

LINKAGES WITH THE ECONOMY

Food and nutrition assistance programs are intrinsically linked to the economy. That is, the health of the general economy affects the use of USDA's food assistance programs. Conversely, food assistance programs affect industry and the general economy. FANRP studies have shed considerable light on this two-way relationship between the food and nutrition assistance programs and the economy.

Research Highlights

Economic Conditions Impact the Food Assistance Programs

Economic conditions affect participation in and spending on food and nutrition assistance programs through their influence on the size of the eligible population, the rate of participation among eligible people, and benefit levels.

Food stamps stabilize the economy

As a means-tested entitlement program, the Food Stamp Program automatically responds to changes in the need for assistance. Caseloads tend to rise during recessionary periods and fall during economic expansions (fig. 5-1). Hanson and Gundersen (2002), summarizing a number of FANRP studies, found that a 1-percentage-point increase in the national unemployment rate—a key indicator of the health of the general economy—results

**UNEMPLOYMENT
INSURANCE**

**Information
for Claimants**

*Guide for Persons
Claiming Benefits*

Research Summary

FANRP's economic perspective has brought attention to the interrelationship between USDA's food assistance and nutrition programs and the economy. The interrelationship between food stamp caseloads and the unemployment rate is perhaps the best known example. FANRP has greatly expanded our knowledge of this relationship and has shown how it varies by type of household. The Food Stamp Program's response to economic hardships caused by natural disasters such as the 2005 Gulf Coast hurricanes is another example where food assistance programs respond to public needs. In addition, countercyclical changes in food stamp expenditures can have beneficial stabilizing effects on the economy. And by generating additional food consumption, the child nutrition programs increase production, value added, and jobs on U.S. farms. However, the food assistance programs can also have unintended economic consequences on non-participants. For example, WIC increases the demand for infant formula and hence slightly raises the price of infant formula for non-WIC consumers.

in about 700,000 more food stamp recipients during the first year and about 1.3 million additional recipients in the long run. The additional program benefits help to stabilize the overall economy and to direct Federal spending to areas most in need of assistance when the economy turns downward and unemployment rises.

Type of household influences the relationship between the unemployment rate and food stamp caseloads

Kornfeld (2002) found that a 1-percentage-point increase in the unemployment rate led to an 11-percent increase in the number of food stamp recipients in families with multiple adults and children and with adults living separately, but only a 1-percent increase in families with single adults with children during the 1990s. Families with multiple adults and children and adults living separately include many nondisabled adults whose economic status and program eligibility are closely tied to current economic conditions. On the other hand, the economy had a less direct effect on households whose members have a more limited attachment to the labor force, such as the disabled and single adults with children.

Economic hardships caused by natural disasters can significantly increase the demand for food stamps

In the fall of 2005, Hurricanes Katrina, Rita, and Wilma devastated areas along much of the U.S. Gulf Coast. Although the Federal response to the disasters received much attention, information about food stamp use provided in a recent FANRP study helped to provide a more complete picture of the use of public assistance following the hurricanes (Hanson and Oliveira, 2007). The resulting physical and economic effects of the hurricanes, including increased costs incurred for repairs and reconstruction, and loss of jobs and income,



USDA/FNS

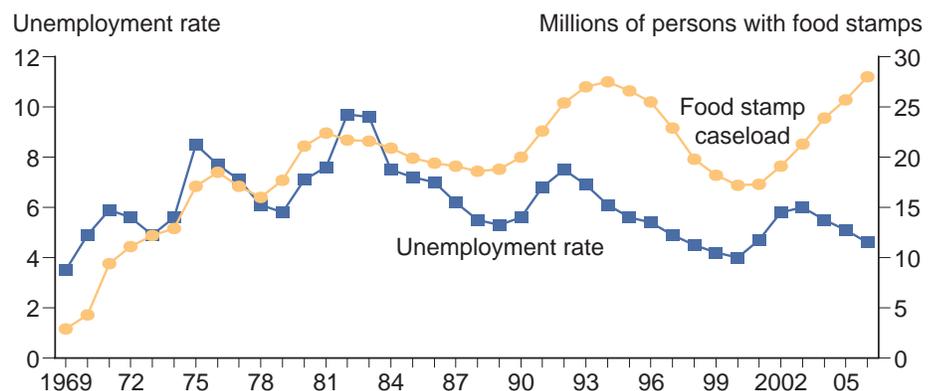
increased total food stamp benefits issued by about \$1.2 billion, with most of it going to persons located in the 5 Gulf Coast States of Florida, Alabama, Mississippi, Louisiana, and Texas (fig. 5-2). Other States that received large numbers of evacuees from hurricane-impacted areas also experienced disproportionate increases in food stamp caseloads. The analysis suggests that, by February 2006, the effect of the disasters on food stamp caseloads and benefits issued at the national level had largely dissipated, even though some individuals and local areas may have experienced disaster-related employment and economic hardships for longer periods.

Food Assistance Programs Affect Economic Activity

Food and nutrition assistance programs increase food consumption. The new demand for food affects the production, income, and employment of food processors, agriculture, and other sectors of the economy.

Figure 5-1

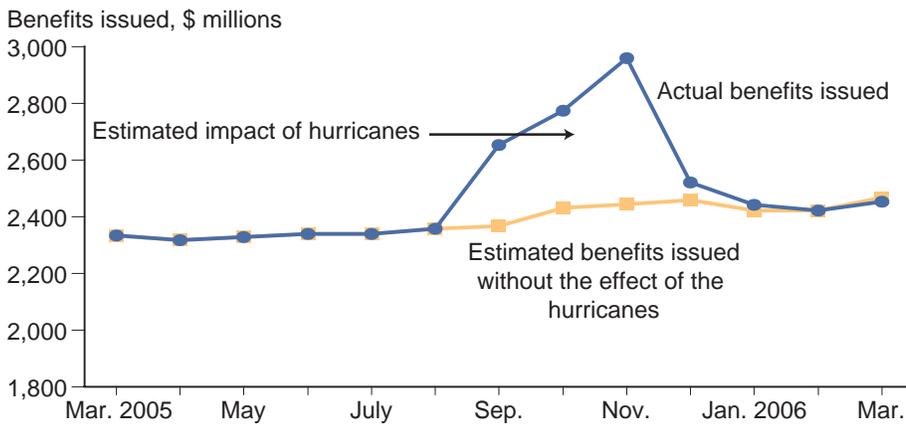
Food Stamp Program caseloads and the unemployment rate



Source: Bureau of Labor Statistics and the Food and Nutrition Service, USDA.

Figure 5-2

Estimated impact of the 2005 Gulf Coast hurricanes on food stamp benefits issued



Source: Hanson and Oliveira, 2007.

Stabilizing effects of Food Stamp Program depend on how the program is financed

The Food Stamp Program is one of the Federal Government’s primary countercyclical assistance programs, providing assistance to more households during a recession and to fewer households during an economic expansion. These countercyclical changes in food stamp expenditures can also have beneficial stabilizing effects on the economy, stimulating economic activity during a recession and slowing demand during an expansion. However, the extent of the program’s economywide stabilizing effect depends on how the program is financed (Hanson and Golan, 2002). The Food Stamp Program provides an economic stimulus during a recession when the Government finances the increase in program expenditures through budget deficit or emergency financing. If the same recession-driven increase in food stamp benefits is financed through increased taxes or a budget-neutral means, the stimulus effect of the increase in expenditures does not occur.

A cut in food stamp benefits will lead to reductions in food demand and farm production

Because food assistance programs generate demand for food and farm products, changes in food assistance policy can have impacts on economic activity and household income across the economy. Using an econometric model that provides policymakers with a mechanism for examining the economy-wide distributional impact of potential policy changes, Hanson et al. (2002) found that a hypothetical budget-neutral cut in food stamp benefits leads to reductions in food demand and farm production. Specifically, a \$5-billion cut in food stamp benefits leads to decreases in farm and food processing production of approximately \$1.3 billion and 7,500 jobs lost. On the other hand, a \$5-billion increase in food stamp benefits leads to increases in farm and food processing production of approximately \$1.3 billion and 7,500 jobs gained.

Child nutrition programs generate additional farm cash receipts

USDA’s child nutrition programs generate additional food consumption, which increases production, value added, and jobs on U.S. farms (farm

“value added” is a measure of labor earnings and the returns to farm ownership). Estimated impacts depend in part on the program’s additionality—the amount by which a dollar of program spending results in additional food consumption. Additionality takes into account the amount of food that would have been purchased anyway, that is, even without the programs. The “additional” \$2.3 billion to \$3.1 billion of food expenditures due to the child nutrition programs, including WIC, in 2001, generated \$1 billion to \$1.5 billion of additional farm cash receipts (Hanson, 2003).

WIC increases the retail price of infant formula

The WIC program provides an example of how a food assistance program can have an economic impact on nonparticipants through the price of program commodities. WIC purchases over half of all infant formula sold in the United States. Because of its buying power, WIC gets large discounts in the form of rebates from infant formula manufacturers. These rebates, which ranged from 85 to 98 percent of the manufacturer’s wholesale price in fiscal year 2000, support about one-quarter of all WIC participants. Based on the most comprehensive national study of infant formula prices at the retail level ever conducted, Oliveira et al. (2004) found that WIC and its rebate program slightly raised the supermarket price of infant formula, especially in States with a high percentage of infants participating in WIC. That is, while WIC and its infant formula rebate program have been successful in terms of making infant formula available to needy infants at a low monetary cost, an indirect effect of the program is higher retail prices for non-WIC consumers.