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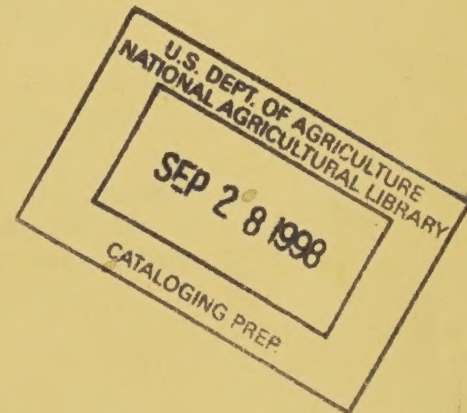
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AN ANALYSIS OF FOOD STAMP PLANS

A Supplemental Report Developed in the
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AN ANALYSIS OF FOOD STAMP PLANS

This report supplements Part B of the report, Disposition of Stocks of Agricultural Products Held by the Commodity Credit Corporation, submitted to the Congress on August 27, 1956.

It is concerned with an analysis of food stamp plans as a means of preventing the further accumulation of commodities in the hands of the Commodity Credit Corporation. In accordance with the directive contained in Section 201(b) of the Agricultural Act of 1956, the report outlines the basic principles upon which a food stamp plan should be developed, if the operation of such a program were to be authorized.

A food stamp plan is a device to increase the food expenditures of those persons and families whose limited income does not permit them to buy all the food, or the kinds and qualities of food, they wish to consume. This is to be accomplished by providing such groups with additional income -- earmarked for food -- to be used to purchase food at retail outlets at prevailing retail prices.

Food stamp plans, therefore, are a means of improving the diets of low-income families. They have also been advanced as an effective means of eliminating or alleviating the surplus problem in agriculture under the assumption that the resulting increase in the domestic demand for food would relieve the pressure on surpluses and, thus, reduce the need for Government acquisitions for market stabilization purposes.

The purpose of this analysis is to provide information upon which to test the validity of the above assumption under present-day conditions in agriculture. A review of the Stamp Plan, operated between 1939-43, also is included because it provides insight into the feasibility of developing operating techniques to carry out the basic intent of the program.

AN ANALYSIS OF FOOD STAMP PLANS

Summary

1. There have been great improvements in diets in this country in the past two decades as knowledge of nutrition has grown, as purchasing power has increased and as agriculture has provided consumers with generous quantities of high-quality foods.
2. Although a much smaller proportion than in the mid-1930's, there are still a considerable number of families for whom low income is a major limitation on their ability to further improve the nutritional quality of their diets. At higher incomes, dietary patterns include considerably more fresh, canned and frozen fruits and vegetables and more livestock products. Use of flour and cereals and of dried fruits and vegetables is greater among low-income groups.
3. Historically, the surplus problem in agriculture -- as measured by expenditures for price stabilization purposes -- has been concentrated in wheat, corn and cotton. As of October 31, 1956, these three commodities represented about 80 percent of the total investment of the Commodity Credit Corporation.
4. Surplus foods acquired by the Department are now being offered to States for donation to economically needy persons, as well as to school lunch programs and charitable institutions. In the largest month of operations, August 1956, a total of 3.5 million needy persons were receiving these surplus foods.
5. The Food Stamp Plan, operated between 1939-43, did result in increasing the food consumption levels of participating families. It proved to be both complex and costly to administer and, despite a large compliance staff, there was a considerable diversion of the Federal food supplement to nonfood uses. The two-color stamp system (which was designed to channel the additional food money to surplus foods) did not prove to be a particularly effective device.
6. If inaugurated, a food stamp plan should incorporate the following basic principles: (a) The stamp issuance procedure should provide maximum possible assurance that the normal food expenditures of participants would be maintained after their entrance into the program; (b) Promotional and educational efforts should be made to direct participants' food expenditures to those foods experiencing marketing difficulty; (c) Administration of the program within the various States should be in the hands of the State

agencies, operating under an agreement with the Federal agency responsible for national administration.

7. If a food stamp plan were authorized, legislation specifically directed to such a program should be enacted, which would define the objectives and scope of operations and provide safeguards for effective administration. In order to permit the development of the most effective operating techniques, the legislation should provide considerable administrative flexibility in determining the specific methods by which the defined objectives of the program were to be achieved.
8. The number of potential participants in a food stamp plan would depend upon the scope of the program. If it were of minimum scope (confined to persons receiving some type of welfare assistance), potential participation would be in the neighborhood of 6 million people at the present time. If it were possible and desirable to include all low-income families, potential participation could currently be in the neighborhood of 25 million people.
9. Costs to the Federal Government also would depend upon the scope of the program. For a limited program, annual costs of the Federal supplement might reach \$600 million. Under a program of maximum scope, the cost might reach \$2.5 billion annually.
10. If the food purchasing power of low-income families were to be increased under a stamp plan, the food groups that might be expected to receive the most direct benefit would be fruits and vegetables and livestock products.
11. A food stamp plan is not an effective device for disposing of surplus in the hands of the Commodity Credit Corporation. However, the additional food purchasing power made available under such a program should provide general support to the domestic demand for food and, therefore, should have some bolstering effect upon farm income.
12. If it were possible to effectively administer the program and if it were large enough in scope, a food stamp plan could have some effect in reducing the rate of further accumulations of dairy products in the hands of the Commodity Credit Corporation. To the extent livestock products consumption were increased, there also should be an effect upon the further accumulations of feed grains. Because resources are now available to expand production of livestock products, a stamp plan would be likely to have little effect in shifting resources out of cotton and grains.

13. A food stamp plan would not be as effective in dealing with seasonal, temporary or localized surplus situations as would a program of Government purchase and direct distribution. Under a purchase program, the marketing assistance can be more specifically directed with respect to the time of purchase, to the areas in which purchases are made, and even to the grades and varieties to be purchased. However, school lunch and institutional outlets would be available for surplus-removal purchase operations.

8. The number of potential participants in a food stamp plan would depend upon the scope of the program. If it were of minimum scope (confined to persons receiving some type of welfare assistance), potential participation would be in the neighborhood of 6 million people at the present time. If it were possible and desirable to include all low-income families, potential participation could currently be in the neighborhood of 25 million people.

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AN ANALYSIS OF FOOD STAMP PLANS

I. The Setting

There have been great improvements in diets in this country over the past two decades as knowledge of nutrition has grown, as purchasing power has increased, and as agriculture has provided consumers with generous quantities and a wide variety of high-quality foods. Nonetheless, judged in terms of nutritionally desirable goals, the diets of a considerable number of families -- in both high and low-income groups -- might well be improved. In many instances, the improvement required is not so much in increased food consumption or larger food expenditures as it is in better food selections to meet specific dietary needs. But, generally, the higher the income of a family, the greater is the likelihood that its diets will meet the standard of nutritional adequacy.

The food expenditures of low-income families are considerably less than those of higher income families, even though they use a much larger share of their income for food. On the average, they spend less for each of the major food groups -- except for flour and cereals and dried fruits and vegetables -- than do those families with not so limited incomes. At higher income levels, families buy more food but the larger expenditures also reflect shifts in demand -- to higher quality, to more highly processed items, and to more "built-in" services, such as precooked frozen foods.

The more money families have, the greater is their emphasis on fresh and processed fruits and vegetables and juices; meats, poultry and fish; milk; and eggs. Consumption of bakery products, potatoes, sugars and sweets may increase with family income up to a point; thereafter, they level off or decrease. Consumption of flour, meal, pastes, and cereals and dried fruit and vegetables decreases as income increases (Table 1). Individual foods within the groups may be exceptions to the group averages. For example, consumption of evaporated milk may decline with higher incomes, while fluid milk usage may increase faster than the average for all manufactured dairy products.

Historically, the surplus problem in agriculture -- as measured by Government expenditures for price stabilization purposes -- has been concentrated in three of the basic commodities, wheat, corn and cotton. Almost 70 percent of the total price support extended by CCC (that is, loans made, purchase agreements entered into, and purchases) from October 1933 through June 30, 1956, was extended for these three commodities. Over the period of years, these three commodities have consistently represented the bulk of the price support commodities owned by the Government. As of October 31, 1956, CCC had \$8.1 billion invested in commodity

loans and inventories. About $\$6\frac{1}{2}$ billion, or 80 percent of the total, represented the CCC investment in the three basic commodities -- wheat, cotton, and corn. The remaining investment was spread over about 26 different commodities.

From time to time, significant surplus problems have developed as a result of price support for other commodities. However, both the total physical quantity and the Government investment in these other surpluses have been much smaller than for the basics. For example, large surpluses of potatoes, dried eggs, and wool developed immediately following World War II. In more recent years, large surpluses were accumulated in dairy products. Cheese inventories now represent the major problem among manufactured dairy products, with stepped up disposal operations, outlets for butter exceed current acquisitions, and those for nonfat dry milk are keeping pace with purchases. All current rice and dry bean inventories, which at one time were large, have been committed for disposal.

In addition to the surpluses arising under the price support program, the Government has undertaken, from time to time, Section 32 surplus-removal purchases to relieve temporary or seasonal surplus problems in a wide variety of "perishable" items, including meat, poultry, eggs, and some fruits and vegetables. However, these programs, unlike CCC price support programs, have not resulted in the accumulation of inventories by the Government for which there was no immediate outlet. This was due to the fact that Government purchases under these surplus-removal programs have been limited to the amounts that could be utilized by the school lunch program and other eligible outlets.

AN ANALYSIS OF FOOD STAMP PLANS

II. The Current Direct Distribution Program

Currently, the food consumption of a significant number of needy persons in this country is being increased through the Department's Direct Distribution Program. Under it, foods acquired by the Department under price-support or surplus-removal purchases are offered to States for distribution to school lunch programs and to needy persons in charitable institutions and family units.

Participation in the family distribution program is at the election of States. In the largest month, August 1956, 3.5 million individuals in 38 States were receiving surplus foods. In only a few States does the family distribution program approach a Statewide operation. In August, 1956, 773 counties were participating, less than one-third of the total number of counties in the country.

During the fiscal year 1956, commodities valued at \$91 million were made available to needy persons (Table 2). In the first quarter of fiscal 1957, the value of donations to needy persons totaled \$22 million, with a decreased rate expected in the remaining months of the year because of the reduction in the number of foods available for donation. In December 1956, for example, only the following commodities were being offered to States for distribution to needy persons: flour, corn meal, rice, cheese and dry milk.

Direct Distribution is operated under a plan whereby agencies of the State assume responsibility for intrastate distribution of the surplus foods made available. The Department arranges for and pays the cost of any necessary processing or packaging of the commodities and for their carlot shipment to central receiving points within the various States. States are responsible for the certification of recipients, within the general eligibility standards established by the Department of Agriculture which require that donations be limited to persons in economic need of additional food. They also are responsible for receiving, storing and delivering the commodities to the final recipients and sources within the States finance the costs of intrastate distribution.

The type of delivery system maintained varies from State to State. Generally, under the family program, a distribution center is established in the county or community -- usually in some public building. Certified families are issued a card to identify them as eligible participants which must be presented at the time commodities are issued at the center. The amounts of various commodities to be issued to recipients are calculated by personnel of the distribution center, based upon family size and recommended rates of use. Participants are required to receipt for the commodities they receive, thereby providing a means of accounting for the foods delivered to the local center.

Table 2.--The amount and cost of surplus foods made available to needy persons in the United States, fiscal year 1956

Commodity	Distributed to U. S. Needy Persons	
	Amount	Cost ^{1/}
	(Mil. Lbs.)	(Mil. Dollars)
Beans, dry	41.4	\$ 3.8
Butter	34.4	22.3
Cheese	43.1	19.0
Corn meal	50.6	2.3
Flour, wheat	77.1	4.5
Lard	23.2	3.6
Nonfat Dry Milk	49.2	9.1
Pork Products	31.4	19.8
Rice	23.5	2.8
Shortening	17.5	3.6
Miscellaneous	3.0	0.2
Total	394.4	\$91.0

^{1/} To Federal Government.

NOTE: In the first quarter of fiscal 1957, the value of donations to needy persons totaled \$22 million, with a decreased rate expected in the remaining three quarters because of the reduction in the number of foods available for donation.

In some cities, the distributing agency utilizes retail stores to make the deliveries to needy families. Participants are mailed a card showing the amount of food to which they are entitled and the day on which the commodities are to be picked up at the retail store. The distributing agency arranges for the shipment of the Government surplus foods to participating stores, and the stores keep these supplies segregated from their regular food stocks.

During the last session of the Congress, several bills were introduced authorizing the operation of a nationwide food stamp program to accomplish the distribution of surplus foods to needy families. The Federal Government would print food stamps which would be distributed by the State welfare agency to families who have been certified to receive surplus foods by State or local welfare agencies. The Department of Agriculture would establish and staff distribution centers in participating areas (or would utilize the services of retail stores on a fee basis) and would ship the surplus foods to these local centers. Participants would exchange the food stamps for Government surplus foods at these distribution centers.

Under the proposed legislation, the distribution of Federal surplus food stamps would serve to identify certified persons to the staff of the distribution centers and to indicate the quantity of food to which participants would be entitled. It appears that States have already developed less costly and complex methods to serve these purposes. More importantly, these proposals would have the effect of transferring to the Federal Government the entire cost of delivering surplus foods to needy persons, a cost now shared by the Federal Government and the States. This increase in Federal costs would not be offset by comparable savings on the part of the States, because they would still be required to maintain personnel and facilities to distribute surplus foods to schools and institutions.

Operating experience has demonstrated the desirability of delegating responsibility for the operation of the distribution program within the various States to agencies of State governments. Through the use of State owned food storage and handling facilities and equipment, delivery costs can be held to a practical minimum and the system maintains sufficient flexibility to permit the scope of its operation to be quickly adjusted to changes in the volume of food available for donation.

AN ANALYSIS OF FOOD STAMP PLANS

III. The Food Stamp Plan Operated Between 1939-43

This review of the Food Stamp Plan, operated by the Department of Agriculture between 1939-43, is included in this report to outline areas where administrative problems would be faced in the operation of a similar program in the future.

Scope of the Plan

The Food Stamp plan began as an experiment in May 1939, in Rochester, New York; it was then extended to 5 additional experimental areas. The administrative and operating techniques developed in these experimental areas formed the groundwork for the further expansion of the program.

As measured by the number of participants, the Plan reached its peak in May 1941, when approximately 4 million people participated. New geographic areas were brought into the Plan after 1941, but it never operated on a nationwide basis. The peak in area participation was reached in August 1942, when 1,741 counties and 88 cities were included. The Plan was discontinued in early 1943 when wartime conditions had greatly reduced unemployment and greatly increased demands upon U. S. food supplies.

Basic Operating Principles

The Plan was designed to insure that the Federal contribution represented a net increase in food expenditures among participating families through the use of a two-color stamp system. Participating families were required to exchange an amount of money representing estimated normal food expenditures for orange stamps of the same monetary value. With these orange stamps, participants were provided -- without cost -- additional blue stamps which could be used to buy designated surplus foods. In this manner, the Plan attempted to concentrate the additional food purchasing power on surplus foods, i.e., foods that were experiencing marketing difficulties.

Determining Normal Food Expenditures

To accomplish the basic objectives of the Food Stamp Plan, participants were required to buy orange stamps in amounts about equal to their normal food expenditures. At the inception of the program, it was assumed that the normal range of food purchases of relief families was \$4.00 to \$6.00 per person per month. With each dollar of orange stamps purchased, the recipient received half again as much in free blue stamps.

Operating experience, together with the results of food purchase studies, demonstrated that the uniform minimum requirement of orange-stamp purchases of \$4.00 per month per person was not workable. It was determined that greater effectiveness would be

obtained if the orange-stamp purchase requirements were based upon total cash income available and the number of individuals eating at the family table. Although basic nationwide tables were prepared on this income basis of issuance, it was realized that variations existed between areas and that allowances had to be made. Regional Directors were given the responsibility for determining the actual minimum and maximum orange-stamp-purchase requirements for each program area, provided that the requirements came within the national limits established.

Certification of Participants

In general, the persons eligible for participation in the Food Stamp Plan were householders who prepared and ate their meals in the home, and who were eligible for public assistance in the area in which they lived. Usually participation was limited to those persons receiving general assistance, old-age assistance, aid to the blind, aid to dependent children, State unemployment relief, and those receiving assistance from WPA in the form of employment.

As the Plan moved to an income basis of issuance, the problems of certification increased. It was necessary not only to verify the relief status of the applicant family but to also verify its money income and family size. The Plan required regular re-investigations to determine the continued eligibility of all persons certified. It was here that the certifying agencies met with tremendous difficulties. With the mounting number of participants in the program, the number of case workers available in the certifying agencies was insufficient to make re-investigations within a reasonable time. In some areas, a case worker had from five hundred to a thousand families on his list.

Designation of Blue-Stamp (Surplus) Foods

Foods were designated as blue-stamp (surplus) food each month by the Secretary of Agriculture. Participating retailers were required to post a notice of these monthly designations in their stores. One of the advantages of this requirement was to bring these foods to the attention of all customers and, thus, encourage increased purchases of the surplus foods among the nonparticipating (higher income) families.

During the operation of the Plan, more than 30 food commodities were placed on the blue-stamp list. Included in the listing were butter, shell eggs, cereal products, potatoes, dry beans, fresh vegetables, fresh and dried fruits, pork meat products, and lard and shortening.

In many months, the blue-stamp list included too large a number of surplus commodities, considering the total amount of additional food purchasing power provided under the Plan. As a result, the additional purchasing power appeared to be too

thinly spread to have a significant impact on the demand situation for any particular surplus food.

Stamp Redemption

The Department of Agriculture supplied food stamp cards to participating retailers on which stamps were to be pasted prior to their presentation for redemption. These cards carried space for \$10.00 worth of stamps.

There were three methods by which the stamps could be redeemed: The retailer could file a claim directly with the Department of Agriculture; he could submit them to his wholesaler to the credit of his account; or he could redeem them at his local bank. Wholesalers throughout the country cooperated in the Plan by accepting stamp cards from retailers in payment of accounts. Banks performed the redemption services for retailers and wholesalers without charge. However, as the Plan developed there was some dissatisfaction expressed because of the volume of work required and banks increasingly expressed the opinion that they were entitled to payment for the work performed.

Problems of Non-Compliance

Two of the most frequent non-compliance problems were: (1) The sale of non-surplus foods for blue stamps or the sale of non-food items for stamps; and (2) cash purchase by grocers of blue stamps from participating families.

Originally, major reliance for compliance with program regulations was placed upon the policy of self-policing, together with an educational program for participating retailers. This soon had to be supplemented with a more specific compliance and investigation program. In an effort to reduce the number of violations, each participating retailer was required to sign a special form, acknowledging his understanding of program regulations and his responsibility for any violations committed by his employees. This form was valid for a definite period of time -- usually 6 months -- and had to be renewed in person. Later on, a compliance bond was required of retailers.

Administrative sanctions were used to penalize retailers who sold non-food items for stamps or non-surplus food for blue stamps. When violations involved illegal trafficking in stamps or exchange of stamps for cash, legal sanctions could be imposed. Sections 286, 287 and 1001 of Title 18, United States Code, provide for fines and imprisonment for presenting false claims or conspiring to defraud the U. S. Government. Further, Section 231 of Title 31 of the Code provides heavy civil liability for false claims.

Another problem encountered was that of insuring continuity of participation among families entering the Plan. If, for example

the families purchased stamps only every other week, it provided a means of carrying over the blue stamps to supplement below-normal food expenditures during the weeks of non-participation. Thus, little, if any, increase in the food expenditures of such participants was achieved. Difficulties with intermittent participation were marked during the early days of the Plan but decreased considerably as additional experience was gained by both participants and program administrators.

Program Administration

The Plan was first administered by the Federal Surplus Commodities Corporation, and later by the Surplus Marketing Administration, Agricultural Marketing Administration, and the Food Distribution Administration of the Department. The United States was divided into four regions, each with a Regional Director who was given considerable discretionary powers to carry out program policy and procedures.

A city or a county (or a combination of both) constituted an area in the administration of the Plan. In the selection of areas for participation, a duly constituted authority from the area (such as the Governor of the State, the mayor of a city or the county board of supervisors) petitioned the Secretary of Agriculture for designation. Medium-sized communities were first designated and, as the techniques of operation were improved, the plan was set up in large metropolitan areas. Rural areas presented special problems in administration -- income certification was difficult because of the importance of non-money income and home-produced food; the grocery stores were scattered; the number of participants small; and the central stamp issuing offices few.

The wholehearted cooperation of welfare and other public officials, food retailers and banks in the designated areas was essential to the success of the Plan. It was necessary that the local governing body maintain a revolving fund to reimburse the Government for the orange stamps received by its issuing offices, to be responsible for the proper issuance of the free blue stamps, and to provide the personnel, space and fixtures necessary for the issuance of food stamps to certified eligibles. The area, however, was reimbursed for the orange stamps from the proceeds of sales to stamp recipients. To provide assurance that such responsibilities would be executed, agreements were negotiated between the Department of Agriculture and the governing body of the area.

Effect on Participants' Food Expenditures

During the 46 months the Plan was in operation, the additional food purchasing power provided to participants by the Federal Government totaled \$260 million. It has been estimated that this

supplemental purchasing power amounted to an average of 4 percent of total food sales in some of the cities where the Plan operated. However, had the Plan been available to all families receiving general welfare or Work Projects Administration assistance during 1939-43, it has been estimated that the cost of the Federal contribution would have been about \$400 million a year. An additional \$200 to \$240 million would have been required annually to extend the Plan to all urban families with incomes of less than \$1,000 a year.

There is no doubt but what the plan did increase food consumption levels among participating groups. However, it proved to be more effective in increasing participants' expenditures on some surplus foods than on others. In general, it had its greatest effect upon those foods most responsive to income changes, i.e., animal products and most fruits and vegetables.

While the two-color stamp system was employed to help insure that the additional food money provided was spent on surplus foods, that system could not guarantee increased purchases of each food on the list. A participant who did not wish to purchase larger quantities of a particular surplus food could do so by buying his usual quantities with blue stamps and using none of his orange stamps for such purposes. With the relatively large number of items on the blue stamp list, participants had considerable freedom of choice in determining the surplus foods for which their blue stamps would be used. For this reason, there is serious doubt as to whether the two-color stamp system (which introduced many complexities into the operation of the Plan), had a significant effect upon the kinds of additional food purchased by the recipients.

IV. Food Stamp Plan Principles

Some Basic Considerations

Maintaining Normal Food Expenditures: One of the essential points in the operation of a food stamp plan is to develop operating techniques by which to try to insure that the normal food expenditures of participants are maintained after their entrance into the program.

Probably the most effective way of attempting to maintain normal expenditures would be to establish some system for collecting monies from participants in amounts roughly equal to their normal expenditures for food. In exchange, participants would receive an allotment of stamps of higher monetary value. Even under such a system, a certain amount of substitution of the Federal supplement for normal food expenditures is inevitable.

There is no practical method to precisely "freeze" the normal food expenditures of families participating in a stamp plan. Even among families of the same size and income, there are wide differences in the amount of money spent for food. These variations may be explained by many factors -- by the relative importance different families attach to eating well, to differences in family composition (the age, sex and activity of family members), to differences in the skill and knowledge of the food buyer, to the amount of food that is -- or can be -- produced at home, to differences in general levels of food prices and living costs in various sections of the country.

Based upon experience under the previous stamp plan, it would probably be necessary to place the minimum purchase requirements for an allotment of stamps somewhat below the average normal expenditures for various categories of participants. Unless this were done, families with below-average food expenditures would not be likely to participate.

It has been estimated in earlier studies that this substitution for normal expenditures, together with the diversion of food stamps to nonfood uses, could represent an amount equal to between one-quarter to one-third of the total Federal supplement provided under such a plan.

Focusing on Plentiful Foods: From the standpoint of agricultural objectives, it would be desirable, insofar as it would be consistent with good dietary practices, to encourage the additional food expenditures under a stamp program on foods experiencing marketing difficulties. Under the Stamp

Plan operated between 1939-43, a two-color stamp system was employed to achieve this objective. As this analysis indicates, however, the participants in that program still retained considerable freedom of choice in the kinds of foods they purchased,

It is believed that greater simplicity in program operations could be achieved through the use of a one-color stamp system, without sacrificing the objective of directing the additional purchasing power to foods in need of marketing assistance. In recent years, increased consumer purchase and use of foods available in abundant supply has been achieved under the Department's Plentiful Foods Program. The Department regularly issues a monthly list of foods in need of marketing assistance and food distributors cooperate by featuring these foods in their advertising and in-store merchandising programs. These merchandising efforts are backed up by strong support from information media which also feature these items in their food information to consumers.

Such a merchandising and information program should be an integral part of any food stamp plan. Participating retailers could be required to post bulletins in their stores listing the commodities designated by the Federal agency as Plentiful Foods. At the same time, information could be regularly supplied to participants on the designated foods, including menu and recipe suggestions, thereby further focusing participants' attention upon such foods.

Administering the Program: The probable necessity of collecting money from participants, together with the need for determining the income status of individual applicant families, would appear to make it imperative that an agency of the various States assume considerable administrative responsibility for the operation of the program. These responsibilities probably would include the certification of the applicant families in accordance with standards established by the Department; the issuance of stamps; and the approval of retail stores for participation.

These minimum functions would require considerable staff on the part of a State Agency, even though they might be able to delegate some responsibility to counterpart agencies of county or municipal governments.

Basic Operating Principles

In broad outline, a food stamp plan would operate in the following manner:

Families would apply for participation in the program -- providing sufficient information about their income, family

size and other relevant factors -- to determine if they meet the eligibility requirements established for the program. If eligible, they would be given an opportunity to regularly purchase an allotment of stamps, good for the purchase of food at prevailing retail prices at any retail store participating in the program. A system would be established whereby retailers could redeem the stamps accepted from participants, receiving the cash equivalent of the value of the stamps they accepted from participants. They would use these monies, together with other sales revenue, to replenish inventories in the usual manner, purchasing new stocks out of regular commercial supplies from their regular wholesale supplier.

Operating experience would be required to test the relative effectiveness of various operating and administrative techniques, in view of changes that have occurred since 1943 in welfare programs and their administration, in the wholesale and retail food distribution system, and in the food consumption patterns of low-income groups. However, the basic principles to be followed in the development of specific stamp issuance and redemption techniques can be outlined.

Eligibility Criteria: Specific eligibility requirements must be developed within some defined program scope.

If the program were to be confined to persons and families receiving some type of welfare assistance, the eligibility of applicants would be predetermined. If a program of broader scope were desired, it would be necessary to establish income exclusion points which would take into account the total income of applicants (including non-money income), family size, geographic variations in general retail price levels, and other factors that might have a bearing on the ability of families to purchase adequate amounts of food.

Purchase Requirements for the Stamp Allotment: To try to insure that participants continued their normal food expenditures, they would be required to purchase, at discount prices, the allotment of stamps to which they are entitled. The purchase requirements established would reflect typical levels of food expenditures among various categories of participants -- classified by income, family size and geographic location. Because of the importance of home-produced foods in the food supply of farm families, it might be necessary to establish special purchase requirements for farm and nonfarm families within each major category.

Because of the wide variations in the amount of money normally spent for food by similar families, it may be desirable to incorporate an incentive feature into the purchase provisions. For each participation category, minimum purchase requirements would be established at a level somewhat below the estimated average normal food expenditures for the group.

Participants who wished to spend more than the minimum requirement could so do, and they would receive a relatively larger supplement of additional free stamps.

Level of Supplement: The amount of the additional food purchasing power provided should be determined in a manner that would discourage the diversion of stamps for nonfood uses. Therefore, for any category of participants, the total value of the food allotment (the purchased plus the free stamps) should not exceed the amount each category would need to purchase an acceptable and nutritionally adequate diet. Within this maximum, the amount of the supplement might well be established as a percentage of the minimum purchase price, with a relatively larger percentage supplement for those families wishing to spend more than the minimum purchase requirement established for their category.

Redemption of Stamps: Retailers should be provided with a system by which they can readily redeem the stamps they accept for the cash equivalent of such stamps. In a nationwide program, it would probably be necessary to develop a redemption system operating through banks, with each participating retailer maintaining a stamp account with the bank of his choice.

Responsibilities of the States: The State welfare agency would enter into an agreement with the Federal agency administering the program, under which it would assume responsibility for the operation of the program within the State.

Among other responsibilities, the State agency would develop a certification system under which applications for participation would be processed in accordance with Federal eligibility standards. It would establish a revolving fund for the purchase of stamps from the Federal agency and maintain offices for the issuance of stamps to certified participants. It would enter into agreements with retail stores, which agreements would contain the minimum provisions prescribed by the Federal agency in order to assure compliance with program regulations. It would also agree to provide participating families with information on the plentiful foods designated for special attention under the program by the Federal agency.

Legislative Principles

The Food Stamp Plan conducted by the Department during 1939-43 was carried out under the terse authority granted to the Secretary of Agriculture under clause 2 of Section 32, Public Law 320, 74th Congress, as amended: "to encourage the domestic consumption" of agricultural commodities or products "by diverting them, by the payment of benefits or indemnities or by other means, from the normal channels of trade and commerce or by increasing, their utilization through benefits, indemnities, donations or other means, among persons in low-income groups as determined by the Secretary of Agriculture."

The experience of the Department in the operation of that program indicates that, if a stamp plan were to be authorized, legislation specifically directed to such a program should be enacted, which would define the objectives and scope of operation and provide safeguards for the administration and enforcement of the program.

If enacted, such legislation should provide a program of sufficient flexibility as to permit such adoption of and changes in operating methods and procedures, and such expansion or contraction with respect to the geographic areas, and economic levels of recipient, as experience and changing economic conditions may indicate are necessary or desirable to accomplish the objectives of the Act.

Criminal penalties should be prescribed for illegal manufacture and passing of counterfeit stamps, and for the trafficking in stamps by unauthorized persons. Procedures for the imposition of administrative sanctions through denial of participation should also be considered.

AN ANALYSIS OF FOOD STAMP PLANS

V. Estimates of Program Participation and Costs

Potential Participation

It is basic to the success of a food stamp plan that participation be limited to those for whom income is a major limitation on the amount of money that can be spent for food. However, there is no exact measure by which to identify such persons and families.

Estimates of potential participation in a stamp plan, therefore, must necessarily be made within some defined program scope. The more restrictive are the limitations placed upon income levels for participation, the greater would be the potential increase in food markets per dollar of Federal expenditures; but, too restrictive criteria could limit participation to the point where the total additional food purchasing power provided would be too small to have any significant effect on over-all domestic food demand. On the other hand, as the income levels for participation go up, a larger proportion of the Federal supplement is likely to go to expenditures for higher food quality and more marketing services.

Estimates have been made of potential participation under a program of limited, medium, and maximum scope. It must be emphasized that, in a program of this type, experience demonstrates that actual participation will always be well below any estimate of the number of potentially eligible people. Moreover, considering the high levels of national income and employment, there are some very practical problems to be overcome in reaching the number of people that could be included in a program.

The operation of a stamp program would require an extensive staff on the part of the State agency responsible for the administration of the program. Rather detailed investigations of the financial resources of nonrelief applicants would be necessary, and participating families would be subject to periodic recertification. In addition, issuing offices would need to be maintained, at which participating families could regularly purchase their allotment of stamps. In many areas of the country, the general economic conditions would not appear to justify the cost of reaching the relatively small number in the potentially eligible group. As has been true under the family food donation program -- which requires a lesser cost on the part of State agencies -- it is anticipated that stamp plan operations might largely be confined to areas of economic distress.

Limited-Scope Program: It appears that the minimum scope for any food stamp plan would be one that confined participation to

those persons whose economic position justifies some type of welfare or relief assistance.

According to information maintained by the Department of Health, Education, and Welfare, about 5 million people are receiving welfare assistance under the Social Security Act. An additional 800,000 persons are receiving some type of State or local relief assistance, but complete reports are not available on assistance programs in which the Federal Government does not participate.

Therefore, under a minimum program, it would be reasonable to expect a potential participation of about 6 million persons.

Medium-Scope Program: ^{1/} The probable participation in a medium-scope program has been estimated by establishing the maximum permissible annual money income of participants as \$2,500 for a family and \$1,000 for single individuals. It is assumed that at these income levels, considerable economies generally are necessary in the amounts of money spent for food.

Based upon 1955 money income distributions, it is estimated that potential participation would be in the neighborhood of 16 million persons in a program of medium scope.

Maximum-Scope Program: ^{1/} Potential participation in a program of maximum scope has been estimated by assuming that there is an effective limitation on food expenditures when 40 percent of income is not sufficient to purchase a basic food allotment. The "basic food allotment" is a low-cost adequate diet food plan developed by the Department of Agriculture. ^{2/}

At September 1956 retail prices, the basic allotment would have cost about \$5.50 per person per week, based on a 4-person family. Based upon the distribution of money incomes in 1955, it is estimated that potential participation in a maximum-scope program could total up to 25 million persons. (See Table 3 for a more detailed description of the method used in arriving at this estimate.)

^{1/} Estimates for potential participation under a program of medium and maximum scope have been developed on the basis of nonfarm household income distributions.

^{2/} This criterion of eligibility has been used in proposed legislation authorizing the operation of a food stamp plan, known as the National Food Allotment Plan.

Table 3.--Estimate of number of nonfarm families and unrelated individuals potentially eligible to participate in a Federal food stamp program of maximum scope.

Group	Total number of families in group	Income Exclusion Points for Participation Based on estimated cost <u>1/</u>	Used to estimate number eligible	Percent of family group eligible	Estimated number eligible	
					Families	Persons
	(1)	(2)	(3)	(4)	(5)	(6)
	Thousands	Dollars	Dollars	Percent	Thousands	Thousands
Unrelated individuals	--	965	Under 800	--	--	3,122
Families of						
2 persons	12,269	1,836	Under 1,500	17.0	2,086	4,172
3 persons	8,738	2,470	Under 2,000	10.7	935	2,805
4 persons	7,985	2,860	Under 2,500	9.0	719	2,876
5 persons	4,512	3,575	Under 3,000	16.4	740	3,700
6 persons	2,084	4,290	Under 3,500	22.2	463	2,778
7 or more persons	1,869	4,755	Under 4,000	41.3	772	5,404
Total:						
Families	37,457	--	--	--	5,715	21,735
Families and individuals	--	--	--	--	--	24,857

1/ Estimated minimum money income needed by urban families and unrelated individuals to obtain a low-cost adequate diet (the food allotment) with 40% of their income. The estimate takes into account economy of family size in food preparation at home. Cost of diet based on September 1956 prices.

Estimated Costs to the Federal Government

Costs to the Federal Government would depend upon the scope of the plan -- based upon the eligibility criteria established and the extent to which the food purchasing power of participants were to be increased.

As shown in Table 4, nonfarm families with an annual money income between \$2,000 and \$3,000 spent about \$2.00 more per person per week for food than did nonfarm families having incomes under \$2,000 a year. It is reasonable, therefore, to try to supplement the food purchasing power of participants by approximately \$100 per person per year.

On this basis, the cost to the Federal Government, exclusive of administrative costs, could range from an annual expenditure of \$600 million for a program of minimum scope to an annual expenditure of \$2.5 billion for a program of maximum scope. With annual retail food store sales in the neighborhood of \$50 billion, the additional food purchasing power provided under a food stamp program -- considering possible levels of substitution and diversion to nonfood uses -- could range from two-thirds of one percent for a limited program to a little more than 3 percent for a program of maximum scope.

AN ANALYSIS OF FOOD STAMP PLANS

VI. Probable Impact of a Food Stamp Plan

Probable Impact on Consumption Patterns

An analysis has been undertaken, based upon the data now available from the survey of household food consumption in 1955, to determine the probable impact of a stamp plan on the consumption patterns of participating groups. This has been done by estimating the probable consumption changes that would have occurred if nonfarm families with annual money income of less than \$2,000 had been consuming food at the rate of those families with annual incomes of between \$2,000 and \$3,000.

Such an analysis does not show the exact extent of the changes that would take place in market demand if a stamp plan were in operation because that would depend upon the number of participants and the amount of additional food money provided to them. It does, however, indicate the relative effect to be expected upon the participants' expenditures for various food groups, under any assumed level of program size.

If the families with incomes of less than \$2,000 in 1955 had been able to consume food at the rate of families with incomes between \$2,000 and \$3,000, they would have increased their weekly food expenditures by \$7.12, or \$2.03 per person. These larger expenditures, however, would not result in larger consumption of all food groups. Use of commodities in the flour, meal and cereals groups would have decreased, but this would be partly offset by increased use of commercially baked products. The use of dried fruits and vegetables also would have decreased and the use of sugar and other sweets would not have been affected.

Among the food groups where consumption would have increased, the estimated percentage increases would have ranged from 2 percent for fats and oils, 27 percent for the meat, poultry and fish group, to 50 percent for canned and frozen fruits and vegetables (Table 4). The food group that would be expected to benefit most from the increase in food expenditures under a stamp plan, therefore, would be canned and frozen fruits and vegetables; fresh fruits and the meat, poultry and fish group would be in an intermediate position, followed by dairy products, fresh vegetables, and eggs. A lowered demand for flour, cereals and dried fruits and vegetables would be expected.

Probable Impact on Agriculture

A food stamp plan is not an effective device for disposing of surpluses now in the hands of the Commodity Credit Corporation.

Table 4--Estimated changes in food consumption of nonfarm families with incomes of less than \$2,000, in 1955, if their consumption patterns were those of families with incomes between \$2,000 and \$3,000 ^{1/}

Food Group	Average consumption		Percent
	per household of 3.5	per household of 3.5	
	persons, with incomes under \$2,000	persons, with incomes of \$2,000 - \$3,000	increase
Fresh fruits	6.82	8.53	25
Fresh vegetables	7.42	8.67	17
Canned and frozen fruits and vegetables and juices	4.79	7.17	50
Dried fruits and vegetables	1.08	.88	-19
Potatoes	5.79	6.32	9
Meat, poultry, fish	10.68	13.60	27
Milk (incl. nutritional equivalent of cheese, ice cream)	11.62	13.71	18
Eggs	1.80	2.00	11
Bakery products	4.90	6.25	28
Flour, meal, pastes, cereals	9.41	7.15	-24
Fats and oils (incl. butter)	2.99	3.05	2
Sugar, sweets	4.22	4.24	0
Total food (incl. nonpurchased)	18.71	25.12	34
Total food expenditures	16.22	23.34	44

^{1/} Data calculated from Report No. 1 of 1955 Household Food Consumption Survey. In this survey approximately 13 percent of the nonfarm housekeeping families had money income less than \$2,000 (after tax) for the year 1954.

With respect to its possible impact on the further accumulations of inventories, dairy products probably would be the only major commodity to receive any direct benefit from a food stamp plan; indirect benefits would tend to accrue to feed grains, if a stamp plan resulted in a large enough increase in the consumption of livestock products.

If the program were large enough in scope, the additional Federal supplement actually spent for food should provide general support to the domestic demand for food and, therefore, should have some bolstering effect on farm income.

Its initial impact, assuming it were feasible to rather quickly extend the program in full and on a nationwide basis, would be to raise retail food prices somewhat. Of the resulting benefit upon farm income, most of it would go to producers of fruit, vegetable and livestock products. It would be expected that initial increases in prices would, sooner or later, be followed by increases in supplies of many foods, depending on how rapidly adjustments could be carried out. This would bring a decline in prices from the levels that might result from the initial impact of the plan.

In the longer run, such a program would be expected to result in increases in production and sales of those commodities receiving the greatest direct benefits from the program. For example, a stamp plan should encourage a gradual expansion in the output of livestock products. This would be of benefit to producers of feed. However, because resources are available to expand the production of livestock products, it is not likely that a stamp plan would result in any significant shifts away from the production of commodities such as cotton and wheat.

A food stamp plan would not be as effective in dealing with seasonal, temporary or localized surplus situations as would a program of Government purchase and direct distribution. Under a Government purchase program, the Department can make purchases of the necessary quantities -- pin-pointing the time of the purchase, the area of purchase and even the particular grades or variations -- in order to relieve temporary marketing difficulties. Purchase of substantial amounts, if necessary, can be made within a short period, even though after donation, consumption of the purchased amounts may take place over an extended period of time. The same degree of pin-pointing of a program to temporary market distress situations would not be possible under a food stamp plan. However, if a stamp plan were inaugurated, school lunch and institutional outlets, which accounted for half the total amount of surplus foods distributed domestically in 1956, would still be available for surplus-removal operations.

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