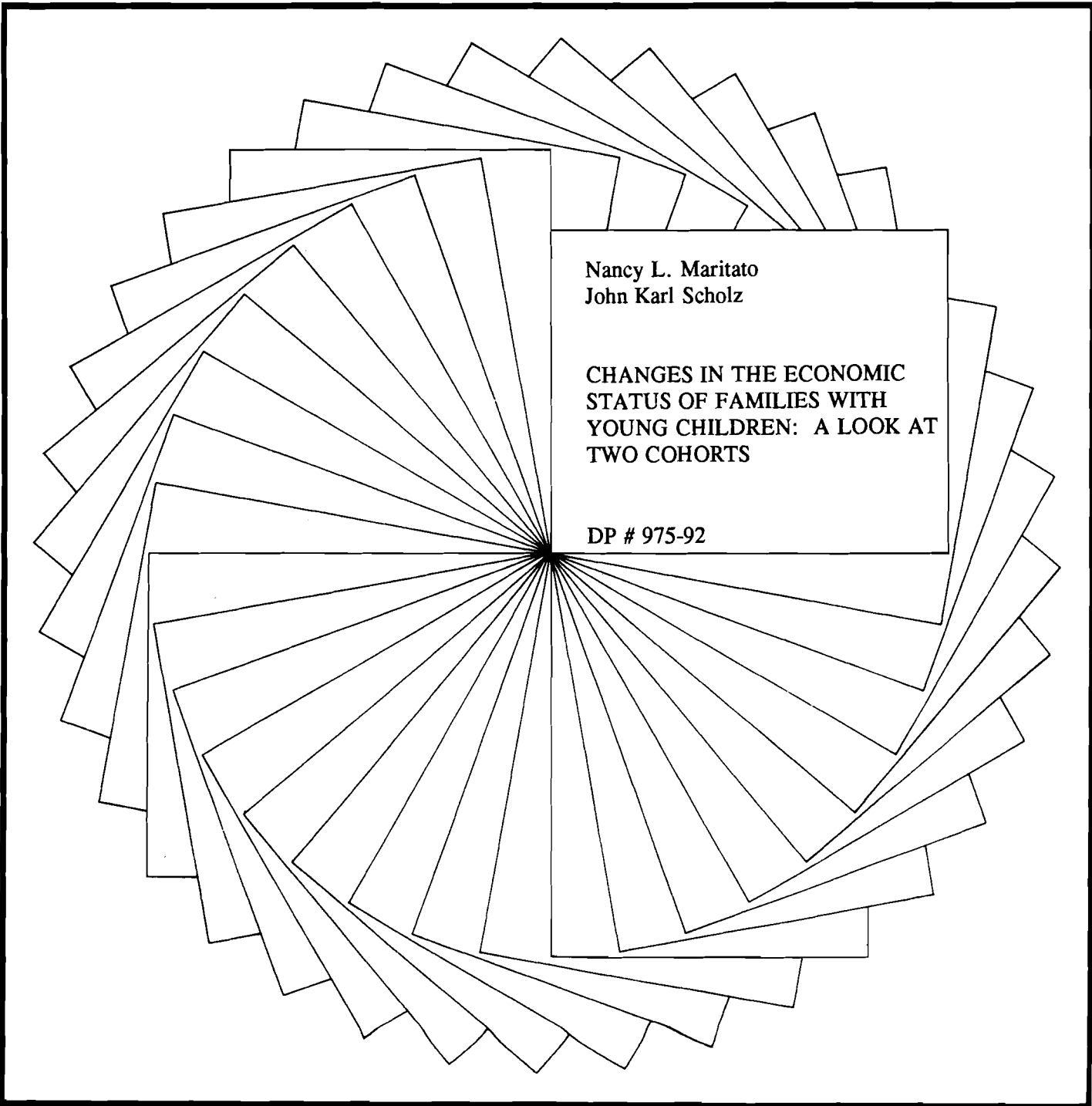


Institute for Research on Poverty

Discussion Papers



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CHANGES IN THE ECONOMIC
STATUS OF FAMILIES WITH
YOUNG CHILDREN: A LOOK AT
TWO COHORTS

DP # 975-92

**Changes in the Economic Status of Families with
Young Children: A Look at Two Cohorts**

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June 1992

The research reported here was supported by a grant from the Office of the Assistant Secretary for Planning and Evaluation, U.S. Department of Health and Human Services, to the Institute for Research on Poverty. Any opinions expressed are those of the authors alone and not of the sponsoring institutions. We thank Ip-Wing Yu for his extremely capable assistance and Mark Mazur and Andy Reschovsky for helpful comments.

Abstract

This paper describes changes in the economic status of families with young children over the past twenty years. We examine two cohorts of families. The older cohort is composed of families in which children born between 1963 and 1968 reside. The younger cohort is composed of families in which children born between 1973 and 1978 reside. Data from the Panel Study of Income Dynamics are used to examine the economic changes these families experienced over two ten-year periods, beginning in 1968 for the older cohort and 1978 for the younger cohort. With this approach we compare two sets of families in roughly similar stages of the life-cycle.

We find fewer children are in two-parent families in the younger cohort. We see a continuation of a trend observed in the older cohort where an increasing number of wives are working and, among those that work, are working more hours. Total income and income growth across the cohorts are similar. There are fewer homeowners in the younger cohort. Average property and federal income tax payments were lower and rose less rapidly for families in the younger cohort. Following the same families over time, we provide modest evidence that the distribution of income and tax burdens has become slightly more unequal, though these changes are considerably smaller than those observed from analyses looking at cross-sectional data.

Changes in the Economic Status of Families with Young Children: A Look at Two Cohorts

In recent years a considerable amount of attention has been paid to the changing economic characteristics of families with children. The Select Committee on Children, Youth, and Families (SCC, 1989) provides a detailed statistical portrait of the demographic, financial, educational, and governmental programs directed at families with children. The National Commission on Children (NCC, 1991) presents a wide-ranging analysis of issues surrounding children, along with an extensive set of policy proposals, the most significant being a proposal to replace the dependent exemption with a \$1,000 refundable child credit for all dependent children under the age of eighteen. The focus on young families taken in the SCC and NCC, as well as in this paper, is a natural one for policymakers. Younger families are in the process of making career and educational decisions that may affect their future prospects. Moreover, the economic situation these families face may affect the life chances of their children.

This paper describes changes in the economic status and distributional changes experienced by families with young children over the past twenty years. We use data from the Panel Study of Income Dynamics (PSID) to examine two groups of families. The first, which we call the older cohort, is composed of families in which children born between 1963 and 1968 reside. The second, our younger cohort, is composed of families in which children born between 1973 and 1978 reside. The PSID data are used to examine the economic changes these families experienced over two ten-year periods, beginning in 1968 for the older cohort and 1978 for the younger cohort. With this approach we compare families in similar stages of their life-cycle.

The first part of the paper examines demographic, labor market, and financial changes within and across cohorts. We show, for example, that total household money incomes (before-tax, in constant dollars) were slightly lower for households in the younger cohort than they had been for similar

households a decade earlier. The rate of homeownership was also lower for households in the younger cohort and it grew less rapidly than it did for the older cohort.

The second part of the paper examines distributional changes in income and taxes within and across cohorts. The data used for this paper allow us to make more precise statements about these changes than are commonly found in the policy literature. Standard distributional analyses report, for example, the fraction of total income earned, by household income decile, for two different years. Descriptive statements are then commonly made about income changes of households in different deciles, as if households remain in the same income decile across years. Unfortunately, standard comparisons reveal little about distributional changes experienced by specific groups of households, for example, those in the bottom quintile of the income distribution.¹ With panel data, we are able to compare the results from conventional distributional analyses with those obtained by looking at changes in income and taxes for the same households over time.

I. CHANGES IN THE ECONOMIC CIRCUMSTANCES OF YOUNG FAMILIES

A. Data

The data for this analysis come from the Panel Study of Income Dynamics, which covers the period 1968-1987. An individual is included in the analysis if he or she was born between 1963-1968 or between 1973-1978. We then extracted a wide variety of demographic, labor market, income, and tax and transfer variables related to the household the child was living in. Focusing on the child provides a consistent rule for handling changes in family composition. In tabulations of family income, for example, the income of a two-parent family would be recorded as the joint income of the head and spouse. If the parents split, family income would simply be the income of the custodial parent. Thus, all figures we report refer to the household in which the child, born either between 1963-1968 or 1973-1978, resides.

In our tabulations we focus on the changing economic status of families with children born between 1973-1978 and compare these changes to the experiences of families with children born ten years earlier. In this way, we compare the economic resources that are at the disposal of the child's family, at equivalent stages of the children's and presumably the parents' life-cycle. In the following tabulations, all dollar values are given in constant 1980 dollars using the consumer price index as a deflator and are weighted with the PSID family weights.²

The periods 1968-1977 for the older cohort and 1978-1987 for the younger cohort represent similar periods with respect to the business cycle. For the older cohort, peaks occurred in the fourth quarter of 1969 and 1973 (1969:4 and 1973:4) while troughs occurred in 1970:4 and 1975:1. For the younger cohort, peaks occurred in 1980:1 and 1981:3, while troughs occurred in 1980:3 and 1982:4. There were three years between the last trough and the end of the observation period for the older cohort, five years for the younger cohort. The 1982 recession, however, was considerably deeper than the recessions of the 1970s. In both cohorts two years passed from the beginning of the sample period to the first business cycle peak.

B. Demographic Changes

In table 1 we present tabulations on several demographic characteristics of families in the sample. Column 1 of the table shows that an increasing number of children in each cohort are being raised in families where the household head is not married. Over time, the fraction of household heads that are married decreases at an annual rate of 1.1 percent in the younger and 1.5 percent in the older cohort. Thus, the well-known fact that an increasing fraction of children are being raised in one-parent families is corroborated in the PSID.³ Most of the decline in the number of two-parent families is attributable to a large increase in divorce, as shown in column 2. In our data there have been only small increases in the number of families headed by a never-married or separated parent. Figure 1 graphs the increase in the number of single-parent families between and across cohorts.

TABLE 1

**Demographic Characteristics of Families with Young
Children, 1968-1977 and 1978-1987**

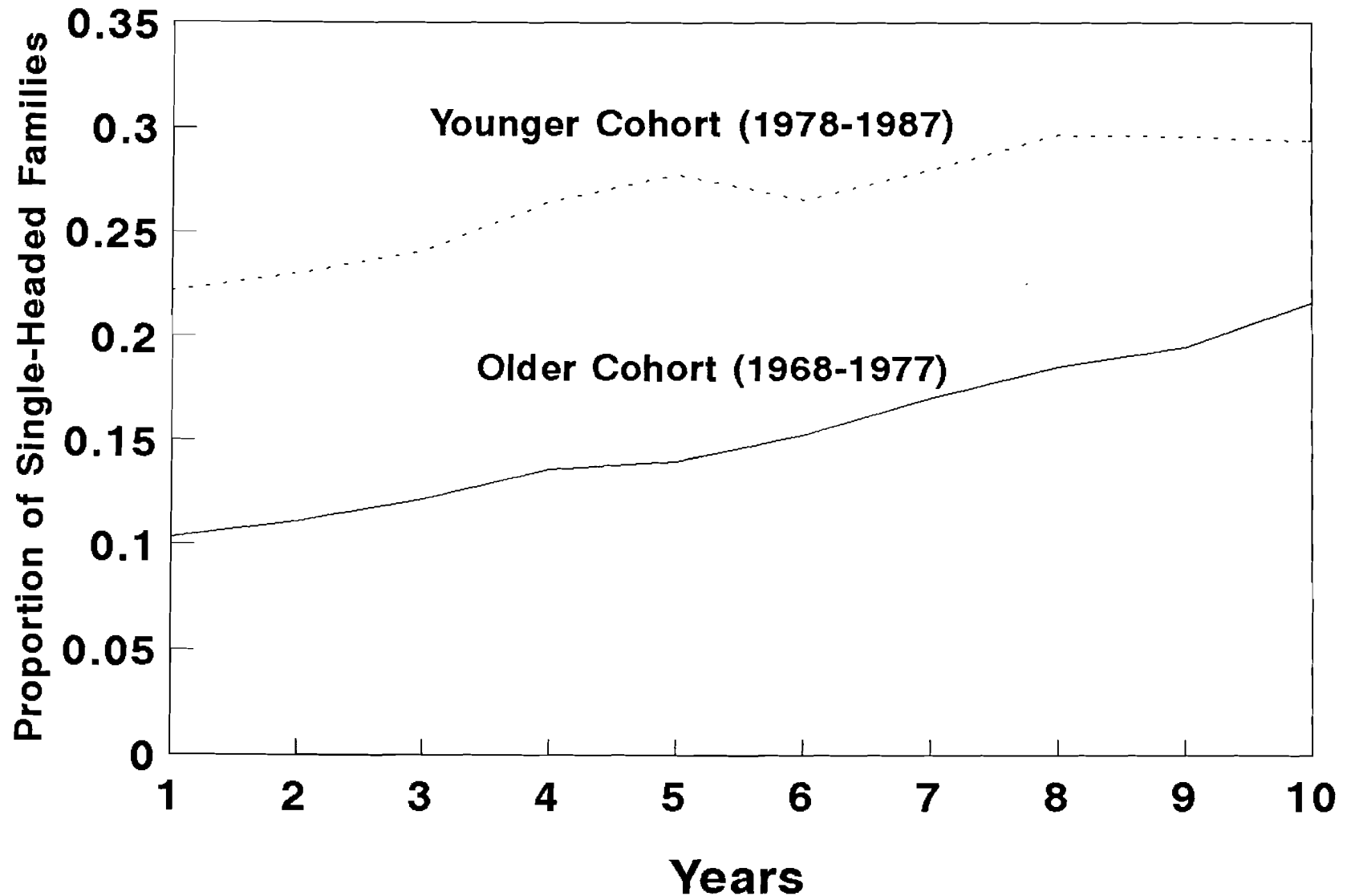
	Married Head	Divorced Head	Median Number of Children	Age of Head	Median Family Size	Median Education of Head
Younger Cohort						
Year 1 (1978)	77.8%	10.6%	2	33.4	4	12+ ^a
Year 10 (1987)	70.6%	16.4%	2	40.8	4	12+
Growth (%/year)	-1.1	5.0	0	2.2	0	0
Older Cohort						
Year 1 (1968)	89.6%	2.1%	3	36.7	5 ^b	12 ^b
Year 10 (1977)	78.4%	9.3%	2	42.7	4	12
Growth (%/year)	-1.5	18.0	-4.4	1.7	-2.4	0

Source: Panel Study of Income Dynamics.

^aHigh school graduate with some "nonacademic" training.

^bData on this variable are first available for 1969.

Figure 1 : Proportion of Families with Young Children Headed by a Single Parent. Source : Panel Study of Income Dynamics.



The remaining columns of table 1 show that there was no change in the median number of children per family and in family size for the younger cohort. In comparison, the median family was larger in 1968, but declined from five members to four by 1977. The average age of household heads has fallen somewhat across cohorts. There are several factors that affect this figure. Single-parent families tend to be younger than their two-parent counterparts, holding the age of the oldest child constant. In addition, a nontrivial fraction of children are raised by grandparents. Differing compositions of these custodial relationships will affect the average age of household heads. Finally, the median level of education increased from high school graduate in the older cohort to high school graduate plus some "nonacademic" training in the younger cohort.

C. The Labor Market

Table 2 presents data on different labor market experiences for households in the two cohorts. The data for young families differ slightly from economy-wide developments. In 1968 average weekly earnings in the private sector were \$298.42; by 1987 this had fallen to \$269.16.⁴ Data from the same source show that average weekly hours fell at an annual rate of .4 percent. In the PSID, earnings of heads of families with young children increased at a very small rate while weekly hours have fallen slightly. Figure 2 demonstrates the stability of annual working hours over time for heads of families with young children.

As Levy (1988) emphasized, growth in family income over the last twenty years occurred almost solely as a consequence of the increasing number of second earners working in families. Beginning in 1968, spouses increased their annual hours of work by 4.7 percent a year, while wages increased by 6.7 percent a year. Conditional on working, spouses in the older cohort increased their hours at an annual rate of 1.4 percent (from a base of 1,095 hours) and increased their wages at an annual rate of 3.3 percent (from a base of \$5,224).⁵ These trends have continued for the younger cohort, with minor deviations. For example, the growth rate of annual hours (column 2) for spouses exceeds the

TABLE 2

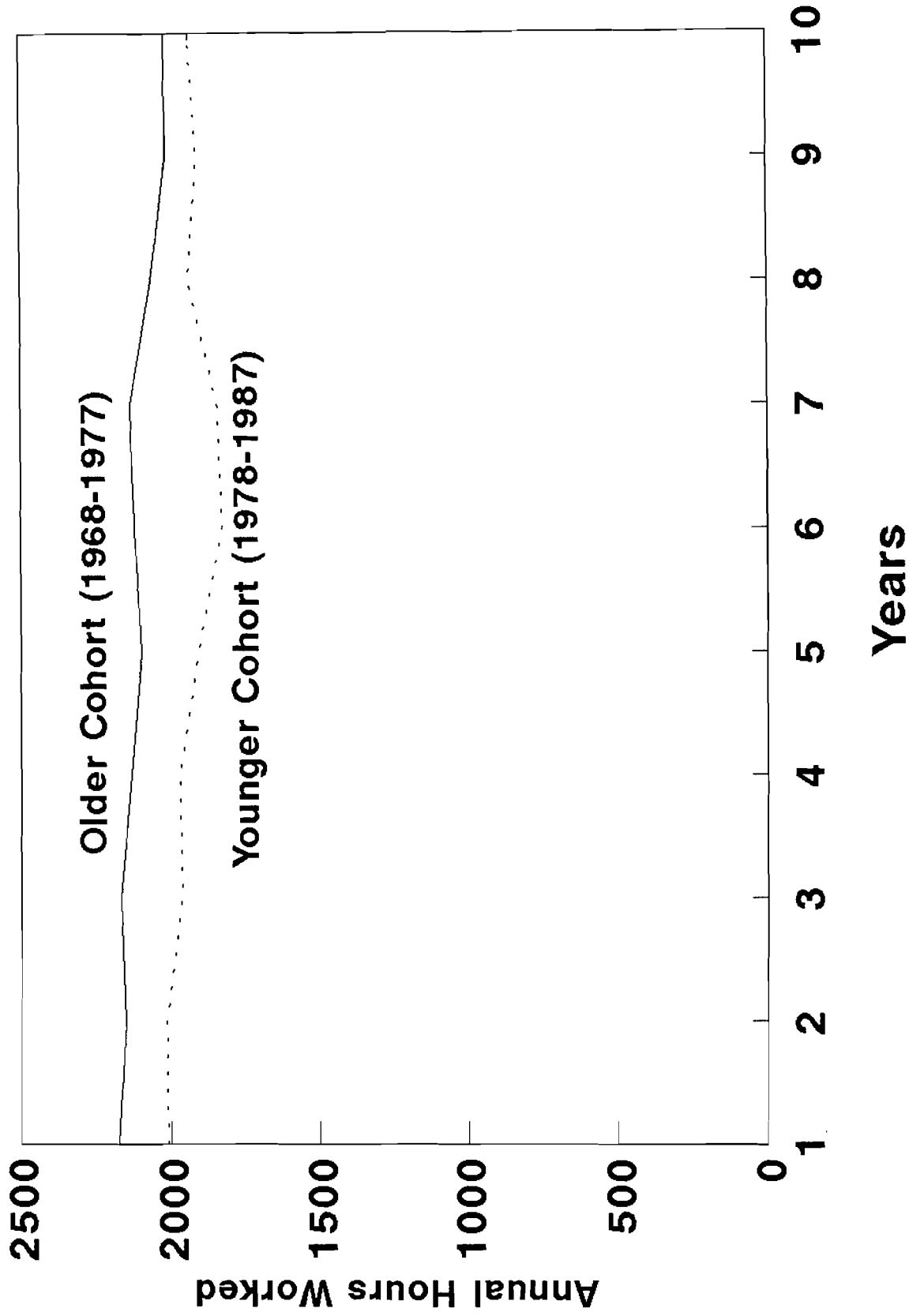
**Labor Market Characteristics of Families with
Young Children, 1968-1977 and 1978-1987**

	Head Annual Hours	Spouse Annual Hours	Head Annual Wages	Spouse Annual Wages	Weeks Worked by Spouse	Number of Years Head Has Worked Since Age 18
Younger Cohort						
Year 1 (1978)	2,010.0	456.1	\$15,749	\$2,390	14.0	13.6
Year 10 (1987)	1,936.6	822.8	\$16,270	\$4,737	21.3	19.1
Growth (%/year)	-0.4	6.8	0.4	7.9	4.8	3.8
Older Cohort						
Year 1 (1968)	2,175.1	378.9	\$15,302	\$1,794	10.6	20.4*
Year 10 (1977)	2,015.7	573.3	\$17,594	\$3,220	17.6	21.9
Growth (%/year)	-0.8	4.7	1.6	6.7	5.8	2.4

Source: Panel Study of Income Dynamics.

*Data on this variable are first available for 1974.

Figure 2 : Annual Hours Worked by Family Heads with Young Children, 1968-1977 and 1978-1987. Source : Panel Study of Income Dynamics.



growth rate of weeks worked (column 5), which implies that both hours per week and weeks per year have increased. Conditional on working, spouses in the younger cohort increased their hours at an annual rate of 3.4 percent (from a base of 1,110 hours) and increased their wages at an annual rate of 4.6 percent (from a base of \$5,815). Figures 3 and 4 illustrate the increases across cohorts of spouses' annual hours of work and labor force participation. The difference across cohorts in the years of labor market experience of the household head appears to be entirely a consequence of the difference in the mean age of heads of households across the two cohorts.

D. Household Incomes and Assets

Table 3 presents tabulations on financial characteristics between and across cohorts. Column 1 presents data on mean total money income, defined as the sum of labor and capital income, transfer payments, and gifts. Incomes increased slightly more rapidly from 1968-1977, which resulted in a slightly higher average family income in 1977 than in 1987. Because families are somewhat smaller on average in the younger cohort, however, the income-to-needs ratios are slightly higher in the younger cohort.⁶ Figure 5 plots the gradual increase in total family income that occurred over this period.

The remaining columns of table 3 provide information on income from financial assets and housing. The older cohort appears to have accumulated assets at a very rapid rate, since income from financial assets increased at an annual rate of 16.8 percent. The comparable rate for the younger cohort was 2.5 percent. Figure 6 shows the time series of income from financial assets across cohorts.

By far the most valuable asset in the typical household's balance sheet is the home. Column 4 shows that fewer younger households have acquired homes and the rate of home acquisition for younger households is slower than it was for their counterparts a decade earlier. Average home values, conditional on owning a home, were \$6,500 (in year 1) to \$10,000 (in year 10) higher for the

Figure 3 : Annual Hours Worked by Working Wives with Young Children, 1968-1977 and 1978-1987. Source : Panel Study of Income Dynamics.

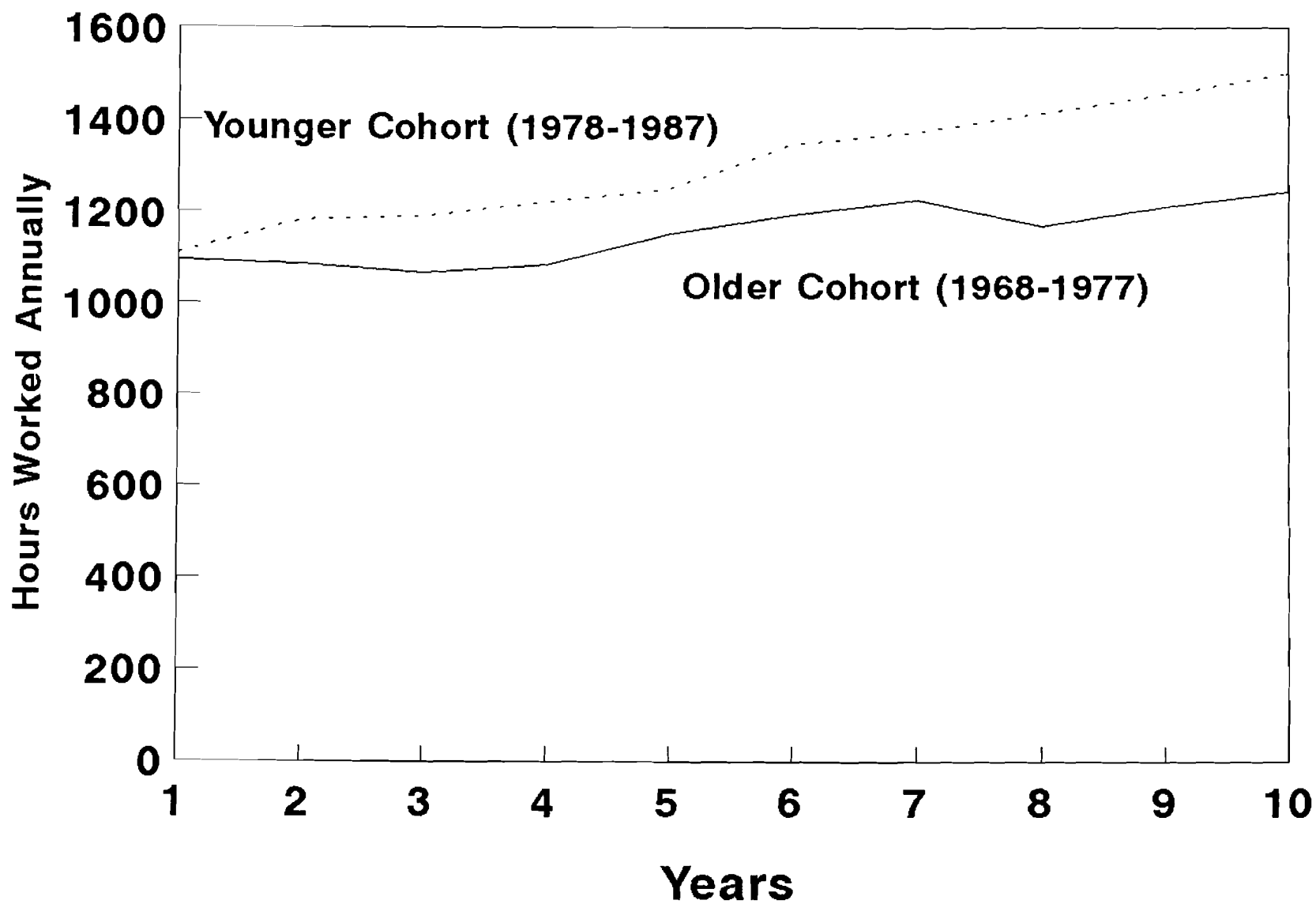


Figure 4: Labor Force Participation of Wives with Young Children, 1968-1977 and 1978-1987. Source : Panel Study of Income Dynamics.

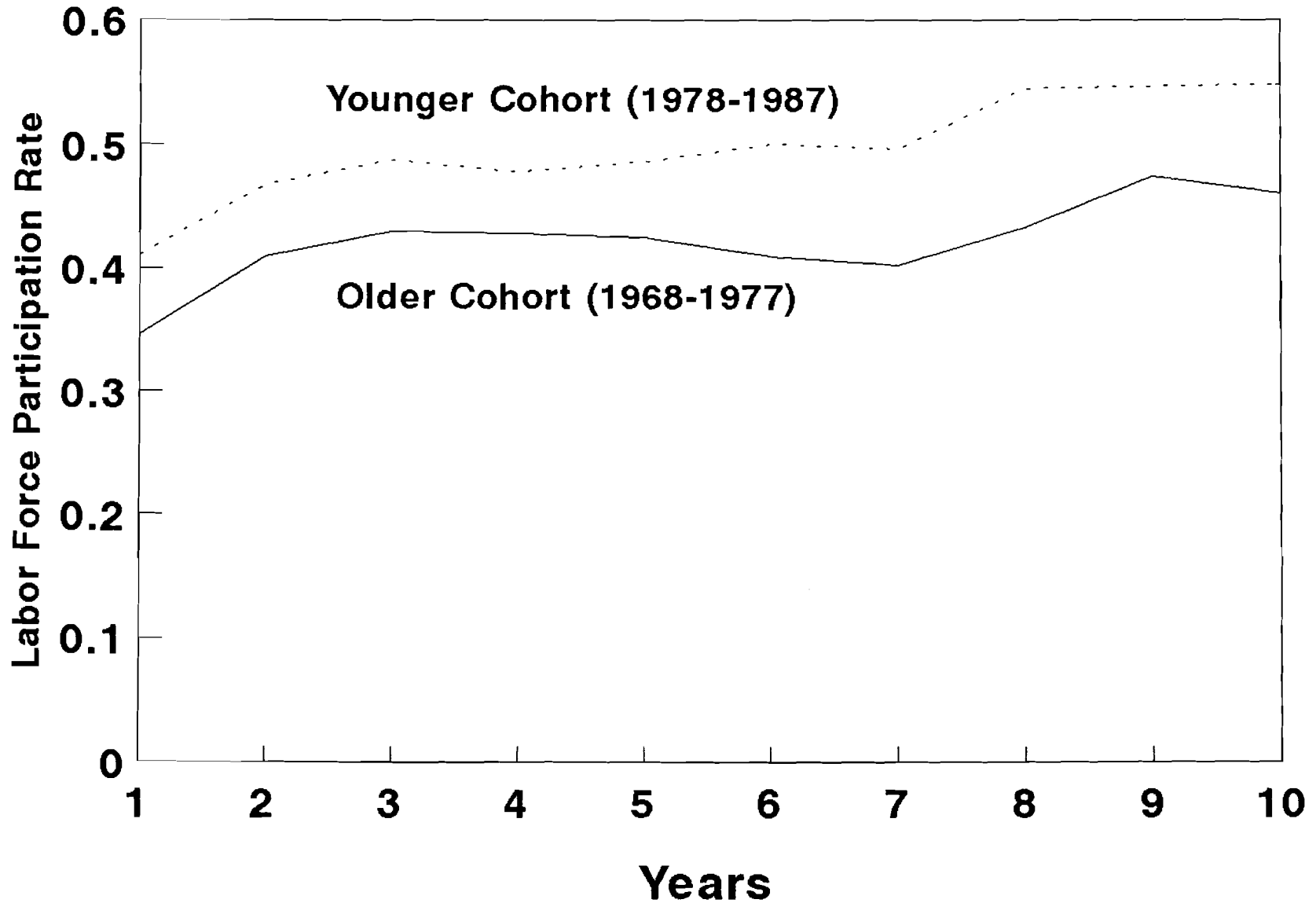


TABLE 3

**Financial Characteristics of Families with Young Children,
1968-1977 and 1978-1987**

	Total Money Income	Income- to-Needs Ratio	Income from Financial Assets	Percentage Who Are Homeowners	Home Value ^a	Mortgage Payment ^a
Younger Cohort						
Year 1 (1978)	\$22,945	2.6	\$1,371	63.8	\$52,203	\$2,809
Year 10 (1987)	\$28,141	2.9	\$1,705	68.8	\$65,410	\$3,319
Growth (%/year)	2.3	1.2	2.5	0.8	2.5	1.9
Older Cohort						
Year 1 (1968)	\$22,545	2.2	\$574	64.7	\$45,838	\$2,506
Year 10 (1977)	\$29,045	2.8	\$2,328	76.2	\$55,828	\$2,351
Growth (%/year)	2.9	2.7	16.8	1.8	2.2	-0.7

Source: Panel Study of Income Dynamics.

^aConditional on owning a home.

Figure 5 : Mean Total Family Income for Families with Young Children, 1968-1977 and 1978-1987. Source : Panel Study of Income Dynamics.

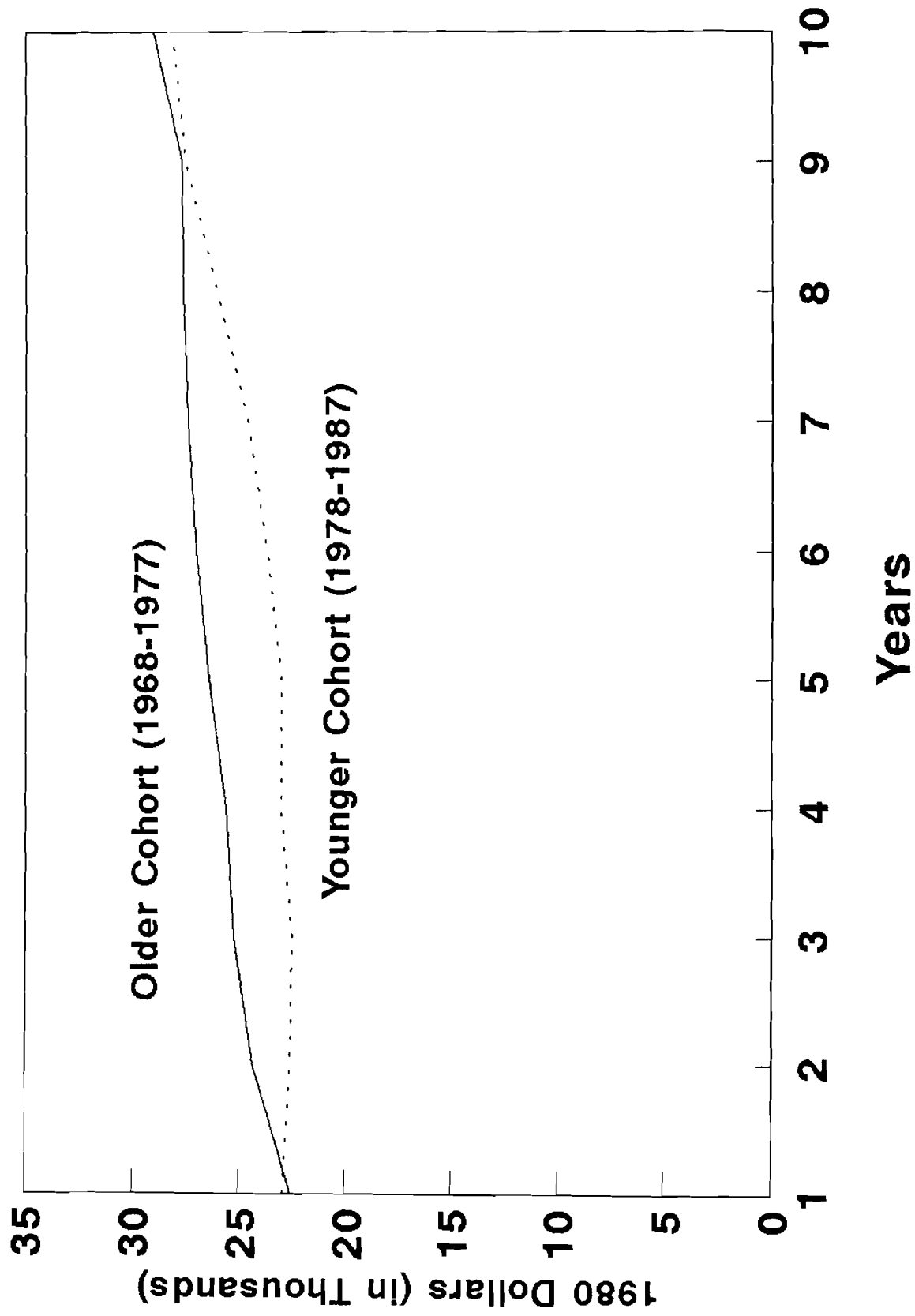
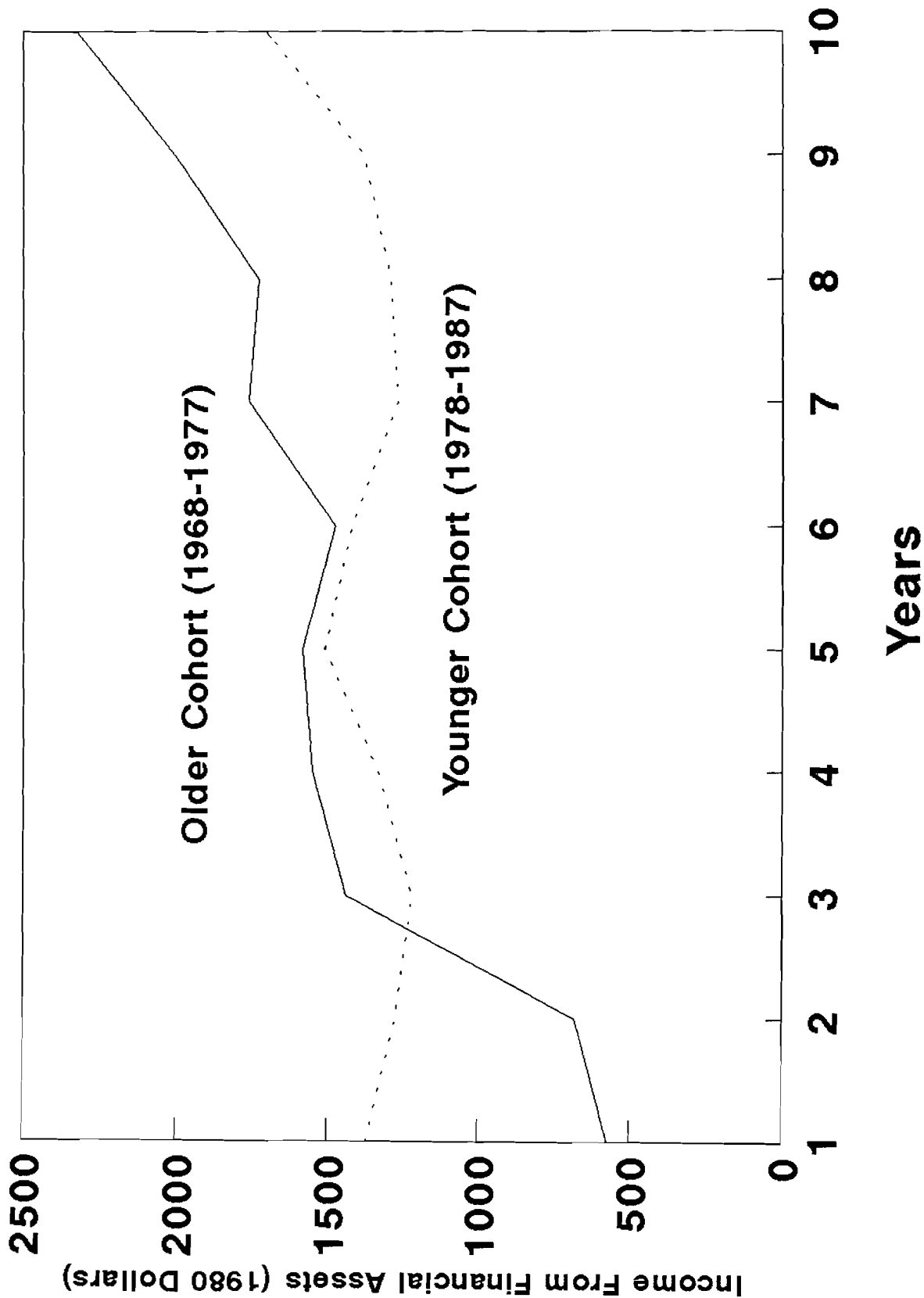


Figure 6 : Income from Financial Assets, for Families with Young Children, 1968-1977 and 1978-1987. Source : Panel Study of Income Dynamics.



younger cohort. Average mortgage payments were \$300 (year 1) to \$1,000 (year 10) higher for the younger cohort. These trends undoubtedly contribute to the lower rate of homeownership in the younger cohort.

E. Tax Payments and Transfer Receipts

Tables 4a and 4b present tabulations of tax payments and transfer receipts for the two cohorts. The first column of table 4a shows that the older cohort faced a significant increase in property taxes between 1968 and 1977. Real property tax burdens actually fell for the younger cohort, which presumably partially reflects California's 1979 Proposition 13 and its aftermath. There was a rapid 7.4 percent real increase in federal income tax liabilities for families in the older cohort between 1968 and 1977 as "bracket creep" pushed households into successively higher marginal tax brackets. Federal income tax burdens increased at only a 1.2 percent rate on the younger cohort, which suggests that the effects of inflationary increases in tax burdens were largely offset by the substantial reductions in tax rates in 1981.⁷ Figure 7 illustrates the changes in average federal income tax burdens for households in the two cohorts.

In table 1 we showed that there has been a substantial increase in single-parent families due to divorce. Column 3 of table 4a shows that there have been correspondingly large increases in the fraction of families receiving child support in both cohorts. The average payment, conditional on receiving child support, has increased in the younger cohort and fell in the older cohort. Despite this trend, average payments were larger in the older cohort. Social security is also an important source of income for a small but significant number of custodial households, presumably children living with grandparents. The social security figures are quite similar across cohorts.

Table 4b shows the participation rates and average receipts for the two most well-publicized transfer programs, Aid to Families with Dependent Children (AFDC) and food stamps. Both the participation rate and the average value of receipts, conditional on receiving AFDC, fell for the

TABLE 4a

**Tax Burdens, Social Security Receipts, and Child Support,
for Families with Young Children, 1968-1977 and 1978-1987**

	Property Taxes ^a	Federal Income Taxes	Percentage Receiving Child Support	Mean Child Support Receipts ^b	Percentage Receiving Social Security	Mean Social Security Receipts ^c
Younger Cohort						
Year 1 (1978)	\$741 ^d	\$3,281	6.5	\$1,556	4.7	\$3,732
Year 10 (1987)	\$710	\$3,641	15.4	\$2,153	10.0	\$4,831
Growth (%/year)	-0.5	1.2	10.1	3.7	8.8	2.9
Older Cohort						
Year 1 (1968)	\$670	\$2,120	3.6	\$3,315 ^e	5.1	\$3,379 ^e
Year 10 (1977)	\$945	\$4,034	6.1	\$2,805	10.9	\$4,708
Growth (%/year)	3.9	7.4	7.8	-2.4	11.5	4.9

Source: Panel Study of Income Dynamics.

^aConditional on paying property taxes.

^bConditional on receiving child support.

^cConditional on receiving social security.

^dData on this variable are not available for 1978.

^eData on this variable are not available for 1968 and 1969.

TABLE 4b

**AFDC and Food Stamp Receipts of Families with
Young Children, 1968-1977 and 1978-1987**

	Percentage Receiving AFDC	Average AFDC Receipts ^a	Percentage Receiving Food Stamps	Average Food Stamp Receipts ^b
Younger Cohort				
Year 1 (1978)	9.0	\$3,614	13.7	\$1,000
Year 10 (1987)	7.0	\$2,306	13.2	\$1,166
Growth (%/year)	-2.8	-4.9	-0.4	1.7
Older Cohort				
Year 1 (1968) ^c	4.0	\$4,626	12.1	\$461
Year 10 (1977)	5.4	\$3,990	9.6	\$1,158
Growth (%/year)	3.8	-1.8	-2.9	12.2

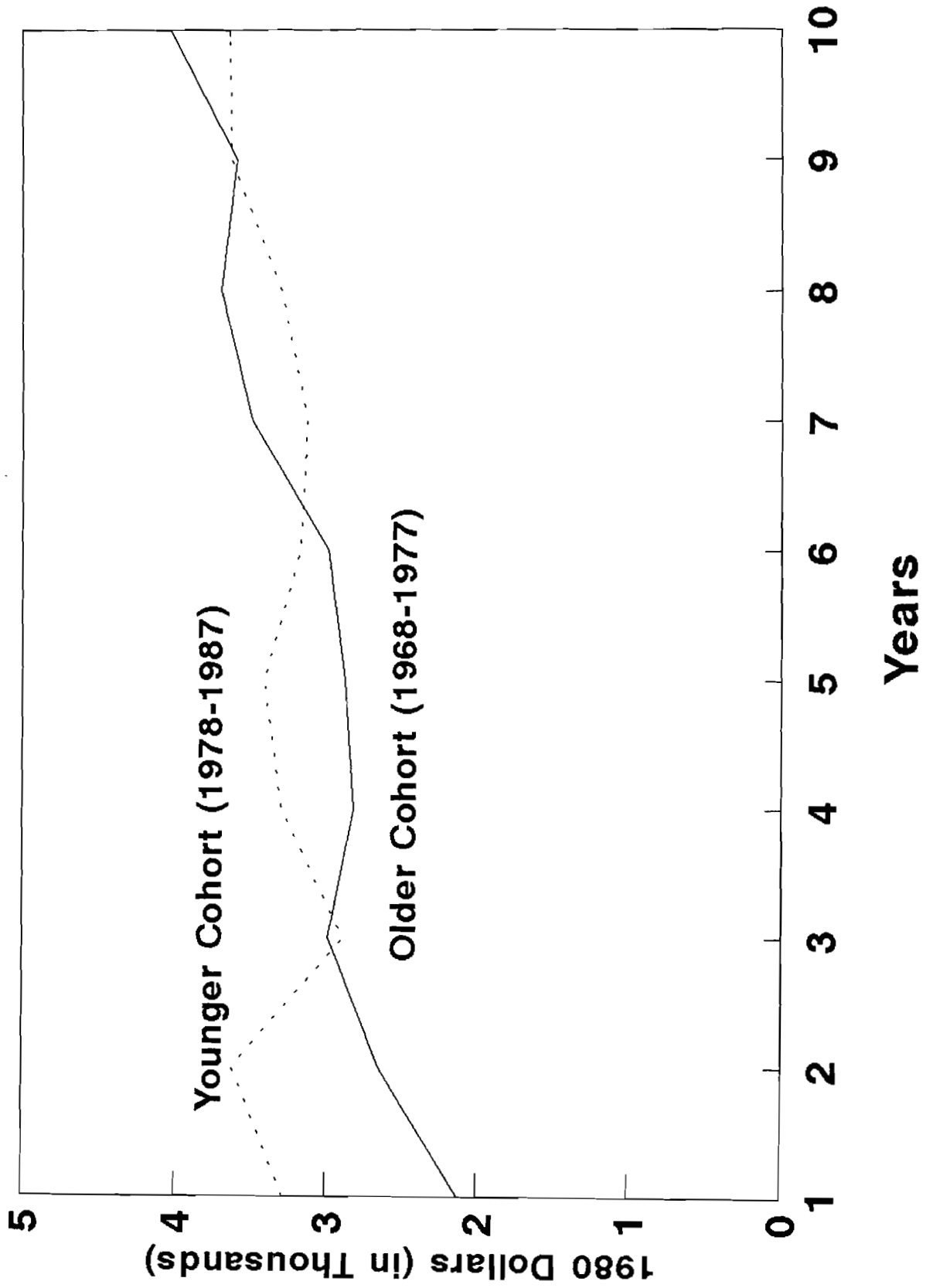
Source: Panel Study of Income Dynamics.

^aConditional on receiving AFDC.

^bConditional on receiving food stamps.

^cData on variables in this row are not available for 1968.

Figure 7: Mean Amount of Federal Income Taxes Paid by Families with Young Children, 1968-1977 and 1978-1987. Source : Panel Study of Income Dynamics.



younger cohort. Average AFDC benefits also fell for the older cohort, but their mean level of benefits was significantly higher. By the tenth year in both cohorts, average food stamp benefits were nearly equal, though significantly larger fractions of families in the younger cohort were receiving AFDC or food stamp benefits.

II. MEASURING CHANGES IN THE DISTRIBUTION OF TAXES AND INCOMES

The previous section presented means on a variety of economic characteristics. Much of the debate over recent economic performance, however, is carried out over distributional issues.⁸ In tables 5 and 6 we present distributions, by income decile, of total family money income and total federal income taxes, by cohort. Columns 1, 2, and 3 present conventional distributional analysis tabulations. The top panel of table 5, for example, shows that for the younger cohort, the distribution of income appears to have become more unequal. In 1978 young families in the bottom decile of the income distribution earned 2 percent of the total money income earned by this cohort. By 1987, the bottom decile (in 1987) earned only 1.3 percent of total income, a decline of nearly 40 percent. Overall, the share of income going to households in the bottom 60 percent of the income distribution fell between 1978-1987. This result is consistent with the concerns of many analysts about increasing inequality in the U.S. economy.⁹

Of course, these columns alone do not provide a complete picture of distributional changes. The bottom panel of table 5 presents similar statistics for the families of children born ten years earlier. Like the younger cohort, these data indicate that similar distributional changes occurred for the older cohort. The share of income going to the bottom decile of the distribution fell by almost 20 percent. Indeed, as it did for the younger cohort, the share of income going to each of the bottom six deciles decreased. Thus, at least in the context of young families and these data, the changes in the distribution of income appear to be a continuation of trends that began at least twenty-three years ago.

TABLE 5

**Share of Total Family Income, by Income Decile,
for Families with Young Children, 1968-1977 and 1978-1987**

Younger Cohort	Share of 1978 Income by 1978 Decile	Share of 1987 Income by 1987 Decile	Percentage Growth in Income	Share of 1987 Income by 1978 Decile	Percentage Growth in Income by 1978 Decile
Decile					
1	2.00	1.27	-36.50	3.93	96.50
2	4.05	3.25	-19.75	5.89	45.43
3	5.78	4.94	-14.53	7.07	22.32
4	7.13	6.34	-11.08	8.32	16.69
5	8.51	7.77	-8.70	8.93	4.94
6	9.55	9.17	-3.98	11.07	15.92
7	10.85	10.93	0.74	10.77	-0.74
8	12.26	12.90	5.22	12.16	-0.82
9	15.11	15.80	4.57	13.82	-8.54
10	24.76	27.63	11.59	18.04	-27.14
Older Cohort	Share of 1968 Income by 1968 Decile	Share of 1977 Income by 1977 Decile	Percentage Growth in Income	Share of 1977 Income by 1968 Decile	Percentage Growth in Income by 1968 Decile
Decile					
1	2.46	2.05	-16.67	4.29	74.39
2	4.67	3.81	-18.42	6.10	30.62
3	6.26	5.32	-15.02	6.88	9.90
4	7.36	6.59	-10.46	9.10	23.64
5	8.33	7.92	-4.92	8.47	1.68
6	9.59	9.50	-0.94	10.15	5.84
7	10.94	10.99	0.46	11.33	3.56
8	12.37	12.78	3.31	12.41	0.32
9	15.08	15.69	4.05	12.95	-14.12
10	22.94	25.35	10.51	18.32	-20.14

Source: Panel Study of Income Dynamics.

For the younger cohort, the fourth column of table 5 shows the share of 1987 income earned by households classified by their 1978 income decile. This measures the relative income growth of the same households over time. For example, incomes of those households that constituted the bottom decile in 1978 grew by 97 percent from 1978 to 1987. As expected, income growth tends to equalize the distribution of income over time.¹⁰ The final column indicates that the relative income growth of households at the bottom of the income distribution was slightly faster for the younger cohort than for the older cohort. This growth helped to narrow slightly the increased inequality in the distribution of before-tax income. Nevertheless, by all measures the distribution of income for the younger cohort is slightly less equal than the distribution for the older cohort.¹¹

Table 6 presents similar information about the distribution of federal income tax payments by income decile. The distribution of tax burdens for the older cohort clearly became more progressive between 1968-1977. This presumably is a consequence of inflation combined with progressive tax schedules. As inflation increased nominal incomes, real tax burdens increased. The greater the household income, the larger the real increase was. The increase in tax progressivity did not continue in the younger cohort. The combined effects of a reduction in inflation, along with the drastic restructuring of tax rates that occurred as a consequence of the 1981 Tax Act, increased the relative tax burdens of all but the sixth and top deciles of the income distribution. Thus, the levels of tax burdens by decile were nearly identical for the younger cohort in 1987 as they were for the older cohort in 1977.

The final two columns of table 6 provide modest evidence that the income tax system has become slightly less progressive over time. The bottom quintile of the 1978 income distribution earned 9.82 percent of the 1987 income and paid 5.69 percent of the taxes. The corresponding figures for the older cohort are 10.39 percent of the income and 5.37 percent of the taxes. The top quintile of the 1978 income distribution earned 31.86 percent of the income and paid 41.19 percent of the taxes.

TABLE 6

**Share of Federal Income Taxes by Income Decile,
for Families with Young Children, 1968-1977 and 1978-1987**

Younger Cohort	Share of 1978 Income Taxes by 1978 Decile	Share of 1987 Income Taxes by 1987 Decile	Percentage Growth in Income Taxes	Share of 1987 Income Taxes by 1978 Decile	Percentage Growth in Taxes by 1978 Decile
Decile					
1	-0.31	-0.20	35.48	1.71	-651.61
2	0.13	0.68	423.08	3.98	2,961.54
3	1.89	2.01	6.35	5.33	182.01
4	3.31	3.46	4.53	6.63	100.30
5	4.84	5.18	7.02	7.16	47.93
6	7.12	6.82	-4.21	10.86	52.53
7	8.62	9.36	8.58	10.16	17.87
8	11.55	11.91	3.12	12.98	12.38
9	16.39	17.72	8.11	15.59	-4.88
10	46.46	43.06	-7.32	25.60	-44.90
Older Cohort	Share of 1968 Income Taxes by 1968 Decile	Share of 1977 Income Taxes by 1977 Decile	Percentage Growth in Income Taxes	Share of 1977 Income Taxes by 1968 Decile	Percentage Growth in Taxes by 1968 Decile
Decile					
1	0.12	-0.32	-366.67	2.11	1,658.33
2	1.40	0.71	-49.29	3.26	132.86
3	2.85	2.30	-19.30	4.28	50.18
4	4.53	3.32	-26.71	6.93	52.98
5	6.60	5.29	-19.85	7.71	16.82
6	7.95	7.35	-7.55	8.97	12.83
7	10.65	9.35	-12.21	11.75	10.33
8	12.61	11.89	-5.71	13.49	6.98
9	17.06	16.97	-0.53	14.28	-16.30
10	36.23	43.14	19.07	27.22	-24.87

Source: Panel Study of Income Dynamics.

The corresponding figures for the older cohort are 31.27 and 41.50. While these differences are narrower than other figures on changes in the distribution of income, they are the first, to our knowledge, that show that after ten years a given set of poor households earned less income and paid more taxes, and a given set of wealthy households earned more income and paid fewer taxes, than similar households a decade earlier.

III. CONCLUSIONS

The simplicity of our analytic methods makes the results of our analysis straightforward. The highlights of the tabulations show the following:

- o There have been large increases in the fraction of households headed by a single parent, both within and across each cohort, primarily due to a steady increase in the number of divorced parents over time.
- o Earnings and hours of heads of households have been stagnant for the last twenty years. Earnings and hours of spouses have increased steadily in both cohorts. Spouses in the younger cohort work slightly more, thus labor earnings for the younger cohort have increased relative to those for the older cohort.
- o The level and growth of total household money income is similar across cohorts. The rate of homeownership is lower for younger households and has been growing less rapidly. The average value of homes purchased and mortgage payments has increased rapidly across the cohorts.
- o Both average property tax and federal income tax burdens were smaller and rose less rapidly for families in the younger cohort. Child support payments increased, while the overall level of transfer receipts appears to have declined slightly for households in the younger cohort, though a larger fraction of the younger cohort were receiving these benefits.
- o The distribution of pretax income has become less equal, both within and across cohorts, though the cross-sectional income changes are somewhat larger than those obtained by following the same households over time. The distribution of tax burdens became considerably more progressive from 1968-1977. Since then, the distribution of federal income tax burdens has been roughly constant. Focusing on the same group of households over time, we show that the distribution of income has become slightly more unequal, and the distribution of federal income tax burdens slightly less progressive for the younger cohort, relative to similar households a decade earlier.

Notes

¹Gottschalk and Moffitt (1990) draw a distinction between two types of inequality that cannot be distinguished by cross-sectional distributional analyses. These are: (i) increases in inequality caused by a reduction in the share of "permanent income" received by the poor and (ii) increases in inequality caused by increased variability of transitory income, holding shares of permanent income received by the poor constant.

²As noted in the PSID User's Guide (1984), the family weights will not generate accurate population aggregates due to sample attrition, but they do accurately account for relative differences between families both in the cross-section and over time. Because of this, we present the tabulations as means or population shares rather than aggregate totals.

³For example, a recent Census Bureau publication entitled "Child Support and Alimony: 1989" reports that in 1989 roughly 26 percent of all children were born to unmarried mothers. This was up from roughly 16 percent in 1979.

⁴Both figures are in constant 1982 dollars and come from the 1991 Economic Report of the President, Table B-44, p. 336.

⁵The conditional means are not presented in the tables, but are available on request.

⁶The needs standard is calculated in the PSID based on weekly food costs. The standard is then converted to an annual amount and adjusted for economies of scale in household production.

⁷The 1986 Tax Act was not fully phased in until 1988 and thus did not have a major effect on the tabulations.

⁸See, for example, the New York Times, 9/26/91 (p.A1), "G.O.P. Paints the 80's Rosy, but the Democrats See Red."

⁹The share of income going to households in the top decile is considerably lower than other tabulations of the distribution of income (see, for example, the 1990 Green Book). This is partly a

consequence of the lack of oversampling among wealthy households. Avery, Elliehausen, and Kennickell (1988) argue that this leads to an understatement of the wealth and income held at the top of the income distribution. More importantly, incomes are top-coded in the PSID and households in each cohort are considerably more homogeneous in our sample than in the overall population since all households in the sample have young children. Thus, it is not surprising that the distribution of income among these households is more equal.

¹⁰Since incomes are affected by both transitory and permanent changes, low draws on the transitory component will result in low incomes. In subsequent periods draws on transitory incomes are likely to even out, which will increase the incomes of lower-income households and lower the incomes of higher-income households.

¹¹In other tabulations we show that households in the bottom 30 percent of the 1978 income distribution earned 15.5 percent of total income over the subsequent ten years. The corresponding figure for the bottom decile in 1968 was 16.8 percent.

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