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THE WHITE HOUSE

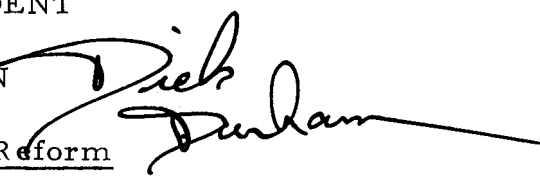
WASHINGTON

August 12, 1975

MEMORANDUM FOR: THE PRESIDENT

FROM: JIM CANNON

SUBJECT: Food Stamp Reform



During the past four weeks a Domestic Council Review Group has been engaged in a comprehensive study of the Food Stamp program. The following materials are presented for your review and consideration in anticipation of a meeting to discuss possible reform efforts.

While this memorandum concludes by setting out four options, it also points out that each option must be combined with a package of eligibility tightening proposals. These eligibility proposals differ depending on which of the four options you prefer and can be described in greater detail once you have had an opportunity to discuss the four fundamental options and the basic issues they represent.

I. INTRODUCTION

A. Issue

The fundamental issue in reforming the Food Stamp program is whether Food Stamps:

1. Continue to meet the 1965 Act's original purposes of improving nutrition among the poor and assisting farmers by expanding the markets for their surplus products, or
2. Has the program simply become another income support program.

On the basis of recent studies the Review Group has concluded that the Food Stamp program is in fact primarily an income supplement program.

B. Approaches to Reform

The Review Group, therefore, identified two basic reform approaches which stem directly from the above conclusion:



1. Replace stamps with cash (checks) payments. Eligibility tightening would be a necessary component of such an approach, or
2. Continue to use stamps but more accurately reflect the "income supplement" nature of the program by tightening eligibility.

C. Packaging Reform

The Food Stamp program currently contains a series of eligibility factors which invite expanded participation thereby enabling a family of four to earn as much as \$10,000 to \$12,000 or more and still be eligible. It is the conclusion of the Review Group that all options under consideration must be accompanied by such tightening.

As you know, however, tightening eligibility involves a packaging of various items which, while separately identifiable, cannot be assessed or their impact determined as isolated pieces. The packaging of these items depends in large part on the continued use of stamps or the "cashing out" of the program. The specifics of our recommendations on eligibility tightening must therefore await your reaction to the four options developed.

D. Designing the Reform

This memorandum is therefore structured to present the key decisions on fundamental reform in four options which encompass the basic philosophical issue of stamps (Options I & II) versus cash (Options III & IV).

Once we have your decisions in regard to this fundamental issue and can discuss the factors affecting eligibility, we will proceed to design a specific reform program.

After you have had a chance to review this paper, I would recommend that a meeting of 30 to 60 minutes be scheduled so that we can explore the concepts in this paper in greater detail and attempt to answer any questions you might have.



II. BACKGROUND

The Food Stamp program has grown from \$300 million in 1969 to over \$5 billion in 1975 to a budgeted \$6.8 billion in 1976. (Tab A) The growth in the past year can be attributed primarily to the extension of the program to Puerto Rico, the rise in unemployment and a recent tendency for greater participation by those who have been eligible all along. This growth has generated both public and Congressional concern over the direction the program is taking and has created a more receptive political climate for reform than has been the case in previous years.

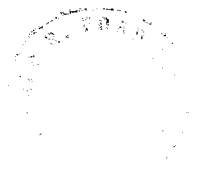
These concerns have focused around such issues as loose eligibility standards, administrative complexities, participation by students and strikers, and the inappropriate use of stamps by both recipients and merchants.

III. CONGRESSIONAL SITUATION

Earlier this year, Congress rejected your proposal which would have reduced costs by requiring all participants to pay a uniform 30 percent of their income for stamps. Recently the Department of Agriculture responded to a Senate request for program improvements with fourteen recommendations approved by you which would refine rather than reform the current program.

Companion bills prepared by the Republican Study Committee and introduced by Senator Buckley (19 co-sponsors) and Congressman Michel (59 co-sponsors) would cut back on eligibility and increase benefits for the lower income participants. Although the bills have several serious weaknesses, they also contain many desirable provisions and serve as an initial bargaining position for their sponsors.

Senator McGovern in announcing hearings of the Senate Select Committee on Nutrition recently expressed his concern over high income families receiving benefits. There are reports that McGovern and Dole may be seeking common ground around which they would co-sponsor a reform package.



Congressman Foley, through the House Agriculture Committee, has a \$200,000 study underway which will lead to hearings later this year.

IV. CURRENT SITUATION AND PROGRAM ISSUES

A brief description of the process the Review Group followed which led to the four options may be helpful in putting some fundamental issues into perspective.

A. Initiative

Among the first questions raised was whether the Administration should take the initiative or leave it to Congress to sort out the legislative issues. It was concluded that because of the size and significance of the Food Stamp program the Administration should take the initiative on significant reform.

B. Scope of Reform

Recognizing the fact that Food Stamps have become the largest Federal income support program, it followed that reform could be approached in the following ways:

- as a distinct "food" program which should be addressed independently of other welfare programs;
- as an incremental step in a three or four-stage revision of all welfare programs; or
- as an integral part of a comprehensive consolidation of Federal and State welfare programs.

Although there were differing opinions on which approach to follow, there was general agreement that any reform should be consistent with an ultimate consolidation of welfare programs.

Recognizing the broad range of potential alternatives, the Review Group developed the four plans in a way that each of the three approaches are presented for your consideration. They range from the continued use of stamps as in the current program to cashing out the program and integrating it with the welfare system.

C. Tightening Eligibility

In all four approaches, it is assumed that eligibility would be tightened, administration simplified, and the structure of the program improved. Tab B contains some illustrations of how the broad options could be packaged including costs estimates based upon certain assumptions.

Income levels for eligibility only have meaning when you determine:

- what income (gross, adjusted, net) is to be counted over what period;
- how assets are counted;
- what deductions are allowed;
- and with what reference to "in-kind" benefits.

It is difficult to state in cold isolation what level of income is acceptable. Reference can be made to a general cutoff level, however, which results from a complete reform package including eligibility tightening efforts.

In examining these four options, the Review Group has not fixed an income cutoff level. A number of the cost estimates, however, take into consideration:

- the current situation where a family of four can earn as much as \$10,000 to \$12,000 or more and still be eligible;
- the Michel-Buckley cutoff at \$5,050 with its work disincentive;

-- the recent McGovern statement alluding to a \$10,000 limit.

The estimates for the first three options, therefore, were developed with a cutoff targetted at approximately \$8,600 for a family of four.

In developing these broad options, the Review Group examined the eligibility and administrative issues which are discussed briefly below. It is difficult to discuss these issues in isolation for they take on meaning and their impact can be accurately assessed only when incorporated in a complete plan. They are presented here for your review and will be incorporated into plans once you have examined the four basic approaches developed.

1. Deductions from Income: The primary reason some people with high incomes are eligible under the current program is because deductions are allowed for taxes, medical expenses, housing costs, and work related expenses. While the net income cutoff for a family of four is \$6,480, the use of these deductions could mean that their gross income could exceed \$12,000.

Possible changes include using deductions but with a gross income test, using one standard for deduction, eliminating deductions, or placing limits on the size of the deductions. Using limits or a gross income test seem preferable because they maintain the advantage of the deductions but also contain them. With a standard deduction you discriminate against the working poor and run the risk that Congress would adopt one that is too high or that they may adopt a low standard and make it optional for the recipient to select either the lower deduction or itemize if it is higher.

2. In-Kind Income: Under the current program, publicly funded in-kind benefits such as day care, school lunches, housing subsidies, are not counted in determining a recipient's income. In-kind assistance often increases



purchasing power, but not at the market value of the aid. Therefore, in the instances where purchasing is increased, some percentage of in-kind assistance could be counted as income. This kind of a determination is administratively very complex, however, and may not be worth the increased equity.

3. Accounting Period: Under the current program, eligibility is determined by estimating the recipient's income for the current month. This allows a person with a large annual income, but briefly unemployed, to qualify for aid. Using a retroactive test allows for more precision and quality control than a prospective guess. It would be preferable to adopt a retroactive three-month accounting period if there is no requirement to purchase stamps and a one-month period if there is a purchase requirement.

4. Categorical Eligibility: The practice of automatically making AFDC and SSI recipients eligible for Food Stamps creates an inequity in some States in which working families may receive less income than welfare recipients and yet not be able to obtain Food Stamps which are available to the recipients. Elimination of categorical eligibility, which would also result in moderate cost savings, would be preferable.

5. Work Test: The Food Stamp program is regarded as having a weak work test. If jobs are not available, recipients are not required to take vocational training or public service jobs. A stricter work test and work registration requirement for Food Stamps similar to that of AFDC could be applied.

6. Administration: If it is decided to provide cash instead of stamps it may be desirable to require some State cost sharing. If the Federal Government were to pay the entire cost, the States may be inclined to let the food

cash program expand, while limiting the Federal-State welfare program. We should recognize that it would be difficult to get Congressional support for State matching.

If major reform is adopted, it may be preferable to transfer the administration of the program from USDA to DHEW.

7. College Students: Currently, college students qualify for Food Stamps because they can deduct educational expenses from income and because they do not face a strict work test. The problem can be addressed by eliminating the deduction and implementing the AFDC work test.

8. Strikers: Strikers qualify for Food Stamps because of the current prospective accounting period. This problem can be addressed by adopting the retrospective accounting period system which would substantially reduce striker participation or by applying a strict work test.

V. OPTIONS

The four broad directions in which the program could move are outlined below. Once you indicate interest in one or more of these options, the Review Group will take the option you select, combined with the consideration of the other issues outlined above, and any comments you might have on these items, and develop a proposal which encompasses the legislative and regulatory changes necessary. Tab B provides an example of what a package might look like for each of the options and what the cost implications would be.

Option I -- Continue the requirement that eligible persons must pay for their stamps but tighten eligibility and deductions.

Pro:

- o Higher income families would be eliminated.
- o Maintains linkage to food requirements.
- o More likely to provide better nutrition for very poor.
- o Reduces costs and program growth by discouraging participation.

Con:

- o Increased administrative costs.
- o May discourage participation by most needy.
- o Minimal marginal effect on nutrition.
- o Continues the large volume of stamps in circulation.

This option is recommended in concept by the CEA, Treasury, USDA, and the Economic Policy Board.

The Michel bill is a more restrictive variation of this approach. It eliminates deductions altogether, modifies the purchase requirement, and makes recipients ineligible when their income reaches the poverty level. This creates a work disincentive of approximately \$1,000 for a family of four at the poverty line making those on welfare better off than workers earning a comparable income.

Option II -- Eliminate the requirement that recipients put up cash and issue only the bonus or subsidy value in stamps.

This option, combined with eligibility and program modifications, would reduce costs, but not as much as Option I.

Pro:

- o Simplifies program administration somewhat.
- o Increases participation among those deemed eligible.
- o Decreases the amount of stamps in circulation.

Con:

- o Would not reduce program costs to the degree that Option I would.
- o Reduces the amount of family resources committed to food.

This option is preferred in concept by the Department of Labor.

Option III -- For those already receiving welfare (AFDC and SSI), the value of the Food Stamp bonus would be added to their checks in cash (partial cashout). Provide cash benefits to recipients who are simultaneously on AFDC and SSI and continue to provide Food Stamps to all others without the purchase requirements. Eligibility could be tightened through standard deductions and participation could be further cut back through accounting period changes.

Pro:

- o Significantly reduces number of stamps in circulation.
- o Simplifies program administration.
- o Significantly increases independence and discretion for recipients.
- o Moves toward consolidation of welfare programs.

Con:

- o Stigmatizes working poor with stamps while providing cash to welfare recipients.
- o Ends tie with food.
- o States may allow 100 percent Federal Food Stamp program to expand, while containing matched AFDC program.

Option IV -- Eliminate Food Stamp coupons altogether and provide benefits in cash to all recipients (cashout). Represents comprehensive reform and a major step toward program consolidation of the welfare system. The option could be combined with tightened eligibility, a high tax rate on earned income, and other features to decrease costs. Because of the preference which recipients have for cash over stamps, this option could be combined with a high tax rate so that gross income eligibility levels could be decreased and total program costs could increase moderately.

Pro:

- o Concentrates on the broad consumption needs of the poor.
- o Eliminates the patronizing notion of a voucher program.
- o Assures broad equity.
- o Administratively less expensive.
- o Less subject to fraud or error.

Con:

- o May not have strong Congressional constituency.
- o Will reduce percentage of benefits which go to food consumption.
- o Increased participation will raise program costs.

This option is preferred by DHEW.

VI. RECOMMENDATIONS

The Review Group recommends that the Administration take the initiative on reform. In doing so they generally prefer Option I which provides for the continuation of the purchase requirement with modifications for eligibility and income deductions. There is a general feeling that cashout may be desirable, but should be considered along with major reform of the welfare system.

Secretary Weinberger, however, feels strongly that cashing out stamps is an important incremental step toward consolidating welfare programs and should be taken now. Tab C contains specific comments of Review Group members.

VII. DECISION

- A. Do you agree that the Administration should take the initiative and propose reform?

Agree NR7

Disagree _____

- B. Do you prefer:

Option I provides for continuation of purchase requirements with modifications. Preferred by USDA, Treasury, CEA, EPB. NR7

Option II provides for the elimination of the purchase requirement with modifications. Preferred by Labor.

Option III provides for cashing out stamps to eligible persons on AFDC and SSI.

Option IV provides for the replacement of stamps with cash for all eligibles. Preferred by DHEW.

Attachments

TAB A
RECENT GROWTH IN THE FOOD STAMP PROGRAM^{1/}
 (Number of Recipients in Millions)

	<u>Total</u>	<u>In public assistance households</u>	<u>Not in public assistance households</u>	<u>Total Federal costs (billions: annual rate)</u>	<u>Average monthly bonus per recipient</u>
May 1973	12.4	7.6	4.8	\$2.3	\$14.52
May 1974	13.7	7.5	6.2	3.3	19.39
April 1975	19.6	8.7	10.8	5.6	21.89
May 1975	19.4	8.8	10.7	5.3	21.83
June 1975	19.2	8.8	10.5	-	21.93

^{1/} About one-third of the increase in recipients from 1974 to 1975 is the result of an expansion of the program to all States and some outlying areas (e. g., Puerto Rico). The remaining growth in the program is due to an increase in eligibility related to the recession and an increased participation among those formerly or newly eligible; but it is difficult to distinguish these factors.

Note: Program size was relatively stable until early 1975. For example, there were 14.9 million persons in the program in December 1971, and in August 1974 there were 14.9 million persons in the program. There is some indication that now that the growth of unemployment has stopped, the size of the program may be declining.



TAB B
ILLUSTRATIONS OF SPECIFIC OPTIONS WITH
COST IMPLICATIONS

In order to provide you with a better feeling for the implications of the four broad options, specific detailed proposals are constructed below around each of the options. The illustrations are a combination of specific program details designed to meet the needs for controlling program growth and limit eligibility combined with responsible program design and efficiency. Once you select a broad program option, the Review Group will develop a detailed proposal around it.

Option I -- Continue the requirement that eligible persons must pay for their stamps but tighten eligibility and deductions. Higher income families would be eliminated and program growth limited. Under this specific proposal, the maximum gross income a family of four could receive and still be eligible would be about \$8,600 annually, as opposed to a virtually unlimited ceiling now which could extend to over \$12,000.

This option provides that:

- Eligible persons must spend 25 percent of their income for stamps.
- Deductions would be limited to \$75, and the education deduction would be eliminated.
- The previous month's earnings would be considered in determining eligibility.
- The stricter AFDC work test would be applied.
- Automatic eligibility for AFDC and SSI recipients would be curtailed.
- The same asset test as in the current program would be applied.

This option would eliminate most students and strikers from the program. It would not reduce administrative costs significantly.

This option would be expected to save between \$.1 and \$.6 billion annually.*

*Cost estimates supplied by DHEW



Option II -- Eliminates the requirement that recipients put up cash and issue only the bonus or subsidy value in stamps. Administration would be simplified somewhat and the amount of stamps in circulation would be reduced. This option would also cut off eligibility at a maximum gross income level of about \$8,600. The bonus value would be related to an expenditure of 25 percent of a person's income for food with a cap of \$75 for deductions. Eligibility would be based on the average monthly earnings over a prior three month's period instead of one month.

In effect, this option would be identical to Option I except that the recipient would be provided the bonus value of the stamps without any purchase required.

This approach could reduce costs, but not as much as the first option since it is expected that participation would increase.

Option III -- For those already receiving welfare (AFDC and SSI), the value of the Food Stamp bonus would be added to their checks in cash. Others who are eligible for Food Stamps but not welfare, such as a working, intact family or single person, would receive the bonus in stamps.

All other provisions of Option II would apply to this option. It would remove approximately 75 percent of the stamps from circulation, and reduce the number of government employees now involved in administering Food Stamp coupons.

Estimates for this option range from a cost increase of \$.5 billion to a saving of \$.4 billion.

Option IV -- Eliminate Food Stamp coupons altogether and provide benefits in cash to all participants. The provisions of Option II would apply except that the benefit reduction rate would be increased to 40 percent of income instead of 25 percent. This would cause the maximum eligible income level to be reduced from the \$8,600 level to \$5,900 because the preference of recipients for the more flexible purchasing power of cash over stamps allows a moderate benefit reduction.

Option IV is an incremental step in the direction of reform of the welfare system. By eliminating stamps entirely, administrative costs would be reduced significantly.



It is estimated that this option would decrease costs by \$.7 billion to \$1.4 billion.



COMMENTS BY PARTICIPANTS OF THE FOOD STAMP REVIEW GROUP

Alan Greenspan

"My preference is for Option I with the following features:

Continue subsidy in form of Food Stamps but with the purchase requirement.

Change income eligibility provisions by:

- 1) going to a 12 month accounting period; and
- 2) limiting deductions to taxes, medical expenses exceeding 8 percent of income, child care expenses for children age 6 or under only in households where all adults work 25 hours or more a week and with a cap on the deduction of \$35 a week per household.

Eliminate any provisions for categorical eligibility.

Include in the asset test the equity value of all assets, including owner occupied homes, with a deduction of \$500 for personal possessions, and \$500 for tools needed for work.

Go to Federal-State matching system for funding, but retain Federal standards and State administration."

L. William Seidman

"Option I... seems best suited to ease the problems since it attacks both the eligibility and deduction. At the same time, it does not remove from the individual receiving the stamps all responsibility for making food provisions. Selection of Option II... relieves the recipient of the existing portion of responsibility. Options III and IV take the form of cashouts, which as stated in your memorandum, might be considered in the context of long-term welfare reform.

Our recommendation would be Option I with a standard deduction."



Caspar W. Weinberger

"We... agree with the four major options that are presented. I strongly endorse Option IV. At the same time, I oppose any option which does not significantly move towards cash-out."

John Dunlop

"I would like to endorse... Option II.

Option II does move away from the voucher position toward cash.

... given our reading of the political climate and the apparent inclination to effect economies, while at the same time continuing a program which seems uniquely geared to the needs of and utilized by the lowest income groups, we would support Option II."

USDA

Indicated support of the concepts in Option I. The Department indicated that they could not verify the cost and savings figures. They also recommended that USDA be given legislative authority to test Option II on a limited basis.

Treasury

Indicated their support for the concept of Option I by telephone on July 31, 1975.





EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET

Date: October 6, 1975

TO: Dick Cheney

FROM: Deputy Director

Agriculture must testify tomorrow.
I need confirmation asap today.



A handwritten signature in black ink, enclosed within a large, hand-drawn oval.



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

October 6, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: PAUL H. O'NEILL

Ohice

SUBJECT: Food Stamps

This is to confirm our discussion yesterday on food stamps.

In reviewing the options paper you have decided that we should not favor partial cashout.

Further, you have decided that we should adopt the approach of option (1); standard deduction to replace itemized deductions, with one important change: The cutoff level for benefit eligibility should be set at the poverty line, \$5050 for a four person family, not \$7680.

Confirmed _____

See me _____

