

CHAPTER 14 - INEQUALITY IN EARNINGS

This chapter is intended to accomplish two purposes: to analyze changes in earnings inequality after the 1980s and to review major concepts of economic theory introduced in prior chapters. It begins with a section on measuring inequality and then moves to one that describes changes in the 1980s and early 1990s along various dimensions: the occupational distribution, relative wages, hours of work, and earnings dispersion *within* narrowly-defined human capital groups.

The underlying causes of growing inequality are then grouped into supply factors, institutional changes, and demand-side influences. Empirical studies are surveyed, with the conclusion that demand factors were dominant in the 1980s (especially computer-related technological changes that affected the mix of productive factors, leading to increased relative demand for educated workers). The appendix discusses the derivation of Lorenz curves and Gini-coefficients.

List of Major Concepts

1. Earnings inequality is a function of the dispersion of the earnings distribution, and this dispersion can be measured in various ways, which differ in the ease with which they can be completed and widely understood.
2. The most widely-used measures involve ranking the population and analyzing earnings by percentile (comparing either shares of the total received by a group or the earnings levels at percentile boundaries).
3. Earnings distributions for both men and women became "stretched" in the 1980s, more because wages of those in the upper end grew relative to others' than to a movement of jobs from the middle of the distribution to either end.
4. The most notable change in earnings for both men and women was the increase in the relative earnings of more-educated workers; for men this increase occurred mainly because earnings of the less-educated fell in real terms, while for women it was associated mainly with the increased real earnings of more-educated women.
5. The returns to experience rose modestly, but only for the less-educated.
6. Changes in the relative hours of work played no role in the growth of inequality.
7. Earnings also became more dispersed *within* human-capital groups.
8. Growing disparities could result from labor supply, institutional, or labor demand changes.

9. The fact that skilled employment grew faster than unskilled employment in the 1980s appears to rule out supply changes as the dominant factor underlying the growth of inequality.
10. Such institutional factors as a "frozen" minimum wage and declining unionization could have played a role in the growing inequality, but they apparently played a minor one.
11. Both product demand changes and changes in the mix of productive factors contributed to growing inequality, with the latter changes the dominant force in the growth of education-related differentials.
12. The growth of contingent-pay plans might underlie the increased dispersion *within* human-capital groups, but definitive work has yet to be done.
13. (Appendix) The Lorenz curve and Gini coefficient are related measures of disparities that are based on groups' *shares* among the total.