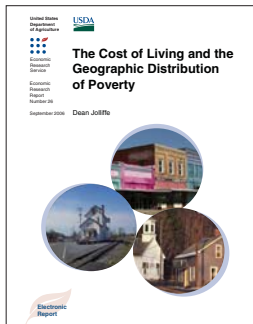


ERS Report Summary

Economic Research Service

September 2006

U.S. Department of Agriculture



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The Cost of Living and the Geographic Distribution of Poverty

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The prevalence of poverty has been greater in nonmetro areas than metro areas in every year since the 1960s when poverty rates were first officially recorded. Accordingly, Federal funds for social programs for the needy and community development have favored nonmetro areas.

Poverty estimates figure prominently in determining the distribution of large sums of cash and in-kind benefits from State and Federal Government programs. For example, Federal block grants for community development are typically linked to county-level poverty estimates. Persistently poor rural counties benefit disproportionately from block grants, receiving more than \$1,000 per person in 1994. In 1997, per capita distribution of Federal funds for social programs was 8 percent higher in nonmetro areas than in metro areas.

One can argue that distribution of social assistance is well targeted because the prevalence of poverty consistently has been greater in nonmetro areas than in metro areas. However, how poverty is defined plays an important role in the geographic distribution of poverty, and changes to the definition could affect the funding for social programs.

What Is the Issue?

The official poverty measure from the U.S. Census Bureau assumes that the cost of living is the same throughout the United States. The Federal Government is examining experimental poverty measures, however, that adjust poverty rates according to geographic cost-of-living differences. The Government has developed an experimental index that uses Fair Market Rent (FMR) data to adjust for geographic differences in the cost of living. How does the use of an index to adjust for cost-of-living differences affect the distribution of poverty across metro and nonmetro areas and how does it affect the age composition of the poor?

What Did the Study Find?

Adjusting poverty rates with the FMR index completely reverses the nonmetro-metro poverty profile. With no adjustment for cost-of-living differences, poverty over the last 12 years is higher in nonmetro areas than in metro areas. (The depth and severity of poverty also are higher in nonmetro areas, but in about one-half the cases, the differences are not statistically significant.) When the FMR index is used to adjust for cost-of-living differences, the prevalence, depth, and severity of poverty over the last 12 years are higher in metro areas than in nonmetro areas. In 2001, for example, the prevalence of nonmetro poverty was 28 percent higher than in metro areas. Once adjusted for cost-of-living differences, the rate is reversed and the prevalence of poverty in nonmetro areas is 12 percent lower than in metro areas.

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Our analysis also examines how adjusting for cost-of-living differences affects the age composition of the poor. The nonmetro poor consist disproportionately of the elderly, many of whom are living on fixed incomes near the poverty line. Using the FMR index to adjust for cost-of-living differences results in reclassifying many of the elderly poor as nonpoor. To the extent that these elderly people are receiving Federal funds tied to poverty rates, they have the most to lose from this reform. More generally, using the FMR index to adjust poverty rates for cost-of-living differences could have significant adverse affects on funding for nonmetro social programs and developmental block grants.

How Was the Study Conducted?

The spatial (geographic) price index used in this analysis comes from the Census Bureau's research on experimental poverty measures and is based on the FMR data collected by the U.S. Department of Housing and Urban Development. The primary advantages of these data are that they provide full coverage of the United States and reflect spending of lower income households. The FMR data estimate the cost of gross rent (utilities included) at the 40th percentile for standard-quality housing. The primary purpose of the FMR is to determine eligibility of rental housing units for the Section 8 Housing Assistance Payments program.

The poverty estimates come from the 1992-2003 March Supplement of the Current Population Survey (CPS), which is the data base for the official U.S. poverty rates. The sample represents the civilian, noninstitutionalized population and members of the Armed Forces either living off base or with their families on base. The measure of well-being is income as it is defined for Federal poverty rates. This definition includes all pre-tax income but includes neither capital gains nor any noncash benefits, such as public housing, Medicaid, or food stamps. The reference period for income-related questions is the preceding calendar year, and therefore, the 1992-2003 CPS data provide poverty estimates for 1991-2002.