

Changes in the Distribution of Workers' Annual Earnings Between 1979 and 2007

Understanding how the annual earnings of workers have changed over time is integral to projecting possible changes in such earnings in the future and considering government tax and spending policies that affect workers. This Congressional Budget Office (CBO) paper documents changes in workers' annual earnings; however, it does not delve deeply into the causes of those changes or the possible implications for government policy.

The paper first describes changes between 1979 and 2007 in the annual (inflation-adjusted) earnings of workers ages 25 to 54. CBO found that men with relatively low, median, and relatively high earnings (specifically, men at the 10th, 50th, and 90th percentiles of their earnings distribution) earned more than women in the same position of their own earnings distribution in 2007, and that those differences were smaller in 2007 than in 1979. CBO also compared the differences in earnings between low, median, and high earners of the same sex in a given year. For men, the ratio of the earnings of high earners to those of median earners was larger in 2007 than in 1979, whereas the earnings ratio for median and low earners was roughly the same in the two years. For women, in contrast, the ratio of the earnings of high earners to those of median earners was roughly the same in 2007 as it was in 1979, but the earnings ratio for median and low earners was smaller in 2007 than it was in 1979.

This paper also documents changes between 1989 and 2005 in the annual (inflation-adjusted) earnings of workers ages 25 to 54 with very high earnings. (Examining workers with earnings at the very top of the distribution requires a different data set, one that does not span all of the years covered by the data set used in the first part of the paper.) CBO found that men with earnings at the top

of their earnings distribution (those at the 95th and 99th percentiles) earned more than women at the top of their distribution in each year, although that difference declined over time. The earnings of men and women at the top of their earnings distributions were higher in 2005 than they were in 1989, and the increase for workers at the 99th percentile of the distribution was larger than for workers at the 95th percentile. Also, the share of earnings held by workers in the top 5 percent of the distribution increased between 1989 and 2005.

Additionally, CBO examined changes in earnings mobility and variability. Dividing the population into five groups based on earnings, CBO found that the fraction of people moving from one group to another (for example, from the bottom fifth of the distribution to the top fifth) over various five-year spans was roughly unchanged from 1989 to 2005 for both men and women. Slightly more than one-quarter of men and of women experienced increases or decreases in earnings of 50 percent or more between 2004 and 2005. The percentage was similar for year-over-year changes throughout the 1989–2005 period.

There are several points to keep in mind in considering CBO's findings. First, this paper examines annual earnings, not hourly wages. People's annual earnings are determined both by their earnings per hour and by how many hours they work each year. Second, people's annual earnings are not necessarily the entirety of their compensation. In focusing on earnings for its analysis, CBO did not take into account other forms of compensation, such as defined-benefit retirement plans, employers' contributions to 401(k) plans, or employment-based health insurance. (Comprehensive data on compensation for individ-

uals are not generally available over long periods.) Third, annual earnings do not necessarily represent all of the resources available to workers. Many people receive income from unemployment compensation, child support, or other sources over the course of a year. Also, many people share resources with family members, and some people have savings on which they can rely. Fourth, CBO excluded people who had no earnings over the

course of a year and those who had earnings only from self-employment. People who had both earnings and income from self-employment were included in the analysis, but their income from self-employment was not considered. Finally, CBO's restriction of the analysis to people ages 25 to 54 lessened the effects that individuals' decisions about educational attainment and retirement might have on the study's results.