Research has shown that beyond poverty, income volatility itself can have deleterious impacts on children (Smith-Ramani, Mitchell, and McKay, 2017), including disruptions in schooling or housing, lowering educational attainment and decreasing mental health. In this essay, we look at trends in income volatility for households with children. Childhood income volatility has been increasing since the 1980s, with 20 percent of families with children experiencing a large decrease in income each year.

As a part of the COVID-19 relief bill passed in January 2021, the child tax credit expanded from $2,000 to $3,000 per child. A key component of the bill allows families to receive their tax refund as a monthly check rather than as a lump sum (Zitner, 2021), with the goal of allowing families to smooth their income over the year. The rise in family income volatility suggests that government efforts to help lower family income volatility, such as the monthly payment of the child tax credit, may be appropriate.

Trends in Family Income Volatility

The data for this essay come from the Annual Social and Economic Supplement (ASEC) of the Current Population Survey (CPS). This survey tracks many of the same families over consecutive years. The ASEC collects data on a variety of types of income, which we group into three categories: (i) wage income and self-employment income, (ii) wealth income, and (iii) government income and child non-government income. Wealth income includes income from rent, dividends, trusts, pensions, and other sources of financial income. Child non-government income comes from alimony, child support, or other family sources.

Rising volatility in family income suggests that government efforts such as the monthly payment of the child tax credit may be appropriate.

Throughout this essay, we measure income volatility by the probability that a family experiences a decrease in annual income of 25 percent or more. Figure 1 shows the share of households that have children that experience a large decrease in income. In 1987, the Bureau of Labor Statistics, which conducts the CPS and the ASEC, changed the definition of many income categories, which could create some spurious income changes; we mark this date with the red vertical line on the figure.

Since the 1980s, volatility has increased for each income category. Since volatility is roughly the same after adding in other sources of income, such as dividends or government transfers, this similarity suggests that these other sources are not necessarily doing a good job of insuring...
Conclusion

Hardy (2014), Hardy and Marcotte (2020), and Siwei et al. (2020) all document negative impacts of income volatility on households and the children in them, linking volatility to lower educational attainment as an adult and negative effects on mental wellbeing. Given the large increase in income volatility for families with children, the 2021 child tax credit expansion, designed to lift children out of poverty and provide greater levels of household income stability, seems pertinent.

Notes

1 To match family data across years, households are first matched on their household number, individual family number, the month in sample, the sex of the household head, and the person ID of the household head. Then, the matches are discarded if the race of the household head does not match across years, if the age of the household head has changed by more than three years, or if the state of residence changed across the years.

2 We limit our sample to households in which the head of household is between 25 and 55 years of age and drop families that had a change in the number of children or number of adults in the labor force.
References


