The "Jobless and Wageless" Recovery from the Great Recession of 2007-2009: The Magnitude and Sources of Economic Growth Through 2011 I and Their Impacts on Workers, Profits, and Stock Values

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Introduction

The U.S. economy entered an economic recession following December 2007 that lasted through June 2009 according to official estimates of the National Bureau of Economic Research, the official arbiter of business cycle dating in the U.S. The so-called "Great Recession" of 2007-2009 lasted for 18 months, the longest in post-World War II history, and the nation's real Gross Domestic Product (GDP) declined by 4.2% between the fourth quarter of 2007 and the second quarter of 2009, the largest relative decline in GDP since the national recession of 1945 as the U.S. began its demobilization from World War Two.

The Great Recession of 2007-2009 was characterized by a massive decline in private sector wage and salary jobs, rapidly rising unemployment and underemployment, and steep increases in the median and mean durations of unemployment.[1] While the recession officially ended in June 2009, public opinion polls of U.S. adults and unemployed workers have revealed quite different views on the well being of the American economy and its workers. Two ABC polls in May and June of 2010, a year following the official end of the recession in June 2009, revealed that 88 to 90 per cent of respondents rated the nation's economy as "not so good / poor".[2] In a May 2010 public opinion poll by NBC and the Wall Street Journal, 76 per cent of respondents claimed that the U.S. was still in a recession and 62 per cent believed that it would not end for at least one or more years.[3]

In its November 2010 follow-up wave of surveys with individuals who were unemployed at some time between September 2008 – August 2009, 89 per cent of respondents to a Heldrich Center for Workforce Development study believed that the economy would not recover until at least another year, and 56% believed it would take 3 or more years if not ever.[4] Nearly 90% of respondents felt that unemployment would not return to its levels before the recession began until "many years" had passed or that it would never do so. A March 2011 national poll of 18-24 year old by the Associated Press – Viacom found that 75 per cent of respondents described the

[1] See: Andrew Sum and Joseph McLaughlin, "The Massive Shedding of Jobs in America", Challenge, November / December 2010, pp. 62-76.
[2] See: Robert Blendon and John Benson, "Public Opinion, the Deep Recession, and the 2010 Elections", Challenge, September / October 2010, pp. 14-33.
[3] Ibid.
[4] Jessica Godofsky, Carl Van Horn, and Cliff Zukin, The Shattered American Dream: Unemployed Workers Lose Ground, Hope, and Faith in Their Futures, John J.Heldrich Center for Workforce Development, Rutgers University, 2010

nation's economy as "approximately poor, somewhat poor, or very poor", while only 9 per cent said it was "very good or somewhat good".[5]

While aggregate real output has increased modestly since the end of the Great Recession and employment has finally began to increase since early 2010, there are key questions about the sources of economic growth in the recovery and the beneficiaries of that growth in terms of jobs, incomes, wages, and profits, that need to be answered. This research paper is designed to answer these questions and to provide findings on a new set of national economic indices that will provide evidence on the impacts of the economic recovery through 2011 I on aggregate employment, real hourly and weekly wages, corporate profits, and the values of several leading stock indices.

The Path of the Nation's Real GDP During the Recession of 2007-2009 and the Early Recovery from 2009 II – 2011 I: Sources of Renewed GDP Growth

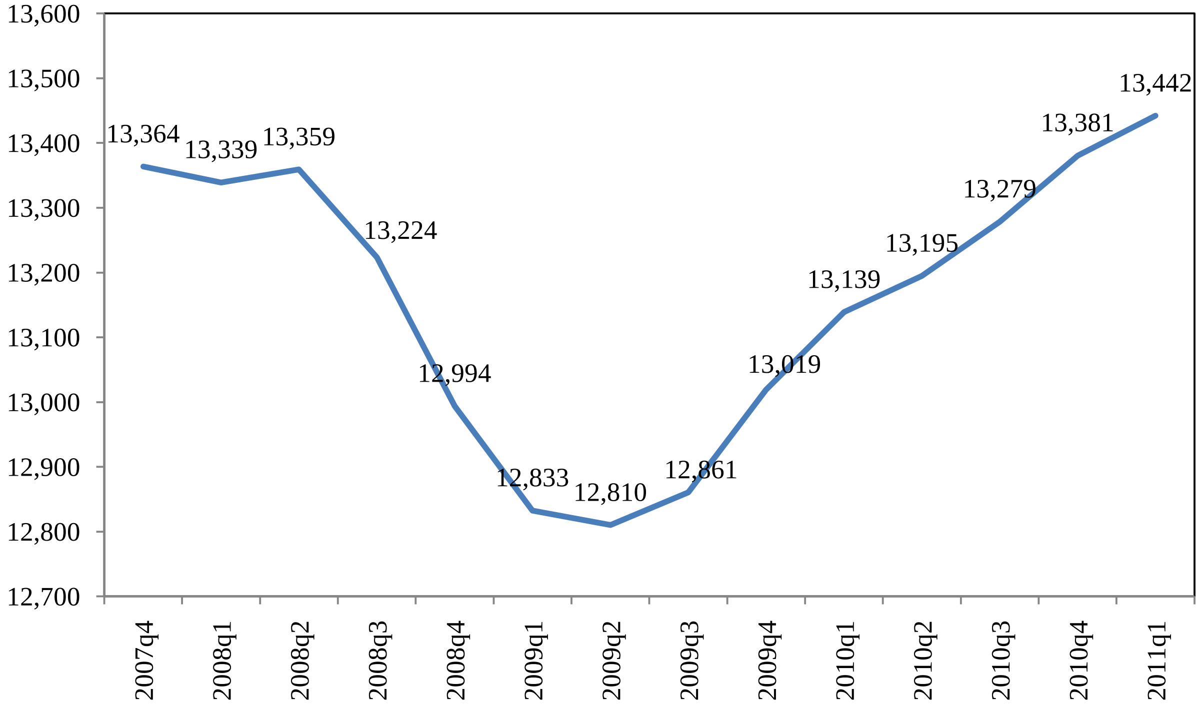
According to the National Bureau of Economic Research, the national recession began after December 2007 (the cyclical peak) and reached its trough in June 2009, 18 months later. The 18 month recession was the longest in post-World War II history, slightly exceeding the 16 month recessions of 1981-82 and 1973-75.[6] Trends in the annualized value of real GDP from 2007 IV to 2009 II and the first seven quarters of economic recovery following the quarter in which the trough occurred are displayed in Chart 1.

The nation's real Gross Domestic Product (in billions of 2005 dollars) stood at $13,364 billion in the fourth quarter of 2007 (Chart 1). Real output fell very modestly over the following two quarters but then declined more sharply from 2008 II through the second quarter of 2009. The annualized value of real GDP in the second quarter of 2009 had fallen to $12.810 trillion, a decline of $554 billion or about 4.2% over this 18 month period. This rate of decline in real GDP was the highest in any recession since the end of World War II. The second and third highest

[5] AP Associated Press and Roper Public Affairs and Corporate Communications, The AP-Viacom Survey of Youth on Education, March 2011.
A recent Gallup Poll of U.S. adults also revealed a historically low proportion (44%) of respondents indicating that children would "have a better life than their parents, with a better living standard".
See; Amanda M. Fairbanks, "Youth Optimism Hits Historic Low, New Poll Reveals" Huffington Post, May 4, 2011.
[6] The 1973-75 recession lasted from November 1973 (the cyclical peak month) to March 1975 while the 1981-82 recession lasted from July 1981 to November 1982.

rates of decline in real GDP were the 3.2% drop in the recession of 1973-75 and the 3.1% reduction in the recession of 1958.

Chart 1:
Trends in Real GDP of the Economy, U.S., 2007Q4-2011Q1
(In Billions of 2005 Chained Dollars)



Since the second quarter of 2009, real GPD has increased for seven consecutive quarters. By the fourth quarter of 2010, real GDP had finally surpassed its pre-recession level in the fourth quarter of 2007. Growth unfortunately has slowed considerably in the past quarter, rising at an annualized rate of only 1.8%.

The 4.2% decline in real GDP during the 18 months of the Great Recession was produced by steep declines in national employment and by declining weekly hours of work. Nonfarm payroll employment fell by 7 million or 5% from 2007 IV to 2009 II (See Chart 2). Total civilian employment (persons 16+), including the self-employed, fell by just under 6 million or slightly more than 4% over the same time period (Chart 3).

Chart 2:
Trends in the Number of Nonfarm Wage and Salary Jobs in the U.S. in
Selected Time Periods from 2007 IV to 2011 I (Seasonally Adjusted, in Millions)

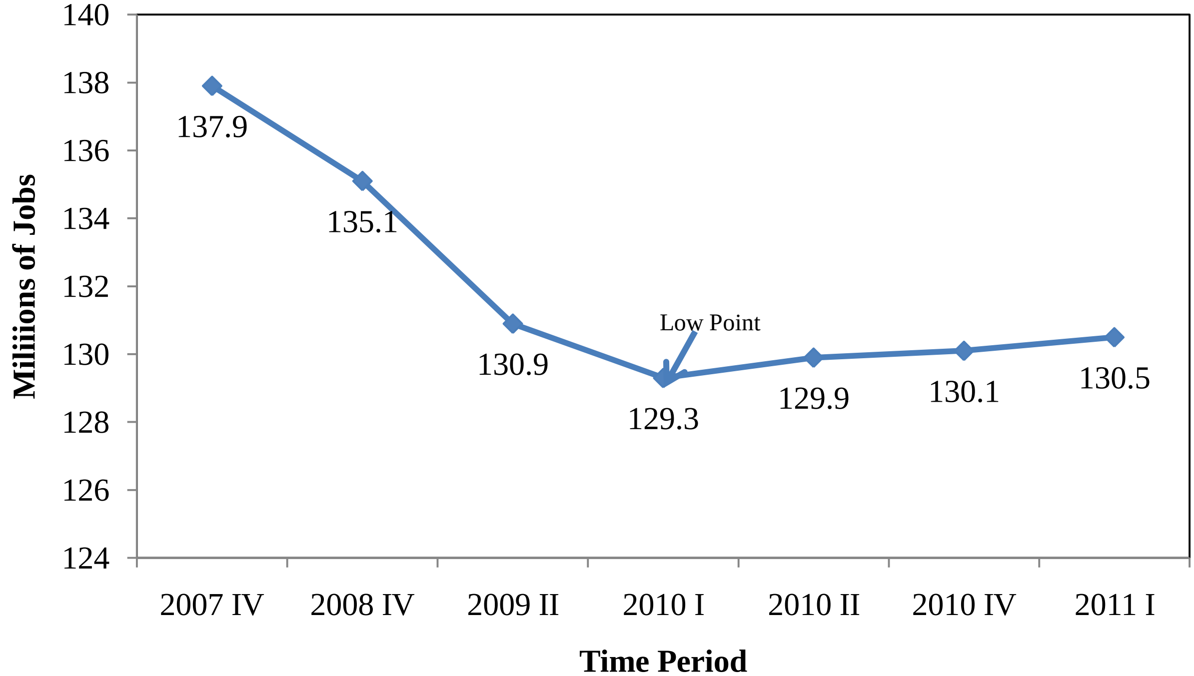
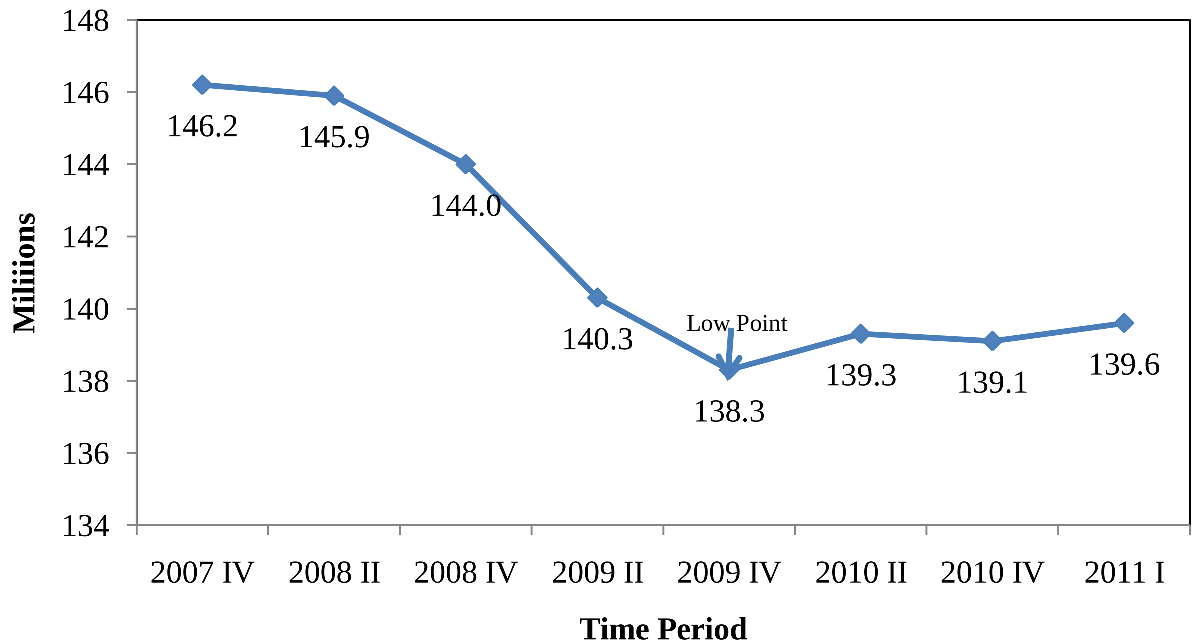
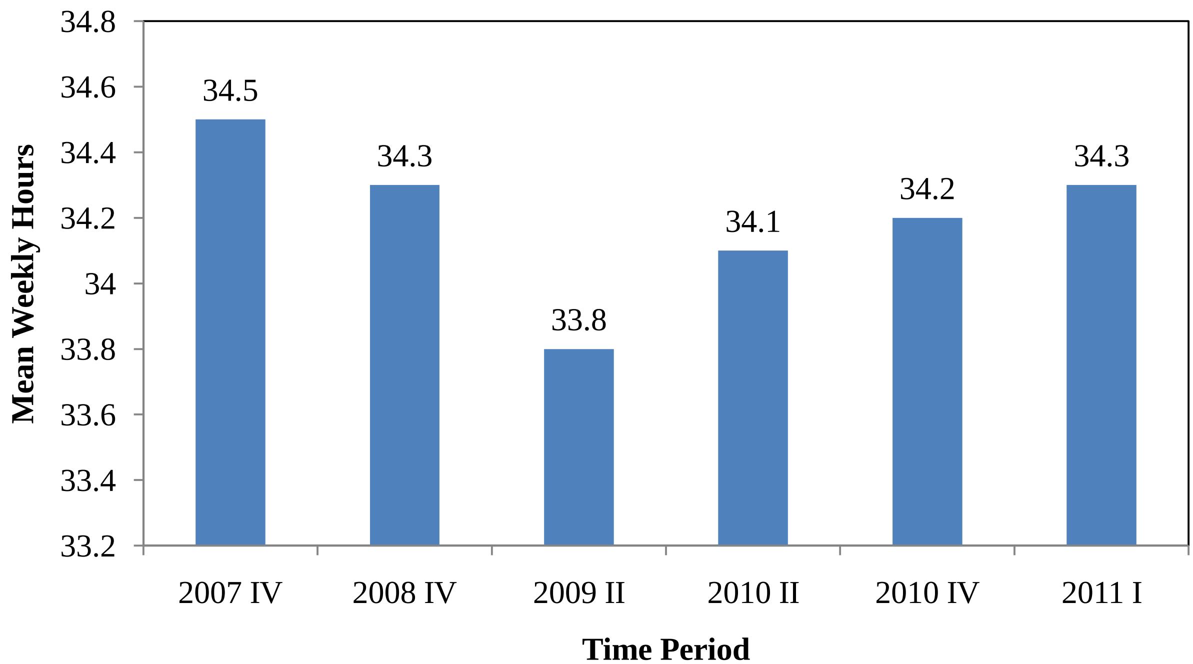


Chart 3:
Trends in Total Civilian Employment (16+) in the U.S. from 2007 IV to 2011 I
(Numbers in Millions, Seasonally Adjusted)



The steep declines in both payroll employment and aggregate civilian employment during the Great Recession were accompanied by a drop in mean weekly hours of work among private sector wage and salary workers and a very substantial rise in underemployment; i.e., the number of employed persons who worked part-time for economic reasons but desired full-time jobs. In the fourth quarter of 2007, mean weekly hours of work in the private sector were 34.5 hours. The mean weekly hours held fairly constant throughout the first half of 2008, but then declined fairly steadily through the second quarter of 2009 when they bottomed out at 33.8 hours at the trough of the recession (See Chart 4). This represented a 2% decline from the cyclical peak mean weekly hours of 34.5. Mean weekly hours of work in the private sector have increased very slightly but steadily over the past seven quarters, rising to just under 34.3 hours in the first quarter of 2011.

Chart 4:
Trends in Mean Weekly Hours of Work Among Private Sector Wage and Salary Workers in the U.S., Selected Time Periods, 2007 IV to 2011 II



Source: U.S. Bureau of Labor Statistics, www.bls.gov.

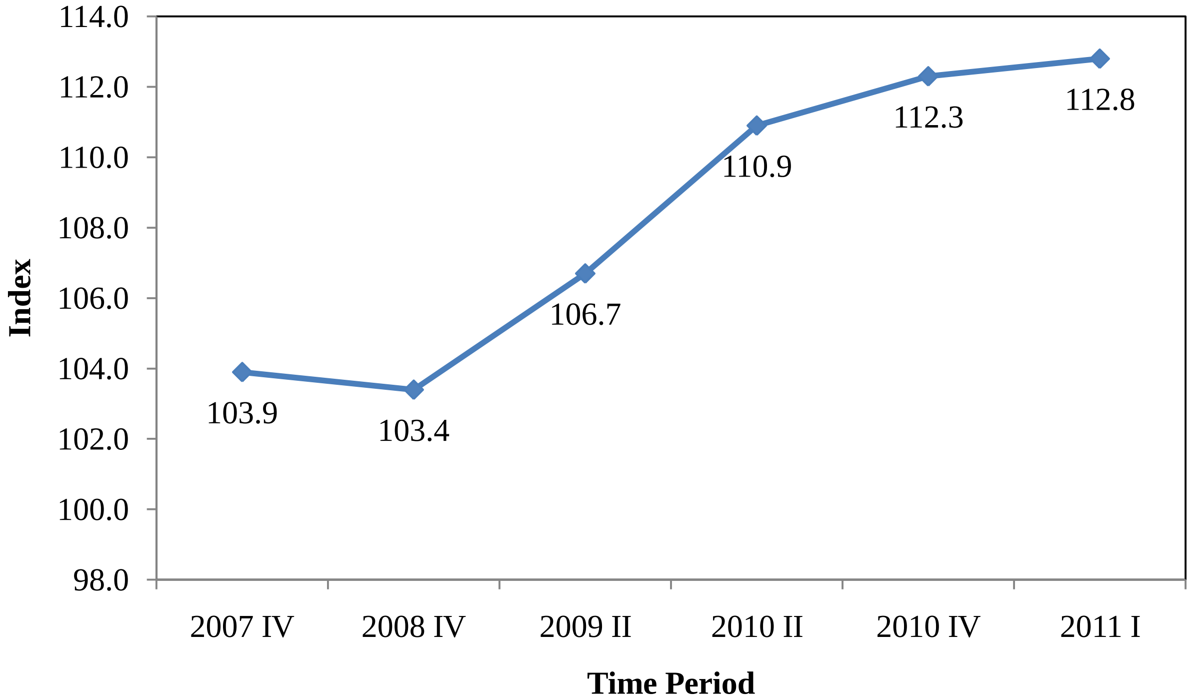
Underemployment problems also rose very steeply in the U.S. during the Great Recession and have remained at very high levels in recent months. Between October-November 2007 and the same two month period in 2009, the total number of underemployed persons more than doubled from 4.2 million to 8.9 million.[7] The highest incidence of these underemployment problems took place among the nation's younger workers (those under 30 years of age), Hispanics, high school dropouts and high school graduates lacking post secondary degrees, and workers in construction, retail trade, hospitality and accommodation industries, and business services, especially temporary help and labor leasing industries. These underemployment problems have held down the median and mean weekly earnings of employed civilians in the U.S. and the growth of real annual wages and salaries.

The decline in real GDP that would have been expected from a 4 to 5 per cent drop in employment and a 2 per cent drop in average weekly hours of work was cushioned by a rise in labor productivity over the course of the recession. From the fourth quarter of 2007 through the fourth quarter of 2008, real output per hour of work in the private nonfarm sector fell by about .5 per cent (Chart 5). Labor productivity then rose sharply over 2009 and 2010, increasing from 103.4 to 106.7 over the first half of 2009 (a gain of 3%) and by another 5% over the next 18 months. As will be noted below, these substantial improvements in labor productivity over the past few years have not yielded any increase in the real hourly or weekly earnings of the average U.S. worker. These gains in labor productivity have primarily been used to boost aggregate corporate profits to a degree not seen before in the nation since before World War II.[8]

[7] See: Andrew Sum and Ishwar Khatiwada, "The Nation's Underemployed in the Great Recession of 2007-2009," Monthly Labor Review, November 2010, pp. 3-15.

[8] There were some small gains in non-wage compensation of employees primarily payroll taxes, health insurance and pension benefits and paid release time but not in real wages and salaries.

Chart 5:
Trends in the Index of Real Output Per Hour in the Private Nonfarm Sector of the U.S., 2007 IV to 2011 I
(2005 = 100.0)



The Sources of Real GDP Growth in the Recovery from the Great Recession

The so-called Great Recession ended in June 2009. Since the second quarter of 2009, real GDP has increased steadily through the first quarter of 2011 (Chart 1). Real GDP rose by $385 billion or 3% over the first four quarters of recovery, and increased to $13,442 billion by the first quarter of 2011. Real annualized GDP in the first quarter of 2011 was only $78 billion or .6% higher than it was in the final quarter of 2007 right before the onset of the Great Recession. Given potential annual GDP growth of around 3% per year in recent years, this finding implies a GDP gap of close to 10% of GDP in the most recent quarter.[9] The U.S. economy was likely operating at $1.4 trillion below its potential output in the first quarter of 2011.[10] This huge GDP

[9] The macroeconomic projections of the U.S. Bureau of Labor Statistics for the 2006-2016 time period indicated an average annual growth rate of 2.8% over the 2006-2016 period. Over 3.25 years, this would yield growth of 9.4% in real GDP:
See: Betty W. Su, "The U.S. Economy to 2016: Slower Growth as Boomers Begin to Retire", Monthly Labor Review, November 2007, pp. 13-32.
[10] The GDP gap represents the difference between the level of real output that would be produced if the national economy were at full employment and the actual level of output. The Congressional Budget Office has recently

gap reduced aggregate employment opportunities for U.S. workers, their annual earnings and incomes, and their annual tax payments to federal, state, and local governments, thereby contributing to rising budget deficits at the national and state level.

The increases in the nation's aggregate output during the first seven quarters of recovery from the 2007-2009 recession could have been produced by a combination of forces, including a rise in aggregate employment, increased average weekly hours of work among the employed, and a rise in labor productivity, or real output per hour of work. We have tracked developments in each of these areas over the past seven quarters to identify their contributions to the growth of the nation's real aggregate output. All of the growth in real GDP since the second quarter of 2009 has been generated by either rising labor productivity or a small increase in mean weekly hours of work.

Aggregate payroll employment continued to fall steeply during the first three quarters of recovery declining by 1.6 million through the first quarter of 2010 (Chart 2). Since then, payroll employment has experienced steady growth each quarter, with payroll employment rising to 130.5 million in the first quarter of 2011. Still, payroll employment remained 400,000 below its level in the second quarter of 2009 at the trough of the recession. Very similar patterns prevailed for total civilian employment. The number of civilian employed fell steeply through the end of 2009. There were 8 million fewer employed persons in the fourth quarter of 2009 than there were at the end of 2007. Following the fourth quarter, civilian employment began to rise modestly but not steadily, reaching 139.1 million at the end of 2010 and 139.6 million in the first quarter of 2011.[11] Total civilian employment in the first quarter of 2011 was still 700,000 below its level at the bottom of the recession in the second quarter of 2009. What is clear from the above findings is that none of the growth in the nation's real GDP over the first seven quarters of recovery from the 2007-2009 recession was attributable to an increase in aggregate employment whether measured by the monthly nonfarm payroll survey or the monthly CPS survey of households.[12]

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estimated a more conservative GDP gap of only 6.1%. We estimate that potential GDP at a 4.5% unemployment rate is close to $14.7 trillion.

[11] There was a recent negative downward population adjustment to the CPS employment estimates in January 2011 that reduced the employment count by 400,000.

[12] The CPS survey only covers workers 16 and older but includes agricultural workers, the self-employed, unpaid workers in family owned firms and persons with a job but not at work for reasons as vacations, weather, or temporary illness.

The economic recovery from the Great Recession of 2007-2009 still remains a "jobless recovery" despite employment growth since early 2010. The concept of a "jobless recovery" first came into use during the recovery from the 1990-91 recession when job growth remained weak until late in 1992. To put employment developments in the current recovery in perspective, we compared the absolute and per cent change in both nonfarm payroll employment and aggregate civilian employment from the quarter of the cyclical trough to seven quarters later for five of the past six national recessions.[13]

Table 1:
Growth in Nonfarm Payroll Employment from the Quarter of the Trough Month of the Recession to Seven Quarters Later for Five Post-World War II Recessions from 1975 to 2009
(Seasonally Adjusted, in 1000s)

Recession	(A) Employment In Trough Quarter	(B) Employment 7 Quarters Later	(C) Absolute Change	(D) Relative Change
1973 – 75	76,955	80,197	+3,242	+4.2%
1981 – 82	88,806	95,037	+6,231	+7.0%
1990 – 91	108,744	109,227	+483	+.4%
2001	130,939	129,870	-1,069	-.8%
2007 – 2009	130,956	130,558[(1)]	-398	-.3%

Source: U.S. Bureau of Labor Statistics, National Payroll Employment, www.bls.gov.
(1) Data for first quarter of 2011 reflect slight upward revisions by the BLS in its release of the April 2011 Employment Situation.

The first seven quarters of economic recovery from the 1973-75 and 1981-82 recessions were marked by fairly strong gains in payroll employment. Total payroll employment grew by 3.242 million or 4.2% during the recovery from the 1973-75 recession and by an even stronger 6.231 million jobs or 7.0% in the recovery from the 1981-82 recession (Table 1). In contrast, payroll employment grew very modestly (only .4%) in the first seven quarters of recovery from the 1990-91 recession. Following the end of the 2001 recession in November of that year, payroll employment continued to fall through the summer of 2003 and remained .8% below its trough level seven quarters later in the third quarter of 2003. In the current recovery, despite the growth in employment since the Spring of 2010, the total number of nonfarm wage and salary jobs in the

[13] Again, due to overlap in timing between this seven quarter period and the onset of the 1981-82 recession, we excluded the 1980 recession from this analysis.

first quarter of this year (130.558 million) was still nearly 400,000 below its level at the trough of the recession in the second quarter of 2009.

Very similar patterns prevailed in the national CPS employment series for the same seven quarter recovery periods for the past five recessions (Table 2). Civilian employment (persons 16 and older) grew quite strongly in the recovery from the 1973-75 and 1981-82 recessions. A gain of 4.2 million employed persons or nearly 5% took place in the recovery from the 1973-75 recession, and an even stronger gain of 6.24 million or 6.3% occurred in the recovery from the 1981-82 recession. Civilian employment increased very modestly in the early stages of the "near jobless" recoveries from the 1990-91 recession and the 2001 recession. CPS employment, while increasing modestly since early 2010, still remained 740,000 below its peak in the second quarter of 2009.[14] The tepid recovery from the 2007-09 recession through early 2011 marks the first time in post-World War II history that civilian employment as measured by the CPS survey failed to register any net growth seven quarters following the end of the recession (Chart 6).

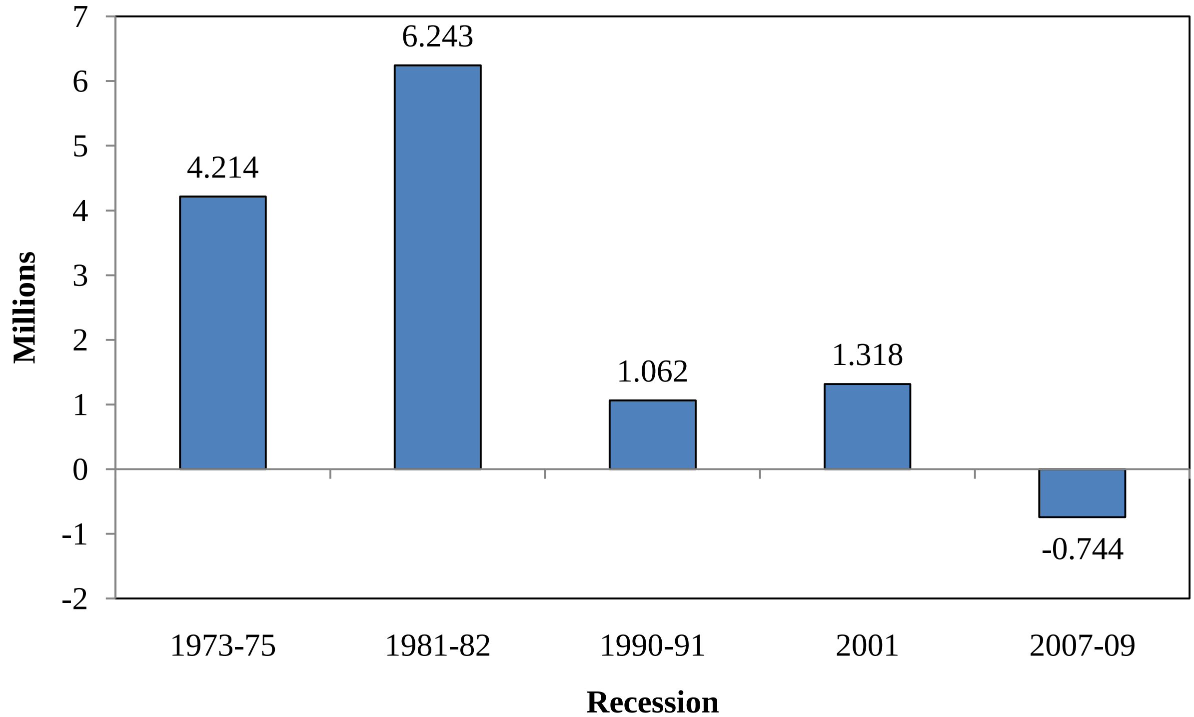
Table 2:
Growth in Civilian Employment (16+) from the Quarter of the Trough Month of the Recession to Seven Quarters Later for Five Post-World War II Recessions from 1973-1975 to 2009
(Seasonally Adjusted in 1000s)

Recession	(A) Employment In Trough Quarter	(B) Employment 7 Quarters Later	(C) Absolute Change	(D) Relative Change
1973 – 75	85,357	89,571	+4,214	+4.9%
1981 – 82	99,120	105,363	+6,243	+6.3%
1990 – 91	117,782	118,834	+1,062	+.9%
2001	136,226	137,544	+1,318	+1.0%
2007 – 2009	140,330	139,586	-744	-.5%

Source: U.S. Bureau of Labor Statistics, CPS Household Survey, www.bls.gov.

[14] Part of this estimated decline in employment is attributable to a revised drop in the U.S. Census Bureau's estimated size of the civilian working-age population in January 2011 especially among Hispanic immigrants. The specific factors inducing this revised downward adjustment are not clear. Did immigrants leave the U.S. during the recession and its aftermath or did we over estimate their presence in earlier years?

Chart 6:
The Change in Civilian Employment (16+) from the Trough Quarter of the Recession to Seven Quarters Later for the Five U.S. Recession from 1973-75 to 2007-09
(in Millions, Seasonally Adjusted)



If aggregate employment did not increase between 2009 II and 2011 I, then how did real GDP manage to increase by $632 billion or nearly 5% over this 21 month period. Two other factors (increased average weekly hours of work and gains in labor productivity) were responsible for the increased level of aggregate output. As noted earlier in Chart 4, mean weekly hours of work among nonfarm private sector workers increased nearly steadily but modestly from the trough quarter of the recession in 2009 II through 2011 I. Mean weekly hours rose from 33.8 hours to 34.3 hours, a gain of .5 hours or nearly 1.5%.[15]

The index of labor productivity (real output per hour of work) in the private nonfarm sector rose from 106.7 in the second quarter of 2009 to 112.8 in the first quarter of 2011.[16] This represented a rise of just over 5.7% over this seven quarter period and a very impressive 9% gain since 2008 IV. The growth of real output (GDP) in the first seven quarters of recovery was, thus,

[15] The April 2011 Employment Situation revealed that mean weekly hours in April remained at 34.3, the exact same as in February and March.
[16] The index of labor productivity increased from 112.4 in 2010 IV to 112.8 in the first quarter of 2011, a gain of only 1.5% at an annualized rate.

primarily due to favorable growth in labor productivity (5.5%) and a much more modest increase in average weekly hours of work (.5%)

Who Has Benefitted from the Economic Recovery? Gains in Worker Wages / Earnings and Corporate Profits Since 2009 II

The economic recovery through 2011 I has failed to create any net new jobs since the quarter marking the end of the recession in 2009 II.[17] Labor productivity gains, however, have been quite strong over the past two years allowing real GDP and national income to grow. Who have been the major beneficiaries of this renewed national income growth? To answer this question, we tracked changes in the real (inflation adjusted) hourly and weekly earnings of key groups of U.S. workers, in real compensation per hour of work in the business sector, and in corporate profits over the 2009 II to 2011 I time period. In a following section, we also will track changes in the value of key stock indices, including the Dow-Jones industrial average and the S&P 500.

There are a variety of monthly measures of the hourly and weekly earnings of U.S. wage and salary workers. The three most widely cited measures are the hourly earnings of all private sector wage and salary workers and the mean weekly earnings of those same workers from the national BLS payroll survey of employers and the median weekly earnings of full-time wage and salary workers from the monthly CPS survey.[18] We converted the nominal hourly and weekly earnings data for each series into their constant 2010 dollar equivalent using the CPI-U price index of the U.S. Bureau of Labor Statistics.

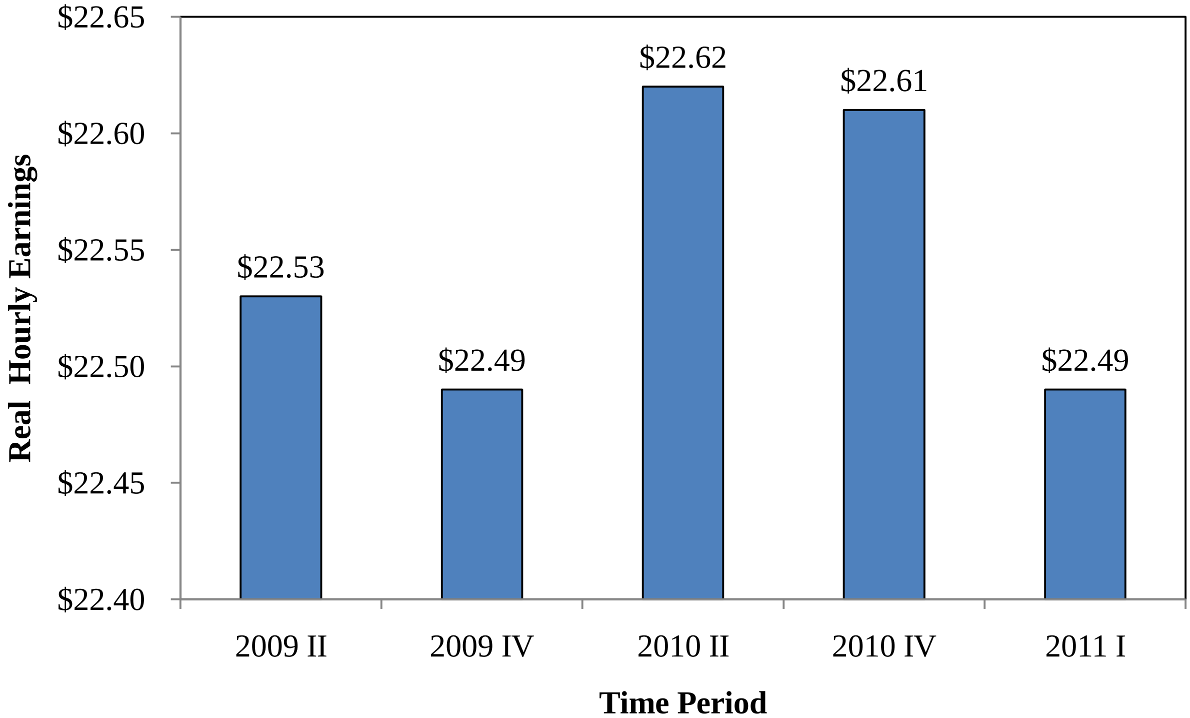
Estimates of the real hourly earnings of all nonfarm private sector wage and salary workers in the U.S. from 2009 II through 2011 I are displayed in Chart 7. The mean, real hourly earnings showed very little change over this 7 quarter period. The mean hourly wage was $22.53 in the second quarter of 2009, fell slightly by the end of that year, increased by only $.12 to $.13 or only .5% in 2010 and fell back to $22.49 in the first quarter of 2011. <u>Real hourly wages were essentially unchanged (-$.04) over the seven quarter period</u>. Similar findings apply to time trends in real compensation per hour of wage and salary workers in the business sector. Over the 2009

[17] If we use the exact ending month of the recession (June 2009) rather than the entire second quarter, then payroll employment in March 2011 would have been 290,000 above its level 21 months earlier.

[18] The CPS survey includes the weekly earnings of agricultural and government workers while the payroll survey's hourly and weekly earnings data pertain only to the private nonfarm sector.

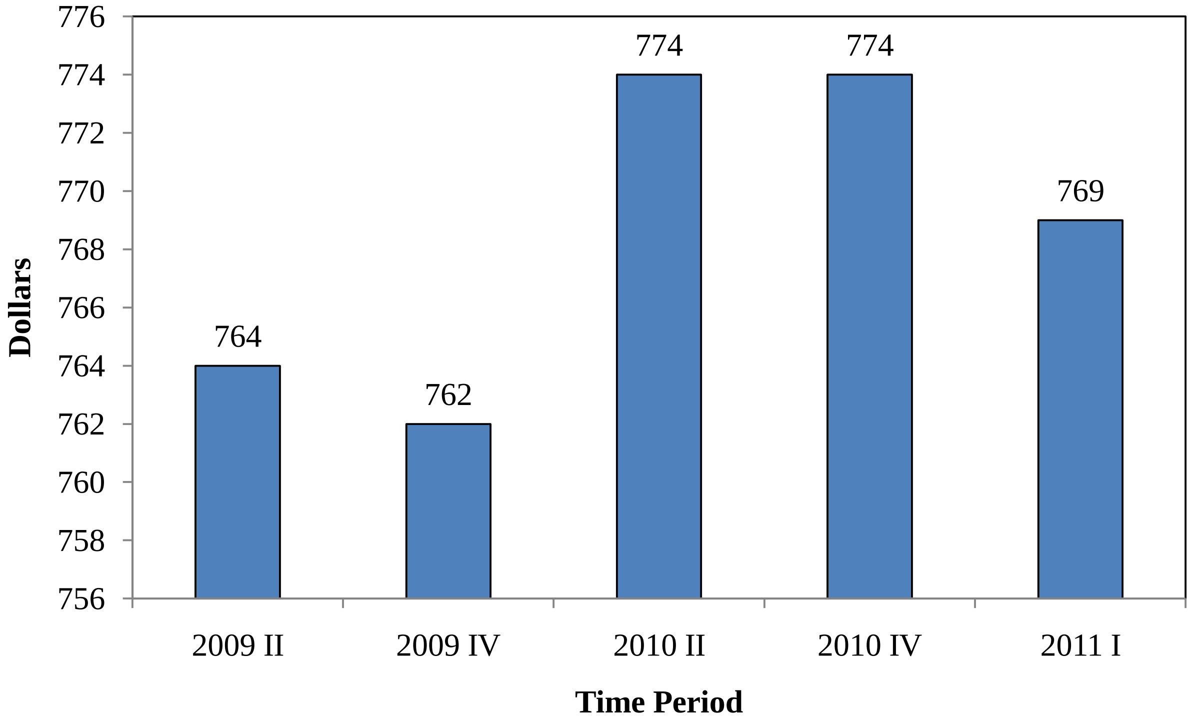
II – 2011 I period, real compensation per hour was again basically unchanged, by rising just under .2%.

Chart 7:
Trends in the Real Hourly Earnings of All Private Sector Wage and Salary Workers, 2009 II to 2011 I (in Constant 2010 Dollars)



Very similar findings prevailed for the mean weekly earnings of private sector wage and salary workers over this seven quarter period (See Chart 8). In the second quarter of 2009, mean weekly earnings of these workers in constant 2010 dollars were $764. They declined modestly by $2 in the second half of the year, rose during 2010 then fell back to $769 in the first quarter of 2011. Mean weekly earnings of nonfarm private sector workers in 2011 I were only $5 or .6% above those that prevailed at the trough of the recession.

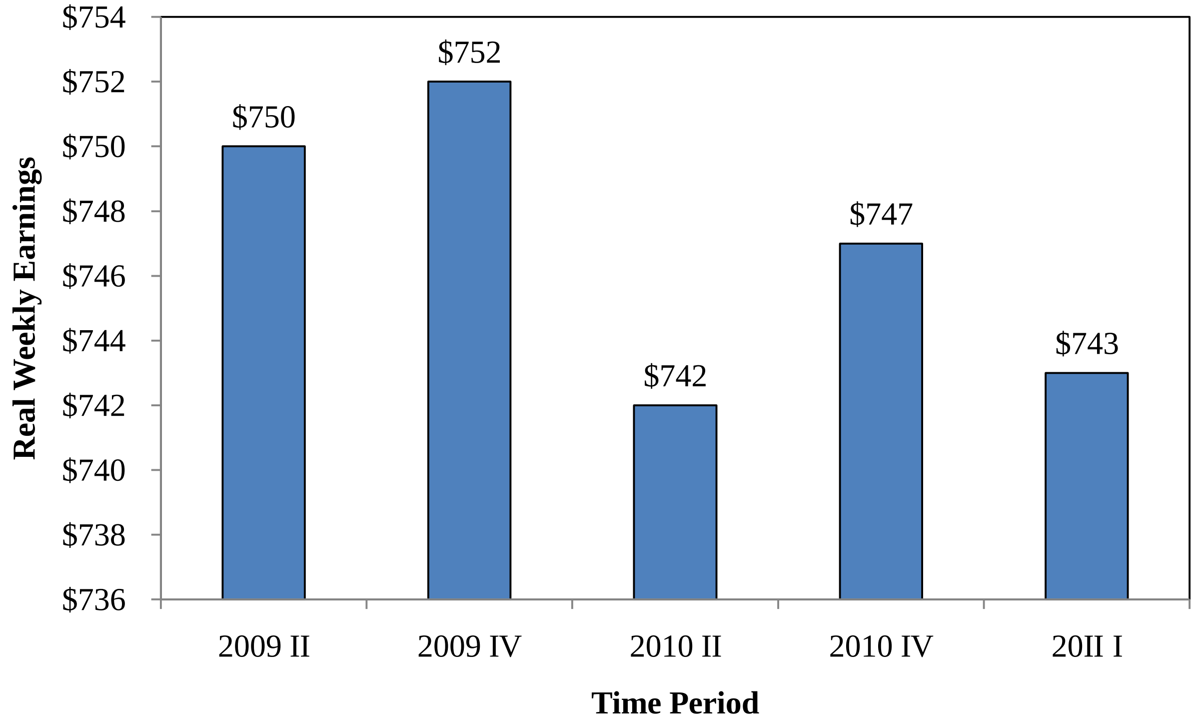
Chart 8:
Trends in Mean Weekly Earnings of Private Sector
Wage and Salary Workers from 2009 II to 2011 I
(in Constant 2010 Dollars)



Our third measure of weekly earnings is that of median weekly earnings of full-time wage and salary workers (in both the private and public sectors) from the monthly CPS household survey. [19] Median weekly earnings (in constant 2010 dollars) were $750 in the second quarter of 2009 (Chart 9). They rose modestly (but not significantly) to $752 in the fourth quarter of the year, then fell in 2010, and reached only $743 in the first quarter of 2011. Median weekly earnings of full-time wage and salary workers were $7 or 1% below where they were in the second quarter of 2009.

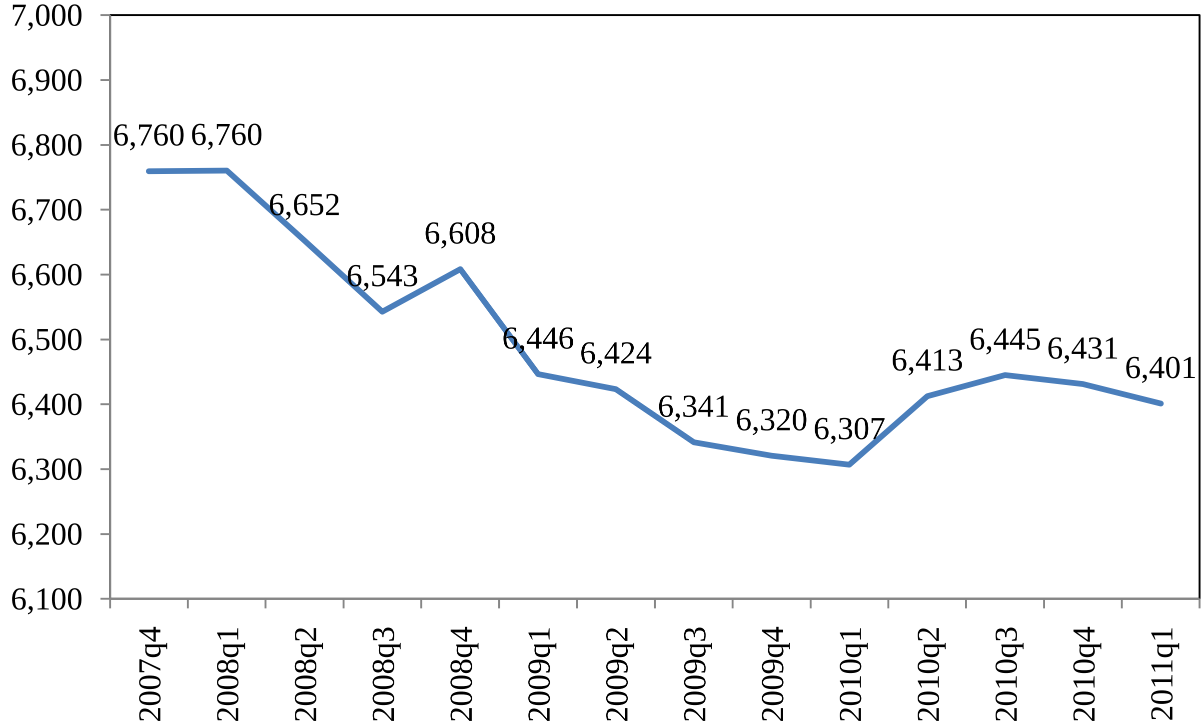
[19] A full-time wage and salary worker is one who works 35 or more hours per week. The median weekly earnings is that value which divides the distribution into two equal parts.

Chart 9:
Trends in the Real Median Weekly Earnings of Full-Time Wage and Salary Workers, 2009 II to 2011 I (in Constant 201 Dollars)



Clearly, U.S. wage and salary workers, on average, did not receive either any increases in their real hourly or weekly earnings over the first 7 quarters of recovery from the 2007-2009 recession, and their overall employment levels had not yet matched those that prevailed in the second quarter of 2009 at the trough of the recession. One would, thus, expect aggregate wage and salary accruals (pre-tax in constant 2010 dollars) to be basically unchanged over this seven quarter period. Findings from the U.S. Bureau of Economic Analysis on aggregate wage and salary accruals bear this out (Chart 10).

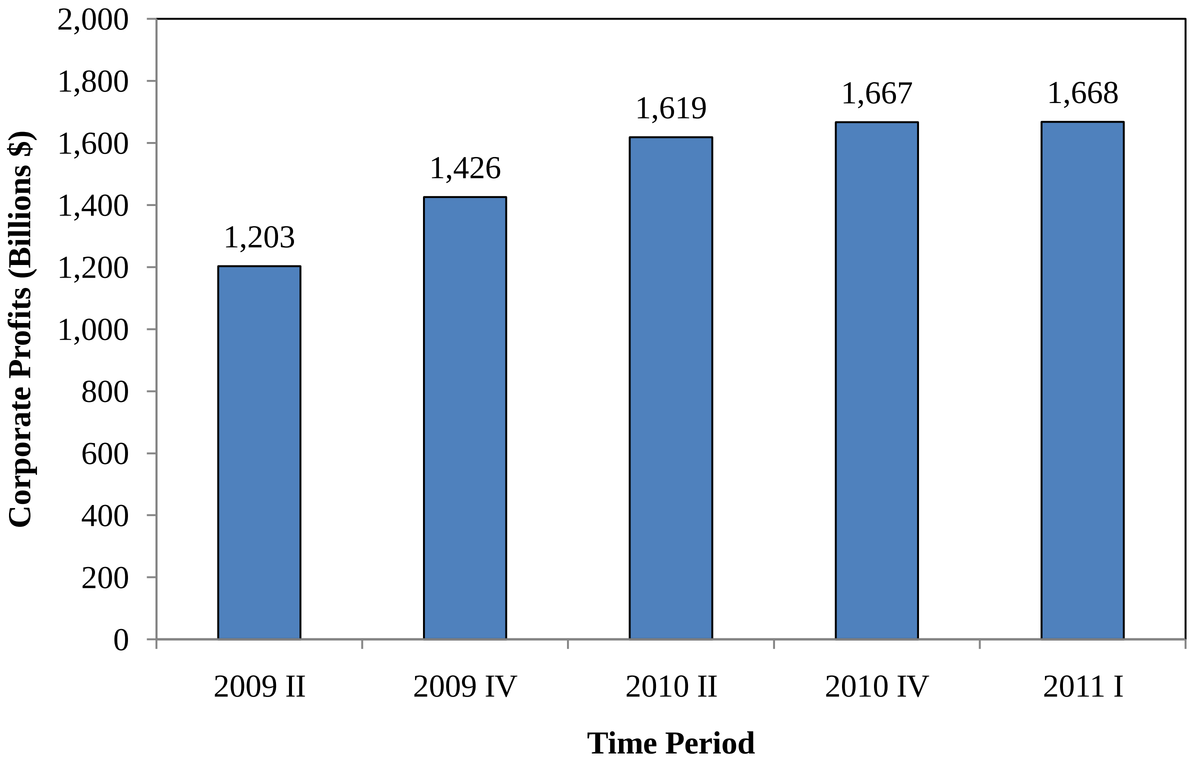
Chart 10:
Trends in Annualized Wage and Salary Accruals, U.S., 2007Q4-2011Q1
(In Billions of CPI-U Adjusted 2010 Dollars)



During the recession of 2007-2009, the real aggregate annualized value of wages and salaries declined steeply, falling from $6,760 billion in the fourth quarter of 2007 to $6,424 billion in the second quarter of 2009, a decline of $336 billion or 5%. Further reductions in these wage and salary accruals took place through the first quarter of 2010 before reversing course and rising by $124 billion or about 2% by the end of the year. Estimates for the first quarter of 2011 indicate a decline in these annualized wage and salary accruals back to $6,402 billion. This implies that aggregate wages and salaries in real 2010 dollars failed to grow over the first seven quarters of the recovery, declining by $22 billion or .3%, the first ever such decline in any post-World War II recovery.

There are other sources of national income that could have risen, including proprietors incomes, rental income of households, or net interest; however, the overwhelming beneficiary of the rise in national income generated by labor productivity was corporate profits (before tax and including capital consumption allowances and inventory change).[20] Trends in the annualized value of corporate profits (in constant 2010 dollars) from the second quarter of 2009 to the first quarter of 2011 are presented in Chart 11.

Chart 11:
Trends in the Annualized Value of Corporate Profits with Inventory Valuation and Capital Consumption Allowances (in Billions of Constant 2010 Dollars)



Annualized corporate profits in constant 2010 dollars rose very strongly in the first six quarters of the recovery, rising from $1,203 billion in the second quarter of 2009 to $1,667 billion in 2010 IV. The preliminary estimate of corporate profits for the first quarter of 2011 is $1,668 billion. Over the first seven quarters of recovery, this would represent a gain of $465 billion in corporate profits or just under 40%.

As expected, this tremendous surge in corporate profits lifted stock prices and sharply increased the value of key stock indices including the Dow Jones Industrial Average and the Standard and Poors 500. The value of the Dow Jones Industrial Average increased from 8,447 at

[20] The net increase in supplements to wages and salaries, proprietors income, rental income of persons, and net interest was only $43 billion between 2009 II and 2011 I. Only proprietors' income and net rental income experienced any positive growth.

the close of the second quarter in 2009 to 12,319 at the close of the first quarter of 2011, a relative increase of 46% (See Chart 12). Similar patterns prevailed for the S&P 500 Stock Index. Its value rose from 919 at the end of the second quarter of 2009 to 1,326 at the end of the first quarter of 2011. This nominal gain represented a relative rise of 44% over this 21 month period.

Chart 12:
Trends in the Dow Jones Industrial Average (at Close of Quarter)

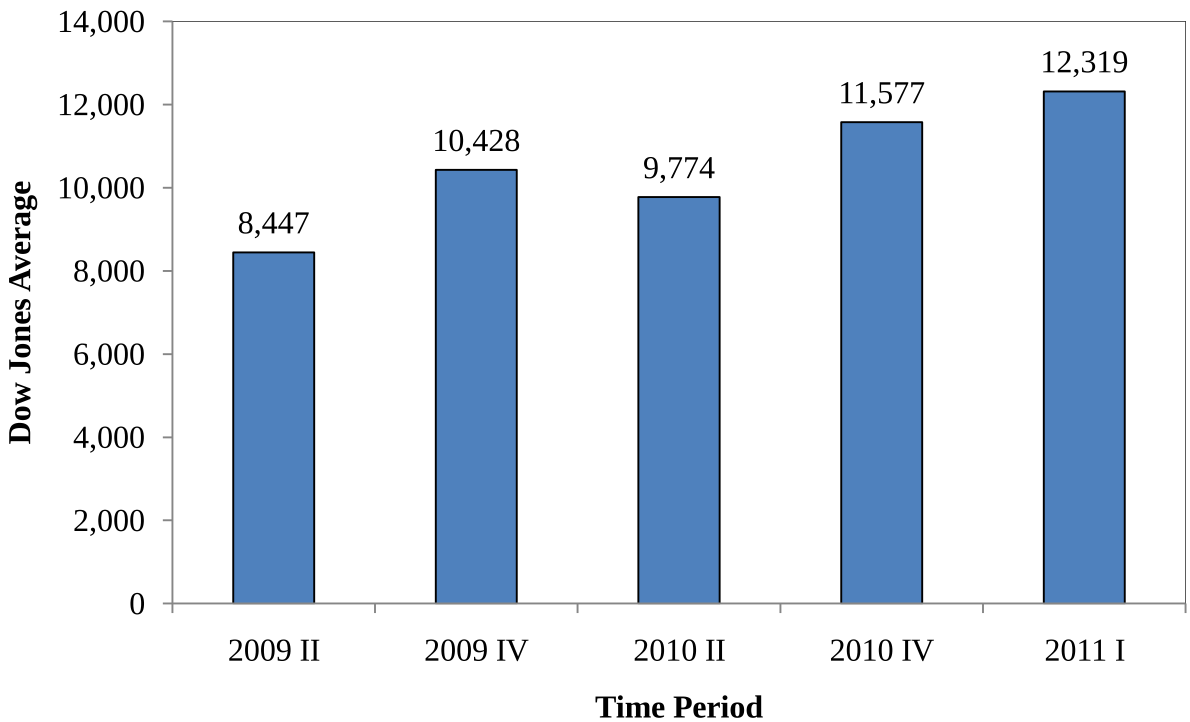
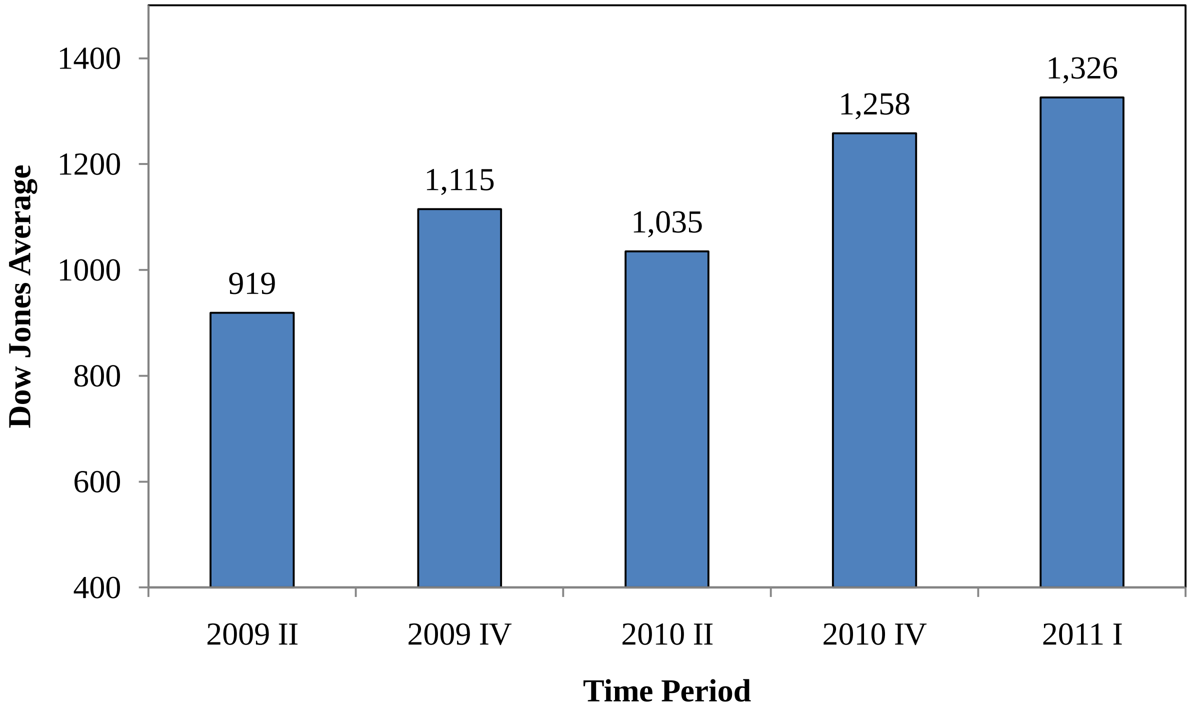


Chart 13:
Trends in the S&P 500 Index (at Close of Quarter)



To place the performance of the U.S. economy in generating changes in corporate profits and aggregate wages and salaries in the current economic recovery into proper perspective, we compared these changes, both in the aggregate and as a per cent of changes in national income,[21] to those in four of the preceding five recessions in the U.S. back to 1973-1975.[22] For each of these five recessions, we calculated the change in real national income, corporate profits, and aggregate wages and salaries from the calendar quarter in which the trough of the recession occurred to six quarters later. The share of real national income growth captured by corporate profits and aggregate wages and salaries over this time period also are displayed in Table 3.

Between the second quarter of 2009 and the fourth quarter of 2010, real national income in the U.S. increased by $528 billion. Pre-tax corporate profits by themselves had increased by $464 billion while aggregate real wages and salaries rose by only $7 billion or only .1%. Over this six quarter period, corporate profits captured 88% of the growth in real national income

[21] In addition to wages and salaries and corporate profits, national income also includes employer supplements to wages and salaries (employer payroll taxes, unemployment insurance taxes, paid vacations, health and pension benefits) proprietors' income, rental income of persons, and net interest.
[22] We excluded the brief recession of 1980 from our analysis due to overlaps in the time periods of the recovery from the 1980 and 1981-82 recessions.

while aggregate wages and salaries accounted for only slightly more than 1% of the growth in real national income. The extraordinarily high share of national income (88%) received by corporate profits was by far the highest in the past five recoveries from national recessions. The closest situation was the recovery during the first six quarters following the end of the 2001 recession in which corporate profits captured 53% of the growth in real national income during the largely jobless recovery during that time period. In the first six quarters of recovery from the 1990-91 recession, corporate profits experienced no growth whatsoever, and they generated on average only 30 per cent of national income growth during the recoveries from the 1981-82 and 1973-75 recessions. Extending this analysis for one more quarter reveals that corporate profits accounted for 92% of the growth in real national income while aggregate wages and salaries declined by $22 billion and contributed nothing to growth.

Table 3:
Growth in Real Annualized National Income, Corporate Profits, and Wage and Salary Accruals in the First Six Quarters Following the End of Five Post-World War II Recessions from 1973-75 to 2007 – 09
(Numbers in Billions of Dollars in Constant 2010 CPI-U Dollars)

	(A)	(B)	(C)	(D)	(E)
Recession's Ending Quarter to Six to Seven Quarters Later	National Income Growth	Corporate Profits Growth	Accrued Wage and Salary Growth	Corporate Profits Share of Growth in National Income (in %)	Aggregate Wage and Salary Share Of Growth in National Income (in %)
Six Quarters					
1975 I – 1976 III	$462	$148	$174	32	38
1982 IV – 1984 II	$817	$227	$205	28	25
1991 I – 1992 III	$237	-$4	$119	-1	50
2001 IV – 2003 II	$333	$178	$50	53	15
2009 II – 2010 IV	$528	$464	$7	88	1
Seven Quarters					
2009 II – 2011 I	$505	$465	-$22	92	0

The absence of any positive share of national income growth due to wages and salaries received by American workers during the current economic recovery is historically unprecedented. The lack of any net job growth in the current recovery combined with stagnant real hourly and weekly wages is responsible for this unique, devastating outcome.

Constructing Indices of Corporate Profits, Stock Values, and Real Hourly/Weekly Wage, and Employment Creation Performance Over the Course of the Economic Recovery

The use of economic indices to describe changes in outcomes of key measures is fairly widespread. There are the Real GDP Quantity Index, the GDP Price Index, Consumer Price Index, the Producer Price Index, the Consumer Confidence Index, and the Labor Productivity and Multifactor Productivity Indices. To help illustrate changes in hourly or weekly wages, corporate profits, or stock values, or even aggregate employment levels over time, similar indices could be constructed to aid in the interpretation of key developments. In this section, we present findings of our indices of the performance of key hourly / weekly wage, corporate profits, key stock values, and job creation measures since the bottom quarter of the recession of 2007-2009. The base quarter for the index is 2009 II, and the index thus has a value of 100.0 for that quarter.

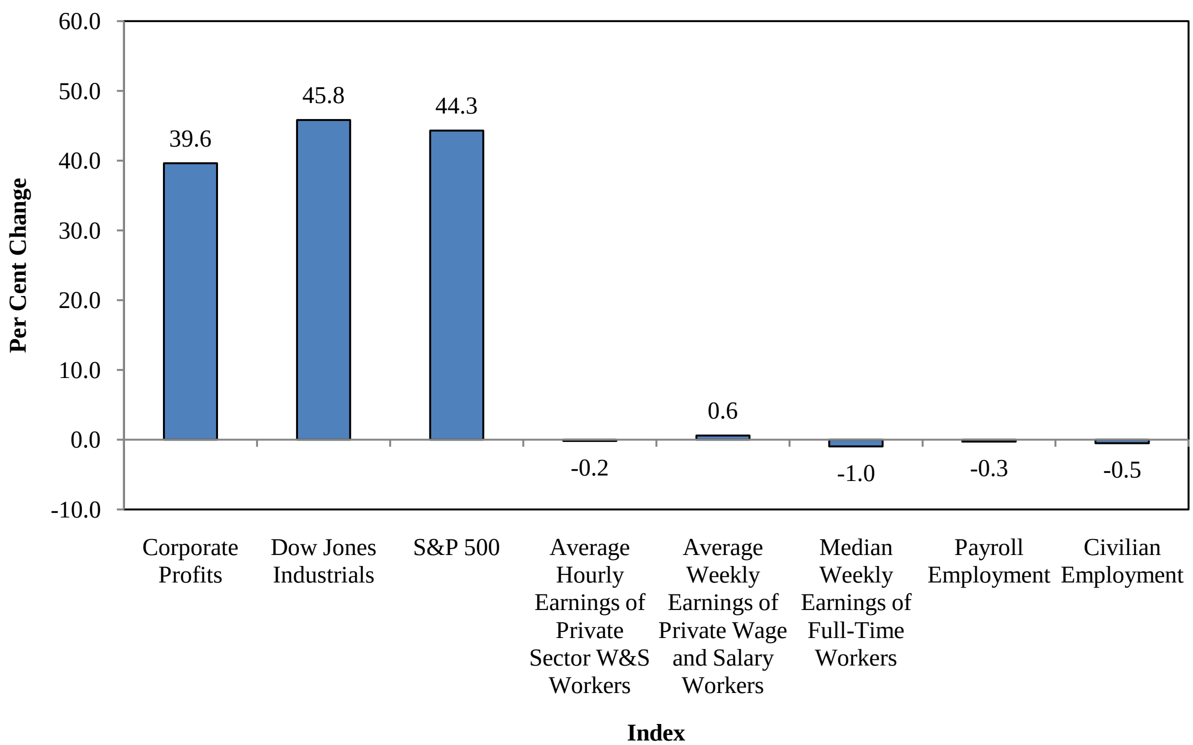
Table 4:
Trends in the Index of Real Corporate Profits, Stock Price Averages, and Real Hourly and Weekly Wages of U.S. Workers from the End of the Great Recession of 2007-2009 to the Most Recent Quarter (2009 II = 100)

Time Period	(A) Real Corporate Profits	(B) Dow Jones Industrial Average at Close of Quarter	(C) S&P 500 Index At Close of Quarter	(D) Average Real Hourly Earnings of All Private Sector Workers	(E) Average Real Weekly Earnings of All Private Sector Workers	(F) Median Real Weekly Earnings of Full-Time Wage and Salary Workers
2009 II	100.0	100.0	100.0	100.0	100.0	100.0
2009 IV	118.5	123.5	121.3	99.8	98.7	100.3
2010 II	134.6	115.7	112.2	100.6	101.3	99.0
2010 IV	138.6	137.0	136.9	100.4	101.3	99.6
2011 I	139.6	145.8	144.3	99.8	100.6	99.0
Percent Change 2009 II to Present	+39.6%	+45.8%	+44.3%	-.2%	+.6%	-1.0%

Each of the indices of corporate profits, the Dow Jones industrial average, and the S&P 500 show extremely strong growth over the past 7 quarters. By the first quarter of 2011, the index of real corporate profits had risen conservatively to 139.6.[23] The index for the Dow Jones industrial average was nearly 46 per cent higher at the end of the 2011 I quarter, and the S&P 500 index was 44% higher in that same quarter.[24]

In substantial contrast, our three indices of hourly and weekly real wages of U.S. workers showed little to no positive growth between the second quarter of 2009 and the first quarter of 2011. Two of the three indices were slightly below 100, and one (mean weekly earnings of private sector wage and salary workers) was less than one per cent above its value in the base quarter. While each of the three corporate profit and stock value indices were far above their values in the base period, each of our three hourly and weekly wage indices were basically flat (See Chart 14).

Chart 14:
Per Cent Changes in the Indices of Corporate Profits, Stock Market Prices, Selected Hourly / Weekly Wages, and Aggregate Employment from 2009 II to 2011 I (2009 II = 100)



[23] The nominal value of corporate profits was divided by the values of the CPI-U price index to convert nominal profits into their constant 2010 dollar equivalent.
[24] The indices for stock prices were not adjusted for inflation. If we had done so, they would have been about 3.2% lower.

Similar findings of no change apply to our two indices of employment growth. Payroll employment continued to fall through the first quarter of 2010 before recovering. Still, by the first quarter of 2011, it was approximately 400,000 or .3% below its level in the second quarter of 2009 (Table 5). Not surprisingly, similar findings apply to civilian employment. The number of employed civilians fell steeply through the end of calendar year 2009, then modest growth resumed in the first quarter of 2010. By the first quarter of 2011, civilian employment was still 700,000 or .5% below its level in the trough quarter of the recession in 2009.

Table 5:
Trends in the Index of Aggregate Payroll Employment and
Civilian Employment (16+) in the U.S. from 2009 II to 2011 I

Time Period	(A) Payroll Employment	(B) Civilian Employment (16+)
2009 II	100.0	100.0
2009 IV	98.9	98.6
2010 I	98.8	98.9
2010 II	99.2	99.3
2010 IV	99.4	99.1
2011 I	99.7	99.5
Per Cent Change, 2009 II to Present	-.3	-.5

To date, through the first quarter of 2011, the nation's recovery from the 2007-2009 recession is both a jobless and a wageless recovery. Aggregate employment still has not increased above the trough quarter of 2009, and real hourly and weekly wages have been flat to modestly negative. The only major beneficiaries of the recovery have been corporate profits and the stock market and its shareholders. Most holders of savings and money market accounts also are net losers due to declining real interest rates which have been in negative territory for many interest bearing and money market accounts.