

The Role of Food Stamps in Stabilizing Income and Consumption

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The Food Stamp

Program provides assistance to households with incomes and assets below fixed thresholds. Although it is the largest entitlement program in the social safety net, little is known about the effect of food stamps on stabilizing fluctuations in household income and consumption. To

estimate the volatility of income and the attendant reduction in volatility due to food stamps, we used data from the Panel Study of Income Dynamics from 1980-99 with a model of income that admits permanent and transitory components as well as random growth rate heterogeneity. We then specified a model that related income changes to consumption changes that is used in a variance decomposition. This decomposition highlights the role of food stamps in stabilizing food and nondurable consumption volatility. We estimated the income and consumption models across a host of samples ranging from all families to only those below the gross income or liquid assets threshold.

Across all families, food stamps reduced income volatility by about 3 percent and consumption volatility by about 4 percent, but this stabilizing role is a much more pronounced 12 and 14 percent, respectively, among families with high probabilities of food stamp participation. Despite the positive role of the Food Stamp Program in smoothing income and consumption shocks, there was a marked decline of nearly two-thirds in the effectiveness of the program in the early 1990s relative to the 1980s. This stabilizing role had improved only modestly by the end of the 1990s.

(The article is located in the journal at <http://www.ssc.wisc.edu/lirp/focus/foc222.pdf>.)

