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Title

Using the P90/P10 Ratio to Measure Inequality Trends with the Current Population Survey:
A View from Inside the Census Bureau Vaults

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Abstract

The vast majority of research on trends in United States labor earnings and income inequality since the 1970s has been based on public use files of the March Current Population Survey (CPS). Yet time-inconsistency problems related to top coding in these data have led many researchers to use the ratio of the 90th and 10th percentile of these distributions (P90/P10) rather than a more traditional summary measure of inequality such as the Gini index, Theil index, or coefficient of variation, each of which uses information about all income values, rather than only two. With access to public use and restricted-access internal March Current Population Survey (CPS) data, and using an innovative approach to deriving upper and lower bounds on the P90/P10 ratio, we find that use of this index does not completely avoid time-consistency problems, especially for household income inequality trends. However, using internal CPS data, we create consistent cell mean values for all top-coded public use CPS values that, when used with public use data, closely track inequality trends in labor earnings and household income using internal CPS data. But estimates of long-term inequality trends with corrected data based on P90/P10 ratios still differ from those based on Gini coefficients. The choice of inequality measure matters.

JEL classifications: D3; J3; C8

Keywords: earnings inequality, income inequality, top-coding, censoring, P90/P10 index, Gini index

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