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Income Maintenance Programs and Rural Poverty

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Rural poverty has been identified as a serious social and economic problem. In any attempt to design an effective attack on the problems of the rural poor, we must recognize that traditional farm programs have little impact on rural poverty. And we must recognize that current proposals to expand and modify the American system of income maintenance programs are especially important in combating rural poverty.

Criticism of prevailing income maintenance programs has been mounting rapidly in recent years. An assessment of present programs led the President's Commission on Income Maintenance Programs to conclude that:

> *We have not developed a National program which (1) provides economic security to all those in need, not just those in certain categories, (2) provides aid in an efficient, dignified, consistent fashion, and (3) preserves the incentives that have provided much of our unique growth as a Nation and as individuals.*[1]

In response to growing pressures for changes in the structure of current programs, President Nixon has advanced a series of proposals to alter many of the programs that together constitute the nation's welfare system. This article describes some of the major features of current income maintenance programs and examines the Nixon proposal to reform the structure of public assistance programs.

CURRENT PROGRAMS

The U.S. income maintenance system, which began in the mid-thirties, consists of two tiers. One is designed chiefly to help stabilize the income of families and individuals. The major programs in this group are social security and unemployment insurance. These programs seek to prevent a complete collapse of income when an individual retires, is disabled, or is laid off. The other tier is the system of public assistance, which was set up to supplement the social insurance programs by providing income grants to certain categories of people in poverty.

Social security payments of over $2 billion per month presently are being made to 25 million retired, disabled, and dependent persons, with 60 percent of these payments going to those with poverty incomes before the payment.[2] Social security is similar to private insurance programs since it is financed from trust funds created by a tax on future beneficiaries. Contributions to the social security trust fund are based upon the assumption that wages and benefit levels will not increase in the future, hence present benefit payments tend to exceed past contributions plus accumulated interest.

In 1968 the average benefit paid to a retired worker was $99 per month, $25 above the average benefit paid in 1960. Over time, the social security program has been directed more toward needs rather than the past contributions of its clientele.

In 1968, approximately 74 percent of the civilian labor force was covered by some type of unemployment insurance. Unemployment compensation is state administered; consequently, there are substantial variations in benefits between states. Most states put maximum payment levels at less than one-half of weekly earnings prior to the lay off. In 1968 the average benefit was $43 per week. Unemployment insurance operates mainly from trust funds collected from employers.[3] The program is of most benefit to those who usually have steady employment and who experience only brief periods of unemployment. This is because states limit the length of time over which benefits may be received and often tie payment amounts to length of previous employment. Most states now pay up to 26 weeks of benefits. In all states, benefits depend upon previous earnings. Some states provide additional allowances for certain dependents; hence, the program is a compromise between an insurance program and a program based on the needs of the worker's family.

Current public assistance programs cover only persons in certain categories. The major categories covered are the aged, the blind, the disabled, and mothers with dependent children. Public assistance programs are financed partly by the federal government under matching fund agreements, but are administered by the state governments. Most states also operate general assistance programs that cover some of the needy who are not eligible for other programs. General assistance programs are financed solely from state and local revenues.

Public assistance programs are funded from general revenue collections. There are wide differences in administrative practices and benefit levels between states. For example, in April 1968, benefits in Mississippi for a family of four receiving Aid to Dependent Children were $55 per month, while benefits in New Jersey were $332 per month.

The benefits paid under social insurance and public assistance programs are shown in table 1. Public assistance outlays amounted to around one-fifth of the benefits paid in 1968 and 1969. The predominant program in public assistance is Aid to Families with Dependent Children (AFDC). AFDC is the program that most frequently is the target for attacks on the public assistance system. In 1968, expenditures for AFDC were 54 percent of public assistance (excluding general assistance), but AFDC accounted for only 9 percent of total social insurance and public assistance benefits.

IMPROVING THE SYSTEM

The minimum income regarded by the American public as necessary for an adequate level of living has been rising. And the public has become more aware of the need for investment in the poor and their children to break the cycles of poverty, ignorance, and poor health. This increasing awareness of poverty is partly responsible for the recent rapid increase in expenditures for public assistance programs.

The present crisis in the public assistance system has been generated by (1) the rapidly increasing number of recipients of public assistance, primarily those with dependent children; (2) the inequity in present public assistance levels between states and the inequity resulting from dividing the poor into categories that receive assistance and those that do not, such as many of the working poor; (3) tremendous opposing pressures for changes in administrative

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[1] President's Commission on Income Maintenance Programs. *Poverty Amid Plenty: An American Paradox.* Final report of the Commission. Washington: U.S. Government Printing Office. 1969. p. 46.

[2] C. L. Schultze. *Setting National Priorities: the 1971 Budget.* Washington: Brookings Institution. 1970. p. 78.

[3] As of January 1, 1968, three states, Alabama, Alaska, and New Jersey, also collected contributions from employees.

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Table 1. Benefits paid under income maintenance programs in 1968-70 and number of program beneficiaries in 1968

	Total program benefits (billion dollars)			Number of program beneficiaries in 1968 (millions)
	1968	1969	Estimate for 1970	
Social insurance programs*	27.1	30.1	33.8	——
Old age, survivors and disability insurance	24.9	27.3	30.4	24.3
Unemployment insurance	2.2	2.8	3.4	——‡
Public assistance program†	5.2	6.4	7.4	11.3
Old age assistance	1.7	NA§	NA	2.3
Aid to the blind	0.1	NA	NA	.1
Aid to the permanently and totally disabled	0.7	NA	NA	.9
Aid to families with dependent children	2.8	NA	NA	8.0

* There are other social insurance programs not included here: railroad retirement, workmen's and veterans' compensation, and state disability insurance, for example.

† In most states there is a general assistance program to cover the poor not included in the categories listed. In many states, households with an employable member are ineligible. In other states, these payments are only made for short periods. Data generally are lacking on this component of the public assistance system.

‡ In 1968, there was an average of 201,000 initial claims per week for unemployment compensation.

§ NA — not available.

Sources: President's Commission on Income Maintenance Programs, *Poverty Amid Plenty: An American Paradox;* C. L. Schultze, *Setting National Priorities: the 1971 Budget;* and U.S. Bureau of the Budget, *The Budget in Brief, Fiscal Year 1971.*

handling of public assistance from liberal reformers and conservative critics; and (4) the increasing self-assertiveness of the poor themselves.

To evaluate proposed improvements in the system of income maintenance, the intended program objectives first must be specified. Then the efficiency of various programs in achieving those objectives can be evaluated. An important objective of income maintenance is to reduce and eliminate poverty.

In 1968, there were approximately 25.4 million individuals or 9.7 million families in poverty. Approximately one-third of the families in poverty are headed by a working male, so they are now excluded from public assistance. The difference between the poverty income definitions and the present income of all the poor was $9.85 billion in 1968.

If one objective of society is to reduce this poverty gap, then various programs can be evaluated in terms of their efficiency in getting money to the poor. A program in which all benefits go to the poor would be more efficient in reducing poverty than one in which part of the benefits go to those who are not poor.

One way to increase cash assistance to the poor is to raise social security benefits. However, this would be less efficient than some other alternatives. Green and Lampman report that additional benefits of $3.67 would be required to get $1 to the poor by increasing social security benefits. Thus, raising the level of benefits under the existing social security program would be a very expensive method of closing the poverty gap.

Improvements in present public assistance programs would have less leakage to the nonpoor, but their inequitable treatment of the working poor as compared with the categorical poor also would increase if program benefits were raised. For this reason, growing support has developed for programs commonly referred to as negative income taxes or guaranteed annual incomes. These programs are based upon the contention that the categorical approach to poverty should be eliminated. Broadly speaking, they would guarantee a minimum income level to all in poverty and attempt to increase the incentive for recipients to seek employment by reducing program benefits by less than $1 for every $1 earned. Proponents of this approach have been quick to point out that past programs have virtually eliminated work incentives by reducing the benefits of recipients by $1 for every $1 in additional income that they earned.

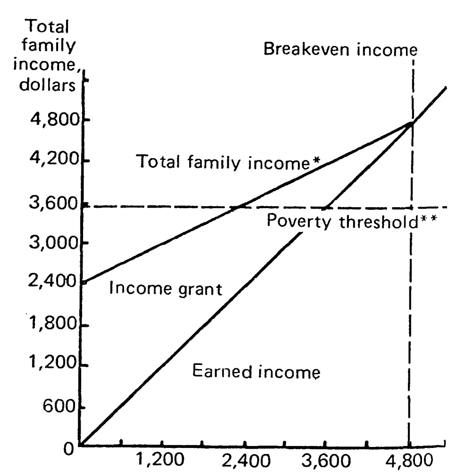
Advocates of guaranteed income plans also contend that administrative costs would be reduced by making payments more automatic. Public assistance administrative costs are approximately 15 percent of total program expenditures, while the Social Security Administration pays less than 3 percent of its budget for administrative costs.

Many of the proposals to improve current public assistance programs include a negative income tax. Every negative income tax plan has three components: (1) a basic income grant, (2) a negative tax rate, and (3) a breakeven income. The negative tax rate is the amount by which the basic income grant is reduced for each $1 of earnings. If the tax rate is 50 percent, then the grant is reduced by 50 cents for each $1 of earnings. The breakeven income is the income level at which the basic income grant is exactly offset by the reduction in benefits that is made to account for income earned.

To illustrate the three basic components of a negative income tax, let's consider the plan proposed by the President's Commission on Income Maintenance Programs. The Commission plan proposes a basic income grant of $750 annually for each of the first two adults in a family and $450 for each additional family member. Thus, a family of four (two adults and two children) would be eligible for a grant of $2,400. The basic grant would be reduced by 50 cents for each $1 of earned income. Consequently, the breakeven income would be $4,800, the income level at which earned income ($4,800) times the negative tax rate (50 percent) is equal to the basic grant of $2,400. All families of four with earnings of less than $4,800 would receive benefits under the plan (see figure 1).

Use of the negative income tax principle in providing cash assistance to the needy offers the advantage of giving the poor an incentive to increase their income through work. This incentive exists because additional earned income always results in an increase in total family income. Unavoidably, this method of providing a work incentive also leads to a difficult problem: The income of the poorest of the poor, after taking the amount of the government income payment into account, will still be less than the earned income of the not-so-poor who are eligible for income payments.

The proposal of the President's Commission on Income Maintenance Programs illustrates this problem. As shown in figure 1, the Commission plan would provide an income grant of $2,400 to a family of four with no earned income. This would leave such a family approximately $1,200 below the government-established poverty threshold. At the same time, a family with an earned income of $3,600, which is slightly above the 1968 poverty threshold, would be eligible to receive an income payment of $600, bringing the family's total income up to $4,200.



*Earned income plus government income grant for a family of two adults and two children.

**In 1968 for a nonfarm family of four headed by a male ($3,555).

Figure 1. Total income for a family of four under the proposal of the President's Commission on Income Maintenance Programs.

THE FAMILY ASSISTANCE PLAN

On August 11, 1969, President Nixon proposed an income maintenance program in a message to the Congress. The Administration's proposal, known as the Family Assistance Plan (FAP) would broaden the coverage of current public assistance to include the families of the working poor, provide nationwide minimum levels of assistance with greater uniformity in benefits between states, and increase federal participation in financing public assistance. The FAP proposal stops short of providing a guaranteed minimum income for all the poor by excluding individuals and childless couples.

In most states, only families without a male head are given public assistance payments for their dependent children. In half of the states, payments also can be made if the male head has been unemployed for a long time. The present system of public assistance has been accused of breaking up families and discouraging people from working. Moreover, the families of only 40 percent of the nation's poor children receive public assistance benefits.

FAP would pay benefits to all families in poverty who have children, so 100 percent of the poor children would be covered. By including a work requirement and a negative tax rate of 50 percent after the first $720 of earnings, the plan also attempts to increase the incentive to work for those now on assistance.

The program would pay federal benefits to 20 million of the estimated 25.4 million poor. The basic grant is $500 per adult and $300 per child per year.[4] The household head is allowed to earn $720 without any reduction in benefits. For earnings in excess of $720, benefits are reduced by 50 cents of the basic grant for each additional $1 of earnings. Also, states now paying levels of public assistance above the proposed federal guarantee are expected to maintain a certain percentage of their expenditures so the program will not significantly reduce benefits received under current programs.

Although the FAP program was designed to replace Aid to Dependent Children, it will benefit primarily the working poor with children. In only 10 states will the proposal increase the payment levels for families with dependent children who presently are receiving public assistance. It still is a categorical program, since eligibility is limited to those who have children and earn a poverty income. But the program takes a large step toward a public assistance program based only upon need.

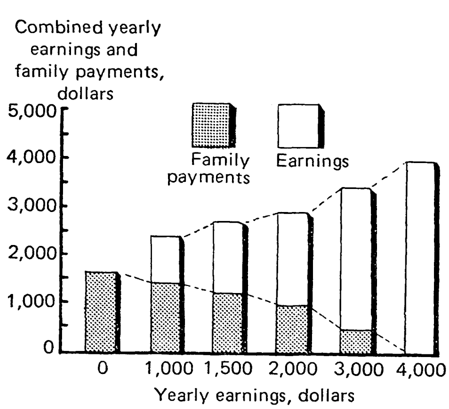
The FAP proposal would increase cash assistance to poor people by an estimated $2.5 billion annually. It would help lessen the inequities in payment levels between states and between categories of the poor. The proposal would close only about 25 percent of the poverty income gap, but it would be very efficient at getting money to the poor. Approximately 99 percent of the cash assistance would go to the poor. The mechanics of the program for a family of four are illustrated in table 2 and figure 2.

Table 2. Benefit schedule for a family of four (husband, wife, two children) under the proposed Family Assistance Plan

Earned Income	Benefit	Total Income
	dollars	
0	1,600	1,600
720	1,600	2,320
1,000	1,460	2,460
1,500	1,210	2,710
2,000	960	2,960
2,500	710	3,210
3,000	460	3,460
3,500	210	3,710
3,920	—	3,920

Source: U.S. Bureau of the Budget. "Welfare Reform Fact Sheet." Released August 8, 1969.

FAP was passed by the House on April 16, 1970. However, on May 1, after three days of hearings, the Senate Finance Committee sent the House-passed bill back to the Health, Education, and Welfare Department for revision. The basic criticism by the Senate committee was that the details of how FAP would fit into the present system of transfer payments had not been sufficiently considered by the Administration. The Senate committee was especially concerned that fitting the FAP program into the present system of public assistance plus a liberalized Food Stamp Plan could increase the negative tax rate from 50 percent to 67 percent or higher and that this would substantially reduce the work incentive feature of the program. There also was concern that the cost of the program might be substantially above the Administration's estimate of $4.4 billion for the first year.



Source: U.S. Bureau of the Budget. "Welfare Reform Tax Sheet." Released August 8, 1969.

Figure 2. Benefit schedule for a family of four (husband, wife, two children) under the proposed Family Assistance Plan.

The Nixon public assistance reform package also includes a national minimum payment of $90 per month and increased federal support for programs for the aged, blind, and disabled poor. The Administration also has proposed legislation to extend the coverage of unemployment insurance and lengthen the maximum period for receiving benefits from 26 to 39 weeks. Moreover, the Administration has promised to expand the Food Stamp Program.

REDUCING RURAL POVERTY

The FAP program will be especially important in combating rural poverty. Of the estimated 20 million recipients, approximately 8.4 million would be from rural areas and they would receive approximately $1,060 per family.

By residence, the rural recipients would include approximately 500,000 farm families and 1 million nonfarm families. According to their primary source of income, 410,000 farm operator families and 270,000 farm laborer families will be paid benefits under the proposed plan.

The impact of $1.6 billion in additional income payments on rural economic development should be substantial. There also should be less pressure in the future on the budgets of state and local governments to meet growing public assistance program costs.

Higher incomes for the rural poor and increased spending in rural areas would likely encourage expansion of rural trade and service sectors. Increased local tax revenues also could lead to more public investments that could encourage industries to move into rural areas.

The economic stimulus provided by the increased purchasing power of rural residents combined with the higher proportion of poor families in rural than in urban areas would be expected to make rural areas the primary beneficiaries of an improved income maintenance system. The President has committed himself in his State of the Union Message to making rural areas prosperous enough so that rural-to-urban migration flows will be reversed. While the Administration is unlikely to attain this objective, the FAP proposal, if adopted, would represent significant improvement in the economy of many rural areas. ■

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[4] Besides cash grants, low income families also would be eligible for food stamps. The cost of food stamps would vary directly with the amount of earned income received by the family. The Administration's initial proposal called for a net addition to family income in the form of food stamps that would vary from $720 for a four person family with no earned income to $80 for a four person family with an annual earned income of $3,920.

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Views expressed herein are those of the authors, but not necessarily those of the sponsoring institutions.

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IN PERSPECTIVE

Where Are The Poor?

John H. Sanders

The poor have been counted, surveyed, interviewed, televised, and studied. However, there have been few policy measures aimed directly at their primary problem: lack of money. Several recent proposals, including the Nixon Family Assistance Plan, the McGovern Food Stamp Plan, and the proposal of the President's Commission on Income Maintenance Programs, attempt to remedy this deficiency by improving and expanding public assistance programs. If one or more of these proposals is enacted, much of the impact will be felt outside the major metropolitan areas of the nation.

To identify where the poor live, let us define poverty as any family income of less than $3,500 annually. The accompanying table indicates that nearly one-half of the families in poverty live outside metropolitan areas. In 1968, 18.7 percent of all families living in nonmetropolitan areas had incomes of less than $3,500. The proportion of families in poverty outside the metropolitan areas is almost double the proportion in metropolitan areas. Moreover, the proportion of families on farms earning poverty incomes is almost three times the proportion of families in poverty in metropolitan areas.

There were approximately 1.6 million families in the North-Central Region with incomes of less than $3,500 in 1968. The proportion of families in poverty in the North-Central Region is slightly more than in either the Northeast or the West, but significantly less than in the South.

There has been a prevalent belief in many rural areas that poverty is a less significant problem in rural areas than in urban areas due to the lower costs of living in rural areas. Housing costs would be expected to be lower in rural areas, and many rural residents can produce some of their own food. Also, the higher population density in urban areas imposes more pollution, traffic congestion, noise, and other unpleasant aspects of urban life on the resident.

However, the lower population density of rural areas often results in a lack of social services. The number and quality of health facilities and personnel, the number of higher educational institutions, and even the range of available consumer goods tend to be less in sparsely populated areas. Hence, the cost of living may be lower in rural areas at least partly because rural inhabitants are forced to do without many of the goods and services available to urban residents.

Moreover, the cost of basic consumer goods is often higher in rural areas, since many retail establishments pay higher transportation costs and do not have the sales volume to offer prices as low as those in the discount stores of urban areas. When all goods and services, including the quality components, are considered, living costs may even be higher in rural areas than in urban areas. Moreover, rural poverty has contributed to urban poverty as low income rural residents have migrated to cities.

In comparing rural and urban poverty, persons of the same color or minority group must be compared. Discrimination in housing and job markets would be expected to lower the standard of living substantially for those with the dual disadvantages of receiving low incomes and being nonwhite. In 1968, the poverty rate among nonwhites was more than three times the rate among whites: 33.5 percent compared to 10.0 percent.* Also in 1968, the average difference between the present income and the poverty income definition was $910 for poor white families and $1,260 for poor nonwhite families.

Negroes accounted for 36 percent of all the poor living in metropolitan areas of 1 million or more in 1968, 30 percent of the poor in metropolitan areas under 1 million, and 28 percent of the poor living in nonmetropolitan areas. At the same time, however, the rate of poverty among Negroes living in nonmetropolitan areas was twice as high as the rate among Negroes living in metropolitan areas: 55 percent compared to 27 percent.

While the incidence of poverty is much lower for white persons than for Negro Americans and other minority groups, the rate of poverty among whites also is approximately twice as high in nonmetropolitan areas as in metropolitan areas. Consequently, any new programs that increase the incomes of the poor will have a major impact upon rural communities. ■

Families earning less than $3,500 in 1968, by residence and region

		Residence				Region			
	United States	In metropolitan areas	Outside metropolitan areas	Nonfarm	Farm	Northeast	North-Central	South	West
Total number of families (1,000)	50,510	32,600	17,910	47,880	2,630	12,403	14,299	15,258	8,549
Number of families earning less than $3,500 (1,000)	6,820	3,490	3,350	6,080	740	1,315	1,616	2,945	915
Percentage of families earning less than $3,500	13.5	10.7	18.7	12.7	28.2	10.6	11.3	19.3	10.7

Source: U.S. Bureau of the Census. "Income in 1968 of Families and Persons in the United States." *Current Population Reports.* Series P-60. No. 66. December 23, 1969. pp. 25-71.
Note: Details may not add to totals because of rounding errors.

* U.S. Bureau of the Census. "Poverty in the United States: 1959 to 1968." *Current Population Reports.* Series P-60, No. 68. December 31, 1969. Data for the numbers in poverty and the poverty deficit also were taken from this report.

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