Discussion

When increases in food prices weaken the buying power of food stamp benefits, policymakers are challenged with protecting program participants as well as moderating increases in program costs. In addition to increasing benefit costs, implementing either of the alternative benefit adjustment procedures examined in this study would raise concerns about increasing program administrative costs. As previously mentioned, the semiannual approach entails additional administrative burden and costs in that States have to adjust benefit amounts twice a year and coordinate the adjustment with those made for other programs. The 103-percent adjustment does not entail additional administrative costs relative to the costs of the current procedure.

Another issue is whether increased demand for food arising from additional FSP benefits would affect food prices. In 2007, retail food sales for food at home amounted to about $580 billion (ERS food expenditure data), and the cost of food stamp benefits issued amounted to about $30 billion, or 5.3 percent of sales. An increase of $1 to $2 billion in FSP benefits would increase food demand by only 0.17 to 0.35 percent of total retail food sales, at most. Such a small increase in food demand would not be expected to have a measurable effect on food prices.

A final issue relates to how well the shortfalls measured in this study actually reflect the pressure of rising food prices on the food budgets of food stamp participants. Factors that might introduce bias into the estimation of effects are the lack of correspondence between the typical diets of low-income households and the food pattern recommended by the TFP and the biases associated with inflation indices.

The TFP is a representative diet that can be purchased at low cost. It is estimated to reflect, as closely as possible, the consumption patterns of low-income households. Yet, survey data show otherwise. For example, the TFP diet includes 37 percent more vegetables, 25 percent more milk products, and 15 percent more fruits than actual diets reported by program participants. The TFP diet also has 83 percent less fats, sugars, and other products than reported diets (USDA, CNPP, 2007). If FSP participants regularly consume a different mix of food items than those in the TFP, the cost of the TFP will not reflect pressures on the food budgets of low-income households.

As for the problems associated with the use of index numbers, the CPI for food at home and related subcomponents have a well-known upward bias (Boskin et al., 1997; Hausman, 2003) due to their inability to accurately correct for quality changes, outlet changes, and substitution of products due to price changes. The TFP cost index is also affected by these factors. With these biases, it could be that shortfalls are overestimated.

Yet, the intent of the FSP is not to ensure that participants can continue to purchase their typical diet. Participants are not expected to substitute cheaper (and potentially less nutritious) foods when prices change. Transportation costs may limit the extent to which participants can obtain food from the least expensive outlets. Thus, the cost of the Thrifty Food Plan serves the Food Stamp Program purpose of ensuring that participants have the purchasing power to afford a nutritious diet.