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IN DEFENSE OF THE FOOD STAMP PROGRAM

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IN DEFENSE OF THE FOOD STAMP PROGRAM

Food stamps are now the second largest social assistance program after Social Security in participation, constitute by far the largest element in the Department of Agriculture's budget, and are a significant factor in the Federal budget. The program reached a peak of 19.3 million participants, one out of every eleven Americans, in the Spring of 1975 (the depths of the recent recession). Participation is currently about 17 million with total food stamps issued running about \$8 billion annually and the federal subsidy about \$5.2 billion annually. Partly because of the program's size and cost, food stamps have become a highly controversial subject. In addition, people are outraged by reports of fraud and abuse by recipients, mismanagement of the program, and use of the stamps by strikers, students, and members of the counter-culture. Ex-Treasury Secretary William Simon charged the program with being a "haven for cheats and rip-off artists".

Reform of the food stamp program became a highly politicized issue in the 94th Congress. Although everyone favored improving the program's administration, food stamps were caught in a cross-fire between conservatives who wished to cut the coverage and cost and liberals who wanted to expand participation among those eligible. The food stamp issue eventually became too controversial to handle in an election year. Although the Senate passed a compromise reform bill, the House's legislation did not get past the Rules Committee. The 95th Congress faces the task of passing legislation, since the authorization for the program expires in October, 1977. In addition, the Carter

Administration will be proposing comprehensive welfare reform measures. Crucial decisions about the program are clearly forthcoming, at a time when food stamps have fallen into low repute.

Although room for administrative improvement and other program reforms certainly exists, the program's fundamentals and its performance deserve a defense. First, food stamps have been an indispensable cushion against the effects of the recession and inflation on low-income households, especially working families. Second, although food stamps do not solve our society's nutrition problem, they do serve reasonably well as a food assistance and income supplement program. Third, in comparison to other welfare programs, many features of the program make food stamps one of our best transfer mechanisms. Finally, given the kind of trade-offs that must be made in program objectives, the realities of the political process, and the attitude of the American public toward welfare, we should be relatively satisfied with the basics of the program.

The background of the program

The current food stamp program was enacted in 1964 "to raise levels of nutrition among low-income households" and "to promote the distribution in a beneficial manner of our agricultural abundance." Support for the original legislation came from a coalition of those concerned about malnutrition among the poor and those interested in expanding demand for agricultural commodities. The agricultural stimulation aspect of the program has increasingly become a secondary factor, even though the program now accounts for about 5 percent of

the total value of food purchased in the U. S. for home use. The various amendments to the program have been motivated by a concern over nutrition and poverty. Control of the program has remained in the Department of Agriculture and the Agricultural Committees of Congress, where support for farm programs can be traded-off for support for food stamps.

The basic premise of the program is that a family ought to be able to buy a nutritionally adequate diet for no more than 30 percent of its income. Any family which would have to spend more than this proportion of its income for an adequate diet is eligible for food stamps. The mechanics of the program are very simple. Participating families receive a coupon allotment which should be sufficient to cover the cost of a nutritionally adequate diet based on the Department of Agriculture's Thrifty Food Plan. An eligible family purchases stamps for an amount which depends on the household's size and income. The difference between the coupon allotment and the purchase price is the government subsidy or bonus. For example, a family of four with a monthly net income of \$360 to \$390 receives \$166 worth of coupons per month for \$104, a bonus of \$62. Some very poor families receive their allotment for free. Families very near the upper limits of eligibility must pay as much as 86 cents per dollar of coupons. The average participating family pays 25.6 percent of its net income for their allotment and the average bonus has been about \$24 per month per recipient recently. The actual operation of the program becomes rather complex. During the certification process, the family's assets are taken into account and a considerable number of deductions from the household's gross income

are allowed.

Reasons for the program's size and growth

The very size and extremely rapid recent growth of the program are sources of concern. An understanding of the factors underlying the program's growth yields a reassuring prospective. When the program was initiated in 1964, only 360,000 people were participating at a federal cost of \$28.6 million. During the 1960's, food stamps gradually began to replace the commodity distribution program and more and more counties chose to participate in the program. The program had grown to 3.3 million recipients by 1969 at a federal cost of \$264 million in bonus stamps. Participation in the commodity distribution program was still larger than in food stamps, though. The phenomenal growth in the program since 1970 has been a product of the reforms of 1970-71, the continued geographic expansion of the coverage, the phasing out of the commodity distribution program, and finally, the sharply rising food prices in the period of 1973-75 and the high unemployment associated with the recent recession.

The presence of hunger in the United States became a highly visible issue in the late 1960's and pointed out the inadequacy of our existing food programs. The Congress and the Nixon Administration responded by carrying out major reforms in the original food stamp program. With this liberalization and the continued expansion to new counties, participation climbed to 9.4 million in 1971 and then 11.1 million in 1972. The food stamp program was made mandatory in 1974,

and commodity distribution was essentially phased out, producing a rise in food stamp participation to about 13 million.

The big jump to 19.3 million participants by April 1975 was caused by two factors: the inclusion of Puerto Rico in the program and the high unemployment rates associated with the recession. The 50 percent enrollment increase between June 1974 and April 1975 magnified the program's administrative problems due to a lack of adequately trained staff. Puerto Rico added 1.5 million recipients and food stamps became a major form of federal assistance to the Commonwealth. The most important factor was the rate of unemployment, though. The unemployment rate averaged under 5.0 percent in 1973, but began to rise sharply in the latter part of 1974, reaching an average of 8.5 percent in 1975. The figure fell in 1976, but remained over 7.5 percent. A Department of Agriculture study shows that for each 100 unemployed workers, food stamp enrollment increases by 95 persons. Under the pressure of recession, the basic characteristics of food stamp recipients changed. Some 60 percent of food stamp households were receiving welfare payments in November 1973. By December 1974, welfare recipients accounted for only 48 percent of all persons obtaining food stamps.

The size of the food stamp program remains very sensitive to economic conditions. The improvement in the economy since the Spring of 1975 with a decline in unemployment of 1 percent (from 8.9 percent in April 1975 to 7.9 percent in October 1976) brought a drop in food stamp recipients from 19.3 to 17.2 million persons. This drop in participation of over 2 million persons has already helped to reduce

the intensity of the debate surrounding the program. A return to a prosperous economy will produce further drastic cuts in the number of recipients and the cost of the program. The rapid expansion of the program in response to the burdens the recession placed on low-income families should be viewed as a success not a failure of the program. For many of the unemployed, the combination of unemployment compensation and food stamps has replaced a fairly high proportion of the family's lost earnings.

Employed, low-income families, who are also eligible for stamps, have been squeezed hard by the combined effects of recession and high inflation, particularly for food items. The Consumer Price Index for food-at-home rose from 125.0 in 1972 to 165.8 in 1974, and it was not until 1976 that the rate of advance slowed. The poor spend a larger proportion of their income on food, hence food inflation affects poor families more than higher income families. Food stamps have provided a floor for many families' food expenditure above a level to which it would have fallen otherwise.

Food stamps act as an automatic stabilization device on the economy. Business receipts were \$1.2 billion higher in fiscal 1974 than they would have been in the program's absence. There were 76,561 more jobs. These calculations assume that taxes were increased by the amount needed to fund the bonus stamps. In addition, the impact of food stamps on the agricultural economy, although no longer stressed, is significant. Food stamps at the end of 1974 were increasing farm income at the annual rate of \$1 to \$1.25 billion.

Many people are concerned not that the program is too large though, but that it is too small and not reaching enough of those

eligible. Only 40 to 50 percent of those eligible are utilizing the program. The number of eligibles was estimated to be 37 million in July 1975. Nonparticipation is important because eligibility is restricted to households with financial resources that indicate an inability to purchase an adequate diet. A self-selection process works to eliminate the less needy, though. For families with incomes near the eligibility cut-off level, the benefit of participation becomes very small. In 1971, 41.3 percent of the nonparticipating eligibles would have received less than \$100 per year in bonus coupons. There should be strong concern, however, over the nonparticipation of some 6 million persons in families with incomes below \$3,000 a year. These people are the poorest of the poor and definitely need assistance.

The nutritional impact of food stamps

Since the mandated objective of the program is primarily one of nutritional improvement, how well are food stamps fulfilling this goal. Disappointingly, the data needed to provide a comprehensive nutrition assessment do not exist at present. The Department of Agriculture's Household Food Consumption Survey, to be collected this year, may rectify this situation. Certainly, the consideration of some types of reforms should be delayed until better information on the program's health and nutrition benefits exists.

Based on the information available, food stamps do have an overall positive effect on nutrition. In particular, food stamps have helped to significantly reduce the kind of chronic hunger, whose documentation shocked the public in the late 1960's. At that time, some

six million Americans were estimated to suffer from chronic hunger. For these people the overwhelming problem was lack of enough money to buy sufficient food. The problem was highest among rural Southern blacks. With the reforms of 1970-71, food stamps greatly alleviated the problem of chronic hunger among the very poor.

The problem of malnourishment from consumption below the recommended allowances for certain nutrients is less dramatic, but substantially more widespread and difficult to solve. Although food stamp recipients do improve their diets by buying more meat, vegetables, and fruits, they also buy more processed foods. Overwhelming though, food stamp participants purchase more of the same foods they are used to, rather than items which would remove nutritional deficiencies in their diets. The food stamp program cannot insure that participating families consume nutritionally adequate diets, only that they possess sufficient funds to purchase one. Achieving a nutritionally adequate diet on the food stamp allotment requires some nutritional knowledge and food buying skill. However, the average American family does not do a very good job of efficiently fulfilling its nutritional needs, so we should not expect food stamp households to do better.

Poor nutrition increasingly has become a problem for the entire population in the United States. The problem is no longer dominated by a lack of adequate purchasing power. The percentage of households consuming the recommended allowance of seven nutrients per day fell by 10 percent between 1955 and 1965, despite a 25 percent rise in per capita real disposable income. The evidence is that the

quality of the U.S. diet has continued to decline. This decline was probably accelerated by the recent recession and food price increases. Our country truly needs a national nutrition policy. Food assistance programs or income supplements alone will not eliminate our nutrition problem.

The unique role of the food stamp program

Although intended basically as a nutritional improvement and food demand expansion program, food stamps have become a uniquely important income supplement for low-income families. They provide a guaranteed minimum income in food. The food stamp schedule has a guarantee level of \$1,992 per year for a family of four. Kenneth Schlossberg in the New York Times Magazine of September 28, 1975 argues that the program is substituting for the kind of cash supplement program for low-income families intended under the Nixon Administration's Family Assistance Plan. Food stamps are available to the working poor as well as the jobless or those on welfare. The level of benefits under the food stamp program to a family with very little income has surpassed the level originally intended under the Family Assistance Plan of \$1,600 for a family of four.

Without the purchasing power supplement of food stamps, millions of households would be in a totally untenable situation. The food stamp program, adverse publicity aside, basically does reach the needy. Some 77 percent of the households using food stamps in September 1975 had gross incomes below the poverty level, which was \$5,050 for a family of four. Only 4 percent of the participating families

had incomes greater than 150 percent of the poverty level, and only 1.3 percent of the recipients were students over 18 years of age. The effect of the food stamp program has been significant. Food stamps reduced the number of persons below the poverty level by an estimated 16 percent in 1974.

The various reforms of the original Food Stamp Act of 1964, particularly the reforms signed into law in January 1971, transformed the program. In the original act, the purchase price of the stamps to a family was equivalent to their normal expenditures for food. The amendments of 1971 not only increased the allotment to a level sufficient to purchase a nutritionally adequate diet, but set the purchase price to a family at no more than 30 percent of their income, and issued the coupons free to households with little or no income.

Food stamps now provide both food and, indirectly, income benefits to recipients even though all food stamps must be spent for food. Consider this example. A family spent \$100 a month on food before entering the food stamp program. It can receive \$120 worth of food stamps for a purchase price of \$60 of their own money. The family can, therefore, get \$120 worth of food each month, but by spending only \$60, so it has \$40 of discretionary income to spend that previously went for food. Under the original food stamp program, the family would have paid what it was previously spending for food, \$100 for the \$120 worth of stamps, and no income supplement existed.

Food benefits from the current program go primarily to families with low levels of food expenditure. If a family bought only \$60 of food per month prior to joining the program and receives \$120

worth of stamps for a \$50 purchase price, only a \$10 indirect income supplement exists. Food expenditure expands by \$60. In contrast, indirect income benefits accrue largely to families already making food expenditures sufficient to provide them with a healthy diet. These families largely substitute food stamps for their previous cash expenditure on food, since they are not strongly motivated to expand their food consumption. Such families are more likely to be found in the upper ranges of income eligibility than at low income levels. A family with previous food expenditure of \$120, which obtains \$120 of stamps for \$100, receives a \$20 income supplement, but no food expenditure increase is guaranteed. This distribution of the nutritional impact of the program is quite advantageous since the greatest expansion of food expenditure is among families who most need to improve their diets.

Considerable controversy exists concerning the overall effect the current food stamp program has on expanding food consumption. Estimates range from 65 cents to 30 cents as the increase in food expenditure for each \$1 of bonus food stamps. However, if these figures are compared to the propensity to consume food out of additional income, bonus food stamps are still at least twice as effective as an equivalent cash payment in expanding food demand.

The fundamentals of the program

It is irrational that food stamps have become the most controversial of our social assistance programs. The program's fundamentals actually make food stamps one of the best transfer mechanisms that we have. Its basic regulations are far superior to Aid to Families with

Dependent Children (AFDC). In fact, the program embodies many of the specific principles advocated for the overall reform of our welfare system.

Uniform national standards: The program's benefit level, the payments schedule, and the income and resource eligibility requirements are all standardized nationally. In comparison, the titles which govern AFDC do not require states to provide any specified standard of benefits. Differences in AFDC payments between the states with the highest and lowest levels of payments exist in a ratio of six to one. The AFDC support level for a family of four is only \$60 in Mississippi and \$400 in New York. Food stamps, moreover, considerably alleviate the interstate discrepancies in the levels of welfare benefits. When food stamp benefits are combined with AFDC payments, the total level of support is only about twice as great in a high benefit state as compared to a low benefit one.

Universal coverage: Food stamps are not restricted to certain categories of the poor as other programs are, but are available to all who meet the income and asset eligibility criteria. Food stamps, therefore, fill a crucial gap left by the coverage of the other programs. Food stamps remain the only assistance program available to the working poor and the only one available in every state to intact households with both the husband and wife present. This feature is particularly important because 47 percent of our poor children lived in male-headed households in 1974. Some 28 states offer AFDC benefits to households with unemployed fathers, but this coverage accounts for only 150,000 families. Poor families headed by males with jobs are barred from all

assistance programs except for food stamps.

Federal financing: The total cost of the food stamp subsidy and 50 percent of the state's administrative costs are covered by the federal government. In addition, some proposals recommend increasing the proportion of the federal financing of local operating expenses to 80 percent. In contrast, the federal government only provides matching payments to the states for the AFDC program.

Strong work incentives: Although it needs better enforcement, the program does require able-bodied adult applicants to register for work and accept employment as a condition for assistance. In addition, the rate of benefit reduction per additional dollar of earned income is only 30 cents, which is low enough to provide a strong incentive for a family to expand their earned income. However, a problem occurs for a family also receiving AFDC payments in that the marginal tax on earnings may reach 77 percent, constituting a powerful work disincentive and hence a crucial area for reform.

Automatic cost of living adjustments: The food stamp payment schedule is adjusted semi-annually on the basis of the cost of the Thrifty Food Plan. This adjustment prevented the real value of the allotment from being seriously eroded during the period of rapid food price increases from 1973 through 1975. In contrast, no cost of living escalator is mandated for payments under AFDC.

Uniform administration by the states: The states remain the basic administrative unit for the food stamp program. Administration of the program is through state public welfare departments and the program is run locally by county welfare offices. Uniformity of

administration is maintained at the state level through federal supervision and regulation of the program by the Food and Nutrition Service of the Department of Agriculture.

These fundamentals of the food stamp program nearly match the welfare reforms proposed by last year's National Governors' Conference. Their proposals included universal coverage, uniform payments, more federal financing, stronger work incentives, and uniform administration, but continued state administrative control. The major guidelines of the food stamp program are sound. AFDC is far more in need of reform than the food stamp program. In fact, the basic structure of the food stamp program could serve as a partial guide for the reform of other assistance programs.

Cash grants vs. in-kind assistance

In the long-run, however, we must consider whether an in-kind assistance program like food stamps is the most effective and desirable method to achieve a given transfer. The initiation of a cash payment system was considered under the Family Assistance Plan. And direct cash grants receive continuing attention as an alternative means of providing assistance. In-kind transfer programs are inefficient in two senses. A cash transfer could probably economize on administrative costs. A recent study argued that each \$1 of bonus food stamps entails an administrative cost of 9 cents. In addition, a cash grant would be preferred by the recipients. The same study argued that the average recipient would trade \$1 in food stamps for 82 cents in cash. This preference exists because with cash the family is free to spend

the money on those items which it most wants. Staggeringly large figures are frequently given for any kind of a cash transfer program, but the cost is tied to the level of assistance and the number participating. A direct income assistance program could be started which would cost only as much as the current welfare programs that it would replace. An example of this approach is a proposal to provide elderly food stamp participants with a "cash-out" option, in other words, a cash payment rather than food coupons.

However, a cash grant ignores the fact that society feels that certain types of consumption are more meritorious than others such as those related to nutrition and health. The fact that taxpayers may want to target their assistance toward certain areas is reflected in the current programs such as food stamps and Medicaid. With consumption patterns society cannot say which is best or whose consumption pattern is better between two families. No set standards exist. Food is an exception, because there are certain standards for judging and evaluating food consumption levels. These standards are based on the physiological requirements of the human body.

To be deprived of food is a denial of a fundamental right, since sufficient food is a prerequisite to life itself. In addition, external benefits to the society accrue from well-fed individuals who are, therefore, more productive and healthy citizens. Society has a special interest in the food consumption of children. Proper nutrition is vital to a child's development, yet children are the ones least capable of knowing and protecting their interests. As indicated earlier, an in-kind transfer such as food stamps does encourage a particular type of con-

sumption. Those who advocate unrestricted cash transfers overlook the fact that taxpayers, for the above reasons, have been less apprehensive about providing in-kind benefits. The same factors make in-kind food assistance a special case. Well-founded opposition continues to various proposals for in-kind assistance for transportation, clothing, and fuel, in the form of coupons.

A proposal to eliminate the purchase requirement appeared in a bill introduced by Senators McGovern and Dole last year. Under this proposal, a family would receive the bonus coupons without having to make a payment. Its aim, a worthy one, was to expand participation among the 6 million very poor nonparticipating eligibles. The proposal, however, did not receive widespread support, because it appeared to simply make food stamps an income supplement program. The idea of giving food coupons becomes conceptually meaningless, because for most families there would be no necessity that they expand their food consumption. Legislators were opposed to a measure which increased the income transfer aspect and decreased the food assistance and nutrition improvement aspect of the program.

If a comprehensive income supplement program is ever introduced, retention of a modified food stamp program as part of a national nutrition program still might be desirable. A more restrictive, limited food stamp program could be designed to better fulfill a nutritional goal. The purchase price of the stamps could be set at the level of the household's expenditure on food before entering the program. A program with a high purchase price, if introduced alone, however, would drive millions of needy families out of the program.

In addition, food stamps could be coordinated with a nutrition education program. With both these features, the original food stamp pilot projects were very effective at increasing food consumption and improving nutritional levels. Food purchases increased by 85 to 95 cents per dollar of bonus coupons and the program nearly doubled the number of families with good diets. To further improve the nutritional impact, the stipulation could be made that the bonus coupons could only be spent for designated foods, which would fulfill the major nutritional deficiencies. This plan would have to make certain that foods were designated for their nutrition value though, and not simply because of a surplus supply of the commodity.

Current food stamp and welfare reform

The most pressing need is not for isolated reform of the food stamp program, but comprehensive reform of the entire welfare system. Something must be done about poor program design, especially for AFDC, inadequate integration of the existing programs, and the financial burdens on state and local government. The Carter Administration has placed a high priority on basic welfare reform.

One initial approach might entail a reconstruction of the present welfare system rather than creation of any new benefits. This approach to reform would be both sensible and politically realistic. Much can be done to coordinate the existing programs and correct their flaws without introducing sweeping replacements. The fundamental features of the food stamp program provide a reasonably successful set of solutions to a number of the most important problems. Ultimately

a single new program based on a negative income tax, job guarantees, wage subsidies or some other mechanism may successfully replace the current patchwork of programs which includes food stamps. However, the public is probably not ready to accept, nor the Congress to pass such sweeping reform measures now. Despite widespread agreement on the desirability of a simplified, inclusive program, the debate over the specifics of this approach would quickly shatter the consensus.

The food stamp program definitely needs to improve program administration and integrity. Some adjustments in the eligibility level and in the computation of assets and deductions in the certification process are also needed. However, a balance must be reached between the need for administrative simplicity and the necessity for financial precision in the certification process to insure equity. The compromise legislation passed by the Senate and the comparable bill reported by the House Agriculture Committee in the last session represent a reasonably good reform package. Both pieces of proposed legislation would have used the poverty line as the basis for eligibility. The Senate bill would have set the purchase requirement at 25 percent of family income, the House version at 27.5 percent. The only major difference concerned the method for computing deductions. The Senate version set a fixed deduction of \$100 per month, the House bill had a sliding scale. The Congress in this session will probably pass similar legislation as part of the 1977 Farm Bill.

The most urgent need with regard to food stamps is not any particular reform, but restoration of public confidence in the program.

The food stamp program currently has a bad public image, which if examined in perspective it does not deserve. The basic design of the program is sound. Given the importance of food in a family's budget and nutrition to its health, the purpose is worthy. Food stamps function reasonably well as a food assistance and income supplement program, which fills a major gap in the coverage of other programs. Although their role was essentially unplanned, food stamps provided vital relief from the effects of the recession and inflation for many families. Overall, the food stamp program represents a quite successful accommodation to the present realities of social assistance.