

**BUDGET  
ISSUE PAPER**



**The Food Stamp Program:  
Income or  
Food Supplementation?**

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January  
1977



Congressional Budget Office  
Congress of the United States  
Washington, D.C.

THE FOOD STAMP PROGRAM:  
INCOME OR FOOD SUPPLEMENTATION?

The Congress of the United States  
Congressional Budget Office

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PREFACE

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At a time when the Food Stamp Program has come under close public scrutiny, the 95th Congress will have the opportunity to consider the program's continued authorization. As the only national program providing assistance to all needy families, this program and future decisions made about it will have implications for debates on reform of other welfare programs.

This report represents the first in the Congressional Budget Office's series of Budget Issues Papers that analyze various social programs. The report reviews the development of the food stamp program, how it meets its stated objectives, how it relates to other public assistance programs, and who receives food stamps; in addition, it presents various program alternatives for the future.

The report was prepared by G. William Hoagland of the Human Resources Division, under the supervision of Stanley Wallack and C. William Fischer. The author wishes to acknowledge the assistance of George Iden, John Korbel, June O'Neil, and Robert Reischauer of CBO. Richard Michael, formerly with CBO, also provided helpful comments.

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Alice M. Rivlin  
Director

January 1977



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## SUMMARY

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The Food Stamp Program (FSP) has grown dramatically in recent years. Today the program provides assistance to households nationwide, including Guam, Puerto Rico, and the Virgin Islands. Federal outlays in the program have grown from less than \$100 million in fiscal year 1965, serving fewer than a million persons, to nearly \$5.5 billion in fiscal year 1977, serving over 17 million persons. Even though improved economic conditions and stabilized food prices have recently slowed program growth, the program still is expected to cost the federal government about \$5.4 billion in fiscal year 1978.

The recent rapid growth of the food stamp program, charges of widespread irregularities and abuse, fraud and mismanagement, and allegations of high income recipients have all generated increased public awareness and concern about the program, its efficacy, its relationship to other public welfare programs, and its future role in providing assistance to needy Americans. The program's legislative authorization expires with the 1977 fiscal year.

The food stamp program is designed to subsidize low-income households in their purchases of food. Any household meeting the basic eligibility requirements--an income test, an asset test, and a work requirement--may purchase food stamps at a price below their market value. Stamps are redeemable for food purchases at certified retail and wholesale food outlets. The difference between the market value (the allotment) and the amount paid for the stamps (the purchase requirement) represents the federal transfer of in-kind benefits (referred to as bonus stamps). The federal government bears the entire cost of the bonus food stamps. State agencies assume responsibility for certifying eligible households and issuing stamps. All state administrative costs are shared with the federal government on a 50-50 basis.

The basic philosophy behind the food stamp program is simply that every eligible household should have "an opportunity to obtain a nutritionally adequate diet." Evolving from earlier commodity distribution programs, the food stamp

program has attempted to achieve the goal more effectively and efficiently and with increased food purchasing freedom for the participant. Today, the food stamp program goes beyond providing recipients the wherewithal to increase food consumption and, on the average, for every one dollar of bonus food stamps transferred, approximately 43 cents is freed for nonfood purchases.

One of the key budgetary issues is whether the food stamp program should be redirected to emphasize either of its two current goals of (a) increased food consumption or (b) income supplementation, or whether the current mix of emphasis should be continued. Should the federal transfer be directed only for food purchases? If not, how much general income supplementation should be allowed? If general income supplementation is the goal, should the program be replaced with an unrestricted cash grant program? Most recent proposals have called for incremental modifications to the current program structure.

The design of the program partially accounts for its recent growth. Administrative and legislative adjustments in 1969-1970 lowered the purchase requirements, set national eligibility income limits, and raised the basic allotment. Amendments in 1973 replaced the commodity distribution program with the food stamp program nationwide and in outlying territories. Finally, program growth resulted from the unprecedented world-wide food price inflation beginning in 1972, leading to both increased allotment levels and income eligibility standards. These events all coincided with unprecedented unemployment rates and depressed family incomes.

The food stamp household had an average gross cash income of about \$298 in September 1975, \$3,576 on an annual basis, 23 percent of the mean family income of all American families in 1975. Over 42 percent of the participating households received income from the Aid to Families with Dependent Children (AFDC) program, 17 percent had incomes from the Social Security Insurance program, and about 22 percent of the participating households received some income from work. Of all the food stamp benefits transferred, it is estimated that 57 percent went to households that were receiving some other form of public assistance, and 19 percent went to households classified as working poor. This represents essentially the only federal income assistance to aid working poor households.

The bonus transfer tends to even out some of the state and regional differentials produced by varying state AFDC benefit levels. It is estimated that the widest differential in average AFDC benefits between the New England and Southern states, a differential of almost \$165 before food stamps, is reduced by over \$50 after food stamp participation.

Of all households certified eligible for food stamps in September 1975, 78 percent fell below the official Executive Branch poverty threshold, 1/ and 90 percent fell below 125 percent of this poverty line. Because bonus stamps are greater for the lowest income households, almost 86 percent of all the benefits went to households below poverty, and 95 percent went to households below 125 percent of the poverty line. Households with incomes above 125 percent of the poverty line received 5 percent of the total benefits. The average food stamp household received approximately \$78.83 in bonus food stamps in September 1975, or an average of \$948 in total federal transfers annually. On a per-person, per-meal basis, this represents an average transfer of about 25 cents.

Of all households estimated to be eligible for food stamps in the United States, on a monthly basis participation averages about 55 percent, or 5.9 million households. This 55 percent receives approximately 63 percent of the total potential benefits. While the program was never specifically designed to remove participating households from poverty, the inclusion of the food stamp bonus benefit in a household's income definition does move over one-quarter of the pre-food stamp poor households out of poverty. Assuming that a dollar in food stamps has the same value as cash to the recipient, currently it is estimated that nearly 4 million of the 14.4 million pretransfer poor persons are moved out of poverty as a result of counting the food stamp benefit in their income.

The nutritional improvement that results from food stamp participation is less clear. While it is estimated that, in

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1/ The official poverty definition is based on an income threshold that varies with family size, farm or non-farm residence, and sex of head of household. For example, in 1975, for a non-farm family of four, \$5,500 is the level below which that family is deemed to be in poverty.

1973 on the average, food stamp households increased their average food consumption by as much as \$40.00 per month over what they normally would have spent for food, increased food expenditures and nutritional improvements are not synonymous. Little evidence exists nationally concerning the effect the program has had on raising the levels of nutrition among low-income households.

Basically five future budget options exist for the food stamp program. These are summarized along with potential budget and recipient impacts:

Current Policy Status Quo. Since participation and costs of the food stamp program are sensitive to economic changes, the recent trend of rapid growth in number of recipients and program costs is not inevitable. Based on the increases in food prices relative to overall price changes, and allowance of particular deductions, households could continue to be eligible for food stamps with incomes above the official poverty line. Federal costs would be approximately \$5.4 billion in fiscal year 1978, increasing to \$5.9 billion in fiscal year 1982.

Recent Legislative Reform Options. Separate bills approved by the Senate and by the House Agriculture Committee during the 94th Congress centered on modifying program parameters such as income definitions, income eligibility limits, deductions, and purchase requirements. Similar adjustments were included in regulations proposed by the Ford Administration. Incremental reform proposals replace itemized deductions with a fixed standard deduction. These proposals also retain the food stamp purchase requirement, setting it at a fixed percentage of income after deductions. Such proposals usually result in about the same level of income supplementation as the current program. Because of relatively high standard deductions and special deductions, benefits tend to be concentrated on the lowest-income groups. Such proposals also redistribute the proportion of food stamp benefits away from northeastern to southern and midwestern states. By setting a maximum income eligibility standard, they also eliminate participation by approximately one million higher income recipients.

While these programmatic reforms are substantial, no significant reduction in federal outlays would occur.

No significant cost savings would result from removing high income recipients, students, and strikers. The bill approved by the Senate (S. 3136) would have increased costs by \$600 million in fiscal years 1978 and 1982. The bill approved by the House Agriculture Committee (H.R. 13613) would have resulted in minor reductions in federal outlays in the short run, with additional outlays of about \$100 million in fiscal year 1982; it would also have increased state costs by approximately \$100 million.

Proposed Ford Administration regulations would have reduced program costs by approximately \$500 million in fiscal year 1978 and \$800 million in fiscal year 1982, by eliminating over 3 million current recipients. The major costs reduction feature of this proposal was an extended accounting period (three months) over which income was to be counted for determining eligibility. Such a provision would result in concentrating benefits on longer term needy households, while reducing the program's current responsiveness to immediate food needs.

Food Consumption Emphasis. Significant reduction in program costs could be achieved by limiting participation to households below poverty and altering the proportion of the bonus transfer which can be spent for non-food items. Such proposals would increase the purchase requirement from approximately 19 percent of gross income in the current program to 30 percent. The inclusion of other in-kind food benefits in the household's income definition, such as special assistance payments in the child nutrition programs, benefits received in the WIC Program (Women, Infants, and Needy Children) and federal benefits in the elderly feeding program, would further reduce federal costs.

At least two proposals along these lines were introduced in the 94th Congress: S. 1993 and H.R. 8145. S. 1993 increased the food allotment for participants by over 20 percent. Such proposals would also remove between 3 and 4 million current recipients and limit benefits to households below the poverty line after including other federal in-kind benefits in their definition of income. Program costs in fiscal year 1978 would be reduced by approximately \$800 million under S. 1993 and \$2.7 billion under H.R. 13375.

Income Support Emphasis Through Elimination of the Purchase Requirement. Such a proposal would remove the requirement that households purchase food stamps. Eligible households would receive only bonus food stamps. Approximately 40 percent of all purchased stamps in circulation would be removed from existence. Minor reductions in program costs associated with printing, handling and storing of purchased stamps would result.

Eliminating the purchase requirement would remove one disincentive for nonparticipation; it would also remove any programmatic incentive for increased food consumption over current levels. The proposal implicitly alters the current program's objective of targeting the transfer on food consumption to one of more general income augmentation. For some households qualifying for the largest bonuses, the proposal would continue to support a high level of food consumption; for households currently receiving small bonuses, greater choices would exist in their consumption patterns.

Increased participation would be accompanied by increased costs. Precise estimates of both increased participation and costs are difficult to make and rest on untested changes in the eligible population's behavior and valuation of the bonus stamps. Current estimates show that participation could increase between 10 and 20 percent over present levels.

One bill introduced in the 94th Congress, S. 2451, represents a prototype of a program operating without the purchase requirement. The proposal would have resulted in increased costs of \$1.1 billion in fiscal year 1978, increasing to possibly \$1.8 billion in fiscal year 1982, over current policy levels. Increased benefits would have been concentrated on smaller size, more elderly households. Proposals such as S. 2451, while retaining the no-purchase requirement, must be accompanied by modification in other program parameters such as lower levels of deduction and longer accounting periods in order to limit costs.

Cashing Out Food Stamps. A fourth budget alternative would involve replacing the bonus food stamps with an equivalent amount of cash. The House Agriculture

Committee bill includes a cash-out of bonus stamps for certain elderly, blind, and disabled persons. The cash-out option is not normally considered a food stamp option but should be considered in broader debates associated with various comprehensive welfare restructuring proposals. The proposal represents the final alternative on the continuum from an in-kind welfare program designed to increase the consumption of a particular good to an unrestricted cash assistance program with maximum freedom of choice.

Households receiving cash as opposed to bonus food stamps would use a portion of the grant for food purchases. What limited evidence exists does not suggest that households receiving cash have any better or worse quality of diets than households that receive food stamps. Given that recipients value the current in-kind transfers at less than government costs, cashed-out benefit levels could be set below current levels of food stamp assistance. Cashing-out food stamps would reduce administrative complexities through consolidation with other cash-assistance programs.

If the basic guarantee and benefit reduction rates remained the same under this option as in all others, and if the current prospective accounting system remained unchanged, it is estimated that costs would increase between \$2.2 and \$2.7 billion over current policy estimates for fiscal years 1978 and 1982 respectively. Participation rates would nearly double under this proposal, but new recipients would qualify for lower average benefits; benefits would accrue to households in the higher eligible income groups.

Summary Table 1 provides a generalized evaluation of the proposals compared to the current program.

On balance, the food stamp program issues that will face Congress in its deliberation on the fiscal year 1978 budget will run the spectrum of proposals designed to tightly define how the taxpayers' transferred dollars are to be spent to more open-ended proposals providing maximum recipient choice. Such a spectrum also covers proposals that would reduce federal outlays by as much as \$2.7 billion or increase outlays by a similar amount. The choices and decisions

Congress makes will help shape not only the future direction of the food stamp program, but also the design and structure of any major reformulation of the country's total welfare system.

IMPACT OF FOOD STAMP PROGRAM BUDGET ALTERNATIVES ON PROGRAM GOALS  
AND EVALUATIVE POLICY CRITERIA RELATIVE TO CURRENT PROGRAM.<sup>a/</sup>

Program Alternatives	Eligible Participants	Average Benefits to Participants	Food-Income Tradeoff
I. Program Refinements			
1. S. 3136, Senate passed Reform Act.	Increase	Increase	Slight decrease in food consumption, slight increase in income supplementation
2. H.R. 13613, House Agriculture Committee Passed Bill	Increase	Increase	Unchanged
3. Administration Regulations	Reduction	Unchanged	Unchanged
II. Food Consumption Specific			
1. S. 1993, Buckley			
2. H.R. 8145, Michel	Reduction	Increase	Increase food consumption, decrease income supplementation
III. Elimination Purchase Requirement			
1. S. 2451, Dole-McGovern			
2. H.R. 10467, Heinz			
3. H.R. 10441, Hall	Increase	Increase	Decrease food consumption, increase income supplementation
IV. Cash-Out Bonus	Increase	Unchanged	Decrease food consumption, increase income supplementation

Distribution of Benefits	Work Incentives	Administrative Simplicity	Budget Costs <sup>b/</sup>	
			FY 78	FY 82
(Billion \$)				
Increase poverty reduction and coverage, reduces benefits to working poor, redirects benefits to larger size households. Increases benefits to elderly, blind, and disabled.	Some Increase	Simplified	\$6.0 (+.6)	6.5 (+.6)
Increase in poverty reduction, concentration on public assistance, elderly, and smaller size households redirects benefits away from north and eastern states to southern.	Some Increase	Increased Complexities	5.3 (0)	6.0 (+.1)
Unchanged poverty reduction; concentration on public assistance, elderly households, reduces benefits to working poor.	Unchanged	Increased Complexities	4.9 (-.5)	5.7 (-.8)
Increased benefits for larger size households. Concentration on elderly, public assistance; unchanged poverty reduction.	Decrease	Increased Complexities	4.6 (-.8)	5.1 (-.8)
Increased poverty reduction. Benefits distributed to higher income eligible households, concentration on elderly, smaller size households.	Unchanged	Simplified	6.5 (+1.1)	7.7 (+1.8)
Increased poverty reduction. Benefits distributed to higher income eligible households.	Unchanged	Simplified	7.6 (+2.2)	8.6 (+2.7)

<sup>a/</sup> Consult Table 18 for a more specific review of the elements of this table.

<sup>b/</sup> Change from current policy estimates of \$5.4 billion in fiscal year 1978 and \$5.9 billion in fiscal year 1982 shown in parentheses.



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## INTRODUCTION

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Over the last decade, the Food Stamp Program (FSP) has undergone a dramatic increase in size. Total federal and state outlays in the program have grown from less than \$100 million in 1965 to nearly \$5.9 billion in fiscal year 1976. In fiscal year 1977, the program is expected to cost the federal government slightly over \$5.5 billion and to provide assistance to over 17.4 million persons every month.

The rapid growth and increased visibility of food stamp use have greatly increased public awareness of and concern about the program's operation, its efficacy, its relationship to other public welfare programs, and its future role in providing assistance to needy Americans. Among other things, it has not been clear to the general public whether the food stamp program is intended to provide food for, or to supplement the income of, low income families. As the program actually operates, it does some measure of both.

The food stamp program subsidizes eligible households in buying food through regular retail stores. Any household meeting the basic eligibility requirements--an income test, an asset test, and a work requirement--may purchase food stamps at a price below their market value. The difference between the market value of the stamps (the allotment) and the amount paid for the stamps (the purchase requirement), which varies by household size and net monthly income, represents the federal transfer (referred to as bonus food stamps). For most families under the program, the stamps provide the capacity to buy more food than they otherwise would have been able to buy. And for many families, the stamps also free some income that would have been spent on food for other purposes. Thus, the program supplements both food and income.

Beginning in early 1975, a number of problems prompted reexamination of the food stamp program. Costs had skyrocketed. There were also charges of widespread irregularities, abuse, fraud, and mismanagement, plus allegations of food stamp issuance to "high income" recipients. All

these factors prompted both the Legislative and Executive branches to propose major modifications in program administration, operation, and eligibility criteria. In February of 1976, President Ford proposed administrative regulations designed to reduce program costs. However, implementation of the regulations was blocked by the United States Court for the District of Columbia.

In April of 1976, the Senate passed the National Food Stamp Reform Act of 1976 (S. 3136). The House Agriculture Committee approved a bill (H.R. 13613) in late August of 1976, but no action was taken by the full House. Thus, no food stamp bill was enacted by the 94th Congress. However, because legislative authorization for the food stamp program expires in 1977, the program will expire unless the 95th Congress acts to renew it.

Much of the legislative debate in the 94th Congress focused on methods of reducing federal costs. The impact of proposed modifications on current recipients and on those eligible, but not participating, has been only a secondary consideration. Furthermore, little consideration has been given to the food stamp program's relationship to other welfare programs and to how program modifications would affect this relationship.

The opening chapter of this paper outlines the history of the food stamp program, particularly recent program growth. The second chapter describes the population served by the food stamp program and the nature of the benefits of the program. The third chapter explains the key structural elements of the food stamp program. The final chapter then analyzes five different potential legislative approaches to the food stamp program, examining their effects on eligibility criteria, on program participants, on the program's primary objectives, and on the federal budget.

Federal domestic food assistance programs go back some five decades, but both their character and scope have changed markedly in the last five years, presenting major budget issues for fiscal year 1978 and beyond: Should the food stamp program emphasize food consumption or income supplementation, or should it continue to be a mix of both? Can its costs be kept under control?

The purpose of this opening chapter is to provide the reader with a brief account of the evolution of the food stamp program, and particularly with an explanation of its rapid change and growth in the last few years. An understanding of this history is essential to a clear understanding of both food stamp budget issues and general welfare issues to be resolved in the years to come.

## FOOD STAMP PROGRAMS UNTIL 1971

### Commodity Distribution in the Depression

The farm depression of the 1920s and the general economic depression of the 1930s led to the passage of the Agricultural Adjustment Act of 1933. The primary objective of the Act was to support farm prices and stabilize farm income by controlling agricultural production and removing excess supplies from the market. Amendments to the Act in 1935 created the Federal Surplus Relief Corporation for the specific purpose of purchasing surplus farm products from the open market.<sup>1/</sup>

The 1935 amendments specified that once the federal government had purchased price-depressing surplus foods, it was to encourage "the domestic consumption of such commodities or products by diverting them . . . from the normal channels of trade and commerce." Needy families and school lunch programs

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<sup>1/</sup> Public Law 320, 74th Congress, August 1935. The Corporation was funded by setting aside 30 percent of the nation's custom duties.

became major outlets for commodities purchased under this legislation. State and local governments established large distribution systems to accept, store, and move surplus foods to eligible families, schools, and charitable institutions. Nevertheless, it was only as an adjunct to agricultural programs designed to support farm income that the federal government began to provide a part of basic food needs.

### Early Food Stamp Plans

The first food stamp program grew out of the specific need to increase the consumption of surplus agricultural commodities. For 46 months between May 1939 and early 1943, a food stamp plan served approximately 4 million persons in selected areas of the country. The program never operated nationwide and was limited to families on relief, WPA workers, and other needy persons certified by certain relief agencies. The program was terminated when wartime mobilization reduced unemployment and increased the demand for U.S. food supplies. In fact, many forms of food were in such short supply that they were rationed.

### Pilot Programs of the 1960s

The food stamp program as it exists today began on an experimental basis in early 1961. President Kennedy's first Economic Report to Congress proposed a food stamp program for selected depressed areas of the country. The initial number of pilot areas, eight, was later increased to 43, and participation grew from 133,400 people in July 1961 to 392,400 in March 1964. The federal cost of the program reached \$13 million in fiscal 1962 and more than doubled to \$29 million in fiscal 1964. The experimental program, like the Agricultural Adjustment Act of 1933, removed price-depressing surplus goods from the market, but it also emphasized the objective of improved nutrition.

The pilot food stamp program of 1961 closely followed the design of the 1939-1943 program. Under the pilot program, certified families (for the most part families on public welfare rolls) exchanged "normal food expenditures" for food stamps of higher monetary value. Participating families were allowed to use all the stamps on whatever

food products they desired, except for certain imported foods.

Studies of the pilot program indicated that between 85 and 95 cents of every bonus dollar were spent to increase food purchases; therefore, between 5 and 15 cents of the bonus dollar were used to supplement nonfood purchases. <sup>2/</sup> The early results also showed increased food purchases in specific food groups--meats, poultry, dairy products, and fruits and vegetables. These food groups were considered non-basic, perishable food items that were not truly "in surplus." Despite the program's inability to rid the market of surplus commodities, its marked ability to increase the food purchasing power of participating low-income families was cited as a benefit by proponents of the Food Stamp Act of 1964.

#### Food Stamp Act of 1964

The Food Stamp Act of 1964 declared it to be a policy of Congress "to raise the levels of nutrition among low-income households" (emphasis added). The federal government established the value of the food stamp allotment in such an amount "as [would] provide such households with an opportunity more nearly to obtain a low-cost, nutritionally adequate diet."

The food stamp program established by the Act is an income-test program designed to subsidize eligible households in buying food through regular retail stores. Any household meeting the basic eligibility requirements--an income test, an asset test, and a work requirement--may purchase food stamps at a price below their market value. The difference between the market value of the stamps (the allotment) and the amount paid for the stamps (the purchase requirement), which varies according to household size and monthly income, represents the federal transfer, also referred to as bonus food stamps.

The program under the Act was basically state-oriented. The Act placed the responsibility for establishing the food stamp program in state agencies authorized to administer

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<sup>2/</sup> "The Food Stamp Program, An Initial Evaluation of the Pilot Projects," United States Department of Agriculture, Consumer and Marketing Service, C&MSI, April 1962.

assistance programs. The federal government established the purchase requirements for the full stamp allotment and bore the cost of the bonus stamps, but individual states specified eligibility standards. Each state set monthly allowable income cut-off levels by specific household sizes. States also set resource and asset tests, usually consistent with the state's public assistance criteria (e.g., the criteria used in the Aid to Families with Dependent Children, AFDC program). Most important, eligibility was established primarily on income, making eligible those low-income, intact households not receiving welfare.

Having states establish income and asset criteria and the federal government establish national benefit levels produced a number of problems. Most significant were widely varying eligibility standards and low participation rates in some food stamp areas. Low participation, inequitable allotment, and prohibitive purchase requirements precipitated the first major administrative program modifications in December 1969. These were followed by legislative amendments in January 1971.

#### Amendments of 1971

Shortly after taking office in 1969, President Nixon issued a message on hunger in which he declared: "The moment is at hand to put an end to hunger in America itself for all time." The message combined a series of recommendations, the most significant of which were:

1. Preference for the food stamp program over the direct distribution of surplus commodities, and priority for the expansion of the food stamp program in all areas of the country;
2. The provision of food stamps at no cost to those in the very lowest income brackets;
3. The provision of food stamps to all others at a cost no greater than 30 percent of income; and
4. The provision to families of enough food stamps to purchase a nutritionally adequate diet, later to be defined by administration regulations as an "Economy Food Plan."

With the opening of the White House Conference on Food, Nutrition, and Health in December of 1969, Secretary of Agriculture Hardin announced modifications in the food stamp program. The modifications included: (1) reduction of purchase requirements, particularly for lower-income families; and (2) setting total coupon allotments for all participating households at a level that would enable families to purchase a diet that was more nutritionally adequate. 3/

The administrative modifications, along with additional legislative provisions, were adopted by Congress in January 1971 (Public Law 91-671) and represented the first major legislative modifications to the Food Stamp Act since its enactment in 1964. The amendments explicitly established nutritional objectives. Food coupon allotments were changed from levels that provided recipients an "opportunity more nearly to obtain a low-cost nutritionally adequate diet" 4/ to "an opportunity to obtain a nutritionally adequate diet." 5/ The cost of a nutritionally adequate diet, and therefore the amount of the food coupon allotment, would be determined by the Secretary of Agriculture and adjusted annually based on changes in the price of food. Later amendments required semiannual adjustments.

These changes were significant. In fact, in subsequent litigation a federal court characterized the changes as

. . . a major shift in the policy of the Food Stamp Act, a shift from supplementing the diets of low-income households to guaranteeing those households the opportunity for an adequate diet. Congress plainly intended the 1971 amendments to assure that no eligible family need be malnourished; the government would provide all the opportunity to be healthfully fed. [Emphasis in the original.] 6/

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3/ The White House Conference on Food, Nutrition and Health, Summary Report, Washington, D. C., December 1970.

4/ Sec. 4(a) Public Law 88-525, August 31, 1964, The Food Stamp Act of 1964, 78 Stat. 703-709.

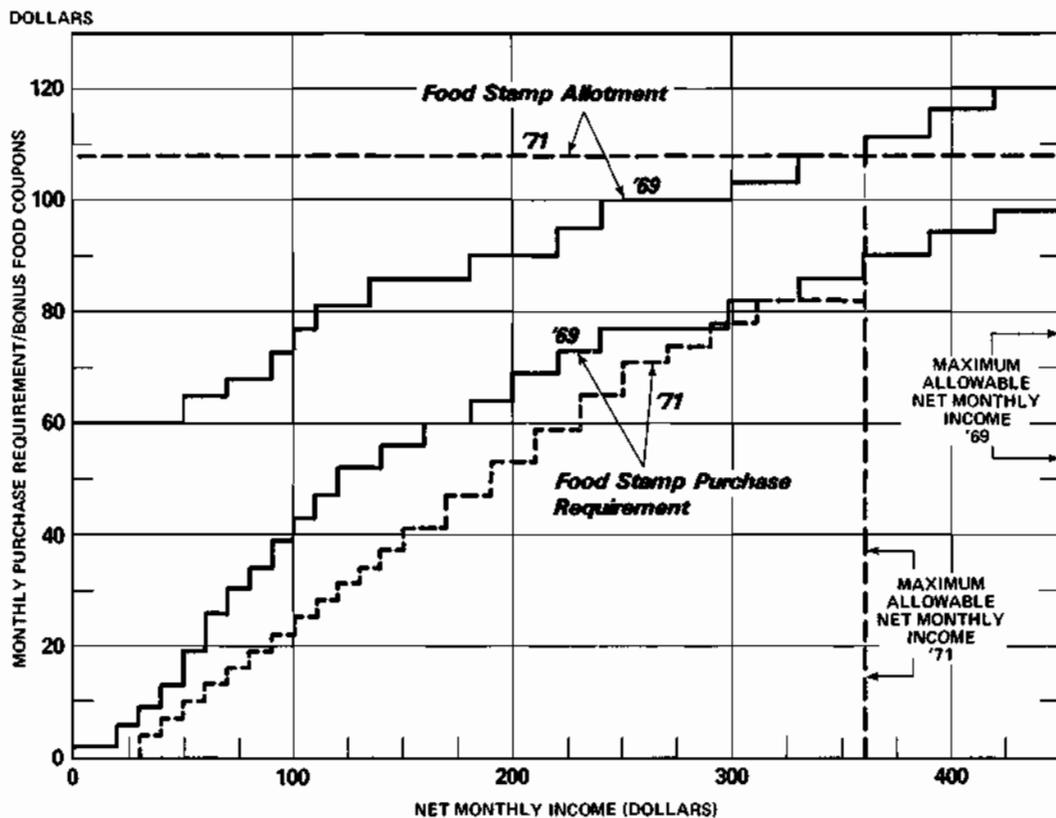
5/ Sec. 3(a) Public Law 91-671, January 11, 1971, The Food Stamp Act of 1964 (Amendments) 84 Stat. 2048.

6/ Rodway v. U.S. Department of Agriculture, 514 F.2d 809, 820 (D.C. Cir., June 12, 1975).

As a result of the 1971 amendments, food stamp allotments were increased substantially above the previous standards, especially among lower-income households. A comparison of the food stamp allotments for a family of four prior to and following the amendments in 1971 is shown in Figure 1. Before 1971, the stamp allotment had increased from \$60 to \$120 for families of four with increasing income; after 1971, all

Figure 1

**Comparison of 1969 and 1971 Food Stamp Issuance Schedules for Four Person Households. <sup>1</sup>**



<sup>1</sup> Monthly coupon allotment and purchase requirements for a family of four in 1971, applies to 48 states and District of Columbia. Monthly coupon allotments and purchase requirements for a family of four in 1969, applies to Northern States Issuance Schedule. A Southern States Issuance Schedule had a slightly lower allotment level.

Source: Developed by CBO, from USDA Issuance Tables, effective February 1969 and January 1971.

eligible families of the same size received the same amount (e.g., \$108 for a family of four).

In addition to changes in the basic allotment, the amount required to purchase the full stamp allotment was lowered. The 1971 amendments reduced the purchase requirement from an amount "determined to be equivalent to a household's normal expenditures for food" 7/ to an amount representing "a reasonable investment on the part of the household's income." 8/ The four-person household with \$60 monthly income previously had to pay \$20 for \$65 worth of stamps; following the amendments it paid \$10 for \$108 worth of stamps. In addition to these changes, special deductions from a household's gross income were allowed, such as medical expenses and housing costs, under the assumption that the program's purchase requirement should not restrict a household from participating when other important human social needs made legitimate claims on the household budget.

The amendments specifically established national uniform income and resource eligibility standards, work registration requirements for able-bodied adults, periodic adjustments in food stamp benefit levels, an increased federal involvement in administration, and partial federal support of administrative costs.

The 1971 amendments established the major structural characteristics of the food stamp program as it operates today. The changes brought about increased benefits, increased participation, and, consequently, increased federal outlays.

### Income Supplementation

With the 1971 modifications, the food stamp program became the first universal, national welfare program with national eligibility standards based on need and not on particular household characteristics. The effects of this broadening

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7/ Sec. 7(b), Public Law 83-525, August 31, 1964, The Food Stamp Act of 1964, 78 Stat. 703-709.

8/ Sec. 5(b), Public Law 91-671.

of the scope of the program are discussed in the next part of this chapter.

The 1971 amendments had another effect--increased income supplementation. While some income supplementation could have occurred previously, the modifications provided a greater opportunity for some households, (i.e., those that had been spending more for food than the food stamp purchase requirement) to purchase food stamps for less than they had been spending. The difference between the normal food expenditure and the lower purchase requirement represented freed income that could be spent for nonfood items. 9/

Table 1 illustrates how this phenomenon can occur. Three hypothetical households have identical gross incomes and similar deductible expenses but, prior to participating in the program, the three had different demand schedules for food. Family 1 committed about 23 percent of its income to

TABLE 1. THREE HYPOTHETICAL FAMILIES AND IMPACT FOOD STAMP PROGRAM PARTICIPATION HAS ON FOOD PURCHASES AND INCOME SUPPLEMENTATION

Category	Family 1	Family 2	Family 3
Gross Income	\$200	200	200
Food Expenditures (prior to FSP)	46	130	80
Deductions	20	20	20
Net FS Income	180	180	180
FS Allotment	130	130	130
Purchase Requirement	46	46	46
Food Purchases	+84	0	+50
Freed Income	0	+84	+34

9/ It is assumed that the household's total demand for food following the food stamp transfer does not exceed the total food stamp allotment. Should this not be the case, then some proportion of freed income could also be spent on food.

food, Family 2 65 percent, and Family 3 40 percent. Upon becoming eligible to participate in the food stamp program, all (with the same level of deductions) were required to spend \$46 to purchase food stamps having a value of \$130. Since the first family was already spending \$46 on food, the total value of bonus food stamps supported increased food purchases of \$84. Since Family 2 was already spending \$130 on food, paying \$46 for food stamps worth \$130 allowed the family to free up \$84 for other purposes in the family budget. Family 3 appears to be the most typical case, since it was already purchasing \$80 worth of food. By purchasing food stamps worth \$130 at a cost of \$46, the family increased its food purchase by \$50 (\$130-\$80) and still freed up \$34 for other expenditures (\$80-\$46).

Income supplementation is one of the key budgetary issues of the future. Should the federal transfer be directed only for food purchases? If not, how much general income supplementation through food stamps should be allowed?

#### GROWTH IN THE CURRENT PROGRAM

The food stamp program grew rapidly following the 1971 amendments, causing concern among budget watchers. But an examination of the major factors determining this growth suggests that the food stamp program should not continue to grow at an uncontrolled pace in the future--unless the program is liberalized or food prices once again explode.

#### Mandatory Nationwide Implementation of the Food Stamp Program

The 1971 amendments to the Food Stamp Act were intended to increase participation and increase nutritional benefits. Additional amendments in 1973 (Public Law 93-86) mandated that all areas of the country offer the food stamp program by the beginning of fiscal year 1975. This latter amendment meant that states in which government jurisdictions were continuing to provide family food assistance through direct food distribution (food distribution program, FDP) would be required to transfer to the food stamp program (FSP).

The resulting program switchover (from FDP to FSP) explained a significant portion of the food stamp program's growth between 1971 and mid-1974. At the beginning of 1971, approximately 1,993 food stamp project areas in 46 states were operating. By the end of 1974, over 3,044 food stamp projects in every state were operating. Between 1971:I (calendar year 1971, first quarter) and 1974:III, family food assistance participation (FFAP, which represents the sum total of participation in both FDP and FSP) increased from 13.8 million persons to 15.3 million persons, a 2.8 percent annual growth rate.<sup>10/</sup> During this same period (1971:I to 1974:III), food stamp participation increased from 10.1 million to 14.6 million persons, an 11 percent annual rate of increase. Therefore most of the real growth in food stamp participation resulted from the transfer of jurisdictions from FDP to the FSP. (See Figure 2.)

### Food Price Inflation

From late 1972 to mid-1975, the world experienced unusually rapid inflation in food prices. In the United States, the Consumer Price Index (CPI) for food rose at an annual rate of over 16 percent in the first half of 1973; from the last half of 1973 to mid-1975, food prices rose by another 25 percent.<sup>11/</sup> Because the basic allotment in the food

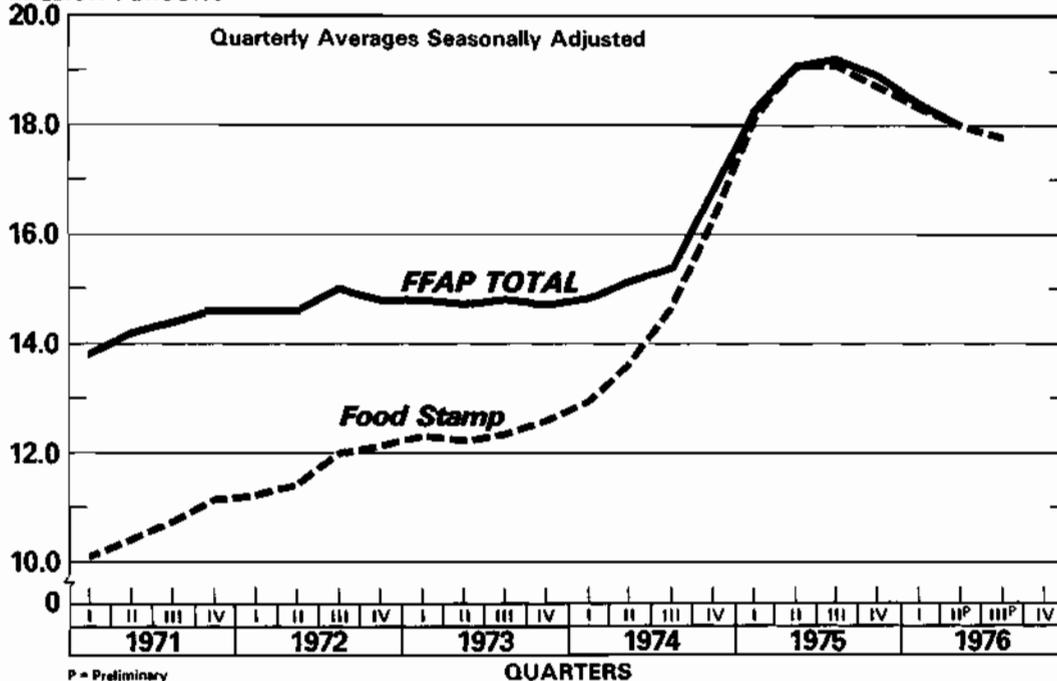
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<sup>10/</sup> All figures represent seasonally adjusted quarterly average participation. Seasonal adjustments were developed from the X-II Variant of Census Method II Seasonal Adjustment Program. See Technical Paper No. 15, U.S. Department of Commerce, Bureau of the Census, Feb. 1967. Seasonal variation occurs in the FSP, reaching a seasonal high during fall and winter months and having seasonal lows during spring and summer months. Most of these seasonal factors relate directly to seasonal employment patterns affecting low income households nationwide.

<sup>11/</sup> Factors currently put forth for the rapid increases in food prices have been discussed elsewhere by CBO and include a reduction in government-held grain stocks, a diversion of cropland, poor weather, a decision by the Soviet Union to make up its domestic shortfall through purchases abroad, increases in worldwide per capita demand for food, and the stimulative effects on U.S. exports of a dollar devaluation. See: U.S. Food and Agricultural Policy in a World Economy, Congressional Budget Office, April 26, 1976.

**Figure 2**  
**Family Food Assistance Participants**  
**and Food Stamp Participants**

MILLION PERSONS



stamp program is set at the "cost of a nutritionally adequate diet adjusted semiannually," and the household income eligibility standard has been defined as three times the cost of the "nutritionally adequate diet," <sup>12/</sup> food price

<sup>12/</sup> The cost of a nutritionally adequate diet used in the food stamp program is the least costly of four food plans developed by the U.S. Dept. of Agriculture. This plan, referred to as the "Thrifty Food Plan," specifies the amounts of foods of different types that families might use to meet their recommended daily nutrient requirements. Retail prices of foods included in the plan are updated monthly using changes in retail prices of foods in U.S. cities as collected and published by the Bureau of Labor Statistics.

inflation not only resulted in increased benefits, but also increased income eligibility standards. This meant that more families became eligible for food stamps.

Table 2 shows the growth in food prices on a semiannual basis between the first half of 1971 and the first half of 1976. Because of lagged semiannual adjustments in the food coupon allotment levels, the dramatic increases in food prices beginning in 1973 did not result in a major adjustment in the allotment levels and income eligibility levels until the beginning of 1974. In January 1974, the monthly food coupon allotment level for a family of four increased from \$116 to \$142, a 22.4 percent increase. Net income eligibility standards also increased by a similar amount, going from an annual level of \$4,644 to \$5,676 for a family of four.

Table 2 also shows the official poverty line for a nonfarm family of four. The poverty line, as defined by the Office of Management and Budget (under Section 625 of the Economic Opportunity Act of 1964), is revised at annual intervals, "or less as deemed desirable," based on changes in the overall CPI. The widening divergence between the CPI for food and the overall CPI, beginning in 1972, accounts for the fact that income eligibility standards in the food stamp program for a family of four today are approximately 14 percent higher than the estimated poverty line for that family in 1976. Because different methods are used to adjust the food stamp eligibility standard and the poverty line for different family sizes, the gap between different family sizes also varies. For example, a family of six in the food stamp program has a net income eligibility standard nearly 25 percent higher than the official poverty standard for that size family.

### Recession

Almost coincidental with the adjustments in income eligibility standards was the dramatic growth in unemployment. Unemployment rose from 5.3 percent of the labor force in August 1974 to a high of 9.1 percent in March of 1975. The impact of the recession on the food stamp program is best illustrated by disaggregating food stamp (FSP) and family food assistance (FFAP) participants into public

TABLE 2. FOOD PRICE CHANGES, CPI CHANGES, FOOD STAMP ALLOTMENT, FOOD STAMP INCOME ELIGIBILITY, AND POVERTY LEVELS (1971 FIRST HALF TO 1976 FIRST HALF)

Calendar Year: Half	Percentage change from preceding period at compound annual rate		Family of Four			
			Food Stamp Allotment	Food Stamp Net Income Eligibility Level <sup>a/</sup>		Official Poverty Threshold <sup>b/</sup>
				Monthly	Monthly	
	<u>Food</u>	<u>All-Items</u>				
71:I	3.2	4.0	\$108	\$360	\$4,320	\$4,137
71:II	3.8	3.6	108	360	4,320	4,137
72:I	4.2	3.0	108	360	4,320	4,275
72:II	4.7	3.6	112	373	4,476	4,275
73:I	16.2	5.9	112	373	4,476	4,540
73:II	20.7	9.2	116	387	4,644	4,540
74:I	14.7	10.6	142	473	5,676	5,050
74:II	9.2	12.9	150	500	6,000	5,050
75:I	8.0	8.3	154	513	6,156	5,500
75:II	7.9	7.3	162	540	6,480	5,500
76:I	1.2	4.9	166	553	6,636	5,815 (est.)
76:II	--	--	166	553	6,636	5,815

<sup>a/</sup> Eligibility in the FSP is based on a net income concept, meaning that households may deduct certain expenditures from a gross income higher than this level and still qualify for food coupons.

<sup>b/</sup> The official poverty line is based on a gross income concept. Official poverty threshold levels are published in the spring for income levels of the previous year. Therefore, the official federal poverty threshold published in April 1976, \$5,500 for a family of four, applies to income in 1975. Threshold levels for 1976 are estimated on July 1976 economic assumptions developed by the Congressional Budget Office.

assistance households and nonpublic assistance households.<sup>13/</sup> Over the period from 1971 through the third quarter of 1976, the number of public assistance food stamp recipients (FS-PA) increased from about six million recipients to approximately 8.5 million, a 6.3 percent annual rate of increase. (See Figure 3.) However, most of this growth came from the switchover from the FDP to the FSP. Public assistance households enrolled in either the FSP or the FDP (FFAP-PA) showed hardly any growth, going from 8.1 million recipients to 8.5 million recipients, a 1.0 percent increase compounded at an annual rate. During the same period, the number of AFDC recipients increased from 10.0 million recipients to approximately 10.8 million recipients, a 1.3 percent annual increase, approximately the same annual increase as the FFAP-PA growth rate.

The growth of nonpublic assistance recipients (FFAP-NPA, FS-NPA) was much more dramatic, as it was highly

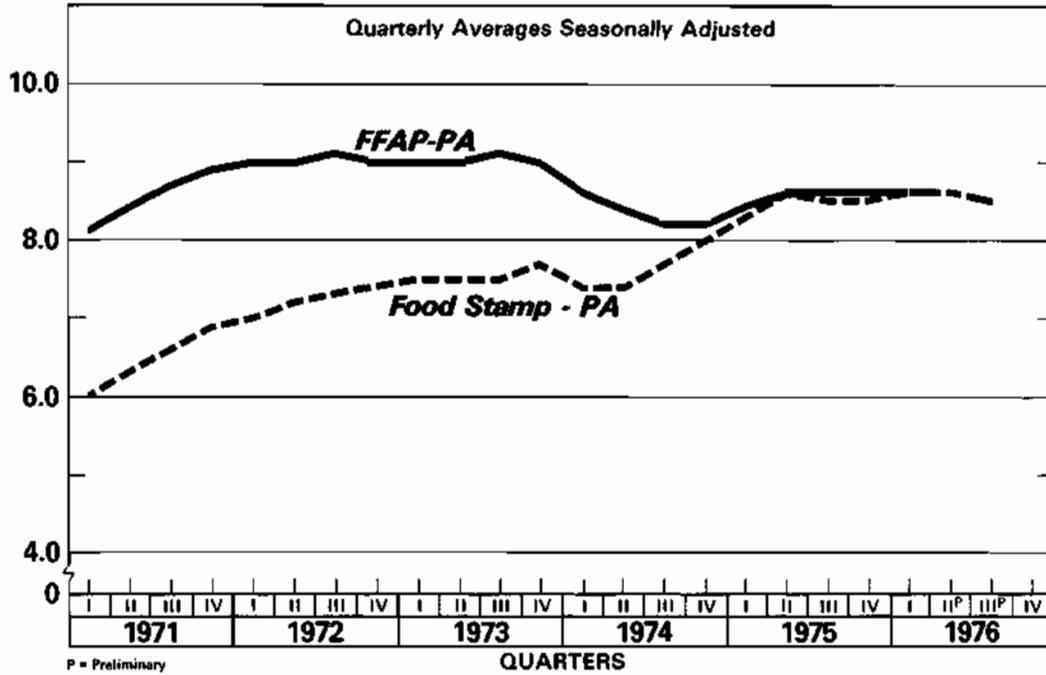
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<sup>13/</sup> A food stamp public assistance participant (FS-PA) is defined as a person residing in a household in which every member of that household is a recipient of a federally aided public assistance or general assistance grant and is also receiving food stamps. Households receiving Aid to Families with Dependent Children (AFDC) or General Assistance (GA) would be classified as public assistance food stamp households and under current rules would be categorically eligible for a minimum amount of food coupons regardless of post-transfer income and resources of the household members. It is important to note that, while public assistance recipients constituted approximately 46 percent of the total food stamp population, the definition of public assistance for food stamp purposes understates the total number of actual public assistance persons receiving food coupons. While people who receive Supplemental Security Income (SSI) are eligible for food stamps under the same provisions discussed above for public assistance households (e.g., if they live alone or with other SSI recipients or with a public assistance household, they are categorically eligible for food coupons), SSI recipients are officially recorded in the administrative program statistics as nonpublic assistance recipients (FS-NPA).

Figure 3

**Family Food Assistance - Public Assistance Participants and  
Food Stamp - Public Assistance Participants**

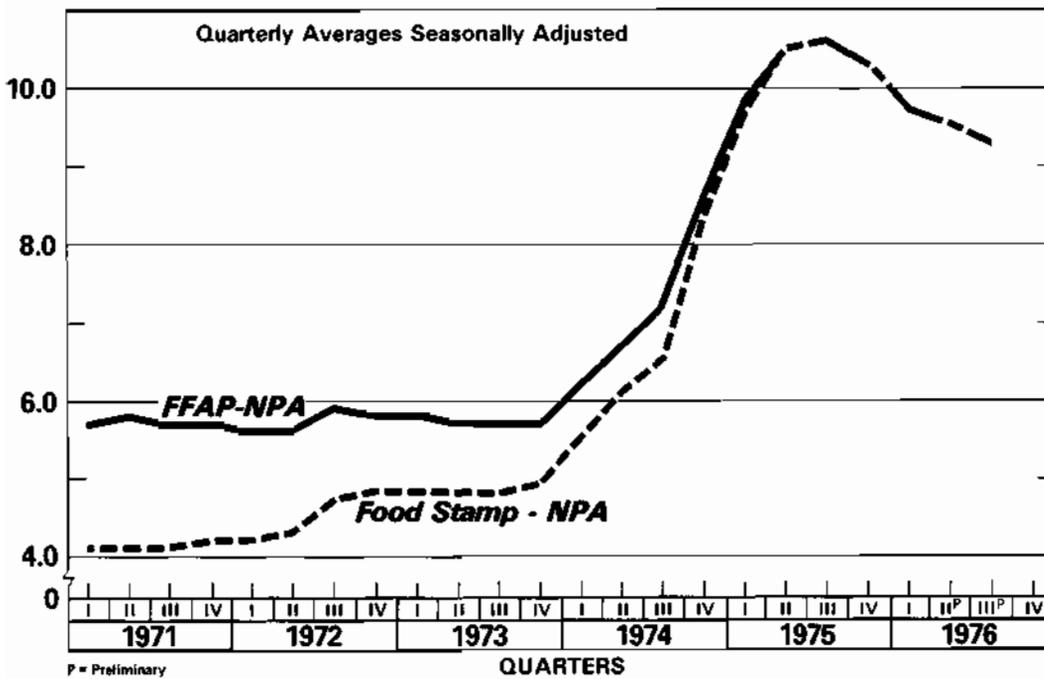
MILLION PERSONS



sensitive to the general economic conditions. There was virtually no growth in FFAP-NPA from the beginning of 1971 until late 1973. High unemployment rates, increased utility costs (thereby increasing housing cost deductions), and increasing income eligibility standards generated by the food price spiral, all coming at about the very time the FSP replaced the old FDP, resulted in nonpublic assistance participation increasing from 4.7 million

persons in 1973:III to nearly 10.6 million persons in 1975:III, a 42 percent growth rate. (See Figure 4.)

**Figure 4**  
**Family Food Assistance - Nonpublic Assistance Participants**  
**and Food Stamp - Nonpublic Assistance Participants**  
 MILLION PERSONS



The FFAP-NPA peaked at the same time as the unemployment rate in mid-1975 and has declined gradually to approximately 9.3 million in 1976:III. This recent experience suggests that a one percentage point change

in the overall unemployment rate will cause the number of FFAP-NPA to change by approximately 628,000 persons.14/

### Puerto Rico's Entrance into the FSP

The 1971 amendments to the Food Stamp Act of 1964 extended the program to include Guam, Puerto Rico, and the Virgin Islands. The Commonwealth of Puerto Rico maintained an active food distribution program up to the end of fiscal year 1974, reaching over 600,000 persons. Over the first half of fiscal year 1975, Puerto Rico gradually began to phase in the food stamp program. Between July 1974 and January 1975, food stamp rolls in Puerto Rico increased from 30,000 to 1 million persons. By the end of fiscal year 1976, participation had stabilized at about 1.5 million, nearly half of Puerto Rico's population.

While the basic monthly food allotment in Puerto Rico has not been significantly different from that of the contiguous 48 states, and therefore net income eligibility standards have been comparable to those of the states, lower incomes result in higher average food coupon benefits and higher participation. In fiscal year 1976, the average food stamp recipient in Puerto Rico received approximately \$28.60 worth of bonus stamps monthly, 22 percent higher than the average monthly benefit received by food stamp recipients in the continental United States (\$23.35). Beginning in fiscal year 1977, food price inflation on the Island (probably resulting from the food stamp program) resulted in higher food stamp allotments than in the contiguous 48 states. The monthly allotment for a family of four stood at \$172 in Puerto Rico, compared to \$166 in the 48 states in July 1976. Net income

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14/ CBO estimate based on functional relationship, estimated between FFAP-NPA, unemployment rates, personal income and net food stamp income eligibility standards. The estimate compares to that reported by the USDA to be about 500,000-750,000, as discussed in a report to the U.S. Senate in accordance with Senate Resolution 58. Food Stamp Program, A Report in Accordance with Senate Resolution 58, USDA, Food Nutrition Services, July 21, 1975, p. 5.

eligibility standards were therefore four percent higher in Puerto Rico than in the 48 states.

### Outreach

The 1971 amendments also established the requirement that state agencies were to undertake "effective action, including the use of services provided by other federally funded agencies and organizations, to inform low-income households concerning the availability and benefits of the food stamp program." A series of court actions called the Department of Agriculture to task for failure to implement the 1971 amendments. Altogether, 18 court suits have been brought against states for failure to adequately implement the outreach requirements mandated by the 1971 amendment. In response to this situation, in April 1975 USDA established one full-time outreach coordinator in each state to report to USDA on the state's outreach activities. Outreach efforts were further to be directed toward the special needs of, among others, the elderly, the disabled, migrants, persons residing in rural areas, and ethnic groups.

Also, the Community Food and Nutrition Program (CFNP), administered by the independent Community Services Administration, the successor agency to the Office of Economic Opportunity, has as one of its purposes the focusing of the food stamp program (and other federal nutrition programs) on the most needy poor. Federal grants are provided public and/or private organizations to carry out projects which include outreach and information. It is not possible to determine the specific impact of increased outreach efforts on the growth of the food stamp program from official published statistics.

### SUMMARY

Federal food assistance has moved almost entirely out of the direct purchase and distribution of surplus agricultural products to indirect food assistance to needy families. From the direct provision of food commodities from outside the market with minimum recipient choice, federal programs have shifted to the indirect provision of

food through stamps used in the market by recipients who have some freedom of choice.

At the same time, programs originally constrained by being subject to the appropriations process have become open-ended entitlement programs. Appropriations now are made to finance assistance on the basis of demand, a fact with great fiscal implications.

The 1971 amendments altered the nature of the food stamp program; further they greatly increased the scope of entitlement to participate in the program. The amendments were followed by changes in economic conditions that greatly magnified the impact of the programmatic changes.

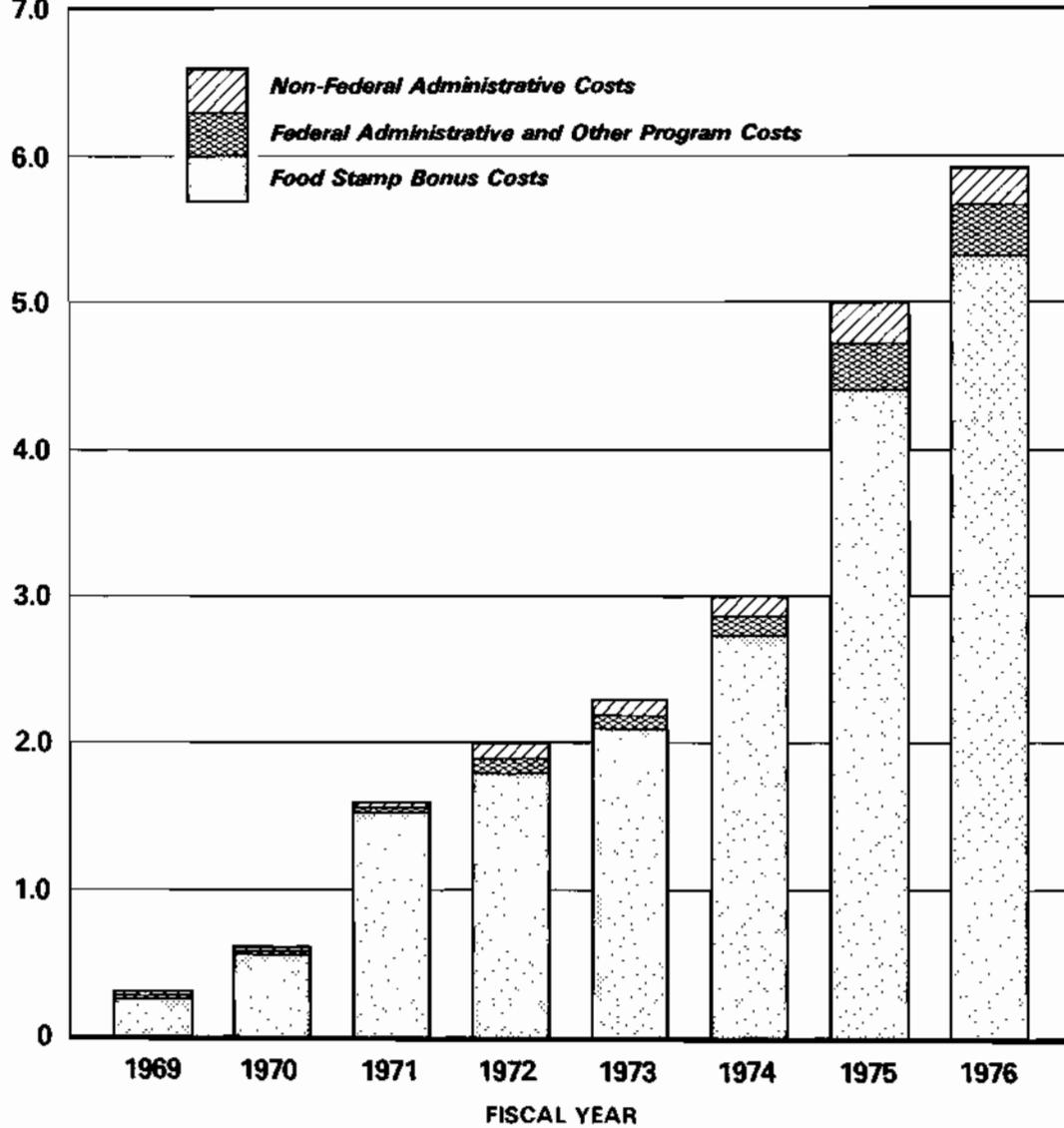
From 1969 to 1976, the average number of monthly participants increased from 3 million to over 18 million, as did all concomitant costs. Total program costs (including both state and federal outlays) increased from \$272 million in fiscal year 1969 to approximately \$5.9 billion in fiscal year 1976. (See Figure 5.) The average monthly transfer for an individual increased from slightly over \$6.60 in 1969 to approximately \$23.90 in 1976. Administrative costs went from \$22 million (7.8 percent of the total cost) to nearly \$370 million (6.2 percent of total cost) over the same period.

The growth in food stamp program participation and costs over the last five years should not have been totally unexpected. The growth developed out of the specific legislative amendments of 1971, the action of the federal courts in insuring that the legislative intent was carried out, and the combined effects of worldwide food price inflation, program design, and a generally depressed economy. To the extent that these phenomena are predictable, program growth can also be forecast with some degree of reliability. Unfortunately, most of the factors that brought about the upsurge of food prices beginning in 1972 (i.e., worldwide drought and unfavorable weather conditions, the 1973 oil embargo by the OPEC countries, the large grain purchases by the Soviet Union in 1972, the poor anchovy catch in South America, and corn blight in the United States) were not entirely predictable. Given that such circumstances will continue, long

Figure 5

**Total Federal and Non-Federal Cost (Obligations)  
of Food Stamp Program**

BILLIONS OF DOLLARS  
7.0



Source: Congressional Budget Office, see Table A1, Appendix.

range projections of the food stamp program must remain somewhat speculative.15/

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15/ Chapter V will discuss long range projections under a current policy budget option given an optimistic economic condition.



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## CHAPTER II BENEFITS FROM THE FOOD STAMP PROGRAM

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Who benefits from the food stamp program? How and how much do they benefit? The primary beneficiaries, obviously, are the recipients or the users of food stamps, and another beneficiary is the American farmer. This chapter gives a picture of the population using food stamps, then analyzes the various benefits that that population receives from the food stamp program. Finally, the chapter explains how the food stamp program is of direct benefit to the American farmer, continuing one of the original purposes of domestic food assistance programs.

### Profile of Food Stamp Households Today

A recent Department of Agriculture survey of eligible households provides a snapshot of the current food stamp recipient population.<sup>16/</sup> That survey estimates that

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<sup>16/</sup> "Characteristics of Food Stamp Households September 1975," Program Development Branch, Food Stamp Division, Food and Nutrition Service, USDA: May 14, 1976.

In May 1976, the U.S. Dept. of Agriculture released official results from a survey of food stamp households certified eligible for the FSP in September 1975. The September 1975 food stamp survey contains the most current data available for improved program analysis, estimates of the eligible population, and information describing FSP participants. The survey included information on 11,327 eligible food stamp households receiving both public assistance and nonpublic assistance income. Income, demographic, and program information was collected (or imputed) for all households in the survey. The observations were appropriately weighted to represent the total number of households officially reported as participating in the program in September 1975. The detailed, itemized deduction information collected from this survey represents the first such information reported since November 1973.

approximately 55 percent of the estimated 10.4 million eligible households participate in the food stamp program. These eligible households represent approximately 31 million persons. Participation rates vary by public assistance status; nearly 93 percent of the public assistance households, but only 50 percent of the eligible nonpublic assistance households, participate in the program.

In September 1975, food stamp households averaged about 3.3 persons (3.2 persons excluding Puerto Rico). Over 64 percent of all households are headed by females, and 45 percent of all households consist of one or two persons. Seventeen percent of the households contain an elderly individual, age 65 or over. The majority of food stamp households reside inside central cities. National distribution is weighted toward the South. (See Table 3).

Nearly 60 percent of the heads of food stamp households were reported as not being in the labor force in 1975. This compared to a national figure of 26.8 percent. About 22 percent of the participating households reported having earned income. Households with earned income less than 125 percent of the poverty level and with no public assistance benefits constituted about 13.5 percent of the participating households. (Compared to the Aid to Families with Dependent Children (AFDC) program, which reported 16.3 percent of its families receiving earned income in 1973, the food stamp population does not appear to be weighted as heavily toward the "working poor" as has often been suggested.)<sup>17/</sup>

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<sup>17/</sup> The term "working poor" as used here refers only to households with earned income less than 125 percent of the poverty line. It does not include households included in the labor force but at the time of the survey unemployed.

TABLE 3. PROFILE OF FOOD STAMP AND TOTAL U.S. HOUSEHOLDS

	Food Stamp	U.S.
	July-Sept. 1975 Percent Distribution <sup>a/</sup>	March 1975 Percent Distribution <sup>b/</sup>
Household Size		
TOTAL	100.0	100.0
One	24.0	19.6
Two	20.5	30.6
Three	17.1	17.4
Four	14.5	15.6
Over Four	23.9	16.8
Region Census		
TOTAL	100.0	100.0
Northeast	24.4	22.5
North Central	21.7	26.7
South	38.6	32.7
West	15.2	18.0
Residence		
Nonfarm	98.2	96.2
Metropolitan	64.7	68.6
Inside Central Cities	44.8	31.4
Outside Central Cities	19.9	37.2
Nonmetropolitan	33.5	31.4
Farm	1.8	3.8
Family Type		
TOTAL	100.0	100.0
Male head	35.6	76.4
Female head	64.3	23.6
Age of Head of Household		
TOTAL	100.0	100.0
Over 65	17.2	20.1
Under 65	82.8	79.9
Race		
TOTAL	100.0	100.0
White	62.7	88.5
Non-White	37.3	11.5
Employment Status of Head <sup>c/</sup>		
TOTAL	100.0	100.0
Employed	28.8	68.3
Unemployed	12.5	4.9
Not in Labor Force	58.6	26.8

<sup>a/</sup> Distributions developed from CBO tabulations from USDA September 1975, Food Stamp Survey tape. Race, region, employment status, and residence distribution source Characteristics of Households Purchasing Food Stamps, Current Population Reports, Series P-23, No. 61, July 1976.

<sup>b/</sup> Data based on household information for March 1975, source: Household Money Income in 1974 and Selected Social and Economic Characteristics of Households, Current Population Reports, Series P-60, No. 100, August 1975. Region data based on family data, source Money Income and Poverty Status of Families and Persons, Current Population Reports, Series P-60, No. 103, September 1976.

<sup>c/</sup> Employment status refers to employment during week prior to interview.

The major source of income received by food stamp households was the AFDC program; 41.7 percent received income from this source in September 1975. Nearly 67 percent of food stamp households had income from basic public assistance programs, either AFDC, Supplemental Security Income, or state general assistance programs. Approximately 21.4 percent of the food stamp households also received social security benefits. (See Table 4.)

TABLE 4. SOURCES OF INCOME FOR FOOD STAMP HOUSEHOLDS  
(SEPTEMBER 1975)

Source of Income	Percent of households receiving income from source
Aid to Families with Dependent Children (AFDC)	41.7
Earnings	22.4
Social Security	21.4
Supplemental Security Income (SSI)	17.1
General Assistance	8.2
Veterans benefits	3.4
Self-employment	1.2
Railroad retirement and pensions	0.9
Student Aid	0.8
Other (unemployment compensation, etc.)	20.9

SOURCE: CBO tabulations from USDA September 1975  
Food Stamp Survey tape.

A major concern in the food stamp program has been the number of "high income" recipients receiving food stamps. Based on the September 1975 data, the mean monthly gross income for food stamp households was estimated to be \$292.35 (including only cash income, no in-kind income such as medicaid, social services, or public housing assistance). This estimate includes the Commonwealth of Puerto Rico and other outlying territories. If these outlying territories are excluded from the tabulations, the average gross income increases to \$298. The mean annual income of a food stamp household

(\$3,576) was approximately 23 percent of the mean family income in the United States in 1975.<sup>18/</sup> The food stamp population's income distribution is weighted heavily towards the lower income levels as compared with the population as a whole. (See Table 5.)

TABLE 5. DISTRIBUTION OF GROSS MONTHLY INCOME FOR FOOD STAMP HOUSEHOLDS AND FOR ALL UNITED STATES HOUSEHOLDS

Income Class (Monthly Income)	Food Stamps 50 states & D.C. (Percentage of Households)		For all U.S. (Percentage of Households)
	USDA <sup>a/</sup>	CENSUS <sup>b/</sup>	
Under \$100	7.1	7.1	2.8
\$ 100 to \$199	26.6	24.8	5.7
200 to 299	25.6	26.7	7.4
300 to 399	18.4	17.8	7.1
400 to 499	10.1	11.3	7.6
500 to 599	5.6	6.1	7.1
600 to 749	4.3	3.2	9.6
750 to 999	1.9	1.9	12.3
\$1000 or over	0.4	1.1	29.3

<sup>a/</sup> SOURCE: CBO computer tabulations from USDA September 1975 Food Stamp Survey tape. Gross monthly income in the USDA tabulations was defined as gross salaries, wages and training allowances (before taxes), roomer and boarder payments, self-employment income, student loans, grants, scholarships, AFDC, GA, SSI, Social Security, veterans, Railroad Retirement, and all other monetary payments such as workmen's compensation and unemployment benefits.

<sup>b/</sup> SOURCE: Characteristics of Households Purchasing Food Stamps July 1975, Current Population Reports, Series P-23, No. 61, July 1976. Tabulations were on the basis of monthly money income defined to include essentially all sources as listed above in footnote 1. All income data were collected before taxes. U.S. totals were based on monthly income in July 1974.

<sup>18/</sup> The average mean income of all families in 1975 was \$15,546 as reported in Money Income and Poverty Status of Families and Persons Current Population Reports, Series P-60, No. 103, Sept. 1976. Given that FSP eligibility is based on monthly income basis, the 23 percent estimate probably represents a lower end figure. See footnote 19.

TABLE 6. DISTRIBUTION OF FOOD STAMP PERSONS BY POVERTY LEVEL (PRE-FOOD STAMP BONUS TRANSFER), SEX OF HEAD OF HOUSEHOLD, AGE OF HEAD OF HOUSEHOLD, HOUSEHOLD SIZE (SEPTEMBER 1975)

Category	Poverty Level				Total
	Less than Poverty	1.01-1.25	1.26-1.49	G.T. 1.50 Poverty	
	(persons in thousands)				
Total Number of Persons (Percent of Total)	14,438 (77.9)	2,375 (12.8)	957 (5.2)	762 (4.1)	18,532 (100.0)
-----					
Sex of Head of Household:					
Male-Headed	5,650 (39.1)	1,097 (46.2)	516 (53.8)	410 (53.8)	7,672 (41.4)
Female-Headed	8,738 (60.9)	1,278 (53.8)	441 (46.2)	352 (46.2)	10,860 (58.6)
TOTAL a/	14,438 (100.0)	2,375 (100.0)	957 (100.0)	762 (100.0)	18,532 (100.0)
-----					
Age of Head of Household:					
Less than 25	1,855 (12.9)	242 (10.2)	92 (9.6)	85 (11.1)	2,274 (12.2)
25-34	4,383 (30.4)	768 (32.3)	370 (38.7)	356 (46.7)	5,377 (31.7)
35-44	3,750 (26.0)	646 (27.2)	271 (28.3)	174 (22.8)	4,841 (26.1)
45-54	2,034 (14.1)	367 (15.5)	95 (9.9)	92 (12.1)	2,587 (14.0)
55-64	1,148 (8.0)	168 (7.1)	70 (7.3)	35 (4.6)	1,421 (7.6)
65+	1,266 (8.8)	185 (7.8)	58 (6.1)	20 (2.6)	1,529 (8.3)
TOTAL a/	14,438 (100.0)	2,375 (100.0)	957 (100.0)	762 (100.0)	18,532 (100.0)
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Household Size:					
1	1,182 (8.2)	123 (5.1)	35 (3.7)	19 (2.5)	1,358 (7.3)
2	1,702 (11.8)	357 (15.0)	120 (12.4)	141 (18.5)	2,320 (12.5)
3	2,166 (15.0)	417 (17.6)	173 (18.1)	158 (20.7)	2,914 (15.7)
4	2,473 (17.1)	408 (17.2)	204 (21.3)	195 (25.6)	3,279 (17.7)
5	2,004 (13.9)	393 (16.5)	179 (18.7)	111 (14.6)	2,686 (14.5)
6	1,657 (11.5)	290 (12.2)	94 (9.8)	69 (9.1)	2,110 (11.4)
7+	3,258 (22.6)	388 (16.3)	153 (15.9)	68 (8.9)	3,866 (20.9)
TOTAL a/	14,438 (100.0)	2,375 (100.0)	957 (100.0)	762 (100.0)	18,532 (100.0)

SOURCE: CBO tabulations from USDA September 1975 Food Stamp Survey tape.

a/ Figures may not add to exact totals because of rounding.

Another measurement of high income recipients, however, is the official poverty line, which takes into consideration differing income needs for varying family sizes. Of all the households certified for food stamp participation in September 1975, 77.9 percent had gross monthly incomes which fell below the poverty line, and 90 percent fell below 125 percent of poverty.<sup>19/</sup> Between 22,000 and 62,000 households with incomes over \$12,000 participated in the program during mid-1975. (See Table 6.) For food stamp households whose gross income exceeded the poverty threshold, participation tended to be skewed toward larger, male-headed households.

In general, food stamp benefits decline with increasing income. Benefits averaged nearly 2.4 times higher for households whose gross monthly income was below the poverty line as compared to those already above poverty. Of all food stamp bonus dollars distributed in September 1975, 86.5 percent went to the 77.9 percent of the households whose income fell below poverty. (See Table 7.) Recipients whose income exceeded 150 percent of poverty received only about 2 percent of the total benefits, or approximately \$7.9 million, in September 1975.

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<sup>19/</sup> The survey of Food Stamp Household Characteristics for September 1975 was analyzed using the following specific poverty thresholds for different family sizes:

1 person	-	\$2,590	5 persons	-	\$5,870
2 persons	-	3,410	6 persons	-	6,690
3 persons	-	4,230	7 persons	-	7,510
4 persons	-	5,050	Each additional person		+820

These poverty income guidelines represent the official OMB guidelines published in April 1975, effective for income in 1974 and assumed operative at the time of the food stamp survey. Since recipient income was available only on a monthly basis, the monthly income of the recipients was compared to these poverty levels adjusted to a monthly basis. The procedure probably understates the number of high income recipients when income is counted on an annual basis because of intra-year variations in income.

TABLE 7. AVERAGE MONTHLY FOOD STAMP BENEFITS FOR RECIPIENTS BY POVERTY STATUS AND SEX OF HEAD OF HOUSEHOLD (SEPTEMBER 1975)

Poverty Level	Sex of Head	Total Benefits (Millions of Dollars)	Percent of Total Benefits	Average Benefit per Household (Dollars)	Average Benefit per Person (Dollars)
Less than Poverty	Total	\$354.2	86.5%	\$81.46	\$25.06
	Male	138.9	33.9	90.46	25.11
	Female	215.4	52.5	76.54	25.04
1.01-1.24	Total	35.8	8.7	51.02	15.40
	Male	16.2	4.0	55.84	15.08
	Female	19.7	4.8	47.64	15.74
1.25-1.50	Total	11.7	2.9	43.84	12.48
	Male	6.0	1.5	47.93	11.88
	Female	5.7	1.4	40.17	13.19
Greater than 1.50	Total	7.9	1.9	34.40	10.58
	Male	3.9	0.9	44.55	9.72
	Female	4.0	1.0	27.92	11.59

SOURCE: CBO tabulations from USDA September 1975 Food Stamp Survey tape.

### Poverty Reduction Effects

One measure of the food stamp program's effectiveness is its impact on reducing poverty. Bonus food stamp dollars are not counted in a household's income when

determining poverty counts. Adding bonus dollars to a household's income reduces the number of households (persons) officially counted as poor.<sup>20/</sup>

Table 8 examines only those recipients whose pre-food-stamp incomes were below the poverty line. About 30 percent of the pre-food-stamp-transfer poor persons would be lifted above the poverty line if the food stamp bonus were counted as income; this represents a reduction of approximately 420,000 persons. The reduction of the poverty count appears to be greater for male-headed households (32.4 percent) than for female-headed households. The transfer also removes a greater proportion of the younger-headed households from poverty than elderly-headed households, and appears to be less significant in removing single-person households from poverty (10.3 percent).

#### AFDC Gap Filler

The food stamp program has in some instances become an equalizer in state welfare payments. State differences in both need and payment standards in the AFDC program are narrowed by the food stamp program with its nationally established allotment levels. AFDC benefits are counted before determining food stamp benefits. The difference in average AFDC payments in September 1975 between the Mid-Atlantic region (including high paying states such as New York, New Jersey, and Pennsylvania) and the Southeast region (including low paying states such as Alabama, Georgia, and Mississippi) was over \$164. After AFDC

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<sup>20/</sup> While this procedure admittedly does not indicate just how far persons move out of poverty, it does suggest the concentration of benefit dollars among poor persons. More important, it assumes that the cost of the bonus to the government is valued the same by the recipient. Clarkson, in Food Stamps and Nutrition, (April 1975), has estimated that the average recipient values the bonus at about 33 percent of its face value. Therefore, the full value of the bonus stamps in the household's income may overstate the poverty reduction.

TABLE 8. DISTRIBUTION OF FOOD STAMP RECIPIENTS PRE-FOOD-STAMP-TRANSFER POOR AND POST-FOOD-STAMP-TRANSFER POOR, BY HOUSEHOLD CHARACTERISTICS

Category	Pre-Transfer Poor FS Participants (persons in thousands)	Post-Transfer Poor FS Participants (persons in thousands)	Poverty Reduction [(Col. 1-Col. 2) ÷ Col. 1]
Total Number of Persons (Percent of Total FS Participants)	14,438 (77.9)	10,236 (55.2)	29.1%
Sex of Head of Household:			
Male-Headed	5,650	3,814	32.4%
Female-Headed	8,788	6,340	27.8%
Age of Head of Household:			
Less than 25	1,855	1,343	27.5%
25-34	4,383	2,888	34.1%
35-44	3,750	2,685	28.4%
45-54	2,034	1,436	29.4%
55-64	1,148	879	23.4%
65+	1,266	1,011	20.1%
Household Size:			
1	1,182	1,060	10.3%
2	1,702	1,460	14.2%
3	2,166	1,380	36.2%
4	2,473	1,544	37.5%
5	2,004	1,253	37.4%
6	1,657	1,224	26.2%
7+	3,258	2,557	21.4%

SOURCE: CBO tabulations from USDA September 1975 Food Stamp Survey tape.

TABLE 9. IMPACT OF BONUS FOOD STAMPS ON NARROWING  
AFDC PAYMENT DIFFERENTIALS BETWEEN REGIONS,  
SEPTEMBER 1975

USDA Administrative Region <sup>a/</sup>	AFDC Grant	Bonus Food Stamps	AFDC Plus Food Stamps
ALL AREAS AVERAGE	\$333.43	\$84.07	\$417.50
New England	276.07	73.10	349.17
Mid-Atlantic	291.43	69.95	361.38
Southeast	126.69	121.31	248.00
Mid-West	256.36	78.76	335.12
Western	272.64	70.48	343.12
West Central	149.73	119.83	269.56

SOURCE: CBO tabulations from USDA September 1975 Food Stamp Survey tape.

a/ REGIONS: New England: Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont

Mid-Atlantic: Delaware, District of Columbia, Maryland, New Jersey, New York, Pennsylvania, Puerto Rico, Virginia, Virgin Islands, West Virginia

Southeast: Alabama, Florida, Georgia, Kentucky, Mississippi, North Carolina, South Carolina, Tennessee

Midwest: Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, Ohio, Wisconsin

Western: Alaska, Arizona, California, Guam, Hawaii, Idaho, Nevada, Oregon, Samoa, Trust Territories, Washington

West Central: Arkansas, Colorado, Louisiana, Montana, New Mexico, North Dakota, Oklahoma, South Dakota, Texas, Utah, Wyoming

households in these regions participated in the food stamp program, the difference was narrowed by nearly \$52. (See Table 9.) The widest AFDC regional differential, a ratio of almost 2.3 to 1, is reduced to about 1.5 to 1 as a result of the food stamp program.

To the extent that state governments maintain their current payment levels in the AFDC program, mandated increased federal food stamp allotments provide a mechanism by which states are relieved of some financial burden over time. Recipients may experience no reduction in real benefit levels as a result of this shift in financing.

### Nutritional Effectiveness

Probably more important as a measure of the food stamp program's effectiveness is its ability to meet its stated goal of improving the diet of low income households. An important distinction must be made between "nutritional" effectiveness and simply increased food expenditures. The latter may be a necessary condition for the former, but not a sufficient condition. While a number of studies have investigated the increased consumption of food as a result of food stamp participation, there have been few investigations to determine how effective food stamps have been in improving the nutritional standards of the recipients.<sup>21/</sup> With reference to food intervention programs, the National Academy of Sciences in late 1975 concluded:

Little or no effective evaluation of the impact of these programs [e.g., food fortification, nutritional labeling, nutrition education, and supplemental feeding programs such as food stamps, surplus food distribution, school lunches and women and infant children

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<sup>21/</sup> Most recently, the 1971-1972 First Health and Nutrition Examination Survey (HANES) has collected dietary, biochemical, and anthropometric data on a national sample of households, including food stamp recipients and nonparticipating low income households. At the time of this report, the data have not been released.

feeding] on the nutritional well-being of the target groups has been carried out. The cost-effectiveness of these programs versus other means of expanding purchasing power has not been evaluated for their relative impact on nutritional goals. As a consequence there is little information with which to assess the continuing value of these programs.22/

The few evaluation studies that do exist are limited primarily to selected counties scattered throughout the United States. A study of two Pennsylvania counties in 1969 and 1970 attempted to uncover the nutritional impact of shifting from the older food distribution program to the food stamp program.23/ Findings indicated that, among other things households participating in the food distribution program had no better diets than those similar households that did not participate. With respect to the food stamp program, the study concluded that food stamps provided some improvement in diets of families experiencing temporary shortages of funds, i.e., when more than two weeks had elapsed since the family received income from its last major source of pay. But when households had received income within two weeks preceding their dietary interview, the impact of food stamps on the households' nutrient intake was found to be insignificant. After the major allotment and purchase requirement changes in 1970, little, if any, dietary improvement was shown for households who continued to participate in the food stamp program.

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22/ World Food Nutrition Study, Enhancement of Food Production for the United States, Report of the Board of Agriculture and Renewable Resources, National Academy of Sciences, November 1975, p. 61.

23/ J. Pattrick Madden and Marion D. Yoder, Program Evaluation: Food Stamps and Commodity Distribution in Rural Areas of Central Pennsylvania, Pennsylvania State University, Agricultural Experiment Station Bulletin 780, June 1972.

A similar nutritional evaluation study was conducted in Kern County, California, between August 1972 and February 1973.<sup>24/</sup> The survey concluded that food stamp households had higher intakes for some nutrients. The study further concluded that participants in either the food distribution program or the food stamp program spent lower percentages of higher total incomes on food, indicating some income was "freed" from normal food expenditures because of the receipt of free food or bonus food stamps. The study found that the average monthly value of food available for participating households was \$144 compared to \$126 for nonparticipants. As this difference of \$18 was only about half of the value of bonus food stamps (\$43.70) available to an average participating household, it appears that some portion of freed income went for increased food consumption and some for other, nonfood goods.

Even when food stamps do result in increased food expenditures for participating households, it is not clear that these higher levels of food expenditures translate into an overall higher level of nutritional status. The Consumer Expenditure Diary Survey found that, on the average, food stamp households spent approximately four times as much for nonalcoholic beverages (excludes fresh whole milk) than did nonfood stamp households. By its very construction, the coupon allotment for a nutritionally adequate diet, as based on a carefully constructed food plan, requires a consumption pattern consistent with the consumption patterns of low-income households in 1965-66. Given that low-income households now have different food consumption patterns, it has been suggested that it is more the purchasing behavior of the households using food stamps, and not the basic food coupon allotment or the increased food expenditures, that determines the nutritive success of the program. Modification of participant behavior, along with adequate allotment levels, would be required in any proposal designed to increase nutritional effectiveness of the program.

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<sup>24/</sup> Sylvia Lane, Food Distribution and Food Stamp Program Effects on Nutritional Achievement of Low Income Households in Kern County, California, University of California at Davis, forthcoming.

## Food Consumption - Income Tradeoff

Preliminary data from the 1972-1973 Consumer Expenditure Diary Survey substantiate expenditure findings from these studies and provide a basis for analyzing the general income substitution effects. Based on weekly food expenditures for food stamp households and nonfood stamp households with similar income and household sizes, the Survey estimated that on the average approximately 43 percent of the bonus transfer is used to free income for nonfood purchases. The remaining 57 cents out of every \$1.00 transfer goes toward food expenditures.

Figure 6 clarifies this phenomenon. It shows the estimated weekly expenditures for food by food stamp recipients (age of household head less than 65) and the estimated expenditures by income classes for food in the absence of the program. The data indicate that, between July 1973 and June 1974, food stamp households on the average spent approximately \$27.00 per week on food, while nonfood stamp households with the same average income would have spent \$17.63 weekly on food.<sup>25/</sup> Given that the average food stamp household's purchase requirement was \$10.50 per week, the household was able to free up to \$7.13 per week in income (i.e., the \$17.63 that would have been spent on food minus the \$10.50 purchase requirement) and still was able to increase food consumption by as much as \$9.37 (i.e., the \$27.00 average food consumption for food stamp household minus the \$17.63 that would have been spent on food regardless of

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<sup>25/</sup> The relationship between weekly food expenditures was adjusted to an annual basis, and annual income was fit to nonfood stamp households, and then was evaluated at the average annual income of food stamp households to determine the approximate expenditures for food for similar nonfood stamp households.

ANFDHO = 553.4 + .0845Y    WHERE: ANFDHO = Weekly  
(t-statistics) (10.893)    expenditures for food  
by nonfood stamp households with income up to  
\$9,000 multiplied by 52.

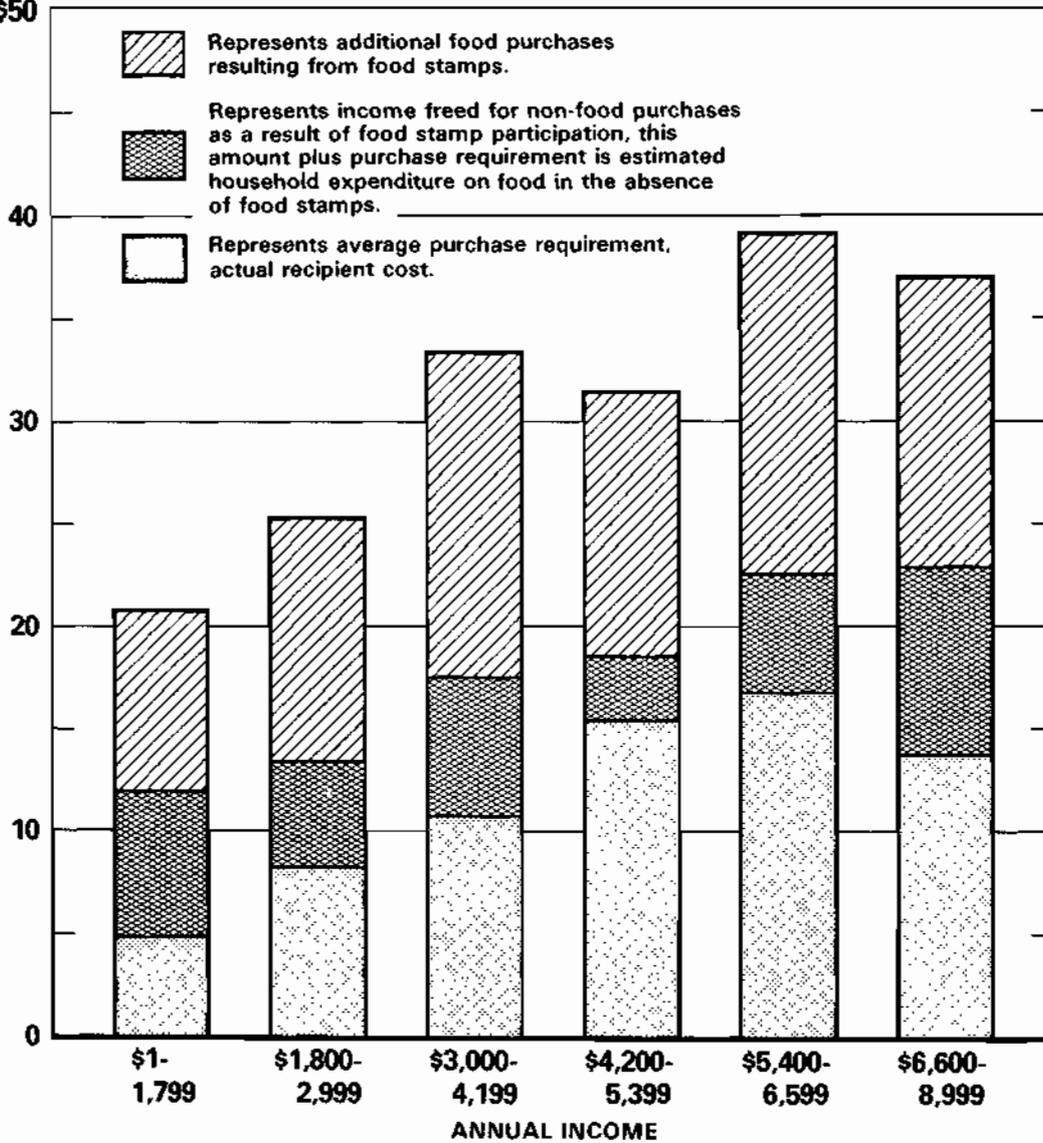
R<sup>2</sup> = .908 D.W. = 1.958

Y = Reported average annual income.

Figure 6

**Income Supplementation and Food Consumption Impact,  
Food Stamp Households, Age of Head Less Than 65,  
1973-1974 Consumer Expenditure Survey**

WEEKLY EXPENDITURE FOR FOOD AT HOME  
\$50



Source: Estimates prepared by CBO based on data from the Consumer Expenditure Diary Survey, 1973-1974 Diary Component of Survey: Special Tabulations, Bureau of Labor Statistics, August 1976. Estimates of expenditures for food in absence of food stamp program based on weekly food expenditures for households not participating in program, but falling within same income class.

the program). The proportion of the federal bonus transfer going to supplement incomes for general purchasing power through substitution in other portions of household budgets was nearly 43 percent (i.e., \$7.13 freed up income ÷ \$16.50 federal transfer).

It should be noted that this brief analysis makes a crucial assumption that probably biases the estimated income supplementation downward. It was assumed that, in the absence of the food stamp program, participating households would spend approximately the same amount on food as those currently nonparticipating households with similar gross money income. To the extent that households participate because they have a higher felt demand for food than nonparticipants, such households would probably have a higher weekly food expenditure in the absence of the program and, therefore, they have a greater proportion of income freed by participating.<sup>26/</sup>

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<sup>26/</sup> The CBO finding of income supplementation through food stamp usage (43 percent) approximates previous estimates by other researchers. Bemus et. al. in "Determinants of Household Food Consumption," The Review of Economics and Statistics, May 1975, reported that household units, surveyed between 1968-72, used approximately 14 percent of food subsidy income to increase their general purchasing power; the marginal propensity to consume (MPC) from this source of income was .86. Hymans and Shapiro, "The Allocation of Household Income to Food Consumption," in Five Thousand American Families - Patterns of Economic Progress, Vol. II, Institute of Social Research, University of Michigan, 1974, found greater income substitution ranging from 45 to 65 percent, MPC ranged from .35 to .54. Robert B. Reese, J.G. Feaster, and Gary B. Perking, in Bonus Stamps and Cash Income Supplements, Marketing Res. Rept. 1034, Economic Research Service, USDA, Oct. 1974, estimated that approximately 45 percent of the food stamp bonus was spent on nonfood items.

## Impact on Agriculture and the General Economy

In calendar year 1975, the peak year of food stamp participation and associated federal bonus outlays, the total value of food stamps in circulation represented about 4.4 percent of the total national expenditure on food (\$185 billion). Approximately \$4.9 billion in bonus food stamps were issued in 1975, representing an implicit increase in food expenditures not available before the food stamp program. But since it is estimated that 57 percent of the income freed by bonus food stamps is used to purchase additional food, the increased demand for food generated by the food stamp program was approximately \$2.8 billion. The farmer's share of retail food sales in 1975 was 42 percent. Therefore, the addition to farm income in 1975, as a result of the food stamp program was \$1.1 billion. This additional income represents 1.1 percent of the gross farm income in 1975.

Analyzing the food stamp program as it interacts with the total economy (e.g., changes in business receipts among industry sectors, gross national product (GNP), and the number of jobs), a recent study concludes that the food manufacturing sector business receipts were higher by \$589 million in 1972 and by \$809 million in 1974 under the food stamp program than they would otherwise have been in those years. The study further estimates that the GNP increased by \$311 million and \$427 million in those two years as a result of the food stamp program, adding between 56,000 and 77,000 new jobs to the economy.<sup>27/</sup>

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<sup>27/</sup> Paul E. Nelson and John Perrin, Economic Effects of the U.S. Food Stamp Program Calendar Year 1972 and Fiscal Year 1974, U.S. Department of Agriculture, Economic Research Service, Agricultural Economic Report No. 331, July 1976.

The food stamp program has three major components: income eligibility standards, including definition of income and deductions from income; purchase requirements; and allotment levels. Adjustment to any of these key elements will affect program costs and several program objectives, including adequacy of benefits delivered, population eligible for benefits, work incentives, and fairness in treatment of the population served. This chapter explains the key structural elements of the food stamp program so that the reader may better understand the potential impact of the program alternatives discussed in the next chapter.

#### CURRENT PROGRAM STRUCTURE

The basic design of the current food stamp program is one common to all income maintenance programs of the negative income tax variety in which a household's benefit is reduced proportionately with increasing income. The food stamp allotment varies only by household size, while the proportion of the allotted stamps a household must purchase increases with increasing income. The bonus stamps represent the difference between the allotted and purchased stamps. In general, for every \$3.00 increase in income, the household's purchase requirement increases by \$1.00. In other words, bonus food stamps are reduced by \$1.00 for every \$3.00 increase in income (i.e., the marginal tax rate is approximately 30 percent). Purchase requirements are based on a household's net income, that is, income after allowable deductions are subtracted.<sup>28/</sup>

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<sup>28/</sup> The most general structure of the FSP is defined as:  
 $B_s = A_s - r(Y - D_s)$ , where:  
 $B_s$  = bonus dollars transferred for household of size  $s$   
 $A_s$  = basic food coupon allotment or guarantee for household of size  $s$   
 $Y$  = gross countable household income  
 $D_s$  = deductions from gross income for household of size  $s$   
 $r$  = marginal tax rate on income or the benefit reduction rate

The interaction of these components establishes the "break-even" income point, that is, the income level where a household's benefits are reduced to zero. A 30 percent marginal tax rate and an allotment of \$166 for a family of four mean that any four-person household with less than \$553 a month in net income is eligible.<sup>29/</sup>

Certain limitations in addition to income are placed on eligibility. Households may not have liquid resources exceeding \$1,500 (\$3,000 for households of two or more persons with at least one member over 60 years of age). Further, any able-bodied person who is not employed or caring for children must register for and accept suitable employment; refusal to do so would result in the entire household of which he or she is a member becoming ineligible. Modification of any one of these components would alter the focus of the program's implicit objectives and overall costs.

#### Gross Countable Income

The mean monthly gross income of food stamp households in September 1975 was \$292. Countable household income includes all income received, or expected to be received, during the period a household is certified eligible to participate in the food stamp program. Households are certified eligible for the program on the basis of their anticipated income in the forthcoming month, and any change

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<sup>29/</sup> Administrative regulations establish net income eligibility for households based on the higher of the two conditions: (1) the point at which the coupon allotment for that household size equals 30 percent of income or (2) the Secretary of Agriculture's income poverty guidelines. Recently, for one and two person households the poverty guidelines have been higher than that arrived at by multiplying 3.3 times the one and two person allotment schedule. For example, the allotment for a one-person household was \$51 in July 1976, so that net income eligibility based on a 30 percent marginal tax rate would have been \$165 a month. The poverty guideline for one person households was \$245.

in income from the certified levels must be reported. The philosophy behind this prospective accounting system is simply to make the food stamp program highly responsive to the food needs of the applicant.

Income as defined for food stamp purposes includes all the following:

- o Compensation for services performed as an employee.
- o Net income from self-employment, i.e., gross income less the cost of producing that income.
- o Payments from annuities, pensions, retirement and disability benefits, veterans' benefits, workmen's compensation, unemployment compensation, social security, and strike benefits.
- o Public assistance benefits.
- o Payments made on behalf of a household by a person not considered a member of that household.
- o Support and alimony.
- o Scholarships, educational grants, fellowships, and veterans' educational benefits.
- o Rents, dividends, interest, and royalties.

Several forms of income are explicitly excluded from being counted for food stamp purposes:

- o Money earned by a child under 18 who is a student at least half time.
- o Irregular income in small amounts, unless it adds up to more than \$30 in a three-month period.
- o Any gain that is not in money.
- o Monies received from insurance settlements, sale property (except property related to self-employment), retroactive lump-sum social security or railroad retirement pension payments, income tax refunds.

- o Loans, except educational loans.
- o Payments received under the WIC-Child Nutrition Program.
- o Income received by volunteers for services performed in various ACTION programs.

The definition of income is a crucial factor in designing any reform option. For example, excluding other federally subsidized nutrition benefits would result in an understatement of the available food resources to a household. However, attempting to count such benefits would substantially increase administrative complexities.

Exclusions also result in providing unequal food stamp benefits to otherwise similar households. For example, different benefits are provided households with similar gross incomes but with different withholdings on their federal or state taxes. A household over-withholding would qualify for larger benefits (because of the allowance of tax deductions) and would not have the tax refund counted in income upon repayment of the over-withholding. The amount would be counted against the asset test. However, such a household would likely have a high in-out participation rate, complicating determination of the proper level of food stamps benefits.

The definition of countable income also alters the program's effect in increasing food expenditures or increasing the proportion of income freed for non-food purchases. Including in-kind nutrition benefits in the household's income definition reduces the amount of the food stamp transfer used to free income for non-food purchases.

## Deductions

Households may deduct a number of household expenditures before determining eligibility benefits. Currently, households are allowed to deduct the following:

- o Ten percent of their income from compensation for services performed as an employee, or training allowances, not to exceed \$30 per household per month.
- o Mandatory deductions from earned income that are not elected at the option of the employees, such as local, state, and federal taxes, social security taxes, union dues.
- o Payments for medical expenses when costs exceed \$10 per month.
- o Payments for child care or adult care when necessary for the household member to accept or continue work.
- o Unusual expenses associated with disaster or casualty losses.
- o Tuition and mandatory fees assessed by an educational institution.
- o Payments for rent or mortgage plus utilities that are more than 30 percent of a household's income after all other deductions.

The allowance or disallowance of specific income deductions affects the adequacy of benefits, participation rates, food-income tradeoffs, target efficiency of the benefits, and, most important, program costs. It has been accepted, usually without debate, that eliminating the current practice of itemizing special deductions and replacing them with a standard or flat deduction would reduce administrative complexities and therefore costs.

The 1975 USDA survey of food stamp households found the average level of all deductions to be approximately \$74. This represents the sum of all deductions averaged across all households, regardless of whether the household actually claimed deductions. For the 82 percent of all households that actually claimed deductions, the average deduction was \$91.

For households with an elderly person (age 65 or over), the average level of itemized deductions was approximately \$46. Excluding elderly households with zero deductions increased the average deduction for elderly households claiming deductions to \$62. With constant income and household size, deductions tend to decrease with increasing age of the household head.<sup>30/</sup>

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<sup>30/</sup> The cross-sectional data from the September survey were fit relating deductions to household characteristics. The coefficient on gross income, in this relationship, indicated that for every one dollar increase in income, deductions increased by over 27 cents. A negative coefficient on the age variable in this equation suggested that for every year increase in the age of the head of the household, deductions decline about 77 cents. Further specification to improve explanatory power of this equation could slightly change absolute value of the coefficients, but it is not anticipated that the sign of the coefficients would be altered.

The equation follows:

$$\text{Deductions} = 55.80 + 7.86 \text{ HHS} - .14 \text{ HHS}^2 - .77 \text{ AGE} + .27 \text{ GY}$$

(+--statistics)                    (7.22)                    (1.36)                    (18.97)                    (62.04)

WHERE: HHS = Household Size  
 AGE = Age of Head of Household  
 GY = Gross Income

$$R^2 = .2986 \quad \text{S.E.} = 72.25 \quad \text{F RATIO} = 1195.0$$

Deductions by household size increase in a nonlinear fashion. (See Table 10.) While smaller households tend to have smaller deductions, deductions tend to level out around three- and four-person households and even show signs of declining thereafter. Since the majority of participating households are one and two persons, and since the average deduction for these smaller households is less than the overall average, any single standard deduction set at or above the overall average will tend to redistribute benefits away from larger households and re-direct them toward smaller, more elderly households.

TABLE 10. AVERAGE DEDUCTION BY HOUSEHOLD SIZE,  
USDA SURVEY (SEPTEMBER 1974)

Household Size	Average Deduction Overall
1	\$48.86
2	70.24
3	85.13
4	90.86
5	87.65
6	86.18
7	86.96
8	90.99
9	72.47
10 or more	55.75
Overall	
	\$74.12

SOURCE: CBO Tabulations from USDA September 1975 Food Stamp Survey tape. Includes households with deductions greater than gross income.

Itemized deductions vary by income of the household; they also vary markedly between regions of the country for households with the same income. For all households whose gross income was less than the poverty level, deductions averaged \$55.36. (See Table 11.) This ranged from a high of \$81.70 for poor households in the New England states to a low of nearly \$46.00 for poor households in the West Central states. Almost all of this variation within the same income class is explained by varying shelter costs in the regions. For poor households in the New England region, shelter costs reached over \$155 in September 1975, in the Southeast region, the comparable figure was only \$82.

Setting a flat standard deduction, based on the average as it exists over all participating income classes, would redistribute benefits to households below poverty on the average and redistribute benefits from poor households in the Northeast to households in the Southeast and West Central regions.

Households with larger gross incomes now qualify for the program on the basis of large income deductions. (See Table 12.) Average total deductions for households with income above 150 percent of the poverty line reached nearly \$242 a month, 4.4 times the level for poor households and 3.3 times the national average. (See Table 11.)

Proponents of indexing standard deductions for price increases argue that deductions inflate over time, and that, in order to maintain the same relative impact as in the current program, deductions should also be inflated from the September 1975 levels. The difference between the overall averages for September 1975 (\$74.12) and a previous USDA survey conducted in November 1973 (\$56.05)<sup>31/</sup> represents growth in deductions brought about by inflation factors, the changing profiles of the participating population claiming deductions, and varying commodity specific inflation rates. Table 12 provides a breakdown of the overall average deduction in September 1975 by type of itemized deductions.

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<sup>31/</sup> "Food Stamp Program - A Report in Accordance with Senate Resolution 58," FNS, USDA, July 21, 1975, p. 13.

TABLE 11. AVERAGE TOTAL DEDUCTIONS BY POVERTY STATUS  
AND BY REGION, SEPTEMBER 1975

Region	Overall Average	Less Than Poverty	PERCENT OF POVERTY		
			1.0- 1.25	1.26- 1.50	1.50+
ALL AREAS AVERAGE	\$74.12	\$55.36	\$103.51	\$158.43	\$241.61
New England	123.62	81.70	126.36	175.48	321.27
Mid- Atlantic	71.78	52.07	101.73	149.68	216.92
Southeast	70.27	54.99	113.63	158.84	260.74
Mid-West	66.31	52.09	89.80	152.18	218.84
Western	87.99	58.15	94.35	159.54	224.43
West- Central	58.72	45.97	117.25	167.70	228.73

SOURCE: CBO tabulations from USDA September 1975 Food Stamp Survey tape. Regions are USDA, Food Nutrition Service, regions.

Mid-Atlantic: Delaware, District of Columbia, Maryland, New Jersey, New York, Pennsylvania, Puerto Rico, Virginia, Virgin Islands, West Virginia

Southeast: Alabama, Florida, Georgia, Kentucky, Mississippi, North Carolina, South Carolina, Tennessee

Midwest: Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, Ohio, Wisconsin

Western: Alaska, Arizona, California, Guam, Hawaii, Idaho, Nevada, Oregon, Samoa, Trust Territories, Washington

West Central: Arkansas, Colorado, Louisiana, Montana, New Mexico, North Dakota, Oklahoma, South Dakota, Texas, Utah, Wyoming

New England: Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont

TABLE 12. ITEMIZED DEDUCTIONS PER HOUSEHOLD, UNITED STATES  
AND REGIONAL AVERAGES

	Overall Average	New England	Mid- Atlantic	Southeast	Midwest	Western	West Central
1. Shelter	\$46.50	77.85	49.16	36.76	44.86	59.54	28.87
2. Mandatory (taxes, etc.)	10.09	21.79	9.62	9.71	8.35	11.12	7.69
3. Medical Expenses	7.42	10.58	4.04	12.72	5.28	5.14	10.73
4. Work Allowance	5.72	7.60	5.46	6.84	4.36	5.68	6.08
5. Child Care	2.30	.99	1.64	2.22	2.04	4.43	2.67
6. School Tuition and Man- datory Fees	1.21	3.22	1.39	.55	.71	1.57	1.34
7. Alimony- Support	0.35	1.47	.23	.60	.02	.02	.34
8. Casualty Losses	0.31	.05	.20	.07	.37	.35	.55
9. Other	1.12	.07	.04	.80	.82	.14	.45
TOTAL DEDUCTIONS <sup>a/</sup>	74.12	123.62	71.78	70.27	66.31	87.99	58.72

SOURCE: CBO tabulations from USDA September 1975 Food Stamp Survey tape.  
Tabulations include Puerto Rico and outlying territories. Numbers  
may not add up to totals because of rounding.

<sup>a/</sup> Figures may not add to exact totals because of rounding.

The shelter deduction constitutes the largest share of all itemized deductions, making up nearly 62 percent of the total in September. Work-related deductions (e.g., taxes, work allowances, and child care expenditures) represented the second largest proportion (24 percent) of total deductions claimed.

Shelter deductions make up the largest percentage of all deductions claimed by households falling below poverty (77 percent), while only 27 percent of all deductions claimed by persons with gross income over 150 percent poverty are attributable to the shelter deduction. Eighty-seven dollars, or 35 percent of the total deductions claimed by high income recipients, is attributable to mandatory payroll deductions.

In total, the level of deductions increased 33.8 percent between November 1973 and September 1975, representing an annual growth rate of 16.4 percent. During this period, the overall Consumer Price Index increased at an annual rate of about 9.5 percent. Deductions, therefore, increased about 70 percent faster than the overall CPI. While this may overstate the actual increase in deductions because of changes in populations surveyed, it is clear that deductions have risen over time. Therefore, proposals to replace itemized deductions with a non-price-inflating, standardized deduction could result in a redistribution of benefits over time and a reduction in both the eligible population and the number of participants.

#### Allotment Level

The food stamp allotment level establishes the maximum benefit level for a family. The allotment varies only by family size according to the cost of a "nutritionally adequate diet." The USDA develops four family-food plans: a thrifty plan, a moderate plan, a low-cost plan, and a liberal plan. The plans represent amounts of foods of different types that families might buy to provide nutritious diets at different levels of cost. Before January 1976, the USDA established the food stamp allotment level based on the retail price of a food plan known as the "Economy Food Plan." Beginning in January 1976, this was changed to the thrifty food plan. The economy food plan was a basis for establishing the original proverty guidelines as developed in 1964.<sup>32/</sup>

As a basis for setting food coupon allotments, the economy food plan was subject to numerous complaints and major law suits. In the most recent of these law suits (Rodway v. United States Department of Agriculture, 514 F. 2d. 809, D.C. Cir., June 12, 1975), the court ruled that the system of establishing coupon allotments would be sustained only

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<sup>32/</sup> Mollie Orshansky, "Counting the Poor: Another Look at the Poverty Profile," Social Security Bulletin, U.S. Dept. of Health, Education and Welfare, January 1965.

if the Secretary could show that the system delivered coupons to substantially all recipients in amounts sufficient to allow them to purchase a nutritionally adequate diet. Following this ruling, the Secretary proposed three possible systems for establishing coupon allotments. A final decision was made in December 1975, and the new system of coupon determination became effective with the normal semiannual adjustment in January 1976.

The revised coupon allotment system is based on the new thrifty food plan, with different economies of scale for larger size families. The increase in benefits to larger size households followed from the Rodway case, which called for the delivery of coupons sufficient to allow all recipients to purchase a nutritionally adequate diet.

Costs of the USDA plans vary by family type. (See Table 13.) Specifically, the cost of the thrifty food plan for a family of four with children between 6-8 and 9-11 years of age is now used to establish the basic food stamp allotment for four-person households. For other size households, the four-person household base level is adjusted by various household-size, economy-of-scale factors.

One proposal has been advanced that would increase the allotment levels equivalent to the low-cost food plan. Such proposals increase the adequacy of the benefits but result in large benefit notches. A "benefit notch" appears when one additional dollar of earnings results in more than one dollar loss in benefits. This proposal will be discussed in the following chapter.

Low income households of similar size, but otherwise dissimilar because of a different sex-age composition and/or with special nutritional needs arising from infections, metabolic disorders, chronic diseases and abnormalities, are treated similarly. In order to assure nutritional treatment comparable to nutritional need, allotments could be varied by a household's sex and age composition. If the age-sex specific characteristics of food stamp households in September 1975 were used to develop allotments instead of the hypothesized four-person household

now used, the allotments would decline to \$155, nearly \$12 less per month than the current program. Providing applicant food stamp households an allotment level determined by the specific sex and age characteristics of the household would significantly reduce federal bonus costs and presumably come closest to targeting benefits on specific nutritional needs.

#### Benefit Reduction Rate

Amendments to the Food Stamp Act (Public Law 91-671) in 1973 required that the purchase price represent a "reasonable investment" on food rather than "normal food expenditures." The distinction has never been made between whether this was to be a reasonable investment measured by gross income or by net income standards. In general, for every three dollars increase in income, benefits are reduced by one dollar.<sup>33/</sup> Purchase requirements are set according to income ranges or steps; requirements vary widely when calculated as a percentage of a household's net income. Because of varying deductions by income class, they also vary when calculated on the basis of gross income. Purchase requirements for households with the same net income are slightly higher for larger households. For each household size, there is a maximum purchase price guaranteeing a minimum benefit.

The 1971 amendments allowed a household to buy either all, three-quarters, half, or one-quarter of its total monthly allotment. The amount of bonus stamps received is prorated according to the amount purchased.

<sup>33/</sup> This low marginal tax rate of 30 percent finds its basis not in a desire to forestall unacceptable work response normally thought to occur with high marginal tax rates, but in a desire to set the food coupon purchase requirement at a level representing what Congress felt was the maximum amount of money a household should be required to spend on food. Food Stamp Act of 1964, Section 7(b) U.S.C. 2016(b), as amended by the Act of January 11, 1971, Public Law 91-673, 84 Stat. 2048.

TABLE 13. COST OF FOOD AT HOME ESTIMATED FOR FOOD PLANS AT FOUR COST LEVELS, JULY 1976, U.S. AVERAGE <sup>a/</sup>

Sex-age groups	Cost for 1 month			
	Thrifty plan <sup>b/</sup>	Low-cost plan	Moderate-cost plan	Liberal plan
	Dollars	Dollars	Dollars	Dollars
<u>FAMILIES</u>				
Family of 2: <sup>c/</sup>				
20-54 years....	97.70	127.80	160.50	193.30
55 years and over.....	87.20	113.20	140.50	168.50
Family of 4:				
Couple, 20-54 years and children--				
1-2 and 3-5 years.....	138.30	179.40	224.00	269.50
6-8 and 9-11 years.....	166.70	216.70	272.20	327.50
<u>INDIVIDUALS</u> <sup>d/</sup>				
Child:				
7 months to 1 year.....				
1-2 years.....	19.70	24.30	29.70	35.20
3-5 years.....	22.40	28.80	35.50	42.40
6-8 years.....	27.10	34.40	42.60	51.40
9-11 years....	34.60	44.70	56.10	67.40
Male:				
12-14 years...	43.30	55.80	70.20	84.40
15-19 years...	46.30	59.60	74.70	89.70
20-54 years...	50.90	65.80	82.60	99.60
55 years and over.....	48.90	64.30	81.20	98.20
Female:				
12-19 years...	41.30	53.20	66.00	79.00
20-54 years...	39.90	51.90	64.70	77.50
55 years and over.....	36.00	46.50	57.50	68.50
Pregnant.....	49.90	64.20	79.20	94.50
Nursing.....	53.00	68.10	84.80	101.20

Notes for Table 13.

SOURCE: U.S. Department of Agriculture, Consumer and Food Economics Institute, Agricultural Research Service, CFE (Adm.) 326.

- a/ Assumes that food for all meals and snacks is purchased at the store and prepared at home. Estimates for each plan were computed from quantities of foods published in the Winter 1976 (thrifty plan) and Winter 1975 (low-cost, moderate-cost, and liberal plans) issues of Family Economics Review. The costs of the food plans were first estimated using prices paid in 1965-66 by households from USDA's Household Food Consumption Survey with food costs at four selected levels. These prices are updated by use of "Estimated Retail Food Prices by Cities" released monthly by the Bureau of Labor Statistics.
- b/ Coupon allotment in the Food Stamp Program based on this food plan.
- c/ Ten percent added for family size adjustment. See footnote d.
- d/ The costs given are for individuals in 4-person families, taking into account food-buying economies of large families. For individuals in other size families, the following adjustments are suggested: 1-person--add 20 percent; 2-person--add 10 percent; 3-person--add 5 percent; 5-or-6-person--subtract 5 percent; 7-or-more-person--subtract 10 percent.

Actual purchase requirements, as a percent of net income, vary from 5 percent for one-person households with low monthly income to 29 percent for large size households approaching net income eligibility cut-off levels. Overall, the average purchase requirement was about 25.6 percent of net income in September 1975. As a percentage of gross income, the average purchase requirement was about 19 percent. (See Table 14.)

TABLE 14. AVERAGE AMOUNT AND PERCENTAGE OF GROSS AND NET MONTHLY INCOME SPENT ON FOOD STAMPS BY ALL PROGRAM HOUSEHOLDS IN SEPTEMBER 1975, BY TYPE OF INCOME AND GROSS MONTHLY INCOME

Gross Monthly Income	Type of Income		Purchase Requirement	Proportion of Income Spent on Food Stamps	
	Gross	Net (dollars)		Gross	Net (percent)
Under \$100	39	24	1	2.6	4.2
100 - 199	159	115	25	15.7	21.7
200 - 299	247	185	46	18.6	18.6
300 - 399	346	268	71	20.5	26.5
400 - 499	445	343	96	21.6	28.0
500 - 599	545	414	114	20.9	27.5
600 - 749	660	497	142	21.5	28.6
750 - 999	835	616	178	21.3	28.9
1,000 +	1,170	826	214	18.3	25.9
OVERALL AVERAGE	292	220	56	19.4	25.6

SOURCE: CBO tabulations from USDA September 1975 Food Stamp Survey tape.

For the population in general, it is estimated that the average family spends about 20 percent of gross income for food. The lowest income families (under \$3,000 a year) spend up to 50 percent of their income on food. It has generally been accepted that widely varying purchase requirements should be replaced with a standard requirement.

All major alternatives recently advanced have included a standard purchase requirement ranging between 25 and 30 percent of gross income. Standard rates will interact with deductions and allotment levels to change the income supplementation effect of the current program markedly.



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## CHAPTER IV FOOD STAMP PROGRAM BUDGET OPTIONS

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Food stamp program issues for fiscal year 1978 and beyond center on whether the program should be designed to emphasize broad objectives of (a) increasing food consumption, (b) providing some minimum level of income support effectively and efficiently, or (c) continuing the current blend of these objectives. The various food stamp reform proposals before Congress generally are designed to serve one of these objectives.

Within the context of these broad program objectives, the following important policy criteria are used to evaluate proposed changes. They are, of course, given different weights by different decision-makers. These criteria include: assuring adequacy of benefits to all participants; concentrating benefits on the most needy; fairness in treating similar households similarly; fairness in treating dissimilar households differently; the assurance of work incentives; maintenance of administrative simplicity; and limiting budget costs.

In general, the major budget options relate directly to the different perceptions of program objectives. The options cover the following broad areas:

- o Maintaining the status quo. Continuation of current program design and administration is a possible alternative. In the reform debate, however, it has usually been assumed a priori that some change should take place.
- o Current program refinement. This alternative entails what some refer to as marginal changes. The basic program design remains unaltered. Modifications of basic eligibility standards and tightening of program rules result in no significant change in the current program's mix of food consumption and income objectives.
- o Food consumption emphasis. In the continuum of alternatives, this approach maintains the highest degree of food consumption from dollars

transferred to participating households. This option also significantly reduces program costs by both narrowing the eligible population and limiting participation.

- o Income support emphasis through elimination of the purchase requirement. This alternative contains an element of increased food consumption. The option results in some participants having the ability to use relatively more freed income for nonfood purposes. The option removes a major disincentive to non-participation in the current program.
- o Cash-out food coupons. In the continuum of alternatives, this proposal provides recipients with the greatest personal freedom to purchase any goods and services within the household's personal preference, constrained only by the amount of the cash transfer and other household income. The proposal alters the program from an in-kind welfare approach to a direct cash approach. While increasing the cash income of the recipient the proposal also eliminates programmatic incentive for increased food consumption. The cash-out option is not normally considered a food stamp option (except to the extent that it suggests a complete elimination of the program), but it should be considered in the broader debates associated with various comprehensive welfare restructuring proposals. Such options will be discussed in a forthcoming CBO paper concerning total welfare reform.

Maintaining the Status Quo: Current Policy Estimates  
FY 1977-1982

To provide a general reference point from which to judge the various reform proposals, CBO has developed long range projections of the food stamp program. Using its economic assumptions, 32/ CBO has developed a model

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32/ "Five-Year Economic Assumptions," CBO Economic Assumptions Panels, August 3, 1976.

of factors influential in determining past program growth in order to project future program growth.

Key variables influencing program growth are overall price inflation and food price increases, unemployment rates, income growth, growth in other public assistance programs, and overall participation among eligible households. Table 15 summarizes the key economic assumptions used in the development of the current policy estimates.

TABLE 15. CBO ECONOMIC ASSUMPTIONS, CONSUMER PRICE INDEX AND FOOD SECTOR CONSUMER PRICE INDEX

Calendar Year	Overall CPI Percent Change From Previous Year	CPI Food Percent Change From Previous Year	Unemployment Rate
1975 Actual	9.1	8.5	8.5
1976 Projected	5.7	3.1	7.3
1977	5.4	2.2	6.4
1978	5.6	2.8	5.8
1979	5.4	5.3	5.3
1980	5.5	5.5	4.9
1981	5.7	5.8	4.5
1982	6.0	6.0	4.5

SOURCE: "Five-Year Economic Assumptions," CBO Economic Assumptions Panels, August 3, 1976.

As indicated, food price increases are assumed to decline from growth rates of the recent past. Food price assumptions decline from an average annual increase of slightly over 8 percent in 1975 to a 3.1 percent increase in 1976. A further decline is projected for 1977, with a moderate increase thereafter. Over the next seven years, food prices are assumed to increase at an average annual

rate of approximately 4.3 percent, a figure comparable to the average rate of food price inflation over the period 1965 to 1972. The economic assumptions used to project the number of food stamp recipients also include a declining unemployment rate, with the overall rate declining to 4.5 percent by the end of 1980.

Given these assumptions, it is not surprising that the number of food stamp recipients shows a general decline throughout this period, almost entirely due to the declining number of nonpublic assistance food stamp recipients. Average monthly participation declines from approximately 18.5 million in 1976 to 15 million in 1982. (See Table 16.)

Because of declining food prices through 1978, and because of the declining number of recipients, the cost of the food stamp program would be about \$5.4 billion in fiscal year 1978, down nearly \$300 million from 1976 levels.<sup>33/</sup> With moderately increasing food prices after 1978, the cost of the food stamp program begins to increase again despite declining participation, and reaches approximately \$5.9 billion by 1982.

Table 16 summarizes the status quo budget option. These numbers are indicative, not predictive. Long range projections are highly speculative, given the vagaries of weather, changing agricultural policies, and worldwide private speculation in U.S. and world food markets. To the extent that world and domestic food and agricultural policies over the next five years can facilitate stable domestic and international food prices, and to the extent that normal weather conditions exist worldwide, food stamp program growth and costs would stabilize under the CBO assumptions.

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<sup>33/</sup> The CBO current policy estimate of \$5.383 billion in FY 1978 compares to the administration's estimate of \$5.756 billion under slightly higher unemployment and price inflation factors. Current Service Estimates for Fiscal Year 1978, Executive Office of the President, Office of Management and Budget, November 1976.

TABLE 16. SUMMARY, FOOD STAMP PROGRAM OUTLAYS, CURRENT POLICY ESTIMATES  
FOR FISCAL YEARS 1977 TO 1982

Fiscal Year	Average Participation (millions of persons)	Total Bonus Costs (billions of dollars)	Administrative Costs (billions of dollars)	Total Costs (billions of dollars)
1976P	18.498	\$ 5.265	\$ .366	\$ 5.632
1977	17.465	5.180	.370	5.550
1978	16.503	5.040	.343	5.383
1979	15.934	5.038	.340	5.378
1980	15.444	5.087	.347	5.434
1981	15.030	5.198	.355	5.553
1982	14.989	5.534	.382	5.916

P = Preliminary

SOURCE: Estimates developed from CBO economic assumptions of August 3, 1976.

Despite the potential for a lessening of program growth, the current program would continue to foster certain inequities and inefficiencies. The program would continue to allow participation by higher income households.

The status quo reflects an average participation rate in the eligible population of approximately 50-55 percent. This participation rate is not expected to change dramatically, given that nationwide publicity and outreach efforts have already made the program known virtually to all eligible persons, and given the normal deterrents to participation associated with the particular design of the program, consumer costs, recipients' felt needs, and program stigma.

#### Refinements of the Current Program

Three proposals would refine the current food stamp program, retaining its basic characteristics. These are S. 3136, passed by the Senate in April 1976; H.R. 13613, approved by the House Agriculture Committee in August 1976; and the Ford Administration revised regulations, now blocked by court injunction. All these proposals attempt to improve program administration through simplified deductions and a redirection of current benefits to the lowest income groups.

S. 3136. The National Food Stamp Reform Act of 1976 would modify key program parameters but continue the present program mix of food consumption and income supplementation objectives.

The program refinement in S. 3136 would set a "cap" on net income eligibility at the official poverty line after a series of special deductions. It would also eliminate categorical eligibility provisions for AFDC and SSI recipients. The bill would set a flat 25 percent of net income as the purchase requirement. S. 3136 would eliminate the current program practice of allowing a series of special deductions and replace them with a flat \$100 a month deduction (except for households in outlying territories, where the level was set at \$60).

In addition to the standard deduction, households could deduct \$25 a month if an elderly person (60 years

of age or older) resided within the household, \$25 a month if the household earned more than \$150 a month, and all federal, state, and local income taxes and social security taxes. All deductions would be adjusted semiannually based on the overall price change. The proposal would not change the basic allotment. Finally, the proposal would require that the household's income over the previous 30 days, before applying for food coupons, be used to determine eligibility and benefit levels.

H.R. 13613. The Food Stamp Act of 1976 (H.R. 13613) never received full House consideration before the 94th Congress adjourned. The proposal, similar to S. 3136, would eliminate categorical eligibility and would set net income eligibility based on the official federal poverty guidelines after allowing a standard deduction based on household size.<sup>34/</sup>

In addition, families with a member over 65 or blind or disabled would receive an additional \$25 deduction. Working families could deduct up to \$30 a month for work expenses and up to \$75 a month for dependent expenses. Additional deductions would include federal, state, and local taxes, and social security taxes.

H.R. 13613 would establish a purchase requirement of 27.5 percent of net income for all households in which every member was not either blind, aged, or disabled. These latter households would receive a check (as opposed to stamps) equivalent to the value of the difference between their monthly food stamp allotment and an implicit purchase requirement, also established at 27.5 percent of net income.

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34/ H.R. 13613 would establish the following standard deductions for various household sizes:

1-person household . . .	\$45
2-person household . . .	\$55
3-person household . . .	\$65
4-person household . . .	\$75
5-person household . . .	\$80
6-person household . . .	\$85

Beginning in fiscal year 1978, states would be required to assume 2 percent of the cost of bonus stamps within their states (including the implicit stamps as cashed out to the elderly, blind, and disabled). H.R. 13613 would render households containing a person involved in a labor dispute ineligible, unless the household had been eligible for food stamps immediately prior to the dispute. Finally, the bill would make all students 18 years of age or older and enrolled in an institution of higher education ineligible, unless such a person was head of a household.

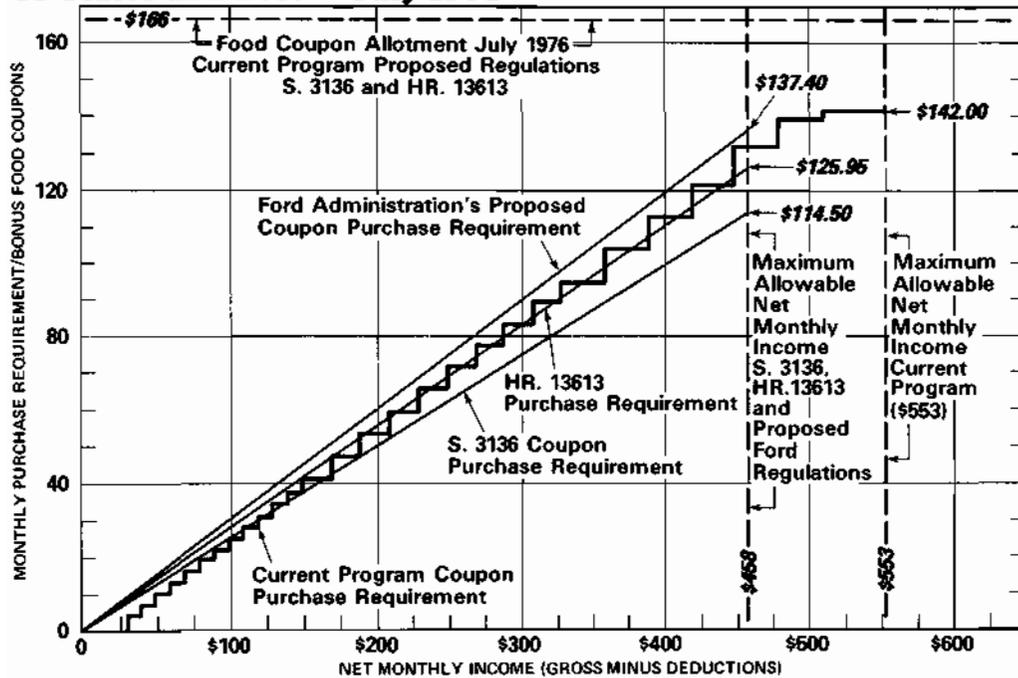
Administration Regulations. The regulations proposed by the Ford Administration would establish net income eligibility at the poverty line, a standard \$100 deduction for all households (\$125 if the household contains an elderly individual), and a purchase requirement of 30 percent of net income. The regulations require that a household's income over the previous 90 days be averaged before testing against the net income eligibility limits. However, enforcement of these regulations has been enjoined Trump v. Butz, United States District Court for the District of Columbia, June 18, 1976.

Program and Budget Impacts. Figure 7 depicts the major characteristics of these three proposals. For a four-person household in July 1976, all three proposals would set net income eligibility limits at \$458, down from \$553 in the current program. Gross income eligibility, however, could vary from \$558 for a working family under the administration regulations to as high as \$637 under H.R. 13613, between 21 and 40 percent higher than the poverty cut-off level. One- and two-person households would be unaffected by the net income eligibility standard at the poverty level, since such standards currently apply for these households.

Because the average deduction in September 1975 was \$75 for all households, any provision allowing a flat \$100 standard deduction for all applicant households, as would S. 3136 and the proposed regulations, would in itself increase program costs and skew the proportion of benefits toward the lowest income brackets.

Figure 7

**Comparison Food Stamp Program — Current Program — Proposed Ford Regulations — S. 3136 Food Coupon Allotment — Net Income Eligibility — Purchase Requirement Household of 4; 48 States and D.C. — July 1976**



For the majority of households, under S. 3136 the food stamp purchase requirement would be less than that of the current program, higher under the regulations, and about the same under H.R. 13613.

Under S. 3136, at the net income eligibility cap (\$458 per month), a family of four would pay \$114.50 for food coupons worth \$166, for a net transfer of \$51.50. A similar four-person household making one more dollar (\$459) would receive zero benefits, a loss or a "notch" of \$51.50 for the month, \$618 for the year, or 11 percent of the household's pre-breakeven income. The notch is least under the regulations and about the same as the current program under H.R. 13613.

At what point this notch decreases work incentive is not clear. The current program has a \$24.00 monthly or \$288 annual notch, 4 percent of the average four-person household's pre-breakeven income. S. 3136 appears to lower a household's incentive to move out of the program until it can be assured, at a minimum, of a net increase in its income of about 7 percent that would offset the loss created by the notch.<sup>35/</sup>

Any proposal, such as these three, which sets a cap on income eligibility at the poverty line, but does not increase the benefit reduction rate to at least 36 percent, will create a notch. (Increasing the benefit reduction rate, and thereby increasing the coupon purchase requirement, however, could reduce participation among needy households.) Further, because of the requirement that the basic allotment be adjusted semiannually while the income eligibility standards be adjusted annually, the possibility exists for widening the notch at the semiannual updates. More critical is the fact that the notch will widen or decline depending on the relationship between food price inflation (which adjusts the allotment levels) and the overall Consumer Price Index (which adjusts the poverty levels).

Overall, S. 3136 would make ineligible approximately 1 million current higher income recipients. For the remaining participants, benefits would increase by over 12 percent. The proportion of benefits going to households in poverty would increase from 86.4 percent to 88.8 percent. Increased benefits would be redistributed toward lower income households, public assistance households, and smaller size households. The proposal would increase the proportion of benefits going to poor households in the South, West Central, and Midwest regions and decrease

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<sup>35/</sup> It should be noted that higher notches would exist in Hawaii, Alaska, and Puerto Rico under S. 3136, based on the allotment guarantees and the official poverty threshold levels in these areas. These range from \$650 and \$993 on an annual basis in Puerto Rico and Alaska, respectively, to over \$1,082 in Hawaii.

the proportion of benefits received by poor households in the Northeast. It is estimated that approximately 1.5 million (36 percent) of the pre-transfer<sup>36/</sup> poor households would be made non-poor by the bonus transfers.

Relative to the current program mix of food consumption and income supplementation, participating households on the average would find slightly more freed income for non-food purchases. Approximately 16.3 percent of the participating household's gross income would be used to purchase food stamps, down from 19.4 percent in the current program.

Finally, the Senate proposal would increase federal outlays by over \$600 million, bringing the total cost of the food stamp program to nearly \$6.0 billion in fiscal year 1978 and to \$6.5 billion by fiscal year 1982.

The House Committee bill (H.R. 13613) would make ineligible approximately 138,000 students and 2,000 households affected by strikes. In addition, about 1.2 million current high income recipients would be removed from the program. However, an increase in participation of about 600,000 elderly, blind, and disabled persons would result from the bill's cash-out provision. Approximately 91 percent of the total benefits would be distributed to households below poverty. Average benefits for current recipients remaining eligible would increase by approximately 5.5 percent.

Because of the special cash-out provision, benefits would be redirected toward more elderly, smaller size households. The cash-out provision for the select households would also provide an incentive for elderly household members to form their own households. Excluding the cash-out provision results in a slight increase in benefits going to larger size households. The proposal would channel benefits away from households in the New England and Eastern states and toward households in the South, West Central, and Midwest regions. About 1.2 million (25 percent) of the pretransfer poor households would be removed from poverty.

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<sup>36/</sup> Pre-food stamp but post-other cash income transfers.

Relative to the current program, no significant changes would be observed in the proportion of benefits going toward food consumption and income supplementation. There would be some increase in general income supplementation for the elderly, blind, and disabled qualifying for the cash-out provision.

Federal costs under the proposal would be reduced by approximately \$34 million in fiscal year 1978, but states would have increased outlays totaling about \$100 million. By fiscal year 1982, federal outlays would increase to \$90 million, and state outlays would increase by approximately \$115 million.

The regulations proposed by the Ford Administration would reduce participation by nearly 3 million persons. For the remaining participants, benefits would increase by over 6 percent. Approximately 94 percent of the total benefits would be redistributed to households below poverty. Benefits would be redirected toward the elderly, public assistance, and smaller size households. The proposal would focus aid on the long-term needy because of the provision that would base eligibility on the household's average income over the previous 90 days. The proportion of benefits would again be redistributed from the Northeast to South, Midwest and West Central regions.

The proportion of income that recipients would be required to spend for food stamps would remain unchanged from the current program.

The Administration's proposed regulations would reduce program outlays by about \$500 million in fiscal year 1978 and \$800 million in fiscal year 1982. While the initial savings are significantly less than the estimated savings in the President's budget for fiscal year 1977, allowing for no inflation adjustment in the \$100 standard deduction, there is an increase in savings in outlying years. (S. 3136 and H.R. 13613 do index the standard deduction.)

## Food Consumption Emphasis Proposals

A third set of proposals stresses improving the program's food consumption cost-effectiveness. As under the already discussed options, the purchase requirement, the basic benefit level, and the definition of household income would be modified.

Income would include other in-kind nutrition benefits. To make the program responsive to immediate food needs, consumption-emphasis options would include a prospective accounting system for determining eligibility. And, despite greater administrative expense, eligibility determination could be based on medically determined nutritional needs.

Adjustments to various program components, along with expanding nutrition education and limiting food coupon usage to selected foods, would result in improving the program's nutritional cost effectiveness for those who choose to participate. Balancing the food consumption impact of the bonus transfer against provisions that limit participation is a key issue under any food-consumption option. For those who do choose to participate, however, there would be an admission of felt nutritional need and an actual addition to the family's food expenditures.

Two major bills were introduced in the 94th Congress that explicitly directed the focus of the program toward a more specific food-consumption objective and limited program costs. H.R. 13375 and S. 1993 are prototypes of program modifications designed to limit program participation and costs and to increase its food-consumption effectiveness.

H.R. 13375 and S. 1993 would limit participation to households with net incomes at or below the official federal poverty levels. Both bills would eliminate itemized deductions, with the exception of providing a \$25 a month deduction for households with at least one elderly member. H.R. 13375 would also allow households to deduct all federal, state, local, and social security taxes. Both bills would also count as income all federal in-kind payments for food and housing.

S. 1993 would set the basic food stamp allotment at the cost of the low cost food plan (approximately 30 percent higher than the thrifty food plan). Though not specifically so stating, H.R. 13375 would apparently fix the allotment as that cost determined to be the lowest cost diet consisting of highly nutritional foods, assumed here to be the cost of the "Thrifty Food Plan."

Program modifications similar to S. 1993 and H.R. 13375 would significantly reduce budget costs and make ineligible a large proportion of the current program participants. S. 1993 would make ineligible over 22 percent of the currently participating households, approximately 4.2 million persons, while H.R. 13375 would remove 17 percent of the currently participating households, over 3 million persons. While H.R. 13375 would reduce average benefits going to participating households by over 17 percent, S. 1993, because it established the low cost food plan as the basic allotment, would increase the average benefit for the remaining households by over 24 percent.<sup>36/</sup>

Both proposals significantly redistribute 98 percent of all program benefits to households classified below poverty. Both proposals also shift the proportion of benefits away from smaller size households to larger ones. While under the current program over 22 percent of all benefits go to one- and two-person households, this figure would range between 16 and 17 percent under H.R. 13375 and S. 1993. Finally, it is estimated that H.R. 13375 would reduce the relative share of benefits going to elderly households and current public assistance households, but it would increase the proportion of benefits going to working poor households from 18.8 percent to about 21.5 percent. S. 1993 would increase the proportion of benefits going to elderly households and public assistance households, but it would slightly decrease the relative share going to the working poor.

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<sup>36/</sup> These estimates do not include the provisions in each bill that would count other in-kind nutrition benefits received in the definition of a household's gross income; therefore, H.R. 13375's 17 percent reduction in benefits is a minimum and S. 1993's 24 percent increase in benefits is a maximum.

Judged strictly on the basis of their effectiveness in removing households from poverty, once the food stamp transfer is counted as income, the two proposals differ significantly. The higher allotment level in S. 1993 assures an increase in the number of poor households made nonpoor following the transfer. Approximately 1.3 million (29 percent) of the pre-food stamp poor households would be classified as nonpoor under S. 3136. In contrast, H.R. 13375 would make it more difficult for poor households to move above poverty. With no major allowances for deductions, only about 500,000 poor households (11.2 percent) would be made nonpoor.

In total, including the provision for counting nutrition in-kind benefits in household income, it is estimated that, in fiscal year 1978, the modification proposed to enhance the program food-consumption effectiveness would result in outlays of approximately \$2.7 billion under H.R. 13375 and \$4.6 billion under S. 1993. These would be reductions of nearly \$2.7 billion and \$800 million, respectively, from current policy estimates.

As indicated from these figures, savings in the food stamp program can occur, but, as also indicated, with a significant reduction in benefits to a large number of current recipients. Both proposals result in an increase in food stamp purchase requirements. Current participants would increase their expenditures on food stamps, going from an average 19 percent of gross income under the current program to 30 percent under these proposals. It is this fact alone that would result in a relative decline in income supplementation and an increase, although in fewer households, in the food consumption effectiveness of the transferred federal dollars.

#### Income Support Emphasis Through Elimination of Food Purchase Requirement

A major proposal advanced in the Senate (S. 2451) during the 94th Congress is likely to be reintroduced in reform proposals brought before the next session of Congress. The proposal would eliminate the requirement that households purchase any food stamps. For example, instead of paying \$60 to receive \$166 worth of food stamps, a household would simply receive the actual federal transfer of \$106 in bonus food stamps.

Proponents of this proposal point to low participation rates among the eligible population, estimated under the current program to be approximately 50 percent in any given month. The elimination of the food stamp purchase requirement would remove one major disincentive to participation. While increased participation is one policy criterion for evaluation, it must be weighed against potentially increased program costs, a matter discussed later in this section.

The elimination of purchased food coupons would remove from circulation about 40 percent of all food stamps in circulation in fiscal year 1978. Such a reduction would result in some cost savings (approximately \$22 million) associated with printing, distribution, and storage of stamps. More important, eliminating the sale of food stamps by program vendors, such as banks, post offices, and community organizations, would improve program integrity and accountability by eliminating the need to transfer monies from program vendors to the Federal Treasury.<sup>37/</sup>

The elimination of the purchase requirement would alter the food consumption focus of the program. Those who consider the basic aim of the program to be the improvement of diets and the encouragement of a basic subsistence diet, rather than the elimination of poverty per se, may see the proposal as working against these objectives. The proposal in essence would return to the pre-1970 program and would provide participating households an opportunity to secure a nutritionally adequate

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<sup>37/</sup> The "Emergency Food Stamp Vendor Accountability Act of 1976," Public Law 94-339, was signed into law July 5, 1976. This law is aimed at tightening the system of monitoring vendors and establishing criminal penalties for vendor abuse. Elimination of delays by vendors depositing receipts in the Treasury would eliminate loss of interest by the federal government. However, return of food stamp receipts to the general funds of the Treasury has no direct impact on the food stamp program account, a completely separate account.

diet. The proposal would provide recipients the ability to purchase an adequate diet but no program incentive to do so. It can be argued, however, that the current program, while providing a program incentive for increased food purchases, has nevertheless not been shown to have significant impact on the level of nutrition.

The proposal would provide a greater cash income transfer to all except the lowest income recipients (who must use the stamps to augment food purchases). Such a transfer would move the program more towards general income assistance. Under the present program, the purchase requirement provides some assurance that the participating household will spend a greater proportion of its income for food than it would in the absence of the food stamp program. If the purchased stamps are eliminated, the recipient household would have to continue to purchase food at its pre-food stamp transfer level to achieve a food consumption level believed to be necessary for a nutritionally adequate diet.

It is more likely, however, that in the absence of purchased food stamps, the bonus food stamps would substitute for pre-food stamp food expenditures. As a consequence, rather than increasing food purchases, the recipient household would continue to purchase food at the same level as before the transfer of bonus stamps and thereby generate freed income. The value of this freed income would be the difference between what the household would normally spend for food and the bonus food stamps, again assuming the bonus food stamps completely substitute for normal food expenditures.

Income supplementation now exists for those households whose purchase requirement is less than their normal food expenditures. These households would, except for transaction costs and social stigma, currently participate regardless of a purchase requirement. Those eligible households for which the current purchase requirement is greater than their normal food expenditures would have no reason not to participate. It is this latter group which would have the largest proportion of freed income.

While not extensive and certainly not universally acknowledged, some studies have reported that some eligible but non-participating households have considered the purchase requirement prohibitive. Since the current food stamp program has no purchase requirement for those with less than \$30 net monthly income, and since some proposed modifications would raise this to a minimum of \$100 monthly, the impact of eliminating the purchase requirement would be to increase participation among groups whose income exceeds any proposed standard deduction. If participation among lowest income groups is restricted by the purchase requirement, then eliminating this barrier would also have the greatest food consumption impact on these households which would qualify for some of the largest benefits. If the sole objective of this provision is to increase participation among the lowest income groups, improvement in the administration of the program's variable purchase option and adjustments in the level of proposed standard deductions could be considered as alternatives. Such adjustments would, however, have little food-consumption impact.

For households qualifying for the largest bonus (currently lowest purchase requirement), the proposal would continue to force an established food consumption level because so much of their disposable income must go for food. For all other poor households, a greater choice would exist in their consumption pattern. It can be argued that if freedom of choice in how the government transfer is to be spent is the goal, providing all poor households that freedom (or providing none) is to be preferred over granting it to a select few.

Most reform packages proposing to eliminate the purchase requirement include modifications of other program parameters, changing the overall focus of the program. While increased participation and therefore increased budget outlays would follow from eliminating the purchase requirement, adjustments to other program parameters could be made that would offset the increased costs. These adjustments, however, would not be without a potential loss in benefits to current low-income recipients.

As an example, the philosophy behind itemized deductions has been in some instances based on the existence of a purchase requirement. It was believed that households with other special human needs (e.g. medical care and housing) should not be restricted in their purchase of food stamps. Therefore, such expenses were deducted from gross income in calculating eligibility for food stamps. Eliminating the purchase requirement lessens the original need for special itemized deductions or, for that matter, for any standard deduction. Participation in the food stamp program would not suffer because households were forced to make a choice between buying medical care or buying food stamps. Food stamps would be a free good.

The S. 2451 proposal increased budget outlays not solely because it increased participation by doing away with the purchase requirement, but also because it increased the eligible population by setting the net income eligibility standard at the current program levels and provided a flat \$125 a month standard deduction for all households (\$150 a month for households with an elderly person). High standard deductions could have been lowered with no measurable effect on the benefits to the current recipients while still reducing program costs.

Also, the current prospective accounting system is designed to be highly responsive to the food consumption needs of people. Given that the food consumption objectives would be lessened under an option that would eliminate the purchase requirement, consideration could be given to recasting the accounting procedures to a slightly less responsive, less costly system. Since monies would not be tied up for purchasing stamps, households could still be responsive to their immediate household needs.

In order to limit cost increases under any proposal that would remove the purchase requirement, a trade-off must be made that reduces average benefits for the currently participating food stamp households, including those households that currently fall below the official poverty threshold. Unless such a trade-off is made, food stamp program costs would increase.

The key to determining the budgetary costs of eliminating the purchase requirement is to determine participation rates by income and benefit levels in the present food stamp program and to adjust these participation rates to reflect decreased transactional costs for the eligible recipient. Little data exist on food stamp participation rates by specific income groups. One recent study, however, provides estimates of simulated eligible households and estimated participants for April 1977 under the rules of the current program.<sup>38/</sup> These rates and the approximate benefits associated with each income group provide a general assessment of the potential costs and beneficiary impact associated with the proposal.

TABLE 17. ESTIMATED PARTICIPATION RATES FOR FOOD STAMP HOUSEHOLDS, SIMULATED FOR APRIL 1977

Monthly Income Class. Gross (dollars per month)	Household Size								Overall Average
	1	2	3	4	5	6	7	8	
Less than 0	8.9	15.8	16.8	15.6	3.2	19.7	32.2	21.9	14.9
1-99	57.2	63.1	42.9	50.3	34.1	50.1	100.0	84.2	66.7
100-199	55.0	76.3	90.7	85.7	80.0	100.0	100.0	69.7	64.7
200-299	45.2	63.2	78.2	80.4	78.5	68.8	93.2	76.6	56.2
300-399	36.3	46.9	72.7	87.5	93.2	74.0	74.5	63.1	56.9
400-499	38.5	46.2	47.9	74.4	92.4	90.4	95.0	55.4	62.6
500-599	26.4	41.8	42.5	52.4	57.0	76.8	82.0	82.5	50.2
600-749	--	47.3	31.1	32.9	27.4	42.5	52.8	63.9	37.8
750-999	--	6.2	15.1	14.6	9.3	17.6	22.0	31.7	16.2
1000+	--	--	8.3	6.7	20.5	20.2	4.5	18.4	12.9
OVERALL AVERAGE	43.4	53.7	52.4	49.5	56.7	51.9	57.2	47.9	49.6

SOURCE: Harold Beebout, Pat Doyle, and Allen Kendall, Estimation of Food Stamp Participation and Cost for 1977: A Microsimulation Approach, Mathematica Policy Research Inc., July 28, 1976.

38/ Harold Beebout, Pat Doyle and Allen Kendall, Estimation of Food Stamp Participation and Cost for 1977: A Microsimulation Approach, Mathematica Policy Research Inc., July 28, 1976.

Table 17 presents estimated participation rates in the current program by household size and gross monthly income. As indicated, participation rates range from complete coverage in lower income groups to very low participation rates in the higher income groups. Overall participation averages about 50 percent. These participants receive approximately 55 percent of the total possible benefits. It should be noted that for the income group with zero gross income no purchase requirement would exist under the current program. Excluding this zero income class, overall participation rises to about 53 percent, receiving nearly 63 percent of the total benefits available to them. If complete participation were to result from this proposal, it is estimated that, in fiscal year 1978, program outlays could increase nearly \$2.7 billion. Based on current participation rates, the majority of these benefits would go to households with incomes in excess of \$300 a month. It is unlikely, however, that such high participation rates would result.

Current participation in the regular AFDC program (i.e., excluding unemployed fathers) is estimated to be about 93 percent.<sup>39/</sup> Using a similar participation rate under this option, budget outlays would increase by nearly \$2 billion in fiscal year 1978. Since the average AFDC family benefit is nearly three times the average food stamp benefit, and since AFDC participation provides additional in-kind benefits such as categorical eligibility in the food stamp program and medicaid program, higher participation rates in the AFDC program can be expected. Therefore, it is unlikely that participation in the food stamp program would reach those levels now estimated to be occurring in the AFDC program.

Few clues are left to judge the real budget impact. Relationships between participation rates and average purchase requirements, participation rates and purchase requirements as a percentage of gross and net incomes,

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<sup>39/</sup> Kevin Hollenbeck, An Analysis of the Impact of Unemployment and Inflation on AFDC Costs and Caseloads, Mathematica Policy Research, February 13, 1976.

and participation rates as a function of the ratio of bonus stamps to purchase stamps--all point to the simple fact that participation is more a function of the benefit than a function of the purchase requirement. Of course, one is the reciprocal of the other, making it even more difficult to ascertain the real budget impact. At a minimum, however, most estimates show an increase in participation of between 10 and 20 percent as a result of eliminating the purchase requirement.<sup>40/</sup> Such increases would result in increased program outlays of between \$600 million and \$1.2 billion in fiscal year 1982.

#### Cash-Out Food Stamps

Cash-out food stamp proposals eliminate completely the in-kind food transfer mechanism and replace it with an unrestricted cash assistance program. Past national analyses of the welfare system, such as that done by the President's Commission on Income Maintenance Programs in 1968 and the studies conducted over the period from 1972 to 1974 by the Subcommittee on Fiscal Policy of the Joint Economic Committee, proposed replacing the food stamp program and the AFDC programs with a federally financed and administered cash grant system. However, other major proposals, such as the Family Assistance Plan in 1969, the Family Assistance Act of 1970 as passed, and more recently a proposal to modify the unemployment compensation program as a means for achieving welfare reform, continue to retain food stamps as a supplement to the basic cash grant. Under less than a comprehensive cash

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<sup>40/</sup> See CBO Cost Report, Senate Report No. 94-697, March 13, 1976.

assistance program, the goal of restricted food consumption could justify the retention of the food stamp program as an in-kind transfer.<sup>41/</sup>

Further, maintaining less than a complete cash allowance system, supplemented by food stamps and providing the opportunity for recipients of the cash grant to use part of that grant to purchase food stamps, results in lower total budget costs. This is because it is likely that, as in the current program, participation in the food stamp program would be less under such an option than under a complete comprehensive cash program. However, since recipients tend to value the in-kind food stamp transfer at less than government costs, lower cash grants could be proposed that would reduce total budget costs at no loss of welfare to the recipient population.

Setting a cash guarantee level equivalent in dollars to current allotment levels would provide every participant an opportunity to consume a minimum diet. Some of the transferred cash income would continue to be spent on food. Would the nutritional standards of the participants decline? It does not necessarily follow that families receiving cash assistance, as opposed to food stamps, would have any better or any worse diets. One study examined the effects of the cash guarantee on the nutritional quality of diets for a sample of families drawn from the Rural Income Maintenance Experiments.<sup>42/</sup> It found conflicting results. Small but statistically significant

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<sup>41/</sup> A forthcoming article to appear in Public Choice, "Donor Optimization and the Food Stamp Program," by Giertz and Sullivan, suggests that the consumption of food by the relatively poor has an especially powerful external effect on donors (taxpayers). Therefore they conclude that complaints that the food stamp program provides an incentive for recipients to consume "inefficiently" in the usual welfare sense miss the point: the donor's utility, not the recipient's, is being maximized.

<sup>42/</sup> O'Connor et al., The Negative Income Tax as a Means of Improving Nutritional Levels Among Low Income Families, U.S. Dept. of Health, Education and Welfare, June 1975.

improvements were found in the quality of diets of families receiving the cash grant in one state in the study (North Carolina), but not in another (Iowa). No comparison was made between the diets of families that had received food stamps before and after the cash transfer.

Assuming that the basic guarantee in the cash-out option would remain equivalent to the dollar value of the current food stamp allotment level; that the marginal tax rate would remain at 30 percent; and that the current prospective accounting system would continue, with an assumed 90 percent participation rate, the cost of cashing out food stamps could increase to between \$2.2 and \$2.7 billion over current policy estimates for fiscal year 1978.<sup>43/</sup> This represents the total cash transfer and does not include savings due to administrative simplification. If variations in the cash-out option are considered, such as maintaining a cap on income eligibility at the poverty threshold, transfer costs would increase about \$1.5 billion in fiscal year 1978 over current policy levels.

In sum, the cash-out option, like the elimination of the food purchase requirement option, would significantly increase costs. However, unlike that option, cashing out food stamps would probably not be undertaken without major modifications in the other cash-assistance programs. If this were the case, the total net cost to the federal government would be different.

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<sup>43/</sup> These estimates were based on the March-April 1975 matched Current Population Survey tape, which collected annual income for 1974 and requisite family information. Adjustments to the simulated annual costs in 1974 were made to reflect adjustments for deductions and intra-year variation in income flow. All figures were adjusted to fiscal year 1978 dollars.

## Overview of Options

Table 18 presents an overview of the various legislative options discussed in this chapter. Each option has been reviewed in terms of the various policy criteria used in the debate of the food stamp program: adequacy of benefits for the participating population; impact on food/income tradeoffs; impact of transfers on target groups; work incentives; and administrative simplicity.

The various proposals the 95th Congress will consider present widely ranging choices as to what direction the future food stamp program will take. Such choices will each bear differently on the various policy criteria outlined above. The multiple objectives and wide range of federal outlays associated with each choice will challenge the new Congress, not only in relation to the food stamp program, but also as those choices interact and relate to the total question of income security for all needy Americans.

TABLE 18. POLICY CRITERIA FOR EVALUATING MAJOR FOOD STAMP PROGRAM ALTERNATIVES

LEGISLATIVE ALTERNATIVES AND ESTIMATED FEDERAL BUDGET COSTS	AVERAGE BENEFITS	FOOD/INCOME TRADEOFF												
1. CURRENT PROGRAM FY 1978: \$5.4 billion FY 1982: \$5.9 billion	Basic guarantee set at level based on consumption pattern of low-income households in 1965-66, meeting the Recommended Dietary Allowance for a four person household consisting of a couple aged 20-54, with two children aged 6-8 and 9-11. Guarantee adjusted semi-annually based on food price changes. Guarantees family of four, regardless of sex-age composition, with zero income following benefits: <table border="0"> <tr> <td>FY</td> <td>1978</td> <td>1982</td> </tr> <tr> <td>Monthly</td> <td>\$172</td> <td>\$207</td> </tr> <tr> <td>Annually</td> <td>\$2,064</td> <td>\$2,480</td> </tr> <tr> <td>Meal/Person</td> <td>47¢</td> <td>57¢</td> </tr> </table>	FY	1978	1982	Monthly	\$172	\$207	Annually	\$2,064	\$2,480	Meal/Person	47¢	57¢	Estimated that on the average approximately 57¢ of \$1 federal transfer spent on food. Average food stamp household increased food expenditures \$40.00 per month (1973), over what normally would have been spent. No evidence of improved nutritional standards through participation. Current proportion of total income spent on stamps, estimated 19.4%.
FY	1978	1982												
Monthly	\$172	\$207												
Annually	\$2,064	\$2,480												
Meal/Person	47¢	57¢												
2. PROGRAM REFINEMENTS: S.3136, Senate passed Reform Act April 8, 1976 94th Congress, 2nd session FY 1978: \$6.0 billion FY 1982: \$6.5 billion	Maintains current guarantee levels, but increases average transfer to eligible current recipients approximately 19%.	Relative to current program reduces slightly proportion of income required to purchase stamps to 16.3%. Results in decline in food consumption per \$1 federal transfer.												
3. PROGRAM REFINEMENTS: H.R. 13613, House Committee on Agriculture, September 1, 1976. 94th Congress, 2nd session FY 1978: \$5.3 billion FY 1982: \$6.0 billion	Maintains current guarantee levels, but increases average transfer to eligible current recipients by 19%.	Maintains approximately current program food consumption impact, reduces direct food consumption impact for elderly, blind and disabled.												

DISTRIBUTION  
OF BENEFITS

WORK INCENTIVES

ADMINISTRATIVE  
SIMPLICITY

Reduces potential participation of working households, due to 90 day accounting system. Redirects benefits to elderly and smaller households. Estimated 29% of participating poor households removed from poverty.

Standard deduction results in low implicit tax rate. No deduction for taxes or work expenditures.

Simplifies administration, through fixed deduction levels and flat purchase requirement; complicates administration with 90 day accounting system and monthly reporting system.

Concentrate 98% of benefits to households below poverty, increases proportion of benefits going to elderly households and public assistance households, reduces benefits going to working poor households.

Decreased work incentives through non-allowance of work related expenditures, higher average tax rate minor impact on work incentive. Food stamp benefit notch approximately \$940 per family of four at net breakeven income.

Simplifies administration through elimination of deductibles. Complicates administration through revised asset tests and monthly reporting system.

Increases participation primarily among higher income groups. Expands eligible population. For current recipients redistributes benefits to lower income, smaller more elderly size households.

Maintains current work incentives, eliminates benefit notch, allowing normal phase-out and special deductions for work related expenditures.

Simplifies program administration, reduces approximately 40% coupons in circulation. Simplifies administration through uniform deduction and benefit reduction rates.

Increased participation, in higher income groups. Redistribution of total benefits shifted toward higher income groups.

Assuming 30% marginal tax rate, current deduction for work-related expenditures, relative to current program no change in work incentives.

Simplifies program administration; reduces issuance, purchasing and redemption process; provides for easier program integration.

TABLE 18. (Continued)

LEGISLATIVE ALTERNATIVES AND ESTIMATED BUDGET COSTS	AVERAGE BENEFITS	FOOD/INCOME TRADEOFF
<p>4. PROGRAM REFINEMENTS: Administration regulations en- joined June 18, 1976 FY 1978: \$4.9 billion  FY 1982: \$5.7 billion</p>	<p>Maintains current guarantee levels, in- creases average transfer to households remaining eligible after 90 day retrospective accounting period by approx. 7%</p>	<p>Maintains approximate current program food consumption impact, approx. 20% of gross income would be used to purchase stamps.</p>
<p>5. NUTRITION SPECIFIC S.1993, Buckley H.R. 8145, Michel as introduced in 94th Congress FY 1978: \$4.9 billion  FY 1982: \$5.7 billion</p>	<p>Increase basic benefits to low-cost food plan, approx. 30% higher than current program. Stand- ard family of four re- mained unchanged for pricing higher food. Average transfer to eligible current recip- ients increases approx- imately 24%.</p>	<p>Increases proportion of transfer dollars spent on food by participants. Approx- imately 30% of gross cash income would be used to purchase stamps.</p>
<p>6. ELIMINATION- PURCHASE REQUIREMENT S.2451, Dole- McGovern H.R. 10467, Heinz H.R. 10441, Hall as introduced in 94th Congress FY 1978: \$6.5 billion  FY 1982: \$7.7 billion</p>	<p>Maintains current guarantee levels, in- creases average trans- fer to eligible, current recipients by approx. 15%.</p>	<p>Reduces proportion of transfer dollar spent on food; reduces im- plicit purchase re- quirement to 17% of gross income. Increases food expenditures for needy households not participating because of purchase requirement.</p>
<p>7. CASH-OUT FOOD STAMP FY 1978: \$7.6 billion  FY 1982: \$8.6 billion</p>	<p>Assumes current program guarantee level, and current accounting system. Provides <u>opportunity</u> for house- holds to secure adequate diet; does <u>not guarantee</u> adequate diet.</p>	<p>Increased food ex- penditures per \$1 transfer reduced to 20-30¢. Marginal propensity to consume from cash less than from coupons.</p>

DISTRIBUTION OF  
BENEFITS

WORK INCENTIVES

ADMINISTRATIVE  
SIMPLICITY

Estimated 50% of eligible population in any given month participate. Participation highest among lowest income groups, and households receiving other public assistance benefits. Approx. 87% benefits distributed to 78% of participating households below poverty; 22% of benefits to working poor households. Estimated 26% participating poor households removed from poverty.

Low tax rate on earnings (approx. 30%), and low basic guarantee, results in good work incentive by itself. In conjunction with other programs, however, potential work incentives problems. Estimated that 37% of households receiving AFDC income face marginal tax of approx. 75%. Food stamp benefit notch \$288 family of four at net breakeven income.

Administratively complex, involves coordination of over 3,000 welfare certification offices; issuance of authorization to purchase (ATP) cards by over 14,250 gov't. agencies, post offices and banks; acceptance of coupons by 270,000 retail and wholesale outlets; redemption by banks, Federal Reserve and special account in Treasury. Complexities of deductible and asset determination result in overissuance and underissuance of proper benefits.

Maintains high gross income eligibility standards. Redistributes benefits away from larger size households to smaller more elderly; increases benefits to working poor. Estimated 36% poor households removed from poverty.

Standard deduction lowers implicit tax rate, increases work incentive. Provides special deduction for taxes and special deduction for households with earned income, increased expenditures for work registration. Food stamp benefit notch \$618 for family of four at breakeven net income.

Simplified eligibility determination through standardizing deductions, uniform purchase requirement. Maintains current administrative and distribution system.

Increased participation among elderly, blind and disabled; 91% of benefits go to persons below poverty. Redistributes benefits away from smaller size households to larger size, reduces benefits to working poor. Estimated 25% poor households removed from poverty.

Relative to current program no significant change in work incentives. Provides low implicit tax rate, allowance for taxes, plus \$30 for earned income, child care deductions. Food stamp benefit notch \$480 at breakeven net income.

Increases administrative complexities, requires eligibility determination for blind and disabled, requires increased agency coordination. Continues determination verification mandatory deductions, child care expenditures.



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APPENDIX

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## APPENDIX TABLE

TOTAL FEDERAL, STATE, AND LOCAL EXPENDITURES  
FOR FEDERAL FOOD STAMP PROGRAM, FISCAL YEARS  
1969-1977 (In thousands of dollars)

	1969	1970	1971
A. Total Budget Authority <u>a/</u>	280,000	596,963	1,670,000
B. Federal Obligations:			
1. Bonus Food Stamps	228,587	550,806	1,522,904
2. Federal Share of Administrative Costs	6,585	9,488	20,121
3. Printing & Production	4,672	4,261	15,370
4. Shipment of Coupons	59	74	258
5. Processing of Food Stamps	88	108	222
6. Employment Registration	—	—	—
7. Federal Administration (including investigations & Audits)	10,413	13,426	21,399
Subtotal (2-7)	<u>21,817</u>	<u>27,357</u>	<u>57,370</u>
Total Obligations	<u>250,403</u>	<u>578,162</u>	<u>1,580,273</u>
C. Total Federal Outlays <u>c/</u>	<u>247,766</u>	<u>576,810</u>	<u>1,567,767</u>
D. Nonfederal Operating Costs <u>d/</u>	21,700	27,200	53,900
E. Total Federal, State, and Local Obligations	272,103	605,362	1,634,173

a/ Budget authority for 1969 to 1976 includes regular and supplemental appropriations. For 1969 through 1971, no carry-over funding included. For 1972 through 1976 authority includes carry-over and unused funding (recoveries). Carry-in funds for transition quarter of \$201,403,000; new budget authority for transition quarter of \$1,237,441,000.

b/ Budget authority for 1977 includes regular appropriation of \$4,794,400,000 under Public Law 94-351. Carry-in authority from transition quarter of \$112,170,000 and anticipated supplemental appropriation of \$643,830,000.

1972	1973	1974	1975	1976	Transition Quarter	1977
2,289,214	2,500,000	3,000,000	5,300,236	5,874,876	1,438,844	5,542,468
1,842,466	2,135,655	2,727,658	4,395,983	5,305,985	1,230,202	5,180,000
26,874	30,654	47,536	206,774	255,507	72,192	268,793
12,380	10,837	23,970	35,203	38,860	3,138	
658	1,028	2,287	1,997	1,891	42	
280	598	1,904	4,382	3,653	1,679	101,207
8,500	15,000	17,371	28,233	27,200	7	
25,043	27,714	32,152	41,134	43,093	12,421	
73,735	85,831	125,220	317,723	370,204	89,479	370,000
<u>1,916,201</u>	<u>2,221,485</u>	<u>2,852,878</u>	<u>4,713,706</u>	<u>5,676,193</u>	<u>1,326,675</u>	<u>5,550,000</u>
<u>1,909,166</u>	<u>2,207,532</u>	<u>2,844,815</u>	<u>4,598,956</u>	<u>5,631,954</u>	<u>1,325,159</u>	<u>5,508,933</u>
74,300	111,000	137,100	287,000	255,507	72,192	268,793
1,990,501	2,332,485	2,981,915	5,000,706	5,931,700	1,398,862	5,818,793

c/ Federal outlays are taken from Office of Management and Budget, The Budget of the United States Government, 1969 through 1977. Transition quarter outlays provided by USDA, Food & Nutrition Service.

d/ Estimates for 1969 through 1975 are those as developed by USDA reported by Kenneth W. Clarkson, Food Stamps & Nutrition, Evaluation Studies 18, American Enterprise Institute for Public Policy Research, Washington, D.C., April 1975. CEO estimates for 1976 and transition quarter based on estimated federal share of administrative costs.

