Food Stamps


by Sylvia Lane

intent as Congress is on cutting the budget, debaters on all sides of Gramm-Rudman-Hollings concede the Food Stamp Program should be exempt from budget-cutting.

Food stamps have evolved into an integral part of the nation’s “safety net for those in economic trouble.” President Kennedy’s very first executive order set in motion an expansion of the food stamp program. Today, a quarter of a century later, it provides assistance on a typical day to 1 of every 11 Americans.

With a turnover of about 50 percent among recipient households in any 12-month period, one out of seven people in this country receive some food stamps every year. The program is also significant in terms of total expenditures—over $12 billion in the 12 months ending October 1, 1985.

Food stamp legislation since the 1960’s has had support from two major groups of legislators. One group comes from rural districts and states. They are interested in increasing the demand for agricultural products and desirous of urban votes in support of farm commodity subsidies.

The other group comes from urban areas interested in shifting the public assistance load from states and local governments to the federal government. This coalition has consistently bolstered the program for more than a quarter century. Obviously this is a program that is here to stay.

Who Stamps Benefit

The wide political support for food stamps demonstrates that large numbers of people benefit. For some, these benefits may be indirect. Nonetheless, they are obviously sufficient to sustain the support of a widely diverse set of legislators and their constituents.

Recipients Benefit: The main beneficiaries of the program are the food stamp recipients. They receive additional income that is legally constrained to the purchase of food.

In 1971, Congress averred that food stamp allotments should provide households with an “opportunity to obtain a nutritionally adequate diet.” USDA studies indicate that this opportunity would be realized if food stamp recipients ate the quantities of the food included in its Thrifty Food Plan—although no household does since it would be both starchy and monotonous.

Several studies indicate that food stamps promote better nutrition. Pat Madden and Marion Yoder at Pennsylvania State University found that food stamps are particularly useful in buying food two weeks after payday when money in sample members’ households had run out.

A number of investigators find that food stamp recipient households have more food, consequently more nutrients available. Keep in mind that availability is not the same as eating. Other studies, though fewer, find that the nutritional status of food stamp recipient household members is higher than that of eligible households not receiving food stamps.

These improvements in nutrition are presumably due to the additional “income” (food stamps) available for the purchase of food. It could be associated with program-related nutrition education, but I don’t think so. Today, the program has no nutrition education component; it had a weak one from 1977 to 1981.

As Ben Senauer at the University of Minnesota points out, the program embodies many principles advocated by welfare reformers seeking more equitable public assistance programs. It has uniform national standards, universal coverage, federal financing, strong work incentives (able participants are required to seek work and in some localities now work for their stamps), automatic cost-of-living adjustments (unless suspended by new legislation), and uniform administration by the states.

Farm Producers Benefit: Another group of possible beneficiaries are farm producers and related input suppliers, land owners and processors and distributors. In fact, a primary motivation for initiating the food stamp program was to expand demand for farm products.

Fred Waugh, a noted USDA econo-
How The Food Stamp Program Operates

In effect, the food stamp program is a negative income tax. The stamps may be used like money to buy food and nonalcoholic beverages. Since 1979, when Congress abolished the partial payment requirement, they have been free to recipients.

Eligibility requirements are based on household income, assets and family size. These are uniform throughout the states. Unlike all other federally funded public assistance programs, recipients do not have to fit into a particular category. They do not have to be indigent mothers of dependent children, unemployed, or poverty stricken and ill.

The benefit schedule is the same throughout the Continental United States, Alaska, Hawaii, Guam, and Virgin Islands have different benefit schedules. Puerto Rico uses cash rather than stamps.

Food stamps are issued to households that apply for them and that have net incomes (after allowable deductions) that are below poverty levels. These poverty levels are scaled according to family size. For example, in January 1986 the poverty level for a two-person household was $7,050 a year. For a four-person household it was $10,650.

The amount of food stamps a household receives is geared to its income and the cost of a USDA-calculated Thrifty Food Plan. Here is how it works.

USDA estimates what different size households have to spend on average to buy low cost components of a nutritionally adequate, nationally typical diet (the Thrifty Food Plan). In June 1985 they estimated a two-person household aged 20-50 needed $160.20. For a four-person household (two adults aged 20-50, 2 children, one 6-8; one 9-11) it was $268.50.

Food stamps issued are based on the cost of the Thrifty Food Plan, less 30 percent of the net food stamp program income of the applicant.

In 1985 a family of four with a calculated net monthly income of $300 after program-stipulated deductions would have received coupons equaling $178 a month. In April 1985, benefits per person averaged $45.12 a month.

Suppose a farmer with a wife and two children applies for food stamps and has a food stamp program net income of $8,000 per year. Net income takes into account a standard deduction of $98 and deductions for "earned income," "excess" costs of medical care and shelter and costs of caring for dependents. The national poverty level for a four-person household in January 1986 was $10,600; so the farmer is eligible for food stamps.

But how many?
To determine the answer do the following calculation:
Thriftly Food Plan Cost
  for four-person household
Less 30 percent of the calculated net income
  ($8,000 x .3)
Annual value of food stamps issued

($6850 a month).

To receive food stamps, a person representing a household applies by filling out forms at a state or territorial public assistance office. If certified as eligible, the person is then authorized to receive the allowable quantity of food stamps from a bank, public assistance office, or a private agency. Some stamps are mailed from public assistance offices.

The stamps are used like money. Food stamp household members pay for food and nonalcoholic beverages (Eskimos may buy hunting and fishing equipment as well) with stamps at authorized retailers. Retailers deposit stamps at banks, as they do checks or currency. The banks deposit stamps to their accounts at the Federal Reserve Bank, adding to the reserves of the local banks. With more reserves, banks can then make more loans.

Food stamps, like currency and checks, are high-powered money that affect recipients much like a negative income tax. In appearance, food stamps are different from dollar bills. However, for retailers and bankers they are essentially no different.
Each dollar of food stamps gives rise to about a $0.25 increase in food purchases.

The program evidently also affects the mix of food consumed. For example, Don West found that participating households bought more pork and poultry, but less beef; more fresh whole milk, but less cheese; and more cereals, but fewer bakery products than did nonparticipating households (having similar incomes).

Paul Nelson of the USDA's Economic Research Service found the program had a much greater relative effect on sales by authorized food retailers in poor neighborhoods than on the farm sector as a whole. This is because food stamps are the only public assistance program that provides steady income to the working poor and unemployed (unemployment compensation lasts just six months). Thus, the program is an effective automatic stabilizer for the economy. In periods of unemployment, it keeps consumer spending higher than it would otherwise be.

Farm Income Effects
Despite the size of the program—$12 billion in fiscal year 1985—its effect on farm income has been relatively small—an annual increase of about 1 percent or $1.5 to $2.0 billion in total farm cash receipts. The percentage effect on net farm income would, of course, be larger. The effects on producers of particular farm products, such as pork, or particular segments of the food industry, such as wiener producers, could be quite significant.

Thus we see that a coalition of people with seemingly diverse interests find common cause in sustaining the food stamp program.

Cashing Out Food Stamps
Interest in cashing out food stamps ebbs and flows over time. It is at low ebb now, but it is one of those proposals that is bound to surface again.

The concept is simple. And it is based on economics that everyone understands. People are "better off"—they have more utility—when they make the decisions about how to spend available money.

The argument goes this way. Rather than give people, say $50 worth of food stamps, give them $50 cash and let them use the money as they want to. People getting food stamps/dollars may think that the kids may need new shoes worse than they need more corn flaks or more eggs.

Until recently estimates about effects of cashing out food stamps had to be simulated using several assumptions. But now we have the Puerto Rican experience. In Puerto Rico in 1982 food stamps were cashed out, providing a unique demonstration of possible effects.

Analysis indicates that if food stamps were cashed out: Participants would benefit.... Budget costs could go up.... Spending on food would remain about the same.... Administrative costs would be lower.... Jurisdictional and political effects would be mixed.

—Food Stamp Participants Would Benefit. Recipients would not have to bother with authorization cards and food stamps. They would not feel stigmatized at the check-out counter.

Many report feeling ashamed when using stamps. Dianne D. Jenkins, for example, reported that the social stigma associated with using food stamps lead some eligible households not to participate in the program.

—Budget Costs Could Go Up. USDA figures indicate that at no time did not more than 60 percent of those eligible in a month and 76 percent of those eligible in the course of a year elect to participate in the program. Cashing out stamps, it is
argued, would tend to increase program participation.

Those trying to constrain federal expenditures for social programs use this point to argue that food stamp programs should not be cashed out. Interestingly, the same point is used by others to argue that the poor as a whole would benefit if cash instead of food were provided.

—Food Expenditure Effects: The effect of cash out on the nutritional status of the low-income population is tied to how recipients use the money and whether more are attracted to the program. Study results are mixed. However, in total I am persuaded that the nutritional effects of cashing out would include poorer nutrition if recipients received less in cash than they had in food stamps.

The Hollenbeck, Ohls, and Posner research team of USDA Food and Nutrition Service, Mathematica Policy Research, and Boston University (respectively) provide some insight on the use of the money by recipients. They reported on a USDA demonstration program conducted at eight sites in the United States in 1982 and 1983.

Food stamp recipients who were elderly or received Supplementary Security Income at eight sites received the value of their food stamp allotments in checks instead of food coupons. Apparently, the switch to cash did not have any effect on expenditures for food. Those receiving checks purchased $0.17 worth of additional food for each additional dollar of food stamp income received in the form of a check. Persons receiving food stamps at eight comparable sites spent $0.11 on additional food for each additional dollar of stamps.

The additional expenditure for food would be a higher proportion of additional food stamp income for households with younger parents and children who eat more. This USDA demonstration program involved only elderly people. But elderly people do not eat as much as others and their marginal propensity to buy food with additional income (cash or food stamps) is much lower than for younger people.

In contrast to the Hollenbeck, Ohls, and Posner team, Ben Senauer reported that in a Minnesota study households receiving food stamps spent more on food with stamps than they would with equivalent cash income. However, a Mathematica study of the Puerto Rican population submitted to the Congressional Agriculture Committee in 1985 showed no significant difference in added spending for food with food stamps than with cash benefits.

The Mathematica study reported that additional spending for food was between $0.21 and $0.23 for each additional dollar of both types of benefits. These ratios are approximately 1.3 to 1.5 times greater than the additional spending for food out of additional ordinary income.

Not more than 60 percent of those eligible in a month and 76 percent of those eligible in the course of a year elect to participate in the program.

The quality of the diet of those in Puerto Rico who continued to participate in the food benefit program and received the same level of benefits in cash instead of stamps was not affected by the cash-out program. Some, however, no longer participated in the food benefit program when stamps were cashed out. Still others had their benefits reduced. These households experienced a decline in the quality of their diet.

Food retailers in poor neighborhoods might suffer a decrease in patronage if households receiving cash instead of food stamps declined. They might also lose some business if, with cash, former food stamp households patronize stores that do not accept food stamps—a small effect.

On the plus side for authorized retailers, they would not have to ensure that only eligible items are bought with stamps. They also would not have to segregate food stamps from cash before depositing them at the bank.

When considering food expenditure and nutritional effects it is very important to distinguish between effects on individuals now participating in the program from effects on poor people as a group. Remember that only about three fourths of those that would be eligible in fact participate. As indicated earlier a cash out program may attract more participation. If a cash out program increases participation but total expenditures are held constant, then program benefits would be spread over more people. Thus, the benefits for previous participants would be lowered.

In contrast, one could expect that the cash out entitlements would be similar to those for farm commodity programs—total expenditures are the sum of benefits for which individuals qualify. The total expenditures would not be limited. Benefits to previous recipients would not change, and new participation would lead to corresponding improvements in nutrition and in total demand for food.

—Lower Administrative Cost: Administrative costs of the program would undoubtedly decrease if food stamps were cashed out. The federal government pays for all food stamps and for more than 50 percent of state and local program-related

Thrifty Food Plan
May Be Short on Nutrition, But It’s Strong on Political Stability

There is some question about the nutritional adequacy of the Thrifty Food Plan. However, it is important to recall that it is used solely as a means of calculating a dollar figure for determining the amount of food stamps people receive.

This dollar figure of course could be any number that is acceptable politically. Tying it to nutrients and specific foods gives it some credence. It also injects an important element of stability. The dollar figure cannot be easily manipulated either up or down by program administrators.
In the first six months of 1986, to qualify for food stamps, the gross income of a household cannot be more than 130 percent of the governmental interagency poverty level guideline. Monthly net food stamp program income is gross income less a $98 standard deduction, a deduction of 18 percent of earned income, deductions for “excess” cost of medical care (above $35 a month), and deductions for shelter and dependent care expenses that exceed 50 percent of net income to a limit of $139 a month. Net food stamp program income after deductions may be no more than 100 percent of the poverty guidelines, i.e., $888 a month for a family of four in 1985. There is also an assets test. Stipulated assets for eligible households may not exceed $1,500 or, for a household consisting of two or more persons, one of whom is age 60 or over, $3,000.

costs, which are estimated to have been about $826 million in fiscal year 1985.

Cashing out would eliminate the printing, safeguarding, and transportation of food stamps; the need for food stamp issuance offices and agents and the various food stamp issuance systems. The Food and Nutrition Service of the U.S. Department of Agriculture, which is responsible for the program, could simply have Treasury checks mailed to program recipients as the Social Security Systems does now. Just in Puerto Rico savings from the issuing checks rather than food stamps came to $6 million in fiscal year 1982-83.

—Mixed Jurisdictional and Political Effects: The Federal Reserve Bank would prefer to cash out, thereby eliminating the problem, over which it has no control, of more than $11 billion dollars a year (at the 1984 rate of expenditure) of what is in effect high-powered money being injected into the economy. Checks and currency are under some measure of control. Stamps require special handling, but as mentioned earlier are treated as money by the banking system.

Cashing out could affect USDA as well. The food stamp program comprised more than one-third ($11 billion out of $32 billion) of the 1984 budget for the U.S. Department of Agriculture. Cashing out food stamps would sever the direct ties to food. That makes it more of an unalloyed income-supplement program and administratively more appropriate in a department other than the U.S. Department of Agriculture.

The current congressional political alignment of agricultural and urban interests that trade votes to pass legislation affecting agriculture—including the food stamp program—is not likely to eliminate food stamps. The program now has a congressional following that is entirely its own, but the Administration would prefer to give the program back to the states and fund it at a lower level.

Spokesmen for the poor have a stake too. For example, those who favor a noncategorical negative income tax, want uniform national standards to provide the poor with sufficient supplementary income. The supplement they argue should be enough to give recipients an opportunity to obtain a nutritious diet or simply to live at a still-to-be-defined “minimally acceptable level.” However, these supporters favor retention of the food stamp program—at least until a humane alternative can be worked out.

The majority of members of both Houses of Congress probably fall into the group that favors the retention of the food stamp program much like it is today. Powerful proponents delay any action on cashing out for fear it might provide an excuse for cutting the program.

Those representing major farm interests take a similar stance toward cashing out. Evidently they are not as convinced as I am that recipients will use money much like they use food stamps—$2.25 for more food and $7.75 for other needs. They are also concerned about losing this leverage to keep urban support of farm subsidies. Thus, for now the program appears to be impervious to cash out and exempt from Gramm-Rudman-Hollings cuts.

### Food Stamp Recipients 1980

More city people get food stamps, but the percentage is higher for rural people

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Taken from “Welfare Programs in Nonmetropolitan Counties” by Linda M. Ghelini in *Human Services in the Rural Environment*, Vol. 9, No. 3.