Income volatility in U.S. households with children:  
Another growing disparity between the rich and the poor

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There is little debate that there are negative consequences of growing up poor, but this evidence is based largely on a static depiction of income. Today, with the economic lives of low income families becoming ever more complicated, such static depictions of income are no longer accurate or adequate. Repeated fluctuations in income as frequently as weekly or monthly, or income volatility, potentially disrupt the stability of family life, and may interfere with children’s healthy development. In this paper, we provide a historical portrait of income volatility in families with children, examining: How volatile is income for families, and how has this changed over the past quarter century? And, is this historical portrait similar for low- and high-income families? We look at households with children both because children’s development may be vulnerable to frequent income fluctuations, and because income volatility may interfere with the success of public investments directed toward families with children. Our focus on households at the 10\textsuperscript{th} as compared with the 90\textsuperscript{th} percentile informs emergent trends in income inequality.

Our analyses use the 1984, 1996, 2001, 2004, and 2008 panels of the Survey of Income and Program Participation (SIPP), a nationally-representative sample of U.S. households with frequent and detailed income information. We examine intra-year income volatility by calculating the monthly coefficient of variation (CV), the ratio of the standard deviation of monthly income to the monthly average across three waves of data collected in each of three years (nine observations total). Doing so allows us to assess the volatility of a family’s income, relative to each family’s average level of income. We do so for each SIPP panel, providing us with a historical account of income volatility across 25 years (that encompass three economic recessions and two economic boom periods).

Our analyses demonstrate dramatic differences in the volatility of income for low- and high-income families. As shown in the figure, households at the 10\textsuperscript{th} percentile of income have experienced increasing volatility across the last 25 years while their affluent peers at the 90\textsuperscript{th} percentile have experienced declining volatility. The result is a substantially increasing gap in income volatility between low and high income households: from the mid-1980s to the start of the most recent recession, the gap in monthly income CV for the lowest and highest income households has grown nearly 500\%. Thus, not only are poor households becoming poorer and rich households becoming richer, but poor households are becoming financially less stable, while rich households are becoming financially more stable. Notably, this increasing income volatility for the lowest income families is primarily in unearned, rather than earned, sources of income, indicating this is not just about the changing nature of the low-wage labor market, but may have as much to do with the changing structure of public assistance that requires frequent certifications and strict income eligibility cutoffs.

Income volatility is a likely component of the growing gap between the fortunes of the rich and the poor in the U.S. As such, financial stability may be a first-order step to foster economic mobility.

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