

## Conclusions

The reform of the U.S. welfare system is having far-reaching effects on the Food Stamp Program. Decreases in transfer payments to poor families, of the magnitude suggested by the Congressional Budget Office, will significantly affect the demand for food, food production, food consumption, and nutrition. 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 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, will significantly affect nutrition and will have long-term consequences for medical outlays and losses in productivity. Agricultural production will also be affected. Lower outlays for food mean declines in gross farm income. Our analysis suggests declines in gross farm income of \$1-\$2 billion over a 5-year period. The largest impacts are expected for meat, dairy, and vegetables.

Significant outcomes can be expected across the economy. The magnitude of the outcomes and the distribution of the effects will depend on how changes in welfare legislation are bundled with other fiscal policies. We used a general equilibrium modeling approach to examine the economywide effects among the producing sectors and households, with households distinguished by income groups. The impacts on producers from a \$4-billion annual reduction in food assistance and a shift in demand from food to nonfood due to recipient response to decreasing benefits are traced by assuming savings from a shrinking Food Stamp Program are used for tax reduction. Farm sector annual output losses are estimated to range from \$1 to \$2 billion over 5 years (between 0.1 and 0.2 percent of sector output). Food processing and distribution sector annual output losses range from \$1.3 billion (0.15 percent) to \$2.5 billion (0.3 percent) over the same time.

The impact of program modifications on spending for particular food depends on the overall impacts on food spending as well as how the food budget is allocated in low-income households. The impact on farm commodities depends on changes in food spending of program participants, the value of the farm component in each food group, supply and demand adjustments

that take place at the farm level, and any interactions that might take place with farm programs. Results suggest the largest impact is on the beef sector. This is due to the large portion of the household budget spent on beef and the large farm component of the product.

The potential economic impacts of the new welfare legislation on the agricultural sector and the general economy depend on the size of the reduction in benefits and the form of the program. Major effects are likely to be a decrease in retail spending; decrease in the demand for agricultural commodities and lower commodity prices and farm income; and a reallocation of capital and labor to nonfood sectors. The period of adjustment affects the impacts. In the short run, the economywide effects will be negative. As the reduced government expenditures are injected back into the economy, through a tax cut, the short-term effects are mitigated. There is a shift of jobs out of food and into nonfood production. The likelihood that short-term impacts will prevail depends on timing. A simultaneous cut in food assistance benefits and taxes would bring the long-term results more quickly.

We also examine the economywide effects of reducing transfers to low-income families and balancing the ensuing Federal budget surplus by restoring the preferential treatment of capital gains. Our results indicate restoring the preferential treatment of capital gains offsets some of the lost food consumption associated with reducing social welfare programs for the poor. Reducing the distortion between the taxation of capital and labor increases economywide efficiency leading to increased consumption of food by all income classes. Although economywide food expenditures increase, offsetting lost revenue from the reduced capital gains tax by decreasing transfers to low-income families reduces food consumption for the two lowest income groups by nearly \$1 billion. This result dramatically illustrates how changes in transfer payments and tax policy affect what people consume. Differences in the size and pattern of expenditures under the alternative redistribution schemes are evident across all income groups, but most pronounced for the low- and high-income households.

Most analyses of the Personal Responsibility and Work Opportunity Reconciliation Act largely ignored the welfare program's traditional role as a social safety net during cyclical economic downturns. The sub-

stantial changes in incentives and program structure will have important implications for the demand for food and will increase the prominence of the food stamp program as a cyclical social safety net.

To gauge the differential effects of a recession on food stamp participation and poverty, we investigated the influence of macroeconomic conditions on poverty and food stamp participation. Simulations of the effect of a 1-percentage point increase in the unemployment rate, coinciding with a 0.07-percentage point decline in the inflation rate (to reflect the average tradeoff that occurred between these variables over this time period), were performed to demonstrate the impact of a changing macroeconomy. The greatest effect is in the year 2000, where a moderate economic downturn increases the food stamp participation rate by four-tenths of a percent (approximately 750,000 more people).

An economic downturn will increase food stamp program outlays by increasing participation. In addition, as real wages fall, food stamp allotments increase for current beneficiaries. Our simulations of a modest recession similar to that experienced during the early 1990's and a more severe recession, similar to the experience of the early 1980's, on real food stamp expenditures show real food stamp expenditures increase by as much as \$5 billion above base projections.

As TANF caseloads declined, food stamp caseloads have declined significantly. The number of food stamp recipients from January 1996 to June 1998 fell from 25.9 million to 19.3 million persons. U.S. Department of Health and Human Services figures show that 90 percent of AFDC/TANF recipients are also food stamp recipients and families tend to move on and off multiple welfare programs. Thus, while part of this decline in food stamp participation can be attributed to the ineligibility of immigrants and unemployed childless, able-bodied adults, some of the decline is due to the same forces underlying the recent decline in AFDC/TANF caseloads.

The sharp increase in the implicit price of cash welfare benefits due to the block granting of AFDC creates a strong incentive for States to substitute Food Stamp benefits for cash welfare. Like any demand analysis, the final effect of changing the fiscal incentives faced by States depends on the importance of price and substitution parameters relative to the underlying preferences of State decisionmakers. If in the long run, real cash benefits from States were to decline by 9 percent, food stamp benefits would offset 70 percent of this lost income and increase by \$1.63 billion over the CBO baseline budget. More significant declines in cash TANF benefits of 30 percent might mean increases in the food stamp budget of \$5.4 billion. This new relationship further illustrates the increased role of the Food Stamp Program as a social safety net.