

Food Subsidies

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Overview

The largest portion of the U.S. Department of Agriculture's budget consists of food subsidies, not farm subsidies. Food subsidies will cost taxpayers \$79 billion in fiscal 2009 and account for about two-thirds of USDA's budget. The largest food subsidy programs are food stamps; the school breakfast and lunch programs; and the women, infants, and children (WIC) program. The federal government as a whole has about 26 food and nutrition programs operated by six different agencies.¹

The USDA's food subsidy programs developed out of the need to dispose of farm production deemed surplus under commodity price support programs. Today, food subsidy programs are supported by farm interests, anti-poverty groups, and organizations of state and local program administrators. Farm and food subsidy programs provide both rural and urban legislators reasons to vote for increased USDA funding.

Farm and food subsidies make political sense, but they don't make economic sense. Farm policies that increase commodity prices harm the lower-income families that food subsidy programs are supposed to help. For example, federal dairy policies raise the price of milk, which works against the goals of the school lunch and food stamp programs. The solution is to repeal both farm and food subsidies, and allow open market competition to cut food prices for all families.

Food subsidy programs were designed to aid lower-income families, but the situation of those families has changed dramatically since the programs were instituted. The problem of insufficient calories for children in past decades has been replaced by growing obesity problems.² Also, as the U.S. economy has grown, the incidence of poverty and hunger has declined. Despite those trends, food subsidy programs are serving more recipients and continue to increase in cost.

The following sections discuss the food stamp, school breakfast and lunch, and WIC programs and the reasons that they should be abolished. Ultimately, food aid programs should be left to private charities, but an initial reform would be to transfer them to the states. Each state could then determine appropriate policies for its own residents. Some states might decide to fund food subsidies; others might not. Reviving federalism in this way would result in less costly and more innovative programs, as discussed in the final section.³

Food Stamps

The food stamp program aids lower-income families in their purchases of a variety of food products at retail. The program's official name is the Supplemental Nutrition Assistance Program. Eligibility is based on income and assets, with the gross income cutoff set at 130 percent of the poverty level. The maximum monthly benefit in 2009 for a household of four is \$668.⁴

The food stamp program cost federal taxpayers \$56 billion in fiscal 2009, triple the \$18 billion cost in fiscal 2000.⁵ The number of food stamp recipients fell during the 1990s but has risen sharply in recent years from 17 million in 2000 to 28 million in 2009.⁶

The first food stamp program was temporary, running from 1939 to 1943.⁷ The program issued stamps that could be used to purchase food that the USDA deemed surplus. After the temporary program ended, there were numerous attempts to reestablish a federal food stamp program in subsequent years.

Congress passed legislation authorizing food stamps in 1959, but the Eisenhower administration did not implement a program. The Kennedy administration initiated temporary food stamp pilot programs. President Lyndon Johnson proposed making food stamps permanent, and Congress followed through with the Food Stamp Act of 1964. The new program had the dual goals of "improved levels of nutrition" and "strengthening the agricultural economy."⁸

In 1974 the food stamp program was expanded nationwide and the number of recipients soared to 15 million.⁹ The Food Stamp Act of 1977 expanded program benefits in a number of ways, but it also included provisions to try to curb abuse.

Some restraints were added to the food stamp program in the 1980s in an effort to control rising spending. In addition, President Ronald Reagan, as a strong believer in federalism, proposed that the financing and management of the welfare and food stamp programs be transferred to the states, but those reforms were not enacted.

In 1993 Congress expanded the food stamp program under the Mickey Leland Childhood Hunger Relief Act. In 1996 Congress reformed

the nation's main welfare program (now called Temporary Assistance for Needy Families) by turning it into a block grant program. The food stamp program was not substantially changed by the 1996 law, but the number of food stamp recipients fell as a side effect of declining welfare caseloads.

The 2002 farm bill reversed course and increased the costs of the food stamp program. It expanded eligibility to noncitizens, increased benefits for large families, and made administrative changes that made it easier to claim benefits.

About 40 percent of people who are eligible for food stamps do not participate.¹⁰ Policymakers have long viewed this as a terrible problem, and great efforts have been put into expanding usage of the program. The USDA says that it is "committed to ensuring that all persons eligible for the food stamp program participate."¹¹ The agency gives grants to groups, such as faith-based organizations, to create campaigns to encourage more people to use food stamps.

From a taxpayer perspective, it makes no sense for the taxpayer-funded bureaucracy to actively promote program expansion. Instead, public servants should be constantly looking for ways to save taxpayer money. Unfortunately, that is not how government bureaucracies usually work, particularly with regard to shared federal-state programs such as food stamps.¹²

The food stamp program is run jointly by the USDA and the state governments. Federal taxpayers pay the direct cost of benefits, and they share the costs of state and local administration with state and local taxpayers. As is the case with all shared federal-state programs, extensive federal regulations are imposed on state and local governments.

Food stamp administration costs are about \$5.5 billion per year.¹³ That means that about \$5.5 billion of the "benefits" of the program go to government administrators, not to low-income families. Those administrative costs—equal to more than 10 percent of the value of food stamps distributed—are split 50-50 between federal and state taxpayers.

Food stamp administration is expensive because officials need to keep detailed and up-to-date files on 28 million recipients. Caseworkers need to meet with or phone each recipient on his or her first application and to recertify the benefits for each recipient every year. Because food stamps is a means-tested welfare program, administrators need to keep records on each recipient's income, expenses, and other personal data.

Because fraud and abuse have long been problems with food stamps, large efforts need to be put into prevention of wrongdoing. State workers are supposed to keep track of millions of individuals and verify that their information is accurate. Federal officials are supposed to keep tabs on the 160,000 retailers who deal in food stamps to look for illegal trafficking activity.

The food stamp program has spawned a black market as recipients exchange their food benefits for cash. Law-breaking retailers have typically offered 50 cents on the dollar for food stamps. Today, food stamps are issued in the form of electronic debit cards, and that has reduced fraud, but more sophisticated forms of electronic fraud appear to be arising.¹⁴ The government says that the program's rate of erroneous and fraudulent benefit overpayments is 4.5 percent, which costs taxpayers more than \$1 billion annually.¹⁵

Because of decades of economic growth, social conditions in America are far different today than they were when the food stamp program was created. Today, just 4 percent of U.S. households report even occasional hunger during the year.¹⁶ The main food-related health problem for children today is obesity, not hunger. Douglas Besharov of the American Enterprise Institute argues that poor Americans are generally suffering not from too little food, but from too much of the wrong kinds of food.¹⁷

According to federal data, about two-thirds of American adults are "overweight" and about half of those are "obese."¹⁸ Obesity rates are actually higher for adults who are below the poverty level. Similarly, children below the poverty line are more likely to be overweight than other children.¹⁹ Despite these modern realities, food subsidy programs continue to support an out-of-date model of increasing the caloric intake of low-income Americans.

The food stamp program also sustains an out-of-date welfare concept of providing subsidies that are not conditioned on work status. The program contributes to long-term dependence on government and produces various social pathologies as side effects.²⁰ Congress should end the food stamp program and allow the states to set their own policies.

School Breakfast and Lunch

The federal government funds school breakfast and lunch programs at 80,000 public schools across the nation. The lunch program covers 30 million children, and the breakfast program covers about 8 million children. Federal spending on the two food programs, which provide free and low-cost meals, was \$16 billion in fiscal 2009.²¹

The programs had their origins in the Federal Surplus Commodities Corporation established in 1935. That entity was designed to distribute "surplus" meat, dairy, and wheat products to the needy, including children in schools. An official history of the school lunch program notes that the farm policies of the 1930s attempted "to remove price-depressing surplus foods from the market" yet goes on to note that "many needy school children could not afford to pay for lunches."²² Perhaps it didn't occur to officials that some children couldn't afford lunch because the government was pushing up prices by its purchases of so-called surpluses.

The official history notes that prior to the 1930s many local governments had provided food aid to the schools. However, "aid from federal sources became inevitable" because those local governments "could not provide the funds necessary to carry the increasing load."²³ One reads that excuse for federal intervention frequently—that state and local governments don't have enough money to fund programs. Of course, the federal government has no funds of its own—it gets all of its money from taxes paid by people who live in local communities.²⁴

The modern school lunch program dates to the National School Lunch Act of 1946. The program covered 7 million children in its first year and was expanded to 22 million children by 1970. Congress has occasionally expanded benefits since then, for example, by adding an after-school snack program in 1998. Congress began the school breakfast program as a pilot program in 1966 and made it permanent in

1975.

The school lunch and breakfast programs are not just for low-income families. Any child at participating schools is allowed to receive meals under the programs. Those families with incomes below 130 percent of the poverty level receive free meals and those between 130 and 185 percent of the poverty level receive reduced-price meals. Those above 185 percent pay “full price,” but that price is subsidized to an extent. About 58 percent of school lunches are free or reduced price.²⁵

Like the food stamp program, the school breakfast and lunch programs were designed to reduce hunger. But society has changed, and today the programs may contribute to the problems of excess weight and obesity of many young people, including those from low-income families.²⁶

Like other subsidy programs, the school meal programs are widely abused. A large share of free and reduced-price meals is inappropriately provided to families with incomes above the statutory income cutoffs. Because schools put little effort into verifying recipient incomes, many higher-income parents receive subsidies. Audits have found that about one-quarter of those receiving free and reduced-cost lunches are not eligible.²⁷ The USDA testified to Congress that in 2002 “27 percent more students are certified for free or reduced-price meals than the Census data itself would suggest are eligible.”²⁸

The USDA’s inspector general reports that another area of abuse is local school contracting.²⁹ The food service companies that supply school breakfasts and lunches are prone to inflate expenses and use fraudulent billing schemes in their school contracts.

The bottom line is that local governments have many incentives to maximize the number of school meal recipients and little incentive to reduce waste and abuse. These problems are common in federal subsidy programs for state and local governments, in programs ranging from Medicaid to highway grants. The solution is to end the federal role and revive federalism, as discussed below.

Women, Infants, and Children (WIC)

The Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) provides food, nutrition information, and referrals to health care to about 7 million low-income women annually. The cost of the WIC program to federal taxpayers has increased from \$4 billion in fiscal 2000 to \$7 billion in fiscal 2009.³⁰

The federal government provides grants to the states to pay for benefits and administrative costs, and the states disburse funding to the thousands of local agencies that operate the program. Congress established WIC as a pilot program in 1972 and made it permanent in 1974. WIC funding grew modestly during the 1970s and 1980s, then soared during the 1990s, and has also grown quickly in recent years.

Recipients receive vouchers that are exchanged for specific food items, particularly infant formula, at authorized retailers. The retailers redeem the food vouchers for cash at state WIC agencies. The recipients of WIC benefits need not be citizens or permanent residents of the United States.

Remarkably, the WIC program accounts for about half of all infant formula sold in the nation.³¹ The program was supposed to be only for low-income families, yet it now provides free formula for many middle-income families that certainly don’t need government subsidies.

An even more troubling aspect of WIC is that it encourages parents to feed their babies infant formula rather than breast milk. The share of mothers on WIC who are breastfeeding is substantially lower than that of mothers not using WIC.³² That effect runs directly counter to the universal advice of health care experts regarding the superiority of breast milk for child development. The WIC program results in low-income parents substituting less nutritious formula for more nutritious mother’s milk.

Another troubling aspect of WIC is that the program’s large subsidies for infant formula appear to be driving up the retail price. The price of formula has risen rapidly since the early 1980s as WIC enrollment has increased.³³ Because recipients are not sensitive to the pricing of WIC food items such as formula, stores can raise prices and receive larger cash redemptions from state agencies.

The WIC program drives up the cost of formula for families not on the program as well, and some portion of the taxpayer subsidies for WIC ends up going to the makers of infant formula. This “leakage” of benefits is a common problem in subsidy programs. It is thought, for example, that rising government subsidies for college education have helped spur the rapid inflation in college tuition costs.³⁴

Given WIC’s perverse effects, will it be repealed? Unfortunately, like nearly all subsidy programs, WIC has spawned an entrenched group of interests that lobby against reforms. A key WIC lobby group is the National WIC Association, which represents the 2,000 state and local government agencies that administer WIC.³⁵ The association drafts studies on the supposed importance of WIC, advocates its positions to federal policymakers, and holds conferences in Washington. The group’s 2006 legislative agenda was entitled “WIC at RISK! A Healthy, Strong America in Jeopardy!”³⁶ The document recommended program funding increases and predicted dire consequences if policymakers didn’t go along.

Most federal taxpayers probably don’t even know that WIC exists. The result is that the Washington discussion of the program is dominated by inside interests, such as National WIC, who work full-time to expand it. But taxpayers and people interested in the benefits of breastfeeding need to take a look at this program and ask Congress to consider abolishing it.

Reviving Federalism

Prior to the establishment of federal food subsidy programs in the 1930s, many local governments and private charities already had food relief programs in place.³⁷ Nonetheless, Congress believed that the federal government—with its seemingly bottomless pockets—could step in and create more efficient national food relief programs.

Of course, funding for federal programs ultimately comes from taxpayers who live in the 50 states. Federalizing a local activity does not provide a free lunch. Indeed, the expansion of Washington's involvement in local and private activities since the 1930s has resulted in bloated and ineffective programs that often damage families and the economy.³⁸

After establishing national subsidy programs, federal politicians show little interest in restraining costs or improving program quality. Instead, they become obsessed with trying to maximize program spending in their own states. At the same time, state and local governments that administer federal programs, including the food subsidy programs, regard federal funds as "free" and tend to spend them wastefully.

Federal subsidies for the states have been called a "triumph of expenditure without responsibility." By involving multiple levels of government in programs such as school lunches, the system fosters a lack of accountability. When every government is responsible for an activity, no government is responsible. Local administrators have little interest in curtailing waste and abuse if another level of government is paying the bills.

Another problem is that the states get strangled by federal regulations that often conflict with the goals of local citizens. The states cannot be true "laboratories of democracy" when the federal government holds the purse strings because top-down rules always come with federal funding.

If the federal government vacated certain activities, such as the funding of food subsidy programs, the states would respond with their own policies. Then the public would be able to make useful comparisons between the costs and benefits of the various state approaches.

The problems with federal aid for state and local activities have long been recognized. With the coming fiscal crunch caused by rising costs in Social Security and Medicare, ending funding for food stamps, school lunches, and WIC would deliver valuable savings to start getting the federal budget under control.

¹ Government Accountability Office, "Federal Assistance: Grant System Continues to Be Highly Fragmented," GAO-03-718T, April 29, 2003, p. 6.

² U.S. Department of Health and Human Services, National Center for Health Statistics, "Health, United States, 2008," Table 76, [www.cdc.gov/nchs/data/08.pdf](http://www.cdc.gov/nchs/data/hus/08.pdf).

³ For background on federal aid to the states, see Chris Edwards, "Federal Aid to the States: Historical Cause of Government Growth and Bureaucracy," Cato Institute Policy Analysis no. 593, May 22, 2007.

⁴ www.fns.usda.gov/fsp/applicant_recipients/fs_res_ben_elig.htm.

⁵ *Budget of the United States Government: Fiscal Year 2010: Analytical Perspectives*, Chapter 27.

⁶ Government Accountability Office, "Food Stamp Program: Payment Errors and Trafficking Have Declined Despite Increased Program Participation," GAO-07-422T, January 2007, p. 1. Data for 2009 at www.fns.usda.gov/fsp.

⁷ U.S. Department of Agriculture, Food and Nutrition Service, "A Short History of the Food Stamp Program," April 4, 2007, www.fns.usda.gov/fsp/about_fsp.htm.

⁸ U.S. Department of Agriculture, Food and Nutrition Service, "A Short History of the Food Stamp Program," April 4, 2007, www.fns.usda.gov/fsp/about_fsp.htm.

⁹ U.S. Department of Agriculture, Food and Nutrition Service, "A Short History of the Food Stamp Program," April 4, 2007, www.fns.usda.gov/fsp/about_fsp.htm.

¹⁰ Government Accountability Office, "Food Stamp Program: Use of Alternative Methods to Apply for and Maintain Benefits Could Be Enhanced by Additional Evaluation and Information on Promising Practices," GAO-07-573, May 2007, p. 1.

¹¹ U.S. Department of Agriculture, Food and Nutrition Service, "Making America Stronger: A Profile of the Food Stamp Program," September 2005, p. 13.

¹² Chris Edwards, "Federal Aid to the States: Historical Cause of Government Growth and Bureaucracy," Cato Institute Policy Analysis no. 593, May 22, 2007.

¹³ *Budget of the United States Government: Fiscal Year 2010: Appendix*, p. 177. The federal and state governments split food stamp administration costs.

¹⁴ See the discussion in Phylliss Fong, inspector general, U.S. Department of Agriculture, Testimony to the House Budget Committee, July 9, 2003, www.usda.gov/oig/webdocs/FWA%207-7-03.pdf.

¹⁵ Government Accountability Office, "Food Stamp Program: Payment Errors and Trafficking Have Declined Despite Increased Program Participation," GAO-07-422T, January 2007, p. 8.

¹⁶ This is the USDA's measure of "very low food security." See www.ers.usda.gov/briefing/foodsecurity.

¹⁷ Douglas Besharov, "We're Feeding the Poor as if They're Starving," American Enterprise Institute, December 1, 2002, www.aei.org/include/pub_print.asp?pubID=31.

- ¹⁸ U.S. Department of Health and Human Services, National Center for Health Statistics, "Health, United States, 2008," Table 75, www.cdc.gov/nchs/data/hus/08.pdf.
- ¹⁹ U.S. Department of Health and Human Services, National Center for Health Statistics, "Health, United States, 2008," Table 76, www.cdc.gov/nchs/data/hs/08.pdf.
- ²⁰ Robert Rector, "Reforming Food Stamps to Promote Work and Reduce Poverty and Dependence," Heritage Foundation, June 27, 2001.
- ²¹ *Budget of the United States Government: Fiscal Year 2010: Appendix*, p. 163.
- ²² Gordon W. Gunderson, "National School Lunch Program: Background and Development," U.S. Department of Agriculture, Food and Nutrition Service, undated, www.fns.usda.gov/cnd/Lunch/AboutLunch/ProgramHistory.htm.
- ²³ Gordon W. Gunderson, "National School Lunch Program: Background and Development," U.S. Department of Agriculture, Food and Nutrition Service, undated, www.fns.usda.gov/cnd/Lunch/AboutLunch/ProgramHistory.htm.
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- ²⁵ Phylliss Fong, Inspector General, U.S. Department of Agriculture, Testimony to the House Budget Committee, July 9, 2003, p. 16, www.usda.gov/oig/webdocs/FWA%207-7-03.pdf.
- ²⁶ Douglas Besharov, "We're Feeding the Poor as if They're Starving," American Enterprise Institute, December 1, 2002, www.aei.org/include/pub_print.asp?pubID=31.
- ²⁷ Phylliss Fong, inspector general, U.S. Department of Agriculture, Testimony to the House Budget Committee, July 9, 2003, pp. 17-18, www.usda.gov/oig/webdocs/FWA%207-7-03.pdf. See also Ron Haskins, "The School Lunch Lobby," *Education Next*, Hoover Institution, no. 3, 2005.
- ²⁸ Cited in Phylliss Fong, inspector general, U.S. Department of Agriculture, Testimony to the House Budget Committee, July 9, 2003, p. 18, www.usda.gov/oig/webdocs/FWA%207-7-03.pdf.
- ²⁹ Phylliss Fong, inspector general, U.S. Department of Agriculture, Testimony to the House Budget Committee, July 9, 2003, p. 20.
- ³⁰ *Budget of the United States Government: Fiscal Year 2010: Appendix*, p. 180.
- ³¹ George Kent, "WIC's Promotion of Infant Formula in the United States," *International Breastfeeding Journal*, April 20, 2006, www.internationalbreastfeedingjournal.com/content/1/1/8.
- ³² George Kent, "WIC's Promotion of Infant Formula in the United States," *International Breastfeeding Journal*, April 20, 2006, www.internationalbreastfeedingjournal.com/content/1/1/8.
- ³³ David M. Betson, "Does the Popularity of a Poverty Program Imply Its Success?" Department of Economics, University of Notre Dame, unpublished draft.
- ³⁴ Gary Wolfram, "Making College More Expensive: The Unintended Consequences of Federal Tuition Aid," Cato Institute Policy Analysis no. 531, January 25, 2005.
- ³⁵ See www.nwica.org.
- ³⁶ See the "legislation" tab at www.nwica.org.
- ³⁷ Gordon W. Gunderson, "National School Lunch Program: Background and Development," Food and Nutrition Service, U.S. Department of Agriculture, undated, www.fns.usda.gov/cnd/Lunch/AboutLunch/ProgramHistory.htm.
- ³⁸ For background and evidence, see Chris Edwards, "Federal Aid to the States: Historical Cause of Government Growth and Bureaucracy," Cato Institute Policy Analysis no. 593, May 22, 2007.

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