

# Research Department Federal Reserve Bank of San Francisco

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## The Food Stamp Factory

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"I remember when the food-stamp program began here. There'd be an envelope and the bank employees would all gather round and take a look and say: 'So those are food stamps.' Then one person would spend a couple of days a month working on processing the stamps."

That was the way it was, according to the officer in charge of food-stamp processing at the Federal Reserve Bank of San Francisco. But no more. Practically every major county has many more people enrolled in the food-stamp program than the entire nation did when the plan began in 1961. One out of every fourteen Americans is benefiting from the food-stamp program, and more needy people enroll in the plan every month. In dollar volume, the program is expanding sharply because of the semi-annual cost-of-living adjustments mandated under terms of the 1973 farm legislation.

So from a relative handful of stamps that benefited 50,000 impoverished Americans when the original pilot program was unveiled 13 years ago, food stamps have boomed into a billion-dollar business. By mid-1975, under present budget plans, 15.8 million Americans will be receiving stamps valued at \$7.2 billion. Along with this expansion, of necessity, has grown the massive machinery that must operate at rapid speed to process the estimated 250 million food stamps cashed in each month.

Without super-efficiency, the food-stamp program could bog down, with dire effects for those millions of people who count on the program to help them lead healthy and productive lives. Yet, as the program expands, the commercial banks and the Federal Reserve System must deal with an increasingly huge mountain of paper. For they are the prime agents—the "food-stamp factory"—that disburse, collect, verify and dispose of millions of food stamps.

### **How stamps work**

Under the food-stamp program a household pays a certain amount for an allotment of food coupons having a greater monetary value. The amount a household pays is determined by the size of the household and its income after certain deductions have been allowed. For instance, families with no income get stamps free. A family of four with income of \$450 pays \$118 for \$150 worth of stamps. The average recipient pays for about 55 percent of the total value of food stamps received. Stamps may be redeemed for food, or plants and seeds to grow food, and in Alaska even hunting and fishing equipment. Certain items such as alcoholic beverages and tobacco are excluded.

In cooperation with the Food and Nutrition Service of the U.S. Department of Agriculture, state and local welfare agencies organize the program on a county-by-county basis.

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Food retailers and certain meal services are authorized to accept and redeem coupons. The Food Nutrition Service approves all outlets that may distribute the stamps to participants, while welfare agencies certify those who qualify for food stamps.

We may gain an idea of the immensity of the stamp-handling system when we realize that about 80 percent of the banks in the San Francisco Federal Reserve District accept food stamps. This means that almost 5,000 banks and branches in the nine-state area are involved in the plan. By next month, an estimated 2 million persons will be enrolled in the food-stamp program in this District. Already, last year, the San Francisco Fed processed 325 million stamps valued at over \$600 million.

With 1.3 million already participating, California leads the nation in food-stamp activity. This amounts to one Californian out of every 14—and in San Francisco, one out of eight. These poverty-level Californians in a typical month receive 73 million food stamps valued at over \$40 million. While other Western states fall far below California, the involvement is still considerable. There are 262,000 enrolled in Washington and smaller numbers in other states.

## **Stamps and the banks**

About 180,000 retailers and meal services accept stamps and redeem them through the commercial-

banking system. The process for banks is time-consuming and burdensome. Before accepting any coupon for redemption, each bank is required to confirm that the back of the coupon shows either the authorization number or the name of the authorized dealer or wholesale-food concern. Food coupons must also bear the cancellation of the first bank receiving them, marked "Paid" or "Cancelled", together with bank name and identification number. Stamps cannot be endorsed with the bank's normal endorsement for checks or cancelled by perforation. Banks do not get reimbursed for any of this activity, despite the obvious cost in man-hours alone.

The Federal Reserve, in its capacity as Fiscal Agent for the United States, got into the food-stamp business at the very beginning of the program. Food stamps are treated as cash, so that security precautions are stringent, and the Fed's expenses thus reflect the exacting procedures built into the operations.

Food stamps come to the Fed through the commercial-banking system already sorted by denomination into 50 cent, \$2 and \$5 items. At the Fed these bundles must be both package and piece counted. (Every bundle has 10 packages of 100 stamps each.) Each stamp must be cancelled with a mark showing the name and number of the Fed office or branch. Throughout the process, rigorous multiple-custody procedures are followed, including

five separate verifications of the amounts of stamps. Finally the stamps are destroyed—again under careful guard.

The cost of this custodial care comes high, especially since stamps are used once and then destroyed—unlike currency, which can be used over and over for an average of 18 months and often much longer. For the Federal Reserve System as a whole, the cost of stamp operations may reach \$3½ million this year.

The operations at the San Francisco office—one of five Fed offices for the Western states—illustrates the nature of the process. A staff of 16 is assigned to food stamps at this installation, to handle the stamps deposited by some 200 commercial banks and branches. But the workload keeps rising every day, so that stamp volume now averages about 550,000 daily. Last year the San Francisco office verified over 113 million stamps valued at \$212 million.

### **What are the options?**

For a system as involved and expensive as the food-stamp program, there are understandably widely divergent points of view concerning its cost-effectiveness and utility. No one disputes the need to alleviate the hunger and desperation that are the lot of Americans with poverty-level incomes. (Only last month, a Senate committee on nutrition heard reports that a third of the pet food sold in city slums is eaten by

humans.) There are disagreements, however, over the best and most efficient way to meet these needs. And the pinch has been aggravated by the severe inflation that has squeezed all Americans, since sharp price increases are now ballooning the costs of the food-stamp program. The stamp allocation for a family of four now stands at \$150 a month, compared with \$120 just a year ago.

However, there is one possible alternative to food stamps. The Administration has proposed making direct cash payments to needy persons in amounts equal to the bonus value of the food stamps they would have received. The plan would allow each state the option of continuing the present program or going the cash route. This would signal, if not the end to food stamps, then certainly a decided slowdown. The argument here is that direct payments would restore dignity and responsibility to recipients and provide them with a greater choice over their spending.

Despite these factors, the continued existence of the food-stamp program seems assured in view of the overwhelming need for a helping hand for the millions of Americans below the poverty line. Meanwhile the stamp factory—the commercial banks and the Federal Reserve System—is gearing up to meet the continued avalanche of stamps resulting from the constant expansion of the program.

**Ron Getz**

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**BANKING DATA—TWELFTH FEDERAL RESERVE DISTRICT**  
 (Dollar amounts in millions)

Selected Assets and Liabilities Large Commercial Banks	Amount Outstanding 6/26/74	Change from 6/19/74	Change from year ago	
			Dollar	Percent
Loans (gross) adjusted and investments*	83,584	+ 461	+9,429	+ 12.72
Loans gross adjusted—	65,530	+ 568	+9,001	+ 15.92
Securities loans	1,287	+ 93	+ 58	+ 4.72
Commercial and industrial	23,317	+ 146	+3,165	+ 15.71
Real estate	19,454	+ 80	+2,839	+ 17.09
Consumer instalment	9,348	+ 28	+ 838	+ 9.85
U.S. Treasury securities	5,074	- 58	- 807	- 13.72
Other Securities	12,980	- 49	+1,235	+ 10.52
Deposits (less cash items)—total*	79,060	+ 261	+7,238	+ 10.08
Demand deposits adjusted	21,752	+ 112	+ 618	+ 2.92
U.S. Government deposits	1,037	+ 67	- 16	- 1.52
Time deposits—total*	54,838	+ 211	+6,252	+ 12.87
Savings	17,919	+ 84	- 300	- 1.65
Other time I.P.C.	27,417	+ 265	+6,778	+ 32.84
State and political subdivisions (Large negotiable CD's)	6,658	- 153	- 382	- 5.43
(Large negotiable CD's)	14,189	+ 274	+4,522	+ 46.78
<b>Weekly Averages of Daily Figures</b>	<b>Week ended 6/26/74</b>	<b>Week ended 6/19/74</b>	<b>Comparable year-ago period</b>	
<b>Member Bank Reserve Position</b>				
Excess Reserves	78	- 21		76
Borrowings	259	141		186
Net free (+) / Net borrowed (-)	- 181	- 162		-111
<b>Federal Funds—Seven Large Banks</b>				
Interbank Federal funds transactions				
Net purchases (+) / Net sales (-)	+1,163	+1,607		+808
Transactions: U.S. securities dealers				
Net loans (+) / Net borrowings (-)	- 167	+ 496		+169

\*Includes items not shown separately.

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