Current Population Reports
Household Economic Studies

Dynamics of Economic Well-Being: Income, 1991 to 1992

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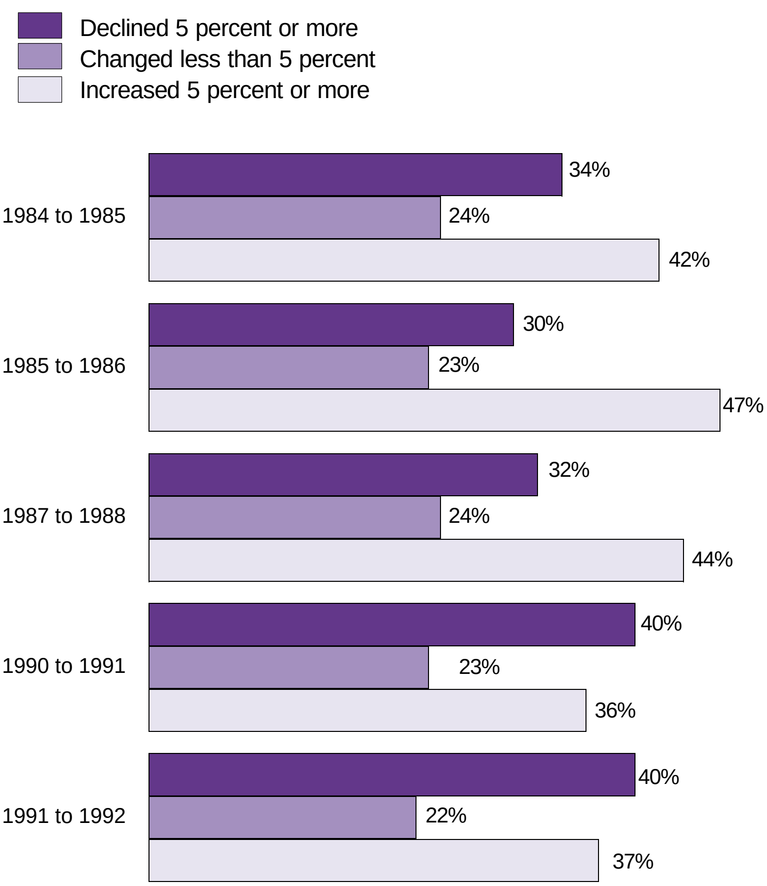
Income gains were less common from 1990 to 1992 than from 1984 to 1988.

One measure of national well-being is the income ratio — the ratio of a person's annual family income to their poverty level[1].

The chart at right describes Americans by whether their income ratio rose or dropped significantly (5 percent or more) or remained about the same from one year to the next. Data are shown for five different two-year periods.

During each of the three periods in the 1980's, more people saw their ratios rise than fall. However, during the 1990 to 1991 and 1991 to 1992 periods, the reverse was true. Median household income also dropped during the early 1990's, from $32,706 in 1989 to $30,786 in 1992 (in 1992 dollars).

Distribution of Americans, by Year-to-Year Percentage Changes in Income Ratio: 1984–1992



Note: The data in this Brief was collected by the Survey of Income and Program Participation (SIPP), which follows approximately 20,000 households over a 28-month or longer period.

Changes in personal and family circumstances can affect well-being.

Even though summary measures, such as median income, do not change much in real terms from one year to the next, income ratios do shift for most Americans. As the chart below demonstrates, historically fewer than one-fourth of all Americans had stable income ratios (that is, ratios that changed less than 5 percent from one year to the next). This means, conversely, that the large majority (about three-fourths) are subject to some kind of income fluctuation from one year to the next, regardless of the stage of the business cycle. Over the course of a lifetime, the average American will experience a number of these shifts.

The state of the economy is an important factor in determining which way these fluctuations go. But it's not the only factor. Changes in personal circumstances also play a significant role. As the chart on page 2 shows, people had about a 50-50 chance or better of seeing their income ratio rise significantly (5 percent or more) from one year to the next if, over the course of two years —

- They began to work year-round, full-time;
- The number of workers in their household increased;

[1]The poverty level differs based on the size and composition of one's family.

- They married or otherwise became part of a married-couple family; or

- The number of adults in their household increased or the number of children decreased.

Conversely, most people saw their income ratio decline significantly when they ceased to —

- Be married; or

- Work year-round, full-time.

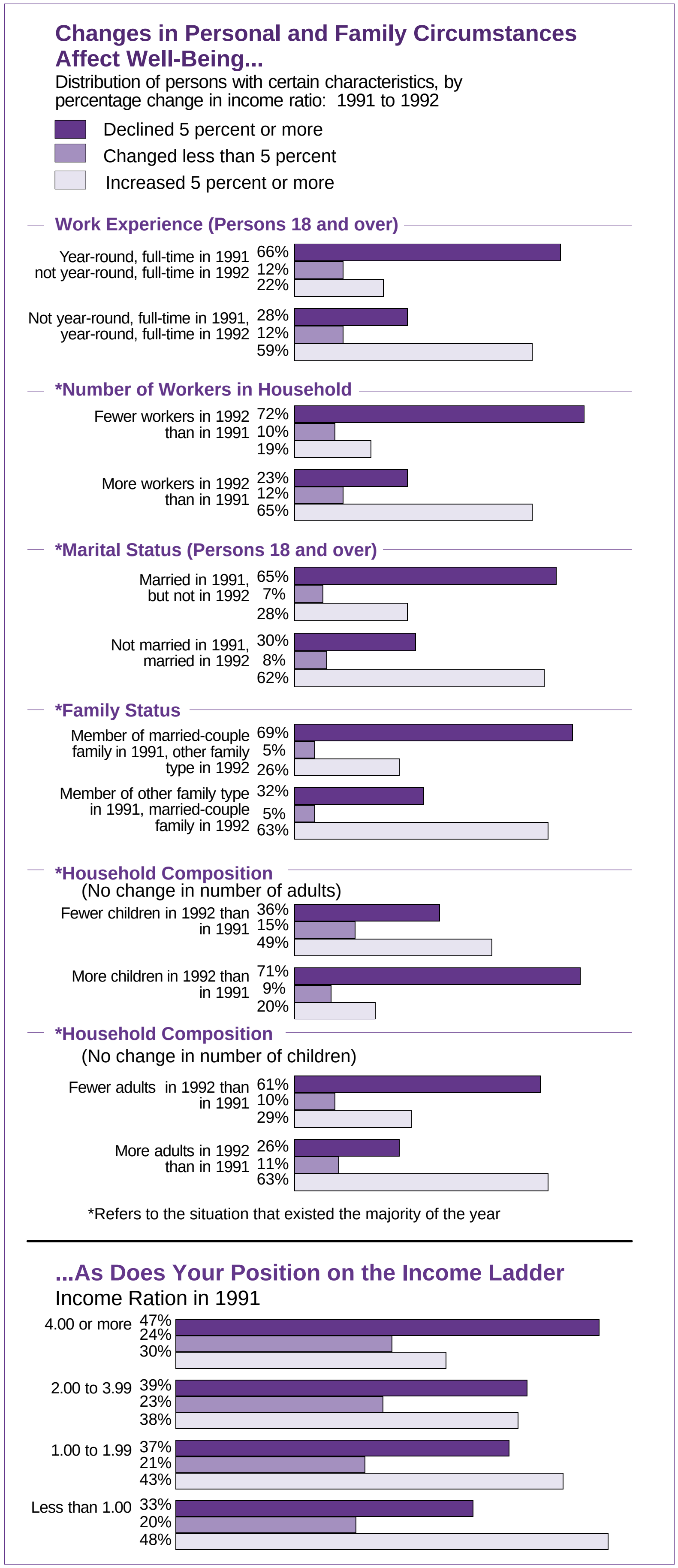
And where one stands on the income ladder can influence changes too.

The lower one's current annual income is, the more likely it will rise the following year, and the less likely it will fall. For instance, among those whose 1991 household income was below the poverty level, 48 percent saw their income ratio rise 5 percent or more the following year, while 33 percent suffered a drop. On the other hand, among those at the top of the ladder (households with income four or more times the poverty level in 1991), there was often nowhere to go but down, as 47 percent experienced declines, while only 30 percent posted gains. (See chart, right.)

Income sources are a good indicator of changes in economic well-being.

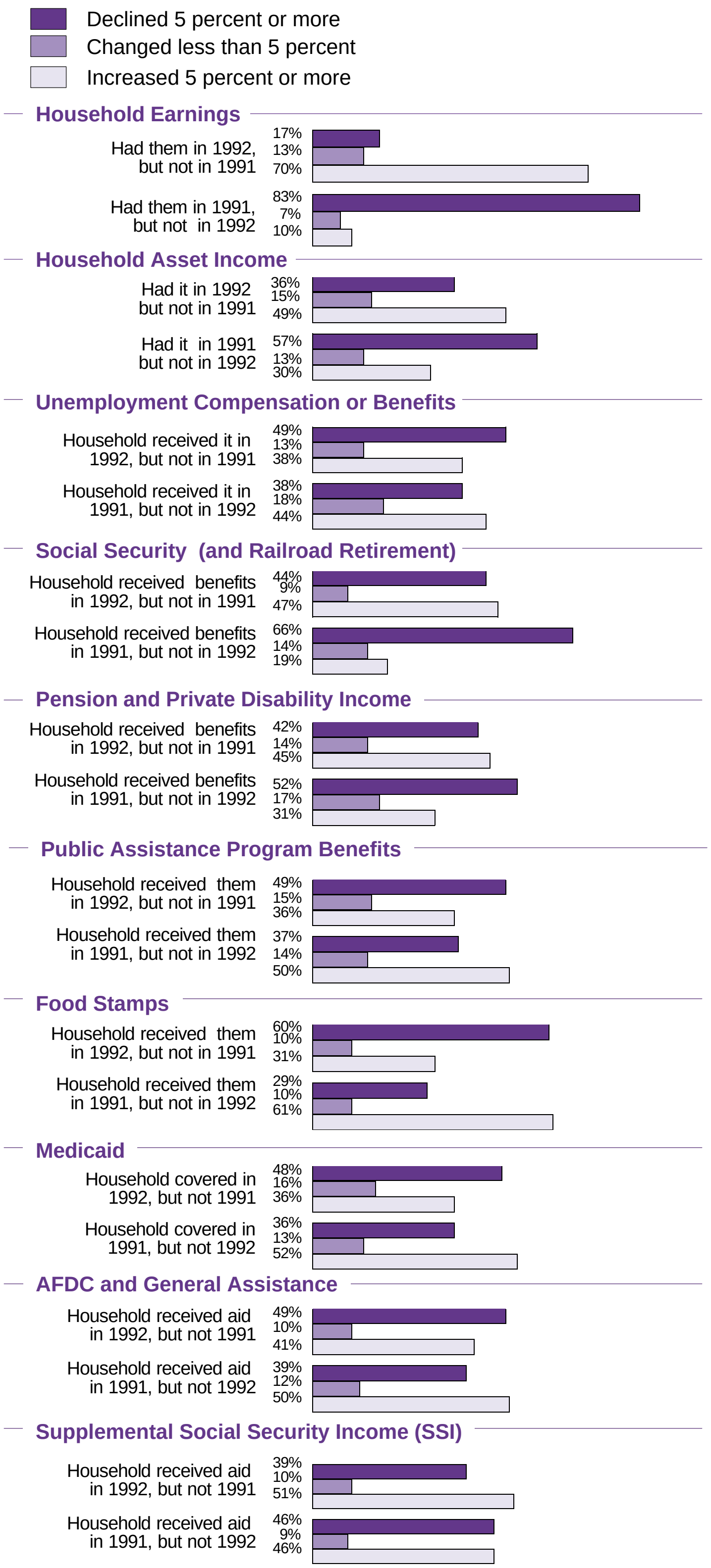
As the chart on page 3 shows, the mere appearance or disappearance of a particular income source often indicates an improvement or decline in economic well-being. For instance —

- The majority of persons (70 percent) who lived in households where someone received earnings during 1992, but not the previous year, saw their income ratio rise significantly from 1991 to 1992. On the other hand, most (83 percent) people in households with earnings during 1991, but not the next year, posted income ratio declines.



Income Sources are Associated with Changes in Well-Being

Distribution of persons with various income source changes , by percentage change in income ratio: 1991 to 1992



Note: Pension and private disability income includes Social Security, U.S. Government, Railroad Retirement Pay, nonmeans-tested veterans' compensation or pensions, unemployment compensation, workers' compensation, and State temporary sickness or disability benefits. See page 4 for a listing of public assistance programs

- If you (or someone else in your household) received unemployment benefits during 1992, but not in 1991, you had a better chance of seeing your income ratio decline in 1992 than if you received them in 1991, but not in 1992.
- Social Security and railroad retirement income, and pensions and private disability income are major sources of income for retirees. Those who saw these sources appear the second year had a better chance of improving their economic well-being than those who saw these sources disappear the second year.
- More often than not, the appearance of public assistance benefits the second year was accompanied by an income ratio decline, while the disappearance of them signaled a rise. This relationship also held true for two individual programs: food stamps and Medicaid.

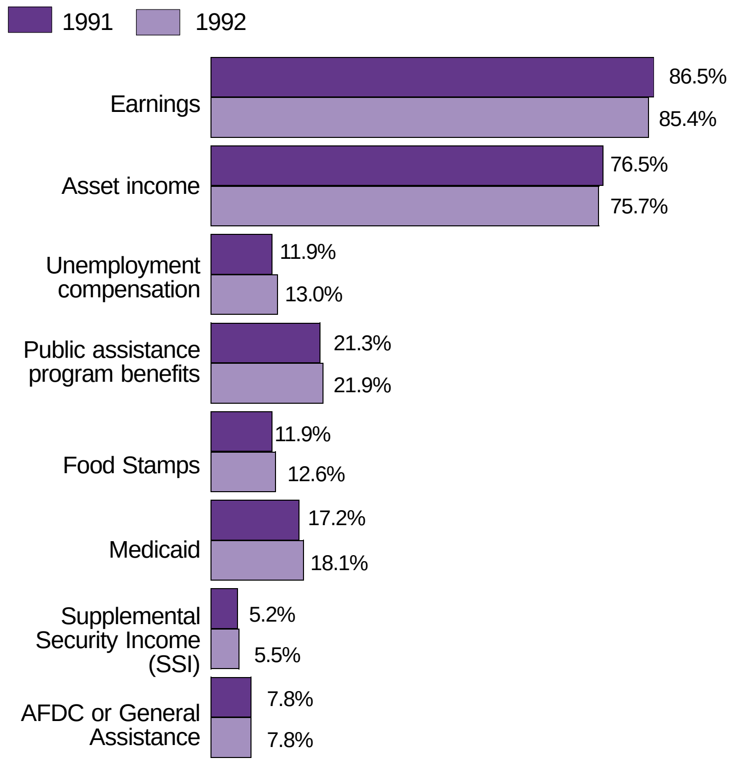
The end of the last recession did not appear to bring an immediate improvement in economic well-being.

The last recession began in July 1990 and ended in March 1991. During the year following the recession (1992) —

- Forty percent of the population posted income ratio losses and 37 percent had gains, not significantly different from what happened between 1990 and 1991. (See chart, front page.)
- The percentage of persons living in households where someone received earnings dipped between 1991 and 1992. (See chart, page 4.)
- The percentage in households where someone received unemployment

Although the Recession Ended in 1991, Economic Well-Being Failed to Improve the Next Year

Percent of persons who lived in households with specified income sources or benefits: 1991 and 1992 calendar years



benefits at some time during the year increased. (See chart, above.)

- The share of the population residing in households that participated in government assistance programs at some point during the year did not change. Participation rates remained statistically unchanged for each of the individual assistance programs as well. (See chart, above.) Assistance programs include Aid to Families With Dependent Children (AFDC), General Assistance, Supplemental Security Income (SSI), Medicaid, Food Stamps, and Federal or State rent assistance.

A previous publication issued by the Census Bureau, Dynamics of Economic Well-Being: Labor Force and Income, 1990 to 1992, reported similar economic trends between 1990 and 1991, the period when the recession actually took place. Thus, it appears that economic conditions present during the recession continued into the immediate post-recession period.

For more information —

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This report was prepared by Wilfred Masumura, with assistance from Robert Bernstein.

Source and Accuracy of Estimates

This report is one of a series that presents information of current policy interest. All statistics are subject to sampling variability, as well as survey design flaws, respondent classification errors, and data processing mistakes. The Census Bureau has taken steps to minimize errors, and analytical statements have been tested and meet statistical standards. However, because of methodological differences, use caution when comparing these data with data from other sources. For information on the source of data and the accuracy of estimates, including the use and computation of standard errors, see the "Source and Accuracy Statement for the 1991 SIPP Longitudinal Panel File."