Food Stamp Subsidy or Lump Sum Cash Grant

Is it better to receive a lump sum cash grant or a food stamp subsidy? It depends on whom you ask. Politicians on Capitol Hill will debate normative analysis of this question, while economists in their graduate programs will answer this question with positive analysis. In my analysis of this question, I will discuss which is ultimately better for the consumer, while shedding some light on the food stamp program.

Let us first examine if some recipients of food stamps are equally satisfied receiving a subsidy as they would be receiving the same amount as a lump sum cash grant? In Fig A, the consumer receives $200 in food stamps a month. Let us assume the consumer’s income is $1,000 dollars a month and the per-unit price of food \((P_f)\) is $5.

When the consumer’s budget line is constrained to AZ, the consumer will consume 60 units of food ($300), and spends $700 on all other goods (AOG’s). This point, market basket \(W\), yields the consumer the greatest utility to the consumer, as it is tangent to indifference curve \(U_1\).

When the consumer receives the food subsidy, their budget line shifts AA’ or $200 to the right. The new budget line AA'Z allows the consumer to consume 40 units of food ($200) before they spend any of their own income on food. The new budget line is kinked at point A'.
as the consumer has to spend the food stamps solely on food. A market basket at point $A^1$ is the maximum a consumer can spend AOG’s, as the $A^2A^1$ portion of the budget line is unavailable to the consumer to spend AOG’s.

Given the new budget constraints, the consumer chooses market basket $W^1$, which provides the consumer the highest utility. This market basket consists of 80 units of food ($400) allowing the consumer to spend $800 on AOG’s. If the consumer was given a lump sum cash grant, they still would have chosen market basket $W^{II}$, as it yields the greatest satisfaction to the consumer. This consumer is as well off as they would have been receiving a lump sum cash grant.

Does this mean every consumer is as well off receiving a food stamp subsidy as a lump sum cash transfer? The answer is no. Some consumers spend less money on food and more money on AOG’s. They would choose market basket $D$ between $A^1A^1$, which is unavailable under the current food stamp subsidy. This consumer would end up choosing a market basket at $A^1$, allowing them to spend $1,000 on AOG’s, since it yields them the most utility under the budget constraint line $AA/Z$.

Now we know some consumers are equally satisfied under a food stamp subsidy, while all consumers are actually better off with a lump sum cash grant. Why not change the program to a lump sum cash grant? I believe there are two reasons.

The first reason involves politicians deciding what is best for society as a whole. Politicians believe if a lump sum cash grant was given, instead of food stamps, some people would use the cash for alcohol and drugs rather than food. While this is a possibility, recipients
still can purchase alcohol and drugs with food stamps through the use of a black market. If a lump sum cash transfer was given instead, the government would save money by not printing and redeeming food stamps, and all participants in the program would be better off.

The second reason involves the origins of the food stamp program which is under the Department of Agriculture. Food stamps were originally not just used to prevent hunger, but also to help subsidize agriculture. This is clearly seen in the purchase requirements required before 1979, in which food stamp recipients had to pay $50 to purchase $150 worth of food stamps.

To understand this more clearly, let us look at how a repurchase requirement affects a consumer. Looking at Figure B., we see the consumer’s pre-subsidy budget line of $AZ$, with the consumer choosing market basket $W$, as it yields them the greatest satisfaction. This market basket consists of food consumption $F_1$, with $A_2$ available to purchase AOG’s.

If the consumer receives food stamps, they are required to spend $50, shown in Figure B from $A$ to $A_2$. Once they pay the $50, the food stamp subsidy shifts the budget line to $A_2A'_2$. The line is kinked at $A'_1$, as the consumer is only able to spend $150 in food stamps on food. The consumer is able to spend the rest of his income shown on the $A_2A'_2$ portion of the budget line on AOG’s or on food. A market basket at point $A'_1$ is the maximum a consumer can spend AOG’s, as the $A'_1A'_1$ portion of the new budget line is unavailable to the consumer to spend AOG’s.

With the food stamp subsidy the consumer in Fig. B chooses market basket $A'_1$. This market basket consists of the minimum food ($F_2$) he can buy, as the consumer chooses to spend
the rest of his money on AOG’s ($A_2$). If not for the repurchase requirement, the consumer would choose market basket $W_1$, as it yields a higher satisfaction than market basket $A_1$. A repurchase requirement forces the recipient to consume more food than the current food stamp subsidy. Politicians have a win-win situation, as food stamp recipients have food to eat and farmers are able to sell more crops.

Back to our original question: is it better to receive a lump sum cash grant or a food stamp subsidy? According to a politician’s value judgment, a subsidy is better for society as a whole. It helps subsidize agriculture, while forcing a recipient to buy more food. As an economic major using positive analysis, a food stamp recipient is always better off receiving a lump sum cash grant, as it gives them the choice to buy food or spend it on any good of their choice.