

Application Food Stamps

If recipients of food stamps received cash instead, recipients' utility would remain the same or rise, some recipients would consume less food and more of other goods, potential recipients would be more likely to participate, and the administrative costs of these welfare programs fall.

Whitmore (2002) finds that a sizeable minority of food stamp recipients would be better off if they were given cash instead of an equivalent amount in food stamps. She estimates that between 20% and 30% percent of food stamp recipients would spend less on food than their food stamp benefit amount if they received cash instead of stamps, and therefore would be better off with cash. Of those who would trade their food stamps for cash, the average food stamp recipient values it at 80% of its face value (the average price on the underground market is only 65%, however). Thus, \$500 million is wasted by using food stamps rather than cash across all such recipients.

According to a review of statistical analyses (Fraker 1990), an additional dollar of income causes an average low-income household to increase its food expenditures by 5¢ to 10¢, and an additional dollar of food stamps leads to a 20¢ to 45¢ increase in food expenditures. Based on her statistical study of the types of food recipients consume, Whitmore (2002) concludes that giving cash would not lower their nutrition and might reduce their odds of obesity.

It is possible that the stigma of using food stamps may discourage participation in food stamp programs. Only 54% of families with children and incomes below the poverty line participated in the food stamp program in 1999 (Winicki, 2001). To make participating easier and to reduce the stigma associated with presenting food stamps at a grocery store, the federal government required that all states replace "food stamps" with ATM-like cards, such as shown in the photo, which was done by 2005. Using these cards reduces administrative costs. Experiments in some states show that the administrative costs of cash programs was half that of food stamps.