



Utah's Per Capita Personal Income Analysis

Why is Utah's per capita personal income so low when compared against other states? Our large family size and youth population creates this extreme that in turn leads to a misperception.

Per capita income is calculated by taking the states' total personal income (all the wages, salaries, interest income, stock income, social security benefits, pensions, etc., accumulated by the state's citizens) and dividing it by the number of men, women, and children in the state (the total population). The result is actually a ratio — a measurement that gives you the spending power of every man, woman, and child in the state. For Utah in 2005, that number is \$27,497. Now I don't know about you, but I'm not giving any of my children that kind of spending power. I'll spend it for them.

Where's the misperception? Because of our low per capita ranking, Utah is thought of as a poor state. That's a misperception, and it's imbedded in the fact that Utah has the highest family size in the nation, and the youngest population. Therefore, Utah has more people in its denominator (total population) who are not contributing to the production of the numerator (total personal income) than does any other state. And if you understand mathematics, if the denominator goes up, the ratio result goes down.

Can you put that into English? Well, look at it this way. You have two families who both earn \$70,000 a year. Family A consists of four people (mom, dad, two kids), and Family B has eight people. A per capita calculation says Family A has a per capita income of \$17,500, while Family B's is only \$8,750. Therefore, we draw the conclusion that Family B is poorer than Family A. But no! Remember, both families earned \$70,000. How then can Family B be poorer than Family A?

By now you probably get the picture, but this probably only raises more questions. What then is the purpose of the per capita measurement? Its purpose is to bring some level of comparability between non-equal objects. You can't compare California's \$1.3 trillion of total personal income against Utah's \$68 billion. But you can bring them both into some kind of perspective if you divide both totals by the population, and that's the purpose of the per capita measurement.

But the example above shows that even this comparison can lead to a misperception. What good is it then? Here is the best way to use per capita data. In the above example, we see that each family has \$70,000 to spend. But do you think that Family A is going to spend it the same as Family B? My guess is no. Family B, with more kids, is going to spend its money on clothes, shoes, education, food, toys, and probably a minivan. Family A will probably buy nicer clothes augmented with jewelry, eat at restaurants more often, and maybe buy a Lexus or a battle-tank SUV. The point is that the families will spend their money differently.

In conclusion, per capita personal income is a measurement easily misunderstood. In Utah's case, most people perceive it in a negative manner.