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ERS No. 669

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An Alternative Approach to Food Assistance

Categorical Grants

Kathryn A. Longen
Barbara A. Claffey

APR 15 '02

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AN ALTERNATIVE APPROACH TO FOOD ASSISTANCE: CATEGORICAL GRANTS, by Kathryn A. Longen and Barbara A. Claffey, National Economics Division, Economic Research Service, U.S. Department of Agriculture. ERS No. 669.

ABSTRACT

A categorical grant is one alternative for modifying the Food Stamp Program (FSP) as pressures mount for restraining the growth of Federal expenditures for public assistance programs. Use of a categorical grant, a State-administered and federally financed program benefiting a single activity or group, would require a formula to assure equitable distribution of funds. This report highlights five formulas, using 1979 data to assess effects on program benefits and recipients. Some States would get less funding under any of the formulas.

Keywords: Food stamps, categorical grant, funding formulas, appropriation, State administration.

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SUMMARY

As pressures mount for restraining the growth of Federal expenditures for public assistance programs, conversion to a federally funded, State-administered system is one alternative for modifying the current Food Stamp Program (FSP).

Advocates of a categorical grant program (a State-administered, federally financed program dealing with a single activity or group) cite reduced program costs, elimination of overlap in program administration, and more effective targeting of food stamp benefits as reasons for the conversion. Opponents object to the variability in program design and benefits for the 50 individual States and the possibility of ineffective program management.

Converting the FSP to a categorical grant program requires an allocation formula that assures equitable distribution of Federal funds to States. Five funding formulas were developed for this analysis, and the projected appropriations received by an area were compared to the actual funding level in 1979 to determine the impact of each proposed distribution formula.

Funding plans are as follows:

- o Base year funding would appropriate funds to the 1979 level in each State, with a requirement that a 5-percent maximum allocation cover State administrative costs. Only portions of the West would likely benefit from this plan.
- o Share of total population would distribute funds based on each State's total resident population as of July 1, 1979. The South and Territories would lose a large portion of funding under this formula.
- o Share of program participation would fund States according to FSP participation in fiscal year 1979, a favorable formula for the South and some North Central States.
- o Number of persons below the poverty level would provide each State with Federal funding equal to its share of the total number of persons below the nonfarm poverty line. Appropriations would decline in the Northeast, Territories, and parts of the West.
- o Number of persons unemployed would appropriate total Federal funds equal to each State's share of the total number unemployed in the United States and the Territories. Most of the Nation, except the South, would probably receive more money under this funding plan.

A change to a categorical grant program in the FSP will either alter the qualifications for participation or will modify benefits of recipients. Final selection of a formula will depend upon the stated objectives of the conversion to a categorical grant, as well as the application costs of each formula.

An Alternative Approach to Food Assistance

Categorical Grants

Kathryn A. Longen

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INTRODUCTION

The administration and Congress are examining food assistance and public welfare programs to help contain growth of the Federal budget. The Food Stamp Program (FSP), one of the largest of these programs, is particularly susceptible to funding reductions due to the dramatic increases in participation and program costs since 1976 (to almost 22 million recipients at a cost of nearly \$10 billion).

Proposals to alter the approach to food assistance programs through the use of categorical or block grants have frequently surfaced in the Congress. A block grant involves the consolidation of several programs or activities, funded as a single broad program. A categorical grant, in contrast, is basically a federally funded, State-administered program dealing with a single activity or category of recipients, and operating under a set of established rules.

This report compares the existing federally administered FSP with a categorical grant program. It provides a historical perspective of recent block and categorical grant proposals, and it discusses issues surrounding such alternative programs. Five formulas for distributing Federal funds are presented, as well as their impact on State funding levels, program benefits, and participation.

This analysis can help policymakers as they consider future grant proposals, both for the FSP and other food assistance programs. The hypothetical results focus on the redistributive aspects of a formula grant approach. Formulas developed for this study are deliberately simplistic so as to yield the widest possible bounds of a grant in terms of changes in benefits and participation.

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THE FEDERAL GRANTS
DEBATE

Transferring FSP administration to States through a Federal grant system has been proposed to reduce program costs. Block grants, in general, address concerns of program fragmentation and overlap. Savings may result from the consolidation of programs with compatible purposes and goals, largely due to the elimination of a fragmented system of program administration.

Formula-based grants may also be used to limit program growth effectively. For example, States may receive funds based on the appropriation level in the preceding year, thereby slowing the rate of increase in program costs, since funding would lag by at least 1 year.

Advocates of Federal grants for State program administration further claim the superior ability of States to identify and satisfy the requirements of the targeted population. This claim implies greater program efficiency at the State level. Each State may be able to develop a comprehensive program which meets the particular needs of its low-income residents. Design and operation of a State program would depend largely on the degree of discretion permitted the State in choosing which activities would receive grant funds, and the type, number, detail, and scope of conditions attached to the grant program. Greater efficiency in the delivery of benefits to recipients implicitly assures that more funds are available for those designated as most in need.

In addition to fiscal considerations, the use of grants, rather than direct Federal control, may also reflect the desire to return certain functions to the States which are currently conducted at the Federal level. The broader philosophical issue of separation of State and Federal powers is apparent in the administration's proposals to decentralize the Federal Government by curbing spending and reducing the regulatory burden. The acceptance of this philosophy, however, depends largely on the past performance of similar grant programs, as well as the willingness of both Congress and the administering agency to relinquish control of program management.

Opposition to grants in the past has been far ranging. The limited adoption of broad-purpose grants may be attributed to the tendency of Congress to decide on issues in an incremental fashion. It has been stated that "...Congress--accustomed to operating through 36 standing committees and scores of subcommittees--is far better suited to reaching an agreement on very limited objectives than it is to resolving issues of a broader,

philosophical nature" ((7), p. 10).^{1/} Programs that address only a single purpose or need, therefore, continue to be developed.

Program administrators, in turn, express concern regarding the selection of a formula to distribute equitably funds among States. The ability of any formula to capture adequately the variability among States in demographic characteristics, as well as economic conditions, is still in question. Differences in State characteristics may, therefore, result in distributional inequities.

One stated goal of a grant program is to reduce the State's burden of operating a program within the Federal administrative framework. However, consideration must be given to the ability of all States to effectively design and implement a program which addresses the needs of their low-income population.

Finally, advocates of the current federally administered program cite the possible losses to recipients through conversion to a grant program. Formulas designed to curtail program growth may reduce benefits to recipients if formulas are not adjusted to reflect changes in economic conditions. Thus, a grant program may not permit all States to provide adequately for their low-income residents.

PROGRAM SELECTION

The FSP is the largest domestic food assistance program in terms of total program benefits. The cost of the FSP rose from \$5.3 billion in fiscal year 1977 to \$8.7 billion in 1979. Rapid increases in the cost of the program arose from higher food prices and increases in participation resulting from higher unemployment, as well as program changes mandated by the Food Stamp Act of 1977.

The continued growth in program costs has made the FSP the target of spending reductions during budget proposal debate. Alternatives to present program design and implementation will be considered as the administration and Congress turn their attention to reducing Federal expenditures. Current proposals to modify the FSP range from reductions in the income eligibility limits and in the allowable deductions to use of Federal consolidation grants for food assistance programs, which affords the greatest potential for program change. The particular objectives of both Federal and State policymakers may be incorporated into the design and administration of a food stamp program funded by a Federal grant.

^{1/} Underlined numbers in parentheses cite sources in the Bibliography.

The FSP was selected for this analysis because it is the most costly food assistance program and, therefore, is often controversial. Further, a single program provides a more narrow focus for determining impacts of converting to a Federal grant system. For example, changes in participation resulting from gains or losses in program funding can be more easily determined from a single program base. The impact on participation in any one program may be difficult to ascertain in a multiple-program analysis.

The goal of the FSP is to provide assistance to needy persons, enabling them to obtain an adequate diet. Conversion to a Federal grant for the program requires the selection of a formula assuring distribution of funds to areas with the largest number of potential recipients.

Five formulas were developed for the allocation of program funds in this study. Each formula is comprised of a single statistical factor selected either because it is currently being used in the distribution of Federal funds for existing grant programs or because of its particular relevance to the FSP. The number of recipients, for example, provides a program-specific variable for the distribution of Federal funds among the States. In addition, each statistical factor provides an indicator of the need for the program in an area.

RECENT PROPOSALS

Four proposals for conversion to block and categorical grants recently offered in the Congress reinforce the need for timely research in this area. While differing in scope and specific intent, the proposals had the common goal of seeking greater program efficiency through the design and implementation of food assistance programs at the State level.

The Food and Nutrition Program Optional Consolidation and Reorganization Act of 1979 (S.605), sponsored by Senators Henry Bellmon and Pete Domenici, would have allowed States the option of consolidating and reorganizing all but one of the existing USDA food assistance programs currently authorized by law. This proposal included the child feeding programs authorized under the National School Lunch and Child Nutrition Acts, the Expanded Food and Nutrition Education Program, and the Commodity Supplemental Food Program. The FSP was included in the original version of the bill but was later withdrawn.

States electing to consolidate would have been permitted to formulate, establish, and administer food and nutrition programs which matched the requirements of their neediest populations. Funding for the consolidation programs would have been equal to the amount received by a State under the categorical programs

in the preceding fiscal year (hereafter referred to as base year funding), adjusted to reflect changes in the price of food.

In 1979, Representatives Thomas Kindness and Steven Symms sponsored H.R.5816 to convert the FSP to a categorical grant program. The legislation would have financed a program, established and maintained by the States, designed to meet the nutritional needs of residents. However, Federal funding for the State programs would have been provided for only a 5-year period, with the total authorization declining from \$9 billion for the first year of operation under the act to \$2 billion by the fifth year. The bill, therefore, represented a deliberate attempt to transfer both program operation and financing to the States.

State administration of the FSP was again debated when Representative Robert Walker proposed it during full House consideration of the Food Stamp Act Amendments of 1980. The proposal would have applied a formula for apportioning funds to States based on share of total population, saving an estimated \$600 million in administrative costs by transferring administrative control of the program to States. However, House debate revealed that State expenses accounted for the largest share of administrative costs. Therefore, administrative expenses would not be eliminated under a categorical program; rather, they would be transferred to the State level. The amendment was defeated on the House floor.

A proposal offered during consideration of the Food Stamp Act of 1981 will consolidate all food assistance programs in Puerto Rico in fiscal year 1982, to be funded as a block grant. This will 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 unique characteristics of these Territories often conflict with programs designed for the continental United States. Local authorities there may be best qualified to formulate, establish, and administer effective food and nutrition programs. A block grant provides the greatest possible latitude for local administrations to target program funds.

The block grant for Puerto Rico equaled 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 would save the Federal Government an estimated \$300 million.

FRAMEWORK FOR THE ANALYSIS

Under a categorical grant, an agency within the State government would design and administer a food stamp program. Functions, such as certification for program eligibility and the distribution of coupons to recipients, would continue to be carried out at the State level. Eligibility guidelines and the level of benefits are mandated by law under the current federally operated program. The funds received by each State support the benefit levels and participation, as determined by the income eligibility guidelines. In contrast, the categorical grant approach, as discussed in this report, would provide formula-determined quarterly Federal payments to which the States must adjust benefits and/or the number of participants. Therefore, the role of the State-administering agencies would be expanded to the development of income eligibility guidelines and establish household benefits, as well as to monitor the program for fraud, error, and abuse.

The Federal Government would continue to disburse funds to the States and print coupons, while Congress would continue to oversee the program. The latter would ensure that States would operate programs in compliance with the goals outlined in the authorizing legislation.

FORMULAS FOR DISTRIBUTING FEDERAL PROGRAM FUNDS

A major consideration in implementing a grant program is the selection of an allocation formula which meets program objectives and ensures equitable distribution of Federal appropriations among the States. Five formulas were developed for this analysis; the actual total value of all food coupons plus the Federal share of State administrative expenses of the program in fiscal year 1979 was selected as the program funding level (\$7.6 billion). Application of the formulas, therefore, represents the total appropriation each State receives under the various allocation options (see appendix figures).

Five percent of the total State appropriation was earmarked as the Federal share of State administrative expenses to simplify distribution of program benefits by formula in this study. Federal payments for administrative expenses are currently made on a matching basis. The actual portion assumed by the Federal Government for fiscal year 1979 averaged 4.5 percent of the total Federal cost of the FSP. Imposition of the 5-percent limit, however, effectively reduces the total amount of funds available for payment of benefits by approximately \$46.4 million.

Base Year Funding

The base year allocation option provides each State with a total annual appropriation equal to that actually received in 1979. However, requiring that a maximum of 5 percent of the appropriation be applied to State administrative expenses may force reallocation of State program funds from benefits to

administrative costs. States with administrative expenses exceeding 5 percent of their program costs in 1979, for example, would have more funds available for the payment of benefits to participants.

The States' advantage in using a base year allocation option is assurance of a continued level of program funding, an element of stability that has made base year funding a frequently proposed method for distributing Federal funds under a categorical grant program. The Bellmon bill, for example, would have allocated funds by this method.

The base year formula, however, prevents program growth in a State in response to adverse economic conditions. Higher unemployment may force States to decrease benefits significantly to accommodate increased participation. Similarly, increased food prices leading to higher program costs reduces either program participation or per-person benefits.

Share of Total
Population

Apportionment of funds under this formula is based on each State's share of the total resident population (as of July 1, 1979), a simple and frequently used statistical factor for distributing Federal funds. Currently, some Federal programs use total population as the only factor in calculating appropriations to States.

This method implicitly assumes that States with the largest populations likely have more eligible persons. Size of population, however, may not accurately reflect the need for an income-based program since there is no direct correlation between population size and average income. Therefore, a State with a high per capita income and a large population may receive the largest appropriation. In contrast, States, such as those located in the South, with both comparatively small populations and relatively low per capita incomes, may receive inadequate program funding relative to need.

Further, a formula that distributes funds based solely on population does not consider other determinants of program size, such as the level of unemployment in a State.

Share of Program
Participation

Approximately 19.3 million persons received benefits under the FSP in 1979. The participation option provides each State with a share of total program funds equal to its proportion of total program participation in the 50 States and the Territories in fiscal year 1979.

The participation variable provides a pattern for distribution of program funds according to demonstrated need. States serving large recipient populations would continue to receive a greater share of the total program authorization. Using a program-specific

variable to distribute Federal funds, therefore, may again serve to reduce year-to-year fluctuations in program appropriations made to each State.

The number of participants in the previous year, however, may not be an accurate indicator of potential program costs largely due to the influence of economic conditions on participation and benefits. States are able to establish the current funding base with the participation formula and, therefore, may influence the appropriation received the following year. The formula provides States with an incentive to maintain or increase program participation in order to receive continued funding. For example, States losing program benefits may elect to make adjustments only in average monthly benefits to maintain current participation levels, preventing further erosion of funding. If part of the program objective is to tighten eligibility guidelines, then the participation funding option may not encourage strong monitoring or enforcement of program activities.

Number of Persons
Below the Poverty
Level

Nearly 29 million persons (approximately 13 percent of the population) had annual incomes below the poverty level in 1979. The poverty formula provides each State with an amount equal to its share of the total number of persons below the nonfarm poverty guidelines developed by the Office of Management and Budget.

Eligibility for the FSP is currently limited to households with a net monthly income at or below the Federal poverty line (\$8,410 in June 1981). A formula that employs a measure of the number of persons potentially eligible for assistance may target funds to those areas most in need. However, persons with gross monthly incomes exceeding the poverty level may still qualify for benefits through four types of deductions. These include a standard deduction of 20 percent of earned income, as well as deductions for dependent care and shelter costs. Elderly households may subtract medical expenses. The poverty option, therefore, may understate the total number of potential eligibles.

Number of Persons
Unemployed

The unemployment formula provides a State with a share of the total appropriation equal to its share of the total number of persons unemployed in the United States and Territories (6.2 million in 1979). The level of unemployment is a key determinant of the size of the FSP. Each additional percentage point of unemployment is estimated to increase participation by 1 to 1.2 million persons.

The volatility of the level of unemployment, however, may diminish its effectiveness as an indicator of program need from 1 year to another. States with low unemployment in 1 year would receive a relatively small share of food stamp appropriations in the following year. However, deterioration of economic conditions

and increased unemployment the following year would result in inadequate program funding. Further, total program need may be understated because the working poor would not be counted in the distribution of funds.

IMPACT OF FORMULA DISTRIBUTION

To examine the redistribution of program benefits that might occur through a formula-based categorical grant, the States and District of Columbia were grouped into nine subregions (defined by the Census Bureau), plus the territories of Guam, Puerto Rico, and the Virgin Islands (fig. 1). The appropriations received by each area under the five formulas were compared to the actual funding level in 1979 to determine the impact of formula distribution (see appendix figures).

In general, a program allocation based on population shares will favor the Northeast and the East and West North Central States. A program based on poverty will tend to favor the East and West South Central and South Atlantic States where incomes are characteristically low, while the unemployment option will redistribute benefits in favor of heavily industrialized areas that experience high unemployment--the Northeast and the East and West North Central States.

Holding benefits constant at 1979 levels enables the gains or losses in funding to be examined in terms of changes in participation. For example, the average monthly benefit in the Northeast region was \$32.35 in fiscal year 1979. If funds are distributed according to the participation formula, the region loses \$65.2 million in program appropriations. The maximum necessary reduction in participation resulting from this loss in program funds may be determined by holding average monthly benefits constant; States in the Northeast would have to exclude up to 164,418 participants from the program by changing eligibility standards.

Impacts on average monthly benefits may be similarly determined. If participation is held at 1979 levels, the average monthly benefit declines to \$28.18. Calculated gains or losses in participation and benefits represent the maximum adjustments necessary to accommodate changes in appropriations levels. States may, in fact, vary both participation and benefits simultaneously to adjust to new funding levels.

The impact of the five categorical grant formulas on program funding, monthly per-person benefits, and participation in the regions and Territories are shown in tables 1 and 2. A region received a larger program appropriation when its share of the national total exceeded the region's share of actual total Federal funding in 1979. For example, the Northeast received 21.2 percent of the total FSP appropriations in 1979. In contrast, the

Figure 1

U.S. Census Bureau Regions, Subregions, and Territories.

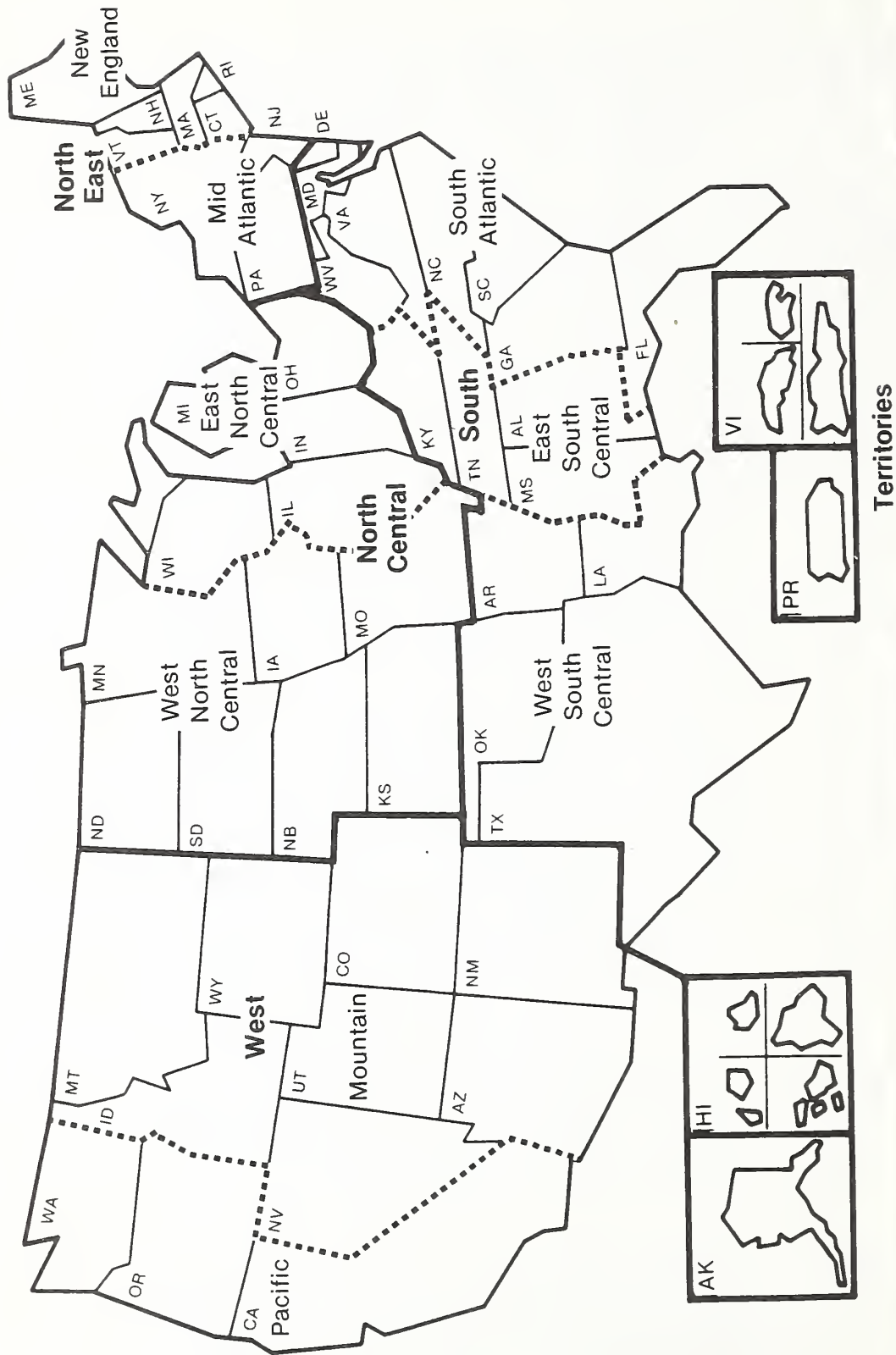


Table 1--Changes in benefits under alternative funding allocation schemes,
compared to actual 1979 funding

Census region	Allocation formulas				
	Base year	Popula- tion	Partici- pation	Poverty	Unemploy- ment
	<u>Million Dollars</u>				
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	<u>1/-589.8</u>
	<u>Dollars per person</u>				
Northeast	-0.67	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	<u>1/-27.06</u>

1/ Includes only Puerto Rico. Data unavailable for Guam and the Virgin Islands.

All regions 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 may be very large when taken as a percentage of the population in the Territories. However, because the population there is small, the proportionate share of the total 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 recipients accounted for 9.4 percent of total program participation in the United States and Territories 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.

Census region	Allocation formulas					Unemploy- ment
	Base year	Popula- tion	Partici- pation	Poverty		
				Thousands		
Northeast	-38.7	105.8	-164.4	-853.9	605.9	
New England	-9.5	99.0	-83.7	-236.5	80.5	
Mid-Atlantic	-29.2	6.8	-80.7	-617.4	525.4	
North Central	-51.2	1,605.3	4.1	543.9	1,346.5	
East North Central	-58.6	757.8	-43.1	-197.8	951.6	
West North Central	7.4	847.5	47.2	741.7	394.9	
South	-24.6	-1,063.0	591.5	1,257.2	-1,842.1	
South Atlantic	-29.5	-190.6	.8	289.8	-452.3	
East South Central	-23.5	-840.8	476.9	250.5	-891.9	
West South Central	28.4	-31.6	113.8	716.9	-497.9	
West	25.8	947.8	-131.1	90.3	1,096.2	
Mountain	11.3	272.3	-40.7	121.0	132.2	
Pacific	14.5	675.5	-90.4	-30.7	964.0	
Territories	-35.8	-1,620.9	-273.1	-857.6	<u>1</u> /-1,363.5	

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In contrast, the West North Central States gain program benefits under every allocation formula. Again, this may be attributed to a combination of the socioeconomic characteristics of the area and current program funding. In 1979, these seven States 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, produces an increase in appropriations.

Impact of the redistribution of program benefits may also be considered in terms of the percentage changes in funding relative to fiscal year 1979 (table 3). The distribution of funds under the base year formula provides 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. Similarly, the greatest loss in appropriations for benefits was 3.4 percent.

The largest percentage gains in program funding again occurred in the West North Central States--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 percent) formulas were considered.

POLICY IMPLICATIONS

The allocation schemes described in this report should be judged on their usefulness in helping policymakers design a food stamp program which meets the stated program objectives. Each of the five formulas indicates the direction and degree of funding redistribution when a particular statistical factor is applied. However, it may be undesirable to select only a single-factor formula since program objectives are, generally speaking, formed on the basis of several factors. For example, participation in the FSP depends upon the level of unemployment and income. The cost of the program, in turn, is determined by the number of participants, as well as food prices.

Thus, the critical problem for a grant proposal is the development of a formula which incorporates all relevant factors, thereby effectively targeting program funds. The influence of multiple factors on the size and cost of the FSP suggests the need to develop and use a composite formula. Such a formula would use several or all of the individual factors identified earlier--poverty, unemployment, participation, and population.

Applying weights to each factor, in turn, may yield a formula which most closely resembles the current system of eligibility.

Weights must be assigned subjectively based on the perceived importance of each factor in influencing the size and cost of the FSP. For this reason, the development of a weighted composite formula was considered beyond the scope of this report.

Table 3--Percentage change in benefits under alternative funding allocation schemes, compared to 1979 program level

Census region	Allocation formulas				
	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	<u>1/</u>	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	<u>2/</u> -75.1

1/ Less than 0.1 percent

2/ Includes only Puerto Rico. Data unavailable for Guam and the Virgin Islands.

Under a grant system, the Federal Government retains responsibility for distributing appropriations among States according to program need. The value of a composite formula, as stated, lies in its comprehensive coverage of those factors aligned with policy objectives. This more detailed information would enable Federal administrators to target program funds to States.

Appropriations determined by a composite formula will also reflect changes in the relationships among factors. For example, a decrease in unemployment with a simultaneous increase in the number of persons below the poverty level, gives a greater or smaller appropriation to a State, depending on the weights assigned to each factor. Funding distribution is determined more by the relative importance of program characteristics than by absolute number changes.

Despite the advantages of a composite formula, however, administrative and policy obstacles exist which may limit its feasibility. Development of a composite formula would require input from Congress, the administration, and State officials. This process, however, demands compromise on conflicting interests. A representative from the Northeast or North Central States, for example, may want a greater value assigned to the unemployment variable due to its heavy impact on those regions. A representative from the South Atlantic States may feel that poverty is the most critical factor in determining program need and should be weighted more heavily. Potential exists, therefore, for political tradeoffs and alignments to obtain a more favorable formula and shift the distribution of funds. Successful distribution of funds according to need may be diminished in the political bargaining process.

Use of a composite formula further requires selection of factors for which information is readily obtained. A formula too complicated to develop or administer may push the administrative costs of using the formula above the savings associated with a conversion to a State-administered program.

The final selection of an allocation formula to be applied under a categorical grant program will be a function of several factors. First, a formula must be chosen which meets the stated objectives of converting to a categorical grant. If Congress desires to increase program efficiency, then a formula must encourage States to target benefits more effectively. Policymakers must also consider the administrative cost of using a particular formula which is a part of program funding. For example, use of the population option requires an accurate annual population census, since only a 1-percent population

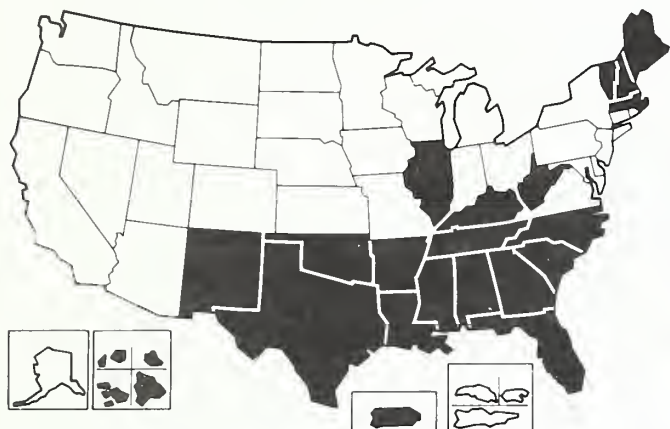
change can mean substantial differences in program funding. The final decision on a funding allocation formula will necessarily consider all of these factors.

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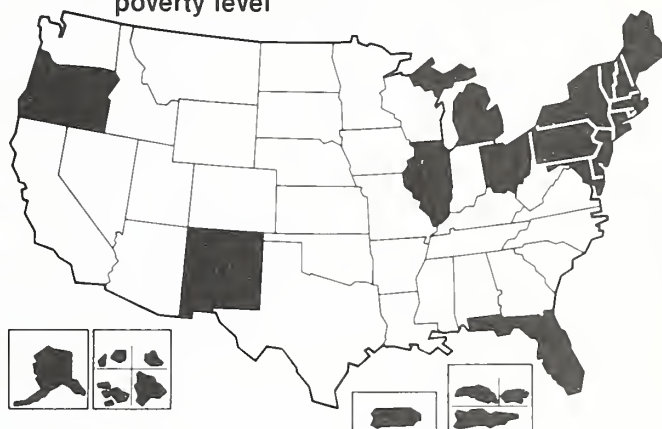
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States Getting Less Funding, by Allocation*

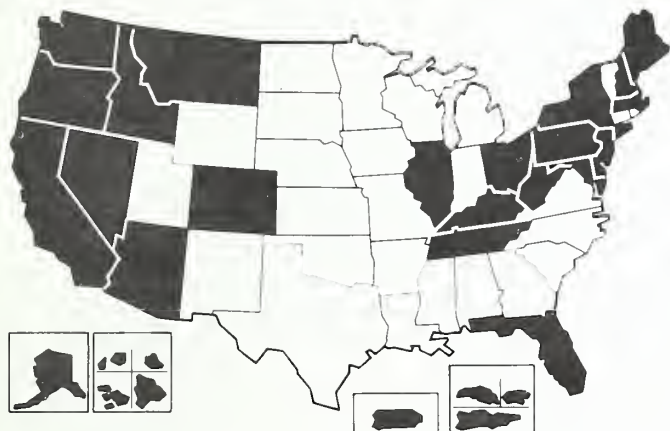
Map 1—State share of national unemployment



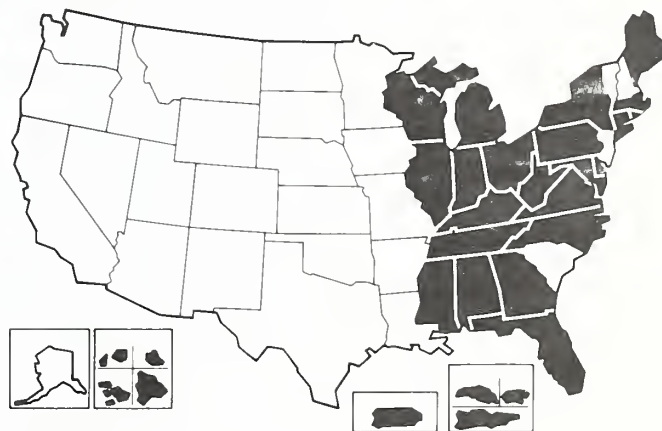
Map 2—Share of total U.S. population below the poverty level



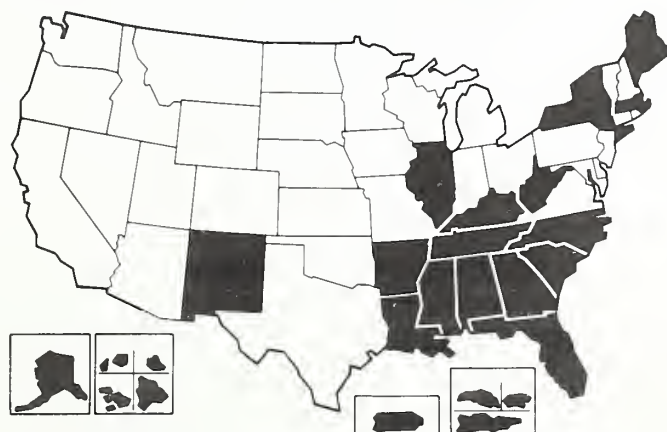
Map 3—Share of program



Map 4—Base year funding



Map 5—Share of total population funding



*Decreased funding in shaded states, according to formula



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