

CALIFORNIA BUDGET PROJECT

A Generation of Widening Inequality

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November 2011



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- Incomes, page 3
- Wealth, page 43
- Earnings From Work, page 47
- Mobility Up the Income Ladder, page 58



Incomes

The Story of the Past Generation Is One of Widening Inequality

- In the middle of the last century, national economic growth translated into a more broadly shared prosperity. As productivity increased and the economy expanded, income gains were relatively even across the distribution.
- In contrast, a disproportionate share of income gains in recent decades has accrued to the very top of the distribution, in spite of continued productivity gains.
- As a result, the gap between the incomes of those at the high end of the distribution and those at the low end and middle has widened significantly.

Who Is Middle-Income? Who Is Wealthy?

- California's taxpayers with incomes in the middle fifth of the distribution had adjusted gross incomes – incomes reported for tax purposes, referred to simply as “incomes” in subsequent slides – between \$26,103 and \$45,376 in 2009, the most recent year for which data are available.
- Those in the middle 60 percent of the distribution had incomes between \$13,081 and \$83,561.
- The top 10 percent had incomes of at least \$126,077.
- The top 1 percent had incomes of \$400,635 or more.

**California's Taxpayers in the Middle Fifth of the Income
Distribution Had 2009 Incomes Between \$26,103 and \$45,376**

Income Group	Adjusted Gross Income Range	
	Lower Bound	Upper Bound
Bottom Fifth	\$0	\$13,080
Second Fifth	\$13,081	\$26,102
Middle Fifth	\$26,103	\$45,376
Fourth Fifth	\$45,377	\$83,561
Next 10 Percent	\$83,562	\$126,076
Next 5 Percent	\$126,077	\$176,422
Next 4 percent	\$176,423	\$400,634
Top 1 Percent	\$400,635	*

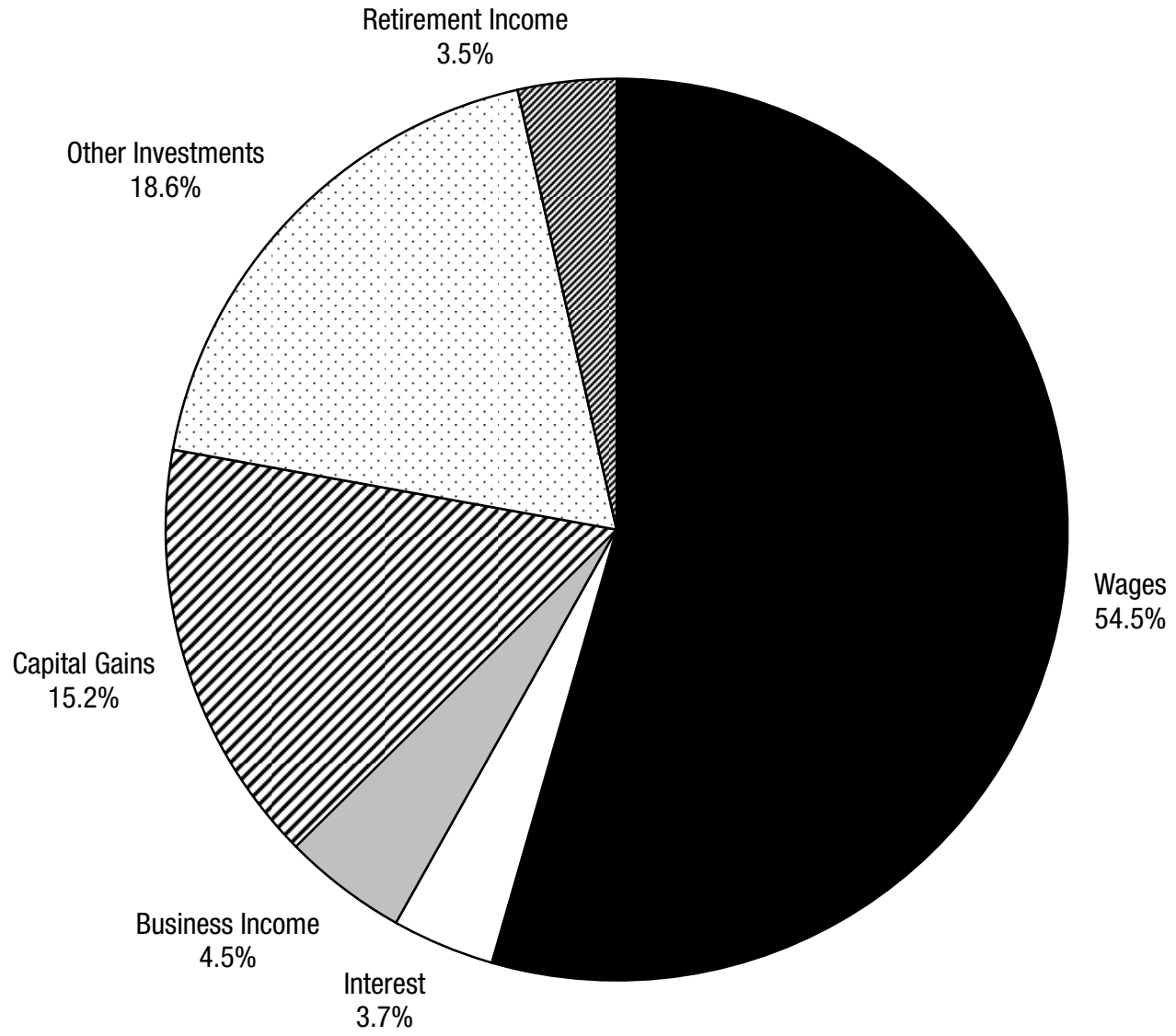
* Not applicable.

Source: Franchise Tax Board

The Wealthiest Taxpayers Receive a Large Share of Their Incomes From Investments

- The top 5 percent of California's taxpayers received:
 - 15.2 percent of their incomes from capital gains, which reflect changes in the value of assets, such as stocks;
 - 54.5 percent from earnings from work;
 - 3.5 percent from retirement income; and
 - 26.8 percent from other sources, including interest, business income, and other investments, in 2008 – the most recent year for which data are available.

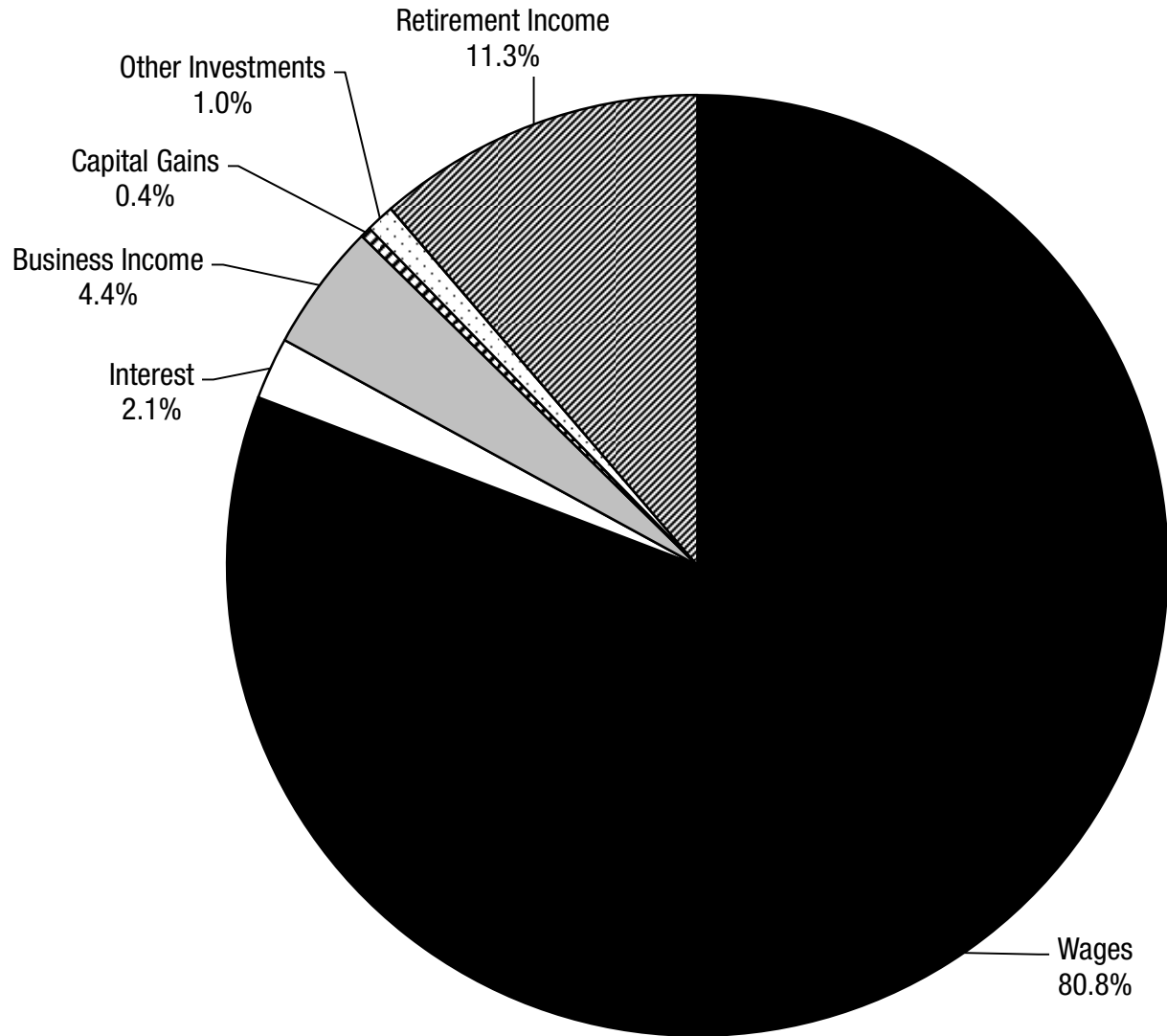
The Top 5 Percent of California's Earners Received a Large Share of Their Incomes From Investments, 2008



The Bottom 95 Percent of Taxpayers Receive the Vast Majority of Their Incomes From Wages

- The bottom 95 percent of California's taxpayers received:
 - 80.8 percent of their incomes from wages;
 - 11.3 percent from retirement income;
 - Less than half of 1 percent from capital gains; and
 - 7.5 percent from other sources in 2008.
- This means that the economic well-being of most Californians largely depends on the strength of the job market.

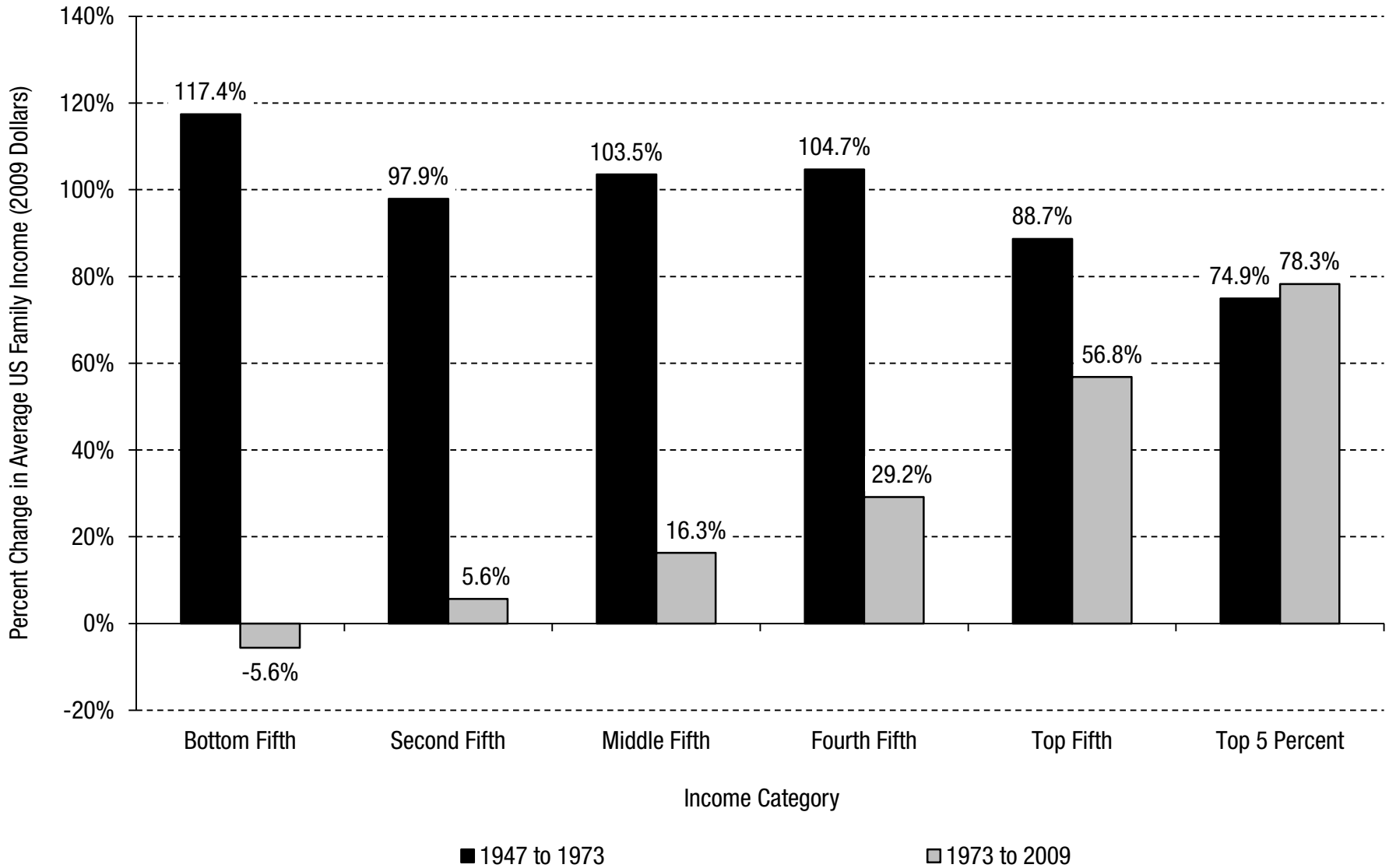
The Bottom 95 Percent of California's Earners Received Most of Their Incomes From Wages, 2008



Broadly Shared Prosperity Ended in the 1970s, and a Generation of Widening Inequality Began

- National data show that income gains were relatively even across the distribution in the middle of the last century.
- Average inflation-adjusted incomes for families in each of the bottom four fifths of the distribution doubled or more than doubled between 1947 and 1973.
- Since the 1970s, however, a disproportionate share of income gains has accrued to the very top of the distribution.
- For example, the average inflation-adjusted income of the top 5 percent of families increased by 78.3 percent between 1973 and 2009 – nearly five times the percentage gain for families in the middle fifth.

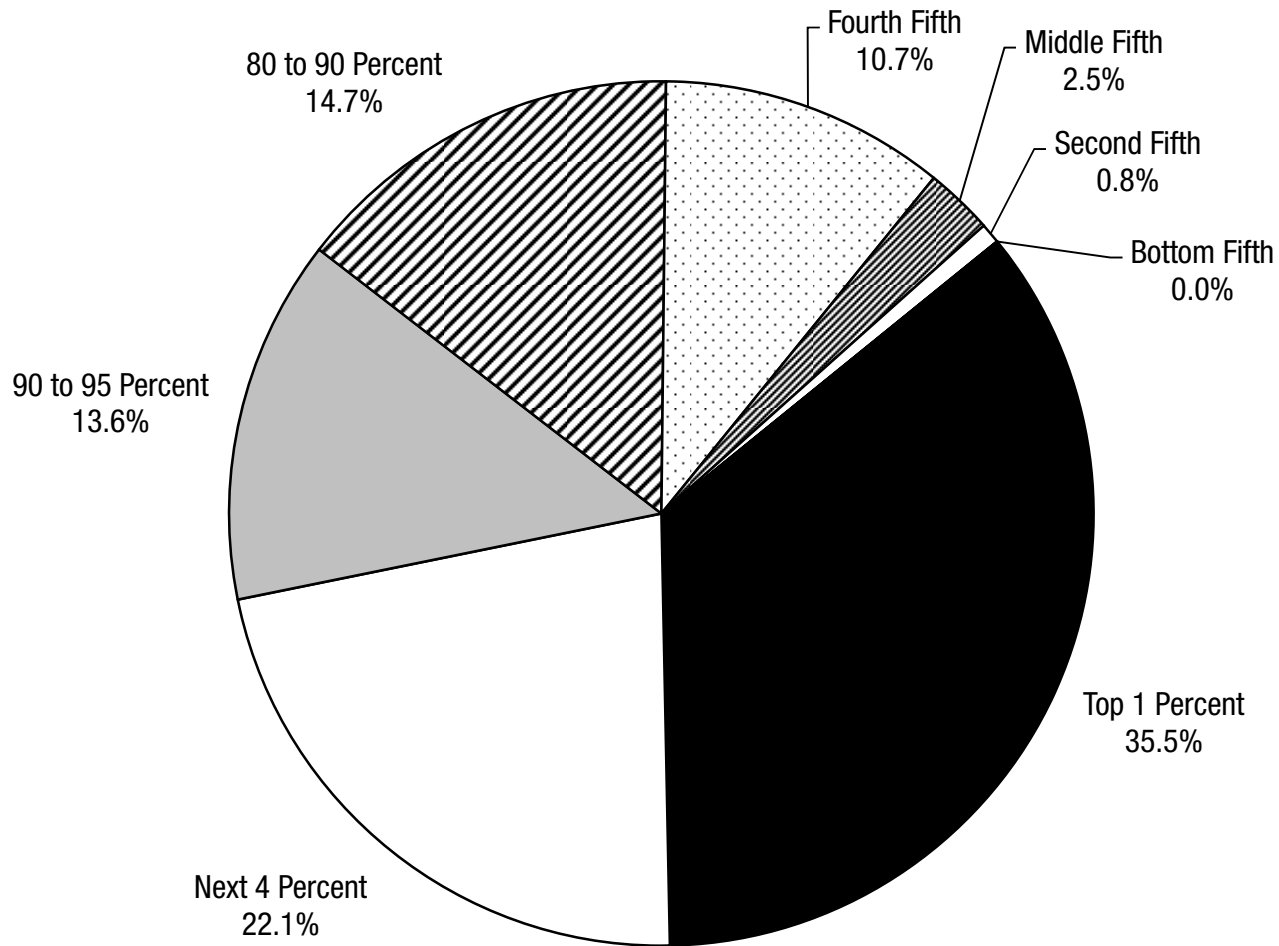
Broadly Shared Prosperity Ended in the Early 1970s, and a Generation of Widening Inequality Began



The Income Pie Grew, But Most Californians Got Tiny Slices

- The total inflation-adjusted income of all of California's taxpayers increased by \$219.4 billion between 1987 and 2009 – the longest period for which state data are available.
- More than one-third (35.5 percent) of this increase went to the wealthiest 1 percent of Californians. In other words, \$77.9 billion – an amount just less than the size of California's 2011-12 budget – went to fewer than 144,000 taxpayers.
- A full 71.3 percent of the income gains between 1987 and 2009 went to the wealthiest 10 percent of Californians.
- In contrast, just 2.5 percent of the increase in total income went to Californians in the middle fifth of the income distribution.

More Than One-Third of Total Income Gains Between 1987 and 2009 Went to the Top 1 Percent of California Taxpayers

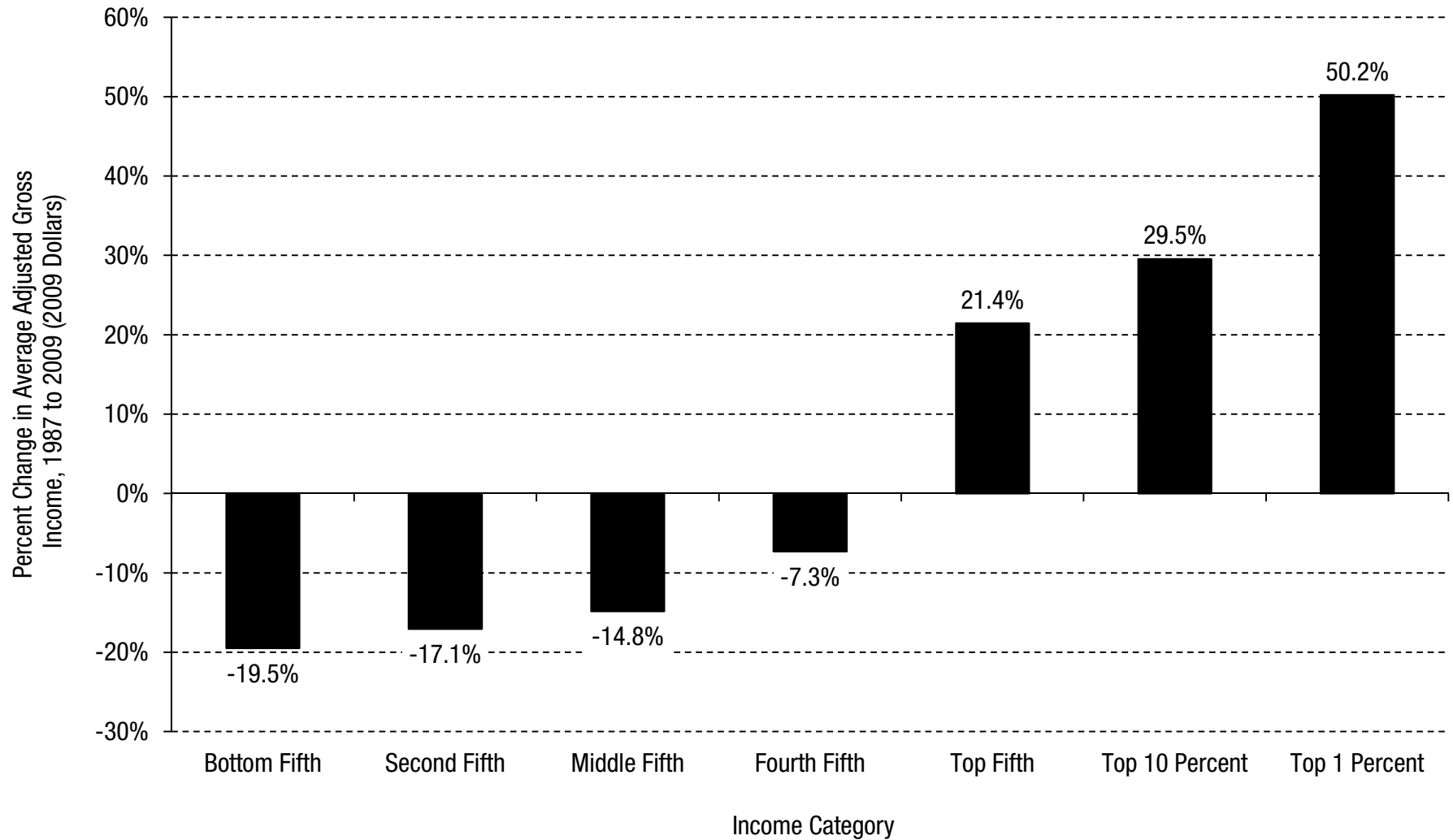


Total Adjusted Gross Income Increased by \$219.4 Billion, 1987 to 2009 (2009 Dollars)

The Wealthiest Californians Made Significant Gains, While Low- and Middle-Income Californians Lost Ground

- The average inflation-adjusted income of the top 1 percent of California's taxpayers increased by 50.2 percent between 1987 and 2009, from \$778,000 to \$1.2 million.
- In contrast, the average income of taxpayers in each of the bottom four fifths of the distribution *lost* purchasing power. For example:
 - The average inflation-adjusted income of Californians in the middle fifth dropped by 14.8 percent, falling to approximately \$35,000 in 2009 – the lowest level since at least 1987.

The Incomes of the Wealthy Increased Significantly Over the Past Two Decades, While Those of All Other Californians Declined



Many Californians' Incomes Lost Significant Purchasing Power Even Before the Great Recession Began

- After adjusting for inflation, the average income of Californians in the middle fifth of the distribution:
 - Fell by 9.3 percent (\$3,823) between 1987 and 2007;
 - Dropped by another 6.1 percent (\$2,282) between 2007 and 2009, as the nation fell into recession; and
 - Was 14.8 percent (\$6,105) lower in 2009 than in 1987.
- As a result, the average income of the middle fifth of Californians was \$35,098 in 2009 as compared to \$41,203 in 1987, after adjusting for inflation.

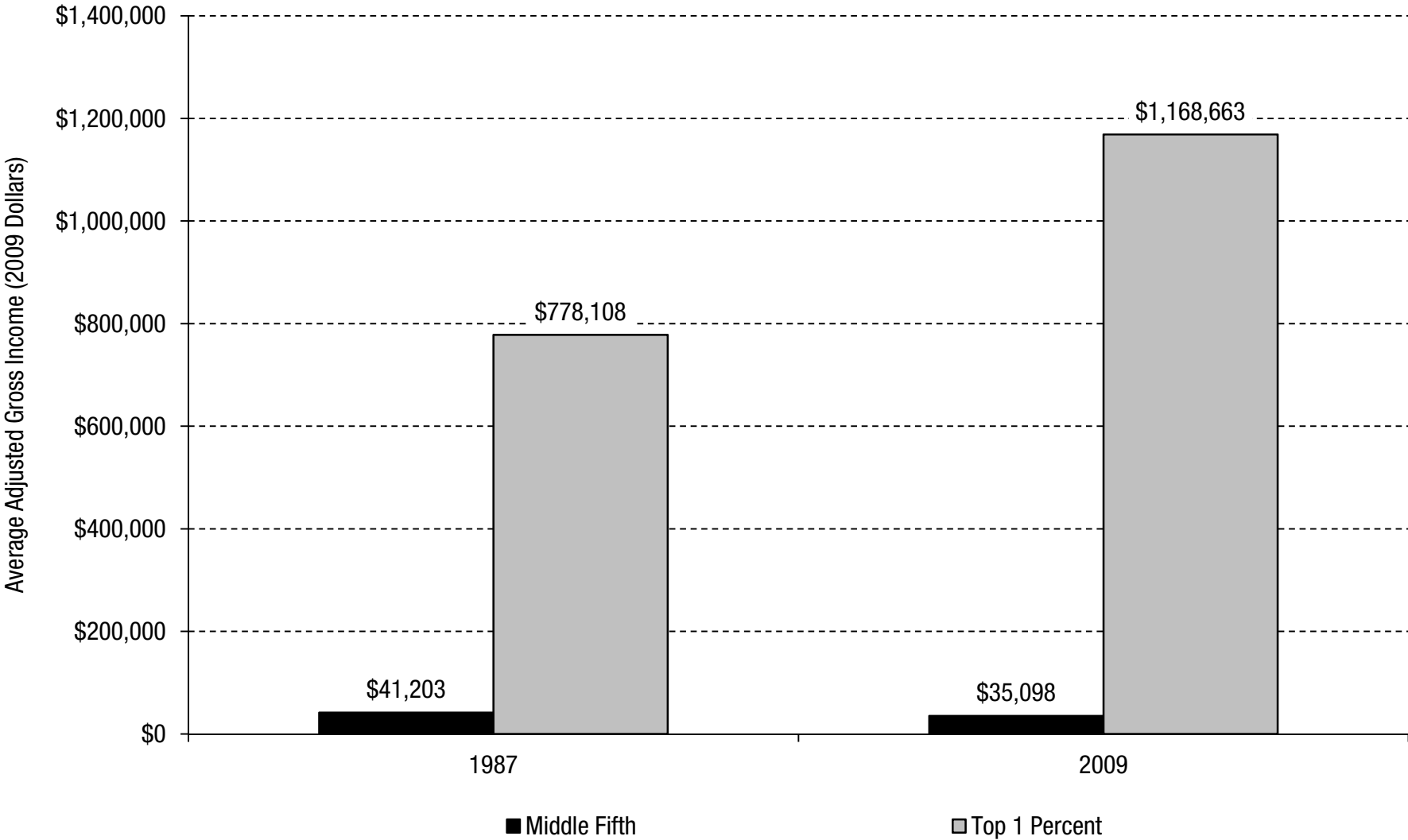
The Top 1 Percent of Californians Made Significant Gains Prior to the Downturn

- The average inflation-adjusted income of the top 1 percent:
 - More than doubled between 1987 and 2007, increasing by 143.7 percent (\$1.1 million);
 - Declined by 38.4 percent (\$728,000) between 2007 and 2009;
 - But was still 50.2 percent (\$390,000) *higher* in 2009 than in 1987.
- In other words, even the worst recession in the post-World War II era failed to fully erase the significant gains the wealthiest Californians made leading up to the downturn.

Income Gaps Have Widened Significantly

- The middle fifth of Californians had an average income of approximately \$35,000 in 2009.
- The top 1 percent had an average income of \$1.2 million – 33 times the average income of the middle fifth. That gap is about twice as large as it was a generation ago.
- This means that in 2009, the average Californian in the top 1 percent of the distribution earned in less than eight workdays what the average middle-income Californian earned in a year.

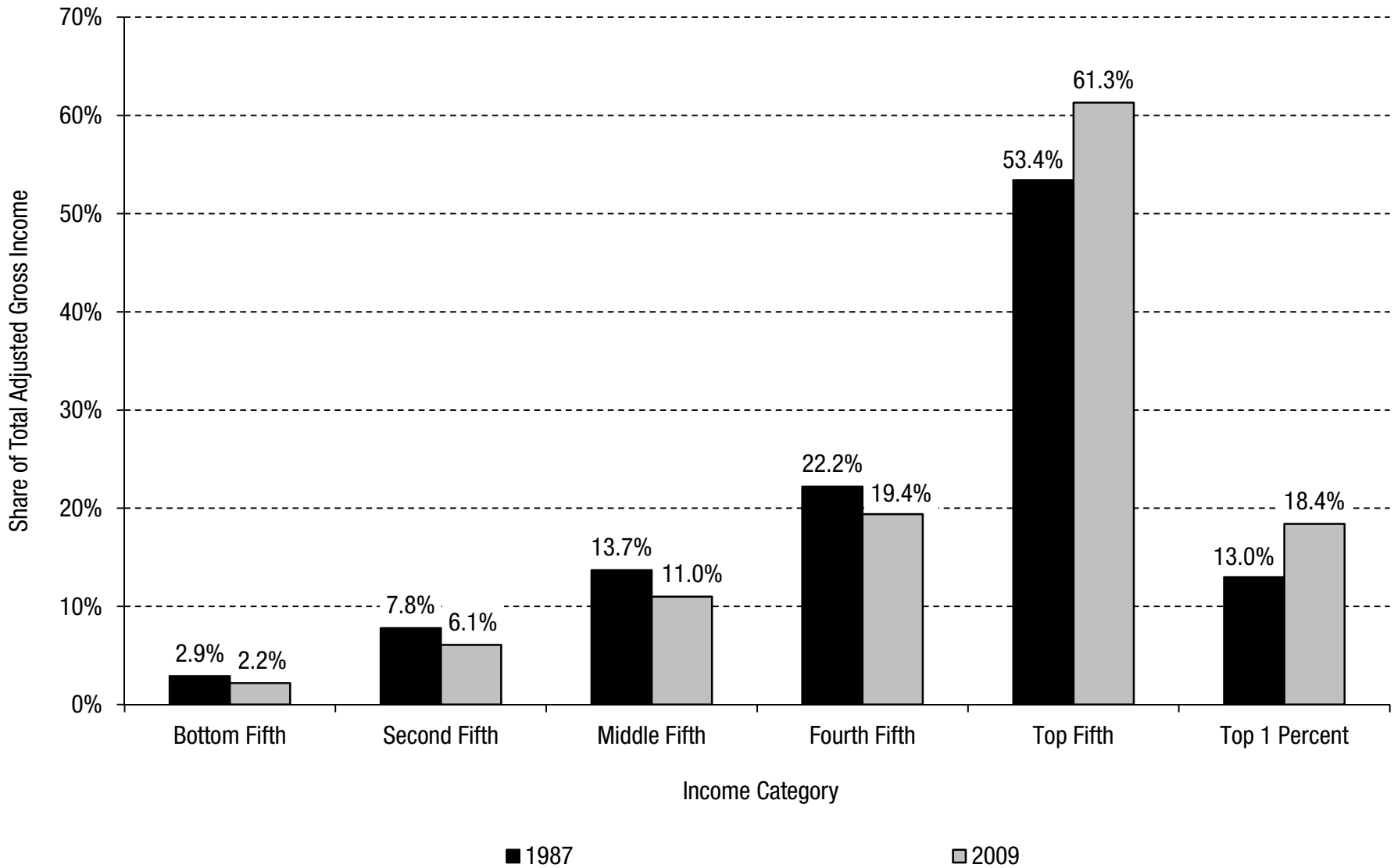
The Gap Between the Top 1 Percent and Californians in the Middle of the Income Distribution Widened Between 1987 and 2009



The Wealthiest Californians Increased Their Share of Total Income

- The top 1 percent of Californians received 18.4 percent of total income in 2009, up from 13.0 percent in 1987. That means that nearly one out of five dollars went to one out of 100 Californians in 2009.
- In contrast, the bottom 80 percent of taxpayers received 38.7 percent of total income in 2009, down from 46.6 percent in 1987. That means that fewer than two out of five dollars went to 80 out of 100 Californians in 2009.

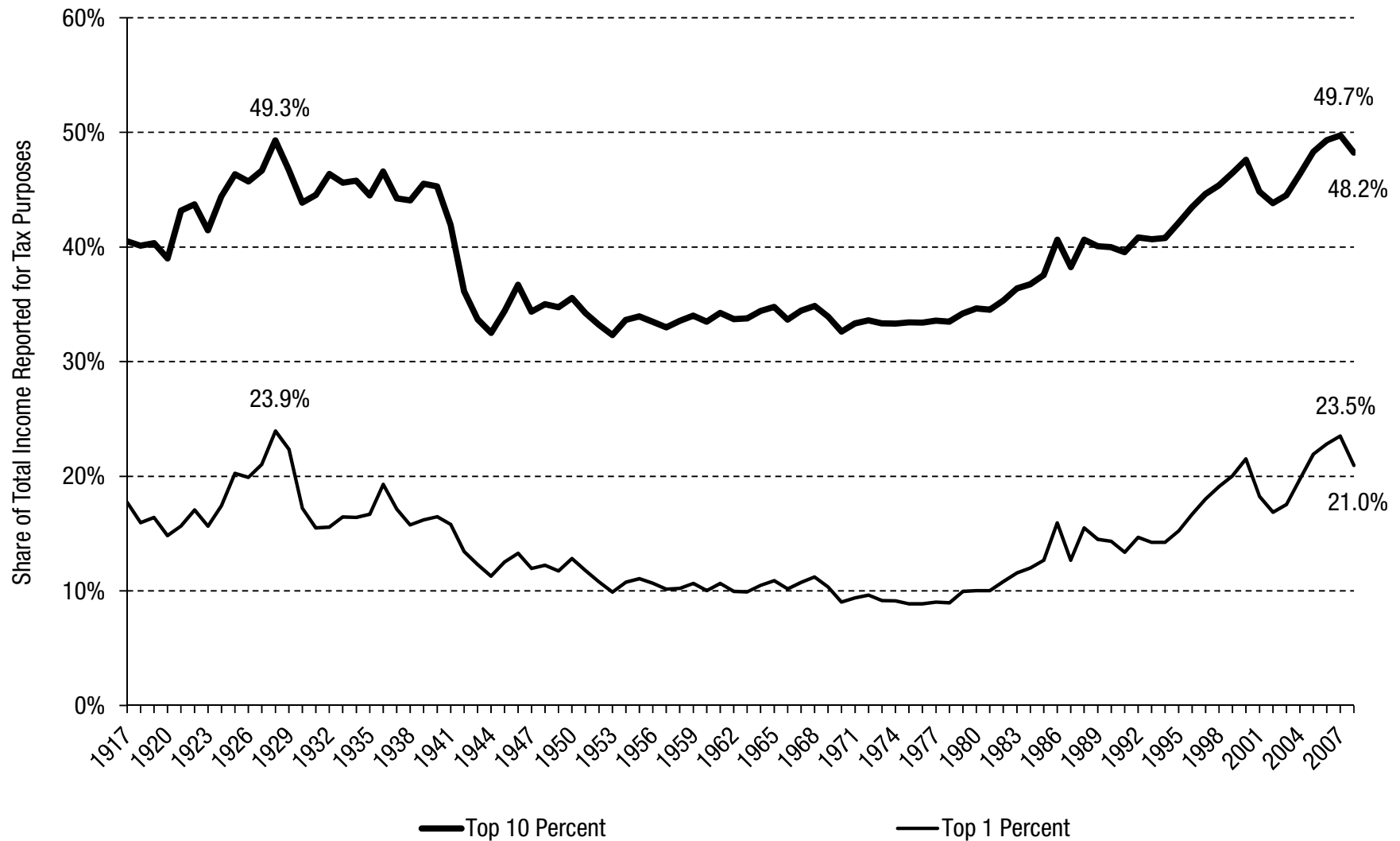
The Share of Total Income Going to the Wealthiest Californians Increased Between 1987 and 2009



The Wealthiest US Households' Share of Income Reached a Record High in 2007

- National data, which are available since 1917, show that the concentration of income among the wealthiest US taxpayers recently reached a level not seen in nearly 80 years.
- Half of total income reported for tax purposes (49.7 percent) went to the top 10 percent of US taxpayers in 2007 – the highest share on record, slightly exceeding the prior record set in 1928 (49.3 percent).
- Nearly one-quarter of total income (23.5 percent) went to the top 1 percent of the nation's taxpayers in 2007 – the second-highest share on record, nearly matching the highest share ever recorded (23.9 percent in 1928).

The Concentration of Income Among the Wealthiest US Households Remains Near Record Highs



Source: Facundo Alvaredo, Tony Atkinson, Thomas Piketty, and Emmanuel Saez, The World Top Incomes Database (January 2011)

The Recent Drop in Income Concentration Is Likely To Be Temporary

- The concentration of income among the wealthiest households dropped in 2008. Since wealthy taxpayers derive a large share of their incomes from capital gains, their incomes tend to fall when stock values decline, as they did that year.
- Leading experts on income trends anticipate that this drop will be temporary. Income concentration also declined during the 2001 recession, but as soon as the stock market recovered, incomes at the very high end began to rise again.
- According to Emmanuel Saez, a national expert on inequality, “falls in income concentration due to economic downturns are temporary unless drastic regulation and tax policy changes are implemented and prevent income concentration from bouncing back.”

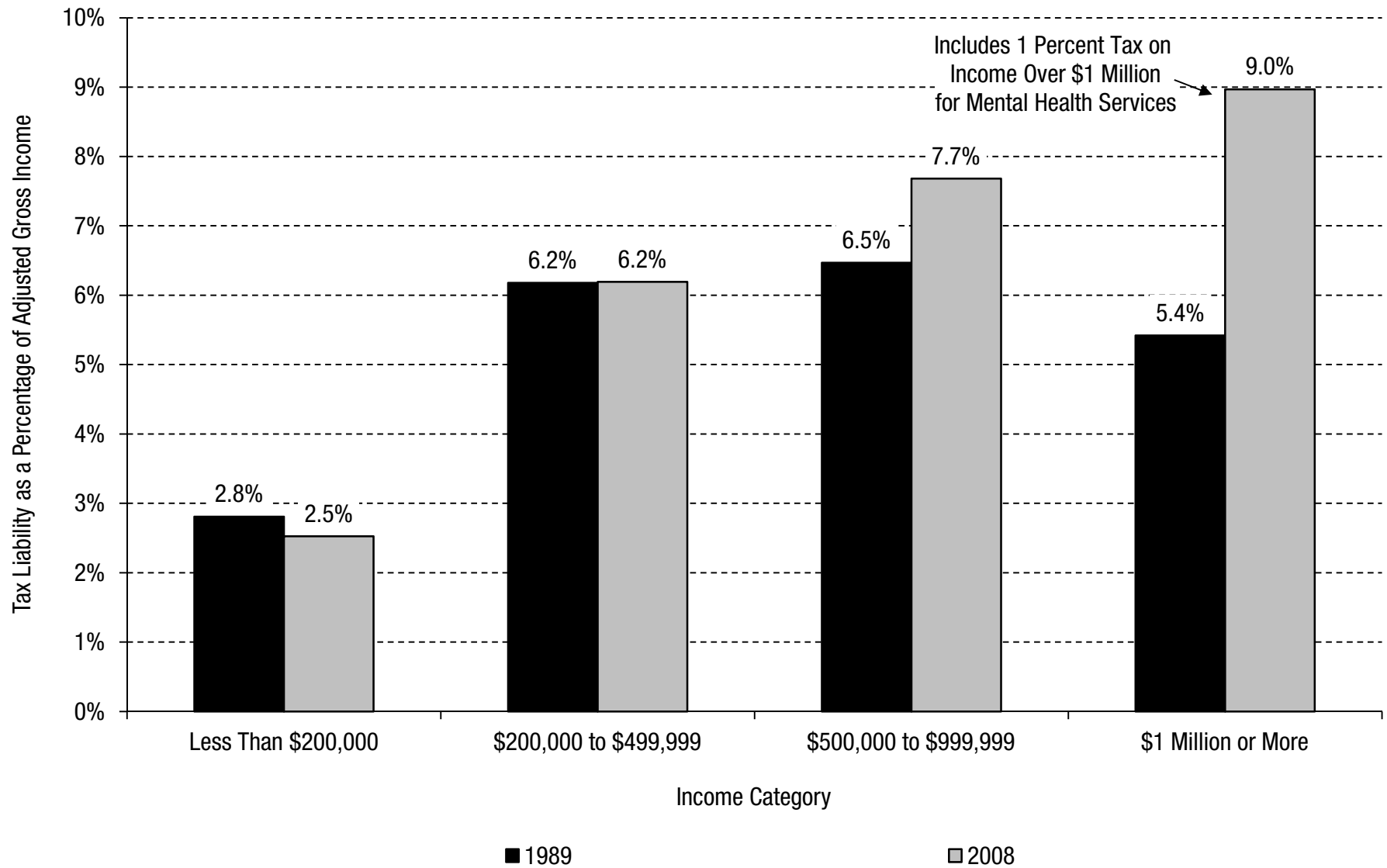
Taxes Paid by the Wealthy Plummeted as a Share of Income, Even as Their Pre-Tax Incomes Skyrocketed

- The average inflation-adjusted income of the wealthiest 400 US households more than quintupled between 1992 and 2007, increasing by 408.9 percent from \$67.7 million to \$344.8 million. This amounted to a gain of \$277.1 million per household.
- The wealthiest 400 US households had combined incomes of \$137.9 billion in 2007. By way of comparison, more than three-quarters of the nations in the world have economies that are smaller than the combined incomes of the wealthiest 400 US households.
- As the incomes of the wealthiest 400 US households rose, the federal income taxes they paid plummeted as a share of their incomes. The top 400 US households paid 16.6 percent of their incomes in federal income taxes in 2007, down from 26.4 percent in 1992.

Personal Income Taxes Paid by Very High-Income Californians Increased as a Share of Income

- California taxpayers with incomes of \$1 million or more paid 9.0 percent of their incomes in state personal income tax in 2008, up from 5.4 percent in 1989. In part, this increase reflects the additional 1 percent tax rate on incomes over \$1 million approved by voters in 2004 to provide dedicated revenues for mental health services.
- In contrast, California taxpayers with incomes under \$200,000 paid 2.5 percent of their incomes in state personal income taxes in 2008, down from 2.8 percent in 1989.

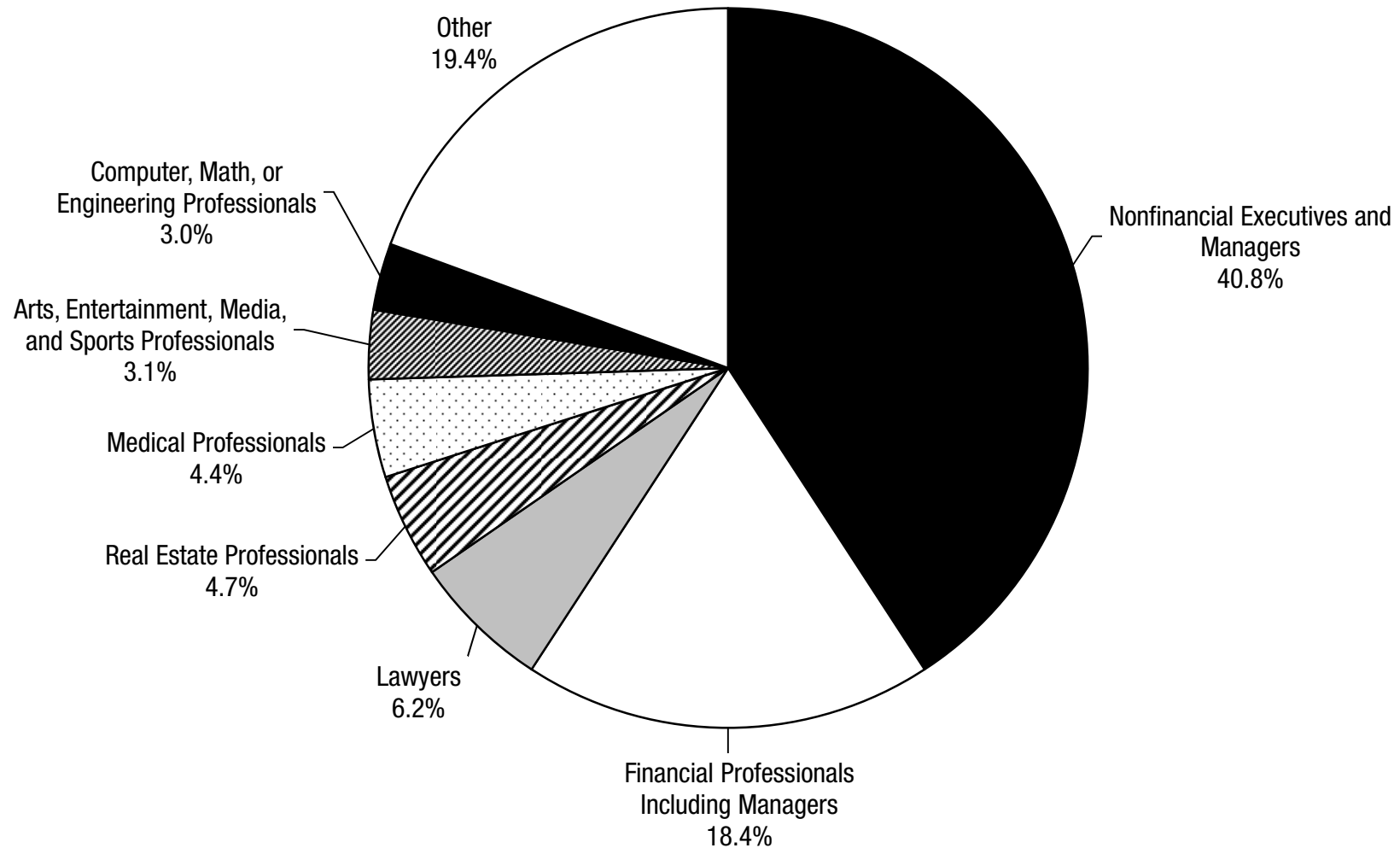
California Personal Income Taxes Owed Increased as a Share of Income for Very High-Income Taxpayers



The Majority of the Wealthy Work as Executives, Managers, or Financial Professionals

- Three out of five (59.2 percent) of the wealthiest 0.1 percent of US taxpayers worked as executives, managers, or financial professionals in 2004 – the most recent year for which data are available.
- Lawyers made up 6.2 percent of the wealthiest 0.1 percent of US taxpayers in 2004, followed by real estate professionals (4.7 percent), and medical professionals (4.4 percent).
- Contrary to popular perception, arts, entertainment, media, and sports professionals made up just 3.1 percent of the top 0.1 percent of taxpayers.

Three Out of Five of the Wealthiest 0.1 Percent of US Taxpayers Worked as Executives, Managers, or Financial Professionals, 2004

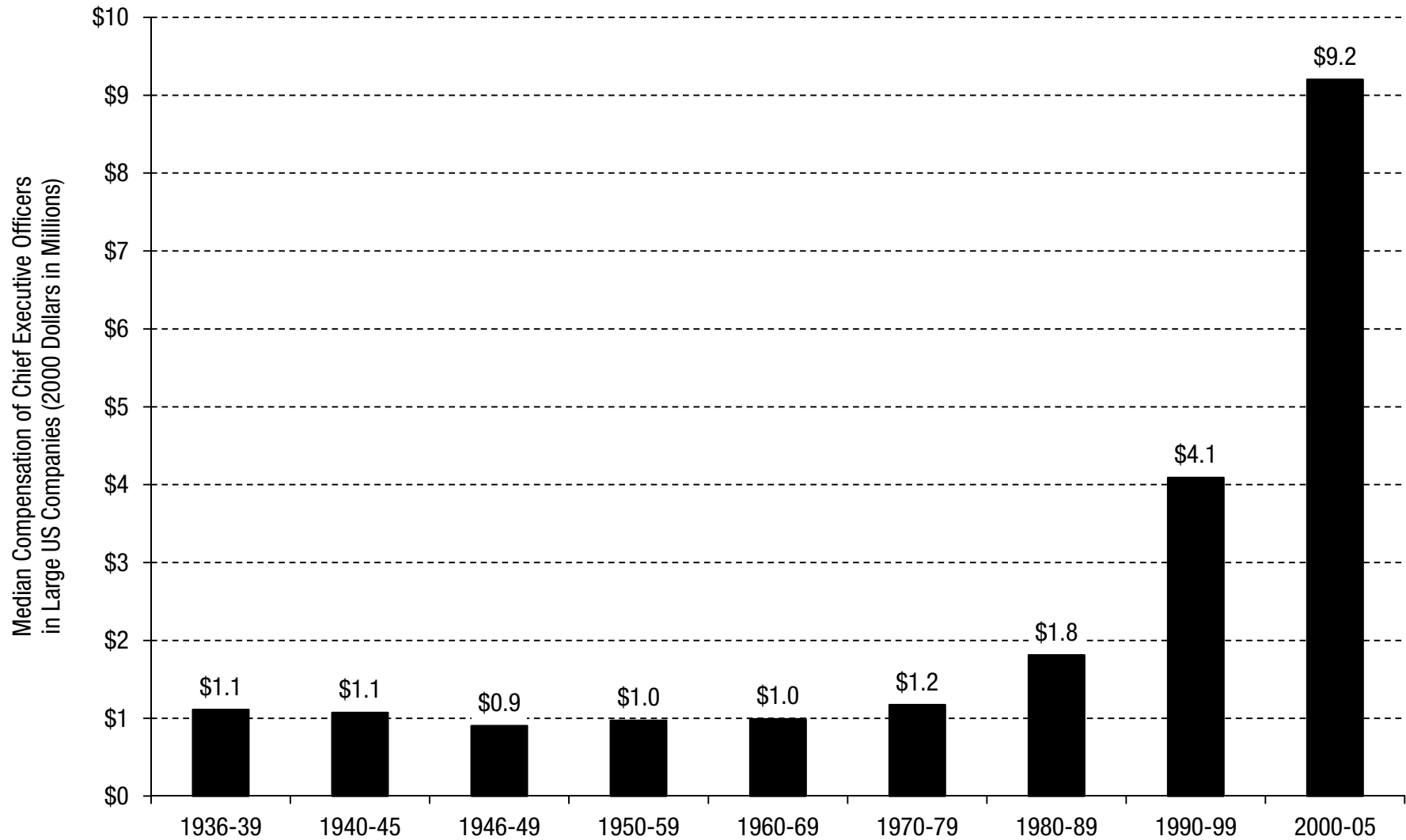


Note: "Other" includes other entrepreneurs, nonfinance business operations professionals, skilled salespeople, professors and scientists, farmers and ranchers, and individuals not working or deceased.
Source: Jon Bakija, Adam Cole, and Bradley T. Heim, *Jobs and Income Growth of Top Earners and the Causes of Changing Income Inequality: Evidence From US Tax Return Data* (November 2010)

The Typical Compensation of Top Executives Skyrocketed in Recent Decades

- The typical inflation-adjusted compensation package – including salaries, bonuses, incentive awards, and the value of stock options – of Chief Executive Officers (CEOs) of large US companies spiked from \$1.2 million in the 1970s to \$9.2 million in the first half of the 2000s, after approximately four decades of little to no change.
- This increase largely reflects growth in the share of compensation from stock-related pay:
 - The value of stock options represented 37 percent of the average CEO’s total compensation in the early 2000s, up from 11 percent in the 1970s.
 - Incentive awards, including the value of stock, rose from 5 percent to 23 percent of the average CEO’s total compensation during this period.
 - In contrast, salaries and bonuses dropped from 84 percent to 40 percent of the average CEO’s compensation.

The Typical Compensation for Top Executives Has Skyrocketed



The Gap Between the Incomes of Top Executives and Those of the Average Worker Widened

- The substantial rise in CEO compensation has widened the gap between top executives and the average worker.
- The average CEO's annual pay was 35 times that of the average nonsupervisory or production worker – workers who make up approximately 80 percent of the workforce – in 1978.
- In 2007, the average CEO's annual pay was 275 times the average worker's pay.
- In other words, the average CEO earned more in one workday than the average worker earned in one year.

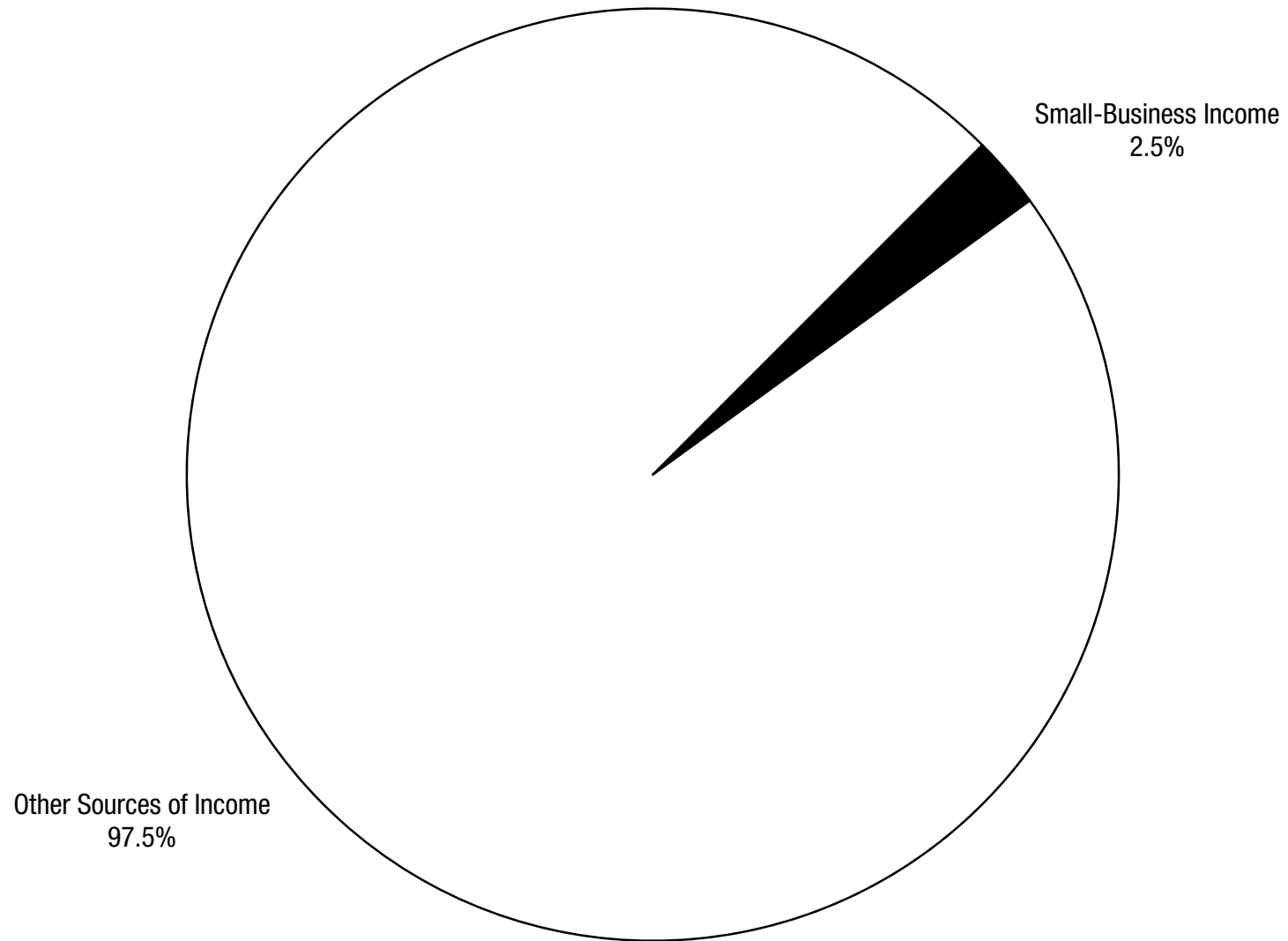
Many of the Highest Paid US CEOs Run California-Based Companies

- According to *Forbes*, many of the highest paid US CEOs run California-based companies, including:
 - Robert A. Iger (Walt Disney), with annual compensation of \$53.3 million;
 - John C. Martin (Gilead Sciences), with annual compensation of \$42.7 million;
 - John T. Chambers (Cisco Systems), with annual compensation of \$37.9 million;
 - David E. I. Pyott (Allergan), with annual compensation of \$33.8 million;
 - Donald E. Felsing (Sempra Energy), with annual compensation of \$20.6 million; and
 - Peter A. Darbee (PG&E), with annual compensation of \$7.3 million.

A Very Small Share of US Millionaires' Incomes Comes From Small Businesses

- US taxpayers with incomes of at least \$1 million had combined incomes of \$1.4 trillion in 2007. However, only 2.5 percent of that income came from small businesses. This suggests that few millionaires are small business owners.
- Viewed another way, a very small share of small business owners are millionaires. Just 3.3 percent of US taxpayers with small-business employer income had incomes of at least \$1 million in 2007. Instead, the majority (75.8 percent) had incomes of \$200,000 or less.

A Very Small Share of US Millionaires' Incomes Came From Small Businesses, 2007



Few Small US Businesses Employ Workers

- Only three out of 10 small US businesses (30.3 percent) paid any wages at all in 2007.
- Just one out of 10 small US businesses with incomes of \$100,000 or less (10.5 percent) paid any wages at all in 2007. Moreover, nearly half (47.1 percent) of those wages paid went to business owners and other officers.
- Only six out of 10 small US businesses with incomes between \$100,001 and \$10 million (59.2 percent) paid wages in 2007, and nearly one-third (31.5 percent) of those wages went to business owners and other officers.

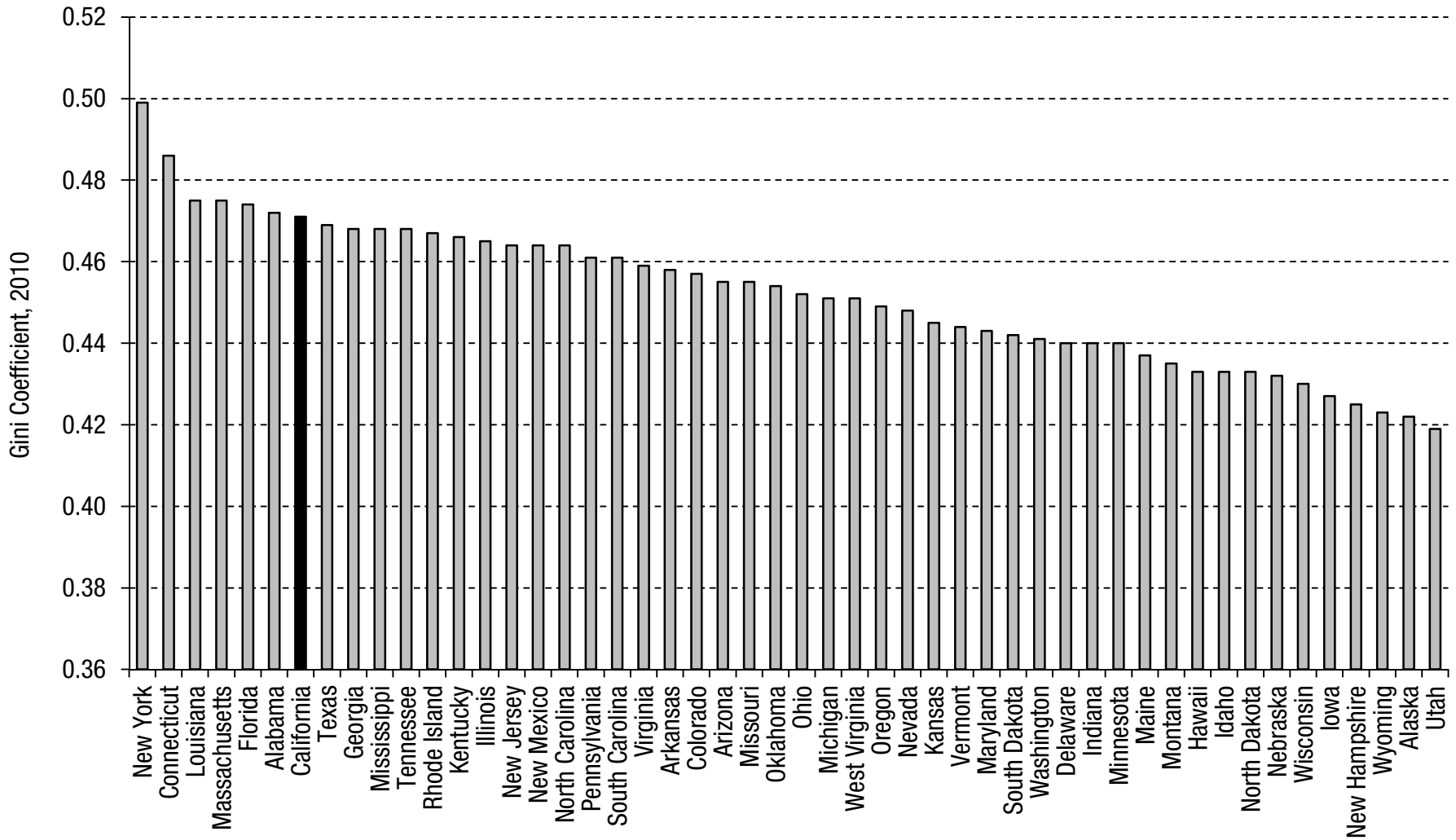
Income Gaps in the US Exceed Those of All Other Wealthy, Industrialized Nations

- Income gaps are wider in the US than in all the other countries that make up the “G8” – a group of eight of the wealthiest nations – including Canada, the United Kingdom, and Japan.
- Income gaps in the US also exceed those of all but two of the 34 member countries of the Organisation for Economic Co-operation and Development (OECD). Of the 34 OECD nations, only Mexico and Chile have greater disparities between the rich and poor than the US.
- According to the CIA *World Factbook*, which includes data for 136 countries, the US has the 39th most unequal distribution of income, ranking between Jamaica and Cameroon. Namibia ranks first with the widest income gap, while Sweden ranks last with the most evenly distributed income.

California Has One of the Widest Income Gaps in the United States

- California has the seventh widest gap between the rich and poor among the 50 states, ranking between Alabama and Texas.
- The incomes of the wealthy few stand in stark contrast to those of millions who live in poverty.
- Last year, 6.1 million Californians lived in poverty (16.3 percent), including 2.2 million children (23.4 percent). For a two-parent family with two children that means living on \$22,000 a year or less.
- In contrast, California's 33,900 millionaire taxpayers – just 0.2 percent of the state's taxpayers – had combined incomes of \$104 billion in 2009. That's *11 times* the income needed to lift every single Californian out of poverty (\$9.3 billion).

California Ranks Seventh in the Nation for the Widest Gap Between Rich and Poor



Note: The Gini coefficient is a standard measure of income gaps that ranges from 0, which indicates perfect equality of income across households, to 1, which means that all income is concentrated at the very top of the distribution.

Source: US Census Bureau

Los Angeles and San Francisco Have Wider Income Gaps Than Most Large Metropolitan Areas

- The Los Angeles-Long Beach-Santa Ana metropolitan area, which includes Los Angeles and Orange counties, ranks third in the US with the widest gap between the rich and poor among the nation's 51 largest metropolitan areas.
- The San Francisco-Oakland-Fremont metropolitan area, which includes Alameda, Contra Costa, Marin, San Francisco, and San Mateo counties, ranks seventh in the US with the widest gap between the rich and poor.
- In contrast, the cities of Norwalk and Elk Grove rank third and fourth, respectively, with the narrowest income gaps among the nation's 269 cities with populations of 100,000 or more.

Public Policies Narrow Income Gaps Less Today Than They Did a Generation Ago

- “Shifts in the distribution of government transfer payments and federal taxes also contributed to the increase in after-tax income inequality,” according to the Congressional Budget Office.
- Public policies, such as government transfer payments, including CalWORKs cash assistance, and the value of in-kind benefits, such as CalFresh food assistance, can reduce after-transfer income gaps by boosting the incomes of households at the low end of the income distribution.
- Federal taxes also can narrow after-tax income gaps, since the federal tax system as a whole is progressive because federal tax rates increase as household incomes rise.
- However, due to changes in public policies, transfers and taxes reduced a smaller share of the gap between high- and low-income households in 2007 (17 percent) than in 1979 (23 percent) due to two factors:
 - The share of government transfer payments going to the bottom fifth of households declined substantially, reflecting an increase in spending on programs targeting the elderly, such as Medicare and Social Security – the benefits of which are not limited to low-income households; and
 - The federal tax system became less progressive.

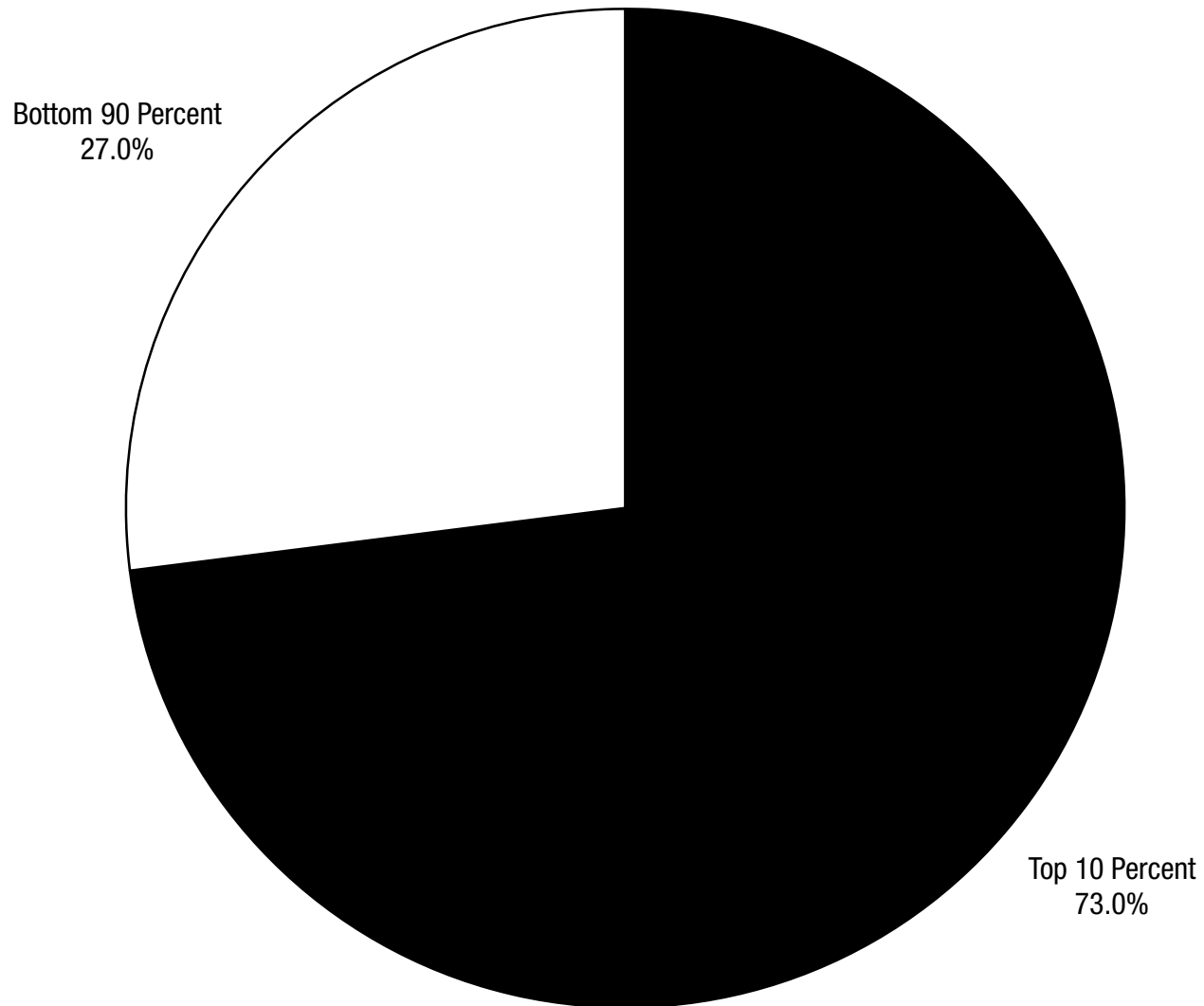


Wealth

The Concentration of Wealth Exceeds That of Income

- Wealth – the total value of individuals’ or families’ assets, minus their debt – is a better indicator of long-term economic security than is income. Individuals or families who have accumulated wealth are better able to cope with financial emergencies, such as unemployment or illness. In addition, wealth helps individuals and families invest in their children’s education and can provide greater economic security for future generations.
- The concentration of wealth in the US far exceeds that of income. The 10 percent of US households with the highest incomes received nearly half of all income (47.1 percent) in 2007, while the 10 percent of US households with the greatest wealth had nearly three-quarters (73.0 percent) of total wealth.

The Wealthiest 10 Percent of US Households Had Nearly Three-Quarters of Total Wealth, 2007



The Wealth Gap Has Also Widened

- The average wealth of the top 1 percent of US households was 225 times that of the typical household in 2009 – the largest gap on record – up from 125 times in 1962.
- Wealth varies substantially by race. The typical black household had just 2 percent of the wealth of the typical white household in 2009 – \$2,200 versus \$97,900. In fact, blacks’ 2009 “net worth” was the lowest level on record.
- In 2009, one out of four US households (24.8 percent) had zero or negative net worth – meaning that their debt equaled or exceeded the value of their assets – up from 18.6 percent in 2007.



Earnings From Work

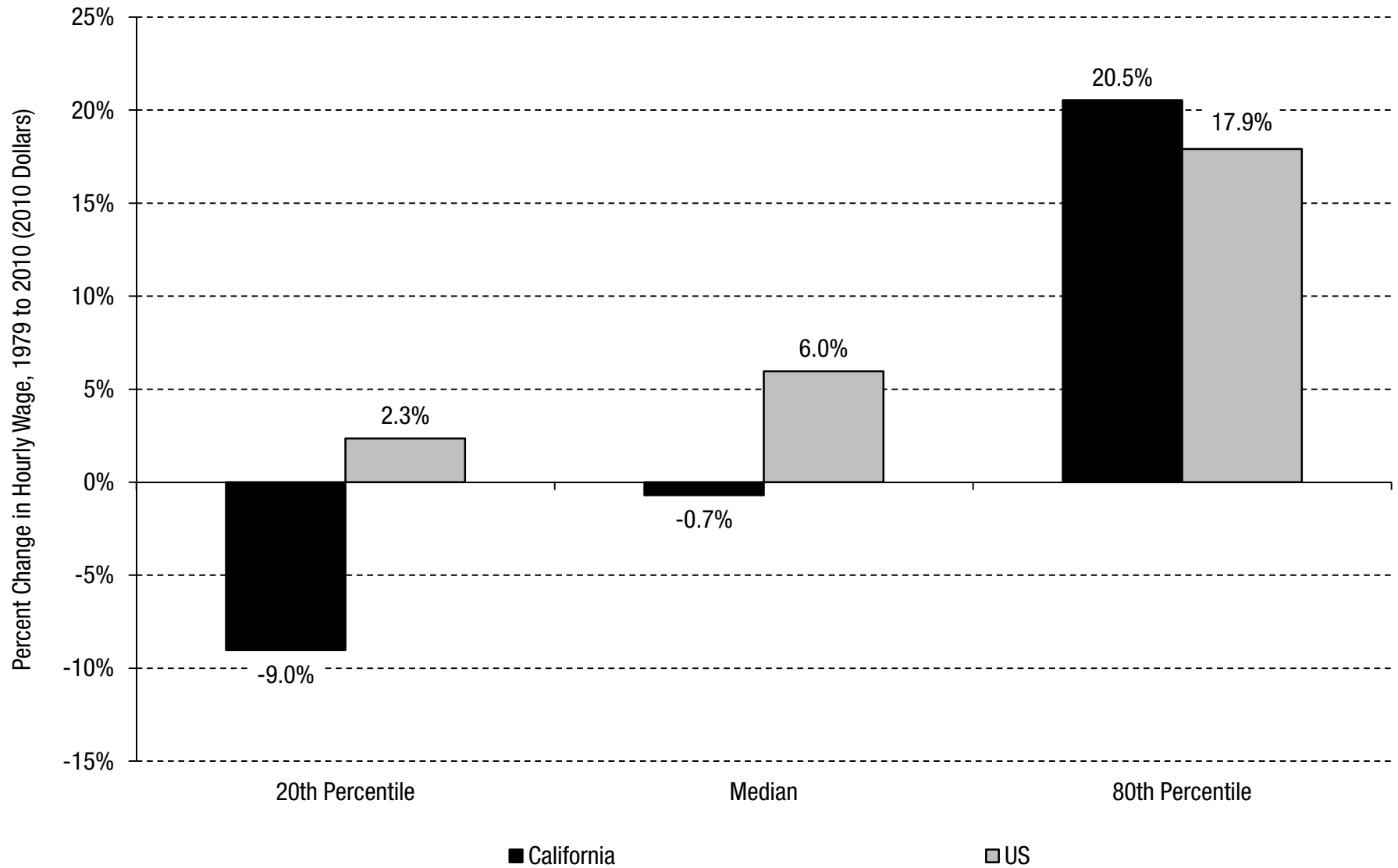
Hourly Wage Gains Were Uneven Over the Past Generation

- California's high-wage workers made significant gains over the past three decades, while workers at the low end and middle of the earnings distribution lost ground.
- The gap between low-wage and high-wage workers widened to a greater extent in California than in the US as a whole, largely because low-wage workers fared better nationally.
- The value of a bachelor's degree increased considerably over the past three decades. Workers with four-year degrees made strong hourly wage gains, while the earnings of workers with lower levels of educational attainment lost purchasing power.

The Gap Between California's Low-Wage and High-Wage Workers Widened During the Past Generation

- California's high-wage workers made significant gains over the past three decades, while workers at the low end and middle of the earnings distribution lost ground:
 - The inflation-adjusted hourly wage of the typical California worker – the worker exactly at the middle of the distribution – was \$18.47 in 2010, 0.7 of a percentage point lower than in 1979 (\$18.60).
 - The inflation-adjusted hourly wage of the state's low-wage workers – those at the 20th percentile of the distribution – was \$10.57 in 2010, 9.0 percent lower than in 1979 (\$11.62).
 - The inflation-adjusted hourly wage of the state's high-wage workers – those at the 80th percentile of the distribution – was \$33.84 in 2010, a substantial 20.5 percent higher than in 1979 (\$28.08).

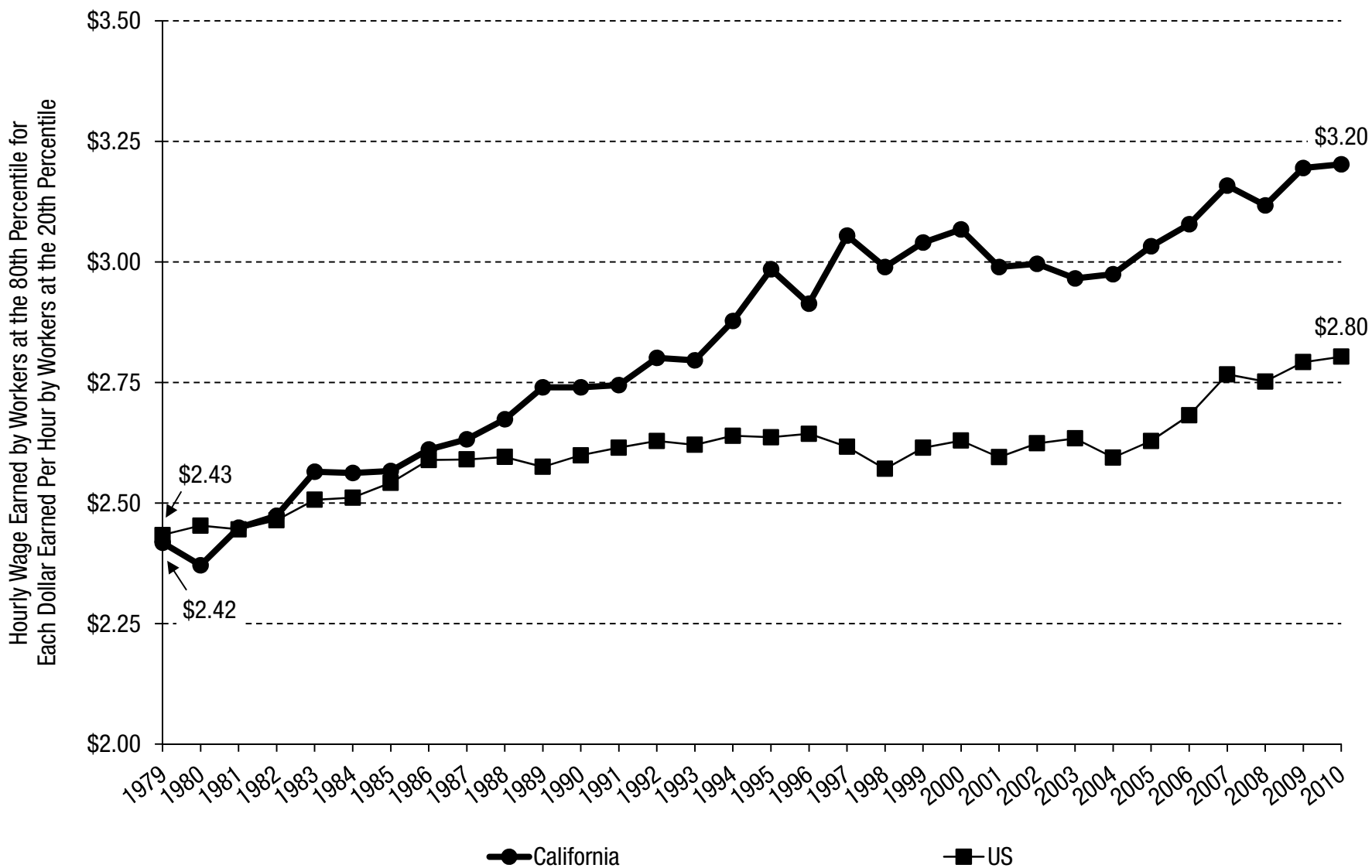
The Gap Between Low-Wage and High-Wage Workers Widened, 1979 to 2010



Wage Gaps Widened More in California Than in the US as a Whole

- California's high-wage workers earned \$3.20 for every dollar earned by the state's low-wage workers in 2010, compared to approximately \$2.40 for every dollar earned by low-wage workers in 1979.
- In contrast, the nation's high-wage workers earned \$2.80 for every dollar earned by low-wage workers in 2010, compared to approximately \$2.40 for every dollar earned by low-wage workers in 1979.
- Wage gaps widened less in the US largely because low-wage workers fared better nationally than in California. The inflation-adjusted hourly earnings of low-wage US workers rose by 2.3 percent between 1979 and 2010, while those of California's low-wage workers declined by 9.0 percent.
- In addition, the inflation-adjusted hourly earnings of high-wage US workers increased by a smaller amount – 17.9 percent – than those of California's high-wage workers (20.5 percent).

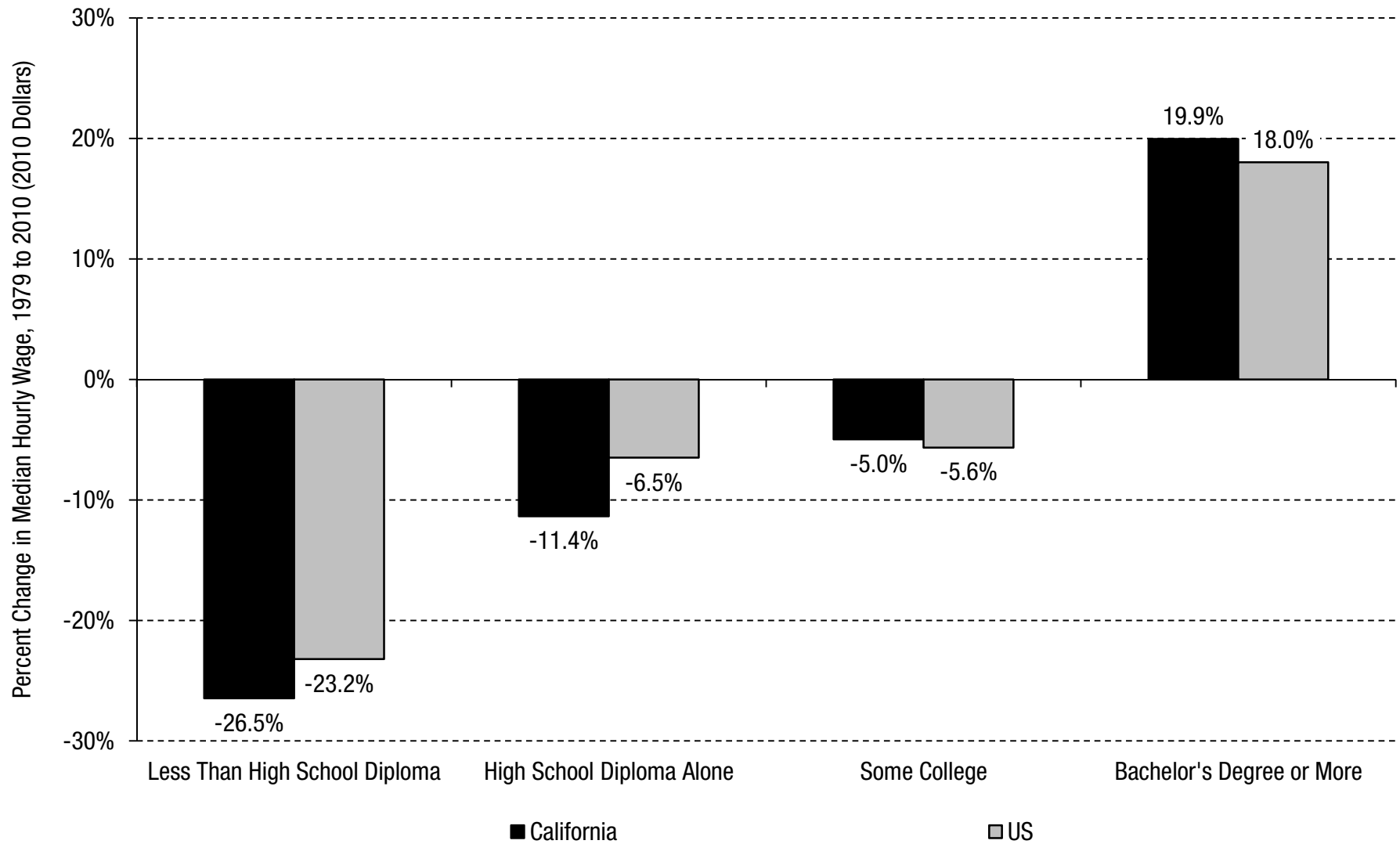
Wage Gaps Widened More in California Than in the US as a Whole, 1979 to 2010



The Earnings of Workers With Bachelor's Degrees Gained Significant Purchasing Power

- The inflation-adjusted hourly wage of the typical California worker with at least a four-year degree increased by 19.9 percent between 1979 and 2010.
- In contrast, the hourly earnings of workers with lower levels of educational attainment lost purchasing power. For example:
 - The inflation-adjusted hourly wage of the typical worker with a high school diploma, but no further education, declined by 11.4 percent.
 - The inflation-adjusted hourly wage of the typical worker without a high school diploma dropped even further – by 26.5 percent.

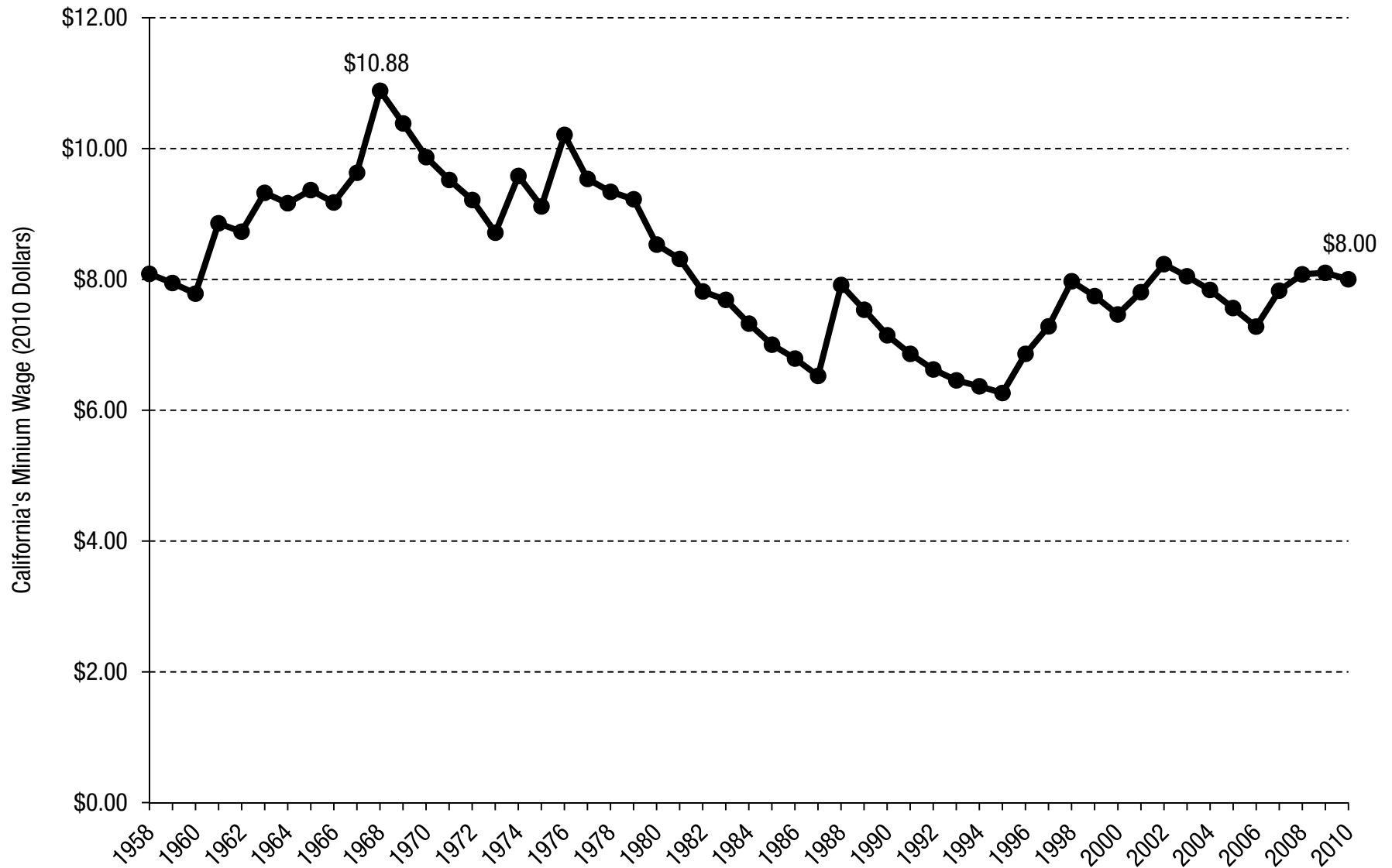
Workers With Bachelor's Degrees Have Made Strong Gains Over the Past Generation



The Purchasing Power of California's Minimum Wage Is Lower Than When Prosperity Was Broadly Shared

- California's minimum wage – currently \$8.00 per hour – is the seventh highest in the nation, tied with Massachusetts, and is \$0.75 higher than the federal minimum wage.
- However, the 2010 purchasing power of California's minimum wage was 26.5 percent below its 1968 value (\$10.88 per hour in 2010 dollars).
- If the purchasing power of the state's minimum wage had remained constant since 1968, full-time, year-round workers earning the minimum wage would make nearly \$6,000 more per year than they do now (\$22,630 compared to the current \$16,640). The additional earnings could pay for nine months of rent for a one-bedroom apartment in a low-cost county, such as Kern, or five months of rent in a high-cost county, such as Santa Clara.

The 2010 Purchasing Power of California's Minimum Wage Is 26.5 Percent Below Its 1968 Value



What Contributes to Widening Wage Gaps?

- Workers' hourly wages at the low end and middle of the earnings distribution have lost purchasing power over the past generation largely due to:
 - The declining share of the workforce represented by unions;
 - The erosion of the purchasing power of the minimum wage; and
 - Declining demand for lower-skilled workers due to new technologies and increased international trade.
- Workers' hourly wages at the high end of the earnings distribution have gained significant purchasing power largely due to:
 - Increased demand for highly skilled workers due to technology and trade.



Mobility Up the Income Ladder

Mobility Up the Income Ladder Is Less Common Than Widely Believed

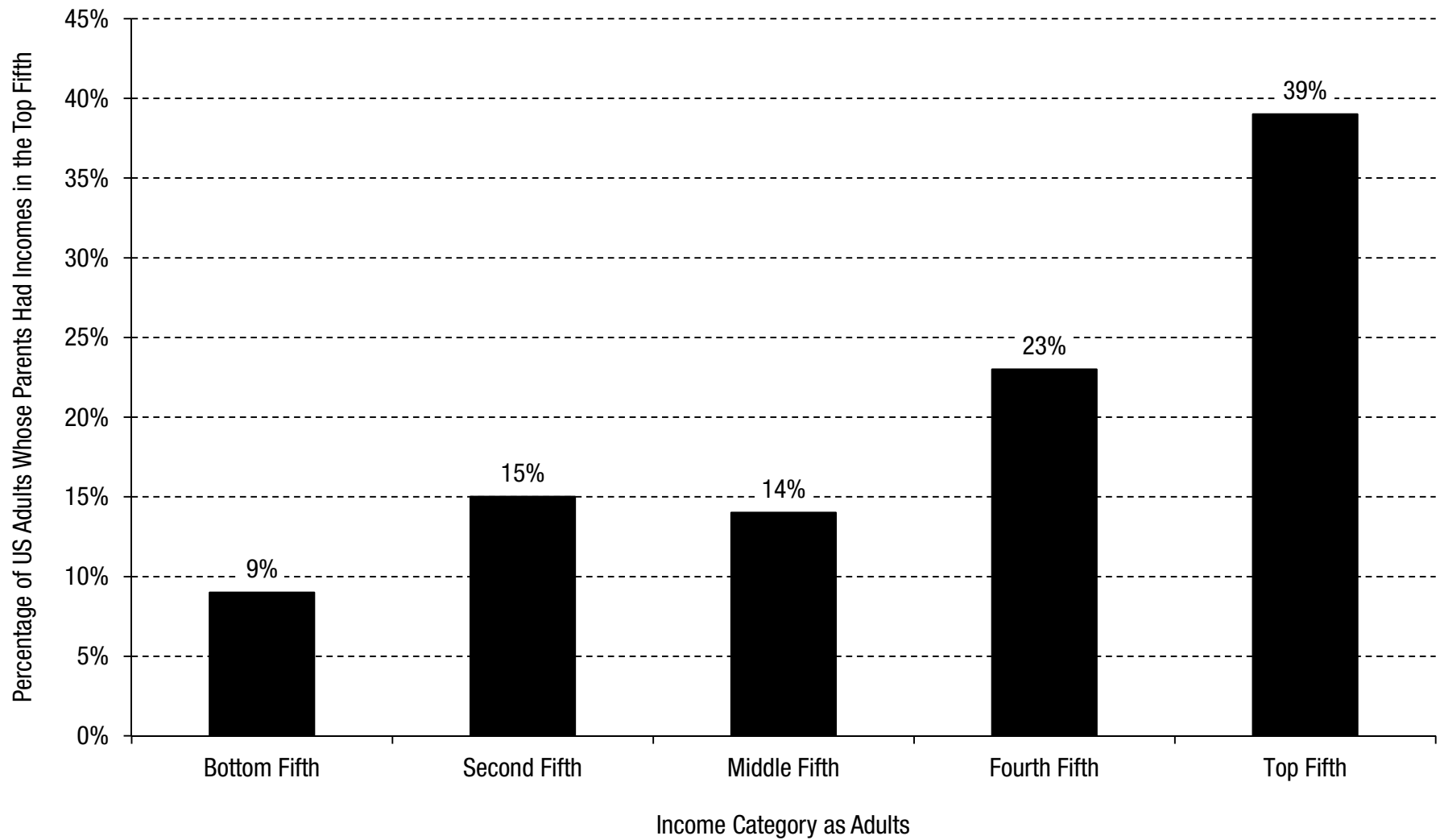
- Seven out of 10 Americans (71 percent) believe that individual traits, such as work ethic, are the most important factors determining one's ability to move up the income ladder.
- Contrary to popular perception, however, “rags to riches” stories are relatively rare. Research shows that ascending the income ladder is strongly related to family background.
- Children who grow up in high-income families have the greatest likelihood of having high incomes as adults. Conversely, children from low-income families tend to have low incomes as adults.

Children's Chances of Moving Up the Income Ladder Are Influenced by Their Parents' Income

- Two out of five adults (39 percent) who grew up in families with incomes in the top fifth of the distribution had incomes in the highest fifth themselves, while 23 percent had incomes in the second-highest fifth.
- More than two out of five adults (42 percent) who grew up in families with incomes in the bottom fifth of the distribution had incomes in the bottom fifth themselves, while 23 percent had incomes in the second-lowest fifth.
- Children who grow up in low-income families in the US are less likely to move up the income ladder than are their counterparts in many other wealthy nations.

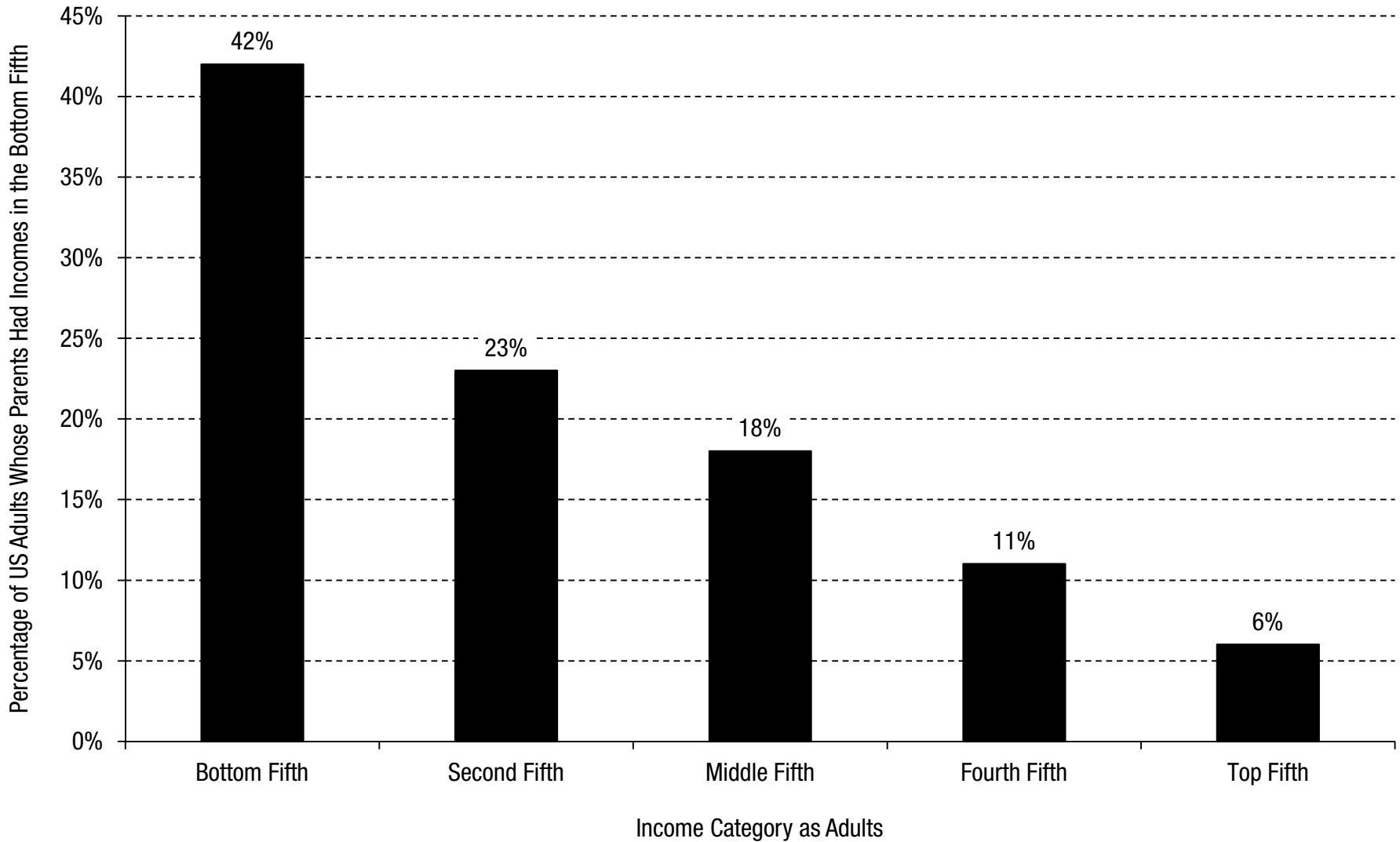
Children Who Grow Up in High-Income Families Tend To Have High Incomes as Adults

39 Percent of Adults Who Grew Up in Families With Incomes in the Top Fifth Had Incomes in the Top Fifth Themselves



Children Who Grow Up in Low-Income Families Tend To Have Low Incomes as Adults

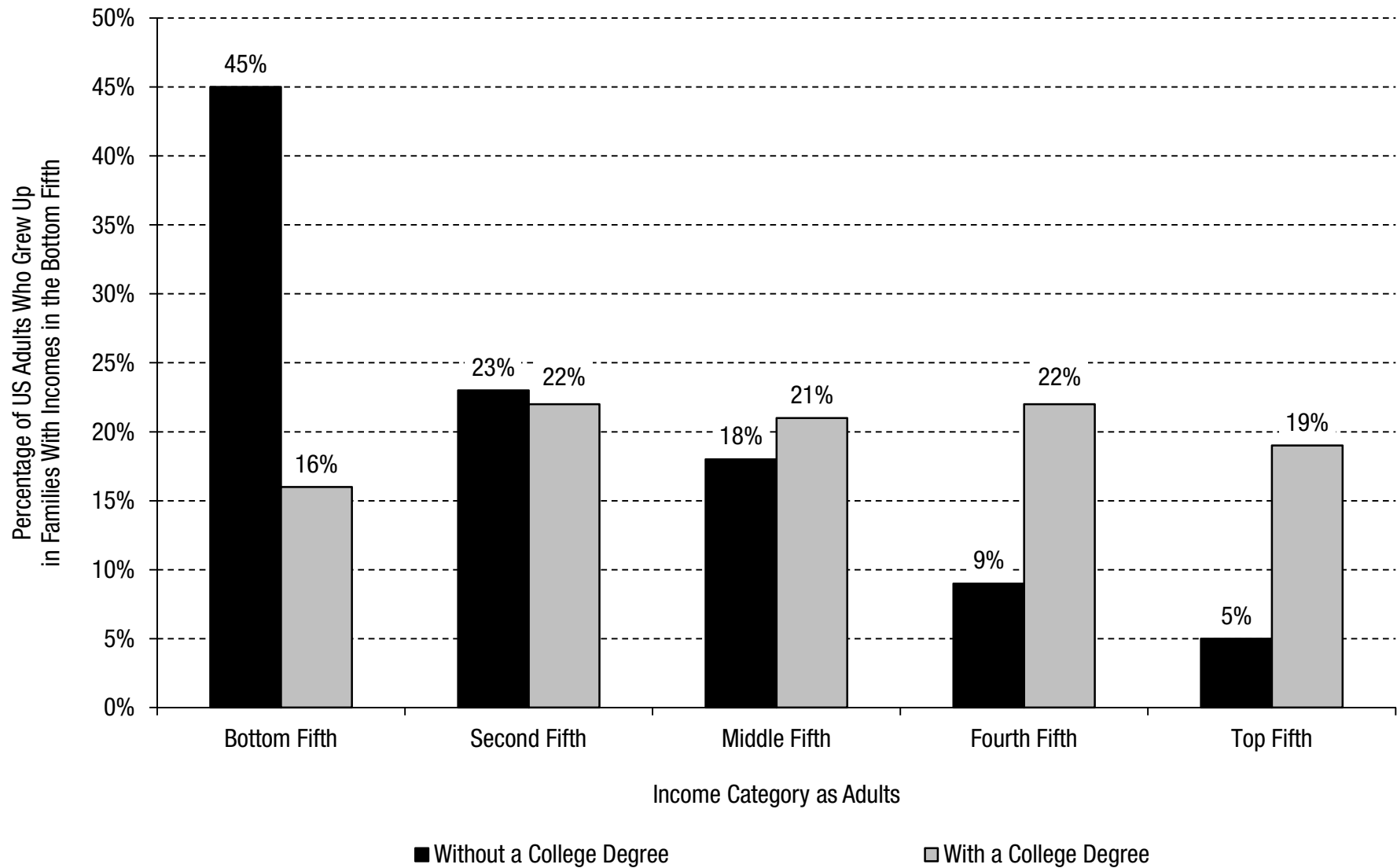
42 Percent of Adults Who Grew Up in Families With Incomes in the Bottom Fifth Had Incomes in the Bottom Fifth Themselves



A College Degree Can Be the Ticket to Higher Incomes

- Nearly half (45 percent) of adults without a college degree who grew up in very low-income families had very low incomes themselves. In contrast, just 16 percent of college graduates who grew up in very low-income families had very low incomes as adults.
- Just one out of 20 adults without a college degree (5 percent) who grew up in very low-income families had an income in the top fifth of the distribution as adults, compared to 19 percent of adults who graduated from college.

A College Degree Increases the Chances That Adults Will Have Higher Incomes Than Their Parents



Low-Income Adults Are Unlikely To Move Very Far Up the Income Ladder

- More than half (54.6 percent) of US adults ages 25 to 45 with incomes in the bottom fifth of the distribution in 1994 still had incomes in the bottom fifth 10 years later, while 25.5 percent moved up into the second fifth.
- Middle-income adults were equally likely to move up the income ladder as to move down it. Nearly two out of five prime-working-age adults with incomes in the middle fifth of the distribution in 1994 (37.7 percent) moved up into one of the top two fifths of the distribution by 2004, while 35.6 percent fell down into one of the bottom two fifths. More than one-quarter (26.8 percent) remained in the middle fifth in 2004.

High-Income Adults Are Unlikely To Move Very Far Down the Income Ladder

- Slightly more than half (51.7 percent) of prime-working-age adults who started out in the top fifth of the income distribution in 1994 remained there in 2004, while 26.9 percent dropped down into the second-highest fifth.
- The movement of prime-working-age adults up and down the income ladder has changed little over time. Trends between 1994 and 2004 are nearly identical to those between 1984 and 1994.

Fewer Than Half of Low-Income Adults Move Up the Income Ladder During Their Peak Earning Years

Income Category, 1994	Income Category, 2004				
	Bottom Fifth	Second Fifth	Middle Fifth	Fourth Fifth	Top Fifth
Bottom Fifth	54.6%	25.5%	8.8%	7.6%	3.5%
Second Fifth	21.5%	33.3%	24.5%	14.4%	6.3%
Middle Fifth	15.2%	20.4%	26.8%	20.1%	17.6%
Fourth Fifth	6.7%	15.1%	26.2%	31.2%	20.8%
Top Fifth	2.6%	5.6%	13.2%	26.9%	51.7%

Note: Income is for US adults ages 25 to 45.

Source: Urban Institute