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FOOD STAMPS AND THE CUTS THAT THE AGRICULTURE COMMITTEES MUST MAKE:

What Is A Fair Share of the Cuts for the Food Stamp Program to Bear?

by Dorothy Rosenbaum

Some agricultural commodity groups have suggested that the House and Senate Agriculture Committees meet their $3 billion reconciliation instruction by cutting each program area that the Committees control in proportion to that area's share of overall Agriculture Committee spending. These groups have circulated documents showing that under this approach, the Food Stamp Program would be reduced by $1.7 billion over five years and bear 57 percent of the cuts in the House, and $2 billion over five years (bearing 67 percent of the cuts) in the Senate. The purpose of this proposal is apparent — to shift the majority of the cuts from farm-related programs to food stamps.[1]

This self-serving proposal assumes that the task at hand for the Agriculture Committees is a simple matter of arithmetic that does not entail any setting of priorities. But priorities are inevitably involved. And it should be noted that the proposal these commodity groups are pushing departs sharply from the priorities in the President's budget. Moreover, the proposal is sharply inconsistent with the position these groups took in 2002, when the Farm Bill was being considered and the Congressional budget made money available for increases in Agriculture Committee programs. These groups did *not* suggest in 2002 that the increases be distributed proportionately, but rather that the lion's share go to farm programs.

- In his budget, President Bush proposed $9 billion over five years in cuts in Agriculture Committee programs.

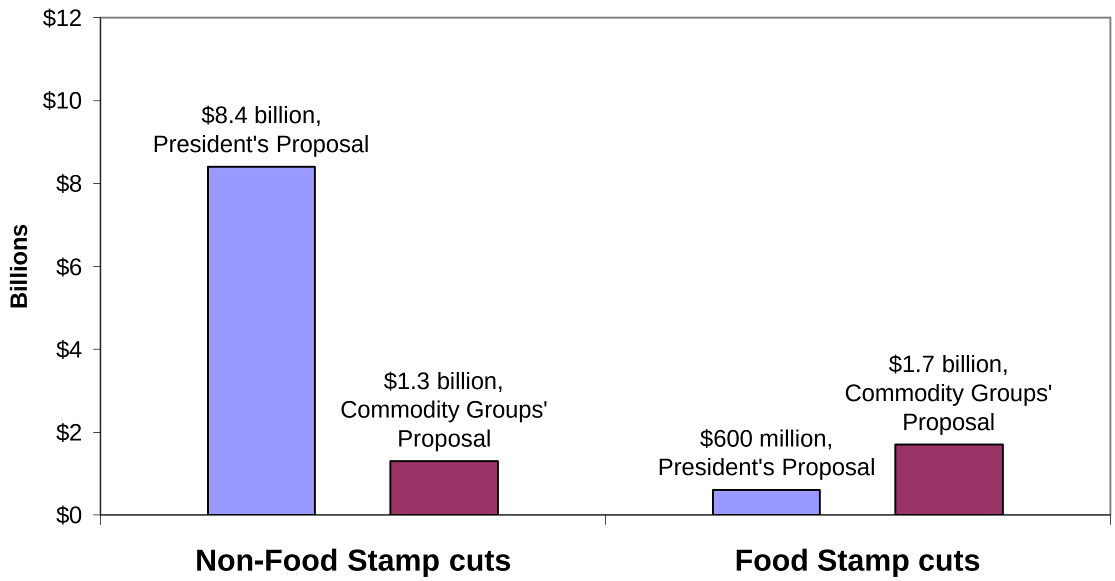
- The President proposed that *7 percent* of these cuts come from the Food Stamp Program, which serves the neediest and most vulnerable people in the nation and provides them, on average, with $1 per person per meal.

[1] For this paper we assume that any cuts to nutrition programs would come from the Food Stamp Program. The Child Nutrition programs, including the School Lunch and Breakfast programs, are the only other major mandatory nutrition program under the jurisdiction of the Agriculture Committee in the Senate. In the House these programs are under the jurisdiction of the Education and the Workforce Committee. A major reauthorization of Child Nutrition programs was completed just one year ago, and it is not likely that Child Nutrition programs will be reopened as part of this year's reconciliation process.

The Congressional budget resolution subsequently shrank the overall cuts in Agriculture Committee programs from the $9 billion that the President proposed to $3 billion. The proposed cuts in Agriculture Committee programs were thus reduced by two-thirds. Yet the commodity groups are now proposing to *triple* the food stamp cut the President proposed. *Under their proposal, cuts in areas <u>outside</u> of the nutrition programs would be 85 to 90 percent smaller than the President proposed, while the food stamp cut would be about three times larger than the President proposed.*

Undue Burden on Food Stamps

Food Stamp cuts are 3 times as big under commodity groups' proposal as under Bush budget; other cuts are 85% smaller



The commodity groups' argument that the cuts should be proportionate to each program area's share of overall Agriculture Committee spending is, as noted, inconsistent with the positions these groups have taken in the past. In 1996, when the Food Stamp Program was cut by almost $28 billion over six years, according to Congressional Budget Office estimates, the commodity groups did not argue that farm programs should take a proportional share of the overall cuts.

Nor did the commodity groups argue in 2002 that spending increases under the 2002 Farm Bill should be distributed proportionally. In 2002, the Food Stamp Program received 9 percent of the increase in federal resources the Congressional budget made available for Agriculture Committee programs that year. Farm programs received more than 70 percent of the increases. (The remainder went primarily to conservation programs.)

A Sounder Approach

Instead of an approach that would have the cuts be "proportional" to spending, the Agriculture Committees should follow the President's priorities and look to the Food Stamp Program to contribute 7 percent of the $3 billion reconciliation instruction. This would amount to $200 million over five years.

- As noted, President Bush proposed $9 billion over five years in cuts in programs under the Agriculture Committees' jurisdiction, of which 6.7 percent (or $600 million) would come from the Food Stamp Program. If, consistent with the President's priorities, the cuts to the Food Stamp Program constituted 6.7 percent of the $3 billion in savings that the Agriculture Committees must produce, the farm and other non-nutrition programs under the Committees' jurisdiction still would be cut by only one-third as much as the President proposed ($2.8 billion rather than $8.4 billion).

- It may be noted that in developing its estimate that the President's proposals would save $9 billion, the Congressional Budget Office (whose numbers are the ones that matter for the budget reconciliation process) did *not* include any savings for the President's proposal on "payment limitations" for agricultural subsidies. CBO explained that this proposal was not described in sufficient detail in the President's budget for CBO to develop a precise cost estimate of it. The Office of Management and Budget estimates that this proposal would save $845 million over five years. If the "payment limitation" proposal were included in the calculations, the food stamp reductions would likely account for 6 percent of the total savings that the President requested in Agriculture Committee programs rather than 7 percent.

Most Food Stamp Cuts from 1996 Remain in Effect; Commodity Cuts Reversed

Also of note is the fact that the Food Stamp Program has been cut much more sharply than farm programs over the past decade. In 1996, the Food Stamp Program was cut by almost $28 billion over six years as part of the 1996 welfare law, according to CBO, with the cuts reaching 20 percent by the sixth year. A significant portion of these cuts came from across-the-board benefit reductions that affected nearly all recipient households, including families with children, the working poor, the elderly, and people with disabilities. Eligibility also was severely curtailed for legal immigrants and unemployed childless adults.

Since 1996, Congress has enacted several pieces of legislation that have moderated some of the most severe food stamp cuts, but about two-thirds of the cuts enacted in 1996 remain in effect.

By contrast, the 1996 Farm Bill, known as the Freedom to Farm Act, was estimated to decrease federal spending by $2 billion over seven years. CBO estimated that the policy changes would increase spending by almost $5 billion in the first two years and decrease spending by almost $7 billion over 1998 through 2002. Those savings never materialized, however, because the Congress subsequently approved more than $20 billion in additional spending in "emergency" legislation in order to address perceived problems in the 1996 Farm Bill and to reverse cuts in farm programs included in that bill, in most cases before the cuts ever took effect.

When Adding Funds, the Agriculture Committees Have Not Used a Proportional Approach

As just noted, in the years between the 1996 and 2002 Farm Bills, Congress passed $20 billion in "emergency" farm legislation to address perceived problems in the 1996 Farm Bill. This process reached its culmination with the passage of the 2002 farm bill, itself. The Food Stamp Program received nine percent of the increases in that bill, while agricultural programs received 71 percent, a share that far exceeded their share of total spending under the Agriculture Committees' jurisdiction.

Farm Programs Have Not "Saved" the Government Money Since 2002

Some who lobby for agricultural subsidy programs have argued that these programs should not be cut because they have saved the federal government money since 2002. This assertion is not correct.

Outlays for farm programs in recent years may have been lower than CBO projected at the time the 2002 Farm Bill was enacted, but such variances occur all of the time in entitlement programs and do not represent budgetary savings.

- Because they cannot see into the future, CBO and OMB estimate the cost of new entitlement legislation based on projected conditions in a typical or average year in the future. Actual spending in any given year almost always turns out to be higher or lower than projected, as a result of factors such as market conditions, climate, and the state of the economy.

- Farm programs may have cost less than anticipated during the last few years. However, they could cost more than forecast in future years if market conditions change.

- Moreover, food stamp spending fell *twice as much* after 1996 as the CBO and OMB estimates had predicted. These reductions resulted from the booming economy in the late 1990s, various administrative changes that made food stamps less accessible to the working poor, and the unforeseen effects of changes in welfare programs that led to a substantial decline in the percentage of households eligible for food stamps that actually applied for and received them. *These large reductions in food stamp costs did not count as budgetary savings.* The parallel development in farm programs over the past few years does not represent budgetary savings either.

Food Stamps are Working Efficiently and Are Not Growing Out of Control

After unemployment insurance, the Food Stamp Program is the federal benefit program most responsive to swings in the economy. Food stamp participation and costs have grown since 2000, primarily because of the economic slowdown that turned into a recession in 2001. This growth, however, followed six years of continuous declines in food stamp participation and costs.

The net result is that over the past ten years as a whole, federal food stamp costs have grown no faster than the inflation rate.

- Between 1995 and 2005, food stamp expenditures grew at an average annual rate of 2.6 percent. The rate of food price inflation over that period, as measured by the Consumer Price Index, also was 2.6 percent.

- The Congressional Budget Office forecasts that over the next 10 years, from 2005 to 2015, the average annual growth rate in food stamp costs will be only about 2 percent a year. This, too, is very close to the projected rate of food price inflation.

- Nor has the Food Stamp Program contributed significantly to the return to deficit spending. Between 2000 and 2005, increases in food stamp spending accounted for less than 1 percent of the swing from surpluses to deficits that occurred over those years.[2]

Food Stamp Error Rate at All-time Low

Finally, the Food Stamp Program is both effective and efficient. Program integrity has improved dramatically in recent years. Food stamp error rates are at an all-time low.

- A recent Government Accountability Office (GAO) report shows that more than 98 percent of food stamp benefits go to eligible households. In other words, fewer than two percent of benefits go to households not eligible for food stamps. The GAO report confirms that states and USDA have made remarkable strides in recent years in improving program integrity.

- In testimony before the House Agriculture Appropriations Subcommittee this year, Eric Bost, the Undersecretary of Agriculture for Food, Nutrition, and Consumer Services said, "In fiscal year 2003, the most recent year for which data is available, we have once again achieved a record level of Food Stamp payment accuracy with a combined payment error rate of only 6.63 percent. This is the fifth consecutive year of improvement, lowering the error rate by over 4 percentage points and making it the lowest rate in the history of the program."

- On June 24, 2005, USDA announced that the food stamp error rate for fiscal year 2004 had again set a new record low of 5.88 percent. The national error rate is now below 6 percent, which until recently was a level that automatically qualified states for enhanced funding based on exemplary performance.

- The combined payment error rate of 5.88 percent for 2004 is the sum of the *overpayment* error rate and the *underpayment* error rate. The underpayment error rate measures errors in which eligible, participating households received *fewer* benefits than the program's rules direct. Some portray this combined error rate as a reflection of the dimension of excessive federal expenditures due to errors. This is incorrect since the combined error rate includes underpayments that save the federal government money. The combined payment error rate is the result of summing (rather than netting) the overpayment and underpayment error rates.

  In other words, to calculate the combined payment error rate, USDA adds together the overpayment error rate, which currently is approximately 4.5 percent, and the underpayment error rate, which currently is about 1.5 percent, to reach a combined error rate of about six percent. The *net loss to the federal government*, however, (*i.e.*, the benefits lost through overpayments minus those saved by underpayments) is only three percent.

- The Food Stamp Program has rigorous systems in place to ensure program integrity. Every applicant must be interviewed and provide documentation of income and other circumstances. All aspects of eligibility are reviewed by a trained state employee. In addition, state Quality Control staff conduct a full investigation of a statistically valid sample of cases each month to ensure that the state employees do not make errors. Subsequently, USDA federal staff re-review the state reviews. These reviews are the basis of the state-level and national error rates

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[2] This calculation compares the change in food stamp spending over the 2000 to 2005 period as a share of the Gross Domestic Product (GDP) to the change in the surplus/deficits as a share of GDP over the same period. See CBPP: "Cuts to Low-income Programs May Far Exceed the Contribution of These Programs to Deficit's Return," available at, http://www.cbpp.org/2-4-05bud.pdf.

that USDA reports and uses to impose fiscal sanctions on states for poor performance and to award bonuses for exemplary performance.

- By contrast, applicants for farm subsidies simply file a plan stating their intention to farm. At the end of the year, they receive payments based on the plan. USDA reviews only a small fraction of the plans to determine whether the farming operations were conducted in accordance with the approved plans. In an April 2004 report, the GAO found that only about 1 in 700 cases were actually reviewed to ensure that the applicants were involved in farming activities. (347 reviews out of 247,831 subsidy recipients.) GAO concluded that "USDA is not effectively overseeing farm program payments. That is, USDA does not review a valid sample of farm operation plans to determine compliance and thus does not ensure that only eligible recipients receive payments, and compliance reviews are often completed late. As a result, USDA may be missing opportunities to recoup ineligible payments."

  GAO itself conducted an examination of 86 of these USDA reviews and found that in almost one-third of the cases, "some recipients appeared to have little involvement with the farming operation." The GAO report criticized USDA for catching only five percent of the apparently improper payments.[3]

- According to USDA, the average overpayment to an ineligible food stamp household is only about $150 a month.[4] By contrast, the amount of a farm subsidy overpayment can be in the tens of thousands of dollars. The GAO reports that in one of the cases in which it found partners who appeared not to be actively engaged in farming and therefore eligible for subsidies, the subsidy should have been reduced by $90,000 for each partner found to be ineligible.

[3] See U.S. General Accounting Office, *Farm Program Payments: USDA Should Correct Weaknesses in Regulations and Oversight to Better Ensure Recipients Do Not Circumvent Payment Limitations,* GAO-04-861T, June, 16, 2004.

[4] See U.S. Department of Agriculture, Food and Nutrition Service, *Impact of Food Stamp Payment Errors on Household Purchasing Power*, March 2005.