



## SCHOOL OF BUSINESS AND ECONOMICS

### KING INSTITUTE FOR REGIONAL ECONOMIC STUDIES (KIRES)

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### **Government Transfer Payments Play Important Role in the Regional Economy**

#### Introduction and Background

The major components of personal income are earned income, investment income and transfer payments. Earned income is defined by the U.S. Bureau of Economic Analysis (BEA), the source of our data, as wages and salaries and proprietors' income. Earned income is sometimes referred to as labor income, that is, payment for the production of goods and services. Consequently, earned income is sensitive to cyclical swings in the economy as production of goods and services rises and falls.

Investment income, often called property income, consists of dividends, interest and rent payments to individuals. In recent years low interest rates have stymied growth in this component of personal income.

Government transfer payments, the focus of this report, are payments made by governments to individuals for which no current production of goods or services is performed. Nationally and locally, the major components of government transfer payments are Social Security benefits and medical payments, primarily payments made through intermediaries/vendors for care provided to individuals under the Medicare and Medicaid programs. These two components combined account for around 80 percent of government transfer payments flowing into the regional economy.

Transfer payments also include income maintenance programs, such as the Supplemental Nutrition Assistance Program (SNAP), the Earned Income Tax Credit (EITC) and Supplemental Security Income (SSI). Other important transfer programs are Unemployment Insurance Payments and Veterans Benefits. A detailed list of government transfer payments, including U.S. payment levels and explanatory notes, may be accessed electronically at

<https://united-states.reaproject.org/data-tables/transfer-payments-ca35/tools/0/>.

#### Research Findings

Our study presents data for the 2004 – 2019 time period. The latest year for which complete personal income data are available is 2019. Data for 2020, with its massive infusions of government payments, will be available in November 2021.

We define Northeast Tennessee (NE TN) as the counties of Carter, Greene, Hawkins, Johnson, Sullivan, Unicoi, and Washington. Southwest Virginia (SW VA) Includes the counties of Buchanan, Dickenson, Lee,

Russell, Scott, Smyth, Tazewell, Washington and Wise. For statistical purposes, the city of Bristol, VA is included in Washington county and Norton, VA is included in Wise county.

### Overview of Research Findings

Over the past several decades there has been a pronounced shift in the composition of personal income in the United States and in the regional economy. A half- century ago, *earned* income accounted for 75 – 80 percent of total personal income regionally and in the United States, with *investment* income and government *transfer payments* splitting the remaining 20 – 25 percent. In 2019, the last year for which annual data are available, the share of total personal income attributable to earned income had fallen to 57 percent in NE TN, to 47 percent in SW VA and 63 percent in the United States.

Accompanying this decline in earned income share was steady growth in the share of total personal income attributable to government transfer payments. Transfer payments to residents of SW VA accounted for 34 percent of their total personal income in 2019. The comparable figure for NE TN was 28 percent. The share of U.S. personal income attributable to transfer payments was 16 percent in 2019, well below the share locally (Table 1).

There is wide variation in these measures from county- to- county within NE TN and SW VA. For example, government transfer payments in 2019 as a share of total personal income ranged from less than 24 percent in Washington county Tennessee to nearly 37 percent in Johnson county. Within SW VA, the residents of Dickenson county received about 44 percent of their income from government transfer payments while the comparable figure for Washington county VA was less than 28 percent (Tables 4 and 5).

### Northeast Tennessee

The following observations are based on information presented in Tables 1, 2, 4, 6 and 7.

- Per capita personal income for NE TN was \$40,450 in 2019, 72 percent of US personal income of \$56,490 per capita. Income growth in NE TN over the past 15 years has lagged that of the United States; per capita personal income for NE TN was 78 percent of US income in 2004.
- Within NE TN, per capita personal income in 2019 was highest for Washington county (\$44,593) and Sullivan county (\$43,610). Per capita personal income was smallest for Carter county (\$34,691) and Johnson county (\$33,058).
- Per capita government transfer payments were \$11,527 for NE TN in 2019, compared to \$9,301 for the United States. Within the region, per capita transfer payments were highest for Unicoi (\$13,516) and Greene (\$12,766) counties, and they were smallest for Washington (\$10,543) and Carter (\$11,460) counties.
- Transfer payments as a percent of earned income was 51 percent for NE TN in 2019, compared to 26 percent for the United States. This means that in 2019, the residents of NE TN received 51 cents in government transfer payments for every dollar of workplace earnings, and residents of the United States received 26 cents in transfer payments for every dollar of workplace earnings. Comparable figures for 2004 were 37 percent for NE TN and 20 percent for the United States.
- Within NE TN, government transfer payments as a percent of earned income was highest in 2019 for Johnson (76 percent) and Unicoi (72 percent) counties and was smallest for Washington (39 percent) and Sullivan (46 percent) counties.
- Government payments as a percent of earned income for NE TN rose sharply during the 2007 – 09 recession, but the ratio has remained steady, around 50 percent, over the past decade. A notable exception is Greene county. The loss of manufacturing jobs during the recession caused

the ratio to spike to 81 percent in 2009, up from 58 percent in 2004. Job growth since the end of the recession, lowered the ratio to 67 percent as of 2019.

### Southwest Virginia

The following observations are based on information presented in Tables 1, 3, 5, 6 and 8.

- Per capita personal income for SW VA was \$37,039 in 2019, 66 percent of US personal income of \$56,490 per capita. Income growth in SW VA over the past 15 years has trailed that of the United States; per capita personal income for SW VA was 71 percent of US income in 2004.
- Within SW VA, per capita personal income in 2019 was highest for Washington (\$41,513) and Tazewell (\$39,276) counties. Per capita personal income was smallest for Lee county (\$31,087) and Dickenson county (\$34,397).
- Per capita government transfer payments were \$12,727 for SW VA in 2019, compared to \$9,301 for the United States. Within the region, per capita transfer payments were highest for Dickenson (\$15,069) and Buchanan (\$14,908) counties, and they were smallest for Washington (\$11,507) and Scott (\$12,102) counties.
- Transfer payments as a percent of earned income was 73 percent for SW VA in 2019, compared to 26 percent for the United States. This means that in 2019, the residents of SW VA received 73 cents in government transfer payments for every dollar of workplace earnings, and residents of the United States received 26 cents in transfer payments for every dollar of workplace earnings. Comparable figures for 2004 were 48 percent for SW VA and 20 percent for the United States.
- Within SW VA, government transfer payments as a percent of earned income was highest in 2019 for Dickenson (105 percent) and Lee (94 percent) counties and was smallest for Washington (57 percent) and Smyth (65 percent) counties. It is notable that the residents of Dickenson county received \$1.05 in transfer payments for every dollar of workplace earnings.
- Government transfer payments as a percent of earned income for SW VA has risen over the past decade, from 58 percent in 2009 to 73 percent in 2019. This is in sharp contrast to the experience in NE TN and the United States. There were nearly 10 percent fewer jobs in SW VA in 2019 than in 2009, the last year of the recession. Of particular significance is the loss of around 2,000 coal mining jobs. Previous research by KIRES indicates that \$150,000 in workplace earnings are lost in all sectors of the SW VA economy for each coal mining job that disappears.

### Conclusion

- Transfer payments constitute a basic industry, and like other basic industries, such as manufacturing, tourism and mining, transfer payment programs bring outside money into the regional economy. Transfer payments, therefore, have an impact on job creation and income growth in the region. Government transfer payments are, for the most part, impervious to the business cycle, so they have a stabilizing effect on the economy in times of recession.
- While transfer payments have a positive economic impact, too great a reliance on these payments is a disturbing signal, suggesting a lack of economic opportunity. We measure transfer payment dependency as “transfer payments as a percentage of earned income.” This measure for both NE TN and SW VA is well above the national average, and there is a decided and troublesome upward trend in this measure in SW VA. This trend is reflective of the growing divide between urban and rural/ small-town America in terms of job and income growth, and it is affecting all aspects of American life - economic, social, and political.

Tables

Table 1. Overview: Total Personal Income and Components of Personal Income, Dollars Per Capita								
	2004				2019			
	Components of Personal Income				Components of Personal Income			
Area:	Total Personal Income	Earned Income	Govt. Transfer Payments	Investment Income	Total Personal Income	Earned Income	Govt. Transfer Payments	Investment Income
USA	34,251	23,394	4,737	6,120	56,490	35,544	9,301	11,645
NE TN	26,674	16,842	6,223	3,609	40,450	22,718	11,527	6,205
SW VA	24,174	13,419	6,553	4,202	37,039	17,244	12,727	7,068
Percent of Per Capita Personal Income								
USA		68%	14%	18%		63%	16%	21%
NE TN		63%	23%	14%		56%	28%	16%
SW VA		56%	27%	17%		47%	34%	19%
Percent of USA Income Measures								
NE TN	78%	72%	131%	59%	72%	64%	124%	53%
SW VA	71%	57%	138%	69%	66%	49%	137%	61%
Data Source: Bureau of Economic Analysis (BEA), U.S. Department of Commerce, <i>Personal Income and Employment by County and Metropolitan Area</i> , November 2020. <a href="https://apps.bea.gov/itable/iTable.cfm?ReqID=70&amp;step=1">https://apps.bea.gov/itable/iTable.cfm?ReqID=70&amp;step=1</a>								

Table 2. Personal Income Measures for Northeast Tennessee, Dollars per Capita

	County						
	Carter	Greene	Hawkins	Johnson	Sullivan	Unicoi	Washington
2004:							
PI	\$22,744	28,818	23,068	19,495	28,435	26,787	27,946
EI	\$13,914	16,294	14,974	11,072	18,341	16,090	18,588
TP	\$5,973	9,383	5,420	5,786	5,855	7,713	5,235
INV	\$2,857	3,141	2,674	2,637	4,239	2,984	4,123
2009:							
PI	\$26,208	30,581	26,517	24,699	33,366	29,103	32,878
EI	\$13,913	14,758	14,619	12,314	20,001	14,888	20,696
TP	\$8,591	11,949	8,607	8,531	8,430	10,313	7,359
INV	\$3,704	3,874	3,291	3,854	4,935	3,902	4,823
2014:							
PI	\$30,486	35,363	30,675	27,479	37,884	33,480	37,980
EI	\$15,873	17,195	16,992	13,552	22,436	16,938	23,783
TP	\$10,150	13,840	9,819	9,866	9,766	12,219	8,421
INV	\$4,463	4,328	3,864	4,061	5,682	4,323	5,776
2019:							
PI	\$34,691	37,287	35,077	33,058	43,610	37,278	44,593
EI	\$17,785	19,177	18,752	15,975	25,120	18,725	27,038
TP	\$11,460	12,766	11,686	12,050	11,492	13,516	10,543
INV	\$5,446	5,344	4,639	5,033	6,998	5,037	7,012

PI = total personal income; EI = earned income; TP = government transfer payments; INV = investment income.

Data Source: Bureau of Economic Analysis (BEA), U.S. Department of Commerce, *Personal Income and Employment by County and Metropolitan Area*, November 2020.

<https://apps.bea.gov/itable/iTable.cfm?ReqID=70&step=1>

Table 3. Personal Income Measures for Southwest Virginia, Dollars per Capita

	County								
2004:	Buchanan	Dickenson	Lee	Russell	Scott	Smyth	Tazewell	Washington <sup>1</sup>	Wise <sup>2</sup>
PI	\$22,141	20,446	21,222	22,406	22,838	24,051	25,341	27,677	23,372
EI	\$10,571	9,563	11,430	12,878	13,226	14,726	14,115	16,179	13,002
TP	\$7,825	8,011	6,776	6,958	6,092	5,682	6,998	5,437	7,312
INV	\$3,745	2,872	3,016	2,570	3,520	3,643	4,228	6,061	3,058
2009:									
PI	\$29,166	26,856	25,412	28,383	26,266	27,667	31,231	34,833	28,556
EI	\$14,241	12,618	12,719	15,243	13,055	14,623	16,572	19,489	15,048
TP	\$10,685	10,587	9,126	9,166	8,970	8,794	9,142	8,169	9,653
INV	\$4,240	3,651	3,567	3,974	4,241	4,250	5,517	7,175	3,855
2014:									
PI	\$32,032	29,029	26,735	29,954	29,908	33,579	34,177	37,843	30,288
EI	\$15,484	13,171	12,118	15,186	14,491	18,327	17,562	19,116	14,462
TP	\$11,941	11,751	10,354	10,134	10,392	9,888	10,554	9,429	11,027
INV	\$4,607	4,107	4,263	4,634	5,025	5,364	6,061	9,298	4,799
2019:									
PI	\$37,048	34,397	31,087	34,827	34,589	38,090	39,276	41,513	34,196
EI	\$16,831	14,342	13,407	16,176	16,076	18,930	18,935	20,139	15,331
TP	\$14,908	15,069	12,660	12,659	12,102	12,308	13,042	11,507	13,297
INV	\$5,309	4,986	5,020	5,992	6,411	6,852	7,299	9,867	5,568
<sup>1</sup> Includes Bristol, VA. <sup>2</sup> Includes city of Norton.									
PI = total personal income; EI = earned income; TP = government transfer payments; INV = Investment Income.									
Data Source: Bureau of Economic Analysis (BEA), U.S. Department of Commerce, <i>Personal Income and Employment by County and Metropolitan Area</i> , November 2020. <a href="https://apps.bea.gov/itable/iTable.cfm?ReqID=70&amp;step=1">https://apps.bea.gov/itable/iTable.cfm?ReqID=70&amp;step=1</a>									

	County						
	Carter	Greene	Hawkins	Johnson	Sullivan	Unicoi	Washington
Year	Earned Income Share of Total Personal Income						
2004	0.612	0.565	0.649	0.568	0.645	0.601	0.665
2009	0.531	0.483	0.551	0.499	0.599	0.512	0.629
2014	0.521	0.486	0.554	0.493	0.592	0.506	0.626
2019	0.513	0.514	0.535	0.483	0.576	0.502	0.606
	Government Transfer Payments Share of Total Personal Income						
2004	0.263	0.326	0.235	0.297	0.206	0.288	0.187
2009	0.328	0.391	0.325	0.345	0.253	0.354	0.224
2014	0.333	0.391	0.320	0.359	0.258	0.365	0.222
2019	0.330	0.342	0.333	0.365	0.264	0.363	0.236
	Investment Income Share of Total Personal Income						
2004	0.126	0.109	0.116	0.135	0.149	0.111	0.148
2009	0.141	0.127	0.124	0.156	0.148	0.134	0.147
2014	0.146	0.122	0.126	0.148	0.150	0.129	0.152
2019	0.157	0.143	0.132	0.152	0.160	0.135	0.157
Computed using values from Table 2. Totals may not add due to rounding.							

	County								
	Buchanan	Dickenson	Lee	Russell	Scott	Smyth	Tazewell	Washington	Wise
Year	Earned Income Share of Total Personal Income								
2004	0.477	0.468	0.539	0.575	0.579	0.612	0.557	0.585	0.556
2009	0.488	0.470	0.501	0.537	0.497	0.529	0.531	0.559	0.527
2014	0.483	0.454	0.453	0.507	0.485	0.546	0.514	0.505	0.477
2019	0.454	0.417	0.431	0.464	0.465	0.497	0.482	0.485	0.448
	Government Transfer Payments Share of Total Personal Income								
2004	0.353	0.392	0.319	0.311	0.267	0.236	0.276	0.196	0.313
2009	0.366	0.394	0.359	0.323	0.342	0.318	0.293	0.235	0.338
2014	0.373	0.405	0.387	0.338	0.347	0.294	0.309	0.249	0.364
2019	0.402	0.438	0.407	0.363	0.350	0.323	0.332	0.277	0.389
	Investment Income Share of Total Personal Income								
2004	0.169	0.140	0.142	0.115	0.154	0.151	0.167	0.219	0.131
2009	0.145	0.136	0.140	0.140	0.161	0.154	0.177	0.206	0.135
2014	0.144	0.141	0.159	0.155	0.168	0.160	0.177	0.246	0.158
2019	0.143	0.145	0.161	0.172	0.185	0.180	0.186	0.238	0.163
Computed using values from Table 3. Totals may not add due to rounding.									

	2004	2009	2014	2019
Carter	43.0%	61.8%	63.9%	64.3%
Greene	57.7%	81.0%	80.5%	66.5%
Hawkins	36.2%	59.0%	57.8%	62.2%
Johnson	52.3%	69.1%	72.8%	75.6%
Sullivan	31.9%	42.2%	43.6%	45.8%
Unicoi	47.9%	69.1%	72.1%	72.3%
Washington	28.1%	35.6%	35.5%	38.9%
NE TN <sup>1</sup>	37.0%	49.7%	50.2%	50.7%
Buchanan	74.0%	75.0%	77.2%	88.5%
Dickenson	83.8%	83.8%	89.2%	105.0%
Lee	59.2%	71.7%	85.4%	94.4%
Russell	54.1%	60.1%	66.7%	78.2%
Scott	46.1%	68.8%	71.5%	75.3%
Smyth	38.6%	60.1%	53.8%	65.0%
Tazewell	49.6%	55.2%	60.1%	68.9%
Washington	33.5%	42.0%	49.3%	57.1%
Wise	56.3%	64.1%	76.3%	86.8%
SW VA <sup>1</sup>	48.3%	58.0 %	63.8%	73.1%
United States	20.3%	27.0%	26.0%	26.2%
<sup>1</sup> Values are calculated from regional totals for the income components.				

Area:	2004	2009	2014	2019	2009/2004	2019/2009
Carter	16,062	16,261	16,449	18,390	101%	1.13
Greene	38,154	32,906	34,733	36,141	86%	1.10
Hawkins	19,760	17,459	18,845	19,686	88%	1.13
Johnson	6,694	6,516	6,172	6,577	97%	1.01
Sullivan	87,187	89,318	90,032	91,302	102%	1.02
Unicoi	6,915	6,944	6,826	6,752	100%	0.97
Washington	77,038	78,122	78,779	82,416	101%	1.05
NE TN	251,810	247,526	251,836	261,264	98%	1.06
Data Source: Bureau of Economic Analysis (BEA), U.S. Department of Commerce, <i>Personal Income and Employment by County and Metropolitan Area</i> , November 2020.						



Table 8. Number of Jobs, Southwest Virginia.

Area:	2004	2009	2014	2019	2009/2004	2019/2009
Buchanan	9,390	9,682	9,095	8,280	103%	86%
Dickenson	4,264	5,055	4,928	4,475	119%	89%
Lee	8,000	8,151	7,377	7,017	102%	86%
Russell	11,160	10,562	10,006	9,994	95%	95%
Scott	7,665	8,141	7,816	8,125	106%	100%
Smyth	17,657	15,703	15,796	15,981	89%	102%
Tazewell	21,174	22,069	20,555	19,178	104%	93%
Washington	42,806	42,116	40,631	39,699	98%	94%
Wise	22,660	23,244	20,223	19,080	103%	82%
SW VA	144,776	144,723	136,427	131,829	100%	91%

Data Source: Bureau of Economic Analysis (BEA), U.S. Department of Commerce,  
*Personal Income and Employment by County and Metropolitan Area*, November 2020.

<https://apps.bea.gov/itable/iTable.cfm?ReqID=70&step=1>