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The Productivity Problem

Jonathan Tasini**July 14, 2005**

Jonathan Tasini is president of the Economic Future Group and writes his "Working In America" columns for TomPaine.com on an occasional basis.

One of the enduring myths of the American Dream is that if you just work hard, you will eventually reap your economic reward and get ahead. Corporate leaders, helped by politicians, still try to make that rhetorical argument as a way of hiding what they are really up to (Darwinian globalization, for example). But a startling, relatively ignored, shift has taken place that bears the seeds of an economic and political earthquake.

For decades, workers' wages were tied to productivity. The idea was simple: When workers produce more—either tangible products or services—in an hour of work than before, they are being more efficient and, usually, that means more profit for a corporation. Historically, increased efficiency flowed to workers in the form of higher wages.

Not anymore. The link between productivity gains and wages has been broken. Recently, the [Economic Policy Institute](#) showed that productivity has grown almost three times faster than wages since 2001. During that time, 70 percent of the nation's income growth has gone straight into corporate coffers as profits—presumably to continue to finance staggering pay and benefits for executives—a complete reversal from the previous seven business cycles when 77 percent of the overall income growth went to wages.

Although the theft of workers' sweat of the brow is even more obvious today, the erosion began about three decades ago. Joel Rogers, director of the [Center on Wisconsin Strategy](#), has made a recent stunning calculation: Had wages tracked productivity as they have over the past 30 years, "median family income in the U.S. would be about \$20,000 higher today than it is."

Check this out: **Taking into account productivity, the minimum wage should be \$19.12—which would make it almost 50 percent above today's median wage (not to mention the pathetic \$5.15 current minimum wage). Rogers concludes: "It's fair to say that most American workers today are making substantially less than the (historically, productivity-normed) wage of the economy's worst-off workers of a generation ago." Now, most of us would find this lopsided economic arrangement obscene just by its sheer unfairness: No matter how hard you work, you won't get a fair return on your labor. Beyond the unfairness, it also tears at the country's social fabric because an economic system cannot endure if it is perceived to be unfair and fails to deliver a rising standard of living.**

This raw deal is making a few people nervous in the financial elite. "American workers, long accustomed to receiving their 'just reward' as defined by their marginal productivity contribution, are facing the most profound disappointment of the modern era," writes Stephen Roach, chief economist and director of global economic analysis for Morgan Stanley, in a recent analysis. "The extraordinary stagnation of earned labor income in the past four years reflects a fundamental breakdown of the relationship between worker pay and productivity." Roach and others worry that that breakdown bodes ill for the economy: Consumers are running on empty, weighed down by debt, which forces many of them to rely on assets like price-inflated homes. That, they say, is unsustainable, both economically and politically.

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Why has this happened? It's not a result of a neutral, inevitable economic fact, like the sun setting in the west. It happens because corporations can get away with hogging the fruits of economic activity. It happens because politicians will not stand up and decry either the unfairness of the theft and the underlying corporate greed that siphons away workers' deserved rewards.

And, sadly, it reflects the weak state of the labor movement. When unions are strong, everyone benefits—union and non-union workers alike. Through collective bargaining, unions act as a counterforce to an unjust diversion of income, creating a system that spreads out the rewards for hard work. Unions turn bad jobs and low wages into good jobs and decent livelihoods. The best middle-class jobs program is, indeed, mass unionization.

Let me make two side points here. First, when wages don't grow, even when productivity is high, it undermines our nation's retirement system. This is because taxes on workers wages are the central revenue source for the Social Security system. A key reason the 1983 Greenspan Commission's modifications to the Social Security system came up short is precisely because wage growth did not match what had been forecasted more than two decades ago. "If wages had grown as the Commission forecast, and inequality had not increased we wouldn't even have a Social Security shortfall over the next 75 years," observes Mark Weisbrot, co-director of the Center for Economic and Policy Research. Weisbrot is quick to point out that the projected shortfall is quite small, and according to President Bush's numbers, the program today is financially stronger than it has been throughout most of its 70-year history.

Second, the outsized corporate windfall from productivity works hand in hand with the other factor propelling the massive redistribution of income in society: Compensation and tax policies that are shifting vast wealth to the upper 10 percent of the population.

All this brings into sharp relief the rhetorical emptiness of political leaders who call for a culture where "personal responsibility" rules and believe the solution for every economic problem is more tax cuts. I say to them: Let workers exercise their personal responsibility by giving them the free choice to vote for a union, and, rather than pay them off with a \$300 average tax cut check, reward the daily supreme personal responsibility they show when they march off to work by giving them a paycheck reflecting a fair return on their labor.