

# Ups and Downs: Americans' prospects for recovery after an income loss

There is widespread consensus that the Great Recession and its aftermath are likely to affect more families than any since the Great Depression. What can be learned about Americans' prospects for recovery based on recent history? Focusing on the household incomes of working-age adults, the Economic Mobility Project's 2009 report, *Ups and Downs: Does the American Economy Still Promote Upward Mobility?*, analyzed income gains and losses from 1967 through 2004.\* The evidence shows that patterns in Americans' income changes have been similar over those nearly 40 years and that the economy propelled most Americans upward, setting them back temporarily, if at all. However, the minority who experienced longer-term dislocation were at risk of permanent damage to their economic standing relative to their peers.

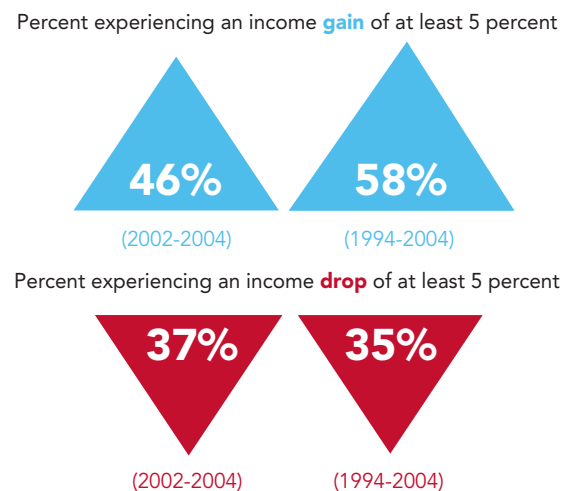
**Between 1967 and 2004, family income fluctuations were the norm, but Americans were more likely to experience income gains than income drops.**

Focusing on both short-term (two-year) and long-term (10-year) income fluctuations, the research found that the chance of experiencing an income gain or loss has remained fairly stable over the last four decades.<sup>1</sup>

In the most recent periods analyzed (2002-2004 and 1994-2004), just over a third of working-age adults experienced an income decline of at least 5 percent (Figure 1).

However, almost half (46 percent) experienced a two-year income gain, and substantially more (58 percent) experienced a 10-year income gain.

**Figure 1**  
More Americans Experienced Income Gains than Losses over Two- and Ten-Year Periods



\*To read the complete June 2009 report, written by Stephen J. Rose and Scott Winship for the Economic Mobility Project, please visit [www.economicmobility.org](http://www.economicmobility.org).

<sup>1</sup> The Panel Study of Income Dynamics, used to complete this study, was conducted only biennially since 1997, so to compute short-term changes in income necessitates comparing incomes two years apart rather than year-to-year. However, short-term income changes can be flawed measures of changes in living standards, so the analysis also examines changes over 10 year periods.

**Age, education, and living with a partner influenced Americans' chances of experiencing large income gains and drops.**

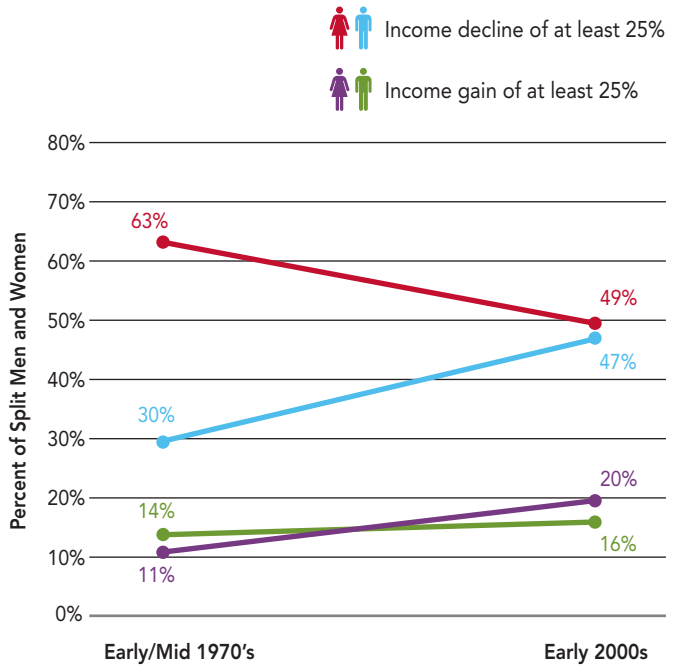
The risk of experiencing a large income drop over two years was lowest for the youngest adults (those under age 46), whites, college graduates, and couples who married or moved in together.

Notably, over time, the risk of experiencing a large income drop came down significantly for women who split from their partners, while it increased for men who split from their partners, reflecting the narrowing gap between men's and women's earnings (Figure 2).

**Figure 2**

**Narrowing Gap in Income Declines Between Men and Women who Split from their Partners**

Split women surpassed split men in income gains

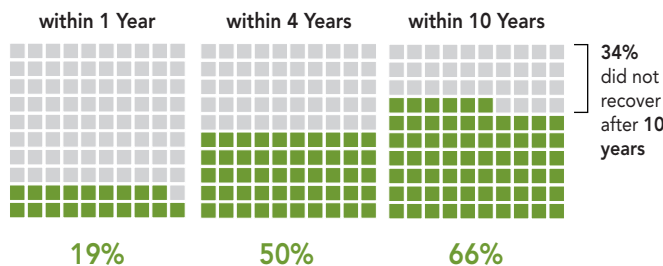


**Figure 3**

**Recovery Chances After a Short-Term Income Drop**

After one year of losing more than 25 percent of income in 1994

Did not recover (Grey)  
Recovered (Green)



**Half of adults who experienced a one-year income loss of more than 25 percent recovered within four years, a recovery rate that was stable over time.**

One-third, however, failed to recover even after 10 years (Figure 3).

Among adults experiencing a loss of 25 percent or less, 70 percent recovered fully within four years, but 16 percent were unable to recover within 10 years.

**Half of those experiencing large income losses over 10 years experienced even larger income gains in the subsequent 10 years, but the other half failed to fully recover.**

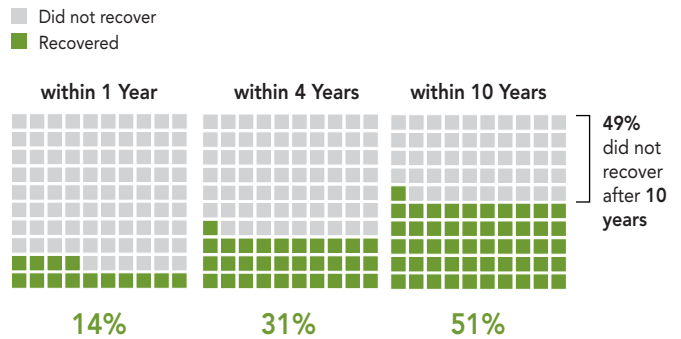
About half of those who experienced an income drop of more than 25 percent between 1984 and 1994 saw gains of more than 25 percent over the next 10 years (1994-2004).

However, some of these Americans failed to fully recover over the 20-year period. Among all adults with an income drop of more than 25 percent between 1984 and 1994, just 51 percent recovered by 2004 (Figure 4).

Figure 4

### Recovery Chances After a Long-Term Income Drop

After 10 years of losing more than 25 percent of income between 1984 and 1994



### Reading Between the Lines

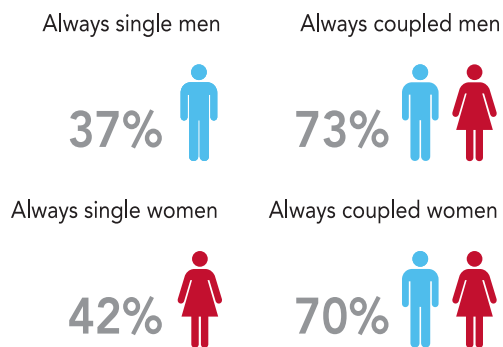
Even if Americans experience an income gain after a drop, they may not be as well off as when they started. This is because the same percentage drop and subsequent gain do not lead to a full recovery.

**\$20k ▶ \$10k ▶ \$15k**

Starting Income    Income **drop** of 50%    Income **gain** of 50%

Figure 5

### Recovery From Income Losses of Five Percent or More Within Ten Years



**Recovery from a 10-year income drop was most common among college graduates and couples who live together.**

Within 10 years, 76 percent of college graduates recovered from a 10-year drop compared to only 57 percent of both those who attended some college and who had a high school degree or less.

The difference by household composition was even more stark. Over six in 10 men who experienced a long-term drop and who remained continuously single *failed* to recover after 10 years, and the same is true for nearly six in 10 women. On the other hand, seven in 10 continuously-partnered adults recovered from a large income loss within 10 years.

**People who experienced a large 10-year income drop had a tough time keeping up.**

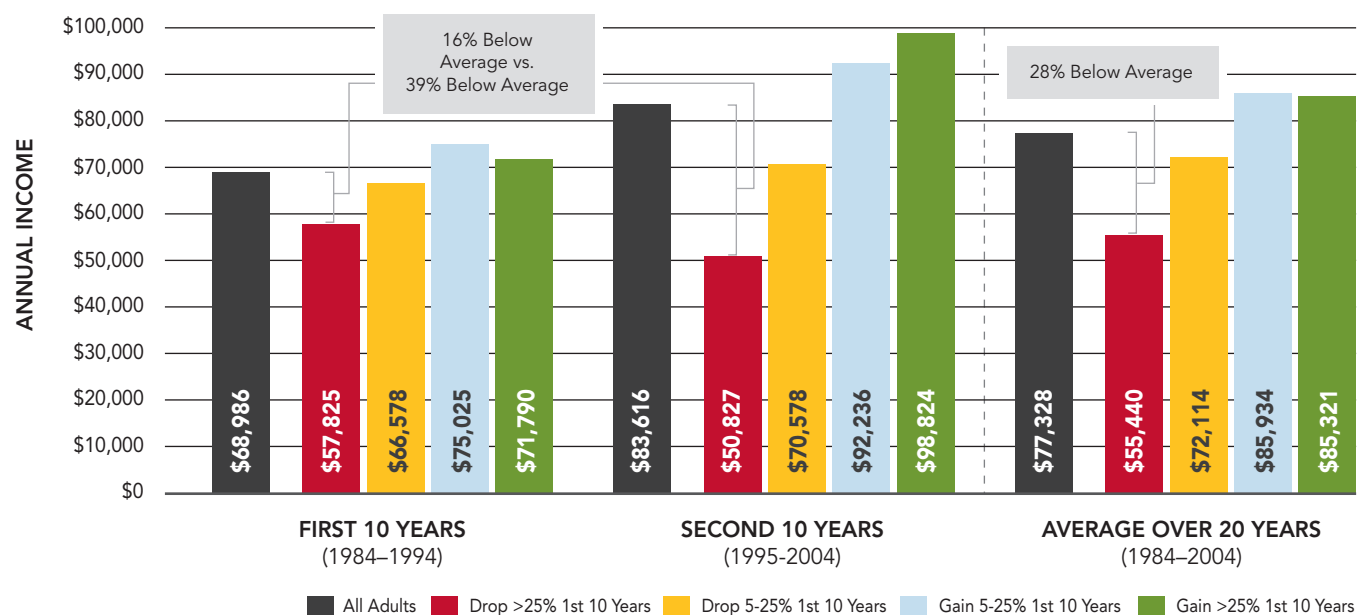
The typical adult experiencing an income decline of more than 25 percent between 1984 and 1994 had an average family income of \$57,825 over those years—16 percent lower than the average income for all adults over the period. In the subsequent 10 years, the median income of those same people fell even further behind: 39 percent lower than that for all adults.

Most adults experiencing smaller income losses between 1984 and 1994 recovered in the subsequent 10 years, but their incomes over the entire 20-year period still lagged behind those of all adults by about \$5,000 per year.

**Figure 6**

**Adults Experiencing a Large Ten-Year Loss Fell Even Further Behind Their Peers in the Subsequent Ten Years**

Median 10- and 20-Year Incomes, by Change in Income



**METHODOLOGY**

*Ups and Downs: Does the American Economy Still Promote Upward Mobility?* draws upon data from the Panel Study of Income Dynamics, focusing on adults from age 26 to 59. The authors used household income based on pre-tax earnings of all family members plus any other source of money, including dividends, interest payments, rents, and transfer payments such as Social Security. All incomes were adjusted to 2006 dollars using the CPI-U-RS and cover the time period from 1967-2004. For more details, see the methodological appendix of the full report.

By forging a broad and nonpartisan agreement on the facts, figures, and trends related to mobility, the Economic Mobility Project is generating an active policy debate about how best to improve economic opportunity in the United States and to ensure that the American Dream is kept alive for generations that follow. For more information, visit [www.economicmobility.org](http://www.economicmobility.org) or call Samantha Lasky at 202-540-6390.