

# Growth in State Compensation

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# Wage Growth

- Wage *growth* is a key measure of a state's economic well being
- Strong wage growth → increasing living standards
- Stagnating wages → stagnating living standards

# Measurement of Wages

- We measure wages in terms of **compensation**
- Compensation is the sum of
  - Wage and salary income
  - Employer contributions to social insurance
  - Employer contributions to pension and insurance funds
- All wages are deflated using regional Consumer Price Indices omitting energy

# Omission of Health Care Sectors

- Health care is the fastest growing component of the US economy (at least in terms of the value of output)
- However, this growth cannot be sustained indefinitely
- We focus primarily on growth in the private sector outside of health care services

# Real Compensation per Worker in 2004

	U.S.	LA	AR	MS	TX
<b>Private</b>	\$24,676.98	\$21,042.45 34 <sup>th</sup>	\$19,833.11 41 <sup>st</sup>	\$18,720.72 47 <sup>th</sup>	\$24,875.23 16 <sup>th</sup>
<b>Private Non-HC</b>	\$24,559.40	\$20,903.03 33 <sup>rd</sup>	\$19,473.63 41 <sup>st</sup>	\$18,201.09 48 <sup>th</sup>	\$24,980.50 14 <sup>th</sup>
<b>Pri + Gov</b>	\$25,202.29	\$21,668.15 36 <sup>th</sup>	\$20,544.92 43 <sup>rd</sup>	\$19,671.48 46 <sup>th</sup>	\$24,992.79 17 <sup>th</sup>

All figures in 1984 dollars

Rank among all US states appears below each average

# Growth in Real Compensation per Worker 1991-2004

	U.S.	LA	AR	MS	TX
<b>Private</b>	16.42%	10.98%	18.99%	16.82%	18.54%
		45 <sup>th</sup>	19 <sup>th</sup>	31 <sup>st</sup>	21 <sup>st</sup>
<b>Private Non-HC</b>	16.17%	11.04%	18.66%	15.72%	19.02%
		43 <sup>rd</sup>	20 <sup>th</sup>	31 <sup>st</sup>	18 <sup>th</sup>
<b>Pri + Gov</b>	16.40%	13.46%	19.23%	18.33%	18.17%
		40 <sup>th</sup>	13 <sup>th</sup>	18 <sup>th</sup>	21 <sup>st</sup>

Rank among all US states appears below each growth rate

# Determinants of Growth in Compensation

- What are the determinants of growth in real compensation?
- How does Louisiana compare with the rest of the country in these factors?
- We analyze state level data over the period from 1991 to 2004 to further explore these questions

# The Per Worker Capital Stock

- Growth in capital per worker is the most important factor for economic growth
  - Capital = plant and equipment
- Growth in capital per worker drives productivity growth which results in greater compensation
- States with larger per worker capital stocks grow slower than those with smaller per worker capital stocks
  - Convergence

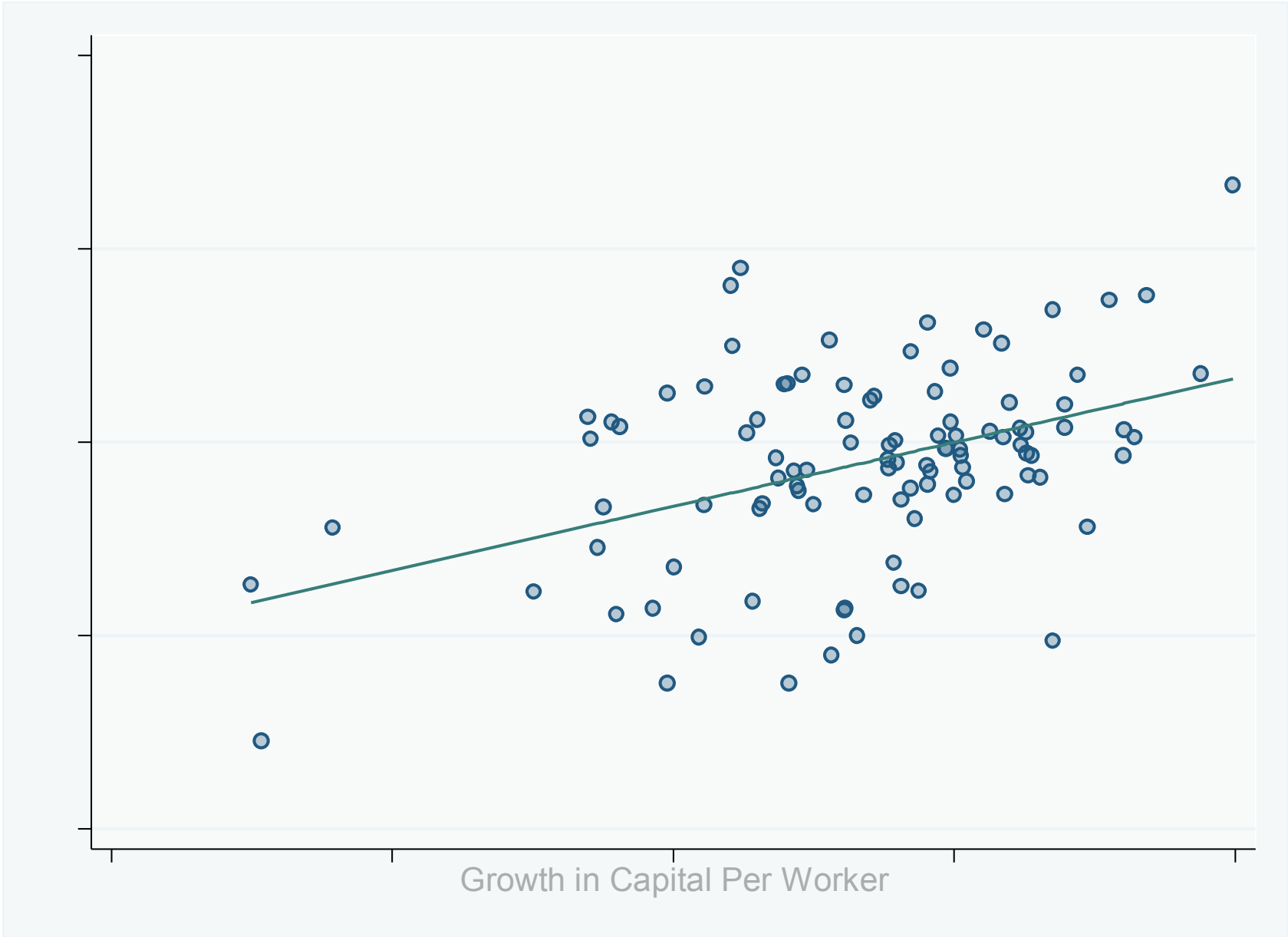


# Per Worker Capital Stock in 2004

	U.S.	LA	AR	MS	TX
	\$104,095.40	\$90,977.52	\$78,539.49	\$69,920.14	\$146,257.50
<b>Rank</b>		23 <sup>rd</sup>	42 <sup>nd</sup>	50 <sup>th</sup>	3 <sup>rd</sup>

# Growth in Capital per Worker 1991-2004

	U.S.	LA	AR	MS	TX
	23.77%	-.16%	11.64%	8.04%	36.80%
<b>Rank</b>		45 <sup>th</sup>	35 <sup>th</sup>	41 <sup>st</sup>	4 <sup>th</sup>



# How Much Does Capital Matter

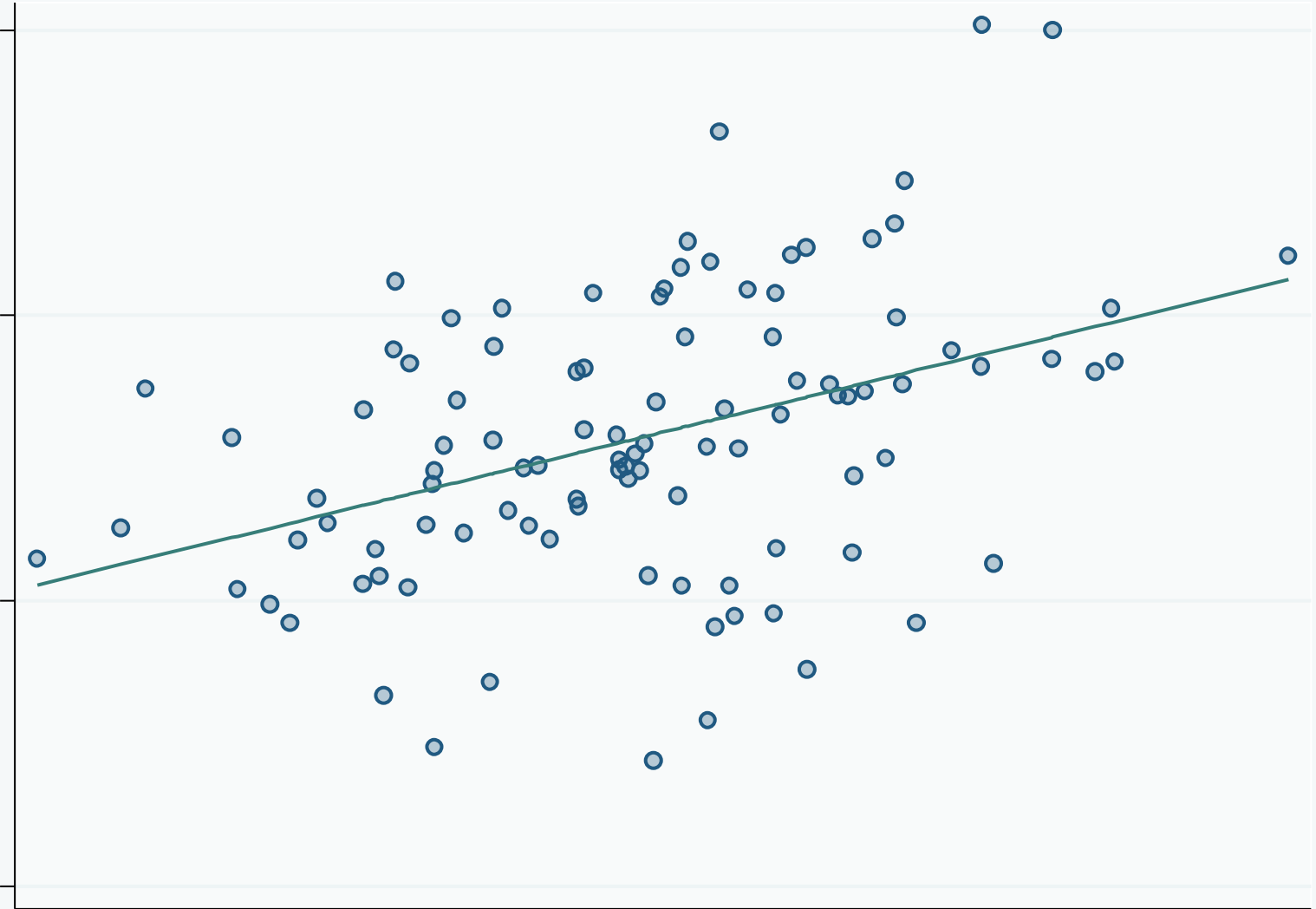
- Every 1% increase in the growth rate of the capital stock will increase the growth rate of compensation by .17%
- Average US compensation grew by 4.04% resulting from growth in the per worker capital stock over the period from 1991-2004
- Compensation in Louisiana fell by .11% due to lack of growth in the per worker capital stock
  - Growth in AR = 1.98%; MS = 1.37%; TX = 6.26%

# Educational Attainment

- Having a skilled workforce is vital to generating economic growth
- Education spurs growth in 2 important ways
  1. It increases productivity which, in turn, increases compensation
  2. It helps to attract new firms to the state

# Educational Attainment in 2000

	U.S.	LA	AR	MS	TX
No HS Diploma	19.62%	25.19% 49 <sup>th</sup>	24.69% 46 <sup>th</sup>	27.14% 51 <sup>st</sup>	24.35% 45 <sup>th</sup>
HS Diploma	28.60%	32.40% 40 <sup>th</sup>	34.10% 45 <sup>th</sup>	29.37% 26 <sup>th</sup>	24.84 6 <sup>th</sup>
Some College	27.40%	23.68% 6 <sup>th</sup>	24.54% 10 <sup>th</sup>	26.59% 23 <sup>rd</sup>	27.58% 26 <sup>th</sup>
Bachelor's Degree or higher	24.38%	18.73% 6 <sup>th</sup>	16.66% 2 <sup>nd</sup>	16.90% 3 <sup>rd</sup>	23.24% 25 <sup>th</sup>



Share of Population with at Least a Bachelor's Degree

# How Much Does Education Matter

- Every 1% increase in proportion of the population that attains at least a Bachelor's degree raises growth in compensation by .05%
- Our low levels of educational attainment cause our wages to grow .47% slower than the national average over the period from 1991-2004



# Health Care Costs

- The high cost of health care has detrimental effects both on the bottom line of firms and on the effective disposable incomes of consumers
- The reduction in consumer spending created by increasing health care costs can then cause further reduction in sales and can hurt firms even further

# Growth in Health Care Costs for All

	1987	2003	Growth Rate
Private Business Health Spending	\$122.4	\$423.0	245.9%
Household Health Spending	\$186.4	\$512.6	175.0%
Federal Government Health Spending	\$75.1	\$344.0	358.1%
State and Local Government Health Spending	\$71.5	\$278.1	289.0%
Consumer Price Index	116.0	186.1	60.4%

# Real Health Care Costs in 2004

	U.S.	LA	AR	MS	TX
<b>Value \$Millions</b>	\$801,943	\$12,117 23 <sup>rd</sup>	\$7,143 33 <sup>rd</sup>	\$7,826 32 <sup>nd</sup>	\$55,401 3 <sup>rd</sup>
<b>Per Capita</b>	\$2,738	\$2,700 32 <sup>nd</sup>	\$2,607 37 <sup>th</sup>	\$2,713 31 <sup>st</sup>	\$2,471 43 <sup>rd</sup>
<b>Per \$1,000 of Personal Income</b>	\$156.24	\$179.89 12 <sup>th</sup>	\$181.17 11 <sup>th</sup>	\$201.56 3 <sup>rd</sup>	\$148.68 37 <sup>th</sup>

Costs are measured as payments made on behalf of the residents of each state

# Growth in Health Care Costs 1991-2004

	U.S.	LA	AR	MS	TX
<b>Value</b>	52.08%	40.73%	55.30%	64.22%	61.741%
		47 <sup>th</sup>	30 <sup>th</sup>	10 <sup>th</sup>	20 <sup>th</sup>
<b>Per Capita</b>	37.92%	35.36%	41.34%	53.78	36.36%
		40 <sup>th</sup>	28 <sup>h</sup>	7 <sup>th</sup>	38 <sup>th</sup>
<b>Per \$1,000 of Personal Income</b>	15.79%	9.70%	14.60%	24.29%	11.41
		46 <sup>th</sup>	37 <sup>th</sup>	13 <sup>th</sup>	43 <sup>rd</sup>

Costs are measured as payments made on behalf of the residents of each state



# How Much Do Health Care Cost Matter

- For every 1% increase in the growth rate of health care costs per \$1,000 of personal income the growth rate in compensation per worker is reduced by .22%
- **Health care costs have a larger impact on wage growth than investment in plant and equipment!**

# How Much Do Health Care Cost Matter

- The increase in health care costs between 1991 and 2004 have caused wages in the US to grow 3.47% slower than they would have if health care costs remained a constant share of personal income
- In Louisiana, wages have grown only 2.13% slower due to rising health care costs

# Concluding Remarks

- Investment in capital, educational attainment and rising health care costs are primary determinants of growth in real compensation
- Louisiana lags behind much of the rest of the country in capital investment and educational attainment
- However, Louisiana is among the states with the lowest growth rate in health care costs



# Questions

