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SHARE OF ECONOMY GOING TO WAGES AND SALARIES DROPS FOR UNPRECEDENTED 14th STRAIGHT QUARTER

Meanwhile, Corporate Profit Share Has Risen Significantly

By Isaac Shapiro and David Kamin

The Commerce Department data released today on the nation's Gross Domestic Product — which measures the overall size of the economy — indicate the continuation of a troubling trend for the country's workers. The new data are for the third quarter of 2004 and show that a steadily dropping share of the nation's income is going to wages and salaries. At the same time, data through the second quarter show that the share of GDP going to corporate profits has increased substantially. To a lesser degree, the share of GDP going to employer contributions to insurance and pensions has also risen.

- For the 14th straight quarter, the share of GDP that consists of wage and salary income fell. Such a decline is unprecedented during the post-World War II era.[1] Previously, the share of GDP consisting of wage and salary income had never fallen for more than six quarters in a row.

- In the current period, the share of GDP going to wages and salaries fell from 49.5 percent in the first quarter of 2001 to 45.4 percent today, a dramatic reduction of 4.1 percentage points. (A percentage point of GDP is equivalent to $118 billion per year.) The size of this decline is also without recent precedent. Prior to 2001, the previous sharpest drop over a 14-quarter period in the share of GDP going to wages and salaries was 3.0 percentage points during the mid-1970s.

Table 1
Change in Share of Gross Domestic Product

	Share in 2001, First Quarter	Share in 2004, Third Quarter	Percentage Point Change in Share
Wages and Salaries	49.5%	45.4%	-4.1%
Corporate Profits	7.8%	10.1%*	+2.3%
Insurance & Pensions	6.3%	7.5%	+1.2%

*Figure is for the second quarter of 2004.
Source: Commerce Department data.

- While wages and salaries have received a significantly smaller share of national income, corporate profits have received a significantly larger share. Corporate profit data are only available through the second quarter of 2004. In the thirteen quarters from early 2001 through then, the share of GDP consisting of corporate profits has risen by 2.3 percentage points.

[1] This analysis examines data since 1947 because quarterly data are not available before then.

- Another factor contributing to the shrinking share of GDP going to wages and salaries is the growing share going to employer contributions to insurance and pensions. This share, which includes increasing contributions to cover health insurance costs, has risen by 1.2 percentage points over this period.[2] As opposed to increases in wages and salaries, the degree to which the increases in payments for insurance and pensions have enhanced living standards is unclear.[3]

But have wages and salaries still grown?

The decline in the share of the economy going to wages and salaries would not be as much of a concern if the overall magnitude of economic growth had been so large that, despite the uneven distribution of the gains, workers have become much better off. To the contrary:

- After adjusting for inflation, total wage and salary income has risen modestly in 2003 and 2004, but only enough to offset declines in 2001 and 2002. As a result, real income and salary income is essentially the same it was in early 2001.

- This, too, is a very unusual development. Over three and a half years, the total amount of wage and salary income almost always grows significantly. Indeed, except for the double-dip recession of the early 1980s, the amount of wage and salary income rose faster in every other 14-quarter period on record than in the current period.

- The current 14-quarter period started just after the peak of the last economic cycle, as the economy was heading into a recession that would officially last through the end of 2001. Recessions do tend to slow the growth of wage and salary income. But the wage and salary story has been particularly bleak over the current 14-quarter period, even for a period that includes a recession. Since World War II, real wages and salaries rose by an average of nine percent in the other 14-quarter periods that followed the peak of an economic cycle.[4] This compares to the stagnation in real wages and salaries in the current 14-quarter period.

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[2] Total compensation — which includes wage and salary income, employer contributions to insurance and pensions, and employer contributions to social insurance — fell by 3.1 percentage points over the 14-quarter period. This, too, is the largest drop on record.

[3] Rising employer payments for health insurance premiums partly reflect the acceleration in health care 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 makes workers no better off than they were before, since many workers would still expect to receive the same pension benefit that was promised previously.

[4] In the 14 quarters after economic peaks, wage and salary increases were larger prior to 1970 than they have been in more recent decades. Still, the current period compares unfavorable to the post-1970 periods as well.

Table 2
Real Growth

	Since 2001, First Quarter	Average, Comparable Periods Since World War II
Wages and Salaries	0.3%*	8.7%
Corporate Profits	40.4%**	12.3%

* Growth measured through the third quarter of 2004.
** Growth measured through the second quarter of 2004.
Source: Commerce Department data.

- While wages and salaries have taken this unusual course, corporate profits have experienced far above-average gains. From the first quarter of 2001 through the second quarter of 2004, corporate profits jumped by 40 percent, even after adjusting for inflation. In comparable 13-quarter periods (starting with economic cycle peaks) since the end of World War II, real corporate profits rose by an average of 12 percent.

Findings Consistent with Other Trends

These findings are all consistent with the conclusion of an analysis we released in early September. It found that the share of real income growth that has gone to wages and salaries during the current recovery 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. It also found that the share of national income consisting of wages and salaries is at the lowest level ever recorded, with data available back to 1929;[5] and, while total employee compensation — which includes employers' pension and health insurance contributions — is not at an all time-low, it is significantly below the average of the last three decades.

Further, these findings are consistent with a better-known pattern of the recent recovery, 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). In contrast, corporate profits have managed to grow faster than they have historically.

[5] David Kamin and Isaac Shapiro, "An Uneven Recovery: New Government Data Show Corporate Profits Enjoying Unusually Large Gains, While Workers' Incomes Lag Behind," Center on Budget and Policy Priorities, September 3, 2004. Our previous analysis measured wage and salary income relative to "national income," a slightly different basis of comparison from the "gross domestic product" standard used here. For technical reasons, it is preferable to use national income for these comparisons, but this measure is not yet available for the third quarter of 2004. The essential story remains the same regardless of whether national income or GDP is used.