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MEETING ON FOOD STAMP ISSUES
Thursday, August 28, 1975
2:00 p.m.

Cabinet Room

Deunham

THE WHITE HOUSE
WASHINGTON

May 26, 1975

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR: JIM CANNON
FROM: JERRY H. JONES
SUBJECT: Food Stamps

Your memorandum to the President of May 22 on the above subject has been reviewed and the following was approved:

1. OMB, the Department of Agriculture and the Domestic Council recommend approval of all 14 items in Tab B which deal with tightening administration and removing areas of abuse and confusion. Approved.

3. Should you seek a new combination of elements, the Domestic Council recommends:

- a. \$100 standard deduction.
- b. continued automatic eligibility for welfare recipients.
- c. no special deduction for the elderly.
- d. no "cash-out" now.

Approved.

Please follow-up with the appropriate action.

Thank you.

cc: Don Rumsfeld

P - where is this in these tabs? Jmc!

*Page 5
Queen & Deunham were to call Butts.*

*1) Did letter go to Butts yet?
2) Copy to Paul O'Neil.
3) If w/ Butts proceed.
4) Resident was to follow up.
5) ~~Butts~~ been informed?
Yps.*



THE WHITE HOUSE

WASHINGTON

May 22, 1975

MEMORANDUM FOR: THE PRESIDENT
FROM: JIM CANNON
SUBJECT: Food Stamps

The purpose of this memorandum is to report on the progress to date in our review of the Food Stamp program and to submit for your decision recommended changes in the program.

BACKGROUND

The key point of information is that the Food Stamp program has grown from a \$200 million program serving 2.5 million people in 1968 to an estimated \$6.6 billion program serving 21 million people in 1976.

REASONS FOR GROWTH

This growth can be attributed mostly to factors which appear to be totally within the law. While there are abuses by violation of existing law neither the Department of Agriculture nor discussions with state administrators have identified any violations which have played any significant role in the growth. A compilation of violations and abuses gleaned from newspapers is attached in Tab A. It is likely that a significant portion of this growth is due to factors entirely legitimate under current law. The factors are both within the program and outside the program.

1. Within the Program

- a. mandated outreach, a Congressional mandated and court ordered promotion which requires that efforts be made to have every person eligible for food stamps participate.
- b. automatic cost of living adjustments which semi-annually raise the eligibility level permitting more people to participate.

- c. allowable deductions, complex and poorly defined provisions permit deductions from gross income which currently average 49 percent of a participants gross income.
 - this places the actual level of eligibility considerably higher than the apparent dollar level of eligibility in the program.
- d. assets, participants are permitted to retain assets such as savings, houses, insurance policies, cars.
- e. strikers, all employable food stamp recipients are denied eligibility if they refuse to accept employment. Being on strike, however, is not grounds for denying eligibility.
 - since the striker issue affects all income assistance programs, we recommend it not be part of any food stamp reform proposed now but it should be considered in the comprehensive review.
- f. state administration, currently the Federal government finances 100% of the cost of the benefits which are distributed by the states. The states pay 50% of the administrative costs.
 - this serves as a virtual disincentive for the states to improve administration.

2. Legitimate Factors Outside Program

It is clear that the growth of the program has been affected by the recession. Unemployment, drops in weekly earnings and increases in the cost of food directly and immediately affect food stamp eligibility.

PROPOSALS FOR REFORM

We have developed the following proposals for your consideration:

1. Legislation to Improve Administration

A number of specific legislative proposals to simplify administration, tighten accountability and penalize and retard abuses have been agreed upon by OMB, the Department of Agriculture and the Domestic Council. These are largely noncontroversial, specific actions which we believe should be taken regardless of other decisions. They are listed in Tab B.

2. Specific Eligibility Plans

A number of specific plans to tighten eligibility determinations are described in detail in Tab C. The first page of that tab contains a chart outlining their design and estimated impact. The information base used to estimate impacts on caseload and costs is extremely shaky and does not enable a confident prediction of program impact. Information on two of the plans is not yet complete.

General Comments:

a. Standardized Deductions: Plans I through VI seek some standardization and simplification for current provisions regarding:

- special consideration for the elderly
- allowable deductions
- eligibility for welfare recipients
- guaranteed minimum bonus

The way in which they combine corrections to these provisions substantially alters their impact on costs, caseloads and benefits.

b. Cash-Out: The concept of eliminating food stamps and simply mailing a check for the cash value equal to the bonus value of the stamps could be applied to any eligibility plan. We have combined it with Plan I to illustrate its impact.

- overall effect would be to simplify administration but to increase participation and, therefore, costs substantially.

3. Comprehensive Reform

Food stamps have become primarily an income transfer program. As such we are recommending that more fundamental changes in the food stamp program be considered as part of comprehensive reform of income transfer programs. This should not preclude action now on proposals above.

STAFF COMMENTS

William Seidman:

"What is fiscal effect of taking these actions...are we suggesting enough of a change of real substance...."

Phil Buchen:

Agrees that striker issue should not be dealt with in this effort...supports specific Plan #3.

Alan Greenspan:

Recommends strikers be required to accept employment...suggests eliminating purchase requirement...no reason for special deduction for elderly...favors eliminating automatic eligibility for welfare recipients...recommends doing away with itemized deductions.

Jack Marsh:

Disagrees with present exemption for strikers...believes a specific change should be made in eligibility determinations but questions whether adequate information is available to select a specific plan.

Secretary Dunlop:

Opposes any food stamp reform which changes present exemption for strikers.

ADDITIONAL COMMENTS

The specific plans in Tab C could be viewed as illustrative and you could make selected decisions on:

1. whether to replace the allowable deductions with a standard deduction.
2. whether to continue automatic eligibility for welfare recipients.
3. whether to have a special deduction for the elderly.
4. whether to "cash out" food stamps.

Should your decisions on these elements result in a combination which is not included in the specific plans presented, we can proceed with the development of a new plan.

RECOMMENDATIONS

1. OMB, the Department of Agriculture and the Domestic Council recommend approval of all 14 items in Tab B which deal with tightening administration and removing areas of abuse and confusion.

Approve _____ Disapprove _____

2. Should you choose to select one of the specific plans included in Tab C, Agriculture and the Domestic Council recommend Plan I which establishes a standard \$100 deduction, eliminates automatic eligibility for welfare recipients and has no special deduction for the elderly.

Approve _____ Disapprove _____

3. Should you seek a new combination of elements, the Domestic Council recommends:

- a. \$100 standard deduction.
- b. continued automatic eligibility for welfare recipients.
- c. no special deduction for the elderly.
- d. no "cash-out" now.

Approve _____ Disapprove _____



THE FOOD STAMP PROGRAM

Fraud and Administrative Weaknesses

Purpose:

The purpose of this report is to identify reports of fraud and abuse of the Federal Food Stamp program, administered by the Food Stamp Division of the U.S. Department of Agriculture.

Resources:

To acquire the information, a review was made of the Congressional Record and New York Times Index for the period May 1, 1974 through April 30, 1975; copies of news articles on file in the Research Office of the White House; partial information from a study being conducted by the House Republican Study Committee through the office of Senator James Buckley (R., N.Y.); and, American Enterprise Institute Evaluation Study 18, titled, "Food Stamps and Nutrition," by Kenneth Clarkson, April 1975.

General Conclusions:

(1) Although USDA issued two reports in March, 1975 on financial losses in the Food Stamp Program (N.Y. Times of 3/2/75 and 3/31/75), there is no current collection of data to assess just how much fraud contributes those losses, now estimated to be \$740 million (NYT, 3/31/75).

(2) In support of this, the Director of the Food Stamp Division at USDA (Mr. Royal Shipp) conceded to the New York Times that his Division "lacked valid data on the total cost of fraud." (Ibid, 3/31/75)

(3) This general conclusion was arrived at independently by Kenneth Clarkson of the University of Virginia when, in his April 1975 study for the American Enterprise Institute, he said, "There is little direct evidence on the extent of trafficking (one of the forms of fraud) in food stamps..."

(4) Somewhat afield from this report, but parallel, was an editorial comment in the N. Y. Daily News of May 13, 1975 which criticized HEW: "The Department concedes that it doesn't know how extensive cheating is 'because it hasn't been studied.'"

Some Examples of the Forms of Fraud and Abuse:

(1) A mother of three recently walked into a food stamp office in Mississippi to apply for food stamps. A short time later, her husband appeared in the same office. Soon, the family was getting a double allotment.

(N.Y. Times, 3/31/75)

Note: An administrative weakness in the regulations facilitates this kind of fraud. The lack of a "common case-numbering system," coupled with the lack of a residency requirement, makes it possible for an applicant to qualify in several counties or states at the same time."

(Congressional Record, S8740, 5/21/74)

(2) Deliberate failure of a food stamp recipient to inform the local administrator of the food stamp program that a minor child has reached majority and has left home.

(AEI Evaluation Study 18, April 1975, Pg. 32)

(3) "Trafficking" in food stamps. This usually occurs in the form of either selling one's stamps directly or trading them for non-food items.

(Ibid., Pg. 31)

It is so-called "loopholes" in the law, however, that give rise to the greatest amount of public and press attention. These reports often concern students, organized labor, or presumably wealthy people availing themselves of their "eligibility" for the stamps.

For the purpose of this report, examples of how the "loopholes" are used will be labeled abuses.

Abuses:

(1) The student: Although there is considerable reporting in the press about student use of food stamps, it would appear that the basic law was written without a view to excluding students from eligibility. Students need meet only those requirements that apply to all other persons (NYT, 1/2/75), although the law was amended to exclude those whose parents claim them as a tax deduction.

(House Republican Study Committee, 5/15/75)

(2) Some examples of student abuse:

(a) A father earning \$100,000 per year had a son in California receiving food stamps.

(Congressional Record,
H486, 2/4/75)

(b) A girl studying "witchcraft" in California was exempted from the work requirement (that applies to all others) because she attended classes at least half-time at an accredited institution.

(Congressional Record,
H486, 2/4/75)

(c) Although the amended law excludes students whose parents claim them as a tax deduction, it would appear that enforcement of this is lax. The N.Y. Times said (1/2/75) that USDA "makes no effort to find out how many of them (food stamp recipients) are students." In this report, the paper said that in the county which houses the University of Wisconsin, 65% of the food stamp recipients are students; and, in the county in which Michigan State University is located, nearly 50% are students.

(d) A Brown University student, with parents able and willing to provide for him above his actual needs, reported (in a letter to the N.Y. Times) that he is eligible for \$46 per month in food stamps. He claimed that "droves" of Brown's students, whose parents are "more than able to support them," are flocking to the local Food Stamp office each month.

(N.Y. Times, 2/20/75)

(3) Organized Labor:

(a) Some unions have dropped strike benefits (which would be counted as income, ordinarily), paying "medical benefits" instead, thus enabling a striking laborer to draw money from the union and food stamps simultaneously.

(Congressional Record,
S8740, 5/21/74)

(b) Seasonal workers, such as those in the construction trades, are eligible during months of unemployment since eligibility is determined on a month-to-month basis.

(Congressional Record,
S8740, 5/21/74)

(4) General Forms of Abuse:

(a) The exemption of the home as a factor in determining eligibility makes it possible for a person with

a \$100,000 home to qualify. Further exemptions would allow such a person to also own a priceless stamp collection, expensive jewelry and similar personal property, and still qualify for food stamp assistance.

(Congressional Record, S8740
5/21/74 and HRSC, 5/15/75)

(b) There is no provision in the law that prohibits a potential food stamp applicant from transferring such personal assets as bank savings and checking account monies to a personal friend or relative in order to qualify for food stamps.

(Congressional Record,
S8740, 5/21/74)

Based upon the "loopholes" cited in paragraph (3) and (4), above, the following hypothetical could easily occur:

A carpenter living in southern Minnesota, having earned \$18,000 in the past 12 months, could live in his \$40,000 home. He could transfer his savings of \$5,000 to his brother, reduce cash-on-hand in his checking account, sell his second car, and live out the winter months when there is little or no work for carpenters and qualify for food stamps. (Hypothetical)

Construction of such a hypothetical is not the sort of imaginary work that would come only from an anti-food stamp source. United Press International did a construction of its own last month, which is attached as a further example of what some consider an abuse of the food stamp program.

(UPI, See Atch. #1)

While there is no reliable data on fraud, administrative error has been tabulated by USDA and appears to account for the large bulk of monetary loss to the government.

USDA reported (N.Y. Times, 3/2/75) that from its sampling of 25,585 households in 46 states, errors were found in 56.1% of the cases certified. The error rate ranged widely, from a high of 80% in Rhode Island to a low of 21.8% in the state of Washington.

From both the Congressional Record and the AEI study, the implications of the present administration of the food stamp program on the error rate was reflected.

(1) The fact that AFDC and Food Stamp programs are supervised by different Federal agencies "is an administrative nightmare" for county welfare departments which must administer both programs.

(Remarks of Ronald Reagan, Sep.
1974, in Congressional Record,
H486, 2/4/75)

B

(2) Some believe that the Federal and State instruction manuals have increased to the point where no single department or agency can assess the food stamp operation.

(Congressional Record,
S8740, 5/21/74)

(3) The costs of enforcing the provisions governing the Food Stamp Program are not easily quantifiable because the activities of separate agencies are involved, including USDA, the FBI, Department of Justice, and state and local law enforcement agencies.

(AEI Evaluation Study 18,
Pg. 31)

(4) As a final example that illustrates how paper-work at the local level is conducive to administrative error, the Wall Street Journal reported this observation from Boston on December 20, 1974:

"Applicants fill out seven-page questionnaires detailing their income and expenses, and take pay stubs and receipts to local welfare offices to substantiate their claims."

ADMINISTRATIVE REFORM

The Department of Agriculture, OMB, and Domestic Council staff have agreed on the following legislative proposals to deal with tightening accountability, penalizing and retarding abuses and simplifying administration:

1. Eliminate Variable Purchase

Eliminate the option to purchase 25% and 75% of a full coupon allotment by deleting the variable purchase provision. This will improve administration by reducing the potential for fraud but will leave participants the option of purchasing coupons twice monthly if short of cash.

2. Withholding Purchase Requirement

Let State agencies decide whether to withhold Food Stamp purchase requirements from public assistance checks. This will increase State flexibility to apply different systems where statewide or local conditions permit.

3. Adjusting Fines

Adjust the maximum fine for misdemeanor offenses to equal the jurisdictional limit of U.S. Magistrate Courts. At present, the limit is \$1000. This will make it easier to prosecute Food Stamp criminal offenders.

4. Civil Penalties

Permit the Secretary to levy civil money penalties for certain program violations. This will add to the available sanctions and facilitate prosecution of Food Stamp offenders, but will not add commensurately to court congestion.

5. Illegal Aliens

Clarify that illegal and temporarily present aliens are not eligible for Food Stamp participation. This will codify present regulations and will make Food Stamp and SSI statutory requirements more consistent.

6. Employer Supplied Housing

Eliminate the \$25 of countable income which is imputed to employer-supplied housing. This will simplify program administration and make the treatment of in-kind housing consistent with the treatment of other in-kind benefits for Food Stamp purposes.

7. Demonstration Projects

Authorize the Secretary to approve administrative demonstration projects which may be proposed by the states. This will encourage state innovations to improve local, and hopefully national program administration.

8. State Accountability

Augment State administrative responsibilities to include "accountability for" coupons, as well as receipt and issuance of coupons. This will allow states to be fully accountable for all intra-State coupon activities, including periodic reconciliation of coupon and cash transactions.

9. Defining Negligence

Reduce the standard of negligence applicable to State administrative performance from gross to ordinary negligence. This will make it easier to seek recoupment of Federal bonus costs where State certification practices are deficient.

10. Wrongfully Denied Benefits

Allow lump sum cash payments to participants, equal to their "bonus" entitlement, where benefits have been wrongfully denied. This will simplify administration and will be more equitable than reducing future purchase requirements, which is the current practice.

11. Mechanical Failure

Authorize cash payments to individuals where mechanical failure prevents State issuance of an Authorization-to-Purchase card. This will eliminate the need for states to maintain redundant computer systems and/or stand-by manual issuance capability.

12. Age for Work Requirement

Lower the maximum age for mandatory work registration from 65 to 60 years. This will make work registration consistent with other Food Stamp age provisions and simplify the administration of work registration requirements.

13. Institutionalized Addicts/Alcoholics

Repeal the 1973 amendments which permit addicts and alcoholics in institutions to be eligible for Food Stamps. Alternative programs exist to meet the nutritional needs of those in institutions.

14. College Student Eligibility

Amend present law to specify that a student claimed as a tax dependent of a family which is not eligible for Food Stamps shall not be eligible for Food Stamps himself.

ESTIMATED 1976 IMPACT*
OF PROPOSED PLANS

| | <u>CURRENT</u> | <u>PLAN I**</u> | <u>PLAN II**</u> | <u>PLAN III</u> | <u>PLAN IV</u> | <u>CASH OUT</u> |
|---|----------------|---|---|---|---|---|
| | | 1. Standard \$100 deduction. | 1. Standard deduction based on household size. | 1. Standard \$100 deduction. | 1. Standard \$125 deduction. | 1. Standard \$100 deduction. |
| | | 2. No automatic eligibility for welfare recipients. | 2. \$50 deduction for elderly. | 2. \$50 deduction for aged. | 2. \$25 deduction for elderly. | 2. No automatic eligibility for welfare recipients. |
| | | | 3. No automatic eligibility for welfare recipients. | 3. Continue automatic eligibility for welfare recipients. | 3. No automatic eligibility for welfare recipients. | |
| Total annual cost (billions) | 6.6 | 5.9 | 5.9 | 6.6 | 6.6 | 7.5 to 8.5 |
| Total households participating (millions) | 5.4 | 4.3 | 4.2 | 5.4 | 4.8 | 5.4 to 7.5 |

*Estimates for Plans V & VI are not available.

**Also eliminates minimum bonus.

Alternative Plans for Changing the Eligibility and Income Tests

There are six alternative plans for eligibility and income tests from which you can select a specific legislative recommendation. Data on the benefit impact of the last two plans is being produced, but will not be available for two weeks.

Major Components

There are four components in most of the alternatives:

Standard Deduction: In lieu of the current computation of allowing numerous itemized deductions from gross income, a standard deduction is proposed. This could vary with family size, but would not vary with income or family circumstances.

Effects

- . Simplifies administration.
- . Eliminates eligibility or reduces benefits for persons with high income and large deductions and is more liberal for those with low deductions.
- . Does not reflect particular family circumstances, e.g., medical bills, work expenses.

Added Aged Deduction: A higher standard deduction could be proposed for households with persons over age 65. This is not in the current program.

Effects

- . Minimizes the losses for a large and vocal beneficiary group.
- . Creates inequities because income needs are not higher for aged compared to non-aged persons.
- . Would establish a precedent for special treatment of an interest group.

Minimum Bonus: By law, the bonus must not fall below set minimum levels by family size (e.g., \$24 per month for a family of four) so long as a family remains eligible. If

the minimum bonus were eliminated, benefits would scale down to zero, based on net income.

Effects

- . Equity goals are furthered by similar treatment.
- . Removes the present "notch" -- substantial loss of benefits due to a small income increase.
- . Costs are reduced by scaling benefits to income.
- . Participation would decline among households now receiving minimum bonus amounts.
- . Elimination of the minimum bonus by regulation was attempted and was overridden by intense Congressional pressure in 1972.

Categorical Eligibility: All AFDC and 71% of SSI households are now eligible for benefits without regard to their income.

Effects

- . Equity suggests abandoning this provision to achieve like treatment of families in same (income and size) circumstances.
- . Benefits would be abruptly cut off for non-low income eligible aged, disabled, and AFDC recipients.

To the extent that alternatives incorporate these components, some plan for phasing, to avoid abrupt changes in benefit levels, will have to be developed.

PLAN I - STANDARD DEDUCTION

- A. Description: This plan provides a \$100 monthly standard deduction to all households, regardless of age or family size. It eliminates categorical eligibility for public assistance recipients.
- B. Rationale: Treats all participants of a given income level in the same way.
- C. Impact: Overall participation would be about 20% lower than it is now, and so total bonus costs would drop by 15% (\$1.0 billion). At the same time, this plan makes about 132,000 households eligible who are currently ineligible, of which 13% are below the poverty line and 87% are above.
1. 15.5 percent (109,000) of currently participating households below the poverty line and including an elderly member would be "worse-off" than they are now because they currently claim itemized deductions in excess of \$100.
 - About 9 percent, or 9,000 households, in this group would actually become ineligible.
 - 100,000 households would have their bonuses reduced.
 2. 39 percent of currently participating poverty households with an elderly member actually have their bonuses increased.
 3. 7,600 households become eligible who aren't now because they do not claim deductions.

PLAN I

Impact Assessment

Thousands of families losing/gaining \$5 to \$24 per month ^{1/}

Family Size

| Gross Income Class | <u>1</u> | | <u>2</u> | | <u>3-5</u> | | <u>6 or more</u> | |
|-----------------------|----------|------|----------|------|------------|------|------------------|------|
| | Gain | Lose | Gain | Lose | Gain | Lose | Gain | Lose |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 1-99 | 5 | 0 | 7 | 3 | 4 | 1 | 0 | 0 |
| 100-199 | 200 | 79 | 179 | 15 | 81 | 21 | 26 | 6 |
| 200-299 | 232 | 134 | 65 | 124 | 88 | 107 | 19 | 11 |
| 300-399 | 0 | 51 | 36 | 115 | 96 | 204 | 24 | 9 |
| 400-599 | 0 | 16 | 6 | 121 | 96 | 209 | 82 | 53 |
| 600-799 | 0 | 1 | 0 | 29 | 12 | 209 | 44 | 51 |
| 800+ | 0 | 0 | 0 | 24 | 0 | 370 | 36 | 59 |

^{1/} Zero indicates either no measurable data or no impact. USDA will categorize each cell before memo goes to the President.

Plan I

Impact Assessment

Thousands of families losing/gaining more than \$25 per month^{1/}

Family Size

| Gross Income Class | <u>1</u> | | <u>2</u> | | <u>3-5</u> | | <u>6 or more</u> | |
|-----------------------|----------|------|----------|------|------------|------|------------------|------|
| | Gain | Lose | Gain | Lose | Gain | Lose | Gain | Lose |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 1-99 | 0 | 0 | 0 | 0 | 0 | 2 | 0 | 0 |
| 100-199 | 0 | 3 | 0 | 7 | 6 | 6 | 6 | 0 |
| 200-299 | 0 | 22 | 0 | 11 | 17 | 19 | 8 | 5 |
| 300-399 | 0 | 10 | 0 | 28 | 7 | 19 | 7 | 5 |
| 400-599 | 0 | 0 | 0 | 22 | 11 | 85 | 24 | 18 |
| 600-799 | 0 | 0 | 0 | 0 | 0 | 72 | 2 | 32 |
| 800+ | 0 | 0 | 0 | 0 | 0 | 108 | 0 | 154 |

^{1/} Zero indicates either no measurable data or no impact. USDA will categorize each cell before memo goes to the President.

PLAN II - STANDARD DEDUCTION

- A. Description: This plan is based on a \$100 monthly standard deduction varied by size of household plus \$50 monthly if the household includes an elderly member. The actual standard deduction varies by household size so that one-person households have a standard deduction of \$36 monthly while seven-person households have a deduction of \$137 monthly. Automatic eligibility for public assistance recipients is eliminated.
- B. Rationale: Designed to vary the deduction so that it would be small for small households and large for large households. Special treatment for the elderly is included for three primary reasons:
1. Current deduction rules are designed so that the elderly are treated preferentially by allowing large deductions for small families with high incomes.
 2. There is considerable precedent for special treatment for the elderly in other Federal programs, including the double deduction allowed for persons over 65 on their Federal income.
 3. The \$50 extra for the elderly was added as a partial compensation to the elderly who live in small households and would be made worse off because of the size adjustment in this plan.
- C. Impact: This plan reduced eligibility by 16% and participation by 23%. In spite of the special deduction for the elderly, 40% of currently participating households with an elderly member would lose benefits, and 25% of participating elderly households below the poverty line would lose benefits. Adjusting the amount of the deduction for family size would provide greater benefits to the larger households, who already have larger allotments.

Plan II

Impact Assessment

Thousands of families losing/gaining \$5 to \$24 per month^{1/}

Family Size

| Gross Income Class | <u>1</u> | | <u>2</u> | | <u>3-5</u> | | <u>6 or more</u> | |
|-----------------------|----------|------|----------|------|------------|------|------------------|------|
| | Gain | Lose | Gain | Lose | Gain | Lose | Gain | Lose |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 1-99 | 3 | 24 | 7 | 15 | 4 | 5 | 1 | 0 |
| 100-199 | 105 | 200 | 71 | 88 | 67 | 36 | 28 | 3 |
| 200-299 | 15 | 185 | 96 | 176 | 73 | 135 | 34 | 8 |
| 300-399 | 0 | 51 | 40 | 98 | 86 | 202 | 35 | 7 |
| 400-599 | 0 | 16 | 3 | 122 | 108 | 191 | 66 | 26 |
| 600-799 | 0 | 1 | 0 | 29 | 37 | 197 | 53 | 38 |
| 800+ | 0 | 0 | 0 | 24 | 2 | 233 | 52 | 48 |

^{1/} Zero indicates either no measurable data or no impact. USDA will categorize each cell before memo goes to the President.

PLAN II

Impact Assessment

Thousands of families losing/gaining more than \$25 per month^{1/}

Family Size

| Gross Income Class | <u>1</u> | | <u>2</u> | | <u>3-5</u> | | <u>6 or more</u> | |
|-----------------------|----------|------|----------|------|------------|------|------------------|------|
| | Gain | Lose | Gain | Lose | Gain | Lose | Gain | Lose |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 1-99 | 0 | 0 | 0 | 3 | 0 | 0 | 0 | 0 |
| 100-199 | 0 | 35 | 2 | 8 | 14 | 6 | 17 | 0 |
| 200-299 | 0 | 49 | 3 | 37 | 31 | 22 | 17 | 3 |
| 300-399 | 0 | 9 | 0 | 53 | 24 | 31 | 20 | 2 |
| 400-599 | 0 | 0 | 0 | 33 | 39 | 90 | 90 | 14 |
| 600-799 | 0 | 0 | 0 | 0 | 2 | 67 | 30 | 15 |
| 800+ | 0 | 0 | 0 | 1 | 0 | 102 | 23 | 119 |

^{1/} Zero indicates either no measurable data or no impact. USDA will categorize each cell before memo goes to the President.

PLAN III - STANDARD DEDUCTION

A. Description: Provides \$100 monthly standard deduction to all households plus \$50 monthly if the household includes an elderly member. This plan retains automatic eligibility for AFDC and SSI recipients so that they are eligible even if their income is higher than the limit that pertains to all others. Also, the current minimum bonus is retained, so that no participating household ever receives less than \$24 monthly in bonus (free) stamps.

B. Rationale: Retention of categorical eligibility is desirable in the sense of maintaining the status quo and recognizing that eligibility for public assistance is indicative of the need for food assistance.

This plan also retains the minimum bonus feature of the current program which is intended to increase participation of eligible households who might otherwise consider the amount of their bonus not to be worth the time and effort.

C. Impact: Addition of automatic eligibility for public assistance recipients and the minimum bonus to a standard deduction plan adds greatly to costs and caseloads. This plan would increase program costs by 11% over Plan I, of which 6% is a result of the \$50 extra deduction for the elderly, and 5% is a result of categorical eligibility and the minimum bonus. However, it maintains the status quo for the 13% of currently participating households who are eligible because of this special treatment for public assistance recipients.

PLAN III

Impact Assessment

Thousands of families losing/gaining \$5 to \$24 per month 1/

Family Size

| Gross Income Class | <u>1</u> | | <u>2</u> | | <u>3-5</u> | | <u>6 or more</u> | |
|-----------------------|----------|------|----------|------|------------|------|------------------|------|
| | Gain | Lose | Gain | Lose | Gain | Lose | Gain | Lose |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 1-99 | 5 | 0 | 7 | 3 | 4 | 3 | 0 | 0 |
| 100-199 | 287 | 50 | 110 | 14 | 81 | 19 | 22 | 6 |
| 200-299 | 244 | 81 | 192 | 94 | 87 | 99 | 22 | 11 |
| 300-399 | 12 | 43 | 119 | 58 | 121 | 196 | 24 | 9 |
| 400-599 | 0 | 13 | 60 | 65 | 134 | 164 | 84 | 49 |
| 600-799 | 0 | 0 | 0 | 1 | 116 | 119 | 36 | 50 |
| 800+ | 0 | 0 | 0 | 0 | 0 | 29 | 20 | 43 |

1/ Zero indicates either no measurable data or no impact. USDA will categorize each cell before memo goes to the President.

PLAN III

Impact Assessment

Thousands of families losing/gaining more than \$25 per month 1/

Family Size

| Gross Income Class | <u>1</u> | | <u>2</u> | | <u>3-5</u> | | <u>6 or more</u> | |
|-----------------------|----------|------|----------|------|------------|------|------------------|------|
| | Gain | Lose | Gain | Lose | Gain | Lose | Gain | Lose |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 1-99 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 100-199 | 84 | 3 | 25 | 5 | 11 | 5 | 10 | 0 |
| 200-299 | 15 | 16 | 31 | 8 | 26 | 19 | 9 | 3 |
| 300-399 | 0 | 9 | 9 | 21 | 15 | 19 | 7 | 3 |
| 400-599 | 0 | 0 | 2 | 14 | 20 | 71 | 27 | 18 |
| 600-799 | 0 | 0 | 0 | 0 | 12 | 56 | 10 | 27 |
| 800+ | 0 | 0 | 0 | 0 | 2 | 31 | 25 | 55 |

1/ Zero indicates either no measurable data or no impact. USDA will categorize each cell before memo goes to the President.

PLAN IV - STANDARD DEDUCTION

- A. Description: Provides \$125 monthly standard deduction to all households plus \$25 monthly if the household includes an elderly member.
- B. Rationale: The standard deduction for all households in this plan is larger than in the other plans in order to minimize the number of current participants who would be worse off by moving to a standard deduction. However, the \$150 maximum for households with an elderly member is retained by providing them \$25 extra per month.
- C. Impact: The higher standard deduction of \$125 aids mainly non-elderly households in poverty. This plan produces a 3% decrease in the cost of the program, but would increase the number of participants by 2%, and the total number of eligible households would increase slightly. Thus, this plan, compared with the others, has a minimal impact on the level of program operation.

Plan IV

Impact Assessment

Thousands of families losing/gaining \$5 to \$24 per month^{1/}

Family Size

| Gross Income Class | <u>1</u> | | <u>2</u> | | <u>3-5</u> | | <u>6 or more</u> | |
|-----------------------|----------|------|----------|------|------------|------|------------------|------|
| | Gain | Lose | Gain | Lose | Gain | Lose | Gain | Lose |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 1-99 | 5 | 0 | 7 | 3 | 4 | 3 | 1 | 0 |
| 100-199 | 330 | 23 | 155 | 12 | 145 | 12 | 32 | 3 |
| 200-299 | 233 | 68 | 223 | 43 | 145 | 30 | 34 | 11 |
| 300-399 | 3 | 45 | 127 | 61 | 127 | 64 | 33 | 6 |
| 400-599 | 0 | 16 | 46 | 116 | 167 | 163 | 69 | 27 |
| 600-799 | 0 | 1 | 0 | 29 | 52 | 199 | 52 | 42 |
| 800+ | 0 | 0 | 0 | 24 | 2 | 239 | 43 | 51 |

^{1/} Zero indicates either no measurable data or no impact. USDA will categorize each cell before memo goes to the President.

PLAN IV

Impact Assessment

Thousands of families losing/gaining more than \$25 per month 1/

Family Size

| Gross Income Class | <u>1</u> | | <u>2</u> | | <u>3-5</u> | | <u>6 or more</u> | |
|-----------------------|----------|------|----------|------|------------|------|------------------|------|
| | Gain | Lose | Gain | Lose | Gain | Lose | Gain | Lose |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 1-99 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 100-199 | 86 | 0 | 42 | 3 | 34 | 2 | 12 | 0 |
| 200-299 | 15 | 8 | 43 | 3 | 58 | 16 | 14 | 5 |
| 300-399 | 0 | 5 | 13 | 17 | 58 | 11 | 12 | 3 |
| 400-599 | 0 | 0 | 2 | 20 | 46 | 51 | 79 | 14 |
| 600-799 | 0 | 0 | 0 | 0 | 3 | 58 | 20 | 19 |
| 800+ | 0 | 0 | 0 | 0 | 0 | 100 | 11 | 140 |

1/ Zero indicates either no measurable data or no impact. USDA will categorize each cell before memo goes to the President.

PLAN V - VARIABLE TAX PLAN

- A. Description: Under this plan itemized deductions would be allowed only for payroll withholding, medical expenses over \$10 per month, and housing up to a maximum based on BLS low budget housing figures. Purchase requirements would then be established on the basis of rates that vary, so that low income households would pay a low percentage of net income, and higher income households would pay a higher rate. Conceivably, these rates could range from zero to 99 percent.
- B. Rationale: The primary aim is a more progressive redistribution. Furthermore, it somewhat masks the percentage of income paid, since the percent would vary.
- C. Impact: The impact of this type of plan can be very much the same as the impact of any given level of a standard deduction in that some households would become ineligible, some would have reduced bonuses while others would become eligible and still others would have their bonuses increased. How many participants fall into these categories would depend on the maximum eligibility income level and the income level at which the purchase requirements became so high that participation would be discouraged.

Computer analysis of benefit impact will be completed for this plan within two weeks.



PLAN VI - DEDUCTIONS FOR NECESSITIES

- A. Description: This plan is similar to the current program in that it allows the current itemized deductions, except those for educational fees, work-related expenses, and payroll deductions, except Federal and States taxes. However, the primary differences is that for each deduction, there would be a maximum limit placing a cut-off point on the deductions. The limits would be:
- Shelter up to the BLS low budget shelter cost.
 - Day care up to one-third of a parent's earned income.
 - Medical in excess of 10% of monthly income, or \$10, whichever is greater.
- B. Rationale: This plan is a "middle ground" approach because, while it would curtail benefits to upper income participants, it would not improve benefits or equity to lower income households. It would not be perceived as a major program overhaul, but would remove some households with "adequate incomes" from eligibility.
- C. Impact: This plan would moderately simplify program administration. Computer analysis of benefit impact will be available within the next two weeks.



ESTIMATED 1976 IMPACT*

| | <u>CURRENT</u> | <u>PLAN I</u> | <u>II</u> | <u>III</u> | <u>IV</u> |
|---|----------------|---------------|-----------|------------|-----------|
| Total Households Participating (Millions) | 5.4 | 4.3 | 4.2 | 5.4 | 4.8 |
| Total Annual Cost (Billions) | 6.6 | 5.9 | 5.9 | 6.6 | 6.6 |
| Number of Households with Bonus Unchanged (Millions) | - | 1.6 | 1.2 | 2.1 | 1.2 |
| Number of Households With Bonus Increased (Millions) | - | 1.3 | 1.3 | 2.0 | 2.6 |
| Number of Households With Bonus Decreased (Millions) | - | 2.7 | 3.1 | 1.6 | 1.9 |

*Estimates for Plans V - VI are not available

"CASH-OUT" OF FOOD STAMPS

The concept of replacing food stamps with direct cash assistance has been raised before in general terms. In order to include the "cash-out" concept in this review of alternative courses for food stamp reform we have suggested that the concept of Plan I, a standard deduction of \$100 a month to replace current allowable deductions be coupled with

1. elimination of the requirement that participants pay a purchase price for their stamps.
2. direct distribution of the value of the food stamp bonus as a cash payment.

RATIONALE

Cashing out food stamps would change the program to a pure income maintenance program. Some data indicate that food stamp recipients spend 50 to 65 percent more on food than they would if they received the bonus in cash but others have questioned this statistic and have also asked whether increased expenditure for food means increased nutrition. Whatever the actual facts, many who are now eligible do not participate because of the purchase requirement. This cash-out option would increase the number of participants and would allow them the flexibility to purchase whatever they want instead of being constrained to food as they now are under the Food Stamp Program.

IMPACT

There are three important areas of impact of this proposal: (1) the number of households who would participate and consequent costs; (2) administrative simplification; (3) acceptability at this time.

PARTICIPATION AND COSTS

Because this plan would eliminate itemized deductions and implement a standard deduction, the redistributive effects are the same as they are for Plan I (see Tab F). That is, households who currently claim deductions in excess of \$100 would either become ineligible or would have their benefits reduced, and those households who currently cannot afford deductions up to \$100 would become eligible or would have their benefits increased. Thus, some higher or "adequate" income households would no longer be in the program, but more poorer households would be better off than they are now.

Total eligibility under this plan would be reduced by 11 percent (the same as Plan I), with about 63 percent of households with reduced benefits being above the poverty line and with no elderly member. These statistics are the same as for Plan I. Thus maximum potential program costs under this plan would be reduced in comparison to the present Food Stamp Program as a result of eligibility being reduced in the upper income classes.

However, one sure effect of eliminating the purchase requirement is that participation will increase greatly. Currently, only about 33 percent of all eligible households (based on income only) participate in the Food Stamp Program, compared to the 94 percent participation rate of the AFDC program. Participation in SSI falls somewhere in between, although it is still a relatively new program. Elimination of the food stamp purchase requirement and its replacement by cash will doubtless make the program more attractive to eligibles who now either cannot accumulate the cash to buy the stamps or who prefer not to earmark so much of their income for food. Thus, program costs would increase greatly if participation climbed to 90 or 100 percent rates. If 90 to 100 percent of the 16 million households (about 41 million persons) who would be eligible under this Plan actually participated costs would be between \$8.5 and \$9.4 billion annually. However, participation rates that high may not be achieved for some time. If the participation rate were 75 percent of the eligible population, the costs would be around \$7.9 billion annually, \$2.1 billion more than the current 1976 level of the Food Stamp Program.

ADMINISTRATIVE CONSIDERATIONS

Elimination of itemized deductions and implementation of a standard deduction would provide the same administrative simplification as would Plan I without the cash-out provision. In addition, the cash-out would reduce the administrative aspects of the current program that include printing, distributing, and issuing stamps, redeeming the stamps, and certifying and monitoring grocery stores.

However, the administrative aspects of determining eligibility for the new cash program and of issuing the checks to participants should be carefully studied and coordinated with existing cash and in-kind transfer program. The following issues would have to be resolved:

1. Eligibility determination -- the options are:
 - a. maintain the current food stamp structure requiring a separate determination for benefits under this new cash program from benefit determination under AFDC and SSI;
 - b. turn eligibility determination over to HEW to be included with either AFDC or SSI.
2. Separate distribution of benefits -- the options are:
 - a. deliver the benefits as a separate check;
 - b. since about half of current participants receive AFDC or SSI benefits, include the new benefits in those checks;
 - c. withdraw the Federal share of AFDC, making it a State program and federally distribute the new program benefits, which would include the Federal share of AFDC.

ADDITIONAL CONSIDERATIONS

Since a cashed-out program would have no direct relationship to a nutritionally adequate diet, an important statutory objective of the Food Stamp Program would be eliminated. The nutrition aspect of the Food Stamp Program is a popular concept and many food stamp supporters would be opposed to a cash-out. Furthermore, there is evidence of support for a program that allows taxpayers to have their tax money earmarked for "good" expenditures on the part of the poor, but which would not exist for a cash program which allowed recipients to spend it as they see fit.

THE WHITE HOUSE
WASHINGTON

ACTION

June 17, 1975

MEMORANDUM FOR: THE PRESIDENT
FROM: JIM CANNON
SUBJECT: Food Stamps

As you know, we have been working to complete and submit to Congress a proposed reform of the food stamp program in accordance with your decisions. Two separate factors are now present which require me to recommend a reopening of this issue:

1. Court Decision

On June 12th the U.S. Court of Appeals ruled that the formula upon which food stamp benefits are based is invalid. This decision could have substantial impact on costs which are now estimated to be \$6.9 billion in FY 76. The Department of Agriculture is under order to come up with a new benefit system within 120 days. The decision focuses on benefits but could also have an indirect effect on eligibility levels.

2. Additional Problem

In our work with the Department of Agriculture prior to sending you our May 22 decision memorandum on food stamps, one key aspect of their proposed plans went unrecognized. It was included by the Agriculture Department staff and slipped through unnoticed by Secretary Butz, OMB and me.

What we overlooked was the same 30% purchase requirement that was soundly rejected by Congress earlier this year. Consequently, our description of the plan we recommended and our understanding of its impact were inaccurate.

Consequently, there are risks which were not identified in the May 22 memorandum:

- A. The approved reform effort could be viewed as simply another attempt at implementing a 30% purchase requirement.
- B. Congress might accept the standard deduction (which by itself increases costs) and reject the 30% purchase requirement (which is the cost control factor), presenting you with a plan containing only the element of your proposal which would increase costs and caseload.

RECOMMENDATIONS

1. Proceed with Fourteen Points

Your decisions on the May 22 memorandum included approval of 14 specific items which were supported by OMB, Agriculture and the Domestic Council as means of improving administration, curbing abuse, and tightening accountability. By themselves these will not provide significant reform, but they do offer real improvements in the program.

We recommend--and Secretary Butz and OMB (O'Neill) concur--that approval of these remain unchanged and that the Secretary of Agriculture submit the 14 items as recommendations in a report the Senate requested by June 30, 1975.

APPROVE _____ DISAPPROVE _____

2. Eligibility

In light of the court decision, we now recommend that any proposal for changes in eligibility determination be held in abeyance until we can determine if the court decision affects eligibility and what these effects might be.

In this regard, the Secretary, in responding on June 30 to the Senate, would make no recommendation dealing with eligibility but would state:

- A. Many of the fundamental problems of the food stamp program reflect its function as an income support program. These elements should not be dealt with in the isolated case of the food stamp program but should be included in a comprehensive overhaul of all federal income support programs.
- B. The Court decision throws into question the present benefit system. While not directly affecting eligibility, it does relate to it, and therefore we are holding in abeyance any changes in eligibility at this time.
- C. Obviously the program is in need of a substantial overhaul, and we stand ready to work with Congress in this regard.

Hold in abeyance any changes in eligibility at this time and present position in the context of points listed above. Secretary Butz and OMB (O'Neill) concur in this recommendation.

APPROVE _____

DISAPPROVE _____

COMMENTS

We will proceed promptly with our analysis of the Court decision and the options it presents in regard to its basic focus, the benefit system. As we proceed we will also seek a prompt determination of how it affects our options on eligibility.

REPUBLICAN STUDY GROUP PROPOSAL

Attached in Tab A is a brief summary of the food stamp reform package which Bob Michel and the Republican Study Group have developed. We have just received it and have not had an opportunity to thoughtfully review it. It appears to have a number of elements which seem to have promise for controlling eligibility but the administration of these proposals might prove difficult and extremely costly. They would most certainly be controversial.

Since our position is not to include a specific eligibility plan in our submission to the Senate by June 30, I recommend:

1. That the Secretary in his submission to the Senate refer to the Republican Study Group proposal as one which appears, under initial review, to move toward improved concentration of benefits on low income families.

2. The Secretary should indicate specifically the Administration's intention to explore these and other Congressional suggestions as we proceed with the development of a basic structural reform of the food stamp program.
3. Through the Domestic Council we launch an intensive effort to get the thinking of other groups, including states, counties and cities, on the food stamp issue. We would begin by meeting with Congressman Michel and his staff to discuss his proposal in detail.

Preliminary discussions with Michel's staff indicate agreement with the approach we are recommending the Secretary take at this time.

THE WHITE HOUSE

WASHINGTON

August 12, 1975

MEMORANDUM FOR: THE PRESIDENT
FROM: JIM CANNON
SUBJECT: Food Stamp Reform

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

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

I. INTRODUCTION

A. Issue

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

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

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

B. Approaches to Reform

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

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

C. Packaging Reform

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

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

D. Designing the Reform

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

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

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

II. BACKGROUND

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

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

III. CONGRESSIONAL SITUATION

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

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

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

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

IV. CURRENT SITUATION AND PROGRAM ISSUES

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

A. Initiative

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

B. Scope of Reform

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

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

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

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

C. Tightening Eligibility

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

Income levels for eligibility only have meaning when you determine:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

V. OPTIONS

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

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

Pro:

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

Con:

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

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

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

Option II -- Eliminate the requirement that recipients put up cash and issue only the bonus or subsidy value in stamps. This option, combined with eligibility and program modifications, would reduce costs, but not as much as Option I.

Pro:

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

Con:

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

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

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

Pro:

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

Con:

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

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

Pro:

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

Con:

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

This option is preferred by DHEW.

VI. RECOMMENDATIONS

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

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

VII. DECISION

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

Agree _____

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)

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

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

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

TAB B
ILLUSTRATIONS OF SPECIFIC OPTIONS WITH
COST IMPLICATIONS

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

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

This option provides that:

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

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

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

*Cost estimates supplied by DHEW

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

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

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

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

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

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

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

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

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

COMMENTS BY PARTICIPANTS OF THE FOOD STAMP REVIEW GROUP

Alan Greenspan

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

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

Change income eligibility provisions by:

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

Eliminate any provisions for categorical eligibility.

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

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

L. William Seidman

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

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

Caspar W. Weinberger

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

John Dunlop

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

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

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

USDA

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

Treasury

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

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

*Crucial to
WHY IT GROWS
HOW IT SHOULD
BE MANAGED*

2. Cash vs. Stamps

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

*10-15% or more of costs.
or \$600 wk for no food - just*

Stamps - wasteful

+ Simplified Admin

- broadens and reaches people

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:

child within too?

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

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

--on a regional basis?

*Simplified
standards
deduction*

limit

be on by law

now

*Better
way to
go law*



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?

Greater acceptance in
Congress that way



THE WHITE HOUSE

WASHINGTON

August 28, 1975

14 W
86.2 or more 7/76

MEMORANDUM FOR: JIM CANNON

FROM: ART QUERN

SUBJECT: Food Stamps Talking Points

1) Get reject
Proposal -
2) Adjust it
to Resol.
if what
can get
through
Congress

We are making program
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.

THE WHITE HOUSE

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