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United States Department of Agriculture

Economic Research Service

ISSUES IN FOOD ASSISTANCE

Reforming Welfare
What Does It Mean for Rural Areas?

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Food Assistance and Nutrition Research Report Number 26-4 June 2002

Issue: The Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996 dramatically altered the social safety net for poor Americans. Major goals of the 1996 welfare reform legislation include the reduction of long-term welfare dependency and the increased self-sufficiency of former welfare recipients through employment. But there is reason to believe that welfare reform outcomes may be different for many of the 7 million people living in poverty in rural areas. In rural areas, employment is more concentrated in low-wage industries; unemployment and underemployment are greater; and work support services, such as formal paid child care and public transportation, are less available. These potential barriers suggest that welfare reform could be less successful in moving rural low-income adults into the workforce and out of poverty.

This issue brief addresses two broad questions. What is the evidence from recent research about rural-urban differences in the effects of welfare reform on program participation, employment, earnings, and poverty? And how can welfare policy better address the different needs of rural and urban low-income families?

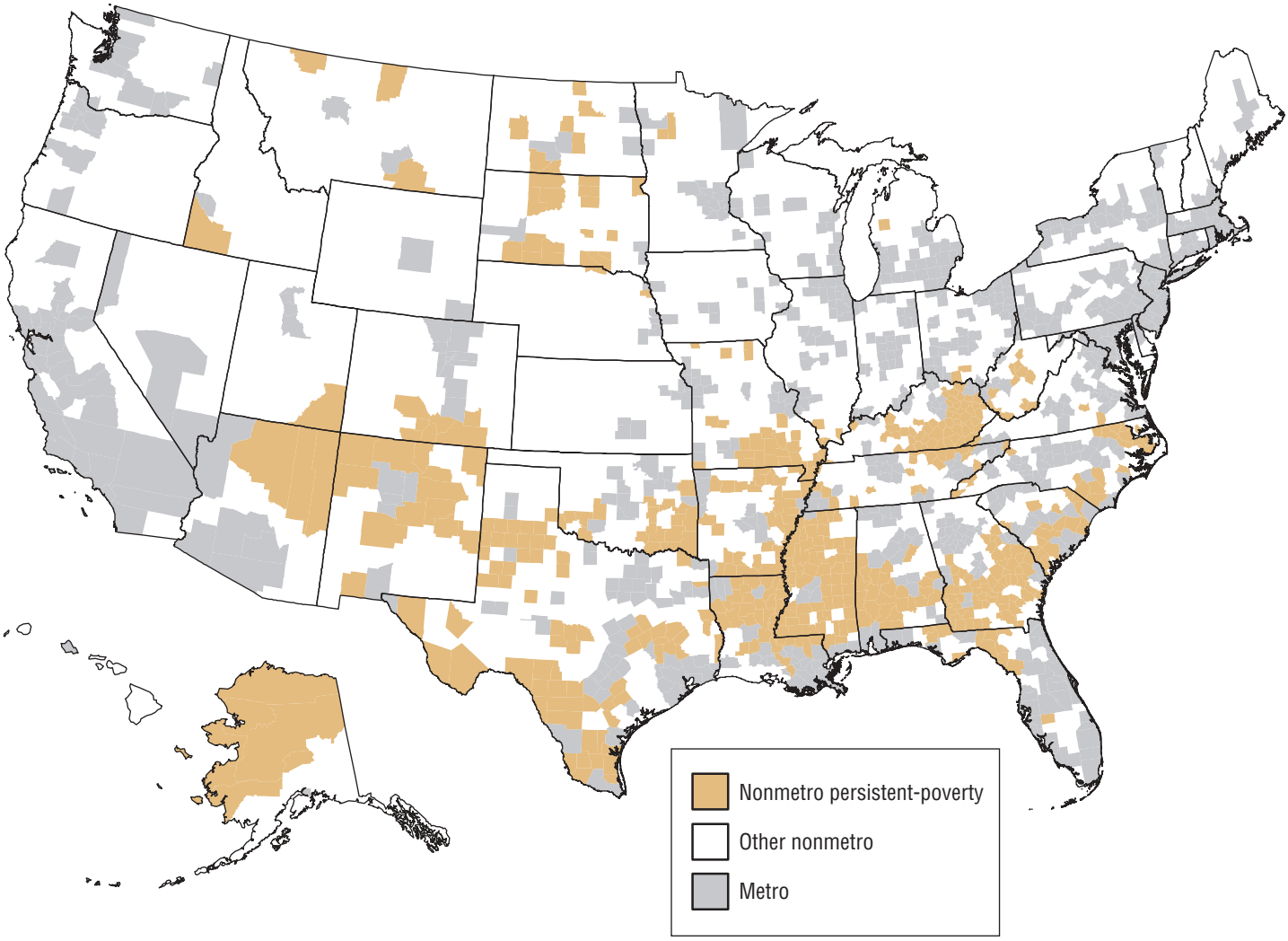
Background: PRWORA is the most significant social welfare legislation enacted since the New Deal legislation more than 60 years ago. The 1996 Act replaced the entitlement program Aid to Families with Dependent Children (AFDC) with the Temporary Assistance for Needy Families (TANF) program, which is funded through block grants to States. TANF seeks to move people from welfare to work by imposing a 5-year lifetime limit on receiving Federal welfare benefits and requiring recipients to participate in work activities within 2 years of receiving benefits. States have more flexibility in designing and implementing programs that meet their needs, and individuals have greater responsibility to provide for themselves through job earnings and for their children through tougher enforcement of child-support payments from absentee parents.

In addition, PRWORA has important implications for the Food Stamp Program, the largest Federal food assistance program and a mainstay of the Federal safety net. Although the legislation decentralized the welfare system with block grants to States, the Food Stamp Program remained a federally administered entitlement program. PRWORA instituted a small, across-the-board reduction in food stamp benefits and limited some deductions from income when calculating benefits. Able-bodied adults without dependents face a 3-month limit on receiving food stamps, unless they are working or in a job-training program, and most noncitizens cannot receive food stamps until they become citizens or work for at least 10 years.

Since welfare reform was enacted in 1996, welfare and food stamp caseloads have declined substantially. Concomitantly, the employment of poor single mothers, a group that has often been the least likely to work and the most likely to be on welfare, has increased. While considerable research has focused on welfare reform's effect on the lives of low-income families, current policy debates tend to center on the urban poor. Yet, rural areas have demographic, economic, and geographic characteristics that pose unique challenges for welfare reform.

In May 2000, USDA's Economic Research Service, the Joint Center for Poverty Research, and the Rural Policy Research Institute, with funding from USDA's Food

Figure 1
Nonmetro persistent-poverty counties
Persistent-poverty counties contain 32 percent of the nonmetro poor.



Note: Persistent-poverty counties are defined as nonmetro counties with 20 percent or more of their population in poverty in each of the years 1960, 1970, 1980, and 1990.
Source: USDA, Economic Research Service, based on information from the decennial censuses of population.

Assistance and Nutrition Research Program, co-sponsored a research conference exploring the rural dimensions of welfare reform and food assistance policy. The conference brought together some of the Nation's leading academic researchers, welfare policy experts, and rural scholars. Conference findings were published by W.E. Upjohn Institute for Employment Policy in June 2002 and represent the first comprehensive analysis of the spatial dimensions of PRWORA, examining how welfare reform is affecting caseloads, employment, earnings, and family well-being in rural and urban areas. This issue brief summarizes some of the major findings from the conference and concludes with suggestions for future policy options to better address the differing needs of rural and urban low-income families.

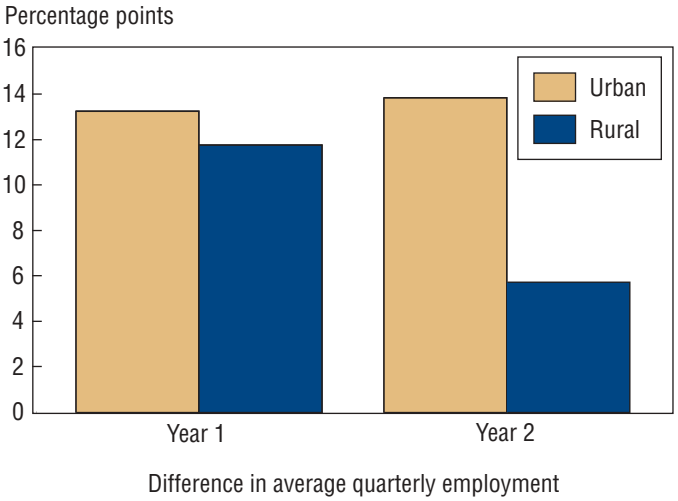
Findings: Welfare reform seeks to reduce long-term welfare dependence in favor of greater self-sufficiency through employment. But reductions in caseloads do not mean that all rural and urban families that leave the welfare rolls are making ends meet. The tight labor markets and low unemployment rates nationwide during the late 1990s provided the best possible environment for new entrants into the labor market. Many rural areas, however, did not benefit from the Nation's booming economy. Over 500 nonmetro U.S. counties are classified as persistent-poverty counties, having poverty rates of 20 percent or higher consistently over the last four decades (fig. 1). These counties have a disproportionate number of economically at-risk residents, and, at the same time, often have weaker local economies that do not generate

jobs as well as other nonmetro counties. Successful welfare reform may be more difficult to achieve in these areas because of inherent structural and human capital disadvantages.

Has welfare dependency declined as a result of welfare reform? Nationwide, only half as many families received cash assistance from the TANF program in 1999 as under the AFDC program in 1994. Caseloads declined by 47 percent between 1994 and 1999. Work-oriented welfare reforms, a strong economy, and expansions of the Earned Income Tax Credit (EITC) and other work support benefits, all contributed to the caseload decline, with most former welfare recipients finding at least temporary employment. On average, caseload drops were about as large in rural areas as in urban areas, but some States exhibit very different patterns of change in their rural and urban TANF caseloads. Caseload declines in Kentucky, Mississippi, and South Carolina were typically smaller in rural areas than in urban areas. These interstate differences in welfare outcomes are likely due to variations in State welfare program implementation, structure of job opportunities, and work support services.

At the same time, participation in the Food Stamp Program dropped by 33 percent, declining from 25.5 million participants per month in 1996 to 17.2 million in 2000. As unemployment and poverty rates fell, so did the number of people eligible to participate in food assistance programs, and PRWORA restructured the cash welfare system in ways that also may have reduced participation in food assistance programs. Although the Food Stamp Program serves a predominantly urban population, nearly one-fourth of food stamp participants live in rural areas. A Mathematica Policy Research, Inc., study shows that food stamp participation rates are higher in rural areas and that the recent declines in participation have occurred primarily in metro areas, as both the size of the eligible population and the participation rates in metro areas declined. In nonmetro areas, only the size of the eligible population decreased.

Figure 2
Impact of MFIP on employment of long-term welfare recipients
The effect on rural employment was smaller 2 years after entering the MFIP.

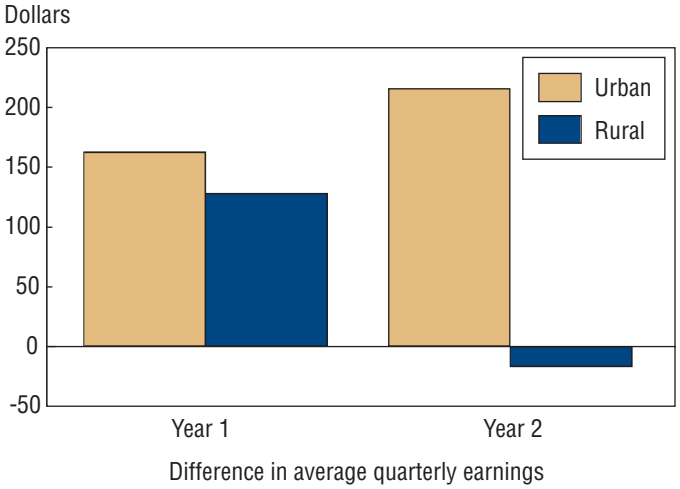


Source: Gennetian, Redcross, and Miller, 2002.

Can rural welfare recipients find work? National studies suggest that a strong economy, welfare reform, and expansion of EITC have helped raise the employment rates of single mothers, with one-half to two-thirds of single mothers finding employment at some time after leaving the welfare rolls. In nonmetro areas, the percentage of poor female heads of households with earnings rose sharply after PRWORA, increasing from 59 percent in 1996 to 70 percent by 1999, based on Current Population Survey (CPS) data. A study by the Urban Institute shows similar increases in employment for single mothers in both metro and nonmetro areas, with little difference in the effect of welfare reform in these areas. Study findings suggest that single mothers with little education in rural areas have not shared in the employment gains of urban mothers with these same characteristics. In general, however, national data do not support the early predictions that rural mothers and their children would be left behind under the new welfare policy.

Some State-level analyses suggest more variable effects. The Minnesota Family Investment Program (MFIP), an experimental welfare waiver program, used both financial incentives to encourage work and mandatory participation in employment-focused services for long-term welfare recipients. Manpower Demonstration Research Corporation (MDRC) assessed the program's effects on employment and earnings of long-term welfare recipients in Minnesota. During the 2 years after selection for study in 1994-96, employment for single-parent recipients increased in both urban and rural counties (fig. 2). However, in contrast to the large and lasting employment increases in urban counties, average employment increases in rural counties were much smaller, and MFIP effects on employment faded considerably by the second year of followup.

Figure 3
Impact of MFIP on earnings of long-term welfare recipients
The effect on rural recipients' earnings faded 2 years after entering the MFIP.



Note: The impact on earnings in rural counties was not statistically different from zero.
Source: Gennetian, Redcross, and Miller, 2002.

Is the welfare-to-work transition more difficult in rural areas? Although rural areas are becoming more culturally, politically, and economically integrated with urban areas, some State-level analyses suggest that rural areas lag behind urban areas in ease of welfare-to-work transition. A recent study of welfare families and community residents in seven Iowa communities ranked along a rural-urban continuum of population density found that welfare reform effects hinge on differences in the proximity of jobs and access to support services. Urban centers offer more job opportunities and support a scale of auxiliary social services that cannot be matched in rural communities. Welfare recipients who live in or adjacent to urban areas have access to more and higher paying jobs than recipients who live in remote rural communities. Capitalizing on local job opportunities requires access to reliable, affordable transportation, and cost-effective mass transit systems are less likely to exist in more sparsely settled rural areas. Support services, including job training or health care, are less likely to exist in smaller, more rural areas. Also, rural families often have less access to affordable, flexible, and formal child care than urban families; however, rural areas may offer more extensive and stronger informal support networks to help single mothers make the transition to paid employment.

Have welfare-to-work transitions improved the economic well-being of rural recipients? National analyses show that welfare reform has clearly moved many poor rural and urban single mothers into the labor force and that welfare-to-work transitions have increased earnings for these female-headed families. Real annual earnings for poor rural mothers increased from $3,835 in 1989 to $6,131 in 1999, based on CPS data. Income rose even higher when adjusted for the EITC, which provides a refundable tax credit to low-income workers.

In some States, however, the effects of welfare reform on earnings are smaller for rural areas than for urban areas. The MDRC study found that Minnesota's welfare waiver program had no effect on the average earnings of rural welfare recipients, although it increased the average earnings of urban recipients (fig. 3). Differences in recipients' prior marital history and changes in family structure help explain the program's different effects on rural and urban welfare recipients.

Can former welfare recipients escape poverty through work? Although most former recipients can find work, many cannot get or keep full-time, year-round work. From 1996 to 1999, rural poverty rates declined among female-headed families, rates of welfare receipt dropped, and labor force participation increased along with average earnings. Despite these positive outcomes, over one-third of working rural single mothers were in poverty in 1999, the highest rate since the late 1980s. Between 1989 and 1999, the proportion of rural single mothers with earnings from work increased dramatically but has not kept pace with the large decrease in the proportion of single mothers with welfare income since enactment of PRWORA. A higher proportion of rural single mothers are working but are still poor, despite increases in the minimum wage and expansions to the EITC.

In summary, the overall effects of welfare reform on caseloads, employment, and poverty have been positive in both rural and urban areas. TANF caseloads have declined substantially and employment by single mothers in the short run has increased in both rural and urban areas. Although still higher than comparable metro rates, nonmetro rates of child poverty have declined substantially since 1993, and nonmetro rates of child poverty among Blacks have reached their lowest levels in 10 years.

Yet, several studies of individual State welfare programs and specific policy provisions have found smaller welfare reform effects on caseloads, employment, earnings, and poverty in rural areas than in urban areas. These differences in outcomes are due in part to variation in State welfare programs. State programs differ, for example, on the amounts and types of assets used to determine eligibility and benefits, the time period for work requirements, and the design of child care and transportation assistance programs. At the same time, rural areas are diverse and welfare recipients in some areas are harder to serve than in others. National-level analyses using a simple metro-nonmetro dichotomy can mask rural variation in welfare program operation, structure of opportunities at the local level, and program outcomes.

Addressing Future Policy Needs: The 2002 reauthorization of PRWORA will enable adjustments in the Federal welfare regulations and in State programs. Rural Dimensions of Welfare Reform Conference attendees identified a number of policy options to improve the self-sufficiency and economic well-being of rural and urban families.

As TANF caseloads have fallen sharply, most, but not all, families that leave welfare are gaining at least a temporary foothold in the labor market. However, many families leaving welfare remain poor, and not all receive the work-based supports they need to gain permanent economic independence. Some policy options could assist low-income working families, regardless of residence. State and Federal policy options that could make work pay for both rural and urban low-wage workers include:

- Expand coverage and encourage participation in health insurance and child care assistance programs for low-wage families.
- Expand the Federal EITC or initiate and/or expand State EITC supplements to further support the work efforts of low-income families.
- Take greater advantage of resources in the Workforce Investment Act of 1998 to help match workers and jobs. This legislation gives State and local officials new authority and flexibility for using Federal job training aid to more closely reflect the realities of changing job markets and simplifies programs under a single, comprehensive system.

Several studies show that State welfare programs and policy provisions have had less of an effect on employment and earnings in rural areas than in urban areas. Residents of sparsely settled rural areas face unique challenges to working, including long distances to jobs and limited options for services, such as health and child care. State efforts to facilitate access to various modes of transportation and more creative ways to provide or subsidize services can help rural low-income workers succeed in transitioning from welfare to work. Of special importance are State welfare reforms that address or recognize issues specific to rural areas:

- The less favorable opportunities (low-wage jobs) and high unemployment of many rural labor markets.
- The transportation needs of rural residents, such as owning reliable cars while at the same time maintaining eligibility for assistance programs.
- Service delivery problems caused by the geographic dispersion of people in need of program services.
- Access to affordable, flexible, and quality child care. Family-based financial incentives for child care are not effective if lack of funding prevents development of formal child care facilities in rural areas.

Not all areas have benefited equally from the strong economy and welfare reforms. Rural areas in Appalachia, the Mississippi Delta, and the Rio Grande Valley have experienced persistently high levels of poverty and unemployment. Welfare recipients in these areas may be more likely to “hit the time limits” and be economically dependent on informal work that is not recognized by welfare reform mandates. Greater flexibility on time limits and work requirements as well as increased efforts to create additional job opportunities in persistently poor rural areas could ease the welfare-to-work transition of rural welfare recipients.

As Congress considers reauthorization of PRWORA in 2002, the policy debate will focus on a variety of critical issues, including funding levels, time limits and sanctions, child care, and the adequacy of provisions for future economic downturns. The research findings summarized here provide a strong empirical base to better understand the effects of welfare reform and the importance of recognizing rural and urban diversity in welfare policy design.

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