INSTITUTE FOR ECONOMIC ADVANCEMENT

CLOSING THE GAP

An Examination and Analysis of Per Capita Personal Income in Arkansas

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Closing the Gap: An Examination and Analysis of Per Capita Personal Income in Arkansas

Accelerate Arkansas is a statewide organization of volunteers whose mission is to foster economic growth in Arkansas by using the building blocks of a knowledge-based economy. The overarching goal of Accelerate Arkansas is to increase per capita personal income in Arkansas to the national level by 2020, closing Arkansas' per capita personal income gap by 2020.

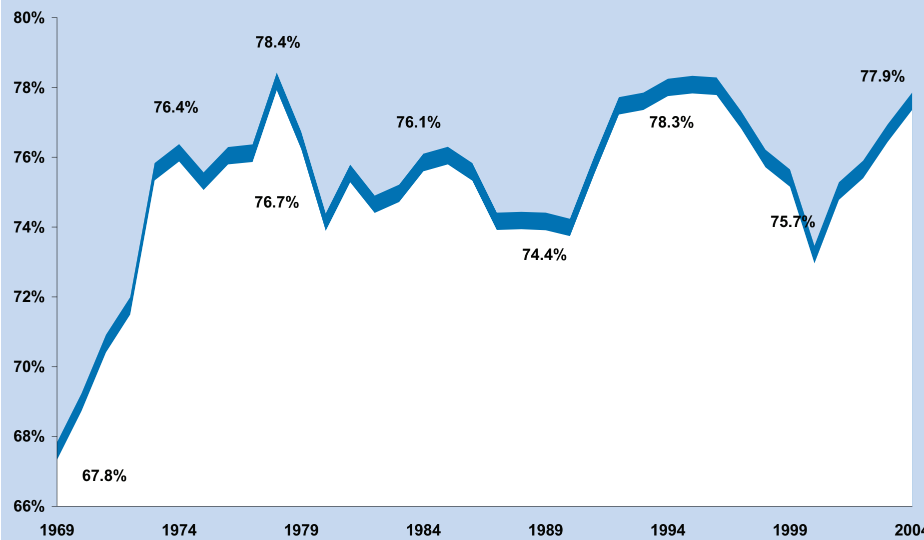
The Current Situation

- Between 1969 and 2004, per capita personal income (PCPI) in Arkansas ranged from below 68% to nearly 79% of U.S. per capita personal income.

- At the current rate of change, only 30% of the gap between the U.S. and Arkansas PCPI will be closed by 2020.

- In 2004 PCPI in metropolitan areas of Arkansas was 85% of U.S. PCPI. In Arkansas' rural areas, PCPI was only 68% of the U.S. average.

Per capita personal income in Arkansas has ranged from 67.8% of the U.S. level to nearly 79% in 2004.



- Among the metropolitan areas of Arkansas in 2004, PCPI in Memphis and Little Rock nearly matched the national level with 99% and 95% of U.S. PCPI, respectively. PCPI in Fayetteville was 82% of the U.S., while the other Arkansas MSAs had levels in the 70 percent range.

- By 2020, at the current rate of technical progress and flows of labor and capital, PCPI in Arkansas will still lag behind the U.S. by 16%.

- Per capita personal income was found to be positively correlated with total population of an area, percent of urban population, percent of adults with at least a bachelor's degree, and percent of total population in the labor force. Percent of adults without a high school diploma was found to be negatively correlated with PCPI.

- Across the country in the metropolitan areas where per capita personal income is growing the fastest, sixteen industries contributed more to personal income than they did in the nation overall; seven industries contributed less. In Arkansas, 12 industries contributed more as a percent of total personal income than they did in the nation; 11 contributed less.

- In rural areas of Arkansas, 18 industries contributed less to total personal income than they did in the nation, and only five contributed more than their U. S. counterparts to total personal income.

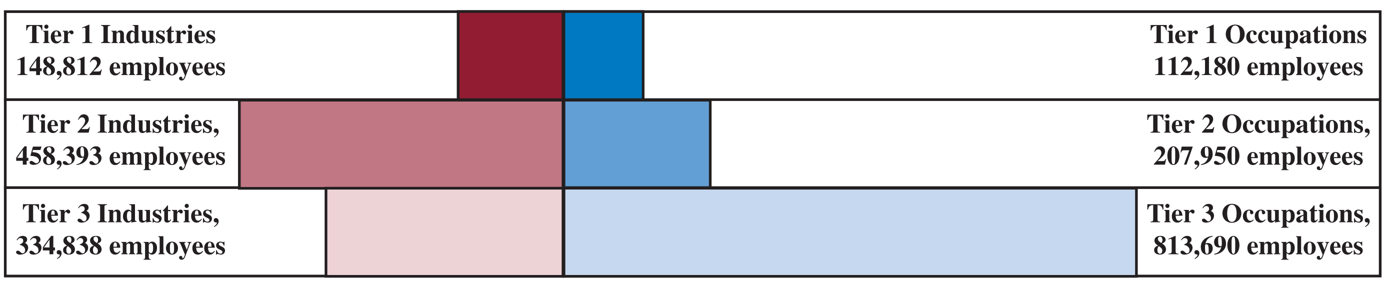
Accelerating into the Future

In order to close the PCPI gap in Arkansas, industries here must pay wages that are higher than national average wages, and occupation earnings must exceed national averages. To accomplish this, the mix of occupations and industries in Arkansas must shift toward those which are thriving in today's innovative economy.

Industries contributing to closing Arkansas' PCPI gap in 2004 were mining; utilities; construction; wholesale trade; finance and insurance; professional and technical services; and management of companies and enterprises.

Occupational groups that pay high wages relative to the U. S. median wage for all occupations include management occupations; business and financial occupations; computer and mathematical occupations; architecture and engineering occupations; life, physical, and social science occupations; legal occupations; and healthcare practitioners and technical occupations. Growth in the number of workers in these occupations at the prevailing median annual wage would contribute to closing the state's PCPI gap.

Employment in Industries and Occupations in Arkansas, 2004



Tier 1 industries and occupations are those in which wages in Arkansas exceed average wages in the nation.

Tier 2 industries and occupations are those in which wages in Arkansas exceed average wages in Arkansas, but not in the U.S.

Tier 3 industries and occupations are those in which wages in Arkansas are below the average wage in Arkansas and the U.S.

Communities successful in the era of the New Economy adopt a vision of themselves in the future, and chart and follow a path to reach the desired state.

Recommended statewide strategies for economic development in the New Economy focus on

- improving the labor force through investment in education;
- improving the research and development presence at universities;
- expanding the telecommunications infrastructure, assisting entrepreneurs by helping provide capital investment and technical assistance;
- realigning the state tax structure to recognize changes in industry structure;
- assuring a regulatory environment that does not distort markets;
- attending to quality of life issues;
- assuring that the government systems are clearly defined and responsive to the needs of the communities.

For metropolitan areas, recommendations for development strategies in the New Economy are

- taking a regional approach to both community and economic development issues; providing assistance and leadership for regional partnerships;
- investing in assets that will drive economic development, including education, infrastructure, and amenities sought by knowledge-based firms;
- promoting cluster-based development; reinvesting in downtown areas and blighted neighborhoods;
- using incentives to provide an adequate labor market throughout a region.

The three essential recommendations that apply to rural area development are

- encouraging the development of industry clusters to include both public and private resources for related industries, such as using colleges and universities as training centers to provide workforce development opportunities;
- facilitating rural entrepreneurship by
    - providing access to capital, using budget appropriations or venture capital fund intermediaries; creating training programs that develop the local leadership capacity to identify and encourage local entrepreneurs;
    - using technology such as online networks to allow rural entrepreneurs to connect to information and financial resources.
- diversifying and adding value to agriculture through product development;
    - providing financing mechanisms;
    - providing infrastructure and technical support for new marketing activities and product development.