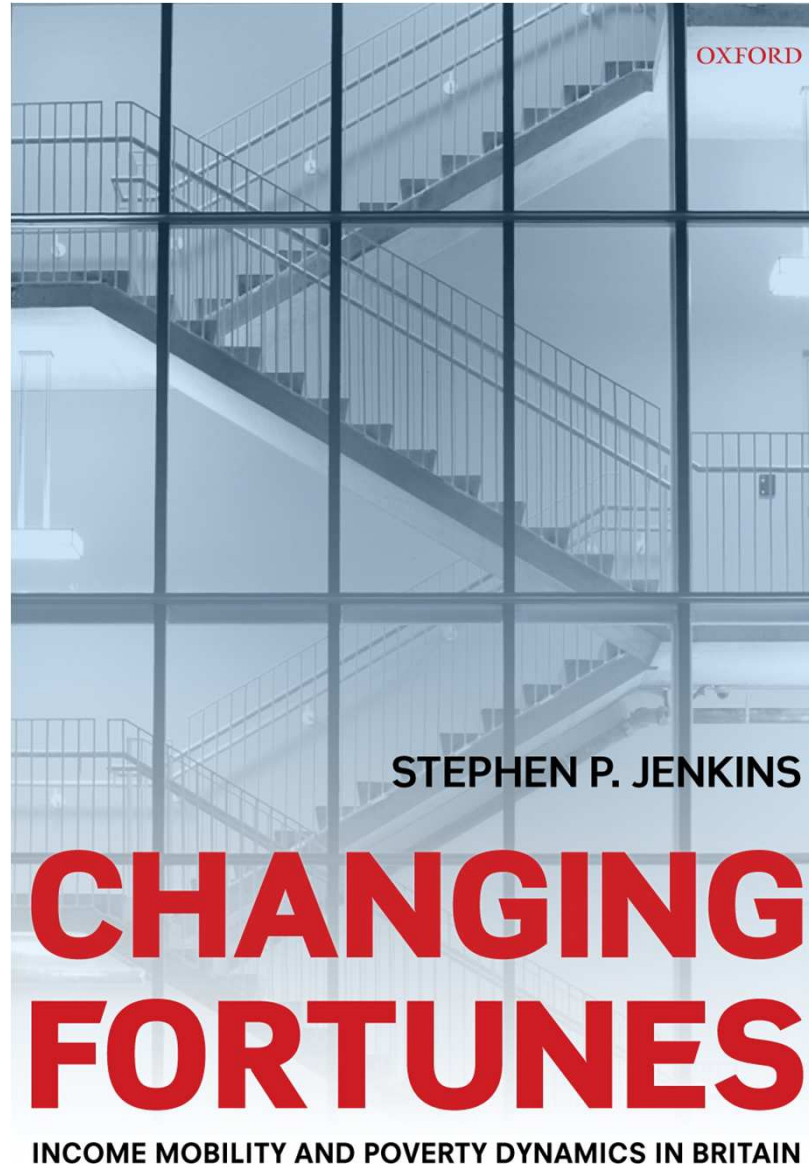Suggested hashtag for Twitter users: #lsejenkins

OXFORD

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CHANGING FORTUNES

INCOME MOBILITY AND POVERTY DYNAMICS IN BRITAIN

What's in the book?

Introduction

  1. Introduction: longitudinal perspectives on the income distribution

Part I. Measurement and data

  2. Income over time: measurement issues

  3. Sources of longitudinal data on income: household panel surveys in context

  4. The British Household Panel Survey and its income data

Part II. Income mobility

  5. Income mobility and how it has changed over time

  6. Transitory variation and volatility in income

  7. Spaghetti unravelled: a model-based description of differences in income-age trajectories
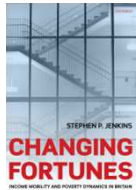
Part III. Poverty dynamics

  8. Poverty dynamics and how they have changed over time

  9. Routes into and out of poverty and the role of trigger events

10. The length of time spent poor: estimates from hazard regression models

11. Modelling low income transitions: estimates from a Markov model

Envoi

12. Summary and conclusions

Why care about income mobility and poverty dynamics?

BLAIR:
When you say where is the justice in that, the justice for me is concentrated on lifting incomes of those that don't have a decent income. It's not a burning ambition for me to make sure that David Beckham earns less money.

PAXMAN:
But Prime Minister, the gap between rich and poor has by widened while you have been in office.

BLAIR:
I am answering it. What I am saying is the most important thing is to level up, not level down.

PAXMAN:
Is it acceptable for gap between rich and poor to get bigger?

BLAIR:
What I am saying is the issue isn't in fact whether the very richest person ends up becoming richer. The issue is whether the poorest person is given the chance that they don't otherwise have.

BBC Newsnight, June 2001

1. They influence our assessments of the fairness of current inequality and poverty

   - Arguably, we are more tolerant of greater inequality and poverty, the more that all have a chance of getting to the top, or of not being stuck at the bottom

2. Individual income growth is of direct concern

   - Are those at the bottom gaining?

3. Income instability is indicative of income risk

4. Instrumental: e.g. better descriptions of poverty experience; understanding of processes of exit and entry; policy

# How much movement is between income groups is there from one year to the next?

- Divide the population in *each year* into 20 equal-sized groups from poorest (top row of picture) to richest (bottom row of picture): each row contains 5%

- People are colour-coded accorded to their position in the *base-year* income distribution:

  - Blue: poorest twentieth
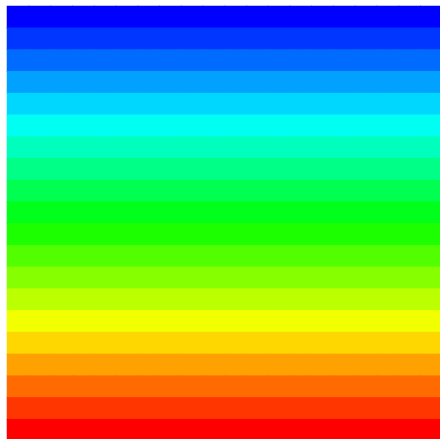 - Red: richest twentieth
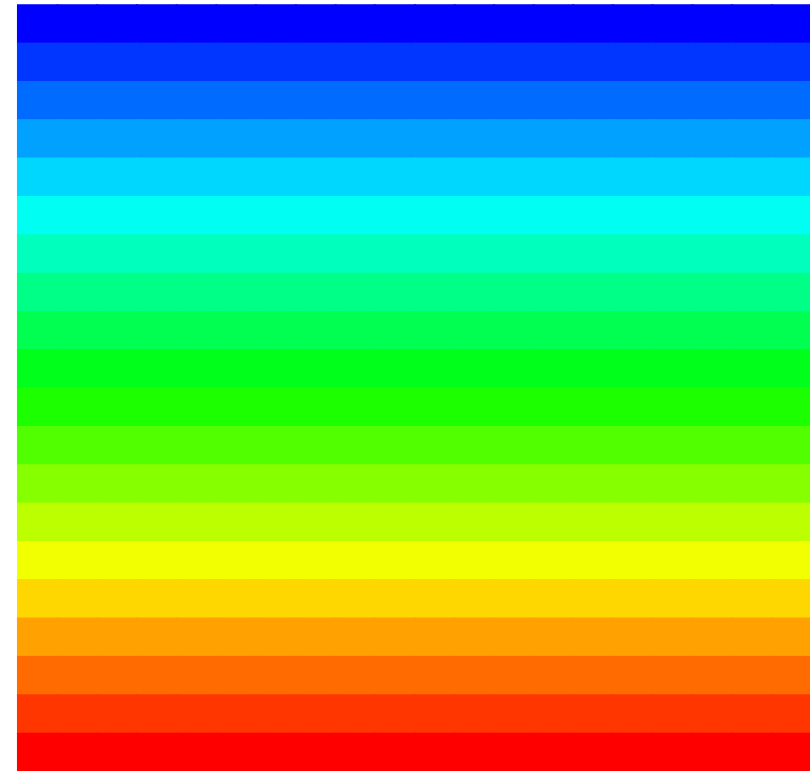
Poor ~ bottom 3–4 groups
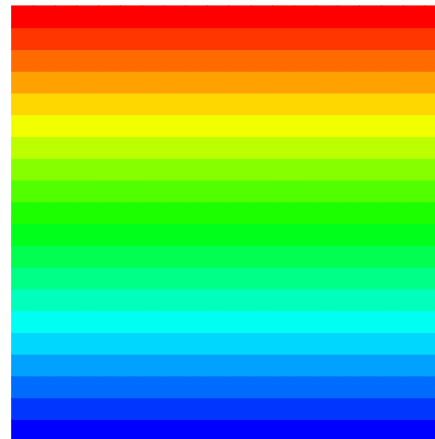
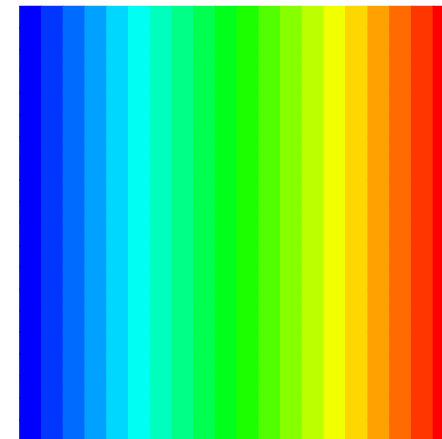# How much movement? Some reference points:

- Base year:
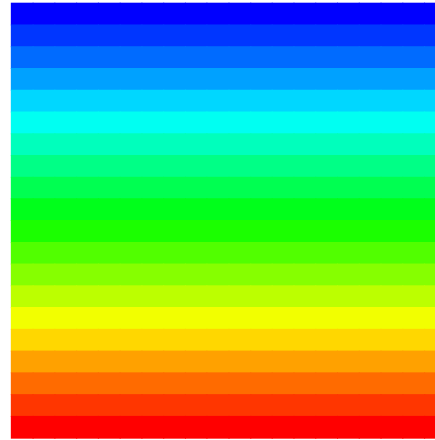
Mobility means changing income group: track change by looking at how origin groups (colours) change rows in the pictures

(a) perfect immobility
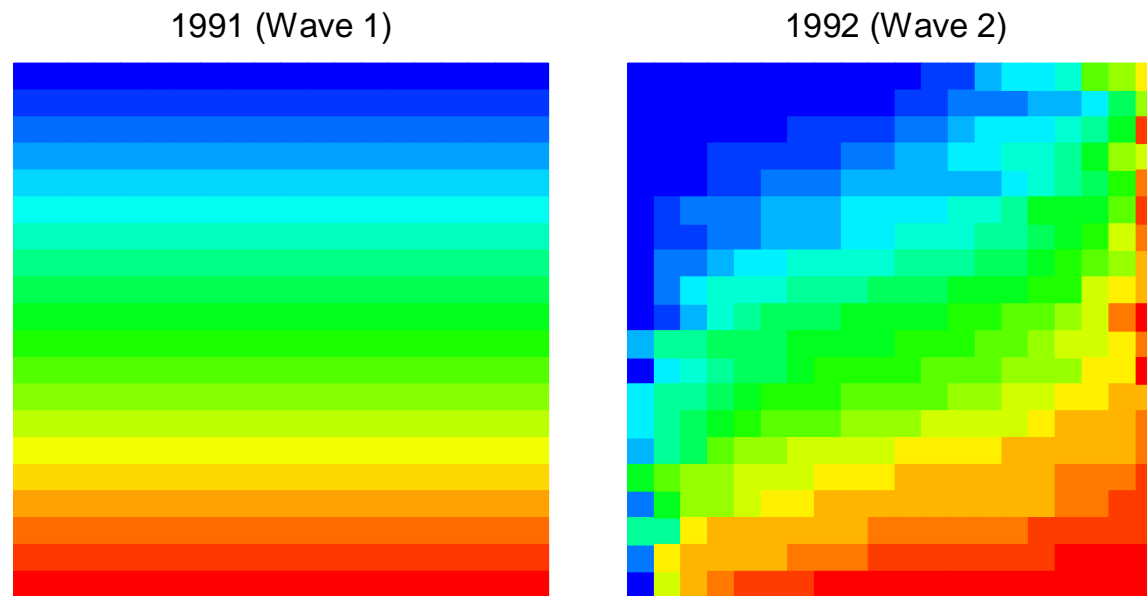
(b) perfect mobility
[*rank reversal*]

(c) perfect mobility
[*origin independence*]

Final year

Income mobility over a one year interval

- Substantial amount of mobility, but mostly short distance

1991 (Wave 1)   1992 (Wave 2)

Annual poverty exit rate for those poor in 1991 = c. 35%
Annual poverty entry rate for those non-poor in 1991 = c. 8%

Income mobility between 1991 and a later year

- More mobility from origin group as time proceeds
- But, even after 15 years, an association with origins remains, suggestive of persistent differences in people's longer-term (smoothed) incomes
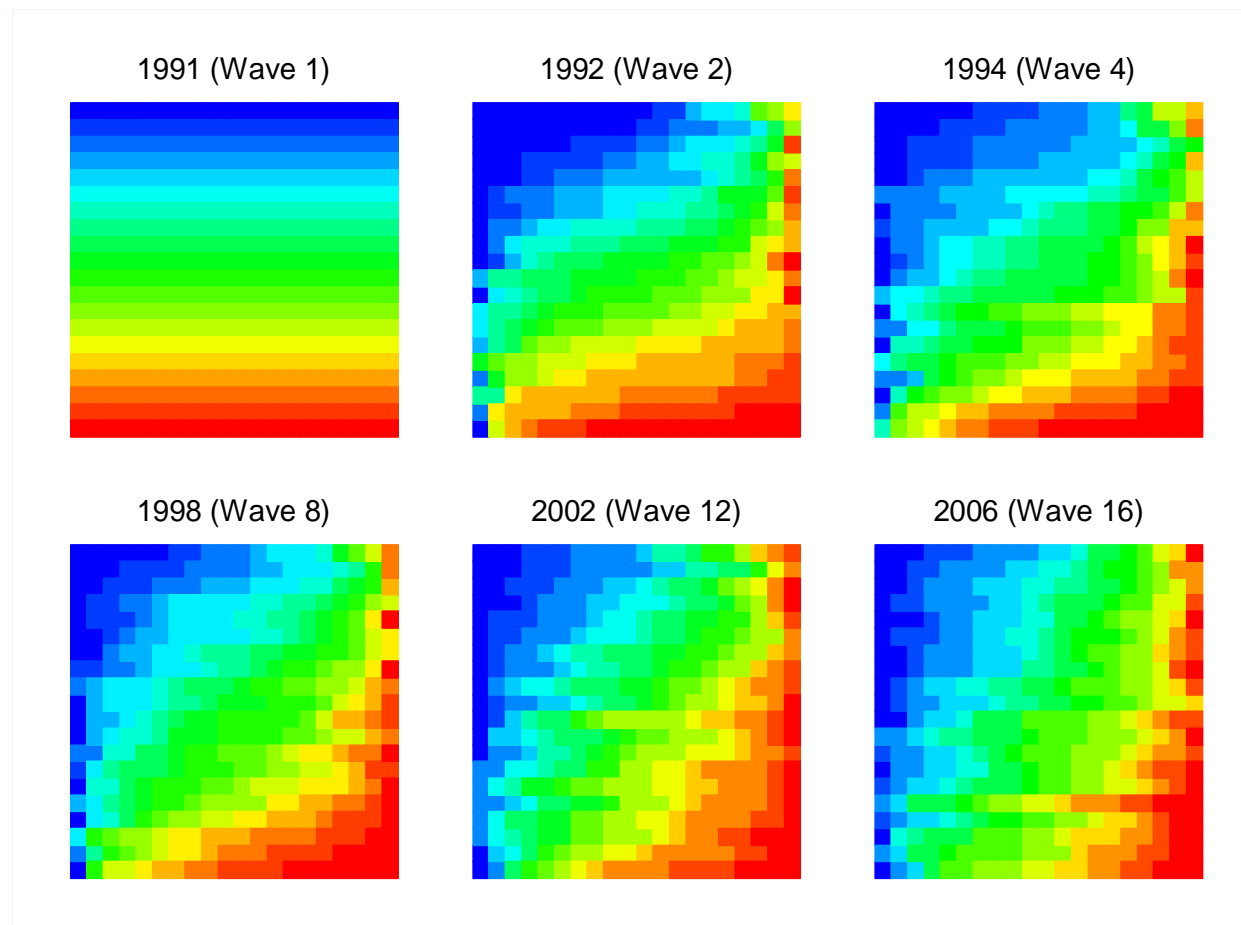
No trend over time in the extent to which income mobility reduces longer-term inequality

- Movement or persistence? The more that people are stuck in the same place in the income distribution year on year, the more similar will be the inequality of their longitudinally-smoothed income and the inequality of the incomes in each of the years taken separately (averaged)

- If inequality is measured using the Gini coefficient, and incomes are smoothed over a six-year window, inequality of smoothed income is about 15% smaller than inequality of average income (25% smaller with the Theil inequality index). And there's been no trend over time:
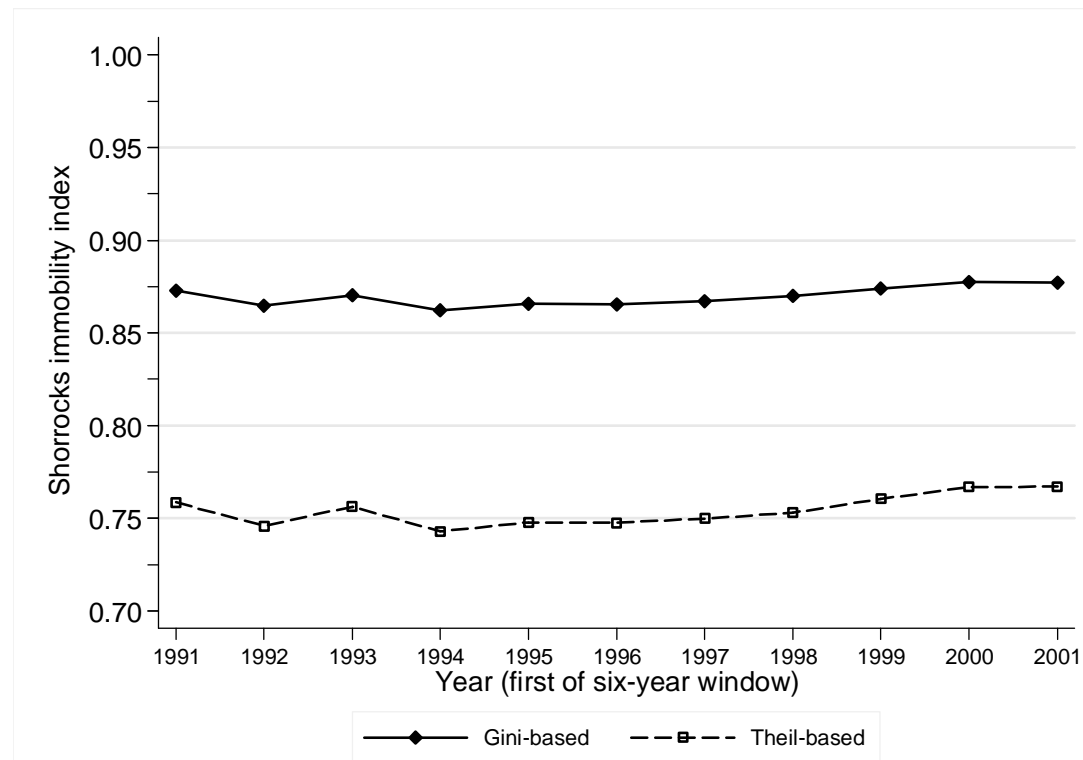
No significant trend in year-on-year income mobility according to other commonly-used indices

Standard error for correlation ≈ 1 percentage point
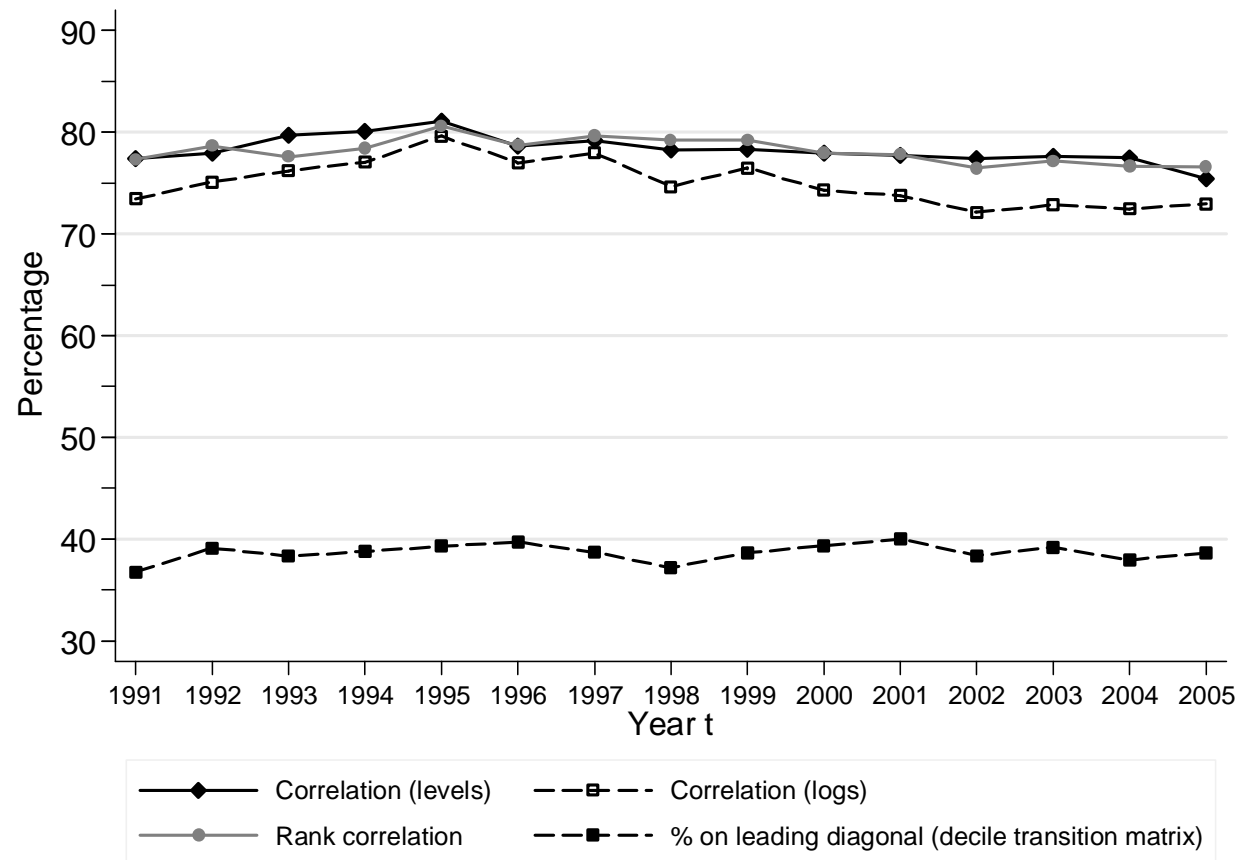
Income growth for those at the bottom?
1992–1996 compared with 1999–2003

- Change in income (£ p.w.) against position in the base-year income distribution:

Three-year averaged incomes, local polynomial regression smoother, bandwidth 0.05
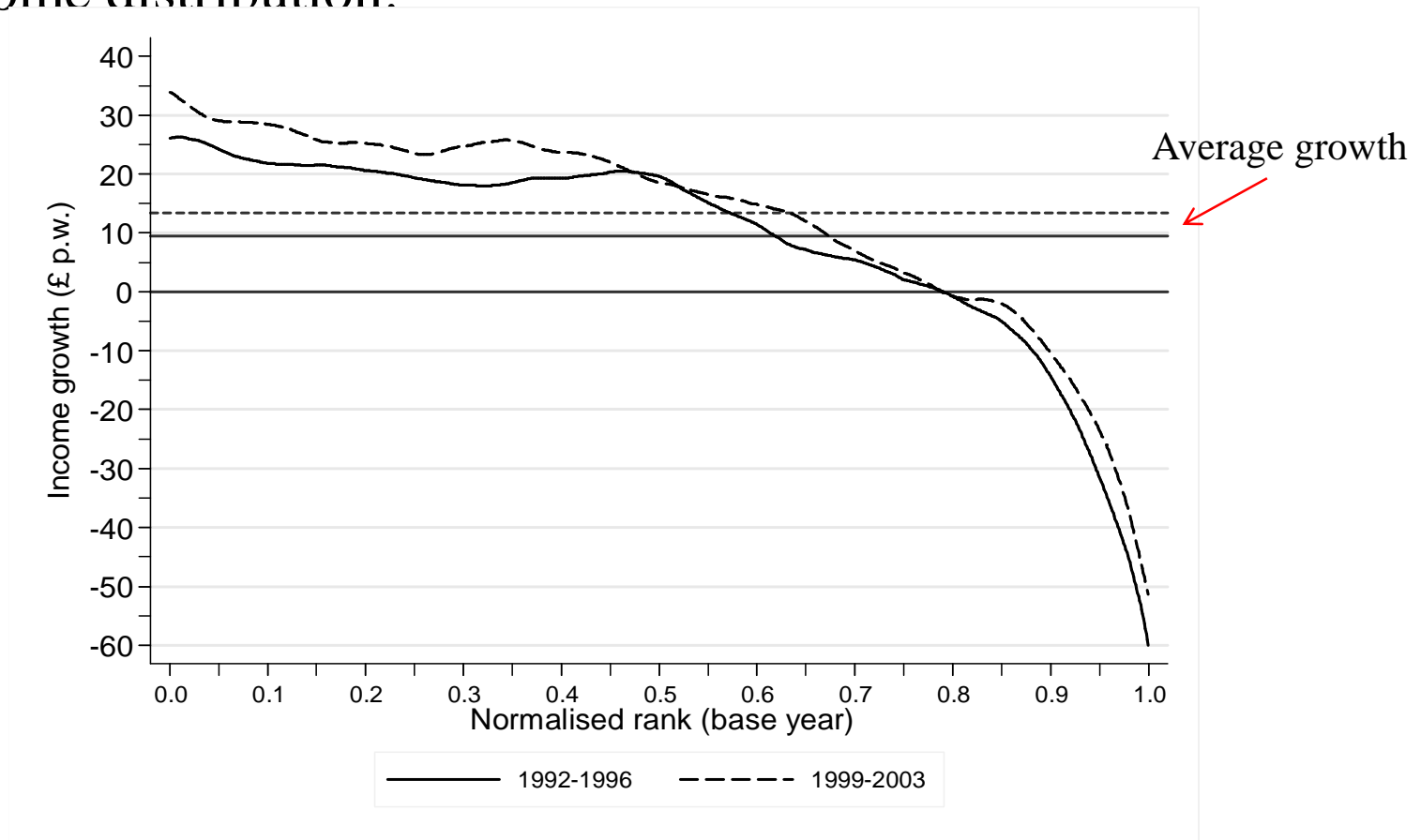
No significant trend in income instability
(transitory variance of net household income)
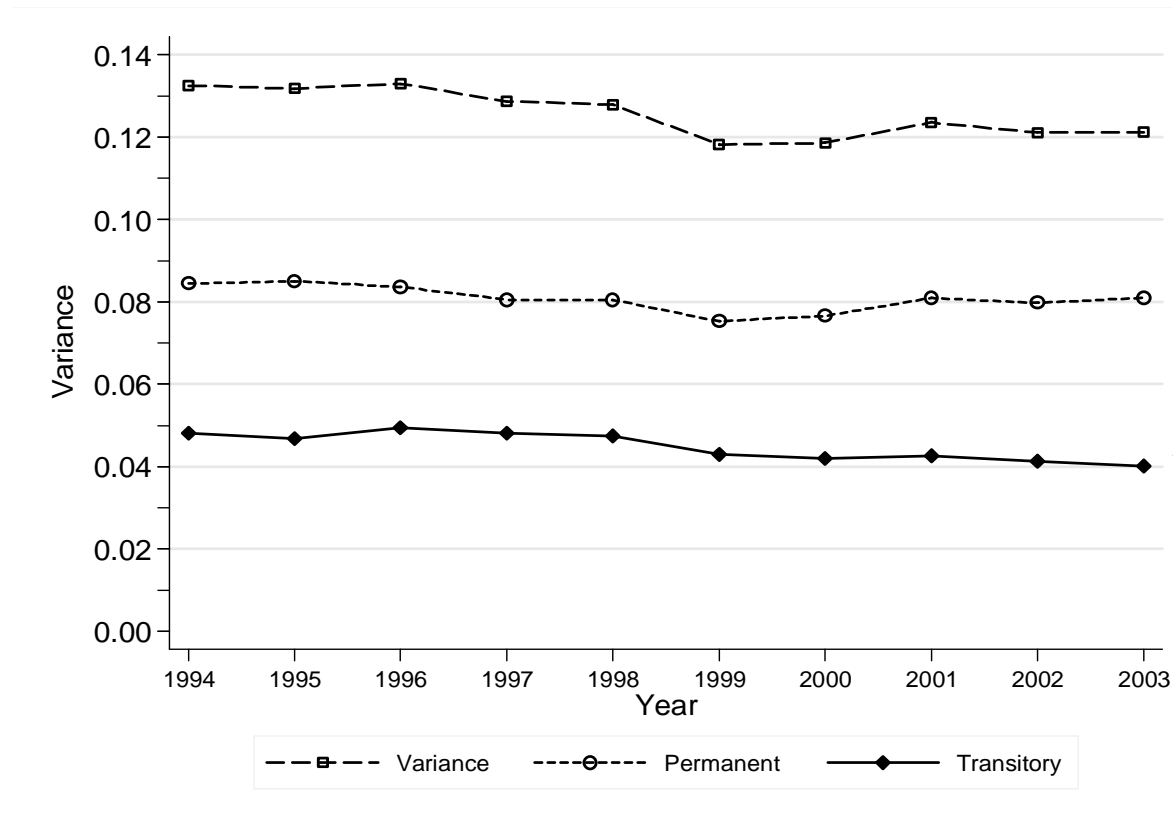

- Estimated using Gottschalk & Moffitt (1994, 2009) method; age-adjusted (based on residuals from regression of log income on quartic in age); estimate of 'permanent income' based on 7-year rolling window; 'Year' refers to middle year of observation window; same results if estimate for subsamples with better-measured incomes

- Similar trend for employment earnings of prime-aged men

Percentage experiencing a large income fall between one year and the next: no trend

- Cf. rising trend in USA since 1970s
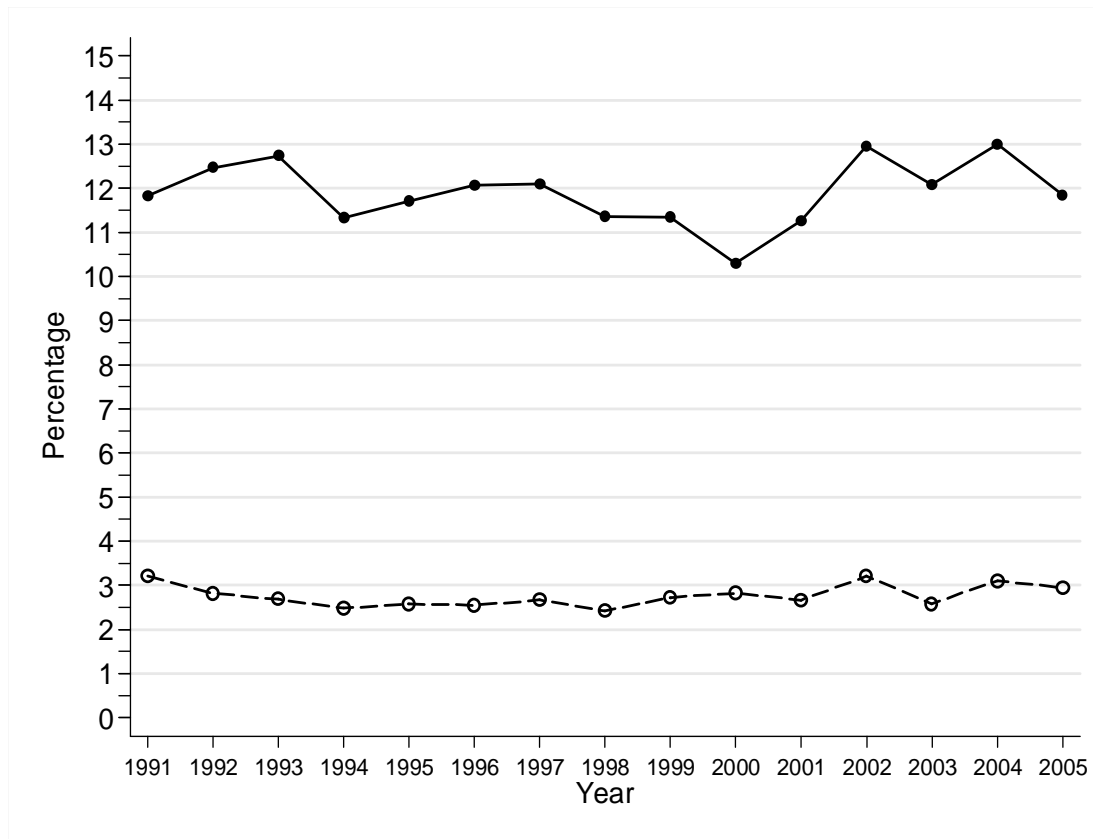
Percentage with income fall of 25% or more

Percentage with income fall of 50% or more

'The Poor' is not a group with fixed membership; poverty is experienced by a large minority over time

For poverty line = 60% median income (standard HBAI and EU definition):

- Rise in 'never poor' rate (% with 0 years poor of 4): 65% to 70%

  - Proportion experiencing poverty at least once in 4-year period (35% to 30%) is nearly double the proportion poor in a given year over this period (on average)

- Decline in persistent poverty rate (% with 3+ of 4): 15% to 10%

Number of times poor over a 4 year period
(all persons)
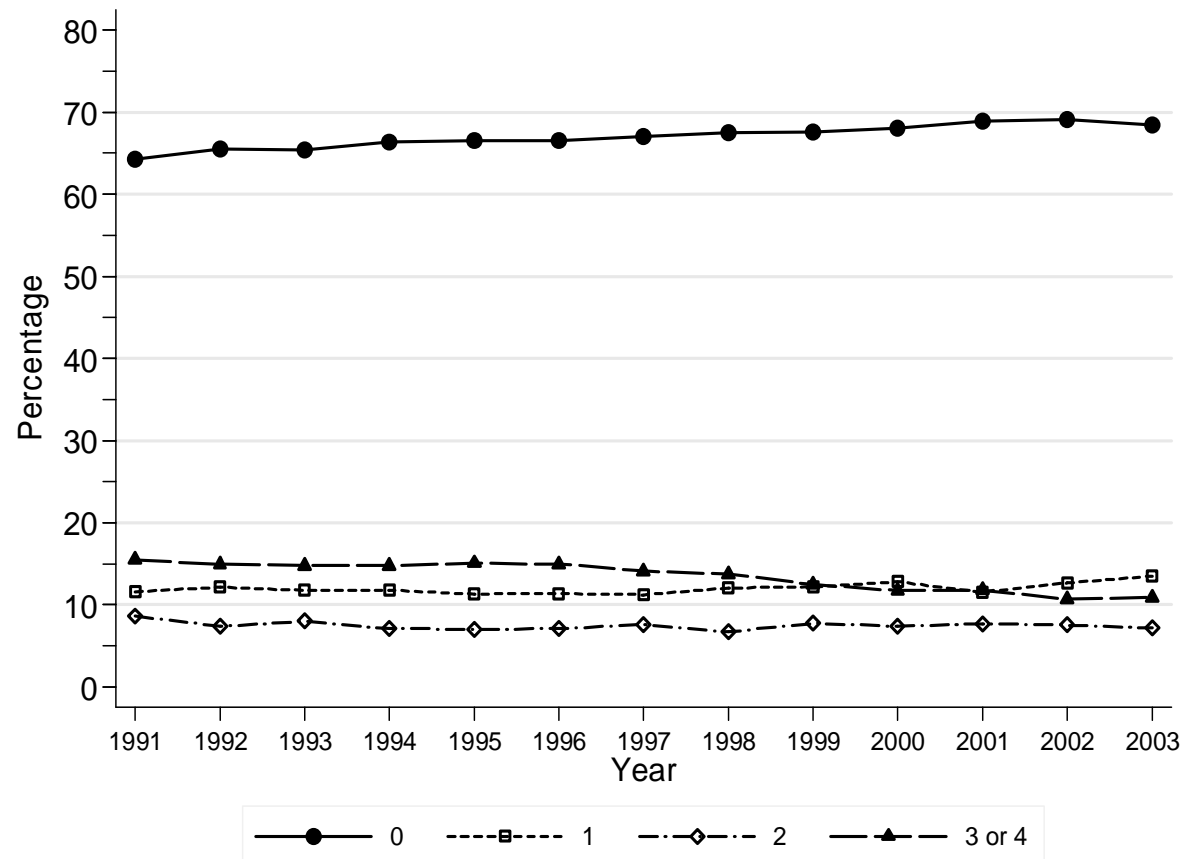
'Year' refers to first year of 4-year period

Proportion touched by poverty over a 4-year period has declined

Percentage poor at least once in 4-year period		
Person's family type	Early 1990s	Mid-2000s
All persons	35	30
Dependent children	40	35
Couple-with-kids families	30	25
Single-with-kids families	75	60
Single pensioner	70	55

- And, correspondingly, there has been a decline in the persistent poverty rates for these groups
- Proportion poor 7–9 times in 9 year period has declined for all persons and for dependent children

Factors associated with income change:
### labour earnings changes are important but not the whole story

- The 'rubber band' model …

- … and when the band breaks:

'Trigger events' associated with poverty transitions (column %)

Main event	Poverty exits (income increase)		Poverty entries (income decrease)	
	1991–7	1998–2004	1991–7	1998–2004
Head's labour earnings	31	30	28	27
Spouse or other labour earnings	28	29	17	19
Non-labour income	20	20	18	16
Demographic event	21	21	21	24
New entrant			16	13
All	*100%*	*100%*	*100%*	*100%*

- Breakdowns for population subgroups in the book, also with pre-/post-1997 comparisons

Longer-term income trajectories differ by education level, sex, and birth cohort
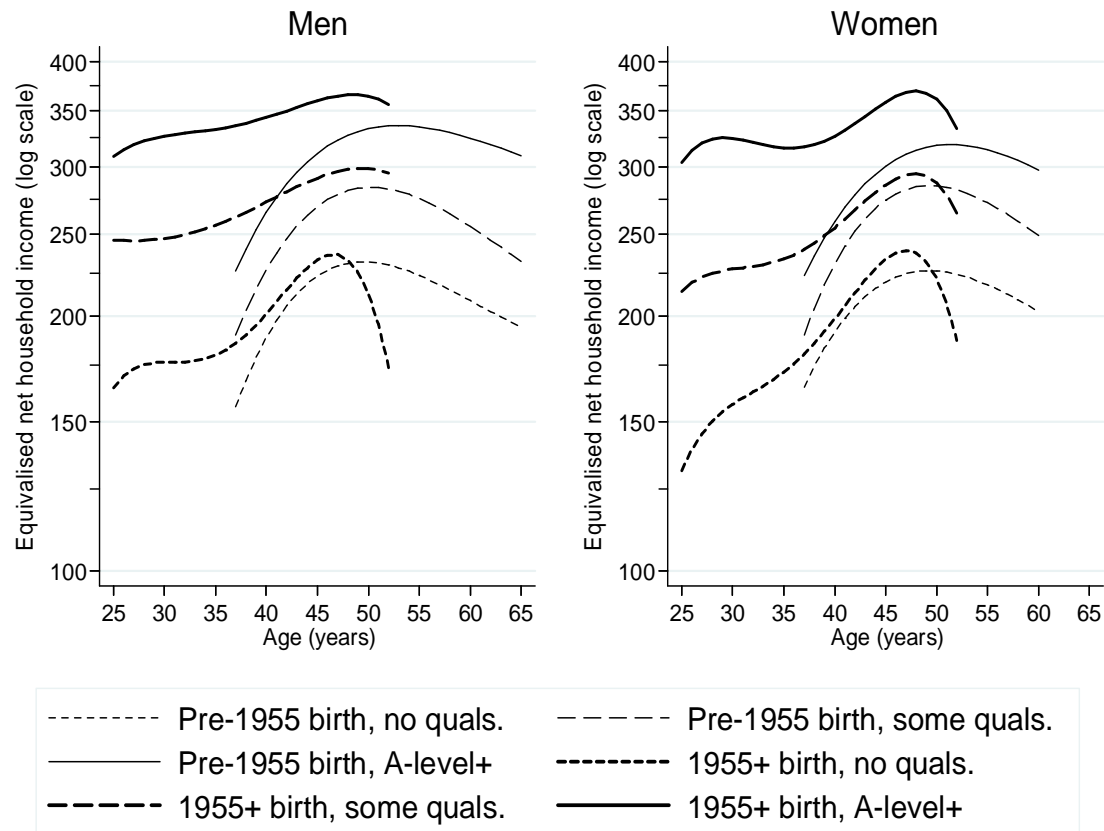
Charts show 'average' within-group trajectories; vertical axes use logarithmic scale

Derived from statistical model using up to 16 years BHPS data per person

Take-home points

- There's a lot of income mobility year-on-year, but mostly short distance

- There is turnover among the poor; a significant minority experience poverty over a period of a few years

- Has income mobility changed from the early-1900s and the mid-2000s? Answer depends on which mobility concept you use (individual income growth versus others)

- Poverty persistence declined from late 1990s

- Labour's 'welfare to work' and 'make work pay' policies are the smoking guns, but state of the economy is important too

- We don't know yet the impacts on income mobility and poverty dynamics of the 'Great Recession' and the Coalition government's proposals for benefit reform, etc. …