

The Changing Food Assistance Landscape

The Food Stamp Program in a Post-Welfare Reform Environment

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Introduction

The passage of the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996 swept away nearly six decades of Federal welfare policy. The Act eliminated the Aid to Families with Dependent Children (AFDC) entitlement program, replacing it with a fixed block grant giving States the fundamental role in assisting poor families, and adding significant new work requirements for recipients. Estimates of savings in Federal spending from 1997 through 2002 were in the range of \$50 billion.¹ Federal outlays for child nutrition and food stamps alone were estimated to decrease by over \$25 billion.

PRWORA received wide coverage in the news media with attention focused on changes in cash assistance, work incentives, and the types of programs States will enact with the fixed block grants. Less attention was given to the impacts of the legislation on the Food Stamp Program. About half of the expenditure cuts directly affect food stamps, and indirect impacts have important implications for the Food Stamp Program. For example, food stamps are now the only Federal entitlement available to all low-income households, except for Medicaid. Thus, in the next recession when earnings fall, the Food Stamp Program will be the main assistance program with the budgetary authority to expand.

Decreases in transfer payments to poor families will affect the food sector, the Federal budget, the role of

entitlement programs as personal stabilizers, and the demand for food. Lower transfer payments lead to reduced expenditures on food, changes in the kinds of food consumed, and reduced expenditures on other goods by low-income households. Decreases in food stamp outlays directly decrease food spending, but can also lead to lower expenditures for rent, clothing, and medical care as scarce resources are reallocated in the family. Lower food expenditures and changing food consumption patterns, particularly for children, may have significant effects on nutrition and long-term consequences for cognitive development, medical outlays, and productivity losses.

Much of the existing economics literature related to food stamps focuses on individual decisionmaking by food stamp recipients (Levedahl, 1991; Ranney and Kushman, 1987; Senauer and Young, 1986). The purview of this paper is on aggregate behavior: economywide effects, macroeconomic relationships, and fiscal adjustment. Given the large magnitude of the changes associated with AFDC and food stamps, potentially significant outcomes are anticipated throughout the economy. Our analysis focuses on three distinct though interrelated economic phenomena. First, we examine the implications of decreasing food stamp benefits on food production and consumption and the general economy. In particular, we examine how changes in relative profitability among firms and changes in consumer budgets affect output and consumption decisions throughout the economy. Second, we examine how changes in the macroeconomic environment affect poverty, Food Stamp Program participation, and food stamp budget outlays. Finally, we analyze the potential for State governments to shift the burden of supporting the poor to the Food Stamp Program, thereby putting greater emphasis on the Food Stamp Program as a social safety net.

¹The Congressional Budget Office (CBO) (Congress of the United States, 1996) estimated Federal savings from 1997 to 2002 to be \$54.2 billion. These estimates were made assuming higher unemployment and more modest economic growth than the United States has experienced during the last year. Program savings are likely, therefore, to be higher than estimated, but still in the range suggested by CBO.