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The Widening Income and Wage Gap in the United States

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IN THE UNITED STATES

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THE WIDENING INCOME AND WAGE GAP IN THE UNITED STATES

PREPARED STATEMENT OF LYNN A. KAROLY*

One of the basic beliefs of the American Dream has been that the standard of living for Americans has improved steadily since the Second World War, and that the *relative* well-being among individuals and families in the U.S. has remained stable. Thus, while the incomes of day laborers and corporate executives might differ in absolute terms, all would be borne up equally by the rising tide of prosperity. This view has been seriously challenged by research demonstrating that the distribution of income in the U.S. has become less equal in the past two decades. The recent release by the Census Bureau of income and poverty data for 1992 provides further evidence that the latest recession and current recovery have not altered this trend.

In this testimony, my aim is to summarize the significant changes in the income distribution over the last two decades, and identify potential explanations for these trends. In the next section, I describe how the distribution of family incomes and workers' wages have changed during the past twenty years. In the third section, I discuss the importance of a number of factors that could be expected to have affected the distribution of family income and wages. These include the impact of tax and transfer policies; the effect of changes in family composition; and supply, demand, and other factors affecting the labor market. Finally, the concluding section considers what we can expect for the future and what policy measures are available to reverse the increasing dispersion in incomes and wages.

HAS RISING INEQUALITY COME TO AN END?

One of the first signs of growing inequality among families was the trend in the Gini coefficient and quintile shares calculated from the annual March Current Population Survey (CPS) by the Census Bureau. In the early 1980s, attention was called to a break in the historical pattern of stability with inequality among families increasing since the late 1960s. Recently released data from the March 1993 CPS show that the Gini coefficient reached a post-war peak in 1992, suggesting that the trend toward greater inequality has continued into the 1990s. [1]

For a number of reasons, the data published by the Census Bureau are not entirely adequate for assessing the trend in economic well-being in the U.S.. In measuring inequality among families, the Census Bureau includes only groups of "two or more persons related by birth, marriage, or adoption and residing together." [1] This definition excludes unrelated individuals, defined as persons living alone or with other unrelated persons, a group that has grown from about one quarter of all "family units" in 1967 to

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*Visiting Fellow, The Brookings Institution, Washington, D.C. and Economist, RAND, Santa Monica, CA. In this testimony, I draw heavily on an earlier paper of mine, "The Widening Income and Wage Gap Between Rich and Poor: Trends, Causes and Policy Implications," in James B. Steinberg and David W. Lyon, eds., *Urban America: Policy Choices for Los Angeles and the Nation.* Santa Monica, California: The RAND Corporation, 1992. The views presented here are my own and do not necessarily represent those of Brookings or RAND, or their research sponsors.

about 33 percent today. In addition, the Census Bureau data make no adjustment for the differences in family income relative to needs. A family of two and a family of four with $25,000 are treated as being equally well off. The Census Bureau data then does not account for the steady decline in average family size in the United States in the last two decades.

Below, I summarize the results from updating an earlier analysis of the trends in inequality among families and individuals using the CPS micro-data files from 1967 to 1992. [2] The measure of well-being is total family money income before taxes. A measure of adjusted family income that accounts for differences in needs is calculated as family income divided by the poverty line. This measure of adjusted family income better reflects differences in well-being across families. Families are defined to include unrelated individuals. The distribution of income among all persons in the population is obtained by weighting each family by the number of persons in the family.

Trends in the Distribution of Income Among Families

One way of summarizing how the shape of the income distribution has changed over time is by examining the trends in the real (inflation adjusted) incomes of families at the same point in the income distribution. Table 1 summarizes the pattern of income changes at five percentile points in the income distribution for families for various subperiods. (Results are also shown for the distribution of income among persons.) The 50th percentile or median reflects the trends in income at the middle of the distribution. The other percentile points reflect the trends at the bottom and top of the distribution. At the 10th percentile, for example, 10 percent of families have income at or below that level. Thus, trends in the 10th and 25th percentiles reflect the experience of families in the bottom of the income distribution, while trends at the 75th and 90th percentiles, reflect the patterns at the top. Two salient points follow from Table 1:

- *In the last twenty years, real gains in median income only appear once we account for declines in family size.* Since 1973, real median income among families and unrelated individuals declined 9 percent. When incomes are adjusted to account for differences in family size, median family income shows a modest 6 percent growth in the last 20 years. Much of the slow growth can be attributed to periods of falling real median income between 1979 and 1983 and 1989 and 1992.

- *Disparities between those at the bottom and top of the distribution have widened over the same period.* The growing gap between incomes at the top and bottom of the distribution is evident in the differential growth rates in incomes at the percentile points shown in Table 1. In every sub-period since 1973, incomes have grown faster (or fallen slower) at the 75th and 90th percentiles compared with the 10th and 25th percentiles. The cumulative effect is striking. Between 1973 and 1992, adjusted family income fell 11 percent at the 10th percentile, while it grew 18 percent at the 90th percentile. A similar pattern holds for unadjusted income among families and for adjusted income among persons.

Figure 1 further demonstrates the growing income disparities among families by plotting each percentile point relative to median income for the full period from 1967 to 1992. By indexing each relative percentile to equal 100 in 1973, Figure 1 shows the gains at the top ranks of the distribution relative to the median, and the corresponding relative losses at the bottom. The growing gap between families at the top and bottom of the

income distribution began in the early 1970s, accelerated through the early 1980s, and continued through 1992.

This growing dispersion in the income distribution among families is significant in a number of respects. First, it is a change from the historical pattern of growing average incomes and a more stable distribution of income. Data prepared by the Census Bureau since 1947 show that inequality among families, after declining to a post-war low in 1967-1968, reached a post-war high in 1993. [1] Second, the continued rise in inequality through the 1980s occurred despite the longest peacetime economic expansion in the post-war period. Conventional wisdom holds that the distribution of income becomes less equal during economic downturns since families at the bottom of the distribution are more likely to face income losses during a recession. Periods of economic growth, in turn, tend to be years when the distribution becomes more equal. Although the sharp increase in inequality between 1980 and 1983 is consistent with the back-to-back recessions in 1980 and 1981-1982, the continued rise in inequality through 1989 suggests that more fundamental factors than the business cycle were at work.

Research has also demonstrated that disparities have grown within most subgroups of families. For instance, the increasing inequality is repeated when we look separately at families of different race/ethnicity. [2] Figure 2 shows the percentage change in adjusted family incomes between 1973 and 1992 at the respective 10th, 50th, and 90th percentiles of the income distribution among white, black and Hispanic families. Again, for families in each group, income dispersion increased over the period as incomes grew fastest at the top of the distribution, and slowest at the bottom. Since blacks and Hispanics have lower income on average (i.e., they are more likely to be in the lower ranks of the overall income distribution), families at the bottom of their respective distributions experienced sharp declines in real incomes. For instance, for black and Hispanic families at the 10th percentile, real incomes declined 37 and 28 percent, respectively -- a sharper decline than that experienced by whites at the same percentile. As a result, inequality increased to a greater degree among families headed by minorities compared to white families. A similar analysis for families of different ages and with different compositions shows that inequality increased for virtually all groups of families during the last two decades. [2]

Accounting for Taxes and Transfers

Until now, I have focused on changes in the distribution of family income before taxes and without including the value of nonmonetary transfers such as Food Stamps or medical insurance. Since the tax and transfers system overall is progressive, redistributing income from families with high incomes to those with lower incomes, there is less disparity in the post-tax post-transfer distribution of income. However, because the redistributive impact of taxes and transfers declined during the 1980s, the rise in income inequality is even larger when a more comprehensive measure of income is used. [3]

During the 1980s, two major pieces of tax legislation affected the post-tax distribution of income. The Economic Recovery Tax Act (ERTA) of 1981, passed within a year of Ronald Reagan's inauguration, reduced the top marginal tax rate from 70 percent to 50 percent, and phased in a 23 percent reduction in the marginal tax rates in other income brackets. One consequence of ERTA, and of later increases in social security payroll taxes, was to reduce the progressivity of the tax system during the first half of the 1980s. Later, the 1986 Tax Reform Act (TRA) specifically targeted changes in the tax code to benefit those at the bottom of the income ladder (by increasing the personal exemption, standard deduction, and the Earned Income Tax Credit). Despite a further reduction of top marginal tax rates, most analysts have concluded that the tax system became slightly more

progressive as a result of TRA. Nevertheless, the net impact of tax changes during the 1980s was to contribute to the rise in inequality. [3] Since the redistributive impact of cash and noncash transfers remained essentially unchanged during the 1980s, tax and transfer policy as a whole contributed to the rise in inequality over the decade. [4]

Workers and Their Wages

Given that about 80 percent of family income is derived from the labor market, changes in the wage structure are linked to the overall distribution of income. In the last two decades, there have been equally dramatic changes in the distribution of wages among workers. Since the 1970s, there has been an increase in dispersion in the wage distribution for men, a trend that accelerated during the 1980s. Among women, the rise in wage inequality is a more recent phenomenon, starting in the 1980s. This pattern holds for annual wage and salary income, weekly wages, and hourly wages. Since inequality increased among all workers as well as full-time year-round workers, the rise in wage dispersion cannot be attributed to changes in the proportion of part-time part-year workers. [2]

To illustrate these trends, Table 2 shows the percentage change in real weekly and hourly wages for various subperiods for all workers, and separately for men and women. For men, wage dispersion increased in every subperiod between 1967 and 1992, with the sharpest increase occurring since 1979. Between 1975 and 1992, weekly wages after adjusting for inflation declined 12 percent at the 10th percentile, while wages grew 10 percent over the period at the 90th percentile. Even the median male worker saw real wage declines on the order of 9 percent since 1975. Thus, men in the upper segments of the distribution were the only ones to experience real wage growth in the last two decades.

A brighter picture emerges in the wage trends among women. First, unlike their male counterparts, there has been real wage growth for women throughout the distribution since the late 1960s. Second, women differ from men in that wage dispersion actually declined until 1979, as wages grew fastest at the 10th and 25th percentiles compared to the 75th and 90th percentiles. Nevertheless, the compression of the female wage distribution was reversed in the 1979 to 1989 period, as women at the top experienced faster wage growth than women at the bottom. Despite the rise in wage dispersion among women, at each point in the distribution, real weekly wages were higher by 18 to 31 percent in 1992 compared to 1975, a sharp contrast to the real decline in male wages.

One of the more striking changes in the wage structure in the last decade is the growing wage gap between more and less educated workers. Figure 3 illustrates this phenomenon for men by showing the trend in real median weekly wages for three groups: those with fewer that 12 years of schooling (high school dropouts), those with 12 years of schooling (high school graduates), and those with 16 years of schooling (college graduates). Between 1973 and 1979, real wages declined for all three groups, although the larger drop in median wages for college educated workers indicates a decline in the college premium during that period. Since the late 1970s, the trend in real wages is dramatically different for the three groups. While the median high school graduate or drop out continued to experience real wage declines up to 20 percent, the median college graduate benefited from almost a 10 percent growth in real wages since 1979. Wage differentials between more and less experienced workers also expanded during the 1980s. In addition, for many groups, such as younger less-educated workers, the absolute and relative fall in wages have been accompanied by a reduction in employment opportunities, evidenced by higher unemployment rates. Thus, for example, young black high school dropouts now face reduced prospects in the labor market both in terms of the likelihood of securing employment, and in the economic rewards for work.

Trends in Income Mobility

Thus far, in order to assess how the distribution of income has changed over time, I have relied on a series of annual snapshots, or cross-sections, of how incomes or wages are distributed across families or workers. Thus, the trends shown in Figure 1 do not reflect changes in income for the same families over time, but for families at the *same position* in the income distribution. The alternative is to follow the *same families* over time to measure their movement within the income distribution. This approach can also be used to study the distribution of income measured over longer time periods, such as a decade or a lifetime. By tracking incomes for the same families or individuals, we can also obtain a picture of the amount of mobility within the income distribution.

Some recent studies using data that follow the same families over time have produced findings that are consistent with the cross-sectional data showing a rise in family income inequality. First, studies using a more permanent measure of family income (e.g., measured over a 10-year period instead of a single year) also show a rise in inequality since the 1970s. [5] This means that, after smoothing over annual fluctuations in income, there is still more disparity in today's income distribution compared to 10 or 15 years ago. These findings suggest that if we could measure income over an individual lifetime, we would also see a rise in inequality.

Second, while analyses based on following the same families over time show that there is considerable mobility within the income distribution, the data indicate that some of the upward paths were less well traveled during the 1980s. For example, one study found a reduction in the proportion of individuals who attained a middle class level of income, as fewer people climbed up from and more people slipped into the lower income ranks. [6] The risk of downward mobility was higher for blacks, households headed by women, and those with less than a high school education. At the same time, a higher fraction of individuals moved into the upper income category, while fewer dropped out. The study concluded that education was the single most important factor in increasing the chances of upward transitions, and reducing the likelihood of downward movement.

At this point, further analysis is needed to fully understand changes in income and wage mobility over the last two decades. Annual data reveal a growing gap, in each successive year over the past two decades, between families and workers at the top and bottom of the distribution. Despite the greater degree of inequality, there is still considerable mobility within the income distribution, but that mobility is contingent to a greater extent today on family structure and one's education.

EXPLAINING THE RISE IN INCOME AND WAGE DISPARITIES

While evidence of rising income and wage disparities in the last two decades is well documented, the debate continues about the causes of the trends. The observed distribution of income is the result of a complex set of factors including the opportunities individual's face, their decisions given those opportunities, and a set of public and private institutions that help determine how society's output is allocated across families and individuals. Identifying the factors producing these trends is an important first step toward determining if policy can attenuate or reverse the trends. In the remainder of this section, I discuss a number of possible explanations for the rise in family income inequality and wage inequality.

The Impact of Fiscal Policies of the 1980s

One of the ways in which government policy affects the income distribution is through tax and transfer policy. As noted above, the distributional changes of the 1980s were accompanied by substantial revisions to the tax code, in 1981 and later in 1986. At the same time, real transfer spending declined during the decade, particularly for programs targeted at low income families. These changes have led some to suggest that fiscal policies may have directly altered the income distribution, by changing post-tax, post-transfer incomes. These policies may also have indirectly altered the distribution, by changing pre-tax, pre-transfer incomes. For instance, some analysts have claimed that the rise in family income inequality during the 1980s was caused by the sharp reduction in marginal tax rates for high income taxpayers, inducing them to work more, report more income on their tax returns, shift compensation toward taxable forms, and realize more capital gains.

A review of the evidence in support of a direct or indirect role for fiscal policies provides mixed results. [3] First, the direct impact of tax and transfer policy was in the direction of increasing inequality due to a decline in tax progressivity and reductions in transfer programs. Even so, the rise in pre-tax income inequality explains about 80 percent of the increase in post-tax inequality in the last decade. In other words, only 20 percent of the increase in post-tax inequality can be explained by the declining progressivity of the system. Estimates of the possible behavioral responses to tax policy changes during the 1980s are not large enough to account for, and often inconsistent with, the observed rise in income dispersion. The rise in inequality also predates the tax changes during the 1980s, so the modifications in fiscal policy cannot be the only culprit.

The Effect of Family Composition Changes

The period of rising income dispersion has been accompanied by significant changes in family structure that can help explain the distributional trends. Single individuals and female-headed families represent a growing share of all family units. For instance, today approximately one in six families is headed by a women, compared to just one in ten families twenty years ago. At the same time, traditional husband and wife families with a working wife, once in the minority, now make up more than 60 percent of these families. The number of younger and older families have also both increased, in part reflecting the influx of post-war baby boomers into the family ranks. These various demographic factors could be expected to increase the number of low income and high income families.

A number of studies have examined the impact of these compositional changes. In one analysis, I estimated that about one-third of the rise in inequality between 1967 and 1987 can be explained by shifts in household composition toward single-parent families and single individuals. [2] However, the changing age composition of families played no role in the growing income disparities over the period. The contribution of an increase in the number of working wives is not clear. On the one hand, studies generally concur that wives' earnings tend to equalize the distribution of income among married-couple families, with little change in this equalizing effect over time. At the same time, the data also suggest that the earnings from secondary earners or family spouses may have contributed to the rise in income disparities among all families. [3] Although the effects of these compositional changes appear to be substantial, they do not fully account for the rising income disparities among families.

Supply, Demand and Other Factors Affecting Labor Markets

As noted above, the largest component of family income is derived from the labor market. Compared to other sources of income, the rise in wage inequality, especially for family heads, had a significant impact on family inequality. For instance, in a hypothetical world, with no increase in wage inequality among family heads between 1980 and 1985, I have estimated that the rise in inequality would have been about 30 percent lower. [3] What factors can explain the significant changes in the wage structure over the last two decades? A number of explanations have been offered, including supply-side changes such as the baby boom, and immigration; demand-side factors like deindustrialization, international competition, and technological change; and changes in wage setting institutions such as unions.

One of the most significant demographic changes to take place in the last two decades was the entry of the baby boom into the labor market during the 1970s. While the baby boom can help explain the trend towards greater wage inequality during the 1970s, it does not appear to have contributed to the trend during the 1980s. In the last decade, the proportion of younger workers in the labor market declined which should have improved their relative wages. In fact, recent changes in the age structure of the work force slowed the rise in inequality.

Another supply-side factor affecting the labor market is the influx of legal and illegal immigrants into the work force. It is estimated that nearly 12 million legal immigrants, plus an additional 5 to 6 million illegal immigrants, entered the United States since 1970. Since immigrants earn lower wages on average, their increased numbers in the labor market could have a similar impact as the baby boomers: increasing the number of low wage workers and reducing the relative wages of lower skilled workers. Based on research to date, the impact of immigration on the national or regional wage distribution is uncertain. Typically, studies of how new immigrants affect a local or regional labor market find evidence of only a small, if any, negative impact on the wage structure. For instance, one study of 24 cities in the United States during the 1980s found weak evidence of a relationship between the share of immigrants in the labor force and the level and shape of the wage distribution. [7] In contrast, another recent analysis estimated that the increased flow of immigrants during the 1980s explains a large fraction of the decline in relative wages of high school dropouts, the group of workers most likely to be affected by an influx of lower-skilled workers. [8] However, this study did not evaluate the impact of immigration on the overall level of wage inequality.

Some have argued that the growth in service sector employment at the expense of the manufacturing sector has contributed to increasing wage dispersion. Since manufacturing jobs pay higher wages on average compared to the service sector, and since wage dispersion is higher in service industries, it is possible that the continual growth of the service sector and loss of manufacturing jobs may have contributed to rising wage inequality. Indeed, there have been significant shifts in the industrial distribution of employment in the last 20 years. The share of manufacturing employment has declined from 30 percent to less than 20 percent, while the share of employment in the services industries has steadily increased so that now three out of five workers are employed in this sector. Despite the significance of these shifts, the contribution of deindustrialization is not exceptionally large, explaining about 10 to 20 percent of the growth in wage inequality on average. Even in areas with the largest declines in manufacturing, such as the rust belt states, the contribution does not exceed 25 percent. [9] The finding that wage inequality has increased *within* most industries explains why sectoral shifts alone cannot account for the changing wage structure.

During the period of rising wage inequality, foreign competition has also had an increased impact on the economy. In the last two decades, the share of trade in the United States economy has doubled, from 8 percent to 16 percent of gross domestic product. Also, during the 1980s, the United States experienced a dramatic worsening of the trade deficit after years of a more balanced trade pattern. The increased competition from abroad differentially affects the demand for domestic workers with varying characteristics. For example, lower-skilled and less-educated workers are concentrated in exporting and import-competing industries, such as automobiles or consumer electronics. These workers are in industries with declining demand, which would reduce their relative wages. In contrast, nontraded goods and services industries, such as professional services, employ a more educated and highly skilled workforce. One study that quantified this effect found that a substantial part of the relative wage losses of high school dropouts, and a somewhat smaller share of the relative growth of wages for college graduates, is attributable to the trade patterns during the 1980s. [8] But here again, research has yet to determine with any certainty the specific contribution of international competition to the overall rise in wage inequality.

The role of technological change, another potential contributor to rising inequality, is harder to assess. Throughout the last two decades, the increased use of technology, from computerization to automation, has changed the work place. The impact of the new technologies on workers and their wages is uncertain. On the one hand, technological change may displace jobs previously performed by lower-skilled workers. The new technologies often require greater skill, thereby enhancing the demand for and productivity of more skilled workers. At the same time that some jobs demand greater skill, changes in technology may reduce the skill-content of other jobs, creating greater dispersion in the skill requirements of the workforce. Thus, the contribution of technological change is difficult to assess. However, the fact that we have seen a substantial rise in the economic benefits from increased education suggests that the demand for skill has been rising, perhaps as a consequence of technological change. This hypothesis finds support in a recent study which found that workers who use a computer on their job earn about 10 to 15 percent more than otherwise similar workers. [10]

In addition to supply and demand forces, the structure of wages is determined by a number of institutional factors, most notably unions. In their role as a wage setting institution, unions both raise average wages and reduce wage dispersion among organized workers. There is also evidence that they help to reduce the overall degree of wage inequality. During the last two decades, the United States, like a number of other industrialized countries, has experienced a decline in the fraction of the workforce that is unionized. In the early 1970s, nearly 1 in 3 workers was a union member, while today the figure is fewer than 1 in 6. Despite these trends, the decline in unionization rates can explain only some of the rise in male wage inequality, on the order of 10 to 20 percent. [11] This is because wage inequality has increased for both unionized and nonunionized workers. Thus, even if the entire workforce had been unionized, wage inequality would have still increased.

It should be evident by now that no single factor caused the rise in income or wage dispersion. Instead, the trends appear to result from a number of demographic, economic and policy factors. Despite the efforts of a number of researchers, we do not yet have a complete systematic accounting of the various factors that have contributed to the rise in income and wage inequality.

IMPLICATIONS FOR THE FUTURE AND POLICY OPTIONS

Regardless of what caused the trends, the two decade rise in income and wage dispersion in the United States is troubling. If the growing inequality had been accompanied by real gains for families and workers throughout the income scale, the trends might be less alarming. What gives rise for concern is that rising disparities go hand in hand with stagnation in family incomes and worker's wages. Recall that families at the bottom of the distribution are worse off in real terms compared to similarly situated families two decades ago. Moreover, among men in the labor market, even the median worker found himself worse off in real terms compared to his counterparts in previous years. These patterns of income and wage growth have implications for other areas of social concern, as they are linked with issues such as the rise in poverty, patterns of residential segregation, and trends in the homeless population.

Given what we know about the direction of the trends and their potential causes, what can we expect for the future? There are two factors which suggest that the trends are not likely to be rapidly reversed. First, although the time series indicate that the level of inequality grew more slowly in the later part of the 1980s, the latest recession resulted in a continuation of the trends. Second, many of the factors most strongly linked to the trends in inequality represent fundamental changes in the structure of the economy, rather than short run phenomenon. For instance, future workers will still compete in a global economy, and technological advances are likely to continue to change the skill content of jobs. There is a possible role for other factors in altering the future course of income and wage trends. Demographic changes in the coming decade, namely the baby bust cohorts which are following the baby boom, may help improve the relative position of younger families and workers. In addition, the rise in returns to education in the 1980s may encourage an increase in educational attainment. Indeed, data on school attendance show a rise in college enrollment rates among recent high school graduates, reversing a downward trend in the 1970s. An increase in the supply of college graduates will tend to dampen the current gap in wages between more and less educated workers.

If the trend toward more inequality in the distribution of income and wages continues, what measures are available to policymakers to counteract this trend? There are several options that invite consideration. One approach is to promote policies that encourage strong economic growth, with the expectation that all families and individuals will gain from actions that encourage job creation and high output growth. While macroeconomic policies that brought about economic growth led to a more equal distribution of income in the past, the lesson of the 1980s is that there is no guarantee that all will benefit from high growth policies. As indicated earlier, the recent rise in inequality continued throughout the 1980s despite the long economic expansion. The importance of shifts in the structure of the economy, outlined in the previous section, suggest that macroeconomic policies alone are not an adequate solution.

An alternative and more direct redistributive tool available to policymakers is changes in the progressivity of the tax system. To what extent can tax policy counteract the trend in pre-tax income inequality? One recent study to address this question indicates that the answer is very little. [12] Simulations of substantial changes in the tax code, including increasing the top marginal tax rate from 28 to 50 percent and doubling the Earned Income Tax Credit, estimate only a modest impact on the post-tax distribution of income. This is because much of the rise in inequality results from changes in the distribution of private incomes, such as wages and capital income. While these simulations suggest that there may be little opportunity to use the tax system to redress the rise in pre-tax income inequality that has taken place since the 1970s, policymakers can use the tax and transfer system to shore up the incomes of families and individuals at the bottom of the income

distribution. Thus, changes such as those embodied in the 1986 Tax Reform Act, which removed about 5 million poor persons from the tax roles, provide a way of increasing the well-being of those at the bottom of the income ladder even if they result in a small reduction in overall inequality.

If the indirect and direct redistributive tools do not offer solutions, a third approach is to use public policy to address the structural changes that have occurred in the economy over the last two decades. Such policies would be designed to alter the opportunities faced by individuals and families, or the choices they make given those opportunities. For example, public assistance programs could be reformed to reduce dependency and encourage low income families to become self-sufficient through job training and enhanced employment opportunities. Industrial policies and strategic trade policies could be used to influence the industrial composition of the economy and the mix of skills required of the workforce. Education and training policies could be designed to encourage investments in the skills of the labor force, whether through tax and other incentives to businesses or by targeting incentives to individuals. These types of policy options are, by their nature, more controversial and less certain in terms of their impact. They are controversial because they entail a more activist role for government in order to influence the private decisions of individuals and firms in the economy. Their impact is less certain because they only indirectly alter family incomes and workers' wages, and their effect may not be felt for years after their implementation. In my view, such remedies deserve serious consideration due to the significance of the distributional changes and the likely ineffectiveness of traditional redistributive policies.

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Table 1
Percentage Change in Real Absolute Income Percentiles: Various Years

Period	Family Income Percentile 10th	25th	50th	75th	90th	Adjusted Family Income[a] Percentile 10th	25th	50th	75th	90th
			a. Families and Unrelated Individuals[b]							
1967-1973	24.5	11.9	13.4	18.3	19.4	20.3	17.1	16.9	17.3	17.0
1973-1979	-0.3	-2.6	-4.3	1.1	2.6	2.2	2.4	4.9	5.9	4.7
1979-1983	-10.3	-7.0	-6.1	-3.8	-0.7	-11.0	-7.7	-2.7	0.4	3.2
1983-1989	6.7	6.1	8.4	10.1	12.5	7.4	10.3	11.0	11.9	14.7
1989-1992	-9.5	-9.0	-6.9	-4.5	-4.3	-9.0	-6.9	-6.5	-5.1	-4.7
1973-1992	-13.6	-12.6	-9.3	2.3	9.6	-11.1	-3.0	6.0	12.9	18.2
			b. Persons[c]							
1967-1973						14.9	17.4	20.5	20.1	18.6
1973-1979						1.0	4.0	6.7	8.1	7.3
1979-1983						-16.8	-10.4	-4.0	-0.4	2.4
1983-1989						10.6	11.6	12.8	12.9	15.7
1989-1992						-9.5	-7.1	-5.2	-4.5	-4.9
1973-1992						-15.9	-3.4	9.6	16.1	20.9

[a]Measured as total family income divided by the poverty line, where the 1967 poverty threshold is inflated using the CPI-X to calculate the poverty lines after 1967.
[b]Weighted by families.
[c]Weighted by persons in families.

SOURCE: Author's tabulations from the March CPS from 1967 to 1992.

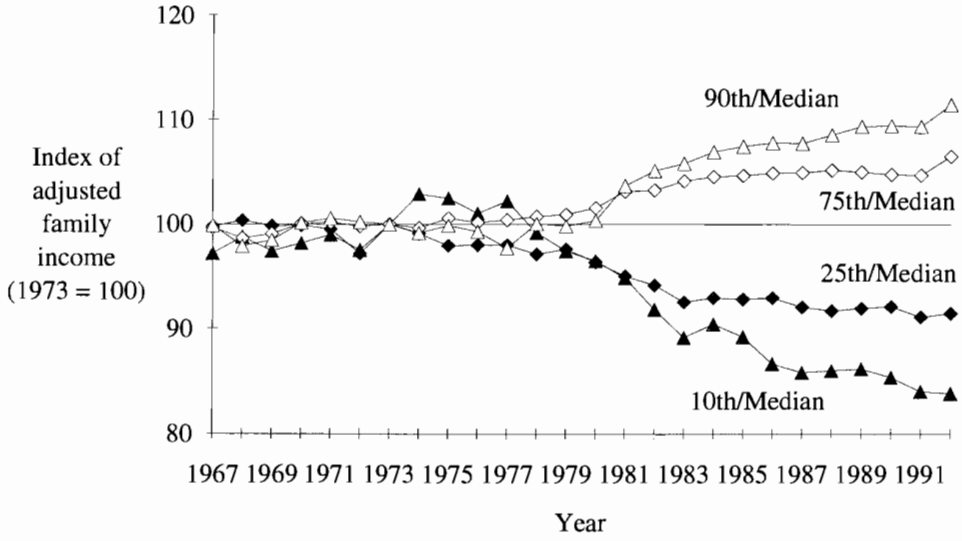
Table 2
Percentage Change in Real Absolute Wage Percentiles: Various Years

	Weekly Wage					Hourly Wage[a]				
	Percentile					Percentile				
Period	10th	25th	50th	75th	90th	10th	25th	50th	75th	90th
				a. All Workers						
1967-1974	12.5	2.0	2.2	8.8	10.1					
1975-1979	6.3	6.1	-0.6	4.1	3.7	7.5	3.3	-0.3	2.6	2.8
1979-1983	-11.1	-8.8	-4.1	-3.9	-1.2	-7.3	-6.3	-2.0	-1.7	-0.8
1983-1989	9.0	6.0	9.0	7.3	5.7	-3.8	1.9	4.4	5.3	4.6
1989-1992	-2.7	-2.3	-1.1	-3.7	-1.1	2.3	-1.7	-1.8	-2.7	-0.6
1975-1992	0.2	0.2	2.7	3.3	7.1	-1.9	-2.9	0.1	3.3	6.0
				b. Men						
1967-1974	-1.1	1.7	7.8	10.5	13.8					
1975-1979	3.3	-1.5	0.6	5.3	6.4	1.6	-0.7	1.0	4.9	1.6
1979-1983	-15.1	-10.8	-5.7	-3.6	-0.9	-8.4	-9.1	-5.8	-3.5	0.5
1983-1989	4.4	1.3	0.6	3.7	7.5	-4.8	0.5	-0.4	0.9	3.5
1989-1992	-3.8	-6.8	-4.5	-2.8	-2.8	-1.7	-5.4	-4.4	-3.6	-3.0
1975-1992	-12.0	-17.1	-8.9	2.4	10.2	-13.0	-14.1	-9.4	-1.6	2.5
				c. Women						
1967-1974	18.9	12.2	10.1	6.5	4.9					
1975-1979	12.0	10.9	8.1	4.2	4.4	10.0	7.2	4.7	3.3	4.4
1979-1983	-6.1	-4.2	-1.5	5.5	5.4	-3.4	-4.2	0.7	3.5	4.0
1983-1989	11.2	8.2	12.5	12.6	16.8	-0.7	2.9	6.6	10.0	13.1
1989-1992	2.5	2.1	-0.4	2.4	2.1	3.5	-0.9	1.1	1.4	2.3
1975-1992	19.9	17.5	19.3	26.8	31.2	9.3	4.7	13.6	19.3	25.7

[a]Hourly wage data are not available from 1967 to 1974.

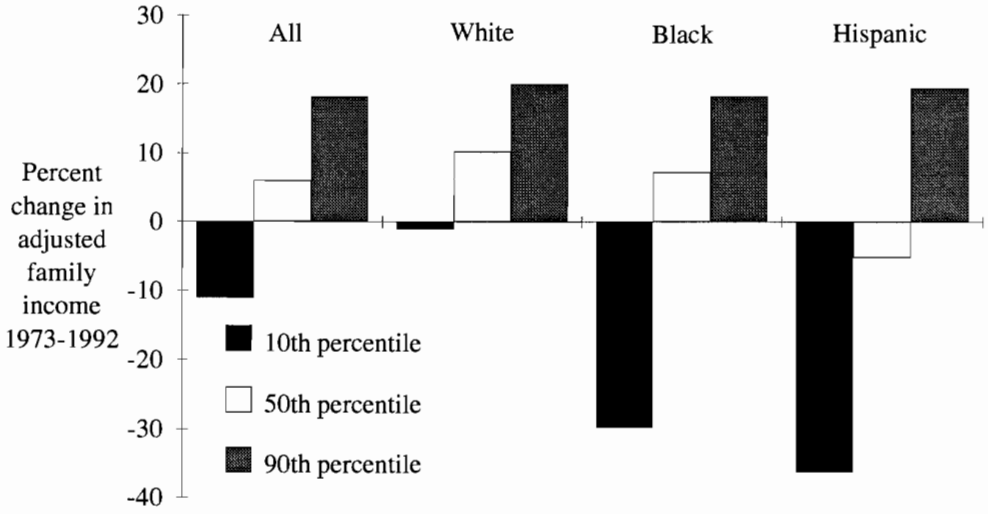
SOURCE: Author's tabulations from the March CPS from 1967 to 1992.

Figure 1
Trends in Adjusted Family Income Among Families and Unrelated Individuals: Percentiles Relative to the Median



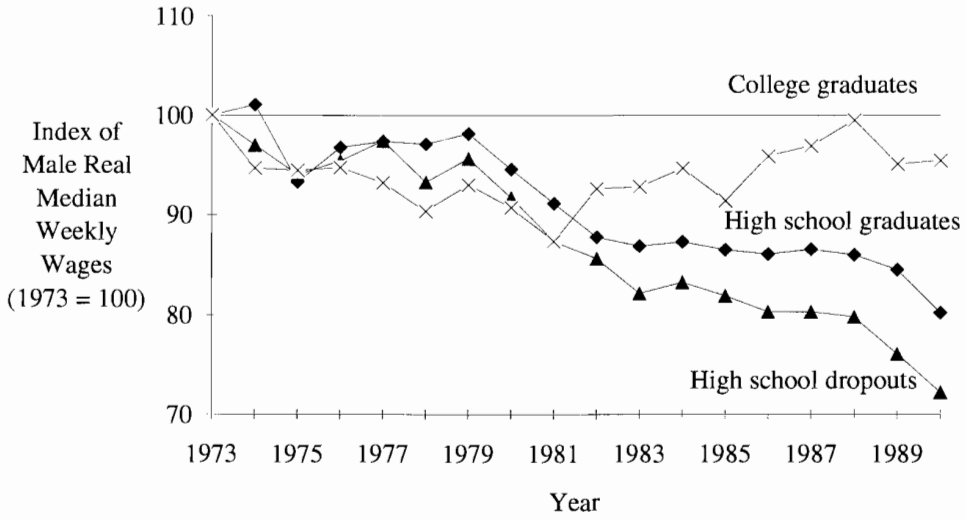
SOURCE: Author's tabulations from the March CPS from 1967 to 1992.

Figure 2
Trends in Adjusted Family Income: By Race/Ethnicity



SOURCE: Author's tabulations from the March CPS from 1973 to 1992.

Figure 3
Trends in Median Real Weekly Wages for Men: By Education



SOURCE: Author's tabulations from the May and monthly CPS from 1973 to 1990.