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What to Expect from our Demographic and Economic Trends

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September 28, 2017

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African Tax Institute, University of Pretoria

What to Expect from our Demographic and Economic Trends



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Overview

- Headliner trends:
 - Demographic:
 - Age composition
 - Income distribution
 - Migration patterns
 - Race and ethnicity
 - Employment and output sector shifts
 - Service sector growth
 - “Knowledge sector” growth
 - World-wide economy
 - No two states or regions affected exactly the same

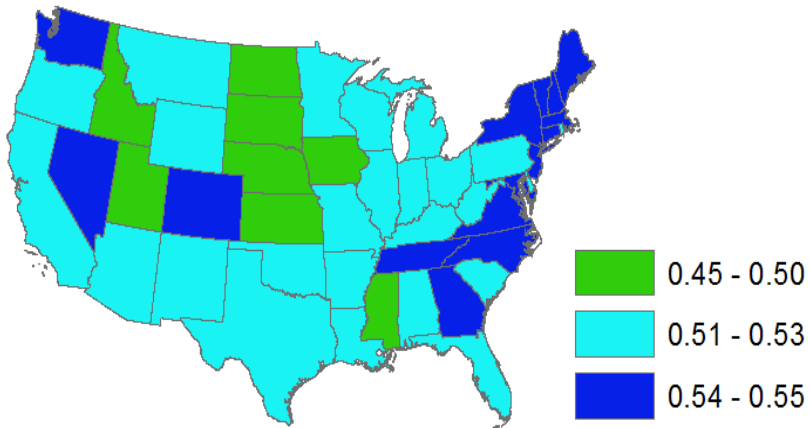
How might public finances be affected?

- Public sector demands for a good or service are driven by:
 - Segments of the population needing it
 - Cost of providing it
 - Capital needs
 - Rational reason for government provision in the first place!
- Paying for those goods and services is driven by:
 - Revenue → base, who pays, rates
 - Borrowing → ability to repay, access to markets
 - Intergovernmental aid → non-discretionary, income, population

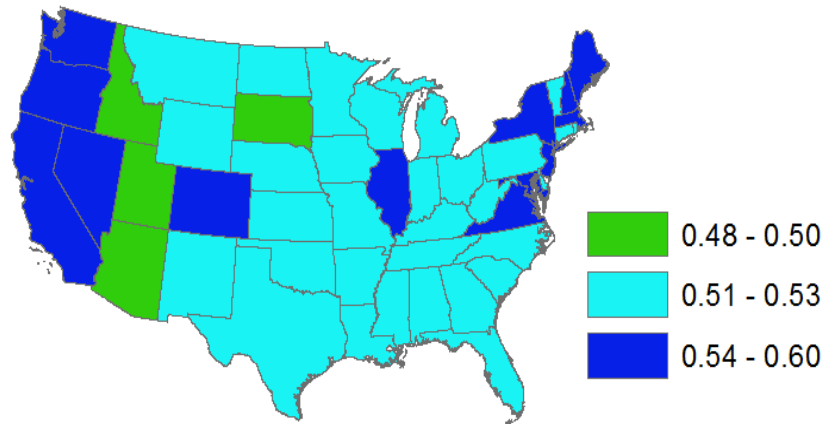
The big one: Aging

- Change is well established—most regions will see a substantial increase in the percent “elderly”

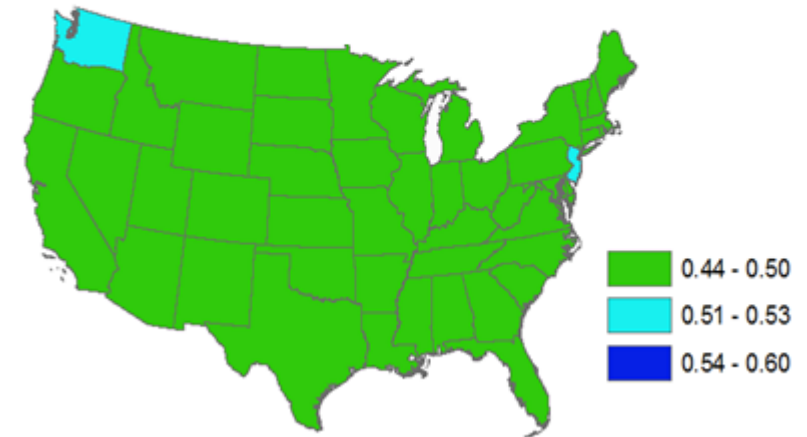
Percent of Population of Working Age (25-64 Years) in 2000



Percent of Population of Working Age (25-64 Years) in 2016

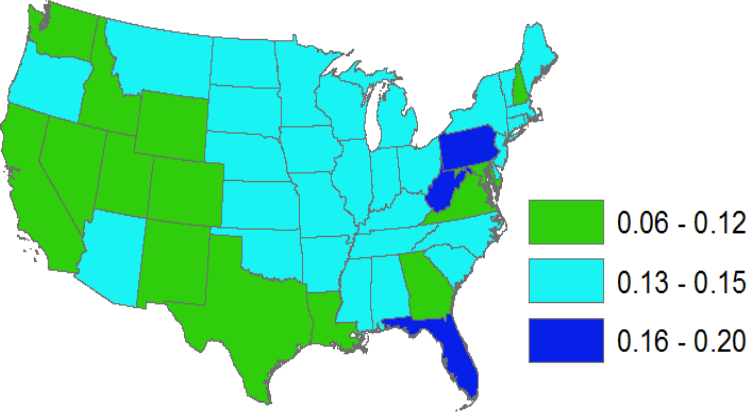


Percent of Population of Working Age (25-64 Years) in 2030

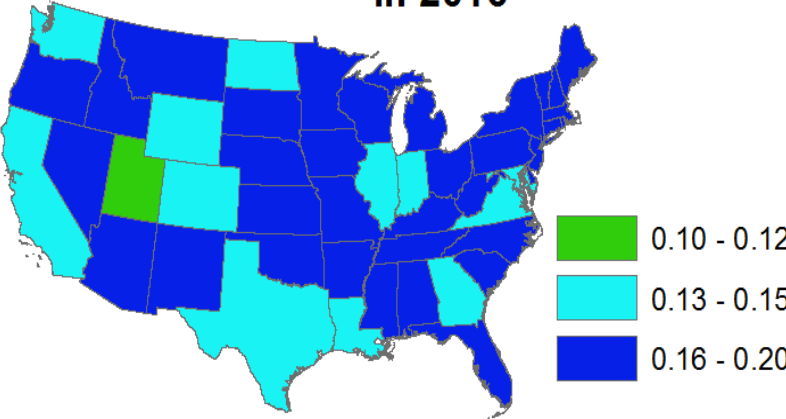


And

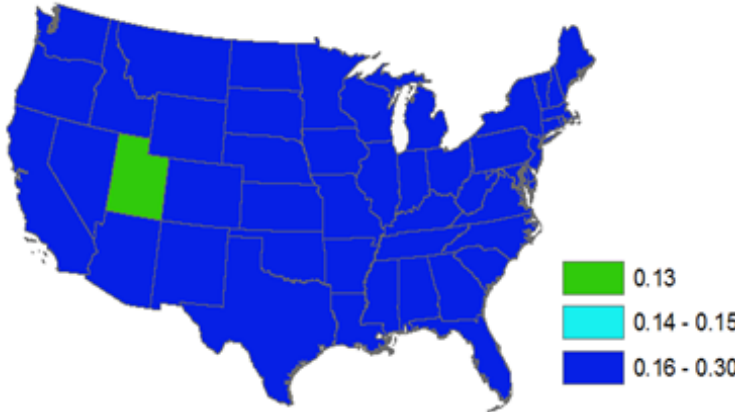
Percent of Population of Age 65 or Older in 2000



Percent of Population of Age 65 or Older in 2016



Percent of Population of Age 65 or Older in 2030

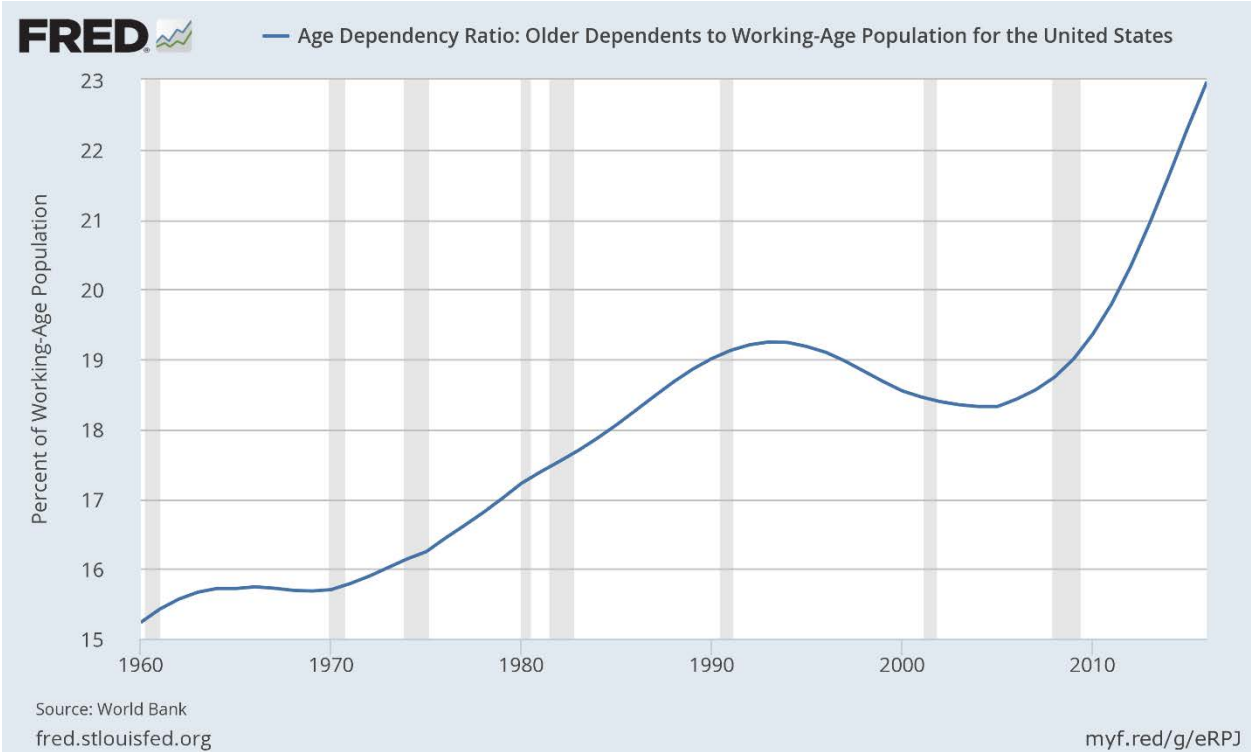


Data was collected through Census Bureau population estimates by State and age

Implications

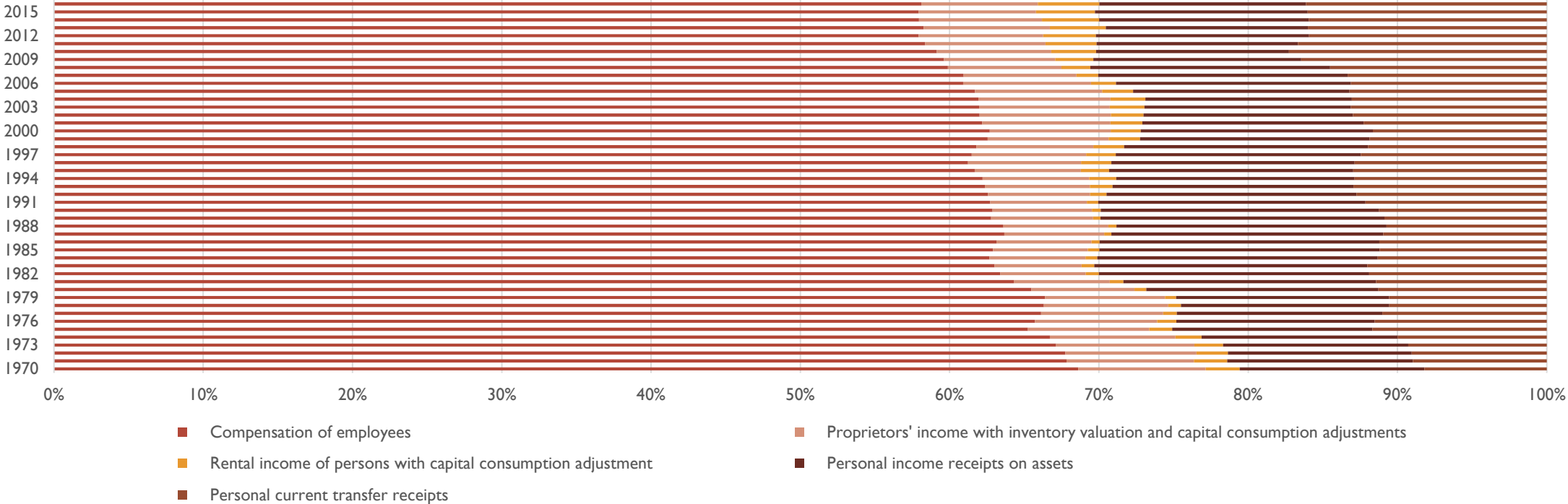
- Increased demand for:
 - Transportation
 - Specialized housing
 - Medical support
- Revenue:
 - Decline in growth of sales tax base (non-taxable services)
 - Decline in growth of income tax base (non-taxed pensions, SS)
 - Ptax—non-owner occupied?
- Regionally: Quite similar
- Pensions and SS at risk? Age-dependency ratio

Age dependency ratio: Impact retirement support



Income composition: Growth in less taxed transfers—trend continues

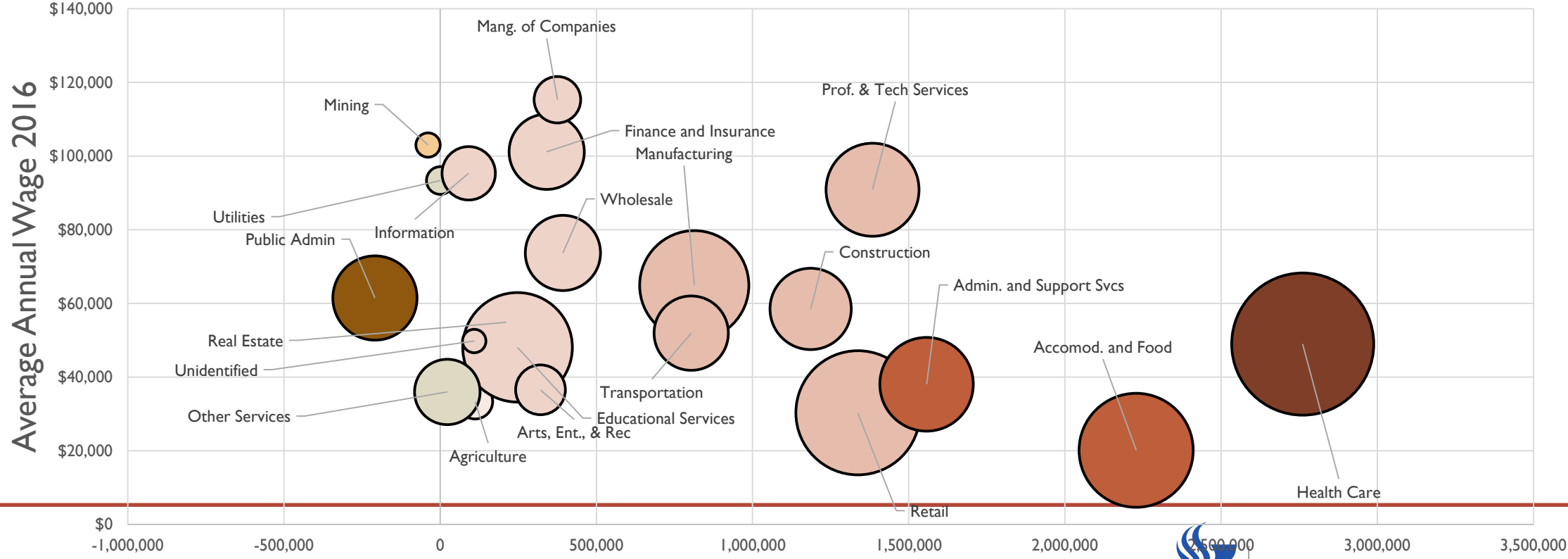
Personal Income 1970-2016



Data sourced from the Bureau of Economic Analysis Interactive Data Application

Sectoral Shift

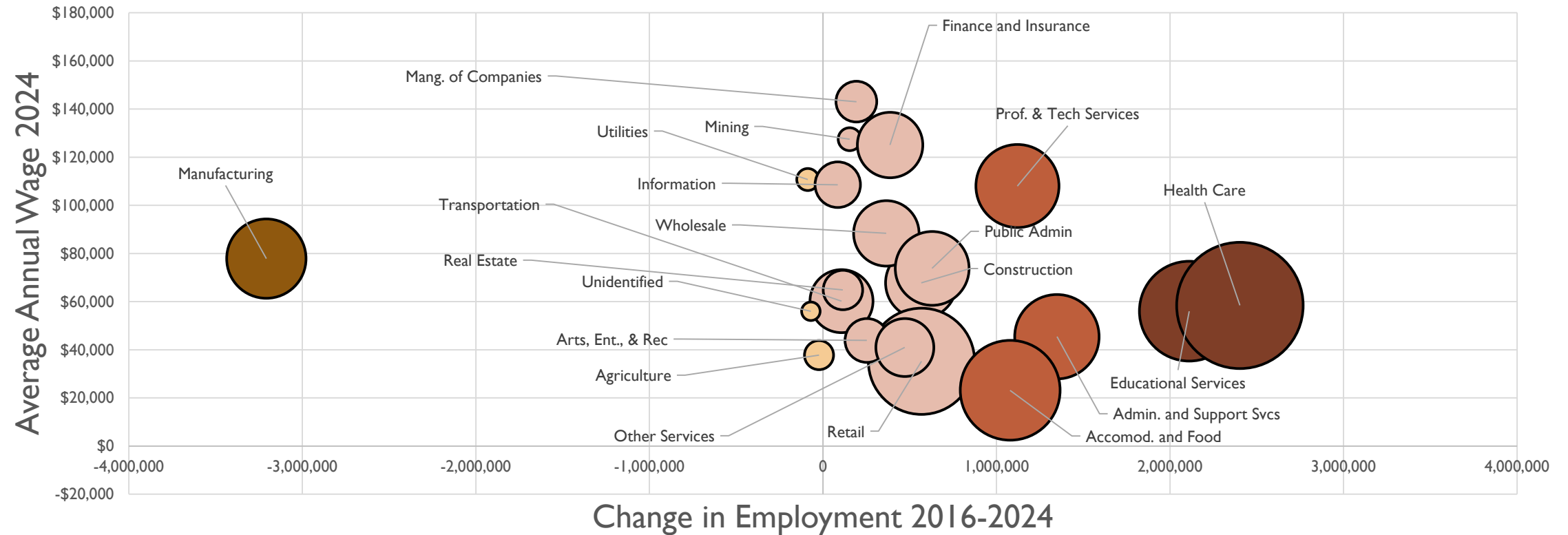
United States Employment Growth and Wages
by sector
2016
Size of bubble is 2016 employment



Change in Employment 2010-2016

Future of sectoral shifts

**United States Employment Growth and Wages
by sector 2024**
Size of bubble is 2024 employment



Finally—movement of people

Region	Domestic Migration 2010	International Migration 2010	Net Migration 2010	Domestic Migration 2016	International Migration 2016	Net Migration 2016
United States	0	200943	200943	0	999163	999163
Regional						
Northeast Region	-34556	53577	19021	-361502	270317	-91185
Midwest Region	-48061	25682	-22379	-231532	133716	-97816
South Region	82260	76202	158462	423042	367865	790907
West Region	357	45482	45839	169992	227265	397257
State						
Alabama	866	1360	2226	-864	4738	3874
Florida	11864	23566	35430	207155	118831	325986
Georgia	3603	5488	9091	36781	23831	60612
Louisiana	4142	1818	5960	-12243	7223	-5020
Maine	-1245	256	-989	2169	1785	3954
Maryland	788	6294	7082	-26232	26408	176
Massachusetts	3720	7581	11301	-25606	40898	15292
Michigan	-18075	3893	-14182	-27839	22511	-5328
New York	-24320	23691	-629	-191367	118478	-72889
North Carolina	6752	5216	11968	59584	20494	80078
North Dakota	840	290	1130	-6259	1575	-4684
South Carolina	4354	1610	5964	47084	5760	52844
Texas	29973	15453	45426	125703	91839	217542
Utah	321	1058	1379	19778	5634	25412
Vermont	-155	100	-55	-2865	955	-1910
Virginia	5759	7889	13648	-25343	32545	7202
Washington	3617	4727	8344	67571	24410	91981
West Virginia	1218	255	1473	-7659	1076	-6583

Summing up

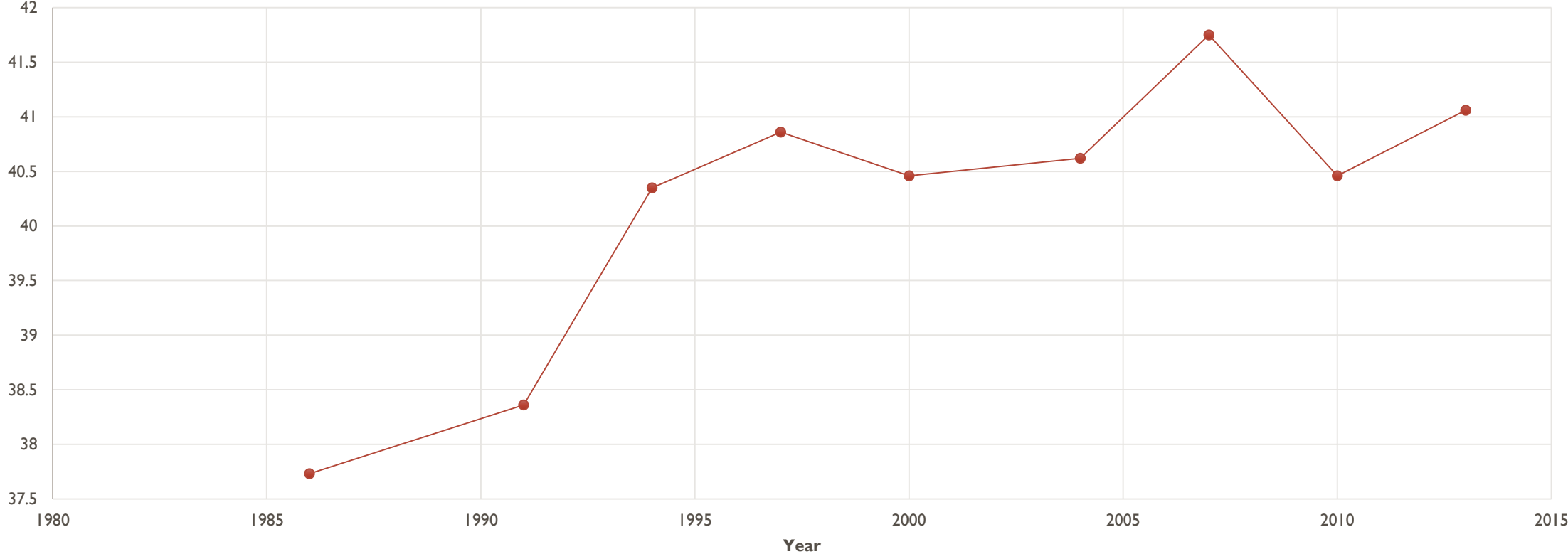
- Where do these trends lead?
- Matrix of major changes and implications, see example:

Economic/Demographic Variables	Recent and Future Trends	Anticipated Impact on public finances	Options
Personal income	Growth in overall personal income. The composition has changed and shows an increase in nonwage and salary components including transfer payments. Higher income families hold an increasing share of total US income. Fast-growth regions of the 1980s (West and parts of the South) have slowed considerably.	REVENUE: Reduced taxable income base, most directly affecting state and local individual income taxes. Relative increases in income for high-income families could increase income-tax revenues for states with progressive marginal tax-rate structures.	Broad-based income taxes may mitigate some of the issues related to growing retirement income. In general, an annual review of tax expenditures could help to highlight the impact of exemptions over time.
Population	Increased proportion of the elderly in the population and increased growth in school-aged children over the next ten to fifteen years. Increased dependency ratio in all US regions, with the largest growth coming in the West.	REVENUE: Property-tax exemptions for the elderly could expand. Changes in consumption patterns may reduce the growth of taxable sales by the elderly and changes in ethnicity may also affect the sales tax base. EXPENDITURE: Increased demand for services, especially health care and transportation. Increased demand for improved educational outcomes (and a likely call for increased expenditures for education to support diverse population).	Broad-based sales and income taxes will reduce the impact of changes in consumption patterns and income generation. Diversification of school financing to include support from the federal and state governments should be further investigated.
Employment/Output	Continued shift from manufacturing employment and output to service employment and output. E-commerce as an increasing way to do business.	REVENUE: Increased cost of tax administration to locate service-based and Internet sales. Potential reduction of property tax on inventories and buildings and other capital. EXPENDITURE: Increased demand for expansion of technology and telecommunications infrastructure.	Continued development of cooperation in sales taxation across jurisdictions is important to reduce the impacts of Internet sales. Expanding the sales-tax base and training to improve the efficiency of tax administration for a service-based economy may bolster the sales tax.
Consumption	Increase in consumption of services throughout the last decade.	REVENUE: Increased consumption of largely nontaxed goods will lower the growth in sales tax revenue over time.	Broad-based sales taxation will help to mitigate changes in consumption.

- Thank you—questions and comments welcome:
swallace@gsu.edu

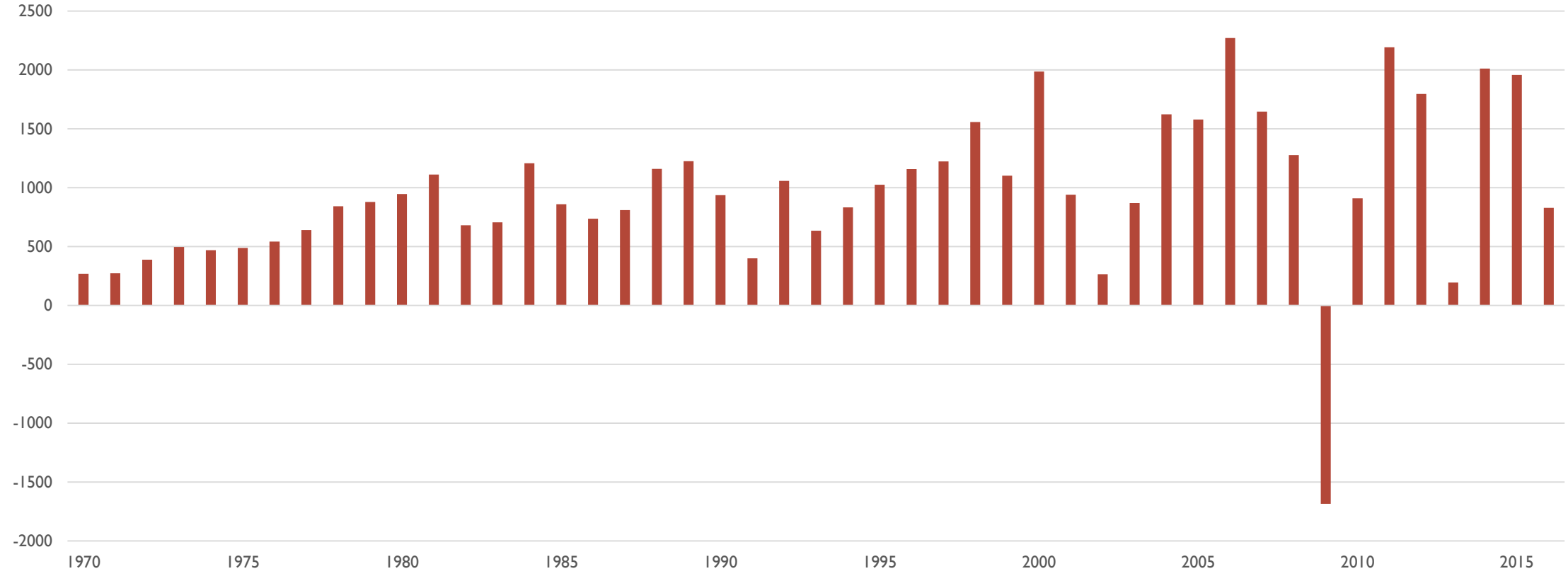
Supplemental material

GINI Estimate



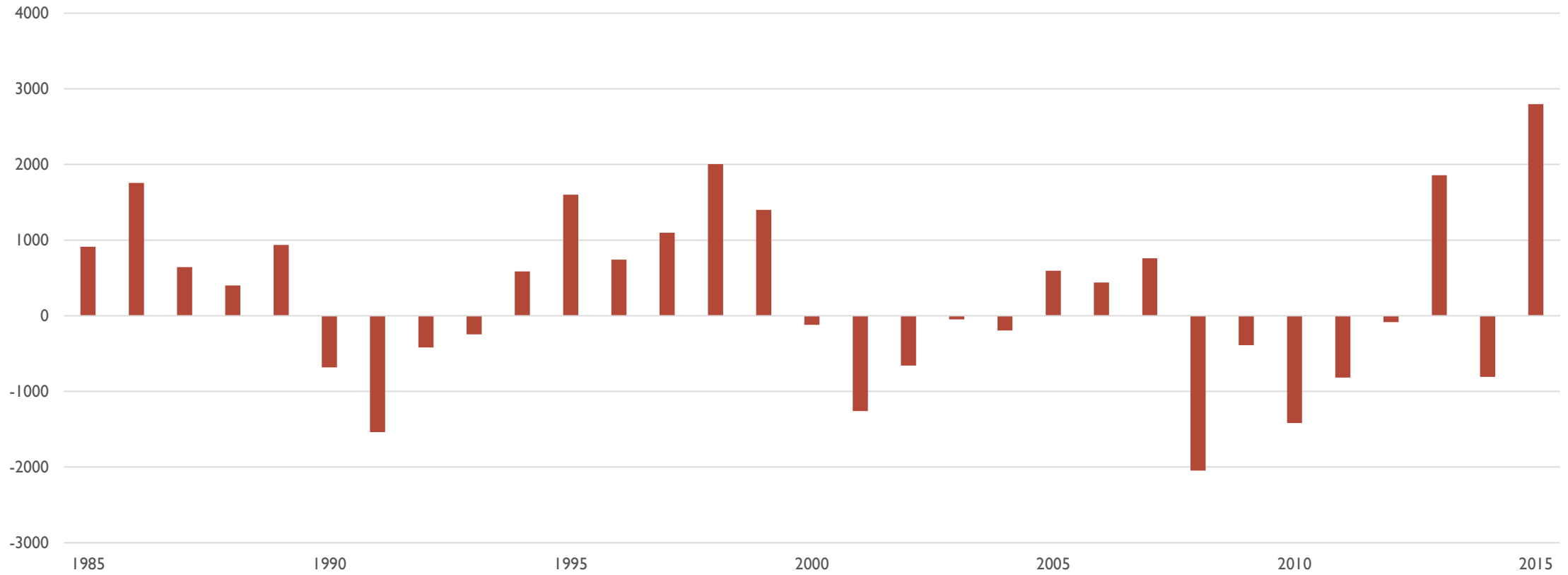
Data sourced through the World Bank Interactive Data

Change in Income Per Capita

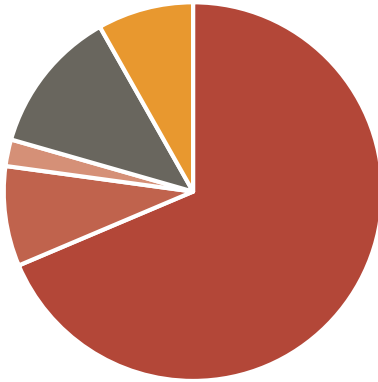


Data sourced through the World Bank Interactive Data

Change in Real Median Income Per Capita

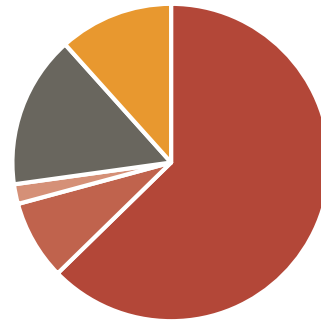


Personal Income 1970



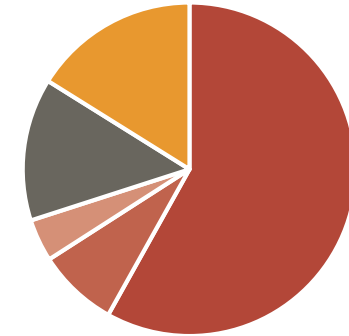
- Compensation of employees
- Proprietors' income with inventory valuation and capital consumption adjustments
- Rental income of persons with capital consumption adjustment
- Personal income receipts on assets
- Personal current transfer receipts

Personal Income 2000



- Compensation of employees
- Proprietors' income with inventory valuation and capital consumption adjustments
- Rental income of persons with capital consumption adjustment
- Personal income receipts on assets
- Personal current transfer receipts

Personal Income 2016



- Compensation of employees
- Proprietors' income with inventory valuation and capital consumption adjustments
- Rental income of persons with capital consumption adjustment
- Personal income receipts on assets
- Personal current transfer receipts