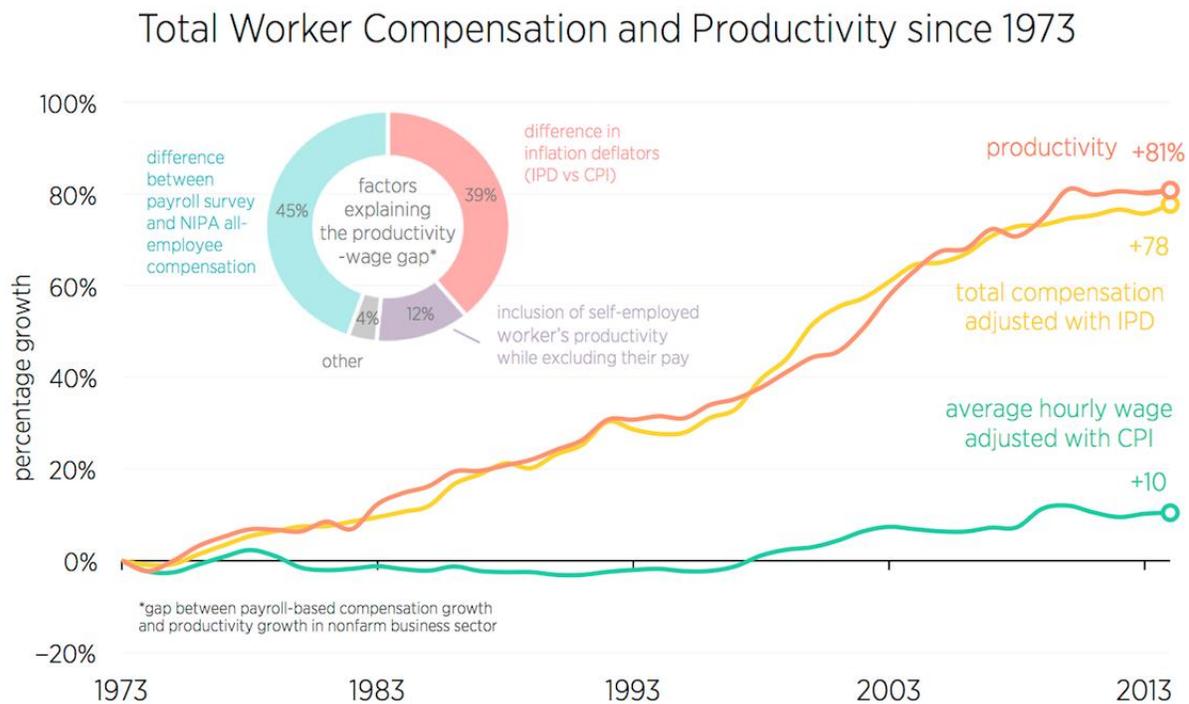


Contrary to White House Claim, Compensation Has Been in Line with Productivity

Veronique de Rugy | Apr 14, 2016

The [White House](#) has been among those who believe in the productivity-pay gap [claim](#) that workers' productivity rose at a high rate over the last four decades but growth in real earnings failed to keep pace and instead changed at a nearly flat rate (see the green line in the chart below). These arguments continue to fuel the debate on contested labor policies such as the overtime pay rule and minimum wage increases. A more careful and comprehensive analysis of real worker pay and productivity data, however, shows that worker compensation is closely tied to worker productivity.



Source: James Sherk, "Worker's Compensation: Growing along with Productivity," Heritage Foundation, forthcoming. Produced by Veronique de Rugy and Rizqi Rachmat, April 2016.

This week's chart uses data from a forthcoming study by labor economist James Sherk, "Workers' Compensation: Growing along with Productivity." Using data from the Bureau of Economic Analysis (NIPA tables) and the Bureau of Labor Statistics, Sherk points out that those stating that there is a large gap between productivity and wage growth have committed the following errors:

- Compared the pay of only some workers to the productivity of all employees;
- Counted productivity growth of the self-employed, but excluded their pay growth;
- Measured inflation differently to calculate pay growth and productivity growth.

As Sherk states, “methodological choices [in calculating the relationship between productivity and earnings] create an apparent gap between productivity and compensation in the nonfarm business sector.”

Employee compensation has in fact risen in step with productivity since 1973, both on average and across industries. The data show that since 1973, the average private sector employee’s productivity has increased by 81 percent (red line), while the average compensation has increased by 78 (yellow line).

The “fair wage” policy proposed by the Department of Labor [at the direction of the White House](#), which expands the scope of [coverage of employees eligible for overtime pay](#), is an example of a policy that distorts essential information signals between employers and workers. More importantly, such policy decisions ignore generations worth of data that show a direct and close relationship between worker compensation and productivity.

Data note: “The difference between payroll-survey-based compensation covering a subset of the workforce and NIPA data on all business employees explains 45 percent of the gap. Counting the productivity growth of the self-employed while excluding their pay growth explains 12 percent of the gap. Using different methods to measure inflation explains 39 percent. These three factors account for all but 4 percent of the apparent gap between pay and productivity. Over the past generation, employee compensation has risen in step with their productivity.” James Sherk, “Workers’ Compensation: Growing along with Productivity,” Heritage Foundation, forthcoming.