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Agricultural Letter

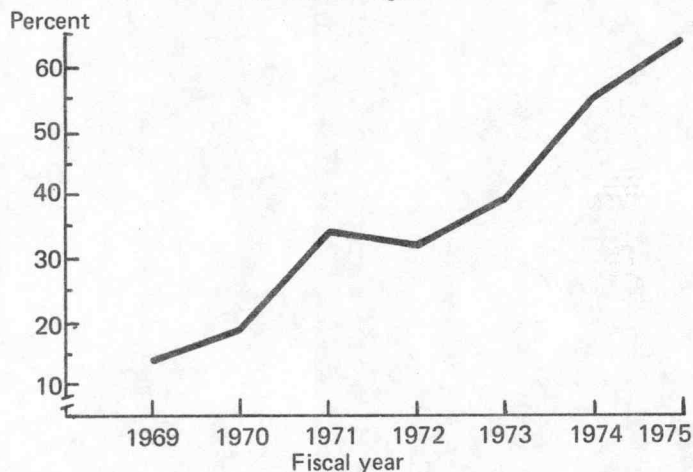
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Federal Reserve Bank of Chicago - -

April 12, 1974

USDA FOOD PROGRAMS continue to represent a rapidly growing source of demand in the food market. The food stamp program accounts for the bulk of government food program expenditures and is scheduled to expand sharply over the next several months. This program permits eligible participants to acquire a specified monthly allocation of coupons, depending on family size, that are redeemable for food at most grocery stores. The coupons are free to those participants with little income, while those with net incomes in the upper range of the eligibility standards pay the equivalent of about four-fifths of the value of the coupons. The measure of net income basically includes gross income from all sources less standardized payroll deductions, excessive medical costs, child care payments, educational fees and tuition, support and alimony payments, and excessive shelter costs.

Percent of USDA Budget Expenditures
for Food Programs



The number of participants in the food stamp program jumped from 9 million in mid-1971 to over 12 million by mid-1973. Current estimates suggest that participants will number nearly 14 million by the middle of this year and nearly 16 million by mid-1975. For fiscal 1975, it is estimated that the value of the bonus stamps—the difference between the value of the coupons issued and what participants pay for the coupons—will rise to \$3.8 billion, up from \$2.9 billion for the current fiscal year and \$1.5 billion in fiscal 1971.

The continued rapid growth projected for the food stamp program reflects the Congressional mandate for a nationwide food stamp program by June 30, and recent legislation providing for semi-annual cost-of-food adjustments in the monthly coupon allotment. Moreover, since the income eligibility standards are tied to the monthly coupon allotment—the standards are set at a level where the allotment equals at least 30 percent of net monthly income—increases in the allotment also boost the income eligibility standards, making more families eligible for the program.

Because of the rapid rise in food prices over the past year, a participating family of four will be eligible for a monthly coupon allotment of \$150 starting July 1. This is up from the current \$142 and the \$116 allotment in effect during the last half of 1973. In addition, a family of four with a net

monthly income of \$500 or less will be eligible for the program under the new standards, up from the current maximum of \$473 and \$387 in effect during the last half of 1973.

The child nutrition program is the second largest component of the government food programs. The bulk of the federal expenses in this program reflect federal monies used in funding the national School Lunch Program. About 4 billion meals annually are currently served to 24 million students in attendance at the three-fourths of the nation's schools covered under the program. Although the number of meals served under the program is not expected to rise, nearly 40 percent of the lunches will be served on a free or reduced-price basis in fiscal 1975, up from one-third in fiscal 1973. This will boost total federal cash contributions to the School Lunch Program to more than \$1.1 billion in fiscal 1975, up from \$879 million in fiscal 1973. Other programs within the child nutrition program will raise the overall federal expenditures to \$1.4 billion in fiscal 1975, up from \$1.1 billion in fiscal 1973.

The food distribution program provides a channel for distributing food acquired by the federal government—either from price support operations or open market purchases—among schools, needy families, and institutions. Nearly two billion pounds of food were distributed through this program at a cost of \$550 million in fiscal 1973. Foods distributed to schools and needy families totaled nearly 1 billion pounds each. In contrast to the other government food programs, the food distribution program is being scaled down, largely reflecting the expanded food stamp program and reductions in commodities available under the farm price support program. Food distributed to schools is expected to remain about equal to current levels but that distributed to needy families will be reduced from around \$250 million to \$60 million as these families are transferred to the food stamp program.

Overall, federal government expenditures for the various food programs are expected to total nearly \$6 billion in fiscal 1975, accounting for nearly two-thirds of the shrinking budget of the Department of Agriculture. In fiscal 1973, food program expenditures were less than \$4 billion—equal to the record amount paid to farmers in the same year—and accounted for less than two-fifths of the total budget. The larger federal expenditures will more than offset the sharply higher food prices suggesting that federal funds will account for a larger proportion of both the consumer and the institutional demand for food.

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