Income Security Policy and the Nonmetro Poor

Susan Bentley
ERS, U.S. Department of Agriculture

Follow this and additional works at: https://egrove.olemiss.edu/jrss

Part of the Rural Sociology Commons

Recommended Citation

This Article is brought to you for free and open access by the Center for Population Studies at eGrove. It has been accepted for inclusion in Journal of Rural Social Sciences by an authorized editor of eGrove. For more information, please contact egrove@olemiss.edu.
INCOME SECURITY POLICY AND THE NONMETRO POOR

Susan Bentley
Agriculture and Rural Economics Division, Economic Research Service, U.S. Department of Agriculture

ABSTRACT Income security in the United States is affected by both income transfer policy and tax policy. Transfer payments have reduced the incidence of poverty in the United States. The nonmetro poverty rates, however, remains higher than the metro poverty rate, even after considering growing in-kind transfers. Additionally, nonmetro areas depend heavily on transfer payments for personal income. Because adjustments in tax policy have not kept pace with inflation, the working poor have paid an increasing share of their income in taxes. This is particularly important for nonmetro areas, as most of their poor families contain at least one worker. The effects of changes in income transfer policy and tax policy on the nonmetro poor are discussed, and, where the data permits, information on the southern United States is examined.

Introduction

Income security policy in the United States is affected by both income transfer policy and tax policy. This paper briefly examines the various components of public income transfer programs and their growth as well as the impacts of these transfers on poverty in nonmetro areas. Transfer payments have become an important source of income in the nonmetro United States. This paper also examines the effect of taxes on the nonmetro poor and their income in recent years. Where the data permits, information on the southern region of the United States is specifically examined.

Public income transfer programs, as considered here, are "publicly support, Government administered, or legislatively authorized programs which have as their objective the maintenance or supplementation of current personal income through payment of cash benefits or provision of in-kind services or commodities" (Joint Economic Committee, U.S. Congress 1974, p. 3). Most income transfer programs are intended to protect workers and their dependents against earnings losses arising from retirement, death, or disability of a breadwinner, and temporary unemployment. A number of in-kind transfer programs are designed to protect against unpredictable expenditures, such as medical costs.

Revision of a paper presented at the 1986 Annual Meeting of the Southern Rural Sociological Society, Orlando, Florida. The author thanks Thomas A. Carlin, Bernal Green, Robert A. Hoppe, and Peggy J. Ross of the Agriculture and Rural Development Division, ERS, USDA, for critical review and comments.

Unless noted otherwise, metro and nonmetro are defined as in the 1970 Census (U.S. Bureau of the Census 1985a).
or to provide essentials not readily available to all segments of the population, such as adequate housing and food (Burtless 1984; Joint Economic Committee, U.S. Congress 1974).

Today's income transfer system is composed of three types of programs: cash social insurance, cash public assistance, and in-kind programs. Cash social insurance programs include Social Security, unemployment insurance, workers' compensation, government employees' pensions, railroad retirement, and veterans' pensions and compensation. These programs are not targeted specifically at the low-income population but at the general population or particular groups of workers, and benefit levels are based in part on past work experience.

Cash public assistance programs include Aid to Families with Dependent Children (AFDC), Supplemental Security Income (SSI), and general assistance. These are targeted toward the low-income population and do not require past work experience. Called "means-tested," the benefits require that the recipient have income and assets below specified levels, and they are usually reduced or withdrawn if the recipient becomes employed or earns more money.

The in-kind transfer programs consist of health care benefits through the Medicare and Medicaid programs, food benefits from the Food Stamp and National School Lunch programs, and housing benefits from several public or subsidized rental housing programs. Except for Medicare and roughly one quarter of school lunch benefits, the in-kind transfer programs are also "means-tested," or designed to benefit the low-income population. Both nonmeans-tested and means-tested programs are examined here, because the nonmetro poor may participate in one or more programs of either type.

Methodology

This paper uses both published data and computer data tapes to examine transfer payments in the nonmetro United States. The data on transfer payment growth is drawn from Census Bureau publications (U.S. Bureau of the Census 1982, 1984). Information on the impacts of transfer payments on poverty is from the U.S. Bureau of the Census (1984) and work by the Institute for Research on Poverty (Dansiger et al. 1984).

The metro-nonmetro data on transfer payments were

---

3 See Hoppe and Saupe (1982) and Levitan (1985) for discussions of the major public income transfer programs.

4 Virtually all children who eat school lunches receive a basic subsidy under this program, even if they pay the "full established price." This subsidy accounts for about a quarter of the total benefits, while the remaining benefits go to those who either receive the lunch for free or at a reduced price (U.S. Bureau of the Census 1984). Medicare covers all elderly Social Security beneficiaries and many non-elderly disabled. While about 15 percent of those who receive Medicare benefits are poor elderly persons, the program is not "means-tested" (U.S. Bureau of the Census 1982).
obtained from computer tapes provided by the Bureau of Economic Analysis (BEA). These tapes supply detailed estimates of transfer payments made in the metro and nonmetro areas of each state and the District of Columbia for 1969–83. The tapes also provide data on total personal income and population for each area. Estimated per capita transfer payments and transfer payments as a percentage of personal income were derived from the BEA data; data on the number of recipients or on benefit levels per recipient were not considered here.

Transfer payment growth

The majority of Federal expenditures intended to assist the poor is now concentrated in programs that provide in-kind or non-cash benefits. By 1983, the total outlays for means-tested in-kind assistance programs were 80 percent higher than outlays for cash public assistance (U.S. Bureau of the Census 1984).

During the 1970s, in-kind transfer programs were the fastest growing component of the Federal income security programs directed toward the poor. Between 1970 and 1983, the real value (in 1983 constant dollars) of cash public assistance increased about 51 percent, while means-tested in-kind benefits increased over 145 percent (U.S. Bureau of the Census 1984). New in-kind programs directed toward specific needs of the poor were created and expanded during this period, while public support for cash public assistance declined (Levitan 1985).

For example, the Food Stamp program, enacted in 1964, was expanded to a nationwide program in 1974 (Joint Economic Committee, U.S. Congress 1974), and in 1979, the cash purchase requirement was dropped, increasing the program’s accessibility to the poor (Institute for Research on Poverty 1980). The in-kind Medicaid program, begun in 1965, expanded rapidly as the number of recipients increased and as medical inflation outpaced general inflation in the late 1970s (Burtless 1984). By 1983, the $31.5 billion market value of Medicaid alone exceeded the $27.6 billion in means-tested cash assistance (U.S. Bureau of the Census 1984).

Spending on AFDC also increased during the 1960s and early 1970s, as average benefit levels rose and program participation increased (Burtless 1984). However, real benefits from AFDC fell during the late 1970s and early 1980s, as state-established benefit levels did not keep pace with inflation and as eligibility levels were tightened (Burtless 1984).

Impacts of transfers on poverty

One method frequently used to examine the impact of income security programs on poverty is to examine how they reduce the pretransfer incidence of poverty (Danziger et al. 1984). Pretransfer poverty considers only earnings, property income (dividends, interest, rent), and private transfers. Since 1969, the pretransfer incidence of poverty, at the national level, has gradually increased from about 18 to 24 percent (Figure 1).
Including cash social insurance payments in income reduced the incidence of poverty in the United States to about 16 percent in 1983, and including cash public assistance payments further reduced the incidence of poverty to just over 15 percent, the official poverty level (Danziger et al. 1984). Thus, cash social insurance programs play a more important role than cash public assistance in reducing the overall incidence of poverty in the United States.

During the 1970s, little headway was made against poverty, although government outlays for in-kind transfer programs grew rapidly. This apparent contradiction partially results from the official method of measuring poverty, which excludes in-kind income. Since 1979, however, the Census Bureau has published annual estimates of poverty that include the measurement of in-kind benefits. For 1983, valuing in-kind benefits at market value and including them as income reduces the incidence of poverty to about 10 percent (Figure 1). In-kind transfers have a larger anti-poverty effect than do cash public assistance.

The Census Bureau uses three techniques to value in-kind benefits. The market value approach used here reduced overall poverty the most and thus represents the maximum effect on valuing in-kind benefits. See U.S. Bureau of the Census (1984) for a more detailed discussion of the procedures and the impact on poverty and Getz (1984) for a discussion of the affects of using alternative valuing techniques on the metro and nonmetro poverty rates.
programs, but a smaller impact than cash social insurance programs.

From 1978 to 1983, however, income transfers became less effective at reducing poverty. The growth in real transfer levels per household slowed, while pretransfer poverty increased due to declining economic growth and rising unemployment (Institute for Research on Poverty 1984). Consequently, income transfers removed a smaller percentage of the pretransfer poor from poverty, and posttransfer poverty rates rose as well (Danziger et al. 1984). In particular, the effectiveness of means-tested transfers was reduced by federal policy changes enacted in the Omnibus Budget Reconciliation Act of 1981 (Danziger et al. 1984).

The poverty rate in nonmetro areas is higher than metro areas before and after valuing in-kind benefits (U.S. Bureau of the Census 1984). Differences in in-kind program participation rates partially explain the higher nonmetro poverty rate, as the nonmetro poor are less likely than the metro poor to participate in in-kind programs, particularly the housing and Medicaid programs (Getz 1984). The nonmetro poor were more likely to participate in the Medicare program, reflecting a higher proportion of the elderly among the nonmetro poor.

The group most affected by in-kind programs were the elderly; over three-fourths of the nation's elderly poor escaped poverty after valuing all in-kind benefits. Some groups, however, had high rates of poverty even after including in-kind benefits. After adding the value of in-kind benefits, the poverty rates among blacks, children under 6, persons of Spanish origin, and persons in female-headed families were still above the 1983 national poverty rate of 15.2 percent before including in-kind benefits (U.S. Bureau of the Census 1984). In the South, including in-kind benefits reduced the poverty rate from the official rate of 17.2 percent to 12.1 percent in 1983 (U.S. Bureau of the Census 1984).

Transfer payments in the nonmetro United States

Transfer payments have become very important in the nonmetro United States. As measured by the Bureau of Economic Analysis, income received in the form of transfer payments was 18.5 percent of all personal income in the nonmetro United States in 1983, equivalent to $94.9 billion (Table 1). In the United States as a whole, personal income in the form of transfer payments equaled 405 billion dollars, or 14.8 percent of all personal income.

Using the market value method to value food, housing, and medical benefits, but excluding institutional expenditures, decreases the metro poverty rate by 32.6 percent to 9.3 percent and the nonmetro poverty rate by 27.9 percent to 13.2 percent. Nonmetro poverty rates are greater than metro poverty rates using all three in-kind valuation techniques (U.S. Bureau of the Census 1984).

The Bureau of economic analysis prepares local area personal income estimates to measure economic activities throughout the United States (U.S. Bureau of Economic Analysis 1985). One component of personal income that
Table 1. Per capita transfer payments and transfer payments as a percentage of total personal income by program, region, and residence, 1983.*

<table>
<thead>
<tr>
<th>Region and residence</th>
<th>Transfers as a percentage personal income</th>
<th>Per capita, in dollars</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Cash social transfers</td>
<td>Cash public insurance</td>
<td>In-kind assistance</td>
</tr>
<tr>
<td>Northeast</td>
<td>5.2</td>
<td>1,941</td>
<td>1,296</td>
<td>152</td>
</tr>
<tr>
<td>Metro</td>
<td>14.8</td>
<td>1,945</td>
<td>1,287</td>
<td>158</td>
</tr>
<tr>
<td>Nonmetro</td>
<td>19.5</td>
<td>1,910</td>
<td>1,368</td>
<td>108</td>
</tr>
<tr>
<td>Midwest</td>
<td>15.0</td>
<td>1,717</td>
<td>1,166</td>
<td>118</td>
</tr>
<tr>
<td>Metro</td>
<td>14.0</td>
<td>1,710</td>
<td>1,138</td>
<td>131</td>
</tr>
<tr>
<td>Nonmetro</td>
<td>18.0</td>
<td>1,733</td>
<td>1,232</td>
<td>87</td>
</tr>
<tr>
<td>South</td>
<td>14.9</td>
<td>1,603</td>
<td>1,135</td>
<td>79</td>
</tr>
<tr>
<td>Metro</td>
<td>13.5</td>
<td>1,587</td>
<td>1,134</td>
<td>68</td>
</tr>
<tr>
<td>Nonmetro</td>
<td>19.2</td>
<td>1,637</td>
<td>1,138</td>
<td>105</td>
</tr>
<tr>
<td>West</td>
<td>14.1</td>
<td>1,744</td>
<td>1,190</td>
<td>158</td>
</tr>
<tr>
<td>Metro</td>
<td>13.6</td>
<td>1,753</td>
<td>1,185</td>
<td>170</td>
</tr>
<tr>
<td>Nonmetro</td>
<td>17.3</td>
<td>1,703</td>
<td>1,214</td>
<td>100</td>
</tr>
<tr>
<td>U.S. total</td>
<td>14.8</td>
<td>1,731</td>
<td>1,188</td>
<td>120</td>
</tr>
<tr>
<td>Metro</td>
<td>14.0</td>
<td>1,739</td>
<td>1,184</td>
<td>127</td>
</tr>
<tr>
<td>Nonmetro</td>
<td>18.5</td>
<td>1,704</td>
<td>1,201</td>
<td>99</td>
</tr>
</tbody>
</table>

* Transfer payments include all transfers considered as personal income in the local area personal income estimates prepared by the Bureau of Economic Analysis. See U.S. Bureau of Economic Analysis (1985) for a complete listing of all transfer payments considered. Separate categories of transfers shown here are as follows:

- Cash social insurance payments: Social Security, federal retirement, state and local retirement, railroad retirement, workers' compensation, unemployment compensation, veterans' pensions and military retirement, veterans' life insurance, temporary disability, Panama Canal construction annuity payments, and black lung payments.

- Cash public assistance payments: SSI, AFDC, general assistance, emergency assistance, foster home care payments, earned income tax credits, and energy assistance payments.

- In-kind payments: food stamps and Medicare.

Metro counties in the United States had somewhat higher per capita benefits than nonmetro counties ($1,739 versus $1,704), but transfer payment benefits in metro counties accounted for a smaller portion of total personal income. Most transfer payment benefits came from cash social insurance programs; these programs paid about two-thirds of
all transfer income in the metro and nonmetro areas of each region of the United States. The largest cash social insurance programs in 1983 were social security, military retirement, and unemployment compensation.

In the South, 1983 per capita transfer payments were $1,637 and $1,587 in the nonmetro and metro areas, respectively. Transfer payments were a much larger component of total personal income in the nonmetro South, accounting for 19.2 percent of personal income compared with 13.5 percent in the metro South.

There was little difference in the per capita benefits from cash social insurance between the metro and nonmetro South. Per capita social insurance benefits in the South were slightly below the national average.

Per capita cash public assistance levels in the South ($79), however, were substantially lower than the national average ($120). The low benefits in the southern region largely were due to low per capita benefits in the metro South. The per capita benefits in the nonmetro South were similar to the per capita benefits of the other nonmetro areas of the United States, but 54 percent greater than the per capita benefits in the metro South. The metro South had lower per capita benefits than any other area in the United States.

The primary component of cash public assistance in both the metro and nonmetro areas of the South were payments through the SSI program, targeted primarily to needy aged, blind, or disabled people (Table 2). Outside of the South, however, AFDC payments, which are targeted toward poor female-headed families with children, were the largest component of cash public assistance in both metro and nonmetro areas. The importance of SSI transfer payments in the South compared to the importance of AFDC in other regions of the United States reflects the high proportion of elderly poor in the South's population (U.S. Bureau of the Census 1985a) and the low benefit levels of the state-administered AFDC program in most southern states (Levitan 1985).

Another major cash public assistance program, general assistance, is provided by the states and some local governments. These programs are largely metropolitan and do not provide significant transfer payment dollars in the South (Table 2).

----------------

continued

households receive is transfer payments, or individuals' receipts of income from governments and businesses for which no services are currently rendered. The programs included in BEA's transfer payment data include all those discussed in earlier sections of the paper, except Medicaid, school lunch, and housing. In addition, BEA includes state and local government employee retirement, and miscellaneous private sector business transfers not discussed in earlier sections of the paper. Metro and Nonmetro areas, defined according to the 1983 Office of Management and Budget designations, are used in the discussion of income from transfers and per capita transfer payments.
Table 2. Per capita transfer payments (in dollars) directed at the poor, by program, region, and residence, 1983.

<table>
<thead>
<tr>
<th>Region and residence</th>
<th>Cash public assistance transfer payments</th>
<th>In-kind transfer payments</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>SSI</td>
<td>AFDC</td>
</tr>
<tr>
<td>Northeast</td>
<td>39</td>
<td>80</td>
</tr>
<tr>
<td>Metro</td>
<td>40</td>
<td>84</td>
</tr>
<tr>
<td>Nonmetro</td>
<td>33</td>
<td>50</td>
</tr>
<tr>
<td>Midwest</td>
<td>24</td>
<td>71</td>
</tr>
<tr>
<td>Metro</td>
<td>24</td>
<td>81</td>
</tr>
<tr>
<td>Nonmetro</td>
<td>24</td>
<td>48</td>
</tr>
<tr>
<td>South</td>
<td>43</td>
<td>26</td>
</tr>
<tr>
<td>Metro</td>
<td>33</td>
<td>26</td>
</tr>
<tr>
<td>Nonmetro</td>
<td>65</td>
<td>26</td>
</tr>
<tr>
<td>West</td>
<td>56</td>
<td>87</td>
</tr>
<tr>
<td>Metro</td>
<td>61</td>
<td>94</td>
</tr>
<tr>
<td>Nonmetro</td>
<td>35</td>
<td>53</td>
</tr>
<tr>
<td>U.S.</td>
<td>40</td>
<td>61</td>
</tr>
<tr>
<td>Metro</td>
<td>39</td>
<td>68</td>
</tr>
<tr>
<td>Nonmetro</td>
<td>45</td>
<td>39</td>
</tr>
</tbody>
</table>

Most in-kind benefits were distributed via the Medicare program; per capita Medicare benefits ranged from $192 in the nonmetro West to $297 in the metro Northeast. In both the nonmetro and metro South, per capita benefits were approximately $222. The data considered here, however, do not include Medicaid, a large program that delivers medical assistance primarily to the poor.

Another in-kind program for which data are available is the food stamp program. The per capita benefits from food stamps were highest in the nonmetro South, reflecting its high incidence of poverty (U.S. Bureau of the Census 1985a), the lack of AFDC coverage of unemployed two-parent families (Ghelfi 1986), and generally lower AFDC benefits in that region (Levitan 1985). For poor two-parent families in most southern states, the only public assistance available is food stamps (Ghelfi 1986).

As transfer payments to maintain and supplement personal income have increased, they have become a large source of personal income for many recipients, as well as regional economies. Transfer payments are particularly important in the nonmetro Northeast and the nonmetro South, where they comprise almost one-fifth of total personal income.

Ways to reduce the growth of transfer payments have been discussed a great deal in recent years (Burtless 1984; Center for Budget and Policy Priorities 1984; Dansiger et al. 1984; Institute for Research on Poverty 1984; Levitan 1985; ...
1985). Modifications in program rules that would change indexing formulas or alter eligibility requirements, for example, could have a great impact on nonmetro areas, including those in the South, that depend heavily on transfer payments for income.

In all areas, changes in programs and program rules may alter the composition of the population receiving or requiring further income assistance. For example, welfare reform proposals establishing more standard public assistance benefits throughout the United States would greatly help the nonmetro poor. This would generally increase benefits in the South, where most of the nonmetro poor live and where benefits are generally lower than the national average (Levitan 1985).

Welfare reform proposals to shift greater responsibility for the poor to the states would also have an impact on the South, for some states may not have the fiscal capacity to expand current programs or fund additional responsibilities.

**Tax policy**

Traditionally, the anomaly of the poor paying income taxes at the same time that society sought to raise their income has been recognized; provisions to reduce taxes paid by the poor have been built into federal and state income tax structures. Although the current poverty definition, developed in 1964, was based on after-tax income data, the estimates of poverty over the years have been computed using before-tax income data because the low-income population originally paid only a small portion of their income in taxes. There have been many changes in income levels and the tax system since the poverty definition was developed, however, and in recent years the probability that the working poor pay income taxes has increased (U.S. Bureau of the Census 1983).

During the 1970s, Federal income tax liability for families whose income was below the poverty line was kept to a minimum by various legislative approaches which increased the level of income at which a family began to pay Federal income tax (Committee on Taxation, U.S. Congress 1985). In addition, the earned income tax credit was enacted in 1975 to provide relief from payroll tax for low-income taxpayers with children and to improve work incentives (Committee on Taxation, U.S. Congress 1985).

Federal tax policy affecting individuals consists mainly of two taxes: income tax and payroll (largely Social Security) tax. Federal tax policy is particularly important for nonmetro areas, because most of their poor families contained a worker whose earnings were generally subject to

---

Several other income tax provisions have intended to diminish the federal tax burden of those most likely to be poor. Of particular importance are the additional tax exemptions for taxpayers aged 65 or over and for a taxpayer who is blind, and the tax exclusions of major government income transfer programs, such as some social security benefits. Consequently, the tax threshold for elderly individuals has remained well above the poverty line (Committee on Taxation, U.S. Congress 1985).
payroll taxes. In 1983, over 68 percent of nonmetro poor households had at least one worker, and 29 percent had two or more. In contrast, only 54 percent of metro poor households had at least one worker, and only 15 percent had two or more (U.S. Bureau of the Census 1985).

During the last half of the 1970s, high rates of inflation resulted in large increases in the poverty thresholds, which are updated annually by the rate of change in the annual average Consumer Price Index (U.S. Bureau of the Census 1983). As a result, the distance between the poverty threshold and the Federal tax threshold, the level of income at which a family begins to pay income tax, has not been maintained. Inflation drove up the poverty line, but tax adjustments to offset the effects of inflation did not keep pace.

In 1983, 7.6 percent of the United States households in poverty paid Federal income tax; a slightly higher proportion of nonmetro poor households (8.4 percent) than metro poor households (7.1 percent) paid Federal income tax (Figure 2). The Social Security tax was also paid by 48.5 percent of the nonmetro poor households and 41.1 percent of the metro poor households. These figures reflect the higher proportion of nonmetro than metro households relying on earned, and consequently taxable, income.

Figure 2. U.S. Households in Poverty. Percent Paying Taxes. 1983

For example, according to Federal tax tables, a family of four, consisting of a married couple with an income at the poverty level derived entirely from wages or salaries, paid $269 in federal income tax and Social Security payroll tax in 1978. By 1984, a family of four at the poverty line paid ...
State income tax was paid by 15.6 percent of nonmetro poor households, compared with 11.5 percent of metro poor households. A fourth major tax, imposed primarily by local government on owner-occupied housing, was paid by 43.1 percent of nonmetro poor households and 27.8 percent of metro poor households. This reflects the high rate of home ownership among the nonmetro poor compared with the metro poor (U.S. Bureau of the Census 1985).

Federal, state, and property taxes combined now consume an important part of the poor households' income (Figure 3). In the United States as a whole, these taxes in 1983 represented 6.7 percent of the total aggregate household income of the poor. Although these taxes consumed a smaller proportion of the poor aggregate income in the South than in other regions, many southern states also levy a sales tax on food which has not been accounted for here (Physician Task Force on Hunger in America 1985).

![Figure 3. Taxes as a Percent of Income for Households in Poverty, 1983](image)

<table>
<thead>
<tr>
<th>Region</th>
<th>Total</th>
<th>Metro</th>
<th>Nonmetro</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>8.0</td>
<td>7.0</td>
<td>8.5</td>
</tr>
<tr>
<td>Northeast</td>
<td>7.5</td>
<td>6.5</td>
<td>7.0</td>
</tr>
<tr>
<td>Midwest</td>
<td>8.0</td>
<td>7.0</td>
<td>8.5</td>
</tr>
<tr>
<td>South</td>
<td>6.5</td>
<td>5.5</td>
<td>6.0</td>
</tr>
<tr>
<td>West</td>
<td>7.0</td>
<td>6.0</td>
<td>7.5</td>
</tr>
</tbody>
</table>


9 continued

paid $1,075 in federal income and payroll taxes, an increase of $800. Expressed as a percentage of income, federal income and payroll taxes consumed 4 percent of the income of a four-person family at the poverty line in 1978 and 10.1 percent of income in 1984 (Committee on Taxation, U. S. Congress 1985).
To examine the effect that taxes have on the poverty rate, the Census Bureau has prepared tabulations showing estimates of poverty based on income after the exclusion of Federal and state income and payroll taxes. After excluding these taxes from spendable money income, the 1983 poverty rate increased from the 15.2 percent official rate to 16.5 percent (Nelson 1985).

Several approaches to tax reform would exempt families (and single people aged 65 and over) below the poverty level from Federal income tax. For example, in the Tax Reform Act of 1986 (H.R. 3838) recently under consideration in the U.S. Congress, the zero bracket amount (the amount taxed at zero percent) and the personal exemption would be increased and the earned income tax credit would be expanded. All would be indexed for inflation. It is estimated that 6 million low-income taxpayers would be removed from the tax rolls if the plan were enacted (Lublin 1986). These measures would help the large working-poor populations in nonmetro areas.

**Summary and implications**

Income transfer programs are composed of three types: cash social insurance, cash public assistance, and in-kind programs. Cash social insurance programs, although not specifically aimed at those below the official poverty line, play the major role in reducing poverty in the United States.

In recent years, income transfers have become less effective at reducing poverty. The growth in public income transfers has slowed while pretransfer poverty has increased due to declining economic growth and rising unemployment. Consequently, income transfers removed a smaller percentage of the pretransfer poor from poverty, and posttransfer poverty rates have risen as well. Even after considering the impacts of all income transfers, nonmetro poverty remains at an even higher level than metro poverty. Further research is needed on the effects of income transfers and policy on different groups within the poverty population.

Recent public debate of over the role of the government in reducing poverty has centered on three components of income security policy: minimum income guarantees, work incentives, and program costs (Levitan 1985). Changes in income security policy may have different effects in metro and nonmetro areas.

Minimum income guarantees would be particularly important in nonmetro areas. A national minimum AFDC benefit level, for example, would have a large impact on poverty in the South where AFDC benefits are generally low.

Issues concerning work incentives and the targeting of public assistance to the "truly needy" are also important in nonmetro areas, as many nonmetro poor households already contain at least one worker. Poor families with earned income were greatly affected by the Food Stamp and AFDC program changes enacted in 1981 (Levitan 1985), and since that time they have also faced a greater tax burden on their income. Including the Earned Income Tax Credit reduces the national after-tax poverty rate to 16.3 percent (Nelson 1985).
earned income, despite the 1981 income tax cut. Adjustments to tax policy that would raise the income levels at which families begin to pay taxes on earnings would preserve the work incentives and incomes of the many working nonmetro poor and near-poor. The issue of program costs is a serious one in today's economy; however, the magnitude of transfer payment income in many local and regional economies suggests that changes in transfer program costs and benefits should be considered carefully. Transfer payments are particularly important in the nonmetro South and Northeast, where they make up almost one-fifth of total personal income. The ability of nonmetro state and regional economies to grow and generate employment as transfer payment income is reduced should be considered in this policy discussion.

References

Burtless, Gary

Center on Budget and Policy Priorities

Committee on Taxation, U.S. Congress

Danziger, Sheldon, Robert Haveman, and Robert Plotnick

Getz, Virginia K.

Ghelfi, Linda M.

Hoppe, Robert A., and William E. Saupe
Institute for Research on Poverty
1980 "On Not Reaching the Rural Poor: Urban Bias in Poverty Policy." Focus 4:5-8


Joint Economic Committee, U.S. Congress

Levitan, Sar A.

Lublin, Joann S.

Nelson, Chuck

Physicians Task Force on Hunger in America

U.S. Bureau of the Census


U.S. Bureau of Economic Analysis