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# Downward Mobility: *Is It A Growing Problem?*

By PATRICIA K. SMITH\*

ABSTRACT. Absolute and relative downward *income mobility* during two periods of economic growth, 1976-1978 and 1984-1986, are examined using data from the Panel Study of Income Dynamics. Relative downward mobility occurred less frequently during the 1984-1986 period, but absolute *downward mobility* occurred more frequently during this same period. The characteristics of the downwardly mobile do not dramatically differ between the two periods. The majority live with a nonelderly, married, working man. Of the thirty-six *demographic groups* considered, women who separate or *divorce* face the highest risk of downward mobility. However, their risk declined from the late seventies to the mid-eighties. Persons whose household head was a race other than Caucasian and African-American experienced the greatest increase in risk.

## I

### Introduction

FROM THE END OF WORLD WAR II to the early 1970s, Americans enjoyed steady increases in average income and living standards. Upward income mobility seemed virtually automatic. In 1973, however, average real wages began stagnating and during the 1980s the growth in the inequality of family income accelerated (Levy and Murnane, 1992; Karoly, 1993). Academics and the popular press expressed increasing concern that the middle class was disappearing (Thurow, 1987; Duncan, Rodgers, Smeeding, 1991 and 1992) and that "The American Dream" was vanishing (Dentzer, 1991; Samuelson, 1992). The expectation of upward mobility seemed to be dimming, and the fear of downward mobility growing (Vobejda, 1991; Koretz, 1992; Brownstein, 1992).

Studies of the U.S. income distribution typically find considerable mobility, both upward and downward (Duncan et al., 1984; Duncan, 1988). There are always some downwardly mobile persons; the question is whether the number is increasing. If so, there is cause for deep concern. On a personal level, downward mobility inflicts both material and psychological hardship (New-

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man, 1988; Ehrenreich, 1989). Large drops in income can stress individuals' mental health and the stability of families.<sup>1</sup> A myriad of social problems—depression, divorce, interruption of schooling, and violence—can ensue.

Increasing downward mobility can also cause serious economic problems. The downwardly mobile must reduce consumption, investment, and savings. Such cuts by a substantial segment of the population could dampen future economic growth. Even those not downwardly mobile could feel more at risk, possibly depressing consumer confidence. An increase in the number of downwardly mobile could also contribute to income inequality. For example, if more persons experience very large drops in income while fewer maintain their income level or enjoy income gains, income inequality increases. Lastly, if many of the downwardly mobile become poor, the demand on already strained public assistance resources increases.

The social and economic consequences of increasing downward mobility also have political ramifications. Phillips (1993) argues that the middle class' recent economic losses contributed to the Republicans' defeat and Perot's strong third party showing in the 1992 Presidential election. More importantly, history records numerous occasions when groups disproportionately suffering large economic losses instigate violent, political upheavals.

To determine whether the problem of downward mobility is growing, this paper uses data from the Panel Study of Income Dynamics (PSID) to measure and compare the extent of downward mobility over two periods of modest economic growth: 1976-1978 and 1984-1986. Two types of downward mobility are examined. *Absolute downward mobility* is measured as a decline of fifty percent or more in the real family income-to-needs ratio. *Relative downward mobility* is measured by drops to lower quintiles in the distribution of real family income. The characteristics of the downwardly mobile, including their initial class status, are also determined.

The results show that relative downward mobility occurred somewhat less frequently during the 1984-1986 period than in the 1976-1978 period. However, absolute downward mobility occurred more frequently in the 1984-1986 period. The characteristics of the downwardly mobile do not differ much between the two periods, however, the risk for some demographic groups did change. For example, the incidence of downward mobility increased for persons whose household head was neither Caucasian nor African-American. Finally, the analysis finds weak evidence that a larger proportion of the downwardly mobile came from the middle and lower classes in the 1984-1986 period than in the 1976-1978 period.

## II

**Downward Mobility and Changes in the U.S. Income Distribution**

DUNCAN ET AL (1984) use the PSID to examine family income mobility over the period 1971-1978. They find substantial mobility up and down the quintile distribution of family income. Of particular interest, nearly one-third of the sample individuals dropped at least one quintile and eleven percent dropped two or more. Duncan (1988) finds that approximately one-third of Americans experienced a drop of fifty percent or more in their real income-to-needs ratio at least once from 1974 to 1983.

Duncan (1988) relates downward mobility to "life events" such as unemployment and divorce. Burkhauser and Duncan (1989) study life-cycle patterns of downward mobility from 1974 to 1983. They find that among women the risk is highest in the age 46 to 55 cohort, while among men the risk is highest in the 66 and older cohort. The risk for women is either the same or higher than the risk for men in all cohorts. Their results suggest that labor market events impact men and women's risk of downward mobility similarly, but family composition changes have a greater impact on women. The present analysis will expand the set of demographic variables to include region, race, and education in addition to age and gender.

Duncan, Smeeding, and Rodgers (1991) measure downward mobility during the periods 1967-1979 and 1980-1986 within the context of class mobility. The authors define the three classes in terms of decile groupings of the real family income-to-needs ratio. They find that transitions from the upper to middle class occurred less frequently, and transitions from the middle to the lower class occurred more frequently in the latter period. Consequently, the middle class appears to be shrinking.

Because labor income is the primary source of family income, adverse trends in the labor market will contribute to downward mobility. Juhn, Murphy, and Pierce (1990) report that the average male wage fell by about 5% from 1970 to 1987. Women's wages grew somewhat over the same period (Katz and Murphy, 1992; Karoly, 1993). These trends suggest that the risk of downward mobility for women and their dependents may be decreasing relative to that of men.

Levy and Michel (1991) and Katz and Murphy (1992) find that the growth in wage inequality accelerated during the 1980s, especially among men. One factor is the rapid growth in the college education premium which has left younger, less-educated men with much diminished labor market opportunities relative to male college graduates (Burtless, 1990; Bound and Johnson, 1992; Levy and Murnane, 1992). The wages of younger, less-educated men also declined relative to the wages of their older counterparts. These trends suggest that the risk of

absolute, and possibly relative, downward mobility for young, less-educated men may be increasing.

Median family income grew slightly after 1979 and the average family income-to-needs ratio grew by about 10% (Burtless, 1991). This growth was not equally distributed; most of the gains occurred at the top of the distribution. From 1978 to 1988, the income-to-needs of those in the 90th percentile rose by about 23%, while the ratio for those in the 10th percentile fell by approximately 6.5% (Burtless, 1991). These changes in the distribution of income-to-needs suggests that the frequency of absolute downward mobility has been increasing.

### III

#### **Data and Methodology**

MOST STUDIES of the distribution of wages and family income rely on Current Population Survey (CPS) data. While the CPS contains annual income data since 1964, it surveys a different set of individuals each year. Consequently, the CPS cannot follow a particular individual's income path. In contrast, the Panel Study of Income Dynamics (PSID) has surveyed a large, nationally representative panel of households each year since 1968. The PSID can track the income path of a specific individual and thus provides the ideal data for analyzing income mobility. The present analysis examines the income paths of persons present in the 1976 through 1979 and the 1984 through 1987 interviewing waves of the PSID.<sup>2</sup>

The analysis initially considers two measures of absolute downward mobility and two measures of relative downward mobility. Declines of one-third or more and declines of one-half or more in the real family income-to-needs ratio identify persons as absolutely downwardly mobile.<sup>3</sup> These persons have experienced moderate to severe drops in their absolute standard of living adjusted for family size.

Drops of one quintile, and drops of two quintiles down the distribution of real family income identify persons as relatively downwardly mobile. Note that by construction if one person becomes relatively downwardly mobile, some other person must have become relatively upwardly mobile. Also note that downward mobility by any of these four measures does not necessarily result in poverty.

Absolute and relative downward mobility are different phenomena and may result from different forces. As an extreme illustration, consider a large downward shift in the mean, but no change in the variance, of the distribution of real family income. Everyone would become poorer, but no one's relative position would

change. As a result, we would observe substantial absolute downward mobility, but no relative downward mobility. Income inequality would remain constant.<sup>4</sup>

Suppose instead that only the rich get richer while only the poor get poorer. No one's relative position would change, so again there would be absolute, but no relative, downward mobility. In this case though, income inequality would increase.

Because family composition often changes over time, this study uses the individual as the unit of analysis. To determine if an individual is absolutely downwardly mobile, the real family income-to-needs ratio of the family in which the person resided at the beginning of the period is compared to the ratio of the family in which the person resided at the end of the period.

Duncan, Smeeding, and Rodgers (1991) measure absolute downward mobility among prime-aged householders over two decades using "rolling" windows of five year periods. Their approach tracks downward mobility over a longer time horizon, but incorporates the effects of the business cycle. In contrast, the present study examines all persons in two time periods, 1976-1978 and 1984-1986, at similar stages of the business cycle, modest recovery. This selection serves two purposes. First, using periods at similar points in the business cycle allows the examination of downward mobility which results from factors independent of the business cycle. Second, examining two periods of growth will indicate whether upturns always generate the same effects on economic well-being.

Table 1 summarizes the general economic conditions in both periods. Real GNP grew modestly in each of the six sample years. The rate of GNP growth increased somewhat from 1976 to 1978, but decreased from 1984 to 1986. This deceleration could generate more downward mobility during the latter period. The unemployment rates in each period are quite similar, but the 1986 rate does exceed that of 1978. The higher unemployment rate could generate more downward mobility in the 1984-1986 period.

The Gini coefficients indicate that aggregate household income grew a bit more unequal during both sample periods, with the increase in inequality being slightly larger in the 1984-1986 period. Wages also appear to be somewhat more unequal in the 1984-1986 period, however the growth in wage inequality over the two periods is virtually identical. In short, the differences between the two periods seem fairly small and control adequately for macroeconomic trends.<sup>5</sup>

#### IV

#### **The Incidence of Downward Mobility**

TABLE 2 reports the frequency of downward mobility among all sample individuals in both periods. From 1976 to 1978, 7.3% of sample members experienced a

Table 1

## GENERAL ECONOMIC CONDITIONS

	1976-1978	1984-1986
Real GNP % growth <sup>a</sup>	4.9 4.7 5.3	6.8 3.4 2.7
Unemployment rate <sup>a</sup>	7.6 7.0 6.0	7.4 7.1 6.9
Gini coef. <sup>b</sup>	.359 .364 .364	.383 .389 .392
Wage log. var. <sup>c</sup>	1.687 1.684 1.638	1.765 1.706 1.721

Notes: a. Department of Commerce, Bureau of Economic Analysis.  
 b. Gini coefficient for aggregate income of families and unrelated individuals. Current Population Reports, Series P-60, Bureau of the Census.  
 c. Karoly (1988).

decline of one-third or more in their real family income-to-needs ratio. From 1984 to 1986, 11% experienced such declines. More persons experienced declines of one-half or more in the latter period as well, 5.5% in the 1984-1986 period, versus 3.8% in the 1976-1978 period. These initial findings suggest that any fear the public may have of increased downward mobility does have an empirical basis. These results also suggest that policy makers should not assume that economic growth will produce the identical benefits in every recovery.

Measuring the extent of relative downward mobility requires the use of a sub-sample, namely those persons in the third quintile at the beginning of the sample period. Examining quintile drops among all sample members produces unreliable results. For example, racial minorities do not appear disproportionately downwardly mobile while Caucasians do. This happens largely because minorities disproportionately fill the lower quintile and thus have nowhere to fall. Accordingly, Table 2 reports the frequency of drops from the third quintile only.

Of those in the third quintile in 1976, 21.3% dropped one quintile by 1978 and 6% dropped two quintiles. In contrast, 19.2% of those in the third quintile in 1984 dropped one quintile and 5.3% dropped two quintiles. While absolute downward mobility increased from the late 1970s to the mid-1980s, relative

Table 2

## THE FREQUENCY OF DOWNWARD MOBILITY

	1976-1978	1984-1986
Income-to-needs fell by 33% or more	7.3%	11.0%
Income-to-needs fell by 50% or more	3.8%	5.5%
Fell one quintile	21.3%	19.2%
Fell two quintiles	6.0%	5.3%

Note: The quintile changes are based on a sub-sample restricted to persons in the third quintile at the beginning of the sample period.

downward mobility decreased slightly. This pattern is consistent with the “rich getting richer and poor getting poorer” scenario.

## V

**Characteristics of the Downwardly Mobile**

WHO ARE THE DOWNWARDLY MOBILE? Has the demographic composition of the downwardly mobile changed much since the late 1970s? For the sake of brevity, these questions are addressed by looking at only the severely downwardly mobile, *i.e.* persons whose income-to-needs ratio fell by 50% or more, and persons who dropped two quintiles. Table 3 reports the characteristics of the absolutely downwardly mobile. In both sample periods the majority of the downwardly mobile initially lived with a household head who was male, nonelderly but over 34 years old, Caucasian, married, and working. Also, the majority of the downwardly mobile lived in households which retained the same head throughout the sample period. A plurality of the downwardly mobile lived in the South and with a head of household who had not finished high school.

While the composition of the absolutely downwardly mobile remained fairly similar over the two periods, some differences emerge. For example, in the 1984-1986 period, a slightly smaller fraction of the downwardly mobile lived with a working head and a slightly larger proportion lived in households which had retained the same head over the sample period. Some differences also appear when disproportionalities are compared across the periods. For example, persons with heads of “Other” races are slightly under-represented among the downwardly mobile from 1976 to 1978, but make up a disproportionately large



Table 3

## CHARACTERISTICS OF THE ABSOLUTELY DOWNWARDLY MOBILE

Household head	1976 - 1978		1984 - 1986	
	Sample %	Downwardly mobile	Sample %	Downwardly mobile
Female	17.5	19.1	19.9	21.1
Male	82.5	80.9	80.1	78.9
64 or younger	89.3	91.6	88.1	89.4
65 or older	10.7	8.4	11.9	10.6
34 or younger	33.6	39.9	33.6	33.5
35 or older	66.4	60.1	66.4	66.5
Afro-American	12.0	21.8	12.2	15.5
Caucasian	84.2	76.3	84.3	78.2
Other	3.8	1.9	3.5	6.3
Northeast	24.1	19.8	22.1	19.7
North Central	28.9	24.1	28.3	29.0
South	29.4	35.0	31.3	32.7
West	17.2	20.7	17.4	17.9
Married	78.1	75.4	73.9	72.1
Single	5.8	6.3	8.8	10.3
Widowed	7.0	7.6	6.2	6.4
Divorced	6.1	7.2	8.1	7.9
Separated	3.0	3.5	3.1	3.3
No High School degree	33.2	36.6	25.4	31.8
High School	18.5	17.9	20.5	17.7
HS + training	16.0	16.2	16.5	19.4
Some college	14.9	15.4	18.2	16.3
College degree	11.5	7.0	13.5	9.1
Advanced degree	5.9	6.9	6.0	5.8
Working	77.9	78.6	75.2	73.7
Temp. not working	1.2	2.0	0.8	0.9
Unemployed	3.3	3.9	4.0	5.4
Retired	9.5	8.4	11.4	8.8
Keeping house	4.1	2.5	4.3	5.3
Disabled	2.9	3.7	2.7	2.2
Student	1.0	0.8	1.1	2.2
Workfare, jail, etc.	0.1	0.0	0.4	1.6
Same head	92.3	73.4	91.4	78.0
Wife becomes head	2.6	16.3	2.6	10.2
Fem. head → wife	1.9	3.4	2.2	0.9
Split off	3.2	6.9	3.3	10.3

share of the downwardly mobile in the later period. Similarly, those “keeping house” were not disproportionately downwardly mobile in the 1976-1978 period, but were in the 1984-1986 period.

Table 4 reports the characteristics of the relatively downwardly mobile. Again the majority initially lived with a Caucasian, nonelderly but over 34 years old, married, working, male household head. The majority also lived in households which had retained the same head throughout the sample period. In short, the characteristics of the absolutely and relatively downwardly mobile are quite similar to each other and to the general population.

The characteristics of the relatively downwardly mobile changed little from the 1976-1978 period to the 1984-1986 period with some exceptions. For example, a smaller fraction were Caucasian and a larger fraction were of “Other”

Table 4  
CHARACTERISTICS OF THE RELATIVELY DOWNWARDLY MOBILE

Household head	1976 - 1978		1984 - 1986	
	Sub-sample	Downwardly mobile	Sub-sample	Downwardly mobile
Female	11.6	21.6	12.8	20.6
Male	88.4	78.4	87.2	79.4
64 or younger	93.3	87.1	92.1	87.1
65 or older	6.7	12.9	7.9	12.9
34 or younger	41.7	44.2	40.5	34.8
35 or older	58.3	55.8	59.5	65.2
Afro-American	10.0	16.2	9.6	14.9
Caucasian	87.5	82.4	87.6	71.1
Other	2.5	1.4	2.9	14.0
Northeast	26.5	28.6	22.7	11.6
North Central	29.3	23.5	28.9	31.4
South	27.8	30.1	29.3	32.1
West	16.0	17.7	18.6	23.7
Married	84.3	72.5	81.2	71.1
Single	4.4	7.8	6.8	3.6
Widowed	3.8	7.0	3.7	7.4
Divorced	5.6	6.9	6.6	15.7
Separated	1.9	5.7	1.7	2.2
No High School degree	29.7	29.5	19.3	31.7
High school	19.7	27.6	22.9	20.8
HS + training	18.6	17.8	20.9	24.3
Some college	17.2	14.6	21.0	16.7
College degree	10.3	10.5	10.9	1.8
Advanced degree	4.5	0.0	5.0	4.6
Working	86.2	76.4	82.9	76.2
Temp. not working	1.4	2.1	1.1	4.6
Unemployed	2.8	0.1	1.9	4.3
Retired	6.1	15.3	9.9	5.6
Keeping house	1.5	4.8	1.0	3.3
Disabled	0.9	1.4	2.1	2.1
Student	1.1	0.0	0.7	1.3
Workfare, jail, etc.	0.1	0.0	0.4	2.6
Same head	93.0	67.6	93.7	76.5
Wife becomes head	2.7	24.8	1.2	6.6
Female head - wife	2.0	0.0	2.1	0.2
Split off	2.3	7.5	2.8	16.5

racers in the later period. The fraction of the relatively downwardly mobile in the Northeast dropped from 28.6% to 11.6%, while the fraction in the North Central and Western regions increased. The proportion of the downwardly mobile who lived with single household heads fell from 7.8% to 3.6%, while the proportion living with divorced household heads rose from 6.9% to 15.7%.

The representation of certain groups among the relatively downwardly mobile changed more dramatically across the two periods than was the case for absolute downward mobility. For example, those whose initial household head was 34 years old or younger appear somewhat over-represented among the downwardly mobile in the earlier period, but are under-represented in the later period. Those with heads of "Other" races are under-represented among the downwardly mobile from 1976 to 1978, but are disproportionately downwardly mobile in

the 1984-1986 period. Those whose initial household head was unemployed are under-represented among the downwardly mobile in the 1976-1978 sample, but are over-represented in the 1984-1986 period. In contrast, those with retired heads were disproportionately downwardly mobile in the late seventies, but by the mid-1980s their situation had reversed.

## VI

**The Risks of Downward Mobility**

THE CHARACTERISTICS of the downwardly mobile having been determined, this section examines who is most at risk of downward mobility. Table 5 reports the frequency, or risk, of both absolute and relative downward mobility for thirty-six demographic groups. The risk of absolute downward mobility increased from the late 1970s to the mid-1980s for all but three groups: 1) persons with a disabled household head (4.8% to 4.3%); 2) persons whose female head married by the end of the period (6.7% to 2.3%); and 3) persons living in families in which the wife became the household head by the end of the period (23.5% to 21.5%). This latter decline suggests that the severity of the economic consequences of divorce for women may be diminishing. Nevertheless, persons living in these newly formed female-headed families still faced substantially higher rates of downward mobility than did members of most other groups.

The risk of absolute downward mobility for both male and female headed households increased by 1.7 percentage points. This made the percentage increase somewhat greater for men. The risk also increased for all three racial categories, with the rate for "Other races" rising most dramatically (from 1.9% to 9.9%). The risk increased in all regions, rising the most in the North Central region. Among marital status groups, the risk increased the most for single heads (from 4.1% to 6.4%) and married heads (from 3.6% to 5.4%).

Given the documented increase in the returns to college education, it seems surprising that the likelihood of absolute downward mobility increased for all education levels. Nevertheless, persons with household heads holding an advanced degree experienced the smallest increase in the risk of absolute downward mobility. Those whose head did not have a high school degree, and those with a high school educated head who had additional technical training, faced the largest increase in risk. The risk for both of these groups increased by 2.6 percentage points.

Among the employment status categories, those whose initial household head was keeping house, attending school, or in Workfare or in jail experienced the largest increases in the risk of absolute downward mobility. The risk for those with a working household head increased from 3.8% to 5.4%. While only an

Table 5  
THE RISKS OF DOWNWARD MOBILITY

Household head	Absolute		Relative	
	1976-1978	1984-1986	1976-1978	1984-1986
Female	4.1	5.8	11.1	8.6
Male	3.7	5.4	5.3	4.9
64 or younger	3.9	4.9	5.6	5.0
65 or older	2.9	5.6	11.4	8.7
34 or younger	4.5	5.5	6.3	4.6
35 or older	3.4	5.5	5.7	5.8
Afro-American	3.4	5.1	5.6	4.3
Caucasian	6.8	7.0	9.6	8.3
Other	1.9	9.9	3.4	25.8
Northeast	3.1	4.9	6.4	2.7
North Central	3.1	5.6	4.8	5.8
South	4.5	5.7	6.5	5.8
West	4.6	5.5	6.6	6.8
Married	3.6	5.4	5.1	4.7
Single	4.1	6.4	10.5	2.8
Widowed	4.1	5.7	11.1	10.7
Divorced	4.4	5.4	7.4	12.7
Separated	4.5	5.9	17.7	7.0
No High School degree	4.2	6.8	5.9	8.9
High School	3.6	4.7	8.3	4.9
HS + training	3.8	6.4	5.7	6.3
Some college	3.9	4.9	5.0	4.3
College degree	2.3	3.6	6.1	0.9
Advanced degree	4.4	5.2	0.0	5.0
Working	3.8	5.4	5.1	4.9
Temp. not working	6.2	6.3	9.2	23.3
Unemployed	4.5	7.3	0.1	11.9
Retired	3.3	4.2	14.8	3.0
Keeping house	2.3	6.7	18.8	16.9
Disabled	4.8	4.3	9.5	5.5
Student	3.0	11.3	0.0	9.5
Workfare, jail, etc.	0.5	22.9	0.0	34.1
Same head	3.0	4.7	4.3	4.4
Wife becomes head	23.5	21.5	54.3	29.8
Female head → wife	6.7	2.3	0.1	0.5
Split off	8.1	17.2	19.8	31.7

increase of 1.6 percentage points, this is a fairly large percentage increase (42%). Employment apparently provided less protection from absolute downward mobility in the mid-1980s than in the late seventies.

The risk of absolute downward mobility for persons living in a split-off family by the end of the period, generally the result of "nest-leaving," doubled (from 8.1% to 17.2%). This result illustrates the severity of recent adverse changes in the distribution of earnings for young workers. The risk also increased for persons whose family retained the same household head over the sample period. This suggests that a stable family structure provided somewhat less economic security in the mid-1980s than in the mid-1970s.

Most groups faced lower risks of relative downward mobility in the 1984-1986 than in the 1976-1978 period. Those whose initial household head was single, separated, retired, or held a college degree enjoyed the most dramatic

declines in risk. The risk for those whose initial household head changed from male (usually the husband) to female (usually the ex-wife) fell by 45%, but still remained comparatively high at nearly 30%.

Persons whose initial household head was of "Other" races or was temporarily out of work, unemployed, in school, or in Workfare, or in jail experienced large increases in the risk of relative downward mobility. In addition, persons living in split-off families by the end of the sample period faced a 60% higher risk of relative downward mobility in the 1984-1986 period as compared to the 1976-1978 period.

The risk of relative downward mobility also increased for persons whose household head did not finish high school or finished high school and acquired non-academic training. In contrast, the risk for persons whose head had some college declined slightly and the risk for those with a college-educated head fell from 6.1% to 0.9%. The changes in the risk of relative downward mobility more closely track changes in the returns to education than did changes in the risk of absolute downward mobility. This suggests that the increase in the college premium affected the shape of distribution of income more than average. The relationship between the risk of relative downward mobility and education is not perfect. For example, the risk for persons whose head held an advanced degree increased from 0% to 5%. This latter result is consistent with Strobel's (1993) conjecture that when the middle class suffers economic losses, the demand for lawyers, professors, financial advisors, and other professionals declines.<sup>6</sup>

## VII

### **Is the Middle Class Increasingly Downwardly Mobile?**

DOWNWARD MOBILITY may generate different problems depending on which class experiences the majority of the income declines. For example, if absolute downward mobility consists entirely of super-rich persons becoming only modestly rich or middle class, then problems related to declines in savings and investment would be expected. In contrast, if downward mobility consists mostly of middle income persons dropping into the lower class, increased demand for public assistance, and problems related to diminished consumer confidence and perhaps to political instability, would be expected.

To determine in which class most downwardly mobile persons originate, class boundaries must be defined. The middle three quintiles of the real family income distribution can be used as a crude representation of the "middle class." The top and bottom quintiles identify the upper and lower classes respectively.<sup>7</sup> Table 6 reports the initial class status of the absolutely downwardly mobile for both sample periods. About 53% of the downwardly mobile in the 1976-1978

Table 6

THE ABSOLUTELY DOWNWARDLY MOBILE: INITIAL QUINTILE  
CLASS STATUS

1976 Class	Downwardly Mobile %	1984 Class	Downwardly Mobile %	Change
Upper	30.6	Upper	24.0	-6.6
Middle	53.5	Middle	57.2	3.7
Lower	15.9	Lower	18.8	2.9

period began in the middle class compared to about 57% in the 1984-1986 period. The middle class does appear to be increasingly downwardly mobile.

Thirty percent of the downwardly mobile in the 1976-1978 period began in the upper class, compared to only 24% in the 1984-1986 period. Nearly 16% of the downwardly mobile during the 1976-1978 period started in the lower class. This fraction increased to 18.8% in the 1984-1986 period.

In short, more of the downwardly mobile came from the middle and lower classes, and fewer from the upper class, in the mid-eighties. This result is consistent with studies which find greater income inequality and increased economic insecurity in the middle class during the 1980s. These results suggest that the increase in downward mobility is likely to generate problems associated with consumption patterns, increased demand for public assistance, and shifting political support.

Using family income quintiles to define classes does not account for family size. Duncan, Smeeding, and Rodgers (1991) propose definitions of the three classes which adjust for family size and more closely measure absolute standards of living. They define the lower class as all individuals whose real family income-to-needs ratio falls below the 20th percentile. The upper class consists of persons whose real family income-to-needs ratio exceeds the 90th percentile. The middle class obviously consists of person whose ratios fall between these two boundaries.<sup>8</sup>

Table 7

THE ABSOLUTELY DOWNWARDLY MOBILE: INITIAL DECILE  
CLASS STATUS

1976 Class	Downwardly Mobile %	1984 Class	Downwardly Mobile %	Change
Upper	18.5	Upper	17.2	-1.3
Middle	60.8	Middle	61.3	0.5
Lower	20.7	Lower	21.5	0.8

Table 7 reports the initial class status of the absolutely downwardly mobile using the family-size-adjusted definitions. Nearly 19% of the downwardly mobile in the 1976-1978 period began in the upper class. About 17% of the downwardly mobile in the later period began at the top. Slightly more of the downwardly mobile began in the lower class in the mid-1980s (21.5%) than in the earlier period (20.7%). The share of the downwardly mobile beginning in the middle class also increased, from 60.8% in the late 1970s to 61.3% in the mid-1980s.

The family-size-adjusted class definitions produce essentially the same patterns as the quintile class definitions. The proportion of the downwardly mobile coming from the middle and lower classes increased, while the proportion coming from the upper class decreased. However, the magnitude of these changes are much smaller with these decile class definitions.

## VIII

### Summary

THIS PAPER measures the extent of absolute and relative downward mobility during two periods of modest economic growth; 1976-1978 and 1984-1986. The results indicate that a smaller proportion of Americans experienced relative downward mobility during the latter period. However, absolute downward mobility became a more frequent event in the 1984-1986 period. This pattern is consistent with studies which find that during the eighties the rich got richer and the poor got poorer. The increased risk of absolute downward mobility has also contributed to Americans' heightened sense of economic insecurity.

The downwardly mobile, in both absolute and relative terms, exhibit similar characteristics during both sample periods. In general, the demographic characteristics of the downwardly mobile do not differ drastically from those of the entire sample. The majority lived with nonelderly, married, Caucasian, working men. The risk of downward mobility for some groups did change across the sample periods. In the 1984-1986 period, a larger proportion of the downwardly mobile lived in families which retained the same household head or in "split off" families. These findings suggest that the economic advantages of stable family composition may be losing some potency and that families starting out face an increasingly difficult economy. The risk for persons of races other than Caucasian and African-American also increased.

Lastly, the analysis finds that a larger share of the downwardly mobile came from the middle and lower classes in the 1984-1986 period. The magnitude of this increase declines, however, when class definitions adjust for family size.

### Notes

1. For short articles discussing the personal consequences of downward mobility see Nordheimer (1992) and Twomey (1992).

2. A PSID interviewing wave contains demographic information for the wave year and income information for the prior year. Hence, the 1979 and 1987 interviewing waves are included as they contain information on income in 1978 and 1986 respectively. Each observation is weighted by the "end of period" individual probability weight. The 1976-1979 sample contains 263,719 probability weighted cases (13,805 unweighted), while the 1984-1987 sample contains 264,849 probability weighted cases (13,619 unweighted). For information about the construction and content of the PSID see Hill (1992). Beckett et al. (1988), Bound et al. (1989), and Duncan and Hill (1989) present analyses of the quality of PSID data.

3. Family income includes the labor earnings of all members, dividends, rent, interest, and transfers. The family income-to-needs ratio is calculated by dividing family income by the official poverty line for the family's size. Nominal income and needs are converted to real terms using the CPI-U-X1.

4. A person can be both absolutely and relatively downwardly mobile. For example, a person's income-to-needs ratio could drop by 50% or more because of a large loss of income. The income loss could be sufficient to cause the person to drop to a lower quintile.

5. Marglin (1984) provides a good review for those interested in models which relate macroeconomic trends to the distribution of income and downward mobility.

6. This descriptive analysis provides some clues as to factors which influence the likelihood of downward mobility. A multivariate analysis, such as Logit, would help isolate these factors. Unfortunately, the 1976-1978 data set contains so many missing values for several of the demographic variables that Logit estimates are impossible to derive. Smith (1993) reports the Logit analysis of the likelihood of absolute downward mobility for the 1984-1986 data set.

7. The "middle of period" year quintile breaks, *i.e.* 1977 and 1985, were used to determine class status at the beginning and end of the period.

8. Decile breaks for the "middle of period" year, *i.e.* 1977 and 1985, were used to determine class status in both beginning and end of period years.

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