News Release
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FOR IMMEDIATE RELEASE
March 26, 2007

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WHAT HAPPENED TO THE GAINS FROM STRONG PRODUCTIVITY GROWTH?

Over the past decade, productivity growth and corporate profits have surged. Yet growth in real wages, especially for low-income workers, has been virtually nonexistent, prompting many observers to speculate that income inequality has widened.

Sentiment is growing among the public that average households aren't sharing in the recent economic prosperity, say the authors of "What Happened to the Gains from Strong Productivity Growth?"

The article, featured in the first quarter edition of the Federal Reserve Bank of Kansas City's Economic Review, was written by Jonathan L. Willis, a senior economist at the Bank, and Julie Wroblewski, a research associate.

Willis and Wroblewski describe the relationship between growth in productivity and income shares based on economic theory. Then they empirically analyze this relationship using two traditional measures: incomes shares over two distinct periods of productivity growth, 1973-1995 and 1996-2006, and changes in the income distribution over the past decade of strong productivity growth.

Willis and Wroblewski find that the shares of income allocated to labor and capital have generally been constant across periods of low and high productivity growth. Short-term fluctuations in income shares have occurred but appear to be closely related to movements in the business cycle.

While the income shares have been constant on average, growth across the household income distribution has not been equal, say the authors. During the last decade of high productivity growth, low-income households have seen no increase in real income, and only the top 10 percent of households, at most, have experienced real income growth equal to or greater than average labor productivity growth.