



AMERICANS FOR TAX REFORM

TAX CUT FACTS

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Income Mobility Fact Sheet

The Dichotomy of “Rich” and “Poor” Is a Fiction, for Few People Stay Either for Long

Opponents of the Bush tax cuts often claim “tax cuts for the rich” occurs at the expense of the poor. **But several recent studies show that these are not static groups, and that people frequently move in and out of the “poor” and “rich” demographics.** Many of those categorized as poor are young people beginning their careers or unemployed people briefly out of the workforce. Similarly, many of those who are “rich” today will stop earning high incomes in future years. The number of people who will gain much from the tax cuts in their lifetimes is far higher than the number who benefit in any year, because of this income mobility.

Fact: Poverty is primarily a transient experience in America. According to a recent Census Bureau studyⁱ:

- Of the 34.2% of Americans who experienced poverty from 1996 to 1999, over half escaped poverty within four months of entering it.
- Eighty percent left poverty within a year.
- These briefly poor include college graduates who do not find jobs for several months, workers experiencing short periods of unemployment, and women taking maternity leave. They are not indicative of a chronic poverty problem; **only 1 in 17 Americans who experienced poverty in this period was poor for its entirety.**

Fact: Income mobility is high at both ends of the spectrum. According to a study by the Federal Reserve Bank of Boston:

- 47% of families in the lowest income quintile in 1988 moved to a higher quintile by 1998, and 47% of those in the highest quintile in 1988 moved to a lower one within 10 years.ⁱⁱ
- Similarly, a National Center for Policy Analysis study found that after a single year, 32% of individuals in the lowest quintile moved up and 25% of those in the highest moved down.ⁱⁱⁱ **Within 10 years, 67% of those in the lowest income quintile had moved up and 61% in the highest had moved down. Even if distribution among quintiles were assigned randomly each year, only 80% would change quintiles.**

Fact: Income group membership is strongly dynamic, and today’s “poor” are tomorrow’s middle class and “rich.” Most people who experience poverty escape it within months, and most members of the top and bottom income quintiles see reversals of fortune within a decade. **So, politicians who attack the tax cuts with rhetoric about “poor” and “rich” are disingenuous; members of one group may soon be members of the other, and today’s “poor” stand to reap great tax benefits in the future.**

ⁱ Iceland, John. “Dynamics of Economic Well-Being: Poverty 1996-1999.” *U.S. Census Bureau*, July 2003. <http://www.census.gov/prod/2003pubs/p70-91.pdf>

ⁱⁱ Bradbury, Katharine and Jane Katz. “Are lifetime incomes growing more unequal? Looking at new evidence on family income mobility.” *Federal Reserve Bank of Boston Regional Review*, Q4 2002. <http://www.bos.frb.org/economic/nerr/r2002/q4/issues.pdf>

ⁱⁱⁱ Deere, Donald R. and Andrew J. Rettenmaier. “Climbing the economic ladder.” *National Center for Policy Analysis*, May 2003. <http://www.fsround.org/pdfs/ClimbingtheEconomicLadderw-graphics.pdf>