



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

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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.