The Rising Income Share of the Corporate Elite: Why Wages Have Become Disconnected from Productivity

by Andrew Jackson, National Director

An important paper by leading US economist Robert Gordon answers the puzzle of why wages for the majority of US workers have stagnated even as productivity (output per worker) has been rising rapidly. (Robert Gordon and Ian Dew-Becker "Where Did the Productivity Growth Go?" National Bureau of Economic Research Working Paper 11842 (http://papers.nber.org/papers/w11842.)

The paper is notable for its focus on the steep increase in the incomes of those at the very, very top of the income distribution - senior corporate executives, and athletic and entertainment "superstars." It shows the minimum real income of the top one hundredth of 1% of earners (one person in every 10,000) quadrupled to more than $3 million between 1979 and 2001. This tiny group's share of all US wages and salaries also quadrupled.

The authors show that only the top 10 % of the US work force enjoyed a growth rate of real wage and salary income equal to or above the average rate of economy-wide productivity growth. Median real wage and salary income (half of all workers earn more, and half earn less than the median) barely grew at all. In other words, fully half of the US workforce saw no increase at all in their wages despite rising productivity.

Fully half of all of the income gains went to the top 10% of workers, leaving little left over for the bottom 90%. And even within the top 10%, it was the very high income earners who did best. A sharply increased share has gone to the super elite, the top 1% and above.

Some key figures:

- In 2001 the top 10% of US wage and salary earners earned at least $83,162. Between 1979 and 2001, the share of all US wage and salary income earned by the top 10% rose from 30.2% to 40% (or fully 40 cents out of every $1 earned).

- In 2001, the top 1% of US wage and salary earners (one in every hundred) earned at least $220,590. Between 1979 and 2001, the share of all US wage and salary income earned by the top 1% almost doubled, from 7.1% to 13.9%.

- In 2001, the top one tenth of 1% of US wage and salary earners (ie one person in a thousand) earned at least $741,013. Between 1979 and 2001, the share of all US wage and salary income earned by the top one tenth of 1% almost tripled, from 2% to 6.3%. In real (inflation-adjusted dollars), the minimum income of the top one tenth of 1% rose from $316,234 in 1979 to $741,013 in 2001.

At the very, very top of the income distribution, the top one hundredth of 1% (one person in every 10,000) earned at least $3,172,691 in 2001, four times as much in real dollars as the minimum $714,431 this tiny group earned in 1979. Their share of all US wages and salaries also quadrupled, from 0.4% to 1.6%.

The authors believe the very top of the income distribution consists mainly of the senior executive officers of larger corporations and entertainment and athletic superstars. Those in the bottom half have lost ground mainly because of falling unionization and the decline in the minimum wage. They are skeptical of the claim that technological change is to blame, since this extreme growth in inequality has not taken place in many European countries. (Another National Bureau of Economic Research study by Saez and Veall does, however, show that there has also been a sharp increase in the income share of the top 1% in Canada.)

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