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FOOD STAMPS Out of Control?

Costs are rising by the billions, abuses are spreading. No wonder there's concern that the food-stamp program is on a runaway course.

Never in its decade as a major tool of federal help for the needy has the food-stamp program been under such heavy fire as it is today.

From Treasury Secretary William Simon down to the clerks who staff checkout counters in food stores, charges are piling up: fraud, abuse and government bungling.

Among worries being voiced—

- The very size of the program is frightening. The expected payout of 6.6 billion dollars for food stamps in the coming year represents about one half the total budget of the Department of Agriculture.
- The program's growth, largely a result of the recession, is vastly exceeding expectations, with close to 1 American out of 11 now getting food stamps.
- Bureaucratic foul-ups, according to the latest official estimate, are resulting in an "error rate" of about 20 per cent in the program.

The double-barreled result: Lax controls let too many ineligible persons into the program; red tape keeps too many of the deserving needy out.

- Cases of fraudulent use of stamps appear to be rising faster than the number of persons getting them. In some localities, food stamps have become virtually a second currency.

Carl B. Williams, Deputy U.S. Commissioner of Welfare, says:

"As it now stands, the system is in such a mess that the Government has practically abdicated its responsibility for seeing that the money gets to people who really need it. In effect, the Government is giving away billions of dollars with virtually no controls at all."

Action in Congress. In the wake of the growing controversy, pressure is building in Congress for reforms in the massive stamp program. Agriculture committees in both the House and Senate have commissioned studies of the program, and their chairmen have promised major overhauls in coming months.

But reforming a plan affecting such a large number of voters, operating in every county in the U.S., is likely to be difficult.

There are now more than 19 million persons getting the food stamps, which are coupons issued by the Federal Government and distributed by cities and counties across the country. They are used just like money to buy food. The amount of stamps that a family can buy—and how much it must pay for them—depends on the size of the family and its income. These limits are illustrated in the box on the opposite page.

Treasury Secretary Simon built a hot fire under the program in a controversial speech in Bloomington, Ind., on August 12. He said the food-stamp plan began as a 14-million-dollar experiment in 1962 but will cost 6.6 billion in the current fiscal year. He described it as a "well-known haven for the chislers and rip-off artists" and linked it with "programs that are spinning out of control."

Actually, during its first few years, the food-stamp plan was strictly a pilot program. At the end of its first year, there were about 50,000 persons getting the stamps in six test areas. The bonus value of the stamps—that part paid by the Government—came to only $381,000.

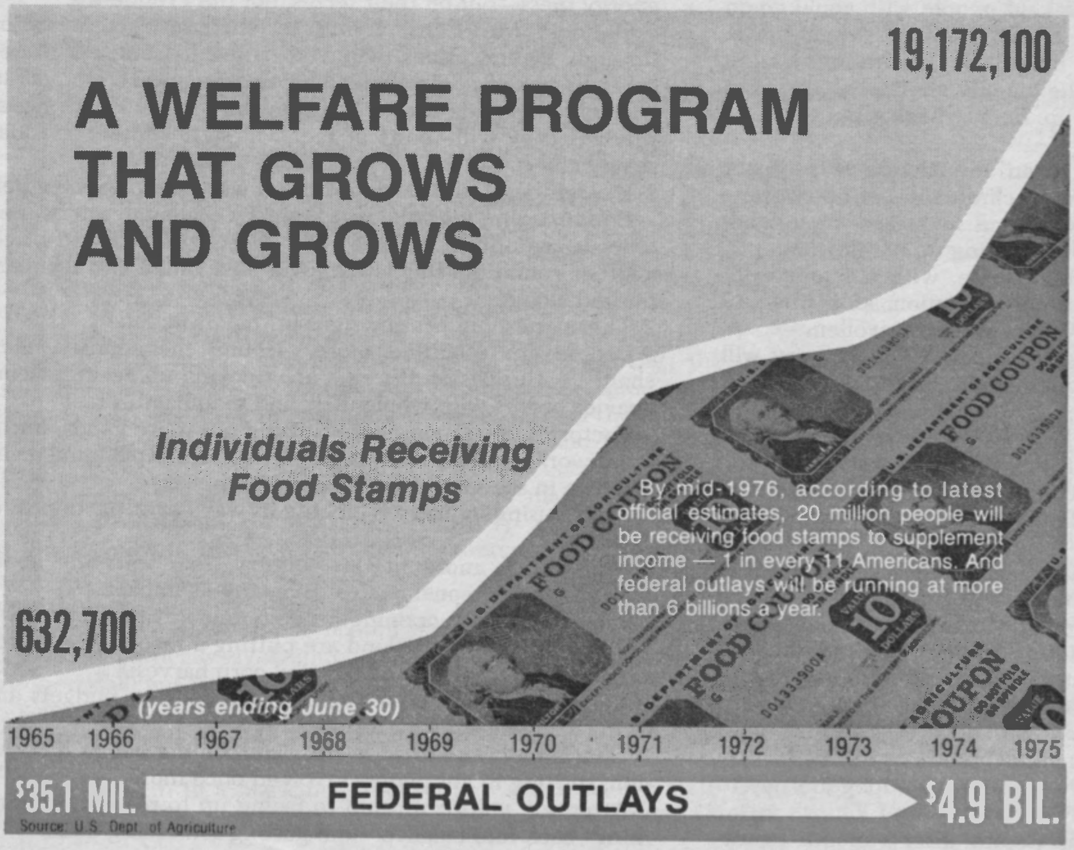
According to Agriculture Department officials, the program has mushroomed this way:

The number of people receiving food stamps jumped from 6.5 million in 1970 to 10.5 million in 1971, then went to 12.4 million in mid-1973 and to 19.2 million in June, 1975. In some areas—Puerto Rico, for example—half of the population is receiving the stamp subsidies.

Cost of the program has climbed from 1.6 billion dollars in 1971 to 6.6 billion—with the cost expected to rise at least through 1978.

Overpayments and errors appear frequently, according to a sampling of 25,600 households released in March, 1975. The federal survey did not cover households getting public assistance, however. Those households are automatically eligible for stamps, and the error rate would be low. Among the findings:

- Errors were found in 56.1 per cent of cases looked into. Of these, 12.2 per cent



THE SECRETARY OF HEALTH EDUCATION, AND WELFARE
WASHINGTON, D.C. 20201

SEP 25 1975

MEMORANDUM FOR HONORABLE JAMES M. CANNON

SUBJECT: Presidential Decision Memorandum on Food Stamps

I have reviewed the most recent draft of the Presidential decision memorandum on Food Stamps. Bill Morrill already has transmitted some detailed Departmental comments to you.

As a potential administrator of the program, I strongly believe that the President should take this opportunity to propose a reform package that substantially simplifies its administration. Such a reform would not only reduce direct administrative costs but could, if done correctly, significantly decrease the opportunities for both error and fraud which have been a major factor in public displeasure with the program.

The purchase requirement decision is particularly important in this respect. Not only would eliminating this requirement decrease the number of stamps in circulation and eliminate the need to handle cash, it also makes it easier to move to a retrospective accounting system. This highly desirable change would have a salutory impact on error rates. Monthly reporting alone (as in Michel-Buckley) would increase administrative burdens but would not eliminate the considerable number of overpayments that cost the program so much now. Elimination of the purchase requirement would also permit the use of a longer accountable period which both saves money and reduces eligibility by targeting funds on those in greater need.

I feel the final version of this memo should highlight the purchase requirement decision and give full attention to administrative simplicity and cost as additional factors to consider. Lack of

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simplicity and high administrative costs have, of course, been a political liability.

If I had to vote now I would be in some quandary. Option I obviously is attractive, but I am not sure that adding the two elements I mentioned will not result in Option V, which is where we were earlier.

/s/David Mathews

Secretary

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THE WHITE HOUSE

WASHINGTON

DECISION

September 29, 1975

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MEMORANDUM FOR THE PRESIDENT

FROM: JIM CANNON JMC

SUBJECT: Food Stamps--Summary

With the guidelines on food stamps which you set at our meeting on August 28, the Domestic Council review group (OMB, CEA, HEW, Labor, USDA, and Treasury) identified and developed five program options and three administrative options to reform the present Food Stamp program.

These options have been reviewed by your senior staff. In brief:

-- Most prefer Option I, a major contraction of the Food Stamp Program. This approach is supported by Secretaries Butz and Simon, Paul O'Neill, Max Friedersdorf, and myself.

-- Secretary Mathews also finds Option I attractive, but prefers Option V, in part because eliminating the purchase requirement would simplify administration.

-- Bill Seidman supports Option III.

-- CEA recommends a modified option (CEA Option Tab).

We need your decision on one of the five program options and on one of the three administrative options. Then we can determine the best course of action in our continuing efforts to work with Bob Michel and Senator Buckley.

All of the enclosed plans offer a base for cooperation with the Buckley-Michel Bill. In general, our approaches seek to simplify as well as tighten the program. The Buckley-Michel Bill sacrifices simplification for greater tightening. Nevertheless, each plan can incorporate many features of the Buckley-Michel Bill (Buckley-Michel Tab).

A central objective in our work with the Hill will be to undertake now a step on food stamp reform that will lead, ultimately, to overall reform of social assistance programs.

THE WHITE HOUSE

WASHINGTON

September 29, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: JAMES CANNON

SUBJECT: Food Stamps

This is to present for your decision a set of proposals for specific reform of the Food Stamp program which were developed by a Domestic Council review group (OMB, CEA, Labor, USDA, Treasury, Domestic Council).

I. Background

At our August 28 meeting, you made the following decisions:

-- Continue to use stamps.

-- Simplify and tighten eligibility.

-- Concentrate benefits at lower income levels.

-- Simplify administration.

-- Eliminate automatic eligibility for participants in public assistance programs and judge only on basis of actual resources.

-- Identify means of creating incentives for better administration by the states.

In addition, since our last meeting, Jim Lynn, Paul O'Neill and I have twice met with Bob Michel and Senator Buckley. We will do so again once we have your decisions.

The Senate has requested that the Administration be prepared to testify on its position on October 7.

II. Incorporating These Decisions into Options

All of the options presented in this decision paper incorporate the above points in the following manner.

A. Major Elements Which Affect Eligibility

1. Effective Gross Income Cut-off at or near $7500

All but one of the plans below are designed to combine a number of eligibility determination factors in a way that effectively cuts off eligibility for a family of four when their gross income reaches approximately $7500 a year.

2. Uniform Purchase Requirement

Most of the plans rely on a uniform purchase requirement of 30% to control costs and to provide for equal treatment among participants. This 30% requirement, if considered by itself, would be no different from your recommendation made earlier this year which was rejected by Congress. In these new proposals, however, the uniform purchase requirement is coupled with a standard deduction--which would have a more balanced, equitable, and, we believe, acceptable impact on participants.

-- Should you not desire to again recommend a 30% purchase requirement, Plan II has a 25% requirement and Plan III retains the current system which ranges from below 20% to above 30%.

3. Standard Deduction

All of the plans replace most of the current accretion of deductible items with a standard deduction. Payroll taxes would still be separately deducted. The review group felt that a standard deduction was a simple and effective manner to exclude higher income families which have used the current variable deductions to become eligible. The standard deduction also benefits low income families whose deductions ordinarily totalled less than the standard.

4. Retrospective Accounting System

The current program examines income for purposes of eligibility and benefit computation by estimating a family's income for the upcoming month. This "estimating" approach is often inaccurate, leads to over-payments which are infrequently recaptured, and is administratively complex. To correct these problems, all five plans would introduce a retrospective accounting system which examines actual income from previous months.

-- Since the purchase requirement places a great importance on cash-on-hand in order to receive benefits, the review group recommends using the income from the previous month in computing benefits in Plans I, II, and III, which retain the purchase requirement.

-- In Plans IV and V, which eliminate the purchase requirement and simply pay the bonus value in stamps, we recommend determining benefits each month by examining income over the previous three months. This would eliminate from eligibility those families with short-run fluctuations in income but otherwise adequate incomes over the quarter.

-- However, eliminating the purchase requirement and paying the bonus value in stamps is, in effect, like paying cash to recipients.

-- Lengthening the period over which income is measured sharply reduces costs. The Council of Economic Advisers believes that this is the most equitable way to reduce costs since it is the higher income people with fluctuating income who would lose benefits while the longerrun poor would be unaffected. Without a longer accounting (6 or 12 months instead of 1 or 3 months) some households with high annual income will be in the program during some months of the year.

5. Categorical Eligibility

Under all of the options, recipients of aid from categorical public assistance programs would no longer automatically be eligible for the Food Stamp program.

6. Assets Test

All the plans offered incorporate a limit of $25,000 on the equity a person may have in a home and still receive Food Stamps. This approach increases administrative complexity and could adversely affect some elderly couples living in their own homes. However, the asset limitation is an important equity concern and can by itself reduce costs approximately 2%.

7. Strikers and Students

The review group recommends substantially reducing participation of strikers and students by eliminating the education expense deduction and moving to a retrospective accounting period. Additional constraints on students could be introduced by requiring them to accept available work. Given the reduction in student participation accomplished by eliminating the education deduction and given the unlikelihood in the current economy of jobs being available for students, the review group chose not to apply the work requirement to students. This, however, could be added if you so desire and would effectively eliminate students from the program.

B. Elements Which Improve Program Administration and Reduce Error Rates

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The complexity of the current Food Stamp program in determining recipient eligibility and in calculating appropriate benefit levels has led to high administrative costs, significant program error rates, and substantial program inefficiencies. All the plans developed for your review attempt to substantially simplify program administration.

1. All plans use standard deduction and retroactive accounting system described above.

2. All plans (except Plan III) require that a uniform percentage of a participant's income be spent for food. These rates are set at 30% in all but one of the plans. In the current program the rates can range from below 20% up to 30%.

3. In-kind income from other public-financed assistance programs is not considered in calculating income for eligibility purposes since such calculations greatly complicate program administration and only moderately affect eligibility.

III. Outline of Options

Using the program elements discussed above, the review group developed a series of plans which provide for varying degrees of program contraction (both in terms of total budget and number of recipients). For all of the plans, the budget and participant impact is summarized in a chart (Chart Tab).

In addition to the extent of program contraction, the plans differ according to whether or not they retain the purchase requirement.

Plans retaining a purchase requirement tend to limit participation among those eligible and do not decrease the number of stamps in circulation.

Plans eliminating a purchase requirement would remove this obstacle to participation among those eligible and would decrease the percentage of additional income that went to increased food consumption. These plans would also simplify administration in part by eliminating the handling of cash and decreasing the amount of stamps in circulation. They would also permit or make easier a move to a longer accountable period for income.

The Council of Economic Advisers has suggested an additional option and a more detailed basis for your examining the issues. These have been included in the CEA Tab.

OPTION I

Option I -- Major Program Contraction

Elements

-- Maintains purchase requirement.

-- Replaces current deductions with a standard deduction of $100.

-- Implements a uniform benefit rate of 30%, requiring each eligible recipients to pay 30% of his income for his Food Stamp allotment.

-- Measures income eligibility by examining applicant's income over the last 30 days.

Impact on Present Program

Total Costs	- 12%
Total Participants	- 11%
Number of Present Recipients Made Better Off	24%
Number of Present Recipients Made Worse Off	42%
Effective Income Cut-off (Family of Four)	$7680

Supported by:

Secretaries Butz and Simon, Paul O'Neill, Max Friedersdorf, and Jim Cannon.

______________ Approve

______________ Disapprove

OPTION II

Option II -- Moderate Program Contraction

Elements

-- Maintains purchase requirement.

-- Replaces current deductions with a standard deduction of $100.

-- Requires eligible recipients to pay 25% of their income for Food Stamp allotment.

-- Measures income eligibility by examining applicant's income over the last 30 days.

Impact on Present Program

Total Costs	- 6%
Total Participants	- 2%
Number of Present Recipients Made Better Off	35%
Number of Present Recipients Made Worse Off	30%
Effective Income Cut-off (Family of Four)	$8976

________________ Approve

________________ Disapprove

OPTION III

Option III -- Maintain Current Program Size

Elements

-- Maintains purchase requirement.

-- Replaces current deductions with a standard deduction of $100.

-- Requires eligible recipients to make payments under same schedule that is in effect today which varies from below 20% up to 30%.

-- Measures income over the last 30 days for purposes of eligibility.

Impact on Present Program

Total Costs	- 4%
Total Participants	- 6%
Number of Present Recipients Made Better Off	40%
Number of Present Recipients Made Worse Off	30%
Effective Income Cut-off (Family of Four)	$7680

Supported by:

Bill Seidman.

_______________ Approve

_______________ Disapprove

OPTION IV

Option IV -- Significant Program Contraction

Elements

-- Eliminates purchase requirement.

-- Replaces current deductions with a standard deduction of $85 per month.

-- Issues stamps in values resulting in 30% of a recipient's income going for food.

-- For purposes of eligibility measures income over past three months.

Impact on Present Program

Total Costs	- 13%
Total Participants	- 5%
Number of Present Recipients Made Better Off	10%
Number of Present Recipients Made Worse Off	65%
Effective Income Cut-off (Family of Four)	$7495

_______________ Approve

_______________ Disapprove

OPTION V

Option V -- Modest Program Contraction

Elements

-- Eliminates purchase requirement.

-- Replaces current deductions with a standard deduction of $100 per month.

-- Issues stamps in values resulting in 30% of recipient's income going for food.

-- Measures income over the last three months for purposes of eligibility.

Impact on Present Program

Total Costs	- 4%
Total Participants	- 1%
Number of Present Recipients Made Better Off	20%
Number of Present Recipients Made Worse Off	50%
Effective Income Cut-off (Family of Four)	$7680

Supported by:

Secretary Mathews.

________________ Approve

________________ Disapprove

CHART

OPTION SUMMARY

OPTION	DESCRIPTION OF OPTION				Income Eligibility Ceiling (After Taxes)	% IMPACT ON				% OF EXISTING RECIPIENTS	
	Retain Purchase Requirement	Standard Deduction	Benefit Reduction Rate	Length of Accounting Period		Costs (Base: $5 bill.)	# of Recipients (Base: 19 mill.)	# of Eligibles (Base: 55,831,000)	New Participants	Made Better off	Made Worse off (Total)
I	Yes	$100	30%	One Month	$7680	-12%	-11%	-12%	2%	24%	42%
II	Yes	$100	25%	One Month	$8976	-6%	-2%	+5%	8%	35%	30%
III	Yes	$100	20%-30%	One Month	$7680	-4%	-6%	-8%	4%	40%	30%
IV	No	$85	30%	Three Months	$7495	-13%	-5%	-27%	18%	10%	65%
V	No	$100	30%	Three Months	$7680	-4%	-1%	-22%	19%	20%	50%

CEA OPTION

COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

ALAN GREENSPAN, CHAIRMAN
PAUL W. MACAVOY
BURTON G. MALKIEL

September 19, 1975

Dear Jim:

This is to follow up on your conversation with Alan Greenspan on the memorandum to the President on food stamp reform. We urge the following changes:

1) That the following paragraph be inserted to replace the second paragraph on page 3 starting "Alan Greenspan---":

> "One of the plans suggests retaining the purchase requirement and adopting a retrospective accounting period. Lengthening the period over which income is measured sharply reduces costs (see table). Many believe that this is the most equitable way to reduce costs since it is the higher income people with fluctuating income who would lose benefits while the long-term poor would be unaffected. Without a longer accounting period some households with high annual income will be in the program during some months in the year."

2) That an additional option be included in the memorandum. The new option retains the purchase requirement at its present rates, has a 3-month retrospective accounting period and a standard deduction of $85.00. The smaller standard deduction is to offset the more expensive current system which has lower purchase requirements for the poor and for small households (mainly the elderly). In this way the program saves costs, eliminates high income households and effectively targets expenditures on the poor. It will, however, be for USDA to price out the option. We attach a statement of this option.

3) That the attached table be included which gives the cost of making each program change separately. In this way the President can determine the contribution to cost saving or cost increases when the program elements are varied.

AMERICAN REVOLUTION BICENTENNIAL 1776-1976

I am enclosing a more detailed memorandum with additional suggestions as well as a marked up copy of the original memorandum.

Sincerely yours,

Paul MacAvoy

Paul W. MacAvoy

Mr. Jim Cannon
The White House

Table 1

Changes in Costs and Recipients when Program Elements are Varied
(In each case the present program* is retained except for the one element to be varied.)

	Percent Change in: Number of households eligible at some time during year	Percent Change in: Annual cost	Income group most affected
Standard deduction			
$150	+1.4	+15.6	Unclear
100	-1.2	+ 2.6	
75	-13.6	-13.6	
Accounting period for measuring income			
Past month	0	- 5.4	Higher permanent income hurt -- poor unaffected
Average of past 3 months	-10.4	-22.1	
Average of past 6 months	-15.3	-24.6	
Purchase requirement			
No purchase requirement	?	+15	?
Constant 30 percent of income	?	-16	Poor households (just above the zero purchase requirement) & small households are hurt

*All cases also assume elimination of automatic eligibility for AFDC families regardless of their income.

<u>Additional Option</u>

Under:

A: Plans Which Maintain Purchase Requirement.

Plan

<u>Elements</u>

--Replace current deductions with a standard deduction of $85.

--Retain the current benefit structure with a benefit reduction rate that may vary over income groups.

--Change from the current prospective one-month accounting period to a retrospective accounting period of three months.

<u>Impact on Present Program</u>

Total Costs

Total Participants

Number of Present Recipients
Made Better Off

Number of Present Recipients
Made Worse Off

Effective Income Cut Off
(Family of Four)

COMMENTS

Staff Comments

Secretary Butz:	Supports Plan I but argues that retrospective accounting should be tested on a pilot basis. Strongly opposed to any plan which would eliminate purchase requirement. Potential for increased costs due to this elimination could be far greater than that which is indicated in the estimates Agriculture originally supplied for the attached chart.
Secretary Simon:	Supports Plan I and the imposition of a requirement that states pick up a portion of the bonus costs if their administration is ineffective.
Secretary Mathews:	Supports Plan V-- "This would be a solid package combining significant positive reforms with a reduction in costs and a retargeting of benefits to those most in need." Plan IV may have merit as an initial position to establish bargaining room although it may unnecessarily portray the Administration as insensitive to the needs of the low income population.
Secretary Dunlop:	"It is my belief that as a significant step in the direction of restructuring various elements in the welfare system, the form of aid should be modified through removal of the purchase requirement. . . . I support use of a standard deduction combined with a uniform purchase requirement."
Bill Seidman:	"I support Plan III. I also prefer reliance on simplification to reduce poor administration."
Paul O'Neill:	Recommends Option I or a Greenspan-type option in order to establish a strong bargaining position. Final dimension of the Administration's option should be worked out with Bob Michel.

Council of Economic Advisers:	Recommend another option. (Option CEA).
Jim Cannon:	"I recommend Option I, and I would rely on simplification to improve administration. Option IV or V would be better administratively; but Bob Michel and others in Congress are opposed to eliminating the purchase requirement because they see it as a 'cash-out.' Therefore, I believe Option I is the best base for working with the Buckley-Michel Bill."

SEP 25 1975

MEMORANDUM FOR HONORABLE JAMES M. CANNON

SUBJECT: Presidential Decision Memorandum on Food Stamps

I have reviewed the most recent draft of the Presidential decision memorandum on Food Stamps. Bill Morrill already has transmitted some detailed Departmental comments to you.

As a potential administrator of the program, I strongly believe that the President should take this opportunity to propose a reform package that substantially simplifies its administration. Such a reform would not only reduce direct administrative costs but could, if done correctly, significantly decrease the opportunities for both error and fraud which have been a major factor in public displeasure with the program.

The purchase requirement decision is particularly important in this respect. Not only would eliminating this requirement decrease the number of stamps in circulation and eliminate the need to handle cash, it also makes it easier to move to a retrospective accounting system. This highly desirable change would have a salutory impact on error rates. Monthly reporting alone (as in Michel-Buckley) would increase administrative burdens but would not eliminate the considerable number of overpayments that cost the program so much now. Elimination of the purchase requirement would also permit the use of a longer accountable period which both saves money and reduces eligibility by targeting funds on those in greater need.

I feel the final version of this memo should highlight the purchase requirement decision and give full attention to administrative simplicity and cost as additional factors to consider. Lack of simplicity and high administrative costs have, of course, been a political liability.

If I had to vote now I would be in some quandary. Option I obviously is attractive, but I am not sure that adding the two elements I mentioned will not result in Option V, which is where we were earlier.

David Mathews

Secretary

ADMINISTRATIVE OPTIONS

Administrative Options

At present, each state pays 50% of the administrative costs of the program in that state.

You asked that we present proposals to provide states with an incentive to improve administration and reduce errors.

The review group suggested three options:

A. Vary the state matching rate from 40% to 60%, depending upon quality of program administration and error rate.

--This option would result in little or no budgetary impact in the Federal level, and it would be cumbersome to administer.

B. Require a state to pick up part or all of food stamp costs if its administration is ineffective and if it has a high error rate.

--This approach could significantly improve state administration, thus reducing errors and cutting costs.

--Secretary Simon feels there should be a penalty for states with poor administration and high error rates.

--However, states would strongly resist any effort to increase their food stamp administrative costs.

--Secretary Dunlop urges that we not make changes in state incentives or penalties until we have some experience with program reform.

--The Council of Economic Advisers recommends permitting states to retain some proporation of the funds reclaimed from fraudulent participants. Others believed that this would not provide enough of an incentive to move states to administer the program more effectively.

C. Improve state administration by simplifying the administrative characteristics of the program with such features as a standard deduction and retrospective accounting period.

In general, the review group and your staff would prefer this approach.

* * *

Option A. Vary the state matching from 40% to 60%.

____

Option B. Require a state to pick up part or all of food stamp costs for poor administration and a high error rate.

____

Option C. Rely on simplification to improve administration.

____

BUCKLEY-MICHEL

THE WHITE HOUSE

WASHINGTON

September 24, 1975

MEMORANDUM FOR JIM CANNON

FROM: ART QUERN

SUBJECT: Food Stamp Reform - Altering the Buckley-Michel Approach

Attached is a detailed summary of the major provisions of the Buckley-Michel bill, with occasional brief comments on specific provisions needed.

Items from the attached list which are either identical to provisions in the Review Group options, or which could be easily added as is to our final proposals, include:

6. Prohibiting Transfer of Property
7. Eliminating Categorical Eligibility
9. An Additional $25 Deduction for the Aged
10. Using Age of Majority as Qualification Standard
11. Expanding the Work Test
15. Tighten Up Separate Household Criteria
16. 100% Federal Assumption of Cost for Aliens
18. Allow Withholding Public Assistance and Allow Demonstrations
19. Improve Outreach and Nutrition Education
20. Improved Accountability Procedures Before Issuance
21. Photo ID Cards, Countersigned Warrants and Increased Federal funding for Investigation

Items from the attached list which are somewhat similar in intent to the approach of the Review Group options, but which are less effectively structured and usually more expensive and difficult to administer, are:

1. Base Eligibility Upon Gross Income
3. Base Purchase Requirements on CES or 30%, whichever is less (assuming that the President selects 30% rather than 25%)
14. Preclude Strikers

Items from the attached list which are significantly different from the concepts and approach taken by the Review Group and most of which were considered either politically difficult to enact, administratively infeasible, or grossly inequitable, are:

2. Eligibility Cutoff at Poverty Line
   -- severely low cutoff point which eliminates over half of the current recipients and causes a major work disincentive at this cutoff point.

4. Adjust Purchase Requirements to CPI
   -- conflicts with concept of standard 30% benefit reduction rate.

5. Evaluate Property at Market Value
   -- administratively very difficult, affects aged recipients disproportionately, and conceptually unsound since it does not reflect purchasing power - Review Group options maintain current assets test.

8. Substitute Low Cost Diet Plan
   -- raises program costs 29% and conflicts with principle that Federal role should be to provide resources for minimum cost, nutritionally adequate diet - Review Group options use Economy Food Plan or the new Thrifty Food Plan.

12. Mandate Community Work Programs
   -- such programs have constituted harassment of recipients - an option would be to allow for Federally-monitored and evaluated demonstrations in this area.

13. Refer Recipients to Union Sites
   -- this appears to violate several major labor statutes.

17. Count In-Kind Assistance
   -- this is very difficult and very expensive to do and pits one program against another - it would be strongly resisted by States.

23. Permit Choice of Commodities or Food Stamps
   -- commodities programs are hard to administer and have been phased out in favor of Food Stamps - this would represent a major step backward.

22. Monthly Prospective Accountable Period
-- prospective accountable period, as used by the current program, is cumbersome, inaccurate, and difficult to administer - Review Group options recommend retrospective accountable periods.

24. State Participation in Bonus Value at AFDC Level
-- this would be strongly resisted by States, it would not improve program administration, and it would undercut some basic strengths of the Food Stamp program which depend upon Federal administration, i. e. the Federally-set basic benefit level and indexing.

The discussion in this memorandum applies both to Review Group options which maintain the purchase requirement, and those that remove it.

BUCKLEY-MICHEL BILL
SUMMARY AND COMMENTS

Below is a summary of the major provisions of the Buckley-Michel "Food Stamp Reform Act of 1975". Following certain provisions of the bill is a brief discussion of their implications and impact, from the perspective of the current decisions now being made on the five options developed by the Food Stamp Review Group.

A. Eligibility

1. Base eligibility upon gross, rather than net (of deductions) income.

   Comment: This eliminates deductions. All Review Group options standardize deductions which is practically identical to eliminating them (standardizing them at zero). Our standard deductions focus more aid on the very poor and result in a higher benefit cut off point (about \$7500 for a family of four, rather than \$5050 in Buckley-Michel).

2. Eligibility cut off at the poverty line. Categorical eligibility eliminated.

   Comment: This creates a very significant work disincentive. A family of four crossing the poverty line (\$5050) would lose between \$1000 and \$1300 in benefits. McGovern suggests setting cut off at the Census low income level, about \$9500. Review Group options base cut off points upon maintaining the current program basic benefit levels (based upon the cost of a nutritionally adequate diet) and assume a constant benefit reduction rate. These provisions produce a cut off point around \$7500.

3. Base purchase requirements upon the percentage of income expended for food by average household of same size and income range, with regional variations, as established by the most recent Consumer Expenditure Survey of Bureau of Labor Statistics, or 30%, whichever is less.

   Comment: These provisions are estimated to have almost no effect. 30% will almost always be less, and therefore this provision will be the same as the flat 30% rate suggested in our options. There will be almost no regional variation as it is measured by this bill. These provisions will, however, be considerably more expensive to administer than our proposals.

4. Adjust benefits and purchase requirements to changes in CPI, rather than food costs.

   Comments: This appears to be a way of limiting increases in benefits since CPI has tended to rise slower than food costs (this may, however, be changing). It also tends to cast benefits as income supplements (tied to CPI) rather than food purchasing power supplements. However, tying purchase requirements to changes in CPI is in conflict with the flat 30% benefit reduction rate. Since income of the poor does not increase with the CPI, this provision would require purchase requirement above 30%. It has to be assumed that either they would allow the purchase requirement to go up or they plan to pin it at 30% which makes this provision irrelevant.

5. Evaluate property on market value, not equity, with a $25,000 limit on an owned home.

   Comment: Equity, not the market value, reflects the real purchasing power of the recipient. Moreover, this provision would immediately eliminate 10% of the current population, half of whom would be aged couples who own their home.

6. Prohibit transfer of property.

7. Eliminate categorical eligibility.

   Comment: All Review Group options eliminate categorical eligibility.

B. Level of Benefits

8. Substitute low cost diet plan for economy diet plan.

   Comments: It would increase base allotments 29%, or, for a four person family, basic allotments would increase from $1944 to $2508. It would also move away from the concept that the Federal role is to provide recipients with sufficient resources to purchase the lowest cost diet which meets 100% of the RDA.

9. Reduce food stamp costs for aged by allowing a $25 deduction.

   Comments: This provision was included in the Buckley-Michel bill to partially balance out the increase in the purchase requirement from around 18% to 30% for many aged couples.

C. Work test and miscellaneous issues

10. Establish age of majority in state as minimum age to qualify as household.

11. Expand work test to mothers with children between 7 and 18, drug addicts and alcoholics in rehabilitation programs, and college students.

    Comment: The expanded work test for mothers is similar to the test in the AFDC program. If it is applied to this program it will probably necessitate provision of day care for the children which will significantly increase program costs.

12. Mandate participation in community work training programs, if established by states:

    Comments: Such programs are usually poorly done by states and amount to harassment rather than work experience. A better policy might be to allow, through waivers, well monitored state demonstration projects in these areas, subject to Federal monitoring and approval.

13. Halt practice of not referring persons to employment where union membership is required.

    Comments: The Department of Labor has indicated to us that this provision appears to violate a number of labor union statutes and would not be possible without significant revision of labor codes.

14. Preclude strikers.

    Comment: Review Group options handle this more equitably through changes in the work test and the accountable period.

15. Tighten up separate household criteria.

16. 100% Federal assumption of costs for aliens.

17. Count in-kind assistance as income from other programs.

    Comments: This is nearly impossible to do and is not included in any of the Review Group options. While conceptually it appears to make sense, it is very difficult and expensive to put dollar values on in-kind aid provided by other programs.

D. Administrative Changes

18. Transfer from USDA to HEW; provide demonstration project authority; allow local agencies to withhold public assistance for purchases.

    Comment:, Secretary Mathews has expressed resistence of transfer of the program to HEW.

19. Improve outreach and nutrition education.

E. Accountability

20. Various procedures to assure that stamps are properly accounted for and not improperly used before issuance to recipient.

F. Enforcement Activities

21. Require photo ID cards; use countersigned warrants; provide 75% Federal funding for investigation and prosecution; interjurisdictional cross checking system.

    Comments: These would decrease fraud (estimated saving $0. 5 million) and increase administrative costs substantially (estimated at $20 million). McGovern's staff were ready to accept the ID cards and the countersigning, though they invade privacy and increase grocery store lines.

22. Monthly Prospective Accountable Period.

    Comments: Review Group options all recommend a retrospective accountable period because it is easier to administer and more accurate. The prospective accountable period in the current programs is regarded by the Review Group as a major problem.

G. Local Option for Commodities

23. Permit choice of commodities or food stamps by local jurisdiction.

    Comment: This alternative better focuses on the nutritional purposes of the program. Its acceptance would depend upon local or state cost sharing provisions which are not spelled out in the bill.

H. Funding

24. Set state participation in bonus value at same rate as AFDC, with system of "block grants" to states.

    Comment: This could be a serious problem since for the first time it mandates a benefit level and manadates state participation (reverse revenue sharing). The fact that the program is currently 100% Federally funded and is indexed is generally considered as a major advantage of food stamps over AFDC and the direction toward which reform of AFDC would move.