Private Wages Shrink — Government Programs Swell

"Paychecks from private business shrank to their smallest share of personal income in U.S. history during the first quarter of this year," according to USA Today. "At the same time," continues the paper, "government-provided benefits — from Social Security, unemployment insurance, food stamps and other programs — rose to a record high during the first three months of 2010." This reflects, says USA Today, "a major shift in the source of personal income from private wages to government programs."

Private wages and salaries have fallen from 44.6 percent of personal income in December 2007 to 41.9 percent, a "record low" according to the newspaper. Meanwhile, the percentage of personal income arising from government programs rose from 14.2 percent in 2007 to 17.9 percent. "An additional 9.8% of personal income was paid as wages to government employees," says the report.

Earlier this year *USA Today* [reported](#) that wages, salaries, and benefits for federal employees are significantly higher than those of their private-sector counterparts. Total compensation for federal employees averages $108,476 as compared to $69,928 for private-sector employees.

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The trend toward government handouts and away from private wages bodes ill for both economic recovery and the long-term health of the U.S. economy. Private-sector wages are the result of productivity by which everyone benefits, while public-sector payouts are the result of political maneuvering that robs Peter to pay Paul. As economist David Henderson of the Hoover Institution told *USA Today*, "People are paid for being rather than for producing" when they receive income from the government instead of the private sector.

Another economist quoted by *USA Today*, Donald Grimes of the University of Michigan, sees the problem not as a drain on the private sector but as a loss of revenue for the public sector: "The federal government depends on private wages to generate income taxes to pay for its ever-more-expensive programs. Government-generated income is taxed at lower rates or not at all, [Grimes] says." Yet if government just kept taxing and spending and re-taxing the money it just spent, it would still ultimately run out of money because it produces nothing. Government is a parasite on the productive, private sector; the more money it leeches from the productive, the less incentive exists for productivity and the less capital exists for reinvestment in the private sector. The less productivity in the private sector, the poorer we all become.

This brings us to Paul Van de Water, an economist at the liberal Center on Budget and Policy, who told *USA Today*: "It's the system working as it should." The paper continues: "Government is stimulating growth and helping people in need, he says. As the economy recovers, private wages will rebound, he says." Van de Water, a classic Keynesian economist, exhibits the Keynesian's lack of comprehension as to the source of prosperity. If government programs are accounting for an increasing portion of people's income, then the so-called stimulus is not stimulating the private sector at all. If it were, private-sector wages would be rising. Furthermore, the more money the government spends, the less money is available for private investment, which will retard recovery. If, as Van de Water seems to believe, a government can spend its country's way to prosperity, then the Soviet Union should be a paradise today instead of a defunct exemplar of what lies at the end of Friedrich von Hayek's road to serfdom.

In 2007, the *Christian Science Monitor* reported that 52.6 percent of Americans "now receive significant income from government programs," a percentage that has almost certainly risen since then. Last year CBS News reported that "43.4 percent of Americans now pay zero or negative federal income taxes" (though many are still paying payroll taxes of one sort or another). Between those two facts and the news that government programs are accounting for a larger and larger portion of Americans' incomes, it is clear that we are approaching a tipping point at which tax consumers outnumber tax producers. At that point economic recovery becomes nearly impossible without significant cuts in government, which in turn are nearly impossible because of the overwhelming number of people who are dependent on government programs. Either the economy, and with it the government, collapses — the latter not necessarily a bad thing — or we start scaling back Leviathan in hopes of regaining both prosperity and liberty. Will the backbone of America, the productive class, allow itself to be eaten alive, or will it begin cutting away the parasites clinging to it, as painful as that might be?

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