What to Expect from our Demographic and Economic Trends

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What to Expect from our Demographic and Economic Trends
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”

Data was collected through Census Bureau population estimates by State And Age
And ....

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

https://fred.stlouisfed.org/series/SPPOPDPNDOLUSA
Income composition: Growth in less taxed transfers—trend continues

Personal Income 1970-2016

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

Data sourced from the Bureau of Economic Analysis Interactive Data Application
United States Employment Growth and Wages by sector 2016
Size of bubble is 2016 employment
Future of sectoral shifts

United States Employment Growth and Wages
by sector 2024
Size of bubble is 2024 employment
Finally—movement of people

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Data Sourced Through the Census Bureau Migration Projections
Summing up

• Where do these trends lead?
• Matrix of major changes and implications, see example:
<table>
<thead>
<tr>
<th>Economic/Demographic Variables</th>
<th>Recent and Future Trends</th>
<th>Anticipated Impact on public finances</th>
<th>Options</th>
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<tr>
<td>Personal income</td>
<td>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.</td>
<td>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.</td>
<td>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.</td>
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<td>Population</td>
<td>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.</td>
<td>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).</td>
<td>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.</td>
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<td>Employment/Output</td>
<td>Continued shift from manufacturing employment and output to service employment and output. E-commerce as an increasing way to do business.</td>
<td>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.</td>
<td>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.</td>
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<td>Consumption</td>
<td>Increase in consumption of services throughout the last decade.</td>
<td>REVENUE: Increased consumption of largely nontaxed goods will lower the growth in sales tax revenue over time.</td>
<td>Broad-based sales taxation will help to mitigate changes in consumption.</td>
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</table>
• Thank you—questions and comments welcome: swallace@gsu.edu
Supplemental material

Data sourced through the World Bank Interactive Data
Change in Income Per Capita

Data sourced through the World Bank Interactive Data
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

Data sourced from the Bureau of Economic Analysis Interactive Data Application