

ISSUES IN FOOD ASSISTANCE

How Unemployment Affects the Food Stamp Program

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Issue: The Food Stamp Program is a means-tested entitlement program that automatically responds to changes in the need for assistance. During economic expansions, caseloads tend to fall as unemployment rates fall and incomes rise. During economic downturns, the program stabilizes the well-being of those adversely affected by changing macroeconomic conditions such as a rise in the unemployment rate. The importance of this relationship is confirmed by the increases in food stamp caseloads and outlays during the last half of 2001, when unemployment rates were rising again. This issues brief examines the historic link between unemployment and food stamps, to improve understanding of the potential magnitude of economic and policy changes on food stamp caseloads.

Background: Most households are eligible for the Food Stamp Program if their gross monthly income is less than 130 percent of the poverty line and they have less than the defined asset levels. Benefit levels depend on household income and size. As a household's income increases, food stamp benefits decline. The maximum benefit for a family of four in 2002 is \$452 per month and the minimum is \$10. Households make decisions about participating in the Food Stamp Program (or any assistance program) based on perceived benefits and costs associated with participation. The Food Stamp Program's benefits are straightforward—with food stamps, families are able to purchase more food and existing household funds can then be used to purchase nonfood items. The costs include the possible stigma attached to receiving and using food stamps and the costs incurred in certifying and recertifying a household's eligibility for the program. When the benefits exceed the costs, a household is more likely to participate in the program. Accurate information about household members' eligibility and benefit levels is

especially important for households making this cost-benefit calculation.

General economic conditions influence the number of people receiving food stamps in three main ways. In each way, the influence works in both directions, though we describe them in the context of an increase in income during an economic expansion:

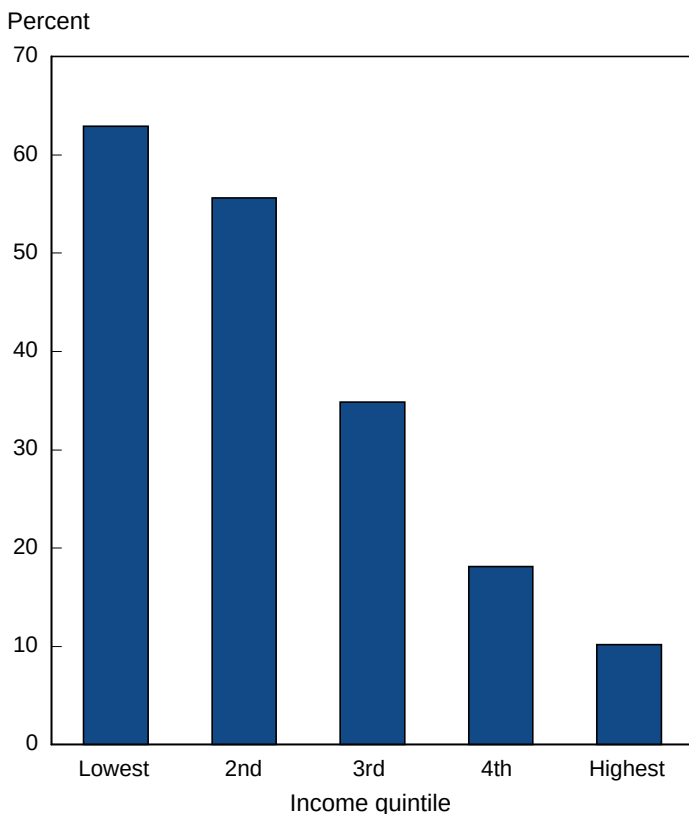
- (1) As household income increases, fewer households are eligible.
- (2) As household income increases, the benefit levels for still-eligible households decline. Income and food stamp benefits are inversely related. When benefits are lower, the costs of participating in the program exceed the benefits for more households (fig. 1).
- (3) The general state of the economy influences individuals' expectations about their prospects regarding employment and income and will, therefore, influence their decisions to participate in the program. An expanding economy creates expectations of increases in income. Eligible households may be less likely to participate in the Food Stamp Program because they expect future benefits to be less than the costs.

An economic downturn increases food stamp caseloads because it creates reduced work opportunities, fewer hours of available work, and unemployment. Less available work means lower household income. Lower incomes mean that new households become eligible to participate in the Food Stamp Program and families already participating in the program will receive more benefits. The economy, however, has a less direct effect on households whose members have a limited attachment

to the labor force, such as the elderly, disabled, and single women with young children.

For some people who lose their jobs during an economic downturn, unemployment insurance benefits offset a

Figure 1—Food stamp participation rates among eligible households by income quintile



Source: Authors' calculations from the 1991 and 1992 panels of the Survey of Income and Program Participation (SIPP).

portion of the lost earnings. As a consequence, many remain ineligible for food stamps. However, the Food Stamp Program is particularly important for the many workers not covered by unemployment insurance, particularly those in low-wage, low-skill jobs.

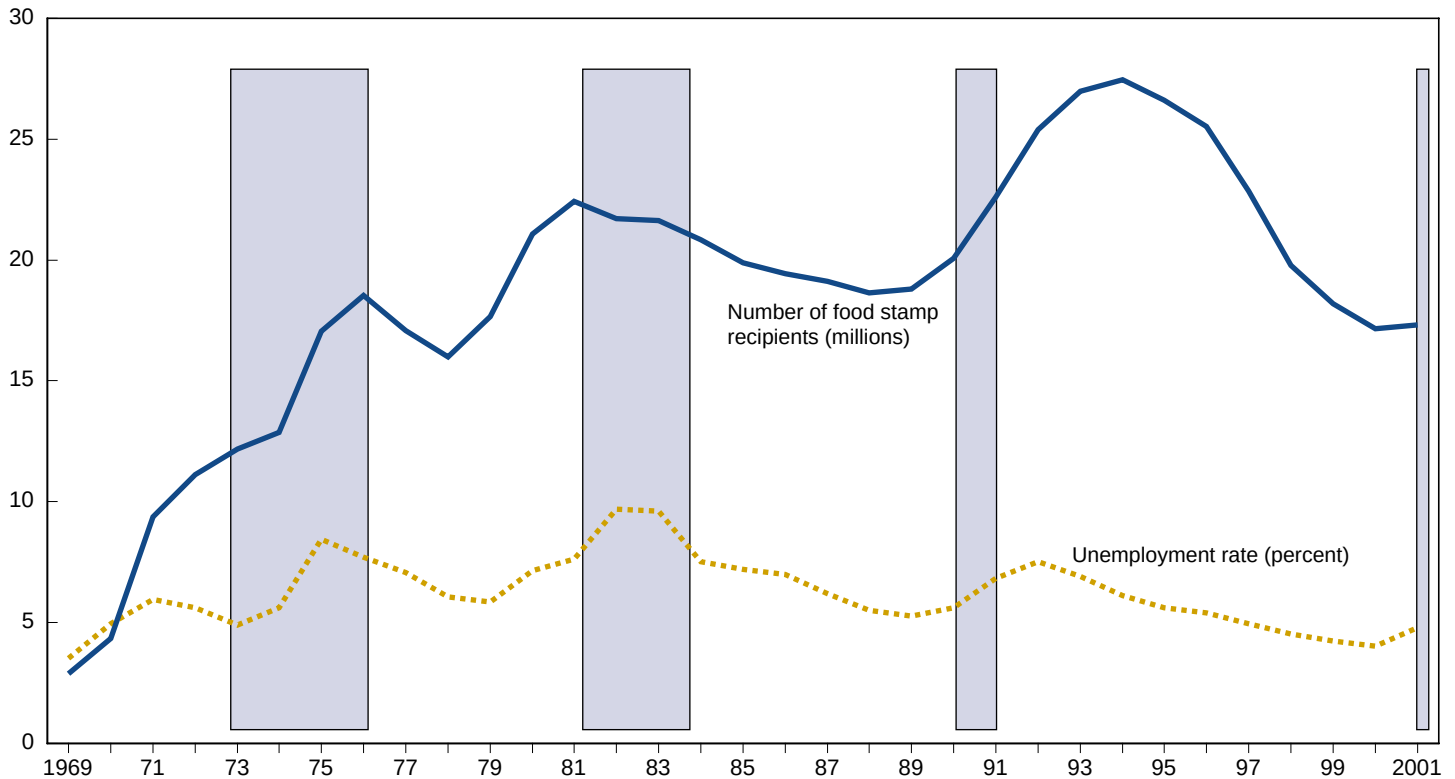
Figure 2 illustrates the relationship between the unemployment rate and food stamp caseloads for all persons from 1969 through 2001. During economic expansions, the number of people receiving food stamps falls, and during recessions (the shaded areas), the number of recipients increases. The relationship is often muted or obscured by changes in policy, administrative practices, and other unobserved factors. For example, although the unemployment rate increased in 1982, the number of recipients fell, and despite the falling unemployment rate in 1993 and 1994, food stamp caseloads increased. During the transition between the expansion and recession phases of the business cycle, the delayed responses of the food stamp caseload to a change in the unemployment rate resulted in continuing increases in caseloads.

During the recessions since 1969, the caseload change per 1-percentage-point (unit) change in the unemployment rate increased from 1.4 million persons in 1973-75 to 2.7 million persons in 1980-81 and to 3 million persons in 1990-91 (table 1). Over this time period, changes in policy and administrative practices were also affecting the caseload size, obscuring the effects of the economy. For example, during the early part of the 1980-81 recession, elimination of the purchase requirement (i.e., households no longer had to pay for food stamps) in 1979 increased the caseload, while the tighter eligibility criteria established in 1981-82 contributed to the decrease in caseload during 1982.

Table 1—Historical patterns in unemployment rate and food stamp caseload change

Time periods	Change in unemployment rate	Change in food stamp caseload	Ratio of caseload change to unemployment rate change
	<i>Percentage points</i>	<i>Millions of persons</i>	
Rising unemployment and rising food stamp caseloads:			
1974-75	3.6	4.9	1.4
1980-81	1.8	4.8	2.7
1990-92	2.2	6.6	3.0
Falling unemployment and falling food stamp caseloads:			
1977-78	-1.6	-2.5	1.6
1983-88	-4.2	-3.1	0.7
1995-2000	-2.1	-10.3	4.9

Note: The historical relationship has not been adjusted for the influence of policy or other factors.

Figure 2—The unemployment rate and the number of food stamp recipients, 1969-2001

Note: The vertical towers indicate recessions.

Source: The unemployment rates are from the Bureau of Labor Statistics and the food stamp caseloads are from the U.S. Department of Agriculture, Food and Nutrition Service.

During the growth phase of 1983-88, the caseload fell by only 700,000 people for each percentage-point decrease in the unemployment rate. The total caseload reduction (3 million) is less than expected for a 4.2-percentage-point fall in the unemployment rate. One possible explanation is that the Food Security Act of 1985 eased eligibility. An additional factor is that while the overall unemployment rate fell, there were areas of the United States where unemployment rates increased, and, hence, there was diversity in State food stamp caseloads (fig. 3).

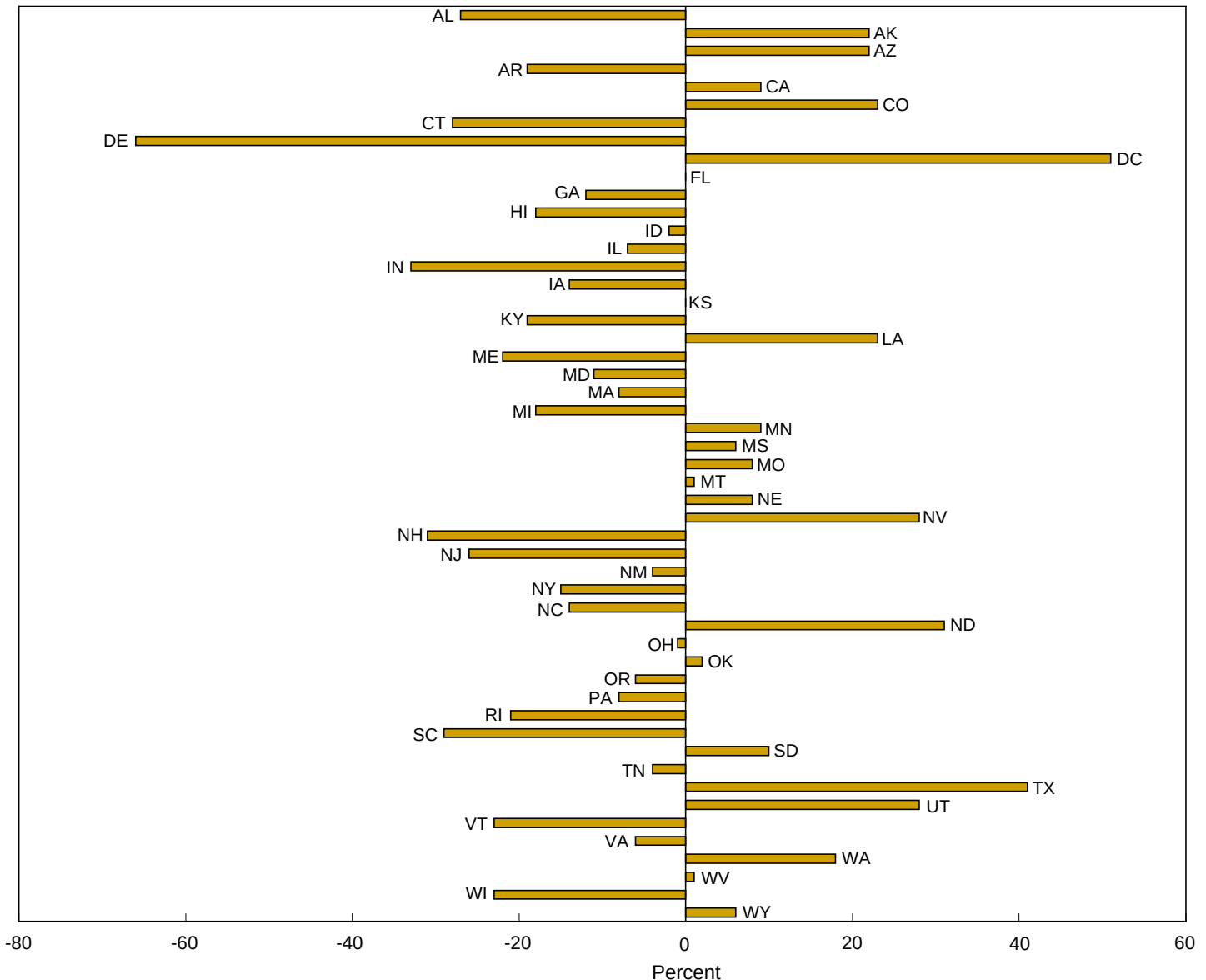
During the growth phase of 1995-2000, the caseload fell by 5 million persons per unit change in the unemployment rate. This decline is more than expected, given past trends. Changes in policy and administrative practices may have increased the rate of caseload decline. The length of this economic expansion, the longest since the end of World War II, may have contributed as well.

The historical relationship linking change in the Food Stamp Program caseload per one-percentage-point change in the unemployment rate has varied over time (table 1). Changes in policy and administrative practices have influ-

enced this link, making it difficult to discern the true relationship between the unemployment rate and food stamp caseload.

Findings: Several studies have estimated the relationship between the unemployment rate and food stamp caseloads, while controlling for other factors such as policy changes in the Food Stamp Program and welfare system, and variations among State economic, demographic, and political characteristics. Controlling for these factors is especially important to understanding the role of the economy in the food stamp caseload decline after 1994. A robust economy is clearly a major reason for the decline in food stamp recipients, but the policy changes during this era also had an effect.

Using State-level data, several Economic Research Service studies have estimated the economy's effect on food stamp caseloads. State-level data allowed the analysis to include the wide variation in States' timing of welfare reform and the divergent trends in macroeconomic conditions. In static models, where change in the caseload is related to change in the unemployment rate

Figure 3—Percentage change in food stamp caseloads by State, 1984-89

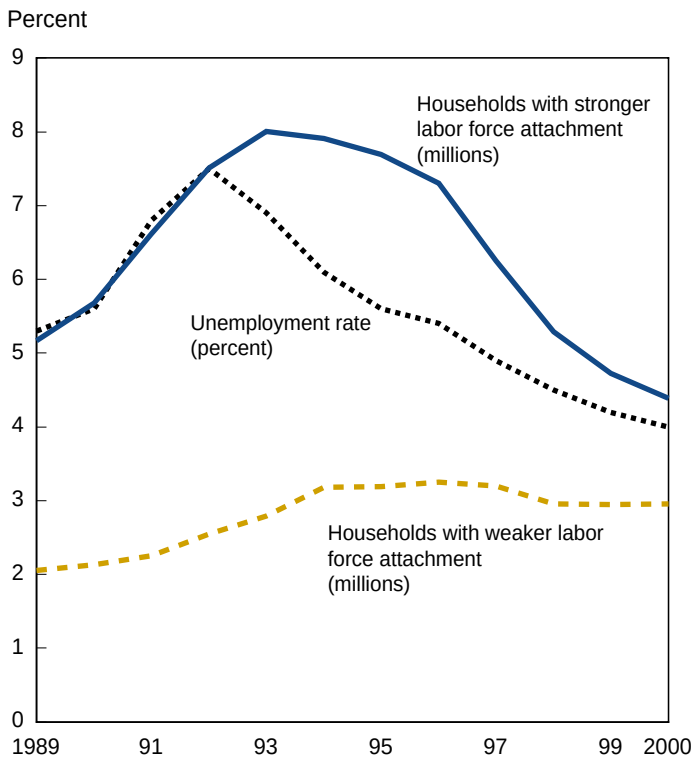
Source: U.S. Department of Agriculture, Food and Nutrition Service.

during the same annual period, researchers have found that a 1-percentage-point increase in the unemployment rate led to a 3- to 4-percent increase in food stamp caseloads. This translates to about 700,000 to 1 million more food stamp recipients given the 1980 to 1998 average caseload of 22 million, which was the time period for the estimated results. If this same relationship held for the fiscal year 2000 caseload of 17 million, there would be an additional caseload of 500,000 to 730,000 per unit increase in the unemployment rate. The static model is

limited in that it restricts the effect of the unemployment rate to a contemporaneous effect.

Dynamic models have also been used to estimate the relationship between change in the unemployment rate and change in the Food Stamp Program caseload. With dynamic models, economic changes can have an effect beyond the current period. In dynamic models, the presumption is that a food stamp recipient this year is more likely to be a food stamp recipient next year than someone who is not receiving food stamps this year. The model also allows a

Figure 4—The unemployment rate and the number of food stamp recipients, by labor force participation category, 1989-2000



Source: Unemployment statistics are from the Bureau of Labor Statistics and the number of food stamp recipients is from authors' calculations based on information from the U.S. Department of Agriculture, Food and Nutrition Service.

delay for a nonrecipient to enroll in the program after becoming unemployed. With dynamic models, researchers have found that, in the long run (3 to 4 years), a 1-percentage-point increase leads to a 6- to 9-percent increase in food stamp caseloads. If this same relationship held for the fiscal year 2000 caseload of 17 million, in the long run there would be an additional caseload of 1.0 to 1.5 million per unit change in the unemployment rate.

Certain types of potential food stamp households are more affected by economic conditions than other types (fig. 4). This observation is confirmed in a study finding that a 1-percentage-point increase in the unemployment rate leads to a 11-percent increase in the number of food stamp recipients in families with multiple adults and children, and in the number of adults living separately, but only a 1-percent increase in families with single adults with children. Recent evidence, however, suggests that while single adults with children are becoming more

attached to the labor force, others such as the elderly and disabled remain less attached to the labor force.

As the importance of the Food Stamp Program rises during times of economic distress, a logical question for policy-makers becomes: how many more people will benefit from the Food Stamp Program in the event of a recession? Research results suggest the current period (1-year) effect of a 1-percentage-point change in the unemployment rate is about 700,000 more food stamp recipients. In the longer run, a 1-percentage-point increase in the unemployment rate leads to about 1.3 million more food stamp recipients. These estimates fall within the range of estimates from the static and dynamic models.

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