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SHARE OF NATIONAL INCOME GOING TO WAGES AND SALARIES AT RECORD LOW IN 2006

Share of Income Going to Corporate Profits at Record High

By Aviva Aron-Dine and Isaac Shapiro

Commerce Department data released today show that the share of national income going to wages and salaries in 2006 was at its *lowest level on record*, with data going back to 1929.[1] The share of national income captured by corporate profits, in contrast, was at its *highest level on record*.[2]

These findings reflect weak overall growth in wages and salaries — and rapid growth in corporate profits — since the current economic expansion began in November 2001. Growth in wage and salary income was exceptionally weak during the first stage of the recovery, though it has picked up in the last few years and was strong in 2006. The stronger recent growth, however, has not been enough to undo the effects of weak growth in previous years.

Corporate profit growth, meanwhile, has been robust throughout nearly all of the current expansion and was especially rapid in 2006. Corporate profits have grown at a faster pace in the current recovery than in any other equivalent period since World War II.

During the current expansion as a whole:

- Wages and salaries have grown at a 1.9 percent average annual rate, after adjusting for inflation. In previous post-World War II recoveries, wages and salaries grew at an average annual rate of 3.8 percent.

- Corporate profits have grown at a 12.8 percent average annual rate, after adjusting for inflation, as compared with an average annual growth rate of 8.3 percent in the equivalent periods of past post-World War II business cycles. (See Appendix Table 1.)

As a consequence, wages and salaries have captured an exceptionally small share of the total growth in national income that has occurred in the current period. Only 34 percent of the overall increase in national income since the end of 2001 has gone to increases in workers' pay, a smaller

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[1] Commerce Department, "Gross Domestic Product and Corporate Profits Release," March 29, 2007.

[2] Corporate profits as a share of national income were at a higher level in the second half of 1950, but not in the year as a whole.

fraction than in any other expansion since World War II. For the first time on record, corporate profits have captured a larger share of the income growth in a recovery — 46 percent of it — than wages and salaries have. (See Appendix Table 2.)

Wages and Salaries' Share Has Reached Lowest Level on Record

The result of these trends is that, in 2006, the share of total national income going to wages and salaries was at the lowest level on record. (See Appendix Table 3.)[3]

- Some 51.6 percent of total national income went to wages and salaries in 2006. This is a lower share than in any of the 77 previous years for which these data are available.

- At this stage of the 1990s business cycle, wages and salaries made up about 53 percent of national income — about 1½ percentage points more than today Each percentage point of national income is now equivalent to $117 billion.

- Corporate profits captured 13.8 percent of national income in 2006, which is the largest share in any year on record. At this point in the business cycle of the 1990s, corporate profits were receiving less than 12 percent of national income.

Growth of Total Employee Compensation Also Weak

In contrast to wages and salaries, employer contributions for pensions and health insurance have increased at close to the average rate for a post-World War II recovery and have captured a considerably larger share of total income growth than is typical for a recovery period.

Some have argued that the relatively strong growth in non-wage forms of employee compensation has crowded out wage growth. For example, Allan Hubbard, economic advisor to President Bush, stated, "Employers are spending more money on health care, and that's robbing people of wage increases."[4]

Rising health care costs are clearly a concern and are likely to have contributed to the poor performance of wages and salaries. They do not seem, however, to be the primary cause of the declining share of national income that is paid out in wages and salaries.

This can be seen by examining trends in *total employee compensation* as a share of national income (i.e., by tracking changes over time in the percentage of national income that is paid to, or on behalf of, employees as wages and salaries, pensions and health insurance contributions, and contributions

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[3] National income provides a better measure than the Gross Domestic Product of the total income available in the economy because it takes into account the losses that result from depreciation of existing capital. In addition, for technical reasons, the Commerce Department data on national income are more directly comparable to the Commerce Department data on wages and salaries and corporate profits than the GDP data are.

The essential trends described here are the same, however, regardless of whether national income or GDP is used. Considered as a percentage of GDP, wages and salaries in 2006 are at about the same level as in 2005 and are otherwise at their lowest level on record. Corporate profits are at their highest level since 1950.

[4] John McKinnon and Sarah Lueck, "Bush Sets Focus on Health Care for 2006 Agenda," *Wall Street Journal*, January 12, 2006.

for government social insurance). If wage stagnation had been largely or fully offset by increases in employer contributions for health and pensions, then total employee compensation (as distinguished from wages and salaries) would have performed about as well in the current recovery period as in past recoveries. It has not done so.[5]

- The average annual growth rate of total employee compensation during the current recovery has been 2.5 percent, after adjusting for inflation. This is well below the 4.1 percent average growth rate for previous post-World War II recoveries.

- The share of national income going to total employee compensation in 2006 — 64.0 percent — is at its lowest level since 1968, except for 1997.[6]

Data Consistent with Other Evidence That Workers Have Fared Poorly in Current Recovery

The Commerce data show that workers as a group have reaped an unusually small share of the economic gains from the current recovery. These data are consistent with other evidence showing that working-age households have fared poorly. For example, employment has grown more slowly during the current recovery than in any comparable post-World War II period. In addition, average hourly wages, adjusted for inflation, rose over the first two years of the recovery but then fell in 2004 and 2005; at the beginning of 2006, the average hourly wage was lower than when the recession ended in November 2001.

Moreover, according to Census data, median income among working-age households in 2005 — four years into the recovery — also was lower than during the recession, after adjusting for inflation. Median income among working-age households fell in each year from 2001 through 2005.[7]

High-income households, meanwhile, have reaped large gains from the expansion. Recent data from economists Thomas Piketty and Emanuel Saez show that income concentration jumped dramatically in 2004 and 2005, and that in 2005 the share of national income going to the top one percent of households returned to its 2000 level, the highest since 1929.[8] The new Commerce Department data provide further evidence of this trend. The benefits of rapid growth in corporate profits tend to accrue largely to high-income households, since they hold a highly disproportionate share of corporate stock. Middle- and lower-income household typically are much more heavily dependent on wage and salary income.

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[5] There are also other reasons to question the claim that rising health care costs bear primary responsibility for slow wage growth. See Sylvia Allegretto and Jared Bernstein, "The Wage Squeeze and Higher Health Care Costs," Economic Policy Institute, January 27, 2006.

[6] Employee compensation's share of national income was lower prior to 1968 due to lower employer contributions for insurance and pensions and for government social insurance.

[7] "Poverty Remains Higher, and Median Income for Non-Elderly Is Lower, Than When Recession Hit Bottom," Center on Budget and Policy Priorities, revised August 30, 2006.

[8] See Aviva Aron-Dine, "New Data Show Income Concentration Jumped Again in 2005: Income Share of Top 1% Returned to Its 2000 Level, the Highest Since 1929," Center on Budget and Policy Priorities, March 29, 2007, http://www.cbpp.org/3-29-07inc.htm.

In the second half of 2006, average hourly wages, adjusted for inflation, increased, according to Labor Department measures. The hope is that these increases indicate a change of course and that working households will begin to see stronger income gains. As the Commerce data show, however, recent developments have not been nearly enough to reverse the effects of the trends of the past few years.

Appendix Table 1: Average Annual Growth Rates in the 5 Years Following the End of a Recession												
Recession Ending in	**1949**	**1954**	**1958**	**1961**	**1970**	**1975**	**1980**	**1982**	**1991**	**2001**		**Average for Post World War II Recoveries (other than the Current Recovery)**
Wages and Salaries	5.8%	3.5%	4.4%	5.4%	1.9%	3.8%	2.3%	4.4%	2.4%	1.9%		3.8%
Total Compensation	6.0%	3.9%	4.8%	5.8%	2.7%	4.5%	2.6%	4.4%	2.4%	2.5%		4.1%
Corporate Profits	7.2%	7.4%	10.0%	12.1%	6.6%	6.6%	6.6%	10.1%	8.4%	12.8%		8.3%
Source: CBPP calculations based on Commerce Department data.												

Appendix Table 2: Shares of National Income *Growth* in the 5 Years Following the End of a Recession												
Recession Ending in	**1949**	**1954**	**1958**	**1961**	**1970**	**1975**	**1980**	**1982**	**1991**	**2001**		**Average for Post World War II Recoveries (other than the Current Recovery)**
Wages and Salaries	59.9%	48.9%	49.6%	49.8%	35.3%	50.6%	37.0%	49.2%	45.9%	34%		47.4%
Total Compensation	65.0%	58.3%	58.6%	57.9%	58.0%	69.4%	49.4%	59.1%	55.0%	54.5%		59.0%
Corporate Profits	15.3%	21.2%	21.5%	22.9%	19.9%	13.1%	15.9%	16.5%	29.5%	45.9%		19.5%
Source: CBPP calculations based on Commerce Department data.												

Appendix Table 3:
National Income Shares

Year	Wages and Salaries	Total Employee Compensation	Corporate Profits
2006	51.6%	64.0%	13.8%
2005	52.4%	65.0%	12.3%
2004	52.4%	64.8%	11.5%
2003	53.2%	65.7%	10.3%
2002	54.0%	66.0%	9.6%
2001	55.0%	66.2%	8.5%
2000	54.9%	65.7%	9.3%
1999	54.3%	65.0%	10.3%
1998	54.0%	64.7%	10.3%
1997	53.1%	63.9%	11.9%
1996	53.0%	64.2%	11.5%
1995	53.2%	65.0%	10.8%
1994	53.1%	65.3%	9.8%
1993	53.5%	65.8%	9.4%
1992	53.8%	65.9%	8.7%
1991	54.0%	65.9%	8.6%
1990	54.1%	65.6%	8.6%
1989	53.8%	65.2%	8.8%
1988	53.9%	65.2%	9.5%
1987	54.4%	65.9%	8.8%
1986	54.2%	65.9%	8.2%
1985	53.6%	65.1%	8.9%
1984	53.3%	64.8%	9.1%
1983	54.6%	66.2%	8.6%
1982	55.6%	67.2%	7.3%
1981	55.3%	66.6%	8.2%
1980	56.5%	67.7%	8.2%
1979	55.8%	66.7%	9.9%
1978	55.3%	65.9%	10.7%
1977	55.3%	65.6%	10.7%
1976	55.8%	65.7%	10.1%
1975	56.4%	65.6%	9.3%
1974	57.5%	66.3%	8.6%
1973	56.8%	65.0%	10.1%
1972	57.5%	65.3%	10.1%
1971	58.0%	65.4%	9.7%
1970	59.3%	66.3%	9.0%
1969	58.3%	64.9%	10.7%
1968	57.3%	63.7%	12.0%
1967	57.1%	63.2%	12.1%
1966	56.3%	62.3%	13.1%
1965	55.7%	61.1%	13.4%
1964	56.0%	61.5%	12.7%
1963	56.2%	61.6%	12.3%

Year	Wages and Salaries	Total Employee Compensation	Corporate Profits
1962	56.5%	61.7%	11.9%
1961	57.1%	62.1%	11.2%
1960	57.5%	62.4%	11.3%
1959	57.0%	61.6%	12.2%
1958	57.9%	62.3%	10.4%
1957	57.9%	62.2%	11.7%
1956	57.9%	61.8%	12.3%
1955	56.9%	60.6%	13.3%
1954	58.1%	61.6%	11.4%
1953	58.6%	61.9%	11.7%
1952	57.7%	61.0%	12.2%
1951	56.4%	59.6%	13.5%
1950	55.7%	58.7%	13.6%
1949	56.6%	59.6%	12.2%
1948	55.8%	58.4%	12.8%
1947	56.8%	60.1%	10.9%
1946	56.4%	60.3%	9.0%
1945	59.2%	62.1%	10.2%
1944	58.9%	61.2%	12.6%
1943	57.3%	59.4%	13.5%
1942	54.8%	56.9%	13.8%
1941	53.5%	55.9%	13.4%
1940	54.7%	57.2%	10.7%
1939	56.0%	58.5%	8.0%
1938	56.0%	58.6%	6.5%
1937	55.1%	57.4%	8.5%
1936	56.0%	57.2%	8.3%
1935	55.4%	56.4%	6.0%
1934	57.8%	58.8%	4.3%
1933	59.3%	60.5%	-0.2%
1932	59.5%	60.6%	-0.4%
1931	58.0%	58.9%	4.3%
1930	55.6%	56.4%	9.0%
1929	53.6%	54.2%	11.5%

Source: CBPP calculations based on Commerce Department data.