

This PDF is a selection from a published volume from the National Bureau of Economic Research

Volume Title: Labor in the New Economy

Volume Author/Editor: Katharine G. Abraham, James R. Spletzer, and Michael Harper, editors

Volume Publisher: University of Chicago Press

Volume ISBN: 978-0-226-00143-2; 0-226-00143-1

Volume URL: <http://www.nber.org/books/abra08-1>

Conference Date: November 16-17, 2007

Publication Date: October 2010

Chapter Title: Comment on "Recent Trends in Compensation Inequality"

Chapter Author: Daniel S. Hamermesh

Chapter URL: <http://www.nber.org/chapters/c10815>

Chapter pages in book: (98 - 100)

- Groschen, Erica. 1991. Sources of intra-industry wage dispersion: How much do employers matter? *Quarterly Journal of Economics* 106 (3): 869–84.
- Hamermesh, Daniel S. 1999a. Changing inequality in markets for workplace amenities. *Quarterly Journal of Economics* 114:1085–1123.
- . 1999b. The timing of work time over time. *Economic Journal* 109:37–66.
- Lemieux, Thomas, W. Bentley MacLeod, and Daniel Parent. 2007. Performance pay and wage inequality. NBER Working Paper no. 13128. Cambridge, MA: National Bureau of Economic Research, May.
- Levy, Helen. 2006. Health insurance and the wage gap. NBER Working Paper no. 11975. Cambridge, MA: National Bureau of Economic Research, January.
- Pension Benefit Guarantee Corporation (PBGC). 2006. *Pension insurance data book, 2006*. Alexandria, VA: PBGC.
- Pierce, Brooks. 2001. Compensation inequality. *Quarterly Journal of Economics* 116 (4): 1493–1525.
- U.S. Department of Labor. 1997. *Handbook of labor statistics*. Bureau of Labor Statistics Bulletin no. 2490. Washington, DC: U.S. Department of Labor.
- Woodbury, Stephen A. 1988. Substitution between wage and nonwage benefits. *American Economic Review* 73 (1): 166–82.

Comment Daniel S. Hamermesh

In his massive and comprehensive effort, Brooks Pierce has demonstrated a large body of new facts about the development of the American labor market in the last quarter century. The ones that seem most important are the following:

1. Except for the very highest centiles, the Current Population Survey (CPS) (worker-based) evidence that most of the rise in wage inequality has occurred entirely in the upper half of the wage distribution is confirmed and strengthened by employer-based evidence from the Employment Cost Index (ECI).
2. The growth in compensation inequality has been even sharper than that of earnings inequality, providing very strong evidence for a high income elasticity of demand for nonwage compensation.
3. The well-documented huge decline in workplace injury rates that occurred through the mid-1990s continued steadily through the early 2000s and, most interestingly, was matched by nearly as sharp declines in workplace fatalities. These decreases are observed at all points of the wage distribution.

I have no difficulties at all with most of Pierce's calculations and, indeed, admire both their breadth and depth. I am somewhat bothered by the treat-

Daniel S. Hamermesh is the Sue Killam Professor in the Foundations of Economics at the University of Texas at Austin, professor of labor economics at Maastricht University in the Netherlands, a research fellow of the Institute for the Study of Labor (IZA), and a research associate of the National Bureau of Economic Research.

ment of paid hours reductions (e.g., vacation and paid sick leave) as benefits to be priced like monetary benefits. I would prefer to have seen them included in the denominator—they should be treated as hours reductions and the hourly (or forty-hour-week) earnings recalculated accordingly. While no individual benefit accounts for huge increases in compensation inequality (see Pierce's table 2.2), widening inequality of leave time is an important contributor in his calculations of rising inequality. It would loom still more important if it were treated as a reduction in hours.

Several of the figures in the chapter provide suggestions about wage and compensation inequality *within* the upper decile. This is useful, both as it indicates the sharp growth in inequality there and suggests substantial differences between estimates based on the CPS and the ECI. These suggestions are rare to nonexistent in the literature—economists have blindly followed the initial work on inequality (Juhn, Murphy, and Pierce 1993) and concentrated almost exclusively on 90-50, 50-10, and 90-50 differences, with these now enshrined in official Census calculations. Pierce's hints at the importance of changes within the upper decile of earnings deserve much more notice, both in this chapter and in the widespread professional and popular discussions about changing inequality. So, too, his evidence on the disagreement between results from the CPS and ECI in the upper tail of the wage distribution merits much more scholarly attention.

To examine just one aspect of this issue, I take the CPS-merged outgoing rotation groups (MORG) for 1994 and 2006 (essentially matching Pierce's later period) and examine wage inequality among nonfederal employees whose usual weekly hours of work were thirty-five or more. To account for weekly hours being higher among higher-wage workers (see Kuhn and Lozano 2008), I adjust the logarithm of weekly earnings by a cubic in weekly hours and calculate weekly earnings as if weekly hours were forty for all respondents. The crucial difference here compared to Pierce's table (and all those in the literature, including the frequently cited Autor, Katz, and Kearney [2008] study) is the examination of differentials based on earnings above the 90th percentile.

Table 2C.1 presents the changes between 1994 and 2006 in the average logarithm of these adjusted weekly earnings measures at various centiles of the earnings distribution, along with changes in differentials between certain centiles. The results for the bottom 90 percent of the earnings distribution duplicate Pierce's work. Because of topcoding of earnings in the CPS, we can only go up to the 98th percentile. Nonetheless, the calculations demonstrate that the biggest issue by far in earnings inequality in the past fifteen years seems to have been the tremendous growth in earnings differences between the top few and the comfortably well-off. The growth in earnings differences between the 98th and 90th percentiles in these data far exceeds that between the 90th and the 50th (or the 90th and the 10th) percentiles.

My quibbles with Brooks Pierce's work should not detract from the attention that it deserves and, I hope, will receive. His evidence that, by looking

Table 2C.1 Adjusted log weekly earnings, full-time employees, Current Population Survey-merged outgoing rotation groups, 1994, 2006

Change in log points	
Percentile	
5	0.379
10	0.375
25	0.376
50	0.365
75	0.442
90	0.583
95	0.807
98	1.047
Differentials	
90-10	0.208
90-50	0.218
50-10	-0.010
95-50	0.442
95-90	0.224
98-50	0.683
98-90	0.464
98-95	0.240
Percent topcoded	
1994	1.5
2006	1.7

only at earnings inequality, we understate the growth in inequality that has arisen from the concentration of gains in the upper half of the distribution of earnings, is crucial. The central point is that the economic gains of the past fifteen years have been even more tilted toward the better-off than we had previously thought.

References

- Autor, David H., Lawrence F. Katz, and Melissa S. Kearney. 2008. Trends in U.S. wage inequality: Revising the revisionists. *Review of Economics and Statistics* 90 (2): 300–323.
- Juhn, Chinhui, Kevin M. Murphy, and Brooks Pierce. 1993. Wage inequality and the rise in returns to skill. *Journal of Political Economy* 101 (3): 410–42.
- Kuhn, Peter, and Fernando Lozano. 2008. The expanding workweek? Understanding trends in long work hours among U.S. men, 1979–2006. *Journal of Labor Economics* 26 (2): 311–43.