

NEWS RELEASE

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THREE YEARS INTO RECOVERY, WORKERS' SHARE OF ECONOMIC GAINS AT POST-WORLD WAR II LOW, CORPORATE SHARE AT RECORD HIGH

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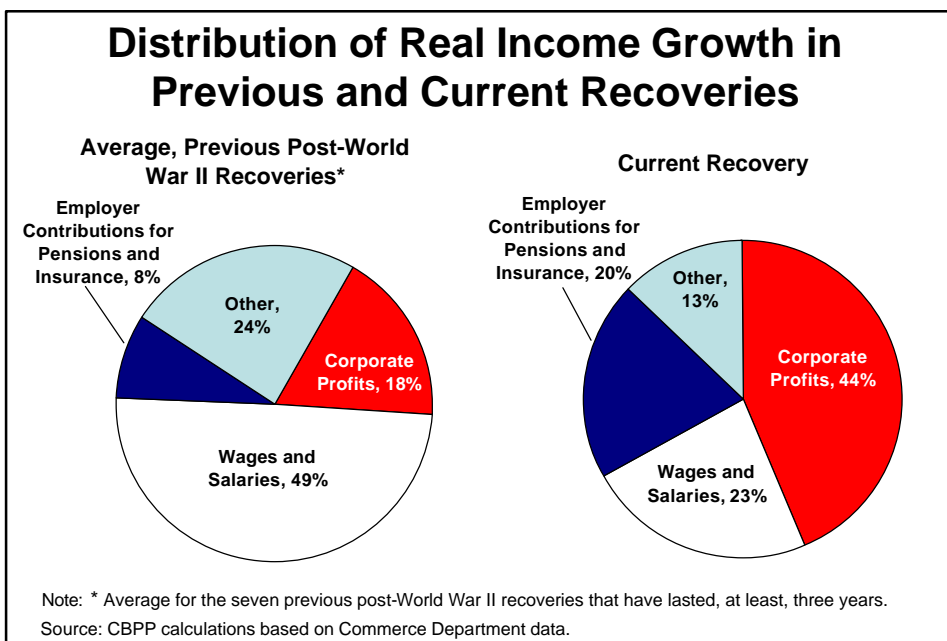
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A smaller share of the growth in national income during this recovery has gone to workers' wages and salaries than in any other recovery since World War II, according to a Center report based on new Commerce Department data. By contrast, the share of national income growth going to corporate profits has been higher than in any post-World War II recovery.

The Center's report also shows that both the economy as a whole and overall wages and salaries have grown at well-below-average rates during this recovery. But corporate profits have grown significantly faster than average for a post-World War II recovery, and after-tax corporate profits have climbed to their highest levels as a share of national income since 1929.

"So far, this hasn't been much of a recovery for many workers, but it's definitely been a good recovery for corporations," stated Isaac Shapiro, associate director at the Center and co-author of the report. Shapiro noted that the data are consistent with other data suggesting that the recent recovery has not been very favorable to workers, such as the relative slowness of job creation.



Historically Small Share of Growth Going to Wages and Salaries

National income is the sum of all income received by individuals and businesses. The new Commerce Department data on national income extend through the end of 2004; the recovery began in the fourth quarter of 2001.

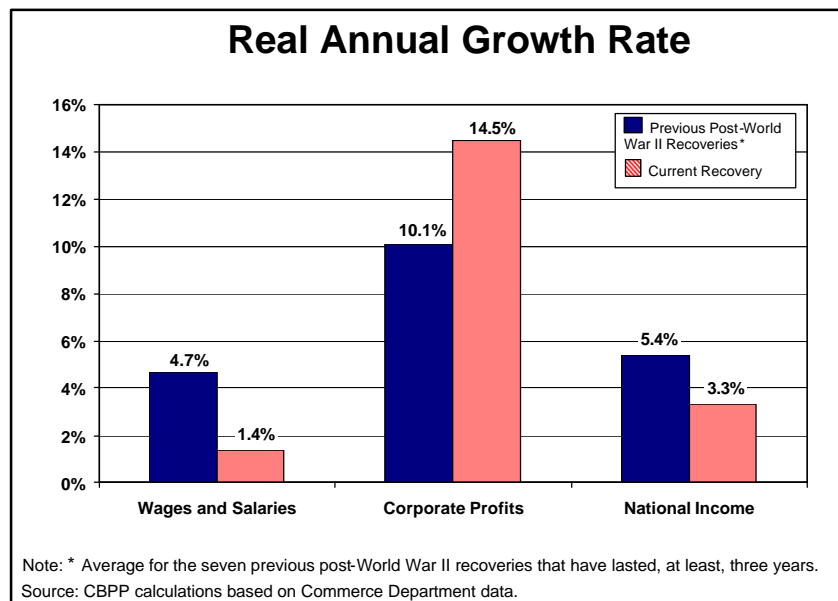
During the first three years of this recovery, 23 percent of the real (inflation-adjusted) gains in national income have gone to workers' wages and salaries. This is less than half of the average percentage of income growth that went to wages and salaries during the first three years of other post–World War II recoveries, when wages and salaries averaged 49 percent of the gains in national income.

Meanwhile, the share of the gains in national income that have gone to corporate profits during the first three years of this recovery (44 percent) is more than double the average for the comparable period of other post-World War II recoveries (which was 18 percent).

As the two pie charts above also show, employer contributions for workers' insurance and pensions have gone up during this recovery. (This presumably reflects rising health care costs and the need for some employers to replenish pension funds depleted by the stock market decline.) Even if these employer contributions are considered together with workers' wages and salaries, however, the amount that workers received from these two sources combined during the first three years of this recovery constitutes a smaller share of national income gains than in any other post–World War II recovery.

Pace of Wage and Salary Growth During Recovery Is Well Below Average

The relatively small share of income gains going to wages and salaries during this recovery might not be as much of a concern if the overall magnitude of income growth had been so large that workers were still much better off. The reality is different. Since the last quarter of 2001, national income growth has averaged 3.3 percent per year, after adjusting for inflation. That is well below the 5.4 percent average annual growth for the first three years of other post–World War II recoveries.



Even more dramatically, total wage and salary income has risen much more slowly during this recovery (an average of 1.4 percent a year above inflation) than in other post–World War II recoveries (when it averaged 4.7 percent a year). Wage and salary growth accelerated somewhat in 2004, partly due to an increase in hiring, but remained well below average for the third year of other post–World War II recoveries.

The sluggish growth in wage and salary income is consistent with other data about the current recovery. Total wage and salary income reflects the number of workers and how much each worker is paid. Since job growth during this recovery has not been rapid and most workers' wages have declined relative to inflation during the latter part of the recovery, total wage and salary income has lagged behind.

Corporations, on the other hand, have enjoyed above-average gains during the current recovery. Corporate profits have grown an average of 14.5 percent per year after adjusting for inflation, faster than the average growth rate of 10.1 percent for all other post–World War II recoveries.

Workers' Share of Total Economy Shrinking

Because a relatively small part of the recent growth in national income has gone to wages and salaries, their share of the total national income has shrunk, from 55.0 percent in 2001 to 51.9 percent in 2004 — the lowest level ever recorded, with annual data available back to 1929.

Even when employer contributions for workers' insurance and pensions are added in, total labor compensation makes up a declining share of total national income.

The share of national income going to corporate profits, meanwhile, is high by historical standards. In addition, corporate taxes have declined over time. As a result of these two factors — rising corporate profits and declining corporate taxes — *after-tax* corporate profits have climbed to their highest levels as a share of national income since 1929.

The trends shown in these new data are likely to widen the income gap between affluent households and other Americans. When corporate profits increase, high-income households tend to receive larger capital gains and dividends. In contrast, low- and middle-income households receive most of their income from wages and salaries, which are lagging behind. Moreover, the recent downturn followed two decades (the 1980s and 1990s) in which higher-income households enjoyed much faster income growth than other households.

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