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Who's Vulnerable to Federal Budget Cuts?

Federal funding is expected to decline in many nonmetro areas this year, and more reductions may be on the horizon. By examining the distribution of Federal funds in 1994, we may identify those places that are most vulnerable to cutbacks in various types of programs. This article is based on data from the U.S. Bureau of the Census' Consolidated Federal Funds Reports (CFFR), which covered 1,206 Federal programs and their geographic allocations during fiscal year (FY) 1994. Our statistics, which we refer to as "total" Federal funding, include 719 programs for which data appear to be accurate at the county level (see "Data and Definitions," p. 42, for details). We present per capita estimates of Federal funding for various types of nonmetro counties and regions in 1994, broken out by major type and function of the 719 programs.

Figure 1 shows nonmetro counties with high, medium, and low levels of total Federal funding per capita. High indicates greater than \$5,010 in Federal funds per capita in FY 1994, medium between \$5,010 and \$3,938, and low less than \$3,938 per capita. Every region of the country contained at least some nonmetro counties with high levels of Federal funding. Farming areas in the Great Plains, the Midwest, and parts of the Far West showed high reliance on Federal funds. Many poor counties in the Southwest, the Mississippi Delta, and Appalachia also received high levels of Federal assistance. In addition, many places with significant Federal Government employment, such as in the Southwest and the Rocky Mountains, relied heavily on Federal funding, as did some retirement havens in the Southeast and in upper Michigan, Minnesota, and Maine. Nonmetro counties

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with relatively low Federal funding per capita included the Great Basin area in the West, scattered counties in the Nation's midsection from Minnesota and Wisconsin down to Texas, and most of the eastern part of the country.

Federal Funds by Major Type or "Object"

Census breaks out Federal funds by major types using an "object" classification that distinguishes among grants, loans, salaries and wages, procurement, retirement and disability, and other Federal payments. Such distinctions help us understand variations in the nature and extent of the effect of Federal funding.

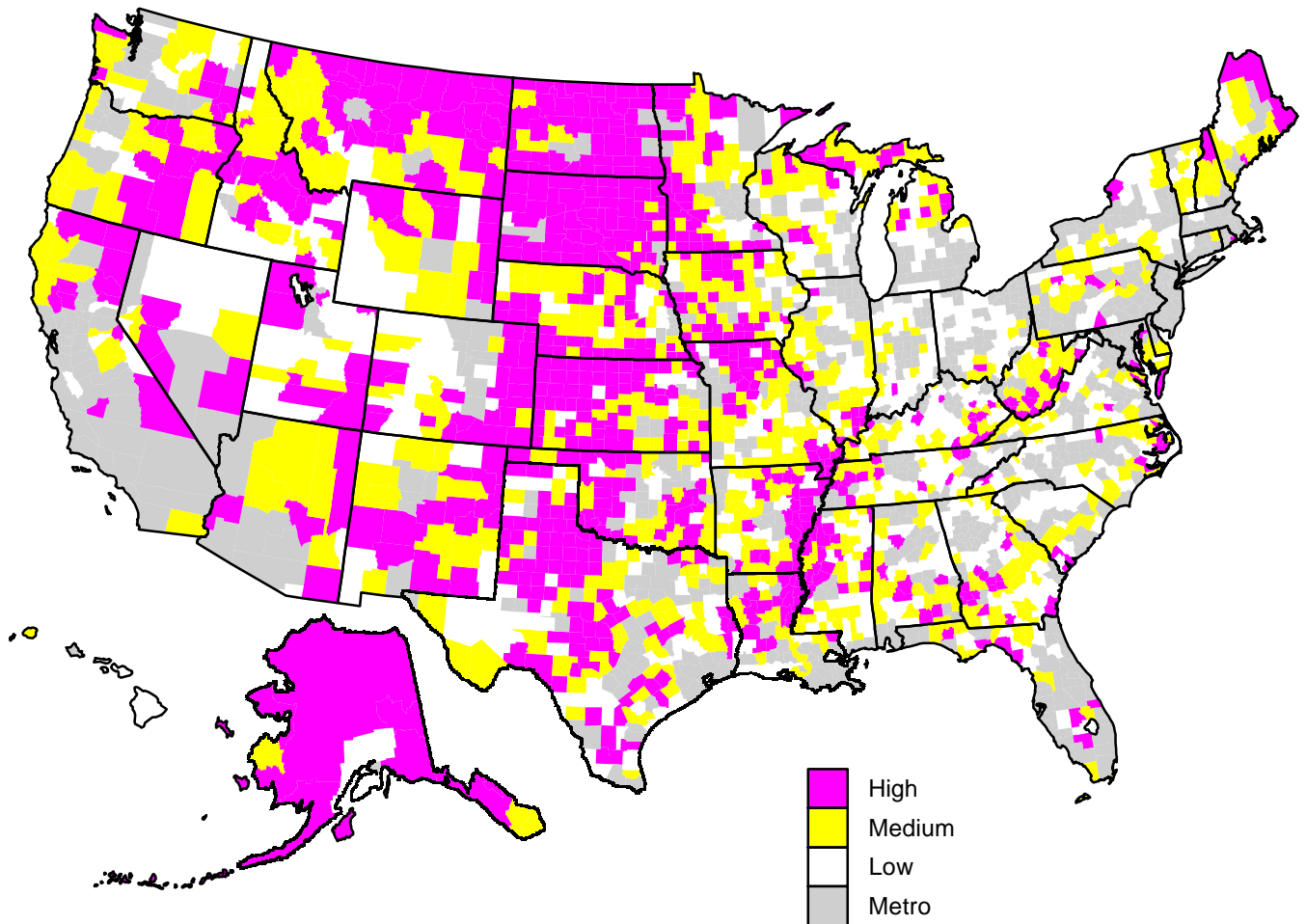
Salaries and wages of Federal employees directly stimulate the local economy, and in many cases, they may be associated with services that benefit the local economy. Procurement contracts also tend to directly benefit the local economy, though in some cases, subcontracting may divert the economic effects to other areas. Retirement and disability payments and other direct payments to individuals provide some stimulus to the local economy, though portions of these payments may be spent elsewhere or saved by the individuals receiving payments. Most of the grant and loan programs should significantly affect local economic development, since many assist local governments and businesses. Grants are worth more to recipients than loans because they do not require repayment. Direct loans are more valuable than guaranteed (insured) loans because they involve direct Federal Government commitments and tend to support riskier ventures at more highly subsidized interest rates.

For simplicity, we first look at these eight types of funding aggregated into two broader groups—expenditures and loans. Expenditures include salaries and wages, procurement, direct payments, and grants. Loans include direct and guaranteed loans. We use per capita funding as a way to measure vulnerability to potential funding cuts

Figure 1

Per capita Federal funds, 1994

Many nonmetro counties in the middle of the country received high per capita funding



Source: Calculated by ERS using data from the Consolidated Federal Funds Reports for fiscal year 1994.

because it suggests the extent to which the typical person would be affected by funding cuts. Relatively high per capita funding suggests relatively high vulnerability to funding cuts.

Nonmetro areas, in general, received significantly less Federal funding per capita than did metro areas, through both expenditures and loans (fig. 2). Among nonmetro areas, only government- and farming-dependent counties received more funding than the U.S. average of \$5,100 per capita. Government-dependent counties scored high only on the expenditure side because of their high levels of Federal salaries and wages, while farming-dependent counties scored higher on loans than on expenditures. The nonmetro West stood out among regions having relatively high levels of both spending and loans, but even the nonmetro West got less per capita than metro areas did.

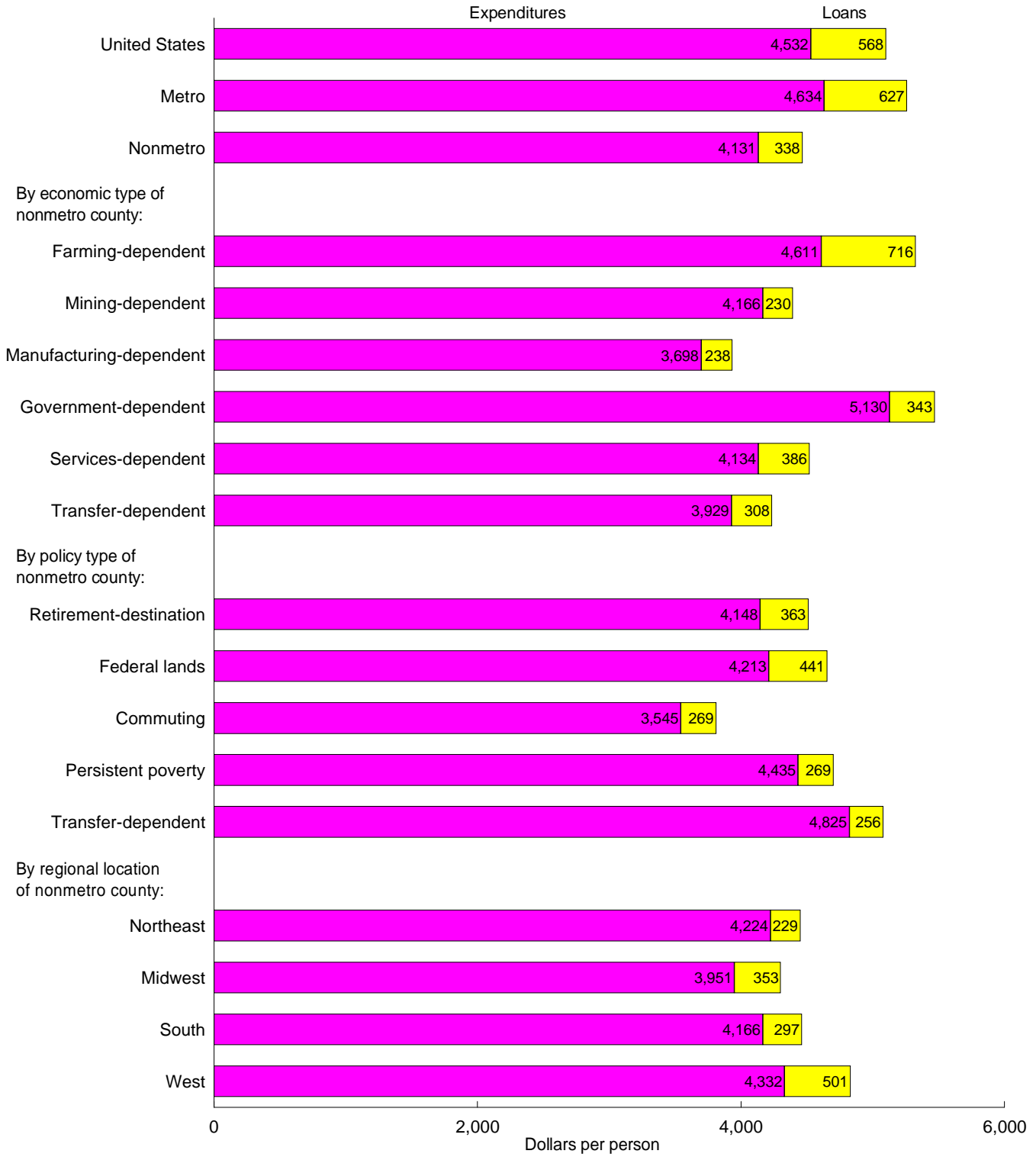
Among nonmetro county types, manufacturing-dependent and commuting counties received the lowest Federal funding, both averaging under \$4,000 per capita. Manufacturing-dependent areas got relatively low levels of loans; commuting areas got relatively low levels of expenditures. Most other types of nonmetro counties, including persistent poverty counties, received funding well below what metro areas averaged, falling between \$4,000 and \$5,000 per capita.

Looking at the more detailed categories of Federal funding, retirement and disability payments were the single largest category, accounting for about one-third of all Federal funds (table 1). Nonmetro areas got 40 percent of their Federal funds in this form compared with 30 percent for metro areas, making nonmetro areas particularly vulnerable to cuts in this category. Nonmetro dependence on such payments may result from the larger percentage of

Figure 2

Per capita Federal funds by major type, 1994

Nonmetro areas receive less funding per capita than do metro areas, but funding varies greatly by type of nonmetro county



Source: Calculated by ERS using data from the Consolidated Federal Funds Reports for fiscal year 1994.

Table 1

Share of Federal funds by object class, 1994*Nonmetro areas got 40 percent of their Federal funding from retirement and disability payments*

County type	Total funding	Salaries and wages	Procurement contracts	Direct payments to individuals		Other direct payments	Grants	Direct loans	Guaranteed/Insured loans
				Retirement and disability	Other				
Percent									
United States	100	13	13	32	17	1	13	1	10
Metro	100	14	15	30	17	0	12	1	11
Nonmetro	100	8	6	40	19	3	15	3	5
By economic county type:									
Farming-dependent	100	5	3	33	18	15	13	8	6
Mining-dependent	100	6	6	44	20	2	17	2	4
Manufacturing-dependent	100	5	7	44	20	2	15	2	4
Government-dependent	100	22	10	31	14	1	15	1	5
Services-dependent	100	7	6	43	20	2	14	3	6
Nonspecialized	100	5	3	44	22	3	15	3	4
By policy county type:									
Retirement-destination	100	9	6	49	18	1	11	2	6
Federal lands	100	12	11	38	15	1	14	1	8
Commuting	100	4	6	44	20	2	15	3	4
Persistent poverty	100	6	4	37	20	4	23	4	3
Transfer-dependent	100	5	4	41	21	2	21	2	3
By region:									
Northeast	100	10	9	40	20	0	15	1	4
Midwest	100	7	4	41	21	6	13	4	5
South	100	7	5	42	20	2	17	3	4
West	100	12	11	35	14	3	15	2	8

Note: Individual figures may not sum to total.

Source: Calculated by ERS using data from the Consolidated Federal Funds Reports for fiscal year 1994.

aged and disabled in the nonmetro population and the relatively small amounts received by nonmetro areas from other types of Federal funding. Nonmetro areas were also vulnerable to cuts in other direct payments to individuals, which include Medicare payments and some farm payments. Overall, direct payments to individuals accounted for three-fifths of the Federal funds nonmetro areas received and almost half of metro area receipts. Grants ranked as the next most important form of Federal assistance for nonmetro areas, making up 15 percent of their funding. Grant programs may play an even more critical role than these numbers suggest, since they often support local efforts to further economic and community development. The remaining categories, Federal procurement (mainly defense), salaries and wages, and guaranteed loans, accounted for only 19 percent of nonmetro receipts, in contrast to 40 percent of metro county receipts.

Among nonmetro county types, particularly vulnerable categories included farming-dependent counties, which received 15 percent of their funding in "other direct payments," primarily farm payments; government-dependent counties, which received 22 percent of their funding from salaries and wages; and retirement-destination counties,

which got almost half their funding from retirement and disability payments. The nonmetro West, which includes most Federal lands and has relatively few elderly people, differed from other regions in getting somewhat more of its funding in salaries and wages and procurement contracts and less in retirement and disability and other direct payments to individuals.

Federal Expenditures and Loans by Function

Table 2 presents a functional breakout of per capita Federal expenditures (excluding loans), using function classifications created by the Economic Research Service. Functions include agriculture and natural resources, community resources, defense and space, human resources, income security, and national functions. The national functions category includes various programs with national objectives, such as energy programs, higher education and research, Pell grants, the postal service, and nondefense procurement contracts, salaries, and wages.

Some obvious patterns emerge with this breakdown. Metro areas received about 18 percent more per capita in Federal spending than did nonmetro areas, most of the difference coming from greater spending on defense and

Table 2

Per capita Federal expenditures by function, 1994*Spending on individual functions varies substantially by nonmetro county type and region*

County type	All expenditures	Agriculture and natural resources	Community resources	Defense and space	Human resources	Income security	National functions
Dollars per person							
United States	4,532	43	142	705	70	2,868	705
Metro	4,635	14	145	807	67	2,816	786
Nonmetro	4,131	156	130	305	82	3,072	385
By economic county type:							
Farming-dependent	4,611	783	150	127	90	3,119	342
Mining-dependent	4,166	95	151	106	100	3,259	454
Manufacturing-dependent	3,697	64	95	205	67	2,949	317
Government-dependent	5,130	78	192	1,332	121	2,879	528
Services-dependent	4,135	106	137	164	71	3,179	478
Nonspecialized	3,930	139	120	85	81	3,196	308
By policy county type:							
Retirement-destination	4,148	24	121	302	62	3,283	356
Federal lands	4,212	52	185	356	90	2,784	745
Commuting	3,545	92	98	226	68	2,868	194
Persistent poverty	4,435	176	153	174	147	3,418	368
Transfer-dependent	4,825	109	173	128	135	3,874	406
By region:							
Northeast	4,222	15	114	570	62	3,117	343
Midwest	3,950	269	123	190	64	2,982	322
South	4,166	114	106	290	92	3,255	309
West	4,332	146	221	403	104	2,694	764

Notes: Expenditures exclude new direct loan obligations and loan guarantee commitments. Individual figures may not sum to total.

Source: Calculated by ERS using data from the Consolidated Federal Funds Reports for fiscal year 1994.

space functions. However, the difference in defense spending could be exaggerated somewhat by some defense procurement contracts in metro areas that are subcontracted to nonmetro areas but not shown at their final location by the CFFR data.

Nonmetro areas received more Federal spending per capita from income security (includes social security, Medicare, etc.), human services, and agriculture and natural resources than metro areas got. As expected, farming-dependent counties got 5 to 10 times as much as other places from agriculture and natural resources; and Midwestern counties relied heavily on these programs compared with nonmetro counties in the other regions. Nevertheless, farming-dependent and Midwestern counties, like other nonmetro areas, received the bulk of their Federal spending from income security programs.

Interestingly, farming-dependent counties received relatively high per capita expenditures from community and human resource programs. Persistent poverty counties and the West, however, relied most on these functions. Manufacturing-dependent counties, which one might expect to rely most on human resource programs, received relatively little such funding from the programs

for which we had county level data. These data may be misleading, however, because many human resource programs are "State passthrough" programs which provide no uniform nationwide county-level data. Per capita defense and space spending was highest in government-dependent, Federal lands, and Northeast counties. Income security programs were most important in the South and Northeast regions, and in transfer-dependent, persistent-poverty, and retirement-destination counties. Federal lands and Western counties depended most on national functions.

Credit programs fall within two functions: agriculture and natural resources and community resources. Overall, metro areas received more credit assistance per capita than nonmetro areas got, and much more of it comes from community resource programs than in nonmetro areas (table 3). Nonmetro areas relied more on agricultural and natural resource credit. Within nonmetro areas, however, farming-dependent, persistent-poverty, and Midwestern counties relied most on agriculture and natural resources credit, while Federal lands, retirement-destination, government-dependent, and Western counties relied most on community resources credit. These averages aggregate both direct and guaranteed/insured loans. Although

Table 3

Per capita Federal loans by function, 1994*Farming-dependent areas got the largest per capita amount of loans*

County type	All loans	Agriculture and natural resources	Community resources
	Dollars per person		
United States	568	35	532
Metro	626	17	608
Nonmetro	338	105	233
By economic county type:			
Farming-dependent	716	476	240
Mining-dependent	230	40	190
Manufacturing-dependent	238	49	189
Government-dependent	344	37	307
Services-dependent	386	93	293
Nonspecialized	308	100	208
By policy county type:			
Retirement-destination	363	56	307
Federal lands	442	28	413
Commuting	269	72	197
Persistent poverty	331	163	168
Transfer-dependent	256	95	160
By region:			
Northeast	229	17	212
Midwest	353	156	197
South	297	99	197
West	501	73	427

Notes: Federal loans include new direct loan obligations and loan guarantee commitments. Individual figures may not sum to total.

Source: Calculated by ERS using data from the Consolidated Federal Funds Reports for fiscal year 1994.

metro areas received more total credit assistance per capita than nonmetro areas, nonmetro areas received higher per capita direct loans than did metro areas, making nonmetro areas relatively more vulnerable to cuts in direct loan programs.

Conclusion

Metro areas' larger per capita receipts make them more vulnerable to Federal funding cuts than nonmetro areas, particularly in defense and other national functions. Yet, depending on which programs are cut, nonmetro areas could be disproportionately affected. Practically every nonmetro area receives substantial amounts of Federal aid in some form. Most appear to be more vulnerable than metro areas to cuts in such entitlement programs as retirement, disability, and Medicare programs, in human resource programs, and, as expected, in agriculture and natural resource programs. Although more vulnerable than metro areas to cuts in grant and direct loan programs, nonmetro areas are less vulnerable than metro areas to cuts in guaranteed loan programs. Even nonmetro commuting counties, which received the lowest per capita amounts of Federal funds, could be significantly affected by Federal budget cuts through the effects on

their economies of reductions in Federal aid to metro areas to which many of their residents commute.

Many variations among nonmetro areas could be predicted, including farming-dependent counties relying most heavily on farming programs and retirement-destination counties relying most heavily on retirement and disability payments. Some surprises emerged, however, including the relatively high per capita receipts from most Federal functions in farming-dependent counties, and the relatively low receipts from human and community resources programs in manufacturing-dependent areas, which must compete with increasingly sophisticated global competition. In addition, the region most openly expressing support for reduced Federal expenditures, the nonmetro West, appeared to be the most vulnerable region to cut-backs in both Federal spending and credit programs. In any case, many rural communities will be forced to make adjustments when budget-balancing Federal cuts begin to be felt at the State and local levels.

Data and Definitions

The Data. The Department of Commerce, Bureau of the Census, provided us with their subcounty computer file based on the Consolidated Federal Funds Reports (CFFR) data. These data, obtained from various Federal departments and agencies, reflect Federal obligations for expenditures and loans during fiscal year 1994 and covered 1,206 programs. Our analysis examined 719 of these programs, which accounted for \$1.3 trillion, or about 89 percent of the total reported Federal funds excluding insurance programs. We excluded 432 programs for which 25 percent or more of their funding nationally went to State capitals, since such levels suggested passthrough funding that State governments redistributed to local areas. We excluded another 42 programs that reported much or all of their funding only at the State or national level. We also excluded 10 insurance programs because they reported amounts covered by insurance rather than amounts received in insurance payouts.

Despite these precautions to screen the data, interpretations should be made with caution. The data are only as good as the information each agency supplied to the Bureau of the Census. In some cases, agencies provide data based not on actual outlays but on estimates of how much each place receives, and these estimates may involve substantial errors in some cases. In other cases, like procurement, expenditures may be reported only at the location of prime contractors or they may be tracked to subcontractors.

Definitions. The eight object classifications reported here come from the Bureau of the Census. ERS, however, has developed its own classification system for Federal programs that breaks them into six broad function categories:

- Agriculture and Natural Resources (Agricultural Assistance, Agricultural Research and Services, Forest and Land Management, Water and Recreation Resources)
- Community Resources (Business Assistance, Community Facilities, Community and Regional Development, Environmental Protection, Housing, Native American Programs, and Transportation)
- Defense and Space (Aeronautics and Space, Defense Contracts, Defense Payroll and Administration)
- Human Resources (Elementary and Secondary Education, Food and Nutrition, Health Services, Social Services, Training and Employment)
- Income Security (Medical and Hospital Benefits, Public Assistance and Unemployment Compensation, Retirement, Disability and Survivor Social Security)
- National Functions (Criminal Justice and Law Enforcement, Energy, Higher Education and Research, all other programs excluding insurance).

For reporting by place, we used the Office of Management and Budget's 1993 definitions of metro and nonmetro counties and ERS' revised nonmetro county typologies. For more information on how the county types were defined see, P. J. Cook and K. L. Mizer, *The Revised ERS County Typology*, RDRR-89, USDA, ERS, Dec. 1994. We used the Census Bureau's regions and their population estimates for 1994.

For Further Reading

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