Georgia has changed dramatically over the last four decades. From 1960 to 2000, the state’s population doubled, the population aged and per capita income climbed toward the national average. Over the period, the role of the state government has also changed. Some of the major changes in Georgia revenues, expenditures, demographics and in the Georgia economy are listed below.

In the 1960’s,

- Total Georgia population grew by 16 percent and the composition changed toward working-age residents (fostering growth in state own-source revenue and spending);
- The personal income tax as a share of total statewide income leapt; sales tax growth was moderate at first, then strong to 1972;
- Libraries, correction and higher education were strong spending growth areas; The latter can be partially tied to initiatives during the Maddox administration;
- K-12 spending growth was moderate, but many new programs were priorities for Governor Sanders and Governor Maddox.

In the 1970’s,

- Total population in the state grew by 19 percent over the decade;
- Since inflation accounted for most of the per capita income increase, state fiscal conditions were very different in this decade;
- Total state revenue slid against total state income in the latter half of the decade. The individual income tax was again an area of unusually strong growth. Slow growth for the sales tax was a surprise, but we now understand that (untaxed) services-sector growth was a key determinant; and
- Direct state spending growth also closely tracked the Georgia economy during this period. Prison spending was again an area of high growth. Medicaid spending started slowly, but accounted for 6 percent of the state budget in 1982.

In the 1980’s,

- Population grew by 18 percent during the decade;
- Inflation slowed and real economic growth increased dramatically;
- The individual income tax again grew rapidly. Sales tax revenue grew slowly, but collections increased when the state rate increased from 3 to 4 percent in 1989. Selective charges (e.g. park admissions) also increased rapidly;
- Public welfare spending reached 32 percent of total direct spending and corrections climbed to 5.5 percent of total direct spending; and
K-12 spending did not grow as rapidly as the Georgia economy. One reason was the slow transition to the Quality Basic Education program under Governor Harris.

In the 1990’s,

- The strongest population growth occurred in this decade, 26.4 percent;
- Georgia experienced even faster population growth than in the previous decades;
- Buildup to the Olympic games produced a spike in the state sales tax;
- Spending grew almost as fast at the Georgia economy, with significant growth in natural resource and highway spending;
- Changes to the Medicaid program helped slow spending growth for that program; and
- The Georgia Lottery produced big headlines, but did not translate into fast growth in education spending.

In the early 21st Century, we believe five issues will challenge policymakers in Georgia and many other states:

1. Population Will Continue To Age.

As with most of the United States, the Georgia population will begin to age dramatically. Returning to Figure 1, the population share over 64 is expected to jump from just under 10 percent to almost 17 percent. On the revenue side, the aging will lead to slower income tax growth and possibly more political pressure on the property tax as a source of school funding. For state spending, growing senior services will represent a mix of new federal and new state obligations. For example, an increase in senior citizens generally leads to new Medicaid spending for nursing home services. The net impact of these aging pressures is not known with any degree of certainty.

2. The Price of Healthcare.

Recall from Figure 2, the relative inflation in the price of medical services is a serious cause of concern. Without a national initiative, states will have trouble managing Medicaid spending and will face difficult decisions on program eligibility and the scope of coverage.

The price increase also creates a feedback effect – where employers try to reduce coverage and states find themselves with more uninsured families. In response, Georgia hospital managers will continue to lobby for more favorable funding formulas for indigent care (Miller, 2005).

3. The Corporate Income Tax.

Legal tax avoidance schemes have partially undermined the Georgia corporate income tax (Grace, 2004; Cornia et al., 2005). The revenue impact for these schemes can be observed in Figure 3, where state corporate income tax collections used to track U.S. corporate profits very closely; but lately, state collections fell when national profits increased.

Georgia’s reliance on the corporate income tax has declined, down to 0.3 percent of total state income, which helps lessen the impact of the avoidance trend. During the preparation of this report, however, a huge revenue increase (40 percent) was reported for fiscal 2005. Several plausible causes for the increase have been suggested, but we have little evidence beyond the revenue increase itself.

The problem, in our opinion, is that the tax still accounts for more than $400 million (not counting the 2005 surge) in state revenue and the future of this funding source is partially being determined by executives and avoidance-design consultants. If policymakers do not continually address these schemes, we believe corporate income tax collections will continue to fall in a growing Georgia economy, but we cannot forecast the speed of the decline – especially given the unexpected increase for 2005.

4. The Antiquated Sales Tax.

The sales tax still reflects its original design, a levy on inventory movement in an industrial economy. The modern economy continues to move away from the model the sales tax was based on and unexpected decreases (and increases) have become a norm.

The present challenge is whether Georgia has the will to continue dramatically simplifying the tax in order to induce online vendors to collect (Cornia, Sjoquist, and Walters, 2004). Beyond the flow of goods on the internet, the problem of consumer services still lingers. For example, 2002 e-commerce revenues for selected service industries were almost as large as e-commerce revenues for retail trade (U.S. Department of Commerce, 2004). Thus, taxing goods on the internet does not address the larger services problem – where consumption spending is treated unequally in the Georgia sales tax (Bahl and Hawkins, 1997).

5. Corrections Spending.

Many believe that mandatory sentences passed in 1990’s have put the prison system on the verge of a crisis. The state facilities are aging while the inmate population continues to grow – from 20,000 in 1990 to close to 50,000 today to a
**Figure 1. Population Shares for Select Age Groups**

![Bar chart showing population shares for different age groups from 1960 to 2025. The chart includes bars for Under 18, Over 64, and Between 18 and 64.]()

**Figure 2. Services as a Share of Total U.S. Consumption**

![Bar chart showing services as a share of total U.S. consumption from 1972 to 2000. The chart includes bars for all years with values ranging from 0.0% to 50.0%.]()}
FIGURE 3. STATE K-12 SPENDING AS A SHARE OF PERSONAL INCOME
commissioner-projection of 60,000 by 2010. Most of the fiscal pressure comes in the form of capital spending needs – an estimated 10 new prisons at a construction cost total of $500 million to construct and yearly operating costs of $180 million. With the revenue source problems described, it could become increasingly difficult for Georgia to find the money for carrying out mandatory sentences.

ABOUT THE AUTHOR

Richard Hawkins is Principal Associate with the Fiscal Research Center and an Associate Professor of Economics at the University of West Florida. He did his undergraduate work at Emory University and received his Ph.D. in economics from Georgia State University. While at GSU he was a Research Associate in the Fiscal Research Center. His research interests include public finance, particularly the sales tax.

RECENT PUBLICATIONS

A Georgia Fiscal History of the Past Forty Years. This report describes spending and revenue trends through four decades and relates the trends to the agendas of the state’s governors. It concludes with a list of challenges for this decade and beyond. (April 2006)

Gasoline Taxes in Georgia This report describes and compares Georgia’s fuel tax with other states and evaluates it as a long-term dedicated revenue source for highway funding in the state. (April 2006)

A Historical Shift Share Analysis for Georgia. This report analyzes the trends in Georgia’s industrial composition and employment over the period 1970-2000 using shift share analysis. (March 2006)

The Demographics of Georgia III: Lesbian and Gay Couples. Using 2000 Census data, this report compares the residential patterns, household incomes, house values, property taxes, and parenting patterns of Georgia’s same-sex and different-sex couples. (March 2006)

Analysis of Georgia’s Unemployment Insurance Trust Fund Reserves. This report analyses several aspects of Georgia’s Unemployment Insurance Trust Fund, including the structure and the appropriate target level for the Trust Fund balance for the state of Georgia. (March 2006)

The Demographics of Georgia IV: Hispanic Immigration Economic Policy Issues. This report analyzes the economic policy issues in education, health care, the labor market, financial services and the fiscal impact arising from the large increase in Hispanic immigration in Georgia. (March 2006)

Georgia’s Taxes Per Capita and Per $1,000 of Income: Comparisons and Trends. This report analyzes the trends in Georgia’s taxes per capita and taxes per $1,000 of personal income for the period 1981 – 2002. (February 2006)

The Demographics of Georgia I: Population in the State of Georgia: Trends and Projections to 2030. This report explores trends in Georgia population dynamics and projects population growth to the year 2030. (February 2006)

An Examination of Georgia’s Premium Tax. This brief analyzes the effects of changing the structure the insurance premium tax on tax revenues in Georgia. (February 2006)

The Fair Tax and Its Effect on Georgia. This brief analyzes the impacts of a national retail sales tax on Georgians. (December 2005)

A Tax Limitation for Georgia? This brief examines the need for a tax limitation in Georgia and the issues of design of tax or expenditure limitations. (December 2005)

Georgia’s Aging Population: What to Expect and How to Cope. This report analyzes the impacts of Georgia’s aging population on state finances. (December 2005)

Potential Effect of Eliminating the State Corporate Income Tax on State Economic Activity. This report analyzes the effects to state employment and investment of eliminating the state corporate income tax. (October 2005)

For a free copy of any of the publications listed, call the Fiscal Research Center at 404/651-4342, or fax us at 404/651-2737. All reports are available on our webpage at: //frc.aysps.gsu.edu/frc/index.html.
A Georgia Fiscal History of the Past Forty Years - Brief

**Publisher(s):** Fiscal Research Center of the Andrew Young School of Policy Studies  
**Author(s):** Richard R. Hawkins  
**Date Published:** 2006-04-01  
**Rights:** Copyright 2006 Fiscal Research Center of the Andrew Young School of Policy Studies  
**Subject(s):** Community and Economic Development; Government Reform