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USDA Domestic Food Assistance Programs--Sorting Out the Policy Issues

James D. Shaffer*

Introduction. The Food Assistance Programs (FAP) have had three apparent objectives (1) to distribute income to lower income people, (2) to expand the demand for U.S. farm products and (3) to improve the adequacy of food and nutrition for target groups. The fact that the FAP have multiple objectives and that many other programs contribute to these objectives complicates the task of sorting out the policy issues, requiring that attention be paid to the interrelationships among a broad range of policies and programs.

A few facts about the FAP are needed to set the stage for a discussion of policy. The FAP expenditures were about \$16 billion in 1981 compared to about \$1.6 billion in 1970 and \$9 billion in 1978. The largest expenditures were for the food stamp program (FSP), amounting to nearly \$11 billion in benefits plus more than \$500 million for the Federal half of administrative costs in 1981. The balance of the expenditures was mostly for food distribution and child nutrition programs, the largest part being for school related programs. In 1981 over 22 million persons, about 1 in 10 Americans, participated in the FSP. An average of 23 million children participated in the school lunch program, many at free or reduced prices. The special supplemental food program for women, infants and children (WIC) had nearly two million participants.

To be entitled to food stamps in 1982 a household must (1) not have income above 130 percent of the poverty line, with no exemptions or deductions from gross income (about \$1,000 per month for a household of four), (2) have assets worth less than \$1,500 and (3) meet several other criteria in regard to

*Professor of Agricultural Economics at Michigan State University. I would like to acknowledge the contribution of Stephen Hiemstra, Director of the Economic Analysis Staff, Food and Nutrition Service, USDA in the form of a long letter and the fact that I drew significantly from a recent paper by Benjamin Senaner. Paper for presentation at National Policy Education Conference, September 24, 1982, MSU, Department of Agricultural Economics, Staff Paper No. 82-82.

[Michigan State Univ.]

household definition and work. The criteria are more liberal for the elderly and disabled. The value of stamps received is based upon the cost of the USDA Thrifty Food Plan, less 30% of the household net monthly income. In 1980 the average monthly payment was \$39.45 per person. In August of 1980 an estimated 72 percent of all food stamp recipients were children, elderly or single parents. The average income of recipient households was \$116 per month. About 87 percent of the households had gross incomes below the poverty line and three-fourths had no countable assets¹.

Adequate Food and Nutrition. Since the elimination of the purchase requirement for food stamps in 1979 the FSP must be considered very much as any other income supplement. The requirement that stamps be used for food increases food expenditure of only a small proportion of recipients since most spend more than the value of stamps for food. The increased income does make it possible to purchase more food (and other things) and for very low income families this results in improved nutrition.

The other FAP are much more targeted to the nutritional adequacy objective. School lunch and breakfast and WIC are designed to contribute to nutritional requirements of children and pregnant women many of whom would otherwise have less adequate diets. Here the basic policy issue involves two questions--(1) Whose children are they, i.e., does the society accept a responsibility for the nutritional well being of children or is it strictly an obligation of parents? and (2) are there benefits beyond those captured by the child in poverty associated with better nutrition for children? Adequate nutrition is important to growth, capacity to learn and life-long productivity.

¹See Senaner, B., "The Current Status of Food and Nutrition Policy and the Food Programs", AAEA Invited Paper, August 1982, for more information on the FSP and data sources.

If we accept a social responsibility for children and the belief that child nutrition benefits others as well as the child, a policy issue remains in regard to the most effective means of achieving the adequate nutrition objective. Evidence is ample that knowledge of nutrition and motivation are important factors in nutrition¹. Thus if adequate nutrition is the policy objective, programs designed to deliver nutritious food to those who need it most and nutrition education seem to be the least cost means. The FSP could be modified to emphasize the purchase of foods leading to more nutritionally adequate diets². This would complicate administration.

Expanding Demand for Farm Products. The FSP originated in the USDA as a program to expand the demand for farm products and thus contribute to the support of farm prices or reduce the cost of other farm price support programs, while getting food to needy people. It originated in a period of excess supply of farm products and of many poor people. The program was originally designed with restrictions which resulted in higher expenditures for food than would have occurred with an equivalent cash payment. Its effect in expanding demand for farm products depends upon the difference in propensities to consume food between food stamp recipients and taxpayers.

The categorical programs generally contribute more to this objective per dollar expenditure than the FSP. This is especially true when surplus foods are specifically diverted to the programs--such as the contributions of

¹See Davis, C. G., "Linkages Between Socioeconomic Characteristics, Food Expenditure Patterns and Nutritional Status of Low-Income Households: A Critical Review", Paper at the AAEA annual meetings, August 1982.

²See USDA, Consumer and Marketing Services, "The Food Stamp Program: An Evaluation of the Pilot Projects", Washington, DC, April 1962, which reports that use of food and nutrition increased with a restricted food stamp plan including nutrition education. Also see Lane, Sylvia "The Food Stamp Program", Analysis of Food and Agricultural Policies in the 1980s, ed. Spitze and Martin, North Central Regional Research Publication #271, Agricultural Experiment Station, University of Illinois, 1980, for a discussion of the relationship of food use, nutrition and the FSP.

specific surplus foods to school lunch or most recently the direct disposal of surplus cheese. In these cases the specific commodity in surplus is moved to consumers. About two-fifths of expenditures for child nutrition programs have been for dairy products. Given the surplus of dairy products it may be seen as ironic that the special milk program has been virtually eliminated.

Is the expansion of demand for farm products or diversion of surplus food an appropriate policy objective? We need to distinguish several purposes for expanding demand: (1) to improve farm prices and incomes in general, (2) to market specific products in temporary surplus to provide added price stability and (3) to dispose of commodities accumulated under other farm price support programs. Information relevant to each of these purposes include (1) farm incomes are variable, but in many years per capita incomes of farm families are at least comparable to non-farm families. Benefits to farmers would be in proportion to output, thus benefits would tend to go to the better off farmers. (2) The appropriate policy objective may be to keep food prices down in times with inflation, etc. Note the export embargo. (3) More stable prices probably benefit both farmers and consumers. (4) Storage is expensive, stocks over hanging the market may depress prices, and it may be difficult to justify spending to hold stocks off the market or to destroy food while people are in need of food.

Income Distribution. All FAP serve as income supplements. The most fundamental policy question involving the FAP is--what should be the policy in regard to income distribution and what role should FAP play in it? We do not have an articulated policy or target for income distribution. Income distribution is rather an outcome affected by many policy decisions. Among the relevant policy issues are: who deserves an income supplement, given the outcome of all other policies affecting income distribution? How much should it be? What

are the consequences of income supplement programs given the goals of government such as promoting equity, productivity, self respect, efficient resource allocation, etc.? What are the important trade-offs?

Americans generally hold the belief that income should be equal to contribution. Most of us believe we deserve at least what we receive from the market for our contributions. Thus many believe taxes used for income supplements represents taking money from those who earned it and thus deserve it and giving it to those who did not earn it and thus are less deserving. Those in need through no fault of their own are considered more deserving than those in need who could work but don't, but assistance is generally considered charity rather than a deserved payment. How valid are these beliefs? In a complex industrial society it is difficult to determine the value of individual contributions. In any case total output is dependent upon more than individual contributions. The accumulated knowledge imbedded in the technology, institutions and human capital, as well as the natural resources, contribute to the level of output. In a sense a society inherits the knowledge incorporated in an on-going economic system. How this inheritance is shared is a matter of policy. Almost every policy of government has some influence on income distribution.

Food Vs. Cash Assistance. There have been serious proposals to substitute cash payments for food and some other categorical assistance as part of a general reform of welfare programs. President Nixon's negative income tax proposal is an example. Two arguments are offered: (1) that recipients will get more satisfaction from the receipt of money than commodities of the same cost because they could choose to purchase what they wanted, and (2) that administration of the welfare programs would be simplified and cost of delivering and receiving the assistance reduced. This assumes that (1) income distribution is the only objective, (2) recipients know more about what is good for them than the government, acting as the representative of taxpayers does and (3)

that taxpayers' preferences in regard to the use of the funds should not count. Taxpayers may be willing to assure a minimum for food but not assistance to buy anything a recipient wants.

The elimination of the purchase requirement and other restrictions on the FSP weakens the argument for the program. Cashing out the FAP and especially the FSP remains a policy issue. Those who would emphasize the objective of adequate food and nutrition or demand expansion should consider adding restrictions to the FSP and emphasizing the other food assistance programs.

The Budget and Fiscal Policy. The budgets for the FAP and other income supplements have increased greatly in the past ten years. There is currently great pressure to reduce the total budget while expanding defense expenditures following a major cut in taxes. The result has been large budget deficits. Budget deficits may be inflationary and may increase the interest rate due to competition for loanable funds, depending on the action of the Federal Reserve Bank. High interest rates restrict economic activity and inflation has significant adverse effects. The push for a constitutional amendment to require a balanced budget is part of an effort to reduce government expenditures, especially transfer payments. Current emphasis in cutting costs of FSP seem to be focused on delaying price escalators, reducing fraud and abuse, and eliminating the "non-needy" from benefits by tightening eligibility requirements. The issue of how much to spend on FAP and other income supplement programs cannot be separated from fiscal policy.

Issues Related to Employment. Does a society which adopts an enterprise form of economy have an obligation to provide employment to all who are willing to work and if it fails in this to provide those who are unemployed with at least the basic necessities of life? It has been estimated that a one percent increase in unemployment adds about one million persons to the food stamp

rolls¹. Policies generating employment are an alternative to the FSP and other income supplement programs for those able to work. A major alternative for all who can work would be to guarantee employment either through government employment or a wage supplement.

Does providing food and other necessities to the unemployed reduce the incentive to work? The empirical evidence seems to be yes for some and no for many. Clearly the implicit tax on work or the loss in benefits resulting from work has a significant influence. In this respect the FSP with a loss of benefits equal to only 30 percent of earnings is less a deterrent to work than most of the welfare programs which generally range from 50 percent to more than 100 percent. The FSP provide assistance to the working poor which is not the case for most welfare programs.

Should those able to work and unwilling to do so receive food assistance? The FSP require participants who are able to work to register for employment, although the rule is not uniformly enforced. A person who voluntarily quits a job is not immediately eligible for food stamps.

Fraud, Errors and Administrative Costs. Fraud and errors in the FAP have become a policy issue. A task force in 1981 identified about \$1 billion worth of fraud or misuse of funds in the FAP, the largest part of which was due to errors in FSP issuance of stamps and determinations of eligibility for the programs. The errors are especially high in expedited service in issuing food stamps. There is an income test for eligibility for free or reduced price school lunch and almost no effort has been made to date to verify the incomes stated on the application forms. The estimated error in this program runs from 10 percent to 25 percent. The States are responsible for direct administration of these programs and share the costs. The current administration

¹Senaner, op. cit.

budget proposals would put pressure on the states to reduce the errors in issuing food stamps considerably or pay for the costs of their errors.

Current costs of administration of these programs run 2-3 percent for school lunches, less than 10 percent for food stamps (not much different than AFDC) and 20 percent for the WIC program¹. The problems and costs of eliminating fraud and error would be substantial. It might seem logical to spend no more than a dollar to save a dollar of misused funds, especially if the errors were border line cases. However, the integrity of the program is at stake and misuse of government funds is very unpopular.

Jurisdictional Responsibility. Should the responsibility for FAP lie with the states or Federal government (or some combination) and if the responsibility is federal should the programs be within the USDA or shifted to the Department of Health and Human Services (DHHS)?

There have been many attempts to shift the FAP to the states. The arguments include: (1) it would reduce the Federal budget, (2) the state and local governments are closer to the problems and could better design the programs to meet local needs and circumstances and (3) states would have an incentive to more carefully administer the programs reducing fraud, errors and costs.

The arguments opposed to the shift include: (1) the states are in no position to take on additional financial responsibilities, (2) the programs costs are highly cyclical and the federal government is in a much better position to deal with cyclical programs as part of monetary-fiscal employment policy, (3) it would disconnect the food programs from the farm surplus programs, (4) variations in benefits among states would result which would be inequitable and possibly result in migration toward the states with higher benefits

¹Information in this section based upon a letter from Stephen Hiemstra, August 18, 1982.

and (5) income distribution policy should not be dealt with on a state basis because of the large differences in incomes among states. The FSP is almost unique among the welfare programs in setting a uniform standard of eligibility and benefits. Contrast this with the differences in maximum Aid to Dependent Children payments, which for a mother and one child, are \$85 in Texas and \$327 in Michigan.

The current administration at first proposed shifting the FSP to the states as part of the New Federalism initiative, but has since withdrawn the proposal. However a block grant has been substituted for the federal FSP in Puerto Rico, saving 10-15 percent of the costs to the U.S. treasury and the WIC program has almost turned into a block grant by setting a cap on benefits¹.

The arguments to shift the FAP to DHHS include: (1) these programs could be better integrated with other health and welfare and administered more efficiently and (2) the USDA is a department catering to the interests of farmers rather than being primarily interested in nutrition and welfare recipients. Some would see the shift, especially of the FSP, as the first step in cashing out the program.

The arguments in favor of USDA jurisdiction include: (1) the FAP should be part of farm and food policy, (2) complementarities exist between commodity and food assistance programs (3) the USDA has proven it can deliver the programs effectively and (4) the USDA might lose its status as a department if it were to lose the FAP which are half its budget. However, the Departments of Commerce, HUD, Interior, Justice and State each have budgets smaller than USDA would have without the FAP². Nonetheless, the size of constituency and scope

¹Hiemstra, op. cit.

²Pointed out by G. Wm. Hoogland, "The Current Status of Food and Nutrition Policy and Food Programs: Discussion", AAEA meetings, August 3, 1982.

of mission of a department may influence its status. A shift of FAP administrative jurisdiction would also change the jurisdiction of Congressional Committees. Since important political trade-offs are frequently battled out in committees such a move could influence the budget and policies of the USDA and for the FAP.

Farm and Food Policy. The FAP need to be considered in the context of national farm and food policy. The adequacy of food and nutrition for the nation is a central focus of such policy and FAP are only one set of policies contributing to the adequacy of food and nutrition. Nutrition education is an element. Most important, however, is the effectiveness of the system of production and distribution of food. This depends upon many policies and programs including research and education.

Final Comment. For every important public policy issue there is a solution which is simple and probably wrong. The FAP involve a number of complex issues. They range from technical issues of administration to the most fundamental issues faced by society--the distribution of income and the related rights and privileges. For most of these issues there is no single right answer but there are differences in consequences which affect all of us. One way of thinking about this most fundamental question is to attempt to answer the question: suppose you were completely ignorant of the position you would hold in society, how then would you set the rules determining the distribution of benefits and costs? Would you include FAP and if so what form would they take?