



View from the Nation's Capital

Making Food Stamps Part of Welfare Reform

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with Peter Germanis

Welfare reform has brought massive change to state-operated cash assistance

programs but, on certain key points, the Food Stamp Program has hardly changed. As a result, the two programs often seem to operate at cross-purposes, making it

more difficult for states to encourage self-sufficiency—while also providing a safety net for the truly needy.

THE DIFFICULTY OF COORDINATION

The rules for food stamps have always been different from those for welfare because, while almost all welfare recipients get food stamps, only about one-third of food stamp households also receive welfare. (The remainder are low-income adults with or without children, including those who are disabled or elderly.) With welfare reform, however, the need to coordinate the two programs has increased—but so have the difficulties of doing so.

The welfare reform legislation ended the entitlement to cash assistance and seeks to discourage welfare dependency by increasing work

and reducing family breakdown. The 1996 law established strict work requirements, a five-year limit on federally funded cash assistance (with a 20 percent exemption), tougher procedures to collect child support, rules that require teenage parents to attend school and live in an adult-supervised setting, incentives for pregnancy prevention, and expanded funding for child care.

The Food Stamp Program, on the other hand, was continued as a federal entitlement, with national rules that allow for only limited state flexibility.¹ Why? The program maintains a safety net for people leaving welfare and prevents states from shifting costs from their capped Temporary Assistance to Needy Families (TANF) block grants to the Food Stamp Program.

Yet, the only major accommodation to welfare reform was to allow states to conform selected food stamp rules—such as those about sanctions and work requirements—to their cash assistance programs. These conforming changes, however, can only relate to those on welfare, not those applying for it or those who have left. (Remember, about two-thirds of all food stamp households are not on cash welfare.) On some issues, such as waivers and “cost neutrality,” welfare reform and related decisions from the U.S. Department of Agriculture (USDA)

have actually made conforming the two programs more difficult than before.

As a result, most states have continued to operate their food stamp programs as if welfare reform had never happened, as if welfare caseloads had not declined by 43 percent since March 1994, and as if the dynamics between the two programs had not changed substantially.

Encouraging Work

Many readers may assume that welfare rules are tougher on recipients, that food stamp rules are more liberal, and that conforming food stamp rules to welfare rules will further undermine the social safety net. Some new welfare rules—such as “work-first” approaches and sanctions for nonparticipation—are undeniably tougher than their food stamp counterparts, but others—such as

¹ When welfare reform was enacted, the Congressional Budget Office estimated that changes in the Food Stamp Program would reduce expenditures by about \$27 billion over six years, with the largest cuts as follows: reducing the maximum benefit (\$6.3 billion), imposing a work requirement (\$5.1 billion), freezing the standard deduction (\$5 billion), and disqualifying noncitizens (\$3.7 billion).

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diversion grants and asset rules—are more generous. Often, the major obstacle to conforming the two programs is financial. Conforming the rules could cost the federal government money, even while the states save it or vice versa. Let us explain.

“*Work first.*” If anything characterizes the new world of welfare reform, it is the emphasis almost all states place on getting applicants to find jobs or to rely on family, friends, or others for support. Under the Aid to Families with Dependent Children (AFDC) program, most eligible applicants simply requested welfare benefits. Now they are told about time limits, work requirements, and other obligations linked to the receipt of welfare. Mandatory job search, personal responsibility agreements, offers of child care, and diversion grants often precede placing someone on welfare.

This combination of “jaw boning” and concrete services, it is widely agreed, is a major reason for the stunning declines in welfare rolls. But, according to the federal government (and many advocates), such procedures can be violations of food stamp rules when, for example, they discourage applications or delay the application process. They argue that the Food Stamp Program should be operated as it always has been: a financial entitlement with no real work requirement.²

Many states complain that having their welfare staffs implement two sets of rules with such opposing philosophies creates confusion and administrative foul-ups. The bigger problem is that providing food stamps without a work-first requirement undermines welfare reform because it sends a mixed signal to applicants about the importance of work. Even though a single mother might be denied cash benefits (which, depending on the state, range from \$120 to \$703 a month for a mother with two children), she could still receive the maximum food stamp benefit (\$329 a month).

The continued availability of food stamps without a work-first requirement could undermine the next stage of welfare reform, when states seek

to find jobs for less-employable mothers. In most places, food stamp benefits alone are not enough to live on, but they are probably enough to enable a single mother to abandon her efforts to seek work and, instead, to move in with her family, a boyfriend, or others. Moreover, as suggested by the earlier figures, in 16 states food stamp benefits are larger than cash welfare benefits; in two states, they are twice as high.³ In these states, losing cash welfare would be a much smaller blow than losing food stamps.

allowed to apply work-first requirements to food stamp as well as welfare applicants—subject to the imposition of reasonable protections attached to applications for both programs.

Diversion grants. One of the real surprises of state implementation of TANF has been the popularity of diversion grants, almost unknown under AFDC. Twenty-eight states now make diversion grants (of up to about \$2,000) to help potential welfare applicants avoid welfare by providing one-time payments often to meet employment-related emergency

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Able-bodied applicants for both welfare and food stamps should be given a strong, unified signal about work. There is no doubt, however, that the hassle implicit in work first and in other new requirements has discouraged some people from seeking welfare (or staying on). Those who trust the states to be fair and to protect the truly needy will feel more comfortable to see work-first procedures applied to food stamp applicants. Those who do not trust the states will be opposed.

The issue comes down to safeguards. “Jaw boning” and requiring a job search should be allowed, but they should not be excuses for bullying or intimidation. The same is true for cash welfare. Therefore, states should be

needs, such as car repairs to get or keep a job.

Initially, food stamp rules simply did not contemplate diversion grants. The USDA initially indicated that the grants would be treated as countable income. It was probably worried that states might manipulate the process by reducing their expenditures at the federal government's expense. For example, a state could issue a so-called diversion grant equal to 90 percent of its regular welfare payment and keep the savings. Moreover, in many states, recipients would not suffer because their food stamp benefits would be higher than if they were given welfare.

Counting a diversion grant of \$1,500 as income (to have a car

² *The Food Stamp Program authorizes the imposition of job search and other requirements, but only to the able-bodied and mothers with children over five.*

³ *For example, in Mississippi the food stamp benefit is \$329, compared to a welfare benefit of \$120.*

repaired, for example) would probably make a family ineligible for food stamps in that month, and that would be harmful on two counts. First, it would undermine the usefulness of the grant because losing food stamps means that the grant is as much as \$329 less. Second, it might depress food stamp participation if some of the families whose benefits are terminated because of excess income in just one month do not reapply in subsequent months when they are eligible.

Many states argued that diversion grants should not be counted as income because they were meant to alleviate a crisis or remove a barrier to employment—and the grants were not income available for daily needs. The USDA later adopted a more reasonable position, allowing states to exclude diversion payments as countable income for food stamp purposes, as long as state policy mandates that the grants are made primarily to address barriers to employment and self-sufficiency, rather than to meet regular living expenses; and that they are made only “once in any 12-month period to meet needs that do not extend beyond a 90-day period.”

The USDA has imposed another limitation, however. The payments are excluded from income only if they go to households applying for TANF and not to TANF households themselves. This seems unnecessary, as long as states do not abuse the process. States should be allowed to exclude one-time TANF-funded diversion payments from income for both applicants and recipients, as long as the state has a formal policy limiting them to verifiable employment-related needs.

Asset rules. Under TANF, states have liberalized the strict asset tests that characterized the old AFDC program. Because welfare families tend to have so few assets that are not exempt from consideration other than automobiles, the major conflict between the two programs is the allowable value of the family car.

Under AFDC, households could not own automobiles with an equity value exceeding \$1,500. Families that left welfare were then subject to the food

stamp limit set at a fair market value of \$4,650. Recognizing that a reliable car is often essential to getting and keeping a job, under TANF, 48 states have liberalized these limits (with 22 states excluding the full value of one automobile). Some states even help recipients purchase or repair a car needed for work.

Thus, now when families leave welfare for work, they may be ineligible for food stamps because of the more restrictive food stamp limit on the value of the family car.⁴ This sudden loss in benefits, which could be several hundred dollars a month, may discourage some families from working and force others to return to welfare.

At first glance, one might assume that the food stamp vehicle limit should simply be raised to match the states' more liberal TANF limits. But

this would be very expensive—probably more than an estimated \$600 million a year.⁵ Why? Many more people who were never before eligible for food stamps would then be, and many people who would have left welfare and food stamps anyway would not lose food stamps because of the value of their car. This “windfall” effect could be as much as 75 percent of the total cost.

Thus, a decision about raising the permissible value of a car needs to be made independently of welfare reform. This case can be made, especially in the context of simplifying the program's Byzantine income and deduction rules. An upward adjustment of the vehicle limit is long overdue. The vehicle value limit is simply too low. It was set at \$4,500 in 1977 to keep households with expensive cars from receiving food

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⁴ As long as families stay on TANF, this inconsistency is not a problem because they are deemed to meet the food stamp income and asset criteria (if the household is composed entirely of TANF beneficiaries or is a mixed household, as long as a non-TANF member does not have an automobile above the food stamp limit).

⁵ See Wemmerus, N., and Gottlieb, B. (1999). *Relaxing the FSP vehicle asset test: Findings from the North Carolina demonstration*. Washington, D.C.: Mathematica Policy Research, Inc. The estimate is based on an analysis of food stamp entrants in two North Carolina counties, which found that relaxing the vehicle limit raised food stamp costs by 2.6 percent. This estimate is lower than an earlier estimate using data from the April 1994 Survey of Income and Program Participation, which found that excluding one vehicle would have resulted in a 4.3 percent increase in benefit costs. This would bring the cost to \$971 million.

stamps. Since then, it has been increased by only \$150. If the limit had been adjusted for inflation, it would now be \$12,587. We express no opinion about how much the limit should be increased but surely, after 22 years, an increase larger than \$150 would be appropriate.

Mandatory work for mothers with children under age 6. Welfare reform eliminated all prior federal exemptions to work requirements. The law requires states to impose a sanction for failure to comply in an amount related to the degree of noncompliance. (States have the flexibility to impose even tougher sanctions.)

Single mothers receiving both TANF and food stamps are subject to the TANF work rules and exemptions. But single mothers who are on only food stamps are exempted if they have a child under six. (This is simply a throwback to pre-TANF law; actually it was not even updated to reflect the work requirements of the 1988 Family Support Act.) Particularly in those states with low TANF benefits and therefore high food stamp benefits (because they are based on "income"), these mothers may decide to leave welfare (or not apply) just to avoid the hassle of a work requirement. For example, if a single mother with two children in Mississippi left welfare, she would lose her \$120 TANF benefit but her food stamps would remain \$329, so

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although some of these women may not be very good caretakers. But there can be a much greater harm to children caused by long-term welfare dependency. Low-skilled mothers who stay out of the labor force for six or more years are even more unlikely to find and hold good jobs. That is why welfare reform emphasizes work.

States should be allowed to apply TANF work requirements to food stamp recipients with young children, whether or not they are receiving TANF benefits. There is no reason to give single mothers who are only on food stamps an exemption from working, especially since, under both programs, they can work part-time, easing concerns about mothers leaving young children for extended peri-

considering their needs and those of their children.

Sanctions for noncompliance. Welfare reform allows states to apply most of the sanctions they impose under TANF to food stamp benefits as well. But if a family is terminated from TANF for failure to comply with a TANF requirement, the disqualification from food stamps can generally be applied only to the noncompliant parent and not to the entire household. In a state with low cash benefits, this can significantly soften sanctions and undermine state efforts to promote compliance with TANF requirements.

There is another loophole. Because mothers with children under age six are exempt from the Food Stamp Program's work requirements, they are also exempt from full-family sanctions. Even when they are not exempt, the entire household's benefits can be terminated only for as long as allowed under food stamp rules, even if the TANF sanction continues for a longer period.

Moreover, states can reduce the food stamp benefit only if the recipient is getting benefits from both programs. Thus, a single mother with a child under six can avoid a food stamp sanction by simply leaving TANF before the sanction is formally applied. States should be allowed to apply TANF-like sanctions to food stamp recipients who avoid welfare work-first requirements either by not going on TANF or by leaving it.

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she would only lose about one-quarter of her total benefits (while retaining Medicaid).

Very young children can benefit from having their mothers stay home,

ods of time. As for those mothers who cannot work (or refuse to do so), the better answer would be to make sure that the total welfare system deals with their nonemployment while

COST NEUTRALITY

To be approved, waiver projects, as well as Simplified Food Stamp Programs (SFSPs), must be "cost neutral" to the federal government. Some policy changes (such as tightening exemptions and sanctions) are automatically considered cost neutral because they seem to result in straightforward savings. Estimating the costs of other policies is more subjective. The current system, unfortunately, takes an unnecessarily narrow view of the relevant costs and benefits.

Savings from behavioral changes are often underestimated. The USDA has contracted with Mathematica Policy Research (MPR) to measure cost neutrality using its microsimulation model. This model uses data from state administrative records and national surveys, along with existing eligibility and benefit rules and estimates of program participation, to assess the cost impact of various policy options.

Microsimulation can be especially useful for reform efforts involving multiple policy changes and often include the impact of behavioral responses. The models used to estimate cost neutrality, however, often do not capture the full effects of policy changes due to the limited research available for modeling such responses.

TANF-induced food stamp savings are not captured. Before welfare reform, cost neutrality was measured across the AFDC, food stamp, and Medicaid programs, so that costs in one program could be offset by savings in another. Now, states do not receive credit for food stamp savings achieved by their TANF reforms. This limits the scope of changes they can propose to the Food Stamp Program. (Complicating any fix would be a corresponding federal claim to take into account TANF changes that lead to higher food stamp costs.)

Cost neutrality is determined annually. Before welfare reform, cost neutrality was measured over the life of a project, recognizing that some projects involve increased costs initially but eventually produce savings. For example, work programs involve up-front costs related to creating work slots and monitoring participation but may produce longer-term savings as they reduce welfare dependency. Apparently, the USDA is concerned that states will suffer losses and not repay them. There are other, more subtle, ways of dealing with this problem. For example, under past practice, states did not have to repay excess costs unless they exceeded a predetermined threshold until the midpoint of the project, generally about three years. Even then, the repayment of costs was gradual. Now, it appears that states will either have to radically restructure their projects or terminate them, despite their potential long-term cost impact.

Restrictive limits on even small benefit reductions. States that choose to expand benefits must find offsetting options that reduce costs, but this will be difficult to do without reducing benefits for some households. And yet, current rules concerning waivers prohibit benefit reductions of 20 percent of what a household would have received under the standard food stamp rules for more than 5 percent of participating households. Although 20 percent sounds reasonable, it can be as little as \$2. In fact, because many food stamp households have relatively low benefits, even modest changes in the program's rules could easily cause a reduction that exceeds the 20 percent threshold for enough households to disqualify the state from receiving approval of its waiver request. (In the SFSP, a 10 percent reduction affecting more than 5 percent of "mixed" households could disqualify a project; moreover, benefit losses of \$10 or less do not count.)

Excess costs not remediable. It appears that states will not be allowed simply to repay any excess costs, another departure from the past welfare reform waiver policy. (If cost overruns are relatively minor, states may prefer to reimburse the federal government than undertake the reprogramming and staff retraining that may be otherwise necessary to make the project cost neutral.) States also cannot just buy the food stamps themselves, as they can for immigrants not otherwise eligible for food stamps, another way to avoid additional costs to the federal government.

Error rates. States are currently penalized if their rate of erroneous payments (or "error rate"), based on any overpayment or underpayment of \$5 or more, exceeds the national average. (In Fiscal Year 1997, the national average was about 9.9 percent.) Both the amount of the mistake and the allowable error rate are inconsistent with a post-welfare reform world in which recipients are encouraged to work.

The incomes of pre-TANF welfare recipients did not change much. Now many work, as do a high proportion of those who have left welfare. The incomes of low-paid workers, however, change often—as they get, lose, or change jobs (or lose pay for absences or lateness). More errors and higher administrative costs are inevitable when incomes fluctuate so much. In addition, the greater imposition of TANF sanctions and heightened child support efforts also cause income fluctuations that generate errors.

The \$5-mistake limit was established in the late 1970s. For more than 20 years, though, the USDA has not adjusted the \$5 limit for inflation. If it had, the limit would now be about \$13. The USDA should amend its regulations to raise the threshold for what constitutes an error from \$5 to \$13 to reflect inflation since the 1970s—and it should automatically adjust the figure for inflation in coming years. (Whether such a change would raise or lower costs depends on the details of how it is designed.)

The allowable error rate requires a more complicated fix. It is presently calculated through a formula that is based on averaging errors across all states. In a static world, this makes sense but it tends to penalize those states that are more successful in getting recipients into jobs (because, all things being equal, their error rates would be higher). On the other hand, there is no other objective measure than the performance of other states. One possible solution would be to have a two-part error rate, based on the average state performance calculated separately for recipients who are working and those

who are not. (Another possibility would be to simplify and standardize the program's rules concerning deductions and benefits, but this possibility raises broader issues that are not discussed here.)

BUILDING A BETTER SAFETY NET

How likely are these changes?

Although most states seem eager to make food stamps part of welfare reform, many players on the national scene are either opposed to them or afraid they will be labeled as enemies of the poor for supporting them. Moreover, decisive legislative or administrative action is complicated by interaction between the TANF-capped block grant and the food stamp open-ended entitlement. Some changes can result in windfalls for the states and others for the federal government. That is why the most important change that should be pursued now is expanded waiver authority under the Food Stamp Program.

During the congressional consideration of welfare reform, both opponents and supporters of the bill said that the Food Stamp Program would be the safety net for those left behind by the reform. The present system, however, does not provide formal protections for those who cannot comply with TANF requirements or who may have been intimidated from claiming their benefits. A more regularized or formal process is needed so recipients are not unfairly hassled off welfare, or food stamps for that matter. To be plain, if we are to align the two programs, we need a better system for identifying those who cannot meet their obligations versus those who do not cooperate—and better options for both groups.

Some state proposals may work well, and some may be catastrophes. Either way, they could be very costly. Hence, an expanded waiver authority should be at the core of any plan to revamp the Food Stamp Program. In this way, new ideas and policies could be tested and evaluated for their impacts on self-sufficiency,

nutritional well-being, and costs before being adopted nationwide.

In the years preceding TANF, much was learned about both AFDC and food stamps through the strategic use of waiver-based experiments. Ironically, welfare reform together with various administrative interpre-

do not capture food stamp savings that result from TANF changes; are determined annually, rather than over the life of the project, so that early costs cannot be offset by later gains; and can only take advantage of very small benefit reductions (as low as \$2) because

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tations have made it all but impossible to pursue this avenue of learning. (For example, welfare reform explicitly prohibits the payment of food stamp allotments as part of the cash welfare payment unless there is a preexisting waiver.)

But "cost neutrality," as now interpreted by the USDA, is by far the biggest obstacle to the effective use of waivers. Both the Simplified Food Stamp Program and waivers are subject to strict cost-neutrality requirements. That is understandable, given the financial interaction between TANF and the Food Stamp Program. But the USDA has adopted an unnecessarily narrow view of the relevant costs and benefits of various program changes—now more restrictive than before welfare reform. Cost-neutrality calculations do not incorporate all likely changes in recipient behavior that will reduce program costs;

of restrictive rules. In addition, it appears that states will not be allowed to incur excess costs, even if they are willing to repay them. It almost seems that the USDA does not want states to experiment.

The net result is that states have less flexibility to develop better ways to operate cash assistance and food stamps in tandem than they had before welfare reform. Surely that can't be right. ●

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