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# FINAL REPORT

by

FOOD AND CONSUMER ISSUES WORKING GROUP

1995 Farm Bill Project

National Center for Food and Agricultural Policy

and

Hubert H. Humphrey Institute of Public Affairs

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March 1, 1995

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* Members of this Working Group and their organizations do not necessarily support or endorse all the views expressed in this report.

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## EXECUTIVE SUMMARY

Purpose

The Food and Consumer Issues Working Group has produced this report as part of the 1995 Farm Bill Project. The Group's members represent diverse backgrounds and brought to the discussion a variety of viewpoints. This diversity yielded a well-rounded consensus regarding the key issues, options, and consequences of public policy for food programs and food safety. The report is intended to inform policymakers about the full range of issues and options in these areas. No single viewpoint is given precedence, and the report contains no recommendations. The intent of the report is to inform.

Report Highlights

- Food programs developed in this country as a way to dispose of surplus agricultural commodities, but are now driven by the premise that "there should be no starvation amidst plenty" (Black, 1942).
- Food stamps provide an economic safety net for one in every ten citizens including one in seven children. They are a basic building block of income support for the poor.
- Some semblance of equity in the distribution of food to the poor is maintained by federal standards (entitlement) and programs.
- Block grants to states will move the burden of supporting the poor to the states. With balanced budgets, there is little capacity to respond to economic downturns. When citizens need help the most, the least resources will be available.
- Block grants to states will likely result in wide discrepancies in the amount of food and other resources distributed to the poor.
- Food stamps and other food assistance programs allow taxpayers to know how their tax dollars are spent.

- In addition to feeding the poor, current food and nutrition programs are an investment in the health and productivity of all residents, especially children.

- Modifications of the current food stamp and other assistance programs can be made that will accomplish the same cost savings allegedly available through block grants.

- Substantial resources are spent on food safety assurance by business and government. With tight federal budgets and increased international competition, the overall issue is achieving desired food safety levels as efficiently as possible.

- Food safety issues have traditionally not been included in farm bills. However, an analysis of food safety issues is an important part of a comprehensive assessment of food and agricultural policy.

- The U.S. food supply is one of the safest in the world, but there are critical gaps and a loss of consumer confidence. A number of scientific reports have also criticized various aspects of the food quality regulatory system and suggested changes.

- Trade-offs exist between risk and cost. Legislation has passed the House of Representatives which would broadly apply risk assessment and cost-benefit analysis to regulatory decisions.

- There is widespread agreement that the current meat and poultry inspection system is antiquated. USDA has proposed new regulations based on a Hazard Analysis Critical Control Point (HACCP) system.

- A federal court decision ordered the EPA to apply the Delaney clause and its zero-tolerance standard to pesticide residue in processed foods. Reforms have been proposed to enact a negligible risk standard for pesticide residues.

# PART A

# FOOD ASSISTANCE PROGRAMS

## I. THE SETTING

### A. Historical Conte

The first government food assistance programs were started in the 1930s during the Depression. The primary goal at the time, was to dispose of agricultural surpluses purchased by the government in order to stabilize farm prices and incomes. Preventing hunger and improving the nutritional status of the poor -- that is, investing in the human capital of the country -- were strong secondary goals of food aid. Thirteen million people were receiving food supplements by 1939 (Paarlberg, 1980, p. 104). An early version of the Food Stamp Program was initiated at this time. Most of these early food programs were discontinued during World War II because of enormous demand for agricultural products and a strong economy.

Public concern was again drawn to poverty and hunger in the United States in the late 1960s. The book *Let Them Eat Promises: The Politics of Hunger in America*, the CBS television documentary, "Hunger, U.S.A.", the Citizens' Board of Inquiry Report, the Poor People's March in Washington, D.C., and Congressional fact-finding trips to the rural South all focused attention on the pressing problems. Although many food assistance programs, including the current Food Stamp Program, had already been established in the early 1960s, a White House conference was held in 1969 in which former President Nixon said it was time to "put an end to hunger in America for all time." A Senate Select Committee on Nutrition and Human Needs was established and spending on food programs was $1.1

billion by 1969 (Paarlberg, 1980). During the 1970s a major expansion took place in the Food Stamp Program; federal expenditures on food assistance reached $11.2 billion in FY (fiscal year) 1979.

B. Current Conditions

A lack of food and inadequate diets are almost always a result of inadequate income. Since there was greater political support for food assistance than direct income support programs, the expansion of food assistance programs was one way to the help alleviate the problems of poverty, hunger, and hopelessness. The number of Americans living below the official poverty level declined from 39.9 million (22.2 percent of the population) in 1960 to 25.4 million (12.6 percent of the population) in 1970. By 1993, however, 39.3 million Americans were poor, which was 15.1 percent of the population (*Minneapolis Star and Tribune,* October 7, 1994, p 7A). For a frame of reference, a family of four was considered poor in 1993 if it had an annual earned income of under $14,763. Half of all U.S. households had incomes under $31,241.

Even more worrisome has been the increase in the number of homeless persons and the number of children living in poverty. An estimated 500,000 persons may be homeless on any given day and some 2 million over the course of a year (*Minneapolis Star and Tribune,* 1994, p. 7A). The rate of poverty among children fewer than 18 years old rose from 14.9 percent in 1970 to 21.9 percent in 1992 (*New York Times*, October 10, 1993, p. 5). Other indicators of the increasing seriousness of poverty are the growing demand faced by private food shelves and charitable feeding programs for the poor and the staggering increase in homicides by youth in poor neighborhoods (*Minneapolis Star and Tribune*, February 18,

1995, p. 6A). The coincidence of poverty, hunger, unemployment and crime calls for serious long-term attention with food assistance being a major part of the investment and a safety net for the poor. (See charts in USDA, ERS, *The Economics of Food Assistance Programs*, January, 1995).

Table 1 provides a summary of the expenditures on the various government food assistance programs in FY 1992, 1993 and 1994, although the 1994 figures are not strictly comparable. Total spending increased 5.2% from FY 1992 to 1993 and another 4.2% by 1994. Total federal spending reached $40 billion in calendar year, 1994. The food programs, administered by the Food and Nutrition Service, represent the largest item in the Department of Agriculture's budget. Since their growth is related to the employment and general economic growth, it is no surprise to see their rate of increase decline from 5.1 percent to 3.6 percent in 1994 as economic growth and employment increased.

Table 1. USDA Food Assistance Program Costs
Fiscal Years 1992-94

| | FY 1992 | FY 1993 | Estimated FY 1994 | Percent Change FY 1992 to FY 1993 | Percent Change FY 1993 to FY 1994 |
|---|---|---|---|---|---|
| | ------Million Dollars------ | | | | |
| FNS FUNDS | 33,351.3 | 35,167.3 | 36,352.5 | -5.4 | 3.3 |
| Food Stamp | 22,459.6 | 23,605.0 | 24,472.5 | 5.1 | 3.6 |
| Nutrition Assistance[1] | 1,005.9 | 1,043.9 | 1,082.2 | 3.8 | 3.6 |
| Food Donation Programs[2] | 470.3 | 456.6 | 442.6 | -2.9 | -3.1 |
| WIC | 2,596.8 | 2,818.5 | 3,177.3 | 8.5 | 12.7 |
| Commodity Suppl. Food[3] | 84.4 | 73.9 | 87.4 | -12.4 | 18.3 |
| Child Nutrition | 6,610.9 | 7,047.3 | 7,466.5 | 6.6 | 5.9 |
| National School Lunch | 4,439.7 | 4,670.9 | 4,118.4 | 5.2 | 5.3 |
| School Breakfast | 786.6 | 866.0 | 955.1 | 10.1 | 10.2 |
| Child & Adult Care | 1,097.5 | 1,218.4 | 1,353.5 | 11.0 | 11.1 |
| Summer Food Service | 202.9 | 210.4 | 219.9 | 3.7 | 4.5 |
| Other[4] | 84.2 | 81.7 | 98.8 | -3.0 | 20.9 |
| Special Milk | 19.5 | 18.7 | 17.8 | -4.3 | -4.8 |
| Food Program Admin. | 103.8 | 103.5 | 106.3 | -0.3 | 2.7 |
| OTHER USDA FUNDS | 460.8 | 396.2 | 701.1[7] | -14.0 | N.A |
| USDA Commodities[5] | 40.3 | 40.3 | 40.3 | -0.1 | 0.0 |
| Bonus Commodities[6] | 229.0 | 164.1 | 158.9 | -28.3 | -3.1 |
| TEFAP | 191.5 | 191.8 | 202.9 | 0.2 | 5.8 |
| TOTAL FUNDS | 33,812.1 | 35,563.6 | 37,053.6 | 5.2 | 4.2 |

NOTE: ALTHOUGH DATA ARE ROUNDED, PERCENTAGE CHANGES ON ALL FOOD PROGRAM UPDATE TABLES ARE BASED ON WHOLE NUMBERS. THE SUM OF DETAILS MAY VARY SLIGHTLY FROM SUBTOTALS OR TOTALS DUE TO ROUNDING.

[1]Includes block grants to Puerto Rico and to the Northern Marianas.

[2]Includes Food Distribution on Indian Reservations, Nutrition Program for the Elderly (NPE), Disaster Feeding, Soup Kitchens and Food Banks.

[3]Includes Elderly Pilot Projects (EPP). As of January 1987, also includes elderly participants in non-EPP projects.

[4]Includes Commodity Schools, Nutrition Studies and Education, and State administrative expenses.

[5]Includes funding for Charitable Institutions and Summer Camps.

[6]Includes bonus commodities for the following programs: National School Lunch, Child Care, Commodity Supplemental Food, WIC, NPE, Indian Reservations, Summer Food Service, and Charitable Institutions.

[7]It is not comparable to earlier figures in this row.

Source: U.S. Department of Agriculture, Food and Nutrition Service, "Food Program Update: Fiscal Year 1993," Washington, D.C., p. 4 and updates.

## II. Current Issues

Cutting the federal budget deficit is a major force motivating the search for new approaches to funding food assistance and other entitlement programs. Finding ways to cut welfare programs is a top priority among politicians. Since the cost of entitlement depends more on demographic changes and business cycles than on careful budget forecasts, cutting entitlement is one way to gain control of the budget deficit. Most food assistance programs (except WIC) are entitlement programs.

"There shall be no starvation amidst plenty" (Black 1939) has been a widely-held value in the American community which dictates that those who cannot afford enough food are entitled to receive it. This philosophy is partly self-serving -- to farmers and food sellers, who want to sell more food, and to employers, who want a well-fed and educated labor force. This link between good nutrition and learning and health is well-known, and a society in need of educated people must see to it that the foundations of life and health are provided for all to be productive.

There is a maximum level of human misery and/or civil disobedience that any society will tolerate amongst its citizens. Too many homeless, and hungry, and violent people will call forth a demand for government programs to house and feed the poor and punish the criminals, even if it stretches the budget and increases the taxes. If the federal government will not provide such assistance, state and local governments will have to step into the breach.

Taxpayers always want to pay less in taxes, even as they demand government services. Taxpayers prefer to know how their money is being spent. Targeting specific

types of causes or groups of people (like prisons or bridges or food for the hungry) is preferred to paying for anonymous government expenditures. Food assistance programs like food stamps and school lunches in which money is allocated specifically to food are more acceptable than general income support.

Cases of fraud and abuse involving food stamps can seriously damage the public's perception of the program and weaken its political support. Falsifying of applications, misuse, and trafficking are the major forms of fraud and abuse. Misuse involves exchanging the stamps for ineligible items or redeeming them so as to receive as much change as possible. Trafficking, the most serious offense, involves selling, buying, or bartering the stamps. Food stamps may be sold for as little as 50 cents to the dollar. Several serious cases in which food retailers were "laundering" large quantities of stamps by paying cash and then redeeming them through normal channels have been uncovered in recent years. However, since the coupon allotment for most households is less than their total food expenditures, trafficking makes little sense unless the recipient has a desperate need for cash.

Taxpayers dislike paying for government bureaucrats to administer the programs. Ironically, the programs that are the most closely targeted and controlled have the highest administrative costs. The dilemma here is the trade-off between allowing more money to "leak out of the bucket" and paying higher administrative costs to be sure only eligible people and products receive benefits. (See p. 13, USDA, ERS, *The Economics of Food Assistance Programs*, January, 1995, and Kinsey and Smallwood, 1994, p. 150). Taxpayers seem to prefer to pay more to police the behavior of recipients than to risk slippage or fraud in the use of their tax dollars.

Eligibility for federal programs is determined by the federal government. One advantage of this arrangement is equitable treatment of recipients across states. States prefer to set their own eligibility standards. They believe they understand the needs of their population better than the federal government. Yet history tells us that, given the choice, local governments are likely to allocate less to the poor and more to programs that benefit middle income households. Federal programs exist for a reason, and one is that local politics can be short-sighted about long term investments and not very altruistic.

The federal government's setting of program rules without funding coverage of all those eligible is tantamount to an unfunded mandate, another highly unpopular situation. Since states already have balanced budget rules, they cannot expand funding for poverty programs in times of crisis. There will be increased pressure on state and local government spending if states set the eligibility rules even if they use federal (block grant) funding.

Maintaining an urban-rural coalition in Congress has been important in the past in garnering enough votes to pass farm programs and in gaining support for urban food programs. Food assistance and food distribution have been considered as part of food, farm and agricultural bills in the past and have been administered by USDA. If food assistance is folded into other welfare programs and/or funded by block grants its tie to agriculture will be severed. Conventional wisdom says that a "farm bill" cannot pass Congress without food stamps as part of it.

Without the food programs, USDA would be a very small department relative to others in the federal government. USDA's long-run existence in its current form could be called into question. With the weakening of USDA and less legislative cooperation between

farm and food program proponents in Congress, the commodity programs would be under increased pressure.

A key issue is the implementation of the dual goals of providing adequate nutrition and income support for the poor. Food stamps have been called a "second currency" by the Federal Reserve Bank of Minneapolis (Senauer, 1993) and, as such, a primary income safety net in America. In this sense, food stamps also support income. These two goals can, however, be at odds with each other in their implementation. Providing good nutrition implies the need to match people who receive assistance with nutritious food and education to ensure that they actually receive nutritious food. Food stamps, school breakfast and lunch, and direct commodities distribution does this. Providing income support to the poor, with no particular concern about health and nutrition, can be accomplished by other means. For example, raising the minimum wage to a "living wage" and/or increasing the Earned Income Tax Credit (a negative income tax) can help those in poverty to increase their ability to purchase food and other goods and services.

The income earners and consumers in society will pay, one way or the other, to help support the poor. Subsidizing the poor with food or equivalent welfare payments acts as a subsidy to employers who can pay lower wages to workers. The earned income tax credit is a direct transfer of spending power to the poor. With these policies, people pay through their taxes. Raising the minimum wage leads to higher consumer prices, and people pay through their daily consumer expenditures. Higher minimum wages also tend to raise the incomes of the poor less than of middle income households with teen-age workers, and, allegedly leads to disemployment of low-wage workers.

## III. The Food Stamp Program

A. Issues and Current State of Affairs

Federal spending on food stamps in FY 1994 was $24.5 billion, and average monthly participation was 27.5 million people. Excluding the six percent used for administrative costs, this spending provided an average of about $836 worth of food to each recipient, or one out of every ten Americans. The Food Stamp Program comprises 66 percent of the cost of all food assistance programs. (See Table 1, page 4).

This program issues monthly allotments of coupons to eligible persons that can be used to purchase food at grocery stores. Participants are certified for eligibility and receive their stamps through county welfare offices. A household is eligible if its gross monthly income does not exceed 130 percent of the poverty level ($1,234 for 4 persons) and has less than $2,000 in countable assets. In 1993, eight percent of food stamp recipients had income above the poverty line; they received 3.2 percent of the benefits. Forty-two percent of recipients had incomes less than half the poverty line.

The maximum allotment is based on the Thrifty Food Plan established by the USDA. In 1994 the maximum was $386 per month (or $1.07 a meal) for a family of four with no income. This maximum is reduced by 30 cents for each additional dollar of income from any source. The monthly food stamp allotment averaged $69.66 per person in FY 1994. In 1993, 51 percent of program participants were children and 7 percent were elderly. The Food Stamp Program embodies many of the principles advocated by experts for welfare programs. In particular, it has (1) uniform national eligibility standards and benefits, (2) universal coverage for all those eligible, including "intact" families with a husband present,

(3) benefits that are automatically adjusted for inflation, (4) federal financing to cover the benefits and half the states' administrative costs, and (5) coverage for the working poor with little disincentive to work. The program also functions as an automatic counter-cyclical stabilizer in the economy. The number generally climbs as the economy weakens and falls as the economy improves.

The major current issues for the Food Stamp Program relate to cash-out, overlapping benefits with other programs, fraud and abuse, alternative delivery methods such as electronic benefits transfer (EBT), and folding into other welfare programs with or without block grants to states.

B. Options and Consequences

**1. Option - Food Stamps**

*Cash-Out: No change in funding levels or rules.*

Distribute cash to recipients through a given agency or program, instead of food stamps or electronic benefits with access to food only.

**Consequences**

* Decreases money spent on food and increases that spent on rent and other expenses.

A. Most studies of cash-out experiments suggest that cashing out the food stamp program (providing an equivalent amount of cash as opposed to food stamps) would lower food spending and nutrient intake (See USDA, ERS, *The Economics of Food Assistance Programs*, January, 1995 p. 39-41 for list of 21 studies). Out of a dollar's worth of food stamps an average of $.37 goes to increase the amount of food purchased while out of a dollar in cash, $.11 is spent on food. Based on this

difference, food stamps (coupons) increased total spending on food by $9.1 billion in FY 1994. Had all these food stamps been converted to cash the increase in food spending would have been $2.7 billion or $6.3 billion less in addition food expenditure.

* Assuming less money will be spent on food, reduces benefits to food producers and sellers.
    A. A loss of jobs in the food processing and production sectors could result from the lower sales of food.
* Saves some administrative costs.
    A. The costs of printing, issuing, and recollecting food stamps would be saved. Some estimates are that it costs about half as much to write checks as to issue food stamps.
* If combined with other welfare programs, decreases total money available for food.
    A. This will decrease the federal budget costs, initially. USDA estimates that federal funding for food assistance could fall by $5 billion a year and $31 billion over 5 years under the Personal Responsibility Act proposal where food stamps would be cashed out and delivered through a block grant.
    B. If lower levels of nutrition lead to poorer health among the poor and/or less ability to concentrate and learn, then long-run expenditures for education, training and health care may increase.
    C. If all food assistance and welfare programs were cashed out, overlapping benefits could be eliminated. Assuming the level of cash benefits is equivalent to the level of all the overlapping benefits, recipients would be better off economically, but it is not

clear whether their nutritional status would improve or deteriorate.

1. At least half of food stamp recipients participate in some other food assistance program. Costs to administer the various programs could be rolled into one cash program. Overlap could also be controlled by cashing out only certain recipients i.e., those on social security who already receive a check.

* Lessens fraud (trafficking) in food stamps - trading them for cash - or in the theft of food stamps.

A. To the extent that benefits are reduced due to fraud, the savings could be returned to other recipients or saved by the government.

B. It does not decrease fraud or abuse in misrepresenting eligibility.

* Eliminates the nutritional safety net provided by food stamps, since cash benefits do not guarantee that money will be spent on food, much less nutritious food.

A. Food stamps recipients increased nutrient intake between 8 and 44 percent compared to nonparticipant (Fraker, 1990).

* <u>If the total value of benefits is not decreased</u>, cash-out increases recipients' choices and probably their satisfaction with the program.

A. They do not need to be embarrassed at the grocery check out by being identified as poor and "on food stamps".

B. They can use their cash to purchase food away from home which can be cheaper and more convenient.

C. In economic terms, they can substitute among goods and services so as to reach a higher level of satisfaction than is possible when they are locked into purchasing a

certain amount and type of food.

D. More eligible people may actually use the program. Costs increase (if the program remains an entitlement), but more people will receive the benefits and be aided to purchase food and other goods.

* Decreases taxpayers' control of the way their money is spent.

A. If taxpayers consider food a "merit good" that the poor "deserve", taxpayers are more likely to support a program that forces the poor to use their resources for food. Cashing out will decrease taxpayer support because cash benefits induce lower levels of food and nutritional status.

B. With a cash out, the level of support could easily diminish over time. Politicians would find it easier to vote for funding cuts than for nutritional cuts and in subsequent allocations, benefits (in cash) are more vulnerable to being reduced.

* Tends to divorce food programs from agricultural programs.

A. Dissolves the urban/rural coalition in Congress. Support is lost for food stamps by rural constituents, for farm subsidies by urban legislators.

B. Increases the chance that food assistance programs will be moved to an agency other than USDA.

**2. Option - Food Stamps**

*Block Grants to States: Combine food stamps and other food assistance programs, keep the federal guidelines, and do not cap the amount spent at the federal level.*

**Consequences**

* Not capping the amount states can receive and spend exposes the federal budget to larger-than-planned program expenditures in times of increased unemployment.

* Total federal costs will probably decrease due to less administration. State costs may increase as they pick up more administrative costs.

* Federal guidelines on how states spend their block grants possibly creates an unfunded federal mandate.

**3. Option - Food Stamps**

*Status Quo with a Switch to Electronic Benefit Transfers versus food coupons.*

A plastic card that acts like a "debit card" is now being tested in various locations as a way to transfer food stamp benefits to recipients. A bank account is established upon which the recipient may draw funds only for food purchased at a store where electronic equipment is installed to read the pin number, the account and the balances left to purchase food. Each state has a different system, the card reader is different from the standard debit card reader and the computer systems in each state are not connected.

**Consequences**

* Involves initially high capital investment costs. Administrative costs were expected to be lower but initial experience is mixed.

* Does not eliminate opportunities for fraud. Street fraud -- trading food stamps for cash on

the street -- decreases. Trafficking in the smaller retail stores is still possible, and some well known cases have been found. A better paper trail should make fraud easier to track.

* Reduces embarrassment on the part of recipients who use the debit-type card rather than food coupons. This expectation is not universally true, especially when the general population does not use debit cards and store computers are not working properly, thus causing embarrassing delays. In addition, the equipment that can read an EBT card may be positioned in only some of the check-out aisles, segregating those who use it from other shoppers.

* May create high state administrative costs if debit cards are lost and used illegally for withdrawals over the limited liability of $50 per loss. Regulation B by the Federal Reserve Bank requires that the users of these cards be afforded all the rights of other consumers who may lose a credit or debit card. The government would have to bear the liability for money (over $50) stolen from these accounts.

* Retains taxpayers' control of how food stamp monies or tax revenues are spent.

* Creates opportunity to electronically sort eligible food items and charge accordingly.

**4. Option - Modified Regulations of Food Stamps**

a. *Stamps or electronic scanning could target expenditures more closely to more nutritious food, an idea formerly used.*

**Consequences**

* Begs the question as to how to define "nutritious" food.

* Helps to increase the nutritional value of the diet.

* Limits consumers' choices and puts an onerous burden on check-out clerks in stores.

* Raises opposition from food processors and distributors since it limits the variety of products they can sell and promote.

b. *Adjust the index used to increase the value of food stamps each year. One could freeze the COLAs for a few years, or use a different index than the CPI for food, or adjust the index by some fraction of the inflation rate (say, 80 or 90 percent of the change in the CPI).*

**Consequences**

* Recipients will not receive as large an increase in the future.

* The budget deficit will be reduced.

A. A $1 increase in the monthly cost of the Thrift Food Plan for a family of 4 persons raises the cost of the Food Stamp Program by $82 million per year (USDA, ERS, *The Economics of Food Assistance Programs*, January, 1995 p. 7). Therefore, economic policies that hold down inflation, especially in food, will hold down the cost of this program.

c. *Reduce eligibility to those with only 100 percent of poverty level income rather than 135%.*

**Consequences**

* Only 9% of households that receive food stamps are above the poverty level and they receive only 3.2% of the benefits. At best, in 1994, this would have saved $783.1 million (USDA, ERS, *The Economics of Food Assistance Programs*, January, 1995, p 8).

d. *Roll back the liberalized income deductions.*

**Consequences**

* Decrease the amount of money needed to be spent.

* Recipients will not receive as large an increase in the future.

e. *Omit overlaps in eligibility for various food assistance programs.*

**Consequences**

* Creates budget savings that rival those projected in the Personal Responsibility Act.

* Decreases the number of eligible persons, but better targets the truly needy.

* Lowers children's nutritional status by eliminating eligibility overlaps to the extent that overlaps provide added assurance of adequate child nutrition.

* Increases enforcement and administrative costs because elimination of program overlaps is expensive, and programs are administered separately and lack centralized information systems.

## IV. Food Assistance and Block Grants

A. Options and Consequences

*Block Grants to States: Combine food stamps and other food assistance programs and cap the annual amount spent without federal eligibility guidelines.*

*Current Proposal: Personal Responsibility Act (PRA)*

The Republican welfare reform proposals would end the federal food and nutrition assistance programs as they now exist. Under the Personal Responsibility Act, part of the Contract with America, uniform national standards for eligibility and benefits would be eliminated. States would be given broad discretion to design their own programs, provided that no more than 5 percent of funds is allocated to administration, at least 12 percent to nutrition assistance for women, infants, and young children, plus at least 20 percent to school and child-care meal programs. They include an escalator clause for increasing the annual allocation that is tied to the CPI for food at home and changes in the population. Initial allocations would be based on historical funding needs in each state. Furthermore, the proposed legislation would eliminate USDA's authority to donate commodities and would require any bonus commodities to be sold to states.

A proposal from the House Committee on Economic and Educational Opportunities proposes to combine the WIC and school feeding programs into a block grant but leaves the Food Stamp Program in its present form as the "ultimate safety net for low-income people" (Pear,1995, p. 1,7). These are sweeping reform proposals with major implications.

**Consequences**

* Eliminates federal nutrition standards, placing children and other poor people at risk of

malnutrition, especially in states with no enforceable nutrition program.

A. Represents a fundamental change in the purpose of programs away from human capital investment in child health and education, equity of income support, and assurance of adequate nutrition.

* Allows states to cash out food stamps and use the food and nutrition block grant for cash payments under a reformed welfare program, although some states may not choose to cash out food stamp funds.

* May cut federal spending on food assistance by a sizeable amount (e.g., spending in FY 1994 would have been $12 billion less under the assumptions of the proposal).

* Eradicates the entitlement nature of food assistance programs. Currently, Congress must authorize appropriation of sufficient funds to cover all eligibles; under the proposal, expanded funding for food and nutrition block grants in times of high unemployment would be at the discretion of Congress.

A. Eradicates the counter-cyclical effect of food programs on family incomes: currently, participation in and funding for food programs rises during economic recession, but under the proposed reforms, Congress would be at liberty to shrink food program funding during recession.

B. Allows states to not increase or to shrink funds for food programs during recession, especially when tax revenues decline in recession or state budget problems arise.

* Probably decreases both the federal budget costs and the budget deficit.

A. Decreases federal funding of food and nutrition programs by a projected $4 billion in 1996 and $31 billion over five years in comparison to current spending, even

when adjusted for population growth and changes in the CPI for Food at Home (USDA, *The Nutrition, Health, and Economic Consequences of Block Grants for Federal Food Assistance Programs*, January 17, 1995).

B. Attempts to balance the federal budget by reducing funds for food assistance and welfare programs, for which expenditures are far less than other social programs in 1994. Federal spending on Medicaid was over two times, and on Social Security and Medicare for the elderly nearly twelve times, the spending on food assistance and welfare.

C. Forces food and nutrition programs to compete with other demands on limited funds.

* Leads to decline in food sales between $1.75 billion to $10.5 billion according to USDA estimates.

A. The size of the estimated decline depends on assumptions regarding new program operations, recipient behavior, and government use of savings (USDA, ERS, *The Economics of Food Assistance Programs*, January 1995, p. 19, and USDA, *The Nutrition, Health, and Economic Consequences of Block Grants for Federal Food Assistance Programs*, January 17, 1995).

* Leads to decline in food and agricultural sector output by an estimated $6 billion to $16 billion, depending on the assumptions of the estimation procedure (USDA, *The Nutrition, Health, and Economic Consequences of Block Grants for Federal Food Assistance Programs*, January 17, 1995).

A. Could lower farm incomes by $1 billion to $2 billion, and farm employment by

15,000 to 45,000 jobs.

B. Could lead to a decline in food processing sector output by $3 billion to $9 billion, and to a loss of 28,000 to 83,000 jobs.

C. Could lead to negative impacts on other sectors. For example, elimination of the mandatory milk requirement in the school lunch program is estimated to reduce milk sales for school use by 25 to 75 percent. A 25 percent reduction could cost dairy producers $380 million in lost income, and could raise the cost of commodity support to farmers.

* Probably increases state costs as states set and administer their own guidelines, but the size of the increase in unknown.

A. Under the PRA, funding in FY 1996 for the block grants would cut spending by 13 percent of the projected spending on the current program. The 5 percent of funds for administrative costs falls below the 6 to 7 percent now spent on the Food Stamp Program, the least expensive program to administer. Fewer federal funds for administration and enforcement may force states to either make up the difference or accept increased fraud and decreased program targeting.

* Increases inequity among recipients because of unequal benefits across states and incentives for states to minimize payments.

A. May cause migration of the poor to states with higher benefit levels, thereby burdening more generous states, though little evidence exists to support this theory.

B. Defeats one of the principles of a good welfare system -- equity among recipients.

C. Leads to uneven investment in nutrition and education, creating a need for

employment training and leading to uncertainty about labor force quality.

1. Benefits states with better-fed and educated labor force by attracting businesses and jobs.

D. Increases likelihood that incidence of hunger will increase in times of high unemployment.

* Creates disincentive to work if benefit reduction rates increase.

A. If block grants do not require a uniform and acceptable benefit reduction rate, states would be able to establish benefit reduction rates of their choosing. Higher benefit reduction rates are a strong disincentive to work. Under the current Food Stamp Program, the benefit reduction rate is 30 percent, although this rate can be 28 percent to nearly 100 percent, depending on the deductions taken in the calculation of income (Ohls and Beebout, 1993).

## V. Swaps and Food Programs

A. Options and Consequences

Swap federal expenditures on food stamps and WIC for state expenditures for Medicaid. The federal government will pay for the portion of Medicaid now paid for by states, and states will apply for the costs of food stamps and WIC. States must maintain the federal level of spending for up to 5 years.

**Consequences**

* Increases administrative costs to states.

* Lessens equality among recipients across states and raises the number of hungry people.

## VI. Other Options - Food Programs

A. Options and Consequences

Increase volunteerism. Some have proposed that local churches and charitable organizations undertake the task of feeding the poor as the government's role lessens. Many local charities are already providing feeding programs, food shelves, soup kitchens, etc., at full capacity, however. They cover the costs of distributing the food; the cost of the food is born largely by the government or private donors. They are an effective last resort for the most desperate but are totally inadequate as a means of providing food daily to the many poor people in America.

Another aspect of this idea is that those who receive food should "work" for it by doing volunteer work for others. The strong work ethic and the charitable ethic clash in this suggestion.

**Consequences**

* Creates massive hopelessness and hunger in the absence of government support for food or income to the poor.

* Allows grossly inadequate system to provide the daily food needs of poor families.

* Creates unenforceable and costly requirement that people work for their food. Creates additional costs of creating jobs -- paid or unpaid.

## VII. Child Nutrition and Feeding in Schools

A. The Current Program

The Child Nutrition Programs are comprised of the National School Lunch, School Breakfast, Child and Adult Care and Summer Food Service Programs. They were designed to "safeguard the health and well-being of the nation's children." An estimated 25.2 million children are served daily through the National School Lunch Program in about 92,000 schools. Some 55,200 schools also serve school breakfasts Children from families which meet certain income requirements are eligible for free meals or reduced price meals. Those below 130 percent of the poverty threshold are eligible for free meals (12 million or 47 percent) and those between 130 and 185 percent of the poverty line are eligible for reduced price meals (about 7 percent of children). Those with incomes over 185 percent of the poverty line are also subsidized at a rate of $0.165 per lunch. Free school lunch subsidies cost of $1.73/lunch and reduced-price lunches cost $1.33/lunch (USDA, FNS, *Program Information Report*, August 1994, p. 6). The total cost of school lunches in 1994 was about $4.9 billion. The daily cost of serving school lunches for 161 days per year is about $30.5 million. The average cost for meals served in schools, both breakfast and lunch is about $0.72 (*Federal Register*, 59:111, 6/10/94, p. 30242).

The other food aid programs for children are listed on Table 1 along with their costs in 1994; the total 1994 cost is estimated to be $7,466.5 million for an increase of over 6 percent over 1993. These programs receive both cash and food commodities. The commodity value is about 12 percent of the cost of each school lunch (USDA, FNS, *Program Information Report*, August 1994.)

B. General Issues

In addition to the overall issues discussed under food programs involving the budget deficit, administrative costs, block grants, and overlapping participation in food programs, child nutrition programs raise the issue of society's responsibility to feed its children and to invest in their human capital. Preventing hunger and improving the nutritional status and long run health of its citizens is a matter of both altruistic compassion and investment in one's own future security. This program was started after a number of draftees into World War II failed their physical exams. This caused widespread concern about the nutritional status of the U.S. population. There are several reasons to continue to be concerned about our health and nutrition based on recent reports of rising obesity, sedentary lifestyles, and emerging diseases.

This set of child nutrition and feeding programs raises the question of who should bear the responsibility of feeding the children. If child nutrition and health is truly a public good, then only a governmental entity can carry out the job; no single private market will provide enough consistently and equitably.

If the purpose is to invest in the health and nutrition of all children, then providing some food for all children is sensible. If the goal is primarily to prevent hunger, supplying food only to poor children is reasonable.

The form of the food is also controversial. These programs are a mix of financial contributions to the providers of school lunch and breakfast and ultimately to the children, and some food commodities such as milk served in school. At one time the direct delivery of food was thought to ensure better nutrition, but when children refuse to eat certain kinds of

food or find it unpalatable, food is wasted. Also, the high fat content of surplus food commodities and of the school lunches in general, calls into question whether the school lunch program should respond to ne Dietary Guidelines. The School Nutrition Dietary Assessment Study, October, 1993, found that school lunches had 38 percent of calories in the form of fat and 15 percent from saturated fat compared to the 30 percent and 10 percent respectively, recommended by the Dietary Guidelines (*Federal Register*, 59:111, 6/10/94, p. 30220). A proposal to update the nutritional standards for school lunches was in the summer of 1994. It would move the nutritional composition of school lunches and breakfasts closer to the Dietary Guidelines.

**1. Option - School Lunch/Breakfast**

*Status Quo - focus on food and nutrition for children with revised nutritional guidelines consistent with the Dietary Guidelines*

**Consequences**

* Allows children to continue to receive reduced-price or free lunch and/or breakfast. Increases the likelihood that children will receive nutritious meals.

* Continues the investment in health and educational capability. Should enhance the nutritional status of the population. Estimated to save long term health care and educational costs.

A. Estimated to provide about 12 percent of the change needed to bring children's overall diets into conformance with the Dietary Guidelines for fat, cholesterol and sodium consumption (*Federal Register*, 59:111, 6/10/94, p. 30247).

* Continues to provide an outlet for some surplus commodities, holding down the costs of

the farm commodity programs.

* Probably increases costs in the short run if meeting the Dietary Guidelines requires reformulating recipes and foods served.

**2. Option - School Lunch/Breakfast**

Target poor children, let others buy their own lunches or breakfasts.

**Consequences**

* Targets subsidy to poor students and possibly leaving schools without food service stigmatizing the whole program and causing many schools to drop out of the program.

A. The amount of money that was spent on regular meals was about $612.2 million in 1994 or 14 percent of the total amount spent on school lunches (USDA, FNS, *Program Information Report*, August 1994). The savings would not be as large as many might think.

B. The price of meals would go up for non-poor students. There is some dropping out when the price increases. About 6 percent of paid participants drop out with every $1.00 increase in school lunch.

1. With the advent of working parents this drop out rate of individuals or schools is expected to be minimal because of convenience for parents.

**3. Option - School Lunch/Breakfast**

*Decouple from commodity programs.*

**Consequences**

* Forces producers of some surplus foods to find another outlet.

* Does not save much money, since 80 percent of the federal support is in cash. In addition

to the cash support, surplus commodities were valued at only $77 million in 1994, while "entitlement" food cost USDA $589 million. The entitlement foods are selected by states to meet their needs and purchased by USDA for this purpose. They consist mostly of hamburger, fruits, and vegetables.

**4. Option - School Lunch/Breakfast**

*Block grant funds to the states for child feeding programs: Abolish federal nutritional standards (other than some minimum) and let school districts decide on how they want to offer child food and nutrition programs if at all.*

The proposal by the House Committee on Economic and Educational Opportunities would combine child nutrition programs and WIC into two block grants to states mandating that 80 percent of the portion for child feeding be used for children from low-income children (*New York Times*, February 18, 1995, p. 1,7). About 73 percent of the current expenditures on free or reduced price meals. The initial grant of $6.5 billion in 1996 is 7.3 million above the $5.87 billion spent in 1994, so with no increase in the number of children to be fed, there is no a substantial cut in funds. Subsequent grants will be based on individual state's participation.

**Consequences**

* Repeals the National School Lunch Act and the Child Nutrition Act of 1946.

A. This treats the problem of feeding poor children, assuming that local schools will sign on and use the money as mandated. It is silent about the value of good nutrition and nutritional education through establishing good eating habits.

B. Since it targets the poorest children, it has all the consequences of such targeting

outlined above.

* If it caused school districts to cease offering school lunches, several may bring in franchise food chains or vending machines where children can buy food which is expected to decrease the nutritional status of the children.

A. Increases instances of hunger in children without money, leading to deterioration of their learning ability.

B. Some argue it is more important for breakfast to be available than for lunch.

* Eliminates miscellaneous feeding programs like summer camps, commodity distributions to school lunch, etc.

A. Some commodity producers, like dairy, would suffer a decline in demand for their products and probably a decline in their price.

B. Government surplus commodities would need to find a different outlet, increasing the government costs of purchasing surplus commodities.

## VIII. Special Supplemental Program for Women, Infants and Children (WIC)

A. Current Program

The WIC Program is a targeted program for low income, pregnant, postpartum, and breastfeeding women, to infants, and to children up to 5 years of age who are determined by health officials to be at nutritional risk. The program provides supplemental foods, nutrition education, and health care referrals. The program originated from the 1969 White House Conference on Food, Nutrition and Health that recommended special attention be given to people in these groups. WIC authorization is separate from the farm bill process and like the child and elderly feeding programs, one of its primary goals is investment in the health and human capital of society (Kinsey & Smallwood, 1994).

In contrast to the FSP, WIC is not an entitlement program; participation is limited by appropriated funds. In 1990, it was estimated that 90 percent of eligible infants were covered, 45 to 85 percent of eligible women, and 40 percent of eligible children age one to five. About 77 percent of all participants are infants and children. WIC provides eligible participants food, food vouchers, or food checks to supplement their diets with nutrients critical during pregnancy and early growth such as iron, calcium, protein, and Vitamin-A and C. The foods provided include milk, fruit/vegetable juice, infant formula, cheese, eggs, cereals, dried peas and beans, and peanut butter (Kinsey & Smallwood, 1994).

WIC expanded rapidly from $10 million and 88,000 participants in 1974 to $3.2 billion and nearly 7 million participants in FY 1994. Now, 40 percent of all children born in the U.S. are eligible for this program; between 30 and 50 percent of all infant formula sold is

purchased by WIC participants (USDA, FNS, *Program Information Report*, August 1994, p. 6). WIC provides the full cost of supplemental food packages for recipients; benefits are not adjusted for household income. the average food cost per person per month is around $30 but about 30 percent of its costs are for nonfood expenses such as health exams, studies of the program, education and administration (Kinsey & Smallwood, 1994).

WIC is widely touted as a most successful program. It is highly targeted. It saves between $1.77 and $3.13 in Medicaid costs for newborns and their mothers for every dollar spent (USDA, *The Nutrition, Health, and Economic Consequences of Block Grants for Federal Food Assistance Programs,* January 17, 1995). Half of the savings occur in the first year of a baby's life (Devaney, B.L. et al, 1990).

Issues:

One of the problems is that a large portion of those who receive help through WIC also receive food stamps. Perhaps some need both programs, but the overlap exists. Another issue is that, since it is not an entitlement program, many eligible people are not covered, and though this keeps down the budget exposure, it creates an inequity and a gap in coverage which may end up costing more later.

B. Options and Consequences

**1. Option - WIC**

***Status Quo or expand the funding to catch more of the eligible people.***

**Consequences**

It does not fund all the eligible now. It has been touted as a highly successful program in improving infant health, saving money on Medicare.

**2. Option - WIC**

Count all income sources in establishing eligibility so as to avoid as much overlap with food stamps. Recipients could then choose between WIC or food stamps.

**Consequences**

* Fewer people would receive benefits from both programs, and some households would experience a decline in benefits.

A. Since the program is targeted to children, some are eligible for WIC who would not qualify for food stamps. A long as the children are the target recipients, the unavailability of extra food stamps should not jeopardize their food supply.

B. About 9 percent of food stamp recipients also participate in WIC but no one knows for sure the extent of overlapping participation in all food programs. A food stamp recipient could increase those benefits by 28-44 percent with additional program benefits (Smallwood, 1993).

**3. Option - WIC**

Roll WIC into block grants and other welfare programs. Under the original Personal Responsibilities Act and the new Block Grant proposal by the House Committee on Economic and Educational Opportunities, WIC funds would be in the form of a block grant (*New York Times*, February 18, 1995, p. 1,7). In the first case the funds for this purpose would increase with 12 percent of funds mandated for WIC. Under the second proposal, which includes WIC, food for the homeless and summer feeding for children, the $4.5 million in 1996 is almost one-third greater than the 1994 costs.

**Consequences**

* If there is no decrease in total funding and the program continues to be targeted, its effectiveness could be maintained.

* To the extent that it is administered locally anyway, and the dollars and rules do not change, the effect of this block grant may be minimal.

* Depending on how many feeding programs, besides WIC, need to be covered, it may result in an expansion of dollars for WIC.

A. More poor mothers and infants may receive benefits and more health care costs will be saved.

## IX. Food Distribution Programs

A. Current Programs

There are a number of commodity distributions programs. Section 416 of the Agricultural Act of 1949 made certain food commodities acquired through farm price-support operations by the Commodity Credit Corporation (CCC) available for distribution to the poor. The intent was to prevent waste through deterioration and spoilage before the foods could be disposed of in normal domestic channels without impairment of the farm price-support program.

Surplus CCC stocks are often donated to domestic food assistance programs. Donations include cheese, butter, nonfat dry milk, cornmeal, flour, honey, rice, and wheat. During the 1980's, domestic food assistance programs benefitted greatly from these donations, especially the Child Nutrition Programs and the Temporary Emergency Food Assistance Program (TEFAP) (Kinsey & Smallwood, 1994).

***The Food Distribution Program on Indian Reservations.*** This program operates as a substitute for the FSP on or near Indian reservations. In 1994 about 115,000 people participated each month (USDA, FNS, *Program Information Report*, August 1994, p. 2). The program allows tribal organizations to run commodity distribution programs in lieu of receiving food stamps.

***Nutrition Program for the Elderly.*** This program is administered by the Department of Health and Human Services. Originally developed to provide nutritious foods to senior citizen meal sites and meals on wheels, it has evolved into mostly a cash subsidy program. In 1992, about 92 percent of all benefits were distributed in the form of cash; in 1994 about

924,000 meals were served under this program (USDA, FNS, *Program Information Report*, August 1994, p. 2).

***Donations to Charitable Institutions and Summer Camps.*** Commodities acquired by the U.S.D.A. are distributed to charitable institutions serving needy persons and summer camps for children. These include soup kitchens, some hospitals, the meals-on-wheels program, and orphanages that do not participate in other Child Nutrition Programs. Next to the school feeding programs, these are the largest recipients of commodities distributed by U.S.D.A. and provide an outlet for continued distribution during the summer when many schools are not in operation. In 1994, about 2.3 million low income children were served free meals during summer periods (USDA, FNS, *Program Information Report*, August 1994, p. 2).

***Temporary Emergency Food Assistance Program (TEFAP).*** In 1981 surplus dairy products were at an all-time high. PL-97-98, the Agricultural and Food Act of 1981, Section 1114, required that price-supported commodities "not likely to be sold by CCC or otherwise used in programs for commodity sale or distribution" be made available to nutrition programs providing food service and food banks. This was the beginning of the TEFAP. In a few years the CCC ran out of surplus stocks of some commodities, primarily cheese, honey, and nonfat dry milk, but pressures to continue the TEFAP program resulted in the Hunger Prevention Act of 1988 authorizing over $120 million per year to purchase other commodities for distribution. This action effectively "delinked" TEFAP from fluctuations in farm surplus stocks. The benefit of TEFAP are that it helps to feed hungry people who do not participate in the food stamp program by supporting local, voluntary food distribution

agencies (Ballenger & Harold 1991). In 1994, it provided $40 million in administrative funds to distribute $80 million worth of USDA commodities and food provided by the private sector, to the needy (USDA, FNS, *Program Information Report*, August 1994, p. 3).

B. Issues

Since food available from the CCC stocks fluctuates with supply, there is often great pressure to continue benefits when surpluses are gone. This causes fluctuations in the non-federal cost of programs and influences the kinds and amounts of commodities bought with appropriated funds. Historically, the National School Lunch Program and the TEFAP program grew out of such pressures to keep food coming after surpluse commodities ran out (Kinsey & Smallwood, 1994).

Farm price support programs that restrict supply such as sugar and peanuts raise food prices. Poor households are most affected by rising food prices because they spend almost 50 percent of their income on food, compared to 11 percent for the average household. Food price increases also raise the cost of providing food assistance, since most programs are indexed to the cost of providing food (Kinsey & Smallwood, 1994).

Commodity distribution programs cause "slippage". That is, they substitute for some of the food that consumers would otherwise purchase, altering traditional marketing channels. They partially offset some of the farm price supports resulting from commodity removal programs. The USDA studies of TEFAP commodity distributions found that on average, each pound of cheese distributed displaced about one-third of a pound of commercial cheese sales and that butter donations displaced margarine sales pound for pound (Kinsey & Smallwood, 1994).

Price support and food distribution programs are not an economically efficient means of providing food and nutrition assistance to the needy. The costs of procurement, distribution, storage, and management are higher than for many alternative forms of assistance programs such as cash or food stamps.

C. Options and Consequences

**1. Option - Commodity Distribution**

*Maintain the status quo.*

**Consequences**

* An uneven supply leads to an increase in the budget costs to purchase food to fill promised food supplies. Commodities used in disasters come from the normal school supplies which are then replaced with cash.

* Allows some people to feel better about receiving food than using food stamps because they believe it is surplus, or "free", and not purchased.

**2. Option - Commodity Distribution**

Delink commodity distribution from the commodity purchase programs that support farm incomes. Under some block grant proposals, it appears that this will happen.

**Consequences**

* Assuming no change on the purchase side, increases the cost of commodity programs for storage and disposal.

* Raises budget exposure to purchase food for these programs.

### 3. Option - Commodity Distribution

Stop distributing surplus food commodities and purchased food. Under some block-grant proposals, it appears this would happen.

**Consequences**

* Increases the cost of commodity purchase programs for storage and disposal, assuming no change on the purchase side.

* Lowers the budget exposure for purchase of food for school lunch, TEFAP or other programs.

* Raises the cost of obtaining food to recipients and increase the costs of other welfare programs, i.e., food stamps, AFDC, elderly feeding, etc.

* Takes the government out of the business of directly providing food (or income to buy food) for a variety of food programs.

# PART B

# FOOD SAFETY AND NUTRITION

## I. THE SETTING: FOOD SAFETY

In the United States, very significant levels of resources are spent by the private sector and government on food safety assurance. In a business environment characterized by increased international trade and an era of tight federal budgets, the major question facing the food safety assurance system is whether desired safety levels can be attained more efficiently. This question needs to be considered within the context of a broader discussion of food and agricultural policy, because food safety is one of several not necessarily complementary objectives of that policy. Food safety issues have not traditionally been dealt with in the farm bills, but in separate legislation. There is no reason to believe this situation will change. However, an assessment of current food safety issues, options, and their impacts, is an important part of a comprehensive discussion of food and agricultural policy. Consumer and environmental issues will increasingly be a part of the farm bill debates.

Food safety regulation, historically and to the present day, has been driven by crises that have aroused the public's concern. Before the turn of the century, the food industry was virtually unregulated. Upton Sinclair's classic book of 1906, *The Jungle*, described the appalling conditions that existed then in the meat-packing industry. The book had a major impact. At about the same time, other problems were dramatically brought to the public's attention. A study by the New York City Health Commission found that over half the milk sampled in the city was adulterated with water, chalk, and plaster of Paris (Paarlberg, 1980, p. 86).

In 1906, Congress reacted to the crisis by passing the Pure Food and Drug Act and the Meat Inspection Act, the first major food safety laws. They clearly established that the federal government was prepared to ensure the safety of the food supply. The Food and Drug Administration (FDA) was created in 1931, and the Federal Food, Drug, and Cosmetic Act was passed in 1938. The Miller Pesticide Amendment was added to the Act in 1954 and the Food Additives Amendment with the Delaney clause in 1958. As the poultry industry began to grow rapidly, the Poultry Products Inspection Act was passed in 1957.

Increased consumer interest in food safety and nutrition has been building over a period of years, based in the case of food safety on a series of incidents over time, and in the case of nutrition, on concerted efforts to improve the general public's awareness of links between diet and health. One of those incidents, which occurred in 1989, was the use of Alar (daminozide) on apples which it was suggested might be carcinogenic. The second was the discovery of a few grapes imported from Chile that had been injected with cyanide. These incidents raised public concerns about chemicals used in the food supply, and pesticide residues in particular.

More recently there was the tragic outbreak of illness in Washington state in early 1993, which was traced to E. Coli 0157:H7 contamination of fast-food hamburgers. Four children died, and over 500 people became seriously ill. This incident focused public attention on the dangers of microbiological foodborne pathogens and directly led to efforts to label meat and poultry products with handling and cooking instructions and to revamp the entire system of meat inspection. A major outbreak of illness due to Salmonella contamination of ice cream in Minnesota occurred in 1994 and brought additional attention to

the risks of microbial pathogens.

Furthermore, over the past few years, numerous reports detailing and often criticizing the operation of different aspects of the food quality regulatory system have appeared. They have given close scrutiny and found the current organization of activities wanting in several respects. Reports by the National Academy of Sciences and the U.S. General Accounting Office alone provide a comprehensive review of the regulatory system. Among the most important of these reports are those on pesticide residue regulation (National Academy of Sciences 1987, U.S. GAO 1986a, 1986b); food inspection activity (National Academy of Sciences 1985, U.S. GAO 1989, National Academy of Sciences 1990); animal drug residues (U.S. GAO 1990); and diet and nutrition (National Academy of Sciences 1990, 1991).

The United States has one of the safest food supplies in the world, but there are critical gaps and a loss of consumer confidence. There has been a decline in the confidence that consumers have in the food industry's and government's ability to insure the safety of their food. As measured by the Food Marketing Institute's annual survey of food shoppers, the number of respondents who are completely or most confident that the food in their supermarkets is safe has declined. Effective actions to address current food safety issues will also restore public confidence in the overall safety of the food supply and the trust placed in the food industry and government.

Food safety concerns must confront certain fundamental dilemmas, though. Everyone believes that food should be safe and wholesome. Obviously no one favors unsafe or unwholesome food. The controversy involves how the goal of food safety is practically interpreted and the actions taken to achieve it. As in most human activities, risks will always

exist. Furthermore, trade-offs exist, increased safety and reduced risk usually come only at a cost. Food scientists and other knowledgeable professionals rank microbiological pathogens as the major food-related health hazard, followed by malnutrition and chronic diseases related to diet, environmental contaminants such as mercury, naturally occurring toxins in food, and pesticide residues and additives.

The seriousness of foodborne illness is not realized by most people. Most cases go unreported and about half the outbreaks reported to the Center for Disease Control are never linked to a specific pathogen. The FDA estimates that between 6 and 33 million people become ill each year from foodborne pathogens and 6,000 to 9,000 die. The cost has been estimated to be over $5 billion per year (*Food Review*, May-August 1994). The public awareness of the risks posed by microbial pathogens is increasing. A 1990 USDA survey found that bacteria and parasites in food were given by 49 percent of the respondents as the most important of four food safety issues. Twenty-three percent cited pesticide residues, 12 percent drug residues in animals, and 3 percent food additives (*National Food Review*, May-August 1994, p. 15).

The current system of food safety regulation is characterized by inconsistencies. As one critic stated, "food safety is governed by a patchwork of safety standards defined in a multitude of laws that have evolved over time to meet a variety of needs" (Archibald, 1988, p. 39). The risk standards applied vary from the zero-tolerance Delaney clause to the risk-benefit approach that has been applied with the Federal Insecticide, Fungicide, and Rodenticide Act (FIFRA).

> Currently, 12 federal agencies spend about $1 billion annually to administer about 35 laws governing food safety and quality. Fundamental differences in agencies' missions, responsibilities, and authorities have led to inconsistent oversight, inefficient use of resources, and poor interagency coordination (*Transition Series Report on Food and Agriculture Issues*, U.S. GAO 1992b, p. 25).

Major jurisdictional responsibility over food safety and nutrition is split between the Food and Drug Administration (FDA) in the Department of Health and Human Services and the U.S. Department of Agriculture (USDA), primarily its Food Safety and Inspection Service (FSIS). The split is generally based on product type, with FDA regulating all foods except meat and poultry, which are regulated by USDA. In this split, similar, although not identical, activities occur in two agencies (Caswell 1994). Split responsibilities, resource discrepancies, and inconsistent regulation of comparable products have led to calls for a consolidation of authority with a single agency.

As part of the Contract with America, the Republicans have introduced legislation that would have a major impact on health, safety, and environmental legislation, presumably including food safety. Their proposal would broadly apply risk assessment and cost-benefit analysis to regulatory decisions. New regulations could not be issued without demonstrating that expected benefits justify expected costs. Moreover, the proposal would also explicitly supersede the existing criteria for making decisions under current regulations (*New York Times*, February 10, 1995, p. A10). There is enormous variation in the cost-benefit ratios of many current regulations, and the requirement of economic impact assessment of proposed regulations is certainly reasonable. There are many problems however, with risk assessment and cost-benefit analyses. The necessary data to carry out rigorous quantitative analyses are frequently lacking. Crucial assumptions must be made which can bias the results. Values

must be placed on such intangibles as the value of a human life.

In the coming decades, food safety assurance in the United States will be increasingly affected by international trade in agricultural commodities and processed food products for two major reasons. First, an increasing amount of food is being imported into the United States, posing a challenge to the U.S. regulatory system to ensure that imported products meet the same safety standards as domestic products. Second, international trade agreements, in particular the General Agreement on Tariffs and Trade (GATT), now with the World Trade Organization (WTO), and others such as the North American Free Trade Agreement (NAFTA) add an important new dimension to regulatory decision-making. The U.S. regulatory system will be challenged to assure that its programs, rules, and practices are scientifically-based and not simply nontariff barriers to trade posing as consumer protection.

Food safety regulations will need to make sense on a risk/science basis to be justifiable. Under GATT countries can set their own risk standards, but Sanitary and Phytosanitary Safety (SPS) measures must be established in a scientifically defensible way. The United States can choose to minimize regulatory trade barriers or use regulations as protectionist trade barriers. The need to consider the impact of domestic regulatory decisions on international trade relationships further complicates policymaking on food safety. A key issue is finding ways to enhance the competitiveness of our products internationally. The crux of the regulatory issue is consumer protection plus competitiveness.

Current food safety regulation is a patchwork, making coherence and effective oversight difficult. If farm bill legislation expands its scope of involvement in food safety

areas, the patchwork will become more intricate and hinder coordination and coherence. Thus a major consideration in incorporating food safety concerns more directly into farm bill legislation, and an argument against it, is the potential for introducing inefficiency into the regulatory system.

## II. THE SETTING: NUTRITION EDUCATION AND CONSUMER INFORMATION

There is a long history of the USDA providing information and education on food and nutrition to consumers. An important example is the "Dietary Guidelines" developed with the Department of Health and Human Services which provide the outlines for a healthy diet. A more recent example is the new "food pyramid" that provides information on basic food group choices. Both of these programs reflected the controversy which frequently surrounds providing food and nutrition guidance because certain food categories are necessarily emphasized and others are de-emphasized.

A major change in the information available to food consumers resulted from the Nutrition Labeling and Education Act of 1990. The new nutrition labeling regulations went into effect last year. They provide more relevant information on a product's nutritional content and a more readily understood format. Such crucial changes as standardizing "serving size" and defining descriptions such as "light" and "low-fat" were introduced.

Many American lack a basic understanding of good nutrition. For even more consumers their food consumption patterns are not in line with the basic recommendations for a healthy diet. The major nutritional concerns in the United States have largely shifted from a focus on diseases related to nutrient deficiencies to the linkage between diet and the

major chronic diseases. Widespread nutritional problems today are related to overconsumption, rather than to shortages of certain nutrients. In general, the typical American's diet contains too much fat, particularly saturated fat and cholesterol, too much sodium, and frequently too many calories for the level of physical activity. The average diet contains too few fruits and vegetables and too few of the complex carbohydrates found in cereal grains and their products.

About two-thirds of the two million deaths in the United States each year are due to heart disease, cancer, and stroke. Medical evidence is increasingly strong that these three major causes of death are affected by diet and other lifestyle factors. Initially, the public had reason to be somewhat confused because there was scientific disagreement over the exact link between diet and these chronic diseases, however, the message to the public from scientific report after scientific report has become increasingly clear and consistent.

Effective nutrition education which would lead Americans to develop healthier diets and lifestyles could have a major payoff by reducing health care costs. Research is needed, however, to understand how to communicate effectively concerning diet, nutrition, and health. Opportunities also exist for specific nutrition education programs that could be linked to various food assistance programs such as food stamps to increase their nutritional impact. Many low-income children suffer from poor diets, with inadequate intake of key nutrients.

## III. CURRENT ISSUES, OPTIONS, AND CONSEQUENCES

The current food safety issue of greatest concern is meat and poultry inspection. Other current issues include the Delaney clause and pesticide residues, plus consolidation of food safety responsibility, and better data and research on food safety risks.

### A. Meat and Poultry Inspection Issues

The Food Safety and Inspection Service (FSIS) of the USDA is responsible for the safety and quality of meat and poultry products. There is virtually unanimous agreement that the current system which emphasizes visual inspection is antiquated. It has changed little since it was first established early in the century. The success of the inspection depends on the accuracy of the inspector's sight and smell, and only a few seconds are available as each carcass is moved past. Only gross problems are caught. The most serious health hazards are microbiological, such as E. coli and salmonella. The current inspection system costs $600 million per year with some 7,000 inspectors. The 1985 National Academy of Science report, *Meat and Poultry Inspection: The Scientific Basis of the Nation's Program*, recommended a scientific, risk-oriented approach and establishment of a traceback, monitoring, and recall system.

In September 1994 USDA declared that E. coli in raw beef would be treated as an adulterant with a zero-tolerance. A modest sampling program was initiated. If any of the pathogen was found, the entire lot of meat would have to be recalled. An industry group originally filed a lawsuit but dropped it after a U.S. District Court denied an injunction (*FCN*, December 26, 1994). Also in September, USDA proposed legislation to the Congress related to pathogen reduction in meat and poultry. Sampling and standards for pathogens in

meat and poultry would be established. The plan would provide the USDA authority to recall adulterated products, establish a traceback system, and impose civil penalties for violations.

In February 1995, USDA proposed a major new meat and poultry inspection scheme. A risk-based, farm-to-table regulatory program for meat and poultry would be developed to prevent contamination. A Hazard Analysis Critical Control Point (HACCP) system forms the basis of the proposed new regulations. Meat and poultry would be checked by microscope to catch microbial contamination. The 1985 National Academy of Sciences report provides the blueprint for the current proposals with a trace-back system, monitoring of critical control points, and focusing on high risk problems. The FDA is also moving to implement a HACCP system for seafood inspection. However, some would argue the seafood HACCP is too weak and needs to be strengthened.

HACCP typically consists of seven steps:

(1) identifying the likely health hazards,

(2) identifying the critical control points where contamination is likely to occur,

(3) establishing safety measures to prevent the hazard,

(4) monitoring the system to insure the measures are working,

(5) establishing the appropriate remedy if a problem occurs,

(6) establishing a recordkeeping system on the monitoring, prevention, and remedying of hazards, and

(7) verifying that the control system is working.

HACCP was originally developed by the Pillsbury Company as a quality control approach. Many companies in the food industry have adopted it in their plants. In general, the industry supports the adoption of a HACCP approach. There may be important differences, however, between HACCP as a company quality control process and HAACP as a means to government-established food safety standards. The government's role in oversight of a HACCP system and the fate of the current inspection system and cadre of inspectors remain important questions.

USDA's HACCP proposal allows for a comment period and a series of public hearings. The objective is to finalize the regulationary reform by the end of 1995, with implementation over one to four years. In terms of cost-benefit analysis, USDA estimates a HACCP system for meat and poultry will cost less than $250 million per year. The estimated benefits will be a reduction in the costs associated with foodborne illness of $990 million to $3.7 billion per year (*FCN*, December 26, 1994, pp. 58-59).

B. Options and Consequences: Meat and Poultry Inspection

*Maintain Status Quo*

* Does not address risks from microbial pathogens
* Large commitment of resources with little public health benefit
* Burden industry
* Does not use best available science
* Continues to erode consumer confidence in safety of food
* Allows continued foodborne illness
* Provides known system with clear roles and responsibilities for government and industry

*HACCP, science/risk based system*

* Places more responsibility on the industry and increased cost to industry

* Requires fewer jobs and different skills for inspectors

* Directly addresses most important risks but still may not result in zero risk

* Still requires choice of level of acceptable risk and balance against costs

* Possibly costs more for small plants and may lead to further concentration in industry

* HACCP focuses on prevention which is more efficient from both firm's and regulatory agency's standpoint

* Enhances food safety

* Increases consumer confidence in food safety

* Possibly decreases government costs if present inspection system is ended or reduced. However, micro-testing by government may make costs comparable.

* Implementation requires addressing many issues:

  -- Increased costs to industry and possibly consumers

  -- Retraining of inspectors and plant personnel

  -- Preapproval of HACCP plans

  -- Phase-in for high risk products or for all food products

  -- Public access to HACCP records

  -- Ability of all plants to implement -- may be increased loss of small food businesses and producers

  -- Worker protection for private plant workers with new food safety responsibilities

*Alternative Options*

1. *Set microbial standards and let industry find ways to comply*

   Expensive to test for compliance

   Would directly address greatest risks

   Issue of how low would reasonable standards be and where would they be applied in the marketing chain

2. *Provide information to consumers about food handling*

   Addresses market failure directly

   Forces consumer to bear risk

   Not clear which consumer decisions result in greatest risk and therefore where to target information

   Not clear that warnings and labels are effective

   Changes in food sector mean consumers have less control over preparation so may not be able to use information

   Might be most useful if combined with other alternatives

3. *Allow voluntary certification of higher level of safety*

   Creates opportunity for market for safety -- consumers can pay more for higher level of safety and firms can be rewarded for achieving that level

   Raises objections from industry because implies uncertified is "unsafe"

   Does not address safety of food consumed by those unable to pay more

C. The Delaney Clause and Pesticide Residues Issues

The Delaney clause, which is contained in the 1958 Food Additive Amendment to the Food, Drug, and Cosmetic Act states that "no additive shall be deemed safe if it is found to induce cancer when ingested by man or animal, or if it is found, after tests which are appropriate for the evaluation of the safety of food additives, to induce cancer in man or animal" (Institute of Food Technologists, 1988, p. 121). The Delaney clause has a zero-tolerance standard. This standard has become increasingly extreme as the ability to detect infinitesimally small amounts of substances has improved. There has been great reluctance in Congress, however, to make this change since the public can not see why a zero-risk tolerance should not apply when it may affect their health, especially when it relates to a risk of cancer.

The Environmental Protection Agency (EPA) has responsibility for setting and enforcing the allowable levels of pesticide residues under the Federal Insecticide, Fungicide, and Rodenticide Act (FIFRA) of 1972. FIFRA embodies a risk-benefit approach in which environmental and health risks are weighed against economic benefits. The rationale was that the use of pesticides is essential to ensure an adequate food supply and some residues cannot be avoided. Pesticides have been registered for use even if there was evidence they were carcinogenic, as long as the benefits are substantial and the risks negligible. A substantial reform of the regulations governing pesticides and any resulting residues has become almost unavoidable given a court ruling applying the Delaney clause to pesticide residues in processed foods.

In July 1992, a Federal Appellate Court in San Francisco, in a ruling involving a law

suit filed by the Natural Resources Defense Council, ordered the EPA to apply the Delaney clause and its zero-tolerance provision to pesticide residues that concentrate in processed foods (*New York Times*, February 2, 1993, p. A1). In February 1993, the U.S. Supreme Court declined to review the Appeals Court ruling. The implications of this ruling are significant. Federal regulators have agreed to ban dozens of widely used pesticides as a part of the settlement of this law suit. Some 34 chemicals will be phased out of processed foods within two years and no longer used directly on crops within five years. Data for another 87 pesticides which the EPA lists as carcinogens will be analyzed for their possible presence in processed foods. This could have a major impact on the production of some crops.

A National Academy of Science (NAS) report on pesticides that was made public in June 1993, focused attention on the unique potential risks posed to children by pesticide residues in food. Children consume more food per unit of body weight than adults and eat less varied diets than adults, and thus have more exposure to pesticide residues in food. The NAS study found the existing data on children's diets and the effect of pesticide residues inadequate to be sure they are being protected. The report recommended that the EPA reform its approach to pesticide regulation to give priority to health concerns rather than to economic considerations and agricultural production.

Even before the NAS report was released the Clinton Administration suggested it would propose major reforms for pesticide regulations (*Minneapolis Tribune*, June 27, 1993, p. 8A). The aim would be to reduce the use of pesticides and promote alternative pest-control practices in agriculture. The proposed reforms would shift from the current risk-benefit approach that considers economic impacts to a health-based standard for judging the

safety of pesticides and residues. A negligible risk standard is proposed which probably would be interpreted as a one-in-one-million risk, which means the hazard may not cause more than one additional death for every million people over their lifetimes. The proposal would allow for a ten year transition period and set tolerances for pesticide residues both at the farm gate and at the dinner plate. The House Agriculture Subcommittee on Department Operations and Nutrition approved a pesticide reform bill in July 1994 (HR 1627) which would have repealed the application of the Delaney clause to pesticide residues in processed foods, replacing it with a negligible risk standard, and would encourage integrated pest management techniques. This bill did not progress further, however.

D. Options and Consequences

*Retain the Delaney Clause*

* Creates dual risk standard for residues in fresh food and residues concentrating in processed food

* Where foods have processed markets they would lose pesticide uses; ERS analysis show that greater impacts in terms of higher production costs would be on hops, apples, and sugar

* Dual risk standard creates Delaney paradox -- may increase risk by precluding use of less risky alternatives when these concentrate in processed foods

* Increases in some food costs

* With court ruling, decreases chemicals on market

* Creates disincentive for new product development

* Applies a much higher risk standard to chemicals than to other food safety risks

* Focuses only on carcinogens and ignores other hazards

*A negligible risk standard*

Allows some products to remain on market

Encourages product research and development

May decrease consumer confidence in safety of foods

Consensus on science-based decisions may be difficult to reach

Maintain or decrease cost of some foods

*Some higher standard than negligible risk*

Could allow some products to remain on market

May maintain consumer confidence in safety

Could provide greater protection for some groups, such as children

Could increase some food costs

E. Single Food Safety Agency Issue (not in USDA or FDA)

Various reorganization proposals have been considered to give greater importance to food safety issues. The Food Safety Group of Vice President Gore's government evaluation known as the National Performance Review, called for the formation of a single, independent food safety agency, finding the present system "inefficient, cumbersome, and costly." Vice President Gore himself suggested rather than a separate agency that food safety responsibility be combined under the FDA (*FCN*, January 3, 1994, p. 3). The USDA reorganization proposal approved by the Congress in 1994 includes appointment of an Under Secretary for Food Safety (*FCN*, June 20, 1994, p. 43). Appointment is by the President for four years with confirmation by the Senate. The position's responsibility would specifically exclude the marketing or promoting of food and food products (FCN, February 7, 1994, p. 64).

F. Options and Consequences

*Status quo*

* People most familiar with processes are most likely to know how to develop solutions. Need to understand food production processes to make improvements

* Currently are set up in this manner and operating

* May duplicate efforts and inconsistencies in approaches to consumers and food industry

* Creates perception of conflict of interest

* Allows for much oversight by Congress

*Consolidate*

* Decreases duplication of efforts with potential for resource savings

* Lessens potential for concerns "slipping through cracks"

* Could have significant negative effects on food industry if would result in more narrow thinking and loss of creative approaches to solutions

* Loses momentum for change while reorganizing

* Decreases number of Congressional oversight committees

* Regulates more consistently across products, i.e., seafood and meat and poultry

G. Food Safety Research Issues

There is a pressing need for a better knowledge base on which to base food safety policy. In particular, better data are needed on the risks from microbial foodborne pathogens for various products and for different types of consumers. According to a report released September 30, 1994, by the Council for Agricultural Science and Technology on foodborne pathogens, "better data are needed to:

(1) more accurately identify the current foodborne disease burden on society;

(2) identify pathogen-specific control options;

(3) estimate the public health protection benefits of potential control options all along the food chain as well as their likely costs to industry, consumers, and the government; and

(4) measure improvements in the safety of the food supply over time.

In addition, the special risks from foodborne pathogens faced by special population groups, such as children and the elderly, or people with certain health conditions, need to be studied to learn how to better protect those at high risk.

H. Options and Consequences

*Better data and more research*

* Facilitates risk assessment, but payoff many years away

* Possibly reduces costs of producing lower risk products

*Government responsibility*

Research results seen as unbiased

Basic research is expensive with long payback and may not be done by private industry

Limited government resources

Government can encourage interdisciplinary and multi-institutional cooperation

Public health is government responsibility

Research results are available to all

*Industry responsibility*

Industry may profit from enhanced food safety

Research information is proprietary

Can result in duplicative efforts

Some research too expensive for industry

Limited industry resources and may be more narrow focus

# CONCLUSIONS

Legislation concerning several of the food programs and most food safety issues have traditionally not been dealt with in the farm bills. However, the food programs and food safety are an important component of a comprehensive assessment of current food and agricultural policy issues.

The current magnitude of the problem of poverty together with the size of food program expenditures calls for an analysis of current food programs and of proposals to reform them. The humanitarian concern which underlies these programs remains strong among policymakers and the public at large, while the budget deficit looms large in their minds. Although food programs were developed in this country as a way to dispose of surplus agricultural commodities, a basic philosophical and moral premise drove the distribution of food (and other resources) towards the poor; that is, "there should be no starvation amidst plenty" (Black, 1942). Food Stamps provide an economic safety net for one in every ten citizens including one in seven children. They are the basic building block of income support for the poor. Food assistance programs are an investment in the health and productivity of people.

Over the past decades it has been observed that the poor received widely different levels of support in various states and localities. In order to provide some semblance of equity in the distribution of food to the poor, federal standards (entitlement) and programs were designed and funded by the federal government, although they were administered by the state and local governments. Despite the simplicity of several proposals to reform food assistance programs, there exists a rich multitude of options illuminated in this report.

Block granting of food program funds can take a variety of forms. It is possible to block grant portions of funds with a variety of guidelines and scenarios. Block granting portends some obvious consequences: the elimination of the entitlement nature of food programs; the loss of the countercyclical effect on family incomes during economic recession; wide discrepancies in food and other resources distributed to the poor in various states. In addition, block granting may not result in the significant savings that many desire. Finally, the policies chosen must incorporate an understanding of the distinction between nutrition programs and poverty programs, and their different goals.

Block grants to states, without federal guidelines (entitlement), will move the burden of supporting the poor to the states where, with balanced budgets, there is little capacity to respond to economic downturns. When citizens need help the most, the least resources will be available. Food stamps and other food assistance programs allow taxpayers to know how their tax dollars are spent. Block grants leave taxpayers with little assurance that federal dollars will accomplish national purposes. Modification of the current food stamp and other assistance programs can be made that will accomplish the same savings allegedly available through Block Grants. They include variations on indexing, income deductions, eligibility criteria and other forms of income support.

Substantial resources are spent on food safety assurance by business and government. With tight federal budgets and increased international competition, the overall issue is achieving desired food safety levels as efficiently as possible. Food safety needs to be considered within the context of broader food and agricultural policy, because it is one of several, sometimes conflicting objectives of that policy. Food safety issues have traditionally

not been included in farm bills. However, an analysis of food safety issues is an important part of a comprehensive assessment of food and agricultural policy.

The U.S. food supply is one of the safest in the world, but there are critical gaps and a loss of consumer confidence. Consumer concern about food safety has increased in response to a series of widely publicized incidents, such as the tragic outbreak of illness due to E. Coli contamination. A number of scientific reports have also criticized various aspects of the food quality regulatory system and suggested changes. Food safety assurance must confront certain fundamental dilemmas. Trade-offs exist between risk and cost. Legislation has been introduced which would broadly apply risk assessment and cost-benefit analysis to regulatory decisions.

The two most important specific food safety issues relate to meat and poultry inspection and the Delaney clause, particularly in relation to pesticide residues. There is widespread agreement that the current meat and poultry inspection system is antiquated. USDA has proposed new regulations based on a Hazard Analysis Critical Control Point (HACCP) system, which has substantial support. There are many questions about how it would be implemented and the fate of the current inspection system, though. A federal court decision ordered the EPA to apply the Delaney clause and its zero-tolerance standard to pesticide residues in processed foods. In response, the EPA has agreed to ban many widely used pesticides, which may be carcinogenic. Reforms have been proposed to enact a negligible risk standard for pesticide residues.

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