Economic Effects of Refocusing National Food-Assistance Efforts

David M. Smallwood, Betsey Kuhn, Kenneth Hanson, Stephen Vogel, and James R. Blaylock

In an era of budgetary and deficit pressures, food-assistance programs are headed for change as part of an overall effort to scale back on Government-funded welfare programs.

Most agree that the U.S. welfare system needs reform to reduce costs, improve the effectiveness of the programs, reduce dependency, and provide incentives for recipients. Proposals from the Executive and Legislative branches, as well as the States, offer modifications to current programs, including those providing food assistance. There is much discussion on how to make the programs more efficient while continuing to assist the needy.

The major proposals would reduce funding and eligibility for some Federal programs and transfer control of others to the States under a block grant with a fixed spending limit.

Impacts of changes in the Nation’s food and nutrition assistance programs will extend beyond the programs’ 45 million recipients to the rest of the food sector and the larger economy. With reductions in food assistance, national food spending would decrease, as would the demand for agricultural commodities (particularly meats), commodity prices, and farm income. Nonfood sectors would also be affected.

The extent of these changes depends on the size of the program cuts, the form of the new programs, and whether the savings are used to reduce the Federal budget deficit or to cut taxes.

Food-Assistance Programs Are Important

Food assistance is an important nutritional component of the support provided to low-income Americans. In fiscal 1995, Federal outlays on food-assistance programs will constitute about 20 percent of the $216 billion spent on welfare.

Smallwood, Kuhn, and Blaylock are economists with the Food and Consumer Economics Division, Economic Research Service (ERS), USDA. Hanson and Vogel are economists with the Rural Economy Division, ERS, USDA.

For questions about welfare reform, contact Betsey Kuhn at (202) 219-0409. For questions about food-assistance programs, contact David Smallwood at (202) 219-1265. For questions about economywide impacts, contact Kenneth Hanson at (202) 219-0017.

Since the late 1960’s, food-assistance outlays have grown rapidly with the startup of the Food Stamp Program and with the expanded focus on alleviating hunger and improving the well-being of low-income people. Most recently, a renewed emphasis has been placed on nutrition improvement and education.
USDA Administers 14 Domestic Food-Assistance Programs

USDA's Food and Consumer Service (FCS, formerly the Food and Nutrition Service) administers 14 domestic food-assistance programs. FCS works in partnership with the States in all its programs. States determine most administrative details regarding distribution of food benefits and eligibility of participants, and FCS provides funding to cover most of the States' administrative costs. State and local agencies administer the programs.

- The Food Stamp Program is the cornerstone of USDA's food-assistance programs, serving an average of 27 million people each month in 1994. The program issues monthly benefits through coupons or Electronic Benefits Transfer (recipients receive a plastic card much like a credit card). Benefits are redeemable at retail foodstores.

- The Food Distribution Program on Indian Reservations and the Trust Territories provides monthly food packages for Native Americans who live on or near Indian reservations and for Pacific Islanders who choose not to participate in the Food Stamp Program. In 1994, about 115,000 people participated in the program each month.

- The Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) improves the health of low-income pregnant, breastfeeding, and postpartum women and their infants and children up to 5 years old. WIC served a monthly average of 6.4 million women, infants, and children in 1994.

- The WIC Farmers Market Nutrition Program provides WIC participants with increased access to fresh produce. WIC participants are given coupons to purchase fresh fruits and vegetables at authorized local farmers markets. Eleven States and about half a million people participated in this program in 1994.

- The Commodity Supplemental Food Program is a direct food-distribution program with a target population similar to WIC, and it also serves the elderly. In 1994, about 360,000 participated.

- The National School Lunch Program serves lunches to about 25 million students every school day in 93,000 schools. More than half of these children receive the meal free or at a reduced price.

- Some 5.8 million children participated in the School Breakfast Program in 1994. Over 60 percent of schools participating in the school lunch program offer breakfast to eligible schoolchildren. About 83 percent of school breakfasts are served free.

- The Special Milk Program provides milk for children in schools, summer camps, and childcare institutions that have no federally supported meal program.

- The Child and Adult Care Food Program provides cash and commodities for meals served in child and adult daycare centers, and family and group daycare homes for children. In 1994, over 2 million children and adults participated in this program.

- In 1994, about 2.3 million low-income children received free meals during school vacation periods through the Summer Food Service Program.

- The Nutrition Program for the Elderly provides cash and commodities for meals served to senior citizens. In 1994, some 924,000 meals were served each day under this program.

- Another FCS program provides Food Distribution to Charitable Institutions, Soup Kitchens, and Food Banks. Foods donated to institutions come from agricultural surpluses acquired by USDA as part of its price stabilization and surplus removal activities. The kinds and quantities of foods donated vary, depending on crop and market conditions.

- Alternative Nutrition Assistance Programs for Puerto Rico and the Northern Marianas provide benefits through a block grant program. These two territories now provide to participants cash and coupons rather than food stamps or food distribution.

- In 1994, the Emergency Food Assistance Program (TEFAP) provided States with $40 million in administrative funds to distribute $80 million worth of USDA commodities—plus commodities donated by the private sector—to the needy.
programs (table 1). (Other major assistance programs include Medicaid, housing assistance, and Aid to Families with Dependent Children.)

The U.S. Department of Agriculture (USDA) administers most of the Nation’s domestic food-assistance programs. Initiated in the Great Depression during the early 1930’s, food-assistance programs were developed to help feed the poor and stabilize commodity prices and farmers’ incomes.

Since the late 1960’s, food-assistance outlays have grown rapidly with the startup of the Food Stamp Program and the expanded focus on alleviating hunger and improving the well-being of low-income people (fig. 1). Most recently, a renewed emphasis has been placed on nutrition improvement and education. For example, USDA’s School Meal Initiatives for Healthy Children are working to improve the nutritive composition of federally subsidized school breakfasts and lunches.

In 1969, USDA spent $1.1 billion on food assistance. Fiscal 1995 food-assistance outlays will total an estimated $39 billion, about 60 percent of total USDA expenditures.

Although the programs have grown markedly, they will account for less than 3 percent of the Federal Government’s $1.5 trillion budget in fiscal 1995.

A few programs account for over 90 percent of USDA’s food-assistance budget: the Food Stamp Program; child nutrition programs, including the National School Lunch and School Breakfast Programs; and the Special Supplementary Nutrition Program for Women, Infants, and Children (WIC) (table 2). The other 10 percent goes to fund a variety of smaller programs (see box on USDA’s food-assistance programs).

Food Stamps

Dominating domestic food-assistance efforts, the Food Stamp Program accounts for about two of every three dollars spent on nutrition-assistance programs. An average of 27.5 million people participated each month in fiscal 1994, at a cost of $24.5 billion. In fiscal 1994, approximately one-half of food stamp beneficiaries were children, and over a quarter of the beneficiaries lived in households where at least one member earned income from working (fig. 2). Another 7 percent of recipients were elderly. Recipient households are given a monthly allotment of food coupons that can be exchanged for food at over 200,000 authorized foodstores.
Benefits per person averaged $69 a month in fiscal 1994. The actual benefits increase with household size and decrease with household income.

To be eligible for food stamps, households must meet income guidelines, asset limitations, and certain work requirements. Those with net monthly incomes below the poverty level ($14,808 annually for a household of four) and fewer than $2,000 in countable assets ($3,000 for elderly households) are eligible.

**Child Nutrition**

The National School Lunch Program is the oldest and largest of USDA’s child-nutrition programs. It was initiated in the 1930’s, primarily as a result of agricultural policies which placed emphasis on the disposal of surplus commodities. By the mid-1940’s, the program took on an increased nutrition emphasis. In 1995, USDA finalized standards for the School Meal Initiatives for Healthy Children, which require subsidized school breakfasts and lunches to meet the nutritional guidelines set forth in the Dietary Guidelines for Americans. USDA Team Nutrition is providing new recipes, technical assistance, and training to implement the new nutrition standards.

The National School Lunch Program provided lunches to 25 million school children each day, at an annual cost of about $5 billion, in 1994. Over half (55 percent) of the meals were provided free or at substantially reduced prices to economically eligible students. The rest paid full price, although even full-price meals included a 17-cent cash subsidy and a 14.5-cent commodity subsidy.

The program remains the largest domestic food-assistance outlet for surplus agricultural commodities.

In fiscal 1994, 6 million low-income children received free or reduced-price breakfasts under the

**Figure 1**

*Trends in Food-Assistance Programs Mirror Economic Times*

<table>
<thead>
<tr>
<th>Billion dollars per year</th>
</tr>
</thead>
<tbody>
<tr>
<td>40</td>
</tr>
<tr>
<td>30</td>
</tr>
<tr>
<td>20</td>
</tr>
<tr>
<td>10</td>
</tr>
<tr>
<td>0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>1936</th>
<th>40</th>
<th>45</th>
<th>50</th>
<th>55</th>
<th>60</th>
<th>65</th>
<th>70</th>
<th>75</th>
<th>80</th>
<th>85</th>
<th>90</th>
<th>94</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: 1994 dollars.

School Breakfast Program, at a cost of $959 million. Nearly two-thirds of the schools that offer the School Lunch Program also offer a school breakfast.

USDA operates other nutrition programs for children and the elderly: the Special Milk, the Child and Adult Care, and the Summer Food Service programs.

**WIC**

WIC was authorized by Congress in 1972 to improve the nutrition and health of low-income pregnant, breastfeeding, and postpartum women and their infants and children up to age 5, who are determined by health or medical professionals to be at nutritional risk.

About 6 million women, infants, and children participated each month in this program in 1994 at a cost of $3.2 billion, up from 3 million people totaling $1.4 billion in expenditures in 1984.

The program provides a monthly allotment of foods designed to supplement the participant’s diet with low-cost sources of nutrients generally lacking in the diets of low-income individuals: iron, calcium, protein, and vitamins A and C. The foods provided include milk, cheese, eggs, infant formula, cereal, fruits, juice, dried peas and beans, and peanut butter. (Most States provide vouchers for redemption at foodstores, but some provide commodities directly.)

The program also provides recipients with nutrition education and health-care referrals.

**Programs May Be Cut or Transferred**

Various reforms to nutrition-assistance programs have been offered, including reducing benefits, capping the growth in total food-assistance
Table 2
Costs and Participation in Food-Assistance Programs Have Grown in the Last Decade

<table>
<thead>
<tr>
<th>Selected food-assistance programs</th>
<th>Total costs</th>
<th>Participation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Entitlement programs:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Food Stamps</td>
<td>11,601</td>
<td>24,491</td>
</tr>
<tr>
<td>National School Lunch</td>
<td>3,335</td>
<td>4,873</td>
</tr>
<tr>
<td>School Breakfast</td>
<td>364</td>
<td>959</td>
</tr>
<tr>
<td>Child and Adult Care</td>
<td>394</td>
<td>1,356</td>
</tr>
<tr>
<td>Food Program³</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Fixed spending limits:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>WIC</td>
<td>1,386</td>
<td>3,165</td>
</tr>
<tr>
<td>The Emergency Food Assistance Program</td>
<td>1,075</td>
<td>201</td>
</tr>
<tr>
<td>Commodity donations⁴</td>
<td>565</td>
<td>199</td>
</tr>
<tr>
<td>Commodity Supplemental Food Program⁵</td>
<td>34</td>
<td>87</td>
</tr>
<tr>
<td>Food Distribution Program on Indian Reservations</td>
<td>43</td>
<td>64</td>
</tr>
<tr>
<td>Nutrition Program for the Elderly</td>
<td>120</td>
<td>151</td>
</tr>
</tbody>
</table>

Notes: Total costs reflect program levels. NA = Not available. ¹Average number of people per month. ²Average number of people per day. ³No adult component in 1984. ⁴Includes bonus commodities for child nutrition programs, Commodity Supplemental Food Program, Food Distribution Program on Indian Reservations, summer camps, charitable institutions, soup kitchens, and food banks, as well as appropriated purchases for soup kitchens and food banks. Excludes The Emergency Food Assistance Program. ⁵Includes pilot programs for the elderly in 1984. Source: USDA,FCS Program Information Reports, Sept. 1985 and April 1995.

Figure 2
Children Account for Over One-Half of Food Stamp Beneficiaries

Note: Summer 1993 data.
Replacing Federal programs with block grants to each State would allow States to customize the design of a program (or set of programs) and to set eligibility criteria to meet the specific needs of their residents. This would provide flexibility in responding to changing circumstances and needs and perhaps improve program delivery.

(The present food-assistance system provides uniform national standards for eligibility and benefits, with exceptions for Alaska and Hawaii. Participants are eligible for the same level of benefits, based on national income standards rather than geographic location.)

Proposals to replace Federal programs with block grants to each State also set fixed spending limits. These fixed spending limits, coupled with the elimination of national standards of eligibility, would end the entitlement status of some food-assistance programs. One of the most important elements of entitlement programs has been their ability to meet the increased needs of individuals, communities, States, and regions resulting from economic downturns. Historically, the Food Stamp Program and school feeding programs have automatically expanded or contracted to suit the changing economy as well as local conditions. Food stamp benefits automatically flow to communities that face rising unemployment or poverty, cushioning the effects of economic downturns and stimulating weakened economies.

Replacing the entitlement status of major food-assistance programs with an appropriations cap would limit the Government's timely response to recessions. Increased demand for food assistance during recessions would not be met automatically. Instead, Congress, individual States, or communities would have to come up with additional funds. Otherwise, some eligible people may not receive benefits or benefits may be reduced for all.

Eliminating national standards applies to other issues as well. For example, nutrition guidelines mandated for some assistance programs, as in the National School Lunch Program, could be curtailed.

**Tradeoff Between Delivery Costs and Targeting Benefits**

Many reform proposals emphasize reduced Federal administrative costs and control in favor of less costly and less targeted programs. Cash benefits are the least costly to deliver, but they have the least direct impact on increasing food consumption and improving nutrition.

The more targeted the form of assistance, the more expensive the delivery costs. For example, it costs 8 cents to deliver $1 of food stamp benefits, but there are 36 cents of delivery costs associated with $1 of WIC food benefits. A substantial portion of WIC's administrative costs arise from providing nutrition education, counseling, and healthcare referrals to WIC participants. Some would argue that these provisions are some of the principal benefits of the program that contribute to its effectiveness and are not administrative costs. While we cannot disentangle the relative contribution of the benefits from the administration costs, the difference in administrative costs between food stamps and WIC would persist even after subtracting the cost of nutrition education, counseling, and healthcare referrals because of the increased targeting of the program to mothers and their children at nutritional risk.

The more targeted the form of benefit, the greater its impact on food spending. When given assistance in the form of coupons, such as food stamps, people spend more on food than when given assistance in cash because they are likely to use some of the cash to buy nonfood items.

Say, for example, that a household spends $100 for food. When it receives $100 of food stamps, food spending increases $20-45 for a total of $120-145. This is known as the supplementation effect—the amount by which retail food spending increases with every dollar of food assistance received (or decreases with every dollar in reduced benefits). While all of the food stamps are devoted to food, $55-80 of the household's cash previously spent on food is reallocated to nonfood items, such as rent and clothing. The magnitude of the supplementation effect varies among other forms of food assistance.

In the same example, if the household receives $100 of food assistance in the form of cash, food spending increases $15-30 (rather than the $20-45 increase when provided as food stamps) for a total of $115-130. This reduction is known as the slippage effect, the extent to which retail food spending decreases as the form of assistance is modified. More of the cash food assistance is used for nonfood purchases.

**Food Stamps Increase Food Spending**

Food assistance increases recipients' total spending on food, but the increase is usually less than the amount of the benefit. The form of the benefit affects the size of the increase—the more targeted the benefit, the greater the increase in food spending. Our best knowledge about the size of these effects comes from extensive research on the Food Stamp Program.

When given assistance in the form of food stamps, people spend more on food than when given cash because they are likely to use more of the cash assistance to buy nonfood items.
items (see box for more details on how food stamps increase food spending).

Food stamps are more targeted at increasing food spending than is cash, commodity donation programs are more targeted at consumption of specific foods than are food stamps, and WIC is highly targeted at nutrition and health.

**Reduced, or Even Less Targeted, Assistance Lowers Food Spending**

Benefit recipients reallocate their resources among food and nonfood purchases in reaction to reduced benefits and/or changes in the form of benefits.

Government and academic research suggests that a $1 reduction in food-assistance benefits (all noncash programs, including food stamps, WIC, and others) lowers a recipient’s food spending between 15 and 35 cents. Food spending does not fall by the full amount of the reduction, as the recipient uses some of the household’s budget previously spent on nonfood items, such as clothing, rent, and medical care, to supplement, or replace, a portion of the lost assistance. This is known as a supplementation effect—the extent to which retail food spending increases with every dollar of food assistance received or, in this case, decreases with every dollar in reduced benefits. For example, when a household receives $100 less in food-assistance benefits, total food spending declines $15–$35. Between $85 and $65 in cash previously spent on nonfood items is reallocated to food.

When that same amount of food assistance is replaced with less targeted benefits, such as cash, food spending falls. This is known as a slippage effect. With reduced restrictions on the form or use of benefits, less is spent on food. For example, when cash replaces inkind food assistance (all noncash programs, including food stamps, WIC, and others), recipients allocate some of the cash to other uses. In the same example above, if the household receives $100 in cash in place of $100 worth of noncash food assistance, spending on food falls, or “slips,” $10–$25 from the level when more targeted food assistance was given.

Switching to less targeted programs will have a larger impact on food spending and nutrition than would funding reductions alone. This results because the supplementation effect occurs with only the reduction in benefits, whereas the slippage effect occurs with the conversion of all the remaining benefits to a less targeted form, such as cash.

If food-assistance benefits are reduced, recipients will spend less on a variety of foods—particularly meats. For example, food stamp recipients allocate the largest share of their food dollars, 33.8 percent, to meats, fish, and eggs (fig. 3). Because of this large budget share going to meats and the relatively large share of retail meat prices going to producers (due to meats receiving less processing than most retail foods), a decrease in recipients’ food spending affects meat producers more than other producers.

**Effects of Cuts or Changes Ripple Throughout the Economy**

Cutting Federal outlays on food assistance and/or changing the form of assistance affects both food and nonfood spending by recipients, which in turn affects national levels of output and employment. Impacts will depend on the type of program modifications, how recipients’ spending responds to the change, and how the savings in Government expenditures are used.

We used an economywide model previously developed at USDA’s Economic Research Service to explore possible outcomes of a $5-billion reduction in Federal outlays for food assistance per year from the anticipated program level of $45 billion. Three scenarios are reported

![Figure 3](image-url)

**Figure 3**

**Meats Account for the Largest Share of Food Stamp Households’ Food Budgets**

- Grain products: 18.3%
- Dairy: 14.1%
- Other food: 15.6%
- Fats & oils: 1.6%
- Nuts: 1.2%
- Fruits: 6.6%
- Vegetables & potatoes: 11.7%
- Meats: 33.8%
here to reflect a range of outcomes. The low-impact scenario presents an estimate of what could happen if program funding is reduced $5 billion per year and the form of assistance does not change.

Two other scenarios—the middle- and high-impact scenarios—show what could occur with that same cut in funding along with program restructuring, such as could occur if cash benefits replace more targeted assistance like food stamps, WIC vouchers, and the like. The difference between these last two scenarios is the participant response to the changing form of benefits: with the reduced targeting of assistance, food spending out of the benefits "slips" by 10 percent under the middle-impact scenario and by 25 percent under the high-impact scenario.

**Lower Food Spending**

At the lower end of the spectrum, if food-assistance funding is reduced by $5 billion per year and the form of assistance does not change (low-impact scenario), U.S. food spending drops $750 million. That is equivalent to a 0.1-percent reduction from the $642 billion spent on food in 1994.

If program reforms that reduce targeting are added to that $5 billion per year reduction in food assistance with modest slippage (middle-impact scenario), food spending falls by $4.2 billion, or 0.7 percent. But the cut in food assistance combined with these program reforms could result in sharper reductions in food spending under the high-impact scenario, by $10.5 billion, or 1.6 percent of total food expenditures.

Under the range of these three scenarios, recipients lower their

### Table 3

**Food-Assistance Reform Lowers Food Spending in All Three Scenarios**

<table>
<thead>
<tr>
<th>Food group</th>
<th>Food budget share</th>
<th>Low-impact scenario</th>
<th>Middle-impact scenario</th>
<th>High-impact scenario</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total spending</td>
<td>NA</td>
<td>-5,000</td>
<td>-5,000</td>
<td>-5,000</td>
</tr>
<tr>
<td>Nonfood spending</td>
<td>NA</td>
<td>-4,250</td>
<td>-7,500</td>
<td>+5,501</td>
</tr>
<tr>
<td>Food spending</td>
<td>100</td>
<td>-750</td>
<td>-4,250</td>
<td>-10,501</td>
</tr>
<tr>
<td>Dairy products</td>
<td>14</td>
<td>-106</td>
<td>-600</td>
<td>-1,482</td>
</tr>
<tr>
<td>Fluid milk</td>
<td>6</td>
<td>-47</td>
<td>-265</td>
<td>-654</td>
</tr>
<tr>
<td>Cheese</td>
<td>4</td>
<td>-28</td>
<td>-159</td>
<td>-394</td>
</tr>
<tr>
<td>Butter</td>
<td>1</td>
<td>-8</td>
<td>-44</td>
<td>-110</td>
</tr>
<tr>
<td>Other</td>
<td>3</td>
<td>-23</td>
<td>-132</td>
<td>-325</td>
</tr>
<tr>
<td>Grain products</td>
<td>15</td>
<td>-115</td>
<td>-649</td>
<td>-1,604</td>
</tr>
<tr>
<td>Meat, poultry, and seafood</td>
<td>34</td>
<td>-253</td>
<td>-1,436</td>
<td>-3,548</td>
</tr>
<tr>
<td>Beef</td>
<td>14</td>
<td>-103</td>
<td>-583</td>
<td>-1,439</td>
</tr>
<tr>
<td>Pork</td>
<td>9</td>
<td>-7</td>
<td>-41</td>
<td>-100</td>
</tr>
<tr>
<td>Other</td>
<td>1</td>
<td>-7</td>
<td>-41</td>
<td>-100</td>
</tr>
<tr>
<td>Poultry</td>
<td>7</td>
<td>-49</td>
<td>-278</td>
<td>-687</td>
</tr>
<tr>
<td>Fish and seafood</td>
<td>4</td>
<td>-31</td>
<td>-173</td>
<td>-427</td>
</tr>
<tr>
<td>Eggs</td>
<td>2</td>
<td>-12</td>
<td>-66</td>
<td>-162</td>
</tr>
<tr>
<td>Sugars and sweets</td>
<td>4</td>
<td>-30</td>
<td>-171</td>
<td>-422</td>
</tr>
<tr>
<td>Potatoes</td>
<td>2</td>
<td>-18</td>
<td>-99</td>
<td>-245</td>
</tr>
<tr>
<td>Vegetables</td>
<td>9</td>
<td>-70</td>
<td>-399</td>
<td>-987</td>
</tr>
<tr>
<td>Fruits</td>
<td>7</td>
<td>-49</td>
<td>-277</td>
<td>-683</td>
</tr>
<tr>
<td>Nuts</td>
<td>1</td>
<td>-9</td>
<td>-49</td>
<td>-121</td>
</tr>
<tr>
<td>Fats and oils</td>
<td>2</td>
<td>-12</td>
<td>-68</td>
<td>-168</td>
</tr>
<tr>
<td>Other foods</td>
<td>10</td>
<td>-77</td>
<td>-437</td>
<td>-1,079</td>
</tr>
</tbody>
</table>

Notes: Data may not total due to rounding. NA = Not applicable.
spending on a national scale by $106 million (low-impact scenario) to $1.5 billion (high-impact scenario) on dairy products; $253 million to $3.5 billion on meat, poultry, and seafood; and between $115 million and $1.6 billion on grain products (table 3).

**Reduction in Farm Income**

The lower food spending due to a reduction in food assistance with and without program changes cuts total farm income between $201 million (low-impact scenario) and $2.7 billion (high-impact scenario), or 0.1 percent to 1.3 percent of gross farm income, respectively.

Beef producers would take the biggest hit, seeing their gross farm income fall 0.3 percent to 3.5 percent, or between $58 million (low-impact scenario) and $808 million (high-impact scenario). Dairy farmers would lose between $25 million (0.1 percent) and $315 million (1.5 percent), pork producers $24 million (0.2 percent) to $331 million (3.3 percent), and vegetable and potato farmers between $28 million (0.3 percent) and $402 million (3.6 percent).

**Shortrun Job Losses in All Sectors**

A fall in food spending from a reduction in food assistance directly affects farmers and food processors and distributors (wholesaling, transportation, retailing, and food service). Nonfood sectors are also directly affected, because food-assistance recipients reallocate some of their limited budgets away from clothing, housing, and other nonfood goods and services to pay for food.

Each of these sectors uses goods and services from other sectors. Lower spending in these sectors reduces demand for farm commodities and nonfood goods and services, such as feed, seed, energy, paper products, and chemical products.

Reducing food and nonfood expenditures lowers demand for goods and services used in their production. This lower demand reduces output and in turn the need for labor, generating shortrun reductions in jobs throughout the economy. (The reduction in labor is expressed as "job losses," but it also could occur through cutting back on hours employed.)

In the short run, cutting food assistance with no change in benefit form under the low-impact scenario eliminates 3,600 farm jobs, 14,000 food processing and distribution jobs, and 103,000 nonfood jobs. Combining the cut in funding with a reduction in targeting resulting in modest slippage in food spending (middle-impact scenario) eliminates 23,000 farm jobs, 50,000 jobs in food processing and distribution, and 53,000 nonfood jobs (see fig. 4). A reduction in targeting resulting in higher slippage in food spending (high-impact scenario) eliminates 56,000 farm jobs and 120,000 food processing and distribution jobs, but increases nonfood jobs by 38,000. Under the high-impact scenario’s larger slippage, nonfood purchases increase at the expense of food purchases (table 3), and so do production and jobs in the nonfood sector. Total job changes also increase with slippage. Even under the high-impact scenario, however, the total job loss would raise the U.S. unemployment rate by only 0.1 percent.

**Recycling Program Savings Lessens Impacts on Economy**

The full shortrun impacts will likely never fully materialize. Other, longer run, effects (occurring fully in roughly 2-4 years) arise in our analysis as the Government expenditures on food assistance are reduced and the money is injected back into the economy—applied to either deficit reduction or a tax cut.

While both alternatives cause similar losses in employment in food production (about 40,000 jobs under
both middle-impact scenarios), each stimulates the economy differently.

Deficit reduction increases funds available for investment by private industry in factories, equipment, and other capital stock. The new investment generates demand for durable goods and construction.

This stimulus reduces job losses in farming and food processing and distribution and adds jobs in nonfood sectors. For example, under the middle-impact scenario, the savings applied to deficit reduction lowers farm job losses by 0.6 percent from 23,000 to 15,000, and food processing and distribution job losses by 0.2 percent from 51,000 to 28,000 (fig. 4). About 43,000 nonfood jobs are created in manufacturing, construction, and services.

The low- and high-impact scenarios provide a range of longrun job changes. In all scenarios, jobs shift out of farm and food processing and distribution into the nonfood sector of the economy. For example, longrun farm job losses range from 1,300 (0.05 percent) to 45,300 (1.7 percent). Food processing and distribution job losses range from 7,200 (0.06 percent) to 82,700 (0.7 percent). The losses, however, could occur through cutting back on hours employed. The nonfood sector realizes a gain in jobs in the long run, ranging from 8,500 (0.008 percent) to 128,000 (0.1 percent). When the savings from reduced Government expenditures are used to reduce the Federal deficit (which stimulates private investment), these job gains are in durable goods manufacturing and construction.

If the savings from reduced Federal expenditures on food assistance are instead used to lower taxes, disposable incomes of taxpaying households would increase. While households may save some of this additional income, most is likely to be spent on consumer goods, such as clothing, recreation, housing, and eating out. Such effects of tax reduction increase the demand for consumer goods and services, creating jobs in these sectors. Under the middle-impact scenario, the savings used to reduce taxes lower farm job losses from 23,000 to 15,000, and food processing and distribution job losses from 51,000 to 21,000. About 36,000 nonfood jobs are created.

Although these are small employment losses on a national level, a disproportionate impact is felt by State economies dependent on farming and food processing (fig. 5). Most of these States bear a net job loss, because rural job losses exceed urban job gains. However, rural job losses may be offset with urban job gains in States with a lower share of rural food production jobs or those diversified into nonfood industries. Texas and California, for example, experience relatively large rural job losses. But because of strong manufacturing and service sectors, large gains in urban employment exceed the rural losses.

Food-assistance reform has other long-term impacts which lie beyond the scope of this analysis. For instance, using the savings from reduced food assistance to lower the Federal deficit will likely stimulate new investment for future economic growth. Our analysis accounts for the demand for durable goods and construction activity from this new investment, but not the impact on future production growth. The magnitude of this economic growth and its impacts on employment and household income are difficult to assess.

Incentives to work, while also difficult to assess, should be considered. For example, program participants may be influenced to work more by the program reforms. But incentive to work is often constrained by high unemployment and/or limited job markets. There is

---

New Directions for Food-Assistance Efforts

Figure 5
The Reform Scenarios Produce Disproportionate Job Losses in Rural America

Middle-impact scenario, deficit reduction
- Nonmetro losses greater than metro gains
- Nonmetro losses offset metro gains
- Nonmetro losses less than metro gains
some empirical evidence on work incentives; however, the issue is beyond the scope of this analysis.

Impacts Depend on Final Reforms

Designed as a safety net to help meet the basic nutritional needs of low-income people, food assistance is a mix of Federal programs. One of the most important elements of the programs has been their ability to meet the increasing needs of individuals, States, and communities in economic downturns. Food-assistance programs also provide a targeted stimulus to the economy during a downturn in economic activity when it is most needed. While not a long-run solution to unemployment, food assistance provides a quick stimulus to the economy. Our analysis suggests an additional $1 billion in food assistance supports 25,000 jobs in a slack economy.

Impacts of changes in the Nation’s food and nutrition assistance programs will extend beyond the program recipients to the rest of the economy. The potential economic impacts of food-assistance reform on the food sector and the general economy depend on the size of reduction in benefits and the form of the new program.

The period of adjustment affects these impacts. Some impacts will be mitigated as the savings from the reduced Government expenditures are injected back into the economy, through either a tax cut or deficit reduction. The long-term effect of either use of the savings will be a shift of jobs out of food and into nonfood production, with disproportionate losses being felt in rural areas.

Other reforms are also being proposed, such as modernizing benefit delivery by switching from coupons to electronic benefits, cutting back on fraud, strengthening work and training requirements to eliminate a person’s need for the benefits, imposing time limits for some categories of recipients, and augmenting State administrative flexibility.

Regardless of the shape of the final reforms, any large reduction or change imposed will involve trade-offs—program benefits will need to be balanced against costs. The key is to reduce costs and improve efficiency while ensuring that the poor have access to a nutritious diet.

References


