

America Insecure

Changes in the Economic Security of American Families

Gregory Acs and Austin Nichols

Low-Income Working Families

Paper 16

February 2010



The Urban Institute

2100 M Street, NW

Washington, DC 20037

The Urban Institute is a nonprofit, nonpartisan policy research and educational organization that examines the social, economic, and governance challenges facing the nation. This work was funded by the Annie E. Casey Foundation through its support of the Low-Income Working Families project at the Urban Institute. Some of the work cited draws from the authors' research published by the Economic Mobility Project of the Pew Charitable Trusts. The authors thank Olivia Golden and Margaret Simms for their helpful comments and James Kaminski for his assistance with the production of this paper. Views expressed in this report are those of the authors and do not necessarily reflect the views of the Institute, its trustees, or its funders.

CONTENTS

Context—Trends in Family Incomes	2
Economic Mobility	4
Volatility	11
Substantial Income Drops	12
The Correlates and Consequences of Substantial Income Drops	13
Coping with Income Losses	16
Discussion	20
Notes	23
References	25

AMERICA INSECURE

The Great Recession of 2008 and 2009 has battered America's families. The unemployment rate has more than doubled since the start of the recession, topping 10 percent—the highest level in over a quarter of a century. In addition, families' capacity to weather economic downturns has been diminished as savings and assets have eroded due to simultaneous collapses in the housing and stock markets and the tightening of consumer credit. Even though the economy started growing again in the second half of 2009, most forecasters expect that it will take years for unemployment and family incomes to return to their pre-recession levels.

As the slow and uneven economic recovery takes shape, policymakers and the public need to understand how the economic security of America's families has been changing over time, both during economic downturns and periods of economic growth. It is particularly important to focus on families experiencing large drops in income and ask which families are at greatest risk for such drops and attendant material hardships, what factors protect against hardships, and what can hasten recoveries.

To better understand trends in the economic security of American families, the John D. and Catherine T. MacArthur and Annie E. Casey foundations funded the "Risk and Low-Income Working Families" research initiative that generated a series of research reports and briefs by Urban Institute scholars (see box 1). These papers contribute to a large but diffuse literature on long-term trends in economic security and mobility by providing a fresh look at how these trends vary for families with different levels of income and work effort as well as focusing on families that experience substantial drops in income, identifying the families most vulnerable to such drops, and assessing how families cope with and recover from such losses.

“Work and Income Security from 1970 to 2005” (Acs and Zimmerman 2009)

<http://www.urban.org/publications/412000.html>

This paper uses data from the Panel Study of Income Dynamics to assess how the economic security and mobility of nonelderly adults in families with children has evolved from 1970 through 2005. The authors found that for individuals in low-income families with a full-time, full-year worker, both economic security and upward mobility increased over time. Our findings underscore the importance of work for the long-term security and mobility of low-income families. The high and rising unemployment rates of 2009 clearly imperil the progress made during the last three decades of the 20th century.

“Risk and Recovery: Documenting the Changing Risks to Family Incomes” (Acs, Loprest, and Nichols 2009a)

<http://www.urban.org/publications/411890.html>

Using the 1996, 2001, and 2004 panels of the Survey of Income and Program Participation, this brief examines the likelihood that nonelderly individuals in families with children experience substantial drops in family income and recoveries from such drops. Over 13 percent of families see their incomes fall by half at some point over the course of a year with the lowest- and highest-income families the most likely to experience a substantial income loss. Further, only two in five individuals recover to at least 100 percent of their pre-drop income in the year after the drop.

“Risk and Recovery: Understanding the Changing Risks to Family Incomes” (Acs, Loprest, and Nichols 2009b)

<http://www.urban.org/publications/411971.html>

This paper examines the characteristics and circumstances of families vulnerable to sharp income drops and those most likely to recover financially. More than 13 percent of nonelderly adults in families with children will see their incomes fall by half at some point over the course of a year, and about 40 percent fully recover within a year. Those who lose jobs or have an adult leave the family are more likely to have a substantial drop in income and are less likely to recover. This study uses data from the Survey of Income and Program Participation, which collects data every four months and can provide information on short-term income loss.

“Do Assets Help Families Cope with Adverse Events?” (McKernan, Ratcliffe, and Vinopal 2009)

<http://www.urban.org/publications/411994.html>

Family events, such as a job loss, the onset of health limitations, and a change in family structure, can adversely affect family well-being. The impact of these events may be mitigated if the family holds assets that can be used to maintain consumption. Using the SIPP, this study examines the role of assets in families’ economic stability. The authors found that families in all parts of the income distribution experience material hardship after a negative event. Further, in the aftermath of a negative event, asset-poor families experience more hardship than non-asset-poor families, with assets helping most for low- and middle-income families.

“Disability Onset among Working Parents: Earnings Drops, Compensating Income Sources and Health Insurance Coverage” (Perry, Kenney, and Tereshchenko 2009)

<http://www.urban.org/publications/411855.html>

This paper examines work-limiting disability using the 1996 and 2001 panels of the Survey of Income and Program Participation. Nearly 10 percent of employed parents developed or had a recurring disability over the course of the panel. For about a quarter of this group, earnings dropped by more than 25 percent of family income, with other income sources offsetting only a small fraction of lost earnings. In addition, workers who hold health insurance policies through their employer were less likely to reduce hours worked or leave their job following disability onset, effects consistent with job lock.

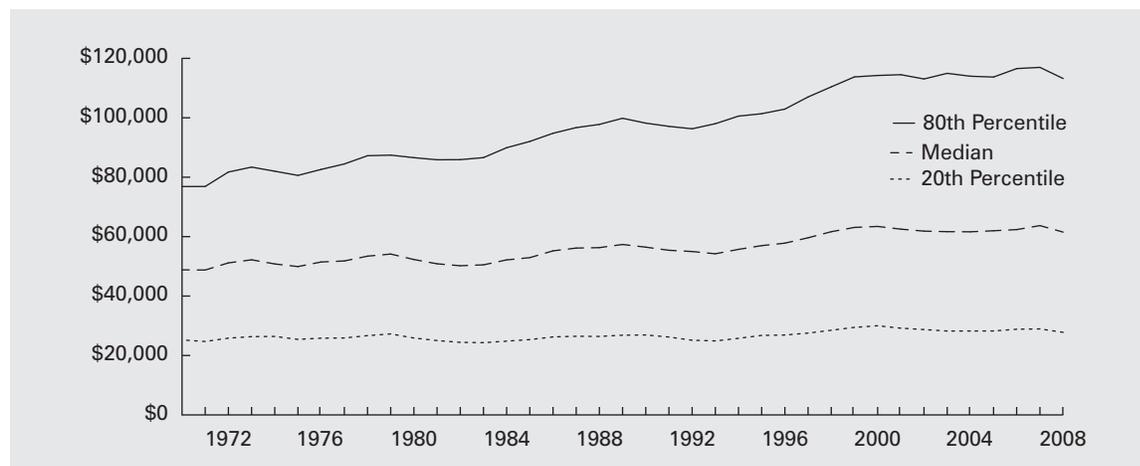
This report synthesizes the Urban Institute’s work and places it in the context of the larger body of research on these topics. The following sections first provide a historical context for the research, showing trends in family income over time. Next, the report assesses long-term trends in economic mobility, followed by related research on the questions of earnings and income volatility. The report then focuses more narrowly on substantial drops in income, the correlates and consequences of such drops, and how families cope with and recover from such losses. The report concludes with a discussion of policies to enhance the economic security of American families.

Context—Trends in Family Incomes

To better understand trends in the economic security of American families and how policymakers and the public can and should respond to these trends, it is important to consider how the level and distribution of family income has evolved over the past few decades and how these trends influence the public’s perception of economic security and opportunity. Indeed, even before the start of the Great Recession, public opinion polls showed a growing unease about the economic security of American families. A 2007 poll revealed that over half of all Americans believe they have not moved forward, while nearly a third say they have fallen back. Further, only 41 percent say they are better off now than they were five years ago—the lowest level in nearly 50 years. Meanwhile, the share saying they are worse off than they were five years ago reached 31 percent, the highest it has been in almost half a century (Taylor et al. 2008).¹

The perception that the average American family was losing ground before the start of the Great Recession is partially supported by national data on incomes (figure 1). In 2008, median family income in the United States was \$61,521, a bit lower than the real value in 2007 (\$63,712)—the pre-recession peak—and about the same as in 1998 (\$61,653 in 2008 constant dollars).² Thus, the past decade has been marked by stagnant incomes for the median family. This stands in contrast to the prior three decades, during which real median family income grew at a modest, but accelerating pace: by 7.1 percent over the 1970s, 7.9 percent over the 1980s, and 12.3 percent over the 1990s. Nevertheless, income growth from 1970 on pales in comparison to the explosive growth during the 1950s and 1960s (over 35 percent per decade).

FIGURE 1. Trends in Family Income 1970–2008



Source: U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplements.

In 2008, the income for families near the bottom of the income distribution—the 20th percentile—was \$27,800, less than half the median. For the prior 18 years, the experience of families at the 20th percentile of the income distribution roughly tracked the experience of those at the median. During the 2000s, real income at the 20th percentile fell by about 3 percent, but during the 1990s it grew by about 12 percent. In contrast, during the 1970s and 1980s, real income growth at the 20th percentile was about half that of the median.³ As with the median, the 1950s and 1960s were marked by very strong growth at the bottom of the income distribution.

Families at the top of the income distribution have fared better than median and lower-income families in recent decades. During the 1970s and 1980s, income at the 80th percentile grew by over 11 percent, almost three times more than growth at the 20th percentile. During the 1990s, income at the 80th percentile grew by 16.3 percent, and during the 2000s, that quintile mark slipped by about 1 percent.⁴ By 2008, family income at the 80th percentile was \$113,200.⁵

These gross income trends provide the backdrop for understanding Americans' growing unease about their economic security. Although average family incomes are growing over time, they have grown slowly in recent decades and have actually declined slightly in recent years. The picture is bleaker for lower-income families. In contrast, higher-income families have enjoyed stronger income growth than middle- and lower-income families for the past four decades. As such, it is easy to see why many American families feel like they just can't get ahead and are falling farther and farther behind.

These income trends emerge from “snap shots” of American families and compare families at specific points in the income distribution at different points in time. But over time, any given family may be moving up or down through the income distribution. In other words, a family with median income in 2000 may be well above or below the median in 2008 regardless of how the dollar value of the median income changes.

To understand more fully the experiences of individual families and how their economic situations change over time, researchers turn to longitudinal data—data that track the same individuals and families from month to month or year to year. There are three key outcomes to consider: (1) how economically mobile families are over time; (2) how stable their incomes are year over year; and (3) the chances that a family will experience substantial income losses.

Economic Mobility

For many Americans, the ideas that one can get ahead through hard work and ability and that children will have the opportunity to do better than their parents are at the heart of the American Dream. This implies that views about economic security are closely related to economic mobility.

To many, the term “economic mobility” means the ability to get ahead. But this leaves open the question, “Getting ahead of whom?” In some studies, it's getting ahead of one's peers—this is known as intragenerational mobility. In other studies, it's getting ahead of one's parents—this is referred to as intergenerational mobility. Also, there's an important distinction between doing relatively better than one's peers and one's parents compared with doing better in absolute terms.

Relative intragenerational mobility measures how an individual's economic position changes over time relative to his or her peers. This involves ranking individuals in a specific cohort (e.g., 25- to 44-year-olds)

by income level (e.g., the poorest 20 percent, or bottom quintile, the next 20 percent, and so on) and then assessing how these same individuals rank relative to one another at some point in the future (say 10 years later when they are 35 to 54 years old). The more people have changed ranks (or income quintiles) relative to their peers, the greater the level of relative income mobility. In the intergenerational context, relative mobility involves comparing a person's rank in the income distribution to the rank his or her parents' had when they were at similar ages (e.g., when dad was 40 years old, he was in the middle-income quintile among his peers; now that I'm 40, I'm in the top quintile among my peers—therefore, I experienced upward intergenerational mobility).

One limitation of relative mobility is that it fails to capture the benefits of economic growth. Even if an individual failed to improve relative to his or her peers over time, that individual's absolute level of well-being may have improved. Absolute mobility can capture this growth by measuring mobility using the quintile cutoffs established in a base year and assessing if individuals' income at some later time moves them across the base-year income threshold. As such, absolute mobility captures the effects of economic growth, but it does not indicate whether one's position in society has changed. Similarly, in an intergenerational context, one can simply compare an adult child's real income to the income of his or her parents.

In addition to these conceptual issues in measuring mobility, important technical issues arise. These include choosing the income measure to use (e.g., individual earnings, pretax income, posttax income, etc.), the population to study (e.g., all individuals over age 16, 25- to 44-year-olds, etc.), and the accounting period considered (mobility from one year to the next, mobility over a decade, mobility based on multiple years of income, etc., as well as the specific years considered).

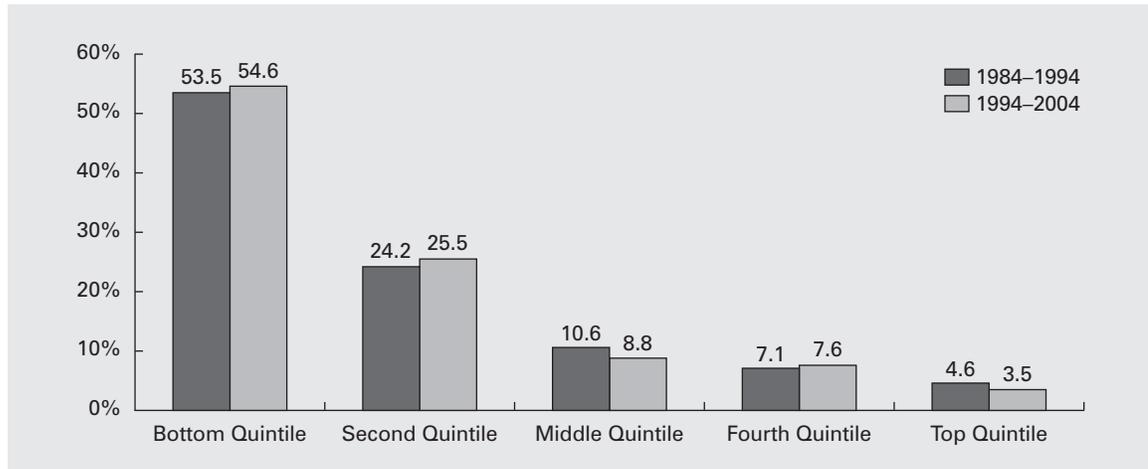
By and large, the implications of different measurement choices for the level of and trend in mobility are consistent with expectations. Research that incorporates individuals at the very beginning or very end of their careers tends to show higher mobility rates than research that focuses on prime-age workers. Research that considers mobility from a single year to another single year finds more mobility than research that uses income averaged over several years.

Given all the factors that can influence assessments of mobility, it is remarkable how consistent the research findings have been over the past three decades. With few exceptions, the research shows that about half of those in the bottom income quintile will rise out of the bottom over a decade, and this is the case in the 1970s, 1980s, and 1990s.

Relative Intragenerational Mobility. First consider relative intragenerational mobility. In a study broadly representative of research in the field, Acs and Zimmerman (2008) assess the extent to which two cohorts of 25- to 44-year-olds move across income quintiles relative to their peers, assessing mobility from 1984 to 1994 and from 1994 to 2004. They find that, overall, just over 60 percent of all 25- to 44-year-olds moved up or down income quintiles relative to their peers between both 1984 and 1994 and 1994 and 2004.

Figure 2 replicates the work of Acs and Zimmerman (2008) and shows the economic position that individuals in the bottom quintile in 1984 attained by 1994 relative to their peers as well as the economic position that individuals in the bottom quintile in 1994 attained by 2004. Note that there is little difference in upward mobility rates out of the bottom quintile over the past two decades. About half of the individuals in the bottom income quintile remained there 10 years later, and about a quarter moved up to the second

FIGURE 2. *Relative Mobility Out of the Bottom Income Quintile*



Source: Acs and Zimmerman (2008). Authors' tabulations of data from the Panel Study of Income Dynamics.

quintile. About 10 percent were able to move up to the middle income quintile, 7 percent to the fourth quintile, and 4 percent reached the top quintile.

These findings are fairly representative of findings in the field. For example, Sawhill and Condon (1992) examine relative income mobility of individuals age 25 to 54, using data from the Panel Study of Income Dynamics (PSID), and find that 44 percent of those in the bottom income quintile in 1967 moved up and out of the bottom by 1976; between 1977 and 1986, the upward mobility rate rose to 47 percent. Bradbury and Katz (2002) also use PSID data but focus on family heads under age 65 and adjust income for family size. They find that upward mobility rates out of the bottom quintile were 51 percent between 1969 and 1979, 50 percent between 1979 and 1989, and 47 percent between 1988 and 1998. Another PSID-based study, that by Hungerford (2008) reports upward mobility rates of just over 50 percent between 1980 and 1989 and between 1990 and 1999. Finally, Gottschalk and Danziger (1998) also use PSID data but consider a longer time period (1968 to 1991), adjust incomes for household size, and focus on 22- to 39-year-olds; they find an upward mobility rate of 53 percent. When they broaden their accounting period, averaging incomes over three years, they find the upward mobility rate falls to 46 percent.

The data in the PSID are self-reported, but even studies using tax records draw similar conclusions about relative income mobility. For example, Carroll, Joulfaian, and Rider (2006) report an upward mobility rate of 54 percent between 1979 and 1995 when using data on taxpayers between the ages of 30 and 50. Focusing on taxpayers age 25 and over in 1987, Auten and Gee (2007) find that 45 percent of those in the bottom quintile in 1987 moved to higher quintiles between 1987 and 1996. More recent work by the U.S. Department of the Treasury (2008) examines the mobility of taxpayers age 25 and over between 1996 and 2005 and finds virtually identical upward relative mobility rates: about 45 percent of those in the bottom quintile in 1996 were in a higher quintile in 2005.

Absolute intragenerational mobility. Several studies consider absolute intragenerational mobility and assess the extent to which individuals in the bottom quintile enjoy real income growth and income growth beyond key benchmarks like the threshold for the bottom or top income quintiles. Most studies show

that absolute mobility rates have also been fairly stable over time, although the findings are somewhat sensitive to the population studied. Again, using Acs and Zimmerman (2008) as an example, they find that between 1984 and 1994, 61.1 percent of individuals experienced income changes that moved them across their 1984 income quintile boundaries; between 1994 and 2004, absolute income mobility was 62.6 percent.

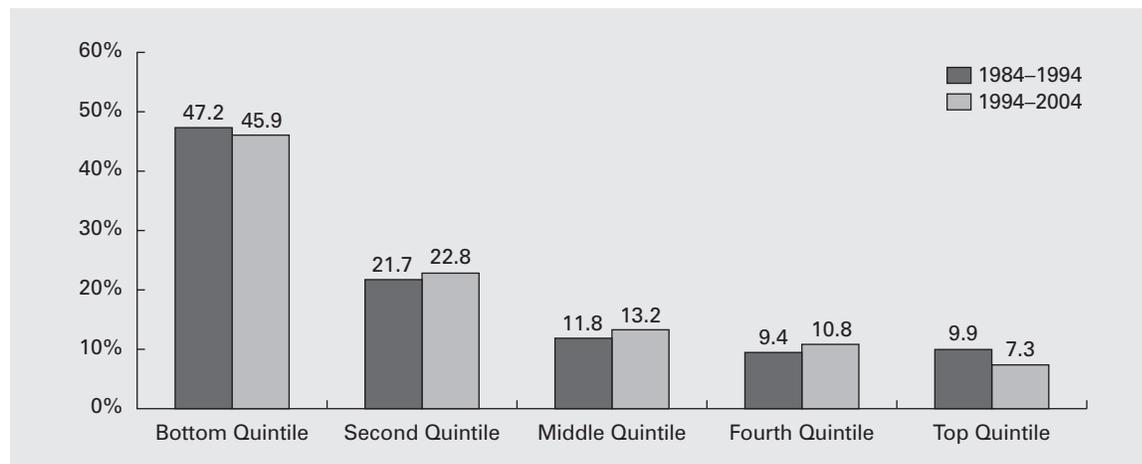
Figure 3 shows Acs and Zimmerman’s (2008) findings on absolute upward intragenerational mobility rates for those in the bottom income quintile in 1984 and 1994, respectively. A little more than half of all individuals in the bottom income quintile in 1984 experienced sufficient income growth to lift them above the 1984 bottom quintile threshold by 1994. There is no significant difference in absolute upward mobility rates between the 1984–1994 and 1994–2004 periods.

Unlike Acs and Zimmerman (2008), Cox and Alm (1995) report very high levels of absolute intragenerational mobility. Cox and Alm (1995) use the PSID and find that over 97 percent of those in the bottom income quintile in 1975 had incomes exceeding the 1975 inflation-adjusted income threshold for the bottom quintile in 1991. Nearly 40 percent crossed the threshold for the top income quintile. The extraordinarily high upward mobility Cox and Alm show reflects their use of individual, not family, income and their inclusion of individuals down to age 16. Indeed, a 16-year-old with an income of \$500 from a summer job who lives with his upper-middle class parents would fall in the bottom quintile in 1975. Sixteen years later, it would not be surprising to find his real annual income considerably higher.

Other researchers who assess family income and focus on household heads or restrict their studies to more established individuals find considerably less absolute mobility. For example, Gottschalk and Danziger (1998) find an absolute upward mobility rate from the bottom quintile of 69 percent between 1968–1970 and 1989–1991 when looking at 22- to 39-year-olds and considering family income adjusted for family size. Only 11 percent of those in the bottom quintile saw their incomes cross the threshold for the top quintile.

Other studies of absolute income mobility focus on the growth in real income among those in any particular income quintile. For example, Auten and Gee (2007) report that 47 percent of heads of tax-

FIGURE 3. Absolute Mobility Out of the Bottom Income Quintile



Source: Acs and Zimmerman (2008). Authors’ tabulations of data from the Panel Study of Income Dynamics.

paying units in the bottom income quintile in 1987 saw their real incomes increase at least twofold by 1996, while 23 percent saw no growth or even experienced declines. The trends are quite similar for the 1996 to 2005 period, with half of the heads of taxpaying units (age 25 and up) in the bottom quintile in 1996 experiencing a doubling of their real income by 2005, while about 18 percent experienced real income declines (U.S. Treasury 2008).

Finally, some research considers mobility for individuals in dollar-defined income groups. Unlike the studies discussed above, these papers focus on mobility over shorter time horizons. For example, Duncan, Smeeding, and Rodgers (1991) explicitly distinguish between short-term transitions up and down the income distribution by dividing families into lower, middle, and upper classes using fixed dollar amounts.⁶ They find that about a third of low-income families climb into the middle class and about 7 percent of those in the middle class fall into the lower class over any given two-year period from the late 1970s to the mid-1980s. Over time, they find the middle-class (as defined by fixed-dollar boundaries) has thinned out as middle-income families move up to higher-income status while lower-income families fail to advance up the ladder.

The “Risk and Low-Income Working Families” research initiative added to this literature. Acs and Zimmerman (2009) assess trends in mobility based on absolute income thresholds and work status. They focus on four groups of families with children: (1) low-income working families (family income below 200 percent of the federal poverty line and at least one adult working full-time, full-year); (2) low-income families without a full-time, full-year worker; (3) middle-income families (income between 200 and 400 percent of poverty); and high-income families (income above 400 percent of the poverty line). To assess the mobility of individuals in families and how it has changed over time, they compute the year-to-year transition probabilities for those in each type of family to the other three types of families averaged over consecutive five-year periods beginning with 1970 using data from the PSID. Averages for consecutive five-year periods beginning with 1970–1974 and concluding with 1990–1994 are based on five years of data. Because the PSID became a biannual survey in 1997, averages for the periods from 1995–1999 through 2001–2005 are based on three years of data. As such, the authors compare trends in mobility over time but not levels.

Between 1970–1974 and 1990–1994, upward mobility for low-income working families group rose from about a quarter to about a third (table 1). Downward mobility also increased slightly: about one in eight individuals in these families were downwardly mobile in the 1990–1994 period, compared with one in ten in the 1970–1974 period. This general trend continued through 2001. After 2001, however, the long-term trend stops and appears to reverse. Upward mobility falls for low-income families in the 2001–2005 period compared with the 1997–2001 period, while downward mobility ticked up. This period coincides with the recession of 2001, which, although not severe, was marked by a slow, weak recovery. Interestingly, the only five-year period in which the every-year mobility rates for low-income working families actually showed a decline in upward mobility was 1980–1984, which coincides with the severe recession and high unemployment rates.

Focusing next on middle-income families, Acs and Zimmerman (2009) find that over the 25 years from 1970 to 1994, nearly 90 percent of those in a middle-income family in one year could count on being in a middle- or high-income family the next. This stability continues through 2001; however, the 2001–2005 period shows an uptick in downward mobility for middle-income families. The year-to-year mobility rates for the recessionary 1980–1984 period show a similar uptick in downward mobility and an attendant decline in upward mobility for middle-income families. As is the case for mobility for low-income

TABLE 1. *Mobility by Income Group and Work Status*

	Downward	No change	Upward
Upward and Downward Mobility of Low-Income Working Families			
Panel A: every year			
1970–1974	0.104	0.643	0.253
1975–1979	0.110	0.605	0.286
1980–1984	0.130	0.611	0.259
1985–1989	0.120	0.576	0.304
1990–1994	0.123	0.560	0.317
Panel B: every other year			
1989–1993	0.152	0.486	0.363
1993–1997	0.145	0.463	0.392
1997–2001	0.136	0.455	0.409
2001–2005	0.155	0.519	0.326
Upward and Downward Mobility of Middle-Income Families			
Panel A: every year			
1970–1974	0.103	0.774	0.123
1975–1979	0.098	0.764	0.138
1980–1984	0.123	0.757	0.121
1985–1989	0.106	0.740	0.155
1990–1994	0.115	0.717	0.168
Panel B: every other year			
1989–1993	0.123	0.677	0.200
1993–1997	0.149	0.630	0.222
1997–2001	0.115	0.623	0.261
2001–2005	0.151	0.602	0.248
Mobility of Low-Income, Low-Work Families			
Panel A: every year			
1970–1974	.	0.608	0.392
1975–1979	.	0.623	0.377
1980–1984	.	0.655	0.345
1985–1989	.	0.653	0.347
1990–1994	.	0.681	0.319
Panel B: every other year			
1989–1993	.	0.633	0.367
1993–1997	.	0.545	0.456
1997–2001	.	0.480	0.521
2001–2005	.	0.567	0.433

Source: Acs and Zimmerman (2009). Authors' tabulations of data from the Panel Study of Income Dynamics.

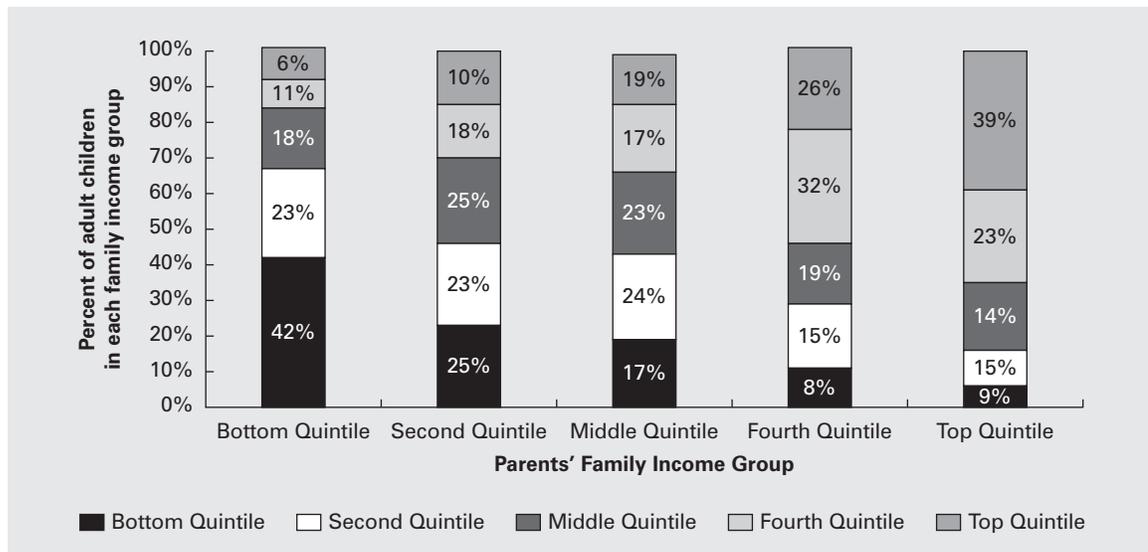
working families, middle-income families have experienced a long wave of upward mobility that is only interrupted by the severe recession of the early 1980s and the milder recession of 2001.

In contrast to the relative security of middle- and high-income families and the upward mobility of low-income working families, those in low-income, low-work families have been increasingly mired at the bottom of the economic order from the 1970s to the early 1990s. The decade of the 1990s, however, was quite positive for low-income low work families. Between 1989 and 2001, low-income, low-work families became increasingly upwardly mobile, with families not only moving up into low-income working families but up also into middle-income families. This suggests that the very low unemployment rates of the 1990s allowed low-income families to sustain full-time, full-year work, and this work effort helped them rise out of low-income status. As is the case for other families, mobility for low-income, low-work families took a turn for the worse from 2001 to 2005. Low-income, low-work families found it harder to move up, and those that did became less likely to move into middle- and high-income families.

Taken together, Acs and Zimmerman’s (2009) findings evince two major themes: (1) over the long sweep of time from 1970 to 2005, stable, full-time work has become increasingly important for economic security and upward mobility; and (2) macroeconomic conditions affect mobility patterns. This suggests that the Great Recession of 2008 and 2009 almost certainly will have a negative impact on upward absolute intragenerational mobility.

Relative Intergenerational Mobility. Studies of relative intergenerational mobility ask whether an adult child occupies a higher or lower income rank than his or her parents did. Isaacs (2008) reports that children raised in middle-income families (their parents’ income falls between the 40th and 60th percentiles) are almost perfectly mobile: 19 percent will rise to the top income quintile relative to their peers as adults, while 17 percent will fall to the bottom quintile (figure 4). On the other hand, 42 percent of those raised in the bottom quintile will remain there as adults, and 39 percent of those raised in the top quintile will

FIGURE 4. Children’s Chances of Getting Ahead or Falling Behind by Parents’ Family Income



Source: Isaacs (2008). Brookings Institution tabulations of data from the Panel Study of Income Dynamics.

remain at the top as adults. Other researchers taking the same approach reach similar conclusions (e.g., Hertz 2005; Jantti et al. 2006; Peters 2002).

Isaacs (2008) and Mazumder (2008) also consider race differences in intergenerational mobility. Using PSID data, Isaacs reports that 45 percent of black children raised in middle-income families fall to the bottom income quintile as adults as compared with only 16 percent of white children from middle-income families. Similarly, white children from families in the bottom income quintile are far more likely to escape the bottom as adults than black children (69 versus 46 percent). Mazumder (2008) echoes these findings on upward mobility using data from the National Longitudinal Survey of Youth 1979 Cohort (NLSY79). He finds that three-quarters of whites raised in the bottom income quintile will rise to higher quintiles as adults, compared with 56 percent of blacks.

Another approach to studying intergenerational mobility is to consider the correlation between parents' and adult children's incomes over time. This is usually estimated in a regression framework and reported as the intergenerational elasticity of income (IGE). An IGE of 0 implies that children's and parents' incomes are unrelated, while an IGE of 1 implies that parents' income perfectly predicts children's incomes. The higher the IGE, the lower the intergenerational mobility.

Studies vary depending on the type of data used (administrative data versus survey data), the number of years used to assess incomes (single-year measures are more volatile than multiyear averages, causing lower estimates of IGE), whether both men and women are considered, and whether earnings or income are considered. Roughly speaking, results range from 0.2 to 0.6 with most studies falling in the 0.4 to 0.6 range (Aaronson and Mazumder 2008; Hertz 2007; Lee and Solon 2006; Levine and Mazumder 2007; Solon 1999). This means that if parents' income is 20 percent above the median, their child's income is expected to be between 8 and 12 percent above the median for their peers. Whether the IGE has been rising or holding steady in recent decades is an unsettled question.⁷

The single measure of mobility embodied in the IGE has an attractive simplicity, but does not capture the distribution of mobility. Jantti et al. (2006), Nichols and Favreault (2009), and others document that mobility is high in the broad middle of the distribution, but low in the tails. This means that if parents' income or socioeconomic status more broadly is in the top decile, their child is much more likely to be in the top decile, and likewise for the bottom decile. However, children of parents in the middle 80 percent of the distribution do not have substantially higher odds of reaching the top decile depending on the parents' position within the broad middle of the income distribution.

Absolute Intergenerational Mobility. Given that the U.S. economy has grown (albeit at an uneven pace) for most of the past few decades, it is not surprising to find that most children end up with higher levels of income than their parents. For example, Isaacs (2008) finds that two-thirds of children from the early 1970s have higher incomes than their parents when they reach adulthood in later decades. Children raised in the middle-income quintile have incomes that are 27 percent higher, on average, than their parents. Because high quality longitudinal data on three generations of adults are not yet available, it is difficult to know whether absolute intergenerational mobility is changing over time.

Mobility speaks to the economic security of American families in several ways. Intergenerationally, parents hope their children do better or at least as well as they did. In both absolute and relative terms, this, continues to be the case in the United States, although trends in intergenerational mobility may be changing over time—the evidence is mixed. But the studies that do find changes over time suggest that

security is better at the top, at the price of upward mobility from the bottom. Intragenerationally, adults want the chance to move up as well as the ability to retain their station. Whether considering absolute or relative mobility, there is not much evidence to suggest substantial changes over the past few decades.

Volatility

Unlike research on mobility, research on volatility focuses on short-term changes in income. Even though living standards generally increased and intergenerational mobility and decade-over-decade intragenerational mobility have not changed much over time, American families may feel more insecure if their income from year to year has become more unpredictable. This can be appreciated by considering two common amusement park rides: the Ferris wheel and the roller coaster. Both let you off about where you got on, but the Ferris wheel has much more predictable ups and downs while the roller coaster leaves you a bit more shaken up. Some may enjoy the wilder ride (especially at an amusement park), but when it comes to paying the mortgage or the rent and putting food on the table, many American adults would prefer the steadier income path.

Much of the recent work on volatility is rooted in the work of Gottschalk and Moffitt (1994), an analysis they extended in several subsequent papers, eventually returning to the original method. They focus on the trend in the “transitory variance” of men’s earnings, meant to capture “unexpected” variation in earnings. Using data from the Panel Study of Income Dynamics, they find a sharp rise in transitory variance from the 1970s forward, although the timing of the increase varies somewhat with their analytic approach and there is some cyclical variation in the trend. Haider (2001) also uses the PSID to assess trends in male earnings volatility, and his findings are consistent with those of Gottschalk and Moffitt. In contrast, a recent study by the Congressional Budget Office (CBO 2007) uses administrative data from the Social Security Administration—the Continuous Work History Sample (CWHHS)—and reports no change in men’s earnings volatility. The CBO study focuses only on those whose earnings fall below the Social Security maximum as the data are top coded, and it also excludes self-employment income.

Many factors, such as transfer income and the earnings of spouses and other household members, may mitigate volatility in individual earnings. Nichols and Zimmerman (2008) carefully examine how variations in the populations considered, the way in which volatility is measured, and the treatment of extreme data points can influence the level, trend, and timing of changes in volatility. They conclude that family income has grown more volatile over time in no small part due to the increasing correlation between husband and wives’ incomes.

Indeed, although there are unresolved debates in the literature regarding trends in earnings volatility, research considering family incomes generally finds that income volatility has increased over time (Bania and Leete 2007; Batchelder 2003; Dynan, Elmendorf, and Sichel 2007; Gosselin 2008; Gosselin and Zimmerman 2008; Hacker 2006). CBO (2008) is an exception, finding that family income volatility has not changed since 1984.

Many authors (e.g., Autor, Katz, and Kearney 2008) have documented a rise in cross-sectional income inequality over the past three decades. Depending on one’s views about the import of volatility increases, the trends in cross-sectional inequality and volatility may be seen to have offsetting effects.⁸ Nichols (2008) constructs a combined index of inequality, volatility, and mobility risk and finds sharp increases in both long-run inequality and volatility over the past three decades, so that even if one adopts the view that rising volatility offsets rising cross-sectional inequality, it does not fully offset the rise.

Nichols and Zimmerman (2008) and others note that the increase in volatility in consumption is lower than in incomes, which means that families are able to smooth out some “unexpected” changes in income and perhaps that many changes in income are not unexpected at all.

Researchers often associate increasing income volatility with declining economic security, as volatility indicates that families are becoming more susceptible to larger and more frequent changes in their resources. However, increasing volatility can just as easily mean unusually large increases in income as it can sudden unexpected declines in income. While families would prefer a more stable income path over time, an increase in mean incomes and in volatility has uncertain consequences for well-being.

Substantial Income Drops

A handful of studies focus on large drops in income and earnings. Burkhauser and Duncan (1989) use data from the 1974 through 1983 waves of the PSID to assess the likelihood that individuals experience a 50 percent drop in their annual family income (adjusted for family size). They find that over the 10-year period, about a quarter of 26- to 45-year-olds experience a substantial income loss. Gosselin and Zimmerman (2008) report that the annual probability a 35- to 55-year-old experiences a 50-percent drop in income relative to needs rises from an average of about 3 percent during the 10-year period from 1974 to 1983 to an average of over 7 percent during the ten years between 1994 and 2003.⁹ CBO (2007) focuses on earnings losses (which may or may not coincide with family income losses) using administrative data (the continuous work history sample). They find that from 1980 to 2003, about one in seven workers ages 22 to 59 experience a 50 percent decline in annual earnings, but the chance of an earnings drop does not increase over time. Similarly, the chance of a 25 percent drop in annual household income has not changed appreciably between 1984 and 2005 (CBO 2007).

Rather than considering sharp drops in annual income, Acs, Loprest, and Nichols (2009)—in a paper for the “Risk and Low-Income Working Families” research initiative—consider substantial declines in income over four-month periods (known as waves) using data from the 1996, 2001, and 2004 panels of the Survey of Income and Program Participation. They find no evidence of a trend in large income declines from the mid-1990s to the mid-2000s.

Table 2 reproduces findings from Acs, Loprest, and Nichols (2009) study of income drops. It shows the share of adults in social families that experience income drops of at least 25, 50, and 75 percent. A 25 percent drop in income from one wave to the next is quite common: two in five individuals living with children lose a quarter of their income at least once in the space of a year. Nearly one in eight adults

TABLE 2. *Share of Individuals in Families Experiencing Income Drops by Initial Income Quintile*

	25% Drop	50% Drop	75% Drop
All	37.4	13.6	4.1
Lowest quintile	43.8	20.2	7.8
Second quintile	36.7	12.0	3.6
Middle quintile	33.8	10.2	2.6
Fourth quintile	32.2	9.9	2.3
Highest quintile	41.0	16.4	4.5

Source: Acs, Loprest, Nichols (2009a). Authors’ tabulations of data from the Survey of Income and Program Participation.

in families with children experiences a 50 percent or greater drop in family income in a year, and almost 1 in 25 suffers a 75 percent drop at some point over a year.¹⁰

The proportion of individuals in families with children experiencing a drop in income is U-shaped across the income distribution: individuals in the lowest and the highest income quintiles are substantially more likely to experience income drops than individuals in the middle quintiles. About 20 percent of individuals in the lowest income quintile¹¹ lose at least half their income at some point during the course of a year. The portion declines to 12 percent for the second quintile and falls to about 10 percent for quintiles three and four. The proportion of individuals with a substantial drop then rises to 16 percent for the top income quintile. This U-shaped pattern holds true across all levels of drops shown.

Taken together, this research shows that substantial short-term income drops are not uncommon and the individuals in the lowest and highest income families are more vulnerable to such drops than those in middle-income families. Although the chance of a substantial year-to-year income drop increased from the mid-1970s to the mid-1990s, there has been no appreciable change in the likelihood of income drops from the mid-1990s through the mid-2000s.

The Correlates and Consequences of Substantial Income Drops

Many factors can contribute to a substantial income drop. For all but the wealthiest families, it is due to a loss of earned income. The amount of earned income available to an individual can change if family composition changes—for example, pursuant to a divorce, a separation, the death of a spouse, or if work hours are reduced when a child is born into the family. The onset of a work-limiting disability for either the head or spouse can also contribute to an earnings decline. And of course job loss or hours reductions for heads and spouses also can lead to substantial income losses. If these events have become more likely over time, this could explain the decade over decade increases in substantial income drops documented by Gosselin and Zimmerman (2008).

Interestingly, the chance that a family experiences any of the seven income-threatening events described above in any given year has fallen over time. For example, between 1974 and 1983, the probability that a 35- to 55-year-old individual experienced any of these income-threatening events in any given year was 18.2 percent. During more recent times, from 1994 to 2003, the chances fell to 16.7 percent (Gosselin and Zimmerman 2008). Thus, the rise in substantial income drops Gosselin and Zimmerman report is not attributable a rise in the chance that individuals in families experience such events. In contrast, the chance that any such events led to a substantial income loss did increase over time. Between 1974 and 1983, about one in seven (14.2 percent) individuals age 35 to 55 who experience an income-threatening event actually lost 50 percent or more of their income. During the 1994 to 2003 period, this climbed to one in five (20.2 percent). In other words, life didn't become riskier for most Americans over the past few decades in the sense that there was no increase in the chances they experience an adverse event. However, for those who experienced an adverse event, the negative consequences of these events also grew.

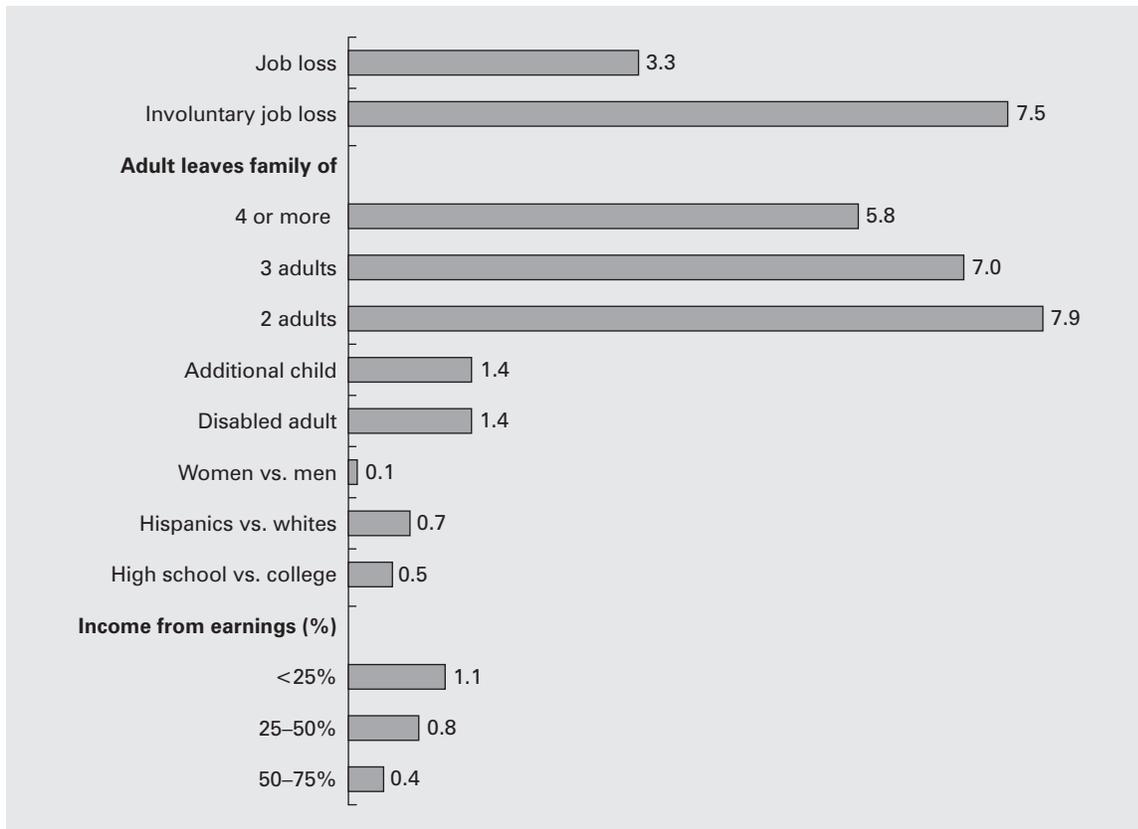
Rather than focusing on income drops, McKernan, Ratcliffe, and Vinopal (2009)—in research for the “Risk and Low-Income Working Families” initiative—consider the consequences of adverse events like job loss, health-related work limitations, and parents leaving a family on the experience of material hardship. They consider multiple measures of hardship, but their results are well-captured by their summary measure of general deprivation.¹² Regardless of family income, families that experience a job loss or health limitation have notably higher levels of general deprivation than families that did not experience such adverse events.¹³

Focusing on the period from 1996 forward in work for the “Risk and Low-Income Working Families” research initiative, Acs, Loprest, and Nichols (2009b) assess how job losses, the onset of a disability, and changes in living arrangements influence the likelihood of a substantial income drop from one four month period to another. Their analysis focuses on individuals age 25 to 61 who live in families with children. From any four month period (wave) to the next, the chance that such individuals experience a substantial decline in income is 4 percent.

Acs, Loprest, and Nichols (2009b) find that *changes* in employment, family, and health circumstances are all significantly associated with experiencing a 50 percent drop in income in the next four months. Their key findings are summarized in figure 5. Individuals living in families that experienced a job loss are 3.3 percentage points more likely to experience a substantial income drop than those in other families. If the job loss is involuntary, the chance of an income drop climbs by 7.5 percentage points.

The effects of changes in family composition depend, in part, upon family composition before any change. Losing an adult family member increases the likelihood of a substantial income drop by 5.8 per-

FIGURE 5. Factors Associated with Substantial Income Drops over a Four-Month Period, Percentage Point Increase Relative to a Mean Probability of 4 Percent



Source: Acs, Nichols, and Loprest (2009b), table 2. Based on data from the 1996, 2001, and 2004 panels of the Survey of Income and Program Participation.

Notes: The figure shows the percentage point increase in the probability of a 50 percent drop in income within a four-month period. In the average four-month period, 4 percent of individuals in families with children experience such a drop.

centage points for individuals in families of four or more adults, by 7.0 percent for those moving from three- to two-adult families, and by 7.9 percentage points for those moving from two- to one-adult families. Adding a child to the family increases the likelihood of an income drop by 1.4 percentage points (perhaps owing to decreases in parental labor supply), while having a child leave the family has no effect on the risk of an income drop.

Individuals living in families in which a potential worker becomes disabled are 1.4 percentage points more likely to experience a substantial income drop than others. If the potential worker is the individual him- or herself, the likelihood increases by another 0.5 percentage points.

In addition to changes in circumstances, individual and family characteristics influence the chances of an income drop in any particular wave. Men are less likely to experience an income drop than women, and age is uncorrelated with income drops, conditional on other observed factors. Hispanics are more likely than whites to experience income drops, but there is no significant difference between blacks and whites. Those with less than a high school education are more likely to experience income drops than those with college degrees or more, but there are no significant differences between those with other levels of education.

Income composition and income level are also related to the likelihood of a substantial income drop. The higher the proportion of an individual's family income coming from earnings, the lower the probability of an income drop in a given wave. For example, those with less than 25 percent of income from earnings are 1.1 percentage points more likely, those with 25 to 50 percent of income from earnings are 0.8 percentage points more likely, and those with 50 to 75 percent of income from earnings are 0.4 percentage points more likely to experience a drop in income than those with at least 75 percent of income from earnings. Finally, those in the lowest and highest income quintiles are more likely to experience an income drop in a given wave than those in the middle income quintile.

Coping with Income Losses

Once an income loss occurs, many factors work to mitigate its effects on families. Specifically, the composition of income may change with public assistance increasing to fill the void of lost earnings, families can draw down assets to somewhat maintain their standard of living, and families can fully recover their lost income through a variety of means.

In a report prepared under the "Risk and Low-Income Working Families" research initiative, Perry, Kenney, and Tereshchenko (2009) focus on how families cope with the onset of a disability for a working adult. They find that following the onset of a new work-limiting disability, 21 percent of adults in families with children experience at least a 25 percent decline in earnings from the four-month period (wave) prior to onset. Of those who had a substantial earnings drop that coincided with the onset of a disability, 30 percent stopped working altogether. Public assistance programs help to pick up a little of the slack. For example, 6 percent received Supplemental Security Income (SSI), 8 percent received workers' compensation, 10 percent received unemployment benefits, 8 percent received Temporary Assistance for Needy Families (TANF), 25 percent received food stamps, and 15 percent received vouchers from the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC). Altogether, however, these programs replace only 6.2 percent of lost earnings. Work among spouses and partners also increased, but this replaced only about an additional 5 percent of the worker's own earnings loss, on average.

McKernan, Ratcliffe, and Vinopal (2009) consider how assets help to insulate families from the consequences of adverse events like job loss, health-related work limitations, and parents leaving a family. They find that having assets offers considerable protection against general deprivation for families that experience adverse events. Figure 6 shows that regardless of income, families that are not asset poor¹⁴ are much less likely than asset-poor families to experience general deprivation in the event of an involuntary job loss. For example, among families in the bottom third of the income distribution that suffer a job loss, over half that are asset poor experience general deprivation, compared with about a quarter of those that are not asset poor. Similar differences show that assets protect middle- and upper-income families from the adverse effects of job loss. Assets also offer protection to low- and middle-income families from general deprivation in the event of health limitations and the departure of a parent from the family.

Finally, many families deal with an adverse event and subsequent income loss by quickly returning to their previous income level. If individuals in families with children quickly recover their lost income, then the consequences for well-being of a short-term drop in income may be modest. Acs, Loprest, and Nichols (2009a) examine recoveries for individuals who experience substantial income drops by examining the maximum income attained at some point in the year following the drop. Their findings are reproduced in table 3.

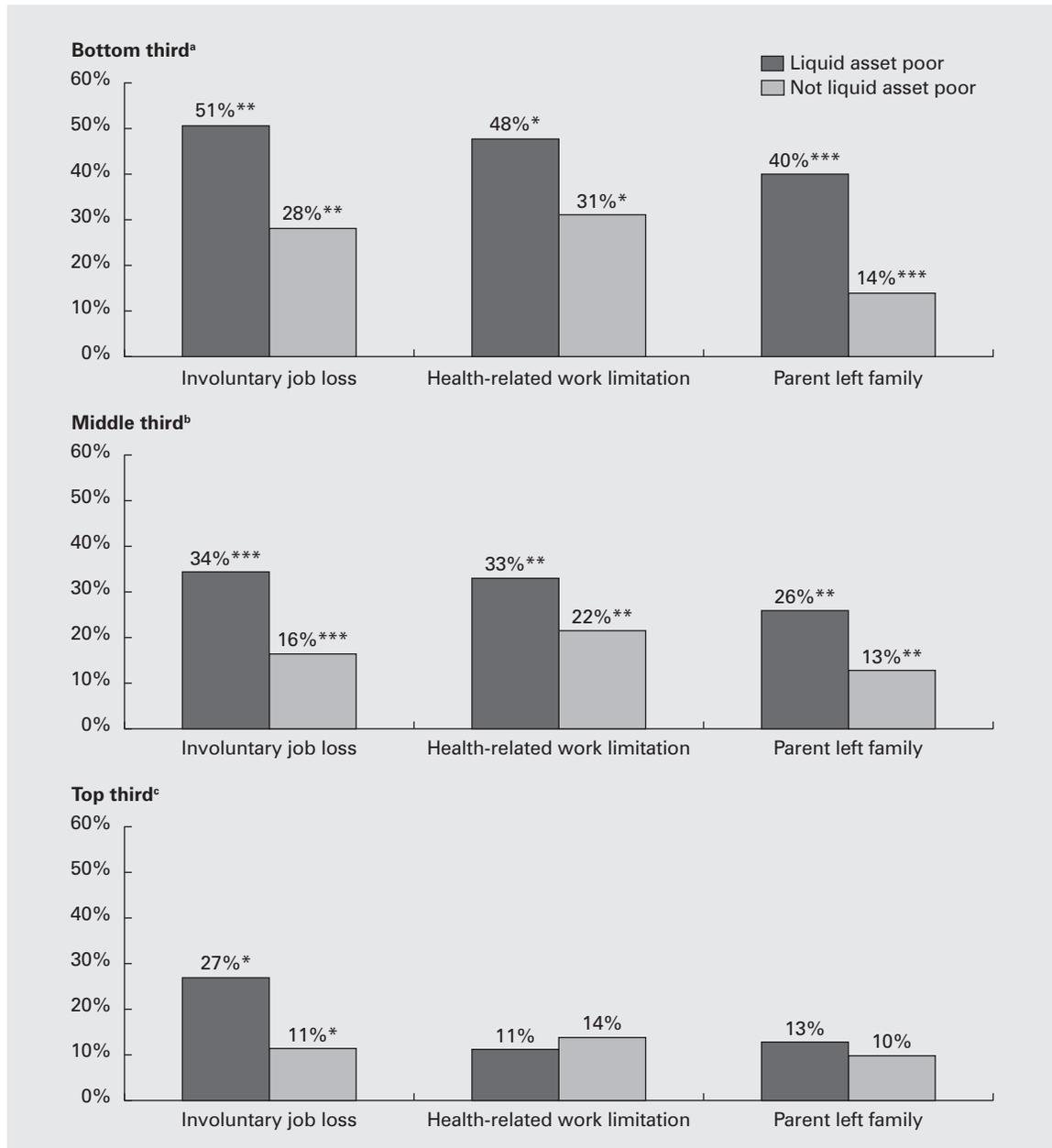
The analysis focused on individuals who experienced at least a 50 percent decline in income and considered the share who make a full recovery to 100 percent of pre-drop monthly income as well as those who return to 75 to 99 percent of their pre-drop income.¹⁵

Nearly two out of five individuals whose monthly family income drops by 50 percent or more make a full recovery within a year. More than one in five experience a partial recovery with incomes returning to between 75 and 99 percent of pre-decline income. On the other hand, nearly a quarter of individuals whose monthly family income drops by at least 50 percent experience no recovery: their income remains at less than half its prior level for at least a year.

The likelihood of total recovery is somewhat higher for those in the lowest two income quintiles than for those in the highest quintile. Over half of those experiencing a 50 percent decline in income in the bottom income quintile fully recover within a year; another 21 percent recover partially, and about one in six experiences no recovery. In contrast, 23 percent of those in the highest income quintile recover fully, 23 percent recover partially, and 35 percent do not recover at all.

In related research, Acs, Loprest, and Nichols (2009b) examine the factors associated with such recoveries. In any given four-month period following a 50 percent drop in income, the probability that an adult in a family with children will return to or exceed the pre-drop income level is 12.8 percent.¹⁶ The chances of recovery vary depending on the type of adverse events that co-occurred with the income loss. Acs, Loprest, and Nichols (2009b) report that individuals in families that suffered a job loss (i.e. at least one family member lost a job) at the time of the income drop are 2.3 percentage points less likely to fully recover in any given wave than those with no job loss at the time their income dropped by 50 percent (figure 7). If an adult left the family at the time of an income drop, the chance of a recovery falls by 6.8 percentage points; an adult joining the family at the time of the drop has no significant effect on recovery. Other changes at the time of an income drop that are not statistically significantly associated with recoveries include changes in the number of children and the onset of a disability of an adult family member.

FIGURE 6. Percentage of Families That Are Generally Deprived Given Event, by Asset-Poverty Status and Thirds of the Income Distribution



Source: McKernan, Ratcliffe, and Vinopal (2009). Authors' tabulations of the 1996 and 2001 SIPP panels; data are weighted using SIPP weights.

Notes: Statistical significance is calculated on the difference between families that are liquid-asset poor and families that are not. * = $p < 0.1$, ** = $p < 0.05$, *** = $p < 0.01$.

The total unweighted sample size is 17,057 families. In the bottom third of income, 546, 704, and 494 families experienced an involuntary job loss, health-related work limitation, and loss of parent, respectively. In the middle third of income, 368, 516, and 448 families experienced an involuntary job loss, health-related work limitation, and loss of parent, respectively. In the top third of income, 280, 345, and 450 families experienced an involuntary job loss, health-related work limitation, and loss of parent, respectively.

A family is considered liquid-asset poor if it is without enough liquid assets to finance consumption for three months at the federal income poverty level.

a. Income < \$31,770 (2000 dollars).

b. Income \$31,770–\$61,044 (2000 dollars).

c. Income > \$61,044 (2000 dollars).

TABLE 3. *Percent Experiencing Recovery of Pre-Drop Income within a Year among Those with Income Drops of 50 Percent or More*

	Full recovery	Partial recovery	Small recovery	No recovery
All	36.7	22.3	17.6	23.4
Quintile 1	51.0	21.1	11.8	16.1
Quintile 2	40.9	20.3	17.1	21.7
Quintile 3	32.2	26.8	19.7	21.3
Quintile 4	33.9	21.7	23.2	21.2
Quintile 5	23.3	22.6	19.2	34.9

Notes: Full recovery means income returns to or exceeds pre-drop income.

Partial recovery means income returns to between 75 and 99 percent of pre-drop income.

Small recovery means income returns to between 50 and 74 percent of pre-drop income.

No recovery means that income remains below 50 percent of the pre-drop income.

Source: Acs, Loprest, Nichols (2009a). Authors' tabulations of data from the Survey of Income and Program Participation.

Changes that occur *while income remains below its pre-drop levels* also influence recovery. Adding an adult to a one-adult family increases the chance of a recovery at the time the transition happens by 13.8 percentage points. If this individual does not recover when the second adult is added to the family, his or her chances of recovery in all subsequent waves (assuming no other changes) is 10.5 percentage points higher than it would have been had he or she remained in a single-adult family. Similarly, moving from a two-adult family to a three- or more-adult family increases the immediate probability of an income recovery by 10.5 percentage points and the longer-term chances of recovery (given one does not occur immediately) by 7.2 percentage points. Losing adults while trying to recover from an income loss reduces the chances of recovery roughly in proportion to the increase in recovery probabilities associated with adding adults. Changes in marital status have no measured effects on recovery beyond any associated changes in family composition.

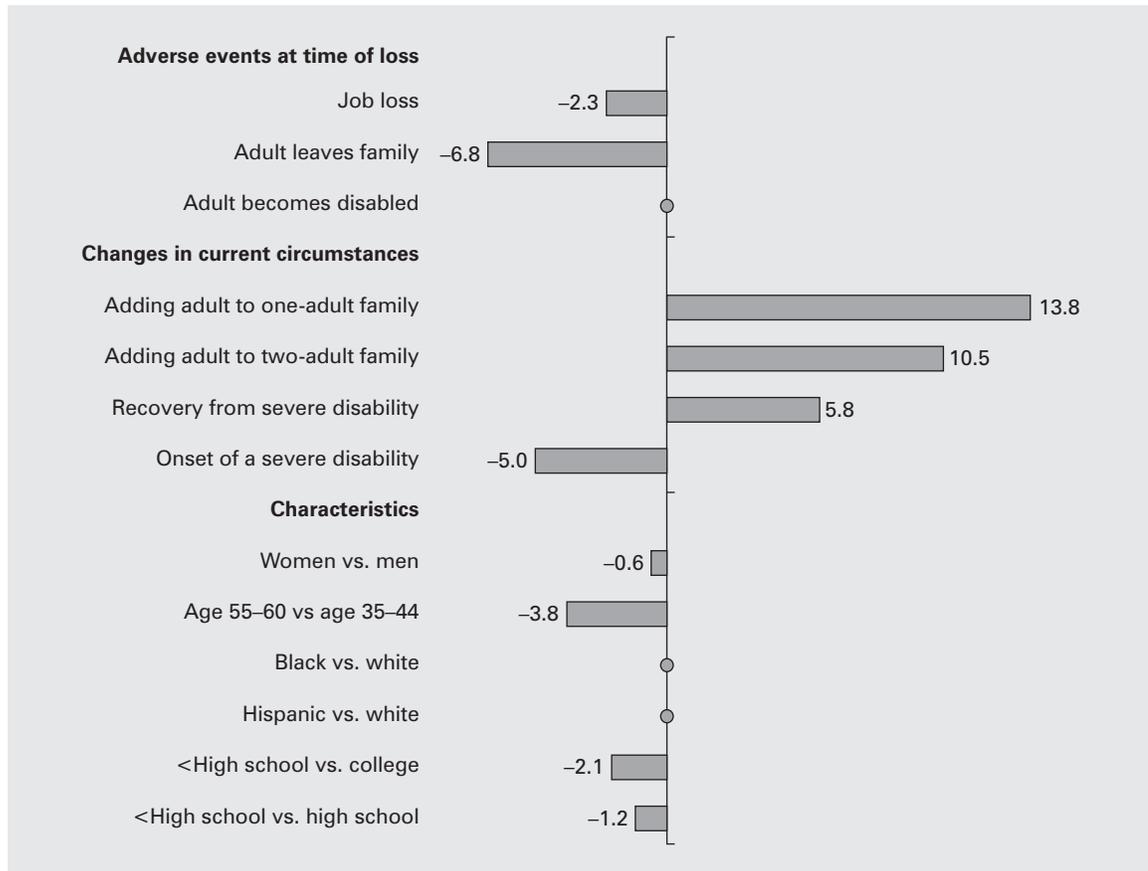
Changes in the presence of a severe disability influence recoveries, while changes in the presence of a standard work-limiting disability do not. Recovering from a severe disability increases the chances of a full recovery by 5.8 percentage points more while the onset of a severe disability decreases the probability of recovery by 5.0 percentage points.

Finally, changes in the number of children in the family are largely uncorrelated with recoveries from income drops with one exception: individuals in families that lost a child are 3.9 percentage points less likely to recover from an income loss in the wave during which the family lost the child than are individuals in families that did not lose any children.¹⁷

Other characteristics of individuals and families also influence recoveries from substantial income drops. Men are more likely to recover from substantial income losses than women, and older workers (age 55–60) are less likely to recover than those between the ages of 35 and 44. There are no significant differences by race.

Those with less than high school educations are 2.1 percentage points less likely, high school graduates are 1.2 percentage points less likely, and those with some college are 0.5 percentage points less likely to recover than those with college educations. Income composition is not significantly associated with

FIGURE 7. Factors Associated with Full Recovery from Substantial Income Losses Percentage Point Increase Relative to a Mean Probability of 4 Percent



Source: Acs, Nichols, and Loprest (2009b), Table 4. Based on data from the 1996, 2001, and 2004 panels of the Survey of Income and Program Participation.

Notes: The figure shows the percentage point increase in the probability of a full recovery in income within a four-month period. In the average four-month period, 12.8 percent of individuals in families with children that had income drops experience such a recovery.

recoveries, but pre-drop income levels are: individuals in the lowest income quintile before sustaining a drop are more likely to recover than those in higher quintiles, and those starting in the highest quintile are the least likely to recover.

Taken together, this research shows that many adverse events are associated with substantial losses in income. These events have not become more common over the past few decades but the chances that they lead to a substantial income loss have. Over the past 10 years, however, the chance of an income drop has remained relatively stable. The onset of a disability is particularly vexing as public assistance programs and the earnings of other family members do little to fill the gap; social insurance helps a fraction of affected families and often only after a long wait for benefits (Bound, Burkhauser, and Nichols 2003). Assets do forestall large increases in general deprivation. Finally, many families do quickly recover their lost income. In particular, the lowest income families that are at the greatest risk for a substantial income loss are also the most likely to fully recover (albeit to a low-income level). Job loss, onset of a severe disability, and losing an adult from the family all increase the chances of an income loss and reduce

the chances of a recovery; adding an adult and recovering from a disability hasten recoveries. In the event of a substantial income loss, individuals nearing retirement age and those with lower levels of education are less likely to fully recover than younger and more educated individuals.

Discussion

The core questions of this synthesis remain: How economically secure are American families? Have they grown more insecure over time? What are the factors that contribute to or protect families from substantial income losses? And how do families cope with and recover from such losses? The bewildering array of research on economic mobility, income and earnings volatility, and the causes and consequences of substantial income losses—a body of work that varies considerably in the data sets, time periods, and populations examined—cannot provide definitive answers, but some strong themes emerge. First, consider where we are now.

Regardless of how American families were doing through 2007, the Great Recession of 2008 to 2009 has set family incomes back by about a decade—a major blow to their economic security. Further, the key to economic progress for lower-income families is full-time, full-year work. With monthly unemployment rates exceeding 10 percent and the ranks of the long-term unemployed swelling, sustaining full-time, full-year work has become increasingly difficult, cutting off the surest path to economic security for many families. In addition, job losses resulting from rising unemployment are strongly associated with substantial income losses and increases in material hardship.

Next, consider America on the eve of the Great Recession. Prior to the start of the Great Recession, feelings of economic insecurity among American families, while not unwarranted, were amplified by unmet expectations. Over the past half century, there have been several jarring changes to the level and distribution of family incomes. During the 1950s and 1960s, Americans throughout the income distribution enjoyed strong income growth that fed the expectations for future growth. Changes in the economy during the 1970s and 1980s substantially slowed growth for all, but especially for low- and middle-income families relative to higher-income families. The 1990s set the stage for renewed growth for all, but the 2000s brought stagnation. Thus, even though there has been real income growth and improvements in living standards, the lower- and middle-income families rightly perceive that their economic progress slowed, both in real terms and relative to higher-income families. In other words, even before the Great Recession, it was getting harder to get ahead and to keep up with higher-income families.

Further, even the prosperity of the 1990s was bought at a price: family incomes became increasingly volatile. Imagine a roller coaster from which you disembark on a platform that is slightly higher than the platform from which you start. By the end of the ride, you have made a bit of progress, but the ups and downs of the 1990s roller coaster were far bigger than most families were accustomed to.

Thus, a mixed picture of family income security emerges. Growth in incomes has been uneven and slow on average, but there has been some real growth—and economic mobility has been stable for quite some time. On the other hand, family incomes are more volatile, meaning that income varies in unexpected ways from year to year, even if most families make a small bit of progress over the long haul. These phenomena combined to make many American families feel economically insecure in the years leading up to the Great Recession.

The Urban Institute's research under the "Risk and Low-Income Working Families" initiative offers important implications for public policy. Looking into the future, strengthening the economic security of American families depends crucially on jobs. Acs, Loprest, and Nichols (2009b) find that involuntary job losses

are strongly associated with substantial drops in family income. Further, Acs and Zimmerman (2009) show that a family with a full-time, full-year worker is somewhat insulated from large drops in income and well-positioned to enjoy real income growth. With one out of ten Americans unemployed and another 6 percent involuntarily working part-time, the jobs American families need for economic security are far too scarce. The research reviewed here does not address the issues of job creation, but creating more jobs for American workers clearly should be a high priority. There are many different options that policymakers could consider to promote job growth. Policies to create jobs include but are not limited to offering tax and regulatory relief to employers, targeted tax credits to employers who hire new workers, direct aid to states to help them maintain their state workforces, and direct job creation by the federal government.

Policies must also be in place to make sure able-bodied adults have strong incentives to maintain steady employment and acquire the skills that employers value. For lower-skilled and lower-paid workers, this means continued support for programs like the earned income tax credit, which raises the standard of living for low-income working families. It also means investing in workforce development efforts to help lower-skilled workers acquire the training and certifications they need, and employers demand, for higher paying middle-skill jobs. And long-term, it means investing in early education programs as well as in elementary, middle, and high school programs to ensure the next generation of workers has the skills needed to grow the economy and improve living standards.

Even with a vibrant economy packed with skilled workers, some families will experience adverse events (illness, family dissolution) that lead to substantial income losses and material hardship. The findings of McKernan, Ratcliffe, and Vinopal (2009) suggest that families with a minimum amount of liquid assets are in a much better position to forestall the negative consequences of adverse events than families that are asset poor, regardless of the families' income level. This suggests that asset development programs like individual development accounts (IDAs) have considerable merit for lower-income families. For higher-income families, it underscores the age old advice to save for a rainy day.

Public and private insurance programs can also soften the blow of adverse events. The research of Perry, Kenney, and Tereshchenko (2009), however, suggests that public programs do a poor job of filling the income gap that arises when a worker becomes disabled. Disability programs in the United States are designed to support those with long-term disabilities, and strict eligibility requirements mean that benefits do not begin flowing immediately after the onset of disability. The other components of the safety net may not be available to the newly disabled because they cannot meet program requirements. Despite the clear need for rapid short-term aid to the newly disabled, ensuring that applicants have a work-limiting disability is likely to be a cumbersome process even if current certification practices are streamlined. Indeed, the most efficacious response to help the newly disabled may be to make sure insurance covers the health care expenses and that the family has assets to draw down until the worker recovers or can qualify for existing disability programs.

As the U.S. economy emerges from the Great Recession of 2008 to 2009, the economic security of American families will depend on the strength of the labor market and on the ability of lower- and middle-income families to share substantially in economic growth. The current recession most closely resembles the 1980–1982 recession during which unemployment reached 10.6 percent, and the nearly two decades of prosperity following that recession (interrupted only by the short but sharp downturn of 1991) offers some cautionary hope. By the 1990s, low- and middle-income families enjoyed relatively strong income growth, but the overall growth came with increasing volatility. Further, this income growth petered out in the 2000s. If the past is prologue, a decade from now, we may find ourselves in a world that looks much like it did on the eve of the Great Recession—and that is, at best, only a moderately comforting thought.

NOTES

1. Despite the increase in pessimism documented in this poll, a poll fielded in 2008 as the Great Recession got underway finds that the majority of Americans remain optimistic about their ability to improve their economic situation in the future (Greenberg Quinlan Rosner Research 2009). http://www.economicmobility.org/assets/pdfs/Survey_on_Economic_Mobility_Findings.pdf
2. <http://www.census.gov/hhes/www/income/histinc/f05.xls>
3. <http://www.census.gov/hhes/www/income/histinc/f01AR.xls>
4. Note, however, that families at the 99th percentile and even the top one thousandth have fared better and better during the early 2000s (Saez 2009).
5. <http://www.census.gov/hhes/www/income/histinc/f01AR.xls>
6. Duncan, Smeeding, and Rodgers (1991) use PSID data, average income over two-year periods, and consider movements between the two-year periods separated by one year (e.g., income position averaged over 1982 and 1983 compared with income position averaged over 1985 and 1986).
7. Hertz (2007) and Lee and Solon (2006) find no change in IGE for recent cohorts while Aaronson and Mazumder (2008) and Levine and Mazumder (2007) do.
8. In fact, this view of volatility increases as offsetting concerns about rising inequality was the motivation for Gottschalk and Moffit's (1994) work on volatility.
9. The work of Burkhauser and Duncan (1989) and Gosselin and Zimmerman (2007) are not strictly comparable because, simplifying, the unit of analysis for Burkhauser and Duncan is the person over a decade, while for Gosselin and Zimmerman, it is a person-year. As such, Gosselin and Zimmerman's report of income drops in any given year are lower than Burkhauser and Duncan's reports of drops over a 10-year period.
10. The frequency of total losses (100 percent income drop, not shown) is very low; only about 1 percent experience a drop to zero income.

-
11. The income cut-off for the first quintile is \$7,175 per wave in 1996, \$8,890 per wave in 2001, and \$9,000 per wave in 2004; all figures are in nominal dollars.
 12. A family is “generally deprived” if they report any two of the following ten indicators for material hardship: food insecurity, food insufficiency, trouble paying basic bills, not seeking a physician’s care, not seeking a dentist’s care, inability to pay the rent or mortgage, inability to pay utility or medical bills, having the phone disconnected because of an inability to pay, having gas or electricity cut off due to inability to pay, and eviction for failure to pay rent or mortgage.
 13. Only families in the upper third of the income distribution report a significant increase in general deprivation in the event of a parent leaving the family.
 14. Asset poor means that the value of a family’s liquid assets (checking accounts, savings accounts, certificates of deposit, money market accounts, mutual funds, savings bonds, US securities, retirement accounts, stocks, and other financial assets) are below the level required to finance consumption for three months at the federal income poverty level.
 15. The same pattern of results appears when considering larger and smaller income drops.
 16. The 12.8 percent of those with income drops recovering in the average four-month period (given that recovery did not occur in an early four-month period) is broadly consistent with the 36.7 percent who recover within a year of a drop.
 17. This may not be a problem if income dropped because adult household member reduced their work effort in anticipation of not having to pay for the child’s expenses going forward. Alternatively, the prospects of a long and sustained diminution of family income may lead the family to send children to live elsewhere.

REFERENCES

- Aaronson, Daniel, and Bhashkar Mazumder. 2008. "Intergenerational Economic Mobility in the United States, 1940 to 2000." *Journal of Human Resources* 43(1): 139–72.
- Acs, Gregory, Pamela Loprest, and Austin Nichols. 2009a. "Risk and Recovery: Documenting the Changing Risks to Family Incomes." Washington, DC: The Urban Institute. *Perspectives on Low-Income Working Families* Brief 8.
- . 2009b. "Risk and Recovery: Understanding the Changing Risks to Family Incomes." Washington, DC: The Urban Institute. *Low-Income Working Families* Paper 14.
- Acs, Gregory, and Seth Zimmerman. 2008. "U.S. Intragenerational Economic Mobility from 1984 to 2004: Trends and Implications." Washington, DC: The Urban Institute.
- . 2009. "Work and Income Security from 1970 to 2005." Washington, DC: The Urban Institute. *Low-Income Working Families* Paper 15.
- Auten, Gerald E., and Geoffrey Gee. 2007. "Income Mobility in the U.S.: Evidence from Income Tax Returns for 1987 and 1996." OTA Working Paper 98. Washington, DC: U.S. Department of the Treasury.
- Autor, David H., Lawrence F. Katz, and Melissa S. Kearney. 2008. "Trends in U.S. Wage Inequality: Revising the Revisionists" *The Review of Economics and Statistics* 90(2).
- Bania, Neal, and Laura Leete. 2007. "Income Volatility and Food Insufficiency in U.S. Low-Income Households, 1992–2003." Discussion Paper no. 1325-07. Madison, WI: Institute for Research on Poverty.
- Batchelder, Lily L. 2003. "Taxing the Poor: Income Averaging Reconsidered." *Harvard Journal on Legislation* 40:395.
- Bradbury, Katharine, and Jane Katz. 2002. "Women's Labor Market Involvement and Family Income Mobility when Marriages End." *New England Economic Review* (2002): 41.

-
- Bound, John, Richard V. Burkhauser, and Austin Nichols. 2003. "Tracking the Household Income of SSDI and SSI Applicants." In *Worker Well-being and Public Policy: Research in Labor Economics*, vol. 22, edited by Solomon Polachek (113–58). Oxford: Elsevier JAI Press.
- Burkhauser, Richard V., and Greg J. Duncan. 1989. "Economic Risks of Gender Roles: Income Loss and Life Events over the Life Course." *Social Science Quarterly* 70(1): 3–23.
- Caroll, Robert, David Joulfaiian, and Mark Rider. 2006. "Income Mobility: The Recent American Experience." International Studies Program Working Paper 06-20. Atlanta, GA: Andrew Young School of Policy Studies.
- Congressional Budget Office. 2007. "Trends in Earnings Variability over the Past 20 Years." Washington, DC: CBO.
- . 2008. "Recent Trends in the Variability of Individual Earnings and Household Income." Washington, DC: CBO.
- Cox, W. Michael, and Richard Alm. 1995. "By Our Own Bootstraps: Economic Opportunity and the Dynamics of Income Distribution." Annual Report 1995. Dallas, TX: Federal Reserve Bank of Dallas.
- Duncan, Greg J., Timothy M. Smeeding, and Willard Rodgers. 1991. "W(h)ither the Middle Class? A Dynamic View." Working Paper No. 56. Annandale-on-Hudson, NY: The Jerome Levy Economics Institute of Bard College.
- Dynan, Kareen, Douglas Elmendorf, and Daniel Sichel. 2007. "The Evolution of Household Income Volatility." *Finance and Economics Discussion Series* 2007(61).
- Gosselin, Peter. 2008. *High Wire: The Precarious Financial Lives of American Families*. New York: Basic Books.
- Gosselin, Peter, and Seth Zimmerman. 2008. "Trends in Income Volatility and Risk, 1970–2004." Washington, DC: The Urban Institute.
- Gottschalk, Peter, and Sheldon Danziger. 1998. "Family Income Mobility: How Much is There and Has It Changed?" In *The Inequality Paradox*, edited by J. Auerbach and R. Belous, 92–111. Washington, D.C.: National Policy Association.
- Gottschalk, Peter, and Robert A. Moffitt. 1994. "The Growth of Earnings Instability in the U.S. Labor Market." *Brookings Papers on Economic Activity* 1994(2): 217–72.
- Greenberg Quinlan Rosner Research. 2009. *Findings from a National Survey & Focus Groups on Economic Mobility*. Washington, DC: Pew Research Center.
- Hacker, Jacob S. 2006. *The Great Risk Shift: The Assault on American Jobs, Families, Health Care, and Retirement—And How You Can Fight Back*. New York: Oxford University Press.
- Haider, Steven J. 2001. "Earnings Instability and Earnings Inequality of Males in the United States: 1967–1991." *Journal of Labor Economics* 19(4): 799–836.
- Hertz, Tom. 2005. "Rags, Riches, and Race: The Intergenerational Economic Mobility of Black and White Families in the United States." *Unequal Chances: Family Background and Economic Success* (2005): 165–91.
- . 2007. "Trends in the Intergenerational Elasticity of Family Income in the United States." *Industrial Relations* 46(1): 22–50.
- Hungerford, Thomas L. 2008. "U.S. Income Inequality and Income Mobility in the 1980s and 1990s." Washington, DC: Congressional Research Service.
- Isaacs, Julia B. 2008. "Economic Mobility of Families across Generations" Selection from "Getting Ahead or Losing Ground: Economic Mobility in America." Washington, DC: The Brookings Institution.
- Jantti, Markus, Bernt Bratsberg, Knut Roed, Oddbjorn Raaum, Robin Naylor, Eva Osterbacka, Anders Bjorklund, and Tor Eriksson. 2006. "American Exceptionalism in a New Light: A Comparison of Intergenerational Earnings Mobility in the Nordic Countries, the United Kingdom and the United States." IZA Discussion Paper Series no. 1938. Bonn, Germany: Institute for the Study of Labor (IZA).
- Lee, Chul-In, and Gary Solon. 2006. "Trends in Intergenerational Income Mobility." Working Paper No. 12007. Cambridge, MA: National Bureau of Economic Research.
- Levine, David I., and Bhashkar Mazumder. 2007. "The Growing Importance of Family: Evidence from Brothers' Earnings." *Industrial Relations* 46(1): 7–21.

-
- Mazumder, Bhashkar. 2008. "Upward Intergenerational Economic Mobility in the United States." Washington, DC: Economic Mobility Project. http://www.economicmobility.org/assets/pdfs/EMP_Upward_Mobility.pdf.
- McKernan, Signe-Mary, Caroline Ratcliffe, and Katie Vinopal. 2009. "Do Assets Help Families Cope with Adverse Events?" Washington, DC: The Urban Institute. *Perspectives on Low-Income Working Families* Brief 10.
- Nichols, Austin. 2008. "Trends in Income Inequality, Volatility, and Mobility Risk." IRISS Working Paper Series. 2008-10.
- Nichols, Austin, and Melissa Favreault. 2009. "A Detailed Picture of the Intergenerational Transmission of Human Capital." Washington, DC: The Urban Institute. <http://www.urban.org/url.cfm?ID=411889>.
- Nichols, Austin, and Seth Zimmerman. 2008. "Measuring Trends in Income Variability." Washington, DC: The Urban Institute. <http://www.urban.org/url.cfm?ID=411688>.
- Perry, Cynthia, Genevieve M. Kenney, and Bogdan Tereshchenko. 2009. "Disability Onset among Working Parents: Earnings Drops, Compensating Income Sources and Health Insurance Coverage." Washington, DC: The Urban Institute. *Low-Income Working Families* Paper 11.
- Peters, H. Elizabeth. 2002. "Patterns of Intergenerational Mobility in Income and Earnings." *Review of Economics and Statistics* 74(3): 456–66.
- Saez, Emmanuel. 2009. "From Optimal Tax Theory to Practice: Comprehensive U.S. Income Tax Reform" Presentation at the Brookings Institution, December.
- Sawhill, Isabel and Mark Condon. 1992. "Income Mobility and Permanent Income Inequality." Washington, DC: The Urban Institute.
- Solon, Gary. 1999. "Intergenerational Mobility in the Labor Market." In *Handbook of Labor Economics, vol. 3A*, edited by Orley Ashenfelter and David Card (1761–1800). Amsterdam: Elsevier.
- Taylor, Paul, Rich Morin, D’Vera Cohn, Richard Fry, Rakesh Kochhar, and April Clark. 2008. *Inside the Middle Class: Bad Times Hit the Good Life*. Washington, DC: Pew Research Center. <http://pewsocialtrends.org/assets/pdf/MC-Middle-class-report.pdf>.
- U.S. Census Bureau. Current Population Survey, Annual Social and Economic Supplements.
- U.S. Department of the Treasury. 2008. *Income Mobility in the U.S. from 1996 to 2005*. Washington, DC: U.S. Department of the Treasury. <http://www.treasury.gov/press/releases/hp673.htm>.

