The original documents are located in Box 15, folder "Food Stamps (6)" of the James M. Cannon Files at the Gerald R. Ford Presidential Library.

[Aug. 1975]

DRAFT

BASIC QUESTIONS RELATING TO FOOD STAMPS

1. What is the program? Farm subsidy and nutritional supplement or another welfare plan?

2. Who in the federal government should run the program --Agriculture or HEW?

3. What is the proper role of state and local governments in administering food stamps? Or, how can state and local governments appropriately participate in the cost--as well as the administration--of the food stamp program?

4. Who should be eligible? How can eligibility be simplified and more clearly and fairly established?

5. What should the level of aid be? Should it continue to be stamps or be converted into cash assistance?

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

August 5, 1975

MEMORANDUM FOR: JIM CANNON

FROM: DONALD RUMSFELD

Attached is a note from Bob Michel to me which I have acknowledged. Please see that Bob Michel is given a final crack before the President makes finalc decisions on this matter.

ROBERT H. MICHEL
18TH DISTRICT, ILLINOIS

MINORITY WHIP
APPROPRIATIONS COMMITTEE
RANKING MEMBER
LABOR, HEALTH, EDUCATION, AND WELFARE
SUBCOMMITTEE

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KNOX STARK
TAZEWELL

July 31, 1975

Honorable Donald H. Rumsfeld
Assistant to the President
The White House
Washington, D. C. 20500

Dear Rummy:

On the subject of food stamps, I have met with Veneman and Butz and I feel right on track with the latter. We may be at some odds with the Domestic Council and I have seen several proposed drafts of recommendations to the President which causes me to have a little concern for what final memo reaches the President.

Please don't let him put anything in concrete, until I have an opportunity to meet with him, one on one.

Sincerely,

Robert H. Michel
Member of Congress

RHM:cdm

THE WHITE HOUSE

WASHINGTON

File

August 5, 1975

ACTION

MEMORANDUM FOR THE PRESIDENT

FROM: ~~JIM CANNON~~

SUBJECT: Food Stamp Reform Decision Memorandum

I. ISSUE

During the past four weeks, a Domestic Council Review Group* has been engaged in a comprehensive study of the problems with the Food Stamp program. Four approaches which involve varying degrees of modification of the current program and which embody some basic philosophical choices have been developed. At issue is which of these approaches, if any, you may wish to consider as an Administration initiative.

In presenting these approaches, this memorandum seeks to review the process by which the fundamental issues were addressed and to identify how the four approaches embody various resolutions of these issues. Following your review of this process and your reaction to the four approaches, specific details and cost estimates will be completed and the Review Group will develop responses to any additional 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

*Review Group consists of the Secretaries of Treasury, Agriculture, Labor, and HEW, the Director of OMB, Chairman of CEA, and Executive Director of the Economic Policy Board.

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. Summary of Michel Bill (Tab A)

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. Program Objectives

The Review Group faced the fundamental issue of whether the original objectives of the Act, to improve nutrition among the poor and to supplement the income of the farmers, were being served. A review of the most recent studies of the program led to the conclusion that the original objectives no longer apply and that it is in fact an income supplement program.

C. 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.

D. 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.

Since 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 then 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_____ Disagree_____

B. Do you prefer:

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

_____

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)

	Total	In public assistance households	Not in public assistance households	Total Federal costs (billions: annual rate)	Average monthly bonus per recipient
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 increase 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 $.1 billion to a saving of $.7 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 increase costs by $.1 to $.5 billion due to increased participation, although a higher benefit reduction rate could be applied which would contain costs to current levels or lower.

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.

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.

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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.

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- 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_____ Disagree_____

B. Do you prefer:

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

_____

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)

	Total	In public assistance households	Not in public assistance households	Total Federal costs (billions: annual rate)	Average monthly bonus per recipient
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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.

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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.

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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.

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"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.

[Aug. 1975]

ISSUE - FOOD STAMP PROGRAM

Policy file

Question

Simon has called the Food Stamp Program "a haven for the chiseler." Do you agree, and if so, what changes would you propose for the program?

Answer

I'm concerned that close to one-fifth of the American people are eligible for a food stamp subsidy. We must use our limited resources to assist those in need without overburdening the taxpayer.

The very nature of the Food Stamp Program lends itself to abuse and administrative errors. When a program costs the taxpayers over $6 billion a year, any percentage of abuse or ineligibility is significant.

Proportionately, we spend more to administer the Food Stamp Program than any other form of welfare -- and those dollars don't provide a single slice of bread or a glass of milk to a hungry child. I am currently reviewing a series of proposals prepared by my staff that could lead to changes in both administration and in eligibility.

AQ-8/15/75

THE WHITE HOUSE

ACTION MEMORANDUM WASHINGTON LOG NO.:

Date: August 19, 1975 Time:

FOR ACTION: cc (for information):

Phil Buchen
Jim Cavanaugh
Max Friedersdorf
Bob Hartmann
FROM THE STAFF SECRETARY

Jack Marsh
Jim Lynn

File

DUE: Date: August 20, 1975 Time: 9 A.M. ***

SUBJECT:

Cannon Memo of August 12th re
Food Stamp Reform

ACTION REQUESTED:

____ For Necessary Action

____ Prepare Agenda and Brief

__X__ For Your Comments

__X__ For Your Recommendations

____ Draft Reply

____ Draft Remarks

REMARKS:

We apologize for the short notice on this memo, however, we would like to have your comments to go in the courier to Vail tomorrow morning -- 9:30 A.M.

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please

Jim Connor

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 quality 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:

- Higher income families would be eliminated.
- Maintains linkage to food requirements.
- More likely to provide better nutrition for very poor.
- 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.

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"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.

THE WHITE HOUSE

WASHINGTON

August 27, 1975

MEETING TO DISCUSS
FOOD STAMP ISSUES

Thursday, August 28, 1975
2:00 p.m. (30 minutes)
The Cabinet Room

From: Jim Cannon

I. PURPOSE

This meeting is being held to:

1. provide an opportunity to discuss key issues at the root of all the various options for reforming the Food Stamp program and

2. get your guidance for developing recommendations that will assist you in making final decisions on a comprehensive reform proposal.

II. BACKGROUND, PARTICIPANTS, AND PRESS PLAN

A. Background:

You received an August 12 memorandum by a Domestic Council Review Group which is studying the Food Stamp program. This memorandum outlined four possible approaches to resolving the Food Stamp problem. Your guidance is needed at this point on key philosophical directions.

B. Participants:

Secretary Butz
Secretary Mathews
Secretary Dunlop
Deputy Secretary Gardner
Don Rumsfeld
Jack Marsh
Robert T. Hartmann
Jim Lynn
Alan Greenspan
William Seidman
Jim Cannon
Jim Cavanaugh
Art Quern
Jack Veneman

C. Press Plan:

To be announced.

III. ISSUES

There are a number of basic questions which seem to be central to all proposals for reform of the Food Stamp program:

1. Nutrition vs. Income Supplement

What is the goal of the program: Is the program meeting its orgiinal goals of raising the nutritional intake of low income families and creating a market for surplus farm products? Or, in fact, is it simply another income supplement program?

2. Cash vs. Stamps

If it has become and should remain an income supplement program, should we move toward replacing stamps with cash?

3. Move to HEW

Regardless of whether or not stamps are replaced with cash, should we consider transferring the administration of the Food Stamp program to HEW?

4. Eligibility

Should the program be designed to limit participation solely to those in need as defined by:

--participation in other welfare programs such as AFDC, SSI, and Social Security?

--by some national annual income level such as the poverty level ($5050 for a family of 4)?

--on a regional basis?

5. Eligibility and Work

Should all able-bodied adult recipients be required to register for and accept available work in order to be eligible? For example, should this include college students and strikers?

6. State Participation

Should an attempt be made to include state participation in the cost of the benefits?

THE WHITE HOUSE

WASHINGTON

August 28, 1975

MEMORANDUM FOR: JIM CANNON

FROM: ART QUERN

SUBJECT: Food Stamps Talking Points

The following points should be made at the start of today's meeting with the President:

1. Seeking Guidance Not Final Decisions

Our discussions today are aimed at seeking your guidance on some of the key philosophical issues which are at the root of all food stamp issues.

2. Another Meeting Will Be Scheduled

Once we have that guidance, we will develop it into specific options for your consideration and a second meeting will be scheduled to discuss those options. Options in by September 10.

3. Parallel Issue of Court Decision

On June 12, the U.S. Court of Appeals ruled that the present program was not adequately providing for the nutritional needs of participants. The court decision was based on the premise, in the current law, that this is a nutritional program.

--This ruling runs counter to all the reform efforts we are considering.

--The Department must, however, by September 5, publish proposed rules which comply with this decision.

--These rules are ready in draft form now.

--But we would, with your approval, like to include a preamble, based on today's guidance, which:

1. points to the fact that we are forced by the court decision to issue these regulations

2. that they move in directions we think unsound

3. that we will be proposing legislation to reform the program.

4. Michel Bill

As you directed, we have had extensive discussions with Michel and his staff and have concluded:

A. The Michel bill--also sponsored in the Senate by Senator Buckley--makes a number of important improvements and most of the options we have considered could be proposed as Amendments to Michel's bill.

B. The Michel bill has two distinct advantages:

--there are no clear savings but there are substantial reductions in caseload.

--it has a very severe work disincentive.

C. Michel returns to Washington this afternoon, and I expect to meet with him early next week. I also expect to talk to Senator Buckley, who is campaigning in New York, by telephone tomorrow.

FOOD STAMPS FILE NOTE

See materials in meetings file for August 28, 1975

THE WHITE HOUSE

WASHINGTON

August 29, 1975

MEMORANDUM FOR: JIM CANNON

FROM: ART QUERN

SUBJECT: Development of Food Stamp Options

Work Plan

Objective: Develop specific Food Stamp reform proposals which:

-- continue use of Food Stamps

-- exclude categorical eligibility for welfare participants

-- reflect tighter eligibility standards

-- simplify determination of income eligibility

-- create incentives for improved administration by states

-- reflect positive points of Michel Buckley bill.

Plan:

Tuesday, Sep. 2nd:	Reconvene review group and assign specific elements
Friday, Sep. 5th:	Assignments due
Monday, Sep. 8th:	Draft for Cannon's review
Tuesday, Sep. 9th:	Staff out option paper
Wednesday, Sep. 10th:	Final option paper to President
Friday, Sep. 12th:	Meeting with President