Backgrounder

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Shared Prosperity: Debunking Pessimistic Claims About Wages, Profits, and Wealth

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By the numbers, America's economy is strong. The economy has expanded 3.5 percent over the past 12 months, above the average historical rate of growth, while unemployment has fallen to 4.6 percent. Except for the technology bubble of the late 1990s, unemployment has not been this low since the early 1970s. The stock market too has recovered from the collapse of the tech bubble, improving the retirement prospects of tens of millions of Americans.

The gains from America's economic growth have been widely shared throughout society. Low- and middle-income families, not just the wealthy, have seen their standards of living improve dramatically. Family incomes have risen well above where they were a generation ago, and most Americans now enjoy luxuries that in the past only the well-off could afford. Almost all Americans now have better health, education, housing, and consumer goods than they did even a decade ago.

Despite these facts, some claim that middle-class Americans are falling behind. They look at the data and see evidence that few Americans have benefited from the growing economy.[1] Only the wealthiest Americans have seen their lot improve in recent years, they argue, while middle- and low-income families' finances have stagnated. This analysis is based on four specific claims:

- The share of income earned by the wealthiest Americans has risen, and these are the only Americans whose standards of living have improved;

Talking Points

- Average Americans, not just the well off, are doing well in today's economy. Low- and middle-income families are also earning more, living in better homes, receiving more education, and are enjoying once unaffordable luxuries.
- Including benefits, workers' earnings have hit an all-time high. Since 2000, the average worker's real total compensation has risen 9 percent—$4,300 a year for a full-time worker.
- Corporate profits are not squeezing worker's wages. Workers earnings as a share of national income are at their historical levels.
- Workers are not missing out on the gains from rising productivity. Low unemployment is forcing companies to compete to hire valuable workers and wages are now rising faster than productivity. Workers' earnings will catch up with productivity gains, just as they did in the late 1990s.

This paper, in its entirety, can be found at:
www.heritage.org/research/economy/bg1978.cfm

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- Inflation-adjusted wages have not risen for most Americans;
- Wages have not kept pace with rising productivity; and
- Wages and salaries, as a share of the economy, have fallen in recent years, while corporate profits have risen.

To these critics, America has all but returned to a new era of corporate Robber Barons, with entrenched inequality and opportunity only for a fortunate few.

The only problem with this seemingly compelling argument is that it is not true. The critics' statistics, while usually accurate, are also incomplete and out of context, and so give a misleading impression of the state of the economy. A comprehensive look at the data reveals that most Americans have shared in the United States' rising prosperity and that America remains the land of opportunity.

Widely Shared Prosperity

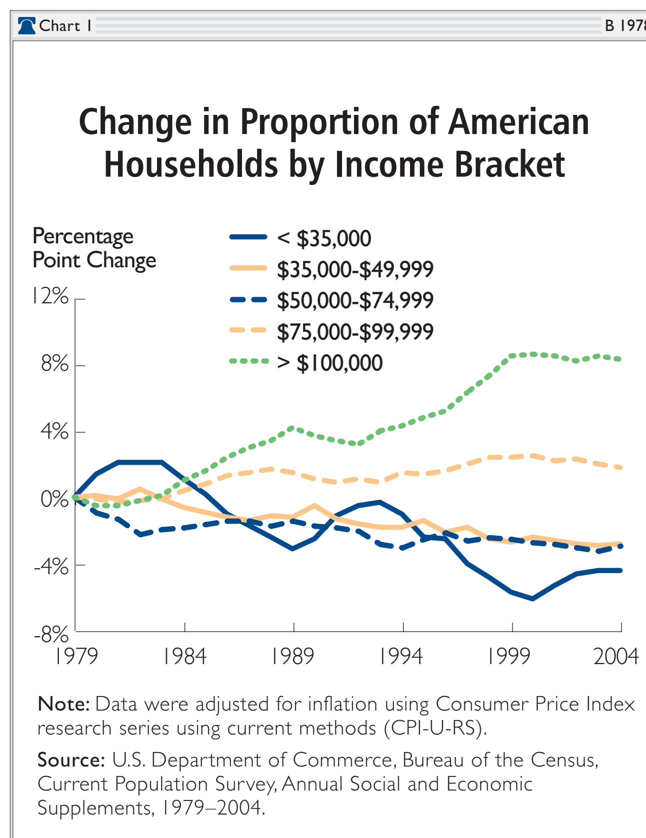
Pessimists usually acknowledge that the American economy is growing healthily but argue that the gains from this growth have not been distributed evenly. They believe that the wealthiest Americans have profited tremendously from economic growth over the past generation, while middle-class Americans have not seen their standards of living rise. In particular, they point to the rising share of income earned by the wealthiest Americans:

> In 2004, the top 1 percent of all earners—a group that includes many chief executives—received 11.2 percent of all wage income, up from 8.7 percent a decade earlier and less than 6 percent three decades ago.[2]

Working Americans, the pessimists conclude, have seen their incomes stagnate or worse, while the rich are getting richer.

The facts, however, show otherwise. Economic growth has benefited more than a small minority of Americans. Chart 1 shows the percentage of American households who reside within each of five different income brackets. Between 1979 and 2004, the proportion of American households with inflation-adjusted incomes below $75,000 fell by 10.1 percentage points, with the largest drop coming in the number of households earning less than $35,000.[3] The proportion of those earning more than $75,000 rose by the same amount, with most of the gain coming from an increase in the proportion of households earning more than $100,000 per year. Far from benefiting only a fortunate few,

Chart 1 B 1978



Note: Data were adjusted for inflation using Consumer Price Index research series using current methods (CPI-U-RS).

Source: U.S. Department of Commerce, Bureau of the Census, Current Population Survey, Annual Social and Economic Supplements, 1979–2004.

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1. See, e.g., Steven Greenhouse and David Leonhardt, "Real Wages Fail to Match a Rise in Productivity," *The New York Times*, August 28, 2006, at *www.nytimes.com/2006/08/28/business/28wages.html* (October 6, 2006).
2. *Ibid.*
3. U.S. Department of Labor, Bureau of Labor Statistics, and U.S. Department of Commerce, Bureau of the Census, *Annual Social and Economic Supplement—2005 Data*, Table FINC-06/07, at *http://pubdb3.census.gov/macro/032005/faminc/new06_000.htm* (October 6, 2006). 2004 is the most recent year for which CPS Annual Social and Economic Supplement data are available.

America's economic engine has raised standards of living for tens of millions of Americans.

The widespread gains from America's prosperity extend beyond rising incomes and are apparent in Americans' day-to-day lives. Middle- and low-income Americans have seen dramatic improvements in their standard of living during recent decades. For example, newly built homes changed significantly between 1979 and 2004.

Table 1 B 1978

Characteristics of New Privately Owned One-Family Homes

Percent with:	1979	2004
Central Air Conditioning	40%	90%
4 or more bedrooms	23%	37%
Median Square Feet	1,485	2,140

Source: U.S. Census Bureau, "Characteristics of New Housing," at *www.census.gov/const/www/charindex.html* (October 11, 2006).

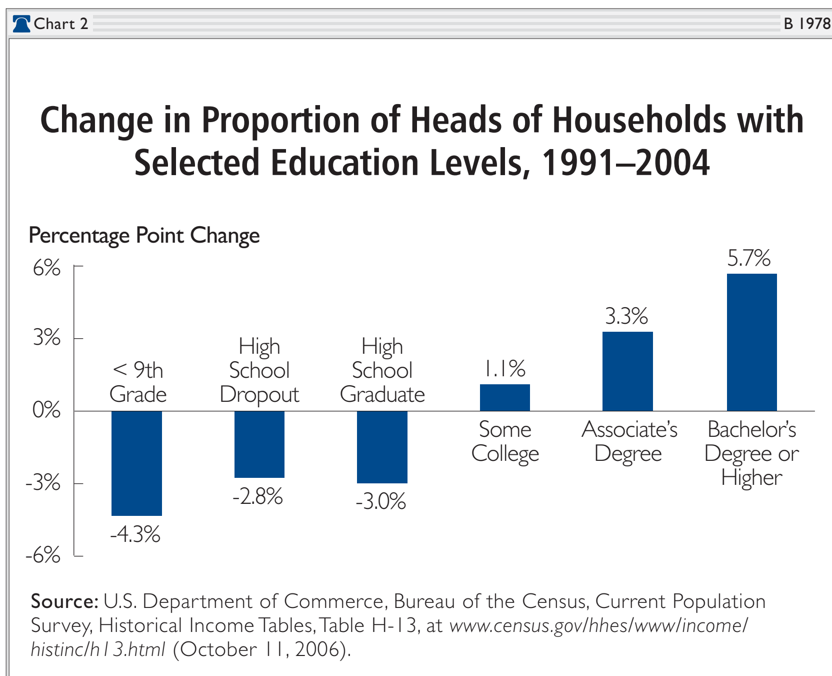
(See Table 1.) In 1979, only 40 percent of new homes had central air conditioning. Today, 90 percent do.[4] Then, only 23 percent of new homes had four or more bedrooms. Now, 37 percent do.[5] The median size of newly built homes has also jumped by almost 50 percent, from 1,485 square feet to 2,140 feet.[6] This did not happen because the rich got richer—they already lived in large, air-conditioned homes with multiple bedrooms. It happened because middle- and low-income Americans shared in the widespread prosperity and can now afford the larger, better-equipped homes that were out of reach for most Americans just a generation ago.

Americans are also living longer than they did a generation ago. In 1980, life expectancy at birth was 73.7 years.[7] Today, it is 77.9 years.[8] Medical advances have improved the health and quality of life of all Americans, regardless of income level. Consider Lipitor, a drug that reduces cholesterol and helps to prevent heart attacks. A generation ago, it did not exist and could not be purchased at any price. Today, it is widely available and has saved tens of thousands of lives. All Americans, not just the rich, have benefited from recent advances in medical technology. This is a direct contribution to broad-based gains in prosperity.

Rising general prosperity also means that increasing numbers of Americans can afford higher education. Today, there are fewer households headed by individuals with a high school education or less than there were in 1991, while the proportion of households headed by individuals with at least some college education has increased significantly.[9] (See Chart 2.) This did not happen because the wealthy decided to get more education—the well-off already had college degrees in 1991—but because college became more accessible to ordinary Americans.

Electronics and their conveniences represent another area in which the rich have lost their lead as all have moved ahead. In 1984, only 340,000 Americans had cell phones. By the end of 2003, that number had risen to 159 million, all of them using far better cell phones than existed in 1984.[10] Between 1997 and 2003, the proportion of Americans with computers at home leaped from 37 percent to 62 percent, and the proportion of

4. U.S. Census Bureau, "Characteristics of New Housing," at *www.census.gov/const/www/charindex.html* (October 11, 2006).
5. *Ibid.*
6. *Ibid.*
7. U.S. Centers for Disease Control, National Center for Health Statistics, *Health, United States, 2005*, Table 27, at *www.cdc.gov/nchs/data/hus/hus05.pdf* (October 6, 2006).
8. U.S. Centers for Disease Control, National Center for Health Statistics, "Deaths: Preliminary Data for 2004," April 19, 2006, at *www.cdc.gov/nchs/products/pubs/pubd/hestats/prelimdeaths04/preliminarydeaths04.htm* (October 6, 2006).
9. U.S. Department of Commerce, Bureau of the Census, Current Population Survey, Historical Income Tables, Table H-13.
10. Robert J. Samuelson, "A Cell Phone? Never for Me," *Newsweek*, August 23, 2006, at *www.msnbc.msn.com/id/5707878/site/newsweek/* (October 6, 2006).



Americans with Internet access jumped from 18 percent to 55 percent.[11] Luxuries that did not exist a generation ago—and that only a minority could afford a decade ago—are now part of everyday life for most Americans, not just the well-off.

Overall, most Americans enjoy a higher standard of living today than they did a generation ago or even a decade ago. They are earning more, learning more in higher education, residing in larger and better-equipped homes, living longer, and constantly gaining access to technologies that did not even exist just a few years previously. These facts do not square with the assertion that economic growth has benefited only the very wealthy.

But the pessimists have one argument left: Americans could be borrowing to purchase these luxuries, piling on debt to buy goods they cannot afford.

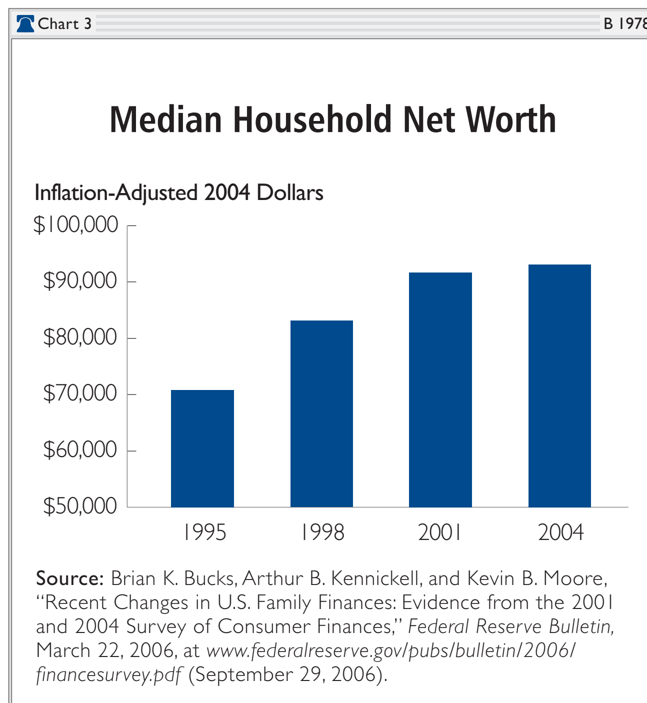
However, the evidence shows that American households are worth more than ever. After adjusting for inflation, the net worth (assets minus liabilities) of the median American family rose from $70,800 in 1995 to $93,100 in 2004.[12] Fully 54 percent of Americans have no credit card debt, and the median balance for families that do have credit card debt is $2,200.[13] Rather than piling on unsustainable levels of debt to finance irresponsible consumption,

Table 2 B 1978

Increased Computer and Internet Access

U.S. Households with:	1997	2003
Computer at Home	36.6%	61.8%
Internet Access	18.0%	54.7%

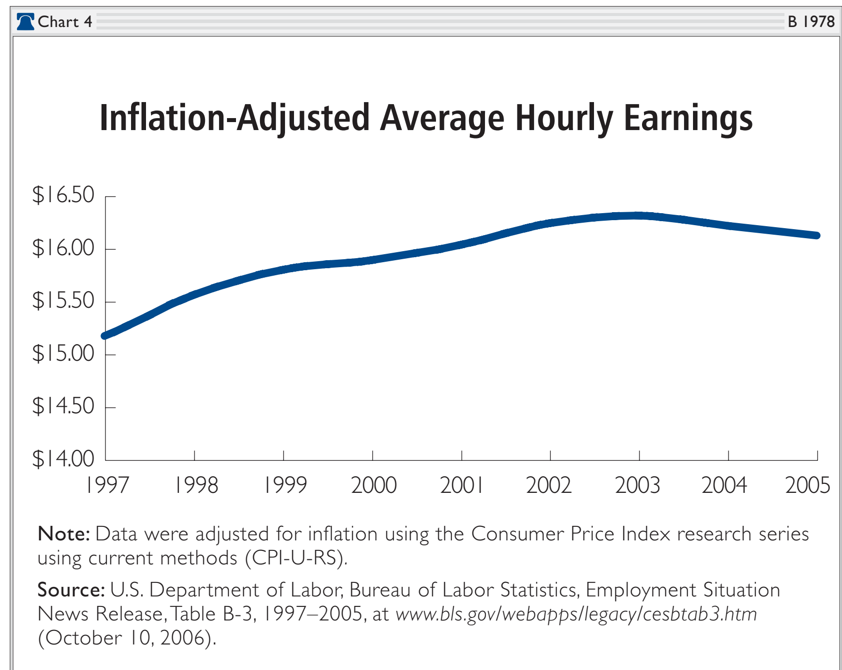
Source: Jennifer Day, Alex Janus, and Jessica Davis, "Computer and Internet Use in the United States: 2003," U.S. Department of Commerce, Economics and Statistics Administration, Current Population Reports, October 2005, at *www.census.gov/prod/2005pubs/p23-208.pdf* (September 28, 2006).



11. Jennifer Day, Alex Janus, and Jessica Davis, "Computer and Internet Use in the United States: 2003," U.S. Department of Commerce, Economics and Statistics Administration, Current Population Reports, October 2005, at *www.census.gov/ prod/2005pubs/p23-208.pdf* (September 28, 2006).

the typical American household is in better financial shape than it was a decade ago.

How can pessimists argue that standards of living have fallen if incomes, savings, and standards of living have gone up for low- and middle-income Americans and not just the wealthy? These analysts raise several specific points that they believe show that most Americans are falling behind. However, a closer look at their arguments demonstrates that they rely on incomplete statistics that reveal only a part of what has taken place. Looking at the evidence in context confirms the fact that American workers are doing well.



Note: Data were adjusted for inflation using the Consumer Price Index research series using current methods (CPI-U-RS).

Source: U.S. Department of Labor, Bureau of Labor Statistics, Employment Situation News Release, Table B-3, 1997–2005, at *www.bls.gov/webapps/legacy/cesbtab3.htm* (October 10, 2006).

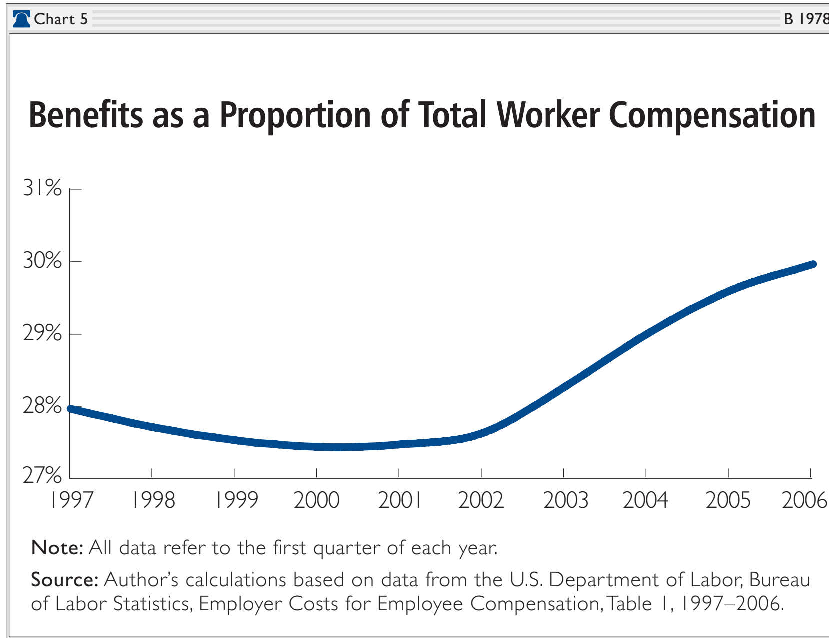
Stagnant Wages?

The most straightforward measure of Americans' economic well-being is their earnings. By this measure, the pessimists appear to have a point because the statistics tell an unpleasant tale. The government measures average hourly earnings for non-supervisory workers, which (after adjusting for inflation) rose during and immediately after the tech bubble but have fallen slightly since 2003. Similarly, the median wage fell by 2 percent between 2003 and 2006.[14] By this measure, it would appear that American workers are at best treading water.

However, these discouraging statistics do not tell the whole story. Taken alone, they portray workers' living standards in the most negative light possible by ignoring almost a third of what workers earn. Benefits are an increasingly large component of worker compensation and now account for 30 percent of workers' pay—and this proportion has risen sharply in recent years. (See Chart 5.) Ignoring benefits misses much of what workers actually earn, but that is what the economic pessimists do.

Strong growth in *total* compensation means that workers are better-off today than three years ago and much better-off than they were at the height of the tech bubble. One government measure of total compensation, called "Employer Costs for Employee Compensation," shows that total compensation has risen by 3 percent since 2003 and 9 percent since 2000 after adjusting for inflation.[15]

12. Brian K. Bucks, Arthur B. Kennickell, and Kevin B. Moore, "Recent Changes in U.S. Family Finances: Evidence from the 2001 and 2004 Survey of Consumer Finances," *Federal Reserve Bulletin*, March 22, 2006, at *www.federalreserve.gov/pubs/bulletin/2006/financesurvey.pdf* (October 6, 2006).
13. *Ibid.*
14. Lawrence Mishel, Jared Bernstein, and Sylvia Allegretto, *The State of Working America 2006/2007* (Washington, D.C.: Economic Policy Institute, 2006), at *www.stateofworkingamerica.org* (October 6, 2006).
15. Author's calculations based on U.S. Department of Labor, Bureau of Labor Statistics, "Employer Costs for Employee Compensation Survey—June 2006," Table 1, at *www.bls.gov/news.release/pdf/ecec.pdf* (October 6, 2006). Note that annual figures refer to the first quarter of each year because data were collected only in the first quarter of each year until 2002. Inflation-adjusted using the CPI-U-RS.



Note: All data refer to the first quarter of each year.

Source: Author's calculations based on data from the U.S. Department of Labor, Bureau of Labor Statistics, Employer Costs for Employee Compensation, Table 1, 1997–2006.

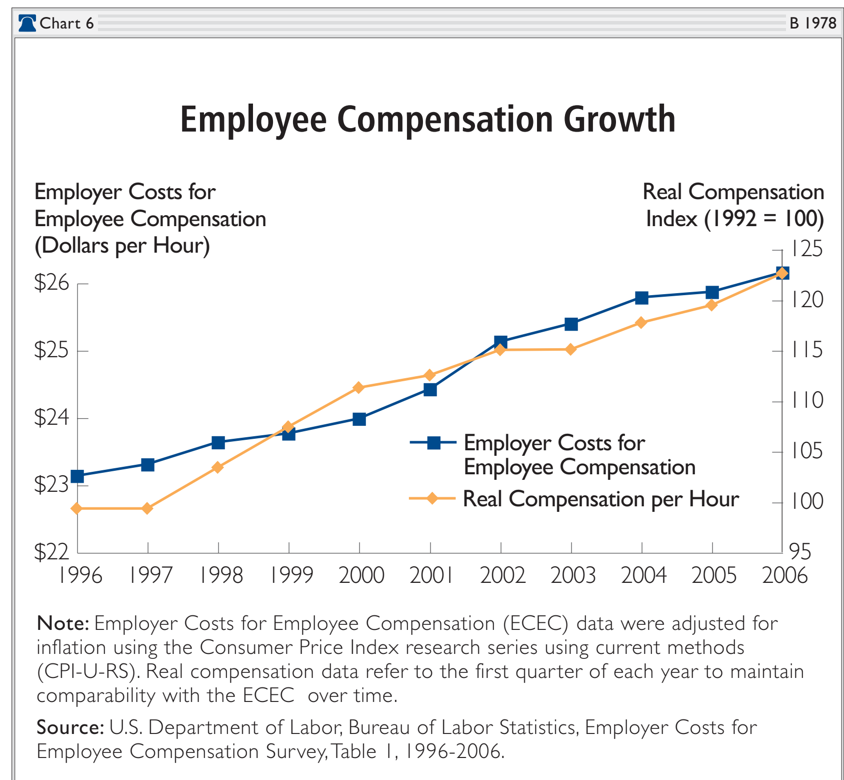
after accounting for the rapid rise in the cost of health care, employee health benefits have still grown. Employers are providing their workers with more benefits and are not just keeping pace with health care inflation.

A closer look at the composition of employee benefits is useful. Health insurance accounts for about a quarter (25.6 percent) of the benefits that companies pay their employees. (See Chart 7.) Legally mandated benefits, such as Social Security and workers' compensation, make up an even larger share (26.9 percent), and paid absences make up almost as much (23.3 percent). Retirement benefits, supple-

Other data support this conclusion. The government measures real hourly compensation in non-farm businesses to calculate changes in productivity. Among non-farm businesses, compensation has risen by 6.6 percent since 2003 and by 10.2 percent since 2000.[16] By this measure, workers today earn more than they did three years ago and much more than they did at the height of the tech bubble.

Much More Than Just Health Care Inflation

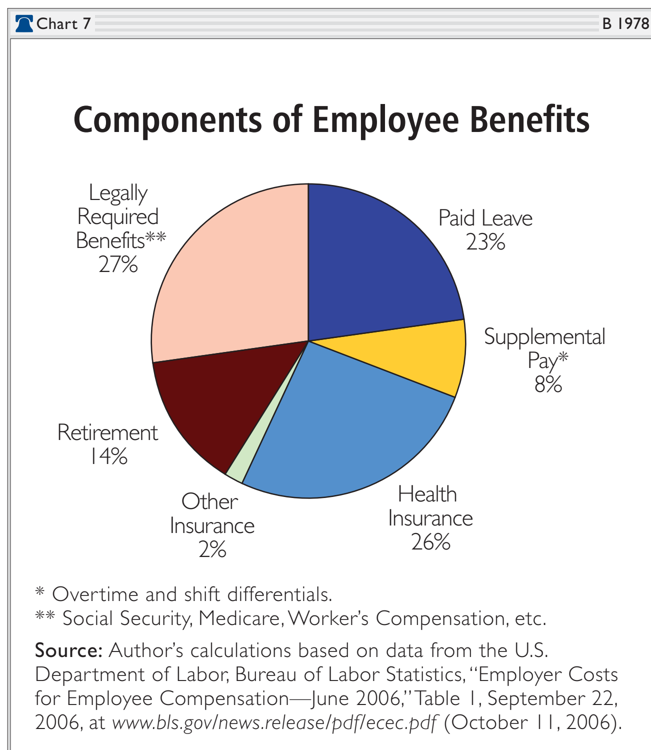
Some critics respond that higher benefits leave workers no better off because the increases merely reflect the higher cost of health care and not an increase in actual earnings. This argument fails on both fronts. Even after excluding what employers spend on health care, worker compensation has increased; and even



Note: Employer Costs for Employee Compensation (ECEC) data were adjusted for inflation using the Consumer Price Index research series using current methods (CPI-U-RS). Real compensation data refer to the first quarter of each year to maintain comparability with the ECEC over time.

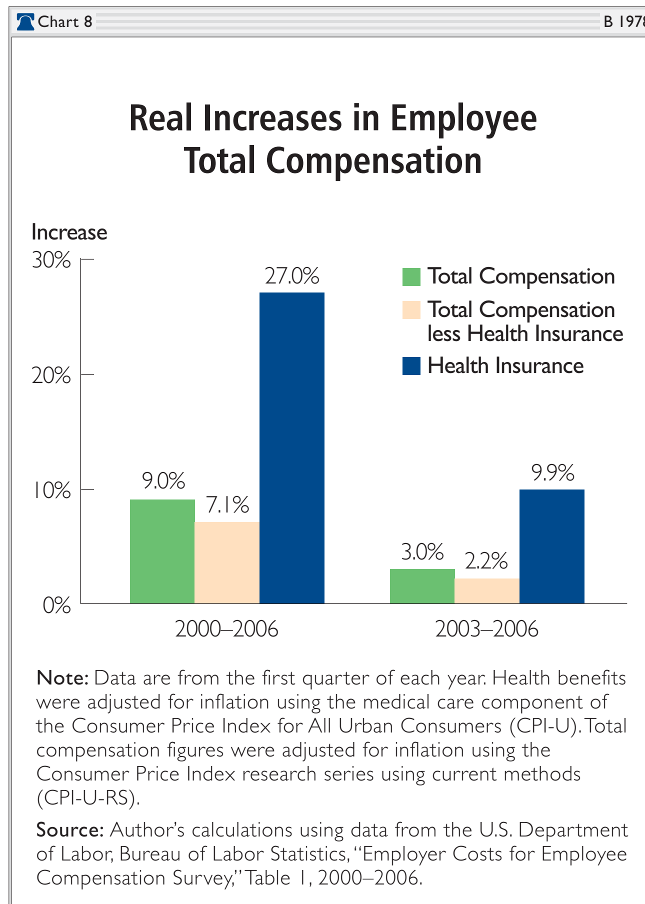
Source: U.S. Department of Labor, Bureau of Labor Statistics, Employer Costs for Employee Compensation Survey, Table 1, 1996-2006.

16. U.S. Department of Labor, Bureau of Labor Statistics, "Productivity and Costs—Second Quarter 2006, Revised," Table A, at *www.bls.gov/news.release/pdf/prod2.pdf* (October 6, 2006). Note that compensation is as measured in the first quarter of each year because data were collected only in the first quarter of each year until 2002. Inflation-adjusted using the CPI-U-RS.



* Overtime and shift differentials.
** Social Security, Medicare, Worker's Compensation, etc.

Source: Author's calculations based on data from the U.S. Department of Labor, Bureau of Labor Statistics, "Employer Costs for Employee Compensation—June 2006," Table 1, September 22, 2006, at *www.bls.gov/news.release/pdf/ecec.pdf* (October 11, 2006).



Note: Data are from the first quarter of each year. Health benefits were adjusted for inflation using the medical care component of the Consumer Price Index for All Urban Consumers (CPI-U). Total compensation figures were adjusted for inflation using the Consumer Price Index research series using current methods (CPI-U-RS).

Source: Author's calculations using data from the U.S. Department of Labor, Bureau of Labor Statistics, "Employer Costs for Employee Compensation Survey," Table 1, 2000–2006.

mental pay (e.g., overtime), and other forms of insurance make up the rest.[17]

The recent increases in workers' total compensation are not explained by increases in what employers spend on health insurance. Excluding all health insurance cost increases, employee compensation has still risen 2.2 percent since 2003 and 7.0 percent since 2000.[18] Companies are paying their workers more today than they were three or six years ago, and rising health expenses are not the only factor behind that increase.

Nor should health benefits be ignored. Employer health care costs have grown rapidly in recent years, rising by 24.2 percent since 2003 and 64.0 percent since 2000 in nominal dollars.[19] But employers are not just keeping pace with high health care inflation; they are also improving the health care benefits they offer to workers. Even factoring out health care inflation, employee health benefits have risen 9.9 percent since 2003 and 27.0 percent since 2000.[20] The data are clear that workers are receiving more and better health care benefits, not simply the same health coverage at a higher price.

Increased Productivity Leads to Higher Wages

Another of the pessimists' claims is that workers are being shortchanged because wages have not kept pace with productivity growth.[21] Since 1995,

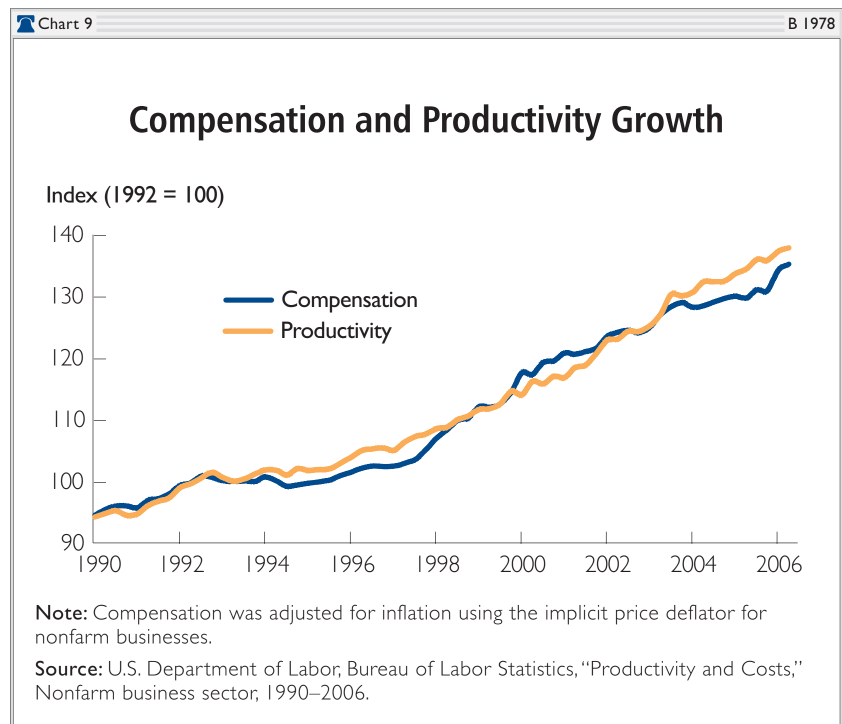
17. Author's calculations based on U.S. Department of Labor, Bureau of Labor Statistics, "Employer Costs for Employee Compensation Survey—June 2006," Table 1, at *www.bls.gov/news.release/pdf/ecec.pdf* (October 6, 2006).
18. *Ibid.* Note that annual figures refer to the first quarter of each year because data were collected only in the first quarter of each year until 2002. Inflation-adjusted using the CPI-U-RS.
19. *Ibid.*
20. *Ibid.* Inflation-adjusted using the medical care component of the CPI-U.

worker productivity has increased rapidly. Employees now produce far more per hour than at any time in the past. According to economic theory, competition should force companies to pass on productivity gains to their workers as higher wages and compensation. If a company does not compensate its employees for their higher productivity, a competitor can hire them away by offering greater compensation. For most of the post-war era, this relationship held; higher productivity generally translated into higher wages.

Some economic pessimists claim that this relationship is now broken. Even as worker productivity has risen, wages have languished. Since the end of the 2001 recession, growth in productivity has outstripped growth in compensation. From the end of the recession through the second quarter of 2006, productivity in the non-farm business sector rose by 15.9 percent, while inflation-adjusted total worker compensation rose just 11.7 percent.[22] America's workers are not getting raises to match their increased productivity, and this demands corrective action, say the pessimists.[23]

However, the current lag in wage growth is not unprecedented; in fact, it is familiar. Wages and productivity often diverge during the course of the business cycle. For example, productivity grew faster than compensation for several years after the recovery from the 1991 recession. The last recession ended in November 2001, five years ago. At this same point following the end of the 1991 recession, productivity had risen 8.4 percent, while compensation had risen only 5.2 percent.[24]

Earnings growth did not match productivity growth in the 1990s until 1997,[25] when the unemployment rate fell and companies faced competition to hire increasingly productive workers. As a result, incomes shot up. By 1999, employee compensation had fully caught up to the productivity gains of the early 1990s. In the end, income and



Note: Compensation was adjusted for inflation using the implicit price deflator for nonfarm businesses.

Source: U.S. Department of Labor, Bureau of Labor Statistics, "Productivity and Costs," Nonfarm business sector, 1990–2006.

21. See, e.g., Steve Schifferes "The End of the American Dream," BBC News, September 4, 2006, at *http://news.bbc.co.uk/1/hi/business/5303590.stm* (October 6, 2006).

22. Author's calculation based on U.S. Department of Labor, Bureau of Labor Statistics, "Productivity and Costs—Second Quarter 2006, Revised," Table A, Q3 2001 to Q2 2006. The figure of 11.7 percent differs from the 10.2 percent increase in non-farm business compensation reported earlier because it was inflation-adjusted using the implicit price deflator for non-farm business output. This deflator was used because the data used to calculate changes in productivity are inflation-adjusted using an output price deflator. To make meaningful comparisons between compensation and productivity, compensation should also be deflated with an output deflator, such as the implicit price deflator for non-farm businesses.

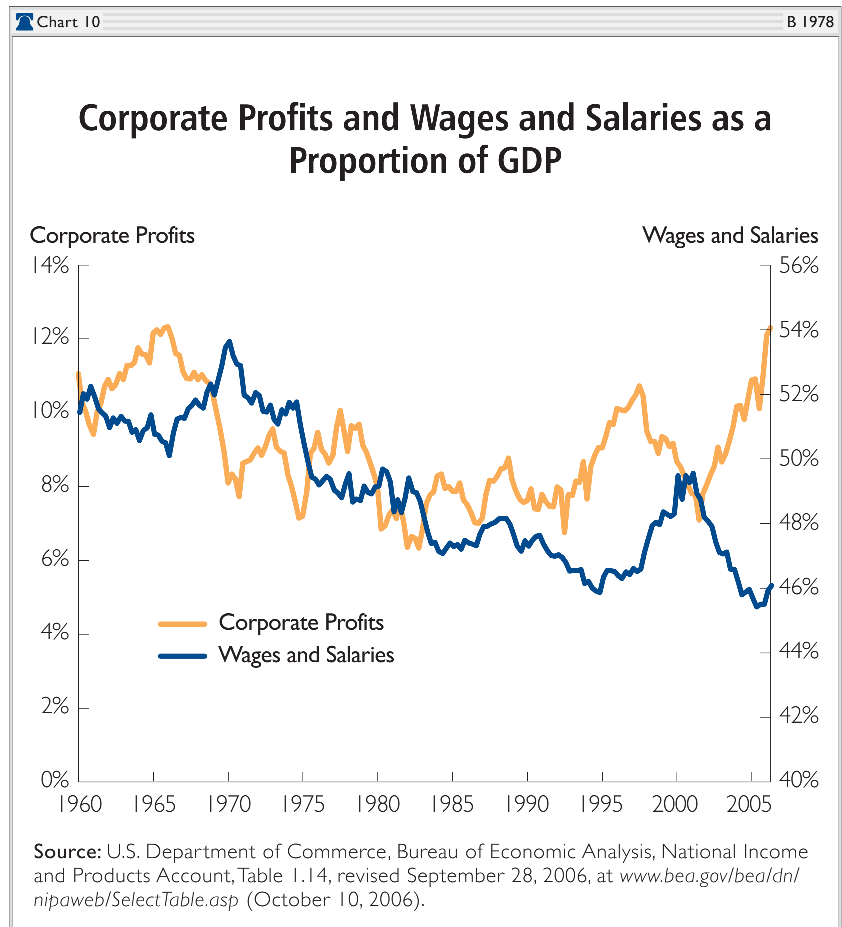
23. Schifferes, "The End of the American Dream."

24. Author's calculations based on U.S. Department of Labor, Bureau of Labor Statistics, "Productivity and Costs—Second Quarter 2006, Revised," Table A. Inflation-adjusted using the implicit price deflator.

25. *Ibid.*

productivity did move together, but that result took several years to reach.

That productivity has risen faster than compensation during the recovery from the 2001 recession is no more a reason for alarm now than it was in 1996. With unemployment lower and workers in scarce supply, productivity gains will eventually translate into income gains for American workers. This may already be happening. In the second quarter of 2006, employee compensation grew faster than productivity for the first time since 2001.[26] The temporary divergence between wages and productivity in the current recovery is perfectly normal.



Source: U.S. Department of Commerce, Bureau of Economic Analysis, National Income and Products Account, Table 1.14, revised September 28, 2006, at *www.bea.gov/bea/dn/nipaweb/SelectTable.asp* (October 10, 2006).

Workers' Share of Income

Dismissing the gap between productivity growth and wage growth as a normal, temporary phenomenon spoils what is perhaps the pessimists' plum argument: that corporations are soaking up higher productivity as higher profits, leaving little for working Americans. As Jared Bernstein of the left-leaning Economic Policy Institute explained to *The New York Times*, for example, "it comes down to bargaining power and the lack of ability of many in the work force to claim their fair share of growth."[27] As evidence, the *Times* offers this compelling statistic:

> As a result [of slow wage growth and steady productivity growth], wages and salaries now make up the lowest share of the nation's gross domestic product since the government began recording data in 1947, while corporate profits have climbed to their highest share since the 1960's.[28]

Even though the *Times*'s assertion is technically incorrect—wages and salaries were a lower share of the entire economy, as measured by gross domestic product (GDP), in the mid-1990s—the paper's point is generally true. (See Chart 10.) As a share of GDP, wages and salaries have fallen, and profits have risen. But this is a misleading comparison because it makes little sense to measure wages and profits as a proportion of GDP.

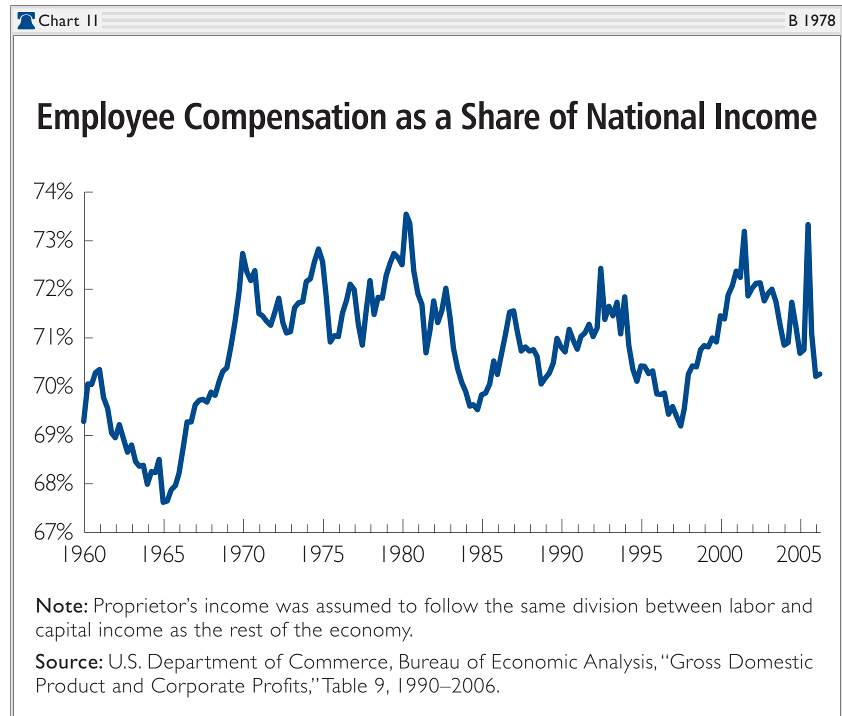
GDP measures far more than income and profits. Most significantly, it does not factor out the depreciation of capital and infrastructure. (The measure that does is called net domestic product.) Keeping track of depreciation is important in measuring the overall size of the economy, but not when comparing how much income workers are earning relative to corporations.

26. *Ibid.* Based on year-on-year growth.

27. Greenhouse and Leonhardt, "Real Wages Fail to Match a Rise in Productivity."

28. *Ibid.*

If companies increase their spending on investments that depreciate rapidly, that will raise the size of GDP and thus make it appear that workers' compensation has fallen as a share of GDP. But this does not necessarily mean that corporate incomes have increased, since the new machines are rapidly wearing down and need to be replaced sooner. Depreciation rates do not tell us how much companies actually earn. Therefore, comparing workers' compensation to GDP is comparing apples to oranges. How high workers wages are relative to how quickly national highways or new computers are wearing down is a close to meaningless comparison.



Note: Proprietor's income was assumed to follow the same division between labor and capital income as the rest of the economy.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, "Gross Domestic Product and Corporate Profits," Table 9, 1990–2006.

A better basis for comparison is national income, which accounts for depreciation as well as statistical discrepancies between the way the government measures the components of GDP and components of income. By this measure, workers' share of income has varied normally in recent years. Since the mid-1960s, the employee share of national income has fluctuated between 69 percent and 73 percent, and movements since 2000 have remained largely within these bounds. Though workers' share of income fell in 2006, it is still well above the lows it hit in the mid-1980s and mid-1990s. In 2005, workers' share of income actually hit a 25-year high.[29] Contrary to pessimists' claims, workers' compensation as a share of the economy has not shrunk.

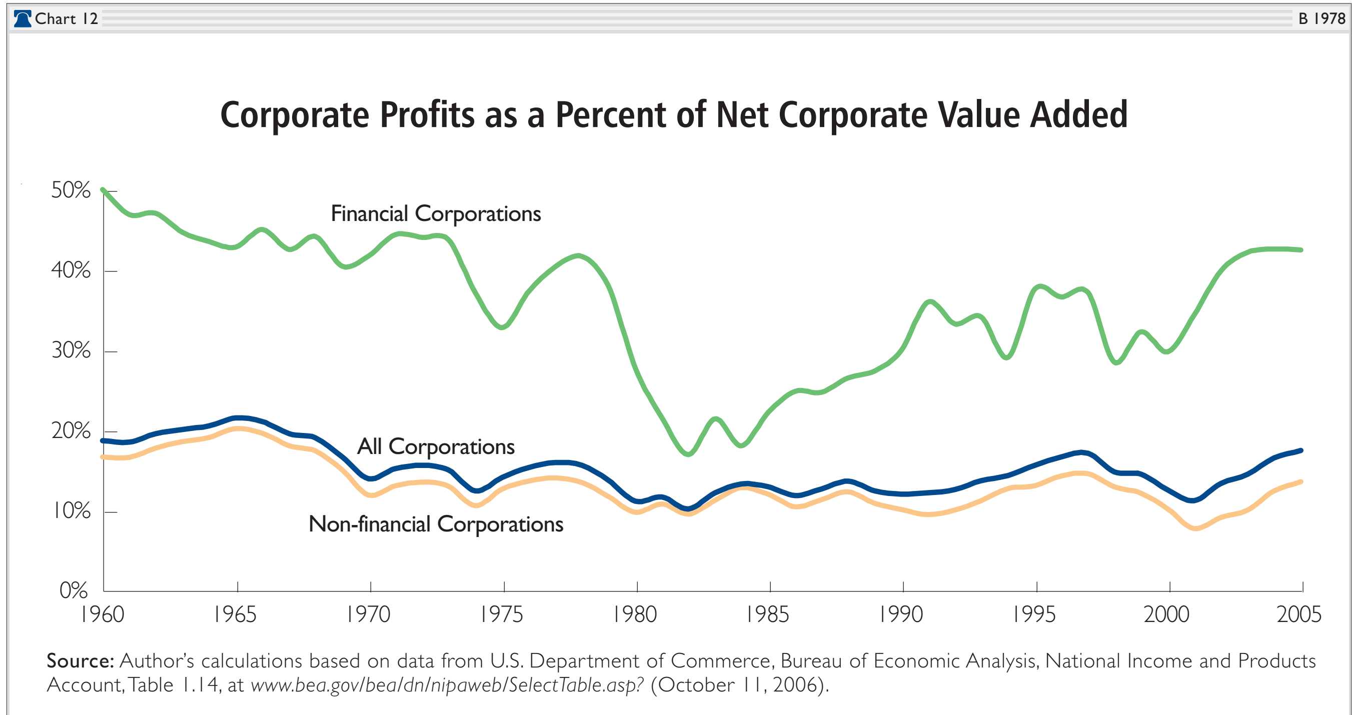
Windfall Profits?

Yet critics still argue that corporations are reaping windfall profits on the backs of their workers. A closer look at the numbers also dispels this claim. As with worker incomes, GDP is not the right basis of comparison to use when looking to see whether corporate profitability has risen, because many of its components have nothing to do with how corporations earn those profits. Instead, corporate profits should be compared to corporations' contribution to society's wealth, known as "net corporate value added." Chart 12 shows corporate profits as a proportion of net corporate value added, both for all corporations and separately for financial and non-financial firms.

Overall, business profits have risen to levels not seen since the 1960s, but this is not because firms are directing gains from worker productivity into record profits. Instead, it is the result of structural changes within corporate America. The profitability of non-financial businesses is not unusually high, having been higher in the late 1990s, the late 1970s, and most of the 1960s than it is today. Financial firms' profitability, meanwhile, has been rising for the past 20 years. However, this amounts to a recovery from the steep plunge in financial firms' profitability in the mid-1970s, and these firms are no more profitable today than they were in the 1960s and early 1990s.[30]

These modest trends explain the current profit situation. The structural composition of corporate

29. Author's analysis of data from U.S. Department of Commerce, Bureau of Economic Analysis, GDP press release, Table 9.



Source: Author's calculations based on data from U.S. Department of Commerce, Bureau of Economic Analysis, National Income and Products Account, Table 1.14, at *www.bea.gov/bea/dn/nipaweb/SelectTable.asp?* (October 11, 2006).

America has shifted toward more profitable financial businesses in recent years. Financial firms made up 6.6 percent of net corporate value added in 1973; by 2005, that figure had more than doubled to 13.4 percent.[31] Since the financial sector is more than twice as profitable as the non-financial sector, overall corporate profits rose as well. Within sectors, however, there is no evidence that businesses are taking exorbitant profits, much less exorbitant profits at the expense of employee salaries.

Conclusion

By the numbers, the American economy appears to be doing well, and looking beneath the surface confirms this view. The gains from America's economic growth have not been restricted solely to the fortunate few. Middle- and low-income families are enjoying higher standards of living than ever before. Most Americans today enjoy larger and better-equipped homes, better health care, more education, and more household goods than ever before. The overwhelming majority of Americans, not just the rich, have enjoyed widespread gains from America's economic growth.

The analysts who claim that most Americans are falling behind rely on incomplete and misleading statistics. In fact, workers' total compensation has risen significantly since 2000, and this does not just reflect the higher cost of health care. This compensation is not lagging unusually behind productivity; it is following the usual historical trend and may soon boomerang upwards. Workers' earnings as a share of national income remain at their usual historic levels and have grown along with the economy. Corporate profits, meanwhile, are strong but show no signs of usurping workers' earnings.

All this good news is a vindication of the nation's broad economic policies: relatively low taxation, a relatively small government, and relatively lightly regulated markets. Economic pessimists generally seek greater government involvement in all levels of the economy, from income redistribution to

30. Author's calculations based on data from U.S. Department of Commerce, Bureau of Economic Analysis, National Income and Products Account, Table 1.14, at *www.bea.gov/bea/dn/nipaweb/SelectTable.asp?* (October 11, 2006).

31. *Ibid.*

increased wage regulation. Whatever the merits of critics' policies, the facts simply do not support their claims that American workers are somehow falling behind.

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