

New King University Study Examines Economic Impact of Government Transfer Payments

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The King Institute for Regional Economic Studies (KIRES) has released a new study. KIRES Report No. 15, “Regional Economic Impacts of Social Security Benefits and other Government Transfer Payment Programs,” was prepared by Dr. Sam Evans and Dr. William Teng, both of the School of Business and Economics at King University. Dr. Evans is associate professor of Economics and Finance and director of KIRES; Dr. Teng is professor of Economics and Finance.



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The authors note that, “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 – Tri-Cities metro area and the Southwest Virginia coalfield region. A half-century ago, earned income accounted for 75 – 80 percent of total personal income. By 2014, the share of total personal income attributable to earned income had fallen to 57 percent in the Tri-Cities and 50 percent in Southwest Virginia.” The report states that “accompanying this decline in earned income share was steady growth in the share of total personal income attributable to government transfer payments.”

According to Evans, “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.”

Residents of the Tri-Cities received nearly \$5 billion in government transfer payments in 2014, 28 percent of the region’s total personal income of \$18 billion. Medical benefits and Social Security benefits combined accounted for 80 percent of transfer payments.

Residents of the Southwest Virginia coalfield region received nearly \$2 billion in government transfer payments in 2014, 36 percent of the region’s total personal income of \$5.5 billion. Medical benefits and Social Security benefits combined accounted for 78 percent of government transfer payments.

The study examined trends in personal income and the major components of income over the 2000 – 2014 period and found that total real personal income in the Tri-Cities rose 23 percent over the period. This growth was boosted by a 77 percent gain in government transfer payments as rapidly

increasing health care costs fueled an 88 percent increase in medical transfer payments; Social Security benefits rose 66 percent.

Total real personal income in the Southwest Virginia coalfield region rose 16 percent over the 2000 – 2014 period. Growth in real income was led by a 39 percent gain in government transfer payments. As was true for the Tri-Cities, the growth in real government transfer payments was marked by gains in medical payments and Social Security benefits – 60 percent and 37 percent, respectively.

According to Teng, “The most troubling aspect of the Southwest Virginia economy is the decline in earned income in recent years. Real earned income fell 17 percent from 2011 to 2014. This is a direct result of declining production and employment in the coal mining sector. Due to the sharp drop in earned income, residents in Southwest Virginia received 72 cents in government transfer payments for every dollar of earned income in 2014. Comparable values for the Tri-Cities and the U.S. are 49 cents and 27 cents, respectively.”

Evans notes that, “We have a particular interest in examining the economic impact of Social Security benefits because they are a dependable and predictable source of income for the local economy. Social Security benefits are not measurably affected by the business cycle, and because benefits are indexed to inflation, they have a stabilizing effect on income in inflationary periods.”

The authors found that over the 2000 – 2014 period, total Social Security benefits paid to recipients in the Tri-Cities increased \$78.6 million per year; for Southwest Virginia, the annual increase in benefits was \$24.7 million.

The number of Social Security beneficiaries in the Tri-Cities metro area as of Dec. 2014 was 141,120, including 83,715 retired workers. Total Social Security benefits received by all recipients totaled \$1.95 billion in 2014. The number of beneficiaries in the Southwest Virginia coalfield region was 56,740 as of Dec. 2014, including 23,410 retired workers and 17,250 disabled workers. Social Security benefits paid to all recipients totaled \$761 million in 2014.

Teng states that, “Because there is a multiplier or ripple effect as benefit dollars circulate throughout the region, the total economic impact of Social Security benefits is greater than the face value of the benefits.” Based on their analysis of the multiplier effects of Social Security benefits, the authors conclude that benefits received in 2014 supported 14,288 full- and part-time jobs in the Tri-Cities metro area and 3,784 full- and part-time jobs in Southwest Virginia. These jobs generated an additional \$535.3 million in labor income in the Tri-Cities and an additional \$136.5 million in Southwest Virginia.

KIRES Report No. 15, “Regional Economic Impacts of Social Security Benefits and other Government Transfer Payment Programs,” and the previous 14 reports are available at <http://kires.king.edu>.