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UNITED STATES DEPARTMENT OF AGRICULTURE
FOOD AND NUTRITION SERVICE

WASHINGTON D.C. 20250

February 8, 1975

To: The Secretary
Through: Richard L. Feltner
Assistant Secretary

This memorandum discusses aspects of the Food Stamp Program vulnerable to criticism. It includes an extensive listing, even though most current criticisms are directed toward the eligibility of students and strikers, and at administrative problems, many of which State welfare agencies could correct under current USDA regulations. Most of the issues are not unique to the Food Stamp Program, but are also of concern in other Federal and State programs of this type.

A. Eligibility. The Food Stamp Act currently bases eligibility mostly on "need" as defined by income and resources. In this regard it is similar to HEW's proposal for an Income Supplement Program. But participation of some groups, even though needy, has been criticized:

1. The Near-Poor. Food stamp eligibility is not restricted to those incomes below the census poverty level. Instead, eligibility is related to the amount of the allotment, and as food costs have increased so have eligibility levels. (The eligibility level for a four-person family is \$6,160, net income.) Most proposals to lower the eligibility level have the disadvantage of adding to work disincentives. However, a standard income deduction (an alternative now under review) would lower the effective income eligibility level, while at the same time increasing benefits to the poorer recipients.
2. College Student Participation. Concern has been frequently expressed about the participation of college students whose parents are ineligible for program benefits. Consistent with this concern, legislation has been recently enacted and implemented which makes students ineligible if the parents are ineligible and if the student is claimed as a tax dependent. Legislation implemented in 1971 for the same purpose was subsequently declared unconstitutional by the Supreme Court. The existing provision is more carefully drawn and appears more likely to withstand court challenge. While we do not have good data on the number of non-needy students, we have estimated that there may be as many as 125,000 which, if removed from the rolls, would save \$12.5 million this fiscal year. These savings are included in the FY 1976 budget.

Current regulations allow tuition and mandatory fees as deductions from students' income. A Departmental effort in 1971 not to deduct such costs was withdrawn in the face of major public and Congressional reaction. The development of standard deductions applying to all program participants would substantially reduce the attractiveness of the program to students.

3. Striker Participation. The participation of households containing members who are on strike or locked out has been a persistent issue. It becomes particularly sensitive (and costly) during nationwide strikes. Congress has repeatedly debated the question, but has been unable to enact legislation barring striker participation. In 1973 the House enacted an anti-striker provision, but was unable to hold it in conference. At that time the Department supported a provision which would have prohibited participation for 60 days after the beginning of a strike except for households which may have been eligible prior to the start of the strike.

Regulations were amended last year to prohibit the use of either union or management facilities for certification, to require strikers (who were already required to register for available employment) to accept any job available after a 30-day period, and to bar eligibility of participants in an illegal strike.

4. Voluntarily Poor Young People. While apparently of less concern now than four or five years ago, the program continues to get some criticism over the participation of voluntarily poor young people. The visibility of communal living groups focused attention on this problem previously. To deal with this concern, legislation was implemented in 1971 requiring households to consist entirely of related members. Efforts to enforce this provision ran up against the fact that the involuntarily poor commonly live in households containing unrelated members and there is no very practical way to distinguish between the two kinds of households in making eligibility determinations. The Supreme Court subsequently declared this provision unconstitutional.

More recently, it has been suggested that a minimum age limit be set below which applicants would not be eligible. It appears unlikely that a limit could be set that would be uniformly reasonable and that it would be difficult in court to defend an eligibility factor which has no reasonable relationship to the purposes of the Food Stamp Act. Current food stamp certification instructions encourage eligibility workers to make contacts with parents of all questionable emancipated minors and students.

B. Administrative Difficulties Leading to Ineligibles and Overpayments. We plan to release comprehensive data from the quality control system to the public for the first time in about six weeks. These data will show that errors in eligibility are made in about one-sixth of the cases and overpayments are made in one-fourth of the cases. Although high, these data do not show widespread program abuses. One-half of all errors are made by the case workers in certifying recipients — including improper work registration procedures. Incorrect reporting and calculating of income and deductible expenses constitute the largest source of errors. If implemented, standard deductions would reduce these errors.

The budget calls for savings from intensified follow-up on quality control findings of \$89 million during this fiscal year.

State administration of the Food Stamp Program will be strengthened by USDA's recent regulations which authorize 50 percent Federal payment of State administrative costs as of October 1, 1975. The Department is planning to publish preliminary regulations by mid-March stating administrative requirements States will have to meet to continue receiving these additional funds.

FNS currently is exploring other changes in regulations which will make the program easier to administer and, insofar as possible, make food stamp eligibility rules more consistent with other income transfer programs.

C. Coupon Counterfeiting, Thefts, and Accountability.

1. Counterfeiting. According to reports from the Secret Service, the value of counterfeit coupons in circulation was \$2,271 in FY 1973, \$295 in FY 1974, and \$5,364 during the first half of FY 1975. The value of counterfeit coupons seized prior to circulation was \$106,000 in FY 1973, \$1,135,000 in FY 1974, and \$796,000 in the first half of FY 1975. The evidence indicates that the losses as a result of counterfeiting are minimal. The Secret Service deserves special credit for this record. New coupon denominations being introduced in March are substantially more difficult to counterfeit.

2. Thefts. Major thefts amounting to over \$1 million in the late 60s resulted in the implementation of a number of steps to increase local issuance office security and reduce losses. In FY 1974, theft losses of coupons and cash amounted to \$645,000 compared with the total value of stamps issues of \$4.7 billion of which \$2 billion represented cash payments made by recipients.

States are fully liable for all theft losses and must repay.

3. Accountability. A recent report by the State of California made a number of recommendations concerning Federal/State relationships in the accounting for cash and coupons. These recommendations have been picked up in legislation introduced last week by Congressman Michel of Illinois. The central issues are the adequacy of information we provide the States and the extent to which we should mandate additional control measures to be followed by the States. We are working in both these areas to determine what additional steps may be necessary.

D. Growth in Participants and Cost. The number of food stamp recipients has increased rapidly in recent months (from 14.4 million in September 1974 to 17.1 million in December 1974) in response to growing unemployment and Congressionally mandated expansion in Puerto Rico.

However, previous to this economic downturn increases had been relatively small since 1973 and reflected mostly new participants from counties where the Commodity Distribution Program had been replaced by food stamps.

As indicated below combined participation in family feeding programs has shown modest growth in recent years.

	<u>September 1972</u>	<u>September 1973</u>	<u>September 1974</u>
Food Stamps	11.9	12.0	14.4
Food Distribution	<u>2.8</u>	<u>2.3</u>	<u>.6</u>
Total	14.7	14.3	15.0

Potential program costs of as high as \$10 billion have been referred to by members of Congress. However, unless the Congress enacts major liberalizations, this level seems completely unreasonable. There are undoubtedly many not now participating who would be eligible if they applied. However, most of these would have very high purchase requirements which would deter participation.

Senate Resolution. The Senate Resolution sponsored by Senator Dole directs the Department to study a number of the issues identified above and provide to the Congress by June 30 recommendations for needed legislative changes. We welcome this move and believe it will provide the Department an excellent opportunity to get before the Congress major substantive issues that require attention.

Edward J. Hekman
Administrator

NEWS

U.S. DEPARTMENT OF AGRICULTURE

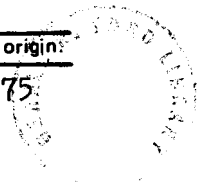
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PRELIMINARY SUMMARY OF FOOD ASSISTANCE PROGRAM RESULTS FOR DECEMBER 1974

WASHINGTON, Jan.31-- The U. S. Department of Agriculture today reported these preliminary estimates of participation in the federal-state food assistance programs for the month of December, with comparisons to the previous month and to the same month of the previous year:

	December 1973	November 1974	December 1974
<u>The Food Stamp Program:</u>			
Number of Projects in Operation.....:	2,518	3,044	3,044
People Participating This Month (mil.).....:	12.7	15.9	17.1
Total Value of Coupons (mil.).....:	\$ 354.7	\$ 557.1	\$ 588.5
Participants' Payments (mil.).....:	\$ 161.9	\$ 224.0	\$ 229.5
Value of Bonus Coupons (mil.).....:	\$ 192.8	\$ 333.1	\$ 359.0
Average Bonus per Person.....:	\$ 15.14	\$ 20.92	\$ 20.97
 <u>The Family Food Distribution Program:</u>			
Number of Projects in Operation.....:	684	100	71
People Participating This Month (mil.).....:	2.0	0.4	0.2
 <u>The National School Lunch Program:</u>			
Number of Schools Taking Part.....:	86,757	87,491	87,515
Enrollment in NSLP Schools as Percentage of Total Enrollment.....:	85.5	87.1	87.2
Children Participating This Month (mil.).....:	24.9	25.0	24.9
Children Reached with Free or Reduced -Price Lunches This Month (mil.).....:	9.1	9.8	9.7
(more)			

Applicants for all Department programs will be given equal consideration without regard to race, color, sex, creed or national origin.



<u>National School Lunch Program (Cont.)</u>	<u>December 1973</u>	<u>November 1974</u>	<u>December 1974</u>
Percentage of Lunches Served Free.....:	35.6	36.9	36.7
Percentage of Lunches Served at Reduced Price.....:	1.1	2.0	2.1
 <u>The School Breakfast Program:</u>			
Number of Schools Taking Part.....:	10,330	12,955	13,024
Children Participating This Month (mil.):	1.3	1.8	1.8
Percentage of Breakfasts Served Free or at Reduced Price.....:	81.1	85.5	86.0

USDA 335-75

Food and Nutrition Service
Program Reporting Staff
Data as of: Jan. 31, 1975

THE FOOD STAMP PROGRAM

SCOPE OF THE PROGRAM: Implementing the mandate of Congress, all counties in the U.S. except two -- Montgomery county, Ind. and Madison county, Mont. -- now participate in the Food Stamp Program. Food stamps are also available in Guam, Puerto Rico and the Virgin Islands.

HOW THE PROGRAM WORKS: A monthly allotment of food stamps is made available to eligible individuals and families. Those stamps are as good as cash at most grocery stores for the purchase of food items. But they cannot be used to buy non-food items such as soap, tobacco, beer and wine. An escalator provision adjusts benefits twice a year, according to the cost of food.

CURRENT BENEFIT SCHEDULE: The dollar value of the monthly allotment is based on the purchasing power required to attain federal nutritional standards. Beginning in January 1975 monthly allotments are:

\$ 46 for a single person	\$182 for family of 5
\$ 84 for a couple	\$210 for family of 6
\$122 for family of 3	\$238 for family of 7
\$154 for family of 4	\$266 for family of 8

WHAT FAMILIES PAY FOR STAMPS: Families pay for food stamps according to their monthly "net" income. "Net" means the income after deductions for all payroll taxes, union dues, medical expenses over \$10 a month, child care costs for working mothers, housing expenses in excess of 30 percent of income, and some other items.

A four-person household with a net monthly income of \$150 after allowable deductions would, as of January 1, pay \$41 for \$154 in food stamps. Under the increase in the food stamp purchase requirement proposed, to take effect March 1, that household would pay \$45 for its food stamp allotment. Food stamps will continue to be free to any family of three or more with "net" income less than \$30 a month, or any couple or individual with monthly "net" income less than \$20.

FAMILY FOOD ASSISTANCE: The number of people aided by family food programs -- either food stamps or direct food distribution -- has held at a steady level over the past two years. In fiscal year 1972 participation peaked at 15.1 million and in October, 1974, the latest figures available, participation was 15.2 million. Of that total, 14.7 million were in the food stamp program.

WHAT FOOD PROGRAMS COST TAXPAYERS: The federal budget for food assistance programs, included in the Agriculture Appropriations Bill Congress passed in December, 1974, provides \$6 billion for fiscal year 1975. Of that, \$4 billion is earmarked for the Food Stamp Program.

President Ford's budget message of November 26 included announcement of a plan to save \$325 million in food stamp outlays in Fiscal Year 1975. Regulations have been proposed to increase the purchase price of food stamps to a standard 30 percent of net household income, as provided by law. Those entitled to free stamps will not be affected by this proposed regulation.

December 23, 1974

FOOD STAMP PROGRAM - 1975

Proposed Change: Effective March 1, all households receiving food stamps will pay a standard 30 percent of "adjusted net monthly income" (ANMI) for their food stamp allotment--except those entitled to free food stamps (one and two person households with "ANMI" of less than \$20 and all other households with "ANMI" less than \$30).

An amendment to the food stamp regulations was published in the Federal Register December 6, 1974.

Reason for Change: To comply with President Ford's budget message of November 26, 1974. This action is part of a national \$4.6 billion budget cut for FY 1975, designed to slow inflation. The proposal is in line with provisions of the Food Stamp Act specifying that the amount a household pays for its food stamps should represent a reasonable investment on the part of the household, not to exceed 30 percent of the household's income. This change would also provide equity in purchase requirements:

- Current purchase requirements vary widely among households in the percentage of income required.
- Under the proposed change, every household with the same income would have the same purchase requirement.

Impact on Participants: A purchase requirement of 30 percent of net income would raise costs to recipients by about \$14 per month for the average household--from \$44 to \$58. This level would increase the average percentage of total income, of food stamp recipients going for food stamps, to 16 percent--still below the 16.9 percent of disposable income spent for food by the Nation as a whole.

Equity to Taxpayers: The Federal share of food stamp dollars--the bonus amounts--has been climbing because the escalator, based on food price increases, has been paid entirely by the Federal Government. As a result, the average bonus per person in the last quarter was \$20.70--40 percent larger than 2 years earlier. It seems fair that participating households should share some of the costs of inflation with the Government during times of national economic crisis. The cost of the current food stamp program is expected to be \$4.2 billion in fiscal year 1975--up from \$2.7 billion in fiscal 1974.

Net Effect on Treasury: The increase in the purchase requirement will reduce the average bonus by the same amount (assuming no change in participation). A \$4 drop from the first quarter FY 1975 bonus level of \$20.70, due to the increased purchase requirement, still leaves the average bonus above the year earlier level of \$15.29.

A further increase in the bonus level is due January 1, 1975, when the escalator will be raised by \$1 per person (at the 4-person household rate).

The proposed change would save \$325 million in FY 1975 Treasury outlay.

Purchase Requirement Related to Income

Purchase requirement as a percentage of:	Current Program	Proposed Change
	Percent	Percent
FNS net income	23	30
All money income	18	24
Total income*	12	16

* Including value of bonus stamps and in-kind value received from other Federal programs such as Public Housing and Medicaid. Income data relate to November 1973.

Source: Income data based on National Survey of Food Stamp Program conducted by Chilton Research Services.

Food Cost and Food Stamp Issuance

Fiscal Year By Quarter	Cost of Economy Food Plan For Family of 4	Consumer Price Index, Food at Home	Food Stamp Issuance For Family of 4	Average Bonus Per Person	
	Dollars	Index 1967=100	Dollars	Current Dollars	Constant Dollars*
1973					
I	\$114.60	123.0	\$112	\$14.80	\$12.07
II	115.10	124.0	112	14.49	11.73
III	121.80	130.8	112	14.55	11.16
IV	128.93	137.6	112	14.50	10.53
1974					
I	137.50	146.3	116	15.29	10.40
II	140.27	151.1	116	15.16	10.09
III	148.37	158.0	142	19.81	12.55
IV	151.80	159.8	142	19.51	12.17
1975					
I	153.67	163.0	150	20.70	12.70
			----- Percent -----		
1975:I Change From					
1973:I	34.1	32.5	33.9	39.9	5.2
1974:I	11.8	10.9	29.3	35.4	22.1

Preliminary

*Derived by dividing average bonus per person by the CPI index for food at home.

FOOD STAMP ALLOTMENTS AND PURCHASE REQUIREMENTS (Effective January 1)

<u>48 States and District of Columbia</u>	<u>Number of Persons in Household:</u>							
	1	2	3	4	5	6	7	8
	<u>Monthly Coupon Allotment:</u>							
	\$46	\$84	\$122	\$154	\$182	\$210	\$238	\$266
	<u>Monthly Purchase Requirement:</u>							
<u>Monthly Net Income</u>	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
\$ 0 to 19.99	1	1	0	0	0	0	0	0
20 to 29.99	4	4	4	4	5	5	5	5
30 to 39.99	6	7	7	7	8	8	8	8
40 to 49.99	8	10	10	10	11	11	12	12
50 to 59.99	10	12	13	13	14	14	15	16
60 to 69.99	12	15	16	16	17	17	18	19
70 to 79.99	14	18	19	19	20	21	21	22
80 to 89.99	16	21	21	22	23	24	25	26
90 to 99.99	18	23	24	25	26	27	28	29
100 to 109.99	21	26	27	28	29	31	32	33
110 to 119.99	24	29	30	31	33	34	35	36
120 to 129.99	27	32	33	34	36	37	38	39
130 to 139.99	30	35	36	37	39	40	41	42
140 to 149.99	33	38	40	41	42	43	44	45
150 to 169.99	36	44	46	47	48	49	50	51
170 to 189.99	36	50	52	53	54	55	56	57
190 to 209.99		56	58	59	60	61	62	63
210 to 229.99		62	64	65	66	67	68	69
230 to 249.99		64	70	71	72	73	74	75
250 to 269.99		64	76	77	78	79	80	81
270 to 289.99			82	83	84	85	86	87
290 to 309.99			88	89	90	91	92	93
310 to 329.99			94	95	96	97	98	99
330 to 359.99			100	104	105	106	107	108
360 to 389.99			104	113	114	115	116	117
390 to 419.99				122	123	124	125	126
420 to 449.99				130	132	133	134	135
440 to 479.99				130	141	142	143	144
480 to 509.99				130	150	151	152	153
510 to 539.99					154	160	161	162
540 to 569.99					154	169	170	171
570 to 599.99					154	178	179	180
600 to 629.99						178	188	189
630 to 659.99						178	197	198
660 to 689.99						178	202	207
690 to 719.99							202	216
720 to 749.99							202	225
750 to 779.99							202	226
780 to 809.99								226
810 to 839.99								226
840 to 869.99								226
870 to 899.99								226

For each additional household member over 8 add \$22 to the 8-person allotment.

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THE 1973 TOTAL UNITED STATES PROFILE OF FOOD STAMP PROGRAM
 PARTICIPANTS FOR ALL PERSONS BY HOUSEHOLD SIZE, BY
 INCOME RANGE FOR THE MONTH OF JUNE 1973



MONTHLY INCOME (Adjusted Income)	HOUSEHOLD SIZE										Total
	One Person	Two-Person	Three-Person	Four-Person	Five-Person	Six-Person	Seven-Person	Eight-Person	Nine-Person	Ten or more Person	
	PERCENT										
\$ 0 - 29.99	6.1	5.4	4.5	4.5	3.7	3.4	3.3	2.2	1.7	2.8	4.1
30 - 39.99	2.3	1.6	1.2	0.7	0.4	0.3	0.6	0.3	0.4	0.2	0.9
40 - 49.99	3.5	2.0	1.4	0.9	0.4	0.2	0.2	0.6	0.3	0.3	1.1
50 - 69.99	10.7	5.1	4.2	2.3	1.7	1.2	1.4	0.8	0.7	1.2	3.3
70 - 99.99	21.1	13.6	7.7	6.1	3.9	2.6	2.2	2.3	2.3	1.8	7.1
100 - 149.99	55.9	30.6	21.4	13.3	11.2	8.4	7.6	4.6	4.2	4.4	18.0
150 - 249.99	0.4	41.7	52.4	40.7	31.6	26.7	22.8	20.1	21.6	16.7	30.6
250 - 359.99			7.2	26.3	31.0	30.5	27.1	23.4	21.3	21.3	17.9
360 - 419.99				5.2	11.7	11.9	14.2	12.0	11.9	9.2	6.5
420 - 479.99					4.4	11.0	12.6	14.0	12.0	8.6	4.7
480 - 539.99						3.8	4.1	12.3	7.1	7.5	2.4
540 & Up							3.9	7.4	16.5	26.0	3.4
Percentage By Household Size	9.6	13.3	14.1	14.4	12.3	10.2	8.1	6.3	4.1	7.6	100.0

FOOD STAMP OUTREACH FACT SHEET

The Act: The Food Stamp Act of 1964, as amended in 1971, provides that each State shall submit for approval a plan of operation specifying (10(e)5).."that the State agency shall undertake effective action, including the use of services provided by other federally funded agencies and organizations, to inform low-income households concerning the availability and benefits of the food stamp program and insure the participation of eligible households."

Bennett v. Butz: Judge Miles Lord of the U.S. District Court for Minnesota ordered on October 11 that the Department: (1) Review all State Outreach Plans, (2) Assess implementation of the State Outreach Plans, and (3) Provide remedial action where necessary. (He did not require that we spend the surplus funds but make it available to the States for outreach).

He found inconsistency between the Act and our Regulations, i.e. "insure" participation provided in the Act compared to "encourage" participation in our Regulations. Further, he noted inadequate statistical information sufficient to adequately analyze State outreach needs, personnel and outreach effectiveness. Our report to the Court was filed January 21 with no response to date.

USDA Response: It was determined that in view of the Court Order and from what experience we have gained during the last three years in dealing with State outreach programs, that the following actions are mandatory: (1) Amend the Food Stamp Regulations to require a fulltime outreach coordinator in each State, (2) Strengthen the Outreach Instruction requiring detailed information on an accelerated basis, and (3) Approve new Outreach Plans of Operation implementing the foregoing information.

USDA Matching Expenditures: Our matching costs for State outreach programs for Fiscal Years 1973, 1974 and 1975 are:

FY'73	\$ 80,242.76
FY'74	177,577.35
FY'75	161,729.83*

*Incomplete data--the figure represents claims received thus far for FY'75.



The Block Grant -- A Summary

The Budget Request for the U.S. Department of Agriculture for the Fiscal Year 1976 provides for cutting the costs and increasing the benefits of Child Nutrition Programs by instituting a "block-grant" approach.

To accomplish this, "The Child Nutrition Food Assistance Act of 1975" will be proposed to replace all current Child Nutrition Programs. A consolidated block-grant program would be substituted for them -- provided by a single, permanent annual appropriation which would not require annual action by the Congress. (Authorizing legislation for the School Breakfast Program; the Special Food Service Program for Children; and for the Special Supplemental Food Program for Women, Infants, and Children runs out at June 30, 1975, and the Department does not recommend extension.)

The block-grant approach will meet the nutritional needs of poor children at considerably less cost than the current Child Nutrition Programs. USDA's budget for Child Nutrition Programs totals \$1.7 billion in the current fiscal year, which would be extended to \$2.3 billion in Fiscal Year 1976. The cost of the block-grant program for Fiscal Year 1976 is estimated at \$1.7 billion, which would represent a savings of about \$600 million for the year. Over the next 5 years, the block-grant approach is estimated to produce savings of about \$4 billion, as compared to the estimated costs of current programs.

The amount of the block grant for each year would be sufficient to provide for the delivery of one-third of the Recommended Daily Dietary Allowance for each of the total number of poor children in

(more)

the United States. Each State's block grant would be based on that State's proportion of the Nation's total number of children from needy families.

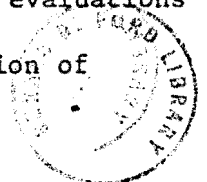
Under the new approach, the States would be responsible for designing a feeding program tailored to provide specifically for the needs of poor children in the State, with considerable latitude in exercising that responsibility to adapt programs to local situations. States would develop plans to provide free food to poor children, utilizing the most appropriate type of meal, or combination of meals, snacks, and/or milk.

Another significant change in the new approach would discontinue the support now given to lunches for non-needy children, under the National School Lunch Program. The States could continue to support non-needy children, if they feel such support should be continued. In that case, however, the support for non-needy children would have to come from local non-Federal tax revenues, or from Federal General Revenue Sharing Grants to the States.

This new, block-grant approach would reduce Child Nutrition Program costs significantly. By eliminating Federal subsidies to the non-needy, it would provide sufficient Federal funds for the States to increase benefits to all needy children. The comprehensive block-grant approach would also greatly simplify administration of the program, and therefore permit substantial reductions in manpower and costs at the Federal, State and local levels.

The proposed legislation provides for the establishment of a National Advisory Committee to advise the Department's Food and Nutrition Service on the administration of the program, and it would require regular evaluations of the effectiveness of the block grants in achieving the elimination of poverty-caused hunger among children.

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EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

DECISION

FEB 7 1975

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MEMORANDUM FOR THE PRESIDENT

Subject: Enrolled Bill on Food Stamp Reform (H.R. 1589)

Background

Your November 26 Budget Restraint Message and your 1976 Budget contained a proposal to increase the percentage of net income that Food Stamp recipients would be required to pay for their stamps to a uniform 30 percent. This is a proposed action by regulations which would be implemented on March 1.

Your decision followed the recommendation of Secretary Butz on October 2 in response to a government-wide call for budget savings. It was based on the factors outlined in Tab A.

H.R. 1589, now enrolled for your action, essentially prohibits any increases in the charge to any household for Food Stamps through December 31, 1975. The bill passed the House by a vote of 374 to 38 on Tuesday and the Senate by a vote of 76-8 on Wednesday of this week.

Your last day for action on the enrolled bill could be as early as Tuesday, February 18.

On Wednesday, the Senate also unanimously passed S. Res. 58 (sponsored by Senator Dole). That resolution directs USDA to submit legislative recommendations designed to eliminate abuses in the Food Stamp program and improve the administrative relationship of this program to other welfare programs. The report is required by June 30, 1975.

There are other proposed reforms being developed by the Department of Agriculture -- principally standardizing the deduction to achieve a more equitable method of calculating net income on which the benefit is based. This proposal will not be developed for several months. It will probably not result in any significant benefit savings in 1976, but may save some administrative costs. Savings in later years could be substantial.

COPY FOR MR. MARSH



It would be desirable to hold a meeting as soon as possible to discuss your options with respect to the enrolled bill. The Domestic Council and OMB recommend that you hold such a meeting with Secretary Butz, Seidman/Greenspan, Lynn/O'Neill, Cavanaugh/Duval, and Marsh/Friedersdorf.

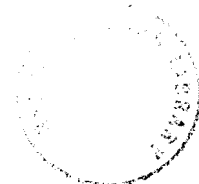
Options and the arguments for each are provided for your use:

1. Veto the enrolled bill.

- Maintains a strong position in support of your Budget decision to achieve savings. Signing the bill or allowing it to become law without signature could be viewed as a sign that you are not determined to persist with the proposed budget reductions.
- The maximum reduction in free food stamps for the worst case situations (small, low-income families) is \$15 a month. This impact has been exaggerated and could be defended, since these beneficiaries receive other welfare benefits.
- If this bill becomes law, it will preclude the Department from implementing by regulation the reforms which are now under review prior to December 30, 1975.
- A veto could be accompanied by a statement which would:
 - (a) Order a withdrawal of the pending regulations;
 - (b) Indicate that the Administration will make legislative recommendations to improve the Food Stamp program as called for in S. Res. 58; and
 - (c) Urge the Congress to accept the veto and avoid freezing the inequities in the current program into law.

2. Sign the bill.

- The need to cushion the poor from the impact of rising costs has increased as economic conditions, including unemployment, have worsened.
- A veto would be very difficult to sustain based on the House and Senate votes.



- A strong veto override would strengthen the image of this Congress as "veto-proof."
 - Signing the bill would indicate a willingness to modify your recommendations while continuing to call for fiscal restraint by the Congress.
3. Let the bill become law without your signature and issue a statement setting forth your position.
- Emphasizes your continued support of the proposed regulation or equivalent Federal spending restraint.
 - Recognizes the futility of attempting a veto in the face of the congressional votes, but indicates at the same time that you will not join in irresponsible fiscal actions by the Congress.
 - Avoids the problem involved in an overwhelming override of a veto.

You should consider that over the past fifty years or more, Presidents have allowed very few bills to become law without their signature -- only nine bills since 1950, of which four were public laws and five private laws. The bills are described in Tab B.

Paul H. O'Neill
Acting Director

Attachments

THE INCREASED PURCHASE PRICE FOR FOOD STAMPS

The decision to include in the President's general program to slow the rate of growth in Federal spending a uniform charge of 30% of net income for food stamps was based on the following factors:

- The uniform charge of 30% of net income is equivalent to 16% of total income on the average, taking into account income deducted (for medical costs over \$10 a month, excess shelter costs, tuition and education fees, work expenses including child care, financial losses, training), and other benefits such as food stamp bonus and housing and medicaid payments.
- The amount of the increase in the bonus (net benefit) paid to food stamp recipients is running well ahead of actual increases in food prices. In the past two years, the bonus has gone up 44% while food prices have risen 36% (price of food at home).
- The increase in the bonus has been almost completely absorbed by increases in Federal payments -- since the purchase requirement has stayed about constant. The increase in the purchase requirement provides for a more equitable sharing between program participants and the general taxpayers of the costs of inflation.
- Prior to this change, the percentage of net income that participants pay has varied from almost 30% for large sized households to 5% for smaller households with the same income.
- Food stamps will continue to be completely free for all one- and two-person households with a net monthly income of less than \$20 a month and for all other households with a net income less than \$30 a month.
- This action would reduce Federal outlays by \$215 million in Fiscal Year 1975 and \$650 million in Fiscal Year 1976.

In addition, the 1976 Budget proposes legislation to limit increases in Food Stamp benefits (now linked to cost-of-living indicators) to 5 percent through June 30, 1976. If the increased purchase requirement is prohibited, the associated savings will be lost. However, the temporary 5 percent limit would save about \$350 million in 1976 from the higher totals.

BILLS WHICH BECAME PUBLIC LAWS WITHOUT
THE APPROVAL OF THE PRESIDENT
1950-1974

- S. 2681 An act to authorize the attendance of the United States Marine Band at a celebration commemorating the 175th anniversary of the Battle of Lexington, to be held at Lexington, Mass., April 16 through 19, inclusive, 1950. (Became Public Law 81-450 without approval February 26, 1950)
- H.R. 5554 An act to make permanent the special milk program for children. (Became Public Law 91-295 without approval June 30, 1970)
- H.R. 17795 An act to amend Title VII of the Housing and Urban Development Act of 1965, to provide an authorization for appropriations of \$1 billion for grants for basic water and sewer facilities. (Became Public Law 91-431 without approval October 6, 1970)
- S. 2641 An act to confer jurisdiction upon the court of the United States of certain civil actions brought by the Senate Select Committee on Presidential Campaign Activities, and for other purposes. (Became Public Law 93-199 without approval December 18, 1973)