

CHAPTER 2

TRENDS IN EARNINGS INEQUALITY

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I. Introduction

One of California's most notable achievements is a near doubling of the number of jobs from about eight million in the early 1970s to over 15 million by the end of the century. The change is not just numerical. Globalization, immigration, new technologies, and other forces have transformed the world of labor. Despite the economy's remarkable ability to absorb millions, economic inequality remains a persistent problem. Several national and California studies have shown that today's economic expansion, which has been one of the most remarkable in American history, has failed to close the gap between the "haves" and the "have nots."

The level of inequality has moved up and down over time (Williamson and Lindert 1980; Henle and Ryscavage 1980; Harrison and Bluestone 1988; Levy and Murnane 1992; Karoly, 1993; Danziger and Gottshalk 1995). Income inequality experienced a dramatic decline between the Depression years and the end of World War II, and fluctuated within a relatively narrow band from the late 1940s until the mid-1970s. Inequality increased rapidly in the 1980s, but the underlying structural changes can be traced to the previous decade. Following the oil-price shock of 1973, the United States experienced a period of protracted economic stagnation. The 1982 recession, when unemployment climbed to 9.7 percent, gave impetus to a restructuring of the economy and the labor market. With the use of new and more flexible ways of organizing production, casual and informal employment has grown, accompanied by increased job competition and downward pressure on wages. A disproportionate share of job growth has occurred in both high-and-low-technology sectors. The polarization of occupations between high-pay/high-skill and low-pay/low-skill workers has been accompanied by the shrinking of the middle class.

The consequences of the restructuring can be seen in statistics for the 1990s (Danziger and Gottshalk 1995; Darity and Myers 1998; Ryscavage 1999; Utendorf 1999; Gottschalk 1997; Daly and Valletta 2000). The incomes of the affluent grew much more rapidly than those of average families. In 1991 the poorest fifth of families received 4.5 percent of total family income, while the richest fifth received 44.2 percent. In 1995 the 10 percent of the population at the top of the earnings distribution received nearly 36 percent of all earnings in the U.S., while the upper two deciles combined received over 53 percent of total earnings. Under these conditions, this nation was unable to reduce the poverty rate, which merely fluctuated with the business cycle.

Since the 1970s, earnings inequality both between and within groups evolved in very different ways. The earnings of women grew faster than did the earnings of men, thus reducing the gender gap in weekly earnings from 60 percent in the 1960s to less than 40 percent in the 1990s. Earnings inequality among males grew due primarily to the deteriorating economic status of those in the lower portion of the income distribution. On the other hand, inequality among women declined through the mid-1970s and then grew through the 1990s. In terms of age, the incidence of employment in high earnings positions has been much greater for older workers, whereas the incidence of low-wage employment for young persons has increased from 23 percent in 1979 to 42.5 percent in 1994 (Ryscavage 1999). The less educated lost relative to the more educated, and more experienced workers gained relative to less experienced workers (Gottshalk 1997). Finally, interracial inequality persisted during the 1990s despite the public policy interventions of the 1970s, and this was accompanied by widening gaps within racial groups (Darity and Myers 1999).

Researchers generally agree that inequality can be attributed to a combination of demographic and economic factors. Over the last three decades, the absolute and relative number of women and immigrants in the labor market have increased substantially, shifting the composition of the labor force toward historically disadvantaged groups. Technological change, particularly the rapid growth in the widespread use of computers, has altered the relative demand for workers by education (Bound and Johnson 1992; Katz and Murphy 1992). Industrial restructuring, driven by globalization, has shifted jobs away from manufacturing, decreased demand for less skilled blue-collar workers, and increased the demand for high-skilled workers (Murphy and Welch 1992). Other studies point to institutional changes, such as the declining percentage of workers belonging to unions and a weakening of regulations (Freeman 1993; Danziger and Gottshalk 1995).

Many of the national factors have affected California (Reed 1999; LAO 2000; Daly and Royer 2000). From the early 1970s to the late 1990s, income inequality in this state increased steadily (Chamberlain and Spillberg 1991; Reed et al. 1996; Reed 1999; Bernstein et al. 2000; California Budget Project 2000). Similar to national trends, the growing inequality in California has been the result of income growth at the top of the distribution and income decline at the very bottom. Tax-return data for 1975 and 1998 reveal that a shift has occurred in the distribution of adjusted gross income, with the share attributable to the top 20 percent of returns rising and that for the bottom 80 percent falling (Legislative Analyst's Office 2000). This shift has reflected a large increase in real average earnings reported at the high end, contrasted with declines in the low and middle portions of the income distribution.

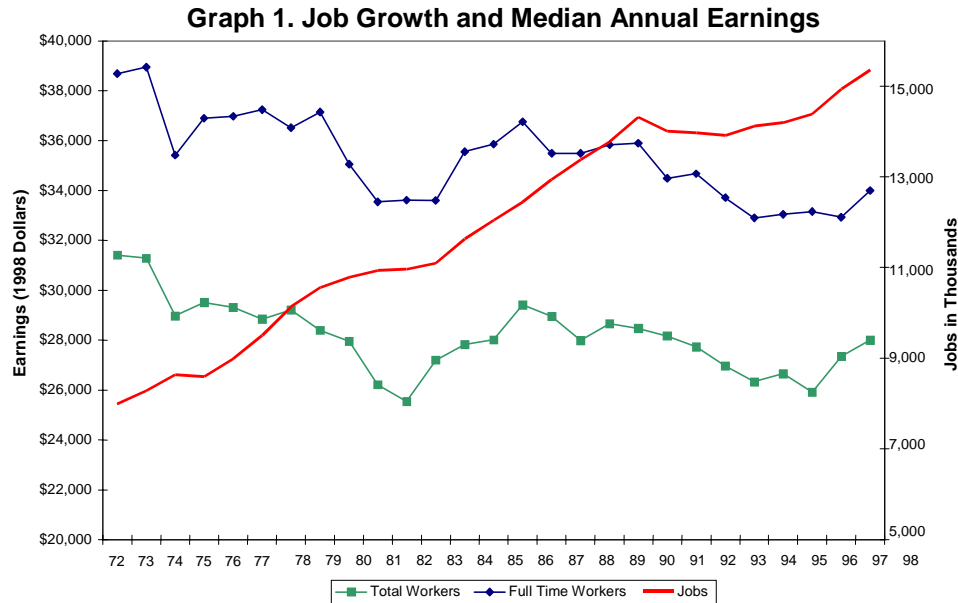
Economic inequality is also apparent at the regional level. The 1970s and 1980s was a period of a "widening divide" between the "haves" and the "have nots" (Ong 1989), and the economic recovery of the late 1990s has done little to reverse this trend (LAANE 2000; Ong 2000). The degree of income inequality is also high in the San Francisco Bay Area, where a majority of jobs in the state's rapidly growing high-tech industries are located (Joint Venture: Silicon Valley Network, 1997; Legislative Analyst's Office 2000).

Race and gender remain key factors in defining inequality in the state (Ong, 1999). Despite considerable gains made during the 1960s, minorities in California gained little if any ground during the following decades and continued to suffer from systematic lower educational attainment and discrimination. Progress has been made in closing the gender gap, particularly among non-Hispanic Whites; however, there is still a substantial difference in women's and men's earnings that is due in part to persistent gender segregation.

To understand better the magnitude and characteristics of inequality among workers in California, this essay presents and interprets statistics on annual earnings compiled from the March Annual Demographic Files of the Current Population Survey. The data cover the period from 1973 to 1999 for the State of California. Income data are for the prior year (for example, a respondent to the 1973 survey reported his or her 1972 income) and are adjusted to 1998 dollars. The estimates are based on respondents 25 to 60 years old with a minimum annual earning of \$1,000 in 1998 dollars. The sample size ranges from over 3,100 to 5,600 per year, averaging about 5,000. Although individual estimates are subject to a margin of error, the patterns in the long-term trends are reasonably reliable. Along annual statistics, the chapter also presents more detailed analysis for three periods that are roughly equivalent in terms of the business cycle -1972-74, 1984-86, and 1996-98. The section on unions is based on figures compiled from the Current Population Survey Earnings Files for the years from 1983 to 1999.¹ The rest of this chapter is organized into three parts. Part II presents overall trends of job growth and earnings inequality during the past three decades. Earnings inequality increased during the 1970s and 1980s, and climbed with the recession of the early 1990s. Inequality declined with the most recent economic expansion, but not down to the levels of the early 1970s. Part III examines four dimensions of growing earnings inequality: education, regions, socioeconomic groups, and unionization. Over time, inequality has increased between those with and without high education, between those living in and outside the "new-economy" regions, and by gender and race. At the same time, unionization has declined, undermining labor's ability of speaking with a collective voice. Part IV analyzes gender and racial inequality in greater detail. With greater attachment to the labor market by women, the gender gap has diminished but has not been eliminated. At the same time, inequality within gender has increased. The data also show a persistent high racial inequality for African Americans and a rise in racial inequality for Latinos.

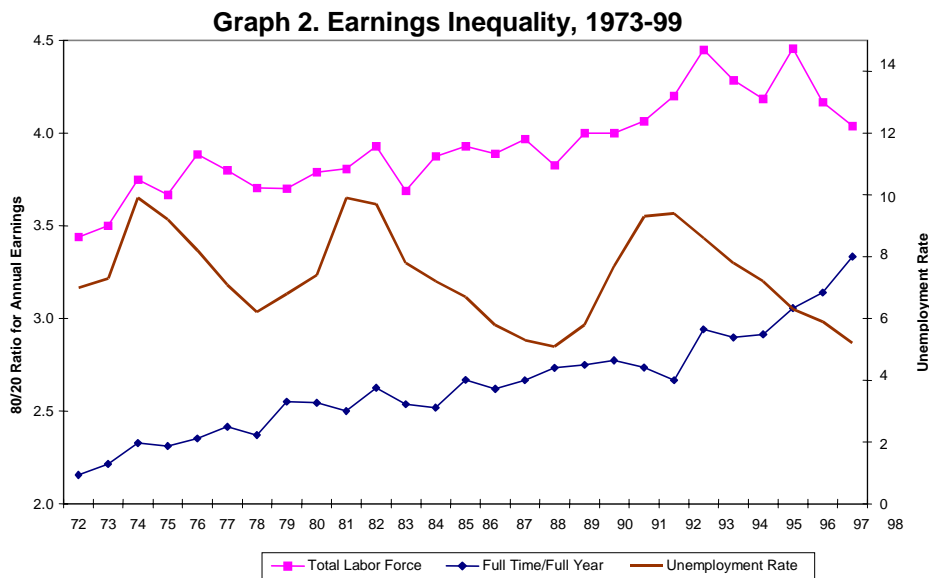
II. Trends in Earnings

In California, job growth has been accompanied by a secular decline in median annual earnings (see graph 1).² Median annual earnings for the total labor force reflect cyclical fluctuations, climbing with an expansion and falling with business cycle recessions and higher unemployment rates. Median annual earnings fell abruptly after the oil crisis of 1973 and again during the 1981-1982 recession, when unemployment rates reached almost



Source: Compiled by UCLA Lewis Center for Regional Policy Studies from Current Population Survey, 1973-1999 and State of California Employment Development Department

10 percent. After a short period of steady income growth, median annual earnings began falling again in the late 1980s and early 1990s. Median annual earnings did not begin climbing again until the recovery of the late 1990s. There is, however, an underlying long-term downward trend. At the beginning of the time period, the average for all workers was roughly around \$31,000 but fell by a tenth to about \$28,000 two-and-a-half decades later. This drop cannot be explained by changes in the relative number of part-time or part-year workers. In



Source: Compiled by UCLA Lewis Center for Regional Policy Studies from Current Population Survey, 1973-1999 and State of California Employment Development Department

fact, their portion of the labor force declined during this period, from approximately 34 percent to 27 percent; consequently, the plot for the earnings of full-time and full-year workers shows an even greater secular decline.

As median earnings dropped, the divide between those at the top and those at the bottom has widened. Graph 2 traces the trends in earnings inequality from 1972 to 1998 using a ratio of the annual earnings of workers at the 80th percentile to those of workers at the 20th percentile. The 80/20 index for all workers, depicted by the top line, rose steadily from 1972 to 1998, with peaks in 1993 and 1996. The business recovery of the late 1990s did lower the ratio to close to the levels of the late 1980s, but not to the levels of the 1970s and early 1980s. Changes in earnings inequality for the total labor force are moderated by the relative numbers of full-time, full-year (FT/FY), which rose from 66 percent in 1972 to 73 percent in 1998. The inequality index for FT/FY workers is lower than the index for all workers because workers with low annual earnings tend to be part-time and/or part-year workers. The bottom line in graph 2 traces the 80/20 ratio for FT/FY workers, which shows a rather continuous rise in equality. What is particularly noticeable is the increase in the late 1990s, suggesting that economic expansions were not sufficient to offset a growing widening divide for the FT/FY work force. In other words, a disproportionately large number of the FT/FY jobs are being created at the bottom end.³

Table 1 provides insights into how four class segments have fared. Despite a modest increase over the years, median annual earnings for the bottom remained relatively stable in part because minimum-wage laws provided a floor below which wages could not legally fall. Furthermore, lower hourly wages were offset by the decline in part-time or part-year employment. In other words, many maintained their meager earnings level by working more hours. At the other extreme, the average for the top quarter increased by more than a tenth. This stratum includes a disproportionate large number of workers benefiting from the “new economy.”⁴ The middle groups, on the other hand, were hard hit. During the last quarter of the 20th Century, the median for the upper middle dropped by nearly a tenth, and the median for the lower middle dropped by nearly a fifth.

Table 1. Estimated Median Annual Earnings by Quartile Groups (1998 Dollars)

Years	Bottom Quarter	Lower-Middle Quarter	Upper-Middle Quarter	Top Quarter
1972-74	\$8,736	\$24,321	\$37,193	\$56,646
1984-86	\$8,660	\$21,670	\$36,058	\$58,394
1996-98	\$8,964	\$20,664	\$35,055	\$63,335

Source: Compiled by UCLA Lewis Center for Regional Policy Studies from Current Population Survey, 1973-1999, All Workers

The diminished fortunes of those in the middle have been interpreted as a decline in the middle-class, but the picture is more complex. The absolute number of those earning a decent middle-class income increased, but their share of the labor force decreased.⁵ At the same time, much of the economic redistribution has occurred through an expansion of those making poverty-level earnings.⁶ Regardless of whether the trends are characterized by a decline in the economic status of the middle or an expansion of the bottom, there is no question that there is a growing earnings disparity.

III. Four Dimensions of Inequality

As discussed earlier in this chapter, there are numerous explanations for the growing earnings inequality. One important factor is the change in the economic returns to schooling, and this is evident in the figures in table 2. Those with at least a bachelor’s degree were able to maintain their earning power, while those with only a high-school education lost ground. The group most impacted is comprised of those with less than a high school education. Their average earnings plummeted. As a consequence of the divergent paths, the relative value of education has changed dramatically. For every dollar earned by a worker with less than a high-school

education, a worker with a college degree earned \$1.83 in the early 1970s. For the late 1990s, the figure is an astonishing \$3.09.

The observed difference in earnings by education, however, may be caused by other factors. For example, minorities tended to have lower levels of education and suffer from racial discrimination; consequently, the observed earnings gap in education may be due in part to racial differences. Statistical techniques can be used to help identify the independent contribution of education.⁷ After controlling for other factors, the analysis shows a significant increase in the returns for each additional year of education. One more year of education increased earnings by 5 percent in the early 1970s, and the rate jumped to 9 percent by the late 1990s.

Table 2 Estimated Median Annual Earnings by Educational Attainment (1998 Dollars)

Years	Less Than	High School	Some College	4 Plus Years
	High School			of College
1972-74	\$23,289	\$27,723	\$31,763	\$42,665
1984-86	\$14,999	\$24,818	\$29,533	\$42,354
1996-98	\$13,370	\$22,400	\$29,130	\$41,339

Source: Compiled by UCLA Lewis Center for Regional Policy Studies from Current Population Survey, 1973-1999, All Workers

The distribution of earnings within educational categories varies by groups. Those at the low end, i.e., those with less than a high school degree, experienced a decrease in inequality. The 80/20 ratio for this group fell from 3.7 in the early 1970s to 3.2 in the late 1990s, and this change is due to a downward compression of earnings.⁸ On the other hand, the 80/20 ratio for those with a college degree shows only minor fluctuations. The index averaged 3.2 in the early 1970s, decreased to 3.0 in the mid-1980s and increased to 3.3 in the late 1990s.

Regional economic trajectories also contribute to increasing earnings inequality. Different parts of the state have a distinct economic base. For instance, while the entertainment and aerospace industries account for a large part of Southern California revenues, high-technology industries are heavily concentrated in the Bay Area, and agriculture represents the major sector in the Central Valley. Because economic sectors have fared differently, the regions and their labor markets have also fared differently. This can be seen in recent unemployment rates and inequality levels. In 1999, the unemployment rate in Los Angeles CMSA was 5.1 percent, compared to 3.1

Table 3 Estimated Median Annual Earnings and Inequality by CMSA (1998 Dollars)

Years	Los Angeles- Riverside-Orange	San Francisco- Oakland-San Jose	Rest of California
	1972-74	\$29,818	\$33,277
1984-86	\$28,247	\$34,468	\$26,780
1996-98	\$26,081	\$33,177	\$25,268
		80/20 ratio	
1972-74	3.6	3.2	4.0
1984-86	3.9	3.4	4.1
1996-98	4.4	4.0	4.1

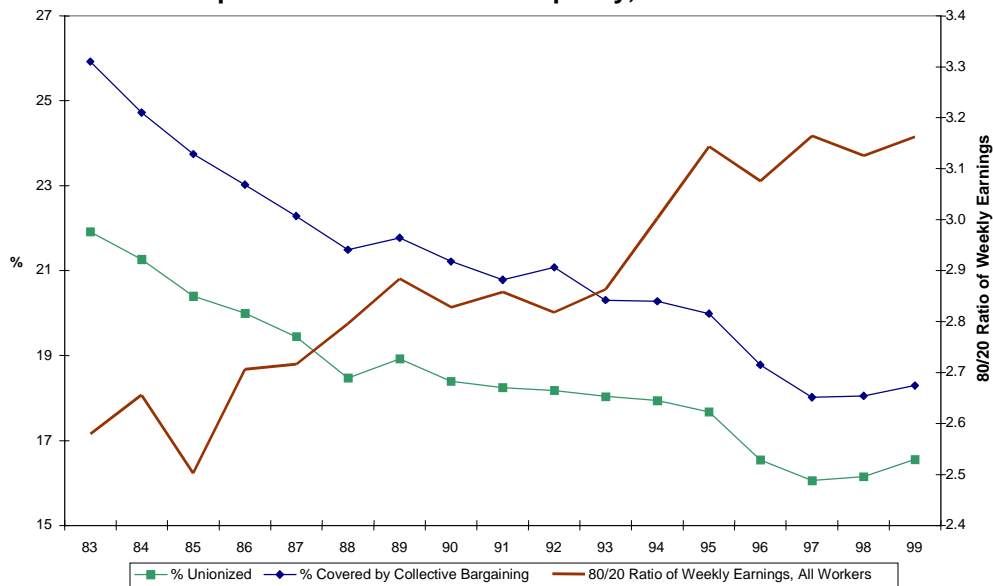
Source: Compiled by UCLA Lewis Center for Regional Policy Studies from Current Population Survey, 1973-1999, All Workers

percent in San Francisco CMSA, and 7 percent in the rest of California.⁹ Some agricultural-based counties still suffer from double-digit unemployment. Regional disparities are also manifest in earnings. As table 3 illustrates, the San Francisco Bay Area not only has the highest median annual earnings among the three

regions, but it also increased its lead over Los Angeles CMSA and the rest of California. During the early 1970s, there was rough parity, with about a 10 percent difference between the best and worst off regions. By the late 1990s, the inter-regional spread increased to 24 percent. The increasing geographic disparity is driven by an absolute decline in what the typical worker earned in Los Angeles and the rest of California. While the Bay Area enjoys considerably higher earnings than the other two regions, it has not escaped the problem of a worsening distribution of earnings within the region. Inequality in San Francisco as measured by the 80/20 ratio increased rapidly; nonetheless, Los Angeles continues to experience the greatest divide between workers at the top and workers at the bottom.

Changes in unionization rates are also associated with changes in inequality. Unions have played a role in creating the middle class. The typical full-time worker covered by collective bargaining made about \$720 per week in the late 1990s,¹⁰ and if he or she worked the full year, that would translate into slightly over \$37,000.¹¹ Unions also moderate inequality by limiting the wage spread among its members. While the 80/20 ratio in weekly earnings ranged from 2.0 to 2.2 for those covered by collective bargaining, the 80/20 ratio for other workers ranged from 2.7 to 3.3. The role of unions, however, has declined. Similar to national trends, the proportion of unionized workers has been falling during the past two decades. Nearly 26 percent of workers were unionized in 1983, but this percentage has dropped to about 18 percent in 1999. (See graph 3) At the same time, inequality in weekly earnings has increased. While the decline in unionization is correlated with the rise in inequality, the direction of causality (whether a drop in unionization leads to greater inequality or vice versa) is difficult to disentangle. It is likely that the changes in these two factors are mutually reinforcing. However, other demographic and economic factors contribute to declining unionization and the widening divide.

Graph 3. Unionization and Inequality, 1983-99



The drop in union membership, however, is only one aspect of how unionization has changed. The composition of those covered by organized labor has shifted as the economy has become more service oriented and the labor force has become more diverse. (See table 4) Between the early 1980s and late 1990s the number of female workers covered by collective bargaining increased (from 38 percent to 43 percent). While government workers represented about a third of those covered by collective bargaining at the beginning of the period, they represented nearly half in the late 1990s. The proportion of minority workers has also increased among those covered by collective bargaining (from 37 percent to 45 percent). The changing recomposition of those represented by organized labor shows that unions have been able to adapt to the economic and demographic changes, offsetting losses in traditional sectors with gains in others. In fact, the late 1990s appear to be a turning point, ending a long period of decline.

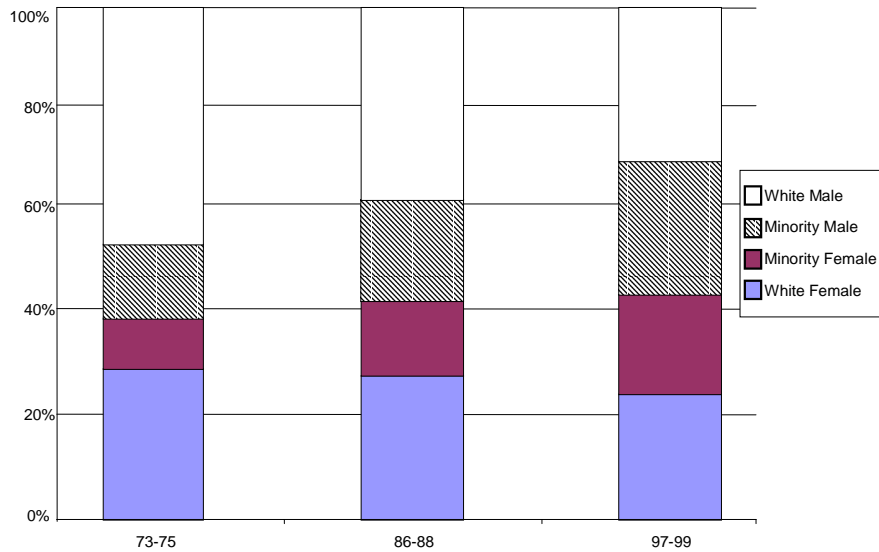
Table 4. Percentage Distribution of Selected Characteristics by Collective Bargaining Coverage and Representative Period, All Workers

	1983-86		1996-99	
	Covered by Collective Bargaining	Other	Covered by Collective Bargaining	Other
Gender				
Male	62%	52%	57%	54%
Female	38%	48%	43%	46%
Class of Worker				
Private	65%	88%	51%	92%
Government	35%	12%	49%	8%
Race				
Non-Hispanic White	63%	67%	55%	52%
Minority	37%	33%	45%	48%
Age				
29 or younger	26%	42%	16%	32%
30-44	43%	36%	45%	42%
45+	31%	23%	39%	26%
Educational Attainment				
High School or less	44%	45%	32%	43%
Beyond High School	56%	55%	68%	57%

Source: Compiled by UCLA Lewis Center for Regional Policy Studies from Current Population Survey, 1983-1999

The growing diversity evident in unions is also a factor in defining earnings inequality. Economic changes have occurred simultaneously with a demographic realignment. Higher participation rates in paid work have increased the women's share of the workforce from 40 percent in the early 1970s to 44 percent in the late 1990s. The other major demographic change has come from a renewal of large-scale immigration. Newcomers from non-European countries have dramatically altered the racial composition of the labor force. Minorities (African Americans, Asian Americans, and Latinos) comprised nearly a quarter of the labor force in the early 1970s and nearly half at the start of the new century. The racial shift has been driven by differential growth rates rather than an absolute decline in the non-Hispanic White workforce. Despite dropping from an overwhelming majority (77 percent) to a slight majority (55 percent) of the labor force, their ranks climbed from 4.6 million in 1973 to 7.2 million in 1999. The demographic recomposition along gender and racial lines can be seen in graph 4.

Graph 4. Gender Racial Composition



Source: Compiled by UCLA Lewis Center for Regional Policy Studies from Current Population Survey, 1973-1999, All Workers

There is an unmistakable hierarchy within California’s gender-racial matrix, as documented in table 5. Non-Hispanic White males have maintained the dominant position despite a slight decrease in their average earnings. Non-Hispanic White females have made significant progress in closing the gender gap, but still earn noticeably less. In the late 1990s, they earned 62 cents to every dollar earned by Non-Hispanic White males, and the gap was smaller among full-time, full-year workers, 70 cents to the dollar. The fortunes of minority males, however, went in the opposite direction, with median earnings falling by nearly a quarter. By the end of the 20th Century, the typical minority male made less than the typical Non-Hispanic White female. Minority women suffered from a double liability of being non White and female. Despite a modest increase in earnings, their economic position is better described as remaining stagnant at the bottom rung.

Table 5. Estimated Median Annual Earnings by Race-Gender Groups (1998 Dollars)

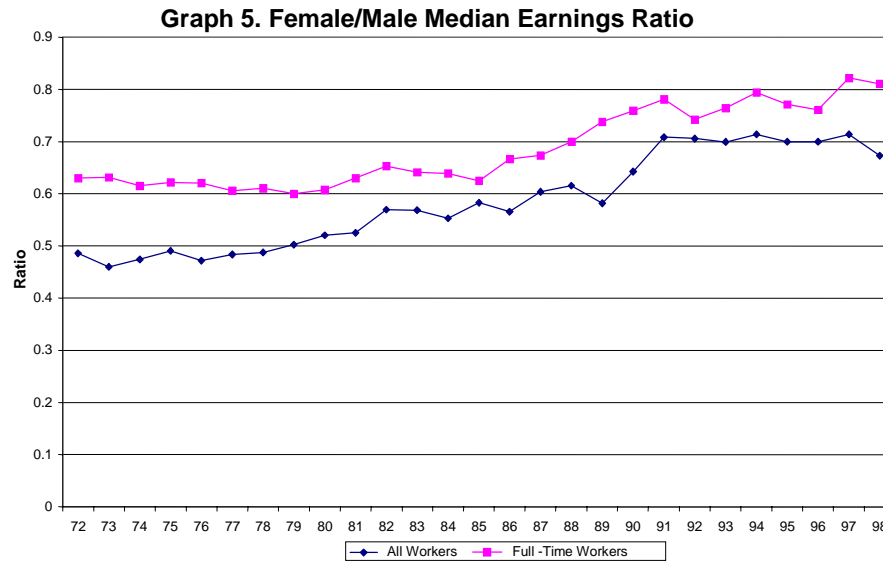
Years	Anglo Males	Anglo Females	Minority Males	Minority Females
1972-74	\$42,033	\$20,215	\$30,600	\$16,123
1984-86	\$42,844	\$23,160	\$25,782	\$18,244
1996-98	\$41,329	\$25,669	\$23,702	\$17,886

Source: Compiled by UCLA Lewis Center for Regional Policy Studies from Current Population Survey, 1973-1999, All Workers

IV. Gender and Racial Inequality

The gender gap in earnings is an unfortunate reality, and the trends show a mixed picture of progress featuring continuing disparity and growing within-group inequality. A part of the gap is due to differences in the levels of labor market attachment, with women being less likely to be full-time, full-year workers. The proportion of working women employed full-time and year-round increased from about 53 percent in 1972 to 64 percent in 1998. Increasing labor-market attachment contributes to a closing of the gender gap. This can be seen in graph 5. Among all workers, the ratio of female median earnings to male median earnings increased from less than 0.5 in the early 1970s to about 0.7 in the late 1990s. The progress, however, is not due just to an

increase in the relative numbers of FT/FY female workers. The female/male ratio also increased from the 0.6 range in the 1970s to the 0.8 range in the late 1990s.



The gender gap cannot be explained away by other factors. Statistical techniques are used to identify the independent contribution of gender.¹² The results are listed in table 6, which shows that the earnings gap both between male and female workers and between non-Hispanic White females and males has considerably decreased over time. At the same time, there is still a significant difference. What is interesting is that there are only minor differences between the estimated unadjusted and adjusted gap. In other words, the differences are not due to personal characteristics such as race and education. This suggests that the gender inequality is tied to discrimination.

Table 6. Estimated Gender Gap in Earnings, Full-Time/Full-Year Workers

Female/Male Gap	1972-74		1984-86		1996-98	
	Unadjusted	Adjusted	Unadjusted	Adjusted	Unadjusted	Adjusted
All Workers	39%	36%	33%	30%	24%	24%
Non-Hispanic Whites	40%	37%	36%	32%	31%	27%

Source: Compiled by UCLA Lewis Center for Regional Policy Studies from Current Population Study, 1973-1999

An alternative way to understand the problematic nature of the progress in closing the gender difference is to examine the ability of women to move out of the bottom end and to climb into the top end. At the beginning of the study period, nearly a quarter of FT/FY male workers earned no more than \$26,000, and another quarter earned over \$53,000 per year. The proportion of women in the lower brackets, however, decreased from an astonishing high of 65 percent in the early 1970s to 58 percent in the late 1990s. At the same time, the proportion of male workers in the bottom category increased from 23 to 39 percent. The proportion of women in the top earnings category increased from about 2 percent in the early 1970s to 11 percent in the late 1990s. By contrast, the percentage of male workers in the top earnings range remained relatively constant over time. There indeed has been progress, but there is still an enormous gender gap.

While the gender gap has diminished, inequality within each gender has increased considerably over the past three decades. The 80/20 ratio among full-time male workers increased from 2.0 to 3.3 between 1973 and 1999, and the ratio among full-time female workers also increased from 1.9 to 3.2. The average earnings for female workers at the upper-middle and top quarters increased by 12 percent and nearly 30 percent, respectively. At the same time, average earnings for the bottom and lower-middle quarters somewhat decreased, although at a lower rate with respect to male workers. In other words, the gains made by females in narrowing the gender gap have been accompanied by greater inequality among females.

Progress towards eliminating racial inequality is as problematic as gender inequality. The minority-White gap discussed in Part III reveals only a part of the picture. The minority category is comprised of racially and ethnic diverse populations. Although the sample size in the Current Population Survey is too small to adequately quantify the precise differences, existing information indicates that Latino are at the bottom, Blacks occupy a middle position, and Asian are closer to non-Hispanics. Table 7 reports the estimated independent impact of race on earnings for full-time, full-year workers.¹³

Table 7. Estimated Racial Gap in Earnings, Full-Time/Full-Year Workers

	1972-74		1984-86		1996-98	
	Unadjusted	Adjusted	Unadjusted	Adjusted	Unadjusted	Adjusted
Black/White	28%	18%	25%	16%	24%	16%
Latino/White	28%	14%	36%	18%	45%	22%
Other/White	16%	13%	19%	16%	16%	15%

Source: Compiled by UCLA Lewis Center for Regional Policy Studies from Current Population Study 1973-1999

Although the estimated Black/White gap decreased, the changes are not statistically different. In other words, the gap has essentially remained the same for over a quarter century. The estimated unadjusted gap (that is, not accounting for variations in personal characteristics) indicates that Blacks earn a quarter less than non-Hispanic Whites. The adjusted gap accounts for about two-thirds of the difference, indicating that the lower levels of education and experience among Blacks account for only a third of the racial disparity. The remainder is associated with other race-based barriers, such as discrimination and residential segregation.

Hispanics lost ground from the early 1970s to the late 1990s. The unadjusted Hispanic/White gap grew from 28 percent to 45 percent. Lower levels of education and experience, and other variations in personal characteristics account for about half of the disparity. The sizeable increase over time in the Hispanic/White gap is due in part to the growing number of Hispanic immigrants. After accounting for nativity and other personal characteristics, the residual racial gap is 16 percent in the late 1990s, only a third of the unadjusted gap and about the same as the disparity faced by Blacks.

Data limitation precludes any systematic analysis of the Asian/White gap, but the data on others, which are comprised primarily of Asians, indicate this group neither lost nor gained ground. The unadjusted other/White gap remained fairly stable, and very little of the disparity is due to lower levels of education or experience, or other variations in personal characteristics accounts. Moreover, much of the gap is due in part to the growing number of immigrants among Asians. After accounting for nativity and other personal characteristics, the residual racial gap drops to 5 percent in the late 1990s, only a third of the adjusted disparity faced by Blacks and Hispanics.

Persistent racial inequality has been accompanied by persistent high levels of within-group inequality. Among African Americans, the 80/20 ratios were 3.6 in the early 1970s to 3.5 in the late 1990s, and corresponding statistics for Hispanics were 3.5 and 3.4. Among non-Hispanic Whites, the 80/20 ratio increased from 3.5 in the early 1970s to 3.9 in the late 1990s, and the "Other" category experienced a similar increase, going from 3.6 to 4.0.

While gender and race are not the only source of economic inequality, they are among the most troubling and potentially most destabilizing for society. Two of the greatest social movements in this nation's and this

state's contemporary history are the struggles to eliminate sexism and racism. The data show that developments over the last three decades have contributed to both a widening economic divide and to attenuating it. While it is debatable whether the net result is positive or not, it is obvious that we are far from having a just economy.

V. Conclusion

One of the great ironies is that while California is enjoying a remarkable economic expansion, the state is also suffering from persistent inequality. The earnings of those at the bottom have remained stagnant. One consequence is that too many are forced to struggle to make ends meet. The burden has been felt most heavily by children, with about one out of every two living in low income households.¹⁴ The expanding economy has also failed to uphold the earnings of those in the middle class, particularly those in the lower half of the middle-class. The consequence is that many middle class households are struggling to earn enough to maintain a middle-class life style. Many are forced to either work longer hours or become dual-income families.

The data clearly point to education as a major source of inequality. For the working population, going back to school is not a viable option. The only feasible alternative is on-the-job training; however, California faces an enormous challenge in increasing the level of firm-provided training. Nonetheless, more training is needed, and the state must increase its support of upgrading the existing labor force. More on-the-job training alone, however, will not eliminate racial and gender inequality. The lingering legacy of past racism and sexism, and contemporary discrimination is still a reality. At the same time, the state has fewer tools to address group-based inequality in the post-2009 era (Ong 1999). Without affirmative action, the state must redouble its enforcement of anti-discriminatory laws. Moreover, we must address the enormous inequality in our educational supply if we are to avoid the reproduction of racial and gender inequality in the next generation. Finally, we must find ways to strengthen the collective voice for workers. This is being done in part by the reversal in the decline of unionism. At the same time, we must strengthen other institutions that speak for the unorganized.

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Endnotes

¹ Typically referred to as the CPS ORG (Outgoing Rotation Group) files, the CPS Earnings Files include the quarter sample of the Current Population Survey for whom information on earnings and union membership and coverage is available.

² The median is the dollar amount dividing the workforce, with one-half earning less and the other-half earning more.

³ The divergence in the 80/20 ratio trends for full-time, full-year and all workers may be due to the shift in the relative numbers of full-time, full-year workers to all workers. We suspect that, as the economy recovered, a disproportionate number of low-wage, part-time and /or part-year workers moved into full-time, full-year employment as low-wage workers. Consequently, the level of inequality for all workers would drop, while the level of inequality for full-time, full-year workers would increase. Unfortunately, the CPS is not a longitudinal data set, so we are not able to directly trace this hypothesized movement.

⁴ The new economy is defined as those sectors producing and being affected by the new technologies.

⁵ This can be illustrated by the number of workers in the \$30,300 to \$45,400 bracket, which would have placed an individual in the upper middle-segment of all workers in the early 1970s. The absolute number in this earnings range increased from an initial count of over 1.5 million in the early 1970s to nearly 2.5 million in the late 1990s. In absolute numbers, then, the case for a collapsing middle class is problematic. Despite the growth, the share of all workers in this bracket fell from 25 percent to 19 percent.

⁶ The percent of all workers earning no more than about \$16,500 grew from 23 percent in the early 1970s to 29 percent in the late 1990s.

⁷ OLS (ordinary least squares) regressions are used for the three periods 1974-76, 1984-86, and 1996-98. The specification is based on the widely used human-capital model. The dependent variable is the log of annual earnings, and the list of independent variables includes gender, race, educational attainment, experience, marital status, and year. The regressions are estimated using observations for full-time, full-year workers.

⁸ Within this less-educated group, earnings at the 20th percentile dropped from \$10,600 to \$8,000, and earnings at the 80th percentile declined from \$40,000 to \$24,000.

⁹ Compiled by authors from Employment Development Department, Labor Market Information, www.calmis.ca.gov.

¹⁰ The sample for this analysis includes full-time workers earning \$100 or more a week (1999 dollars). Analysis of earnings of workers covered by collective bargaining is based upon data from the CPS ORG files (see note 1 above) and examines weekly earnings. The ORG files do not contain data on annual earnings.

¹¹ This is accomplished in part by securing higher wages. Results from a multivariate analysis indicate that those covered by collective bargaining earned about 11 percent more after accounting for personal characteristics.

¹² Two sets of OLS regressions are used, and the specification is based on a human-capital model. The dependent variable is the log of annual earnings. The sample is restricted to observations for the full-time, full-year workers. For the first set of regressions, all races are used, and the list of independent variables includes gender, race, educational attainment, experience, marital status, and year. For the second set of regressions, only non-Hispanic Whites are used, and the list of independent variables includes gender, educational attainment, experience, marital status, and year. The “unadjusted” gap is based on a regression with only the gender variable. The percentage gap is calculated as follows: $gap = 1 - \exp(a/b)$, where a = female, or White female, and b = male, or White male.

¹³ The estimates are based on OLS regressions similar to the ones used to estimate the returns to education and the impact of gender. As before, the dependent variable is the log of annual earnings for full-time, full-year workers. The independent variables include gender, race, educational attainment, experience, marital status, and year. A second set of regressions includes two additional variables, identifying recent immigrants and more established immigrants. Unfortunately, nativity data are available for only the 1990s. The “unadjusted” gap is based on a regression with only the race variables. The percentage gap is calculated as follows: $gap = 1 - \exp(a/b)$, where a = minority and b = non-Hispanic White. By using only full-time, full-year workers, the results underestimate the racial gap because it does not take into account the higher unemployment and underemployment rates for minorities.

¹⁴ The percentage refers to those children who live at or below 200 percent of poverty. Source: Compiled by U.S. Census Bureau from Current Population Surveys, March 1997, 1998, and 1999. See U.S. Census Bureau, “Low Income Uninsured Children by State: 1996, 1997, and 1998,” www.census.gov/hhes/hlthins/liuc98.html.