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What If: Cash Instead of Food Stamps?

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The 1996 welfare reform act dramatically changed the system of government assistance programs for low-income households. The new welfare system placed greater emphasis on employment and training, while altering the way cash assistance is administered. Specifically, the act replaced a federally run program with block grants to the States, allowing States more flexibility in disbursing funds to needy families.

The Food Stamp Program, however, remained a federally funded entitlement program. Still, proposals to further decentralize the program and allow States additional flexibility to design and administer their own food assistance programs periodically arise. Under one approach, food stamp recipients would receive cash in lieu of food stamp vouchers, giving them greater choice in what they consume. If implemented, such a "cash-out" could have some surprising effects on the Nation's economy.

Converting food stamps to cash transfers would trigger a number of economic changes. On average, low-income households tend to buy more food with food stamps than with an equivalent amount of cash assistance. For example, if a household receives $100 in cash assistance in place of $100 worth of food stamps, spending on food falls by about $15 and spending on nonfood goods and services, such as clothes and rent, rises by $15. This change in the household's spending patterns would in turn affect the production of food and nonfood goods, employment, household income, and taxes.

Cashing out a $19-billion Food Stamp Program would result in an estimated $3.5 billion-decrease in cash receipts for farming and food processing and a loss of 20,000 jobs in these sectors. Food stamp recipients' shift from buying less food to buying more nonfood goods and services shifts production in a way that dampens the demand for labor and reduces earnings for mid- and high-income households. The shift in production and lower earnings reduces tax revenue paid to the Federal Government. For the purpose of evaluating the impact of this policy change on household well-being, ERS researchers offset the revenue loss with an increase in personal income taxes. Thus, mid- and high-income households would feel the pinch of the higher taxes needed to cover the shortfall created by the policy change. The result: a change in welfare policy that is seemingly limited to low-income households may have ramifications that extend to other income groups.

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