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Staff Paper 259 February, 1989

Dimensions of Rural Poverty: Paradigms and Policy Options

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Dimensions of Rural Poverty: Paradigms and Policy Options

by

David L. Debertin and Craig L. Infanger

The rural poverty problem in the United States is complex and multifaceted. In some regions, rural poverty has been widespread and chronic over several generations, leading to difficult long-term social problems. In other areas, rural poverty has more recently arisen as a result of the financial crisis that has affected agriculture during the 1980s and the industrial transition affecting the textile and other manufacturing businesses located in nonmetropolitan counties. This transition has left some farm and rural families– many who were only recently earning incomes well above the poverty level– with serious economic problems (Drabenstott; Rodgers and Weiher).

In this paper, we develop four paradigms of rural poverty. These paradigms were designed to help explain how different factors interact and result in significant numbers of rural poor– poverty that persists even though the national economy has experienced sustained economic growth for over six consecutive years. Some of the factors involved in the persistence of rural poverty are partially or even totally under control of the individual in poverty. However, in recent years many of the factors leading to rural poverty have arisen as a result of events in the U.S. macroeconomy and in world economies affecting agriculture.

Policy alternatives are developed for dealing with the rural poverty problem. Consequences of each of these policy alternatives follow from the rural poverty paradigms. While implementation of these policy alternatives is usually thought of as a primary responsibility of policymakers at the federal level, in some instances, units of state and local government, as well as decisionmakers within the private sectors may also have responsibilities.

The multifaceted nature of the rural poverty problem in the United States suggests that no single model or paradigm of rural poverty will adequately describe the problem. Thus, we proceed by defining four categories of rural poverty and then developing a paradigm for each category. These four paradigms establish the basic linkages among the factors which lead to rural poverty, and provide insights into possible policy prescriptions.

Traditional Rural Poverty: The Farm Sector

Nearly every state and region of the country has places where rural poverty among farmers has been widespread for a number of generations. For example, large pockets of rural poverty are commonplace in Appalachia and the southeast. In these sparsely populated counties, farming is an important source of income, but per capita incomes average only 70% of incomes in all nonmetropolitan counties (Bender, et al). The existence of these "persistent poverty counties" we chose to call traditional rural poverty in the farm sector. Traditional rural poverty among those engaged directly in agricultural production leads to what is sometimes termed subsistence agriculture, or subsistence farming.

Figure 1 is a paradigm of traditional rural poverty within the farming sector. An important characteristic of this group of farmers is that the poverty persists irrespective of the federal farm programs or general well-being of the larger, commercial farmers at any particular point in time. These "subsistence" farmers have received poverty-level incomes in periods of low farm prices and of high farm prices; in periods when the government was providing substantial price and income support, and in periods when farm prices and incomes were largely determined by the free market. The recent period of extraordinarily low farm prices, however, may have made economic conditions even worse for these farmers and served to highlight the problems of this group.

The basic cause of this poverty is that resources owned by these farmers are insufficient, in most years, to provide what would be considered an acceptable standard of living. As suggested by Figure 1, these resources might be physical resources such as land or capital equipment used in

agricultural production. The adoption of new technology, whether it be new varieties of crops, fertilization programs, pesticides, or new labor-saving machinery and equipment, nearly always requires a significant capital investment. Frequently these farms are located in regions where the land is only marginally suited to agricultural production. Access to capital needed to rent or purchase additional land, improve soil fertility, or adopt new technologies imposes a significant constraint.

Alternately or in addition, the resource in short supply might be the human resource, viewed in productivity terms as "human capital". The human resource shortages might be measured not only by the amount of formal education, but also other specific skills used in earning a living on the farm.

Those in this category are only marginally affected by what the government does with respect to specific farm programs for agriculture. To the extent that farm programs increase incomes of all farmers who produce a particular commodity and participate in the program, those in this category may also benefit proportionally to the amount of the commodity produced.

Traditional Rural Poverty: The Nonfarm Sector

One characteristic of a rural community is that those not directly engaged in farming rely heavily on farmers and farming--either directly or indirectly--as a primary source of income. Rural towns contain businesses which primarily serve farmers as suppliers of inputs or as purchasers of grain and livestock from farmers. In rural communities that lack manufacturing jobs, the impact of agriculture on non-farm employment can be very important.

In rural areas where there is limited employment in other industries (such as manufacturing or mining) and a subsistence agriculture dominates, there is likely considerable poverty in the non-farm sector as well. Furthermore, difficulties in manufacturing and energy industries can exacerbate poverty problems arising from weaknesses within the farm economy. In eastern Kentucky, for example, the downturn in coal prices closely coincided with the downturn in prices for key agricultural commodities, making the situation even more difficult for rural residents.

Figure 2 is a paradigm of traditional poverty in the rural-nonfarm sector. This form of rural poverty is primarily caused by a lack of education or specific job skills (Figure 2), since few individuals in the non-farm sector have resources other than their own skills to market. Among the rural non-farm in this category are those who have low formal education levels, and/or those who lack specific skills needed for employment within the rural community. Even for those with specific, employable skills, job opportunities for skilled workers may be limited, unless the individual is willing to relocate to another community where the skills are in greater demand.

High unemployment is characteristic of those in this classification. Many of the employed individuals might be earning minimum wage or less. In other instances, employment might be for only part of a year. In Kentucky, for example, many rural residents survive primarily on the seasonal employment provided by tobacco production, marketing and harvesting.

This category of rural poor is little affected by what happens with respect to federal farm price-support programs for agricultural commodities, or with the general state of the agricultural economy. If the agricultural economy is prosperous, there might be somewhat greater opportunities for employment within the rural community, and, therefore, to a limited degree, those in this category may be better off with a booming, rather than a weak, farm economy. The basic problem, however, remains. Within the rural community, the skills of the individuals in this category are not sufficiently in demand to provide more than poverty-level incomes.

Alleviating poverty among these people involves two possible strategies by policymakers. First, more efforts could be directed at upgrading the specific human resource skills that are deficient. If a lack of literacy is an obstacle to employment in higher paying jobs, then specific efforts in some states and regions need to be directed toward pushing literacy programs. These efforts might be combined with or in addition to efforts aimed at helping achieve the equivalent of a high school diploma.

In other instances, it is not the general educational level which poses a barrier so much as a lack of specific employable skills. Here vocational colleges and other programs specifically directed toward providing specific skills for employment can be important.

Upgrading the skills of these individuals is not going to resolve the problem if few job opportunities exist within the rural communities once the skills are upgraded. The second strategy involves efforts on the part of the rural community to provide new (presumably higher paying) jobs, within the local community. This generally involves attracting new firms to the community, or expansion of employment opportunities within existing firms.

If these job opportunities are not available, those workers with specific skills willing to bear the relocation costs will relocate into communities where the skills are employable, leaving behind the rural community in as bad a shape as before. Programs aimed at upgrading job skills and rural industrialization programs must both be successful if those who fall into this category are to be helped.

Nontraditional Rural Poverty: The Farm Sector

The farm crisis of the 1980s has had substantial impacts on net farm income. Farmers in the category labeled nontraditional rural poverty are those that were not in poverty prior to 1980, but were seriously hurt by the events which took place within the macro and farm economy since then. Analysis of farm income data from this period indicate that 15% of farm households had negative total income (from all sources) and an additional 18% has total incomes below the poverty level (Reimund and Petrulis). Figure 3 represents a paradigm that applies to this category. There are a few similarities with Figure 1, but many differences. Unlike their traditionally poor counterparts, farmers in this category had access to land and other physical inputs that in better times (prior to 1980) was sufficient to provide an income above the poverty level.

The human resources also differ from those in Figure 1. Generally these farmers are well educated and possess the requisite technical skills in order to efficiently produce crops and livestock. If those in the "traditionally poor" category were often unwilling to take on risk in order to perhaps achieve a higher income, this group of farmers was perhaps too willing to take on risk in the 1980s. They were perhaps overly willing to borrow money and expand the farming operation under the implicit assumption that farm prices (and land prices) would remain forever high.

There is some debate among agricultural economists with respect to the other human resource characteristics of these farmers. One view holds that the farmers in this category possessed inferior financial and managerial skills, or they would not have gotten themselves in such serious financial trouble. Another view argues that the macroeconomic and other events during the 1980s were so unique that no one, not even an excellent farm manager, could have foreseen what actually happened. Therefore, these farmers now find themselves with poverty-level incomes because of a series of macroeconomic events and policy decisions by the federal government. Thus, these farmers were victims of a situation outside their own control.

It was the farmers who expanded during the late 1970s on borrowed capital who got into serious financial difficulty as prices for agricultural commodities decreased and interest rates remained high. Farmland values declined, leaving banks and agricultural credit agencies in many instances without sufficient collateral to cover their loans. Farmers who found themselves in this situation in many instances made every effort to hold onto the farmland. In order to make payments on interest and debt, this frequently involved drastic cuts in family living expenses. While these farmers may continue to have a positive net worth, them and their families in many instances were living at the poverty level—without access to the "social safety net" available to those living on poverty-level incomes and without other assets. The financial difficulties faced by these farmers were and continue to be very severe.

In comparison with farmers labeled as traditionally poor, this group of farmers has some important advantages in dealing with their income problems. Many of the farmers who

overexpanded in the late 1970s only recently had begun farming--thus many are younger farmers than those labeled as traditionally poor. They often are also better educated, and, since they are younger, perhaps more open to the possibility of non-farm employment, even if employment could only be found outside the rural community.

These farmers should be benefitting greatly from the improvements in the farm economy over the last two years, whether these improvements are due to improved farm prices because of improved exports, decreases in interest rates, or government payments. Thus, the poverty may be more nearly temporary than permanent, if the agricultural economy continues to improve. Other forms of assistance might also be warranted. The Farmer's Home Administration (FmHA) has traditionally been the lender to farmers ineligible for other sources of credit, and has an obligation to ensure that their borrowers have sufficient money to cover ordinary family living expenses as well as operating expense, debt and interest repayment. Because of the linkages between farm and family living expenses, the FmHA must get involved in family finances. The FmHA has always provided managerial assistance in conjunction with the credit.

Farmers in financial difficulty who have the opportunity frequently have been taking employment part-time off-farm. In other instances, the spouse takes full-time off-farm employment. Off-farm employment can be a very effective survival strategy, particularly if problems within the agricultural economy are viewed as short-term. But the strategy is dependent on the availability of jobs with the community, and some communities are better positioned to provide these jobs than others. Finally, the solution for some of these farmers in dealing with their income problems is in finding permanent off-farm employment.

Nontraditional Rural Poverty: The Nonfarm Sector

Figure 4 is a paradigm of nontraditional rural poverty within the nonfarm sector. Traditional nonfarm rural poverty primarily occurs because of deficiencies in education and job skills, and a lack of job opportunities within the rural community. In contrast, nontraditional poverty within the nonfarm sector is closely linked to events which have taken place within farm sector and the macro economy.

Businesses in rural communities are closely tied to the general health of agriculture, particularly in those communities which lack other industrial and energy-related places of employment (Stone). Those who work for businesses that serve farmers in recent years have faced very difficult times, leading to low incomes, perhaps at the poverty level. Unemployment insurance as well as social-welfare programs should be available to these individuals.

Programs directed toward improving the general farm economy should also aid the nonfarm sector within rural communities. This is true not only for the farm machinery dealers, fertilizer and pesticide dealers, but also for businesses such as hardware, clothing, grocery stores and restaurants. The general improvement in the farm economy should mean economic improvements for this group of individuals. Job opportunities less tied to the health of the farm economy could also be beneficial. This involves rural development efforts similar to those discussed earlier.

Policy Strategies

The Problem with Welfare Programs

Fewer of the rural poor who live on farms are eligible for welfare and other forms of government assistance than is generally true of the urban poor with similar incomes. This is because many of the rural poor who live on farms, despite having very low (perhaps even negative) incomes, still have a positive net worth, with most of the net worth in farmland and other assets of value such as farm machinery and equipment used to operate the farm. Farms with a negative net worth are technically insolvent, and are, or will shortly be, in bankruptcy proceedings. For most public assistance programs, eligibility for assistance is determined in part on the basis not only of income, but also the value of owned assets. Thus, perhaps a majority of the rural poor who still live on

farms and own farmland would be ineligible for public assistance by virtue of the fact that while they may be near bankruptcy, they are not quite insolvent. If these people wish to obtain public assistance, they would be forced to sell farmland and other assets of value, use any proceeds for family living expenses for a time, and then, if their income were low enough, finally meet the criteria for public assistance as applied to rural-nonfarm and urban dwellers.

Despite the harsh economic conditions in the early 1980s, the rural poor who live on farms are frequently reluctant to sacrifice their way of life and leave the farm in order to become eligible for government income assistance, if there is any prospect for continuing. However, continuing to farm requires that these low- income farmers retain to the maximum extent possible the assets used in farming, and the value of these assets frequently renders them ineligible for many forms of public assistance that would be available to the urban poor with similar incomes. The value of these assets in certain instances makes some of these farmers appear to be comparatively wealthy based on the standards normally applied to the urban poor, despite the very low incomes.

Government Farm Programs as Assistance

Of course, low income farmers who hold assets in farmland or machinery receive payments from the federal government through commodity price-support and other farm programs, and these payments raise incomes of farmers. However, the distribution of government payments to farmers through farm programs, programs which are in effect income "enhancement" for farmers, is based on a different set of rules from those which apply to welfare programs.

Primarily because of large increases in government payments to farmers (particularly in 1985-87), real net farm income has been increasing. However, this does not necessarily mean that farm program payments have been targeted specifically at farmers with the greatest needs (See the discussion in Pasour).

On the contrary, the rules under which payments are made within the current farm legislation are structured such that generally farms which are the largest, the most technologically efficient, and have the best quality land and other resources receive the most benefits. Two important criteria for major commodity program benefits are (1) the acreage allotment for the eligible commodity or commodities, and (2) historical yields. The farms with the largest acreage allotments are usually those with the most land. The farms with the largest historical yields are usually those that are the most technologically efficient, or the farms that are endowed with the best farmland and other resources, or the farms that in the historical period upon which the yields are based happened to have favorable weather. The short-run impacts on historical yields of either very good or very bad weather can be mitigated somewhat by calculating historical yields over a longer base period. However, because of these rules, the farmers who are potentially most in need of income assistance obtain the smallest benefits, and those potentially least in need receive the greatest benefits. This is opposite from the rules that generally apply to welfare and other public assistance programs in the non-farm sector.

There is some research evidence indicating where most of the farm program benefits go. A recent survey by the U.S. Department of Agriculture (conducted by Johnson and Banker) concluded that it was the mid-size, commercial ("family farms") farms that reap the greatest share of the benefits. This study concluded that compared to their contribution to production, neither the large "mega" farms (those producing more than $500,000 of annual output) nor the part-time and subsistence farms (those producing less than $40,000 per year) receive benefits from farm programs proportionate with their contribution to output. These findings support the argument that government farm programs do little to assist the rural poor engaged in subsistence agriculture.

Rethinking Public Assistance Programs

There is a growing awareness among policy analysts of the need to rethink the approach to public assistance programs for rural residents. Pragmatically, the federal government will always be involved in programs which raise incomes of low-income people, regardless of where they reside, and the political questions are primarily the extent to which the government is involved and the

mechanisms (in effect, criteria) for the distribution of these "income-enhancement" payments. The criteria for eligibility within these programs should not exclude any particular class of low-income people by virtue of how their income is earned– either from farming or from other employment.

Welfare and other public-assistance programs were primarily designed with the support of urban state legislators, and, at the federal level, congressmen representing urban states and districts. Eligibility requirements usually take into account not only income, but also the value of owned assets, and "need" criteria such as the number of family members. The urban poor, and to a much lesser degree the rural non-farm poor, is the constituency for which most public-assistance legislation is written.

Federal farm programs were written by farm-state senators and representatives in response to the articulated needs of their constituency largely made up of commercial farmers, commodity groups, and agribusinesses. Payments under farm program legislation are not made based on eligibility requirements such as income, the value of owned assets, or family size. Farm- state senators and representatives are probably not opposed the fact that government farm programs will, at least to a degree, provide income assistance to subsistence farmers who fall into the traditionally poor category, but this benefit is more nearly viewed a by-product of the legislation than a major objective. In contrast with the broad congressional base of support for farm programs aimed at commercial farmers, and poverty programs for assisting the urban poor, congressmen from only a few congressional districts are specifically interested in the problems of subsistence farmers and low-income rural nonfarm residents.

Directing programs specifically toward financially-distressed commercial farmers also poses a challenge. One alternative to current assistance programs which would target financially-stressed farmers has been offered by Jones and Heffernan. They call for a government loan program to meet the needs of farmers exiting agriculture. Such a program would make transition loans available to farmers at low interest rates until they could systematically liquidate remaining assets and perhaps obtain off-farm employment. Exiting farmers, having made every effort to save their farms, frequently find themselves in a precarious financial situation with respect to meeting even necessary family living expenses. It may be essential for the federal government to guarantee loans, given the debt/equity situation faced by the exiting farmers. Eligibility requirements for loan funds would need to be developed, repayment plans and strategies discussed, and participating credit institutions identified. Ideally, loans should be paid off as the exiting farmers find new employment and the need for the financial assistance is reduced.

Distribution of Farm Program Benefits

Farm-state senators are increasingly becoming sensitized to the sometimes articulated argument that the benefits of farm program legislation go to farmers who need it the least. However, federal farm program payments are not made on the basis of individual farmers' needs. Political support for payments to farmers within farm programs is generated primarily on the basis of arguments by farm-state politicians designed to create sympathy for farmers on from urban dwellers and from politicians representing urban districts. These arguments frequently leave the impression that the entire agricultural sector, including virtually all farmers, are currently facing economic hardship. While many farmers are currently experiencing severe economic hardship. This is not the case for all farmers, and there is a large variation among farmers.

Payment Limitation Strategies

An annual maximum limit on the amount of direct payments to farmers from farm programs has been a part of U.S. farm policy since 1938. This payment limitation is now $50,000 per farm and has been the only method of limiting program benefits to individual to farmers and targeting payments to farmers in need. However, this is a crude approach. There is widespread avoidance through ownership reorganizations to meet the "person" criteria defined in the farm program administrative regulations.

Another difficulty is that there are farmers who would otherwise be eligible for a payment

of more than $50,000, but with the $50,000 limitation and current costs and farm commodity prices, these farmers may still have only a very low, or negative income. The basic problem remains that the criteria for income assistance under existing farm programs are very different from the criteria for assistance from public welfare programs. These differences ultimately lead to a long list of problems and equity considerations.

A more precise directing of farm program benefits to low-income farmers might be accomplished in revised farm program legislation. Such an effort could lead to lower federal costs for farm programs (a desirable outcome given federal budget deficits) But there are difficulties with the political realities of trying to do this. Policymakers are always caught between the need to achieve income assistance for rural poor and the need for a market- responsive agriculture which meets food and fiber needs for the nation. This latter goal has dominated policymaking since the Depression.

Political Coalitions

The coalition responsible for ideas that go into farm program legislation includes players whose interests are not necessarily in keeping with revised farm legislation that would provide the greatest benefits to those most in need. These players include: (1) The commodity groups whose interest is primarily in keeping the price for their particular commodity as high as possible, not in writing legislation primarily or solely for the benefit to low-income farmers. These commodity groups see low- income, small farmers as benefiting from high commodity prices, but it is the large, often high income farmers with the most to sell who reap the greatest benefits; (2) Farm organization leaders who largely represent commercial farmers, quite often the well-to-do commercial farmers interested primarily in extracting the maximum payment benefits for themselves; (3) Agribusiness, which is primarily interested in ensuring that commercial farmers have the needed dollars to purchase new tractors, fertilizer, chemicals and other inputs. Those representing agribusiness are interested in improving the incomes of low income farmers only to the extent that this might present some limited potential for increased input sales; (4) Agricultural research and extension workers within the land grant system who have in the past had the greatest successes in working with, directing problem-oriented research toward, and making recommendations to a comparatively well-off group of commercial farmers, not low income farmers who lack the capital and credit sources to adopt new technologies and other recommendations; and (5) Large numbers of commercial farmers themselves when they start sensing that the new farm legislation is a public-assistance program for low income farmers with less assistance going to many of the large, efficient and profitable farmers who are traditionally regarded as the important ones in providing consumers with abundant and low-cost food.

Policy Option: Adjust Criteria for Public Assistance

One option is to adjust the criteria for welfare and other forms of public assistance such that farmers who hold certain farming assets of value could become eligible for assistance if their incomes were low enough. The difficulty would be in the development of a politically acceptable plan with comparable eligibility criteria for both farmers and nonfarmers. The public might be willing to allow a farmer to retain some land or machinery and yet receive benefits under a public income assistance program, but the same might not be true for urban residents with similar net worths. The concept of a farmer who has a net worth of $200,000, mostly in farmland, but receives public assistance payments to supplement a low, perhaps even negative, income might be politically palatable. But the concept of an urban dweller who owns a $200,000 house and receives a similar payment would probably not be politically acceptable. Costs of such a plan are also of concern if there are to be new recipients of assistance, both farm and nonfarm.

Policy Option: Replace Farm Programs and Public Assistance With a Negative Income Tax

Another option is to merge existing public assistance and the current farm program payments into a comprehensive new program designed as a replacement for the current mixture of public assistance programs and farm programs. Tax dollars now spent for farm programs and tax

dollars for welfare, food stamps and other programs to increase peoples' incomes would instead be used to fund a negative income tax program similar to that which was implemented on an experimental basis early in the 1970s.

Those who report under a certain income level would receive a negative income tax payment from the federal government, which would presumably increase as the number of family members increased, but gradually taper off as earned income increased. Appropriate scales could be developed such that it was always to the individual's benefit to earn an additional dollar, rather than receive it from the negative income tax. The value of assets owned by the recipient would not necessarily affect eligibility, although legislation would need to be constructed in such away to ensure, for example, that individuals such as those who earn $50,000 in interest income from nontaxable state and local bonds would be ineligible.

A major problem in constructing a feasible plan incorporating the negative income tax concept is in getting the farm-state senators and representatives with their constituency and agenda in support of farmers working together with the urban senators and representatives who have a quite different constituency and agenda in support of programs for low-income urban residents. In the past, farm-state and urban politicians have usually cooperated only to the extent deemed necessary in order to get the legislation of interest to the different constituencies passed, but not to the extent of developing comprehensive legislation that would simultaneously address the problems of both rural and urban dwellers. The political forces acting on politicians to keep farm programs and income assistance programs for urban dwellers are substantial.

Concluding Comments

There are substantial economic and political pressures for rethinking public policies for dealing with poverty in rural areas. One is the magnitude of the current federal budget deficit. Given the current deficit of over $150 billion, the federal government cannot long justify income support payments for individuals not truly in need, either farmers or non-farmers. Another force is the fluctuating government farm program payment levels, rising from approximately $4 billion in the 1970s to over $26 billion in the 1980s, now down to $12 billion because of increased farm prices arising from the drought. Public awareness of the high current cost of government farm programs will almost assuredly lead to increased public scrutiny with respect to whether or not these expenditures are truly directed toward alleviating hardship in the farm sector or merely further increasing the incomes of farmers who are already doing well.

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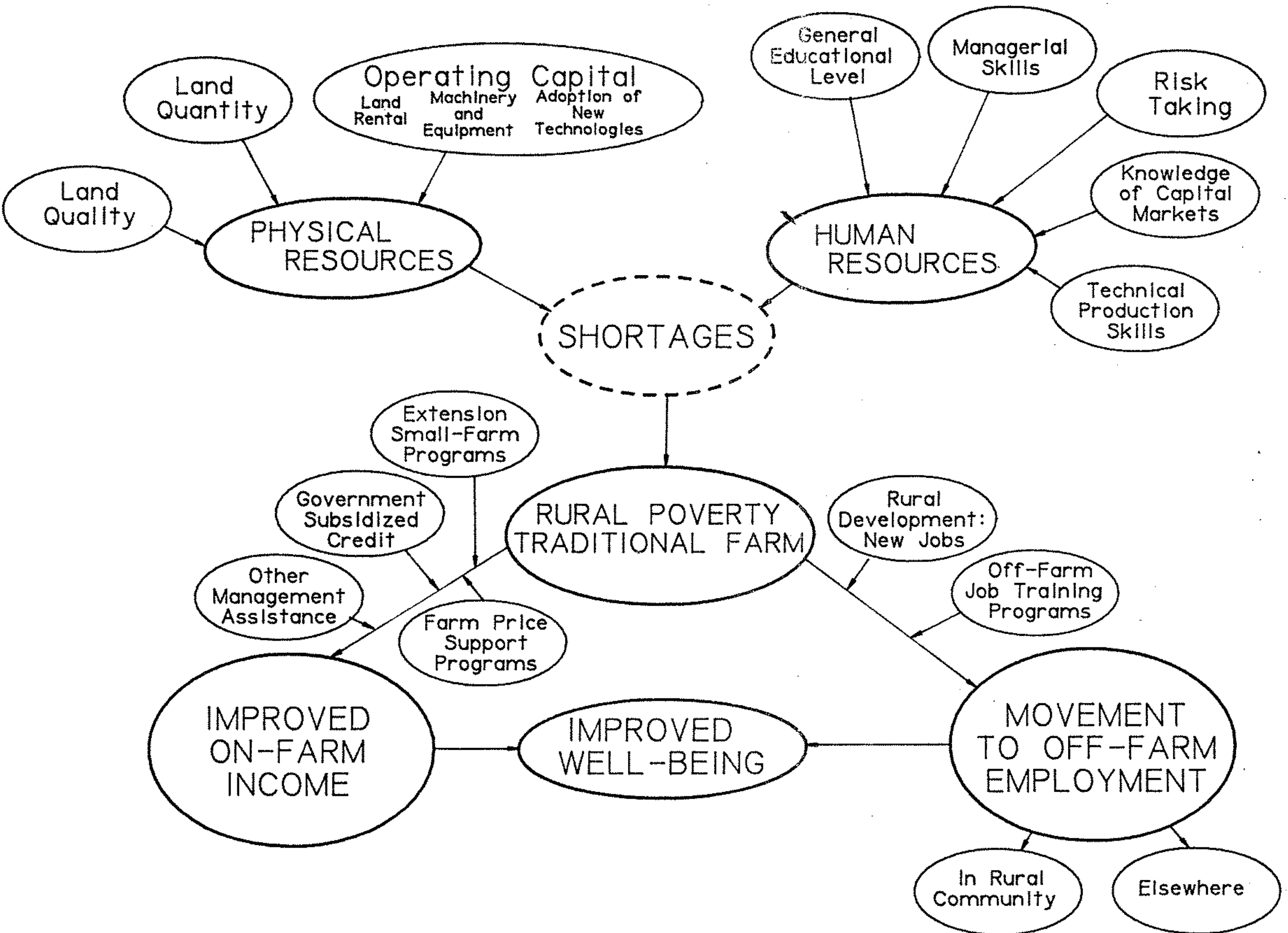

Figure 1. Paradigm of Traditional Poverty: The Farm Sector

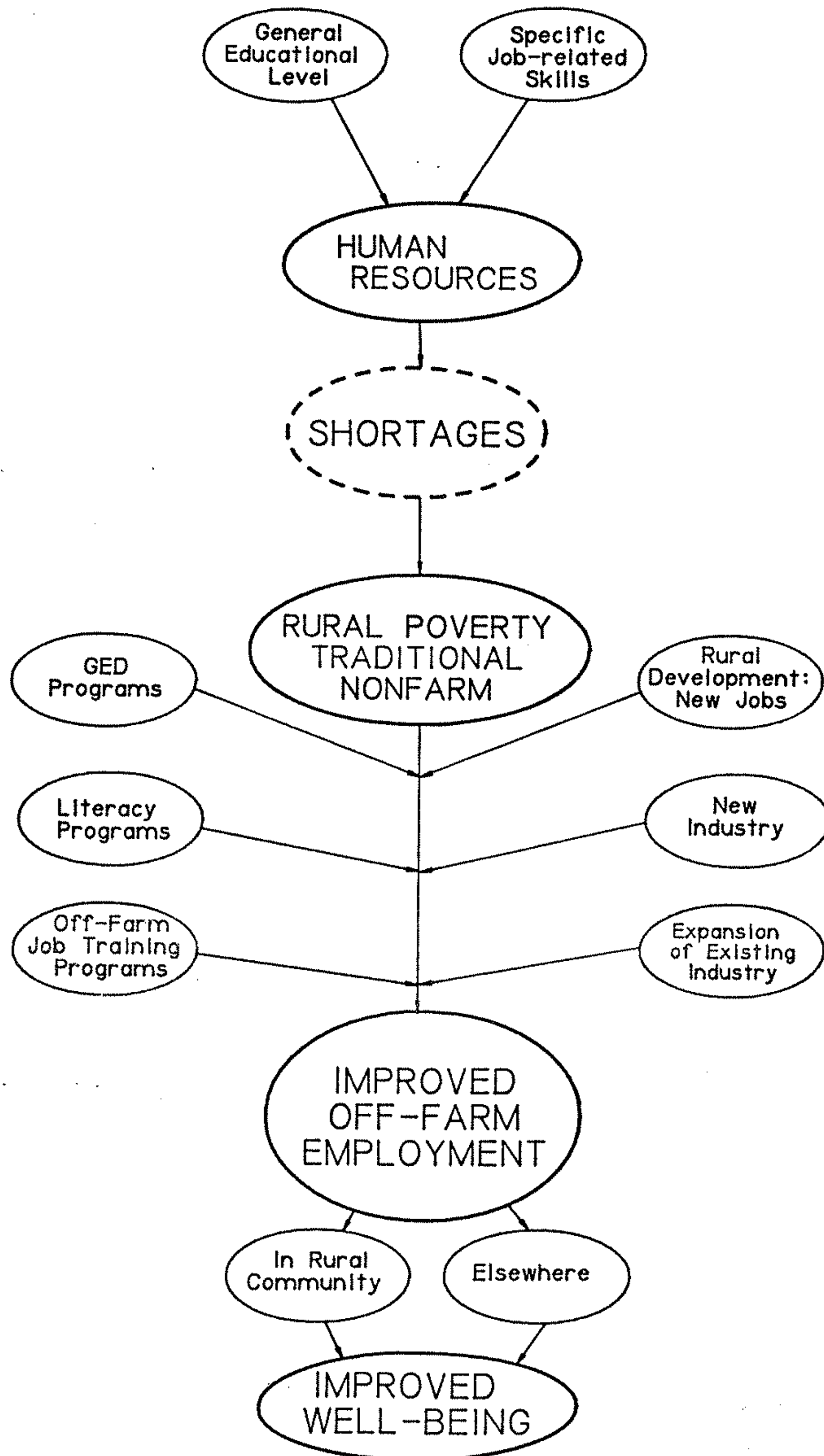

Figure 2. Paradigm of Traditional Poverty: the Nonfarm Sector.

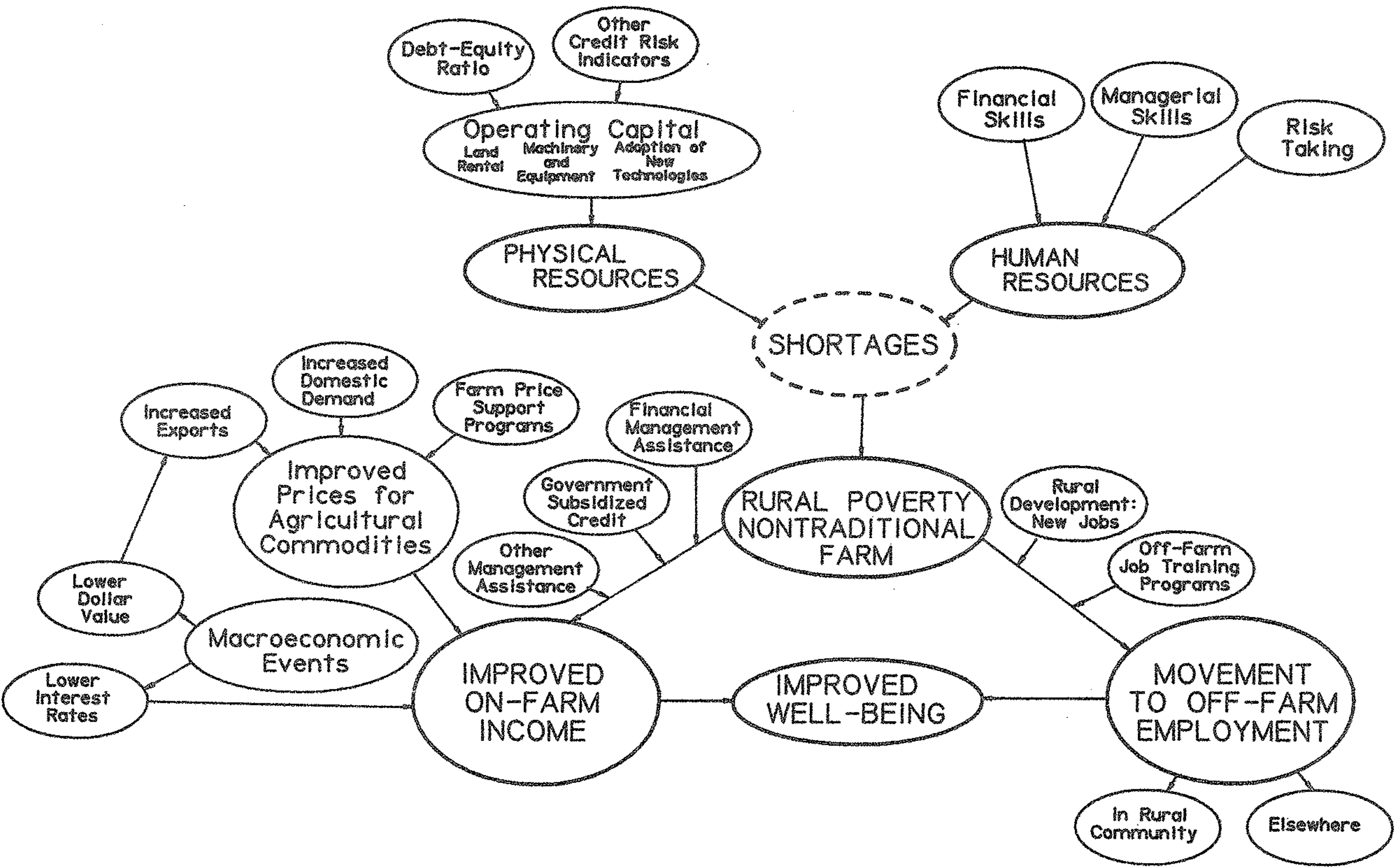

Figure 3. Paradigm of Nontraditional Poverty: the Farm Sector.

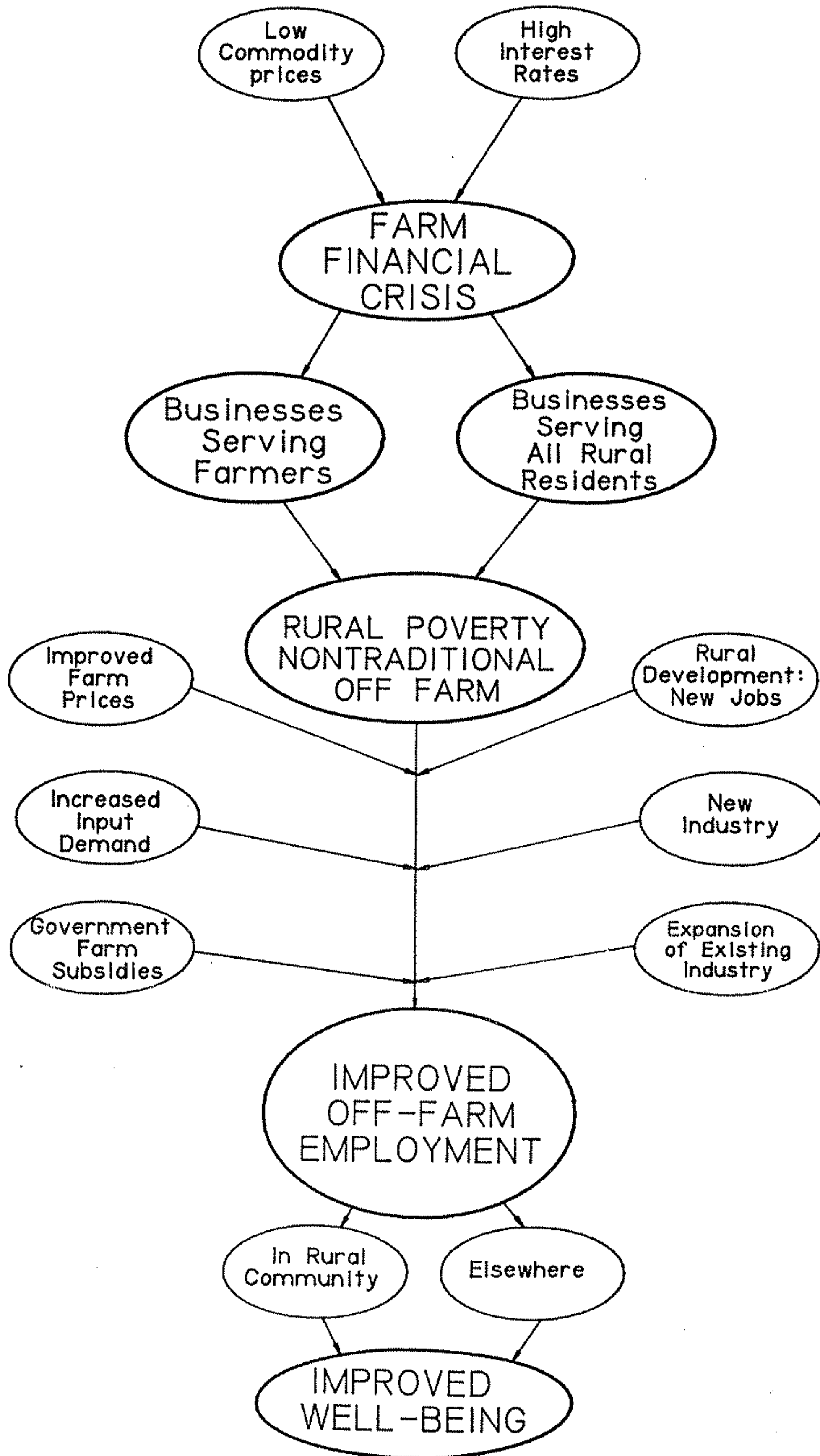

Figure 4. Paradigm of Nontraditional poverty: the Nonfarm Sector.