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A federal government default would hit hard at home

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By D. Patrick Jones

“We shouldn’t be having these discussions.” That’s what Jerome Powell, president of the Federal Reserve Board, told reporters last month.

But we are. And the consequences of a potential default by the U.S. government on its debt are hard to imagine. Will bond markets seize up? Will our military be able to maintain its presence, here and abroad? Will a default lead to millions unemployed? Will our country’s standing, among friends and foes alike, suffer irreparable damage?

At the time of this writing, a tentative deal has been struck. If the center holds in Congress and the proposal passes, these worries subside. But as long as there is significant federal debt and a debt ceiling, they won’t disappear.

The drama in Washington, D.C., raises the question of the footprint of the federal government here. What would the likely consequences of a default look like locally? Without more details of a federal response, it’s hard to forecast concrete outcomes. But we can at least size up the federal presence here.

A look at the data shows that a default would disproportionately harm Spokane County and most of its surrounding counties.

To demonstrate, let’s consider a standard measure of total economy activity: personal income. Three buckets characterize the accounting of a local economy: wages and salaries, investment income, and federal transfer payments.

In most counties, wages and salaries make up the majority of total income. So, too, here. In Washington state in 2021, the share taken up by wage earnings generally ran 50%-65%, with rural counties at the low end and urban counties at the high end. Statewide, the average in 2021 was 62%. In Spokane County, wage earnings amounted to 57% of total income.

The smallest portion is usually investment income. This share typically runs 15-25% in the state, depending on the size of the retiree population and the county's wealth profile. The state average is in 2021 was 20%. Spokane County's share that year: 16%.

Federal transfer payments make up the rest. Briefly, they are defined as contributions to individuals that aren't work-related, that is, not from a federal paycheck. The sources cover the alphabet soup of federal programs. But in every county three contribute the lion's share: Medicaid, Medicare and Social Security. In prepandemic 2019, these three programs amounted to 75% of all federal transfer payments statewide; in 2021, 58%. The breakdown in Spokane County was similar.

The relative size of all federal transfer payments here, however, departs from the state. In 2021, it was 28% of all income reported. In Washington in 2021? Much different. Transfer payments were a full 10 percentage points lower.

The federal presence in Spokane's economy doesn't stop with transfer payments. Consider nonmilitary federal payrolls. They added nearly $400 million, or 1.4%, to total income in 2021. Then consider the impact of the Fairchild civilian workforce. We don't know for sure the size of its payroll. But we can sketch an estimate. Assume that the total headcount in 2021 was about 5,500. Assume further that these workers were paid the average of annual earnings in the county. That implies a total payroll of over $315 million, or 1.1% of total income in 2021.

Adding direct and indirect federal payrolls to transfer payments, we arrive at a total federal share of approximately 30%. Note that this doesn't include the economic impact of the uniformed men and women at the base.

In other words, the federal footprint in 2021 in the county provided at least $30 for every $100 received in the economy.

Now imagine that the stand-off over the debt ceiling precipitated an annual drop in 10% of total federal flows to the county, whether via reductions in transfer payments or payrolls. The overall size of the county economy in 2021 was $29.4 billion. The arithmetic leads to a drop of over $880 million in the Spokane economy. The county simply hasn't faced such a decline, at least since the early 1980s.

In a more normal year, one without extraordinary pandemic support, federal transfer payments make up over 22% of the Spokane economy. Once direct and indirect federal payrolls are folded in, the share is still considerable, at 25%. Going forward, this is the size of the federal footprint on the local economy to keep in mind.

Many the smaller surrounding counties depend much more on transfer payments to boost their economies. Their shares ranged from 33% to 39% in 2021. In contrast, Kootenai and Whitman counties reported slightly lower transfer payments shares, 22% to 23%. In all cases, however, federal shares are large enough than any disruption of their flows would significantly disrupt the lives of thousands of residents.

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