

## Abstract

What Accounts for the Growing Fluctuations in Family Income in the US?  
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Family income inequality and instability have both increased in the US over the last three decades. This paper seeks to understand the factors that lie behind the increasingly large fluctuations in family income, even while head's earnings instability stopped increasing in the early 1990's.

We examine the following factors that have contributed to the rising family income instability: changes in variance of transitory income from each income source (male head's earnings, spouse's earnings, unearned income.), changes in the correlation between transitory shocks across income sources, and changes in fluctuations in the propensity of receiving income from each income source—e.g. increasing fluctuations in and out of employment.

Our results point to a set of factors that are consistent with the rise in family income instability: increase in transitory fluctuations in head's earnings in the late 1970's and early 1980's; increases in the correlation between head's transitory earnings and transitory fluctuations in non-earned income are all consistent with the rise in family income instability. On the other hand, the negative correlation between head's and spouse's earnings and the decrease in married women's earnings instability, have helped smooth out fluctuations in total family income. We also show that although male earnings instability is strongly correlated with business cycle, family income instability is less influenced by recessions due to household smoothing through spouses' earnings and unearned income.

Finally, we address the policy implications of the rise in family income instability.