ASPECTS OF WELFARE AND POVERTY IN RURAL AMERICA: TWO ISSUE BRIEFS

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ABSTRACT

These two papers were prepared over the last 8 months in response to requests for briefs on welfare and poverty issues by Department and White House staff. The papers outline the effects on the rural population of: (1) the Administration's current welfare reform proposal and (2) the farm differential in the poverty threshold.

Key words: Welfare reform; Income assistance; Public-service employment; Poverty threshold; Farm poverty.

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THE ADMINISTRATION'S WELFARE REFORM PROPOSAL: IMPACT ON RURAL AREAS*

by
Robert A. Hoppe

Introduction

The Administration's proposed Welfare Reform Amendments (H.R. 4904) would attempt to standardize Aid to Families with Dependent Children (AFDC) and make it more consistent from State to State. In addition, the Administration's Work and Training Opportunities Act (H.R. 4425) would increase employment opportunities for people eligible for AFDC. Most of the proposal's provisions appear beneficial to rural people.

Summary of the Proposal

Not all provisions of the proposal are discussed below. Only major points and items that may affect rural areas are examined in detail.

Welfare Reform Amendments (5) 1/

The Welfare Reform Amendments would make several major changes in the AFDC program. Currently, each State sets its own benefit levels and determines the maximum assets and income a family can have and still be eligible. 2/ This has resulted in annual AFDC benefits for a family of four with no income that range from $1,440 in Mississippi to $6,552 in Hawaii. The Welfare Reform Amendments would establish a minimum national benefit level from AFDC and Food Stamps at 65 percent of the poverty level for families with no income. The smallest amount a family of four with no income could receive would be about $4,650 in 1979 dollars. Establishing the minimum would raise benefits in 13 southern and southwestern States (table 1). In addition, the proposal would increase consistency in the welfare system by using the income and asset definitions currently used in the Food Stamp program for AFDC as well. This means that asset exclusions would be largely the same in all States for both AFDC and Food Stamps.

Eligibility for AFDC is presently determined by comparing a family's income to the State's standard of need. In determining eligibility, only work expenses are deducted from income. Once a family is eligible, benefits and continued eligibility are based on income less work expenses <u>and</u> earnings disregard. The proposal would also apply the earnings disregard when initial eligibility is decided, as well as when benefits and continued eligibility are determined. This will eliminate the present incentive for applicants to quit their jobs when applying for AFDC and go back to their old jobs after qualifying.

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*Prepared in July 1979.

1/ Underscored numbers in parentheses refer to references listed on page 13.

2/ In this paper, a family is defined as a group of two or more people who live together and are related by blood, marriage, or adoption.

Table 1--Current maximum benefit levels for a family of four (1979)

State	AFDC	Food stamps	Total	Total as percent of poverty level 1/	State	AFDC	Food stamps	Total	Total as percent of poverty level 1/
	-----Dollars-----			Percent		-----Dollars-----			Percent
Hawaii	6,552	1,332	7,884	96	District of Columbia	3,768	1,404	5,172	72
Vermont	5,724	816	6,540	91	Oklahoma	3,708	1,416	5,124	72
New York	5,712	816	6,528	91	Colorado	3,684	1,428	5,112	71
Michigan	5,640	840	6,480	91	Kansas	3,672	1,428	5,100	71
Wisconsin	5,496	888	6,384	89	Wyoming	3,660	1,428	5,088	71
Washington	5,268	948	6,216	87	Ohio	3,492	1,488	4,980	70
Oregon	5,124	996	6,120	85	Delaware	3,444	1,500	4,944	69
Minnesota	5,088	1,008	6,096	85	Virginia	3,408	1,512	4,920	69
Connecticut	5,100	996	6,096	85	Nevada	3,312	1,536	4,848	68
California	5,076	1,008	6,084	85	Indiana	3,300	1,536	4,836	68
Massachusetts	4,752	1,104	5,856	82	Maryland	3,204	1,572	4,776	67
Iowa	4,740	1,104	5,844	82	Missouri	3,072	1,608	4,680	65
Alaska	5,400	1,896	7,296	82	West Virginia	2,988	1,632	4,620	65
New Jersey	4,488	1,188	5,676	79	*Kentucky	2,820	1,680	4,500	63
Utah	4,488	1,188	5,676	79	*New Mexico	2,748	1,704	4,452	62
North Dakota	4,440	1,200	5,640	79	*Arizona	2,544	1,764	4,308	60
Nebraska	4,440	1,200	5,640	79	*North Carolina	2,400	1,812	4,212	59
Idaho	4,392	1,212	5,604	78	*Florida	2,352	1,824	4,176	58
Pennsylvania	4,320	1,236	5,556	78	*Arkansas	2,256	1,860	4,116	57
Rhode Island	4,308	1,236	5,544	77	*Louisiana	2,064	1,908	3,972	55
New Hampshire	4,152	1,284	5,436	76	*Alabama	1,776	2,004	3,780	53
South Dakota	4,080	1,308	5,388	75	*Georgia	1,776	2,004	3,780	53
Illinois	3,996	1,332	5,328	74	*Tennessee	1,776	2,004	3,780	53
Montana	3,972	1,344	5,316	74	*Texas	1,680	2,028	3,708	52
Maine	3,768	1,404	5,172	72	*South Carolina	1,488	2,088	3,576	50
					*Mississippi	1,440	2,100	3,540	49

*States whose benefits would be increased under the proposal.

1/ The poverty level used in this table was $7,160 for the 48 contiguous States and the District of Columbia. The poverty level was increased for Alaska and Hawaii to reflect higher living costs.

Source: Welfare Reform Legislation: Detailed Fact Sheet (5).

A family currently may be eligible for AFDC if it lacks support due to the death, absence, or incapacity of a parent. The program is targeted primarily at single-parent, female-headed families with children. In 26 States and the District of Columbia, a family with two healthy parents may be eligible for AFDC-Unemployed Father (AFDC-UF) if the father is unemployed. However, intact families in the other 24 States cannot receive AFDC at all. The Welfare Reform Act would modify AFDC-UF by changing it to AFDC-Unemployed Parent (AFDC-UP) where the primary earner, either father or mother, is unemployed. AFDC-UP coverage would be extended to all the States.

The working poor would also be affected by the proposed amendments. The maximum Earned Income Tax Credit (EITC) would be increased from $500 to $600. The maximum would be paid to families when earnings are between $5,000 and $7,000 compared to $5,000 and $6,000 currently.

The amendments would "cash out" Food Stamps for SSI recipients (aged, blind, and disabled) who don't form part of a larger household. SSI checks would automatically be increased by the amount of Food Stamp benefits so that recipients would not need to make a separate application.

Work and Training Opportunities (5)

The Work and Training Opportunities Act would establish two programs: The Job Search Assistance Program (JSAP) and the Work and Training Opportunities Program (WTOP). JSAP would be established by the governor of each State with the help of the State's Comprehensive Employment and Training Act (CETA) prime sponsors, the State welfare agency, and the Job Service (also called the Employment Service). JSAP would help adults in families eligible for AFDC find unsubsidized jobs. After an 8-week job search using JSAP, a participant who still could not find a job would be eligible for a federally subsidized CETA job or training under WTOP. Wages paid would be sufficient to either eliminate or reduce welfare payments. A participant could hold a WTOP position for 78 weeks while still searching for an unsubsidized job. At the end of 78 weeks, the participant must then enter another 8-week job search before becoming eligible again for a subsidized job or training program. CETA prime sponsors would carry out WTOP.

Effects of the Proposal on Rural Areas 3/

Minimum Benefit Levels

AFDC was designed primarily to help children in single-parent, female-headed families. The program is important in metropolitan areas because 64 percent of metropolitan poor children lived in families with a female head in 1977 (4). It is less important in nonmetropolitan areas where 56 percent of

3/ In this paper, rural and nonmetropolitan are used interchangeably. Nonmetropolitan people live outside of Standard Metropolitan Statistical Areas (SMSA's). An SMSA is a county or group of counties containing at least one central city with a population of 50,000 or more or twin cities with a total population of 50,000 or more.

the poor children live in male-headed families. (Male-headed families can be classified as intact since almost all male-headed families have a wife present.)

Despite the urban orientation of AFDC, the proposed minimum benefit level should increase welfare payments to a substantial number of nonmetropolitan poor people. In February 1975, the 13 States with combined AFDC and Food Stamp benefits below 65 percent of the poverty level had 2.5 million AFDC recipients, including 1.1 million living in nonmetropolitan areas (table 2). The 13 States had 46 percent of the total United States nonmetropolitan AFDC recipients. The increase in benefits is likely to be large in low-income areas of States like Mississippi, South Carolina, and Texas that presently have very low combined benefits from AFDC and Food Stamps.

Changes in Asset Exclusions

The proposal would make AFDC asset exclusions consistent with those in the Food Stamp program. Homes and income-producing assets would be exempt from the asset limits for recipient families throughout the United States.

Currently, there is considerable variation in asset exclusions since each of the 50 States, the District of Columbia, Guam, Puerto Rico, and the Virgin Islands has its own AFDC program. 4/ Thirty-eight States exclude owner-occupied homes from the asset limitation. The other 12 States exclude only a portion of the market value or owner's equity of the home, and these States contained about one-third of the nonmetropolitan poor population in 1975. 5/ Excluding housing from the asset limit should help the nonmetropolitan poor since they are more likely than their urban counterparts to own their own homes. About 56 percent of the nonmetropolitan poor families owned their own homes in 1977. The corresponding metropolitan figure was 30 percent (3).

Under the present system, there is considerable variation from State to State in the exclusion of income-producing property from the asset limit. For instance, 33 States specifically exempt items like farm machinery, livestock, tools, and business equipment. Iowa and Oklahoma specifically exempt 40 acres of land, Alabama and Louisiana exempt 160 acres, and Texas exempts 200 acres. Apparently, some States do not exclude business real estate. Consistent exclusion of income-producing property as in the Food Stamp regulations could help any nonmetropolitan AFDC recipient who has a small farm or other small business.

Deductions in Determining Eligibility and Benefits

Presently, work expenses are deducted from income when determining initial eligibility for AFDC. However, work expenses and an earnings disregard of $30

4/ This discussion is based on a summary table prepared by the U.S. Department of Health, Education, and Welfare. Program characteristics are as of April 1, 1978. Any table that summarizes 54 programs is likely to contain errors and omissions. These inaccuracies will be reflected in this discussion.

5/ Arizona, Arkansas, California, Connecticut, Hawaii, Kansas, Minnesota, Mississippi, Missouri, Oklahoma, Tennessee, and Texas.

Table 2--AFDC recipients in February 1975 in the 13 States with the lowest benefit levels

State	Residence: Total	Residence: Metro	Residence: Nonmetro	Current AFDC and Food Stamps as percent of poverty level 1/
	Thousands			
Alabama	163	93	70	53
Arizona	71	47	24	60
Arkansas	103	35	68	57
Florida	264	212	53	58
Georgia	356	197	159	53
Kentucky	162	80	82	63
Louisiana	235	149	86	55
Mississippi	187	31	156	49
New Mexico	62	21	41	62
North Carolina	177	87	90	59
South Carolina	138	54	83	50
Tennessee	207	145	62	53
Texas	390	304	86	52
Total, 13 States	2,515	1,455	1,060	NA
Total, U.S.	10,994	8,676	2,318	NA
	Percent			
13 States as percent of total	22.9	16.8	45.7	NA

1/ From table 1.

Source: U.S. Department of Health, Education, and Welfare, Recipients of Public Assistance Money Payments and Amounts of Such Payments by Program, State, and County, February 1975. Publ. No. (SRS) 76-03105, July 1975.

plus one-third of earnings over $30 are deducted when determining benefits and continuing eligibility. Under the proposed rules, both work expenses and an earnings disregard would be deducted when determining initial eligibility. 6/ Deducting both work expenses and an earnings disregard to determine initial

6/ Except for child care, work expenses would be standardized at 20 percent of earnings, and the earnings disregard would be changed to $70 plus one-third of net income after work expenses and child care expenses.

eligibility should allow the working poor to earn more and still be eligible. The change may be particularly important to nonmetropolitan areas because 42 percent of the poor nonmetropolitan female family heads reported working in 1975 compared to 33 percent in metropolitan areas (4).

Unemployed Parent Program

Under the welfare reform proposal, AFDC-UP would be available in all States. The corresponding existing AFDC-UF is available in only 26 States. The 24 States that do not have AFDC-UF contained approximately 11.2 million poor people in 1975, and over half of these people were nonmetropolitan (table 3). About 65 percent of the nonmetropolitan poor lived in States that do not have AFDC-UF. Universal AFDC-UP coverage will broaden program accessibility for all nonmetropolitan people who qualify.

However, a large portion of the nonmetropolitan poor are unlikely to be helped by the AFDC-UP program, since they are unlikely to be eligible. To be eligible, the primary earner must be unemployed and must not have earned more than $500 the previous month. Nonmetropolitan male family heads are more likely than their metropolitan counterparts to be full-time workers and thus be ineligible for the program. For example, in 1975 about 40 percent of the nonmetropolitan poor male family heads worked 40 weeks or more. The comparable percentage for metropolitan males was 28 percent (table 4). The males most likely to be helped by the programs are those who do not work for reasons other than ill health or those that do not work all the time. Those that did not work for reasons other than health made up 23 percent of the metropolitan poor male heads and only 16 percent of the nonmetropolitan heads. About 30 percent of poor male heads in metropolitan areas worked less than 40 weeks compared to 23 percent in nonmetropolitan areas. Thus, the portion of the male-headed families that is likely to be helped by AFDC-UP is smaller in nonmetropolitan areas than in metropolitan areas.

The current AFDC-UP program is a small part of the total AFDC program. For example, in the 26 States with AFDC-UF, only 277,000 children, or 5.3 percent of the States' total AFDC children, participated in September 1978 because their fathers were unemployed (6). These same States had over 2 million poor children in intact families in 1975 (4). It is doubtful that expanding the AFDC-UF program to cover all States and modifying the eligibility rules moderately will radically increase the coverage of poor children in intact families in either metropolitan or nonmetropolitan areas.

The EITC Increase

Nonmetropolitan intact families with a working parent would be likely to receive a large share of the increase in the EITC. Although nonmetropolitan areas had 40 percent of the poor families in 1975, they had 46 percent of the poor family heads who worked (4). Nonmetropolitan working poor family heads worked an average of 37.6 weeks in 1975 while their metropolitan counterparts worked only 31.5 weeks. However, the maximum increase would only be $100 for a given family. This would raise the after tax and transfer income of a five-person, male-headed family with one minimum-wage worker and no other source of income from 92 percent to 94 percent of the poverty level.

Table 3--Poor people by residence, State, and region in States without AFDC-UF 1/

Region and State	Residence: Total	Residence: Metropolitan	Residence: Nonmetropolitan	Region and State	Residence: Total	Residence: Metropolitan	Residence: Nonmetropolitan
	Thousands				Thousands		
Northeast:	192	31	161	West:	731	326	405
Maine	127	17	110	Alaska	23	--	23
New Hampshire	65	14	51	Arizona	314	235	79
				Idaho	86	12	74
North Central:	577	259	318	Nevada	53	43	10
Indiana	424	246	178	New Mexico	222	36	186
North Dakota	66	5	61	Wyoming	33	--	33
South Dakota	87	8	79				
				Total poor in States without AFDC-UF	11,190	5,010	6,180
South:	9,690	4,394	5,296				
Alabama	587	258	329				
Arkansas	393	114	279				
Florida	1,225	811	414	U.S. total poor people	23,991	14,511	9,480
Georgia	883	323	560				
Kentucky	596	170	426				
Louisiana	720	326	394		Percent		
Mississippi	607	94	513	Poor in States without AFDC-UF as percentage of total poor	46.6	34.5	65.2
North Carolina	788	260	528				
Oklahoma	370	145	225				
South Carolina	477	147	330				
Tennessee	660	305	355				
Texas	1,870	1,212	658				
Virginia	514	229	285				

1/ Numbers of poor are for 1975, but the States are States not having AFDC-UF as of June 1979.
NOTE: Small numbers for individual States may have relatively high standard errors.

Source: U.S. Bureau of the Census, "Money Income and Poverty States in 1975," Cur. Pop. Rpt. Series P-60, No. 110, 111, 112, and 113 (Spring 1976 Survey of Income and Education).

Table 4--Poor male family heads by work status and residence, 1975 1/

Work status	Number of poor male heads			Percent of total poor male heads		
	Residence			Residence		
	Total	Metropolitan	Nonmetropolitan	Total	Metropolitan	Nonmetropolitan
	--------Thousands--------			---------Percent---------		
Total poor male heads	2,725	1,324	1,401	100.0	100.0	100.0
Worked 40 or more weeks	921	366	556	33.8	27.6	39.7
Worked 1-39 weeks	723	397	327	26.5	30.0	23.3
Didn't work due to illness or disability	519	236	283	19.0	17.8	20.2
Didn't work for other reasons	525	299	226	19.3	22.6	16.1
In Armed Forces	36	27	9	1.3	2.0	.6

1/ Includes families with and without children.

Source: U.S. Bureau of the Census. Unpublished data from the Spring 1976 Survey of Income and Education.

Food Stamp Cash-Out for SSI Recipients

SSI is an important program in nonmetropolitan areas. In December 1975, 1,570,000 recipients in nonmetropolitan areas received $143,572,000 in benefits (1). Nonmetropolitan areas had 27 percent of the population but 38 percent of SSI recipients and 31 percent of the benefits. This is consistent with the high incidence of poverty among the nonmetropolitan aged. A recent study found that SSI recipients generally do not feel ashamed about receiving their payments (2). This lack of stigma was also noted in Georgia and Mississippi, the two most rural States for which separate data were presented.

In comparison, the Food Stamp program doesn't seem to be as well accepted by the aged, blind, and disabled poor. Less than half of the SSI recipients who are eligible for Food Stamps apply for them. Part of the problem may be the stigma of using readily identifiable Food Stamp coupons in public. The automatic inclusion of Food Stamp benefits in SSI checks could have an impact on nonmetropolitan areas because a large portion of SSI recipients live there.

Work and Training Opportunities Act

Evaluating the potential effects of the Work and Training Opportunities Act in rural areas is difficult because only a general outline of the Act is available presently. However, the proposal does indicate that CETA prime sponsors would be responsible for carrying out WTOP, the subsidized jobs and training portion of the Act. In existing CETA programs, rural areas are either associated with a larger urban area, which acts as a prime sponsor, or with the State government. All areas associated with the State government are included in a balance of State prime sponsor. In the past, this arrangement has tended to reduce the effectiveness of rural leaders' ability in planning and implementing manpower programs that meet local needs. Care must be exercised to make sure that the same problem does not occur in WTOP.

The Job Service frequently serves several rural areas through a single multicounty office. Many outlying communities receive only periodic visits by Job Service staff members. The urban concentration and experience of CETA and Job Service personnel could lead to rural areas' problems being overlooked when the governor, CETA prime sponsors, the State welfare agency, and the Job Service in each State get together to set up the State's JSAP to help AFDC eligibles find unsubsidized jobs.

According to the proposal, funds for JSAP would be allocated to the States according to the number of AFDC recipients within each State and the cost of providing services in each State. States would use the same criteria to allocate the funds among local areas. The number of recipients and cost criteria would also be used to allocate WTOP funds among CETA prime sponsors. A more reasonable method would be to allocate funds on the basis of adult AFDC recipients who are able to work. There is no reason to allocate a disproportionate amount of WTOP and JSAP funds to areas where a large share of the AFDC recipients are disabled or children and thus unable to work. Allocation on the basis of adult recipients able to work could be more equitable for rural areas. Allocating funds on the basis of costs of providing services could lead to more funds being given to prime sponsors in large cities and less being given to the balance of State and small city prime sponsors. Costs are generally considered to be less in small cities and rural areas than in large cities.

Concluding Comments

The welfare reform proposal would aid nonmetropolitan poor people, particularly in the South, by setting a minimum AFDC level and by establishing an AFDC-UP program in all States. The nonmetropolitan aged, blind, and disabled poor should be helped by the cash-out of Food Stamps. Except for a moderate increase in the Earned Income Tax Credit, the proposal would do little for poor people living in intact families with a full-time worker. On the other hand, because the working poor do have some income from earnings, they are less needy than poor people who do not work. Care must be exercised in developing the

Work and Training Opportunities Act to ensure that the funding formulas, eligibility criteria, and program administration meet the needs of rural areas.

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THE FARM DIFFERENTIATION IN THE POVERTY THRESHOLD: SHOULD IT BE CHANGED?*

by

Thomas A. Carlin, Linda M. Ghelfi, and Janet W. Coffin

The current farm differential in the poverty threshold had its genesis in the Social Security Administration's poverty definition developed by Mollie Orshansky and first published in January 1965 (3). 1/ The formula, which designated poverty income thresholds according to sex and age of family head, size of family, number of children under 18 years old, and farm-nonfarm residence, was an attempt to specify in dollar terms a minimum level of income adequacy for families of different types. Orshansky argued that:

> Farm families generally can count not only some of their food but most of their housing as part of the farm operation. Thus, it was assumed that a farm family would need 40 percent less net cash than a nonfarm family of the same size and composition (3).

No other allowance was made for cost-of-living differences among places except that for farm-nonfarm residence. Few aspects of the Orshansky definition have touched off more heated debate than this assumption, a debate which has continued for a decade and a half.

This paper presents a short history of changes in the farm differential since 1964 and arguments for its complete elimination from the official poverty definition.

Changes Since 1964

Orshansky soon reduced the farm differential to 30 percent. In an article published in July 1965, she stated that:

> Advanced information now suggests that . . . home food production had dropped to no more than 31 percent of the total value of food used by farm families. It would seem more appropriate, then, to peg the income required by a farm family at the poverty line at about 70 percent of the equivalent nonfarm figure rather than the 60 percent used before (4).

Orshansky designed the original poverty threshold for statistical purposes--to determine the size and characteristics of the poverty population. But in 1965, the Office of Economic Opportunity adopted the Orshansky definition as a working tool "pending completion of further research" (4). With this, the farm differential was used in administering poverty programs, thus, becoming a real element in the "war on poverty."

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*Prepared in March 1979.

1/ Underscored numbers in parentheses refer to references listed on page 23.

The President's National Advisory Commission on Rural Poverty, established in 1966, questioned the 70 percent farm differential and undertook a "study to determine the income needed to support a comparable level of living for farm, rural nonfarm, and urban families" (5). In 1967, the Commission reported that "farm families need about 85 percent, rather than 70 percent, as much income as a comparable family in urban areas" (5). Officials at the Department of Agriculture supported the complete elimination of the farm differential. In 1969, when the Social Security Administration's poverty measure was officially adopted by the Office of Management and Budget, the farm poverty threshold was set at 85 percent of the nonfarm threshold. The farm differential has remained at 85 percent since that time.

Eliminating the Farm Differential

Three basic arguments can be made for eliminating the farm differential in the poverty threshold. First, the differential is not widely used in administering most Federal income security, human resource, and community development programs. Thus, abolishing the distinction would have very little impact on the Federal budget. And, abolishing the differential would have minor impact on poverty statistics. Second, support for abolishing the farm differential is broader than the agricultural-rural establishment. Thus, problems associated with the differential are widely recognized and do not reflect the concerns of a narrow set of interest groups. Finally, the current differential is inequitable because it attempts to accommodate the in-kind income received by farm families while ignoring the in-kind income of nonfarm families.

Impact on Federal Programs and Statistics

Program effects.--Only a few Federal programs directed towards low-income people utilize the full OMB poverty definition for either allocating funds to states or for determining eligibility for participation. The major income security programs, such as Food Stamps, Aid to Families with Dependent Children, or Supplemental Security Income, either have their own eligibility criterion, or if they utilize the OMB poverty definition, they use only the nonfarm levels. Only 10 Federal programs utilize the farm differential; budget authority for these programs consumes only 2 percent of the total 1980 Federal budget and less than 5 percent of the income security, community development, education, and health budget functions (table 1). The CETA program is the largest of these; CETA does not use the farm-nonfarm diffferential to allocate funds to prime sponsors, but individuals who apply for CETA jobs must qualify under a farm-nonfarm poverty definition.

Two-thirds of the U.S. farm operators live in counties with less than 20,000 urban population. These counties would receive an estimated $825 million in 1980 from the 10 programs utilizing the farm differential--about 7 percent of the $12,212 million allocated to these programs. 2/ And even in

2/ In FY 1976, approximately 7 percent of the Federal outlay for the 10 programs using the farm differential went to counties with less than 20,000 urban population (6). This percentage was applied to FY 1980 budget authority for the same programs.

Table 1--Administration's Federal budget for selected items, 1980

Item	Millions dollars
Total Federal budget	$531,600
Budget for functions--	
Income security; community-regional development; education-training, etc.; and health	270,000
Programs utilizing OMB poverty definition including farm differential--	12,212
Community Services Administration:	
Community action operations	410
Community economic development	45
Department of Health, Education, and Welfare:	
Grants for disadvantaged	3,478
Bilingual education	174
Follow through	59
Head start	700
Vocational education for disadvantaged	20
Community mental health centers	249
Department of Labor:	
Comprehensive employment and training act	6,842
Community service employment for older Americans	235

Source: Office of Management and Budget, The Budget of the United States Government, Fiscal Year 1980.

these rural counties, not all funds will go to farm families. While it is impossible to estimate the exact budget impact of eliminating the farm differential in the poverty threshold, these data suggest that the probable impact is minuscule.

Statistical effects.--Eliminating the farm differential in the poverty threshold would increase the number of poor persons (table 2). The total poor population would increase by approximately one percent while the number of poor farm persons would increase by approximately 20 percent. This means that about 265,000 additional people would be included in the poverty population if the

Table 2--Percent change in the poverty population by eliminating the farm differential, selected years

Year	Residence	Percent change
1967 1/	Farm	21.8
	Nonfarm	--
	All	2.5
1970 2/	Farm	21.9
	Nonfarm	--
	All	1.3
1976 3/	Farm	22.1
	Nonfarm	--
	All	1.1
1978 4/	Farm	16.2
	Nonfarm	--
	All	0.9

1/ Based on special tabulations from the March 1967 Current Population Survey.
2/ Estimated from the 1970 Census of Population using weighted average poverty thresholds for nonfarm and farm residents.
3/ Estimated from the 1976 Annual Housing Survey using weighted average poverty thresholds for members of male-headed and female-headed nonfarm families and members of male-headed and female-headed farm families.
4/ Estimated from special tabulations from the March 1978 CPS using weighted average poverty thresholds for nonfarm and farm residents. Tabulations provided by Bill Hoagland, Congressional Budget Office.

farm differential were eliminated. Between Population Censuses the poverty population is estimated from a sample of households, and that estimate is subject to sampling variability. The increase in the number of poor from eliminating the farm differential is less than the standard error of the estimate of the total number of poor obtained from the Current Population Survey. Thus, the increase resulting from eliminating the differential may not significantly alter the estimate of the poor population based on such surveys.

Broad Based Support

Support for eliminating the farm differential is broader than that reflected by interest groups concerned with rural conditions. A Federal Interagency Technical Committee on Poverty Statistics was established in 1971 to review the poverty threshold and discuss proposals for changes in terminology and definition. This Committee was composed of representatives from all Federal agencies having responsibility for administering programs targeted at the poor. The Committee recommended in 1973 that the farm-nonfarm differential be immediately eliminated from the poverty threshold. This recommendation was not adopted by OMB.

A second interagency committee called the "Poverty Studies Task Force" was convened in 1974 by DHEW to discuss and document major elements of currently applied and potentially usable poverty measures. This study was undertaken pursuant to Section 823, P.L. 93-380, Educational Amendments of 1974. While the final report made no recommendation concerning the farm-nonfarm differential, it noted that:

> This distinction is not based on measured differences of need but rather on assumed cost savings from home-produced food. With greater home production of food in nonfarm areas and less on farms, this difference may diminish significantly. Furthermore, there is some question about the appropriateness of singling out income differences based on home production of food when other income differences like employee and in-kind benefits may represent significant income advantages to nonfarm families (9).

Support for eliminating the farm-nonfarm differential is also growing within the Census Bureau. Personnel within the Poverty Statistics Group, Demographic Fields, support eliminating the differential and will undertake a detailed study of the issue this summer.

Equity

The farm-nonfarm differential is a form of residential cost-of-living adjustment to the poverty threshold. This cost-of-living adjustment supposedly recognizes the "substantial" in-kind income (food and housing) farm families have from their farming operation. 3/ Yet, the truly substantial in-kind income of nonfarm families is completely ignored.

There is a growing recognition of the role in-kind income plays in the well-being of the poor (1, 10). The Federal Government provides a wide range of in-kind benefits to the poor including Food Stamps, housing subsidies, health benefits, and job training. The private sector also provides in-kind benefits such as housing, transportation, meals, and health care from employers. The value of these public and private in-kind benefits, which go primarily to nonfarm families, dwarfs the value of food and housing available to low-income farm families.

Food.--Home gardening and meat production was the basis for the farm differential in the original poverty threshold. Home gardening is not an

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3/ There is no estimate of the value of food and housing provided by farms operated by poor farm families. USDA estimates that the gross value of farm products consumed directly in farm households (both farm operator households and households of farm workers) and the gross rental value of farm dwellings was $8.6 billion for all farms in 1977 (8). Because estimates of the costs of producing food and maintaining a house cannot be separated from total farm production costs, it is not possible to estimate the net value of perquisites.

activity confined solely to farm families. In 1977, over 40 percent of all U.S. nonfarm households reported having a home garden (85 percent of the farm households had a garden that year). 4/ For families with incomes under $5,000, 34 percent of the nonfarm households reported having a garden (78 percent for similar farm households). Many of these (nonfarm) gardens were relatively large, including those of lower income families. For example, 20 percent of the nonfarm households with incomes under $5,000 had gardens of 5,000 sq. ft. or more (compared to 64 percent for similar farm households).

In 1978, the bonus value of Food Stamps distributed by the Federal Government was $5.2 billion; an average 16 million people per month received these bonus Food Stamps for an average annual value of $332 per person. A family of four with no income could receive a maximum of $2,184 in Food Stamps in 1978. Approximately 81 percent of the Food Stamp participants are poor, and about 46 percent of all poor persons receive Food Stamps. 5/ Recent surveys suggest that only about 2 percent of the total families participating in the Food Stamp program are farm families (7). In fact, farm families are much less likely to participate in the Food Stamp program than nonfarm families (2.8 percent of farm households participated in the program in July 1975 vs 6.3 percent of nonfarm households) even though a higher proportion of farm families have low incomes. This in-kind income is not considered in computing the nonfarm poverty level.

Housing.--Data from the 1976 Annual Housing Survey show that about 44 percent of poor (using existing definitions) nonfarm households own their own home; they receive an in-kind income from the equity in this home. 6/ Approximately 9 percent of the poor nonfarm households live in public housing, thus, receive an in-kind rental subsidy. About 2 percent of poor nonfarm households receive a direct government rent subsidy. Thus, at least 55 percent of the poor nonfarm households have some form of in-kind housing benefits not accounted for in the nonfarm poverty level. Almost none of the $1.4 billion in 1980 budget authority for housing assistance to low-income households will go to farm families.

Medicare and Medicaid.--The cost of vendor payments under Medicare and Medicaid amounted to $37 billion in 1977; 14 million persons received an average benefit of $1,442 under Medicare, and 22 million recipients received an average benefit of $753 under Medicaid (2). About 18 percent of these benefits went to rural counties with less than 20,000 urban population, areas where most of the farm operator families reside. The FY 1980 budget contains a budget authority of $48.5 billion for Medicare and Medicaid, none of which will be considered in determining poverty status.

4/ Data obtained from special tabulations from the 1978 Home Garden Survey conducted by USDA.

5/ Data obtained from Food and Nutrition Service, U.S. Department of Agriculture.

6/ Data based on special tabulations from the 1976 Annual Housing Survey using weighted average poverty thresholds.

Implications

Several studies have been conducted to estimate the combined impact of in-kind income from Federal programs on poverty counts. For example, Smeeding estimated that the number of poor households would be reduced by 28 percent if Food Stamps, Medicare, Medicaid, and public housing were valued in terms of approximations to cash equivalents and added to cash income (10). A similar Congressional Budget Office study estimated that the number of poor families would be reduced by 40 percent (from 10.7 million to 6.4 million) if in-kind transfer payments are counted as income (1). These studies support the argument that Federal in-kind income substantially affects the well-being of the poor. And, most of these benefits accrue to nonfarm families.

The techniques for measuring in-kind income are not advanced enough to consider such benefits when officially estimating the size of the poverty population. Yet, such income is important to nonfarm families as well as farm families. Since such adjustments cannot be incorporated into the poverty measure, the current farm-nonfarm differential is an artificial difference which should be eliminated. This inconsistency in the treatment of in-kind income is inequitable to farm families and results in an arbitrary exclusion of some low-income farm people from the official poverty count.

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