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## GEORGIA PER CAPITA INCOME: IDENTIFYING THE FACTORS CONTRIBUTING TO THE GROWING INCOME GAP WITH OTHER STATES

This brief explores why Georgia's per capita personal income growth over the past decade has been slow, resulting in Georgia being ranked 50<sup>th</sup> in the nation in per capita income growth. The brief begins by identifying the changes in Georgia's per capita income relative to the U.S. The ratio of Georgia's per capita income to that of the U.S. peaked at 94.9 percent in 1996 and leveled off at around 94 percent until 2000 when it began a steady decline. In 2008, Georgia's per capita income had fallen to 85.5 percent of the U.S. per capita income (see Figure A).

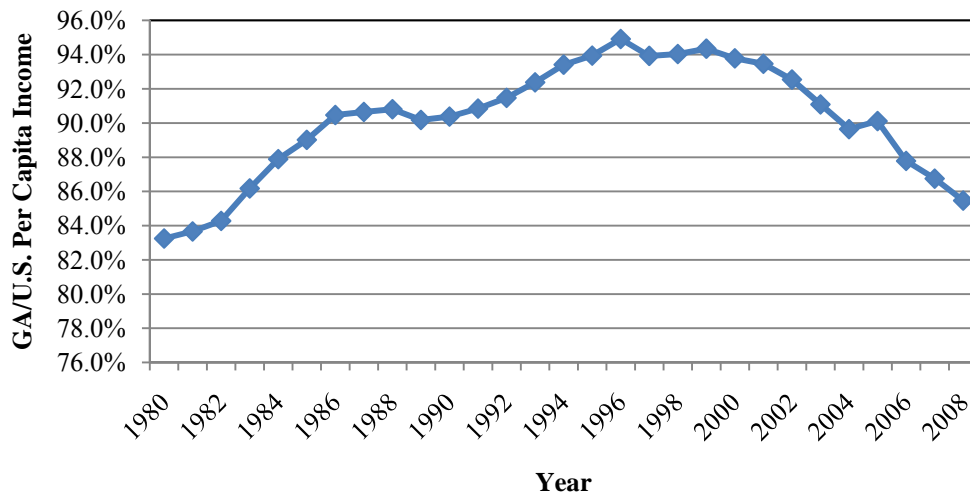
Using data from 1996 and 2000 as base years, we calculated what Georgia's per capita income would have been assuming that the ratio of Georgia to U.S. per capita income remained at base year levels. We then calculate the income growth gap for each base year by taking the difference between Georgia's actual and our calculated per capita income. The growth gap shows how much greater Georgia's per capita income would be had Georgia's per capita income relative to the U.S. ratio remained at base year levels. In 2008 the 1996-growth gap was \$3,754 and the 2000-growth gap was \$3,303. Compared to selected Southern states plus Nevada, Georgia has the largest growth gap; the gap has been steadily growing through 2008.

We examine various factors that may have impacted either total personal income or the population in order to determine which factors may have contributed to the reduction in relative per capita income. We also calculate, when possible, how much of the growth gap is due to each of these factors in order to identify which factor has had the largest impact on the changes in Georgia's per capita income.

### Key Findings

- Georgia's 2008 total personal income is 11.0 percent and 9.7 percent less than what it would have been in 2008 if Georgia's per capita income relative to the U.S. ratio remained at 1996 and 2000 levels, respectively.
- The slow growth in Georgia's personal income is driven primarily by job related personal income. This component of personal income accounts for over 74 percent of the per capita income growth gap.
- The 2007 job related personal income per employee growth gap, using 1996 as the base, was \$252, and increased to \$999 using 2000 as the base year. This indicates that Georgia's job related income growth has not kept up with the growing employee population. The job related personal income per employee growth gap is converted to a per capita compensation growth gap of \$116 using 1996 as the base and increases to \$462 using 2000 as the base.

**FIGURE A. GEORGIA TO U.S. PER CAPITA INCOME 1996-2008**



- Georgia’s population per payroll job increased from 1.96 persons for every wage and salary employee in 1996 to 2.16 persons for every wage and salary employee in 2007, meaning that there are now more people being supported by fewer jobs. If the growth of Georgia’s population per payroll job was the same as that for the U.S. between the base years and 2007, the estimated additional income would have decreased Georgia’s 1996 per capita income growth gap by 32 percent and 46 percent for the 2000-growth gap. Thus, much of the growth gap is due to lower employment participation among Georgia’s population. There are several possible explanations for this trend:
  - Population growth in Georgia relative to the U.S. was concentrated in Georgia’s youth population, specifically in school age children age 5 and under. Among the comparison states, Georgia has the highest youth population growth for both 1996-2008 and 2000-2008. High growth in Georgia’s youth population accounts for 16 percent of the 1996-growth gap and 14 percent of the 2000-growth gap.
  - Georgia’s elderly population growth is second among all the states in the South and significantly higher than for the U.S. Between 1995 and 2000, Georgia experienced a large number of elderly in-migrants with low mean and median income relative to elderly out-migrants. Over the same time period, elderly unemployment has more than doubled, from 3.7 to 7.6 percent, and the elderly not-in-the-labor force grew 18.9 percent. Elderly migration data suggests that the elderly in Georgia are not contributing much total personal income and are a potential contributor to the growing per capita income growth gap. However, Georgia elderly household median income relative to the U.S.

increased significantly to 96.8 percent in 2007 from 88.5 percent in 2000.

- Contrary to this evidence, Georgia’s decline in median household income relative to the U.S. between 2000 and 2007 is driven by relatively lower incomes for working age individuals under age 25 and to a lesser extent for individuals age 25 to 44.
- One additional factor may be high in-migration of undocumented workers whose labor force activities may not be captured in income and employment data. However, evidence suggests that this factor is not likely to be a significant contributor to the income growth gap.
- Educational attainment of Georgia residents over age 25 relative to the U.S. increased between 2000 and 2006. Georgia increased its relative percentage who have a bachelor’s degree or more and saw no significant increase in relative percentage of individuals with a high school degree or less. This implies that Georgians have higher earning potential, and thus the relative change in education level does not explain the slow growth in per capita income.
- Another factor associated with the change in income is the change in average wages and salaries. Weighted average compensation growth in Georgia has been lower than that of the U.S. for high, medium, and low wage occupations. Further, Georgia’s compensation growth between 2000 and 2008 starts from a lower base than the U.S. Lower percentage growth from a lower base causes the growth gap to widen.
- Among the categories of jobs, the gap between Georgia and U.S. compensation growth was the greatest for low wage jobs. Given that low wage occupations make up more than 50 percent of Georgia’s employment mix, the low growth in

compensation for these occupations is a significant contributor to low per capita income growth.

- Georgia's total job growth was 5.2 percent between 2000 and 2008 while U.S. overall job growth was only 4.2 percent. New low-wage jobs in Georgia are 1.1 percentage points of the total job growth rate compared to 0.6 percentage points for the U.S. High growth in low wage occupations in Georgia compared to the U.S. leads to lower growth in per capita income and supports the argument that Georgia's job growth is concentrated in low wage occupations.
- Atlanta's consumer price index relative to the U.S. decreased significantly between 2000 and 2008, supporting the argument that the consumer price index basket of goods have become relatively cheaper in Atlanta than in the average U.S. urban city. The cost of living rose more slowly in Atlanta, and thus the nominal gap in per capita income overstates the standard of living difference. This may contribute to the lower growth in average compensation in Georgia. With a lower cost of living, wages and salaries do not have to increase as fast to retain or attract workers.

## ABOUT THE AUTHOR

**Sean Turner** is a PhD candidate in economics. His research interests include state, local and international taxation, industrial organization and applied quantitative methods.

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