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EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

INFORMATION

WASHINGTON, D.C. 20503

MEMORANDUM FOR THE PRESIDENT

FROM: PAUL H. O'NEILL

SUBJECT: Food Stamp Reductions

The Budget reflects two actions on the Food Stamp program:

- 1) holding the automatic increase in benefit amounts to 5%, as we are with all CPI indexed programs; (requires legislative action)
- 2) increasing to 30% of net monthly income, the amount participants must pay for food stamps (administrative action under current law).

The increased payment requirement was first proposed in your November 26 package with a planned implementation date of March 1. Fiscal year 1975 savings were projected at \$325 million and FY 76 at \$650 million.

Over the last few weeks, increasing public attention has been paid to this proposal as the Department of Agriculture issued the regulations necessary to implement the change.

As we have discussed, sooner or later you are sure to get a question on this proposal at a news conference. A hypothetical question and proposed answer follow:

Mr. President: You have proposed cutting \$650 million out of the food stamp program, hitting especially hard the poor and the aged and the disabled at the same time you are proposing an increase of \$522 million in military aid for South Vietnam and Cambodia and a \$200 million increase in food shipments to foreign countries for political purposes. Can you explain to us why the American people should support these proposals?

Proposed answer: (Comment on importance of Southeast Asia aid including Food for Peace) Now let me turn to the first part of your question on Food Stamps. As you say, I have proposed that food stamp recipients pay 30% of the cost while asking the taxpayers to pay 70%. There are several important aspects to this change:



- 1) It is part of my total economic program. If the Congress does not permit us to make this change and fails to adopt the rest of my proposed budget reductions, the deficit would be \$17 billion higher - \$69 billion; this is bad economic medicine.
- 2) It is important to look at this proposed change in the context of all of our income security programs; totaling \$152.8 billion in FY 1976, an increase of \$14.4 billion over FY 75.
- 3) On the specific facts of this change. It is true that this change would require participants to pay more for their stamps. But it should be clear that people are asked to pay for stamps out of their income. Those who have no income pay nothing - and I am not proposing that they pay. What is at issue here is the question of how much participants should pay out of their own income for food stamps.

Under past practice, individuals and families have paid between 5% and 30% of their income for food stamps.

The change would require that all participants pay a uniform rate of 30%.

Especially during these difficult times, it seems fair to me, to ask people who do have income, to share 30% of the burden of their own food cost with the hard pressed taxpayer who has his own problems.

One further point that has not been clearly reported in the stories I have seen. Participants in the food stamp program do not pay on the basis of their total income. They pay 30% of their net income. This means that they pay 30% of their income after they deduct medical expenses, work expenses including child care, all housing costs exceeding 30% of income and so forth.

The Department of Agriculture estimates that when all of these adjustments are taken into account, participants really pay 16% of their total income for their own food needs.



One final point, none of my decisions on proposed reductions were easy to make. It would be much easier for me personally to avoid such unpopular decisions. But I do not think we can shirk the hard decisions if we are to work our way out of our economic and energy difficulties and therefore it is my intention to continue to make the hard decisions.



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