

Chapter 3. Time is money: What drives income mobility?

This chapter investigates the key drivers of household income mobility from an individual perspective. It considers the impact of so-called “trigger events” – such as changes in labour market status, divorce or childbirth – on income mobility. The chapter shows that changes in labour market status are the main determinant of individual income trajectories, but that, in a number of countries, family-related changes can also play a very important role. In particular, women are more severely affected than men by income losses after a divorce. Net social transfers are a crucial factor to prevent downward mobility, while upward mobility results primarily from labour market dynamics.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Introduction

Individual income trajectories are an important driver of people's individual life-satisfaction, which itself matters for various dimensions of well-being, such as health and mental health, but also trust in society. At an aggregated level, a lack of social mobility has important economic, political and social consequences (Chapter 1). At the same time, unpredictable income losses imply not only more uncertainty for individuals, but also more difficulty in accessing credit, housing and investment in general.

Individual income trajectories are diverse. They can be largely unpredictable for some people, and they are strongly shaped by the income distribution (Chapter 2). Low-income individuals are likely to remain stacked at the bottom persistently or recurrently. Those with higher incomes are better protected and likely to secure their income positions. Those in the middle-income groups are more mobile, although even small income changes can lead to changes of their positions on the income ladder. What explains differences in mobility patterns? Individual income trajectories reflect the ageing of individuals and their lengthening labour market experience. They also reflect their household and labour market situation and their changes over time – life events – which shape income trajectories.

Life events do not influence all income trajectories in the same way. Usually, in the event of an income shock, individual insurance mechanisms, such as savings or credit, help people to cope with difficult economic circumstances. However, many people own few assets (OECD, 2015a; Balestra and Tonkin, 2018), and access to credit is more limited for many (Blundell et al, 2008; Pistaferri and Preston, 2008; Guvenen and Smith, 2014; Kast and Pomeranz, 2014). The spouse's income is another form of insurance mechanism. However, singles or parents with care responsibility cannot necessarily rely on this. Last, policies and social protection also contribute to the insurance mechanism. Taxes, transfers and family labour supply play an important role in insuring income shocks. If insurance mechanisms are insufficient, which is often the case for those at the bottom of the income distribution, the impact of labour market and life events might persist and have long-lasting consequences.

The current chapter focuses on the drivers of income mobility among the working-age population. Different mechanisms combine in shaping income dynamics: labour market transitions, household structure and its changes, and the role of taxes and benefits. The chapter links this web of drivers, or “trigger events”, to income mobility. It focuses in particular on trigger events that are related to changes in the labour market as well as demographic events. It shows that, among these drivers, labour market transitions play a key role in shaping *upward* income mobility. Symmetrically, *downward* income mobility is also driven by labour market transitions, but with a key role played by taxes and transfers in smoothing the impact of negative shocks. Life events such as divorce or childbirth have a smaller impact, but can have long-lasting consequences for those facing them – women in particular.

Key issues and main findings

- Labour market transitions impact more directly on income gains than on income losses, which are cushioned by social protection and safety nets. This is especially the case at the bottom and the middle of the income distribution.

- A transition from non-employment to employment results in upward income mobility: a non-working individual finding a job is three times more likely to experience a large income gain than a peer staying unemployed or inactive.
- Temporary employment and part-time work can weaken the income gains following returns to employment. Individuals taking a permanent or full-time employment are twice as likely to exit low income. Moving from a temporary to a permanent contract goes hand in hand with a large income gain in most countries.
- In some countries, household-related changes – divorce or childbirth – are a significant driver of entries into the low-income group, e.g. Austria, France and Norway.
- Women are more severely affected than men are by income losses after a divorce, with income losses of 22% versus 9% for men. These gaps persist several years after divorce. On average in OECD countries, half of the women going through a divorce or separation experience a large income decrease, compared to 16% of those who remain in a stable relationship or single.
- Childbirth generally leads to household income losses. These losses are widely explained by mothers withdrawing from the labour market. In some countries, the income loss due to childbirth is compensated by social transfers. In other countries, the compensation mechanisms are driven by partners increasing their labour earnings.
- Taxes and benefits have a large impact in cushioning income shocks. For those at the bottom of the income distribution, about half of market income shocks are smoothed by redistribution – i.e. they do not lead to large losses in disposable income – and for those in the middle-income group this is the case of around a third of shocks.

Section 3.2 shows that, overall, labour market events have a stronger impact on income dynamics, while household-related events can also play a role. Sections 3.3 and 3.4 explore in further detail the mechanisms between, respectively, individual labour market transitions and income changes on one side, and household structure and income changes on the other side. Section 3.5 looks at the impact of taxes and transfers on market income shocks, both gains and losses.

3.1. The big picture: Labour market transitions are more relevant than household changes for income mobility at the bottom of the income distribution

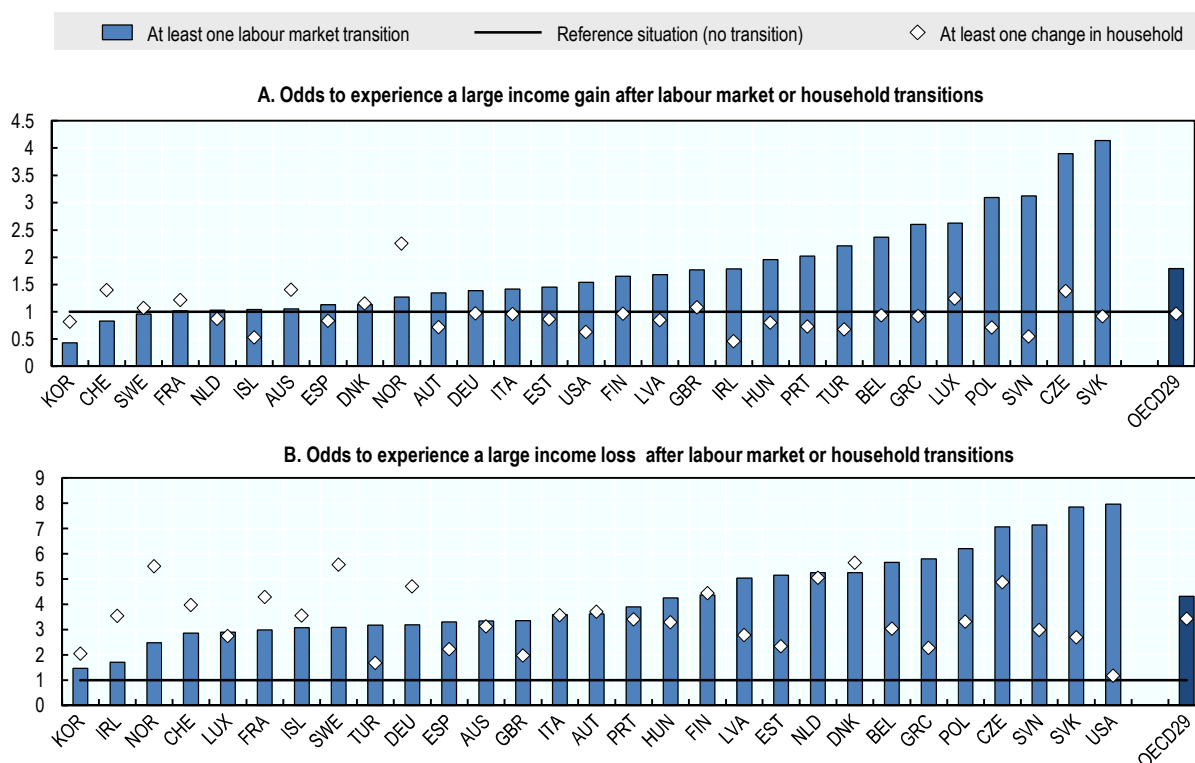
Individual income trajectories reflect changes in the labour market situation as well as in the composition of households. These events are referred to in what follows as “life events”. They are the channels through which people’s income is likely to change (Jenkins et al., 2001; Jenkins, 2011; DiPrete and McManus, 2000). The impact of these events on household incomes is mitigated by public tax and transfer mechanisms. Under certain circumstances, the impact of these events might persist and have long-term consequences, especially in the absence of adequate social and employment policy settings (DiPrete and McManus 2000). Health shocks are another type of life event that is likely to impact on income mobility. These will not be covered in further detail in this chapter (see Box 3.1).

Labour market transitions refer to movements in an out of employment and job-to-job changes. Household changes refer to events such as marriage, divorce¹ or the birth of a child. These events occur for a limited share of the population each year, but they are major drivers of income dynamics. Polin and Raitano (2014) found for European countries in the 1990s that most exits from poverty were associated with labour market transitions, but that life events were crucial for entries into poverty. Alves and Martin (2012) found for European countries (2005-09) that both labour market events and life events have an impact on absolute and relative income mobility. Neilson et al. (2008) found that in Chile (1996-2001) labour market transitions are more relevant than life events to explain exits from poverty.

On average across OECD countries, both labour market and household events have a significant impact on income mobility, both in absolute and relative terms.² Figure 3.1 shows the impact of trigger events on absolute income changes (measured as an income change above 20%, up or down).³ When splitting income changes between gains and losses, it appears that, all other things being equal, large income gains are mainly driven by (upward) labour market transitions (Figure 3.1, Panel A), while income losses are driven by labour market transitions in some countries (Slovakia, Slovenia, and Czech Republic) but by household changes in others (Norway, Sweden, Germany and France, Panel B).

For upward mobility, labour market transitions play a more significant role than household-related events, especially at the bottom and middle of the income distribution (Figure 3.2, Panel A and Panel B), but not to reach the upper income quintile (Panel C). The role of labour market transitions in supporting upward income mobility at the bottom of the income distribution is weaker in some countries (Slovakia, Spain, the Netherlands, Slovenia and Turkey). This can be explained by the type of employment transitions in the lowest segment of the income distribution. People experiencing spells of unemployment, or people with low incomes, are more likely to re-enter employment through less secure forms of employment than others – for example, they are more likely to take up a temporary job or low-paid job, which may not provide sufficient earnings to lift people out of the first income quintile.

Figure 3.1. Impact of labour market transitions and household changes on large income gains and losses
Odds to experience large income gains and losses when experiencing a trigger event, compared to situations with no transition



Reading note (Panel A): On average, in the OECD, someone experiencing a labour market transition (e.g. taking up a job if non-employed or quitting a job when employed) is 1.8 times more likely to experience a large income gain than someone with no such transition. There is no difference in odds to experience an income gain for someone with a life-event (marriage, divorce or childbirth) compared to someone with none of these events.

Note: Large income changes are measured as a +/- 20% or more income change from one year to the next. Figures shown are the estimates to experience an income change when either a labour market or a household change occurs, all other things being equal. Control variables include sex, education, age group, presence of children, year of the survey. See detailed results in Annex 3.A2. Estimates are shown for an individual, aged 30, with children and middle education. The magnitude of the estimates is similar for other profiles. Data refer to year-on-year transitions between 2011 and 2014 or closest.

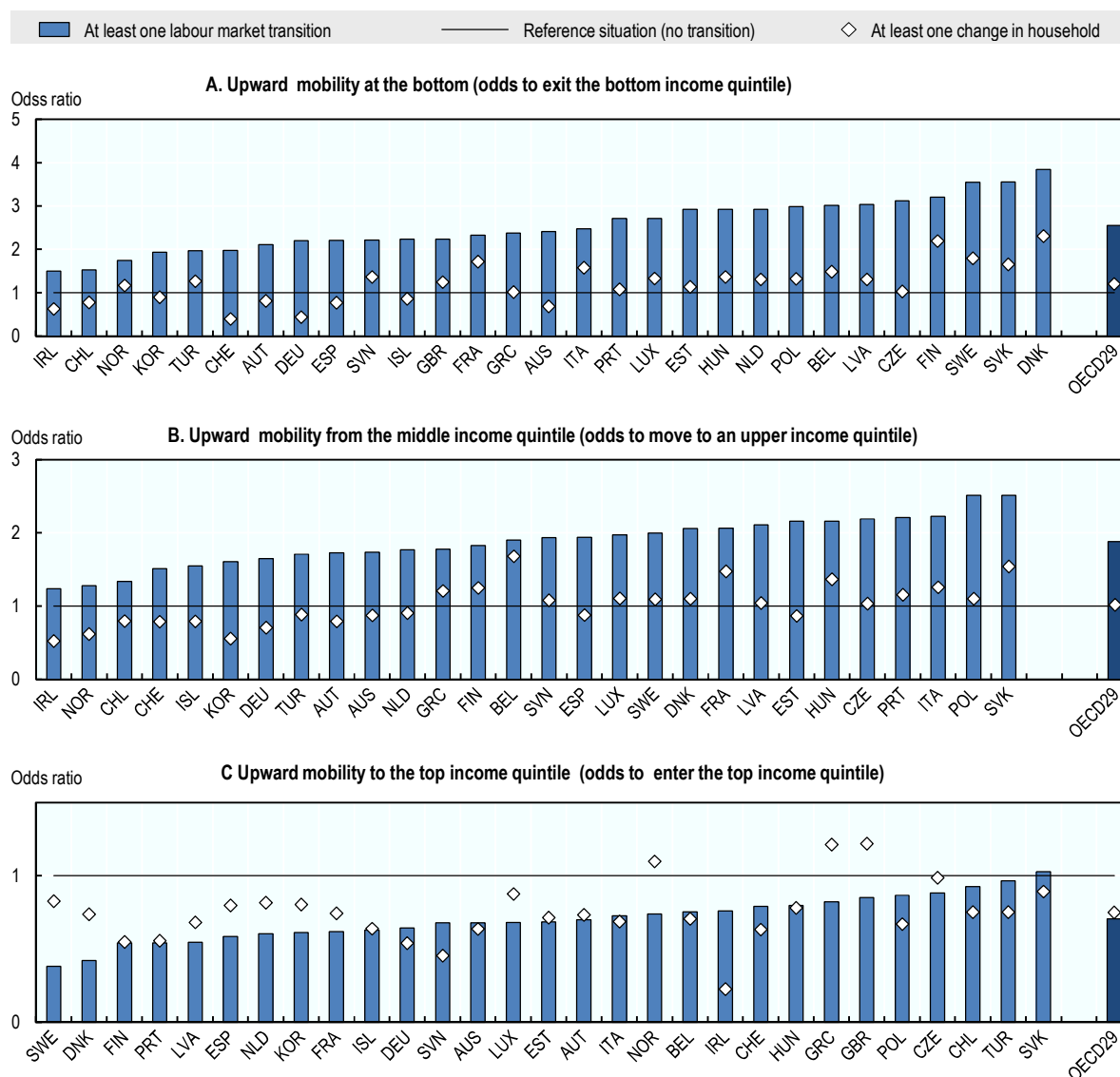
Source: OECD calculations based on EU-SILC (2011-14), CNEF (2008-13), CASEN for Chile (2006-09) and SILC for Turkey (2011-14).

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Labour market transitions play a somewhat smaller role than household-related changes for downward income mobility (Figure 3.3). This is mainly due to the role of social transfers, which cushion the impact of job losses in most countries. This role is significant at the middle and the bottom of the income distribution, and of lower magnitude at the top (Panels A and B). In some countries, a household change – divorce or childbirth – is a significant driver of entries into the low-income group, e.g. Austria, France and Norway (Panel C).

Figure 3.2. Impact of labour market and household changes on upward income mobility at different points of the income distribution

Odds to experience a change in income quintile when experiencing a trigger event compared to situations with no transition, year-on-year changes, early 2010s or latest



Reading note: On average, in the OECD, someone in the bottom income quintile experiencing a labour market transition (e.g. taking up a job if non-employed) is 2.5 times more likely to exit the bottom income quintile than someone with no such transition. Someone with a life-event (divorce or childbirth) is 1.2 times more likely to experience such an income change compared to someone with no such transition.

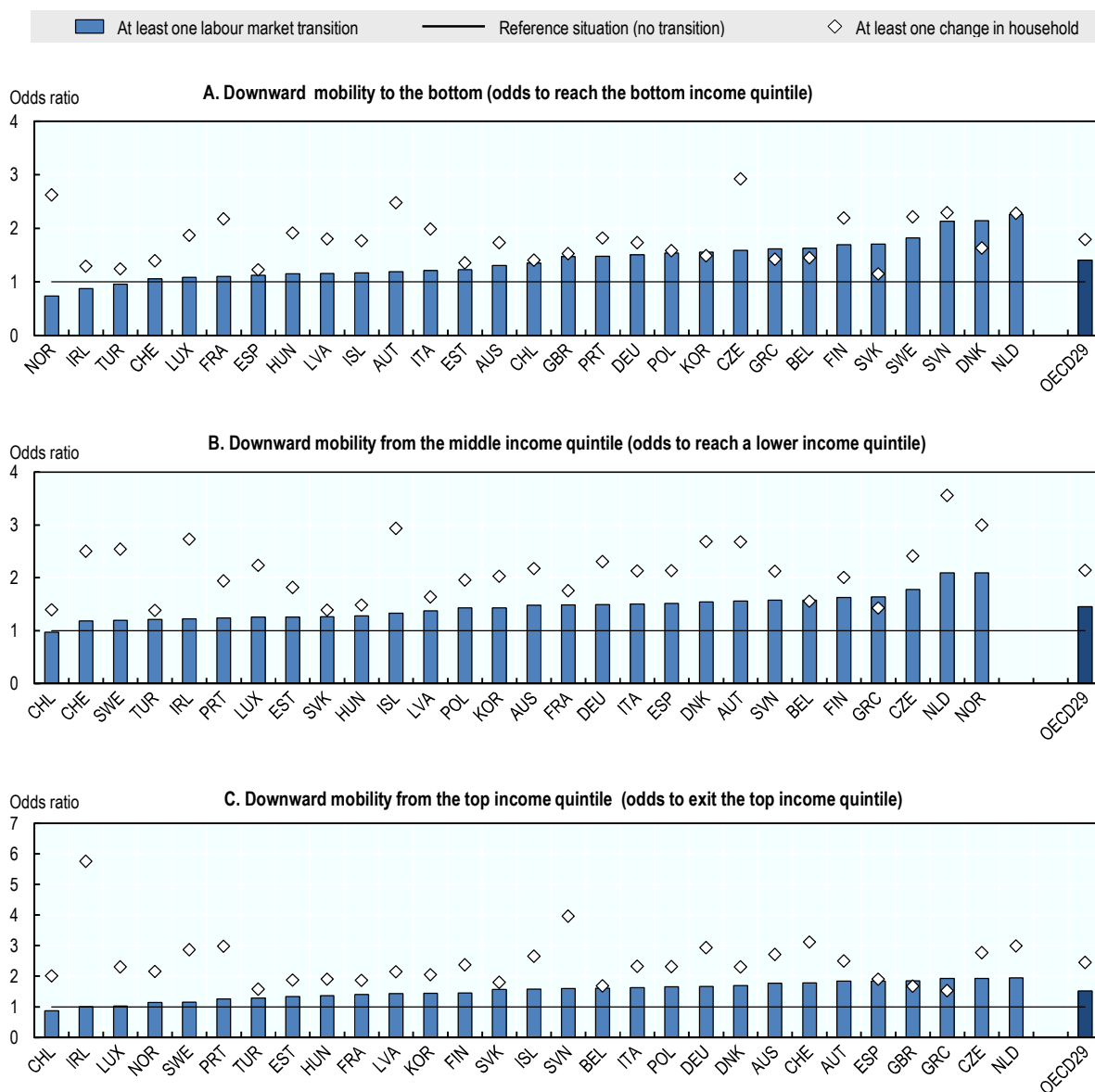
Note: Results controlling for sex, education, age group, presence of children, year of the survey. See detailed results in Annex 3.A3. Estimates are shown for an individual, aged 30, with children and middle education. The magnitude of the estimates is similar for other profiles. Working-age population (18-65).

Source: OECD calculations based on EU-SILC (2011-14), CNEF (2008-13), CASEN for Chile (2006-09) and SILC for Turkey (2011-14).

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Figure 3.3. Impact of labour market transitions and household changes on downward income mobility at different points of the income distribution

Odds to experience a change in income quintile when experiencing a trigger event compared to situations with no transition, year-on-year changes, early 2010s or latest



Reading note: On average, in the OECD, someone experiencing a labour market transition is 1.4 times more likely to enter the bottom income quintile than someone with no such transition. Someone with a life-event (divorce or childbirth) is 1.8 times more likely to enter the bottom income quintile than someone with no such transition.

Note: Results controlling for sex, education, age group, presence of children, year of the survey. See detailed results in Annex 3.A3. Odds are shown for an individual, aged 30, with children and middle education. The magnitude of the estimates is similar for other profiles. Working-age population (18-65).

Source: OECD calculations based on EU-SILC (2011-14), CNEF (2008-13), CASEN for Chile (2006-09) and SILC for Turkey (2011-14).

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Box 3.1. The monetary impact of health shocks

Health is one of the risk factors likely to influence income mobility. The impacts of health shocks may be particularly severe for low-income households, because of out-of-pocket costs when combined with poor coverage of health insurance (particularly in developing countries where health-insurance systems are not mature [Liu, 2016]). Experiencing a first acute health shock is found to double the risk of a labour market exit in 16 European countries (Trevisan and Zantomio, 2016). In the Netherlands, an acute hospital admission lowers the employment probability by seven percentage points and results in a 5% loss of personal income two years after the shock, with no recovery in employment or income (Garcia-Gomez et al., 2013). In Sweden, a health shock is found to have a greater relative negative impact on low-skilled low-educated individuals (Lundborg et al., 2015). In the United States, hospital admissions have been found to reduce earnings, income, access to credit and consumer borrowing (Dobkin et al., 2018). As a result, health shocks can trigger entries into poverty (Alam and Mahal, 2014; Neilson et al., 2008).

In the absence of proper health insurance, the decline in employment opportunities following sickness can result in significant income losses, although, even with health insurance provision, the out-of-pocket payments can be significant. In the United States, Dobkin et al. (2018) found that over the long run, the earnings impact is larger among uninsured individuals and that, relative to the insured non-elderly, the uninsured non-elderly experience much larger increases in unpaid medical bills and bankruptcy rates following a hospital admission. In low- and middle-income countries, the absence of formal health insurance puts a high burden on out-of-pocket payments, which often stresses household's "capacity to pay" and pushes many households into poverty (Trevisan and Zantomio, 2016; Alam and Mahal, 2014). For example, in low- and middle-income countries in Asia, out-of-pocket payments was estimated to account for at least 30% of total healthcare expenditure (Alam and Mahal, 2014).

3.2. The role of labour market trajectories in shaping income mobility

This section investigates the impact of labour market transitions on household disposable incomes and relates them to income persistence at the top and bottom of the income distribution. It looks at three different types of labour market transitions, successively: transitions out of employment, transitions into employment and employment-to-employment transitions. In addition, to disentangle the role of individual earnings from other household members' earnings, and from taxes and transfers, income changes following the three different types of labour market transitions are decomposed by income components (Box 3.2). When interpreting the results below which refer to the early 2010s, it needs to be noted that upward and downward income mobility trends over this period are influenced by country-specific post-crisis and recovery developments.

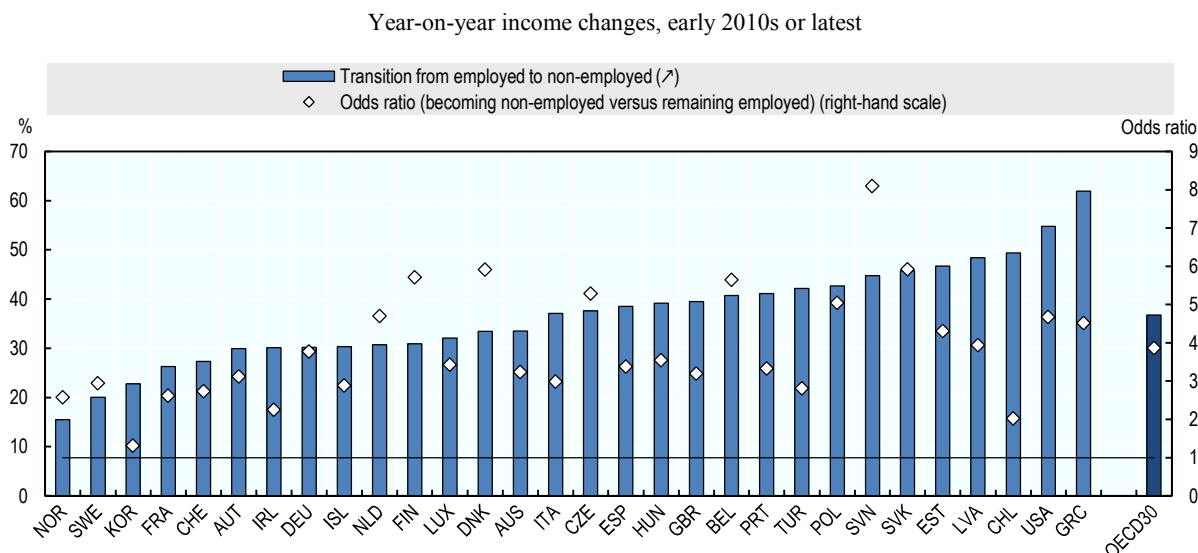
3.2.1. How job losses impact incomes

Transitions from employment to non-employment are a key driver of incomes losses. However, the link between labour market changes and disposable incomes is not immediate, as labour market changes are compensated by unemployment benefits for those entitled to it or other "insurance mechanisms", typically the labour market participation of other household members (Blundell et al., 2008; Blundell et al., 2015).

On average across OECD countries, individuals who move from employment to unemployment are four times more likely than others to experience a large income change. Figure 3.4 shows the share of large disposable income losses after transitions from employment to non-employment.⁴ In Norway, Sweden, Korea, France and Switzerland, transitions from employment to non-employment result less in large income losses – either because of the cushioning of the unemployment shock by the welfare state or because of adjustments in the household composition. Korea ranks among the countries with a small share of large income losses, but job losses do not appear very different from the counterfactual, i.e. staying in employment. This is likely due to the

Korean labour market structure, which is characterised by long job tenures and low transitions. In Greece, Latvia, the United States and Chile, the shares of large income losses following a job loss are much more sizeable. There are fewer single-person households in these countries (except in the case of the United States), so the lack of income-cushioning can partly be due to weaker income-support schemes. In Greece and Latvia, the effects of the economic crisis also explain a large part of the story.

Figure 3.4. Share of employed people experiencing a large income loss when becoming non-employed



Reading note: On average in OECD, an employed person becoming non-employed has 37% chances to experience a large income loss. This is 3.9 times more than for a person who remained employed.

Note: Large income losses are defined as 20% or more income losses from one year to the next. Data for the United States refer to bi-annual transitions. The odd-ratio compares the odds of experiencing a large income loss when becoming non-employed to the odds of experiencing a large income loss when remaining employed. Working-age population (18-65).

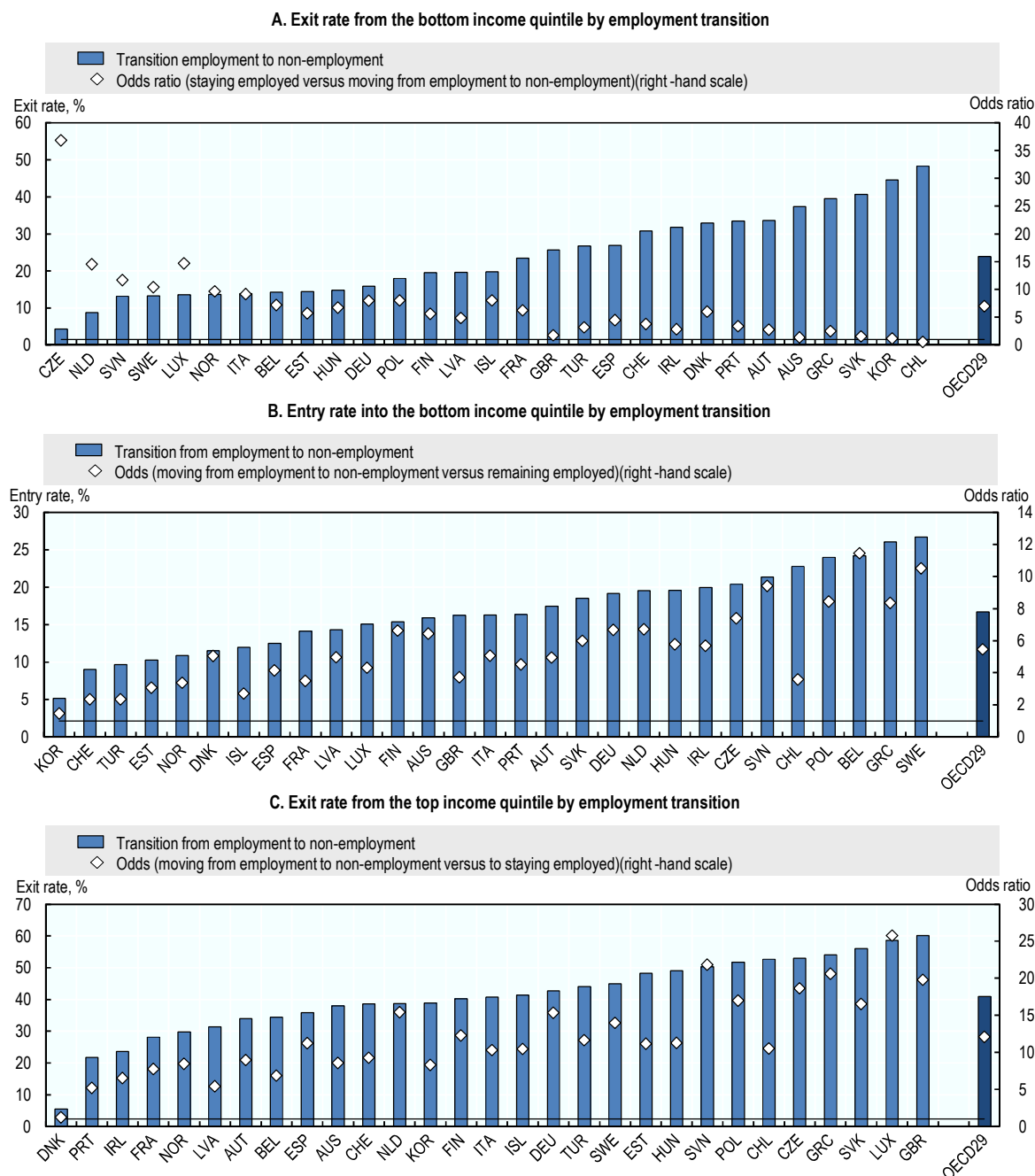
Source: OECD calculations based on EU-SILC (2011-14), CNEF (2008-13), CASEN for Chile (2006-09) and SILC for Turkey (2011-14).

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Losing a job thus has a large and negative impact on disposable household incomes. This impact is likely to be different depending on the position in the income distribution (Ehlert, 2013). Among those at the bottom, losing a job increases the risk to remain in the bottom income quintile (Figure 3.5, Panel A). People moving from employment to non-employment are five times more likely to move downward to the bottom income quintile than those staying employed (Panel B). Those in the upper quintile are also much more likely (12 times) to exit the top income quintile and fall into a lower income quintile (Panel C). This suggests that, if job losses at the top are less frequent, they induce high income losses when they happen.

Figure 3.5. Share of people changing income quintile when becoming non-employed

Year-on-year income changes, early 2010s or latest



Note: Income quintile changes from one year to the next (entry/exit into the bottom income quintile; exits from the top income quintile). Entries into the top income quintile are disregarded. The odd-ratios compare the odds to experience a given change in income position (for example exiting the bottom income quintile) when becoming non-employed compared to the odds to experience the same change in income position when remaining employed. Working-age population (18-65).

Source: OECD calculations based on EU-SILC (2011-14), CNEF (2008-13), CASEN for Chile (2006-09) and SILC for Turkey (2011-14).

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In reaction to a job loss in a family, partners can increase their labour market participation. This is referred to in the literature as “the added-worker effect” (Mincer, 1962; Lundberg, 1985). In such a case, the safety net against income loss is not only unemployment insurance, but the household itself. There is evidence of such an added-worker effect in many countries, especially in phases of economic downturns (Bredtman et al., 2013, for Europe; Gong, 2011, for Australia; Karaoglan and Okten (2012) for Turkey; Mankart and Oikonommou, 2016, and Mattingly and Smith, 2010, for the United States; Giannakopoulos, 2015, for Greece).

As an insurance mechanism in the event of job loss, the added-worker effect is however unlikely to be effective in times of crisis when job offers are scarce. For example, in Greece during the crisis, more women entered the labour market when their husbands became unemployed, but many found no job and remained unemployed themselves, with therefore little impact on earnings and a poor insurance effect (Giannakopoulos, 2015). Moreover, due to assortative mating (couples matching along similar education or income classes), the added worker effect might reinforce inequalities and lead to a cycle of social exclusion (Paugam, 2015). The impact of the added-worker effect differs across social protection systems – it plays a stronger role when other income insurance mechanisms, in particular unemployment-insurance mechanisms, are weaker (Gallie and Paugam, 2000; Bredtman, 2013; Giannakopoulos, 2016; Gruber and Cullen, 1996).

Following a transition from employment to non-employment, annual earnings decrease by 32% on average in OECD countries (Figure 3.6, Box 3.2). The decrease is smaller in countries with lower unemployment rates, or with high transition rates from unemployment to employment, as individuals re-enter employment quicker. This is for example the case of Norway and Sweden. The loss in earnings following job loss is sizeable on average, most notably in Greece, Belgium, the Netherlands and Luxembourg.

At the same time, the compensation of earnings losses through taxes and transfers is sizeable, around 15% on average in the OECD (Figure 3.6). The effect is much larger in countries with high public spending (France, Austria, Belgium, the Netherlands, Germany and Denmark) than it is in low-spending countries (Chile). The added worker effect is especially marked in Greece, Italy, Belgium, Australia, Chile,⁵ Hungary, Poland and Latvia. In these countries, the increase in incomes stemming from other household members’ earnings is often larger than redistribution.

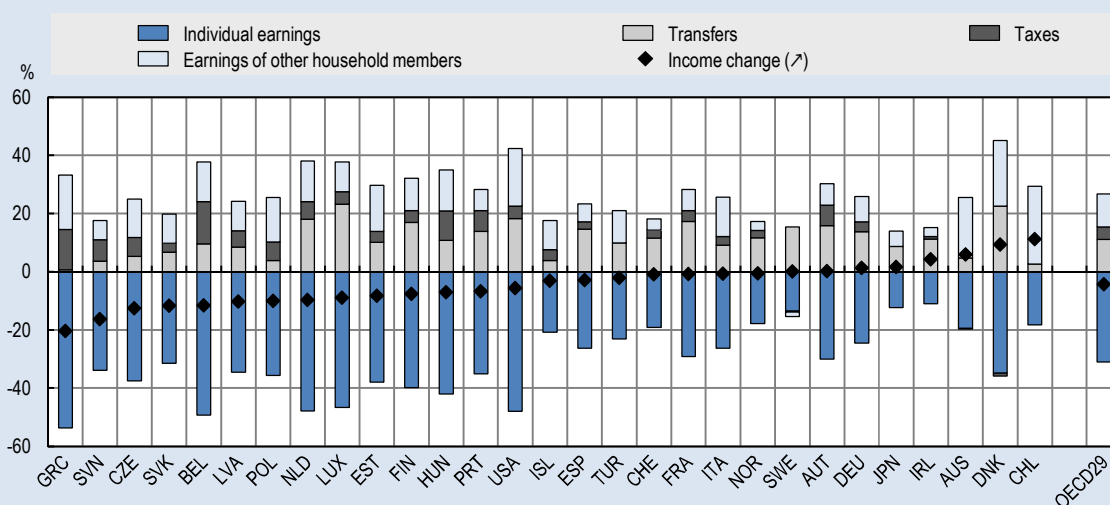
Box 3.2. Decomposing income changes following labour market transitions

Insurance mechanisms such as income-support schemes (typically unemployment insurance) and household adjustments (other household members' participation in the labour market) react to an individual's labour market transitions. The impact of such changes is visible in the income composition of households, as illustrated in the figures below (see Annex 3.A4 for the methodology).

After a job loss, peoples' individual annual earnings drop by 30 percentage points on average across OECD countries (Figure 3.6). This loss is partially mitigated by an increase of social transfers (11 percentage points) and a decrease of income taxes (minus 4 percentage points), as people, on average, face lower average tax rates on income after a job loss. Finally, an increase of other household members' earnings (11 percentage points) also mitigates the earnings loss. Taken together, household incomes fall by 4%. The contribution of social transfers to income changes differs across countries. It is particularly significant (around 20% of the previous income) in Nordic and some other European countries, like Austria, Belgium, Denmark, Finland, France, the Netherlands and Luxembourg. The contribution of other household members' earnings in balancing income losses reaches up to 15 percentage points in Australia, Chile, Greece, Hungary, Italy, Poland and Turkey. Chile stands out with a specific pattern of sharp income decreases compensated by other household members' earnings, with no or little compensation via social transfers.

Figure 3.6. Decomposition of income changes when moving from employment to non-employment

Year-on-year income changes, early 2010s or latest



Reading note: In Greece, the income of employed people losing their job decreased by 20% (diamond). This is driven by a 54 percentage point loss in individual earnings (blue bar). The job loss is compensated by a 15 percentage points income increase due to taxes (dark grey bars), and a 19 percentage points increase due to partners or other household member increasing their earnings (light blue bar).

Note: Social transfers are defined as the difference between disposable incomes and the sum of all other components. It might encompass incomes misreported in other categories, in particular inter-household transfers. For Chile, Turkey and the United Kingdom, the impact of taxes and transfers is included in the 'Social Transfers' component. Changes are measured from one year to the next. The income change refers to the income growth compared to the previous year. Individual earnings effect, tax and transfers effect and other household members' earnings effect describe the contribution of each income source to overall income growth. The sum of these contributions is equal to the income change by definition. See Annex 3.A4 for details on the decomposition. Working-age population (18-65).

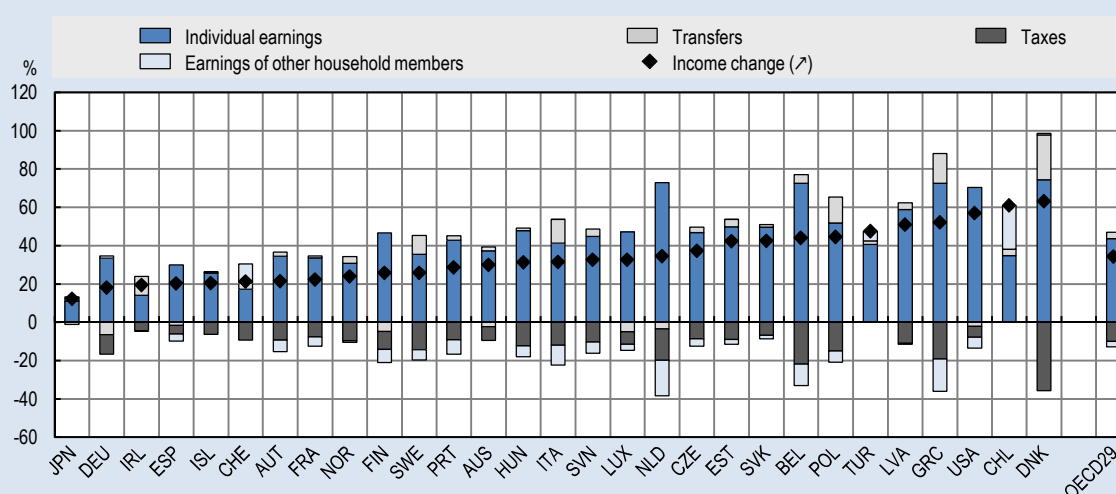
Source: OECD calculations based on EU-SILC (2011-14), CNEF (2008-13), CASEN for Chile (2006-09) and SILC for Turkey (2011-14).

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Turning to transitions into employment, finding a job after a spell of non-employment yields an income gain of about 33% on average in OECD countries (Figure 3.7). This effect ranges from less than 10% in Japan to 63% in Denmark. The income gain is driven by a strong increase in individual earnings (which were in general close to zero before the job spell), accounting for 44 percentage points of the previous income. The effect of taxes and transfers contributes negatively (3 percentage points) to the income change, due to the interruption of out-of-employment income support. Finding a job is associated with paying higher taxes, which contribute negatively by almost 10 percentage points to the overall change in income. This effect of taxes and transfers is particularly high in Belgium, Denmark, Finland, Germany, Hungary and the Netherlands, where either a tax wedge on labour and/or the transfers to non-working people are high. In most countries, finding a job after non-employment is accompanied by a slight drop in other household income sources, which contribute negatively by 3 percentage points. This effect is particularly marked in Belgium, Greece and Italy, where the second earner employment rates are generally low. This suggests that after finding a job, the labour supply of the household's members, either on the intensive or extensive margin, slightly drops.

Figure 3.7. Decomposition of income changes when moving from non-employment to employment

Year-on-year income changes, early 2010s or latest



Note: Social transfers are defined as the difference between disposable incomes and the sum of all other components. It might encompass incomes misreported in other categories, in particular inter-household transfers. For Chile, Turkey and the United Kingdom, the impact of taxes and transfers is included in the “social transfers” component. Changes are measured from one year to the next. The income change refers to the income growth compared to the previous year. Individual earnings effect, tax and transfers effect and other household members' earnings effect describe the contribution of each income source to overall income growth. The sum of these contributions is equal to the income change by definition. See Annex 3.A4 for details on the decomposition. Working-age population (18-65).

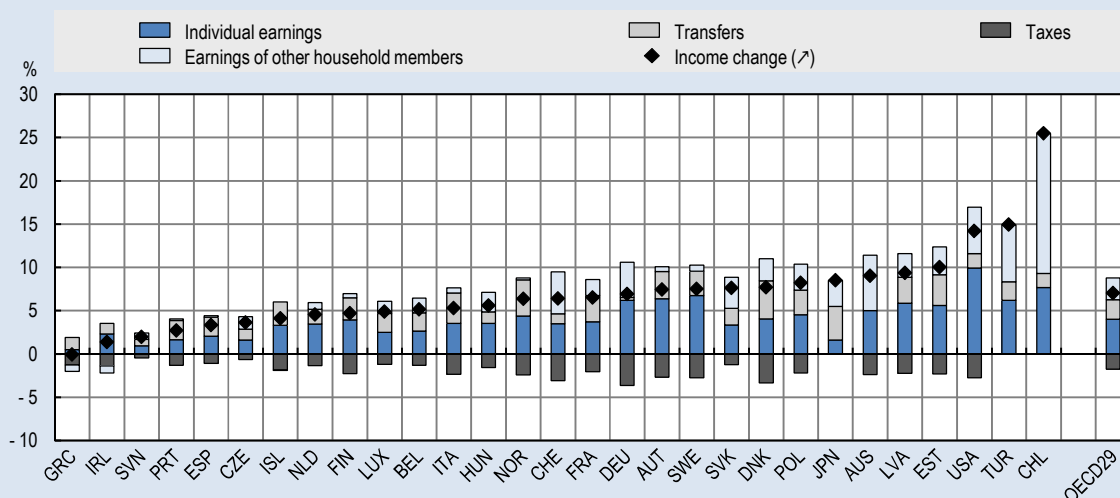
Source: OECD calculations based on EU-SILC (2011-14), CNEF (2008-13), CASEN for Chile (2006-09) and SILC for Turkey (2011-14).

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A job-to-job change is associated with an income gain of 7% on average, across the OECD (Figure 3.8). The major contribution to the income gains comes from individual earnings; their growth accounts for 4 percentage points of the overall change. Taxes slightly diminish the income, accounting negatively for 1.8 percentage points. The effect of individual earnings is particularly high in the United States (almost 10 percentage points increase over two years), Chile, Sweden, Austria and Germany (close to 7 points). In contrast, it is particularly low, with a contribution to the overall change close to or lower than 1 percentage point, in Greece, Slovenia, Japan and Portugal.

Figure 3.8. Decomposition of income changes when changing job

Year-on-year income changes, early 2010s or latest



Note: Social transfers are defined as the difference between disposable incomes and the sum of all other components. It might encompass incomes misreported in other categories, in particular inter-household transfers. For Chile, Turkey and the United Kingdom, the impact of taxes and transfers is included in the “social transfers” component. Changes are measured from one year to the next. The income change refers to the income growth compared to the previous year. Individual earnings effect, tax and transfers effect and other household members' earnings effect describe the contribution of each income source to overall income growth. The sum of these contributions is equal to the income change by definition. See Annex 3.A4 for details on the decomposition. Working-age population (18-65).

Source: OECD calculations based on EU-SILC (2011-14), CNEF (2008-13), CASEN for Chile (2006-09) and SILC for Turkey (2011-14).

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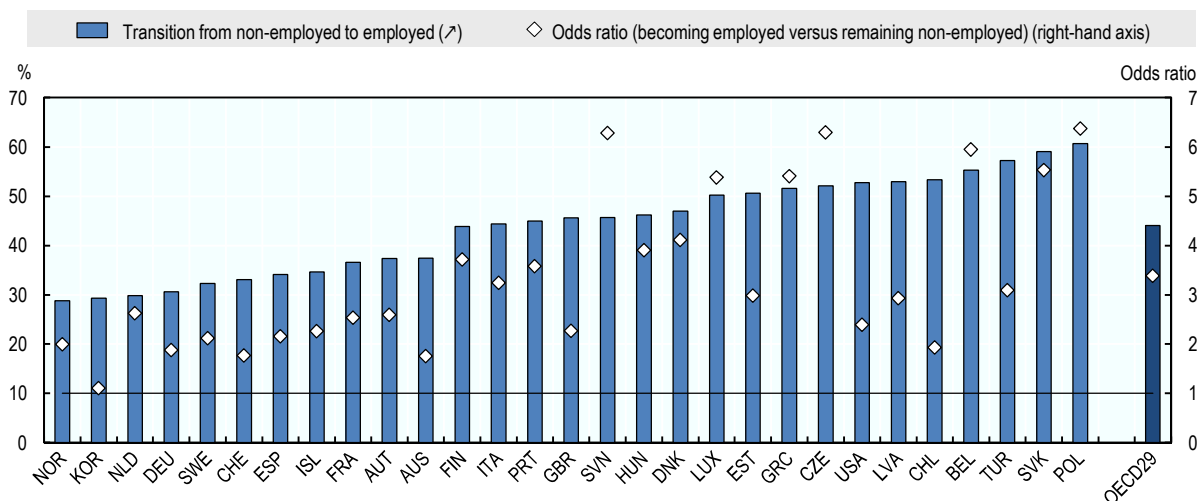
3.2.2. Transitions from non-employment to employment: A first step towards upward mobility

A formerly non-working individual finding a job is three times more likely to experience a large income gain than a peer staying unemployed (Figure 3.9). There is much variation across countries. The share of people experiencing an income increase when becoming employed, compared to those remaining non-employed, is especially large in Slovakia, Slovenia, the Czech Republic, Belgium and Poland. In these countries, those getting a job after non-employment are six times more likely to experience a large income gain than those remaining non-employed. By contrast, taking up a job leads to smaller income increases on average in Korea, Australia and Chile. Cross-country differences in income gains following a job take-up can be explained by several factors, including:

1. The structure of the job found: temporary, part-time or low-paid jobs might not be enough to lead to a sufficient income increase.
2. The structure of out-of-work income support during unemployment spells – the gap between replacement income and earnings would make the difference less visible.

3. And the household composition – having a partner at work – and therefore contributing to household income, also tends to weaken the difference in income after and before job take-up. This is especially valid if the returns to employment pertain more to women, who tend to earn less than men on average (OECD, 2017a).

Figure 3.9. Share of non-employed people experiencing a large income gain when becoming employed
Year-on-year income changes, early 2010s or latest



Reading note: On average in OECD, a non-employed person taking a job has 44% chances to experience a large income gain. This is 3.4 times more than for a person who remains non-employed.

Note: Large income gains are defined as 20% or more income gains from one year to the next. The odd-ratio compares the odds to experience a large income gain when becoming employed compared to the odds to experience a large income gain when remaining non-employed (i.e. inactive or non-employed). Working-age population (18-65). Data for the United States refer to bi-annual transitions.

Source: OECD calculations based on EU-SILC (2011-14), CNEF (2008-13), CASEN for Chile (2006-09) and SILC for Turkey (2011-14).

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The impact of transitions from non-employment to employment on household incomes differs by the position in the income ladder. Figure 3.10 looks at those in the bottom quintile who take up a job compared to those remaining non-employed. Panel A shows the results for all types of jobs: a formerly non-working individual is four times more likely to get out of low income when taking up a job than a peer remaining non-employed. The share of transitions out of low income after a job take-up is especially high in Greece, Chile but also Denmark – with different explanations. In Greece, where unemployment was peaking at the time of the data, with low unemployment coverage, access to the labour market was sufficient to lift people out of the bottom income quintile. In Chile, where the gender employment gap is high, the share of single male breadwinners is also high, and getting a job in such families is a powerful driver out of low household income. In Denmark, where unemployment is low, job takers are more likely to be young people entering the labour market and experiencing large income increases (Box 3.34).

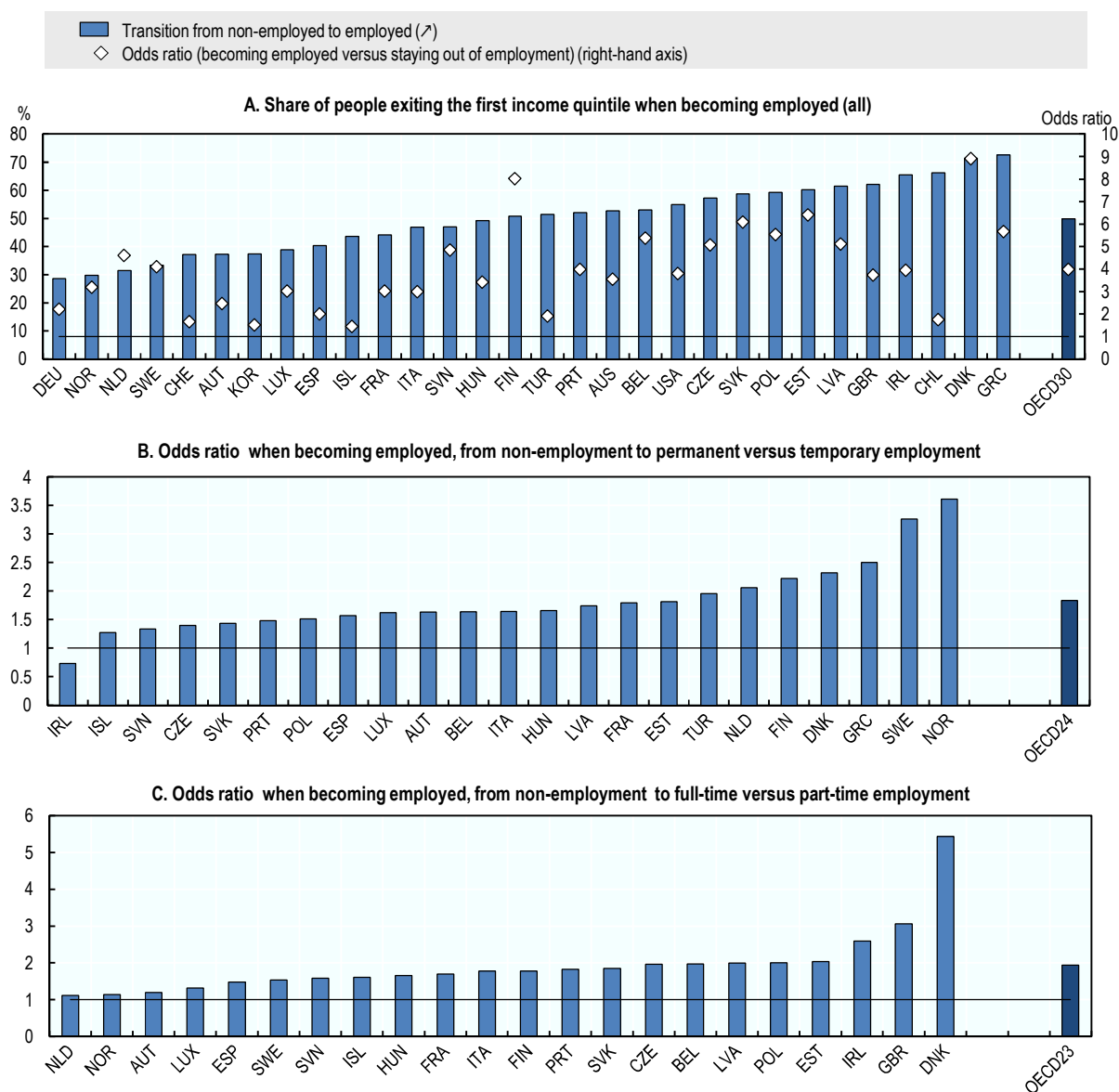
In Germany, Norway, the Netherlands and Sweden, transitions to employment are less associated with exits out of the bottom income quintile (Figure 3.10, Panel A). This can be explained by channels such as the gender wage gap associated with low unemployment rates in Germany, where most of those involved in job take-up would be second-earner women or, in Sweden, Norway and the Netherlands, a smaller income increase associated with job take-up because of a lower gap between unemployment insurance and wages, especially at the bottom of the income distribution.

If the quality of employment is not adequate, transitions into employment are often not sufficient to leave the bottom quintile. The chances of exiting low income when moving from non-employment into a temporary job are in general lower than when moving to a permanent job (Figure 3.10, Panel B) – and the same holds when comparing part-time employment and full-time employment (Panel C). In most countries, temporary and part-time workers face structural wage penalties (OECD, 2015a). The Netherlands stands out with a low odds ratio to experience a large income change of those switching from part-time to full-time compared to those remaining in part-time jobs. This might be related to the large share of part-time workers, especially among second earners. If the job holder earns less than his/her partner, then the overall income gains at household level could not be enough to exit the bottom income quintile. In addition, the transition tax rate from part-time to full-time is high in the Netherlands (OECD, 2018a). In other countries, such as the Greece or Denmark, full-time employment or permanent contracts are much more direct pathways to exit the bottom quintile.

Besides individual labour market trajectories, tax-benefit systems – typically in-work benefits, family benefits taxes, but also the discontinuation of unemployment insurance when a job is found – affect disposable income trajectories in the case of job take-up. Figure 3.8 (Box 3.2) suggests that the redistributive nature of the tax-benefit systems results in a slightly negative impact of taxes and transfers on household incomes when a job is found. In some countries, a partner-work effect is also visible, with earnings from the partners decreasing (most notably in the Netherlands, Belgium and Greece).

Figure 3.10. Share of people exiting the first income quintile when becoming employed

Year-on-year income changes, early 2010s or latest



Note: Exits from the first income quintile from one year to the next. The odd-ratios compare: the odds to exit the first income quintile when becoming employed compared to the odds to exit the first income quintile when remaining unemployed (Panel A); the odds to exit the first income quintile when becoming employed under a permanent contract compared to the odds to exit the first income quintile when being in temporary employment (Panel B); the odds to exit the first income quintile when becoming employed full-time compared to the odds to exit the first income quintile when employed part-time (Panel C). Working-age population (18-65).

Source: OECD calculations based on EU-SILC (2011-14), CNEF (2008-13), CASEN for Chile (2006-09) and SILC for Turkey (2011-14).

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Box 3.3. Young people: How much do early careers matter?

The initial years are crucial in determining the future outcomes of young people entering the labour market. “Missing a boat” (Fong and Tsustui, 2015) can sometimes lead to long-term consequences, at least in some countries. The burden of a bad start weighs heavily on future prospects, with for example temporary work and unemployment turning out to be traps. Getting a temporary job as a first job can also lead to a negative signalling effect. This is, for example, the case in Japan and Korea. Fong and Tsustui (2015) find that there is a high cost of “missing a boat” under the Japanese recruitment practices and that the timing of regular and non-regular employment after school completion matters (Imdorf et al., 2017). In Europe, countries with a high incidence of temporary work among youth are characterised by frequent job changes separated by long unemployment spells, which can seriously affect mobility prospects (Quintini and Manfredi, 2009).

In some countries, however, the prospects are different: getting a temporary job can be a better “port of entry” in young people’s future career. This is especially true when the content of the job is close to the person’s training and is associated with solid legal framework around the contract. Cockx and Picchio (2012) find that, in Belgium, young people accepting a temporary job are more likely to be embedded in a long-lasting job after two years than are those who rejected it. In Switzerland, non-standard employment is found to be the main port of entry into employment for young people with high education, with prompt transitions into stable employment via vocational training (Imdorf et al., 2017).

The quality of the contract matters a lot for mobility prospects and future outcomes. Contracts closely related to qualification tracks or combined with training help to serve as a bridge. If the temporary contract is simply a buffer for volatile demand, then the risk of a trap is higher. Vocational training and apprenticeships, for example, can offer interesting prospects. The most successful European countries in terms of school-to-work transitions are those where apprenticeships are widespread (Quintini and Manfredi, 2009). Ehlert (2013) shows that vocational training explains the greater stability of trajectories in Germany compared to the United States.

3.2.3. How job-to-job changes impact incomes

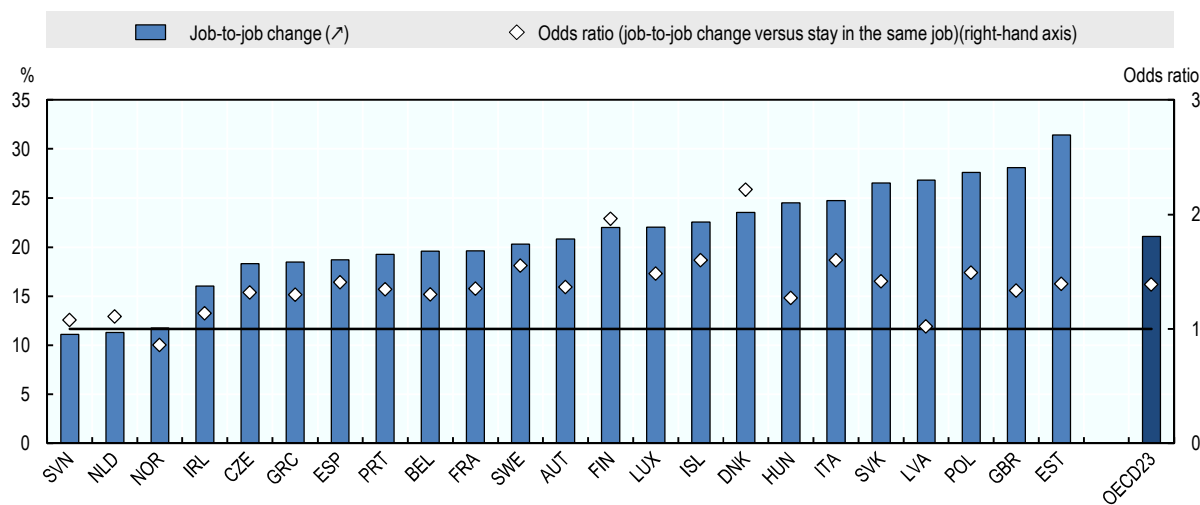
Job-to-job changes can occur within a firm or from one firm to another. They are usually much more frequent among young people aged 15-24, and especially among younger women than among other age groups, and much scarcer from the age of 55, especially among the high-educated or high-skilled (Buchinski et al., 2010, Box 3.3). This reflects the impact of childbirth (see Section 3.4.2), when women interrupt their careers or start working part-time (Box 3.4). Job-to-job changes can lead to large income increases but, in some cases, also to decreases, e.g. if the new job involves fewer hours of work.

By contrast, job tenure indicates how long a person has been holding a job. Some countries have dual labour markets, with a long tenure for one group, and much more turnover for the other. Large shares of the population remain in the same jobs for more than ten years in Italy, Greece, Portugal and Slovenia, and a smaller share in Estonia, Turkey and Denmark (OECD, 2018b). Job tenure can also lead to income increases, as returns to job tenure have been shown to increase with the time spent with the same employer, in particular for the low-skilled (Buchinski et al., 2010).

Overall, job-to-job changes are associated with more frequent large income gains than is job tenure, i.e. staying with the same employer (Figure 3.11). Job-to-job changes have an especially large impact on incomes in the Nordic countries (except Norway) and in Italy. They have less of an impact in Slovenia, Norway, the Netherlands and Latvia, where the odds ratios are close to or below 1.

Figure 3.11. Share of employed people experiencing a large income gain when changing job

Year-on-year income changes, early 2010s or latest



Reading note: On average in OECD, an employed person changing job has 21.4% chances to experience a large income gain. This is 1.4 times more than a person staying in the same job.

Note: Large income gains are defined as 20% or more income gain from one year to the next. The odds-ratio compares the odds to experience a large income gain when changing job compared to the odds to experience a large income gain (resp. loss) when remaining in the same job. Working-age population (18-65).

Source: OECD calculations based on EU-SILC (2011-14).

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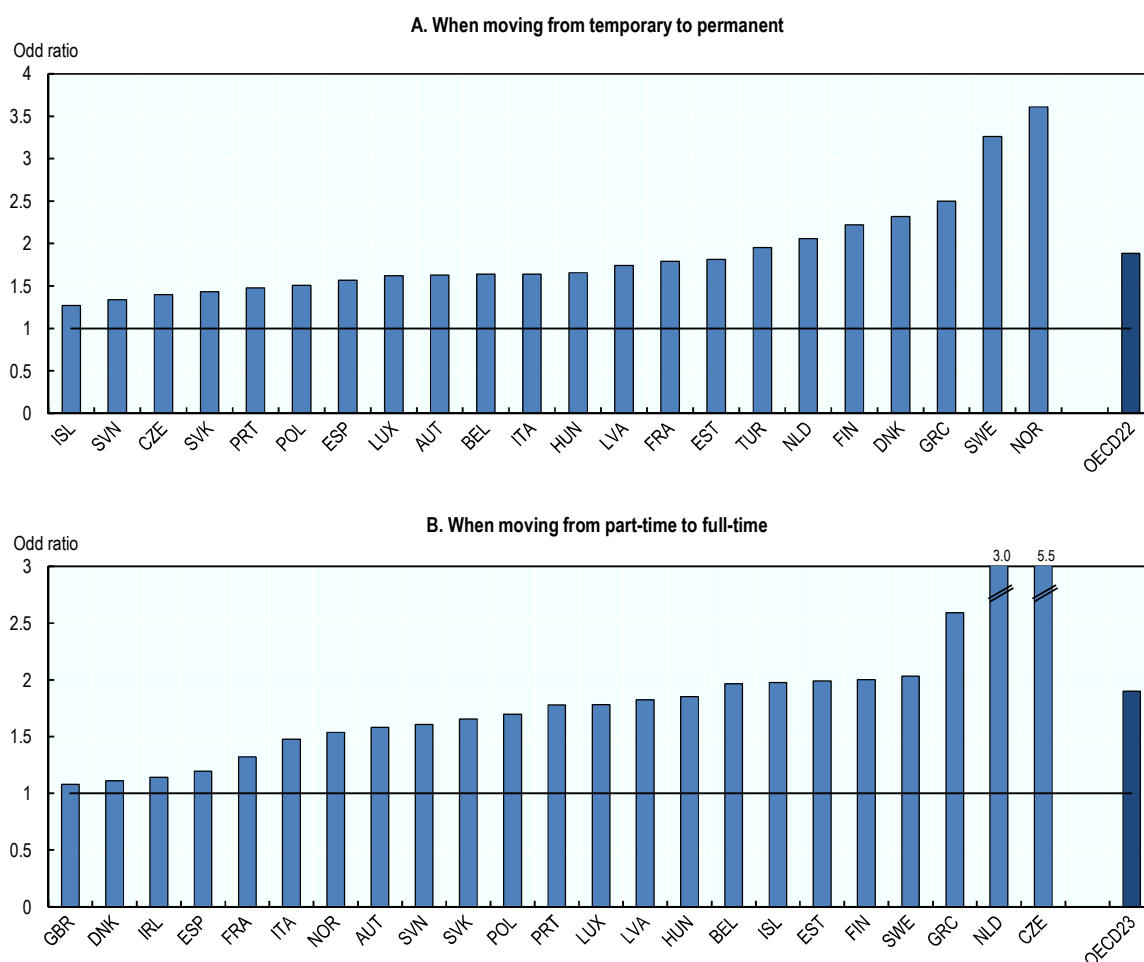
One of the drivers explaining income changes triggered by job-to-job transitions is the nature of the contract. Moving from a temporary to a permanent contract goes hand in hand with a large income gain in most countries (Figure 3.12). The role of temporary contracts as springboards towards permanent employment has been widely discussed and debated (OECD, 2015b). The regulation of temporary contracts is important for turning them into stepping stones rather than dead-ends. For example, the stringency of the legal settings of temporary contracts, such as the conditions for their renewal, the severance payments, and the way they articulate with the settings framing permanent contracts, matters (Berton and Devicienti, 2011; O'Higgins, 2012). The duration of the contract also enters into play, with longer short-term contracts more likely to ensure better inclusion in the labour market (Gagliarducci, 2005; Cutuli and Guetto, 2012). Switching from temporary to permanent employment is on average not more likely to lead to large income gains than staying in temporary employment (Figure 3.12, Panel A). Moving from temporary to permanent employment drives large income gains in particular in Denmark, Sweden, Norway and Greece. Large income gains are much scarcer in Iceland and Slovenia.

Hours worked are another dimension explaining the impact of a work transition on incomes. On one side, part-time work is an enabling tool allowing workers to adjust their work-life balance at different stages of their lives. This is especially relevant for parents of young children, or for ageing societies. However, in practice, part-time work is often associated with lower (hourly) pay, and it is not always a first-choice option.⁶ In addition,

transitions from part-time to full-time work are often challenging (Schmid, 2016), and part-time work can act as a trap, especially at the beginning of the career (Connolly and Gregory, 2010). Switching from part-time⁷ to full-time is twice as likely to lead to large income gains as staying in part-time (Figure 3.12, Panel B). Moving from part-time to full-time work drives large income gains in particular in the Netherlands, the Czech Republic and Greece, and to more limited gains in Denmark, the United Kingdom, Ireland (where the transition tax rate from part-time to full-time is high, OECD, 2018a) and Spain.

Figure 3.12. Odds of a large income gain for transitions from temporary to permanent and from part-time to full-time employment

Year-on-year income changes, early 2010s or latest



Note: The odds-ratio compares the odds to experience a large income gain when moving from temporary to permanent employment (Panel A) or when moving from part-time to full-time employment (Panel B) to the odds to experience a large income gain when remaining in a temporary or part-time employment. Working-age population (18-65). Individuals are considered as part-time workers if they worked a greater number of months part-time than full time over the year.

Source: OECD calculations based on EU-SILC (2008-14) and SILC for Turkey (2011-14).

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Box 3.4. Women, labour and income mobility

Job-to-job changes among people aged 15-24 are more frequent among women than men, and less frequent among those aged 25-54. This trend is related to numerous career breaks for women in the second age bracket, involving more patchy trajectories among women, especially among mothers (OECD, forthcoming). However, the job-to-job changes of young women seem less rewarding than those of men in the long run. In Italy for example, over the first ten years of the career, job mobility accounts for up to 30% of total wage growth for men and only 8.3% for women, and the difference accounts only for returns to job-to-job changes (Del Bono and Vuri, 2011).

Part-time work also has consequences for future career prospects. Innes and Scott (2003) compare the promotional prospects, career mobility and networking experiences of female part-time managers and show that their careers stalled once a transition to part-time work was made, although they had successful careers while working full-time. Connolly and Gregory (2010) reach a more balanced conclusion and show that women with a history of full-time employment are likely to be back in full-time after part-time, while part-time work associated with spells of unemployment is not supporting for careers and acts as a trap against the resumption of full-time work.

One possible driver of the wage and employment gaps on the labour market is that women, especially when working part-time, invest less in their professional networks (Innes and Scott, 2003). More generally, women's lack of investment in professional networks – linked to the time spent in childcare – is itself a driver of less successful careers.

Another driver of the gender gap in careers at the top of the income distribution – the sticky ceiling – is explained by the role of cultural norms such as “gender-profiling” or stereotypes held by employers, who attribute weaker labour market commitment to women than men (Merluzzi and Dobrev, 2015; Correll et al., 2007; England et al., 2007). As a consequence, women have fewer advancement opportunities within the firm (Shih, 2006), which results in lower returns to tenure than for men; second, external mobility is much less beneficial to women than men because it reinforces the image of weak commitment.

Obstacles for women's upward mobility to top positions grow during the early career as a result of cumulative advantage processes (di Prete, 2006). In the long run, the sticky ceiling faced by women in populating higher positions in the hierarchy results endogenously from the scarcity of women themselves among top management. More women in higher positions would imply more role models for young women and girls – a powerful driver in determining young people's aspirations. At the same time, there is an increasing awareness that the recruitment process is – often unconsciously – biased towards those “looking alike” (Rivera, 2016; Maume, 2011; Skaggs et al., 2012). For example, having more women on corporate boards at the firm-level is associated with greater female managerial representation at the establishment level.

3.3. The role of household events for income changes

Section 3.1 has highlighted that changes in disposable income depend on labour incomes and labour market events, but that household-related events also matter for income trajectories. This section disentangles the role of household-related events from that of other factors for income mobility. It assesses the impact of two household-related events on the probability of experiencing considerable income variation and on the probability of entering or exiting low-income situations: divorce or separation, and childbirth.

3.3.1. Divorce is often synonymous with greater income vulnerability for women

Separation and divorce are life course risks that can significantly affect income trajectories. The loss of the income previously provided by a partner, the potentially increased difficulty of taking care of one's children and subsequently making working arrangements, the change in taxes paid and benefits received can lead to substantive variations in disposable income after a separation. As the employment rate of women is typically lower than that of men, as women earn less than men, and as in the majority of

cases women end up getting child custody, the negative economic consequences of divorce tend to be greater for women than for men (OECD, 2017a).

Vaus et al. (2017) have shown for six countries (Australia, Korea, Germany, Switzerland, the United Kingdom and the United States) that divorce has, on average, negative effects on the equivalised household incomes, in particular for women, and that the extent and duration of the negative effects of divorce differ markedly between these countries. Similar conclusions are found for European countries (Andress et al., 2006; Uunk, 2004). Country-specific evidence confirms this pattern in France (Bonnet et al., 2015), the United Kingdom (Jenkins, 2009) and in New Zealand (Fletcher, 2017).

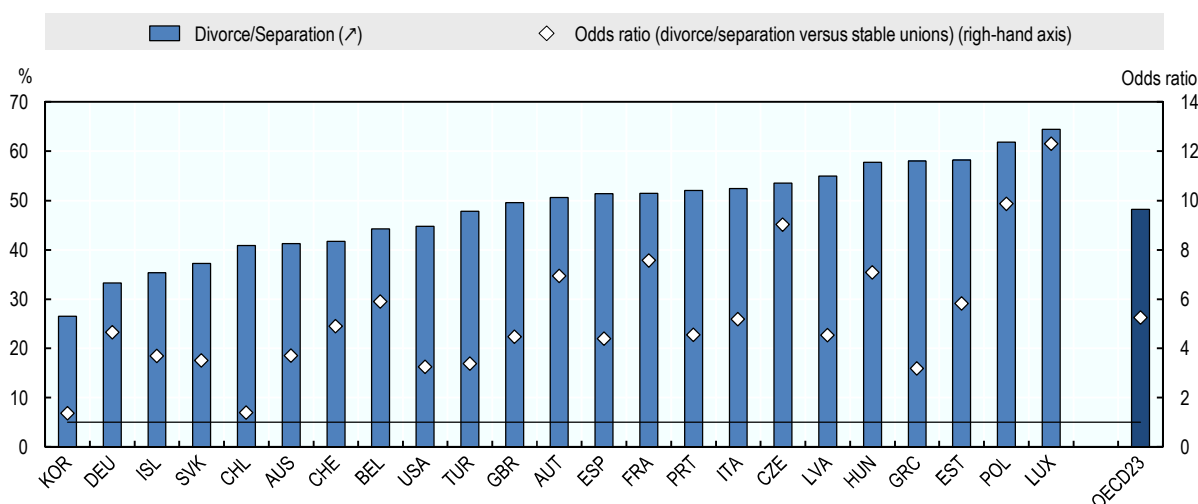
While there are data limitations when following individuals after a household split (see Annex 2.A1), Figure 3.13 suggests that, on average across OECD countries, 50% of those going through a separation experience a large income decrease (above 20%), making them six times more likely to experience a large income loss than those who remain in a stable relationship. The impact of divorce is especially marked in Luxembourg and Poland, where two-thirds of individuals getting a divorce experience a large income loss, with losses equal on average to one-third of the previous income. It has less impact in Germany, Iceland and Slovakia (Figure 3.14, Box 3.5).

Since women are more likely to take over childcare duties, but also because on average they are working and earning less, they are likely to experience more significant income drops. The overall income loss associated with a divorce is around 13% on average across OECD countries: 20% for women, and 5% for men (Figure 3.14, Box 3.5). The slight increase in men's earnings following divorce observed in some countries is explained by household size effects (see below).

The income effects of divorce for women are influenced by the social security system, family models and the family law system of each country. Institutional arrangements such as child support and spousal maintenance affect women's incomes after divorce. However, women's labour market earnings remain the most important drivers of income trajectories after divorce (Vaus et al, 2017; Struffolino and Mortelmans, 2018; Bonnet et al., 2015). Separation can trigger labour market transitions, for example, inactive individuals might decide to enter the labour market after a separation or employed individuals to reduce their working hours to take care of domestic duties and childcare that used to be taken care of by their former partner (Bonnet et al., 2010). Struffolino and Mortelmans (2018) note that this gender gap in vulnerability when facing divorce is particularly high in countries with low employment rates for women, for example in Italy.

Figure 3.13. Share of people experiencing a large income loss when getting divorced

Year-on-year income changes, early 2010s or latest



Reading note: On average in OECD, a person getting divorced has 48% chances to experience a large income loss. This is 5.2 times more than a person living in a household where there is no separation.

Note: Large income losses are defined as 20% or more income losses from one year to the next. Data for the United States refer to bi-annual transitions. The odds-ratio compares the odds to experience a large income loss when getting divorced compared to the odds to experience a large income loss when remaining in a stable union. Working-age population (18-65).

Source: OECD calculations based on EU-SILC (2011-14), CNEF (2008-13), CASEN for Chile (2006-09) and SILC for Turkey (2011-14).

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Household income losses following divorce result largely from the loss of the partner's earnings, taxes and transfers and household size effect (Figure 3.14, Box 3.5). Increases in individual earnings following divorce are visible in some countries, e.g. Austria, Sweden and Iceland, driven by increased participation in the labour market after divorce (either increased number of hours worked, or transition from inactivity to employment). Taxes and transfers lead to income losses on average – sometimes to a large extent, as in Greece, for example. Another driver of the change in disposable income following divorce is the change in household size⁸ (“size effect”), resulting from the smaller size of households after divorces. As men less often have custody of the children, they live on average in smaller households than women, which will – all other things being equal – have a greater impact on their disposable income than for women – even though their incomes have not changed.

Box 3.5. Decomposing income changes following household-related life events

In the same way as labour market events, life events such as divorce or childbirth have an impact on household income composition. This is induced by labour market changes following the new household composition and the associated entitlement to family benefits or tax deductions. In addition, as the household size changes, this has a direct impact on the equivalised disposable income, i.e. the new household income needed to maintain the same economic well-being (household size effect). This box illustrates how income components change in the event of divorce and childbirth. It replicates the approach developed in Box 3.2 for labour market transitions.

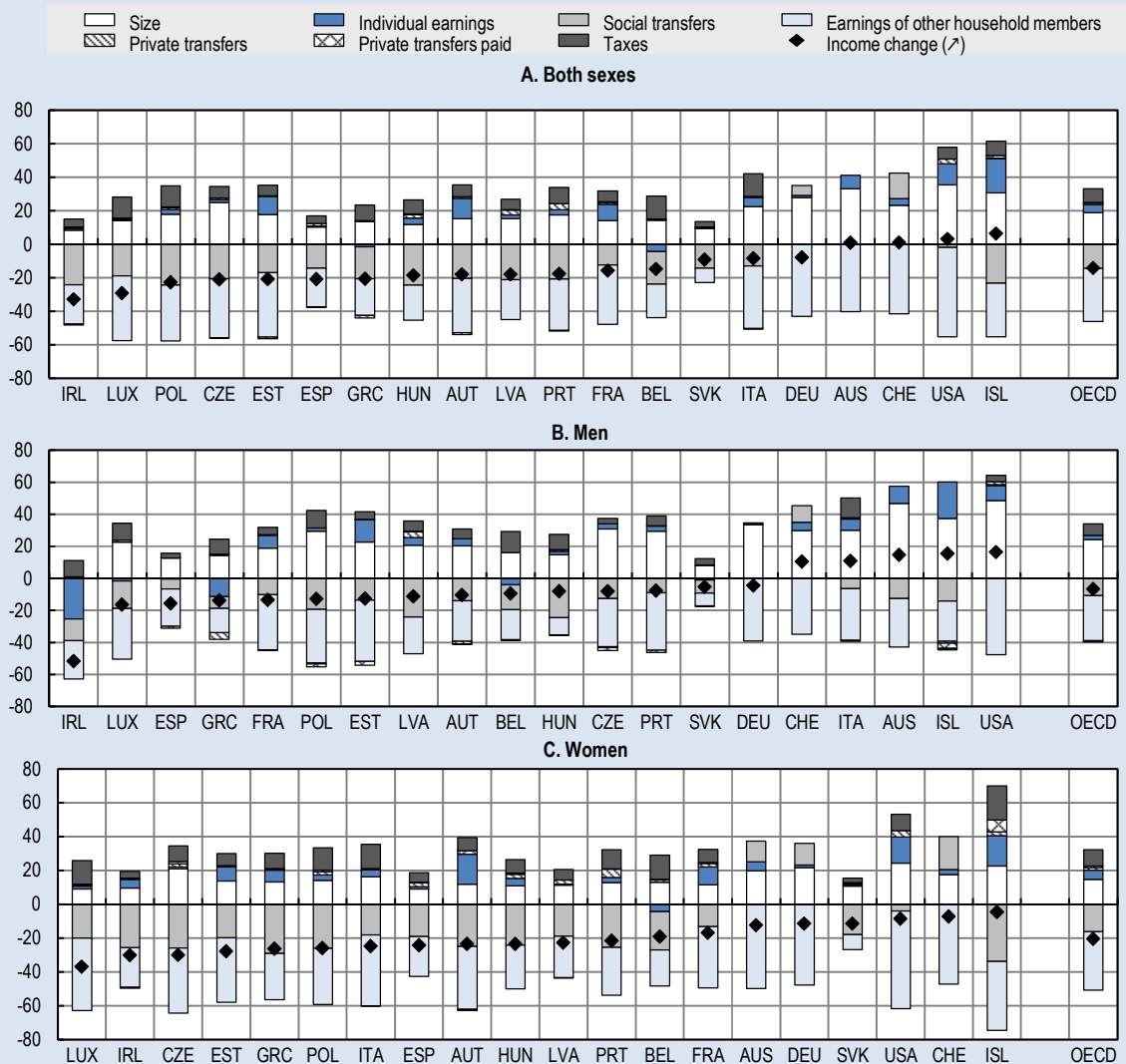
The income shock from one year to the next after divorce is about 16% across OECD countries (Figure 3.14). The household income loss due to the loss of the former partner's earnings is almost 30%. This is particularly severe in the United States, Estonia and Luxembourg, where this amounts to almost 40 percentage points of the overall income change. The contribution of other household members' earnings to the income change is, at 21% or less, weaker in the Slovak Republic, Belgium and Hungary. Social transfers also decrease in the case of divorce, by 20% on average. The household size effect offsets these losses by about 20% on average across OECD countries, reflecting that the new household is smaller than the previous one. The household size effect is smaller in the event of divorces among childless couples (one-half compared to one-fourth for a family of four splitting) (see Annex 3.A4).

Women are more severely impacted by income losses after a divorce, with income losses of around 22% against 9% for men (Panel B and Panel C). The losses for women are particularly large in Luxembourg, Ireland, the Czech Republic, Estonia and Greece, where they approach or exceed 30% of the previous equivalised family's income. Income losses are smaller in Iceland, the United States or the Slovak Republic, where they are less than 20% of previous income. For these countries, large drops in the former partner's earnings are partly offset by both a substantial size effect observed when households of small size – typically childless couples – split and by the impact of taxes and transfers. Overall across OECD countries, the contributions of private transfers, like alimonies, either paid or received, is rather small. They account negatively for 0.7 percentage points in men's previous income, and positively, for 2.5 percentage points of women's previous income.⁹

In the case of childbirth, disposable incomes drop in a majority of countries, and by about 1% on average across OECD countries (Figure 3.15). The increase in household size contributes the most to this loss. In Chile, Hungary, Korea, Poland, Latvia and Turkey, all countries with low employment rates for women, there is a positive impact of individual earnings driving income changes. In another set of countries – Ireland, Germany, Luxembourg, Norway, Finland, Estonia and Slovenia – the income loss following childbirth is more often compensated by transfers. In Germany, for example, the household income loss following childbirth among women is strongly driven by a fall in women's earnings (minus 13 points), probably due to the high share of women quitting their job after giving birth (Grimshaw and Rubery, 2015), while transfers compensate for this fall by 10 points (Panel C).

Figure 3.14. Decomposition of income changes when getting divorced, by gender

Year-on-year income changes, early 2010s or latest



Reading note: In Ireland, the household income of people getting divorced decreases by one third. This is driven by a 23 percentage point loss due to the lack of the former partner's earnings, as well as a fall of 24% of social transfers. In turn, with the household becoming smaller, there is a positive household size effect (less heads to feed with a given income) of 9 percentage points. The income loss after divorce is also compensated (on average) by a 5% income increase due to less taxes, and a 1 percentage point gain due to alimonies.

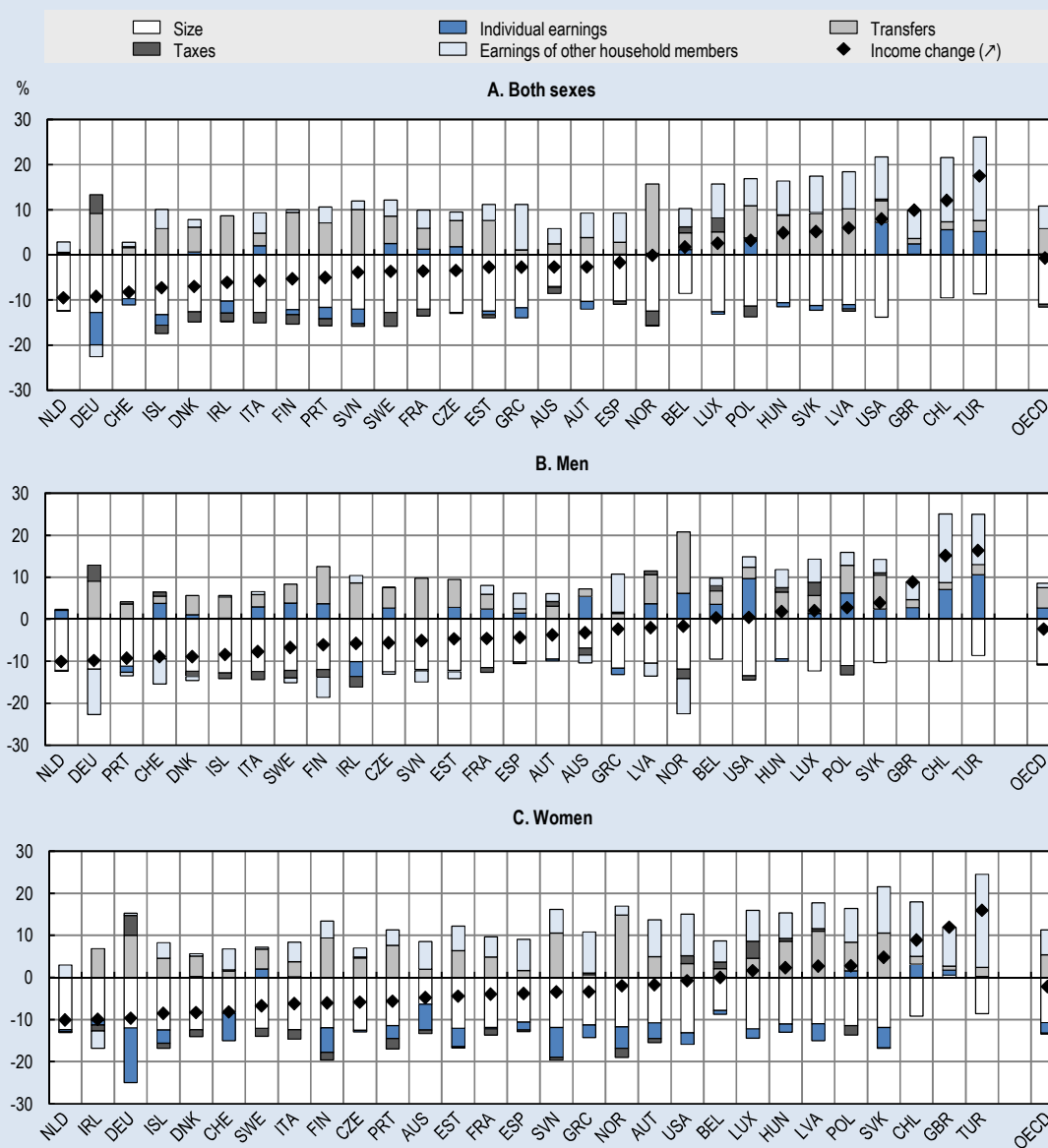
Note: Social transfers are defined as the difference between disposable incomes and the sum of all other components. It might encompass incomes misreported in other categories, in particular inter-household transfers. For the Germany, Switzerland, the United Kingdom and the United States, the impact of taxes and transfers is included in the 'Social Transfers' component. Changes are measured from one year to the next. The income change refers to the income growth compared to the previous year. Individual earnings effect, tax and transfers effect and other household members' earnings effect describe the contribution of each income source to overall income growth. The sum of these contributions is equal to the income change by definition. See Annex 3.A4 for details of the decomposition. Data refer to the working-age population (18-65). Yearly transitions pooled between 2008 and 2014. Nordic countries, the Netherlands and Slovenia are not included, as they use register files for tracking individuals (see Iacovou and Lynn, 2013).

Source: OECD calculations based on EU-SILC (2011-14), CNEF (2008-13).

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Figure 3.15. Decomposition of income changes in the event of childbirth, by gender

Year-on-year income changes, early 2010s or latest



Note: Social transfers are defined as the difference between disposable incomes and the sum of all other components. It might encompass incomes misreported in other categories, in particular inter-household transfers. For Chile, Switzerland, Turkey and the United Kingdom, the impact of taxes and transfers is included in the “social transfers” component. Changes are measured from one year to the next. The income change refers to the income growth compared to the previous year. Individual earnings effect, tax and transfers effect and other household members’ earnings effect describe the contribution of each income source to overall income growth. The sum of these contributions is equal to the income change by definition. See Annex 3.A4 for details of the decomposition. Data refer to the working-age population (18-65). Yearly transitions pooled between 2008 and 2014. Panel A refers to the whole adult population with a child born during the previous year. Panels B and C compare men and women across the population living in couples.

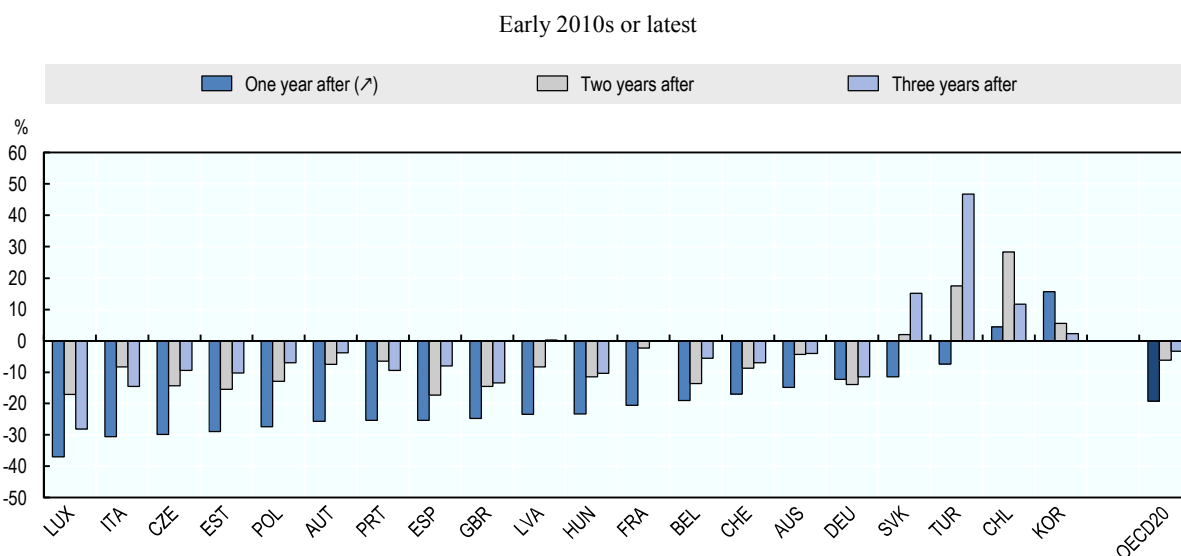
Source: OECD calculations based on EU-SILC (2011-14), CNEF (2008-13), CASEN for Chile (2006-09) and SILC for Turkey (2011-14).

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The economic consequences of divorce can last for a long time. Divorce's adaptation mechanisms can eventually transform into a poverty trap in some cases, or at least in a trap that increases economic vulnerability, including for high-educated women (Fisher and Low, 2016).

The impact of divorce on women's income is still felt three years after the divorce in many countries (Figure 3.16). The average income loss two years after divorce is around 7%, and 4% three years after divorce. While divorced women's incomes in Austria and France recover after two years, the average impact after three years remains considerable in some countries, including Luxembourg, Italy and the United Kingdom. In Turkey, Chile and Korea to some extent, women's income *increases* significantly after divorce. This can be the result of several drivers, such as a lack of financial support from the previous spouse in some cases and a selection effect in other cases, with a higher divorce rate among women with a strong attachment to the labour market (Kavas and Gunduz-Hosgor, 2010). In some countries where long-term income trajectories are available, the impact of divorce is still visible after several years. This is especially the case in Germany, Australia and the United States. France ranks as the country with the lowest long-term divorce penalty for women in this subsample (Figure 3.17).

Figure 3.16. Impact of divorce on women's incomes one, two and three years after divorce



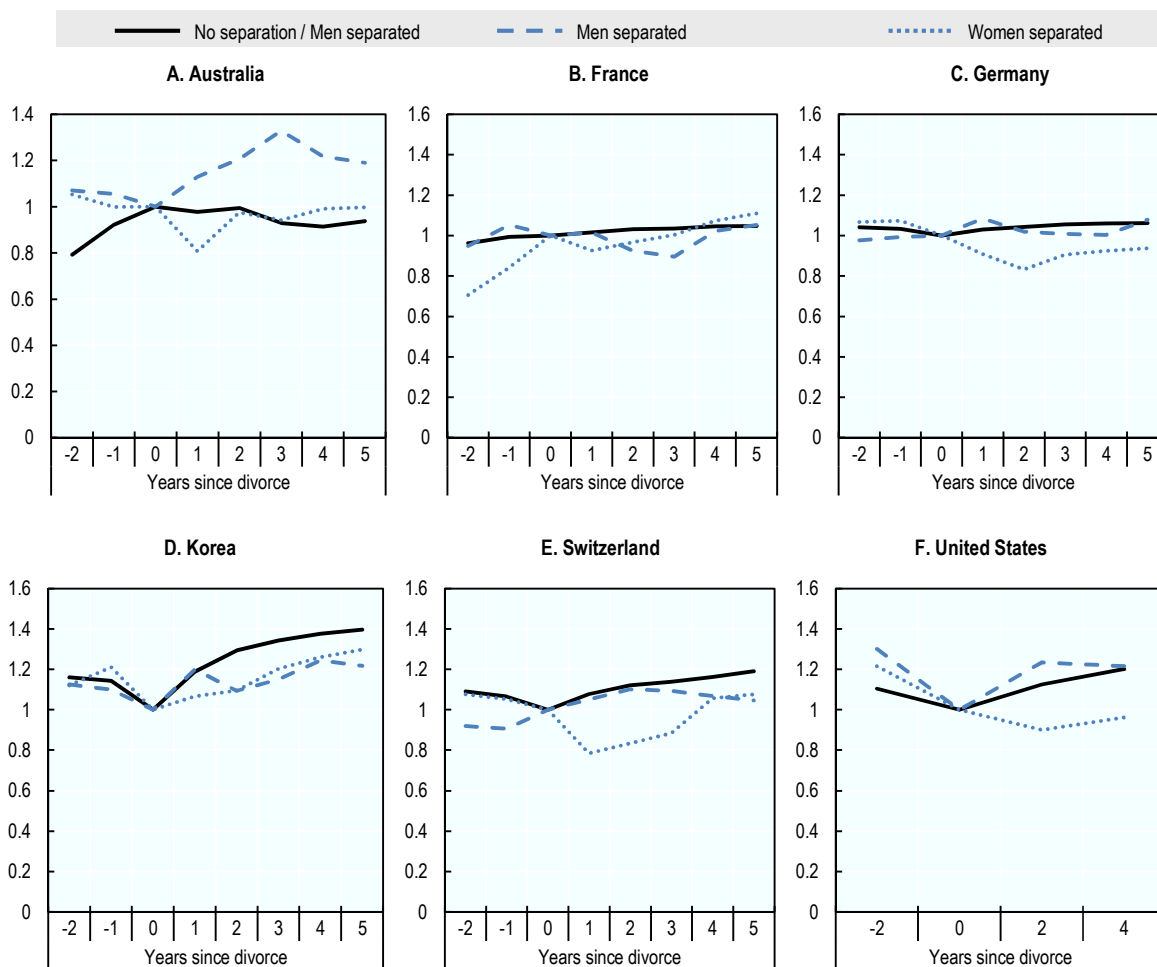
Note: Average income growth between incomes just before divorce and incomes one year (resp. two, three years) after divorce for woman. Four-year periods of observation between 2008 and 2014.

Source: OECD calculations based on EU-SILC (2008-14), CNEF (2008-13), CASEN for Chile (2006-09) and SILC for Turkey (2008-14).

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Figure 3.17. Income trajectories following divorce in selected countries

Late 2000s -Early 2010s (or latest)



Note: Trajectories measured over seven years (six-year spans for the United States) spans between 2006 and 2013 (2003-13 in the case of Korea and Switzerland for sample size reasons).

Source: OECD calculations based on CNEF and SRCV for France.

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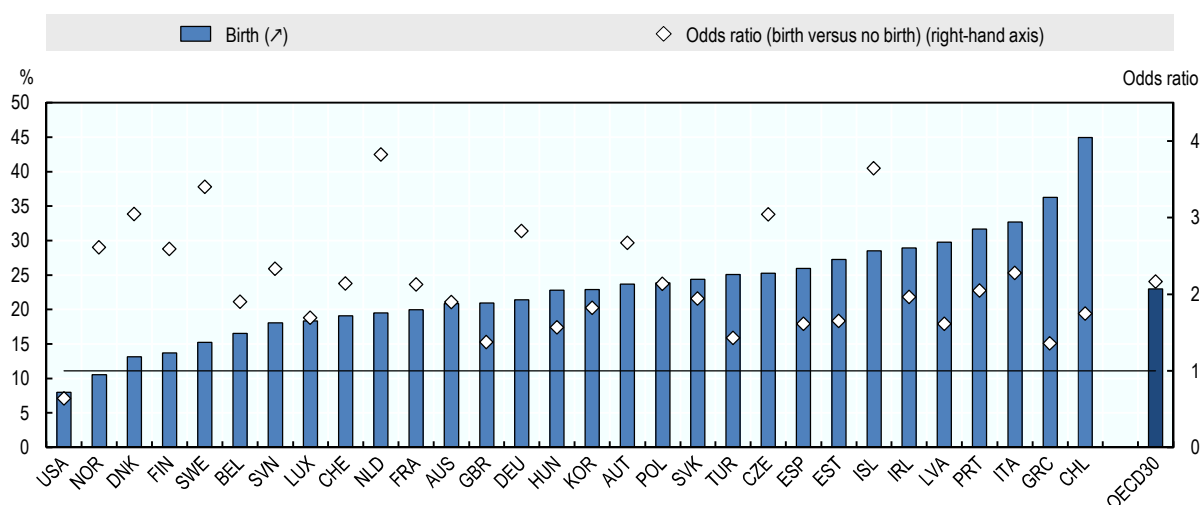
3.3.2. Childbirth and its impact on household disposable income

Childbirth often represents an important breakpoint for households, implying changes in labour market attachment and work and care reconciliation issues. In particular, women's patterns of labour market attachment tend to diverge from men's trajectories when they become mothers, notably because they adapt their paid work (OECD, 2017b). Kleven et al. (2018) have shown that in the case of Denmark, childbirth had a significant impact on women's labour market participation, and that this impact was persistent over time, widening the gender gap in the long run.

Following the birth of a child, one household out of four experiences a large income loss (greater than 20%): this is on average 2.2 times more likely than for those without childbirth (Figure 3.18). Large income losses are frequent in Chile, Greece, Italy and Portugal. They are less frequent in the Nordic countries and the United States. Nevertheless, in the Nordic countries, a household with a newborn is much more vulnerable to incur large income losses than other households – the odds for these households are three to four times higher than for other households. In Norway, Finland and Sweden, but also Latvia and Slovenia, the income losses following childbirth are compensated by increases in social transfers (Figure 3.15, Box 3.5). In the United States, the income losses following childbirth are on average more than compensated by men’s earnings. While this helps to maintain a standard of living in the household and to tackle the negative impact of growing up in poverty, it may raise further concerns in terms of the division of roles within households and especially for births in single-parent households.

Figure 3.18. Share of people experiencing a large income loss after childbirth

Year-on-year income changes, early 2010s or latest



Reading note: On average in OECD, a person living in a family where a child is born has 23% chances to experience a large income loss. This is 2.2 times more than a person living in a household where there is no birth.

Note: Large income losses are defined as 20% or more income losses from one year to the next. Data for the United States refer to bi-annual transitions. The odds-ratio compares the odds to experience a large income loss when having a child to the odds to experience a large income loss when there is no birth. Working-age population (18-65).

Source: OECD calculations based on EU-SILC (2011-14), CNEF (2008-13), CASEN for Chile (2006-09) and SILC for Turkey (2011-14).

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In many cases, the household income loss can be attributed to women decreasing their paid work following childbirth. Figure 3.15 (Box 3.5) shows that the birth of a child is associated with a decrease in women’s earnings in many countries, notably in Portugal, Germany, Ireland, Finland, Slovenia and Hungary.

Two main mechanisms of compensation offset income losses following childbirth: social transfers and other household members’ labour market participation. These two mechanisms depend on gender, and they vary by country. In Portugal, Finland, Germany,

Hungary, Poland and the United Kingdom, the compensation of childbirth is due to social benefits¹⁰ (child benefits, social benefits and taxes) (Figure 3.15, Panel C). In Turkey, Chile, Korea, Slovakia, Poland and Greece, large compensation mechanisms stem from an increase in the partner's earnings. Men's individual earnings weigh heavily on income changes in some countries (such as Chile, Turkey and Korea). Such gender-specific labour market changes following the birth of a child are relevant for policy making, as they can eventually feed into gender gaps (Box 3.4).

3.4. The role of social transfers and income taxes in smoothing income changes

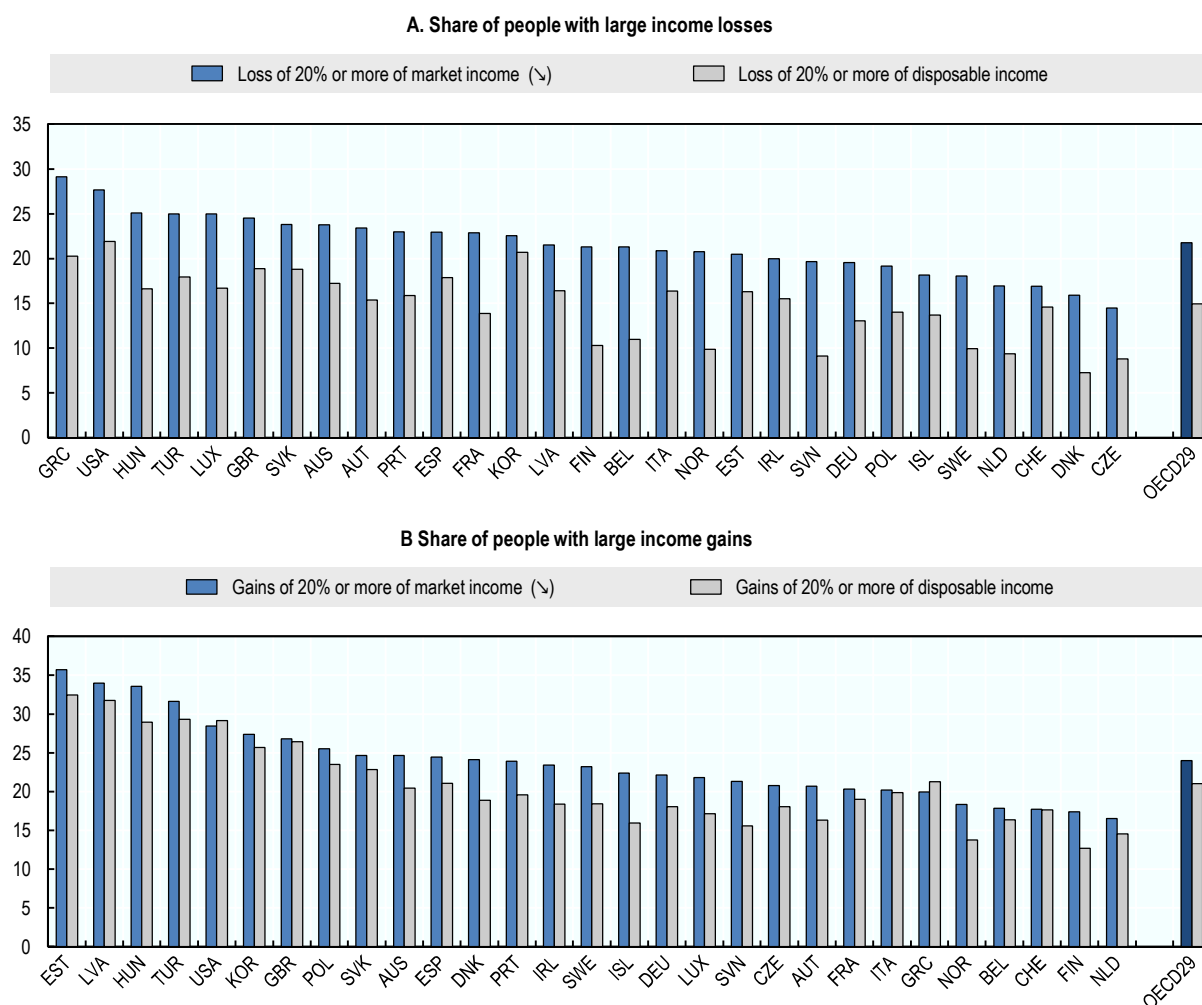
It is crucial for income mobility outcomes that policies support people in economic hardship so that they quickly recover from income shocks. Redistribution through the tax and benefit system plays an important role in this respect. For example, the design of redistribution policies conditions the duration for which people are eligible for a given benefit. In this respect, an effective combination of last-resort income-support schemes with well-designed in-work benefits is likely to support returns to employment and avoid long-term benefit dependency.

On average across OECD countries, 15% of the working-age population experienced a large loss (more than 20%) in disposable income from one year to the next in the early 2010s, and 21% experienced a large gain (Figure 3.19). But changes in market incomes were much more pronounced: 22% experienced a loss and 24% a gain. This means that the tax and transfer system cushions large market income changes, in particular losses.

The role of taxes and transfers varies across countries: Most Nordic countries rank among those with a greater impact in cushioning large market income losses, together with France, Belgium and Slovenia. These are also the countries where large market income gains are diminished in terms of disposable incomes – although to a much more moderate extent. In Korea and Switzerland, the role of taxes and transfers is much smaller, and large market income shocks tend to transmit more directly to disposable incomes.

Figure 3.19. Incidence of large market and disposable income changes

Percentage of people with a large year-on-year income change, early 2010s or latest



Note: Large income changes are measured as a +/- 20% or more income change from one year to the next. Working age population (18-65). Equalised household incomes, in real terms. Data refer to 2010-12 for the United States.

Source: OECD calculations based on EU-SILC (2011-14), CNEF (2008-13), and SILC for Turkey (2011-14).

StatLink  <http://dx.doi.org/10.1787/888933754082>

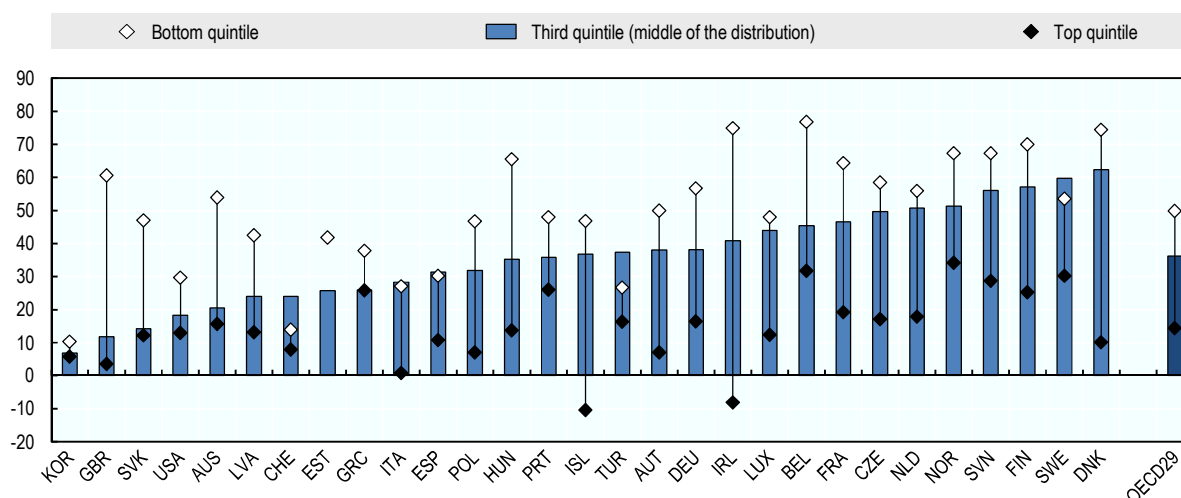
Taxes and benefits interact in different ways on individual income changes at different points of the income distribution (Figure 3.20). On average in OECD countries, for an individual in the middle-income group (third income quintile), about one-third of market income shocks (changes above 20%) are smoothed by taxes and transfers, i.e. those shocks transform into disposable income changes of less than 20%. This percentage is much higher, about half, at the bottom of the income distribution. This is explained by social protection and social assistance schemes, which are more widespread at the bottom of the income distribution in most countries. At the top of the income distribution, redistribution plays a smaller role, with 14% of the large market income shocks not being transmitted to disposable income shocks. This might be due to several factors. Income

shocks at the top are often not related to insured risks (e.g. fewer income shocks due to unemployment). There are, for example, more self-employed among the top income earners than among the rest, including the middle (Denk, 2015).

Depending on the design of national social protection schemes, the focus of income smoothening provided to different income groups varies. In the Nordic countries, where the protection against income shocks is widespread, there is less difference between the level of protection against income shocks at the middle and sometimes the bottom, and at the top. In English-speaking countries, in particular the United Kingdom, Australia and the United States, where the social protection systems rely more on means-testing and are oriented to the bottom of the distribution, the levels of smoothening at the bottom are much higher than for individuals in the middle.

Figure 3.20. How redistribution impacts on large income losses at different points of the income distribution

Share of large market income losses cushioned by redistribution, early 2010s or latest



Reading note: On average in OECD countries, half of large income losses in terms of market income disappear when considering disposable incomes for people in the bottom income quintile. This is the case of 36% of large income losses for people in the third income quintile and of 14% of large income losses for people in the top income quintile.

Source: OECD calculations based on EU-SILC (2011-14), CNEF (2008-13), and SILC for Turkey (2011-14).

StatLink  <http://dx.doi.org/10.1787/888933754101>

3.5. Conclusion

Income mobility refers to the opportunity to improve income and the relative income position with the passage of time. In the absence of mobility, the same individuals are stuck at the bottom of the distribution, and the same individuals are stuck at the top, while those in the middle remain with prospects of only small-scale mobility and little expectation to reach the upper income quintile. This reinforces divides and lowers social cohesion, with greater risks to pass on advantage and disadvantage to the next generation. It is therefore crucial for mobile societies to ensure that people in economic hardship quickly recover from income shocks and have enough opportunities to move up the income ladder.

This chapter investigates the processes driving income mobility, with a focus on the patterns of short-term transitions, which, plugged together, shape long-term mobility. Among these processes, labour market events on the one hand and household-related events on the other are the most important drivers of income changes. In particular, labour market events such as transitions into and out of jobs tend to matter more than household-related events, especially with respect to upward income mobility. The impact of adverse labour market events on income mobility is less direct than the one of household-related event, as redistribution brought by the tax and benefit systems at play contributes to cushion it.

In addition to labour market events, household-related events, such as divorce or childbirth, can contribute to threaten income mobility prospects, especially for women, if not sufficiently accompanied by appropriate policy settings, such as child custody, family benefits or work-care reconciliation tools.

Taxes and benefits play an important role for smoothing large and often unpredictable income shocks and thereby support the prospects for sustainable income and social mobility. In all OECD countries, the share of working-age people experiencing large losses in their market incomes is higher – in some considerably higher – than the share experiencing large losses in their disposable incomes.

Notes

1. In this chapter, marriage covers both marriage and partnership. Divorce also indifferently refers to partnership dissolution.
2. In this chapter, absolute mobility is measured by year-on-year income changes larger than 20% (upward and downward). Relative mobility is measured as a positional change in income quintile. This pertains, for example, to exits from the first income quintile or the top quintile or entries into the bottom or top quintile. For the middle-income groups, relative mobility is measured as moving at least one quintile down or up.
3. The impact of events is isolated by keeping all other variables constant and by using a “typical” household composition. The typical household composition considered is that of a prime-age individual, with no children and middle education.
4. In this chapter, due to data limitations and in order to keep the number of transitions limited, no distinction is made between unemployment and inactivity. “Non-employment” covers inactivity and unemployment (see Annex 3.A1).
5. In Chile, the latest longitudinal data available are from 2006-09, implying that they refer to data prior to several policy developments, in particular with respect to the unemployment insurance schemes.
6. More than 40% of part-time workers in Italy, Spain, Greece and France stated that they could not find a full-time job (Eurostat, Labour Force Survey).
7. The data used in this chapter do not allow to disentangle the number of hours worked by part-time workers, which is a strong limitation (see Annex 3.A1).
8. To better reflect economies of scale within households, disposable incomes are defined as the sum of all income sources within the household, adjusted for the size of the household with an equivalence scale. When the household size changes, the disposable income changes consequently. This is the “size effect” (see Annex 3.A4).
9. Figures for private transfers need to be treated with caution, as in household income surveys they are typically under-reported.
10. These figures highlight the changes in income following a childbirth. Countries where a large one-off benefit is granted at birth will appear as more generous than countries where the income support is smoothed across childhood, e.g. in France.

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Annex 3.A1. Data and definitions used in the chapter

The data sources used in this chapter are the same as described in Chapter 2, Annex 2.A1. However, the analysis of income mobility drivers implies covering not only disposable incomes, as in Chapter 2, but also labour market transitions, household changes and income components. This raises a certain number of issues related to making the use of the data more sensible:

- **Sample size:** the sample size with longitudinal data is often an issue. This is especially the case when analysing transitions between labour market and household status – which do not systematically happen frequently. For this reason, the chapter focusses on year-on-year transitions, as the number of observations (individuals x time) is larger. For this reason, some countries had to be excluded from some analyses.
- **Periodicity:** the longitudinal data source for the United States – PSID – has been gathered every second year since 1998, therefore two-year transitions are shown instead of year-on-year transitions for the United States.
- **Labour market status** is measured on the basis of the number of months worked over a year, with the longest spell corresponding to the activity status of the year. A person is considered to have a labour market transition if their status changes from one year to the next. Unemployed and inactive individuals are grouped together as “non-employed”. For the same reasons of data constraints, part-time work is treated as a whole, with no distinction made on the number of hours worked.
- **Marriage and partnership** are treated indistinctively. Divorce is measured as a change in partnership status.
- **Countries relying on register data:** There are data-driven caveats when following individuals after a household split (see Annex 2.A1). The main one is related to individuals moving into another dwelling, which is often the case of couples getting divorced (Iacovou and Lynn, 2013). In countries where data collection is based on household surveys – most countries in the EU-SILC – every member of the initial household is tracked and re-interviewed. In countries where surveys are based on administrative registers – Denmark, Finland, Iceland, the Netherlands, Norway, Slovenia and Sweden – only one member of the household is followed (reference person). Therefore, in these countries, the longitudinal analysis of divorcees who are not the reference person is not possible.

Annex 3.A2. Estimates of large income changes

Table 3.A2.1. Probability to have a large income gain (larger than 20%)

Logistic regression based on labour market change, household changes and other control variables

	Australia	Austria	Belgium	Chile	Czech Republic	Denmark	Estonia	Finland	France	Germany
One labour market transition or more	0.323***	0.466***	0.394***	-0.029	0.912***	0.445**	0.233**	0.639***	0.231***	0.389***
One household transition or more	-0.046	0.078	0.163	-0.390***	-0.503**	0.718***	-0.537***	0.118	0.470***	-0.121
Female	0.009	-0.040	-0.047	-0.026	-0.018	0.068	0.021	0.049	0.017	0.053
Was in a couple last year	-0.457***	-0.345***	-0.458***	-0.412***	-0.125	-0.735***	-0.062	-0.417***	-0.417***	-0.525***
Medium-skilled	-0.102***	-0.089	-0.037	-0.041	0.340***	0.177	0.060	0.178*	-0.046	-0.187***
High-skilled	-0.0687*	0.208*	0.057	-0.130***	0.239	-0.185	-0.032	-0.104	-0.000	-0.145**
25-34 years old	-0.133***	-0.108	0.092	0.041	-0.351**	-0.053	-0.335***	-0.074	-0.309***	0.115
35-44 years old	-0.262***	-0.214	0.131	0.0832*	-0.425***	-0.221	-0.562***	-0.436***	-0.449***	-0.119
45-54 years old	-0.228***	-0.421***	0.036	0.152***	-0.190	-0.329	-0.366***	-0.446***	-0.284***	-0.144*
Above 54 years old	-0.125**	-0.341**	0.091	0.128**	-0.473***	-0.490*	-0.593***	-0.693***	-0.339***	-0.258***
One child or more	-0.092***	0.174*	-0.031	0.070**	-0.053	-0.130	-0.063	-0.214***	-0.132***	-0.014
Sample size	33 684	4 420	4 393	29 026	6 604	3 995	5 442	9 135	21 006	24 138

Table 3.A2.1 Probability to have a large income gain (larger than 20%) (Cont.)

Logistic regression based on labour market change, household changes and other control variables

	Greece	Hungary	Iceland	Ireland	Italy	Korea	Latvia	Luxembourg	Netherlands	Norway
One labour market transition or more	0.609***	0.697***	0.349*	0.562***	0.371***	-0.032	0.543***	0.517***	0.798***	-0.287
One household transition or more	0.120	-0.463***	0.052	-0.503	0.034	-0.089	-0.535***	0.016	0.126	0.710***
Female	0.045	-0.110*	-0.037	-0.051	0.021	0.013	-0.019	-0.013	0.047	-0.075
Was in a couple last year	-0.008	-0.104	-0.269*	0.053	-0.168***	-0.454***	-0.077	-0.314***	-0.439***	-0.286*
Medium-skilled	-0.072	0.003	0.155	-0.013	-0.194***	0.075	-0.087	0.042	0.198*	-0.029
High-skilled	-0.224**	-0.014	0.262*	-0.089	-0.199***	0.002	-0.112	0.264**	0.335***	-0.104
25-34 years old	0.027	-0.170	-0.006	-1.107***	-0.143*	-0.007	0.182	0.147	-0.326*	-0.348
35-44 years old	-0.144	-0.094	-0.182	-1.044***	-0.147*	-0.183**	0.130	-0.064	-0.445***	-0.870***
45-54 years old	-0.019	-0.075	-0.035	-1.009***	-0.174**	-0.082	-0.080	-0.067	-0.282*	-0.690***
Above 54 years old	-0.152	-0.302**	-0.147	-0.777***	-0.205**	-0.011	0.005	0.026	-0.309*	-1.419***
One child or more	-0.305***	-0.119	0.262*	-0.203	0.062	-0.082*	-0.093	0.034	-0.149	-0.658***
Sample size	4 663	6 378	2 248	1 504	16 401	21 259	4 913	3 292	7 688	1 555
	Poland	Portugal	Slovak Republic	Slovenia	Spain	Sweden	Switzerland	Turkey	United Kingdom	
One labour market transition or more	0.858***	0.695***	1.100***	0.891***	0.332***	0.137	0.296***	0.400***	0.509***	
One household transition or more	-0.086	0.051	0.325*	0.371***	0.196**	0.596***	0.081	-0.055	-0.000	
Female	-0.053	-0.004	0.016	-0.066	0.020	-0.049	0.010	-0.039	-0.118*	
Was in a couple last year	0.016	-0.467***	-0.216***	-0.255***	-0.257***	-0.827***	-0.349***	-0.261***	-0.155*	
Medium-skilled	-0.064	-0.298***	-0.044	-0.106	-0.137**	0.209	-0.083	-0.246***	-0.068	
High-skilled	-0.049	-0.371***	-0.214*	-0.200*	-0.376***	0.445*	-0.170**	-0.412***	-0.026	
25-34 years old	-0.273***	-0.065	-0.307***	-0.080	0.006	-0.061	-0.139	-0.135***	-0.329**	
35-44 years old	-0.299***	-0.208	-0.343***	-0.238*	-0.135	-0.325	-0.200*	-0.122**	-0.365**	
45-54 years old	-0.227***	-0.121	0.047	0.066	-0.017	-0.418*	-0.133	-0.0958*	-0.286*	
Above 54 years old	-0.507***	-0.078	-0.521***	-0.164	-0.038	-0.712***	-0.028	-0.272***	-0.141	
One child or more	0.053	0.151**	0.045	-0.040	-0.199***	-0.103	-0.052	0.072**	-0.042	
Sample size	14 069	6 446	7 304	9 492	11 238	2 831	11 885	31 396	4 644	

Note: ***, **, *: statistically significant at 1%, 5% and 10% levels, respectively.

Source: OECD calculations based on EU-SILC (2011-14), CNEF (2008-13), CASEN for Chile (2006-09) and SILC for Turkey (2011-14).

Table 3.A2.2. Probability to have a large income loss (More than -20%)

Logistic regression based on labour market change, household changes and other control variables

	Australia	Austria	Belgium	Chile	Czech Republic	Denmark	Estonia	Finland	France	Germany
One labour market transition or more	0.489***	0.619***	1.162***	0.225***	0.986***	1.184***	0.409***	0.578***	0.501***	0.817***
One household transition or more	0.963***	1.333***	1.056***	0.553***	1.393***	0.732***	0.881***	0.995***	1.209***	1.204***
Female	0.028	-0.109	0.084	0.012	-0.082	0.125	-0.122	0.051	-0.011	0.029
Was in a couple last year	-0.005	-0.267**	-0.210*	0.254***	-0.209**	0.236	-0.025	-0.150	-0.150***	-0.359***
Medium-skilled	-0.050	-0.422***	0.122	0.015	-0.116	0.236	0.041	-0.070	0.012	-0.096
High-skilled	-0.079**	-0.438***	0.009	0.073*	0.160	-0.144	0.072	-0.362***	-0.080	-0.299***
25-34 years old	-0.117**	0.083	-0.127	-0.091**	0.193	-0.511	0.412**	-0.479***	-0.230**	-0.071
35-44 years old	-0.240***	0.229	-0.156	-0.124***	-0.097	-0.820**	0.183	-0.560***	-0.326***	-0.174*
45-54 years old	-0.123**	0.279	0.299	-0.117**	0.407**	-0.965***	0.470***	-0.305**	-0.026	-0.051
Above 54 years old	0.176***	0.724***	0.449**	-0.056	0.592***	-0.185	0.662***	-0.063	0.309***	0.313***
One child or more	-0.326***	0.534***	0.197*	-0.069**	0.775***	0.07	0.443***	0.637***	0.239***	0.040
Sample size	33 684	4 420	4 393	29 026	6 604	3 995	5 442	9 135	21 006	24 138
	Greece	Hungary	Iceland	Ireland	Italy	Korea	Latvia	Luxembourg	Netherlands	Norway
One labour market transition or more	0.599***	0.363***	0.866***	0.06	0.686***	0.576***	0.613***	0.663***	1.006***	0.767**
One household transition or more	0.526***	0.913***	0.833***	1.093***	1.018***	0.896***	0.779***	1.104***	1.336***	1.545***
Female	-0.008	0.010	0.080	-0.034	0.006	-0.039	-0.045	-0.027	-0.097	0.090
Was in a couple last year	-0.064	-0.265***	-0.193	0.102	-0.248***	0.066	-0.154*	-0.172	-0.272**	0.180
Medium-skilled	-0.213**	0.080	0.095	-0.073	-0.117**	-0.056	0.027	-0.065	0.106	-0.691***
High-skilled	-0.209**	0.134	0.192	-0.246	-0.147**	-0.116*	-0.069	0.039	-0.085	-1.045***
25-34 years old	-0.115	-0.115	0.570**	-0.465	0.027	0.188*	0.114	-0.343	-0.408*	-0.259
35-44 years old	-0.139	-0.237*	-0.142	-0.335	-0.071	0.158	-0.032	-0.530**	-0.561***	-0.303
45-54 years old	-0.039	0.186	-0.241	-0.368	-0.052	0.229**	0.223	-0.158	0.012	-0.280
Above 54 years old	-0.081	0.138	0.242	0.11	0.204**	0.522***	0.297	0.268	0.416**	-0.273
One child or more	0.392***	0.838***	-0.056	0.057	0.341***	-0.227***	0.643***	0.488***	0.605***	-0.319
Sample size	4 663	6 378	2 248	1 504	16 401	21 259	4 913	3 292	7 688	1 555

Table 3.A2.2 Probability to have a large income loss (More than -20%) (Cont.)

	Poland	Portugal	Slovak Republic	Slovenia	Spain	Sweden	Switzerland	Turkey	United Kingdom
One labour market transition or more	0.879***	0.515***	0.564***	1.106***	0.459***	0.467*	0.430***	0.290***	0.442***
One household transition or more	1.090***	0.880***	0.736***	1.456***	0.618***	1.284***	1.187***	0.574***	0.748***
Female	-0.001	-0.037	-0.049	0.000	-0.047	-0.066	0.111**	-0.0701**	-0.056
Was in a couple last year	-0.116*	-0.052	-0.070	-0.355***	-0.093	-0.377**	-0.061	-0.024	0.041
Medium-skilled	-0.118	-0.180**	-0.213*	-0.047	-0.228***	-0.024	-0.229***	-0.256***	-0.012
High-skilled	-0.113	-0.033	-0.110	-0.283**	-0.416***	0.310	-0.413***	-0.448***	-0.089
25-34 years old	0.148	-0.029	0.005	0.323**	0.135	-0.405	-0.289**	-0.020	0.177
35-44 years old	-0.058	-0.145	0.034	0.048	0.035	-0.923***	-0.397***	-0.111*	-0.228
45-54 years old	0.228**	-0.024	0.115	0.399***	0.121	-0.970***	-0.231**	-0.025	-0.066
Above 54 years old	0.341***	0.192	0.034	0.532***	0.247**	-0.502*	0.044	-0.021	0.320*
One child or more	0.449***	0.422***	0.664***	0.794***	0.569***	0.374**	-0.038	0.047	0.215**
Sample size	14 069	6 446	7 304	9 492	11 238	2 831	11 885	31 396	4 644

Note: ***, **, *: statistically significant at 1%, 5% and 10% levels, respectively.

Source: OECD calculations based on EU-SILC (2011-14), CNEF (2008-13), CASEN for Chile (2006-09) and SILC for Turkey (2011-14).

Annex 3.A3. Estimates of relative positional mobility

Table 3.A3.1. Probability to exit the bottom quintile

Logistic regression based on labour market change, household changes and other control variables

	Australia	Austria	Belgium	Chile	Czech Republic	Denmark	Estonia	Finland	France	Germany
One labour market transition or more	0.529***	0.501***	0.248	0.429***	1.029***	0.023	0.605***	1.067***	0.536***	0.613***
One household transition or more	-0.072	-0.808**	0.302	-0.199***	-0.535	0.836**	-0.231	0.659***	0.328**	-0.335**
Female	0.134***	0.032	0.082	0.018	0.051	0.104	0.138	0.217*	0.149**	0.197***
Was in a couple last year	-0.654***	-0.409***	-0.918***	-0.020	-0.143	-0.616**	-0.183	-0.897***	-0.831***	-0.878***
Medium-skilled	-0.279***	-0.217	-0.454**	-0.435***	-0.098	0.344	-0.025	-0.193	-0.258***	-0.435***
High-skilled	-0.820***	-0.443**	-1.010***	-1.086***	-0.996***	-0.780*	-0.413**	-0.849***	-0.858***	-1.289***
25-34 years old	-0.087	0.688**	1.116***	-0.168**	-0.209	0.110	-0.470**	0.470**	0.275**	0.528***
35-44 years old	-0.276***	0.076	1.294***	-0.077	-0.023	-0.116	-0.554**	0.242	0.325**	0.212
45-54 years old	-0.367***	0.008	0.959**	-0.196***	0.005	-1.055*	-0.328	-0.310	0.094	-0.075
Above 54 years old	0.025	-0.049	1.458***	-0.371***	-0.252	-0.776	-0.345	-0.134	-0.038	0.360**
One child or more	0.398***	0.586***	0.349*	0.038	0.357**	-0.486	0.197	-0.032	-0.015	0.484***
Sample size	33 684	4 420	4 393	29 026	6 604	3 995	5 442	9 135	21 006	24 138

Table 3.A3.1 Probability to exit the bottom quintile (Cont.)

Logistic regression based on labour market change, household changes and other control variables

	Greece	Hungary	Iceland	Ireland	Italy	Korea	Latvia	Luxembourg	Netherlands	Norway
One labour market transition or more	0.913***	0.676***	0.888***	0.533**	0.521***	0.140	1.025***	0.728**	0.856***	0.790**
One household transition or more	-0.115	-0.398	-0.829*	-0.788	0.008	-0.115	-0.159	0.097	-0.194	0.200
Female	-0.014	0.005	0.390*	0.080	0.131*	0.085	0.143	-0.130	0.089	0.151
Was in a couple last year	0.012	-0.457***	-0.975***	-0.308	-0.065	-0.527***	-0.717***	0.090	-1.093***	-1.252***
Medium-skilled	-0.093	-0.604***	0.133	-0.584**	-0.504***	-0.249***	-0.377**	-0.318*	-0.352**	0.650**
High-skilled	-0.615***	-1.423***	0.029	-1.074***	-0.986***	-0.805***	-0.767***	-0.838***	-0.875***	-0.189
25-34 years old	0.141	0.285	0.903**	-0.560	-0.086	-0.231	0.218	0.488	1.036***	0.581
35-44 years old	-0.110	0.244	0.537	-0.730*	-0.248	-0.433***	0.453*	0.134	0.888***	0.215
45-54 years old	-0.084	0.048	-0.171	-0.697*	-0.350**	-0.284*	0.507*	0.190	0.708**	0.400
Above 54 years old	-0.084	0.163	0.251	-0.397	-0.596***	-0.166	0.666**	-0.496	0.606**	0.020
One child or more	-0.042	0.025	1.282***	0.377	-0.002	0.330***	0.306**	0.423**	0.307*	0.612**
Sample size	4 663	6 378	2 248	1 504	16 401	21 259	4 913	3 292	7 688	1 555
	Poland	Portugal	Slovak Republic	Slovenia	Spain	Sweden	Switzerland	Turkey	United Kingdom	
One labour market transition or more	1.032***	0.761***	1.020***	0.665***	0.555***	0.613	0.416***	0.621***	0.681***	
One household transition or more	0.006	-0.268	0.430	0.406*	-0.290	0.159	0.053	-0.071	-0.113	
Female	0.028	0.198*	0.141	0.104	0.128	-0.161	0.116	-0.063	0.068	
Was in a couple last year	-0.111	-0.601***	-0.282**	-0.485***	-0.179	-1.375***	-0.539***	-0.236***	-0.274**	
Medium-skilled	-0.285***	-0.672***	-0.096	-0.460***	-0.499***	-0.379	-0.206	-0.961***	-0.548***	
High-skilled	-0.998***	-1.429***	-0.582***	-1.631***	-1.034***	-0.261	-1.020***	-2.567***	-0.687***	
25-34 years old	0.021	-0.176	-0.318	0.249	-0.018	0.895**	0.584***	-0.257***	-0.482*	
35-44 years old	0.108	-0.178	0.253	0.216	-0.008	0.391	0.639***	-0.219**	-0.796***	
45-54 years old	0.061	-0.027	0.288	0.208	-0.057	-0.134	0.393**	-0.237**	-0.319	
Above 54 years old	-0.119	-0.030	-0.276	0.328	-0.075	-0.915*	0.380*	-0.436***	-0.047	
One child or more	0.154*	0.345***	0.273**	0.347***	-0.182*	0.330	0.628***	0.912***	0.644***	
Sample size	14 069	6 446	7 304	9 492	11 238	2 831	11 885	31 396	4 644	

Note: ***, **, *: statistically significant at 1%, 5% and 10% levels, respectively.

Source: OECD calculations based on EU-SILC (2011-14), CNEF(2008-13), CASEN for Chile (2006-09) and SILC for Turkey (2011-14).

Table 3.A3.2. Probability to enter the bottom quintile

Logistic regression based on labour market change, household changes and other control variables

	Australia	Austria	Belgium	Chile	Czech Republic	Denmark	Estonia	Finland	France	Germany
One labour market transition or more	0.412***	0.152	0.938***	0.294***	0.906***	0.603	0.238	0.684***	0.176	0.680***
One household transition or more	0.602***	1.599***	1.236***	0.297***	1.493***	0.311	0.802***	1.469***	1.243***	0.453***
Female	0.216***	0.165*	0.230**	0.0924***	0.131	0.118	0.088	0.181**	0.161***	0.259***
Was in a couple last year	-0.479***	-0.253*	-0.794***	-0.129***	-0.219	-0.712***	-0.192	-0.363***	-0.474***	-0.660***
Medium-skilled	-0.459***	-0.644***	-0.554***	-0.459***	-0.489***	-0.182	-0.289**	-0.149	-0.509***	-0.688***
High-skilled	-1.137***	-1.137***	-1.217***	-1.090***	-1.533***	-1.227***	-0.830***	-1.067***	-1.326***	-1.669***
25-34 years old	-0.155***	0.297	0.280	-0.084	0.092	0.055	-0.047	-0.470***	-0.050	-0.024
35-44 years old	-0.213***	-0.199	0.136	0.011	-0.046	-0.349	-0.092	-0.845***	-0.191**	-0.461***
45-54 years old	-0.262***	-0.230	0.112	-0.108*	0.230	-1.076***	0.150	-1.223***	-0.327***	-0.512***
Above 54 years old	0.247***	-0.092	0.484**	-0.176***	0.417**	-0.812**	0.323**	-0.828***	-0.276***	-0.085
One child or more	0.010	0.321***	0.283**	0.166***	0.794***	-0.452**	0.196*	0.020	0.409***	0.201***
Sample size	45 019	5 903	5 892	39 079	8 812	5 323	7 277	12 183	28 262	32 264
	Greece	Hungary	Iceland	Ireland	Italy	Korea	Latvia	Luxembourg	Netherlands	Norway
One labour market transition or more	0.761***	0.374**	0.307	-0.324	0.492***	0.666***	0.496***	0.535*	1.015***	-0.418
One household transition or more	0.592***	1.073***	0.829***	0.245	1.156***	0.313***	1.346***	0.570**	1.482***	1.662***
Female	0.017	0.043	0.233	0.271*	0.160***	0.034	0.236**	-0.010	0.095	0.249
Was in a couple last year	-0.479***	-0.648***	-0.498**	-0.114	-0.377***	-0.757***	-0.614***	-0.041	-0.468***	-0.527
Medium-skilled	-0.461***	-0.858***	0.164	-0.569***	-0.666***	-0.416***	-0.557***	-0.564***	-0.529***	-0.800**
High-skilled	-1.266***	-1.716***	-0.277	-1.170***	-1.330***	-1.074***	-1.263***	-1.225***	-1.128***	-1.344***
25-34 years old	-0.493***	0.279*	0.884***	-0.236	-0.089	-0.362***	0.225	0.610**	-0.036	-0.085
35-44 years old	-0.441***	-0.052	0.100	-0.682**	-0.157*	-0.374***	0.270	0.007	-0.104	-0.749
45-54 years old	-0.390**	0.136	-0.779**	-0.200	-0.298***	-0.352***	0.710***	0.135	-0.457***	-0.391
Above 54 years old	-0.468***	0.183	-0.025	-0.173	-0.385***	-0.080	0.769***	-0.054	-0.189	-0.952
One child or more	0.389***	0.410***	0.285	0.405**	0.390***	0.172***	0.441***	1.033***	0.225**	-0.395
Sample size	6 192	8 506	2 999	2 003	22 141	28 453	6 584	4 397	10 248	1 555

Table 3.A3.2. Probability to enter the bottom quintile (Cont.)

Logistic regression based on labour market change, household changes and other control variables

	Poland	Portugal	Slovak Republic	Slovenia	Spain	Sweden	Switzerland	Turkey	United Kingdom
One labour market transition or more	0.738***	0.661***	0.731***	0.972***	0.205*	1.018***	0.386***	-0.003	0.276
One household transition or more	0.614***	1.010***	0.666**	1.018***	0.431***	1.022***	0.524***	0.530***	0.497**
Female	0.060	0.128	0.145*	0.153**	0.021	-0.035	0.184***	-0.104***	0.136
Was in a couple last year	-0.250***	-0.302**	-0.009	-0.345***	-0.257***	-0.579**	-0.725***	-0.184***	-0.369***
Medium-skilled	-0.547***	-0.855***	-0.610***	-0.646***	-0.717***	-0.367	-0.353***	-1.153***	-0.591***
High-skilled	-1.493***	-1.519***	-1.191***	-1.806***	-1.308***	-0.395	-1.316***	-2.725***	-0.868***
25-34 years old	0.320***	-0.445***	-0.121	0.397***	0.087	-0.589**	0.476***	-0.176***	-0.451**
35-44 years old	0.221**	-0.265*	0.299**	0.303**	-0.029	-1.261***	0.304**	-0.298***	-0.613***
45-54 years old	0.392***	-0.343**	0.210	0.255*	-0.052	-1.328***	0.106	-0.470***	-0.512***
Above 54 years old	0.350***	-0.182	0.208	0.510***	-0.218*	-1.607***	0.469***	-0.565***	-0.034
One child or more	0.483***	0.513***	0.631***	0.323***	0.509***	-0.003	0.591***	1.017***	0.420***
Sample size	18 788	8 614	9 744	12 673	15 098	3 775	15 874	42 137	6 190

Note: ***, **, *: statistically significant at 1%, 5% and 10% levels, respectively.

Source: OECD calculations based on EU-SILC (2011-14), CNEF (2008-13), CASEN for Chile (2006-09) and SILC for Turkey (2011-14).

Table 3.A3.3. Probability to exit the top quintile

Logistic regression based on labour market change, household changes and other control variables

	Australia	Austria	Belgium	Chile	Czech Republic	Denmark	Estonia	Finland	France	Germany
One labour market transition or more	0.311***	0.642***	-0.022	-0.149**	0.387*	-0.065	0.12	0.048	-0.034	0.434***
One household transition or more	0.773***	0.848***	0.146	0.634***	1.277***	0.614***	0.766***	0.632***	0.583***	0.964***
Female	-0.073	0.084	-0.048	-0.046	0.01	0.013	-0.184	-0.094	-0.049	-0.033
Was in a couple last year	0.400***	0.374**	0.649***	0.292***	0.132	0.714***	0.553***	0.370**	0.287***	0.370***
Medium-skilled	0.386***	0.465**	0.645***	0.692***	0.422*	0.313	0.571***	0.182	0.460***	0.685***
High-skilled	0.760***	0.444*	1.127***	1.346***	0.819***	0.323	0.825***	0.231	0.749***	0.908***
25-34 years old	-0.181**	-0.951**	-0.349	0.121	-0.222	-0.912*	-0.337	-0.314	-0.847***	-0.309**
35-44 years old	-0.285***	-0.634*	-0.309	-0.170*	-0.722***	-0.686	-0.433*	-0.310	-0.794***	-0.589***
45-54 years old	-0.171**	-0.267	-0.298	0.136	-0.482*	-0.804*	-0.291	0.219	-0.371***	-0.280*
Above 54 years old	-0.054	0.208	-0.277	0.272***	-0.010	-0.653	-0.289	0.274	-0.135	-0.336**
One child or more	-0.618***	0.241	-0.235	-0.294***	-0.110	-0.136	0.336**	0.584***	-0.134	-0.330***
Sample size	33 684	4 420	4 393	29 026	6 604	3 995	5 442	9 135	21 006	24 138
	Greece	Hungary	Iceland	Ireland	Italy	Korea	Latvia	Luxembourg	Netherlands	Norway
One labour market transition or more	0.373*	-0.366*	0.302	-0.264	0.282**	0.079	-0.104	0.534*	0.263	0.513
One household transition or more	0.009	0.739***	0.954***	1.886***	0.665***	0.906***	0.815***	0.686**	0.848***	0.926**
Female	-0.104	-0.003	-0.020	-0.072	-0.074	0.042	-0.134	0.066	-0.015	-0.041
Was in a couple last year	-0.046	0.251*	-0.138	-0.075	0.046	0.547***	0.698***	0.014	0.195	0.641
Medium-skilled	0.373**	1.375***	0.319	0.923*	0.456***	0.224**	0.299	0.352*	0.103	-0.889**
High-skilled	0.832***	1.846***	0.426*	1.352***	0.511***	0.628***	0.724***	0.697***	0.436***	-0.641*
25-34 years old	0.287	-0.242	-0.686*	-1.454**	0.113	0.254	-0.234	0.109	-1.272***	-1.152
35-44 years old	0.032	-0.681***	-1.061***	-0.991	0.006	0.263	-0.876***	-0.072	-0.942***	-0.963
45-54 years old	0.127	-0.358*	-0.459	-0.814	0.183	0.238	-0.530*	0.187	-0.539*	-0.401
Above 54 years old	0.449	-0.452**	-0.564	0.437	0.457***	0.438**	-0.373	0.765*	0.341	-0.158
One child or more	0.357**	0.468***	-0.172	0.601	0.009	-0.685***	0.065	0.124	1.014***	-0.176
Sample size	4 663	6 378	2 248	1 504	16 401	21 259	4 913	3 292	7 688	1 555

Table 3.A3.3. Probability to exit the top quintile (Cont.)

	Poland	Portugal	Slovak Republic	Slovenia	Spain	Sweden	Switzerland	Turkey	United Kingdom
One labour market transition or more	0.456***	-0.400	0.249	0.244	0.328**	0.309	0.297**	0.185**	0.212
One household transition or more	1.100***	0.897***	0.526**	1.438***	0.623***	1.021***	0.660***	0.287***	0.629***
Female	-0.095	-0.122	-0.222**	-0.110	-0.062	0.046	0.056	-0.015	-0.278**
Was in a couple last year	0.109	0.278*	-0.012	0.002	0.069	0.543**	0.360***	0.014	0.441***
Medium-skilled	0.712***	0.668***	0.690***	0.493***	0.461***	-0.275	0.227*	0.530***	0.652***
High-skilled	1.253***	0.840***	1.028***	0.838***	0.555***	-0.120	0.482***	0.273***	0.751***
25-34 years old	-0.080	0.443	-0.119	-0.093	0.259	-0.274	-0.638***	0.127	0.432
35-44 years old	-0.125	-0.045	-0.252	-0.461**	0.156	-0.562	-0.810***	0.133	-0.157
45-54 years old	0.200	0.276	-0.173	-0.032	0.277	-0.298	-0.654***	0.274**	0.250
Above 54 years old	0.254	0.365	-0.023	-0.175	0.720***	0.193	-0.580***	0.335***	0.398
One child or more	-0.030	0.074	0.250**	0.083	0.322***	0.398*	-0.797***	-0.343***	-0.084
Sample size	14 069	6 446	7 304	9 492	11 238	2 831	11 885	31 396	4 644

Note: ***, **, *: statistically significant at 1%, 5% and 10% levels, respectively.

Source: OECD calculations based on EU-SILC (2011-14), CNEF (2008-13), CASEN for Chile (2006-09) and SILC for Turkey (2011-14).

Table 3.A3.4. Probability to enter the top quintile

Logistic regression based on labour market change, household changes and other control variables

	Australia	Austria	Belgium	Chile	Czech Republic	Denmark	Estonia	Finland	France	Germany
One labour market transition or more	0.037	-0.042	-0.159	-0.076	0.642***	-0.197	-0.024	0.332	-0.144	-0.051
One household transition or more	-0.227***	-0.362	-0.346	-0.199***	0.13	0.352	-0.007	-0.036	0.123	-0.249*
Female	-0.151***	-0.026	-0.144	-0.0755**	-0.085	-0.041	-0.228***	-0.160***	-0.0927**	-0.046
Was in a couple last year	0.155***	0.438***	0.304**	0.023	0.159	0.061	0.238*	0.126	0.128*	-0.107*
Medium-skilled	0.530***	0.648***	1.045***	0.816***	0.857***	0.575***	0.831***	0.13	0.531***	0.781***
High-skilled	1.172***	1.298***	1.783***	1.775***	1.784***	1.017***	1.395***	0.905***	1.400***	1.660***
25-34 years old	-0.033	-0.576***	-0.376*	0.166***	-0.086	-0.666**	-0.050	0.145	-0.805***	-0.129
35-44 years old	-0.097	-0.343*	-0.077	-0.022	-0.211	-0.282	-0.277*	0.535***	-0.470***	0.051
45-54 years old	0.138**	0.021	0.098	0.343***	-0.116	0.199	-0.334**	0.914***	-0.009	0.408***
Above 54 years old	-0.141**	-0.023	-0.341*	0.405***	-0.317**	-0.018	-0.794***	0.516***	0.067	0.021
One child or more	-0.745***	-0.552***	-0.486***	-0.344***	-0.937***	-0.388***	-0.370***	-0.477***	-0.426***	-0.554***
Sample size	45 019	5 903	5 892	39 079	8 812	5 323	7 277	12 183	28 262	32 264
	Greece	Hungary	Iceland	Ireland	Italy	Korea	Latvia	Luxembourg	Netherlands	Norway
One labour market transition or more	0.595***	0.328**	0.460*	-0.625	0.252**	-0.058	0.101	-0.155	0.289	-0.922*
One household transition or more	0.309	0.113	-0.147	-0.794	-0.055	-0.106	-0.205	0.327	0.160	-0.392
Female	-0.157*	-0.120	-0.094	-0.087	-0.0877**	0.0890**	-0.283***	0.087	-0.092	-0.069
Was in a couple last year	0.107	0.146	-0.003	0.428	0.161**	-0.025	0.342**	0.057	0.278**	0.671***
Medium-skilled	0.712***	1.557***	0.287*	0.779**	0.727***	0.501***	0.452**	0.750***	0.477***	0.613**
High-skilled	1.426***	2.323***	0.662***	1.815***	1.222***	1.183***	1.372***	1.609***	1.186***	0.813***
25-34 years old	0.100	-0.072	-1.454***	-0.566	-0.237**	0.388***	-0.012	-0.305	-0.563***	-0.204
35-44 years old	0.018	-0.238*	-0.985***	-0.026	-0.183**	0.462***	-0.351*	-0.103	-0.106	-0.445
45-54 years old	0.314	-0.071	-0.333	0.040	0.138	0.655***	-0.632***	-0.034	0.006	-0.101
Above 54 years old	0.411**	-0.344**	-0.455**	0.018	0.299***	0.744***	-0.544***	0.090	-0.088	-0.443
One child or more	-0.260**	-0.176*	-0.179	-0.879***	-0.550***	-0.524***	-0.501***	-0.723***	-0.657***	-0.140
Sample size	6 192	8 506	2 999	2 003	22 141	28 453	6 584	4 397	10 248	1 555

Table 3.A3.4. Probability to enter the top quintile (Cont.)

	Poland	Portugal	Slovak Republic	Slovenia	Spain	Sweden	Switzerland	Turkey	United Kingdom
One labour market transition or more	0.280*	0.062	0.674***	0.185	-0.119	-1.004*	0.338***	0.214**	0.248
One household transition or more	-0.115	0.196	0.460*	0.047	0.610***	0.911***	0.209*	0.169**	0.611***
Female	-0.180***	-0.191**	-0.173***	-0.201***	-0.058	-0.179	-0.031	0.0678**	-0.310***
Was in a couple last year	0.217**	-0.073	0.099	-0.246**	-0.147	-0.007	-0.064	-0.112*	0.226*
Medium-skilled	0.789***	1.105***	0.662***	0.772***	0.805***	-0.038	0.240**	0.912***	0.774***
High-skilled	1.777***	1.815***	1.021***	1.834***	1.434***	0.679***	0.848***	1.514***	1.157***
25-34 years old	-0.163	0.061	0.008	-0.333***	-0.165	-0.166	-0.478***	0.202***	0.152
35-44 years old	-0.124	0.225	-0.429***	-0.441***	-0.142	0.340	-0.362***	0.278***	0.055
45-54 years old	0.071	0.573***	-0.222**	-0.031	0.148	0.792***	-0.209**	0.497***	0.261
Above 54 years old	-0.179	0.563***	-0.491***	-0.470***	0.379***	0.866***	-0.374***	0.355***	0.072
One child or more	-0.277***	-0.582***	-0.695***	-0.407***	-0.482***	-0.471***	-1.084***	-0.673***	-0.558***
Sample size	18 788	8 614	9 744	12 673	15 098	3 775	15 874	42 137	6 190

Note: ***, **, *: statistically significant at 1%, 5% and 10% levels, respectively.

Source: OECD calculations based on EU-SILC (2011-14), CNEF (2008-13), CASEN for Chile (2006-09) and SILC for Turkey (2011-14).

Annex 3.A4. Decomposition of income changes by income components and household size effect

Income mobility is defined at individual level. Labour market and family events have an impact either on components of household income (following, for example, changes in the participation of the household in the labour market) or on the equivalence scale that adjusts, household income to household size to correct for economies of scale (when the household size is changing, for example, in case of a divorce or the birth of a child). The change in household disposable income is therefore decomposed into a change in income components and a household size effect.

The main income variable is the equivalised disposable income Y_t , defined as the ratio between the household income I_t and the equivalence scale (square root of the household size N_t). The household income is defined as the sum of market incomes (individual earnings of working individuals and capital incomes) and the sum of taxes and transfers (including inter-household transfers):

$$I_t = MK_t + T_t = IND_t + OTHER_IND_t + T_t \quad (1)$$

Where $Y_t = I_t / \text{Square-root}(N_t)$.

The individual income growth rate is defined as:

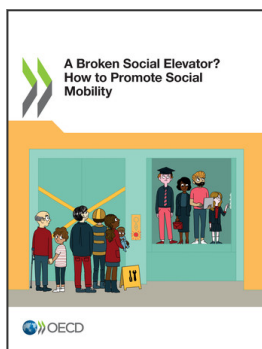
$$\frac{\Delta I_t}{I_t} = \frac{\Delta MK_t}{MK_t} + \frac{\Delta T_t}{T_t} = \frac{\Delta IND_t}{IND_t} + \frac{\Delta OTHER_IND_t}{OTHER_IND_t} + \frac{\Delta T_t}{T_t} \quad (2)$$

Changes in disposable income can then be decomposed following Accardo (2015) and Alves and Martins (2014) as:

$$\Delta Y_t / Y_t = \Delta I_t / Y_t - \Delta N_t / N_t \quad (3)$$

The top and bottom centiles of income changes are truncated to avoid outliers.

The OECD average for income components in the total income change are computed as the average of each component across OECD countries.



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