Economy Surprisingly Dependent on Non-Labor Income

Non-Labor Income sources such as investments, Social Security, Medicare, and Medicaid often are the largest and fastest growing sources of personal income for many counties.

Methods and Data Sources, August 2017

This paper describes the data sources used in the post, "Economy Surprisingly Dependent on Non-Labor Income". This paper also describes how the U.S. Department of Commerce provides information on "non-labor" sources of income; and how Headwaters Economics has reorganized the data to easier-to-understand categories. We also explore in more detail one element of non-labor income, called "rent."

The data used in this post was obtained from the Regional Economic Information System of the Bureau of Economic Analysis (BEA), U.S. Department of Commerce.

As defined by the BEA, non-labor income (NLI) consists of two subcategories: Dividends, Interest, and Rent (DIR) and Transfer Receipts (TR). DIR includes personal dividend income, personal interest income, and rental income of persons with capital consumption adjustment, as well as income related to the rental of real property and royalties from patents and natural resource leases. These income sources are sometimes referred to as "investment income" or "property income". TR are defined as payments to persons for which no current services are performed, and consist of payments to individuals and to nonprofit institutions by federal, state, and local governments and by businesses.[1]

TR receipts of individuals from government are defined by the BEA as consisting of the following seven elements. These are described in greater detail below.

1. Retirement and disability insurance benefits
2. Medical benefits, including Medicare and Medicaid
3. Income maintenance benefits
4. Unemployment insurance compensation
5. Veteran's benefits
6. Education and training assistance
7. Other transfer receipts of individuals from governments

Headwaters Economics has reordered BEA's components of NLI into five categories:

1. DIR (e.g., investment income)
2. Age-Related Payments (e.g., retirement, social security, Medicare)

3. Hardship-Related Payments (e.g., Medicaid, income maintenance benefits)
4. Education Payments
5. Other NLI

In this post, we focus primarily on the top three elements – DIR, Age-Related, and Hardship-Related – because they represent 98 percent of NLI.

A detailed explanation of non-labor income, including a peer-reviewed journal article, detailed white paper, maps, and data visualization can be found at: https://headwaterseconomics.org/economic-development/trends-performance/non-labor/

Components of non-labor income are defined by BEA in more detail as follows:

Dividends, Interest and Rent (DIR)

(1) Dividends: "Payments in cash or other assets, excluding the corporation's own stock, made by corporations located in the United States and abroad to stockholders who are U.S. residents." Dividends constitute approximately 5.8 percent of total personal income in the U.S.

(2) Interest: "Personal interest income is the interest income (monetary and imputed) from all sources that is received by individuals, employee retirement plans, and quasi-individuals." Personal interest income is approximately 8.1 percent of total personal income in the U.S.

(3) Rent: "Earnings from the rental of real property by persons who are not primarily engaged in the real estate business. It also includes the imputed net rental income of owner-occupants and the royalties received by persons from patents, copyrights, and rights to natural resources." Rental income is approximately 2.8 percent of total personal income in the U.S. Rental income is explained in more detail in the following section.

Transfer Receipts (TR)

The BEA defines Transfer Receipts (TR) as "benefits received by persons for which no current services are performed. They are payments by government and business to individuals and nonprofit institutions."

TR receipts of individuals from government are defined by the BEA as consisting of the following seven elements:

(1) Retirement and disability insurance benefits, consisting of these components:

- *Social Security benefits* are "monthly benefits received by retired and disabled workers, dependents, and survivors and lump-sum benefits received by survivors."
- *Railroad retirement and disability*: benefits "received by retired and disabled railroad employees and their survivors under the federal program of retirement insurance for railroad employees, who are not covered by Social Security."

- *Worker's compensation*: compensation "received by individuals with employment-related injuries and illnesses from publicly administered workers' compensation insurance from both the federal and state governments."
- *Other government retirement and disability insurance benefits*, which includes "temporary disability benefits, black lung benefits, and benefits from the Pension Benefit Guaranty Corporation."

Retirement and disability insurance benefits are approximately 5.9 percent of total personal income in the U.S. of which the majority, 5.6 percent, is in the form of Social Security benefits.

(2) Medical benefits:

- *Medicare: "federal government payments made directly or through* intermediaries to vendors for the care provided to individuals under the Medicare program."
- *Medicaid*: "medical benefits are received by low-income individuals."
- *Other medical care benefits*: benefits received by low-income individuals that consist "mainly of the payments made directly or through intermediaries to vendors for care provided to individuals under the Title XXI of the federally assisted, state-administered Children's Health Insurance Program (CHIP), and under the general assistance medical programs of state and local governments."
- *Military medical insurance benefits.*

Medical benefits are approximately 7.7 percent of total personal income in the U.S., of which 4.2 percent is in the form of Medicare, and 3.3 percent from Medicaid.

(3) Income maintenance benefits:

- *Supplemental Security Income (SSI) benefits*: benefits "received by the aged, the blind, and the disabled from both the federal and state governments."
- *Family assistance*: assistance provided through the Temporary Assistance to Needy Families (TANF) program.
- *Supplemental Nutritional Assistance Program (SNAP*): (formerly called food stamps, "these benefits are issued to qualifying low-income individuals in order to supplement their ability to purchase food."
- *Other income maintenance benefits*: includes "foster care and adoption assistance, earned income tax credits, energy assistance, and the value of vouchers issued under the Special Supplemental Nutrition for Women, Infants and Children (WIC) program."

Income maintenance benefits are approximately 2.1 percent of total personal income in the U.S.

(4) Unemployment insurance compensation:

This includes benefits paid to individuals from state administered unemployment insurance programs, unemployment compensation for federal employees, unemployment compensation for railroad employees, and for "unemployed veterans who have recently separated from military service and who are not eligible for military retirement benefits." Unemployment insurance compensation payments are approximately 1.1 percent of total personal income in the U.S.

(5) Veteran's benefits

Veteran's benefits are approximately 0.5 percent of total personal income in the U.S.

(6) Education and training assistance:

This includes "payments to outstanding science students who receive National Science Foundation (NSF) grants, the subsistence payments to the cadets at the six state maritime academies, and the payments for all other federal fellowships." It also includes payments to students who participate in Fulbright scholarships, interest payments on guaranteed student loans, higher education federal assistance (Pell grants), Job Corps benefits, and state educational assistance. Education and training assistance constitutes approximately 0.5 percent of total personal income in the U.S.

(7) Other transfer receipts of individuals from governments.

This category includes payments to survivors of state and local employees, such as police officers and firefighters; compensation to victims of crime; Alaska Permanent Fund benefits; disaster relief funds; radiation exposure compensation; Japanese intern redress benefits, among others. Other transfer receipt payments constitute approximately 0.1 percent of total personal income in the U.S.

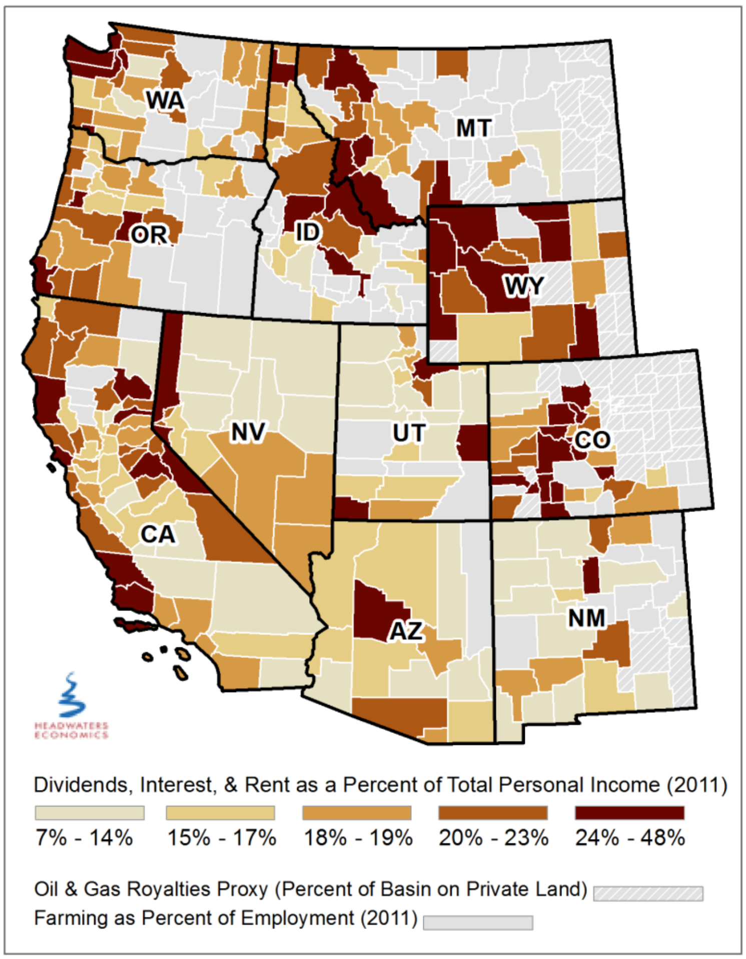
TP payments also consist of payments to non-profit institutions, constitute approximately 0.3 percent of total personal income in the U.S. Finally, the Bureau of Economic Analysis also counts as part of TR the receipts of individuals from business (about 0.2% of total personal income in the U.S.). This includes, for example BP oil spill payments.

Defining Rental Income – An Identification of Farming and Oil and Gas Counties

BEA defines Dividends, Interest, and Rent (DIR) to include personal dividend income, personal interest income, and rental income. The Rent category covers a broad range of sources, including investments, rental income from commercial and residential properties, rental income from leasing farm land, and royalty payments from oil and gas leases.

In counties where DIR is a significant component of total personal income, it is important to differentiate whether DIR sources are from "money earned from investments," such as the stock market, or whether it is from "rent," such as farmers leasing land to their neighbors, or landowners leasing land to an oil and gas company. For example, in the resort community of Teton County, Wyoming, DIR represents 79 percent of all personal income and is driven largely by the stock market. In contrast, in Sublette County, Wyoming, where DIR is 29 percent of all personal income, it is more likely driven by landowners leasing their land for oil and gas development.

The map below shows in grey the farm-dependent counties, and in grey stripes the oil and gas-dependent counties.



The methods we used to define these variables are:

(1) Farm dependent was defined as a county where at least 15 percent of employment was in farming in 2011, following the methods used by the USDA Economic Research Service.[2] We used NAICS code 11 from the Quarterly Census of Employment and Wages to measure farm employment as a percent of total employment.[3] These are counties where we assumed that because they were relatively dependent on farming, DIR would be significantly influenced by rental income earned when farmers rent to neighboring farmers.
(2) Oil and gas dependence was defined as counties in which more than 50 percent of the basin where extraction occurs takes place on private lands.[4] Although we cannot separately identify how much of DIR income comes from royalties, we expect that DIR payments in these counties contains a higher proportion of royalty payments than counties with less oil and gas production.

Defining Rural and the West

The West is defined here as the 11 western contiguous states: Arizona, California, Colorado, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, and Wyoming. In this post, we define rural as non-metro. Metro counties contain a core population of 50,000 or more people or are "outlying" counties tied economically to the core areas by labor force commuting. These figures were derived by running non-metro reports using our Economic Profile System tool for the 11 western states, and for the non-metro portions of these states.

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About Headwaters Economics

Headwaters Economics is an independent, nonprofit research group whose mission is to improve community development and land management decisions in the West, https://headwaterseconomics.org/.

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[1] U.S. Department of Commerce. 2012. Bureau of Economic Analysis, Regional Economic Information System, Washington, D.C. Tables CA05N, CA30, and CA35

[2] U.S. Department of Agriculture. 2013. Economic Research Service, County Typology Codes Documentation. www.ers.usda.gov/data-products/county-typology-codes/documentation.aspx. Accessed December 5, 2013.

[3] U.S. Department of Labor. 2013. Bureau of Labor Statistics, Quarterly Census of Employment and Wages, Washington, D.C.

[4] Haggerty, J., P. Gude, M. Delorey, and R. Rasker. 2014. "Long-Term Effects of Income Specialization in Oil and Gas extraction: the U.S. West, 1980-2011." Energy Economics. 45: 186-195.