

## APPENDIX K

# Personal Income

Michigan personal income (MPI) is the total received by all resident households from employment, self-employment, investments (dividends, interest, and rent), and transfer payments (Social Security, welfare, unemployment benefits). It is a key indicator of the state economy's size and health.

There are several ways to analyze state personal income: total dollars, per capita, disposable, and median family. Year-to-year comparisons may be made in terms of *current* dollars (the actual amount each year) or *constant* dollars (adjusted for inflation—also referred to as *real* dollars). It is also instructive to look at income distribution and how it has changed over time; for example, what percentage of income is paid to the lowest-earning 20 percent of households, and how has that share changed over time?

### GLOSSARY

**Disposable income**

Total personal income less federal, state, and local taxes.

**Median household income**

The figure at which half of all households are above and half below.

**Personal income**

Total revenue received from employment, self-employment, investments, and transfer payments.

**Real (constant)**

Adjusted for inflation; e.g., if actual growth is 4 percent, and the inflation rate is 3 percent, real growth is one percent.

**Transfer payment**

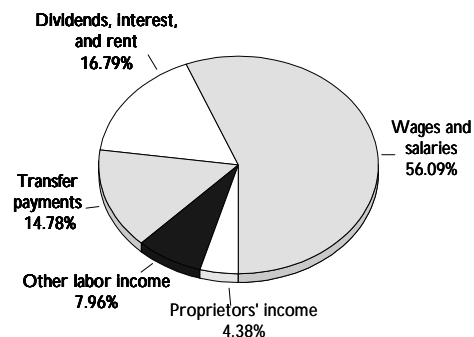
A government or business expenditure for which no goods or services are received in return. In this instance, refers to such expenditures as Social Security, welfare, and unemployment benefits.

The sources of personal income data for Michigan are the U.S. Bureau of Economic Analysis (BEA) and the U.S. Bureau of the Census. Total and per capita income are reported quarterly and annually by the BEA; median and household income are reported annually by the Census Bureau.

### COMPOSITION OF PERSONAL INCOME

Exhibit 1 shows that in 1996 the largest source of Michigan personal income was employment in the service of others or one's self: wages/salaries, other labor income, and proprietors' income comprise a little more than two-thirds of the total. The remainder comes from dividends/interest/rent and such transfer payments as Social Security.

### EXHIBIT 1. Michigan Personal Income, by Component, 1996



SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis.

The proportion of two personal-income components has changed significantly in the past 20 years.

- Wages/salaries in 1975 and 1996 were 64 percent and 56 percent, respectively, of total personal income.
- Dividends/interest/rent in 1975 and 1996 were 11 percent and 17 percent, respectively, of total personal income.

The shift from wages/salaries to dividends/interest/rent income reflects (1) the rising number of investment options, (2) growth in the number of people investing in stocks and bonds rather than putting their money in a bank savings account, and (3) a sharp increase in the investment income of those at the top of the income scale.

### TOTAL PERSONAL INCOME

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In 1996 total Michigan personal income was \$239 billion, nearly 4 percent of total U.S. personal income. In the last five years, Michigan personal income growth has outpaced the nation's: From 1992 to 1996 (latest data available for Michigan), MPI increased almost 28 percent, while the U.S. figure rose 23 percent.

If one looks at the 20-year period, however, the picture is less favorable: From 1976 to 1996 Michigan personal income increased only 277 percent, while nationwide it increased 349 percent; the annual growth rates were roughly 7 percent and 8 percent, respectively. When the figures are adjusted for inflation, MPI increased 40 percent and U.S. personal income increased 63 percent; the annual rates were 1.7 percent and 2.5 percent, respectively.

Exhibit 2 presents U.S. and Michigan total and per capita personal income data for 1976 through 1996.

### PER CAPITA INCOME

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Per capita income is calculated by dividing total personal income by population. A state with rapid growth in population generally will have faster growth in personal income than a state with slower population growth. Per capita income provides a measure of the increase in wealth of each person and is a gauge of whether a state is becoming richer because of an influx of new residents or because of higher income per person.

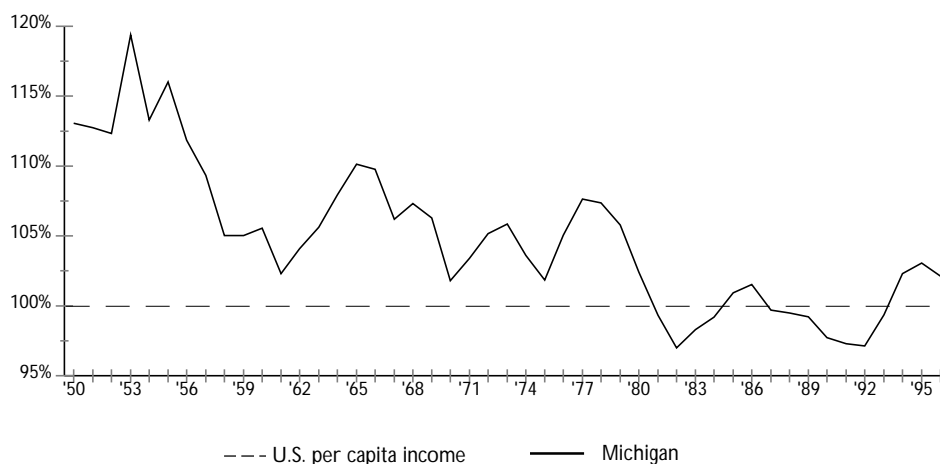
In 1996 Michigan per capita income was \$24,945, 2.1 percent above the national average and 16th highest among the 50 states. As shown in Exhibit 3, Michigan per capita income has fluctuated significantly as a share of U.S. personal income, reaching a peak in 1952 at about 19 percent above the national average. Since 1952 the trend has been downward, interrupted by upturns in the early 1960s and late 1970s. In the early 1980s Michigan per capita income fell below the U.S. average due to the severe 1980–82 recession; the 1987–92 dip was due to downsizing in the motor vehicle industry and the recession of the early 1990s. Michigan per capita income has remained above the national average since 1993.

**EXHIBIT 2. United States and Michigan Personal Income, Total and per Capita 1976–1996**

Year	Michigan			Michigan		U.S.		Real Michigan		Real U.S.	
	Michigan per Capita	U.S. per Capita	Michigan as % of U.S.	Personal Income (millions)	Percentage Change	Personal Income (millions)	Percentage Change	Personal Income (millions)	Percentage Change	Personal Income (millions)	Percentage Change
1976	\$7,009	\$6,671	105.1%	\$63,523	13.2%	\$1,455,400	10.1%	\$111,837	7.4%	\$2,557,821	4.6%
1977	7,871	7,312	107.6	71,750	13.0	1,611,400	10.7	118,204	5.7	2,659,076	4.0
1978	8,772	8,170	107.4	80,100	11.6	1,820,200	13.0	122,664	3.8	2,791,718	5.0
1979	9,617	9,090	105.8	88,160	10.1	2,049,700	12.6	119,782	-2.3	2,823,278	1.1
1980	10,273	10,029	102.4	93,977	6.6	2,285,700	11.5	110,172	-8.0	2,773,908	-1.7
1981	11,035	11,109	99.3	100,397	6.8	2,560,400	12.0	107,722	-2.2	2,816,722	1.5
1982	11,342	11,692	97.0	101,934	1.5	2,718,700	6.2	105,087	-2.4	2,817,306	0.0
1983	12,134	12,344	98.3	108,056	6.0	2,891,700	6.4	108,273	3.0	2,903,313	3.1
1984	13,438	13,546	99.2	119,446	10.5	3,205,500	10.9	115,742	6.9	3,085,178	6.3
1985	14,537	14,404	100.9	129,247	8.2	3,439,600	7.3	121,018	4.6	3,196,654	3.6
1986	15,369	15,138	101.5	137,924	6.7	3,647,500	6.0	127,354	5.2	3,328,011	4.1
1987	15,897	15,942	99.7	143,595	4.1	3,877,300	6.3	128,554	0.9	3,413,116	2.6
1988	16,927	17,015	99.5	152,965	6.5	4,184,600	7.9	131,753	2.5	3,537,278	3.6
1989	17,987	18,127	99.2	162,359	6.1	4,501,000	7.6	132,755	0.8	3,629,839	2.6
1990	18,710	19,142	97.7	169,808	4.6	4,804,200	6.7	132,044	-0.5	3,675,746	1.3
1991	19,106	19,636	97.3	175,250	3.2	4,981,600	3.7	131,668	-0.3	3,657,562	-0.5
1992	20,038	20,631	97.1	186,020	6.1	5,277,200	5.9	136,780	3.9	3,761,368	2.8
1993	21,230	21,365	99.4	194,873	4.8	5,519,200	4.6	139,594	2.1	3,819,516	1.5
1994	22,692	22,180	102.3	214,473	10.1	5,791,800	4.9	148,630	6.5	3,908,097	2.3
1995	24,066	23,348	103.1	228,369	6.5	6,150,800	6.2	153,474	3.3	4,035,958	3.3
1996	24,945	24,426	102.1	238,032	4.2	6,495,200	5.6	155,882	1.6	4,139,707	2.6

SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis; Michigan Senate Fiscal Agency.

**EXHIBIT 3. Michigan per Capita Income as Percentage of U.S. per Capita Income, 1950–1996**



SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis.

## DISPOSABLE INCOME

Disposable income is total personal income less federal, state, and local taxes. In 1996 Michigan disposable income was \$205 billion, 86 percent of total personal income. From 1986 to 1996 Michigan disposable income increased 71 percent; nationally, it increased 76 percent. Adjusted for inflation, Michigan's increase was 20 percent (an annual rate of just over one percent). Per capita, Michigan disposable income in 1996 was \$21,378, up 63 percent from 1986.

## MEDIAN HOUSEHOLD INCOME

A reliable measure of the economic health of families is median household income, the midpoint of income for all households. For example, if the median income is \$30,000, it means that 50 percent of households have more than that and 50 percent have less.

In 1995 (latest data available) median household income in Michigan was \$36,246, nearly 7 percent above the national average. Adjusted for inflation, from 1985 to 1995 Michigan median income increased nearly 6 percent; the national increase was only 2 percent. When adjusted for inflation, Michigan median income has increased less than one percent since 1990, but nationally, it has dipped more than 2 percent.

## INCOME DISTRIBUTION

Exhibit 4 shows the distribution of income among income classes. The income groups are divided into quintiles, highest 20 percent, second highest 20 percent, and so on. In the highest income group percent are 20 percent of Michigan families, which have 44 percent of total income (1994–96). In the lowest income group are 20 percent of Michigan families, which have only 3.5 percent of total income. Among the highest earners, the average income is \$117,110, almost 13 times that of the lowest.

### EXHIBIT 4. Distribution of Income, Families with Children, Michigan, Selected Time Periods, 1970s, 1980s, 1990s (constant \$), by Income Quintile

Time Period	Lowest Quintile	2d Quintile	3d Quintile	4th Quintile	Highest Quintile
1978–1980	5.4%	13.0%	18.5%	24.4%	38.7%
1985–1987	3.5	10.8	17.9	25.6	42.1
1994–1996	3.5	10.4	17.2	24.6	44.3

SOURCE: Center on Budget and Policy Priorities, 1997. Calculations by Public Sector Consultants, Inc.  
Quintile = 20 percent of population.

Over the past 20 years there has been a marked change in the income distribution, to the benefit of the upper-income group. Since the 1970s the gap between the highest and lowest 20 percent of families has grown 77 percent. According

## APPENDIX K: PERSONAL INCOME

to the Center on Budget and Policy Priorities, the gap between rich and poor increased faster in Michigan than in all but ten states. Adjusted for inflation, from the late 1970s to the mid-1990s, average family income

- fell \$4,210 in the poorest quintile—from \$13,460 to \$9,260;
- fell \$540 in the middle quintile—from \$46,140 to \$45,600; and
- rose \$20,850 in the most affluent quintile—from \$96,250 to \$117,110.