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## The drivers of income mobility in Europe



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### ABSTRACT

In this paper we study short-term income mobility in European countries over the years preceding the outburst of the global crisis. Income mobility plays a crucial role in shaping distributive patterns and is closely related to the capacity of a socio-economic system to provide equality of opportunities and the removal of social impediments. In this study we exploit the longitudinal structure of the EU-SILC database to provide a comprehensive overview of intragenerational mobility from 2004 to 2006 across 25 European countries, classified into six capitalistic models. After having descriptively analysed heterogeneity in income dynamics by means of alternative measures, we identify the microeconomic drivers of household income mobility, focusing on the role of demographic, economic and job characteristics. The outcomes reveal that the levels and determinants of short-term mobility differ remarkably in the various institutional models across Europe, particularly regarding household composition, demographic attributes, education levels and job positions.

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## 1. Introduction

The study of mobility, compared to income inequality, has been much less developed so far. The growing attention gained on both the methodological and the empirical side has demonstrated its

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high potential in complementing more traditional approaches to the study of distributional dynamics. Income mobility allows investigating the movements of agents – individuals or households – along the income ladder and the demographic, structural and economic factors driving these changes. Longitudinal micro-mobility analysis therefore allows identifying the causes (and not only the symptoms) of crucial issues like poverty and may prove to be useful in suggesting possible treatments to escape from disadvantaged positions.

This paper investigates intragenerational income mobility in Europe in the period preceding the outset of the global crisis by employing the EU-SILC longitudinal dataset for 25 European countries (23 EU members plus Iceland and Norway) over the years 2004–2006. Due to the shortness of the period under analysis, our study is only able to shed light on short-term mobility, also referred to as income instability/volatility in the rest of the paper. Under this perspective, we aim at providing: (i) alternative measures of household income mobility; (ii) descriptive evidence of the demographic and economic features shaping different levels of income volatility; and (iii) econometric evidence of its drivers in different institutional contexts. A first contribution of the paper lies in the fact that it is the first study to provide such an extensive comparative analysis across Europe, since available studies have so far been limited to one or few countries or to wage/earnings mobility. A second major contribution is that we integrate the importance of institutional factors into the analysis by classifying European countries into six different groups that reflect geographical proximity, but also correspond to different models of capitalism (in the wake of the variety of capitalism – VoC – approach).

The paper proceeds as follows. In Section 2 we review the existing literature on income mobility, focusing on those contributions that provide evidence for European countries and explicitly consider the role of demographic, labour market and institutional factors. In Section 3 we describe the methodology used for the descriptive (Section 3.1) and econometric (Section 3.2) analyses. The dataset, the definition of country grouping, the descriptive picture of income mobility in Europe and a decomposition analysis are presented in Sections 4.1 to 4.4. In Section 5 we report and comment on the estimates of the microeconomic drivers of short-term income mobility for the whole sample and for the six sub-groups of countries. Section 6 concludes.

## 2. Overview of major relevant literature

The study of intragenerational income mobility has developed remarkably in recent years, but the literature is rather sparse and, differently from static inequality measurement, still lacks a unified view on how to measure and compare the dynamics of income distribution (Fields, 2007). Alternative indices reflect different underlying conceptual entities and methodological approaches. Besides the basic distinction into relative versus absolute mobility measures (see D'Agostino and Dardanoni, 2009; Fields and Ok, 1996), mobility indicators are also designed to capture the role of income movements in equalising long-term inequality (Fields, 2009). Other qualifications of mobility measures may reflect: (i) the adoption of a normative versus an axiomatic approach; (ii) the employment of single-stage versus two-stage indicators; (iii) the pros and cons of measuring mobility in terms of wages, incomes or consumption; and (iv) the use of individual versus household data. Interested readers can usefully refer to Fields (2007) and Jäntti and Jenkins (2013) for comprehensive and detailed discussions of available methods and empirical evidence. In Section 3.1 we will present the main methodological aspects related to the measures used here.

As far as the determinants of income mobility are concerned, a variety of possible approaches exists as well. The literature has primarily emphasised the role of demographic factors, such as age and gender of the individuals, as well as the size and demographic structure of the households (e.g., Shi et al., 2010). On the more strictly economic side, attention has been devoted to the evolution between and within income sources, in particular by focusing on physical and human capital endowments, labour market conditions and positions, and initial income levels (e.g., Woolard and Klasen, 2005). More recently, as happened for income inequality analysis (e.g., Checchi and Garcia-Penalosa, 2010), institutional aspects also started receiving explicit consideration. Ayala and Sastre (2008) stress the importance of comparing income mobility for different labour market and

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