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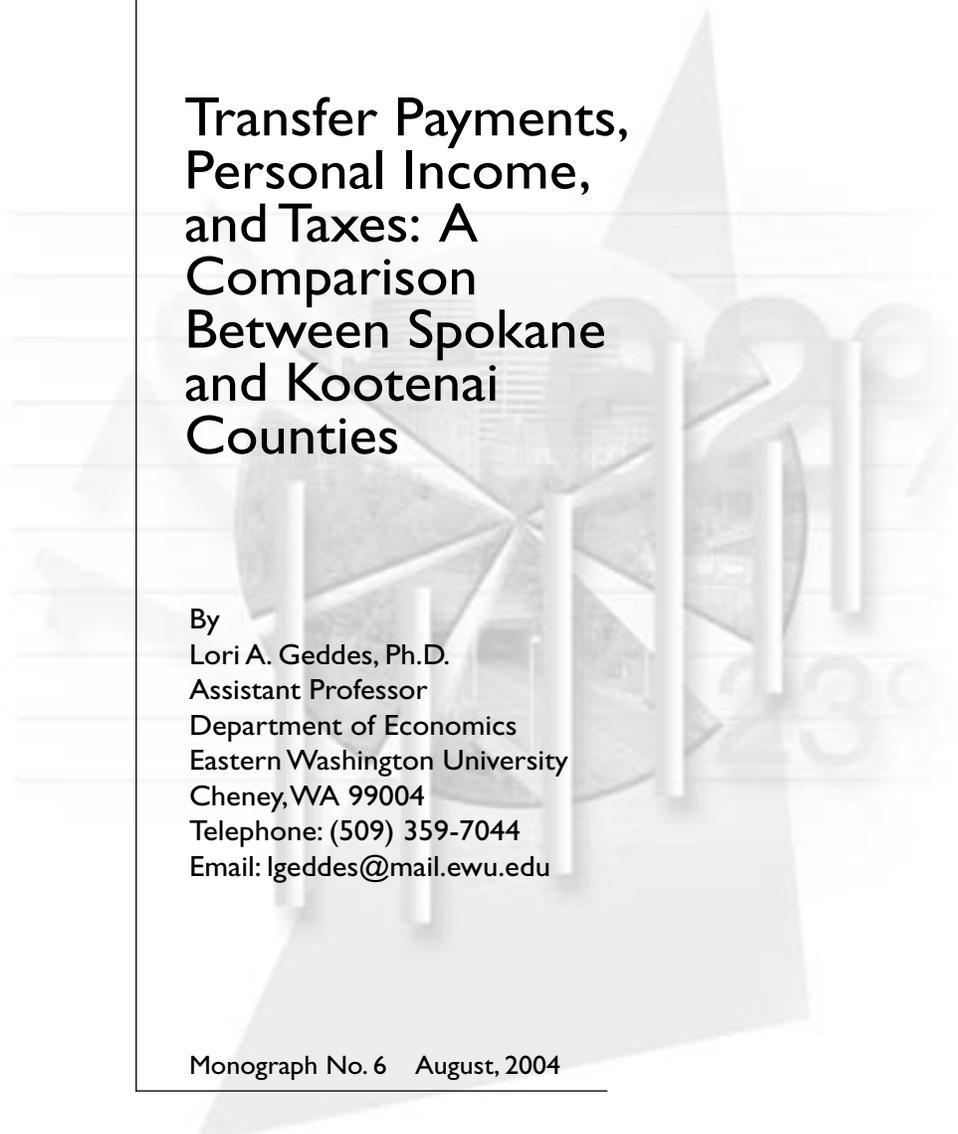
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Transfer Payments, Personal Income, and Taxes: A Comparison Between Spokane and Kootenai Counties

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It is with great pleasure that I introduce you to the monograph series of the Institute for Public Policy and Economic Analysis from Eastern Washington University. I hope this research from Eastern faculty sheds new light on a particular aspect of life in the Inland Northwest.

The goal of the Institute is for our highly-qualified faculty to provide analysis and data that are relevant to your lives. The vision of a regional university that our Board of Trustees has adopted speaks directly to the notion of relevance to the Inland Northwest. Without relevance to the communities that make up this dynamic and beautiful corner of our country, our university is not fully living up to its mission.

Of course, our main mission at Eastern Washington University is to educate students to the highest levels possible, for the sake of their own careers, the future of the communities in which they will reside, and ultimately their growth as individuals. An increasingly important mission of Eastern is also to encourage faculty research. Not only does this help keep our faculty professionally current, but makes them better teachers, through the sharing of research opportunities with their students.

However, not all faculty research at Eastern need be written for professional audiences. In this day of increasingly specialization and complexity, I see an imperative for an informed citizenry. What better source can our region find to translate this knowledge into jargon-free, accessible information than a university like Eastern?

Since coming here five years ago, I am convinced there is a level of excellence at Eastern Washington University that is worthy of recognition and support. The university is a catalyst in the progress of the region – its economy, culture and way of life. The Board of Trustees and I regard the Institute for Public Policy and Economic Analysis as a striking example of our commitment to this region. My office and that of the Institute director welcome all comments on how we might better serve.

A handwritten signature in black ink, consisting of a large, stylized 'S' followed by 'M. Jordan'.

Stephen M. Jordan, Ph.D.



Table of Contents

| | |
|---|-----------|
| I. Executive Summary | 6 |
| II. Introduction | 8 |
| III. Methods and Data..... | 8 |
| IV. Transfer Payment Trends | 9 |
| V. Personal Income Trends | 15 |
| VI. Transfer Payments Relative to Personal Income..... | 20 |
| VII. Federal Taxes Paid: Drawing the Balance | 22 |
| VIII. Conclusions and Further Research..... | 24 |
| | |
| Endnotes and References | 25 |

I. Executive Summary

This report tracks and compares total Federal transfer payments and personal income for two counties, Spokane, Washington and Kootenai, Idaho over a 31 year-period, 1971 - 2001. In many regional economies, transfer payments are a significant portion of total economic activity. The topic has never been explored in these two counties. Transfer payments and personal income are then compared to federal income taxes paid in 1991 and 1998.

Transfer payments are payments made to people and institutions by all levels of government that are not for current services. This study examines largely federally funded programs. A few of these programs include some state funding, for instance, Veteran's Payments and Payments to Nonprofit institutions, but these contributions are relatively small compared to the federal contributions. The better-known federal transfer payment programs included Unemployment Insurance, Social Security Benefits, and welfare programs like Aid to Families with Dependent Children (AFDC) and its replacement, Temporary Assistance to Needy Families (TANF). Comparing transfer payments to personal income allows us to see how much the two counties rely on the federal government, outside of payroll and spending on government enterprises, like Fairchild Air Force Base.

The main goal of this study is to gauge the relative importance of transfer payments to residents of the two counties. One of the goals of the Institute for Public Policy and Economic Analysis is to provide a better understanding of the regional economy. This study should shed some light on an important component of the regional economy. If the area's economy relies heavily on transfer payments to maintain income levels, changes in policies affecting those payments will have a large impact on the area. Comparing the transfer payments to federal income and payroll taxes shows whether the counties are in "balance", vis-à-vis the Federal government.

The main findings of this study are:

- Transfer payments have had a higher relative importance to overall economic activity in Spokane than in Kootenai County.
- In 2001, transfer payments made up 21% of total personal income in Spokane County and 18% in Kootenai County. These ratios are higher than the respective state shares of total personal income taken by transfer payments.
- Kootenai County showed faster growth in total transfer payments and personal income, but Spokane County showed a slight advantage in per capita growth rates for both.
- The overall growth rate in both transfer payments and personal income has decreased over the 31-year period.
- Changes in total transfer payments and personal income do not move in opposite directions, as one would expect.
- Changes in farm payments and farm income are erratic and generally move in opposite directions, as is expected.
- The balance between transfer payments received and tax payments made for years 1991 and 1998 reveals that Spokane and Kootenai Counties both received more in Federal individual transfer payments than paid in personal income tax and social security contributions.

II. Introduction

This report explores the trends in transfer payments and personal income for Spokane and Kootenai Counties over a 31-year period from 1971 to 2001. This allows us to see the role the government plays in providing economic support to the area and how dependent the two counties are on federal transfer payments. Transfer payments are only a portion of total federal spending in the two counties. However, this report is limited only to transfer payments and thus other federal spending, such as federal government payroll for agency offices and for Fairchild Air Force Base, is not included here. Nevertheless, this report provides insight into the make-up of the regional economy, which is part of the ongoing effort of the Institute.

The following section describes data and methods used. Section IV briefly analyzes the components of transfer payments for each county separately, and then identifies any similarities and differences in those trends. Section V describes the trends in personal income for each county and again identifies any similarities and differences in those trends. Section VI compares transfer payments to personal income. Section VII draws some preliminary conclusions about the balance between transfer payments received and taxes paid to the Federal government. Section VIII contains the conclusions, including a discussion areas of further research.

III. Methods and Data

Data for transfer payments and personal income used in this report are taken from tables created by the Northwest Income Indicator Project of the Washington State University Cooperative Extension and from data obtained from the Bureau of Economic Analysis (BEA). The 31-year period is broken into six six-year periods, used to calculate the percentage change in the values, thereby revealing trends in the data over the last three decades. Each six-year period measures the changes from the first year in the period to the last year in the period. The last year of the previous period becomes the first year in the next period. Six-years are used instead of ten-year periods because longer intervals tend to hide the effects of

events that happen within the decade. For instance, the percentage change¹ from 1991 to 2001 would hide the national economic boom that occurred during the latter half of the 1990s. Similarly, using a smaller time-period, say one or two years, would show only minor changes that would not reflect the cumulative effect over longer time-periods.

The IRS provides federal income tax data for a limited number of recent years, namely 1991, 1997, and 1998. Thus, the comparisons between transfer payments, personal income, and taxes will be limited to 1991 and 1998. All dollar values are nominal (current dollars).

IV. Transfer Payment Trends

Tracking trends in transfer payment receipts over time gives an idea of how much Spokane and Kootenai Counties' economies rely on the Federal government for support. Transfer payments are payments made by Federal, state, and local governments to people that are not in exchange for current services. Under this definition, it is possible to include retirement benefits, like federal pensions, because the services

were obtained in the past. Social Security can also be included for similar reasons. While an individual does "pay" for their benefits through a payroll tax, it was paid in a different time-period. Also, the amount of the benefit usually exceeds the individual contribution because employers also contribute to benefits on behalf of their employees.

Transfer payments are divided into four basic categories:

| Government Payments to: | Representative Programs: |
|---|--|
| Individuals | <ul style="list-style-type: none"> • Retirement insurance benefits • Medical payments • Income maintenance payments • Unemployment benefits • Veteran's benefits • Federal Education and Training programs |
| Farmers | <ul style="list-style-type: none"> • Price supports for specific commodities • Disaster payments • Conservation payments • Direct payments under appropriations legislation |
| Non-profit Institutions | <ul style="list-style-type: none"> • Payments from Federal, State and Local governments excluding funding for research and development |
| Business payments to Individuals and Non-profit Institutions* | <ul style="list-style-type: none"> • Liability payments to non-employeesⁱⁱ • Corporate gifts to non-profit institutions |

*The first three categories are transfers from the government. The final category is transfers from businesses.

To give a better picture of the variety of people who benefit from transfer payments, a summary of key programs for individuals follows. Retirement insurance benefits is the largest component of individual payments, followed by medical payments, income maintenance payments, unemployment benefits, veterans' benefits, and Federal education and training programs.

Retirement Insurance Benefits include payments made for old-age, survivors, and disability (OASDI) benefits. This is popularly known as social security. Also included in Retirement Insurance Benefits are payments made for railroad retirement and disability, federal and state worker's compensation benefits,

temporary disability benefits, black lung benefits and Pension Benefit Guaranty benefits.

Medical Payments are made to healthcare providers for services obtained through Medicare, Medicaid, and Military Medical insurance programs.

Income Maintenance Payments are payments made to individuals participating in Supplemental Security Income (SSI), family assistance, food stamps, and other assistance programs. Supplemental security income is different from OASDI, as SSI targets low-income persons, whereas OASDI is an entitlement earned by working at some point during one's life span. The family assistance programs that comprise

part of Income Maintenance payments are popularly regarded as welfare. In 1997, Temporary Assistance to Needy Families (TANF) replaced the main welfare program, Aid to Families with Dependent Children (AFDC). The differences between the two programs lie in TANF's work requirements and in its transfer of control of the program to the individual states.

Veteran's Benefit payments and Federal Higher Education and Training payments are two more programs that provide payments to individuals in the area. Veteran's benefits include pension and disability benefits, readjustment payments, life insurance benefits, state and local government payments to indigent veterans, and state and local government payments of bonuses. Federal higher education and training involves federal fellowships, higher education student assistance (Pell Grants), Job Corps payments, and interest payments on subsidized student loans.

Other transfer payments to individuals include some of the smaller and more targeted programs, like the Bureau of Indian Affairs, education exchange, Alaska Permanent Fund dividends, compensation to survivors of public safety officers, compensation to victims of

crime, disaster relief, and compensation for Japanese-American internment in WWII.

Table I displays the shares of the four major categories of transfer payments in the two counties over time. For both counties, individual payments are the largest component. They are consistently, 91%-95% of all transfer payments made.

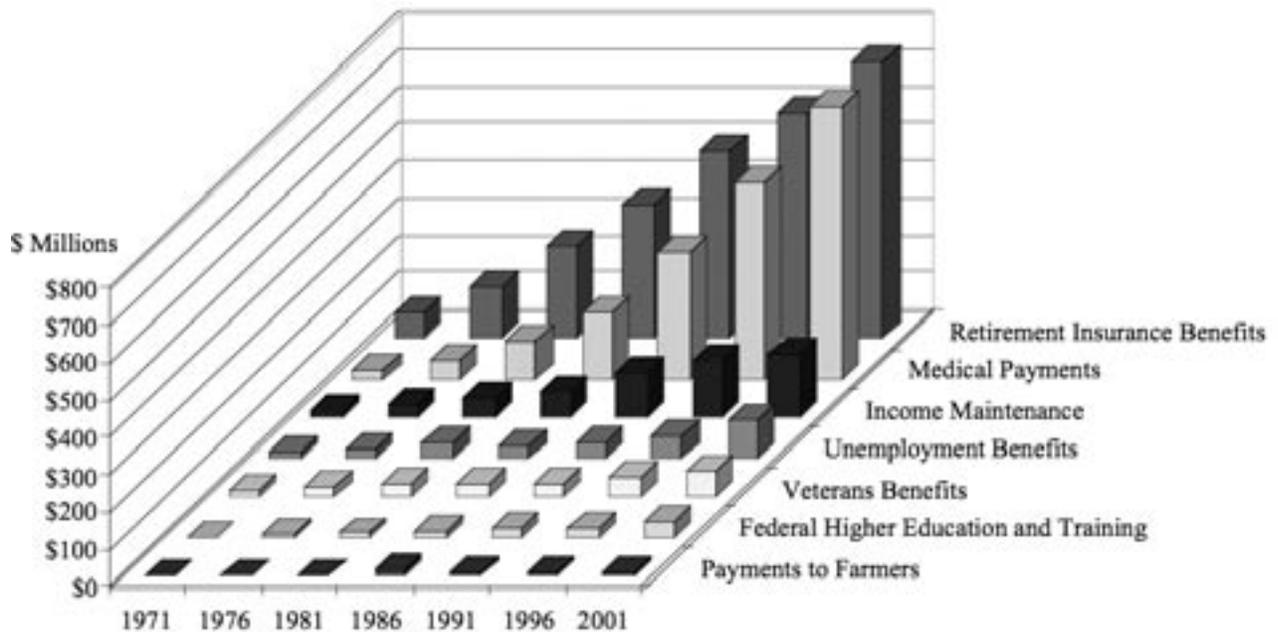
The share of transfer payments from businesses is about the same for both counties at about 3%, and represents the next largest category. Obviously, changes in federal programs for individuals would have a much larger impact than changes in business payments. While relatively small in both counties, Farm payments consist of a larger share of total transfer payments for Kootenai County than for Spokane County. This difference implies that changes in farm payments will influence Kootenai County more than Spokane County, if we ignore changes to farm payments made outside of the two counties. For nonprofit institutions, the reverse is true. Spokane would be impacted more than Kootenai by changes in these payments because they represent a larger share of total transfer payments.

Table I: Share of Total Transfer Payments by Category and County for Selected Years 1971-2001

| Government Payments to: | Share of Total Transfer Payments (in %) | | | | | | |
|-------------------------------|---|------|------|------|------|------|------|
| | 1971 | 1976 | 1981 | 1986 | 1991 | 1996 | 2001 |
| Individuals | | | | | | | |
| Spokane County | 93 | 95 | 95 | 92 | 95 | 93 | 94 |
| Kootenai County | 91 | 94 | 94 | 92 | 94 | 93 | 94 |
| Farmers | | | | | | | |
| Spokane County | 2 | 0.1 | 0.4 | 2 | 1 | 1 | 1 |
| Kootenai County | 3 | 3 | 2 | 2 | 2 | 3 | 2 |
| Nonprofit Institutions | | | | | | | |
| Spokane County | 2 | 2 | 2 | 2 | 2 | 3 | 3 |
| Kootenai County | 3 | 0.1 | 1 | 2 | 1 | 1 | 0.5 |
| Business Payments | | | | | | | |
| Spokane County | 3 | 3 | 3 | 4 | 3 | 3 | 3 |
| Kootenai County | 3 | 3 | 3 | 5 | 3 | 3 | 3 |

Source: Regional Economic Information System, Bureau of Economic Analysis, 2003.

Figure I: Federal Transfer Payments for Spokane County by Category and Selected Years, 1971 - 2001



Note: All values are Current Dollars. Source: Regional Economic Information System, Bureau of Economic Analysis, 2003.

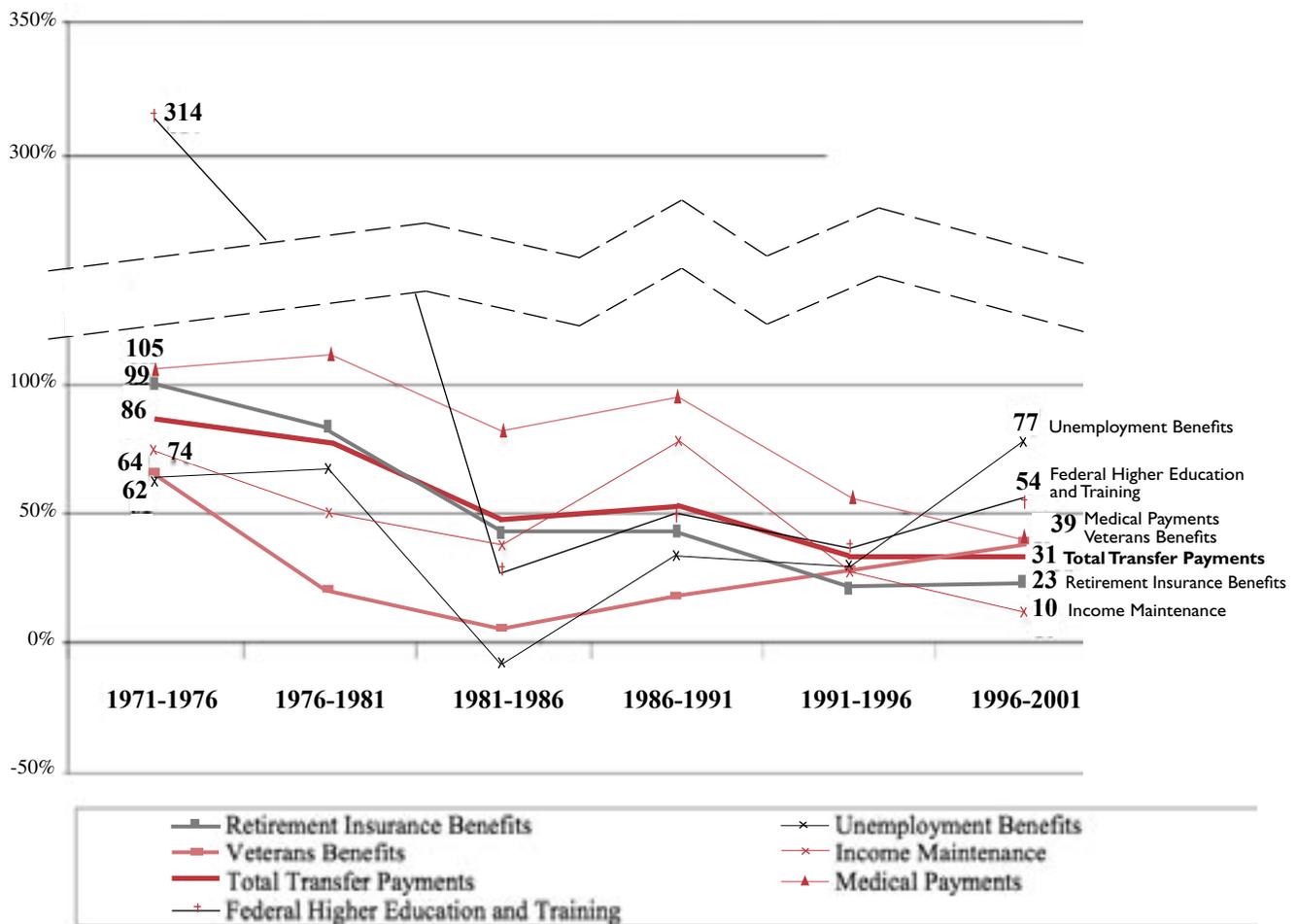
Federal Transfer Payments to Spokane County

Figure I shows the nominal dollar amount of transfer payments received in Spokane County for selected years. The total grew from \$154 million in 1971 to \$1.96 billion in 2001. That is an increase of \$3,659 per capita, or \$519 in 1971 to \$4,178 in 2001.

Notice that Retirement Insurance benefits are the largest payments to the County, followed closely by medical benefit payments. Income maintenance and unemployment benefits are a much smaller percent of total transfer payments. In general, all of the categories exhibit an upward trend in absolute dollar value. However, as we shall see, the trends in growth rates are not as consistent.

The growth rate in Retirement Insurance Benefit Payments, mainly OASDI, has decreased from 99% in the 1971-1976 time-period to 23% in the 1996-2001 time-period.

Figure 2: Growth Rates of Federal Transfer Payments to Individuals in Spokane County from 1971 - 2001



Source: Regional Economic Information System, Bureau of Economic Analysis, 2003.

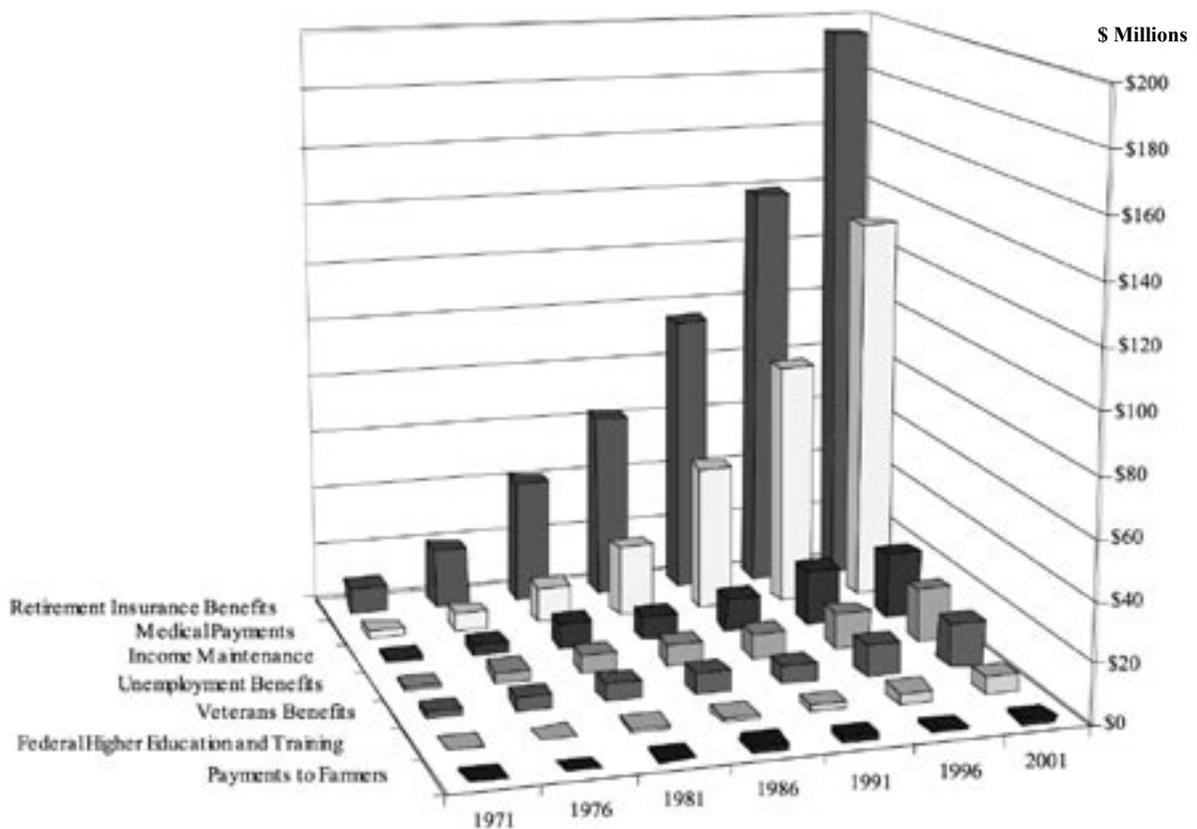
As shown in Figure 2, not all of the categories of transfer payments display the same trend in growth rates over the 31-year period. First, growth of Retirement Insurance benefits, Medical Payments, and Income Maintenance Payments reveals a clear downward trend. For instance, the growth rate in Retirement Insurance Benefit Payments, mainly OASDI, has decreased from 99% in the 1971-1976 time-period to 23% in the 1996-2001 time-period. Basically, the total dollar value of these payments is increasing but at a decreasing rate.

Second, growth rates in Unemployment Benefits, Federal Higher Education and Farm payments exhibit a roller coaster trend over the six time periods. The growth rate in Unemployment Benefits initially increased from 62% to 66%, then decreased by 9%,

then rose to 33%, dipped again by 28%, before growing 77% over the 1991 - 2001 period. Higher Education payments had a similar pattern. This pattern is repeated for payments to Nonprofit Institutions and payments from Businesses, not shown in Figure 2.

Although not shown in Figure 2, the path of Farm payments is even more dramatic, starting with a -96% change over 1971-1976, then increasing by 1,362% and 729% in the next two time periods, and reverting to a negative growth rate until the 1996-2001 time-period, where farm payments increased by 43%. Another trend is for Veteran's benefits, which follow a U-shaped pattern, decreasing from 64% from the 1971-1976 time-period to 4% in the 1981-1986 time-period and then increasing to 39% in the 1996-2001 time-period.

Figure 3: Federal Transfer Payments to Kootenai County by Category and Selected Years, 1971 - 2001



Note: All values are Current Dollars. Source: Regional Economic Information System, Bureau of Economic Analysis, 2003.

While aggregate growth rate over the three decades largely fell, (from 91% in 1971-1976 period to 31% in 1996-2001 period) the decline concealed marked differences between programs. Since the various transfer payment programs address the needs of different groups, the impact of the changes was highly varied. For instance, Federal Higher Education payments have steadily declined, implying a shift of the costs of education to students. On the other hand, while Unemployment Benefits decreased midway through the 31-year period, they had higher growth rates at the end than the beginning of the period.

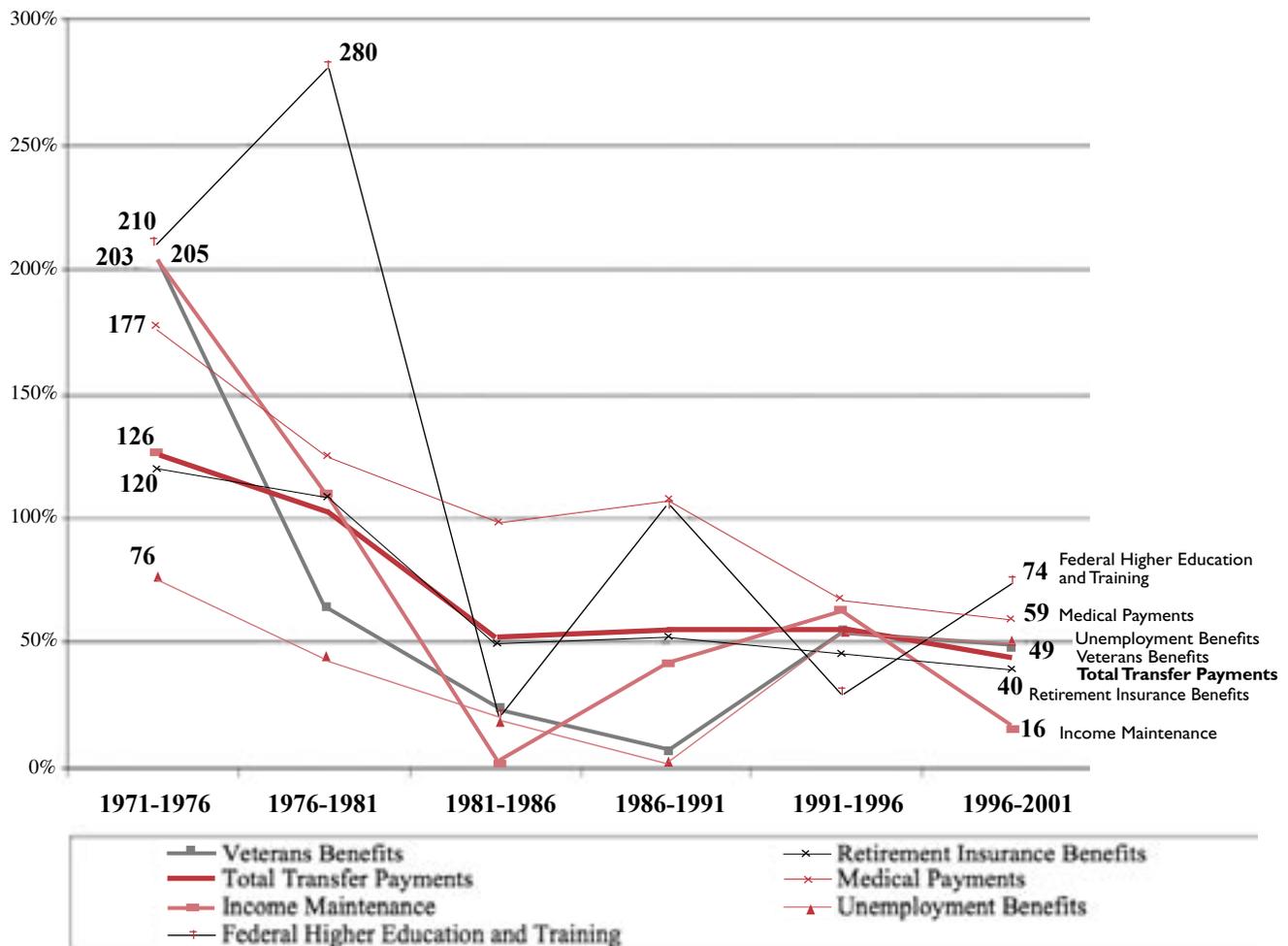
Federal Transfer Payments to Kootenai County

Figure 3 shows the nominal dollar value of transfer payments made to Kootenai County for selected years. The total grew from \$17.6 million in 1971 to \$414 million in 2001. That is an increase of \$3,228 per capita, or \$480 in 1971 to \$3,708 in 2001.

Similar to Spokane County, Retirement Insurance benefit payments, mainly OASDI, are the largest component of transfer payments in Kootenai County, followed closely by medical payments. As in Spokane, income maintenance and unemployment payments are much smaller by comparison. Kootenai exhibits a similar upward trend in all categories, as in Spokane. However, the growth rates show a very different pattern.

As Figure 4 shows, unlike Spokane County, there are two basic trends in the growth rates of transfer payments for Kootenai County. First, growth rates of Retirement Insurance Benefit payments, Medical payments, Unemployment benefits, and Veterans Benefits all show a clear downward trend. Exceptions included the slight increases in the growth rates during the late 1980s for Retirement Insurance Benefits (from 49% to 52%) and Medical payments (from 98% to 106%). The growth rates of Unemployment Benefits decreased until the late 1980s, then climbed in the early 1990s from 7% to 54%. Growth rates in Veterans

Figure 4: Growth Rates of Federal Transfer Payments to Kootenai County from 1971 - 2001



Source: Regional Economic Information System, Bureau of Economic Analysis, 2003.

Benefits, from 2% to 51%, revealed a similar pattern. However, changes in Income Maintenance, Higher Education, Farm payments, and Nonprofit payments display wide swings, starting the period at high rates and then with decreasing rates, only to rise at the end of the 31-year time-period. For instance, growth rates in Higher Education payments started with an increase of 210% over 1971-1976, increased to 280% from 1976 to 1981, declined to 22% during the 1981-1986 time-period, only to increase by 106% from 1986 to 1991. They increased at a much lower rate, 29%, from 1991 to 1996 but rebounded to 74% over the 1996-2001 time-period.

Growth rates of Farm payments, not shown in Figure 4, to Kootenai County were the most volatile of all payments, as was the case in Spokane. They began the period by declining 95% from 1971 to 1976, then increased 1,438% between 1976 and 1981, and climbed again between 1981 and 1986 but at a much lower rate of 352%. Thereafter for 10 years, the growth rate became negative (-19% and -18%), before rebounding to 32% from 1996 to 2001.

Comparison between Spokane and Kootenai Counties

While the overall trends are similar between Spokane and Kootenai Counties, the magnitude of the changes is often quite different. The decline of growth rates of Retirement Insurance benefits and Medical payments are greater in Spokane than in Kootenai County. For example, the percentage change in Retirement Insurance benefits from 1971 to 1976 was 99% for Spokane and 120% for Kootenai County. By the late '90s (1996 - 2001), Spokane realized only 23% growth, while Kootenai enjoyed a 40% growth rate. This theme continues for all the categories.

One reason for this may be that Kootenai County has had much faster population growth over this time-period. The 6-year population growth rates ranged from 10% to 33%, while Spokane's ranged from 2% to 10%. Typically, population growth will contribute positively to the amount of transfer payments made to the county. For instance, more people will be receiving unemployment, Medicare, Medicaid, OASDI, SSI, family

assistance and education assistance.

When put into per capita terms, growth rates of transfer payments are actually larger for Spokane than Kootenai County. The exceptions are the periods 1976-1981 and 1991-1996. Another possible explanation for faster growth of total transfer payments in Kootenai County is that some transfer payments are tied to income levels rather than population. For example, Unemployment benefits, the amount received is dependent on income prior to being unemployed. Indeed, Kootenai had faster growth in unemployment benefits during the 1971-1976, 1981-1986, and 1991-1996 time periods. This partly reflects the higher growth in personal income over the same period, taken up in Section V, as well as consistently higher unemployment rate over Spokane County.

Generally, however, the structure of the broad transfer payment categories is the same in both counties. This is supported by the fact that total transfer payments have grown in both counties but at decreasing rates, especially since 1991.

V. Personal Income Trends

Personal income reflects the amount of current income earned from work by residents in Spokane and Kootenai Counties. The following section describes the components of personal income in greater detail and looks at trends over the 31-year period for both counties. It ends with a comparison of those trends between the counties. Tracking personal income is important because it reflects another way to measure Gross Domestic Product (GDP) for the two counties. One reason why GDP is not used is because transfer payments are offsetting. That is, transfer payments are payments made from one sector of the economy to another. For instance, OASDI payments reflect payments of current workers to current retirees. The primary reason GDP was not used, however, lies in the unavailability of these data at the county level. Total personal income, including transfer payments,

approximates the regional income and thus can be used as a regional measure of GDP.

Proprietor's income usually includes farm income, but is listed here as a separate category, in order to compare it to the farm payments made by the government. Nonfarm proprietors' income consists of income received by nonfarm sole proprietorships, partnerships, and tax-exempt cooperatives.ⁱⁱⁱ "Other income" consists of payments to private and government employee retirement plans, group health and life insurance plans, private workers' compensation plans, and supplemental unemployment benefit plans. Farm income is the net income of sole proprietors, partners and hired laborers from the current production of agricultural commodities (livestock or crops). Excluded from total personal income, of course, are transfer payments, since this report is making a comparison between the two.

Total net personal income consists of several components:

| Component | Subcomponents |
|-------------------------------|--|
| Net Nonfarm Personal Income = | + Wages and salaries + Proprietor's income + Other income - Contributions to Social Security - Transfer payments |
| Net Farm Personal Income = | + Wages to farm labor + Farm proprietor's income - Government payments - Contributions to Social Security |
| Personal Investment Income = | + Dividends + Interest + Rent |

Personal Income for Spokane County

Table 2 shows the nominal dollar value of the three main components of personal income. In 1971, nonfarm personal income was the largest component at 81%, followed by dividends, interest, and rent at 18%. Farm income consisted of a mere 1% of total personal income in Spokane County. While total net personal income was nine times larger in 2001 than in 1971, personal investment income was twelve times higher and nonfarm personal income was eight times higher.

In comparison, per capita personal income was a mere six times higher in 2001 than in 1971.

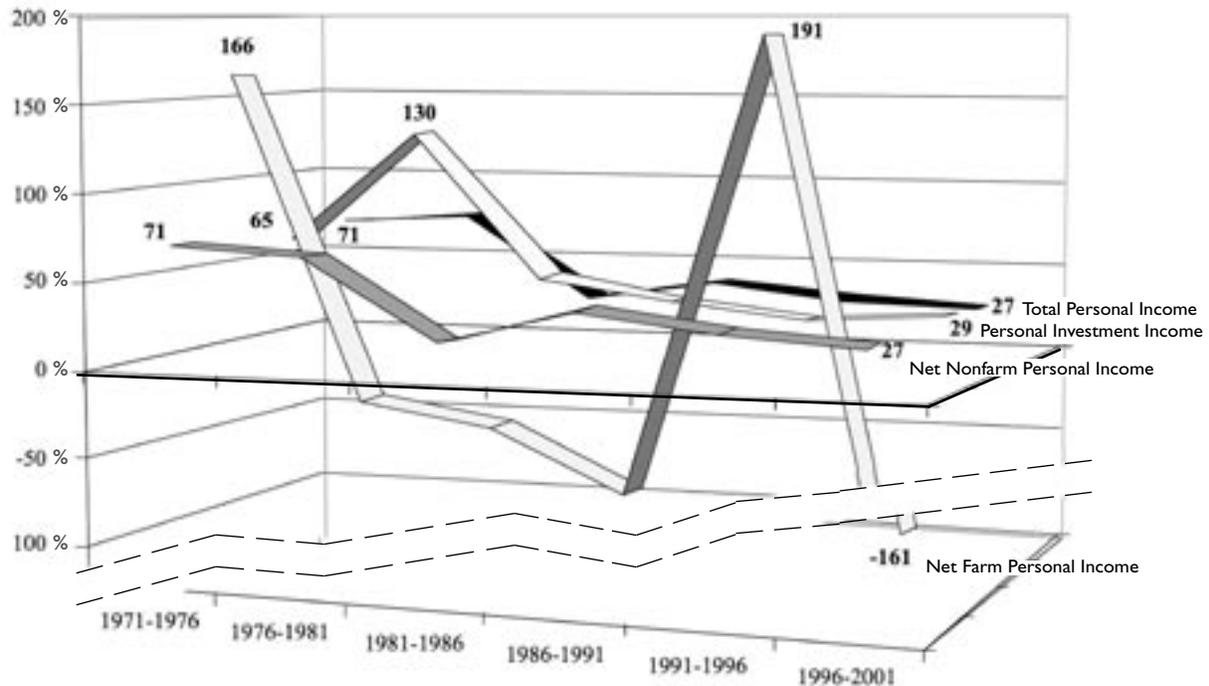
Overall, the growth rate in total personal income in Spokane County has trended downward since 1971, as Figure 5 demonstrates. Here, six-year growth rates are mapped for total and the three components of personal income. An exception occurred for the 1986-1991 time-period. In addition, Personal Investment income (consisting of dividends, interest, and rent) displayed an increase in the late 1990s that is consistent with the overall growth in the stock

Table 2: Personal Income for Spokane County by Category and Selected Years, 1971-2001

| Category | (in \$1,000) | | | | | | |
|------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| | 1971 | 1976 | 1981 | 1986 | 1991 | 1996 | 2001 |
| Net Nonfarm | | | | | | | |
| Personal Income | \$837,514 | \$1,428,050 | \$2,397,139 | \$2,921,828 | \$4,143,635 | \$5,468,813 | \$6,924,332 |
| Net Farm | | | | | | | |
| Personal Income | \$12,945 | \$34,375 | \$26,335 | \$16,966 | \$5,015 | \$14,606 | -\$8,919 |
| Personal Investment | | | | | | | |
| Income | \$181,344 | \$299,706 | \$690,172 | \$1,005,400 | \$1,340,710 | \$1,682,018 | \$2,168,603 |
| Total Net | | | | | | | |
| Personal Income | \$1,031,803 | \$1,762,131 | \$3,115,561 | \$3,944,194 | \$5,489,360 | \$7,165,707 | \$9,084,016 |
| Population | 296,859 | 315,955 | 346,675 | 354,778 | 372,770 | 408,197 | 423,037 |
| Per Capita | | | | | | | |
| Personal Income | \$3,476 | \$5,577 | \$8,987 | \$11,117 | \$14,726 | \$17,555 | \$21,473 |

Note: All values are current dollars. Source: Regional Economic Information System, Bureau of Economic Analysis, 2003.

Figure 5: Growth rates of Personal Income and its Components for Spokane County, 1971-2001



Source: Regional Economic Information System, Bureau of Economic Analysis, 2003.

market during the same time period. As Figure 5 reveals, Farm Income in Spokane County displayed the most dramatic changes over the 31-year period. It began with the period at \$12.9 million and by 1976 it was \$34.4 million, an increase of 166%. Farm income then decreased steadily by -23%, -36%, and -70%, until 1991 - 1996 where it grew 191%. However, the 1996-2001 time-period saw a return of the negative growth at -161%, when total farm income actually became negative.^{iv}

In contrast, Nonfarm personal income, by far the largest component of Personal income for Spokane County, registered positive growth rates throughout the 31-year period. But for the most part, the rates consistently decreased. For instance, the 1971-1976 time-period witnessed an increase in Nonfarm Income from \$837.5 million to \$1.4 billion, or a 71% growth rate. During the next five years, the growth rate decreased to 68%, then to 22% in the following five years. Over 1986-1991, the rate increased to 42%, but reverted to the declining pattern during the 1991-1996 period (32%) and 1996-2001 period (27%).

Personal Income for Kootenai County

Table 3 presents the nominal dollar value of the three main components of personal income in Kootenai County. Total net personal income was nineteen times higher in 2001 than in 1971, with personal investment income increasing twenty-four times and nonfarm personal income by eighteen times. While these factors are double the factors for Spokane County, per capita personal income increased six fold, the same as Spokane County.

For Kootenai County, the trends are similar to Spokane, with the exception of the increase in the growth rate of total Personal Income over two time-periods (1986-1991 and 1991-1996). The other exception is Farm Income, as growth rates decreased steadily and dramatically throughout the 31-year period. As Table 3 shows, the only time-period in which Farm Income climbed came at the beginning, 1971 - 1976, as it increased from \$2.1 million to \$5.1 million. The most dramatic decline occurred during

Table 3: Nominal Dollar Value of Personal Income for Kootenai County by Category and Selected Years, 1971 - 2001

| Category | (in \$1,000) | | | | | | |
|----------------------------------|------------------|------------------|------------------|------------------|--------------------|--------------------|--------------------|
| | 1971 | 1976 | 1981 | 1986 | 1991 | 1996 | 2001 |
| Net Nonfarm | | | | | | | |
| Personal Income | \$97,992 | \$203,312 | \$364,627 | \$495,209 | \$777,728 | \$1,246,285 | \$1,751,734 |
| Net Farm | | | | | | | |
| Personal Income | \$2,120 | \$5,077 | \$2,931 | \$1,713 | \$354 | -\$608 | -\$457 |
| Personal Investment Income | \$21,620 | \$41,987 | \$117,394 | \$183,369 | \$261,769 | \$401,016 | \$512,606 |
| Total Net Personal Income | \$121,732 | \$250,376 | \$484,952 | \$680,291 | \$1,039,851 | \$1,646,693 | \$2,263,883 |
| Population Per Capita | | | | | | | |
| Personal Income | \$3,322 | \$5,128 | \$7,973 | \$10,190 | \$14,062 | \$17,048 | \$20,275 |

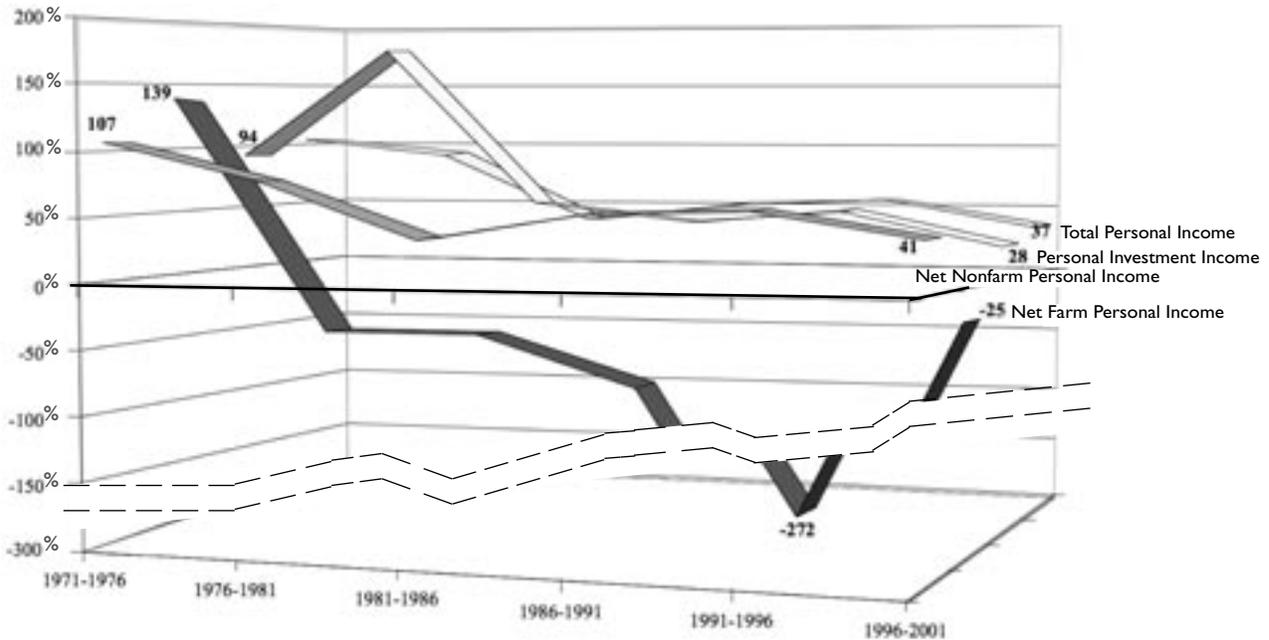
Note: all values are current dollars. Source: Regional Economic Information System, Bureau of Economic Analysis, 2003.

the 1991-1996 time-period. In absolute terms, Farm Income decreased from \$354,000 in 1991 to -\$608,000 in 1996. That is a decrease of 272% in only six years and remained negative through 2001.

In contrast, Nonfarm personal income, the largest category, demonstrated positive growth over the 31-year period, although at a decreasing rate. According to Figure 6, the 1971 - 1976 time-period experienced the largest gain at 107% (\$98 million to \$203.3 million), followed by a gain of 79% and 36% over the next two intervals. As in Spokane, the 1986-1991 time-period saw an increase in Non-farm Personal Income growth, to 57%, that lasted through the 1991-1996 time-period. By the 1996-2001 period, however, the growth rate in Nonfarm Income began a declining trend and increased only 41%.

By the 1996-2001 period, however, the growth rate in Nonfarm Income began a declining trend and increased only 41%.

Figure 6: Growth Rates of Personal Income and Its Components for Kootenai County, 1971-2001



Source: Regional Economic Information System, Bureau of Economic Analysis, 2003.

Comparison of Spokane and Kootenai Counties' Trends in Personal Income

As with transfer payments, trends in personal income are quite similar between the two counties, although the magnitudes of change are not. Kootenai County has enjoyed a higher growth rate in nearly all categories and time-periods except for Farm Income. Indeed, total net personal income in Kootenai County grew more than twice as fast as Spokane County over the 31-year period (1760% versus 780%).

It seems that Spokane's farmers fared better over the 31-year period than Kootenai's farmers. It is only in the last 5 years of the time-period that Kootenai farmers had an advantage over Spokane farmers. Kootenai farm income decreased only 8% whereas Spokane farm income decreased 314%.

For the other categories, it is likely that the gains in Kootenai County are at least partially due to faster population growth over the three decades. Looking at per capita income, Spokane indeed had a faster growth during 1971-1976 (60% versus 54%), 1976-1981 (61% versus 55%) and 1996-2001 (22% versus 19%). However, Kootenai County enjoyed a greater percentage change in the other time-periods. This indicates that population change alone is not the reason for the rapid growth of personal income in Kootenai County. It may be due to the greater growth in wage and salary disbursements, which is the largest component of personal income, realized by residents in Kootenai County than residents in Spokane County.

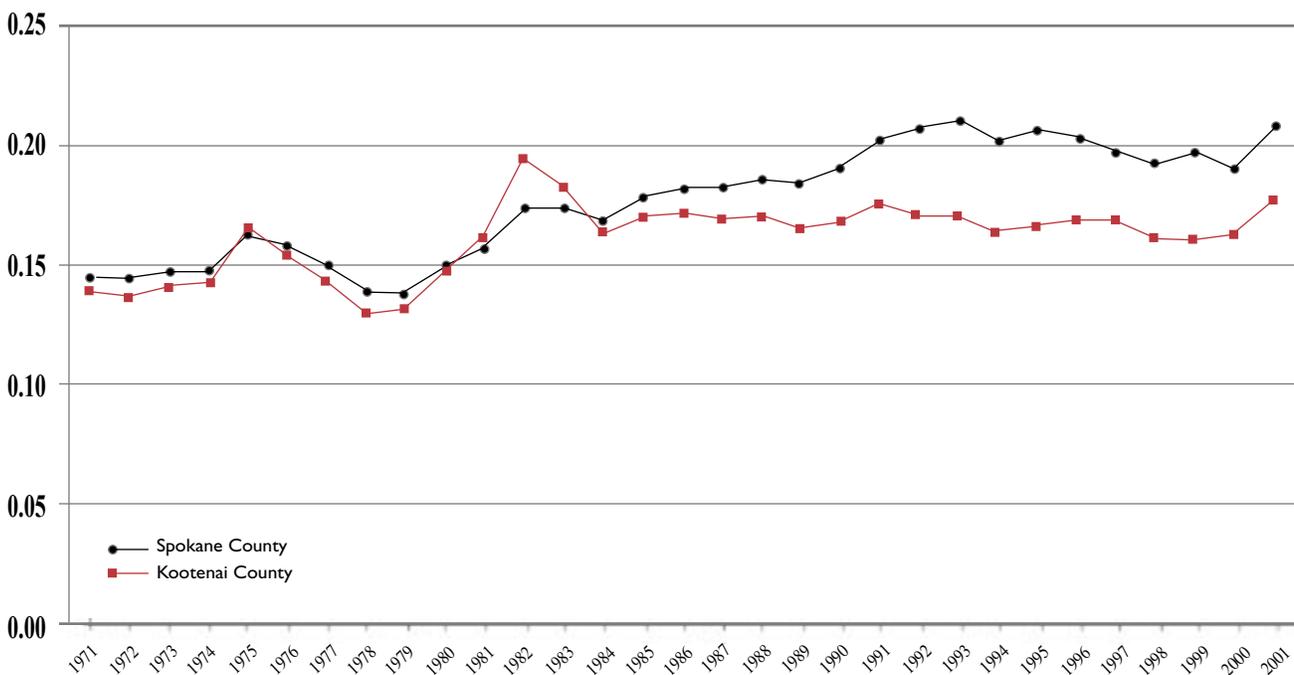
VI. Transfer Payments Relative to Personal Income

Comparing transfer payments to personal income gives the relative importance of Federal government contributions to the well-being of the residents in Spokane and Kootenai Counties. The ratio of transfer payments to personal income over time shows how much the area has relied on Federal transfer payments. We note that this ratio includes only transfer payments and not direct contributions by the Federal government, such as payroll from Fairchild Air force Base, highway expenditures, and payroll from the many Federal agency offices located in Spokane and Kootenai Counties.

While the growth of transfer payments and personal income has been higher in Kootenai County than in Spokane County, the ratio of individual transfer

payments to personal income for Spokane County is consistently higher and exhibits a clear upward trend over the period in (see figure 7). The ratio - total individual transfer payments divided by total personal income, including transfer payments - reflects the relative importance of transfer payments to the area. The ratio represents the proportion of every dollar received by individuals in the county that stem from a Federal governmental entity. For instance, in 1971, Spokane had a ratio of 0.14, which means that for every \$1 received by an individual in Spokane, 14 cents were due to transfer payments. By the end of the period, the ratio had increased to 0.21, or 21 cents of every dollar received was due to transfer payments. Spokane County's reliance on individual transfer payments grew by 50% over the last three decades.

Figure 7: Ratio of Individual Transfer Payments to Total Personal Income, 1971 - 2001



Source: Regional Economic Information System, Bureau of Economic Analysis, 2003.

Transfer payments to individuals increased faster than personal income in Spokane for all time-periods except 1976-1981, where they grew at nearly the same rate, 76% and 77%. In Kootenai County, there is a similar trend. Transfer payments to individuals had higher growth rates in every time period except 1991-

1996, where they grew 53% and personal income grew 58%.

Kootenai's ratio equaled Spokane's ratio over the beginning of the time-period but then became relatively constant, while Spokane's ratio displayed

a consistently upward trend after 1984. Kootenai County began the period with a ratio of 0.14 and ended not much higher, at 0.18. In other words, the reliance on individual transfer payments grew by 29% over the last three decades in the Idaho county adjacent to Spokane. Both counties showed a decline in the ratio during the last half of the 1990s, consistent with rising real wages and low unemployment of that time-period. The growing reliance on transfer payments in Spokane County is consistent with the decreasing growth rate of total personal income, while Kootenai County has experienced variable growth in total personal income.

Compared to their respective states, the two counties' path of transfer payments present two different stories. Over the 31 years, Washington showed a flat trend in the ratio of transfer payments to total personal income. Washington's ratio started the period at 0.11 and ended at 0.12 in 2001. Idaho started at 0.09 and ended slightly higher at 0.13 in 2001. Both Spokane and Kootenai Counties had higher ratios than at the state level. Compared to Washington State, Spokane moved from a slightly more dependence on individual transfer payments to a much greater dependence in 2001. In contrast, Kootenai County paralleled Idaho's dependence on individual transfer payments.

In both counties, transfer payments and personal income do not display opposite trends. One might expect this to be the case, since some of transfer

payments are designed to provide financial assistance when incomes fall. For instance, when nonfarm personal income falls, we would expect income maintenance payments (like Supplemental Security Income, food stamps, and AFDC/TANF) to rise and vice versa. This has not been the case for the last three decades in Spokane or Kootenai Counties.

One possibility for the increase in transfer payments is adjustments for inflation. Many benefit payments have received cost of living adjustments, like social security and AFDC/TANF. Another possibility is that there have been policy changes taking place. For instance, a greater number of students are now eligible for higher education loans. A third possible explanation is that benefit levels are tied to amount of income from wages and salaries. This is true for unemployment benefits; as wages rise, so to does the unemployment benefit. A fourth possible reason for the positive relationship is that income maintenance flows were swamped by other transfer payments, such as Medicare and Social Security, which are not tied to the business cycle but to population changes.

According to Table 4, farm income and farm payments do have the expected relationship in most time periods. The exceptions occur when they decreased during the 1986-1991 time-period in Spokane and from 1986 to 1996 in Kootenai County. In recent years, farm payments have not been enough to erase the negative farm income. This means that area farmers cannot rely on federal aid to remain profitable.

Table 4: Percentage Change in Transfer Payments and Personal Income for Both Counties, 1971-2001

| Spokane County | 1971-1976 | 1976-1981 | 1981-1986 | 1986-1991 | 1991-1996 | 1996-2001 |
|----------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Farm Payments | -96 | 1,362 | 729 | -40 | -29 | 43 |
| Net Farm Personal Income | 166 | -23 | -36 | -70 | 191 | -161 |
| Transfer Payments to Individuals | 90 | 76 | 44 | 56 | 31 | 31 |
| Total Net Personal Income | 71 | 77 | 27 | 39 | 30 | 27 |
| Kootenai County | | | | | | |
| Farm Payments | -95 | 1,438 | 352 | -19 | -18 | 32 |
| Net Farm Personal Income | 139 | -42 | -42 | -79 | -272 | -25 |
| Transfer Payments to Individuals | 35 | 102 | 49 | 56 | 53 | 45 |
| Total Net Personal Income | 106 | 94 | 40 | 53 | 58 | 37 |

Source: Regional Economic Information System, Bureau of Economic Analysis, 2003.

VII. Federal Taxes Paid: Drawing the Balance

In order to attempt an assessment of whether or not the counties are in “balance”, that is, the amount received from the Federal government equals the amount paid to the Federal government, transfer payments must be set against federal income and payroll taxes paid by the region’s residents. Determining the net direction of these flows, or the “equity” in this particular relationship with Washington, D.C., is typically of great interest to residents of both counties. This study makes a first pass at assessing the level of transfer payments, personal income and taxes paid for 1991 and 1998. Data could only be obtained from the IRS for tax years 1991 and 1998, limiting the analysis to those years. It is important to note that

this analysis only looks at individual contributions and receipts. Corporate profits and other business taxes are excluded here. A reason for this is that business taxes only account for 10% of total tax revenue collected by the federal government⁵.

In 1991, Spokane residents filed 169,305 personal tax returns and paid a total individual income tax of approximately \$581 million (see Table 5). By 1998, the number of returns only increased 3%, yet taxes paid increased 63%. Kootenai County tells a similar story. In 1991, there were 34,197 returns filed for a total individual income tax of approximately \$97.7 million. By 1998, the number of returns increased 33% and taxes increased 109%.

Table 5: Amount and Percentage Change in Income Tax, Personal Income, and Transfer Payments, 1991 & 1998

| | 1991 | 1998 | Change |
|---|-----------------|-----------------|--------|
| Returns | | | |
| Spokane County | 169,305 | 174,090 | 3% |
| Kootenai County | 34,197 | 45,604 | 33% |
| Personal Income | | | |
| Spokane County | \$5,489,360,000 | \$8,048,423,000 | 47% |
| Kootenai County | \$1,039,851,000 | \$1,899,953,000 | 83% |
| Adjusted Gross Income | | | |
| Spokane County | \$4,668,145,679 | \$6,757,037,000 | 45% |
| Kootenai County | \$870,066,331 | \$1,640,838,000 | 89% |
| Individual Income Tax | | | |
| Spokane County | \$580,957,529 | \$946,971,000 | 63% |
| Kootenai County | \$97,728,107 | \$204,586,000 | 109% |
| Personal Contributions to Social Insurance | | | |
| Spokane County | \$287,068,000 | \$427,944,000 | 49% |
| Kootenai County | \$45,184,000 | \$79,156,000 | 75% |
| Total Tax | | | |
| Spokane County | \$868,025,529 | \$1,374,915,000 | 58% |
| Kootenai County | \$142,912,107 | \$283,742,000 | 99% |
| Transfer Payments to Individuals | | | |
| Spokane County | \$1,138,470,000 | \$1,601,122,000 | 41% |
| Kootenai County | \$186,155,000 | \$315,269,000 | 69% |

Note: All values are current dollars. Source: Statistics of Income, Internal Revenue Service and Regional Economic Information System, Bureau of Economic Analysis, 2003.

One explanation for this dramatic difference between the two years lies in a rise of income that generated the larger increase in taxes. Adjusted gross income (AGI) grew 45% for Spokane and 89% for Kootenai County, which would account for part of the increase in taxes. The rise in personal income nearly matches the rise in AGI, 47% in Spokane and 83% in Kootenai.

Of greatest interest is how those tax dollars and SSI contributions were returned to the area. Personal contributions to social insurance include payments made by employees and the self-employed to OASDI, Medicare, and other social insurance programs. Not included are the employer contributions to these programs. Consequently, it keeps the analysis on an *individual* level.

This may not give the complete picture of the true amount paid to the federal government. While we do not know the exact amount of the employer contributions, we do know that employers contribute more than employees because they are taxed on the full amount of their payroll and employees only pay up to a certain income amount^{vi}. Moreover, because we are not including other taxes businesses pay, it seems inappropriate to include their contribution to SSI here.

A comparison of individual transfer payments received and individual taxes paid reveals that both counties appear to be net winners for the two years considered. For Spokane County, the ratio of transfer payments to individuals to personal income tax and SSI contributions was 1.31 in 1991 and 1.16 in 1998. Similarly, in Kootenai County, the ratio was 1.30 in 1991 to 1.11 in 1998. In other words, the status of the two counties as net recipients of individual Federal government services decreased 11% for Spokane County and 15% for Kootenai County between the two years.

The caveat in this balance assessment is that we are only looking at federal income taxes. Other Federal taxes that are paid by area residents, such as excise taxes on gasoline and utilities (telephone, electric, etc.) are not included here. Other benefits excluded here are the counties' share of the many services provided to all U.S. residents, like national defense, environmental protection, health and human services, and transportation, among others. Were we to include these, the benefits to taxes paid would look much more favorable. Again, this may not give the complete picture of the total flows of taxes and receipts, but it is a first approximation of the flows between individuals and the Federal Government.

VIII. Conclusions and Further Research

Several interesting trends have emerged from this study. One is that Spokane has a higher reliance on transfer payments than Kootenai County, as evidenced by the ratio of transfer payments to personal income. The ratio for Spokane shows a clear, upward trend diverging from Kootenai County's ratio over the past two decades. One explanation for this divergence is that transfer payments grew at virtually the same rate as personal income in Kootenai County since 1985, while transfer payments grew faster than personal income in Spokane County for most of the 31-year period. It would be interesting to conduct a more detailed look at the diverging ratio trends between the two counties.

Another difference between Spokane County and Kootenai County lies in Kootenai's faster personal income growth and faster population growth during the 31-year period. When comparing per capita personal income, we see that the growth rates are very similar, with Spokane having slightly higher growth rates than Kootenai County. However, transfer payments and personal income are increasing at a decreasing rate in both counties.

Another similarity between the two counties lies in transfer payments and personal income not moving in the opposite directions, as one might initially expect. This could be because many of the transfer payments are based on income levels, like unemployment benefits. So as personal income rises, the amount paid in unemployment benefits would also increase. Farm payments and farm income do move in opposite directions as expected. As farm income decreases, federal aid to farmers increases.

Areas warranting further research include expanding the analysis to the surrounding rural counties that may have a greater reliance on transfer payments. Of

special interest would be tracking the ratio of transfer payments to personal income in these counties, to see if there are regional similarities. Another would be to expand the comparisons to similar areas around the U.S. to determine if these local trends are widespread or unique to the two counties. It would also be beneficial to make comparisons at the state and national level.

In terms of taxes, this analysis shows that both Spokane and Kootenai Counties seem to receive more from the Federal Government in individual transfer payments than are paid in personal income tax and social security contributions. This area merits further consideration by creating a comprehensive inventory of taxes paid in the area. This report focused on *individual* taxes paid compared to the amount of individual transfer payments. The analysis would benefit from including business taxes, sales taxes, and property taxes paid and then comparing these to total transfer payments from both Federal and state sources. Going one-step further, it would be beneficial to extend the analysis to include the impact of Federal and state enterprises on the area by including funding of Fairchild Air force Base, HUD, transportation, education, and others.

Acknowledgement

I would like to thank Gary W. Smith for his work on the Northwest Income Indicators Project at Washington State University Cooperative Extension - Puyallup, without which this project would have been a little less detailed.

Data for the tables and figures are available upon request.

Endnotes

ⁱ Calculation of the percentage change is with the following formula:

$$\% \text{ change} = \frac{\text{current year} - \text{old year}}{\text{old year}} \times 100$$

To obtain the percentage change from 1991 to 1996, subtract the value in 1991 from the value in 1996 and divide by the value in 1991. Multiply that ratio by 100 to convert it to a percent.

ⁱⁱ An example of a payment to an individual as a liability payment would be a settlement for a personal injury law suit.

ⁱⁱⁱ A tax-exempt cooperative is a nonprofit business that is collectively owned by its customer-members.

^{iv} The negative farm income is due to reduced cash receipts from sale of crops and livestock as well as a loss in value of crops and livestock.

^v This was the case in 1999 according to the Statistical Abstract of the US: 1999.

^{vi} The earnings base for OASDI was \$53,400 in 1991 and \$68,400 in 1998.

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Photo by Z. artist: Ms. Carla Bernsten



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