

## Restructuring Food Stamps for Working Families

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## Abstract

The decline in food stamp participation, especially among eligible families moving from welfare to work, is limiting the government's ability to supplement the incomes of low-income working families. This paper suggests that one reason for low participation is that working families are unlikely to apply for benefits if they already meet their food needs. The unfortunate result is that such households do not take advantage of the earnings supplement role of food stamps. This paper proposes a new approach to delivering benefits to working families that would encourage participation and strengthen the program's ability to supplement earnings.

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# **Restructuring Food Stamps for Working Families**

Robert I. Lerman and Michael Wiseman

The Food Stamp Program (FSP) is the nation's most nearly universal anti-poverty initiative, providing nutrition support for a broad range of low-income households. In a typical month in 2001, 17.3 million people in 7.5 million households received food stamps. Half of these households included children. FSP outlays in fiscal year 2000 amounted to \$20.4 billion, which may be compared to \$14.6 billion in state and federal outlays for cash benefits and administrative costs for Temporary Assistance for Needy Families (TANF), \$25.8 billion in federal Earned Income Credit (EIC) payments, and \$35.0 billion in administrative costs and benefit outlays for Supplemental Security Income (SSI) payments to the poor disabled and elderly.

One out of every six American children lives in a household that receives food stamps. For families with children, the Food Stamp Program in a sense creates a bridge between TANF and the Earned Income Credit (EIC). On the one side, TANF provides the general income floor, a safety net for needy families that often lack other means of support. On the other, the EIC provides a subsidy that bolsters the income of those who have jobs but work at low wages. In contrast to TANF and the EIC, the FSP works across the board, supplementing both TANF benefits and the incomes of the working poor and near-poor while assuring access to a necessity: food. In the 38 states lacking general assistance programs for poor adults who are not elderly, not disabled, and do not have children, the FSP is the only publicly provided safety net.

Yet, with the movement of millions of families from welfare to work, renewed concern has surfaced over the ability of the Food Stamp Program to play its role in supplementing the

incomes of working low-income families and helping them move out of poverty (Greenstein and Guyer, 2001; Wiseman, 2002). Participation data show declines in food stamp use outpacing declines in poverty and low incidence of food stamp use among eligible low-income working families. The low rates at which eligible working families actually obtain food stamp benefits have limited the success of the program since its inception.

The purpose of this essay is to examine how the Food Stamp Program interacts with household circumstances and to propose new policy options to promote higher participation of eligible, low-income working families. The next section begins with an historical overview and then examines evidence from the literature on participation. The third section develops new estimates of participation, with a special focus on the relationship between food stamp use and the experience of food hardships, such as missing meals for lack of money. In section four, we present case study evidence about how the administration of the Food Stamp Program in three sites affects welfare recipients and working families who are not on other income assistance programs. We conclude in the final section with policy recommendations aimed at improving food stamp operation in the context of the program's dual safety net and income supplement roles. Of central importance are recommendations relating to improving access to benefits among working, low-income families.

### **Background of the Food Stamp Program**

The establishment of the Food Stamp Program (FSP) as a national program thirty years ago culminated a long struggle to reduce hunger using a less stigmatizing, more efficient approach than simply providing the poor with surplus commodities. Although enacted in 1964, the FSP did not provide for national eligibility until 1971. Until that time, the Food Distribution Program, which helped distribute surplus food directly to poor families, was the primary

mechanism for fighting hunger. The shift to the FSP allowed families to obtain their subsidized food through grocers and supermarkets rather than from food distribution centers and to select the food items they wanted rather than accepting the items in surplus. Unlike the distribution program, which provided the same package of commodities to all meeting the income eligibility standard, the FSP determined benefit allocations in a graduated fashion, with benefits declining with income.

In the context of the 1970s, the Food Stamp Program embodied some of the goals of reformers hoping to replace the welfare system with a negative income tax (NIT). FSP is a federal entitlement. It is available to all U.S. citizens and many resident aliens. Benefit levels were and still are uniform nationally (except for the high cost states of Alaska and Hawaii), varying only with household size and income, but limited to those with low levels of assets. The federal government pays 100 percent of the benefit costs. The 24 percent rate at which benefits declined with earnings appeared low enough to avoid serious work disincentive effects. Though the benefit came as an in-kind subsidy, the shift from the food distribution program to the FSP produced a significant increase in flexibility for recipients and, presumably, a decline in stigma.

Despite the change from commodities to coupons, the Food Stamp Program retained features that discouraged use. Using their benefits required recipients to present food coupons at the cash register, thereby displaying their inability to support themselves. Until 1979, food stamp recipients were required to purchase their allotment of food stamps; in some instances this required assembling a substantial amount of money—and sacrificing liquidity—for what amounted to a small net subsidy. The elimination of the purchase requirement in 1979 moved the FSP closer to an unrestricted benefit program. Under the change in rules, instead of having a low-income, working householder pay (say) \$220 for \$300 worth of food stamps, the household

could simply receive \$80 in coupons at no charge. The change increased access to benefits and made food stamps more like cash in terms of providing recipients the freedom to use benefits in accord with their preferences.

The elimination of the purchase requirement apparently stimulated more eligible households to participate in the FSP. Estimates of the share of individuals believed to be eligible for food stamps who actually received them—the take-up rate—jumped from 38.3 percent in 1978 to 55.2 percent in 1980.<sup>1</sup> Take-up rates declined over the 1980s, reaching 48 percent in 1988, before increasing rapidly to a peak of 71 percent in 1994 (Figure 1). Although take-up rates subsequently fell between 1994 and 1998, they remain well above the proportion of eligible individuals obtaining benefits in the late 1980s and late 1970s. Not surprisingly, increases in take-up rates took place during economic downturns and declined during expansions.

[Figures and tables are bound at the end of the paper]

Figure 1: Trends in Food Stamp Take-up Rates for Eligible Individuals

Still, the recent declines in participation in food stamps have aroused serious concerns, especially as large numbers of single parents move from welfare to work. Food stamps were expected to provide one of several income sources that would supplement earnings and allow families to escape poverty (Acs et al, 1998). As of 2001, a mother of two children working 35 hours per week at the minimum wage and paying \$400 per month in rent would achieve an after-tax, after-transfer income level 4 percent above poverty line, assuming the Earned Income Credit (EIC) and food stamps supplemented her family’s income. But, without food stamps, the family’s income would be 16 percent below the poverty line.

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<sup>1</sup> We use the term “participation” to refer to counts of recipients and “take-up rates” to refer to the share of eligibles actually receiving benefits. The estimates of FSP take-up we cite are questionable on many grounds; we review these issues in section 4, below.

On one level, reduction in food stamp participation in the wake of increases in work among single mothers is not unexpected. Food stamp take-up rates have long been and continue to be much higher among welfare recipients than among eligible households headed by a worker. Without major changes in these participation patterns, overall food stamp take-up rates should decline as more families leave welfare for work. On the other hand, since the new workers are in many instances former welfare recipients and are therefore accustomed to food stamp use, these new workers would be more likely to sustain food stamp use. In fact, evidence from the National Survey of America's Families indicates that most families leaving welfare and apparently still eligible for food stamps actually report use at a lower rate than do similar families with no recent welfare history (Zedlewski with Gruber, 2001). The reasons for this carryover failure are unclear. There is, however, little doubt about the result: Declines in food stamp participation have complicated the task of meeting the broad goal of welfare reform—having families escape poverty through work, earnings, and selected supplements to income.

How should policymakers respond to chronic problem? The question is more urgent today as millions of families have moved from welfare to work and are less likely to obtain benefits for which they qualify. Are minor changes in the administration and rules of the food stamp sufficient, or are broader reforms called for?

Recent developments have elicited policy responses. In 1999 and 2000, the Clinton Administration issued several new food stamp rules intended to increase food stamp participation by simplifying the administrative process and in some ways expanding eligibility. The changes ranged from reducing the frequency of eligibility determinations and income reporting to giving states the option of liberalizing rules that currently exclude households with modest levels of assets. The Food Stamp Program provisions in the 2002 Farm Bill made further changes

intended to promote and facilitate access. But there remains a question of whether modifying the administration and operations rules for the Food Stamp Program will be sufficient or if broader reforms are called for. To understand the alternatives, it is useful to review a fundamental conflict that rises in Food Stamp Program design and management. This conflict is the topic of the next section.

## **Conflicts in Combining Basic Support with Income Supplementation**

Broad popular support for the Food Stamp Program developed largely because people viewed it as an effective way of fighting hunger. Political leaders and the public considered hunger to be a blight on the nation, something that should not exist in a country as wealthy as the United States. Given the excellent retail food distribution system in the U.S., the sensible policy was to provide enough purchasing power to poor families to buy enough for a basic diet. The poorest families—families with zero or near-zero incomes—would qualify for a specified level of coupons, which they could use to buy food at retail stores. By delivering the benefits in the form of food coupons, the government would insure some minimum capacity to purchase food, whether or not the household diverted what they would have spent on food for other needs.

Using food stamps as a vehicle for preventing hunger meant the assistance should be targeted to those least able to buy food on their own. Defining ability to buy food in terms of income relative to needs (household size) implies having benefits peak at the lowest income to needs levels. But, in order to target benefits toward low-income families, the benefits must phase out with income—otherwise food stamps would cover all or nearly all families.

Economists, using standard tools of public finance, view this food stamp benefit structure as essentially a negative income tax (NIT), as mentioned above. Viewed in this way, food stamps has an *income guarantee* (the amount provided to those with zero income) and a *benefit reduction rate* (the rate at which benefits phased out). From 1972 through 1999, the monthly guarantee level for a household of three people stayed (in real terms) at about its current (July 2001) value of \$341. And as for benefit reduction rates, after initial exemptions and allowances

were deducted from gross income,<sup>2</sup> each additional dollar of countable income currently reduces eligibility for benefits by 30 cents. Automatic work expense deductions of 20 percent of earnings mean that each dollar of employment income lowers food stamp allotments by 24 percent (30 percent of 80 percent of earnings). Thus, the *breakeven* earned income level—the level at which eligibility phases out—is over \$1,500 per month for a mother and two children and no child care or extra housing expenses ( $\$1,555 - \$134 = \$1,421$ ;  $\$1,421$  multiplied by  $.24 = \$341$ ).

Given its income guarantee and low phase-out rates, the FSP theoretically serves both safety net and income supplement functions. For families with extremely low incomes, the benefit under the FSP is meant to avert hunger and can provide a significant source of family income. In 1999 in Texas, for example, a mother with two children and no earnings or other income from private sources qualified for \$335 per month in food stamps along with \$188 per month in cash welfare assistance. In this case, food stamps constituted nearly two-thirds of the family's total income. Even in Michigan, a state with moderate welfare levels, food stamp benefits accounted for 40 percent of total income to families with no private income sources. As low-income families achieve at least moderate earnings, the food stamp benefit falls to about 15 percent of family income for a mother of two working full-time at the minimum wage and to about 6 percent for a mother of two working 35 hours per week at \$8 per hour. If they obtain food stamp benefits, these families receive about \$90 per month to supplement their other income of about \$1,400 per month.

Though the relationship between benefits and income is important, other features of the FSP such as asset tests and short accounting periods associate FSP more with the safety net

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<sup>2</sup> The initial exemption is now equal to \$134 per month; up to \$300 in deductions is available in the form of a shelter

mission than with the income supplementation mission. As one significant example, responding to immediate need is critical for the FSP role in trying to assure a safety net for the poorest families. Since emergency needs can arise in the middle of the year, perhaps after months of adequate income, serving people immediately requires the FSP to measure a family's ability to pay (and needs, i.e., household size) on a short-term, perhaps monthly basis. With food stamps rooted in a basic support paradigm (like housing benefits and Temporary Assistance for Needy Families), it is not surprising that the program defines one month as the period for determining benefits and measuring income and household size.

The decision to use a monthly accounting period has implications for other program components. Monthly accounting periods might weaken targeting on those in need by extending eligibility to households with normally adequate incomes and resources but occasional months with very low income. One way to guard against this possibility is to limit eligibility to households with low asset levels. In principle, one might wish to take account of assets in determining benefits even when using an annual accounting period. But, the shorter is the accounting period, the more central is the rationale for assets limitations. Moderate assets allow families to deal with very short-run problems, but can be exhausted if the shortfall persists for long periods of time. The presence of substantial assets implies better long-term income prospects—and more significant resources—than is indicated by low current income.

Other requirements naturally arise in a program focused on providing basic support. When the government provides households with the maximum benefits and a significant share of a household's income, it is not surprising to see tight requirements for extensive and frequent documentation of income, assets, household status, and employment. In cases where the

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allowance and other selected costs of working.

government benefits provide basic support to able-bodied, non-elderly people, governments are likely to impose work requirements. Thus, programs such as FSP that follow the logic of safety net programs generally add several requirements that go beyond a straightforward formula linking benefits to income. Such rules may be necessary to maintain program integrity and accountability under any circumstances, but they discourage participation and increase administrative costs.

The current food stamp rules and procedures may well be appropriate for the lowest income families, those most reliant on food stamp benefits, but does such an approach make sense for working families eligible for less than \$100 per month? Certainly, the supplementation provided through food stamps is worthwhile in building an income packaging strategy that helps families move above poverty and maintains work incentives. But, several features embodied in FSP and other programs are particularly ill-suited to serving the income supplement function of the program. When viewed as simply a modest supplement to income, FSP's short accounting periods (and associated asset tests), work requirements, and extensive documentation and auditing of income appear unnecessarily costly, both in terms of the expense of program administration and in terms of the transaction costs borne by eligible families. Because income supplements generally do not play a significant role in dealing with emergencies, the monthly accounting period and its focus on responding to short-term needs may not be necessary for this function of the FSP. Instead, goals such as simplicity, low transactions costs, and horizontal equity—treating those with equal incomes over longer periods equally—become more important.

The question is whether the costs of the cumbersome approach embodied in food stamps are worth the benefits of preventing fraud and targeting benefits to the needy. Potential recipients may face high transaction costs when exposed to food stamp regulations that go

beyond rules for relating benefits to income. For working families, transaction costs relative to benefit are especially high because work schedules are often inflexible and, as a result, time spent in meeting the requirements for eligibility certification may have a prohibitive opportunity cost. These and other transaction costs may lead to a decision to forgo a benefit that, while modest, could be a useful addition to income. Whether or not the FSP's current structure is the root of the problem, improving on the income supplement function of food stamps is an important mechanism for reducing hardships faced by low-income working families.

To see the potential significance of these changes, we analyze existing patterns of food stamp participation, especially among working low-income families. After reviewing past studies of participation by eligible working families, we develop new evidence based on trends across states and on detailed household data. The next step is to present a ground-level look at the process of application and participation based on site visits to offices that administer food stamps. These analyses offer insight into the need for restructuring food stamps for working families and guidance on how to do so.

## **Prior Studies on Utilization of Food Stamps**

Before examining the literature on food stamp participation, it is important to recognize the limitations of estimates based on national data sets. Researchers typically estimate eligibility using income data voluntarily provided by households to Census Bureau interviewers conducting the March Current Population Survey (CPS) or the Survey of Income and Program Participation (SIPP).<sup>3</sup> While monthly incomes and assets are available only in the SIPP, the most common estimates rely on the CPS and require translating annual income into monthly income and imputing assets. By applying monthly standards for food stamp eligibility to the census data on incomes, and sometimes on assets, researchers can generate a count of households believed eligible for assistance. Dividing the actual caseload (usually drawn from administrative records) by the constructed counts of eligibles yields the common estimate of the proportion of eligibles actually taking up benefits.

Key to the eligibles estimation process is the assumption that annual incomes are reported voluntarily to the Census Bureau with the same accuracy and no more downward bias than is characteristic of the reports of current monthly income that households give under oath when they apply for food stamps at their local FSP offices—a dubious proposition. Among other caveats worth mentioning are potential differences in the relative accuracy of assets and household composition based on census data and on reports to FSP offices. Notwithstanding these limitations, the following empirical studies provide revealing evidence on trends and patterns of food stamp participation.

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<sup>3</sup> The standard estimates are done by Mathematica Policy Research, Inc., under contract to the U.S. Department of Agriculture. See Rosso (2001).

### *Take-Up Rates among Eligibles*

The literature on utilization of FSP is vast. However, detailed studies of take-up rates among eligible households are less common because household surveys rarely include all of the data required for calculating eligibility. Even in one of the well-known studies of food stamp dynamics, the authors state for example, “We also calculate whether a woman passes the car asset test, although we are hesitant about the value of these calculations. The accuracy of the car information is not good” (Blank and Ruggles 1996). Determining the potential food stamp benefit amount not only requires data on which members of residence constitute a household (defined under FSP rules) and household income by source, but it also requires information on spending on rent or homeownership. Using asset information drawn from the Survey of Income and Program Participation (SIPP), Blank and Ruggles show how estimates of single mother take-up rates vary with the application of overall asset limits and limits on automobile values. Their take-up rate estimates are the months of household participation in food stamps divided by the months of household eligibility. Basing eligibility on income alone yielded a participation rate among eligibles of 54.5 percent in the 1986-89 period. However, once asset limits were taken into account, the rate at which eligibles participated in food stamps reached 61.7 percent, or 65.7 percent if the authors include households who report participating in food stamps but look ineligible on the basis of census data.

The Blank-Ruggles analysis finds that some of the low participation of single mothers resulted from a large number of short eligibility spells. The tabulations reveal that food stamp participation took place in only 24 percent of all food stamp eligibility spells (discrete time periods between an initial month of eligibility and a month in which the household no longer eligible). Of the remaining 76 percent of spells, about one-third end because the household is no

longer observed and the remaining two-thirds end because the household is observed to be no longer eligible. The groups who were least likely to participate included single mothers with more education, with fewer children, and in states with low unemployment rates, a high rural population, high AFDC benefits, and no disability. To summarize, those least likely to take advantage of the Food Stamp Program were mostly those who had least need for the program—those with short eligibility spells and favorable personal and household characteristics.

In a more recent study of the dynamics of food stamp participation, Gleason, Schochet and Moffitt (1998) examine entries into and exits out of food stamps for the entire population. Their analysis focuses on the numbers participating instead of on the participation rate among eligibles. A key finding is that past use of food stamps is a highly significant determinant of entry into food stamps. One in four of those who exit from food stamps return within four months and 42 percent within two years. More disadvantaged groups are more likely to enter and, once participating, less likely to leave food stamps than other groups. Low income, cash welfare receipt, and lack of employment are all linked to higher levels of food stamp participation. Typically, a change in income or household size or composition triggered entries or exits into the FSP. Surprisingly, once the authors controlled for employment status, the macroeconomy exerted no independent effect on the probability of exiting the FSP among families with children.

In a study focusing specifically on the working poor, Kim and Mergoupis (1997) examine take-up rates over a four month period in late 1988/early 1989. As in the case of other research, the authors find low take-up rates among all eligible individuals with some employment and low participation among the more advantaged of the working eligibles. The authors define as working poor any family qualifying for food stamps with someone who worked any time in the

four months prior to the SIPP Wave 7 (1987 panel). Overall, only one-third of this group of eligibles participated in food stamps. Eligible married-couple families were less likely to participate than female-headed households, whites less likely than blacks, Hispanics, those with some college less likely than those with only a high school diploma or less, and those from small families less likely than those from large ones. The one surprising result was that those averaging full-time work (36+ hours/week) were only slightly less likely to participate than workers with only 11-20 hours per week.

Using an alternative definition of working eligibles (those households with earnings during the prior year), Castner (2000) of Mathematica Policy Research (MPR) estimates take-up rates of 53.5 (in 1994) to 47.3 (in 1998). The Castner study focuses on the 11.4 percentage point decline (from 70.8 to 59.4 percent) in food stamp take-up rates over the 1990s. It is worth repeating that the 1994-1998 decline followed an increase in participation rate from the late 1980s through the early 1990s.

The Castner study provides trends by subgroup to help describe the 1994-1998 decline in take-up rates. Since Castner does not divide the population into exclusive, exhaustive subgroups, her results are not always easy to interpret. She finds that take-up rates declined by 17 percentage points among children, 15 points among individuals in households without earnings, 18 points among individuals in households at 51-100 percent of the poverty line, 9 percentage points among individuals in households with high potential benefits, and 21 percent among individuals in single-parent families. Of course, many of these groups overlap with each other and with groups that showed only modest declines in take-up rates, such as households with earnings. Further, some of the changes within a broad group (such as households with earnings)

were the result of shifts in the composition of the group (perhaps more single parents) rather than changes in participation rate for a household with detailed characteristics.

Castner's findings are interesting. It is striking that virtually no decline took place among eligible married couple families with children; their participation rate dropped only from 69.8 to 69.0 percent. On the other hand, individuals in both single-parent households with children and in multiple-adult households with children experienced significant declines in take-up rates. Among single parents with children, the biggest drop for a particular category was the 11-point decline among those with earnings and no AFDC/TANF. Changes in the distribution of people across groups also contributed to the declining take-up rates. Many individuals in single parent households moved from high participation rate groups (e.g., those with no earnings and relying on AFDC, a 1994 take-up rates of 124.5 percent<sup>4</sup>) to low participation rate groups (those with earnings and no AFDC, a 1994 participation rate of 54 percent).

In a more recent MPR report, Rosso (2001) finds even more rapid declines in take-up rates that extend to more population groups. Using updated estimates of undocumented aliens—which reduce estimates of eligibility and therefore raise take-up rates—Rosso calculates the overall participation rate in 1994 at 74.3 percent, well above Castner's 70.8 percent figure for 1994. The Rosso study indicates a continuing decline in take-up rates as well, to 57.4 percent in 1999, down from 59.4 percent in 1998. Equally striking is a dramatic reduction found by Rosso in the participation rate among married-couple households with children. The 1994-99 drop in take-up rates among these families was a stunning 22 percentage points, or a decline of about

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<sup>4</sup> The AFDC participation rate estimates are derived by dividing AFDC cases receiving food stamps based on administrative data by the number of AFDC recipients as measured from survey data. Since the survey data understate the actual number of AFDC cases, the participation rate estimate is biased upward and can reach over 100 percent.

one-third (from 67.4 to 45.2 percent). This finding differs sharply from the results of the Castner study, which found steady rates between 1994 and 1998.

### *Composition Effects*

The analysis by Parke Wilde and others (2000) suggests that declines in participation among those income-eligible accounted for 55 percent of the caseload reduction between 1994 and 1998. Another possibility is the shift in the population from groups with normally high take-up rates to groups with normally low participation rates. Using shift-share analysis on Rosso's tabulations, we can estimate how much of the overall decline in take-up rates was associated with changes in the composition of the population and how much was associated with declining take-up rates within groups. For each way of dividing people into groups, there are three components:

1. A *population share* component, the sum of changes in the share of the population, weighted by the initial participation rate;
2. A *participation rate* component, the sum of changes in the participation rate, weighted by the initial population share; and
3. An *interaction component*, the sum of changes in the population shares times changes in take-up rates.

One grouping involves dividing the population into single-parent households, married couple parent households, multi-adult households with children and households with no children. In this case, shifts in the share of the eligible population across groups accounted for no more than about 10-15 percent of the overall decline in take-up rates. The remaining amount was mostly due to within-group declines in take-up rates. The results are similar when we divide people into households reporting earnings and households not reporting earnings. Again, nearly

all of the participation rate reduction resulted from lower participation within groups. When we classify by income, we obtain a somewhat higher compositional effect, but the declines in participation within income groups still accounted for about 80 percent of the overall decline in take-up rates.

Compositional effects did predominate among single parents, when they are grouped into four categories based on the presence or absence of earnings and the presence or absence of AFDC/TANF income. Overall, individuals in single parent households saw a nearly 18 percentage point decline in take-up rates between 1994 and 1999, from 98.9 to 81.4 percent. Almost all of the reduction came about because of a decline in the share of single parents using TANF/AFDC and an increase in the share with earnings. Both shifts meant moving people from very high participation rate categories (as of 1994) into moderate participation rate categories. In three of the four welfare-earnings categories, food stamp take-up rates actually increased between 1994 and 1999.

The next step is to broaden the categorization to six groups by adding two other groups—married couple households with children and all other types of households—to the four-way grouping of single parents. Such a classification covers all the households and thus provides an overall estimate of compositional factors. Using this group definition, we still find that over half of the reduction in take-up rates took place because households moved from high participation rate to low participation rate groups. Only about 40 percent of the decline resulted from participation changes within groups. Even this share might be lower if we could decompose the population, say by looking at low-income and high-income married couple families.

The accounting exercises leave open several key questions:

- Why are take-up rates consistently low for eligible working families?

- Why did we observe reductions in within-group take-up rates, especially among married couple households with children?
- Why did single parents leaving welfare but remaining eligible for food stamps not obtain food stamp benefits?
- What do the variations across states suggest for the link between welfare and food stamp caseload reductions, food stamp administrative arrangements, and the role of the economy?

Before turning to other studies for answers to these questions, it is worth summarizing the central policy-relevant points.

- 1) Well under half (perhaps 45 percent) of eligible married couple households with children actually received food stamps in 1999, a rate well below the 67 percent rate recorded for 1994.
- 2) The participation rate is only 10 points higher for eligible single parent households with earnings and not on welfare (56.3 percent) than eligible married couple households with children (45.0 percent). The differential may be even smaller if we hold earnings constant.
- 3) Households without children have participation rates slightly below those of married couple households with children and their rates declined only modestly between 1994 and 1999.

#### *Sensitivity of Participation to Policies, Operations, and the Economy*

Two recent studies look at state food stamp participation trends to determine the reasons for the declines in food stamp caseloads. The authors do not measure participation among eligibles directly, but rather interpret their results as estimates of how much the economy and how much program changes contributed to reductions in food stamp participation. Both studies examine data on food stamp caseloads in each state in each year from the early 1980s through the late 1990s.

Ziliak, Gundersen, and Figlio (2000) model annual state food stamp participation (as recorded in administrative data) as a function of: lagged food stamp caseloads, current and lagged unemployment rates, employment change, welfare reform policies, maximum AFDC/TANF plus food stamp benefits, presence of the electronic benefits transfer (EBT) program, the share of the state's population waived from the work requirements for able-bodied unemployed adults without dependents, the error rate in food stamps, the log of per-capita AFDC/TANF caseloads, variables reflecting the state's political climate, year effects, state fixed effects, and state time trends. The authors test for the possibility that the maximum AFDC-food stamp benefit may have been the result as well as the cause of higher food stamp participation. States may have responded to increased use of AFDC by lowering the benefit level. The authors use the state AFDC need standard as a variable to help identify an independent AFDC effect.

The results of the Ziliak, Gundersen, and Figlio study document the importance of economic trends in determining food stamp participation. A robust finding is that 1 percentage point increase in the unemployment rate raises food stamp participation by 9 percent. While some of the estimated impacts of welfare policies are significant in the expected direction, others vary across specifications or are inconsistent with expectations. As expected, higher AFDC/food stamp benefits consistently and significantly raised food stamp participation, as did higher earnings disregards and the absence of JOBS sanctions. Less expected is the result showing pre-PRWORA waivers increased food stamp participation, holding AFDC caseloads constant. The waivers may represent state activism that carries over into aggressive outreach and promotion of food stamps. Similarly, while family caps should lower long-term AFDC/TANF use and thus food stamp use, their expected effect is less clear once we hold constant for the number of AFDC cases. As with other waivers, family caps often raised participation, perhaps because they go

together with proactive state policies that could lead to increased food stamp participation. Other reform provisions, including work requirements, time limits, and post-PRWORA waivers, exerted effects that differed from one specification to another.

Food stamp policies failed to generate robust impacts in the expected directions. One would expect the implementation of Electronic Benefits Transfer (EBT) to raise participation, since EBT's substitution of electronic cards for food coupons should reduce stigma and transactions costs. Yet, the results suggest that EBT implementation led to a 9 percent reduction in food stamp participation. Even the waiver of rules restricting participation by the able-bodied without dependents did not consistently raise participation. A high food stamp error rate, which should push states to tighten administrative rules and increase the frequency of certification, would be expected to raise transaction costs for recipients and discourage participation. Yet, high error rates were usually associated with higher participation levels or were insignificant. The reason might be that some states develop effective outreach for working families and that a higher share of working families in the caseload raises error rates. Thus, it may be that high participation (induced by more working families in the caseload) induces high error rates and can more than offset the negative impact on participation associated with state efforts to reduce error rates. It is interesting to note that in recognition of the effect of working families on errors, the Department of Agriculture in 1999 lowered error-related sanctions for states with above average shares of working families in their caseloads (Greenstein and Guyer, 2001).

To explain the 1994-1998 decline in total food stamp participation (as distinct from declining participation *rates*), Ziliak, Gundersen, and Figlio calculated several predicted impacts of the actual changes in independent variables over the period. In virtually every specification, welfare reform policies account for little of the decline, while the strong labor market explains

from 45 percent of the decline in their preferred dynamic analysis. These estimates do not capture participation rates because they do not take account of changes in eligibility, either induced by increased incomes or by changes in policy. The economy might have lowered levels of participation by reducing the number of eligibles or by reducing participation rates, either because taking up food stamps became less urgent or because more of the eligibles became working families and thus experience high transaction costs. The weak welfare policy effects in these estimates conflict with the view that welfare policies are largely responsible for causing families to leave the welfare rolls and simultaneously drop out of the Food Stamp Program.

More reflective of a TANF-induced reduction in food stamp participation are the results of a recent study by Currie and Grogger (2001). Like Ziliak, Gundersen and Figlio, Currie and Grogger develop estimates based on state aggregates by year from 1980 to 1998. But they also analyze the impact of state variables on variations across individual households, using CPS data. These regressions allow the effects of employment conditions as well as welfare and food stamp policies to vary by demographic group and to hold constant age, gender, education, race, and metropolitan location. The findings reveal large and statistically significant impacts of TANF implementation on food stamp participation by single parents; the fact that the TANF variable was not significant for other groups strengthens the case for a TANF effect. Surprisingly, high welfare benefits generally reduced food stamp participation, especially for single heads, but also for married parents. Currie and Grogger speculate that in high welfare benefit states, food stamps make up a lower proportion of potential income and this tends to reduce participation.

Their results show that longer recertification intervals increase participation of single parents and rural households, a finding consistent with a transaction cost explanation for

underutilization of food stamps.<sup>5</sup> However, the length of recertification periods did not have statistically significant impacts on other groups, though the predicted impact on married parents was positive. Greenstein and Guyer (2001) argue that certification intervals probably played an especially significant role in the 1994-1999 decline in food stamp participation. They point out that 12 states raised by 50 percentage points or more the proportion of working households with children requiring certification every three months or less. In those states, participation of working households with children fell by 29 percent; in all other states, the decline was less than 1 percent.

Currie and Grogger find no sizable role for the implementation of EBT, suggesting a minor role for stigma. However, the absence of an EBT effect might not be persuasive evidence against the stigma explanation, since the EBT has only recently been implemented in most places and start-up or information problems may be delaying a potentially positive long-term effect of EBT. Surprisingly, in the 1989-98 period used for the analysis of these two variables, the regressions show no statistically significant impacts from unemployment or maximum welfare benefits.

In commenting on this paper, Gary Burtless (2001) emphasizes the sharply higher transaction costs for obtaining food stamps among individuals not on welfare as compared to welfare recipients. He sees the Currie-Grogger results as consistent with TANF-induced declines in participation among eligibles, though notes that the study does not provide direct information about take-up rates.

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<sup>5</sup> Recertification intervals for working families with children, which are available only since 1990, averaged 8.8 months in 1990, with a standard deviation of 2.53 months, and 7.72 in 1998, with a standard deviation of 3.35 months.

In another comment, Robert Schoeni (2001) highlights the inherent problems with all strategies trying to find an impact of TANF on employment or on food stamp participation. These include the presence of unobserved changes, such as child care, transportation and child health insurance, that may be taking place at the same time as TANF implementation, the difficulty of taking account of lagged effects of TANF, and the fact that all states implemented TANF within a narrow time period (16 months). It is also worth noting that TANF did not change the AFDC world very much, at least during initial implementation.

*Other Evidence on Reasons for Nonparticipation*

Evidence from a study by Daponte, Sanders, and Taylor (1999) illustrates the difficulty of accurate measures of take-up rates. In an effort to find eligible non-participants, they screened 405 low-income households in Alleghany County, Pennsylvania for food stamp use and food stamp eligibility. Of the 80 nonparticipants willing to participate in their study, 49 had incomes less than 130 percent of the poverty level, making them plausibly eligible. However, on closer examination, 24 of the 49 were ineligible for reasons having to do with monthly income, assets, or a combination of the two. The authors concluded that many households that appear eligible based on income data in national household surveys are probably not eligible. If standard data sets overstate eligibility, then studies using the data understate food stamp take-up rates.

The study tried to determine the potential impact of information by randomly assigning low-income families to a treatment group, which was given information about each family's food stamp eligibility, and a control group not provided with such information. Before being provided with information, 63 percent of the 32 eligible nonparticipating households did not think they were eligible, but 34 percent either said that they didn't need the benefits, that food stamp stigmatized participants, or that there was some other reason for nonparticipation. After

receiving relevant information, only 11 of the 31 households contacted had applied for food stamps and 3 answered “not yet”. Of the 16 who did not apply, most were eligible only for small amounts and said applying for food stamps was “too big a hassle” or “it isn’t worth it.” While only about one-third of those provided with information applied for food stamps, none of the control group did, suggesting some role for information. Stigma appeared to play at most a minimal role. The results showing take-up rates rising with potential benefits indicate a likely role for transaction costs relative to expected benefits.

While the findings of Daponte, Sanders and Taylor raise cautions about estimates of eligibility and thus take-up rates, evidence developed by Zedlewski and Brauner (1999) reinforces the view that take-up rates fall as the size of the benefits declines. In their analysis of the National Survey of America’s Families (NSAF), Zedlewski and Brauner focus on who leaves food stamps, especially among families leaving AFDC/TANF between 1995 and 1997. They examine the population that received food stamps at any time between January 1995 and the 1997 interview. Of this group, some left the FSP in 1995, 1996, or in 1997 before the interview date.

Not surprisingly, leavers had higher incomes than stayers, but many leavers still apparently qualified for food stamps. Of those leaving welfare with incomes below 130 percent of the poverty line, only 42 percent claimed food stamps. Families leaving welfare were even more likely to exit from food stamps than families never on welfare. Take-up rates declined sharply with income relative to needs, reinforcing other findings that high potential benefits encourage food stamp participation and that the low take-up rates are concentrated among those with low potential benefits.

Direct evidence of high transaction costs or at least high, perceived transaction costs comes from responses by food stamp leavers about why they left. Of food stamp leavers who had never been on welfare, 17 percent reported administrative problems or hassles were the reasons. Among the food stamp leavers not on welfare with low monthly income, administrative problems or hassles was the reason for leaving cited by nearly one in three households. Only about 7-8 percent of leavers said they did not want or need food stamps. This group is most likely made up of people who see the stigmatizing dimension of food stamps.

Overall, the literature documents both declines in take-up rates within categories and a shift from high to low food stamp participation rate groups. Some of this shift involved large numbers of single parents moving from welfare (a high food stamp participation rate category) to work and no welfare (a low participation rate category). The groups continuing to experience the lowest take-up rates are households with earnings and households with relatively low expected benefits.

Given the sharp decline in food stamp participation among eligible households, especially among workers and those with low expected benefits, the question arises: Did the lower use of food stamps worsen food security?

The economic growth over the late 1990s should have and did contribute to a decline in food insecurity and hunger between 1995 and 1999 (Nord 2001).<sup>6</sup> However, food insecurity did increase for low-income families not receiving food stamps, perhaps as the composition of the group changed with the addition of many former AFDC/TANF recipients. Nord argues that the

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<sup>6</sup> The food insecurity measure comes from a Current Population Survey supplement in which households respond to questions about food spending, use of food assistance programs, and experiences of food insecurity and hunger. Food insecure households were uncertain of having, or unable to acquire adequate food to meet basic needs at least some time during the year because of inadequate household resources for food. Families with hunger had food deprivation so severe that at least one person in the household was hungry at times because the household could not afford enough food.

increase in food insecurity for the rising share of low-income families not receiving food stamps was because the group included more people that were either less aware of their food stamp eligibility or found it too cumbersome to apply. Nord notes that the participation rate declines apparently did not lead to increases in severe food insecurity or hunger. Indeed, among low-income single mothers not receiving food stamps, severe food insecurity dropped from nearly 15 percent to 11 percent.

Despite the increase in food insecurity among non-recipients of food stamps, low-income non-recipients were much less likely to experience food insecurity or hunger than were low-income families receiving food stamps. For example, food insecurity among low-income, two-parent households reached 52 percent for those receiving food stamps but only 32 percent for those not receiving food stamps. The strikingly high figure for food stamp recipients indicates that the program is not adequate to prevent a large amount of food insecurity. In addition, the data suggest that non-recipients are less in need of help in meeting food requirements than are food stamp recipients.

One simple explanation for more severe food problems among recipients is that low-income non-recipients had higher incomes than did low-income recipients. Zedlewski and Brauner compared concerns about the affordability of food among families with children leaving the food stamp program with families staying on food stamps at the same level of income relative to poverty. They found little difference between the groups with regard to severe food concerns. Approximately 25-30 percent of each group experienced serious food affordability

problems. Still, it is striking that despite giving up food stamps and having no more income than stayers, leaver families did not face a higher incidence of food insecurity than stayer families.<sup>7</sup>

The recent studies on food stamp participation reinforce the view that eligible working families are substantially less likely to participate in the Food Stamp Program than other groups and that take-up rates declined partly because of the shift of families from welfare to work. High transaction costs, especially compared to projected benefits, are partly at fault but so are other factors. In addition, the studies raise several new questions, including:

- Do national data sets provide sufficient information to make an accurate assessment of food stamp eligibility? In particular, are these data sets overstating eligibility?
- Why are food insecurity problems more severe for food stamp recipients than for low-income non-recipients?
- Should policymakers be concerned about underutilization?

What approaches might permit food stamps or an alternative program to reach the low-income working families, who are least likely to participate?

### **New Evidence on Food Stamp Participation Patterns**

To add detail to the picture of low take-up rates among working families, we examine food stamp use based on data from the National Survey of America's Families (NSAF), as adjusted for underreporting. The Urban Institute's TRIM model provides a method for imputing

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<sup>7</sup> The income figures are based on 1997 monthly earnings and estimates of other income based on 1996 non-employment incomes. Zedlewski and Brauner developed and used a scale based on responses to questions as to whether the family worried that food would run out before it got the money to buy more, the food did run out, or one or more adults ate less or skipped meals because there was not enough money for food.

participation and benefits to non-participating families so that total benefits and participants approximate estimates based on administrative data. These adjusted data allow for a detailed look at participation patterns and take-up rates, assuming that the eligibility calculations and imputed participation patterns developed in TRIM are accurate. The TRIM-based NSAF figures incorporate an especially large sample of families with incomes below 200 percent of the poverty line. The CPS, used by Currie and Grogger, does not fully adjust for the substantial underreporting of food stamps by respondents. Only about 65 percent of outlays on food stamp benefits appear in the CPS as reported or imputed by the Census Bureau (Wheaton and Giannarelli 2000). In contrast, the TRIM-based NSAF allocates enough households to food stamps to avoid the underreporting problem and thus to reveal levels of participation consistent with administrative data on actual receipt, levels higher than reported amounts.

Of special interest are the following questions:

- Which eligible working families/households do and do not obtain food stamps? What amounts of food stamps are lost to such families, as a share of their total incomes?
- To what extent do non-participants from eligible, working families suffer food-related material hardships?
- Can we infer anything about participation by eligible working families from the analysis of NSAF participation? Might the absence of food security problems reduce the likelihood that households participate in food stamps?

#### *Receipt of Food Stamps by Working Families*

Given the many possible definitions of working families, we present a variety of estimates of food stamp use and take-up rates. One simple approach is to define “working family” as one in which the family’s earnings are at least equal to annual earnings of full-time,

year-round workers at the minimum wage, or about \$10,000 per year. In the initial calculations, we restrict the analysis to households with one family and with at least one child.<sup>8</sup> On the basis of 1998 incomes, there were 32 million such working families, out of a total of 36 million families with children (in single-family households.) TRIM estimates that about 6.2 million of these working families qualified for food stamps, but only 1.97 million, or about 32 percent, actually claimed benefits. The remaining 4.2 million would have received an average benefit of about \$1,025, or less than \$100 per month. If we limit working poor families with children in one-family households to those below the poverty line, we have 1.5 million families. About 92 percent of these working poor families were eligible for food stamps, but only 54 percent of the eligibles obtained food stamps. These non-participating working poor families numbered nearly 650,000 and, on average, they qualified for a sizable \$2,700 benefit. Had they received their food stamp payments (and counting food stamps as cash), their poverty gap would have declined by 2/3 (from about \$1.9 to \$0.6 billion) and about half these families would have moved above the poverty line.

Not surprisingly, low participation was common among working families between the poverty line and 125% of poverty. Although 93 percent of these 1.36 million working families qualified for food stamps, only 31 percent participated, implying a 34 percent participation rate. The average benefit lost by the 830,000 families in this group not participating was \$1,277 per year, or over \$100 per month.

Among married couple working families with children, participation was especially low. Of the 3.6 million qualifying for food stamps in this group, less than one in four (22 percent)

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<sup>8</sup> These initial calculations exclude about 1.2 million one-family households with children with earnings \$1,000 and \$9,999.

claimed benefits. The remaining 2.8 million families were eligible for a monthly payment of about \$85, or \$1,025 on an annual basis. Only about 14 percent of these families, or about 400,000, were poor. For such families, food stamps would have raised their incomes by nearly 20 percent, filled 2/3 of their poverty gap, and pushed 57 percent of these families above the poverty line. About 1.1 million of working, married-couple families with children who were eligible and not receiving food stamps had incomes between the poverty level and 1.5 times the poverty line. The lost food stamps equaled about 5 percent of their incomes.

[Tables and figures are bound at the end of the paper]
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Table 1: Eligibility, Food Stamp Participation Rates and Average Loss from Nonparticipation

Table 1 reveals the sensitivity of participation rates and food stamp losses to the level of household earnings, both for families with and without children. The tabulations show how take-up rates decline sharply with earnings and with the declining share of income that the foregone food stamps represent. Still, it is noteworthy that nearly half of working families with \$10,000-14,999 in earnings give up food stamps worth 13 percent of their income. Nearly two-thirds of working families in the next category do not take up food stamp participation, potentially giving up 7.5 percent of their incomes.

Complications arise in understanding the eligibility and take-up rates of households with more than one family. The NSAF data project that over 17 million families live in multiple-family households. According to the TRIM simulations, about 36 percent of these families were eligible for food stamps. However, given the detailed provisions of the food stamp program about income, assets, housing expenditures, and child care spending, existing data sets generally lack sufficient information to determine the nature of the household filing unit and thus the likelihood of food stamp eligibility. Among families with children in multi-family households and projected *eligible* for food stamps, average family income was about \$22,400, while

household income was \$28,700. About 66 percent of this group actually received food stamps and their household incomes averaged \$30,500.

The interaction of earnings and food stamp participation differs somewhat from families in multiple-family households compared to families in one-family households. Participation rates at moderate to high levels of household earnings are much higher in multi-family households than in one-family households. For example, in food stamp eligible families with children and \$15,000-\$20,000 in earnings, the participation rate in multi-family households was 61 percent, well above the 36 percent rate for families in one-family households. The gap in participation rates was even wider in households with earnings \$20,000 and over; families in multi-family household had a 65 percent participation rate, well above the 20 percent rate observed in one-family households. Even among two-parent families with at least \$10,000 of household earnings, the food stamp participation rate was nearly 60 percent in multi-family households. Eligible families headed by an unmarried parent in multi-family households participated at a higher rate, at 65 percent, even when the households had \$10,000 or more in earnings.

It is unclear why participation rates are especially high among working families in multi-family households. We take a closer look at this issue in the multivariate analysis in a subsequent section.

#### *Food Stamp Nonparticipation and Food Hardships*

One concern is that eligible families who do not obtain food stamp benefits might be left with insufficient food. Such an outcome would weaken the ability of the Food Stamp Program to reduce or eliminate hunger. Any effort to answer this question must confront the problem of isolating the nonparticipation decision from other factors; this requires comparing

nonparticipants with otherwise similar participants. In practice, to control for unobserved as well as observed differences, one must find an exogenous determinant of participation that is unrelated to differences in food hardship. In this section, we provide a less ambitious, descriptive look at the experiences of food hardships among participants and non-participants with similar household earnings.

[Tables and figures are bound at the end of the paper]
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Table 2: Food Hardship and Food Stamp Participation by Level of Earnings

The NSAF uses several questions to identify food hardships. In Table 2, we focus on two outcomes: 1) whether it was often true that the respondent worried that food would run out before the family got money to buy more (worried); and 2) whether it was often true that the food the respondent or family bought didn't last and the family did not have money to get any more (didn't last). The comparisons are between eligible food stamp families with similar earnings who do and do not participate in the Food Stamp Program. The results are quite surprising. Nonparticipants generally experienced much less food hardship than did participants with similar levels of household earnings. The finding that receipt of food stamps (among eligibles) is associated with worse food adequacy problems holds after controlling for household income instead of household earnings and for household size. Note in Table 2 that for families with any earnings at all, less than 10 percent of eligible nonparticipants experienced a problem with food that "didn't last". Thus, the overwhelming majority of eligible, nonparticipating working families did not report experiencing a serious food hardship.

These results do not mean that food stamp participation is unimportant. First, it is possible and perhaps likely that food adequacy problems would have declined still further had eligible nonparticipants obtained food stamps. Second, participating in food stamps could have reduced other hardships, by allowing money allocated to food to go toward other purposes.

Third, food inadequacy could have caused people to participate in the FSP. This possibility could help explain both the low average participation rate and the differences in participation among working families. Suppose families view food stamps strictly as a way of supplementing their food purchases. In this case, families with adequate food supplies feel less urgency in applying for food stamps and participate at lower levels than families with similar incomes but who experience more serious food adequacy problems. Such scenarios turn around one's initial concerns that nonparticipation worsens food problems. Instead, it may well be that food problems stimulate families to apply for food stamps and that food adequacy weakens the incentive to go through the administrative hassles and potential stigma involved in obtaining food stamps.

Indirect evidence for the expectation that families see food stamps as a food benefit program and not as income supplementation comes from studies showing that the marginal increase in food consumption is higher per dollar of food stamps than per dollar of cash income (Moffitt, 2000). To examine more closely the role of food problems in inducing higher participation, we turn to a multivariate analysis of participation among eligible participants.

#### *Determinants of Food Stamp Participation among Eligibles in NSAF*

The NSAF, as adjusted by TRIM procedures, offers advantages over other data sets in examining food stamp participation rates. First, the TRIM-based NSAF data correct for underreporting of food stamp receipt and provide more precise estimates than the unadjusted CPS of food stamp benefits available to each household and of the eligible population. Second, the NSAF offers a large sample of low-income families and enough cases in 13 states to identify state effects reliably. Third, the NSAF includes a broader array of variables than the CPS, such as food hardship questions.

While a new quantitative study of participation rates is not the primary focus of this essay, the evidence gleaned from multivariate analysis of food stamp participation in the TRIM-based NSAF data can illuminate issues relevant to our proposed policy recommendations.

The basic model is a probit equation to determine food stamp participation among families eligible for food stamps and earning at least \$5,000. Because a dollar of earnings reduces potential food stamp benefits less than a dollar of other income, a higher share of earnings will mean higher food stamp benefits among families of the same size and with the same level of income. On the other hand, families with more earnings might face higher transaction costs or feel higher stigma in obtaining food stamps. Thus, holding poverty thresholds constant, a higher share of earnings could raise or lower food stamp participation. Since the poverty threshold and the share of earnings do not capture other program rules embedded in the TRIM analysis, we examine an alternative specification that includes the size of each family's potential food stamp benefit as an independent variable.<sup>9</sup>

One important issue related to analyses of food stamp participation is the presence of unmeasured variables that affect material hardships but not current food stamp eligibility. For example, families with the same total income and the same composition of income might differ significantly in terms of lifetime income. However, it is not clear how this distinction should affect food stamp participation. A family with high permanent income but hit with an income shock may be especially willing to participate in order to cushion the sudden drop in living standards. On the other hand, higher than average permanent incomes may be associated with unmeasured current income and assets, making it easier for the family to meet its needs than

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<sup>9</sup> Regressions of potential food stamp benefits on the poverty threshold and earnings as a share of income explain about 50-60 percent of the variation in potential food stamp benefits.

families with the same current income but lower permanent income. Education is one indicator of permanent income. While higher education might also be associated with more knowledge about the program, less educated families may know as much about food stamps because their peers are more likely to have used the program.

The family's ability to have adequate food and make food last may interact with food stamp use in a variety of ways. We expected participation in food stamps, holding constant a family's money income relative to needs, would lessen shortfalls in food caused by a lack of money. However, the basic tabulations were inconsistent with this hypothesis, suggesting the possibility that households with inadequate food are more likely to obtain food stamps than other families with the same cash income. The multivariate analysis provides a more detailed look at this relationship.

The equations include demographic characteristics, educational attainment, home ownership, and residence in public housing. Some include state of residence as well. Most specifications limit the sample to groups with or without children, families in or out of multi-family households, and to married couple households and household headed by unmarried women.

[Tables and figures are bound at the end of the paper]

Table 3: Determinants of Food Stamp Participation among Food Stamp Eligible Families With Children and Earnings of At Least \$5,000 Per Year

The results in Table 3 provide evidence about several hypotheses. First, even among families with the same income to needs ratio, higher earnings are associated with lower food stamp use. This is in spite of the fact that higher earnings offset by lower non-employment income should raise potential food stamp benefits. Perhaps, families with a higher share of

earnings experience higher transaction costs or higher stigma costs in obtaining food stamps. Second, homeowners are much less likely to take up food stamps than are renters with many of the same characteristics. The impact is especially striking among married couples, where owning a home is associated with a 10 percentage point lower participation rate, a reduction of about 40 percent relative to the mean. Third, education matters but the effects vary by subgroup. High school dropouts (relative to high school graduates) show higher rates of participation both among married couple and mother-headed families than others with similar incomes and potential food stamp benefits. The higher participation among dropouts in working families might reflect lower permanent income, less aversion to food stamp stigma, or perhaps more knowledge of the program than high school graduates. In the case of single parents, those with a BA or higher were more likely to participate than were high school graduates. Perhaps, these highly educated single parents were more aware of their eligibility for food stamps and did not have especially high permanent incomes that might deter them from applying for benefits.

Higher potential food stamp benefits, even among those with the same earnings share and income to needs ratio, attracted higher participation in food stamps. This consistent result provides some added evidence for the notion that eligible families weigh the costs of participation (including transaction costs) against the benefits.

The evidence is strong that food hardships significantly and substantially stimulated food stamp participation rates. Those whose food did not last because of a lack of money had participation rates that were 15-19 percentage points higher than those with the same income-to-needs ratio, earnings share, age, race, education, number of children, residential status, and potential food stamp benefits. The 19 point impact among married couple families was especially large, given their 25 percent mean rate of participation. One interesting implication is

that households obtaining food stamps experience higher levels of food hardship than households with the same cash incomes who do not receive food stamps.

The findings cast doubt on the view that a lack of knowledge is primarily responsible for nonparticipation. If limited knowledge were the main explanation, then we would expect more hardships among nonparticipants than among participants with the same cash income. It is possible that those who are able to meet their food expenses face less pressure to learn about food stamps and thus, report having less knowledge. Still, the underlying reason for nonparticipation would be food adequacy and not a lack of knowledge.

The positive relationship between food stamp participation and food hardship does not hold for all eligible recipients. For example, food stamp participation among single mother families with no earnings is associated with lower levels of food hardship.

The inclusion of 13 state dummies—with the remainder of the country as the excluded category—does not change any of these results. Most of the state dummies are not statistically significant or consistent. California is associated with much lower participation rates among working single mothers but not among eligible married couples. Participation rates are significantly higher among married couple families in New York and Michigan, but significantly lower among single mother families in New York. Texas is associated with participation rates about 10-13 points lower for both groups of families.

The analysis to this point draws primarily on household survey data for understanding FSP participation. The next section turns to the potential role of food stamp operations in promoting or deterring food stamp participation among low-income, working families.

## **Food Stamp Operations and the Working Poor**

In conducting this research, we visited Food Stamp Program offices in three states and discussed operations with office managers or program analysts in four others. The site visits took place in Greene County, Missouri; Milwaukee County, Wisconsin; and New York City. In addition, we conducted telephone interviews with officials in California, Ohio, South Carolina, and Texas. The objective of the interviews was to gain understanding of the on-the-ground interaction between the Food Stamp Program and Temporary Assistance for Needy Families and the processes whereby low-income working families not receiving other benefits gain access to food stamps. The discussion here emphasizes the three sites visited. It was difficult in the telephone interviews with strangers to carry discussions beyond the formal requirements of law in order to gain more insight into actual operational details.

Sites were selected to achieve diversity in both program and environment. On the program side, we wanted to look at both small and large FSP operations and at the interaction between food stamps and a variety of different TANF strategies. On the environment side, we looked for variation in the character of the job market in which “non-assistance” (the term used in New York for recipients who were not receiving TANF benefits) food stamp recipients worked. Beyond program and environment, we were drawn to two sites (Milwaukee and New York City) because earlier studies (by the General Accounting Office and the Food and Nutrition Service) had raised concerns about limitations on access to food stamps in these locations. Obviously, there are many variables of interest but, with only three sites, very few degrees of freedom. As a result, our main objective for the investigation was to gain additional insight into factors that influence Food Stamp Program access and take-up, insights that might contribute to the design of possible variations in food stamp strategies.

Before looking in detail at each site, it is useful to consider the local context in which the Food Stamp Program is operating. Of course, New York City has by far the largest FSP and TANF caseloads among administrative entities. (New York City is a combined city/county government and thus carries out functions, including provision of social assistance, associated elsewhere with county governments.) At the time we visited (September, 2001), the city food stamp caseload was 417,812 cases, compared to Milwaukee County's 41,976 (April, 2001), and Greene County's 7,807 (annual average, 2001). The city TANF caseload was 147,587 cases, compared to Milwaukee County's 5,427 and 1,372 in Greene County. The TANF benefit for a family of three was \$292 in Missouri, \$577 in New York City, and \$673 in Wisconsin. Differences in the ratio of FSP households to TANF cases are noteworthy: In Greene County, the ratio is 5.6. New York's is 2.8, and Wisconsin's is 7.7.

Treatment of TANF cases with earnings differed substantially. For recipients who become employed, the Missouri TANF program excludes from consideration in calculating benefits \$90 plus two-thirds of earnings for the first year after job-taking, \$90 thereafter. In New York, \$90 plus 47 percent of gross earnings are not counted for as long as the family remains eligible for TANF. Wisconsin provides essentially no disregard, making working families for the most part not eligible for TANF benefits. Given the combination of relatively high benefits and a substantial long-term earnings disregard, New York City offers the greatest opportunity for combining TANF and work while Wisconsin offers the least.

Variations in TANF rules affect the likelihood that food stamp eligibility will be achieved and retained through access to cash assistance. As a result of changes in federal regulations, in 2001 states could alter the asset standards for FSP eligibility to conform to those incorporated in TANF or in related programs included in state TANF maintenance-of-fiscal-effort calculations.

At the time of our visits, New York City retained the federal food stamp vehicle asset rules. Missouri excluded the value of all vehicles from assets tests if the recipient family was receiving any service for which state outlays count toward TANF maintenance of effort requirements. Wisconsin excludes the value of all automobiles in assessing eligibility, since this is the procedure followed in the state's childcare assistance program, called "BadgerCare," and BadgerCare outlays are in part financed with TANF dollars.

We now turn to the site narratives in order of FSP caseload.

*Greene County, Missouri*

Springfield, the third largest city in Missouri, dominates Greene County. The county has a diverse economy with low average wages but also very low unemployment rates. Employment is significant in manufacturing and tourism-related services, and low-skill, low-wage jobs are readily available. This is an environment in which the income supplement function of food stamps is quite important. While Missouri's rules regarding treatment of earnings in TANF benefit computation would seem to encourage combining work and welfare (thus assuring ongoing categorical eligibility for food stamps for people newly employed), it is local office policy to encourage people with jobs to terminate their TANF cases. The reason is that Missouri's TANF benefit is small to begin with, and payments fall after a year in work when the earnings "disregard" is reduced. Caseworkers tell clients that given the state's five-year "lifetime" time limit on TANF benefits it is important to bank remaining months of potential eligibility as a security reserve. The loss of categorical eligibility means these working, former welfare recipients must obtain food stamps through separate applications.

Food stamps and TANF are handled through the same offices. Virtually all active food stamp cases that are not receiving TANF benefits obtain support through other programs that

count toward TANF maintenance of effort requirements. (Put another way, few working families who are not recipients of other benefit programs are part of the food stamp caseload.) Because TANF recipients are automatically eligible for food stamps, agencies can apply the less stringent asset and vehicle limits on eligibility. But this TANF-food stamp linkage poses a problem at the front door. If a family applying for food stamps is not at the time receiving or does not simultaneously apply and qualify for other benefits, the generally stricter federal asset limits apply, including the maximum for automobile value.

The county uses three-month recertification for FSP households not receiving TANF assistance. The recertification policy reflects, we were told, the state's concern with FSP error rates. Recertifications are done with in-person interviews and generally occur within normal working hours, thus requiring recipients to take time off from their jobs. The caseworkers with whom we spoke considered face-to-face interviews important, both for providing advice to applicants and for detecting fraud. However, they were emphatic that doing recertifications quarterly was a substantial burden for them and for clients. One factor contributing to this sense of unnecessary overburden is that, for the most part, the same families are also reporting income through other programs. They're *known*. Since the community is relatively small, fraud is difficult to conceal. One major sporting goods firm has integrated food stamps into its wage policy to the extent that employees with dependents are encouraged to apply and earnings are reported directly to the FSP office.

The problems posed by the three-month recertification cycle are compounded by Missouri state policy. Springfield is, by census standards, metropolitan (a central city of the Springfield/Branson metropolitan area), yet wages paid Food Stamp Program (and TANF) personnel are set at rural levels by state government. (Workers in Kansas City and St. Louis

enjoy a higher scale.) Staffing is not proportional to size, so caseloads in adjacent counties are much smaller than in Greene. As a result, the county regularly loses employees to its neighbors, with the attendant problems of continually training new staff. At the time we visited, the problem was exacerbated because no vacancies were being filled due to a hiring freeze.

*Milwaukee County, Wisconsin*

Over the past 15 years, the state of Wisconsin has arguably produced the most radical of state welfare reforms. Not only is the state's TANF program, Wisconsin Works (nicknamed W-2) structurally the most novel, but also the mode of provision is unique. The state has experimented with contracting for full delivery of the system with both governmental and non-governmental units. This innovation is most important in Milwaukee County. At the time of our visit, five independent contractors, one for-profit and four not-for-profit organizations, delivered W-2 in the six county districts. (One contractor won rights to provide W-2 in two counties.) Each district includes a portion of Milwaukee City.

When then-Governor Tommy Thompson first proposed W-2 in August 1995, the plan called for contracted joint delivery of W-2, food stamps, and a state replacement for Medicaid. The state applied to the U.S. Department of Agriculture for a waiver to allow inclusion of food stamp administration among the responsibilities of its contractors, but the waiver was not approved. As a result, in locations in which the W-2 contractor was not a county government—and therefore all locations in Milwaukee County—a “dual” intake procedure was adopted in which county workers handled food stamp applications and employees of the W-2 contractors conducted TANF intake. As might be anticipated, the system proved administratively awkward, in part because the county employees were not managed by W-2 contractors, were more generously paid than employees of the W-2 contractors, and generally had lighter workloads.

More than labor relations was involved in structuring the food stamp/ W-2 interface. The W-2 “philosophy” explicitly emphasized diverting people from assistance. Wisconsin’s official (1996) description of Wisconsin Works calls for “consistent application of...eight principles,” of which the seventh is famously the “light touch”. The official document goes on to say, “The new system should provide only as much service as an eligible individual asks for or needs. Many individuals will do better with just a light touch.” At least on face, the implication of the “light touch” seems to be “if a help-seeker doesn’t ask for food stamps, we won’t draw attention to the program.”

In early 1999, the Food and Nutrition Service investigated participants’ access to food stamps at Milwaukee’s privatized welfare centers. While FNS discovered no deliberate diversion, it reported that applicants for assistance were sometime not informed immediately of their right to food stamps, nor were they offered a food stamps application (U.S. General Accounting Office, July 1999, p. 37). A subsequent review by Wisconsin’s Legislative Audit Bureau (Wisconsin Legislative Audit Bureau, 2000) argued that while the problems identified by the FNS had been addressed, access to food stamps continued to be inhibited by various factors, including the state’s quarterly recertification requirements.

In the wake of the FNS audit, the state began aggressively promoting food stamp access, with the apparent result that by mid-1999, well before the current recession began, FSP participation was increasing. At the time of our visit, it appeared that the food stamp entitlement was made abundantly clear to those seeking assistance at the county’s job centers, and in addition to the six district centers, there were other food stamp access points. However, in the Job Centers we visited, the available times for meetings with W-2 workers were substantially

greater than for food stamps because of work hour restrictions contained in the county's contract with its workers.

There is a paradox here. W-2 is unusual among state TANF programs in essentially precluding the combination of cash welfare and market work. Those without a job can obtain cash benefits in return for full-time subsidized work or work-related activity. If one has an unsubsidized job, the expectation is that income supplementation will come through food stamps and the combination of federal and generous state earned income credits. Thus, one seeks income from W-2 itself if one doesn't have a job. Presumably, the absence of a job makes visiting the Job Centers during working hours easier; the expectation is that those relying on food stamps alone are employed. Yet, the W-2 contractors more effectively promoted assistance access to TANF than did the County in promoting access to food stamps.

Recently, additional changes in W-2 administration have been announced that may lead to expanded promotion of food stamp benefits. After extensive negotiations, the state has awarded Milwaukee County a contract to become the "front door" for all social services, including W-2 and food stamps. This will eliminate the dual-contact feature of the former system. A single county worker will now handle intake. In addition, the county's role in outreach is to be expanded. While this innovation may remove any residual confusion between the rights and obligations associated with Food Stamp eligibility and procedures followed for access to W-2, the consequence for Food Stamp access will depend on how County government responds.

#### *New York City*

In 1998, the New York City Human Relations Agency became embroiled in a controversy with the Food and Nutrition Service and local advocacy groups over the

administration of the Food Stamp Program. The controversy stemmed from policies introduced as the agency began conversion of its welfare offices into “Job Centers.” The conversion signaled a shift in city welfare policy from an emphasis on traditional income maintenance to engagement of applicants and recipients in an intensive effort to find jobs. Much of this effort focused on the goal of diverting applicants seeking help from welfare toward meeting immediate needs with a combination of lump-sum payments and finding jobs. In the process the Food Stamp entitlement got lost. In a study of two of HRA’s Job Centers, the FNS regional office found that frequently, inquirers were not allowed to apply for food stamps during their first visit, weren’t informed of the possibility of food stamps receipt even if they accepted a lump-sum diversion payment, and were denied access to food stamps if they refused participation in the job search and other referrals required for establishing cases in the city’s TANF or general assistance (“Safety Net”) programs. All of these actions contradicted the FSP regulations (U.S. General Accounting Office, 1999, p. 13). In response to the FNS assessment and an injunction issued by a federal district court, the agency adopted a corrective action plan in April 1999 that largely established the procedures currently in force.

The current system separates Food Stamp eligibility determination both procedurally and, in many cases, physically from TANF and general assistance. The City currently provides TANF assistance through a network of 27 Job Centers distributed across the city’s 5 Boroughs. In addition to the Job Centers, the city operates 22 Food Stamp Program/ Medicaid offices that are ports of entry for individuals seeking food stamp (and/ or Medicaid) assistance alone. One can apply for food stamps at either the Job Center or food stamp locations; if an applicant asks for cash assistance at the Food Stamp Program office, he/she is given the address of the

appropriate Job Center. In both locations, assessment of “immediate needs” at the initial visit offers opportunity for expedited eligibility determination or emergency food provision.

For individuals seeking cash assistance, assessment of eligibility for TANF and food stamps can take up to 25 days, thus providing a five-day margin for meeting the federal 30-day requirement. During this period, the TANF applicant satisfies various referral requirements, including child support, fingerprinting, and eligibility verification. Applicants judged “employable” are assigned to a Skills Assessment Provider (SAP). The SAP is typically a not-for-profit agency with which the city has contracted for job placement services. Participation in job search is a requirement for eventually receiving the full TANF benefit. In cases in which adults refuse to participate in SAP activities but meet other requirements, the case will be opened but family benefits are proportionately reduced. In all cases, including those in which the SAP vendor succeeds in achieving a job placement and pre-empting receipt of TANF, Food Stamp processing continues.

Procedures at the Food Stamp Program offices differ from TANF procedures in that no SAP vendor is involved, employability is judged under a less rigorous standard (for example, single parents with preschool children are exempted), the employment referral is for registration with the state employment service, and instead of receiving an “Application/Job Profile (AJP) kit” as would occur at the Job Centers, the applicant is given a single application to fill out and then scheduled for review with an intake worker. The application is registered immediately and the 30-day “clock” for determination begins. Regardless of port of entry, the applications data go into the state’s Welfare Management System; the employment/ referrals data required for SAP are handled in a separate (but connected) system called NYCWay. NYCWay files are not established for Food Stamp only cases.

As elsewhere, TANF cases are categorically eligible for food stamps, so no separate food stamp recertification occurs as long as TANF benefits are received. In New York, all TANF cases receive annual reviews, and most TANF recipients are continuously involved in workfare (called WEP) and other employment preparation activities. For food-stamp-only cases, the state has opted for a four-month recertification cycle for cases with earnings, again with face-to-face interviews. (Cases without earned income such as SSI recipients are reviewed annually.) While this decision exposes the state to greater risks of penalty for errors, the state's position is that its operations procedures are sufficiently reliable that the savings in administrative costs justifies the minor risk involved. Recertification is done with face-to-face interviews, generally during weekdays from 7:00 a.m. to 4:00 p.m. or 9:00 a.m. to 7:00 p.m., depending on the day. Local offices are open for intake one Saturday a month, and it is possible to schedule recertifications for Saturday as well, but in general this is avoided. Instead of using longer hours to facilitate access, the agency tends to encourage flexibility in appointment scheduling, and missed appointments are rescheduled. One Food Stamp Program office manager with whom we spoke commented on the surprise she experienced in finding how much looser and more accommodating procedures were at the FSP office than at the Job Center at which she had previously worked.

Cases that terminate from TANF assistance are offered immediate reassessment for food stamps. If a case is established, benefits are thereafter provided not through the Job Center but through the Food Stamp Program office. Given the generous disregard of earnings in TANF benefit determination, losing eligibility due to income typically means that earnings or other income is so high that food stamp eligibility is lost or benefits are minimal. However, it is common for cases to leave TANF assistance by simply ceasing to comply with the city's

engagement rules. The process of termination for failure to comply can take several months; in the interim both cash benefits and food stamps are continued. If at the same time the household's income has changed, failure to report means a required benefit adjustment does not occur. Like welfare offices elsewhere, HRA policy in such cases is simply to terminate assistance and ignore possible overpayments unless egregious fraud has occurred. But should the household involved then apply for food stamps only, honest reporting of income and job history will reveal the overpayment. The adjustment process is not particularly onerous, since overpayments are recouped by modest reduction in benefits over time, but the exposure is awkward and households contemplating Food Stamp Program application may be uncertain about what the penalties might be.

The general problem here involves what might be called the narrative of assistance. Opening a TANF case categorically qualifies most families for food stamps. The rules for food stamp eligibility are increasingly determined by state TANF policy. While separation of food stamps from TANF would be administratively burdensome, the present integration definitely makes it appear that it is TANF that qualifies a person without income for food stamps. At the termination end of the TANF story, the circumstances of TANF closure clearly condition ongoing access to food stamps. The contrast with the Earned Income Credit is quite striking. The disconnection between TANF and EIC administration and benefits quickly becomes obvious to beneficiaries. Nevertheless, of all the sites we visited or contacted by other means, it is in New York that the distinction between the food stamp and TANF programs is most sharply drawn.

## *Reflections*

What have we learned? Again, three observations can at best provide only ideas for further investigation or interim justification for assumptions made in formulating possible policy adjustments. Here, we draw some lessons from the cases we observed.

*Face to face counts.* In none of our visits did we hear anyone suggest that face-to-face interviews with Food Stamp Program applicants or recipients should be abandoned. Food stamp eligibility workers have few sources of information on clients beyond what the clients themselves supply. The interview offers an opportunity to explain program rules and to stress the importance of honesty in dealing with the agency. Alternative means of collecting and updating eligibility information were either too costly or too unreliable. But, while the utility of such interviews (for the Food Stamp Program office, if not for the recipient) is rarely questioned, no one expressed enthusiasm for quarterly face-to-face recertification.

*Mixing is a problem.* The association between food stamps and TANF continues to pose problems for effective use of food stamps as a universal income supplement. While ostensibly liberalizing, recent administrative changes that permit linking food stamps assets tests to TANF rules only reinforce this connection. The failure of Congress to update the restrictions on assets incorporated in current federal law has encouraged the promotion of alternatives, including the administrative decision by FNS to allow substitution of TANF rules. However, given the growing state-to-state variation in TANF regulations, the national interest might lie with finding ways to assure that food stamps aids working low-income families and then working with states to adapt TANF to the FSP, and not vice-versa.

*There's much to be done at the door.* Much of the current controversy over food stamp policy is driven by the data on program participation and take-up rates. As we have noted, there

are serious problems with take-up estimates, problems that effectively preclude using such data as performance standards for evaluating food stamps policy. At the same time, the emphasis of food stamp Quality Control analyses on accuracy in benefits computation and income reporting for current recipients seems too narrow. The result is a quandary. Food stamp policy is pursuing something, but both the something and the relevant performance measure are ill defined. For next steps, it might be better to focus on finding ways to minimize costs of access while sustaining program integrity and then to measure state success in bringing such changes about.

## **Policy Options**

### *The Safety Net/ Income Support Continuum*

This essay has drawn a distinction between the safety net and income supplementation functions of the Food Stamp Program. On the one hand, the program is an important part of the nation's "safety net" for families and individuals without other income. For poor families with children, the program operates as a supplement to Temporary Assistance to Needy Families; for the poor elderly and disabled, to Supplemental Security Income; and for others, to state and local programs of general relief. In some locations, the FSP's contribution exceeds the amount provided by state government through TANF; in many places the FSP is the only safety net for the non-elderly, non-disabled childless poor. For those receiving TANF, obtaining food stamps is cheap; in general, payment of the benefit is automatic and requires little or no additional effort of the recipient beyond what is required for TANF. Especially on this "safety net" side, the system provides incentives for recipients to participate in the FSP.

On the other hand, food stamps provide a modest addition to the incomes of working low-income families; it is not a last resort but a supplemental support. Obtaining this supplement is costly for these clients, requiring regular reporting of income and in-person interviews with

caseworkers. This is a problem. In some ways the operation of the Food Stamps Program seems to reverse priorities, offering benefits in less time and for less effort to recipients for whom time is likely most freely available while offering benefits at the greatest time cost to recipients for whom time is likely most dear. In addition, food stamp's close association with food purchases and its goal of reducing hunger may inadvertently signal to families with adequate food that the program is not for them.

As is always true when government tries to pursue two different goals with one instrument, something must give. However, both the safety net and income supplement functions of food stamps serve important needs. The challenge is to find a way to improve the income supplement function while recognizing the ongoing need by many individuals and families for safety net support. The solution to the problem of having too many objectives for a single instrument is generally to find more tools. In the case of food stamps, our analysis and field study suggest that the best approach to accomplish multiple objectives is to develop three modes of delivering benefits now provided under the FSP. This concluding section presents the outlines of such a system. What we develop here is only a sketch. Putting the program changes into effect would require attention to the myriad details that make delivering social assistance "on the ground" so much more difficult than describing how programs might work in abstract. Nevertheless, the concept is the place to start.

#### *Limitations of Common Approaches to Reforming Food Stamps*

Legislative and executive proposals for reform often emphasize one objective at the expense of others. Consider, for example, proposals that either extend the time TANF recipients leaving welfare will receive the same food stamp benefit or adopt semi-annual income reporting and freeze food stamp benefits between recertifications. Either of these changes would simplify

administration and probably increase participation. However, they cause a significant shift in the program's underlying logic in which monthly benefits are phased out with countable monthly income at a rate of 30 percent. Ignoring income changes within a six-month period implies that households with the same incomes at certification would receive the same benefits even if one household experienced a significant rise in income and the other did not. The program could create perverse incentives to lower household income (or reported income) around the time of certification in return for a higher assured benefit level over the next six months. It is important to distinguish between a six month accounting period (with benefits for the entire six months determined by income for the entire six months) and a six month recertification periods (which often mean that monthly benefits for the next six months depend only on income during the month of certification.)

In part, the quandary is that monthly accounting periods are necessary for programs to respond to current need, but that measuring income each month imposes high administrative costs on the government and on recipients. But, simply ignoring increases in income in many months in order to save on administrative costs can be costly in terms of program integrity. While some expansion of the asset limits makes sense, substantial exclusions only exacerbate the potential inequities of monthly accounting periods, whereby households with relatively high, variable incomes qualify for higher benefits than households with relatively low, steady incomes.

One way around this dilemma is to move toward longer accounting periods for working families. We discuss this option in the approach we suggest here.

### *The Three Modes*

We recommend separating implementation for families with children into three modes of delivering FSP benefits. The proposal would improve the functioning of the system for public assistance recipients and working families not on public assistance.

The three modes are:

- *Nutrition Supplement (FS-NS)*, available to those receiving TANF or other means-tested income support.
- *Nutrition Net (FS-NN)*, available on a means-tested basis to all those not made categorically eligible for food stamps by receipt of certain forms of cash assistance—notably TANF and SSI.
- *Nutrition Affordability Credit (FS-NAC)*, a tax credit available to working households.

*Nutrition Supplement.* There is little point (and likely large management costs) in eliminating the current “categorical” eligibility for food stamps. In addition, it seems appropriate to continue moving to the EBT system as the mode for benefit distribution. What is required is attention to the “doors,” the way the Food Stamp Program operates at entry to and exit from public assistance. At the assistance door, it is essential that applicants understand the distinction between food stamps eligibility and TANF. Practically speaking, no one applying for TANF will be eligible for Nutrition Affordability Credit, so the choice will be between NS (coming with TANF) and Nutrition Net. But, families should be informed of the availability of the credit once they are working and off welfare.

For exits, the challenge is to sustain access during a potential transition to another mode. There appears merit in two-part treatment. Families with cases closed for any reason aside from death or misrepresentation of circumstance should have automatic extension of food stamps for a short interval past the point of termination of TANF benefits. This is consistent with the 3-5 transitional food stamp option contained in the Food Stamp Authorization Act of 2002. At this

point, the family would be invited to reapply and become recertified under the Nutrition Net mode or draw on quarterly benefits through the Nutrition Affordability Credit mode.

One mode of exit is through acknowledged employment, or jobs reported to the TANF agency. Loss of TANF is brought about through either earnings that are beyond eligibility limits or the family simply opts to leave. Again, we suggest a grace period before the household makes the transition to either the Nutrition Net or Nutrition Affordability Credit mode. During this period, agencies would explain how the other modes operate and encourage leavers to participate in either.

*Nutrition Net.* This second, safety net mode would operate much as the current system does for non-assistance food stamp recipients, with 3- or possibly 6-month recertification. This mode would be provided for recipients without substantial earnings. Almost by definition, if one is not working, one has time to participate in recertification. Certainly, federal assets tests should be revised upward; the maximum financial assets (at \$2,000) have been constant since 1985 and the maximum fair market value of vehicles is up only slightly in the last two decades despite 65 percent increases in prices. Still, we believe assets tests are appropriate for the Nutrition Net for reasons cited in our introductory discussion of safety net programs. However, families should be exempted from a maximum value on one vehicle as long as one adult was registered as job seeking with the state employment service.

*Nutrition Affordability Credit.* Establishing this mode is our primary recommendation for encouraging working families to claim the supplemental benefits that they currently do not utilize. This income supplement mode would be available only to families with earnings above some threshold. A family would qualify for this status after establishing earnings over a specified interval, perhaps the same interval used for fixing benefits in the “acknowledged

employment” category for TANF leavers in Nutrition Supplement mode. For this group, the benefit would come in the form of a quarterly cash payment with annual reconciliation at the time of income tax filing.

We recognize that the credit mode of delivering benefits would be a significant departure from the current Food Stamp Program. It would involve both a “cashing out,” an elimination of the asset test, a move to an annual accounting period, and a shift in administration to the Internal Revenue Service (IRS). We believe these shifts make sense both on pragmatic and normative grounds.

First, the expense of providing food vouchers instead of cash becomes less justifiable, the smaller the number of vouchers relative to a household’s food budget. A \$50 food voucher is unlikely to induce more food spending in a household already spending \$250+/month of its own income on food. Furthermore, the evidence from the empirical analysis in this paper suggests that many working families able to meet their food needs simply do not apply for a benefit publicly identified as necessary for relieving hunger and deprivation. If this suggestive finding is confirmed by other research, then any modest adjustment to food stamp regulations will do little to raise take-up rates among eligible, low-income families.

Second, transaction costs would be reduced substantially for the government and for recipients if the annual or quarterly payments were processed through standard tax procedures. There is already a precedent for paying refundable credits during the year under the EIC advanced payment option. Recipients would no longer have to appear at the welfare department for an in-person interview. For these working families, the government would incur no administrative costs to enforce a work test or an asset test.

Third, the rationale for the annual accounting period is that frequent small payments are more costly to implement and short-term responsiveness is less essential for low-income working families. (Were working families eligible for the credit to experience a sudden drop in income, they could turn to the other two modes of food stamp delivery for immediate help. But, any benefits received through these modes would be counted dollar for dollar against the credit.) With year-long accounting periods and low benefits relative to the household's earned income, asset tests become less important.

Moving to a credit for working families is appropriate on normative grounds as well. By working and earning at least some threshold amount, working families demonstrate their ability to make good choices and thus deserve to receive a cash benefit instead of one tied to food and involving considerable hassle. As noted above, current administrative procedures lead to the highest transaction costs for working families, despite the fact that they claim the lowest benefits.

### *Moving Between Modes*

Households would be allowed to choose between the Safety Net and Income Supplement modes, subject to certain restrictions, at the point of initial application for benefits or for recertification. The key restriction would be that income supplement mode (FS-NAC) would be available only to families with earnings above the threshold level. In some instances it might be possible to move immediately from TANF status to FS-NAC receipt when state TANF programs support combining work and TANF. Such would be the case, for example, in New York, but not in Wisconsin. Given Missouri's emphasis on banking TANF benefits, the more likely trajectory for a family leaving TANF for work would be receipt of the extended benefit for six months, then opting for NAC status.

At any point it should be possible for families in NAC status to switch to Nutrition Net (FS-NN) should employment be lost. However, once the change has occurred, movement back would require both regaining threshold employment status and recertification.

### *Extending the Reach of Quality Control*

The system we propose is consistent with two adjustments in the Food Stamps Quality Control system. The first adjustment is to allow different auditing standards depending on case mode. As states have long insisted, food stamps cases that do not involve earnings produce fewer errors both in agency operation and client reporting than do those that involve families and individuals with earnings. While we find much of the case for state relief from the expectation of responsible management unpersuasive, it would be straightforward to apply different standards to cases in NS, NN, and NAC modes.

The second adjustment is to broaden perspectives on QC. Current QC practice focuses on details of eligibility determination and benefit computation. However, access is also of concern. Critics have argued that access is hampered by the complexity of food stamps rules and the burden imposed by recertification. The system we propose allows for reduced complexity and longer windows for recertification. However, our experience suggests that it is important as well for the QC effort to extend to the doors of program entry and exit. Just as national standards are now set for the incidence of errors in operation, standards could be set for access, and the implementation of such standards could be one object for evaluation in the course of QC work.

Given the introduction of these proposed reforms and establishing national standards for access, less attention should be paid to the low estimated participation rates often cited as a criticism of the Food Stamp Program. At some point, residual take-up failure must be ascribed to errors in data or individual choice. Ultimately, we are less interested in what is achieved in

the intimate interaction between households and the census bureau than we are in what is achieved in program operation, in making food stamps available to those in need throughout the country.

### *A Demonstration?*

Pending food stamps reauthorization legislation includes provision for expanded food stamps demonstration authority. A variant of food stamps operation along the lines we propose would seem to be a prime candidate for such a demonstration. The object would be to develop the required rules and regulations and observe take-up under the expanded range of options. Given the program's multi-faceted nature and the essential role of community publicity, we do not see such a demonstration as a candidate for evaluation by "classical," i.e. random assignment procedures. Instead, the impact of the demonstration should be studied by comparison of process and outcomes between demonstration and comparison sites, perhaps using propensity score methodologies for developing a research sample of families making choices in the context of the new system matched with comparable families making the same choices under current operations procedures.

### *Attracting Support for the Proposed Restructuring of Food Stamps*

We conclude with comments about the political feasibility of the restructuring along the lines we are proposing. Although moving to a Nutrition Affordability Credit would certainly be controversial, we believe it is possible to persuade policymakers and the public of the rationale and desirability of this shift. The concern is real over the inability of the Food Stamp Program to supplement effectively the incomes of working families. Many public officials have supported welfare reform on grounds that even low wage work can allow families to escape poverty,

provided that they utilize the EIC, food stamps, and other benefits that supplement earnings. If the structure and administration of the program is deterring families from participating in the Food Stamp Program, the country is losing an important tool for reducing the number of poor and near-poor families.

Limited, *ad hoc* changes, such as lengthening certification periods and not counting incomes earned within a six-month period, are unlikely to attract low-income working families into the Food Stamp Program. Moreover, some of the proposed changes could undermine the program's income-related benefit structure and create perverse incentives to time income shortfalls to coincide with the infrequent recertifications.

In contrast, the changes we propose with NAC would insure that all countable income throughout the year is taken into account in determining benefits. At the same time, the low transaction costs and absence of stigma would almost certainly attract the many eligible families missed by the current Food Stamp Program. Provided through FS-NAC, food stamps would play its appropriate role in helping working families escape poverty and improve their ability to afford a budget for adequate, nutritious food. In all likelihood, spending on food would rise, in spite of the shift from food stamps to cash. The reason is that a shift away from food outlays by working families who were receiving food stamps and now obtain the NAC would probably be more than offset by the added food spending by those who now have higher incomes as a result of NAC.

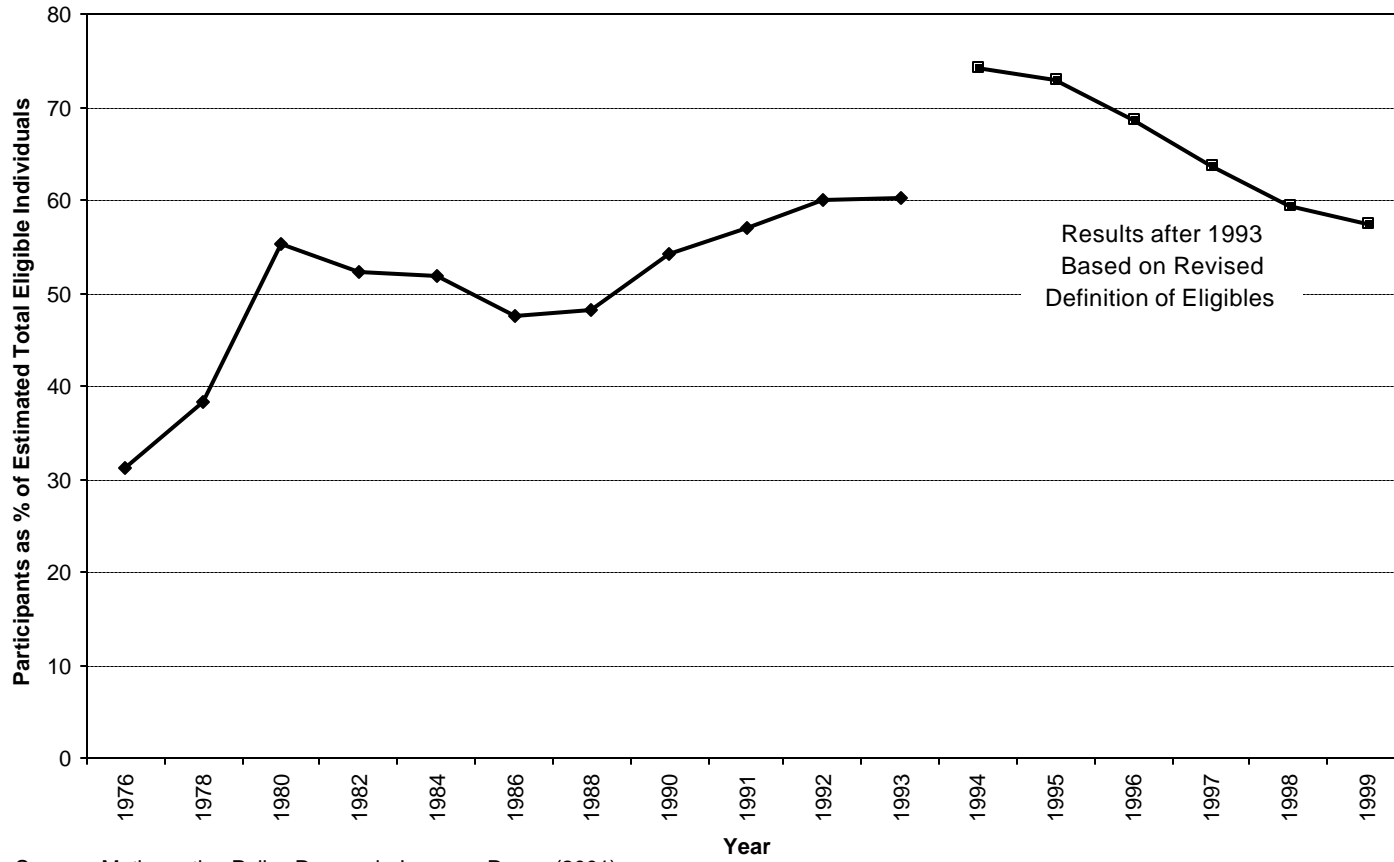
The steps required to make this plan or similar restructuring plans a reality are to develop the modes of delivering food stamps in detail, to present the new approach to a wide audience, to adjust the plans in response to thoughtful critiques, to find ways of testing the plans using demonstrations and other vehicles, and to prepare legislative and implementation plans. In our view, it is time to begin building the case for a new approach to the Food Stamp Program.

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Figure 1: Trends in Food Stamp Program Take-Up



Source: Mathematica Policy Research, Inc.; see Rosso (2001)

**Table 1: Eligibility, Food Stamp Participation Rates  
and Average Loss from Nonparticipation, 1998**

Family Category Earnings Level	Number Eligible	Eligibles as % of Eligibles in all Earnings Groups	Food Stamp Participation Rate	Average loss of those not participating	Average loss as percent of income of nonparticipants
<b>One family households with children</b>					
Zero or Less	1,155,189	12.1	74.5	\$2,638	29.0
\$1 to \$4,999	1,088,186	11.4	76.8	2,620	34.8
\$5,000-9,999	1,080,620	11.3	71.8	2,183	19.2
\$10,000-14999	1,492,002	15.6	53.6	1,877	13.0
\$15,000-19,999	1,370,554	14.4	35.8	1,397	7.5
\$20,000+	3,363,836	35.2	20.1	688	1.9
<b>Total</b>	<b>9,550,387</b>	<b>100.0</b>	<b>46.5</b>	<b>\$1,265</b>	<b>4.8</b>
<b>One family households without children</b>					
Zero or Less	2,610,181	29.2	43.6	\$1,037	13.2
\$1 to \$4,999	1,037,416	11.6	41.3	1073	17.1
\$5,000-9,999	940,946	10.5	23.4	815	8.1
\$10,000 +	4,354,933	48.7	18.3	437	1.5
<b>Total</b>	<b>8,943,476</b>	<b>100.0</b>	<b>28.9</b>	<b>\$687</b>	<b>3.5</b>

Source: Tabulations by authors from 1999 National Survey of America's Families, adjusted for underreporting of food stamp participation

**Table 2: Food Hardship and Food Stamp Participation  
by Level of Earnings**

*One family households with children eligible for food stamps*

Earnings Level	<u>Received Food Stamps</u>		<u>Did Not Receive Food Stamps</u>	
	Food Did Not Last the Month	Worried Food Would Run Out	Food Did Not Last the Month	Worried Food Would Run Out
Zero or Less	12.7	22.2	19.4	27.2
\$1 to \$4,999	13.0	18.3	8.6	7.3
\$5,000-9,999	12.1	20.4	5.5	10.9
\$10,000-14999	10.4	15.6	4.3	13.3
\$15,000-19,999	8.5	16.3	4.5	9.0
\$15,000-19,999	8.5	16.3	4.5	9.0
\$20,000+	8.3	11.4	3.0	3.7
Total	11.1	17.7	4.8	7.9

Source: Tabulations by authors from 1999 National Survey of America's Families, adjusted for underreporting of food stamp participation.

**Table 3: Determinants of Food Stamp Participation Among Food Stamp Eligible Families With Children and Earnings of At Least \$5,000 Per Year**

Married couple families with children	Predicted Impact*	Significance	Mean of Independent Variable	Predicted Impact*	Significance	Mean of Independent Variable
Earnings Share	-0.520	0.000	0.942	-0.495	0.000	0.942
Income to Needs Ratio	-0.108	0.000	1.889	-0.043	0.000	1.889
Black	0.050	0.087	0.100	0.040	0.174	0.100
Hispanic	-0.018	0.377	0.248	-0.038	0.068	0.248
Asian	0.085	0.133	0.029	0.074	0.185	0.029
Age	-0.004	0.000	35.973	-0.004	0.000	35.973
Live in Public Housing	0.091	0.144	0.019	0.102	0.107	0.019
Own Home	-0.077	0.000	0.537	-0.082	0.000	0.537
Number of Children	-0.002	0.816	2.177	-0.024	0.004	2.177
BA degree or higher	-0.003	0.922	0.116	-0.044	0.175	0.116
Less than HS diploma	0.094	0.000	0.303	0.078	0.000	0.303
Food Did Not Last	0.188	0.000	0.043	0.194	0.000	0.043
Potential F Stamps (000s)				0.089	0.000	1.312
Observed Mean	0.250			0.250		
Predicted (at Means)	0.208			0.209		
Observations	2,542			2,542		
Pseudo R	0.13			0.17		

(Continued next page)

**Table 3, continued**

Families with children headed by single woman	Predicted Impact*	Significance	Mean of Independent Variable	Predicted Impact*	Significance	Mean of Independent Variable
Earnings Share	-0.311	0.000	0.861	-0.372	0.000	0.861
Income to Needs Ratio	-0.013	0.203	1.500	0.032	0.007	1.500
Black	0.037	0.155	0.374	0.039	0.140	0.374
Hispanic	-0.121	0.001	0.151	-0.159	0.000	0.151
Asian	0.079	0.384	0.015	0.111	0.216	0.015
Age	-0.009	0.000	36.029	-0.007	0.000	36.029
Live in Public Housing	0.052	0.223	0.089	0.073	0.094	0.089
Own Home	-0.079	0.003	0.331	-0.072	0.008	0.331
Number of Children	0.033	0.005	1.848	-0.030	0.021	1.848
BA degree or higher	0.081	0.036	0.103	0.044	0.272	0.103
Less than HS diploma	0.165	0.000	0.217	0.130	0.000	0.217
Food Did Not Last	0.145	0.000	0.096	0.134	0.001	0.096
Potential Food Stamps				0.142	0.000	1.510
Observed Mean	0.579			0.579		
Predicted (at Means)	0.586			0.592		
Observations	1,947			1,947		
Pseudo R	0.06			0.062		

\*Predicted impacts are the change in the probability of receiving food stamps for a one unit change in the independent variable or, for moving from 0 to 1 in a categorical variable.

Source: Probit equations calculated by authors based on the TRIM-adjusted 1999 National Survey of America's Families.