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State Operated Food Stamp Programs

Kathryn Longen and Barbara Claffey
(202) 447-6620

To obtain a rough approximation of the premium paid for foods labeled organic versus conventionally produced foods, USDA researchers compared prices of 32 food items sold in a Washington, D.C., area supermarket in October 1980 with the same items sold in a Washington, D.C., area health food store.

The cost of the unweighted basket of foods was 15-percent higher for the organic foods. A smaller scale, less efficient distribution system and less price responsive demand for the health foods, compared with demand for conventional foods, probably contributed to the higher prices found.

However, the total cost of 18 unprocessed organic items did not cost any more than their supermarket counterparts—\$14.39 and \$14.40, respectively. But the 14 processed organic foods at the health food store averaged 33-percent more than their supermarkets counterparts.

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Food assistance and public welfare programs are receiving a great deal of attention as the new Administration attempts to contain the growth of the Federal budget. The dramatic increases in participation and program costs over the past 5 years—from 17.9 million recipients at a cost of \$5.3 billion in 1976 to almost 22 million recipients and a cost of nearly \$10 billion in 1980—make the Food Stamp Program (FSP) particularly susceptible to funding reductions. The September 30 expiration of the authorizing legislation for the FSP—the Food and Agriculture Act of 1977—provides a forum for debate on program operation and funding.

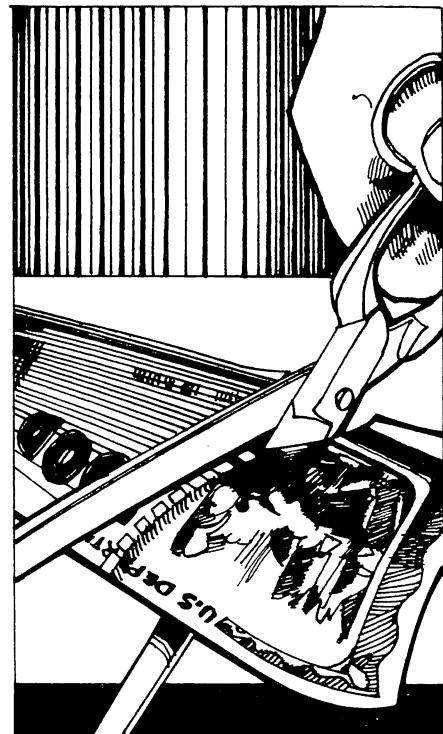
In the past, proposals to alter food assistance programs through categorical or block grants have surfaced frequently in Congress. A block grant is the consolidation of funding for several programs into one broad program, as opposed to a categorical grant which is a federally funded, State administered program for a single activity or category of recipients and operating under a set of established rules.

The Economic Research Service (ERS) recently conducted a study of the impact of converting the FSP to a categorical grant program in the 50 States, Guam, Puerto Rico, the Virgin Islands, and the District of Columbia.

In the analysis, it was assumed that an agency within the State government would administer the program. The study found that the impact of permitting State administration would vary from region to region. The U.S. Territories however, would suffer the greatest losses in FSP funding.

Verification of program eligibility, issuance of coupons to recipients, and the control and accountability procedures would continue to be carried out at the State level. However, the role of the State administering agency would be expanded to include developing eligibility guidelines and establishing per household benefits, as well as monitoring the program for fraud, error, and abuse.

Federal administrative duties would be confined to the disbursement of funds to States, the printing of coupons, and the program oversight activities currently con-



ducted by Congress. The latter would ensure that States are operating programs in compliance with goals outlined in the authorizing legislation.

Funding Options

A formula that assures equitable distribution of Federal appropriations among the States must be selected to allocate funds under a grant program. The formulas developed for the ERS report are comprised of a single statistical factor either used to distribute Federal funds for existing grant programs, or relevant to the FSP. The five formulas analyzed are:

- funding in the base year (1979)
- share of total population
- share of current program participation
- share of persons below the poverty level
- share of persons unemployed

The base-year allocation provides each

State with funds equal to those received in 1979. Gains and losses in funding under this method may be attributed to a requirement—for the purposes of the analysis—that a maximum of 5 percent of the appropriation be applied toward State administrative expenses. States with administrative costs which exceeded 5 percent of their total program costs in 1979 would have more funds available for program benefits.

For the other options, a State's share of total program benefits would equal its share of the national total of each statistical factor. For example, a grant based on population would provide a State that has 5 percent of the national population with 5 percent of the total program funds. In the analysis, total program funds were \$7.6 billion—the total value of all food coupons plus the Federal share of State administrative expenses of the FSP in fiscal year 1979.

Results

In considering the overall redistribution of program benefits according to the various funding formulas, the States and the District of Columbia were divided into four regions and nine subregions defined by the Census Bureau, plus the outlying territories of Guam, Puerto Rico, and the Virgin Islands. The appropriations received by each area under the five formulas were compared with their actual funding levels in 1979.

As shown in table I, a region received more funds whenever its share of the national total of a statistical factor exceeded its share of total Federal funding in 1979. For example, the Northeast region, with 21.93 percent of the Nation's population, received 21.18 percent of the total FSP appropriations in 1979. Use of a population-based categorical grant would give the region a funding gain of \$43.4 million.

All subregions except the territories gain benefits under at least one funding option. The number of persons unemployed, below the poverty level, or participating in the FSP constitutes a large percentage of the population in the territories. However, because

Table 1: Changes in Benefits Under Alternative Funding Allocation Schemes

Region	Base Year	Population	Participation	Poverty	Unemployment
Million Dollars					
Northeast:	-15.0	43.4	-65.2	-332.9	233.7
New England	-3.9	40.8	-34.4	-97.3	33.2
Mid-Atlantic	-11.1	2.6	-30.8	-235.6	200.5
North Central:	-19.4	581.9	.3	184.2	497.1
East North Central	-22.0	286.2	-16.2	-74.6	359.3
West North Central	2.6	295.7	16.5	258.8	137.8
South:	-7.7	-340.4	187.8	437.9	-617.7
South Atlantic	-10.7	-70.6	.5	107.9	-167.8
East South Central	-7.2	-258.9	147.0	77.2	-274.7
West South Central	10.2	-10.9	40.3	252.8	-175.2
West:	10.2	372.8	-51.5	36.4	429.7
Mountain	4.5	108.7	-16.2	48.4	52.8
Pacific	5.7	264.1	-35.3	-12.0	376.9
Territories:	-15.5	-705.2	-118.8	-373.1	-1
Dollars Per Person					
Northeast:	-.67	4.03	-4.17	-15.81	8.65
New England	-.37	3.96	-3.34	-9.44	3.22
Mid-Atlantic	-.30	.07	-.83	-6.37	5.43
North Central:	-.36	42.54	1.39	27.40	26.67
East North Central	-.66	8.66	-.50	-2.26	10.88
West North Central	.30	33.88	1.89	29.66	15.79
South:	.38	-11.61	6.90	15.72	-21.28
South Atlantic	-.28	-1.83	0	2.80	-4.35
East South Central	.26	-9.34	5.29	2.79	-9.90
West South Central	.40	-.44	1.61	10.13	-7.03
West:	.90	27.52	-3.92	6.34	24.71
Mountain	.64	15.47	-2.31	6.88	7.51
Pacific	.26	12.05	-1.61	-.54	17.20
Territories:	-.69	-31.41	-5.29	-16.62	-27.28

¹— data unavailable

Table 2: Benefits Under Alternative Funding Allocation Schemes

Region	Base Year	Population	Participation	Poverty	Unemployment
Percent					
Northeast:	-1.0	2.8	-4.3	-21.8	15.3
New England	-1.1	11.5	-9.7	-27.5	9.4
Mid-Atlantic	-1.0	.2	-2.6	-20.0	17.1
North Central:	-1.5	45.0	.0 ¹	14.2	38.4
East North Central	-2.1	27.5	-1.6	-7.2	34.6
West North Central	1.0	116.5	6.5	101.9	54.3
South:	-.3	-12.9	7.1	16.6	-23.4
South Atlantic	-.9	-5.9	.1	9.0	-14.1
East South Central	-1.0	-36.4	20.6	10.9	-38.6
West South Central	1.4	-1.5	5.5	34.5	-23.9
West:	1.1	39.3	-5.4	3.8	45.3
Mountain	1.9	46.5	-6.9	20.7	22.6
Pacific	.8	37.0	-5.0	-1.7	52.8
Territories	-1.9	-86.6	-14.6	-45.8	²

¹less than .1 percent
²data unavailable

the population of these areas is small, their proportionate share of each statistical factor for the United States and territories appears insignificant. For example, 56.8 percent of the population of Puerto Rico received food stamps in 1979. The 1.8 million persons, however, accounted for only 9.4 percent of the total participation in the United States in 1979, resulting in an appropriation of \$674.9 million under the participation option. This is less than the \$785.6 million actually received in 1979.

In contrast, the west-north-central subregion gains program benefits under every allocation formula. In 1979, the seven States comprising this subregion received only 3.5 percent of total food stamp appropriations.

This relatively small program size, contrasted with the area's larger share of the five allocation factors, results in an increase in appropriations.

The impact of the five allocation formulas can also be illustrated by the percentage changes in funding relative to fiscal year 1979 (table 2). The distribution of funds according to the base-year funding option results in both the smallest percentage and dollar changes in appropriations to the States. Gains and losses in each State under the base-year option are equal to the difference between the 5-percent administrative limit and actual administrative expenses in 1979. Since no State used more than 10.5 percent of its total program value for administrative costs, the largest percentage gain in appropriations for benefits in any State was 5.5 percent. The greatest loss in appropriations for benefits was 3.4 percent.

The largest percentage gains in program funding occurred in the west-north-central subregion. This area received a 116.5-percent increase in funding under the population formula and a 101.9-percent gain under the poverty allocation option. The smallest increases occurred when the participation (6.5 percent) and base-year (1.0 percent) formulas were considered.

In general, the two program-specific variables—participation and base-year funding—minimized changes in the level of program funding. The largest percentage gain under the participation formula was 20.6 percent in the east-south-central subregion, while the greatest loss (14.6) percent occurred in the territories.

Administration's Proposal

Various consolidation grants, including block grants, have been proposed in the past to ensure more effective and efficient use of public funds by providing States with wider latitude in directing expenditures, and to reduce administrative costs.

A recent proposal would allow all food assistance projects in Puerto Rico in fiscal year 1982 to be funded as a single block grant. This would be extended in fiscal year 1983 to the Virgin Islands, Guam, American Samoa, the Trust Territories of the Pacific Islands, and the Commonwealth of the Northern Marianas. The block grant for Puerto Rico proposed by the Administration would equal 75 percent of the total Federal funding that would have been received under the categorical programs in fiscal year 1982. Conversion to a block grant could save up to \$300 million.

The advantage of the Administration proposal is in enabling policymakers to evaluate the effectiveness of this type of program on a relatively small scale, and could serve as a valuable indicator of the feasibility of a national block grant program.

Further research is needed to provide information about the feasibility of implementing both categorical and block grant proposals. ■