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# The end of the American dream?

**Analysis**
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**The US economy has been generating strong economic growth over the past few years as it has come out of recession.**


Wage growth for average workers has been stagnant

After growing at more than 3% a year in 2004 and 2005, the pace picked up to a blistering 5.6% annual rate in the first quarter of this year - although the pace has since then slipped back to 2.9%.

So far, though, little of that growth has translated into the hands of the average worker, according to new research from the Economic Policy Institute (EPI).

Click here for a graph of wages vs. productivity

For real household incomes, the median point - the level at which half of households earn more and half less - has actually fallen over the past five years.

That marks a notable contrast with the 1990s, when the economic boom boosted both jobs and incomes.

> **The unprecedented split between growth and living standards is the defining economic agenda**
>
> Jared Bernstein, Economic Policy Institute

The puzzle of economic expansion without significant job or wage growth has been troubling US economists and commentators of all political persuasions.

## Slowing wages

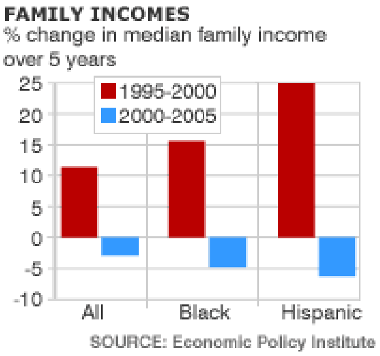
"The unprecedented split between growth and living standards is the defining economic agenda of the day," says the EPI's senior economist, Jared Bernstein.

During the five years from 2000 to 2005, the US economy grew in size from $9.8 trillion to $11.2 trillion, an increase in real terms of 14%.

Productivity - the measure of the output of the economy per worker employed - grew even more strongly, by

16.6%.

But over the same period, the median family's income slid by 2.9%, in contrast to the 11.3% gain registered in the second half of the 1990s.




The wages of households of African or Hispanic origin fell even faster.

And new entrants to the labour market fared particularly badly.

Average hourly real wages for both college and high school graduates actually fell between 2000 and 2005, and fewer of the jobs they found carried benefits such as health care or company pensions.

The poor performance of the US economy in delivering fuller wage packets may be one reason why the public gives the Bush administration's such a low rating on economic policy.

According to the latest Gallup poll, only 37% approve of Mr Bush's handling of the economy, and 70% think economic conditions are getting worse, substantially worse figures than in 2004.

With mid-term elections to the House of Representatives and Senate - both, currently, held by Mr Bush's Republicans - due in November, the contrasts are concentrating minds in both main parties.

**Where has the increase gone?**

One way to comprehend what is happening is to look at the split between how much of the economy is won by profits and how much by wages.

The share allotted to corporate profits increased sharply, from 17.7% in 2000 to 20.9% in 2005, while the share going to wages has reached a record low.

Meanwhile, a large section of the workforce - the unemployed or those not seeking work - have not benefited from economic growth.

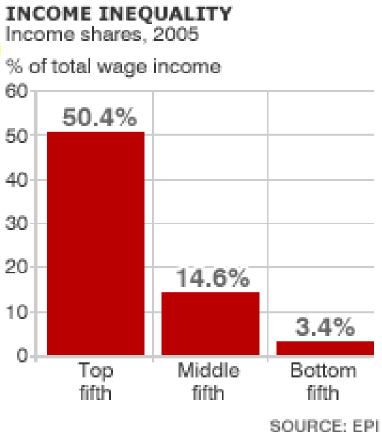
Unemployment has remained stubbornly high despite the economic recovery, with the latest figure at 4.7% compared to 4% at the end of 2000. Overall job growth in the first half of the current decade has been just 1.3%.

In the 1990s, job growth of some 12% goes some way towards explaining why prosperity in that earlier period spread down the income scale.

**Rising inequality**

Even for those with jobs, the fruits of economic growth have been more unequally distributed within the labour market.

The incomes of the top 20% have grown much faster than earnings of those at the middle or bottom of the income distribution. The income of the top 1% and top 0.1% have grown particularly rapidly.




From 1992 to 2005, the pay of chief executive officers of major companies rose by 186%.

The equivalent figure for median hourly wages was 7.2%, leaving the ratio of CEOs' pay to that of the average worker at 262.

In the 1960s, the comparable figure was 24.

There has been much debate about the extent to which the tax policies of the Bush administration, which lowered many taxes on capital, have contributed to this trend.

The administration argues that the tax cuts have been vital to the economic recovery, and that more jobs and higher wages will eventually follow GDP growth.

It also says that the encouragement to invest delivered by lower taxes has made the US more productive, and therefore more competitive in the global economy.

**Explanations**

The authors of the EPI report argue that low minimum wages, weakened union power, and the loss of both blue and white-collar jobs to off shoring do much to explain the jobs picture.

Admittedly the Federal minimum wage has been static for a decade, but the downward pressure on wages is probably coming from other sources.

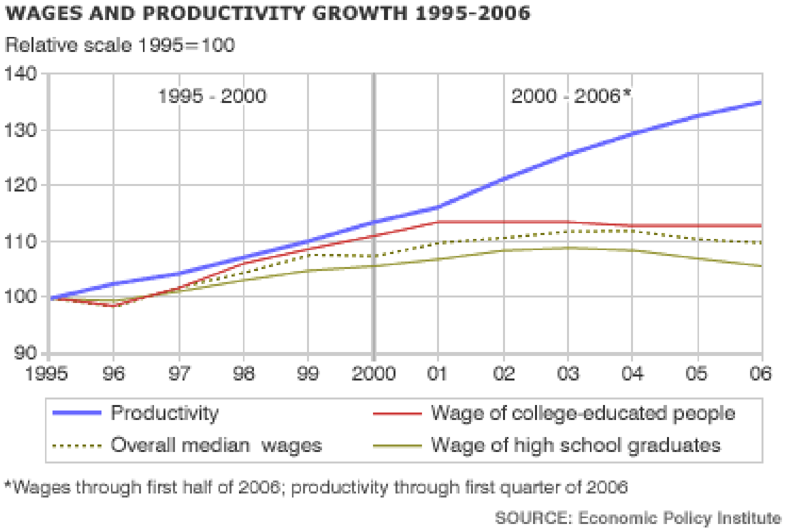
One is immigration, which may have a greater effect on the wages of low-skilled workers.

Another is the "China effect,", the idea that low prices of imported manufactured goods are pushing US industry to cut its workforce in order to increase productivity.

The head of the US central bank, Ben Bernanke, recently admitted that globalisation was producing losers as well as winners.

"The changes in the pattern of production are likely to threaten the livelihoods of some workers and the profits of some firms, even when these changes lead to greater productivity," he said.

So for politicians of all parties, trying to understand how the average family can gain a greater share in future prosperity may prove one of the biggest electoral challenges of the year.

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