CENTER ON BUDGET AND POLICY PRIORITIES

820 First Street, NE, Suite 510, Washington, DC 20002
Tel: 202-408-1080 Fax: 202-408-1056 center@cbpp.org www.cbpp.org

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AN UNEVEN RECOVERY: NEW GOVERNMENT DATA SHOW CORPORATE PROFITS ENJOYING UNUSUALLY LARGE GAINS, WHILE WORKERS' INCOMES LAG BEHIND

By David Kamin and Isaac Shapiro

Commerce Department data on national income trends released on August 27 point toward troubling developments in the current economic recovery. Of greatest concern, wage and salary growth for workers has been exceptionally poor while corporate profits have enjoyed unusually large gains.

This conclusion emerges from an examination of the Commerce data. First, we looked at the composition of the income gains that have occurred during the recovery. We focused on how much has gone directly into workers' pockets as increased wages and salaries; how much has been received by corporations as profits; and how much has been absorbed by rising employer contributions for workers' health insurance premiums and pensions. The data show that the share of real income growth that has gone to wages and salaries (that is, the total increase in wage and salary income) has been smaller than during any other post-World War II recovery period, while the share of real income growth that has gone to corporate profits has been larger than during all other post-World War II recoveries.

Table 1
Shares of National Real Income Growth

	Current Economic Recovery	Average, Other Post-World War II Economic Recoveries
Wages and Salaries	15%	49%
Corporate Profits	47%	21%

Source: CBPP calculations based on Commerce Department data.

The share of income growth, after adjusting for inflation, that has gone to wages and salaries has been only about one-third as much as has gone to corporate profits. This contrasts sharply with other recoveries since the end of World War II; during the other recoveries, the share of income growth that went to wages and salaries averaged *more than twice* as much as the share going to corporate profits.

Table 2
Real Growth Rates

	Current Economic Recovery	Average, Other Post-World War II Economic Recoveries
Wages and Salaries	0.8%	4.8%
Corporate Profits	14.2%	11.8%

Source: CBPP calculations based on Commerce Department data.

We also examined the magnitude of the economic growth that has occurred during this recovery, as well as the amount of growth that has occurred among certain types of income. After adjusting for inflation, wages and salaries have grown at the meager pace of 0.8 percent per year during the current recovery, which is only about one-sixth their average growth level in other post-World War II recoveries. Corporate profits have risen during the current recovery at a dramatically faster pace than wages and salaries — at an inflation-adjusted rate of 14.2 percent per year. This is faster than has typically occurred in other post-World War II recoveries.

These findings are consistent with some better-known patterns of the recent recovery, such as the slowness of job creation. If there is an absence of significant job growth, it is difficult for the total amount of wages and salaries to grow significantly (the more workers there are, the larger amount of wage and salary income there will be). Nonetheless, corporate profits have managed to grow faster than they have historically.[1]

The Composition of Growth

The current recovery began in the fourth quarter of 2001, and the new Commerce data on national income trends go through the second quarter of 2004. Thus, data are available for 10 quarters — or two and one-half years — of the recovery period. Throughout this analysis, we compare income developments over these 10 quarters to developments over the first 10 quarters of other recovery periods since the end of World War II.[2]

According to the Commerce data:

- ***The share of the increase in overall national income, after adjusting for inflation, that has come in the form of wages and salaries has been smaller than in any other recovery since the end of World War II.*** Over this recovery, only 15 percent of real income growth has been in the form of increases in wages and salary income. During the first 10 quarters of other recovery periods, an average of 49 percent of gains in national income went to wages and salaries. (The share ranged from a previous low of 39 percent during the first 10 quarters of the recoveries that began in early 1975 and late 1982 to a high of 61 percent in the first 10 quarters of the recovery that began in late 1949; see Appendix Table 1.)[3]

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[1] For an in-depth discussion of recent labor market developments and income trends, including an analysis of how recent economic gains have been distributed between labor compensation and corporate profits (as well as other forms of capital income) that reaches similar conclusions to those reached here, see Lawrence Mishel, Jared Bernstein, Sylvia Allegretto, *The State of Working America, 2004-05*, Economic Policy Institute, September 2004.

[2] Specifically, we compare the current recovery period to comparable periods in other economic cycles, as defined by the National Bureau of Economic Research. In our comparisons, we exclude the one year recovery period that began in July 1980 and ended in July 1981. That expansion was unusually short-lived; excluding this short recovery period, the average post World War II expansion has lasted just over 5 years. Thus, the recovery beginning in July 1980 is not comparable to other post-World War II economic cycles.

[3] To adjust national income for the effects of inflation, we use the Commerce Department's price index for net national product, since net national product is equivalent to national income (the overall measure of income examined here). The Commerce does not publish price indices for the separate components of national income, and

Comparing Shares of Income Gains to Shares of Income Previously Received

Another way to assess the distribution of recent income gains is to compare it to the pre-existing distribution of income. For instance, if wages and salaries constituted 15 percent of national income when the recovery began, then it would not be surprising that wages and salaries have received 15 percent of real income growth during the recovery.

But, in fact, in the quarter that the recovery began, wages and salaries constituted 54 percent of national income. Their share of income growth since then — 15 percent — has been disproportionately low.

Conversely, the share of income growth going to corporate profits during the recovery (47 percent) has been dramatically larger than the share of national income going to corporate profits when the recovery began (9 percent).

- ***The share of national income gains going to corporate profits has been significantly larger during this recovery than in any other post-World War II recovery.*** Some 47 percent of the real increase in national income over the past two and one-half years has been in the form of corporate profits. This is more than double the average of 21 percent during the first two and one-half years of other post-World War II recoveries.

Share of Growth to Total Compensation

Another factor contributing to the decline in the share of income going to wages and salaries has been a jump in employer contributions for insurance and pensions. The share of national income growth going to employer contributions for insurance and pensions — 25 percent — has been the largest for any post-World War II recovery period.[4]

The Commerce Department adds these insurance and pension contributions and employer contributions for government social insurance programs to wage and salary incomes to make up the category labeled "total compensation." Even by this broad measure of labor compensation, the share of national income gains going to workers in the first 10 quarters of this recovery is lower than in all previous recoveries since World War II.

As opposed to increases in wages and salaries, the degree to which the increases in payments for insurance and pensions will enhance living standards is unclear. Rising employer payments for health insurance premiums partly reflects the acceleration in health care

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so we assume uniform inflation across all sectors and adjust all components of national income by the net national product price index.

[4] This analysis focuses on the three types of income that received the largest share of real income growth. Altogether, wages and salaries (with a 15 percent share), corporate profits (a 47 percent share), and employers' contributions for insurance and pensions (a 25 percent share) accounted for 87 percent of real income growth. The remainder of income growth was divided among various categories, including taxes on production and imports, proprietors' income, and interest income.

cost growth, which may not appreciably benefit covered workers. In addition, many employers with pension plans that promise a defined benefit to workers have had to increase their pension contributions to make up for the drop in the stock market, which reduced the value of pension plans' portfolios. The increased contributions were necessary to assure payment of the promised pension benefits. In this respect, the current increase in pension contributions make workers no better off than they were before, since many workers would still expect to receive the same pension benefit that was promised previously.

The Magnitude of Income Growth

The relatively small share of income gains going to wages and salaries might not be as much of a concern if the overall magnitude of income growth had been so large that, despite the uneven distribution of the gains, workers were still much better off. The reality, however, is different. The Commerce data indicate that:

- ***National income has grown at a slower pace during the current recovery than in every other recovery except one since World War II.***[5] National income has grown at an average pace of 2.9 percent per year, after adjusting for inflation, since the last quarter of 2001. Over the comparable stages of other post-World War II recoveries, national income growth averaged 5.5 percent per year. (See Appendix Table 2.)

- ***Wages and salaries have risen at a slower pace during this recovery than in every recovery period since the end of World War II.*** So far during the current recovery, wage and salary incomes have risen at the meager pace of 0.8 percent a year, after adjusting for inflation. Over other recoveries since the end of World War II, wages and salaries rose on average at a real rate of 4.8 percent a year, or six times as quickly.[6]

- ***While income for workers has grown at the slowest pace on record for a recovery, corporations have enjoyed above-average gains.*** During this recovery period, corporate profits have enjoyed healthy growth of 14.2 percent per year

[5] The exception is the first 10 quarters of the recovery that began in the second quarter of 1991, when growth proceeded at an average annual rate of 2.0 percent.

[6] Some may argue that growth in overall national income, as well as in wages and salaries, has been less robust during this recovery than in previous recoveries because the recent downturn was less sharp than earlier recessions. This argument does not stand up to scrutiny, however. Measured from the peak quarter of the last economic cycle — that is, from the first quarter of 2001 — the main growth trends noted above still stand. Since the first quarter of 2001, wages and salaries have *fallen* at an annual rate of 0.2 percent, after adjusting for inflation. Over the comparable periods of other cycles since World War II, wages and salaries grew at an average rate of 2.6 percent, after inflation adjustment. Similarly, since the previous economic peak, corporate profits have grown at a real annual rate of 10.8 percent, far above the average real annual growth rate of 4.3 percent over comparable periods in the other economic cycles since World War II.

after adjusting for inflation. This exceeds the average growth rate of 11.8 percent for all other recovery periods since World War II.

It is remarkable that even though national income growth has been *below* average for a recovery, corporate profits growth has been *above* average. Given that national income growth has been unusually slow, the above-average growth in corporate profits implies that another type of income — in this case, workers' wages and salaries — must see particularly small gains.

Effects on Income Disparities

The new Commerce data confirm that the current recovery has been relatively slow and very uneven, with workers receiving an unusually small share of the income gains and corporations receiving an exceptionally large share of the income gains. The nature of the recovery is thus likely to aggravate income disparities. Corporate profits tend to benefit those with the highest incomes, through increased dividends and capital gains. In contrast, middle- and low-income Americans receive most of their incomes through wages and salaries, which are now lagging behind.

As an indication of the disparities resulting from the above trends, the following should be considered. During the first half of 2004:

- ***The share of national income that consists of wage and salaries was at the lowest level ever recorded, with data available back to 1929.*** In the first half of 2004, some 51.7 percent of national income went to wages and salaries, down from 54.5 percent when the recovery began. This is the lowest share on record. (A one percentage point difference in income share amounts to $102 billion, and so this 2.7 percentage point decline is equivalent to $278 billion.)

- ***The share of national income going to total labor compensation was also significantly below average.*** Part of the reason for the drop in the share of national income going to wages and salaries over time has been the rise in employer contributions to insurance and pensions. But the share of national income going to workers has dropped even when total compensation is considered. In the first half of 2004, some 64.1 percent of national income went to labor compensation, significantly below its average level of 65.6 percent from 1970 to 2003.

- ***Conversely, the share of national income going to corporate profits is exceptionally high.*** The share of national income that consisted of corporate profits was 11.5 percent in the first half of 2004, not a record high but significantly above its average level of 9.5 percent from 1970 to 2003.

- ***After-tax corporate profits comprise the largest share of national income in 75 years.*** While pre-tax corporate profits have experienced substantial gains in the current recovery, corporate income taxes have remained remarkably low. To a great extent, this reflects the long-term decline in the rate of corporate taxation. It also is a function of a large temporary corporate tax cut known as “bonus depreciation.” (This provision is scheduled to expire after 2004.) High pre-tax corporate profits and low corporate income taxes have resulted in after-tax corporate profits in the first half of 2004 that represent a larger share of national income than in any year since 1929.[7]

[7] After-tax corporate profits equaled 8.9 percent of national income in the first half of 2004. Even if bonus depreciation were not in effect in 2004, after-tax corporate profits would still be at or near record levels as a percentage of national income.

Appendix

Table 1

Share of Real National Income Growth Over the First 10 Quarters of a Recovery

Recession Ending (Year and Quarter):	1949 - IV	1954 - II	1958 - II	1961 - I	1970 - IV	1975 - I	1982 - IV	1991 - I	2001 - IV	Average Post World War II Recoveries (Other Than Current)
Wages and Salaries	60.9%	55.8%	54.8%	46.9%	43.5%	38.6%	39.2%	49.5%	15.1%	48.7%
Employer Contributions for Insurance and Pensions	3.2%	5.7%	4.9%	3.8%	7.2%	14.1%	5.4%	19.7%	25.4%	8.0%
Employer Contributions for Government Social Insurance	1.4%	1.9%	5.2%	3.7%	7.4%	3.7%	4.8%	5.5%	2.8%	4.2%
Total Compensation	65.3%	63.4%	65.1%	54.5%	58.1%	56.4%	49.5%	74.8%	43.3%	60.9%
Corporate Profits	14.4%	18.2%	17.5%	25.7%	19.4%	32.9%	18.9%	19.3%	46.9%	20.8%
Other	20.3%	18.4%	17.4%	19.7%	22.4%	10.8%	31.6%	5.9%	9.8%	18.3%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: CBPP calculations based on Commerce Department data.

Table 2

Rate of Real Growth Over the First 10 Quarters of a Recovery

Recession Ending (Year and Quarter):	1949 - IV	1954 - II	1958 - II	1961 - I	1970 - IV	1975 - I	1982 - IV	1991 - I	2001 - IV	Average Post World War II Recoveries (Other Than Current)
Wages and Salaries	9.1%	5.2%	4.4%	4.8%	4.5%	3.8%	4.4%	1.8%	0.8%	4.8%
Employer Contributions for Insurance and Pensions	15.5%	13.9%	7.8%	7.1%	9.2%	12.7%	4.3%	5.0%	9.6%	9.4%
Employer Contributions for Government Social Insurance	9.1%	7.3%	14.8%	10.3%	16.3%	6.3%	7.8%	2.6%	2.0%	9.3%
Total Compensation	9.3%	5.6%	4.9%	5.1%	5.3%	4.8%	4.6%	2.3%	1.9%	5.2%
Corporate Profits	10.6%	8.7%	8.2%	13.6%	13.0%	20.4%	15.2%	3.4%	14.2%	11.8%
Other	6.1%	3.8%	3.0%	4.3%	5.4%	2.5%	7.7%	0.5%	1.1%	4.1%
Total	8.5%	5.4%	4.7%	5.8%	6.0%	5.6%	6.2%	2.0%	2.9%	5.5%

Source: CBPP calculations based on Commerce Department data.