DOCUMENT RESUME

ED 300 160 RC 016 741

AUTHOR	Bentley, Susan E.
TITLE	Transfer Payments and Investment Income in the Nonmetro United States. Rural Development Research Report Number 71.
INSTITUTION	Economic Research Service (DOA), Washington, DC. Agriculture and Rural Economy Div.
PUB DATE	Jun 88
NOTE	24p.
AVAILABLE FROM	National Technical Information Service, 5285 Port Royal Road, Springfield, VA 22161 (paper, $12.95; microfiche, $6.95; add $3.00 for shipping and handling for each order).
PUB TYPE	Reports - Research/Technical (143)
EDRS PRICE	MF01/PC01 Plus Postage.
DESCRIPTORS	Economic Change; Economic Research; *Income; Rural Areas; *Rural Economics
IDENTIFIERS	*Nonmetropolitan Areas

ABSTRACT

Analysis of data from the Bureau of Economic Analysis shows that during the 1970s and 1980s the composition of personal income in rural America shifted dramatically. Transfer payments and investment income accounted for almost 40% of total personal income in the nonmetro United States in 1983, up from just over 20% in 1969. This report examines the various forms of unearned income and relates them to total personal income. Most transfer payments received by nonmetro residents in 1983 were retirement related, although transfers providing income maintenance benefits, such as food stamps and unemployment compensation, and veterans' and military benefits also accounted for significant shares of personal income. Most investment income came from interest rather than dividends or rent. Investment earnings increased dramatically in the late 1970s and early 1980s when inflation increased the value of assets and the real interest rate increased to historically high levels. The fastest growing component of transfer payments to nonmetro residents was unemployment compensation, increasing from almost $500 million in 1969 to $6.5 billion in 1983. Most of the growth in transfer payments to rural residents, more than 70%, was related to retirement programs. Income maintenance payments accounted for less than nine percent of the growth over the study period, contrary to the frequent complaint that welfare is largely responsible for increases in government spending. Unearned income was 38.9% of total personal income in nonmetro counties, compared with 32% in metro counties. Because unearned income is so important in rural America, rural communities have a major interest in policies affecting investment and transfer income, general retirement programs, unemployment compensation programs, and tax codes. (DHP)

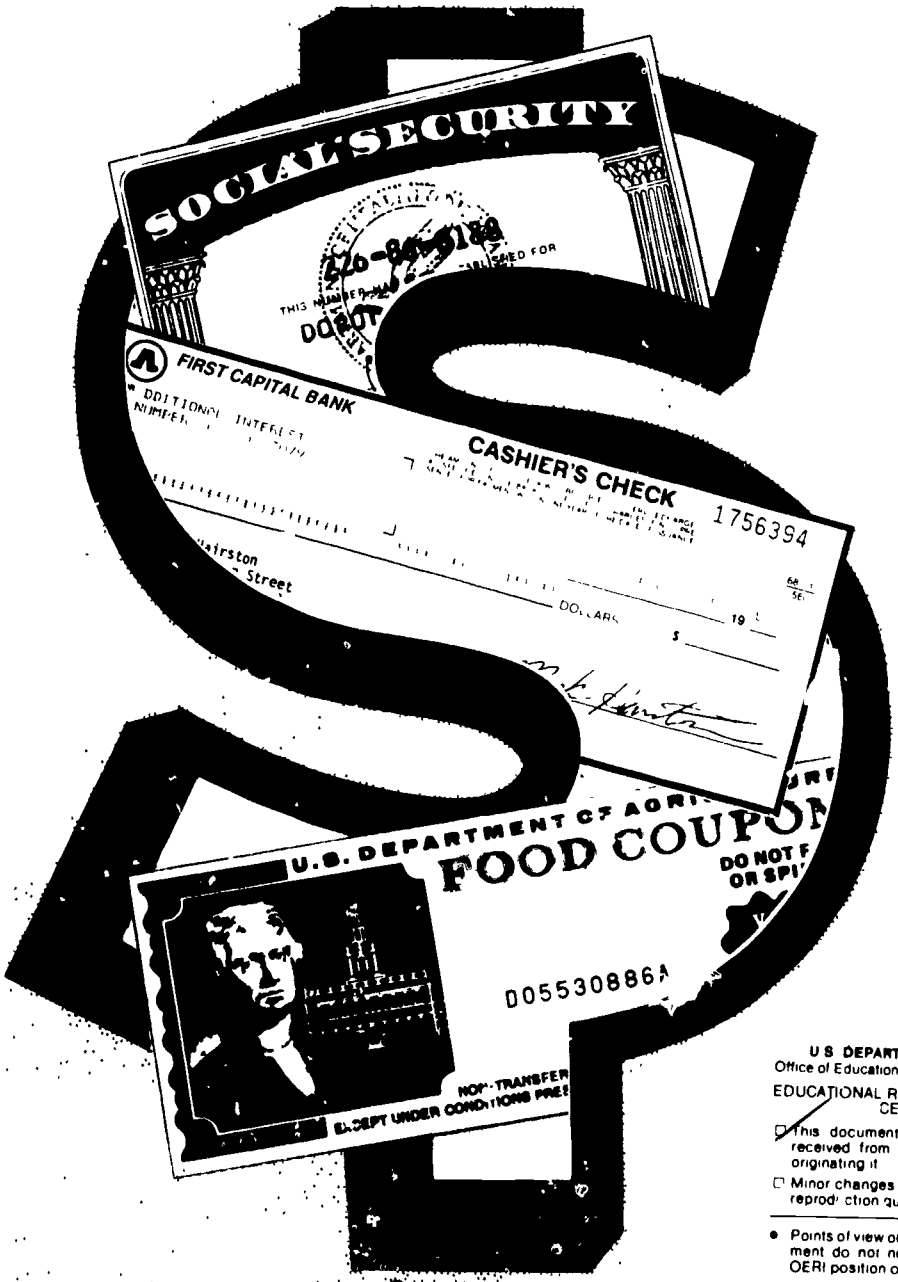
United States
Department of
Agriculture

Economic
Research
Service

Rural Development
Research Report
Number 71

Transfer Payments and Investment Income in the Nonmetro United States

Susan E. Bentley



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Transfer Payments and Investment Income in the Nonmetro United States. By Susan E. Bentley, Agriculture and Rural Economy Division, Economic Research Service, U.S. Department of Agriculture. Rural Development Research Report No. 71.

Abstract

Transfer payments and investment income—termed unearned income—accounted for almost 40 percent, $3,580, of total personal income in the nonmetro United States in 1983, up from just over 20 percent in 1969. Retirees received most transfer payments from public retirement programs like Social Security and medicare. Most investment income came from interest rather than dividends or rent. Unearned income represented a greater share of total personal income in nonmetro counties than metro counties, reflecting the lower incomes of rural residents. High inflation during the late seventies and early eighties was a major factor in the growth in transfer payments, many of which are indexed to the cost of living. Record high interest rates led to the dramatic growth in investment income. This report examines the various forms of unearned income and relates them to personal income.

Keywords: Transfer payments, investment income, personal income, nonmetro areas.

Washington, DC 20005-4788 June 1988

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Summary

Transfer payments and investment income—termed unearned income—accounted for almost 40 percent, $3,580, of total personal income in the nonmetro United States in 1983, up from just over 20 percent in 1969. Retirees received most transfer payments from public retirement programs like Social Security and medicare.

Most investment income came from interest rather than dividends or rent. Unearned income represented a greater share of total personal income in nonmetro counties than metro counties, reflecting the lower incomes of rural residents. High inflation during the late seventies and early eighties was a major factor in the growth in transfer payments, many of which are indexed to the cost of living. Record high interest rates led to the dramatic growth in investment income. This report examines the various forms of unearned income and relates them to total personal income.

Transfer payments are cash or goods received largely from government programs like Social Security, medicare, and food stamps. Most transfer payments received by nonmetro residents in 1983 were retirement-related, although transfers providing income maintenance benefits, such as food stamps and unemployment compensation, and veterans' and military benefits also accounted for significant shares of personal income.

Unearned income has not always played such an important role in rural America. Transfer payments increased steadily as programs were initiated and enlarged and as participation rose during the seventies. Investment earnings increased dramatically in the late seventies and early eighties when inflation increased the value of assets and the real interest rate increased to historically high levels. Unearned income also contributed significantly to the growth in total personal income during 1969–83.

The fastest growing component of transfer payments to nonmetro residents was unemployment compensation, growing nominally from almost $500 million in 1969 to $6.5 billion in 1983. The number of initial claims nationwide rose from 16 million in 1970 to more than 23 million in 1983. Most of the growth in transfer payments to rural residents—more than 70 percent—was related to retirement programs. Income maintenance payments accounted for less than 9 percent of the growth over the study period, contrary to the frequent complaint that welfare is largely responsible for gross increases in government spending.

Investment income increased by almost $87 billion in nonmetro America during 1969–83. More than 80 percent of that growth was because of increased interest earnings.

Per capita unearned income averaged $3,985 in metro counties in 1983, compared with $3,580 in nonmetro counties. But, unearned income was 38.9 percent of total personal income in nonmetro counties, compared with 32 percent in metro counties. Total personal income was $9,195 per capita in nonmetro counties, up 20 percent from 1969, and $12,466 in metro counties, up 15 percent.

Glossary

Business transfers to individuals. Transfer payments including personal injury payments to persons other than employees, cash prizes, unrecovered thefts of cash and capital assets, and consumer bad debts.

Dividends. Payments in cash or other assets by corporations to noncorporate stockholders who reside in the United States.

Earned income (earnings). Personal income that is the sum of wages and salaries, other labor income, and proprietors' income.

General retirement and disability insurance. Transfer payments including Social Security, medicare, and workers' compensation payments that are targeted at the general population and cover most of the work force in case of injury, disability, or retirement.

Income maintenance. Transfer payments that include programs such as supplemental security income (SSI), aid to families with dependent children (AFDC), general assistance, and food stamps. These programs are targeted toward the low-income population and do not require past work experience to apply for benefits. The Federal SSI Program provides a minimum cash income to needy disabled, blind, and aged persons. The Federal Food Stamp Program provides vouchers for food to poor households nationwide. The AFDC Program is administered by State governments, and it generally provides cash assistance to families with small children. Most States and some local governments also provide aid to the very needy through general assistance, which may be distributed in cash or services.

Interest. Monetary interest and imputed interest. Part of imputed interest is the value of services provided by financial institutions to depositors without charge. Imputation also refers to the earned interest credited to life insurance or private noninsured pension funds on behalf of the future recipient.

Investment income. Dividends, interest, and rent.

Metro areas. Metro areas are defined by the U.S. Office of Management and Budget (OMB) as one or more counties with a central place or urban core of 50,000 or more residents and a total population of 100,000 or more. The metro counties used in this study were designated by OMB as of 1983.

Miscellaneous transfer payments. Federal education and training assistance payments, Bureau of Indian Affairs payments compensation of victims of crimes, and other special payments to individuals.

Nonmetro areas. Counties that are not part of a metro area. (See Metro areas.)

Personal income. Total income received from wages and salaries, other labor income, proprietors' income, investment income, and transfer payments.

Rent. Monetary rent, imputed rent, and royalty income. Monetary rent is the income of persons from the rental of real property, except the income of persons primarily engaged in the real estate business. Imputed rent is the estimated net rental income of owner-occupants of nonfarm dwellings. Royalty income is received by persons from patents, copyrights, and rights to natural resources.

Specific retirement and disability insurance. Transfer payments for particular groups of employees covered by special public retirement programs like the railroad retirement and disability program, Federal civilian employee retirement program, and State and local government employee programs

Transfer payments. Cash or goods received largely from government programs, for which no work was done in the current time period.

Transfers to nonprofit institutions. Gifts by the business sector and payments made by Federal, State, and local governments. For example, nonprofit institutions may receive payments from State and local governments for foster home care or educational assistance.

Unearned income. Personal income from sources other than earned income, specifically investment income and transfer payments. (See Earned income.)

Unemployment insurance. Transfer payments to workers when they lose their jobs. Most unemployment benefits are paid by State-administered unemployment programs, although the Federal Government administers programs for veterans, railroad workers, and Federal Government employees.

Veterans' benefit payments. Veterans' pensions and military retirement benefits.

Transfer Payments and Investment Income in the Nonmetro United States

Susan E. Bentley*

Introduction

During the seventies and early eighties, the composition of personal income in nonmetro America shifted dramatically. In 1969, transfer payments and investment income accounted for 22.9 percent of total personal income. By 1983, these types of income accounted for 38.9 percent of total personal income, $3,580 per nonmetro resident. Transfer payments are cash or goods received largely from government programs like Social Security, medicare, and food stamps. Investment income includes interest, dividends, and rent. The term "unearned income" refers to these types of income, as opposed to income from wages and salaries, and is not meant to be derogatory.

Because unearned income does not require physical movement between home and a workplace, unearned income can be generated in one place and received in another (*1*).[1] Retirees, for example, can receive their Social Security and medicare benefits in any area of the country, regardless of where they earned their benefits. Likewise, residents of the most remote area can invest their savings anywhere, yet receive (and spend) their investment earnings where they live. This situation may have enhanced the ability of some people to live in rural areas.

Unearned income contributed significantly to the growth of total personal income between 1969 and 1983 in the nonmetro United States. Almost 23 percent of total income growth was attributable to the growth in investment income, and another 21 percent to the increase in transfer payment income.

In this report, I specifically describe the composition and geographic distribution of unearned income in the nonmetro United States for 1983. This report also examines the growth in unearned income and its major components in metro and nonmetro counties of the United States for 1969–83.[2]

Data and Methodology

The Bureau of Economic Analysis (BEA), U.S. Department of Commerce, provided the data in this report. BEA's annual personal income data provide estimates of the total personal income received by the residents of each State and county. These estimates include detailed information on the sources of income, such as transfer payments and dividends, interest, and rent.

Transfer payment income consists of income from more than 50 sources and is generally estimated on the basis of directly reported data from administrative records of the individual programs at the county level. When county records are not available, State or national data are allocated to the county level on the basis of indirect indicators. For example, information is available on payments to veterans under various programs at the national and State levels, but in many cases the information is not tabulated at the county level. When the county data are not available, BEA allocates the State totals to counties on the basis of the counties' veteran populations. Seventy-five percent of transfer payment income is measured on the basis of directly reported data (*10*).

I have categorized transfer payment programs into eight major groups for this report, based on the source of the benefits and the payment recipients. For example, programs which are targeted toward the general population to protect against income loss because of injury, disability, or retirement constitute one type of transfer payment: general retirement and disability payments. Benefit programs for veterans and military personnel are another type, as are programs designed to provide income to the needy.[3] Business transfer payments, which are transfers from businesses to individuals, are also a separate category. These transfers include personal injury payments to persons other than employees, cash prizes, unrecovered thefts, and consumer bad debts. The specific transfer programs on which data are collected by BEA in the local area income files are listed by category in table 1.[4]

Investment income consists of only three major items: dividends, interest, and rent. Most investment income is monetary. BEA estimates investment income on the basis of the Internal Revenue Service (IRS) Individual Master File tabulations and IRS *Statistics of Income* tabulations. When county-level data are not available, BEA allocates State data to the county level on the basis of other indicators.

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[1] Italicized numbers in parentheses refer to literature cited at the end of this report.

[2] For more detailed information on the growth of transfer payments through 1977, see an earlier report by Hoppe and Saupe (*5*)

[3] Medicaid benefits, which provide medical assistance to the poor, are not included in the BEA local area data

[4] For more information on BEA data and collection methods, see (*10*).

Table 1—Components of transfer payment income, 1983

General retirement and disability insurance:
- Old age, survivors, and disability insurance payments (Social Security)
- Medicare insurance payments
- Workers' compensation payments (Federal and State)

Specific retirement and disability insurance:
- Railroad retirement and disability payments
- Federal civilian employee retirement payments
- State and local government employee retirement payments
- Temporary disability payments, Panama Canal construction annuity payments, and black lung payments

Unemployment insurance:
- State unemployment insurance compensation
- Unemployment compensation for Federal civilian employees
- Unemployment compensation for railroad employees
- Unemployment compensation for veterans
- Trade readjustment allowance payments, Redwood Park benefit payments, and public service employment benefit payments

Income maintenance:
- Supplemental security income payments
- Aid to families with dependent children
- General assistance
- Food stamps
- Emergency assistance, foster home care payments, earned income tax credits, and energy assistance

Veterans' benefit payments:
- Veterans' pensions and compensation and military retirement
- Educational assistance to veterans, dependents, and survivors (veterans' readjustment benefit payments and educational assistance to spouses and children of disabled or deceased veterans)
- Veterans' life insurance benefit payments
- Payments to paraplegics, payments for autos and conveyances for disabled veterans, veterans' aid, and veterans' bonuses

Business transfers to individuals

Transfers to nonprofit institutions:
- Federal Government payments
- State and local payments (foster home care supervised by private agencies, State and local government educational assistance payments to nonprofit institutions, and other State and local government payments to nonprofit institutions)
- Business payments

Miscellaneous other transfer payments:
- Federal education and training assistance payments
- Bureau of Indian Affairs payments, education exchange payments, Alaska Native Claims Settlement Act payments compensation of survivors of public safety officers, compensation of victims of crime, and other special payments to individuals

Some investment income is imputed. Most imputed interest, for example, is the value of services provided by financial institutions to depositors without charge. Depositors receive part of their interest income in the form of services, like check clearing, provided by banks. Imputation also refers to the credit given to life insurance or private noninsured pension funds on behalf of the future recipient. State estimates of imputed interest are made by source, such as commercial banks, credit unions, or life insurance companies, summed to the State level and distributed to the county level in proportion to monetary interest.

Imputed rent is the estimated net income homeowners would receive if they rented their homes to someone else. Homeowners earn this amount by buying rather than renting.[5] Imputed rent for most owner-occupied dwellings is estimated at the State level and allocated to counties by the estimated market value of owner-occupied, single-family nonfarm homes. The estimated market value is derived for each county based on the number of dwellings and the median value reported in the 1980 Census of Housing (*10*).

Individuals directly receive most transfer payments and investment income. However, some transfer payments are received by nonprofit institutions; for example, to care for foster children. These transfers accounted for 2.5 percent of all transfer payments in 1983, or 0.37 percent of total personal income. Investment income received on behalf of individuals (interest paid into a trust fund, for example) accounted for 11.7, 21.8, and 3.1 percent of dividend, interest, and rental income. This type of investment income amounted to 3.4 percent of total U.S. personal income in 1983 (*11*).

I have separated counties into metro and nonmetro categories as defined by the Office of Management and Budget in 1983, and I have summed county data into

[5] Imputed rent for farm dwellings is included in farm proprietors' income (*10*).

metro and nonmetro portions of States. I calculated the data for nonmetro portions of States by summing nonmetro county data to nonmetro State totals. Per capita transfer payments, for example, were calculated by summing all transfer payment income in the nonmetro counties of a State and dividing that total by the sum of all nonmetro county populations. The same has been done for total personal income and population.

Per capita income figures, which allow us to examine the differences in income per person over time and between metro and nonmetro areas, were calculated by dividing the income of an area by its population. The population of an area was the Census population figure for July 1 of each year.

Geographic Distribution of Unearned Income, 1983

Unearned income can vary geographically in composition or in amount. Variations in composition, particularly of transfer payments, are relatively minor. However, there are some more important variations in the size of unearned income, measured per capita or as a percentage of total personal income.

Variation in Composition

The composition of transfer payment dollars may vary because of differences in the distribution of the target population, funding levels, and program specifications. This section first examines the variation in the composition of transfer payments, and then investment income, between the metro and nonmetro areas of the United States and among the nonmetro regions.[6]

General retirement and disability income is a larger component of transfer payment income in nonmetro than metro areas, but specific retirement programs directed toward particular groups of employees, such as Federal civilian employee retirement and railroad retirement, account for more transfer payment income in metro than in nonmetro areas (table 2). Combined, these retirement transfers account for almost 70 percent of total transfer income in both metro and nonmetro areas.

Despite the diversity of transfer payments and their sources, there was little difference in composition between the metro and nonmetro areas in 1983. Retirement-related transfer payments were the largest component of transfer income, accounting for 68.4 percent of all transfer payments in metro areas and 69.4 percent in nonmetro areas. When ranked in order of importance in metro and nonmetro areas, all transfer payment categories received the same ranking in both areas.

General retirement and disability income was the largest component of transfer income in all nonmetro regions, ranging from 52.5 percent of total transfer income in the West to 63.1 percent of the total in the Midwest. General retirement transfer income was a smaller component of transfer income in the nonmetro West than in other regions, but specific retirement was a larger component, accounting for 13.6 percent of all transfer income in that region.

Unemployment, income maintenance, and veterans' benefits each generally account for about 6–9 percent of total transfer income in the nonmetro regions, except that income maintenance transfers and veterans' benefits account for 10.7 and 10 percent of all transfer income in the nonmetro South.

Interest income was the major component of investment income in both the nonmetro and metro counties in 1983 (table 3). Rental income accounted for 12.2 per-

Table 2—Components of transfer payment income, 1983

Component	Metro total	Nonmetro Total	Nonmetro Northeast	Nonmetro Midwest	Nonmetro South	Nonmetro West
	Percentage of total transfer payments					
General retirement	55.0	58.5	57.8	63.1	57.2	52.5
Specific retirement	13.4	10.9	13.0	9.4	10.5	13.6
Unemployment insurance	6.4	6.9	7.5	7.5	5.8	8.2
Income maintenance	9.9	9.0	7.8	7.3	10.7	8.7
Veterans' benefits	8.1	8.1	6.6	5.9	10.0	8.6
Business transfers	3.3	2.9	2.8	3.0	2.8	2.9
Transfers to nonprofits	2.5	2.3	3.1	2.4	2.1	2.4
Miscellaneous other	1.4	1.4	1.4	1.4	.9	3.1

Table 3—Components of investment income, 1983

Component	Metro total	Nonmetro Total	Nonmetro Northeast	Nonmetro Midwest	Nonmetro South	Nonmetro West
	Percentage of total investment income					
Dividends	15.1	9.2	16.7	7.5	8.8	9.4
Interest	73.5	78.6	74.5	79.4	79.4	77.2
Rent	11.4	12.2	8.8	13.1	11.8	13.4

[6] Census regions and their component States are **Northeast:** Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, and Vermont, **Midwest:** Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, and Wisconsin; **South:** Alabama, Arkansas, Delaware, District of Columbia, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, and West Virginia, **West:** Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, and Wyoming. New Jersey and the District of Columbia are not included in nonmetro regions because they do not have any nonmetro counties.

cent of total investment income in nonmetro counties, compared with 11.4 percent in metro counties. Dividend income accounted for only 9.2 percent of the nonmetro investment income, compared with 15.1 percent of metro investment income.

Investment income was fairly consistently distributed across the three components (dividends, interest, and rent) within each nonmetro region, except for the nonmetro Northeast. Dividend income in that region accounted for 16.7 percent of investment income, and rent only 8.8 percent. This distribution pattern is more similar to the metro than nonmetro pattern.

Variation in Level

Nonmetro counties, as a whole, received $3,580 per capita in transfer and investment income, about $400 less than the $3,985 received per capita by metro counties (table 4). However, nonmetro counties were more dependent on unearned income than metro counties. Metro counties also had a significantly higher per capita total personal income than nonmetro counties.

Among nonmetro counties, the amount and importance of unearned income varied considerably. Unearned income as a share of total personal income in nonmetro counties was lowest in the West and highest in the Midwest. The Midwest also had the highest per capita amount of unearned income, and the West had the highest total personal income. The nonmetro South received the least amount of unearned income per capita, $3,222, but, because of its relatively low income, that accounted for 37.8 percent of its total personal income.

Investment income was higher per capita and a more important component of total personal income than transfer payments in the nonmetro United States. The regional data reveal, however, that transfer payments were higher per capita and as a proportion of total income than investment income in certain areas, such as the nonmetro Northeast and South. In the Northeast, transfer payments were particularly high, whereas in the South, which also had the lowest per capita transfer income, investment income was particularly low.

Differences between regions reflect variation in the composition of transfer payment income, the number and proportion of recipients, and the level of transfer payment benefits.[7] Total per capita transfer payments did not vary substantially among nonmetro regions, but specific components varied considerably (fig. 1).

General retirement and disability benefits, for example, were 57.8 percent and 57.2 percent of total transfer payments in the nonmetro Northeast and South. However, per capita general retirement benefits were $1,104 in the nonmetro Northeast, compared with $936 in the nonmetro South.

The variation in general retirement benefits can partially be explained by the distribution of the elderly. In 1980, the proportion of the residents over 65 was 13.2 percent in the nonmetro Northeast and 12.8 percent in the South (*9*). The nonmetro Midwest had the largest proportion of its population over 65 years old, 14.1 percent, while the nonmetro West had the smallest, 10.6 percent. The proportion of elderly and per capita retirement transfer payments were not directly correlated, however, because retirement benefits are partially determined by the worker's past earnings.

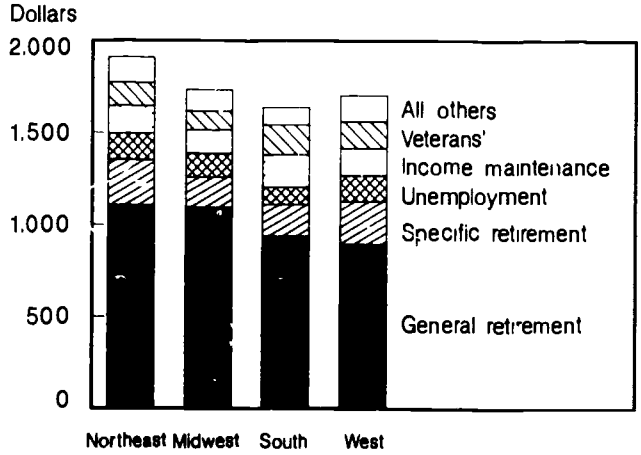
[7] Differences in per capita transfer payment income between nonmetro and metro counties generally reflect overall regional differences, rather than a metro-nonmetro bias. In the Northeast and West, transfer payments per capita were higher in the metro counties. However, in the South and Midwest, per capita transfer payments were higher in the nonmetro counties. The highest metro-nonmetro difference in per capita transfer payments was $50.

Table 4—Level and importance of unearned income, 1983

Item	Metro	Nonmetro Total	Northeast	Midwest	South	West
		Dollars per capita				
Total personal income	12,466	9,195	9,810	9,636	8,536	9,857
Unearned income	3,985	3,580	3,770	3,975	3,222	3,701
Transfer payments	1,739	1,703	1,910	1,732	1,637	1,703
Investment income	2,246	1,877	1,860	2,243	1,585	1,998
		Percentage of total personal income				
Unearned income	32.0	38.9	38.4	41.3	37.8	37.6
Transfer payments	14.0	18.5	19.5	18.0	19.2	17.3
Investment income	18.0	20.4	18.9	23.3	18.6	20.3

Figure 1

The structure of transfer payment income was consistent among regions in 1983, but dollar amounts varied considerably



Variation in per capita unemployment benefits reflects similar factors: the number and proportion of unemployed, the wage history of recipients, the benefit levels paid by the State unemployment programs, and the duration of unemployment covered by benefits. Per capita unemployment transfers ranged from $94 in the nonmetro South to $144 in the nonmetro Northeast.

Demographic data partially explain the variation in income maintenance payments. The nonmetro South had the highest per capita income maintenance benefits ($176), reflecting its 1980 poverty rate, 19.6 percent, which was the highest regional rate. The nonmetro Northeast, Midwest, and West had poverty rates of 11, 12, and 13.6 percent, but per capita maintenance income did not correspond directly with the poverty rate because of differences in State-administered programs (9).

The relative importance of each type of transfer payment income is similar among regions, but differences in the actual amounts of income by category were substantial. These differences reflect demographic characteristics of the regions, but they also reflect differences in program structures and residents' willingness to participate.

The amount of income from investments varied among nonmetro regions, from a high of $2,243 per capita in the Midwest to $1,585 in the South (fig. 2). Dividends as a proportion of investment income were highest in the Northeast, and dividend income per capita was highest there ($311). Interest income varied the most among regions, ranging from $1,258 per capita in the nonmetro South to $1,780 in the Midwest. Rental income also varied regionally, from $162 per capita in the nonmetro Northeast to $294 in the Midwest.

Differences in investment income reflect differences in the earnings received from property and the value of property held by nonmetro residents in each region. In all regions, the amount of income generated from property is substantial and may contribute to inequalities within each region between those who possess investment-earning property and those who do not.

Variation by State

The regional figures above obscure variation in unearned income at the State level. This section describes the amount and proportion of unearned income received at the State level. Transfer payments ranged from 11.9 percent of total personal income in nonmetro Wyoming to 25.3 percent in West Virginia (fig. 3). The national nonmetro average was 18.5 percent. In 11 States, transfer payments were 20 percent or more of total personal income in nonmetro areas.

Per capita transfer payments in nonmetro counties ranged from $1,244 in Utah to $2,431 in Massachusetts in 1983, with the national average at $1,703 (fig. 4). Maine, New York, Massachusetts, Pennsylvania, Michigan, Ohio, West Virginia, Missouri, Arkansas, Florida, Arizona, California, and Oregon were above the national average in both per capita transfer payments and transfer payments as a portion of total personal income. In these States, economic and policy changes affecting transfer payments may significantly affect personal income.

Within each State, however, the implications differ depending on the composition of transfer payment income and the total personal income level of the State. In nonmetro Florida, for example, where total personal income was below the national nonmetro average, retirement transfer income was a particularly important component of transfer payments. Therefore, changes in Social Security policy would probably significantly affect nonmetro income in that area.

In several other States, the importance of transfer payment income reflected the economic conditions of the State. Unemployment compensation income and income maintenance payments were much higher than average in Michigan, Ohio, Pennsylvania, and West Virginia. In these States, the dependence of the nonmetro economy on transfer income may be reduced by better economic conditions.

The reasons that States had different levels of transfer and personal income are varied and complex. But, transfer income accounted for at least 10 percent of personal income in the nonmetro counties of all States.

High levels of investment income as a proportion of total nonmetro personal income are concentrated in the Midwest, upper New England, Florida, and the West (fig. 5). Investment income accounts for at least 25 percent of total nonmetro personal income in five States: Massachusetts, Illinois, Iowa, North Dakota, and Nebraska. Changes in economic conditions and investment opportunities would probably significantly affect the overall economic condition of those areas.

Figure 2
Most per capita investment income in all nonmetro regions in 1983 came from interest

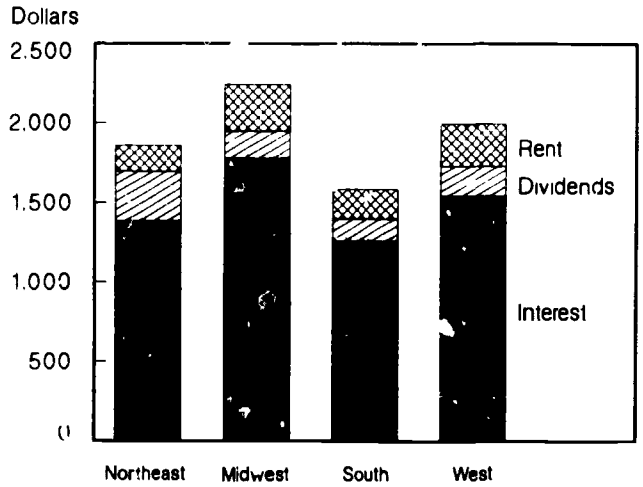


Figure 3

Transfer payments as a share of total nonmetro personal income ranged from 11.9 percent in Wyoming to 25.3 percent in West Virginia in 1983

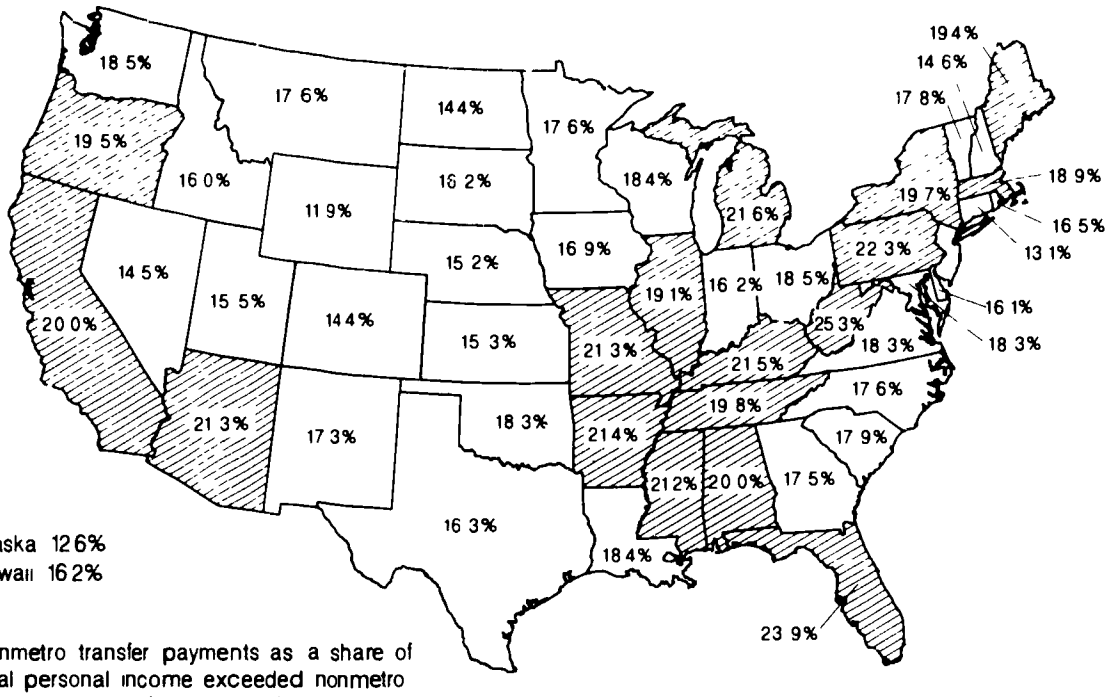


Figure 4

Per capita transfer payments in nonmetro counties ranged from $1,244 in Utah to $2,431 in Massachusetts in 1983

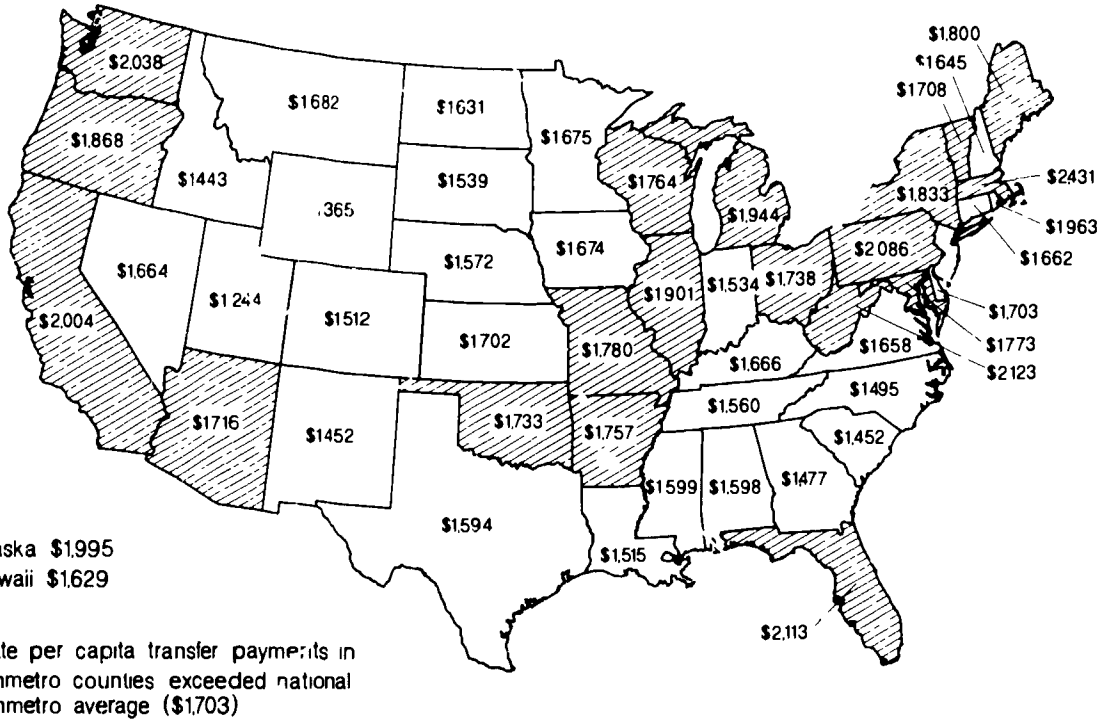


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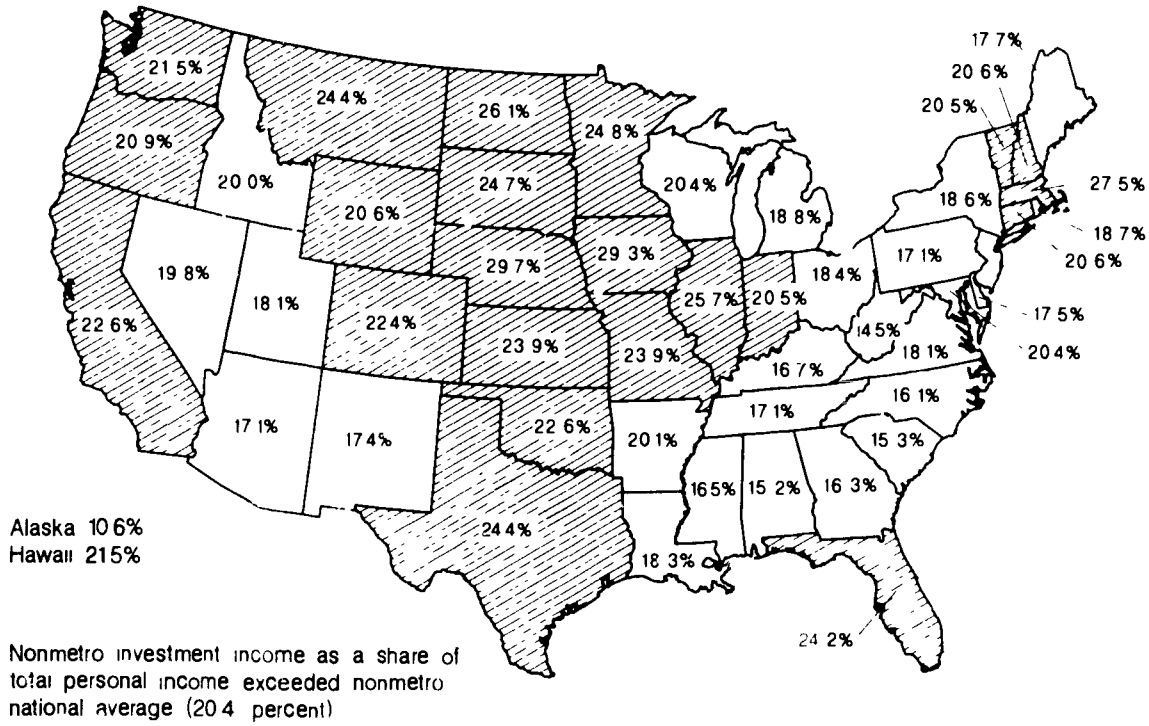
Figure 5

Investment income as a share of total nonmetro personal income ranged from 10.6 percent in Alaska to 29.7 percent in Nebraska in 1983



Per capita investment income in the nonmetro counties ranged from $1,213 in Alabama to $3,533 in Massachusetts in 1983 (fig. 6). States with high per capita investment income also had high proportions of total personal income from investment income. Investment income was relatively high and accounted for a large share of income in many farming States.

Transfer payment income and investment income comprise a large proportion of personal income in many nonmetro areas. The nonmetro counties of Florida, with the highest proportion of unearned income, received 48.1 percent of total personal income from unearned sources in 1983. Similarly, the nonmetro counties of Massachusetts, Iowa, and Missouri received more than 45 percent of total personal income from transfer and investment income. Unearned income accounted for more than 40 percent of total personal income in the nonmetro counties of 16 States in 1983.

Unearned income has not always played such an important role in nonmetro America. Unearned income grew significantly during the inflationary early eighties.

Growth of Unearned Income

Unearned income increased both per capita and as a proportion of total income during 1969–83. Transfer payments have increased steadily as programs have been initiated and enlarged and as participation has risen.

Investment earnings grew significantly in the late seventies and early eighties when inflation increased the value of assets and the real interest rate increased to historically high levels. Both transfer and investment income increased more rapidly in nonmetro than metro counties.

Growth of Transfer Payments

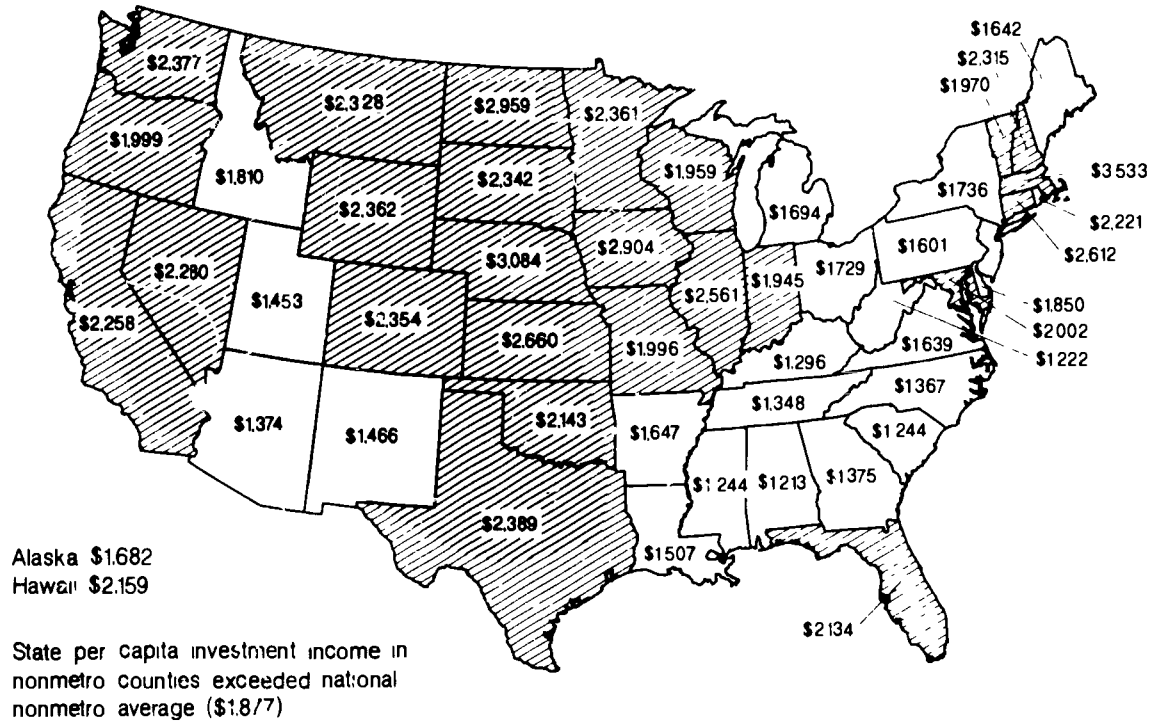
During 1969–83, transfer payment income increased from $66.7 billion to $405 billion. During that time, nonmetro transfer payment income increased 525 percent, from $15.2 billion to $95 billion, and metro transfer payment income increased at a slightly slower rate (503 percent), from $51.4 billion to $310.1 billion.[8]

Per capita transfer payment income in the United States steadily increased from $331 in 1969 to $1,731 in 1983. Even after adjustment for inflation, the increase in real per capita transfer payment income remains high, over 90 percent. Per capita transfer payments were

[8] In 1983 constant dollars, which adjust for inflation using the Consumer Price Index (CPI), transfer payments increased 124 percent between 1969 and 1983, from $181 billion to $405 billion. Nonmetro transfer payment income increased slightly more, 129 percent, from $41 billion to $95 billion. Metro transfer payment income increased 122 percent, to $310 billion in 1983.

Figure 6

Per capita investment income in nonmetro counties ranged from $1,213 in Alabama to $3,533 in Massachusetts in 1983



slightly smaller in nonmetro areas than metro areas during 1969–83 (fig. 7).[9]

Despite the similarities in per capita transfer payments in metro and nonmetro counties during 1969–83, transfer payments have always been a larger proportion of total personal income in nonmetro counties (fig. 8). The difference reflects the lower income levels in nonmetro counties. Even small transfer payments can be a large part of income in lower income areas.

Changes in government transfer payments to individuals can be attributed to automatic cyclical effects, automatic inflation effects, and legislation and other factors (*3, 4*).

[9] Per capita transfer payments and transfers as a share of income for 1969–83, by nonmetro region, are shown in app figs 1 and 2.

Figure 7

Per capita transfer payments rose more than fivefold in both metro and nonmetro counties during 1969-83

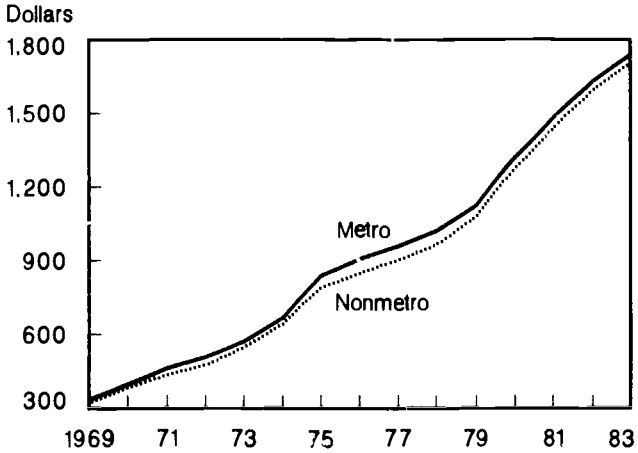
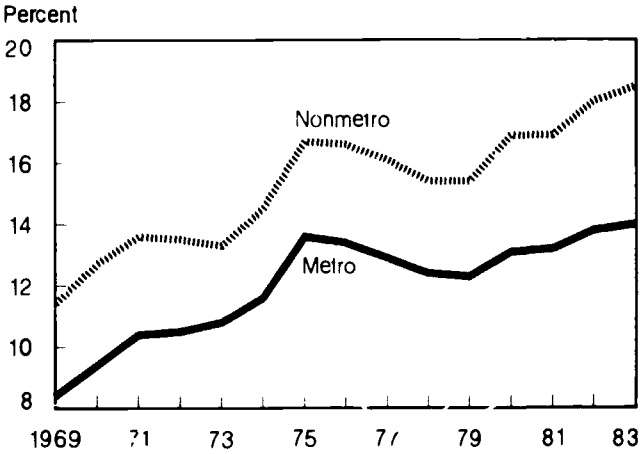


Figure 8

Transfers have remained a more important part of total personal income in nonmetro counties than in metro counties



Automatic cyclical effects are the result of changes in several transfer payment programs, such as Social Security, unemployment insurance, food stamps, and veterans' readjustment benefits, in response to changes in the unemployment rate. As the unemployment rate changes, so does the number of beneficiaries or the payments per beneficiary in these programs. As the unemployment rate increased during the 1974–75, 1980, and 1981–82 recessions, so did transfer payments. Unemployed workers and their families apply for programs like food stamps and unemployment compensation to tide them over. People also tend to retire at a younger age during recessions and collect Social Security earlier than they would have normally. Cycle-related transfer payments also decreased between and after those recessions as the unemployment rate declined (*4*).

Automatic inflation effects occur as transfer payments respond to changes in the general level of prices. Programs which are linked by legislation to changes in a price index include Social Security; railroad, military, and Federal retirement; food stamps; and supplemental security income (SSI). Medicare benefits are not legislatively linked to a price index, but change as the cost of medical care changes. Likewise, as inflation increases wages, unemployment benefits, which are based on earnings, also increase. Inflation effects are generally cumulative, and present benefit levels reflect both recent and past adjustments to price indexes. Inflation-induced changes in transfer payments have occurred continuously during the seventies and eighties, reflecting rising prices during that period.

Changes in transfer payments due to legislation were especially important in the early seventies when Social Security benefit increases were legislated, rather than indexed.[10] Other factors affecting transfer payments include demographic changes, noncyclical growth in wages, and the willingness of beneficiaries to apply for programs. Much of the growth in Social Security and medicare, for example, can be attributed to growth in the population over 62 years old. Forty-eight percent of the total change in Federal transfer payments to individuals during 1970–81 was related to automatic inflation effects, 6 percent to automatic cyclical effects, and 47 percent to legislation and other factors (*3*, p. 26).

Another way to analyze the growth of transfer payments is to look at each program's contribution to increases. The increase in general retirement payments (from $8.3 billion to $55.5 billion) accounted for 59.3 percent of the growth of transfer payment income in the nonmetro United States (table 5). General retirement's contribution to transfer payment growth ranged from 63.8 percent in the Midwest to 53.1 percent in the West.

Since 1969, new income maintenance programs have been introduced, and both new and established programs expanded. For example, the Food Stamp Program, enacted in 1964, was expanded to a nationwide program in 1974. In 1979, the cash purchase requirement was dropped, increasing accessibility to the poor. However, income maintenance transfers accounted for only 9 percent of the total growth in transfer payments, contrary to the common belief that welfare is largely responsible for gross increases in government spending.

The fastest growing component of transfer income in the nonmetro United States during 1969–83 was unemployment compensation, which grew from almost $500 million to $6.5 billion. In 1970, there were 16 million initial claims for unemployment insurance nationwide; in 1983, there were over 23 million (*12*). Furthermore, the wages on which benefits were based had risen. Because unemployment compensation is not a large portion of total transfer income, however, the growth in unemployment insurance accounted for only 7.6 percent of total transfer income growth.

[10] Indexing of Social Security benefits began in 1975

Table 5—Growth in transfer payments by component, 1969–83

Item	Metro total	Nonmetro				
		Total	Northeast	Midwest	South	West
			Billion dollars			
1983 total	310.1	94.9	10.7	30.1	40.6	13.5
1969 total	51.4	15.2	1.8	5.3	6.1	1.9
Growth	258.7	79.6	8.8	24.8	34.4	11.5
			Percentage of total growth			
General retirement	56.1	59.3	58.8	63.8	58.2	53.1
Specific retirement	13.6	11.1	13.0	9.4	11.0	13.9
Unemployment insurance	7.0	7.6	8.1	8.4	6.4	6.8
Income maintenance	9.6	8.9	8.1	7.5	10.3	8.4
Veterans' benefits	7.0	6.9	5.4	4.6	8.8	7.6
Business transfers	3.0	2.7	2.6	2.7	2.6	2.8
Transfers to nonprofits	2.1	1.9	2.5	2.0	1.7	2.1
Miscellaneous transfers	1.6	1.6	1.5	1.6	1.0	3.3

Transfer payments which contributed significantly to total transfer income growth in particular regions include specific retirement in the West (13.9 percent) and Northeast (13 percent) and income maintenance transfer payments in the South (10.3 percent).

Growth of Investment Income

Total investment income grew rapidly during 1969–83, especially during the late seventies and early eighties. In nonmetro counties, investment income increased 493 percent from $17.6 billion in 1969 to $104.5 billion in 1983. Investment income in metro counties increased 369 percent, from $85.5 billion to $400.4 billion. Per capita investment income grew at slightly lower rates (fig. 9).

Interest income, the main component of investment income growth, can increase for two reasons: increases in holdings of interest-bearing assets and increases in the interest rate earned on these assets. The sharp increase in interest rates during the late seventies and early eighties was the primary cause of personal interest income growth. In the late seventies and early eighties, both nominal and real interest rates rose rapidly. The prime rate increased from 7.91 percent in 1970 to a high of 18.87 percent in 1981 (*12*, p. 505). Investors also shifted their portfolios toward higher yielding assets, making the average interest rate even higher (*8*).

Per capita investment income was consistently lower in nonmetro than metro areas, and by 1983, the absolute difference widened (fig. 9).[11] In relative terms, however, per capita investment income in nonmetro areas was equal to 84 percent of the per capita investment income in metro areas in 1983, compared with only 67 percent in 1969.

[11] See app figs. 3 and 4 for regional data on investment income

In 1969, investment income accounted for 13.2 percent of nonmetro total personal income and 13.9 percent of metro total personal income. By 1983, investment income accounted for 20.4 percent of nonmetro total personal income and 18 percent of metro total personal income. Throughout the early seventies, investment income remained under 15 percent of personal income, but grew sharply during 1978–82 (fig. 10).

Between 1969 and 1983, investment income increased by almost $87 billion in nonmetro America (table 6). Growth in interest income accounted for more than 75 percent of the growth in investment income in both metro and nonmetro counties.

The relative importance of each category of investment income to overall growth was similar in the nonmetro Midwest, West, and South, approximating the national nonmetro average. In the Northeast, however, dividend income accounted for a much larger share of total investment income growth than the nonmetro average.

Growth of Personal Income

Unearned income in the United States contributed significantly to the overall growth in total personal income during 1969–83 (table 7). Personal income (in nominal dollars) increased 266 percent over that period.[12]

In nonmetro America, however, unearned income was an even more important factor in total personal income

[12] In 1983 constant dollars, which adjust for inflation using the Consumer Price Index (CPI), U.S per capita personal income increased 15.8 percent during 1969–83, from $10,093 to $11,687 Nonmetro per capita personal income increased 20 2 percent, from $7,648 to $9,195; metro per capita personal income increased 15 percent, from $10,843 to $12,466 Although table 7 shows nominal values, because all components of income would be adjusted by the same CPI, the relative contributions of earnings, investment, and transfer income would remain the same even after adjusting for inflation.

Figure 9
Per capita investment income grew slightly faster in nonmetro counties than in metro counties

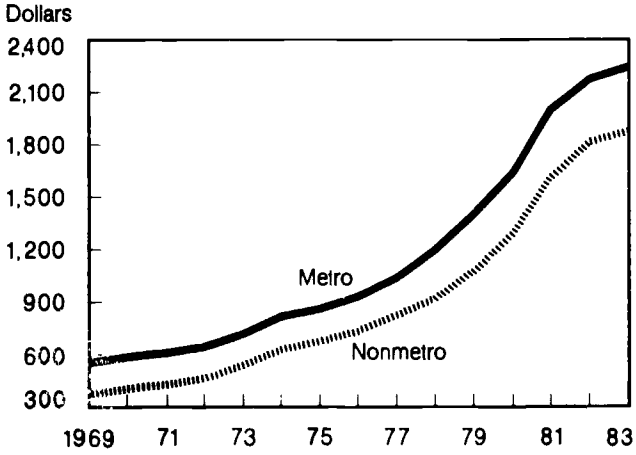


Figure 10
Investment income has become a larger share of total personal income in nonmetro counties than in metro counties

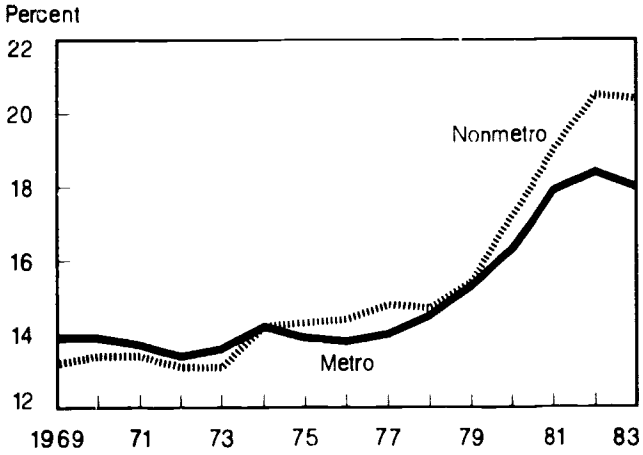


Table 6—Growth in components of investment income, 1969–83

Item	Metro total	Nonmetro				
		Total	Northeast	Midwest	South	West
			Billion dollars			
1983 total	400 4	104 5	10.4	39 0	39 3	15.8
1969 total	85.5	17 6	2.2	7 5	5 6	2.3
Growth	314.9	86.9	8.2	31 5	33.7	13.5
			Percentage of total growth			
Dividends	12.9	8.2	14 3	6.8	7 9	8.7
Interest	77 5	82.0	78.0	83.8	82 4	79.4
Rent	9.6	9.8	7.7	9.4	9.7	11.9

Table 7—Components of personal income growth, 1969–83

Item	U.S. total	Metro	Nonmetro
	Billion dollars		
1983 total personal income	2,734.5	2,222.3	512.2
1969 total personal income	747.5	614.4	133.2
Growth	1,986 9	1,607.9	379 0
	Percentage of total growth		
Earnings	62.8	64 3	56.1
Investment income	20.2	19.6	22 9
Transfer income	17.0	16.1	21.0

growth, contributing 43.9 percent of overall growth. The growth in investment income was slightly more important than the growth in transfer income in its contribution to overall personal income growth. In contrast, the growth in investment and transfer income contributed 35.7 percent of total personal income growth in metro areas.

Because investment income grew considerably during a period of high inflation and high real interest rates, such high rates of investment income growth probably could not continue over long periods of time. Consequently, the growth of these sources of personal income observed during 1969–83 in nonmetro America may not be sustainable over the long run.

Implications

Transfer payments and investment income, $3,580 per person, accounted for almost 40 percent of personal income in the nonmetro United States in 1983. Metro counties received more unearned income per capita, but unearned income was a more important component of total personal income in the nonmetro United States.

Transfer payments provided an important source of personal income in many nonmetro counties because of their magnitude. But small per capita transfer payments also accounted for a vital portion of income in lower income counties. These transfer payments were generally targeted at populations in need of income, specifically the elderly, the disabled, and the poor. Public assistance payments did not account for a large proportion of transfer payment income, but public assistance payments helped the neediest residents of nonmetro communities.

Most transfer income is retirement-related and received through Social Security, medicare, and specific Government retirement programs. Retirees also receive investment earnings on the assets accumulated over their lifetimes. This retirement income has been described as a development tool for rural areas (*7*). Transfer payment income may also provide a relatively stable source of income during variable economic conditions.

Increases in transfer payment and investment income have contributed significantly to the growth of personal income in the nonmetro United States. But as investment income increases, income inequality may increase, as such income accrues to those who have investments.

Because unearned income is so important in rural America, nonmetro communities and residents have a major interest in policies affecting investment and transfer income (*6*). Changes in general retirement programs, such as Social Security and medicare, and in unemployment compensation programs would significantly affect many nonmetro counties, where those programs account for a large portion of personal income. Legislative changes in tax codes and changes in economic conditions affecting investments and their earnings would also influence the composition and growth of personal income in the nonmetro United States.

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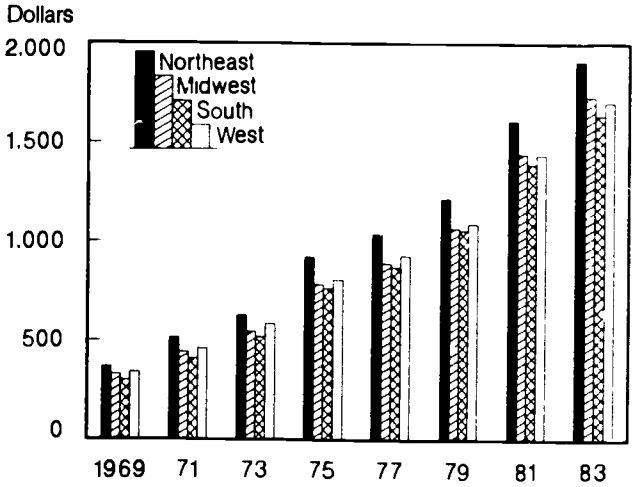
Appendix A: Growth of Unearned Income by Nonmetro Region

Growth in transfer payment income per capita was steady in the nonmetro portions of all regions during 1969–83 (app. fig. 1). Per capita transfer payments remained highest in the nonmetro Northeast in relation to the other regions and lowest in the South during that period.

Per capita transfer payments increased steadily for that 15 years, but transfer payments as a proportion of total personal income jumped sharply between 1973 and 1975, declined through 1979, and increased again through 1983 (app. fig. 2) Since 1971, variation in the importance of transfer payments among the regions has become more pronounced. Transfer payments were especially important in the nonmetro portions of the Northeast and South when measured as a percentage of personal income.

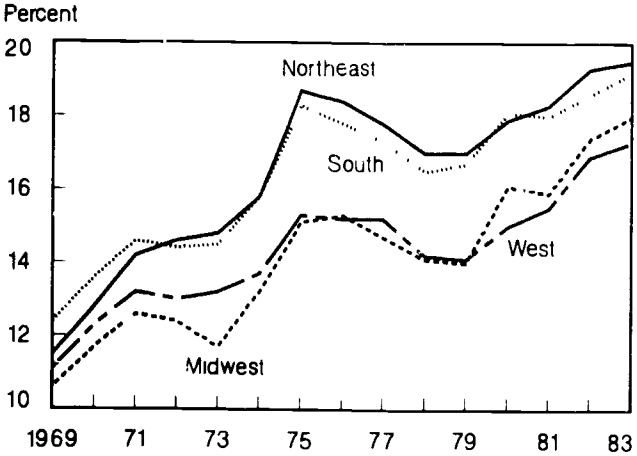
Appendix figure 1

Per capita transfer payment income in nonmetro counties, by region



Appendix figure 2

Transfer payment income as a proportion of total personal income in nonmetro counties, by region



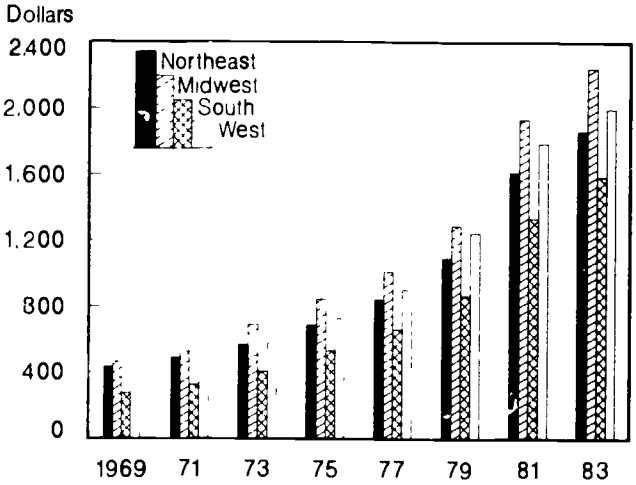
Investment income per capita also increased between 1969 and 1983, especially in the late seventies and early eighties (app fig. 3). During that time, absolute regional differences became more pronounced, with the nonmetro South receiving over $650 less per resident than the nonmetro Midwest in 1983. Investment income was also more important in the nonmetro Midwest in 1983 than in other regions throughout the time period (app fig. 4)

Appendix B: Transfer and Investment Income by State

This report has examined the growth, composition, and distribution of transfer payments and investment income in the nonmetro United States. These tables present the nonmetro data shown in figures 3 through 6 and metro data for comparison.

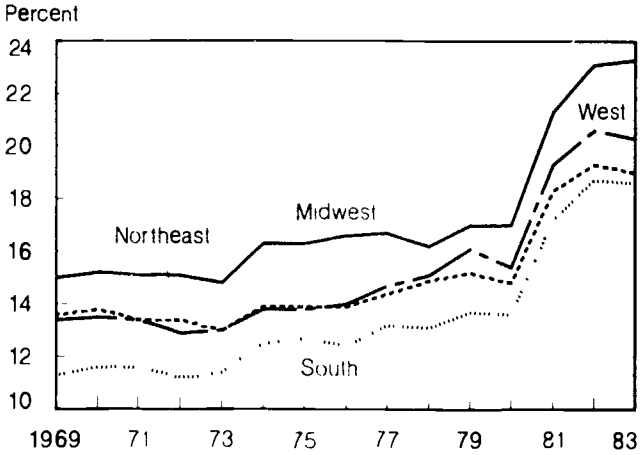
Appendix figure 3

Per capita investment income in nonmetro counties, by region



Appendix figure 4

Investment income as a proportion of total personal income in nonmetro counties, by region



Appendix table 1—Per capita transfer payments and transfer payments as a percentage of income for States, by metro and nonmetro residence, 1983

Region/State	Metro		Nonmetro	
	Per capita	Share of personal income	Per capita	Share of personal income
	Dollars	*Percent*	*Dollars*	*Percent*
Northeast	1,945	14.8	1,910	19.5
Connecticut	1,677	11.1	1,662	13.1
Maine	1,799	16.7	1,800	19.4
Massachusetts	1,875	14.1	2,431	18.9
New Hampshire	1,403	11.1	1,645	14.6
New Jersey	1,798	12.8	NA	NA
New York	2,002	14.9	1,833	19.7
Pennsylvania	2,118	17 9	2,086	22.3
Rhode Island	2,017	17.3	1,963	16.5
Vermont	1,309	11.7	1,708	17.8
Midwest	1,710	14.0	1,732	18.0
Illinois	1,743	13.5	1,901	19.1
Indiana	1,483	13.4	1,534	16.2
Iowa	1,576	13.4	1,674	16.9
Kansas	1,543	11.8	1,702	15.3
Michigan	1,839	15 2	1,944	21.6
Minnesota	1,472	11.2	1,675	17.6
Missouri	1,632	13.1	1,780	21.3
Nebraska	1,408	11.6	1,572	15.2
North Dakota	1,300	10.6	1,631	14.4
Ohio	1,863	15 9	1,738	18 5
South Dakota	1,352	11.5	1,539	16.2
Wisconsin	1,682	13.8	1,764	18.4
South	1,587	13.5	1,637	19.2
Alabama	1,696	17 1	1,598	20.0
Arkansas	1,572	15.6	1,757	21.4
Delaware	1,496	11.0	1,703	16 1
District of Columbia	3,254	20.8	NA	NA
Florida	2,056	17.3	2,113	23.9
Georgia	1,368	11.9	1,477	17.5
Kentucky	1,591	14.0	1,666	21.5
Louisiana	1,442	12.9	1,515	18.4
Maryland	1,794	13.5	1,773	18.3
Mississippi	1,455	15.1	1,599	21.2
North Carolina	1,334	12 2	1,495	17.6
Oklahoma	1,461	12.1	1,733	18.3
South Carolina	1,395	14.1	1,452	17.9
Tennessee	1,507	14.5	1,560	19.8
Texas	1,247	10.3	1,594	16.3
Virginia	1,695	12 7	1,658	18.3
West Virginia	1,953	18.6	2,123	25.3
West	1,753	13 6	1,703	17.3
Alaska	1,797	9.5	1,995	12 6
Arizona	1,653	14.4	1,716	21.3
California	1,822	13.6	2,004	20.0
Colorado	1,467	11.0	1,512	14 4
Hawaii	1,618	12.7	1,629	16.2
Idaho	1,464	12.5	1,443	16.0
Montana	1,576	14.1	1,682	17.6
Nevada	1,699	13.4	1,664	14.5
New Mexico	1,577	14.2	1,452	17.3
Oregon	1,825	16.1	1,868	19.5
Utah	1,211	13.0	1,244	15.5
Washington	1,816	14.6	2,038	18.5
Wyoming	1,232	8.5	1,365	11.9

NA = Not applicable

Appendix table 2—Per capita investment income and investment income as a percentage of income for States, by metro and nonmetro residence, 1983

Region/State	Metro		Nonmetro	
	Per capita	Share of personal income	Per capita	Share of personal income
	Dollars	*Percent*	*Dollars*	*Percent*
Northeast	2,429	18.4	1,860	19.0
Connecticut	2,988	19.7	2,612	20.6
Maine	1,745	16.2	1,642	17.7
Massachusetts	2,306	17.4	3,533	27.5
New Hampshire	1,921	15.2	2,315	20.6
New Jersey	2,443	17.5	NA	NA
New York	2,620	19.5	1,736	18.6
Pennsylvania	2,120	17.9	1,601	17.1
Rhode Island	2,131	18.3	2,221	18.7
Vermont	1,664	14.9	1,970	20.5
Midwest	2,144	17.5	2,243	23.3
Illinois	2,427	18.8	2,561	25.7
Indiana	1,837	16.6	1,945	20.5
Iowa	2,249	19.2	2,904	29.3
Kansas	2,404	18.4	2,660	23.9
Michigan	1,908	15.8	1,694	18.8
Minnesota	2,216	16.8	2,361	24.8
Missouri	2,352	18.9	1,996	23.9
Nebraska	2,167	17.9	3,084	29.7
North Dakota	2,422	19.8	2,959	26.1
Ohio	2,000	17.1	1,729	18.4
South Dakota	2,199	18.7	2,342	24.7
Wisconsin	2,148	17.7	1,959	20.4
South	2,050	17.4	1,585	18.6
Alabama	1,574	15.6	1,213	15.2
Arkansas	1,580	15.7	1,647	20.1
Delaware	2,427	17.8	1,850	17.5
District of Columbia	3,091	19.7	NA	NA
Florida	2,844	24.0	2,134	24.2
Georgia	1,643	14.3	1,375	16.3
Kentucky	1,912	16.8	1,296	16.7
Louisiana	1,849	16.6	1,507	18.3
Maryland	2,096	15.8	2,002	20.4
Mississippi	1,417	14.7	1,244	16.5
North Carolina	1,599	14.7	1,367	16.1
Oklahoma	2,090	17.3	2,143	22.6
South Carolina	1,357	13.8	1,244	15.3
Tennessee	1,645	15.8	1,348	17.1
Texas	2,055	16.9	2,389	24.4
Virginia	2,028	15.2	1,639	18.1
West Virginia	1,724	16.4	1,222	14.5
West	2,427	18.8	1,998	20.3
Alaska	2,207	11.6	1,682	10.6
Arizona	2,361	20.5	1,374	17.1
California	2,567	19.1	2,258	22.6
Colorado	2,239	16.8	2,354	22.4
Hawaii	2,208	17.4	2,159	21.5
Idaho	2,154	18.5	1,810	20.0
Montana	2,273	20.3	2,328	24.4
Nevada	2,252	17.8	2,280	19.8
New Mexico	2,049	18.4	1,466	17.4
Oregon	2,209	19.5	1,999	20.9
Utah	1,505	16.2	1,453	18.1
Washington	2,257	18.2	2,377	21.5
Wyoming	3,111	21.5	2,362	20.6

NA = Not applicable.

U.S. GOVERNMENT PRINTING OFFICE:1988-201-039:80193/ERS

UNITED STATES DEPARTMENT OF AGRICULTURE
ECONOMIC RESEARCH SERVICE
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