



Real Wages Fail to Match a Rise in Productivity

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With the economy beginning to slow, the current expansion has a chance to become the first sustained period of economic growth since World War II that fails to offer a prolonged increase in real wages for most workers.

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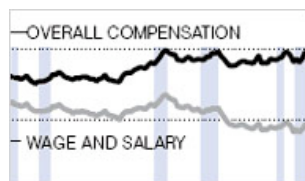


Chart: Not Sharing in the Gains

That situation is adding to fears among [Republicans](#) that the economy will hurt vulnerable incumbents in this year's midterm elections even though overall growth has been healthy for much of the last five years.

The median hourly wage for American workers has declined 2 percent since 2003, after factoring in inflation. The drop has been especially notable, economists say, because productivity — the amount that an average worker produces in an hour and the basic wellspring of a nation's living standards — has risen steadily over the same period.

As a result, wages and salaries now make up the lowest share of the nation's gross domestic product since the government began recording the data in 1947, while corporate profits have climbed to their highest share since the 1960's. [UBS](#), the investment bank, recently described the current period as "the golden era of profitability."

Until the last year, stagnating wages were somewhat offset by the rising value of benefits, especially health insurance, which caused overall compensation for most Americans to continue increasing. Since last summer, however, the value of workers' benefits has also failed to keep pace with inflation, according to government data.

At the very top of the income spectrum, many workers have continued to receive raises that outpace inflation, and the gains have been large enough to keep average income and consumer spending rising.

In a speech on Friday, [Ben S. Bernanke](#), the Federal Reserve chairman, did not specifically discuss wages, but he warned that the unequal distribution of the economy's spoils could derail the trade liberalization of recent decades. Because recent economic changes "threaten the livelihoods of some workers and the profits of some firms," Mr. Bernanke said, policy makers must try "to ensure that the benefits of global economic integration are sufficiently widely shared."

Political analysts are divided over how much the wage trends will help [Democrats](#) this fall in their effort to take control of the House and, in a bigger stretch, the Senate. Some see parallels to watershed political years like 1980, 1992 and 1994, when wage growth fell behind inflation, party alignments shifted and dozens of incumbents were thrown out of office.

"It's a dangerous time for any party to have control of the federal government — the presidency, the Senate and the House," said Charles Cook, who publishes a nonpartisan political newsletter. "It all feeds into 'it's a time for a change' sentiment. It's a highly combustible mixture."

But others say that war in Iraq and terrorism, not the economy, will dominate the campaign and that Democrats have yet to offer an economic vision that appeals to voters.

"National economic policies are more clearly in focus in presidential campaigns," said Richard T. Curtin, director of the [University of Michigan](#)'s consumer surveys. "When you're electing your local House members, you don't debate that on those issues as much."

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Moreover, polls show that Americans are less dissatisfied with the economy than they were in the early 1980's or early 90's. Rising house and stock values have lifted the net worth of many families over the last few years, and interest rates remain fairly low.

But polls show that Americans disapprove of President Bush's handling of the economy by wide margins and that anxiety about the future is growing. Earlier this month, the University of Michigan reported that consumer confidence had fallen sharply in recent months, with people's expectations for the future now as downbeat as they were in 1992 and 1993, when the job market had not yet recovered from a recession.

"Some people who aren't partisans say, 'Yes, the economy's pretty good, so why are people so agitated and anxious?'" said Frank Luntz, a Republican campaign consultant. "The answer is they don't feel it in their weekly paychecks."

But Mr. Luntz predicted that the economic mood would not do significant damage to Republicans this fall because voters blamed corporate America, not the government, for their problems.

Economists offer various reasons for the stagnation of wages. Although the economy continues to add jobs, global trade, immigration, layoffs and technology — as well as the insecurity caused by them — appear to have eroded workers' bargaining power.

Trade unions are much weaker than they once were, while the buying power of the minimum wage is at a 50-year low. And health care is far more expensive than it was a decade ago, causing companies to spend more on benefits at the expense of wages.

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