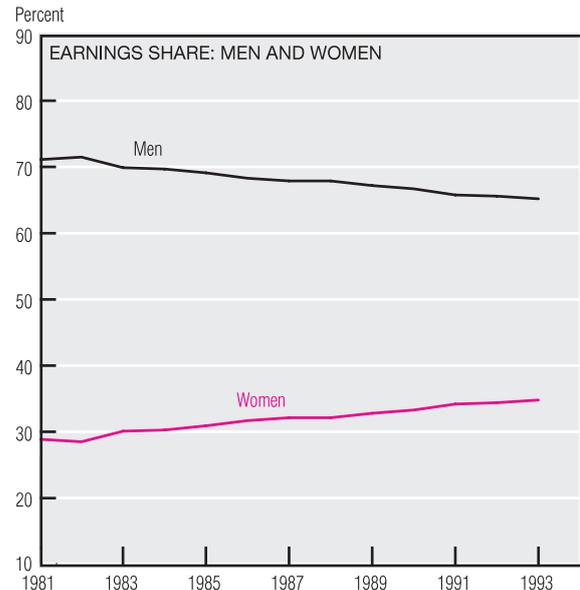
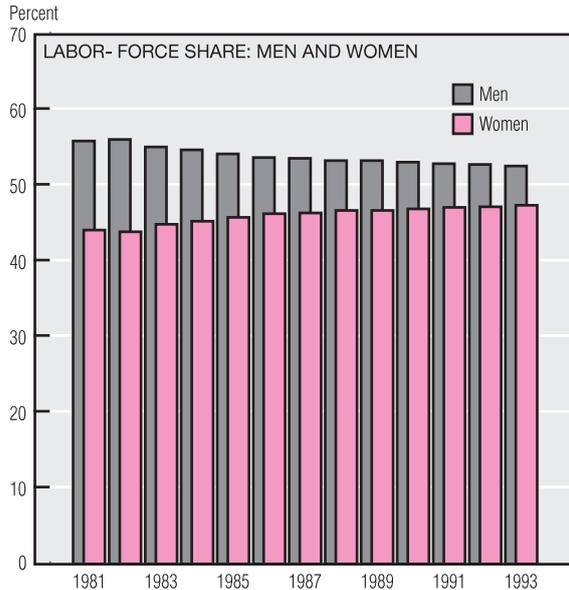
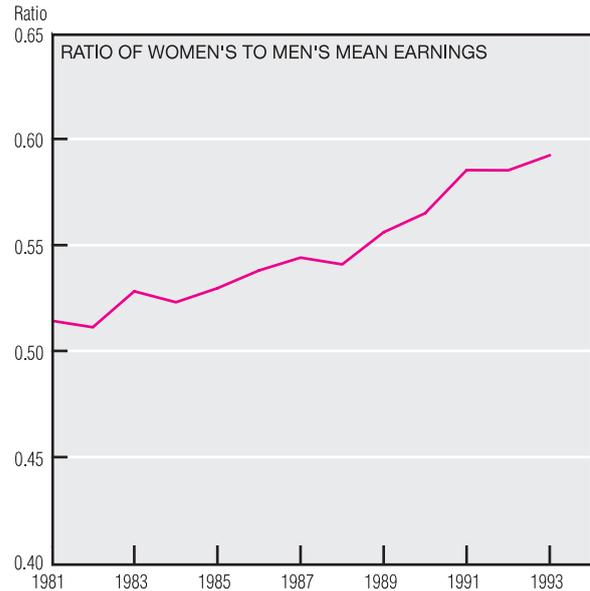
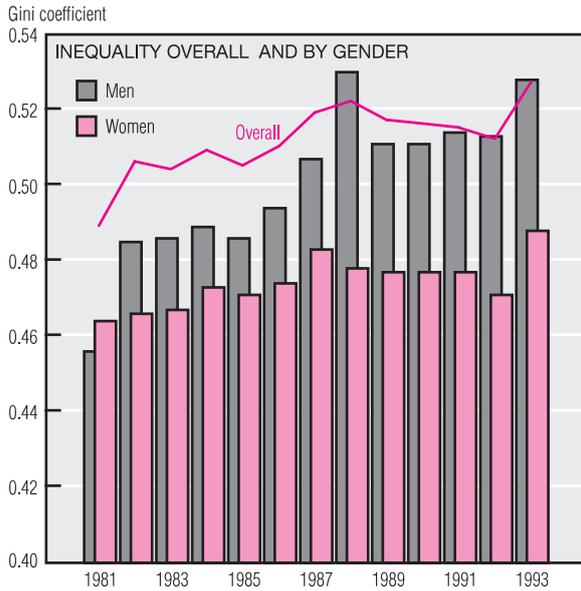


Earnings Inequality



SOURCE: Kelvin R. Utendorf, "Recent Changes in Earnings Distributions in the United States," *Social Security Bulletin*, vol. 61, no. 2 (1998), pp. 12-28.

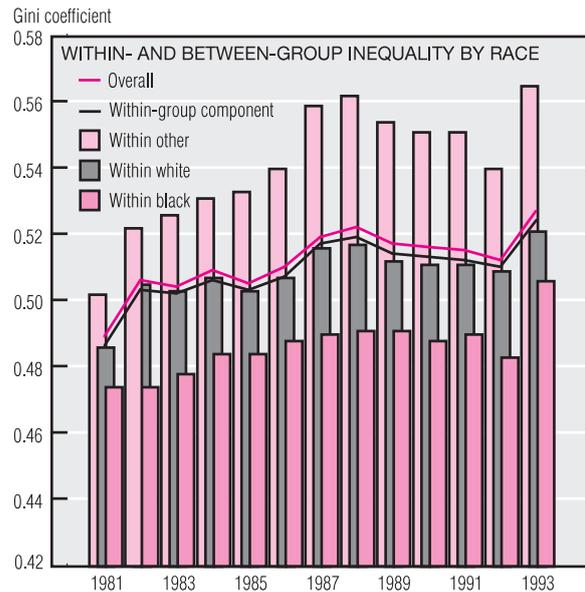
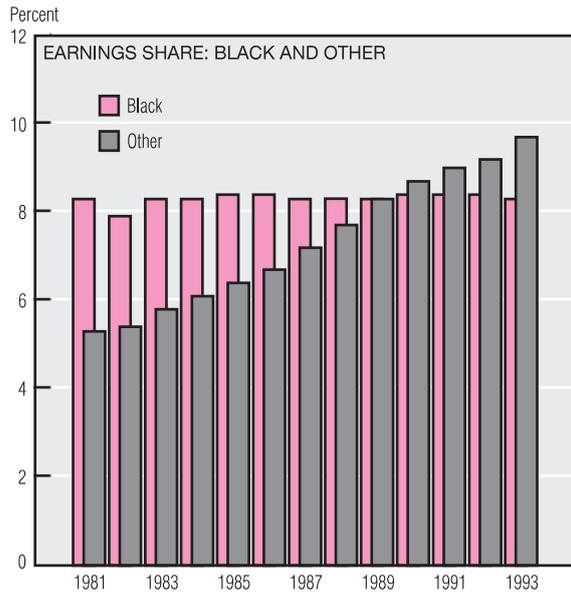
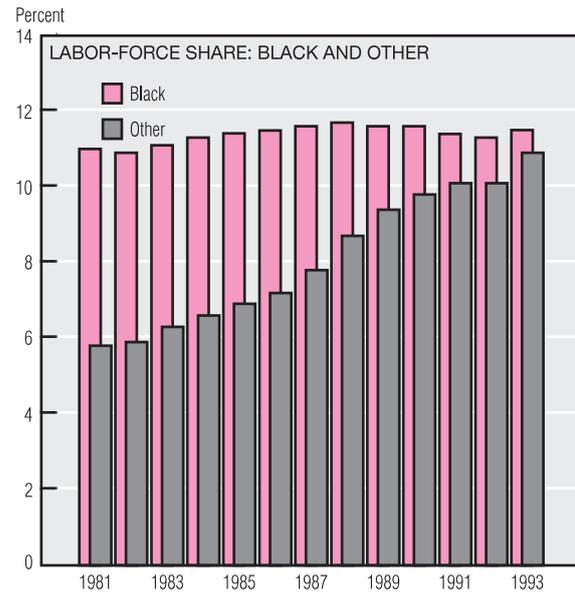
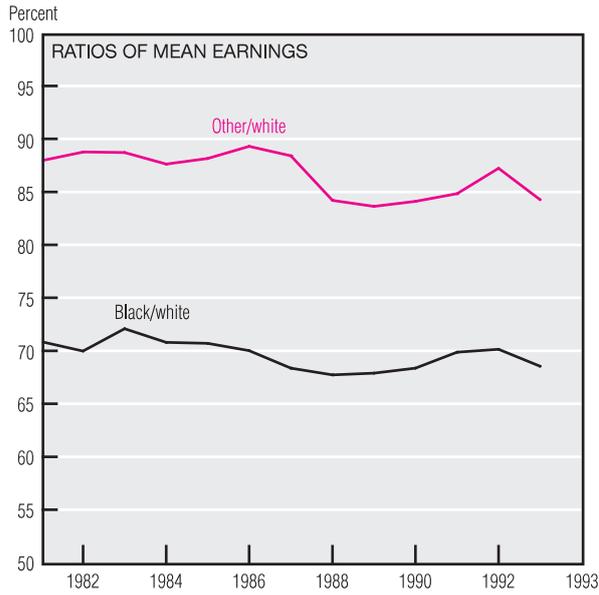
Policymakers are concerned not only with achieving rapid economic growth but also with how the fruits of growth are distributed across the population. The most commonly used measure of inequality, the Gini coefficient, is based on a comparison of each individual with every other individual in the population being studied. In the case of earnings, a Gini value of zero indicates perfect equality—each person has identical earnings—and a value of one indicates perfect inequality—all earnings in the economy go to one person.

Earnings inequality shows an upward trend during the early and mid-1980s for the labor force overall and for men and women separately. Some analysts have suggested that greater earnings inequality was the result of increasing returns to education and more widespread use of computers in the workplace. In 1989-92, this trend reversed for the overall population and for women, and stabilized for men.

The degree of inequality between men and women lessened consistently, despite the increase in overall earnings inequality during the 1980s. One reason was women's

higher relative earnings: Their mean earnings increased from just over 50% of men's mean earnings in 1981 to almost 60% in 1993, the final year for which data were available. This was partly due to a decline in men's mean earnings after 1988; it may also reflect women's shift from part-time to full-time employment. Moreover, women made up a larger fraction of the labor force in 1993 (47.4%) than in 1981 (44.1%). This resulted from increased efficiency in home-production activities and from a shift of such activities to the formal
(continued on next page)

Earnings Inequality (cont.)



SOURCE: Kelvin R. Utendorf, "Recent Changes in Earnings Distributions in the United States," *Social Security Bulletin*, vol. 61, no. 2 (1998), pp. 12-28.

sector. As a consequence, the gap between male and female earnings shrank from 42.2 percentage points in 1981 to 30.4 percentage points in 1993.

No significant trend is apparent in the ratio of black Americans' mean earnings relative to whites'. The ratio declined from 71% in 1981 to 69% in 1993, although it did not go down steadily each year. Most of the decline occurred because of more rapid growth in whites' mean earnings. The same held for the mean earnings of the "other" category relative to whites: Between

1981 and 1993, this ratio dropped from 88% to 84%.

Blacks' share of the labor force increased only marginally—from 11% in 1981 to 11.5% in 1993. The "others" share increased more—from 6% to 11% over the same period. These increases corresponded to a drop in white men's share of the labor force.

Blacks' earnings share remained stable, the slight increase in their labor-force share offsetting the slight decline in their mean earnings relative to whites. The earnings share of the "other" category doubled—from 5% in 1981 to

10% in 1993—despite the small decline in their mean earnings relative to whites. Whites' earnings share, of course, declined in a compensating manner.

Because mean earnings differ substantially by race, one might think that the disparity across racial categories contributes heavily to overall earnings inequality, but this is not the case. If Gini coefficients are broken down into within-versus between-racial-group components, we find overwhelming dominance by the within-racial-group component.