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Who Gets the Value We All Produce?

Dear Dr. Dollar:

I found government statistics that seem to show that workers' share of gross domestic product (GDP) is just 55% and that the other 45% goes to people who didn't work for it. Can this be true?

—Doug Marshall, United Steelworkers Local 8957, Bell, Calif.

BY ARTHUR MACEWAN

Usually, when I look at some economic phenomenon, I find myself thinking, "It's always worse than we think it is!" However, this is one of those rare instances where maybe it's not as bad as we think it is. *Maybe.* While the figure of 55% of GDP going to wages (and benefits) is correct, not everything else goes to "people who didn't work for it."

First of all, not all of GDP goes to people as income. So let's look at a different measure known as National Income. The table below gives the breakdown for 2008 (not an unusual year for these figures).

The income categories here that fall clearly under the rubric of "people who didn't work for it" are corporate profits, net interest income, and rental income—which together account for less than 20% of the total. Many "proprietors" are people who work for their income—doctors and other professionals, shopkeepers, farmers, etc.

The trouble is that these data don't tell us what we really want to know. Included in the "wages, salaries, and benefits" category are the huge salaries and bonuses that go to high-level executives, incomes that really should be in the profits category. Also, with the rapid rise in health care costs, "benefits" represent a growing share of workers' total compensation. Take out the "benefits," and in 2008 "wages and salaries" accounted for only 51.8% of National Income; in the 1970s, this figure averaged 56.8%.

Then there is depreciation. Approximately 12% of GDP in 2008 was classified as depreciation of capital equipment and resources, and is not included as part of National Income. This money goes to firms, but it doesn't count in the calculation of their profits. Not only does this give firms a distinct tax advantage, but it also involves a very unequal treatment of firms and real people. We real people spend a lot on depreciation of our homes, cars, and everything else that needs repairing or replacing over time; but we can't take those costs as a tax deduction. If we could deduct depreciation from our incomes before paying our taxes, our incomes—like firms' incomes—would appear smaller (and our taxes would be less).

These sorts of data showing shares of National Income or GDP do tell us some interesting things, but they don't really tell us how the value we all produce gets divided up. Perhaps the best way to see that is by looking directly at what's called the "size distribution of income"—that is, what percentage of income goes to each percentage group of the population, from the top to the bottom. In 2007, on the eve of the implosion of the economy, the 1% at the very top was getting almost 25% of all income, and the top 10% was getting almost 50% of all income. In 1928, with the Great Depression about to descend on the country, the figures were just about the same. But things have been better. In the 1970s, these figures were about 9% of income for the top 1% and about 33% of income for the top 10%.

So maybe it's at least as bad as we think it is after all. D&S

National Income by Category, 2008

	$ in billions	Percent*
Wages, salaries, and benefits	8,037.4	63.6
Corporate profits	1,360.4	10.8
Net interest income	815.1	6.5
Rental income	210.4	1.7
Proprietors' income	1,106.3	8.8
Tax adjustments	1,047.3	8.3
Other adjustments	58.4	.5
		*Does not add up to 100% due to rounding

Notes: All data are before income taxes. "Tax adjustments" are indirect taxes, e.g., sales and property taxes. "Net interest" is the interest paid by private enterprises less the interest received by private enterprises, plus the interest paid by the rest of the world less the interest received by the rest of the world. Interest payments on mortgage and home equity loans are included in interest paid by private enterprises because home ownership is treated in the national accounts as a private enterprise.

Source: *Economic Report of the President 2010*, TABLE B–28. National income by type of income, 1960–2009.

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Questions about the economy? Ask Dr. Dollar!

Submit your questions by email (*dollars@dollarsandsense.org*) or U.S. mail (Dr. Dollar, c/o *Dollars & Sense*, 29 Winter Street, Boston, MA 02108).