Buddhi Raj Gyawali  
Assistant Professor  
Division of Environmental Studies and Sustainable Systems  
College of Agriculture, Food Sciences and Sustainable Systems  
Kentucky State University  
Frankfort, KY  
Phone: (502) 597 6029  
Email: buddhi.gyawali@kysu.edu

Swagata “Ban” Banerjee  
Associate Professor  
School of Agriculture, University of Wisconsin-Platteville  
Email: banerjees@uwplatt.edu

Geospatial Analysis of Income Convergence in Southeastern United States

Abstract

Income convergence and both endogenous and exogenous factors causing income growth in the southeastern United States were examined by using county level census data between 1980 and 2000. The study found that spatial variations in education, employment, and industries concentrations were strongly related with income convergence in the region.

Key Words: Agglomeration, Black Belt, census, clusters, convergence, industries, employment, income, southeastern, spatial

JEL classification: O12, O15, R12

Introduction

This study explores income growth at the county level in the states of Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina, and Tennessee. The historical events in the southern United States have produced differing impacts and regional variations in demographic, industrial, and overall economic growth across the region. There are significant contrasts between rural and metro counties in demographics such as race, population density, education, industrial firms, jobs, and growing urban structures in these states. This study was aimed at eliciting the role of these variations in income growth and identifying the places where the income is converging or diverging.

Convergence theory predicts that low-income regions will exhibit faster growth rates as they eventually catch-up to more developed areas (Barro and Sala-i-Martin; 1992). Capital and other factors of production are assumed to be freely mobile and production must be characterized by diminishing returns to scale. The movement of capital serves as the key and automatic force driving regional convergence. However, the historical events in the southern United States have produced differing impacts and regional variations in demographic, industrial, and overall economic growth across the region. Majority of the studies on U.S. income convergence are based on states or multi-state aggregate data, with few examinations in metropolitan areas and counties (Hammond, 2006). The objectives of this study are: (1) examine income growth in these 10 states using the census data from 1980 to 2010, and (2) identify most significant predictors of income growth over the period between 1980 and 2010.

Data & Methods

Census data from 1980, 2000, & 2010 at the county level were downloaded from various sources such as NHGIS (National Historical Geographical Information System), U.S. Census, Social Explorer, and USDA/ERS. The data relates to demographic attributes (such as population, race, age, income, education, urban, rural), industry and jobs attributes (employment and commuting distance).

Following Mankiw et al. (1992) and Rey and Montouri (1999), income convergence in the 10-state southeastern region was estimated by ordinary least squares.

\[
\ln \left( \frac{y_i}{y_{i-1}} \right) = \alpha + \beta_0 (\ln y_{i-1}) + \varepsilon
\]

(1)

\[
\ln \left( \frac{y_{i,t}}{y_{i,t-1}} \right) = \alpha + \beta_0 (\ln y_{i,t-1}) + \beta_i (X_{i,t} - X_{i,t-1}) + \beta_j X_j + \varepsilon_{i,t},
\]

(2)
Equations 1 and 2 estimate absolute and conditional income convergence, respectively, where \( y_i \) is the average per capita income of county \( i \) in year \( t \) (2000), \( ln \) is natural logarithm, \( t-1 \) is initial year (1980), \( X_j \) indicates initial conditions of the explanatory variables in year 1980, \( X_{i,t-1} \) is a vector of growth in explanatory variables, \( \beta_i \) is a vector of \( X_i \) parameters, and \( \epsilon_{i,t} \) is an error term. The conditioning factors are initial and changed conditions of population, race, education, age structure, employment, and travel time to work that control per capita income growth.

**Results**

**Absolute Convergence**

The absolute income convergence model testing only log of initial per capita income was significant at \( (F=34, \, df=1,873, \, p<=.001) \), explained 3.7% (adjusted \( R^2=.037 \)) of the total variation. The convergence coefficient (\( \beta \) value) was negative (-.195) and significant at the 5 percent level (\( t=-5.883 \)) demonstrating convergence of per capita income in the southeastern U.S. counties. A negative sign suggests that poor counties are growing faster than rich counties. The convergence rate is estimated to be 1.09% per year. The low \( R^2 \) value indicates that a large amount of variation in average per capita income convergence is unexplained by the absolute model and more variables need to be explored to examine convergence further.

**Conditional Income Convergence**

The conditional income convergence model (Table 1) was significant \( (F=165, df=15,859, \, p<.001, \, adjusted \, R^2=.738) \). The coefficient for initial per capita income level is negative and significant (\( \beta =-,.468, \, t= -15.192 \)) suggesting that there was conditional income convergence over the 20-year period. The convergence rate per year is 3.08%.

All of the changed and initial condition variables were significant at the 1% level confidence interval \( (p<=.1) \) except the change in high school population, which was significant at the 5% \( (p<0.5) \) confidence interval. All of the initial condition variables showed a positive significant relationship. The changes in African American and rural population were the only changed variables negative and significant. The negative relationship suggests that a high level of income growth occurred in areas with low African Americans, which are mostly in rural areas. This means, higher levels of income growth occurred in non-African American areas of the region, and in areas where the African American population (AA) was in decline over 20 years.

Counties with higher population changes were more likely to have experienced positive income changes. The results show income growth in labor force population (ECO), retiree population (RE), high school graduate population (HS), college graduates (CO), employed population (EM), and increased travel time (TRT). Within the changed conditions, college graduates and employed population show the strongest relationship to income change. This observation is expected because counties with higher educated people and a large employed class are economically faster than counties without these characteristics.

These findings concur with Lim (2004) and Henry et al. (2004) who suggest areas with little improvement in higher education levels or low levels of job growth were more likely to have experienced declining or relatively lower income growth.
Figure 1. African-Americans dominated counties in the southeastern region

Figure 2. Population Growth between 2000 and 2010 in the Southeastern Region

Figure 3. Per Capita Income Growth, 2000-2010
### Table 1: Results of Conditional Income Convergence Analysis, 1980-2000

<table>
<thead>
<tr>
<th>Variables</th>
<th>β-coef.</th>
<th>Std. Error</th>
<th>t-value</th>
<th>Elasticity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>4.507</td>
<td>0.246</td>
<td>18.326</td>
<td></td>
</tr>
<tr>
<td><strong>Initial Condition (1980)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Initial Per Capita Income</td>
<td>-0.467**</td>
<td>0.024</td>
<td>15.192</td>
<td>-9.049</td>
</tr>
<tr>
<td>African American Population</td>
<td>0.155***</td>
<td>0.000</td>
<td>5.951</td>
<td>3.312</td>
</tr>
<tr>
<td><strong>Labor Force Population (ECO)</strong></td>
<td>0.399***</td>
<td>0.001</td>
<td>9.569</td>
<td>22.827</td>
</tr>
<tr>
<td>Retiree Population (RE)</td>
<td>0.536***</td>
<td>0.001</td>
<td>14.617</td>
<td>6.673</td>
</tr>
<tr>
<td>High School Population (HS)</td>
<td>0.193***</td>
<td>0.001</td>
<td>6.439</td>
<td>3.235</td>
</tr>
<tr>
<td>Employed Population (EM)</td>
<td>0.495***</td>
<td>0.000</td>
<td>17.288</td>
<td>25.418</td>
</tr>
<tr>
<td><strong>Changed Condition (1980-2000)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>African American Pop.</td>
<td>-0.115***</td>
<td>0.000</td>
<td>-5.889</td>
<td>-6.179</td>
</tr>
<tr>
<td>labor Population</td>
<td>0.260**</td>
<td>0.002</td>
<td>5.805</td>
<td>3.827</td>
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<tr>
<td>College Population</td>
<td>0.628***</td>
<td>0.001</td>
<td>17.556</td>
<td>96.781</td>
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<tr>
<td>Employed Population</td>
<td>0.374***</td>
<td>0.001</td>
<td>11.861</td>
<td>2.053</td>
</tr>
<tr>
<td>Rural Population</td>
<td>-0.099***</td>
<td>0.000</td>
<td>-5.178</td>
<td>-0.194</td>
</tr>
<tr>
<td>Travel Time (ΔTRT)</td>
<td>0.116**</td>
<td>0.002</td>
<td>5.217</td>
<td>0.010</td>
</tr>
</tbody>
</table>
Conclusion

The study found both an absolute and a conditional convergence in both years with an increasing rate. The conditional model was employed to show the relationship between income growth and its explanatory variables. Between 1980 and 2000, the convergence rate was 3.08%. The results suggest that poorer counties are growing economically faster than richer counties.

There are some limitations of this study as the models were not as strong due to the limitations in the availability of consistent data. Originally, we had proposed to use data from 1970-2010. Also, 1970 per capita income was not available and 2010 census data was not readily available at the time of research. This study is an illustration of what could be done to analyze current trends. However, with the available data and described limitation this is what we found.

Further research should be done to look in the sub-regional level and more control variables using recent census data. In addition, more variables could be examined such as: location of industries, road networks, wage disparity, and other social and community amenities indicators.

References