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**FOOD STAMPS
AND THE
MASSACHUSETTS ECONOMY**

GOVERNMENT DOCUMENTS

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MAY 31 1977

University of Massachusetts

EMERGENCY FOOD SERVICES PROJECT

This report was adapted for Massachusetts by the Emergency Food Services Project from a study prepared by the National Child Nutrition Project, 303 George Street, New Brunswick, New Jersey, 08901: Steven J. Hoffman, Writer/ Researcher.

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INTRODUCTION

Households that don't use food stamps benefit indirectly from the program almost as much as households that do receive food stamps. This is the rather surprising conclusion of U.S. Department of Agriculture analysts in a 1975 report released by the Senate Nutrition Committee. (1)

Our study will elaborate on USDA's findings. It will examine the program's impact on Massachusetts and the nation. It will show that the food stamp program significantly benefits farmers, food retailers, and other sectors of the economy.

INTENT OF CONGRESS

The purpose of the food stamp program is twofold: to provide for improved levels of nutrition among low income households and to strengthen the agricultural economy. Despite its significant policy implications, however, the latter goal is usually ignored in popular articles supporting or criticizing the program.

The Food Stamp Act of 1964, which established the program, clearly expressed congressional intent in this regard:

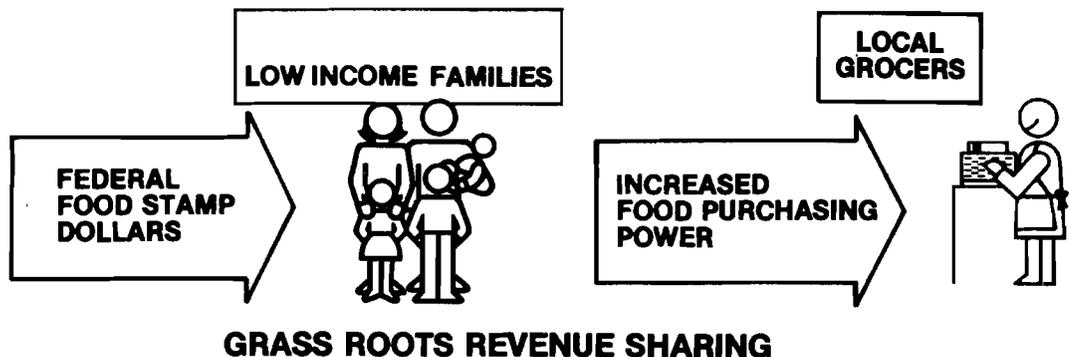
The Congress hereby finds that the limited food purchasing power of low income households contributes to hunger and malnutrition among members of such households. The Congress further finds that increased utilization of food in establishing and maintaining adequate levels of nutrition will promote the distribution in a beneficial manner of our agricultural abundances and will strengthen our agricultural economy, as well as result in more orderly marketing and distribution of food.

HOW THE PROGRAM WORKS

The food stamp program is a domestic food assistance program that benefits millions of low income families. Those who qualify can buy stamps from the government at a discount, and the stamps are then used like cash at face value to purchase food at most grocery stores.

The federal government pays the entire cost of the food stamp "bonus" - the difference between what households pay for their stamps and what the stamps are worth. In fiscal year 1976 some \$5.3 billion in bonus food stamps were distributed nationwide, of which \$142.5 million went to Massachusetts. (2)

This \$142.5 million in bonus food stamps is money channeled from the federal government to needy households in Massachusetts. These households then spend their federally subsidized food coupons at local food retailers. Local groceries and supermarkets sell more goods; in turn they order more goods from wholesalers and distributors. Influx of federal food stamp dollars means more local jobs, too, as business improves.



Because so many of the unemployed and underemployed qualify for food stamps, localities hardest hit by unemployment receive a proportionally greater share of these federal funds. In this manner the program works as an anti-recessionary tool. Food stamps, in fact, operate as a grass roots form of revenue sharing.

IMPACT ON FOOD RETAILERS

Economists at the U.S. Department of Agriculture (USDA) estimate that 50 to 65 percent of bonus food stamp dollars go to purchase food that otherwise would not be bought.(3) This is the key economic impact of the program: by augmenting the food purchasing power of needy households, food stamps expand the demand for food.

In fiscal year 1976, when \$5.3 billion in bonus food stamps were distributed, the program led directly to between \$2.65 and \$3.45 billion in increased food sales (expanded demand at the retail level). What meant better nutrition to low income households meant roughly two-and-a-half to three-and-a-half billion additional dollars to the nation's food retailers.

Massachusetts' \$142.5 million in bonus food stamps boosted yearly sales for state food retailers by \$71.5 to \$92.6 million. Because of food stamps, Massachusetts grocers sold the equivalent of 33 million more quarts of milk, 26 million more pounds of ground beef, 32 million more loaves of bread, 10 million more dozens of eggs, and 80 million more pounds of fresh fruits and vegetables.(4)

FOOD STAMPS PRODUCE THESE ADDITIONAL RETAIL FOOD SALES IN MASSACHUSETTS (EQUIVALENCY MEASURE)

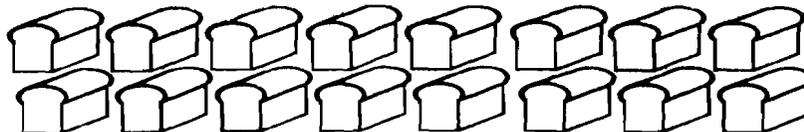
EACH CARTON
= 2 MILLION
QUARTS
OF MILK



EACH PACKAGE
= 2 MILLION
POUNDS OF
GROUND BEEF



EACH LOAF
= 2 MILLION
LOAVES OF
BREAD



EACH EGG
= 2 MILLION
DOZENS OF EGGS



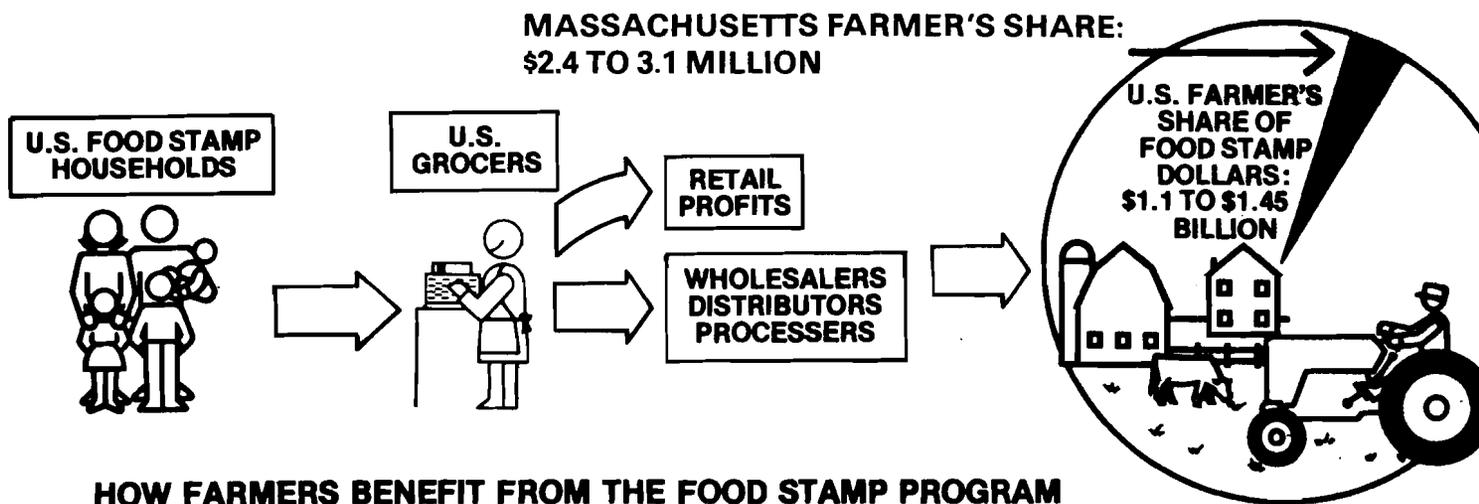
EACH ITEM
= 2 MILLION
POUNDS OF
FRUITS AND
VEGETABLES



IMPACT ON FARMERS

The American farmer ultimately receives 42 cents out of each one dollar spent at retail level (the remaining 58 cents goes to retailers, wholesalers, transporters and processors).(3) The \$2.65 to \$3.45 billion expanded retail demand for food due to the food stamp program increased the cash receipts of farmers by \$1.1 to \$1.45 billion in fiscal 1976.

Based on Massachusetts overall 0.2 percent of U.S. food commodities (6), Massachusetts farmers received between \$2.4 and \$3.1 million additional dollars in fiscal 1976 because low income families were able to buy more food with food stamps.



HOW FARMERS BENEFIT FROM THE FOOD STAMP PROGRAM

USDA has determined the manner in which food stamp households, on the average, will most likely utilize their increased food purchasing power. For instance, 38 cents of each food stamp dollar is likely to be spent on meat (including poultry and fish), while 20 cents on the average will go toward new purchases of fruits and vegetables.(3)

Other USDA statistics indicate the farmer's share of the retail food dollar for different food groups. For instance, out of each retail dollar spent on beef, U.S. beef ranchers ultimately receive 61 cents, and out of each retail dollar's worth of fruits and vegetables, growers receive an average of 25 cents.

Based on this USDA data as to the types of food bought with food stamp bonus dollars and the farmer's share of these retail dollars, the food stamp program in fiscal 1976 increased the nationwide cash receipts of beef ranchers by \$340-440 million and of hog farmers by \$155-200 million. Poultry and egg farmers were beneficiaries of \$110-140 million. Dairy farmers received an additional \$180-235 million. Fruit and vegetable growers were able to sell \$135-175 million more of their produce. And farmers of food grain received \$40-55 million as their share of expanded retail demand for bread and cereal products.

To Massachusetts poultry and egg farmers, who supply 0.5 percent of the nation's poultry products, the demand generated by food stamps has meant between \$0.6 and \$0.7 million in increased cash receipts annually. Massachusetts dairy farmers, who raise nearly 0.6 percent of the nation's dairy products added \$1.1 to \$1.4 million because of expanded demand. Massachusetts vegetable and fruit farmers, who supply 0.5 percent of the nation's vegetable and fruit products, were beneficiaries of \$0.7 to \$0.9 million as their share of expanded demand.

FOOD STAMPS AND RECESSION

During periods of recession, a downward spiral is set in motion which saps the strength of the economy.

As wage earners lose their jobs or suffer decreases in income, they are able to purchase fewer goods and services. This includes household essentials such as food: the recently unemployed "buy down" to cheaper foods and the poor simply buy less. Business declines in food store, as elsewhere; more workers are laid off.

As retail food cash registers ring less often, farmers sell less of what they have raised or grown, or they sell at below an adequate margin of profit. Small and financially marginal farms are unable to continue in operation; others cut down on future production or postpone orders for new equipment. This causes financial problems, in turn, for those who finance and supply the farmer. Recessionary effects continue to spread.

The food stamp program, like some of our farm subsidy programs, has acted as a countervailing force in the face of recessionary pressures by sending through the nation's retail food chain an additional \$2.65 to \$3.45 billion, of which \$1.1 to \$1.45 billion went to farmers. Here is what USDA's Economic Research Service concluded:

Most of the demand expansion for food derived from food stamps likely serves to support existing markets for food rather than generating new demand in competition for existing scarce food supplies. Food stamps have helped maintain food expenditures for the continuing poor at the same level through adjustments in issuance rates to compensate for higher food prices...

Families joining the program because of unemployment or financial reverses are enabled to minimize reductions in food expenditures at levels above those which might have been reached in the absence of the program. (1)

Food stamps have served to support existing food markets, to maintain food expenditures for the continuing poor, and to minimize recession-caused reductions in household food purchases.

THE MULTIPLIER EFFECT

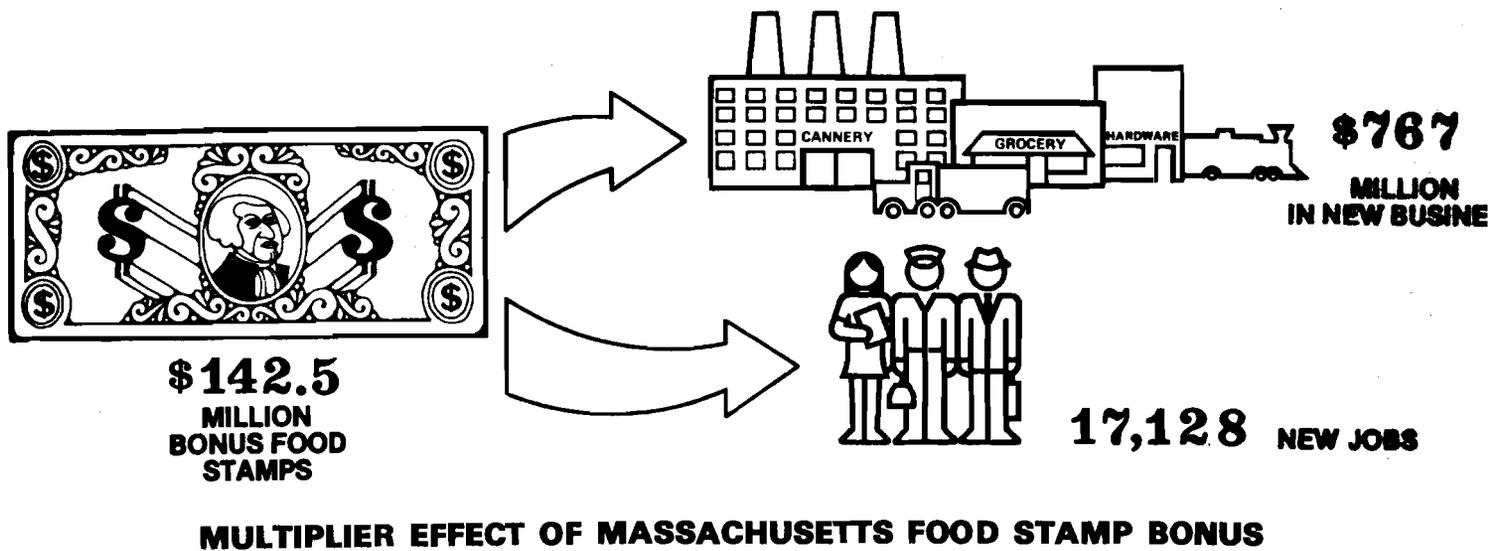
Not only farmers and those engaged in food marketing benefit from the food stamp program. USDA analysts explain that "much of the payments made by (food stamp) households usually do not long remain in the pockets of the persons who sold them goods."

Why? "Goods must be replaced and services maintained to sell to their next customers." This stimulates economic expansion: "Persons who supplied the goods and services to retailers must buy replacements from sectors which produced them, and these in turn must buy raw materials and labor to produce the replacement items."(1)

This is the indirect, or secondary benefit to the Massachusetts' economy from the influx of food stamp bonus dollars--and it affects non food as well as food sectors. Because these food assistance dollars are not sent overseas but are spent by America's poor, the benefits expand within each state's economy.

The measure of new business generated by the impact of such a dollar influx is called the "multiplier effect" by economists. A 1972 USDA study, conducted in the state of Texas, determined that \$63.9 million in bonus food stamps created \$233 million additional business within the state and another \$111 million additional business outside the state.(1) This was a combined multiplier of 5.37. That is, every dollar's worth of food stamp bonus spent generates \$5.37 in additional business in the business community.

In Massachusetts fiscal 1976 participant household expenditures of \$142.5 million in bonus food stamps resulted in \$767 million in new business when the multiplier effect is taken into account.



Jobs

New business means more jobs, and the creation of jobs is part and parcel of the multiplier effect. The USDA study indicated that one new job is ultimately generated somewhere for every \$8343 in bonus stamps brought into a state. Because of the 1976 food stamp expenditures in Massachusetts, there were generated an estimated 17,128 new jobs or alternately, saved 17,128 jobs that would otherwise have been lost in the recessionary spiral.

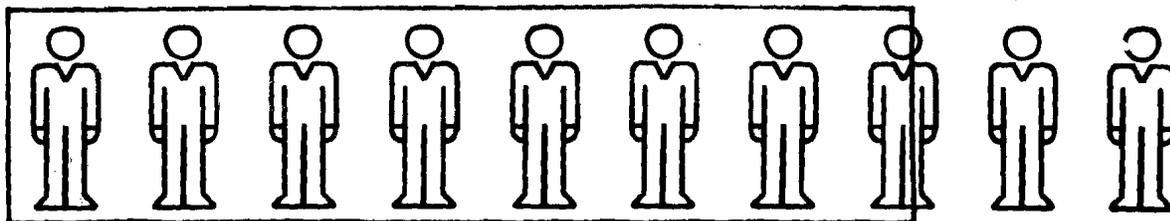
State Tax Revenue

Furthermore, the USDA study found that increased state tax revenue attributable to business directly or indirectly generated by food stamps is likely to more than equal the state's cost of administering the food stamp program.(1)

PARTICIPATION

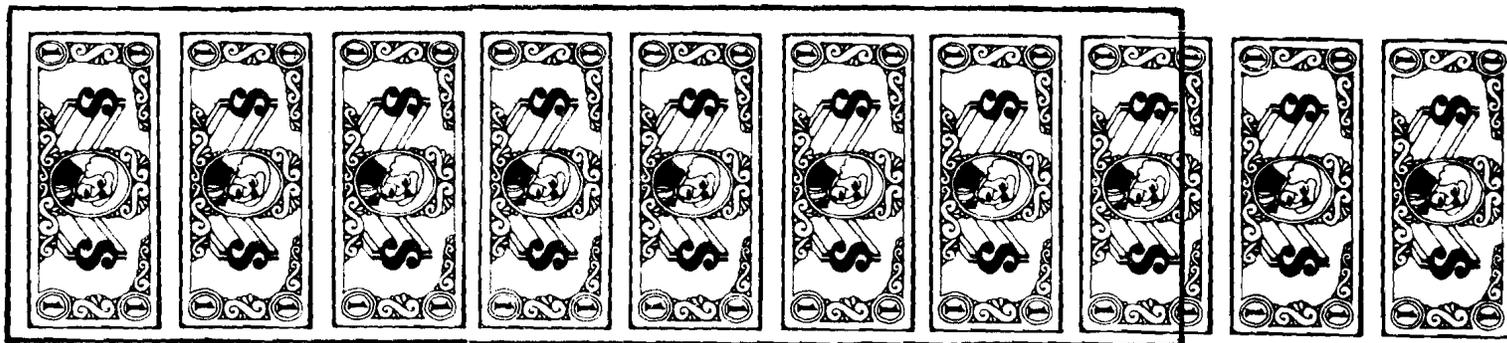
As of January, 1977, 78 percent of Massachusetts' low income population was participating in the food stamp program. Upward of 178,000 Massachusetts residents are missing out on benefits to which they are entitled.(7) Because these eligible persons do not receive food stamps, the Massachusetts economy loses millions of dollars in business each year.

EACH FIGURE REPRESENTS
APPROXIMATELY 80,600 PEOPLE



**78 PERCENT OF MASSACHUSETTS LOW INCOME
PERSONS USE FOOD STAMPS**

EACH DOLLAR EQUALS APPROXIMATELY \$20.8 MILLION YEARLY



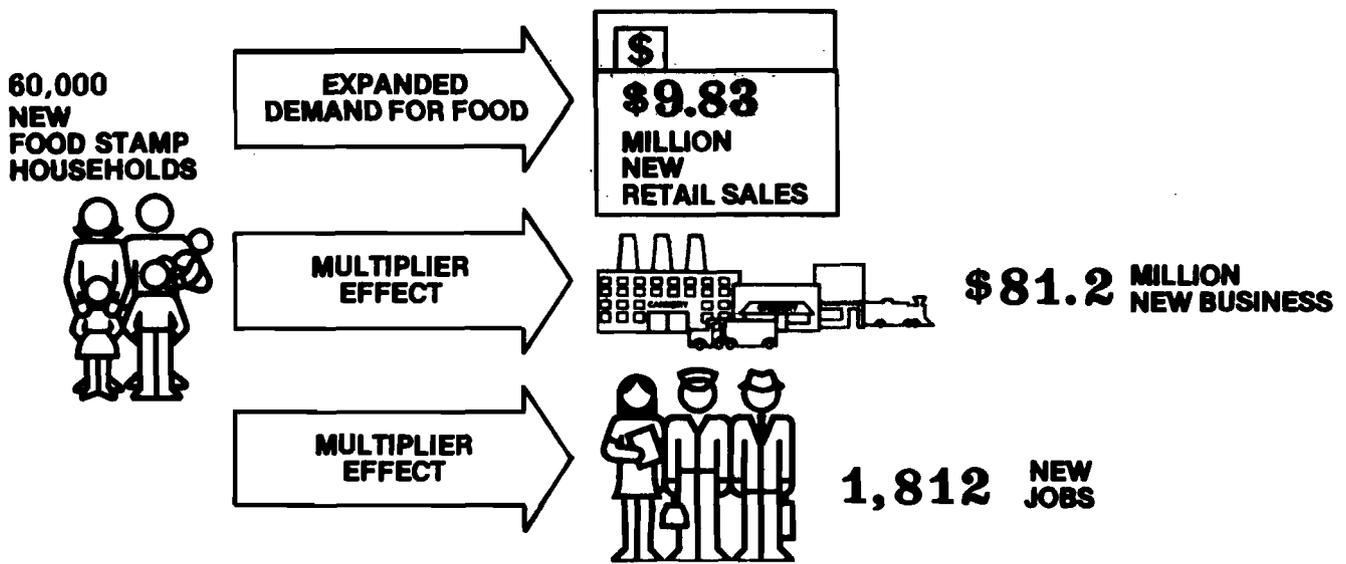
**THE MASSACHUSETTS ECONOMY RECEIVES ONLY 78
PERCENT OF ITS POTENTIAL FEDERAL FOOD STAMP DOLLARS**

Reasons for the gap in participation include lack of knowledge about the program (e.g. who may qualify, where to apply), an unfortunate and inaccurate "welfare stigma" attached to the program, inability to pay for the stamps, and red-tape obstacles which discourage potential applicants.

Potential Benefits

What if only 60,000 of these 178,000 nonparticipating low income persons were to enroll in the food stamp program? What would be the economic impact?

At an average food stamp bonus of \$21 per person per month (8), annual retail food sales in Massachusetts would climb by up to \$9.83 million. Through the multiplier effect, \$81.2 million in new business would be generated and 1,812 new jobs would be created.



THE ANNUAL ECONOMIC IMPACT OF INCREASED MASSACHUSETTS FOOD STAMP PARTICIPATION

MASSACHUSETTS

COUNTY	PERSONS ELIGIBLE FOR FOOD STAMPS ⁹	PERSONS PARTICIPATING IN FOOD STAMP PROGRAM ⁷	PERCENT PARTICIPATION	TOTAL ANNUAL BONUS ¹⁰
Barnstable	18,785	14,668	78.1	\$ 3,611,292
Berkshire	21,600	12,558	58.1	1,328,608
Bristol	85,242	46,118	54.1	10,539,181
Dukes	943	681	72.2	151,536
Essex	89,195	65,311	73.2	16,536,923
Franklin	9,111	8,929	98.0	1,964,281
Hampden	76,158	55,334	72.7	5,701,203
Hampshire	16,749	16,345	97.6	3,362,726
Middlesex	155,643	106,371	68.3	27,739,354
Nantucket	1,055	380	36.0	100,188
Norfolk	50,189	35,941	71.6	10,007,559
Plymouth	42,658	38,746	90.8	11,124,192
Suffolk	193,406	167,484	86.6	38,626,380
Worcester	84,671	62,700	74.1	15,893,749
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Massachusetts	835,927 #	631,599	77.6	155,448,160

#These numbers do not include the 130,000 SSI recipients who receive a \$10 cash-out.

MASSACHUSETTS

CONGRESSIONAL DISTRICT	HOUSEHOLDS ⁷ PARTICIPATING	PERSONS ⁷ AVG/MONTH	PERSONS ^{**} AVG/YEAR	BONUS PER PERSON/YEAR ¹⁰	TOTAL ANNUAL BONUS ¹⁰
1. Conte	16,006	54,946	98,903	\$ 212.58	\$ 11,680,390
2. Boland	16,878	57,723	103,901	229.93	13,272,118
3. Early	13,882	47,476	85,457	244.86	11,614,774
4. Drinan	7,849	26,844	48,457	237.27	6,369,144
5. Tsongas	14,234	48,680	87,624	255.17	12,421,618
6. Harrington	14,731	50,380	90,684	248.39	12,513,679
7. Markey	12,259	41,926	75,467	253.41	10,624,363
8. O'Neill, Jr. *	9,282	31,744	57,139	218.22	6,927,312
9. Moakley *	1,486	5,082	9,148	294.61	1,497,185
10. Heckler	11,134	38,078	68,540	236.18	8,993,290
11. Burke *	9,830	33,619	60,514	266.47	8,958,458
12. Studds	17,667	60,421	108,759	246.38	14,886,393
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BOSTON *	47,477	162,371	292,268	219.31	35,609,292
MASSACHUSETTS	184,678 #	631,599	1,504,669	235.78	155,448,160

* Congressional Districts in Boston do not conform to Welfare Service Areas and could not be separated out, therefore, Districts #8, 9 and 11 share the Boston numbers.

** On a yearly basis, over 80% of the people enter and leave the program, not counting people who reenter within 12 months of leaving the program. This column represents the number of people who are directly affected by the program each year.

These numbers do not include the 130,000 SSI recipients who receive a \$10 cash-out.

REFERENCES

1. Chapter 8 of USDA Food Stamp Report to the Senate, printed in The Food Stamp Controversy of 1975: Background Materials, U.S. Senate Select Committee on Nutrition, October 1975.
2. Food Stamp Program Statistical Summary of Operations, USDA Food and Nutrition Service, June 1976. NOTE: Fiscal Year 1976 was July 1975 to June 1976.
3. Chapter 7 of USDA Food Stamp Report to the Senate, printed in The Food Stamp Controversy of 1975: Background Materials, U.S. Senate Select Committee on Nutrition, October 1975.
4. Based on average retail prices for 1975-1976, quoted in Agricultural Outlook, USDA Economic Research Service, May 1976. NOTE: Fruits and vegetables include apples, oranges, lettuce, tomatoes and potatoes. Increased retail food sales estimated at 57.5 percent of bonus food stamps (average of 50 to 65 percent).
5. Farmer's share of market basket of farm foods, Third and Fourth Quarter 1975 and First Quarter 1976, in Agricultural Outlook, USDA Economic Research Service, June 1976.
6. State's share of U.S. Commodities from State Farm Income Statistics, Supplement to Statistical Bulletin No. 547, USDA Economic Research Service, September 1975.
7. Estimate of eligible persons from Emergency Food Services Project; current participation figure from Massachusetts Department of Public Welfare report FMCS 8550 using an average of 3.42 persons per household.
8. Food Stamp Program Statistical Summary of Operations, USDA Food and Nutrition Service, January, February, March, April, May and June 1976.
9. Emergency Food Services Project - based on updating the estimate for 1974 made by Drs. Gary W. Bickel and Maurice MacDonald, Bureau of Social Science Research, Inc., Washington, D.C.
10. Total Annual Bonus and Bonus per person per year computed from Massachusetts Department of Public Welfare Report FSP 128 dated 1-31-77.