

Rural Reliance on Transfers Income Remained Steady During the 1990s

Peggy J. Cook

Federal, State, and local governments transferred about \$1 trillion to individuals, organizations, businesses, and administrative and service costs in 1999. Total transfer income may be slightly lower than amounts reported in the past because of definitional changes by the Bureau of Economic Analysis (see "About the Data"). Of the \$924.4 billion distributed directly to individuals in 1999, rural (nonmetro) areas received \$207.4 billion or \$3,828 per capita. Urban (metro) areas received \$756.8 billion or \$3,462 per capita (table 1).

In keeping with past trends, per capita transfer payments in rural areas were higher overall than in urban areas, but levels varied by region (fig. 1). Per capita payments were highest in the urban Northeast (\$4,510). Only in the Northeast did urban transfer payments exceed the rural amount. In other regions, the urban per capita payments lagged rural payments by at least \$300, with the largest differential occurring in the South. Per capita transfers were approximately \$4,000 in the rural South (as well as

in the rural Northeast). Factors such as differences in population size, numbers and concentrations of eligible populations, and the predominance of various programs help shape the regional variations.

The rural-urban gap in per capita transfer payments, however, fails to capture the relative economic importance of transfer payments to overall well-being. In 1999, transfer payments represented about 18 percent of total rural personal income, compared with 11 percent of urban personal income. The degree of reliance on transfer payments—both rural and urban—remained steady between 1994 and 1999 (fig. 2).

As in the past, retirement and disability payments (primarily Social Security benefits) and medical benefits (primarily Medicare and Medicaid) accounted for the bulk—over 80 percent—of transfer income in 1999. Income maintenance programs such as Supplemental Security Income (SSI), Temporary Assistance for Needy Families (TANF), and food stamps represented an additional 10 percent. The remainder consisted of a variety of other small-scale programs (table 1).

Rural per capita benefits exceeded urban benefits in all program categories except family assistance (Temporary Assistance for Needy Families)—\$38 in rural areas versus \$72 in urban areas in 1999. This may reflect State differences in benefit levels or differing levels of participation between rural and urban residents. The passage of

welfare reform legislation in 1996 under the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) prompted State variations in the creation, tailoring, and operation of welfare programs. State programs now reflect considerable differences in eligibility criteria, work requirements, and referrals to alternative forms of assistance. The extent to which factors such as differences in State programs, voluntary and involuntary withdrawals from assistance programs, the decisions of eligible family heads to initially participate in family assistance programs, and differences in per capita benefit levels affect rural-urban differentials in participation is not fully understood.

Overall Transfer Payments Fluctuate With Earnings

Between 1994 and 1999, per capita transfer payments grew 1.8 percent per year in rural areas and 1.0 percent in urban areas. Growth in rural per capita earnings increased by 2.0 percent per year, while urban per capita earnings increased 3.2 percent. Transfer income generally rises and falls inversely with increases and decreases in earnings. During 1994-97 when per capita earnings growth was relatively weak (slightly over 1 percent in rural areas and over 2 percent in urban areas), transfer payments were growing between 1.5 and 2.5 percent per year. Between 1997 and 1999, when per capita earnings growth quickened, growth in transfer pay-

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Table 1

Per capita income and transfer payments by residence, 1999, and average annual changes in transfer payments, 1994-99¹

Item	1999		Average annual change ²			
	Income	Share of transfers	1994-99	1994-97	1997-99	1998-99
	<i>Dollars</i>	<i>Percent³</i>	<i>Percent</i>			
Nonmetro:						
Personal income	21,384	NA	2.3	2.0	2.7	1.9
Earnings	13,124	NA	2.0	1.3	2.9	2.3
Transfer payments	3,828	100.0	1.8	2.4	0.8	1.0
Retirement/disability	1,695	44.3	1.4	1.4	1.3	0.7
Social security	1,610	42.1	1.6	1.7	1.4	0.8
Medical	1,496	39.1	3.0	4.7	0.6	1.4
Medicare	776	20.3	2.9	6.4	-2.3	-2.6
Medicaid	712	18.6	3.4	2.9	4.2	6.1
Income maintenance programs	389	10.2	0.3	0.5	0.1	1.5
Supplemental security income	117	3.1	0.1	0.2	-0.01	-1.2
Family assistance ⁴	38	0.1	-9.8	-12.4	-5.9	-1.5
Food stamps	65	1.7	-8.2	-8.7	-7.6	-5.6
Other income maintenance ⁵	169	4.4	10.8	14.5	5.2	7.3
Unemployment insurance	80	2.1	-3.0	-4.6	-0.6	0.5
Veterans' benefits	113	2.9	1.7	1.2	2.5	2.1
Other transfer programs ⁶	53	1.4	3.4	6.4	-1.1	-2.0
Metro:						
Personal income	30,346	NA	3.0	2.5	3.7	2.8
Earnings	20,984	NA	3.2	2.4	4.5	3.8
Transfer payments	3,462	100.0	1.0	1.6	0.2	0.5
Retirement/disability	1,422	41.1	0.8	1.1	0.5	-0.1
Social security	1,339	38.7	1.1	1.3	0.7	0.02
Medical	1,455	42.0	2.3	3.8	0.1	0.9
Medicare	760	22.0	2.4	5.8	-2.6	-3.0
Medicaid	688	19.9	2.4	1.8	3.4	5.6
Income maintenance programs	380	11.0	-1.4	-1.9	-0.5	0.8
Supplemental security income	113	3.3	0.7	0.5	1.0	-0.1
Family assistance ⁴	72	2.1	-7.2	-11.0	-1.6	2.0
Food stamps	55	1.6	-10.3	-9.1	-12.0	-9.1
Other income maintenance ⁵	140	4.1	7.6	9.6	4.6	5.4
Unemployment insurance	75	2.2	-5.9	-9.0	-1.3	1.7
Veterans' benefits	82	2.4	1.1	0.9	1.4	0.9
Other transfer programs ⁶	47	1.4	2.4	5.3	-1.9	-0.6

NA = Not applicable.

¹Government transfer payments to individuals (about 95 percent of all transfer payments).

²Change in real 1999 dollars

³Percentage shown for the major categories sum to 100. Subcategories may not sum to the category value because only selected programs are included.

⁴Formerly Aid to Families with Dependent Children, replaced by Temporary Assistance for Needy Families (TANF) in 1996.

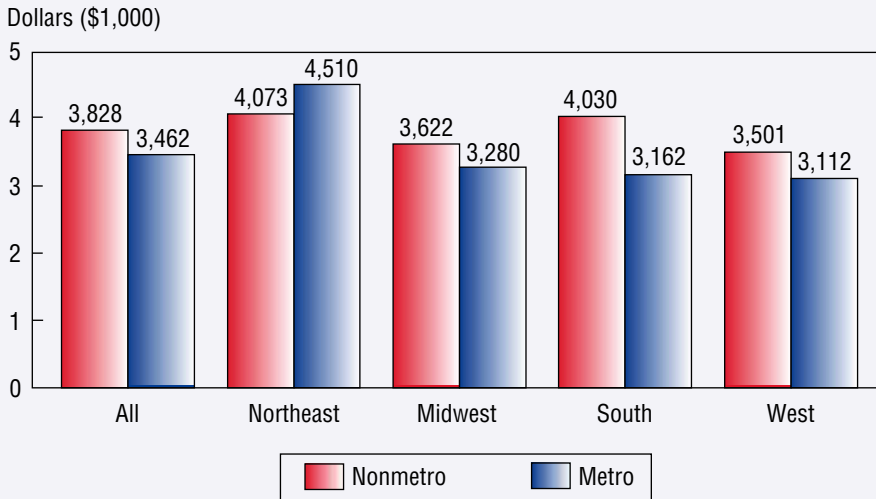
⁵Consists largely of general assistance, refugee assistance, foster care and adoption assistance, earned income tax credits, and energy assistance.

⁶Includes Federal education and training payments and payments for miscellaneous programs.

Source: Calculated by ERS using data from the Bureau of Economic Analysis.

Figure 1

Per capita transfer payments to individuals by residence and region, 1999
Nonmetro areas received higher per capita transfer payments than metro areas overall, but patterns differed by region



Source: Calculated by ERS from Bureau of Economic Analysis data.

ments fell to under 1 percent per year in both rural and urban areas (table 1).

Rates of Change Vary by Program

In comparison to overall transfer payments, the patterns of growth (or decline) varied considerably by the major program categories. During 1994-99, per capita benefits for retirement/disability programs grew more slowly while per capita medical benefits grew faster than overall transfer payments in both rural and urban areas. A decline in Medicare benefits during 1997-99 in both rural and urban areas, however, could signal a reversal to the long-term trend of rising per capita medical payments.

Per capita payments for income maintenance increased marginally in rural areas and declined in urban areas from 1994 to 1999. Furthermore, rates of change varied sharply among the different programs comprising the category.

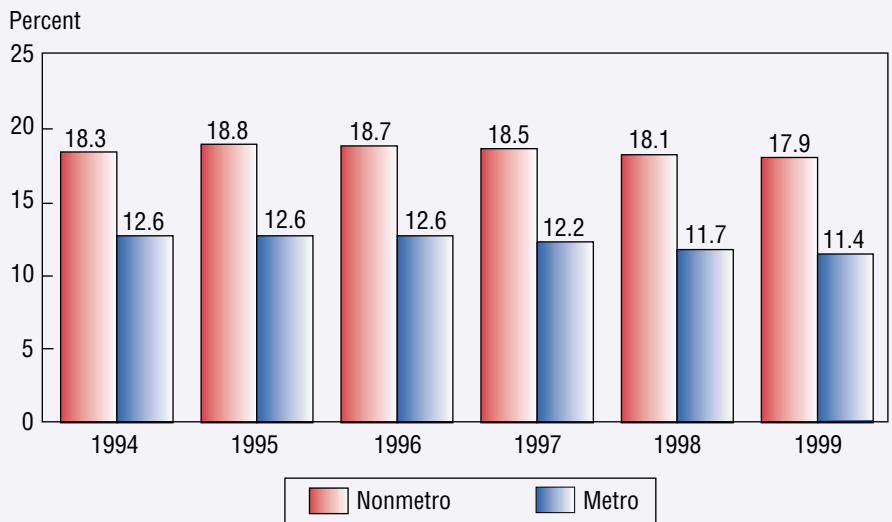
The higher rates of growth in “other maintenance programs” observed in both rural and urban areas were likely driven by an

increase in earned income tax credits, a major component of the category.

Per capita benefits for two programs—family assistance and food stamps—exhibited sharp declines during 1994-99 (rural and urban alike). These declines in benefits are in keeping with declines in program participation levels since welfare reform, although declining participation in the food stamp program was not necessarily anticipated. The patterns, however, differed for rural and urban areas. In rural areas, per capita benefits for family assistance and food stamps declined during 1997-99 at slower rates than those in 1994-97, although per capita benefits for family assistance slowed more rapidly than food stamp benefits (table 1). In urban areas, however, rates of decline in family assistance benefits during 1997-99 slowed markedly from 1994-97 rates, but the rate of decline in food stamp benefits

Figure 2

Transfer payments as shares of personal income, by residence, 1994-99
Transfer payments accounted for larger shares of personal income in nonmetro than in metro areas

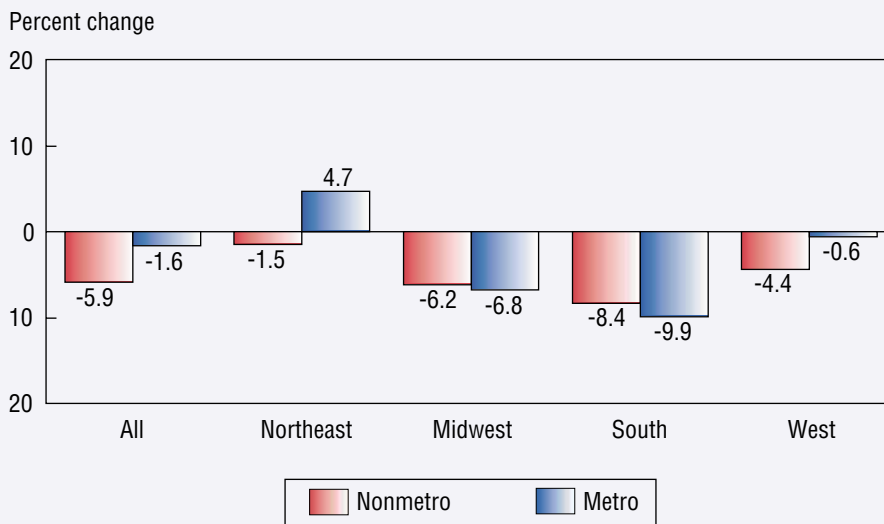


Source: Calculated by ERS from Bureau of Economic Analysis data.

Figure 3

Annual average change in real per capita benefits for family assistance, by residence and region, 1997-99

Nonmetro benefits for family assistance payments declined more rapidly than metro benefits; overall regional patterns varied



Source: Calculated by ERS from Bureau of Economic Analysis data.

quickened by about 3 percentage points per year. During 1998-99, urban per capita family assistance benefits even showed slight growth.

Patterns of growth and decline for family assistance and food stamps varied across regions during 1997-99. Rural per capita family assistance benefits declined most rapidly in the South, followed by the Midwest, West, and Northeast (fig. 3). Urban family assistance benefits declined by nearly 10 percent in the South, but grew by nearly 5 percent in the Northeast.

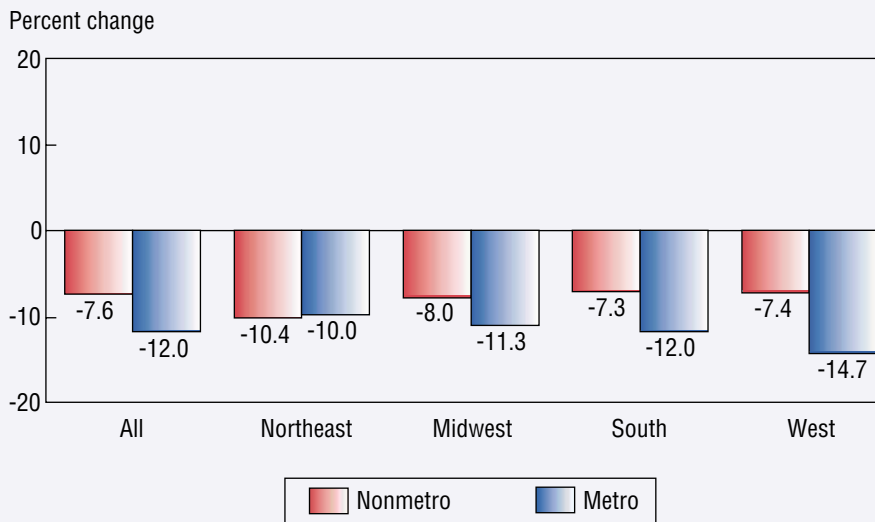
Rural per capita food stamp benefits declined at rates varying from 7.3 percent in the South to 10.4 percent in the Northeast. In urban areas, the decline in per capita benefits was highest in the West (14.7 percent). Benefits in other urban regions declined over 10 percent (fig. 4).

While the differences in rural-urban patterns are not fully understood, contributing factors—especially involving the food stamp program—include the concentrations of immigrant populations in urban areas, State demographic differences, and program changes affecting different client groups. ERS is currently, through its Food Assistance and Nutrition Research Program, studying reasons underlying declining participation in the food stamp program. *RA*

Figure 4

Annual average change in real per capita benefits for food stamps, by residence and region, 1997-99

Food stamp payments declined in all regions; metro declines were generally sharper than nonmetro declines



Source: Calculated by ERS from Bureau of Economic Analysis data.

About the Data

The Bureau of Economic Analysis releases annual estimates of payments for cash or goods made by Federal, State, and local governments to people, non-profit organizations, and some businesses (for example, liability payments). Recipients of transfer payments do not perform work in exchange for benefits, although they may have performed work earlier to be eligible for benefits. For example, retired people receive Social Security because they worked earlier in their lives and paid taxes to fund the program.

Government transfers to individuals are reported for the following categories: retirement and disability programs (mainly Social Security), medical programs (Medicare, Medicaid, military insurance programs), income maintenance programs (Supplemental Security Income for poor elderly, disabled, and blind; family assistance; food stamps; and other income maintenance such as earned income tax credits), unemployment insurance, veterans' programs, and other. The transfer data series currently encompasses 1969 to 1999.

BEA annually releases another year of estimates, including revisions made for the two years prior. Periodically, BEA recalculates all data for all years to match adjustments it made to accounting rules used in producing national income and product accounts. In 1998, payments to retirees from Federal, military, and State and local government retirement programs were no longer treated as transfers. Before this adjustment, the retirement and disability category accounted for about 50 percent of nonmetro transfer payments to individuals (as of 1997). After the adjustment, the category accounted for about 44 percent of nonmetro transfer payments to individuals (as of 1999).



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