A Rural Perspective Of Welfare Reform: Part I—Issues

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This subject is presented in two parts. The first article focuses on inadequacies of the present welfare system for aiding poor persons in rural areas. The second article reviews current legislative proposals for welfare reform, indicating the extent to which they might ease rural problems.

Welfare reform, or the basic overhaul of the welfare system, has been a major policy issue for at least the past 10 years. Nonmetropolitan areas have an important stake in these welfare reform debates. Welfare payments are becoming a greater proportion of total personal income in nonmetropolitan areas where a substantial number of welfare recipients live.

Present Welfare System

Although many programs are designed to benefit low-income people and communities, the three main Federal programs that provide direct benefits to low-income people are Aid to Families with Dependent Children (AFDC), Supplemental Security Income (SSI), and Food Stamps. Both AFDC and SSI provide benefits to groups with specific characteristics. The Food Stamp program provides benefits to anyone with an income low enough to qualify.

AFDC assists States and localities provide cash assistance to needy families with children, primarily female-headed families. However, 27 States also extend benefits to families where both the husband and wife are present if the husband is unemployed (AFDC-UP); Federal, State and local governments share the program costs. Payments to families vary from State to State depending on decisions made in each State about how much money the poor need and how much of that need the State is willing to provide.

SSI provides cash assistance to needy aged, blind, and partially or totally disabled individuals. The Federal Government established national minimum benefit levels for SSI recipients and pays the cost of the basic program. Currently 22 States provide benefits in addition to the basic Federal payments (State supplementation).

The Food Stamp program provides assistance to low-income households in purchasing food for a nutritionally adequate diet. Benefits, in the form of food coupons, are financed completely by the Federal Government, although States pay half the cost of administration. The Food Stamp program covers all family types including working male-headed families and single individuals.

A number of other income supplement programs provide benefits to low-income people. These include school lunch and other nutrition programs, housing assistance, and a number of minor programs designed to assist selected groups (table 1). All income supplement programs accounted for 5 percent of total Federal expenditures in fiscal year 1978.

Problems with the Current System

A primary goal of welfare reform is to ensure that people with similar characteristics and needs are treated equally. People with similar needs often are treated differently in the present welfare system.

A large variation in AFDC benefits exists from State to State because States decide the basic payment level. For example, in 1977, AFDC and Food Stamp benefits to a family of four in Mississippi were 45 percent of the benefits to a similar family in New York State. States with relatively large nonmetro populations (such as Mississippi, North Carolina, and Kentucky) tend to have lower payment levels.

With the exception of Food Stamps, Earned Income Tax Credit and States with AFDC-UP (for families with unemployed fathers), childless couples under age 65, single individuals under age 65, and nonaged working male-headed families are ineligible for Federal welfare assistance. This works to the disadvantage of rural areas because a higher proportion of rural poor are in families with these characteristics.

Federal expenditures for cash and in-kind (for example, food and housing) welfare programs have
Table 1—Federal income supplement programs

<table>
<thead>
<tr>
<th>Program and major mission</th>
<th>Federal expenditures fiscal year 1978 Million dollars</th>
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<tbody>
<tr>
<td>Supplemental Security Income—provides cash assistance to needy aged, blind, and disabled individuals</td>
<td>5,855</td>
</tr>
<tr>
<td>Aid to Families with Dependent Children—assists States and localities in providing cash assistance to needy families with children</td>
<td>6,639</td>
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<tr>
<td>Earned income tax credit—aids low-income workers by reducing income tax liability. Worker receives cash if the tax credit exceeds the taxes owed</td>
<td>881</td>
</tr>
<tr>
<td>Food Stamps—provides vouchers to help needy families purchase food for an adequate diet</td>
<td>5,499</td>
</tr>
<tr>
<td>School lunch and other nutrition programs—fifteen separate programs provide financial assistance to States in feeding children and other needy persons</td>
<td>3,427</td>
</tr>
<tr>
<td>Housing assistance—provides rental subsidies, public housing, subsidized mortgages to low-income families</td>
<td>3,677</td>
</tr>
<tr>
<td>Other programs—refugee assistance and other minor programs to help selected groups</td>
<td>542</td>
</tr>
<tr>
<td>Total public assistance expenditures</td>
<td>26,521</td>
</tr>
<tr>
<td>Total Federal expenditures for all purposes</td>
<td>531,600</td>
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1 Excludes medicare, medicaid, and veterans' benefits.


increased more than sixfold during the past decade. Despite these efforts to relieve poverty, substantial numbers of persons remain poor. The present welfare system is less effective in relieving poverty in nonmetropolitan areas than in metropolitan areas. A large proportion of the rural poor live in States that pay low welfare benefits. Rural areas also have more poor ineligible for some programs. Thus, many of the nonmetro poor are likely to remain poor despite existing welfare programs.

Welfare programs designed to encourage people to work often result in continued benefits to persons after their total income, including welfare payments, has risen above the poverty level. To encourage welfare recipients to work, a recipient loses less than a dollar in welfare payments for each new dollar earned on the job. The less a welfare recipient loses in welfare benefits per dollar earned at work, the stronger the incentive to seek work and remain employed. The lower this benefit reduction rate, the more likely a recipient will continue to receive benefits beyond the poverty level. But because current welfare benefits vary considerably by State (with the nonmetro poor concentrated in lower paying States), nonmetro poor are less likely to receive payments once their income moves above the poverty threshold than are the metro poor.

Welfare recipients who have the immediate potential to work at only low paying jobs have little financial inducement to work even though most welfare programs have work incentives. In almost half the States, welfare benefits available are more than a person would earn if employed at the minimum wage. And, if a family is receiving benefits from more than one program, the cumulative reduction in total benefits from all programs may almost equal job earnings, making the recipient family no better off from employment. These work incentive issues are particularly important for rural areas because the rural poor have a strong attachment to the labor force and are more likely to be working than their urban counterparts.

The level of a family’s income and assets is used
to determine eligibility for most welfare programs. The treatment of assets is an important issue for nonmetro residents, particularly for farmers and other self-employed. The assets tests are designed to assure that families with low income, but substantial assets, do not receive welfare payments. In general, such families must dispose of some of their assets before they can receive benefits. A larger proportion of the nonmetro population is self-employed and many, especially farmers, have considerable business assets. Most current welfare programs do not consider business assets when determining eligibility for welfare. But, some welfare reform proposals would alter the asset test by estimating a return to business assets and adding this amount to cash income for purposes of determining welfare benefits. Other proposals would place a direct limit on asset holdings. Either approach would substantially reduce welfare benefits going to the self-employed. Under such proposals many would have to dispose of their only source of earned income before they could receive public assistance.

The length of the income accounting period (time period in which income and assets are considered) is also an important issue for nonmetro families. The longer the accounting period, the less likely a family with a regularly fluctuating but high average income would receive welfare benefits. A recent study showed that the longer the accounting period, the smaller the poverty population under given poverty criteria. But, the self-employed appeared to be the most dramatically affected by the long accounting period. These results suggest that the longer the accounting period, the less likely that small farmers, for example, would be eligible to participate in a given welfare program. For considerable periods of time, however, their income might be extremely low.

The definition and measurement of self-employment income are important in determining eligibility for welfare programs. Self-employment income represents returns to capital and labor. As yet, there is no satisfactory procedure for properly allocating self-employment income between labor and capital. If, however, all self-employment income is treated as returns to labor and allowance is also made for capital investments in determining program eligibility, countable income (for determining welfare benefits) is overstated. Similarly, countable income is understated if self-employment income is treated as returns solely to capital. The latter approach would result in a larger participation rate among the self-employed.

Implicit cost-of-living differences are incorporated in the current welfare system, particularly with the AFDC program. But differences in AFDC benefits among States greatly exceed actual differences in costs of living. This observation is the basis for arguments favoring a single national payment level.

It is frequently suggested, however, that if a single national benefit schedule is adopted, adjustments should be made for actual differences in living costs among areas. Thus, families living in lower cost areas could receive a smaller welfare benefit than similar families living in higher cost areas.

Most rural families would receive larger welfare benefits under national benefits levels included in most recent welfare reform proposals. However, such gains would be smaller if a cost of living adjustment were implemented because most available data suggests that it costs less to live in rural areas.

Although geographic differences exist in the cost-of-living, severe problems arise in developing appropriate indexes to be used in adjusting program benefits. For example, taxes are commonly lower in non-metro areas, but so is the quality of the public services. Fire and police services are less satisfactory and very likely the response time to emergencies is greater. Little or no publicly owned transportation is available in many rural communities. Thus, substantial developmental work is needed before equitable cost-of-living adjustments could be implemented.

Welfare programs are more difficult to administer in rural areas because of the long distances necessary to travel to welfare offices. With little or no public transportation available, rural poor must rely on private transportation to apply for and obtain welfare services. And, some welfare offices are open only on specific days because the number of poor persons in a community is too limited to justify full-time service. Rural governments are also less likely to have complete social service staffs to assist welfare recipients. These conditions make it more difficult for the rural poor to receive welfare than for their urban counterparts. Thus, administrative regulations based on the urban delivery model are likely to be less effective in rural areas.

Some of the recent legislative proposals have specified that certain welfare recipients must work
A Rural Perspective Of Welfare Reform: Part II—Proposals

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Incremental welfare reform strategies have superseded broad comprehensive welfare reform initiatives of the last Congress. The Administration’s Program for Better Jobs and Income (PBJI) introduced in the last Congress has been replaced by the Administration with a new incremental reform proposal. The PBJI met with a fate similar to the Nixon Administration’s comprehensive welfare reform proposal introduced in the late 1960’s. The comprehensive approach to welfare reform has once again been replaced with less expensive—and expansive—proposals designed to cure some basic problems of the current welfare system.

Carter Administration’s Welfare Reform Proposal

On May 23, 1979, the Administration unveiled its new proposal for welfare reform—The Social Welfare Reform Amendments of 1979 and the Work and Training Opportunities Act of 1979. Its basic outline was developed in the waning hours of the 95th Congress as an alternative to the broader PBJI proposal. The new proposal is designed to build on existing programs, while at the same time improve and coordinate these programs in dealing with the more basic problems of the system. Like most welfare reform proposals of the past, low-income rural residents in the South and West would benefit proportionately more under the new proposal than low-income families of the Northeast and North Central regions.

The Welfare Reform Cash Component

The Social Welfare Reform Amendments Act would establish a national minimum guarantee made up of both cash and food stamps equal to 65 percent of the poverty level. For a family of four in 1982 (the first year the plan would be implemented), this would mean a guarantee of about $5,590—$3,495 in AFDC cash benefits and $2,095 in food stamp benefits. The proposed national minimum standard would result in an increase in cash benefits to single-parent families in 14 States. All of these States except two (New Mexico and Arizona) are in the South. The earnings disregard system used to calcu-