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OP-ED COLUMNIST

Our So-Called Boom

By PAUL KRUGMAN

It was a merry Christmas for Sharper Image and Neiman Marcus, which reported big sales increases over last year's holiday season. It was considerably less cheery at Wal-Mart and other low-priced chains. We don't know the final sales figures yet, but it's clear that high-end stores did very well, while stores catering to middle- and low-income families achieved only modest gains.

Based on these reports, you may be tempted to speculate that the economic recovery is an exclusive party, and most people weren't invited. You'd be right.

Commerce Department figures reveal a startling disconnect between overall economic growth, which has been impressive since last spring, and the incomes of a great majority of Americans. In the third quarter of 2003, as everyone knows, real G.D.P. rose at an annual rate of 8.2 percent. But wage and salary income, adjusted for inflation, rose at an annual rate of only 0.8 percent. More recent data don't change the picture: in the six months that ended in November, income from wages rose only 0.65 percent after inflation.

Why aren't workers sharing in the so-called boom? Start with jobs.

Payroll employment began rising in August, but the pace of job growth remains modest, averaging less than 90,000 per month. That's well short of the 225,000 jobs added per month during the Clinton years; it's even below the roughly 150,000 jobs needed to keep up with a growing working-age population.

But if the number of jobs isn't rising much, aren't workers at least earning more? You may have thought so. After all, companies have been able to increase output without hiring more workers, thanks to the rapidly rising output per worker. (Yes, that's a tautology.) Historically, higher productivity has translated into rising wages. But not this time: thanks to a weak labor market, employers have felt no pressure to share productivity gains.

Calculations by the Economic Policy Institute show real wages for most workers flat or falling even as the economy expands.

An aside: how weak is the labor market? The measured unemployment rate of 5.9 percent isn't that high by historical standards, but there's something funny about that number. An unusually large number of people have given up looking for work, so they are no longer counted as unemployed, and many of those who say they have jobs seem to be only marginally employed. Such measures as the length of time it takes laid-off workers to get new jobs continue to indicate the worst job market in 20 years.

So if jobs are scarce and wages are flat, who's benefiting from the economy's expansion? The direct gains are going largely to corporate profits, which rose at an annual rate of more than 40 percent in the third quarter. Indirectly, that means that gains are going to stockholders, who are the ultimate owners of corporate profits.
(That is, if the gains don't go to self-dealing executives, but let's save that topic for another day.)

Well, so what? Aren't we well on our way toward becoming what the administration and its reliable defenders call an "ownership society," in which everyone shares in stock market gains? Um, no. It's true that slightly more than half of American families participate in the stock market, either directly or through investment accounts. But most families own at most a few thousand dollars' worth of stocks.

A good indicator of the share of increased profits that goes to different income groups is the Congressional Budget Office's estimate of the share of the corporate profits tax that falls, indirectly, on those groups. According to the most recent estimate, only 8 percent of corporate taxes were paid by the poorest 60 percent of families, while 67 percent were paid by the richest 5 percent, and 49 percent by the richest 1 percent. ("Class warfare!" the right shouts.) So a recovery that boosts profits but not wages delivers the bulk of its benefits to a small, affluent minority.

The bottom line, then, is that for most Americans, current economic growth is a form of reality TV, something interesting that is, however, happening to other people. This may change if serious job creation ever kicks in, but it hasn't so far.

The big question is whether a recovery that does so little for most Americans can really be sustained. Can an economy thrive on sales of luxury goods alone? We may soon find out.