

The Impact of Rising Food Prices on Low-Income Families in California –

A Framework for the Federal and State Response

Testimony before the California State Assembly

by

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I appreciate the opportunity to talk this morning about the impact on low-income Californians of rapidly rising food costs in the context of the current economic downturn. In particular, I'm going to: describe the situation; describe what the federal government is and is not doing; and talk broadly about some steps our state should take, although I will leave it to the experts who follow to give you specifics.

First, it's important to note that for millions of Californians, the rising food prices and the recession we are seeing unfortunately do not come as a sudden change in fortune. Instead, they come as an exacerbation of an already difficult situation. Millions of people in our state, even before these events, were suffering from low and stagnant wages, inadequate employer health coverage and other benefits, and inadequate and often shrinking public supports. As a result, many of them were suffering real hardship even in the better times for the economy as a whole – at least better times as measured by GDP.

One important form of this hardship has been food insecurity. The Census Bureau and U.S. Department of Agriculture tell us that, before these most recent economic troubles began, in 2006, 10.9 percent of households in this country, with 35.5 million people in them, were “food insecure.” And families with children were even more likely to be food insecure.

And the situation in California was hardly any better. Over the three year period of 2004-2006 (because of sample sizes, the federal government uses three year spans for state food insecurity data), an average of 10.9 percent of California households were food insecure. This almost certainly means that considerably more than 10.9 percent of people in the state were in food insecure households, because families with children – and larger households generally – are more likely to be food insecure. While USDA doesn't tell us how many people were in those 10.9 percent of California households, if we make the reasonable assumption that the distribution in California looks like the distribution nationwide, then about 4.2 million Californians (11.8 percent of our population) were living in food insecure households.

And that's before the economy took a turn for the worse.

“Food insecurity” is a bland phrase. What it means in real life is that the households, because of shortages of resources, are running out of food during the month, or parents are skipping meals so children can have enough to eat, or the family can't purchase a minimally adequate, balanced and healthy diet. These families are struggling with hunger.

This isn't an abstraction. Many people in these households are hungry when they go to sleep, to school, to child care, to work. And food insecurity – even when there is no outright hunger – can bring on stress, unhealthy diets and corner-cutting on other basics that hurt children's health, development and learning and adults' work and family lives.

And beyond the millions of people in food insecurity, millions more live on the margin of it. For example, in 2006 an additional 10 percent of households with children nationally lived in what USDA refers to as “marginal food security” – their situation is nearly as problematic. (USDA doesn't give us state-by-state data on this category.) As a result, many of them are vulnerable to becoming food insecure when circumstances change – as when hours of work or wages decline, or when prices jump – or especially as is true now, both happen. Thus, we can expect that the numbers of hungry and food insecure people in our state and in the nation will grow.

It may well be obvious, but it is well worth emphasizing why low-income families are uniquely vulnerable to rising prices. The average family in this country spends about 7 percent of its income on food at home (and another 5-6 percent on food away from home). At the poverty line, however, a family spends (or, more accurately, whether or not it actually can do so, needs to spend, in theory, to have any chance of obtaining a minimally adequate diet) as much as one-third of its income on food. It is those who spend the largest proportions of their incomes on food and who have no discretionary income on which to draw who are hurt the worst by rapid food inflation.

Well, prices have jumped. The federal consumer price index for the cost of food rose 4.7 percent from March 2007 to March 2008.

But even worse, the mix of food that low-income people buy has increased in price even faster. From March 2007 to March 2008, the price of the Thrifty Food Plan rose at an even faster clip – 5.6 percent.

The Thrifty Food Plan is the least expensive basket of food which the federal government goes into the market and prices. In other words, if you are low-income, the inflation rate in the Thrifty Plan is what you are more likely to face. While generally speaking, people can't as a practical matter obtain an adequate, healthy diet if they just spend the amount of the Thrifty Plan, its inflation rate is a more accurate indicator of how much low-income people in particular may be suffering further from food price inflation, and inflation for that plan is leaping ahead.

Rising food (and energy) prices create special havoc for the poor in one further way: every month low-income people have to pay certain fixed costs: the rent or mortgage; health insurance premiums; minimum credit card or payday loan payments; gasoline to drive to and from work; car insurance. Their most malleable costs may be food, out-of-pocket medical bills, and energy for heat or cooling. But these are expenditures that are pared down only at a high price in terms of health and well-being – for adults certainly, and even greater cost often for children.

And reports from across the country -- from polls, from food stamp intake offices, from food banks and pantries, and from the media -- are that large numbers of people already are taking

these steps – cutting back on food (and heat and medicine) – or are fearful of or expecting to have to do so soon.

Low-income families' struggles are harder in California than in many other states for a number of reasons, and one important reason is the high cost of housing here. The good news is that the food stamp program helps compensate for that, albeit only to a limited degree, because households can deduct from their countable income (and therefore receive higher benefits) some of their housing costs if they are particularly high. But in order for this (in effect) extra benefit to get to a family with high housing costs, it has to be in the program in the first place, and California has failed to get millions of people in the program, as I will discuss later.

They are scrambling to minimize the pain, but with only modest success.

It is only modest success first because such very large numbers of people face these problems, and their numbers are growing, and the depth of their problems is growing, so that both family coping mechanisms and community and governmental systems are becoming overwhelmed. And second, because even food stamps don't keep people up with inflation, so our most important anti-hunger program has rules under which people lose more ground the faster that food inflation is.

In general, the Food Stamp Program is a great program:

- nationally, nearly 28 million people currently receive benefits;
- the benefits make a huge difference for working poor and unemployed people, and their children, as well as for seniors and disabled persons;
- as food stamp coupons have been replaced by electronic benefit cards (the phrase “food stamps” is an anachronism) and the public has come to understand that the huge majority of beneficiaries are seniors, children, working parents and people suffering unemployment, the program has become much less stigmatized; and
- it is one of the few “counter-cyclical” programs left – like Unemployment Insurance, because it is an entitlement targeted on the unemployed and working poor, it grows when more people need its benefits. Congress doesn't have to appropriate new funds or change the rules to reach people falling into poverty. That is why the number of beneficiaries around the nation soon will pass 28 million. That is why Oklahoma recently reported that one-third of its children have been on food stamps at some point during last year.

Certainly the national framework is too skimpy, both in its reach and its benefits. It needs to cover more low-income people. And benefits need to be more adequate – for starters they must be fully indexed rather than lose ground to inflation – the pain of which we are especially learning now. Because the standard deduction, the minimum benefit and other aspects are not indexed (although other key elements of the program are), food inflation is being felt directly by those who are least able to handle it.

The good news is that some of these problems may be fixed soon, at least to a modest degree. Congress is likely to finish in the next week a Farm Bill with a good nutrition title. Over time it fixes the under-indexing problem and provides other modest gains in food stamp benefits and eligibility. It also adds money to the TEFAP program to help restock under-resourced food banks. At this point the President has indicated he likely will veto it and it is unclear whether Congress will override that veto.

But even if Congress does, the Farm Bill is not an adequate answer to the pain low-income families are facing today and in the weeks and months ahead. For that reason, anti-hunger advocates in Washington and around the country are pushing for the next economic stimulus bill to include a temporary boost in families' food stamp payments – adding 10-20 percent to (currently inadequate) benefit allotments over a period of months. Low-income families need this. And it's the best thing for the economy. In the discussion in the last few months on how best to stimulate the economy, conservative and liberal economists, ranging from Reagan advisor Martin Feldstein to Clinton Treasury Secretary Robert Rubin to Federal Reserve Chairman Ben Bernanke, have agreed that food stamps are among the very quickest and most effective forms of stimulus, because the benefits are spent so quickly and completely by needy people, and because there is almost \$2 of economic return for every \$1 of benefits issued. But a food stamp boost dropped out of the first stimulus package late in the day. It needs to be in the next stimulus package.

Even if there is a Farm Bill and a food stamp stimulus, that will not, of course, address the broader problem of how to protect low-income people against the likely long-term rise in food and energy costs:

- The nation will need to bolster family incomes (food programs are important, but they certainly are not enough). Reducing hunger will mean raising wages and benefits at work, and improving public supports like refundable tax credits, Unemployment Insurance, TANF, and others.
- We will have to strengthen food stamps more.
- We will have to make sure WIC, school meals, summer food, The Emergency Food Assistance Program (TEFAP), child care food, Meals on Wheels and other nutrition spending by the federal government also respond adequately to escalating food prices.

Programs like WIC and Meals on Wheels and TEFAP which are not entitlements will need supplemental appropriations or other relief. And Congress also needs to look at the entitlement programs like school meals and summer food to see what damage the food price increase may be causing there. We risk a deterioration in the quality of nutrition served or providers dropping out of the child nutrition programs because, to the degree reimbursement levels are too low to begin with, even if the reimbursement is indexed, the cost of the un-reimbursed part of the program is rising rapidly and deterring participation or quality improvements.

Of course, as much as institutions and people being served by the programs are being harmed by escalating food prices, those food prices harm low-income people outside of the programs even

more. Food stamps and other supports don't reach all people in need – far from it. The most recent data (from 2005) indicate that only about 65 percent of eligible people receive food stamps nationally. And millions more people in need aren't even eligible because of various limitations built into the federal program. They include (without going into the details of the rules) many adult legal immigrants, many childless, unemployed adults, and many people with very low incomes but small IRAs or bank accounts that make them ineligible. So tens of millions of lower-income people are in households that don't even have food stamps as a crucial, if only partial, buffer against hunger and food inflation. Summer food, school breakfast, senior nutrition programs and others reach even smaller proportions of those who are eligible.

And that brings me to California. Because, regardless of what help the federal government may or may not provide in the weeks ahead in the nutrition programs, it pales in comparison to the help that California can provide itself.

I've discussed the fact that USDA says that only 65 percent of eligible people actually received food stamps in the latest study. But California does worse. That same study said only 50 percent of eligible Californians get food stamps. That ranked California 49th in the nation (among the 50 states plus D.C.) – third from the bottom. (Among our big cities, by the way, San Diego's performance is particularly appalling, ranking worst in one study of 24 urban areas across the country.)

When it came to the sub-group of working poor families, California did even worse in the USDA study. Nationally, only 57 percent of eligible people in working families got food stamps. In California it was 34 percent. California ranked 50th in the nation on this measure. The good news is we beat out Colorado. The bad news is we were beaten by every other state plus D.C.

If, in the year of these data, California had only reached the national average (65 percent participation), an additional nearly 1 ¼ million people in our state would have gotten food stamps, bringing well over \$1 billion/year in federal funds. If we had done as well as our nearest neighbor, Oregon (86 percent), nearly 3 million additional people in California would have gotten benefits, providing them more than \$3 billion/year in federal food stamp help. By comparison, the Farm Bill, as important as it is, would, according to the Center on Budget and Policy Priorities, will bring California \$35 million in additional federal nutrition funds in FY 2009 and \$589 million over the next 10 years. We can't afford to forego \$3 billion – or \$1 billion – in available federal funds because of our own inaction.

And it's not just food stamps. According to the Food Research and Action Center data, California ranks 35th in the country in reaching low-income students with school breakfast. Nationally, states reached 45.3 children with free and reduced-price breakfast for every 100 they reached with lunch in the 2006-2007 school year. In California it was 40.7 per 100. If California were doing as well as the best performing states, more than 400,000 additional low-income children would be getting school breakfast every day.

So, low-income Californians are suffering terribly from the state's under-performance. But this is doubly self-destructive because these programs are essentially 100 percent federally-funded.

In other words, the legal and programmatic structure of these federal programs allows states, cities, schools and non-profits to add eligible low-income people to coverage without any new federal legislation. The programs can be grown through state outreach, changes in policies and practices, better access in local offices, and similar work. Benefits in the programs are 100 percent federally-funded (state matching funds are not generally required), so California and our counties and cities can act to enroll more people, so long as they fit within the parameters of federal law, without fear of the cost to our own treasury, especially important in these hard economic times. While the state does have to pay roughly half of the administrative cost in food stamps, one study by the legislature's budget staff showed this cost was more than offset by gains in state revenues as added food stamp recipients could afford not only more food but more purchases subject to the sales tax.

California is way behind not only other states but a conservative federal government on this. USDA has developed materials that make the "Business Case for Increasing Food Stamp Program Participation." According to USDA's Business Case, while food stamps provide federal nutrition dollars for individual households, those benefits in turn have a positive ripple effect for the local community and the state. USDA reports that:

- Every \$5 in new food stamp benefits generates \$9.20 in total community economic activity.
- Every additional dollar's worth of food stamp benefits generates 17 to 47 cents of new spending on food.
- On average, \$1 billion of retail food demand by food stamp recipients generates 3,300 farm jobs.

We have come a long way in this country in the 40 years since a CBS documentary on Hunger in America first roused the nation to the issue of hunger. With the federal government leading the way, we have eliminated much of the most serious malnutrition. But we still have a serious hunger and food insecurity problem in this nation and in our state. Rapidly rising food prices, particularly if they continue (as expected) over several years, will push us back in the wrong direction, unless we quickly find ways to protect low-income people against the consequences. Congress can help. But we can do even more if we act responsibly here.