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Food and Nutrition Service

The Effects of Cash-Out on Food Use of Food Stamp Participants: Results from Four Demonstrations

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Background

A fundamental issue in the design of the Food Stamp Program is the form the benefits take. From the inception of pilot programs in the early 1960s to the contemporary program, the vehicle of choice has been the food stamp coupon, a voucher that can be redeemed for food at authorized retailers. For nearly that same period analyses have considered the relative merits of cash--or, in practice, checks--as an alternative. 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, that the unauthorized use of food stamps is relatively limited despite some evidence of fraud and benefit diversion, and that coupons provide some measure of protection to food budgets from other demands on limited household resources. Advocates of cash benefits argue that the current system limits the purchasing choices of participants; places a stigma on participation; does not prevent the diversion of benefits (as evidenced by the existence of illegal trafficking); and entails excessive costs for coupon production, issuance, transaction, and redemption.

The debate over the desirability of one benefit form over the other has been hampered by sparse evidence comparing coupons and cash food benefits. To fill this gap, the Food and Nutrition Service and several States sponsored four major cash-out demonstrations in recent years: the San Diego Cash-Out Demonstration, the Washington State Family Independence Program (FIP), the Alabama Avenues to Self-Sufficiency through Employment and Training (ASSETS) Program, and the Alabama "Pure" Cash-Out Demonstration. Both the San Diego and Alabama "Pure" demonstrations randomly assigned some participants to receive coupons and others to receive checks. By creating two directly comparable groups, any observed differences between the two groups can be attributed to the effect of cash-out. The Washington FIP and Alabama ASSETS projects include cash-out as one component of a broader welfare reform test and rely on a somewhat weaker evaluation design. Both features make it more difficult to estimate the effect of cash-out reliably and separate it from the effect of other program changes in these sites.

The Food Stamp Act of 1977 as amended authorizes the Food Stamp Program to help low-income households obtain a more nutritious diet through normal channels of trade by increasing food purchasing power for all eligible households who apply for participation. Given this fundamental policy goal, a full assessment of the relative merits of cash and coupons should address three central issues. First, what effect will the substitution of checks for coupons have on participating households; in particular, will cash-out weaken the link between the food stamp benefit and food consumption, reducing the likelihood that participating households obtain a more nutritious diet? Second, what effect will cash-out have on authorized retailers, the "normal channels of trade" envisioned in the Food Stamp Act? And finally, what effect will cash-out have on program participation, benefits, and administrative costs?

Information now available from these demonstrations describes the short-term effect of cash-out on household expenditures, food use, nutrient availability, and preferences. There is only limited information on administrative costs and retailer preferences and, as yet, no information on program participation.

A more complete assessment of the effects of cash-out must await these forthcoming analyses. We can, however, draw some tentative conclusions about the effect of cash-out on food stamp households.

Findings

First, cash-out appears to reduce household food expenditures, but the size of the reduction remains uncertain. Three of the evaluations find statistically significant reductions in food expenditures (or the money value of purchased food used at home).

The reduction in San Diego is relatively modest (roughly 5 percent), the reduction in Alabama ASSETS is substantially larger (about 20 percent), and the reduction in Washington falls in- between (about 15 percent). In the Alabama "Pure" test, however, there are virtually no differences between households with checks and coupons.

Second, there is some evidence that cash-out reduces the availability of some nutrients. It is not clear, however, that households receiving checks are at significantly greater nutritional risk. The Alabama "pure" test reports virtually no difference in the availability of key macronutrients, vitamins, and minerals between check and coupon households. The San Diego and Washington evaluations find some statistically significant reductions in the availability of food energy, protein, and selected micronutrients. These reductions, however, are uniformly modest (generally between 5 and 10 percent). Moreover, average nutrient availability for both groups exceed the RDAs for each nutrient by fairly wide margins in all three sites. The evaluations in San Diego and the Alabama "Pure" demonstrations examine particular concerns about the effect of cash-out on food stamp recipients who are presumably at greater nutritional risk. In both sites, cash-out has no discernable effect on food use and the availability of selected key nutrients among households in the lower end of the distribution of food use. The ASSETS evaluation did not assess changes in nutrient availability because it did not collect food use data.

Third, there is little evidence of any increase in the incidence of acute food shortages, or deterioration in the adequacy of the home food supply due to cash-out. There is little evidence of any increase in the number of households reporting they do not have enough to eat, days with no food or resources to buy food, or skipped meals in any of the four research sites. There is little evidence of increased reliance on other food assistance programs with the exception of surplus commodity programs: three of the four sites report statistically significant increases in the number of households seeking USDA surplus commodities under cash-out.

Fourth, there is some evidence that cash-out leads to higher expenditures on some items other than food. The evaluation of San Diego, ASSETS, and Washington all report statistically significant increases in the share of household budgets devoted to shelter, the evaluations of ASSETS and Washington report increases in the share devoted to transportation, and the San Diego evaluation reports increases in the share devoted to medical and educational expenses. The Alabama "Pure" test again reports virtually no difference between checks and coupons. No site finds meaningful increases in expenditures for food away from home.

Finally, households that receive checks prefer them to coupons. The most commonly cited advantage of checks among all recipients regardless of benefit form is the ability to purchase items other than food. Conversely, both coupon and check recipients typically cite the expectation that coupons ensured benefits were spent on food as the major advantage of coupons.

Several important questions about the consequences of cash-out remain. Forthcoming analyses will attempt to determine the extent to which cash-out makes the program more attractive to some eligible nonparticipants, causes some to apply for benefits, and thus leads to increased participation. Additional analyses will assess the effects of cash-out on administrative costs and the retailer community. This new information will enable a more complete assessment of the relative merits of cash and coupons.