Social Policy Role of Food Assistance Programs

by

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Introduction

Focus of the paper. In fiscal 1977, the Federal Government will spend $9.2 billion on food stamps and child nutrition programs. These benefits represent the bulk of Government's direct efforts to improve nutrition. But viewed more generally, these programs are only a few among many federal mechanisms for transferring income from one group of people to another to improve the recipients' financial status. Food programs account for only 5 percent of all such transfer payments, but food assistance constitutes a higher proportion of benefits (24 percent) directed to low-income groups. Thus, food assistance is a very important element in federal income support.

There have been a number of studies of the impact of food stamps and the school lunch program on the nutritional well-being of program participants (see USDA's Program Evaluation Status Reports--Completed Studies). Viewed as a body of knowledge, these studies tell a non-expert decision-maker several things: (1) the programs do increase food consumption; (2) although the evidence is less convincing, there does seem to be nutritional improvement as well; (3) to be more efficient in achieving these two goals, food programs would have to be more carefully targeted, both in people served and in food and nutritional services delivered; and (4) non-food income transfer programs also increase food consumption, although probably to a lesser degree than do food programs.

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However, it is necessary that not only food programs but other types of aid as well be related to other social goals in order to understand in broader perspective why we are transferring $187.9 billion of American tax dollars through the various income transfer programs and what it is that we are accomplishing with these sizeable expenditures.

Social goals of income transfer payments. Of course, the narrower goal of good nutrition underlies many other broader social goals such as longevity, equal opportunity for education and work, and freedom from disease. Given the limits on what we know about how to achieve all these objectives, and the limited funds with which to pursue them, there will always be a struggle over the emphasis any particular goal receives.

Taking the three largest food programs as examples, each seems to typify a different way of pursuing broader social goals through programs that transfer income by subsidizing food purchasing power. For instance, the special supplements for women, infants, and children (the WIC program) carefully target a relatively small amount of money ($250 million) to purchase high-nutrition foodstuffs for people that clearly have special nutritional needs, thereby emphasizing a nutritional goal over all other possible results and constituting an important effort to improve maternal and child health. The school lunch program, which spends $2.4 billion a year, serves more of an educational purpose, presumably helping poor children do better in school by providing them with free lunches, and freeing up State educational funds for other more directly educational purposes by subsidizing school cafeteria operation. The food stamp program, with fiscal 1977 outlays estimated at $6.2 billion, has its nutritional goals so diluted by the broader population served and the total reliance on consumer choice that it relates much more to the purposes of general income maintenance and to programs like aid to families with dependent children (AFDC) and supplemental security income (SSI) than to a nutrition program like WIC. Given the importance of food stamps as a welfare program, and the likelihood that the income maintenance policy debate will intensify next year, it is the linkage between food programs and income transfer policy that this paper addresses. The health and educational aspects of food assistance cannot be treated adequately in a paper of this length.

Food stamps are an integral part of the larger income transfer system. As the only public program to serve all categories of low-income people in all parts of the country, food stamps recipients also benefit from many other programs. A 1974 survey found that 60 percent of food stamp households also received cash aid, 30 percent participated in medicaid, and 36 percent received social security checks (see Paper No. 17 of the Joint Economic Committee's Studies in Public Welfare). This concurrent effect of numerous programs on a group of people means that social goals and policy issues cannot be viewed in isolation for food stamps or any other program but must be considered for the system as a whole.

What goals should income transfer payments serve? There are three basic goals that most people would agree stand above all others: First, that all Americans have incomes sufficient to live at a level considered adequate by society; second, to have incomes that are judged equitable with respect to past or present efforts at self-help and in light of any particular circumstances requiring extraordinary remedies; and third, to receive those incomes in a manner least disruptive to the working of the private economy. These ideals form a good framework for evaluating income transfer policy.

Income Transfers and The Federal Budget

Importance of income transfers to the budget. Income transfer policy is a major determinant of our fiscal policy. Income transfer payments[1/] to increase the real income of beneficiary groups through cash payments and subsidized health care, food and shelter will account for $187.9 billion, or 45 percent of the $413 billion outlay total in the Congressional Budget Resolution for fiscal 1977. This sector of the budget is not only the largest but also the most rapidly growing sector and the most difficult to affect in terms of short-run budget outlays.

Types of income transfer programs. There are three ways in which it is useful to classify income transfer programs: (1) Those which pay cash benefits to recipients, and those which offer aid in the form of subsidized food, medical care, or rent; (2) those which are contributory or self-financing, and those which are not; and (3) those which base benefits explicitly on need, and those which do not.

The bulk of income transfers (71 percent) are funded by earmarked taxes (see Table 1). Social security and medicare alone account for 56 percent. Cash benefits based on need make up only 9 percent of federal income transfers, a proportion now exceeded by non-cash welfare programs (12 percent) and non-welfare cash benefits (9 percent). The relative decline in importance of cash welfare benefits is recent, resulting from the rapid growth of non-cash aid (e.g., food stamps, medicaid) and non-welfare programs (e.g., coal miners' benefits, military retirement, temporary unemployment benefits.)

Table 1. Income Transfer Budget Outlays and Beneficiaries by Program Type, Fiscal Year 1977

Income transfer programs	Average no. of beneficiaries (millions)	Federal Benefit Outlays ($ billions)	Outlays as percent of total
Total, income transfer programs		187.9	100.0
Cash benefit programs:		144.3	76.8
Contributory		111.8	59.5
Social Security (OASDI)	33.3	(83.4)	(44.4)
Civil Service retirement	1.5 a/	(10.1)	(5.4)
Unemployment compensation	9.2	(14.5)	(7.7)
Non-contributory		16.3	8.7
Military retirement	1.2	(8.5)	(4.5)
VA disability compensation	2.6	(5.6)	(3.0)
Non-contributory (need-based)		16.2	8.6
AFDC	11.3	(6.8)	(3.6)
SSI	4.6	(6.0)	(3.2)
VA pensions	2.2	(3.2)	(1.7)
Non-cash benefit programs:		43.6	23.2
Contributory (Medicare)	24.9	21.6	11.5
Non-contributory (need-based)		22.0	11.7
Medicaid	23.6	(9.6)	(5.1)
Food stamps	18.9	(6.2)	(3.3)
Child nutrition programs	26.3	(3.0)	(1.6)
Subsidized housing programs	7.7	(3.2)	(1.7)

a/ End of year number.

Source: Unpublished tabulations prepared for the Senate Budget Committee, and the President's Budget for 1977.

Trends in growth of income transfers. Over the last 20 years, income transfer payments have quadrupled on a constant dollar basis. Based on the current services budget the President submitted to Congress last year, these payments will account for $22 billion of the $46 billion of "automatic" growth in the federal budget from 1976 to 1977. Thus, concern has arisen over what the future growth pattern may be.

The Congressional Budget Office projected benefits under current law to the year 2000, and the projections show that payments in 2000 will be 2.5 times the present level in constant dollars (see Growth of Government Spending for Income Assistance: A Matter of Choice). This growth will result simply from growing beneficiary populations, the impact of real wage growth on benefits, and the indexing of benefits to inflation. But as a share of GNP, the projections show the present 9.3 percent of GNP for income transfers staying about the same. If provisions in current law that overcompensate for inflation were corrected, only two programs would experience signficant growth in share of GNP: (1) medicare, due to expected cost inflation; and (2) Federal employee retirement, because of the many employees hired in the 1940's, 1950's and 1960's who will be retiring and the growth in pay over those decades.

Of course, further growth over and above CBO's current law projections may occur through new legislation, but program expansion is unlikely to match the pace of the past 20 years, which saw many landmark changes, such as the establishment of new programs (medicaid, medicare, food stamps, coal miners' benefits, mortgage subsidies, liberalization of social security coverage and benefit rules, automatic cost-of-living adjustments, and greater sharing in State welfare payments). But should the past growth rate be duplicated over the next 25 years, transfer payments in the year 2000 would be more than three times the level projected for current law.

There are numerous pressure points for greater spending on income transfers, of course. Despite the rapid growth in payments, the bottom 20 percent of American households still receive only 8 percent of total personal income, about the same share as 20 years ago. And a large poverty population in absolute terms still remains as well. To eliminate poverty through transfers would require additional payments of at least $8 billion, and probably much more to minimize adverse effects of a poverty-level income guarantee on work incentives.

Further pressures arise from demands to rectify inequities in the hodge-podge of programs. For example, the AFDC payment level in Wisconsin is six times that in Mississippi. AFDC and medicaid are available to low-income female-headed families in all States, to intact families headed by unemployed fathers in about half the States, but to intact families with fathers working full-time in no State. Social security does not benefit working wives upon retirement at a level commensurate with their contributions, since wives receive 50 percent of their husbands' benefits without ever working for wages. To remedy inequities costs money, since the payments to persons benefiting from reforms usually outweigh reductions in the benefits of other recipients.

Controllability of income transfers. An important fiscal characteristic of these programs is their uncontrollable nature. Given the legal, moral, and political necessity of making payments to which people are entitled under law, initiatives to curb normal growth, reduce expenditures, or reprogram spending can have relatively little impact in a period as short as the next budget year.[2/] The traditional budgetary process has involved marginal changes in the budget base for the fiscal year that begins a few months after the preparation of the new budget. Given this amount of lead time, substantial discretionary changes in income transfer outlays are unlikely since most would require legislation, a lengthy process when controversial matters such as income redistribution are involved.

Even if legislation moves quickly, budgetary effects may be overshadowed by program responsiveness to inflation (83 percent of transfers are indexed for price increases), unemployment (a percentage point rise in unemployment adds about $3 billion to transfer payments), or the behavior of beneficiary groups, who may change their rates of retirement, childbearing, divorce, or school attendance. Such changes can offset the effects of policies aimed at budgetary change.

Control over spending is also hampered by difficulty in implementing administrative improvements. Probably several billion dollars of transfer payments are improperly made,[3/] mostly due to inadequate program administration. Although this money could be saved, actually doing so is difficult. First, the offending administrative practices may be based on statutes or court decisions, with remedies requiring new law. Second, administrative problems may result from inadequate staff, complex laws and regulations, poor coordination among multiple agencies, and lack of resources in the judicial system for prosecution of fraud. None of these factors is easily overcome in the short span of a year, and those improvements which are possible must be worked through enormous federal agencies or, with even more difficulty, through federal agencies that only regulate the administrative practices of 50 States and over 3,000 counties. And finally, benefit savings may be offset in whole or in part by increased administrative costs.

Taking a longer view, however, there are opportunities to curb growth in income transfer payments. For example, CBO's projections to the year 2000 illustrate that $19 billion a year in 1975 dollars could be saved by eliminating automatic provisions that overcompensate for inflation. Finding ways to slow the rise in health care costs would save billions in outlays under medicare and medicaid. For example, if the rate of price increase the CBO projections assumed were halved (from 10 to 5 percent yearly for hospital costs), expenditure savings would total $28 billion annually by 2000. However, to achieve such annual savings in the short-run ($47 billion for the above examples) would require eliminating whole programs or substantially reducing social security benefits. But relatively small initiatives taken now could produce sizeable shifts in program costs over the long run.

Effects of Income Transfers on the Income Distribution

Although total income transfers will average about $875 per capita this year, and despite the rapid growth in payments, there has been no major change in the distribution of income, and the Nation still has a sizeable poverty population. In part, this paradox results from Census' failure to count non-cash transfers (e.g., food stamps, medicaid) in official statistics. But the data problem is only a partial answer, since non-cash benefits are only 23 percent of total transfer payments.

The main reason for the ineffectiveness of transfers in redistributing income is the dominance of social insurance benefits over benefits strictly for the needy. Social insurance programs were designed to transfer income from wage-earners to those no longer in the workforce. Thus, the relative neutrality of these programs with respect to the income distribution comes as no surprise. And since social insurance programs like social security account for 80 percent of all transfer payments, while cash welfare benefits are only 9 percent of the total, social insurance payments tend to dominate the overall results produced by the income transfer system.

The primary effect of welfare-type programs is to transfer income from higher to lower income classes with funds drawn from the progressive federal income tax. But social insurance benefits are mainly transfers within the working class population, from current workers to former workers and their families. Furthermore, these transfers are financed by payroll taxes that are regressive in nature; i.e., they are relatively heavier for low-income workers than for others. All workers pay the same social security tax rate (5.85 percent on both employer and employee), but only the first $15,300 of annual earnings are taxed.

A University of Wisconsin study (Reynolds and Smolensky) has measured the change in post-tax, post-transfer income shares from 1950 to 1970. It shows that the income share for the bottom 20 percent of the income distribution rose from 7.2 percent of all income in 1950 to 7.9 percent in 1970. Over that period, income transfer payments quadrupled in real value and rose from 3.7 to 8.6 percent of GNP. The study shows, however, that Government activity did serve to reduce income inequality to a greater extent in 1970 than in 1950. The relative importance of transfers in reducing inequality tripled over that time period, while taxes became less progressive and play only a small role in equalizing income.

There are still 24.3 million Americans living in poverty (less than $5,500 for an urban family of four).[4/] The number has declined from 28.5 million in 1966, but the decrease occurred during periods of economic growth. The number of poor people is actually about the same as in 1969, despite the rapid growth in transfer payments.

A book by Robert Plotnick and Felicity Skidmore presents an analysis of the impact transfer payments have had on the extent of poverty. The number of households that would have been poor if no transfer income were available actually increased from 1965 to 1972 by 2 million to a total of 17.6 million. The income gap, the aggregate dollar value of income required to eliminate poverty, grew by

$5 billion to a total of $34.3 billion. The effect of transfer payments was to offset the potential growth in poverty, with post-transfer poor households remaining about the same in number (9.9 million in 1972). The post-transfer income gap declined, from $13.8 billion to $12.5 billion. Over this period, the proportion of transfer payments received by pre-transfer poor households that was not needed to remove them from poverty increased from 31 to 36 percent, and half of all transfer payments went to households that would not have been poor even without those payments. Thus, about two-thirds of transfer payments did not reduce the poverty income gap at all (the 50 percent that went to the non-poor, plus 36 percent of the 50 percent that went to poor households).

The impact of transfer payments on poverty differs greatly among demographic groups. In 1972, transfers removed 63 percent of otherwise poor households with aged heads from poverty, social security alone accounting for 51 percent. For non-aged households, only about one-fourth of pre-transfer poor households were pushed out of poverty, with social security and public assistance playing comparable roles.

Plotnick and Skidmore indicate the estimated proportion of transfer payments going to pre-transfer poor households. AFDC, SSI, medicaid, and food stamps are the more efficient programs in reaching the poor (over 75 percent of payments go to poor households). One welfare-type program, subsidized housing, is no more poverty-effective than the social security program, which serves a much wider clientele but still pays a little more than half its benefits to pre-transfer poor households. Unemployment insurance, surprisingly, has the lowest proportion of payments going to such households (only 21 percent).

Criteria for Evaluating Policy Alternatives

Instead of forming a coordinated system to achieve well-defined goals, income transfer programs are an assortment of fragmented efforts that distribute income to a variety of persons for a variety of purposes, on conflicting terms, and with unforeseen effects. Two primary factors have inhibited a uniform system of equitable aid: a tradition of local responsibility for the needy; and a habit of approaching social problems in isolation, developing new programs to attack newly perceived problems. Only with passage of the 1970 food stamp amendments and enactment of SSI in 1972 did the Federal Government set national eligibility rules and benefit levels for welfare aid to groups other than veterans.

Our past practice of approaching problems in isolation has led to fragmented and inconsistent legislation and administration. Our income transfer programs are shaped by at least 19 committees of Congress, 5/ 50 State legislatures, six Cabinet departments, three other Federal agencies, 54 State-level welfare agencies ane more than 1,500 county welfare departments, the U. S. Supreme Court and many lesser courts.

Each congressional committee typically deals only with its own subject area, although changes in one benefit program, such as AFDC or social security, commonly affect another, such as food stamps or veterans' pensions. Because of the categorical nature of the "system" and the restricted viewpoints of agencies and congressional committees, attempts to remedy one problem may create another. For example, if the House Ways and Means Committee alters AFDC eligibility, this will affect eligibility for food stamps (Agriculture Committee) and medicaid (Interstate and Foreign Commerce Committee) in ways these committees may not favor.

None of the committees has the duty to appraise the total effect of congressional decisions. As a result, for example, persons can be enrolled in several programs, the terms of which discourage work and provide income that far exceeds their earning potential, but no one committee can easily deal with such a cumulative result.

In considering income transfer policy alternatives, it is the effect, not of each separate program, but of the system as a whole as it applies to each eligible family or individual that it is important to evaluate. Important criteria for such evaluation include the following:

<u>Equity</u> -- Are all groups treated fairly based on a consistent set of principles? The groups excluded from AFDC and medicaid constitute 38 percent of the poor but receive only 13 percent of transfer payments. Benefits are lowest in the South and are lower nationally in areas that are poorer, more rural, or more black than average.

<u>Adequacy</u> -- Are benefits at appropriate levels to achieve program objectives? Payments are often too low--e.g., $60 a month for a family of four on AFDC in Mississippi -- but in urban States cumulative benefits often exceed the after-tax earnings of the average working woman.

<u>Incentives</u> -- Does program design or operation encourage undesirable behavior by recipients? Combined benefit-loss rates allow a person on AFDC and food stamps to keep only 23 cents out of an extra dollar earned. Participation in other programs reduces work incentives further. AFDC and medicaid also discourage marriage for a woman with children due to exclusion of working males from eligibility.

<u>Administrative integrity</u> -- Do program rules permit a reasonable level of enforcement and a high degree of accuracy in administrative actions? Errors in benefit determination run high -- over 33 percent for AFDC, about 25 percent for SSI, over 50 percent for food stamp recipients not on AFDC or SSI -- and much of this error is linked to specific laws or regulations that are difficult to enforce.

<u>Federal-State-local fiscal relations</u> -- Is financing equitable with respect to State and local fiscal efforts and with their need for federal funds?

Problems clearly exist. For instance, New York City pays 25 percent of the cost of AFDC and medicaid, while most cities pay nothing. Lower federal matching rates for administrative costs than for benefit payments or provision of services offer States little financial incentive to strengthen program management.

Conclusion: Suggested Policy Directions for Food Programs

Given the enormous commitment of public funds to income transfers, and the fact that many social objectives have yet to be reached, we seem to have entered an era in which restructuring the system will be considered more seriously than ever before. Adding to the urgency is the breakdown at the local office level in operating such programs as food stamps, medicaid, and SSI, and the policy confusion in Washington in coping with a system legislated by 19 congressional committees and administered by nine executive agencies. The interest in budgetary control and more efficient targetting of funds sparked by the congressional budget process also adds to the pressures for systematic reform. Such reform should include a restructuring of food assistance programs.

If Congress wants to devote more funds specifically to improvement of nutrition, the WIC-type of program would seem to offer more payoff, by carefully selecting a clientele in need of help and directly dispensing to them the kinds of food they require. If a more general approach is desired, perhaps greater efforts at nutrition education should be tried.

The food stamp program should be replaced by a federally administered cash payment system for income maintenance. It already comes closest to approximating the type of program that welfare reform advocates have considered preferable. By setting benefits at levels sufficient to replace food stamps, AFDC, and local general assistance, a more adequate and equitable program could be established that would also be easier to administer. It could be designed to reduce the incentives that now exist that are economically and socially disruptive. And the financial burden States and localities now shoulder could be lessened.

Short of total welfare reform, enactment of food stamp reforms such as the Senate passed this year would help rectify the administrative problems besetting the program and achieve greater equity among different groups of recipients. Elimination of the purchase requirement would be a further program reform that would bring additional relief to administrators and would bring in some of the neediest non-participants who cannot afford the prices now charged for the stamps.

The school lunch program is enmeshed in school finance and should be discussed in that context, which is beyond the scope of this paper.

Footnotes

The author is Senior Counsel for Human Resources, Senate Budget Committee. This paper was prepared for the 1976 annual meeting of the American Agricultural Economics Association. The views expressed are the author's and do not necessarily reflect the views of the Budget Committee or any Member thereof.

1/ The programs considered in this paper are those in which Government provides financial benefits, rather than services, to recipients. Excluded are benefits tied to investment in human capital, such as GI bill benefits. Taking a broader view, one could view such programs as income transfer programs. Also excluded are $36.1 billion in tax expenditures that serve the same purpose as the expenditure programs discussed in this paper. For example, double exemptions for the aged and blind and the exclusion of transfer payments from taxable income are tax measures which transfer income to selected categories of individuals.

2/ The Congressional Budget Resolution for fiscal 1977 assumed legislative savings for income transfer programs of $1.4 billion, or less than one percent of total benefits. Only a small part of these savings (no more than $0.4 billion) will probably be realized, however.

3/ The actual net loss of benefits that results from overpayments, underpayments, and eligibility errors is not precisely known. This rough estimate is drawn from materials collected by GAO for the Senate Budget Committee.

4/ The number of poor people is an overstatement since non-cash benefits such as food stamps are not included in the computation.

5/ These committees include the Appropriations, Agriculture, Veterans', Post Office and Civil Service, Banking, and Armed Services Committees in both houses, plus the Senate Finance and Labor and Public Welfare Committees and the House Ways and Means, Education and Labor, and Interstate and Foreign Commerce Committees.

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