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Opinion | D. Patrick Jones, Ph.D.: The Federal Footprint Here Is Larger than You Might Think

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With the specter of a federal government shutdown casting long shadows (again) throughout the country, now is a good time to reflect on the size of federal government in the economy of Chelan and Douglas Counties. In a word, the federal footprint here is deep.

Part of the footprint comes from federal workers. Relatively speaking, however, their contribution to the local economy is modest. In 2022, total wages paid to federal workers here amounted to 2.6%. Still, their activity represented a slightly larger share than wages paid statewide to federal workers, 2.4%.

The major force creating a footprint here comes from transfer payments. In general, personal income consists of three flows: earnings from work, investment returns and federal transfer payments. The last category is generally defined as payments for reasons other than work rendered. In most communities, wage earnings are the largest category and investment earnings the smallest.

The scope of federal transfer payments parallels the various programs that have emerged since the New Deal of the 1930s. They are typically dominated by three: social security, Medicare and Medicaid payments. In pre-pandemic 2019, for example, these three programs constituted 73% of all federal transfer dollars flowing into the two counties. Other programs make up the rest, with "income maintenance" programs (earned income tax credits, supplemental nutrition

assistance, or SNAP, and supplemental security income) constituting a large share. Additional federal dollars to the two counties come via unemployment insurance payments, veteran's benefits and education/training assistance.

How important have federal transfer payments been to the local economy? For the period 2012-2019, they contributed an average of 21%. Or, about one in every five dollars coursing through the two counties could be attributed to federal payments. During the pandemic, 2020 and 2021, that share swelled to an average of 26%. By 2021 an additional \$660 million landed in bank accounts of governments, businesses and households compared to 2019. Despite the pandemic, the local economy grew, in large part due to federal largesse. Specifically, these payments accounted for about 60% of economic growth between 2019 and 2021.

The local share of the pandemic economy taken by federal transfer payments was in line with the other metro areas in eastern Washington. Compared to the state average, however, eastern Washington metros survived the pandemic via relatively more federal assistance. Statewide, federal transfer payments amounted to 18% of personal income during 2020 and 2021.

The surge of new dollars during the pandemic into the two counties cannot be traced to social security payments. They expanded only modestly. Some could be attributed to increases in programs such as SNAP and TANF (Temporary Assistance for Needy Families.) A bit more, \$95 million, was due to higher Medicaid flows. With the spike in unemployment, those benefits also ballooned – by over \$113 million. But of all programs, the largest growth came refundable tax credits for children.

Results for 2022 personal income will be released by the U.S. Department of Commerce in two months. Expect a drop in the level of federal flows. The reduction will have come from reduced TANF, unemployment insurance benefits. If we could take a snapshot of 2023, the overall decline in transfer payments has likely continued, especially due to the curtailment of children's tax credits.

As of 2021 then, total federal footprint here amounted to about 29% of the total economy. For 2022 that share will likely have moved lower, coming in at 26% to 27%, And for this year? It is this writer's hunch that the results will show a return to the long-term average of 24% to 25%.

This average implies that in normal times about one out of every four dollars in the local economy can be traced to the federal government. What then, are the implications from a federal government shutdown? While most but not all transfer payments will not be affected, payrolls will. If not suspended, they will be delayed.

If the shutdown occurs, let's hope that it is quickly resolved for the sake of the economy. And for the lives of those affected as workers and consumers of federal services.

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