

Background

A fundamental issue in the design of the Food Stamp Program (FSP) is the form benefits should take. Advocates of the current coupon system argue that coupons are a direct and inexpensive way to ensure that food stamp benefits are used to purchase food. Coupon advocates contend that, despite some evidence of fraud and benefit diversion under the current system, food stamps are used largely to purchase food. In addition, they contend that coupons give household food budgets some measure of protection against other demands on limited household resources. Advocates of cashing out the FSP argue that the current system limits the food-purchasing choices of recipients and places a stigma on participation. Moreover, they cite the cumbersome nature and cost of coupon issuance, transaction, and redemption.

The San Diego cash-out demonstration began in 1989. FNS also sponsored three other major cash-out studies in Alabama and Washington State. In January 1993, FNS released the first report on the effects of cash-out on household food use and nutrient availability in San Diego. The initial report found that there was a statistically significant reduction in the value of food used at home by FSP participants. This companion report focuses on the administrative and participation outcomes of the demonstration and its effects on food retailers.

Results of the effects of cash-out on administrative costs, fraud and participation were based on interviews with staff and/or information obtained from state, county, and Federal reports. Retailer findings were based largely on data from a telephone survey of a representative sample of managers of retail food stores authorized to participate in the FSP.

Findings

Cash-out substantially reduced issuance costs. At the county level, the average cost per food stamp issuance was reduced from \$2.21 to \$0.19. This savings yielded a total estimated savings of \$1.3 million annually. Fifty percent of the savings accrued to the federal government, 35 percent to the state and 15 percent to the county.

Cash-out substantially reduced the vulnerability of the issuance system to theft and fraud. In the months before the start of the partial cash-out demonstration, issuance system losses were approximately \$22,000 monthly; after full cash-out losses fell to approximately \$1000 monthly. The liability for losses (i.e. replacement of coupons lost in the mail) was shifted from the public sector to the person or institution cashing the check.

There was no significant evidence that cash-out increased Food Stamp Program participation. Although San Diego's caseload grew by 38.7 percent in the two years after cash-out was introduced, similar increases were observed in several other Southern California counties which did not cash-out the FSP. It appears that these increases were due to other factors, such as the deteriorating economy during this period.

Cash-out probably reduced retailer sales, but the magnitude of the decline is uncertain. More than half the stores in the retailer survey believed that cash-out had reduced their sales. The size of the apparent effects in some of the data suggests that they may have also been influenced by other factors such as the deteriorating economy rather than just cash-out.

In general, food retailers prefer FSP coupons to checks. Retailers expressing a preference for FSP coupons cited the negative impact of cash-out on store sales of food items and also stated

the concern that people might "misuse" cash benefits by spending less on food, and thus go hungry.

Caveat

Despite these relatively unsurprising findings on the reduction in administrative costs, there is enough evidence based on the Department's rigorous program of demonstration and evaluation to be cautious about the detrimental effects of cash-out. There is reasonably clear

evidence that cash-out will reduce expenditures on food: across three different sites, food spending fell roughly 5 to 20 percent when food stamp benefits were converted from coupons to check. In only one site was there no evidence of lower food spending. Moreover, these reductions were observed in the context of short-term demonstrations. It is entirely possible that recipients might spend even less on food over a longer period.

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