

The Evolution of Household Income Volatility

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Abstract

Using data from the PSID, we find that household income has become noticeably more volatile during the past thirty years. We estimate that the standard deviation of percent changes in household income rose one-fourth between the early 1970s and early 2000s. This widening in the distribution of percent changes is concentrated in the tails of the distribution, and especially in the lower tail: Changes between the 25th and 75th percentiles are almost the same size now as thirty years ago, but changes at the 10th percentile look substantially more negative. The boost in volatility occurred throughout the 1970s, 1980s, and 1990s, albeit not at a steady pace. Households' labor earnings and transfer payments have both become more volatile over time.

