Indiana Lags United States in Per Capita Income

Analysts often choose per capita personal income as the best single measure of the economic well-being of an area. In the most recent year for which data are available, 2010, per capita income in Indiana was 14 percent below the level for the United States as a whole. Understanding the origin, nature, and extent of this gap in prosperity is important for thinking about the future of Indiana.

Per capita income immediately suggests consideration of the average wages and salaries people in an area earn. While this is obviously important to determining per capita personal income, this is just one factor influencing that value (and hence the gap between Indiana and the nation). Wages and salaries represent only one type of income. The earnings of business owners, the returns on investments, and receipts from programs such as Social Security represent additional, important forms of income.

Furthermore, per capita personal income is the total personal income coming to the residents of an area divided by the population of that area. So the size and composition of that population—especially the numbers of persons in the population producing income—will likewise play a key role in determining the level of per capita income.

This report addresses the gap in per capita income between Indiana and the United States. It starts by looking at trends over time and when this gap emerged. Personal income is then broken down by the major types of income. Income per person producing income is examined for wage earners and proprietors. The report then looks at the population side—the proportion of the population that is of working age and the proportion of the working age population employed. Finally, the report considers the contributions of the various types of personal income to Indiana’s income gap.

Indiana Lags Midwest, United States

Indiana’s per capita personal income in 2010 was $34,943, which was only 86 percent of the income of $40,584 for the United States. Indiana has not always been this far behind. In 1970, the $17,796 per capita income in Indiana was 93 percent of the national figure. (Table 1; all dollar values in this report have been adjusted to 2010 dollars using the Personal Consumption Expenditure price index.)

In addition to comparing Indiana to the nation, this report also makes comparisons with a group of Midwestern states identified for this purpose for the Policy Choices for Indiana’s Future project. The states included in this definition of the Midwest are Indiana, Ohio, and Wisconsin.

Table 1. Per capita personal income, 1970 and 2010

<table>
<thead>
<tr>
<th></th>
<th>1970 (% of U.S.)</th>
<th>2010 (% of U.S.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>19,167</td>
<td>40,584</td>
</tr>
<tr>
<td>Midwest</td>
<td>19,544 (102%)</td>
<td>38,604 (95%)</td>
</tr>
<tr>
<td>Indiana</td>
<td>17,796 (93%)</td>
<td>34,943 (86%)</td>
</tr>
</tbody>
</table>

Note: Dollar values are adjusted to 2010 dollars using the Personal Consumption Expenditure price index. Source: U.S. Bureau of Economic Analysis.
Michigan, Illinois, Wisconsin, Minnesota, and Iowa. In 2010, Indiana also lagged behind per capita income for the Midwest, which in turn fell below United States per capita income.

Figure 1 shows the trends in annual per capita personal income from 1970 to 2010 for Indiana, the Midwest, and the United States. Through the 1970s, Indiana per capita income remained close to the national level, reaching as high as 97 percent of the United States income in several years. The difference between Indiana and the Midwest was somewhat greater, as per capita incomes in the Midwest exceeded national levels during that decade.

The gap between Indiana and the nation increased during the first part of the 1980s. In percentage terms, the difference then remained fairly constant until this past decade (2000 – 2010), during which Indiana dropped further behind. Indeed, real per capita income in Indiana remained largely flat through the decade, showing very little growth. And much of what little growth there was had been lost with the decline in the recession year of 2009. (For the trends since 2000, see Figure 2.)

From 1970 through the early years of this century, per capita income in the Midwest remained close to the national levels. The rest of the Midwest did not experience the earlier lag, as did Indiana. However, starting in 2004, income levels for the Midwest as a whole showed only modest growth compared to the United States, opening up the gap for the entire region.

**Types of personal income**

Personal income consists of more than the wages and salaries received by employees. It includes most of the forms of income that must be reported on federal income tax returns, additional sources of income that are not taxable, and even imputed income that only exists in the national income accounts. This section looks at the four major categories of personal income, making comparisons across areas and over time.

Figure 3 shows the shares of the four types of personal income for Indiana in 2010. *Wage and salary income* (total wages and salaries paid to employed persons by their employers) is the largest share, 58 percent in Indiana. It also includes additional employer expenditures directly benefiting those employees, such as health and life insurance premiums and contributions to retirement plans. Insurance premiums for workers’ compensation and unemployment compensation are other items included in wage and salary income. The employers’ contributions to government social insurance programs (Social Security and Medicare are the major ones) are not included in wage and salary income, as the value of these are counted as transfer payments when they are received later.

Proprietors’ income, 8 percent of the total in Indiana in 2010, is the smallest of the four categories of personal income. This is income received from sole proprietorships, partnerships, and tax-exempt cooperatives. These include not only regular business owners but also professionals such as physicians and attorneys who practice in these types of structures, investors in partnerships, and many farmers.
Dividends, interest, and rent constituted 14 percent of total 2010 Indiana personal income. In addition to income received directly by individuals, it includes income received by retirement funds on behalf of persons. For such income received by individuals, this is closely related to the amounts for dividend income and rents and royalties required to be reported when filing federal income tax returns. Capital gains are not considered to be personal income. They are viewed as changes to wealth, not income, and are not entered in the national income accounts.

Rental income for owner-occupied houses includes the imputed rental values estimated for those properties. The rationale for including imputed rent as income is as follows: Owning your home is an investment. Your (non-capital-gains) income from that investment is the opportunity to occupy that dwelling. The classic explanation for including imputed rent is this: Suppose two neighboring homeowners decide to live in each other’s residences and pay each other rent to do so. This would create (cash) rental income. So for households choosing to live in houses they happen to own, it is appropriate to include the imputed rent as income.

Finally, personal current transfer receipts represent 20 percent of total personal income in Indiana for 2010, the second largest share. These are payments received by individuals (and nonprofit organizations serving individuals) and come almost exclusively from governments. Such income includes retirement and disability benefits from Social Security and similar programs; workers’ compensation payments; Medicare, Medicaid, and similar government health benefits; unemployment compensation; various forms of public assistance (including the Earned Income Tax Credit and child tax credits); veterans’ benefits; and government educational assistance.

Figure 4 compares the amounts of the various types of per capita income for Indiana, the Midwest, and the nation in 2010. For the first three types of personal income, Indiana income is clearly lower than in the United States, with the Midwest in the middle. Differences are greatest for wage and salary income and for dividends, interest, and rent. For personal current transfer receipts, however, per capita personal income differs little across the three areas.

 Shares of the various types of per capita income have not remained constant over time. Figure 5 shows the percentages of total Indiana personal income in the four categories from 1970 to 2010. Wage and salary income accounted for 71 percent of all personal income in 1970 but dropped to 58 percent by 2010. Proprietor’s income as a share of the total remained nearly constant. The contribution of dividends, interest, and rent increased from 12 percent to 14 percent. The most dramatic change came with personal current transfer receipts, with the share more than doubling from less than 8 percent of the total in 1970 to over 20 percent in 2010. The United States and the Midwest experienced similar changes in the shares.

**Figure 5. Shares of per capita personal income by type, Indiana, 1970 to 2010**

How much people earn

For wage and salary income and for proprietors’ income, total income in an area depends upon the average incomes received by employees and proprietors and the numbers of employees and proprietors in relation to the total population. We look at the average earnings in this section and then examine the population and workforce in the following section.

Table 2 summarizes the wage and salary income received by the average employee in 1970 and 2009 in Indiana and the comparison regions. (The Bureau of Economic Analysis has not yet released data on the number of employees and proprietors for 2010.) In 1970, average earnings in Indiana (again in 2010 dollars) were virtually the same as at the national level, only $35 less. But the Midwest as a whole had earnings fully $2,000 higher than the U.S. average. By 2009, however, income per employee in the Midwest was $3,000 below the United States figure, and Indiana wage and salary income lagged by $6,000.

**Table 2. Wage and salary income per employee, 1970 and 2009**

<table>
<thead>
<tr>
<th>Region</th>
<th>1970</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>33,593</td>
<td>50,725</td>
</tr>
<tr>
<td>Midwest</td>
<td>35,657</td>
<td>47,700</td>
</tr>
<tr>
<td>Indiana</td>
<td>33,558</td>
<td>44,613</td>
</tr>
</tbody>
</table>

Note: Dollar values are adjusted to 2010 dollars using the Personal Consumption Expenditure price index.
Source: U.S. Bureau of Economic Analysis
Figure 6 shows the annual trends from 1970 to 2009. A gap between Indiana and the United States first developed in the mid-1980s. That gap widened in the current decade. Meanwhile, the Midwest dropped slightly to match the national level by the mid-1980s and then dropped behind during the most recent decade.

Figure 6. Wage and salary income per employee, 1970 to 2009

We repeat the analysis looking at proprietors’ income per proprietor and see a very different picture. Income per proprietor in Indiana was far lower than the United States in 1970, about $25,000 versus nearly $30,000 (see Table 3). By 2009, the gap had narrowed, with Indiana’s proprietors’ income rising slightly and the national level falling by nearly $2,000, leaving a margin of just over $2,000. The change for the Midwest as a whole, the intermediate area, was most anomalous. Proprietors’ income per proprietor for the Midwest was highest in 1970 but fell to the lowest position in 2009.

Table 3. Proprietors’ income per proprietor, 1970 and 2009

<table>
<thead>
<tr>
<th></th>
<th>1970</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>29,713</td>
<td>28,001</td>
</tr>
<tr>
<td>Midwest</td>
<td>30,144</td>
<td>25,175</td>
</tr>
<tr>
<td>Indiana</td>
<td>25,101</td>
<td>25,541</td>
</tr>
</tbody>
</table>

Looking at the annual trends in proprietors’ income per proprietor, in Figure 7, shows an even more unusual pattern. Overall, for all regions, income per proprietor plunged as the nation fell into the recession of the early 1980s, grew rapidly during the boom years of the 1990s and the first few years of the 2000s, and then plunged again as the economy approached its most recent downturn. The gap between Indiana and the United States increased over much of the period until this past decade. Since 2000, first more rapid growth in Indiana and then more rapid decline nationally served to close the gap.

Figure 7. Proprietors’ income per proprietor, 1970 to 2009

Population and workforce

The other factor determining the extent to which wage and salary employment and proprietorships contribute to an area’s per capita income is the proportion of the population engaging in these activities. A higher proportion of the population employed as wage earners means greater total wage and salary income and therefore greater per capita personal income. The same holds for the numbers of proprietors.

The first issue is the proportion of the population aged 18 to 64, generally considered to be the age range from which most employed persons are drawn. Figure 8 shows the trends from 1970 to 2009 for the three geographical areas. (As of this writing, the Census Bureau also has not released either Census 2010 or population estimates for 2010 by age.) Differences between Indiana, the Midwest, and the nation are quite small, so this would not be a significant cause of the differences in per capita personal income. The overall percentage of person of working age increased from around 56 percent in 1970 to over 62 percent in 2009. Most of this increase occurred by the mid-1980s.

Figure 8. Percent of population aged 18-64, 1970 to 2009

Note: Dollar values are adjusted to 2010 dollars using the Personal Consumption Expenditure price index.
Source: U.S. Bureau of Economic Analysis

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Source: U.S. Bureau of Economic Analysis

Note: Dollar values are adjusted to 2010 dollars using the Personal Consumption Expenditure price index.
Source: U.S. Census
The next step is consideration of the percentage of working age persons aged 18 to 64 who are employed (see Textbox). Again, the trends shown in Figure 9 are similar for the three areas. Indiana was somewhat lower than the nation during the recession years of the early 1980s and somewhat higher during the boom years of the 1990s and the first part of this decade. But Indiana, the Midwest, and the United States started and ended the period at about the same points. Again, there are no major differences that would account for the gap in per capita wage and salary income between Indiana and the nation.

**Figure 9.** Percent of persons aged 18-64 wage and salary employees, 1970 to 2009

Shifting to the proportion of working age persons who were proprietors, some clear divergences emerge. All three areas start the period in 1970 at around 11 percent. While the percentage of working age Hoosiers who were proprietors increased to 16 percent, the national figure jumped to over 19 percent. And the differences between Indiana and the United States have been increasing in recent years. The higher proportion of the working age population in the nation who are proprietors could be making some contribution to the gap in per capita proprietors’ income for Indiana.

**Figure 10.** Percent of persons aged 18-64 proprietors, 1970 to 2009

Most often, the analysis of workforce and employment is carried out in two steps, looking at the proportion of the working-age population in the labor force (working or looking for work) and then the proportions of the labor force employed and unemployed, using data from the Bureau of Labor Statistics. The Bureau of Labor Statistics data by state are available only since 1976, not from the start of the analysis period in 1970. Also, the data used here on the number of employed persons from the Bureau of Economic Analysis are reported along with the personal income data and may be more consistent with the income data than are the Bureau of Labor Statistics data. Hence, the analysis proceeds directly from the working age population to the number of employed persons without considering the labor force and unemployment.

### Components of Indiana’s current personal income deficit

We now examine how much of Indiana’s per capita personal income gap is attributable to differences among the four types of personal income. Per capita income varies over short periods of time with changes in the economy, as we have seen. So, rather than making the comparison with per capita incomes for the most recent year, we compare the means of per capita personal income by type across the most recent five years, 2006 to 2010.

Table 4 provides the comparison of Indiana with the United States. Total mean per capita income over the period was almost $41,000 in the United States and $35,214 for Indiana. Indiana’s per capita income was about 86 percent of the national value, a difference of $5,712. The table breaks this down by the four types of income, giving the means for each group. Per capita wage and salary income in Indiana was 90 percent of the national level. For proprietors’ income and dividends, interest, and rent mean Indiana income was only somewhat over 70 percent of the United States incomes. And, as has been shown earlier, differences in personal current transfer receipts were small.

### Table 4. Mean per capita personal income 2006 to 2010, Indiana and United States

<table>
<thead>
<tr>
<th></th>
<th>Indiana</th>
<th>United States</th>
<th>Indiana percent of U.S.</th>
<th>Difference between Indiana and U.S.</th>
<th>Percent of total difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wage and salary income</td>
<td>20,890</td>
<td>23,307</td>
<td>90</td>
<td>2,418</td>
<td>42</td>
</tr>
<tr>
<td>Proprietors’ income</td>
<td>2,769</td>
<td>3,691</td>
<td>75</td>
<td>922</td>
<td>16</td>
</tr>
<tr>
<td>Dividends, interest, and rent</td>
<td>5,258</td>
<td>7,409</td>
<td>71</td>
<td>2,150</td>
<td>38</td>
</tr>
<tr>
<td>Personal current transfer receipts</td>
<td>6,296</td>
<td>6,518</td>
<td>97</td>
<td>221</td>
<td>4</td>
</tr>
<tr>
<td>Total per capital personal income</td>
<td>35,214</td>
<td>40,925</td>
<td>86</td>
<td>5,712</td>
<td>100</td>
</tr>
</tbody>
</table>

Note: Dollar values are adjusted to 2010 dollars using the Personal Consumption Expenditure price index.  
Source: U.S. Bureau of Economic Analysis
The second to last column of the table shows the differences in each type of mean per capita income that together account for the total gap of $5,712. The differences in wage and salary income and dividends, interest, and rent are the largest contributors to the disparity. The wage and salary differential is large because that category is by far the largest share of total income. The dividends, interest, and rent difference is large because the Indiana income is a much smaller percentage of the national value. Finally, the last column presents the percentage of the total difference in mean per capita income attributable to each income type.

Housing prices for single-family homes, which are largely owner-occupied, are low in Indiana relative to many parts of the United States. This suggests that the imputed rents associated with owner-occupied housing would be lower as well, with lower housing prices contributing to the lower level of per capita dividends, interest, and rent income in Indiana. The difference in imputed rent exists, but it is not large. The mean per capita imputed rent for Indiana from 2006 to 2009 was $255 and mean imputed rent for the nation was $385, a difference of only $130. (The mean from 2006 to 2009 is reported because the detailed dividends, interest, and rent income data for 2010 have not been released.) Thus, differences in imputed rents due to housing price differences accounts for only a very small fraction of the total difference in per capita dividends, interest, and rent of over $2,000.

The shares of the total difference by type are illustrated in Figure 11. Wage and salary income is the largest share, but dividends, interest, and rent is nearly as large. The difference in proprietors’ income is smaller but still significant. Personal current transfer receipt differences are virtually negligible.

**Figure 11. Share of differences between Indiana and the United States in types of mean per capita personal income, 2006 to 2010**

Note: Dollar values are adjusted to 2010 dollars using the Personal Consumption Expenditure price index.
Source: U.S. Bureau of Economic Analysis

**Components of Indiana’s Decline**

Given that most of the gap between per capita personal income in Indiana and the United States basically emerged since 1970, the final question involves how changes in the various types of personal income over that period contributed to the overall change. As before, rather than relying on single-year values, we compare the mean per capita personal incomes for the last five years, from 2006 to 2010, with the means for the first five years, 1970 to 1974.

Figure 12 shows the changes in mean per capita income from the first period to the last by type of income. Per capita income increased in all categories for all regions. The largest increases were for wage and salary income, since it represents the largest share of per capita personal income. The differences were smaller but still substantial for dividends, interest, and rent and for personal current transfer receipts. Proprietors’ income showed the smallest gains for all three geographic areas.

**Figure 12. Change in mean per capita income by type, 1970 to 1974 to 2006 to 2010**

For the first three income types, the pattern across the three areas is the same. Increases in Indiana were less than the increases for the United States, with the Midwest placing in the middle. For personal current transfer receipts, however, differences between the areas were very small, and the increase in Indiana was largest, with the national gain lowest.

Table 5 presents the changes in mean per capita personal income for Indiana and the United States from the beginning to the end. For the first three categories, the change in Indiana was a fraction of the national increase, ranging from 54 percent for proprietors’ income to 76 percent for wage and salary income. Proportionately, Indiana was falling behind most rapidly in proprietors’ income and dividends, interest, and rent. Personal current transfer receipts grew slightly more in Indiana than nationally.
Looking at the differences in just the first three categories where increases in Indiana were less than in the United States, the total difference from the first period to the last was $4,809. The largest shares of this difference came in wage and salary income (47 percent of the total) and dividends, interest, and rent (36 percent).

Figure 13 illustrates the shares of the changes in mean per capita personal income for the three categories in which Indiana lagged the nation.

A note on the relative cost of living
To the extent that the cost of living in Indiana is lower than the average for the United States, that could offset the effect of at least some of the gap in per capita personal income. A lower cost of living would imply a higher real per capita income relative to the incomes of other areas. Conversely, a lower cost of living could contribute to lower average wage and salary income by enabling employers to pay less in lower cost areas.

The Consumer Price Index is not reported at the state level. A private organization, the Council for Community and Economic Research compiles the ACCRA Cost of Living Index for large numbers of urban areas using volunteers in those areas. The Missouri Economic Research Center has estimated state cost of living indices from the ACCRA urban area data.

The cost of living index for Indiana for the fourth quarter of 2010 was 94.2. This compares with the average across the 50 states and the District of Columbia of 104.7. This would place Indiana’s cost-of-living at 90 percent of the national average. These data are only estimates, but this does suggest that the difference in the cost of living in Indiana could be a significant share of the gap in per capita personal income. (Cost of living for the entire Midwest was also low, with an average value of 96.0 for the seven states.) Unfortunately, data are not available over time to allow the examination of past relationships between per capita income differences and relative cost of living.

The cost of living tends to be higher in urban areas than in rural areas, providing another means of comparing Indiana with other areas. In 2000, the Census reported that 71 percent of Indiana’s population was urban. For the United States, the percentage urban was 79 percent. Once again, the Midwest lies between at 76 percent. Indiana’s somewhat lower urban and greater rural population could have some relationship to the lower cost of living and lower per capita income. However, since the percentage urban has been increasing, this cannot explain the relative decline in Indiana’s per capita income.

Conclusions
Per capita personal income in Indiana in 2010 was only 86 percent of the value for the United States. The gap between Indiana and the nation widened during the 1980s and then grew greater during the past decade as Indiana’s income remained flat while the nation’s grew.

Of the four major types of personal income, Indiana is behind the United States in three areas—wage and salary income, proprietors’ income, and dividends, interest, and rent. Only in personal current transfer receipts is Indiana comparable to the nation and the Midwest. The greatest portion of the gap is accounted for by the differences in wage and salary income and dividends, interest, and rent.

The gap in wage and salary income primarily results from the difference in income per employee between Indiana and the nation. The proportion of Indiana’s population that is working age, and the proportion of that working age population employed closely tracks the levels for the United States and the Midwest. So differences
there cannot account for much of the difference in wage and salary income.

Indiana does have a somewhat lower proportion of the working age population earning income as proprietors. And proprietors in Indiana earn somewhat less per person than for the United States. So both factors contribute to the lower level of proprietor’s income per capita.

Despite dividends, interest, and rent being a modest—though increasing—share of total personal income, differences between Indiana and the United States account for a significant portion of the total per capita income gap. Such income constitutes a return on investment—wealth typically accumulated over extended periods of time. As such, the lower levels of dividends, interest, and rent income may well reflect lower levels of total personal income in the past (though it could also reflect differences in saving and investment behavior). So, the gap in this category might be seen at least in part as the cumulative effect of prior income gaps.

Moving Indiana’s per capita personal income closer to the national level will therefore be a long, slow process. Increases in the wage and salary income per employee are the key. But higher wages and salaries will be needed for extended periods to allow the building of the wealth required to increase dividends, interest, and rent income.

Beyond this is the more fundamental question of what measure(s) of economic well-being should be used as aspirational targets and indices of progress towards one’s goals. Increasing current personal transfer receipts may or may not be seen as a desired objective, and budgetary constraints place severe limits here. Nor would this be an objective especially achievable at the state level given that the great majority of such payments come from the federal government. Increases in dividends, interest, and rent certainly contribute to economic prosperity and reflect investment that could be contributing to an area’s economic growth (depending upon where the investments are being made, of course). But to the extent that such income reflects accumulated wealth, making improvements will likely require growth in other forms of income over extended periods of time. Perhaps this may be seen as a secondary objective, achievement of which would flow from the accomplishment of more immediate objectives.

This leaves wage and salary income and proprietors’ income as the types of income that might be more immediate targets of public policy. And here, both the income earned per employee and proprietor and the percentage of the population working as employees and proprietors combine to determine their impacts on total per capita personal income. This may be a place to start.

Resources

Per capita personal income data:

Per capita personal income methodology and income types:

Personal consumption price index:

Population data:


Cost of living:


Urban-rural population: