

Cohort Analysis of Economic Well-Being in the United States, 1972-2001

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In this paper, we examine the life-cycle economic disparities within and between population cohorts of households, defined by the age of the household's head, in the United States between 1972 and 2001. We are specifically interested in understanding the changes in level and distribution of economic well-being within cohorts as cohorts age as well as between cohorts as each cohort faces different market conditions and government policies that directly affect their well-being. Several important demographic changes that affect the labor supply have occurred in the time frame. Changes in government policies through the period, targeting population subgroups, affect government transfers, such as social security and disability programs, changes in tax laws, as well as public consumption spending have important implications on both the level and distribution of economic well-being of cohorts. Moreover, changing demographics of household structure and participation in the labor force have major implications on levels of household production, another important component of well-being. This paper investigates the changes in economic well-being and inequality within and between cohorts using both official measures of well-being as well as The Levy Institute Measure of Economic Well-Being (LIMEW). LIMEW is a more comprehensive measure than official measures. The LIMEW includes taxes and non-cash transfers as well as the provision of public goods and the value of household production. The LIMEW also treats wealth as an economic resource rather than including only the income from wealth in the measure. Our results suggest that both within and between cohorts, inequality has been increasing for the thirty-year period. Younger cohorts face a larger gap even at the beginning of their careers and the gap widens as cohorts age. The increasing gap at the start of the work-life that is carried through the life cycle suggests that cross-section estimates of inequality measures may be underestimating the challenges that younger cohorts face.