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The short answer is no. The problem, however, is inflation, not asset values.

Are Wages Keeping Pace?

By Mickey D. Levy

With the U.S. economy growing at a healthy clip and unemployment low, many people ask: Are workers paid appropriately? The buoyancy of the stock market, high home prices and the soaring wealth of artificial-intelligence innovators make the question even more urgent. On a topic so central to fairness and living standards, it's important to use data that carefully measure and evaluate compensation. In particular, the benchmarks we look to need to account for inflation and reflect worker productivity.

Pre-Covid data, when adjusted for inflation, show that wage compensation—total wages and salaries plus supplements such as employer contributions to pensions and savings plans—closely tracked productivity gains. The 2020s have been a different story. Wages have increased significantly, but persistently high inflation has undercut those gains, so real wages haven't kept pace with worker productivity. No wonder surveys show Americans losing confidence in the economy.

Another measure that is getting a lot of attention but is highly misleading is the labor- compensation share of gross domestic product. It shows how much wages have fallen relative to GDP. Critics compare the labor-compensation share with the ratios of profits and returns to capital to GDP, which are rising. But such comparisons mix apples and oranges.

It's natural and unsurprising that the labor-compensation share of GDP is falling while profits and returns to capital are rising. Thinking through the data, particularly what GDP measures and what it doesn't, helps to explain how rising profits and returns to capital are complements to worker compensation and enhance economic well-being. Yet this measure of wage compensation to GDP is widely used to suggest that companies and capitalists are getting ahead at the expense of workers.

GDP measures what is produced in the U.S. by both domestic and foreign companies. In its most familiar form, GDP covers spending, including consumption and business and residential investment (largely spending on new construction and improvements) and government purchases (not transfer payments like Social Security) plus exports minus imports. When businesses increase such investment, it adds to GDP and lowers the ratio of wages to GDP but is clearly a positive for the economy and enhances workers' productive capacity.

It's important to keep in mind what GDP doesn't include. While U.S. workers are compensated for their contributions to domestic production, U.S. businesses' activities overseas, involving overseas employees and production that generate profits and boost returns on capital, are largely uncounted in U.S. GDP. Among S&P 500 companies, an estimated one-third of employees work abroad and one-third of revenues and an even higher share of profits are generated overseas. Smaller firms have less international activity. Goods produced overseas by subsidiaries of U.S. businesses are counted in GNP (gross national product) but not GDP. Goods produced overseas by non-U.S. firms also largely fall outside of U.S. GDP, but they too may add significantly to the well-being of U.S. consumers and provide net benefits to U.S. workers.

Apple Inc. is a good modern example of a U.S.-based company that relies heavily on overseas production and global supply chains. Nearly all of Apple's iPhones, laptops and other hardware are made and assembled overseas by companies that aren't subsidiaries of Apple. Those Apple products sold internationally (60% to 65%) don't show up in U.S. GDP. The 35% to 40% of Apple goods that are purchased in the U.S. have little impact on GDP, as imports largely offset domestic consumption. But they have boosted Apple's profits, and its capitalization now exceeds $5 trillion. The economic benefits to U.S. consumers and Apple's 80,000 domestic employees and many other U.S. workers are obvious.

U.S. workers' far larger concern is the persistent inflation that has raised the consumer-price index more than 30% since late 2019. For many working households, prices of necessities have risen even faster. Food prices are up more than 34%, and the cost of child care and preschool more than 31%. Gasoline prices are up 54%, and automobile insurance and maintenance

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combined are up about 50%. For the 34% of households that don't own their dwellings, rental costs are up 34%. Taxes, too, cut into take-home pay. Wages may catch up, but the persistent inflation makes it an uphill struggle.

Employment gains and low unemployment help, but the Fed's excessive monetary easing has contributed to persistent high inflation and the increased value of long-lived asset prices, benefitting homeowners and stockholders. The Federal Reserve's consecutive zero rates and extensive purchases of mortgage- backed securities in 2020-21 helped boost housing values more than 50%, but that raised costs for renters and put home prices out of reach for many potential buyers. Note that the Fed's target of 2% inflation means prices will still rise but at a slower pace. The Fed should achieve its 2% target. After that, however, it should seriously reconsider its notion that 2% inflation amounts to price stability.

Mr. Levy is a visiting fellow at the Hoover Institution and member of the Shadow Open Market Committee.

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