

Commentary: Give people food stamps and what do they do? Buy food.

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Noah Smith/Bloomberg View

For years, opponents of food stamps — or the Supplemental Nutrition Assistance Program, as it's now called — have claimed that the program is just a cash giveaway. Some worry that people will sell their food stamps for cash, and use that cash to buy alcohol, drugs or other things that the government doesn't want to subsidize. That's actually very rare. But there's an easier way to turn food stamps into cash — just take the cash you otherwise would have spent on food, and use it for something else. No fraud involved.

Economists refer to this as the fungibility of targeted benefits. In a standard, fully rational economic model, all of a person's income — wages, government benefits, etc. — goes into a single pot, and then they decide what to do with it. Since they can easily shift money from item to item, if you try to get them to buy more food you may end up actually paying for them to buy more alcohol. This is why even some on the left have urged the government to scrap SNAP and just give cash.

So it will probably come as a shock to many economists and pundits that people tend to spend food stamp money on ... food. Several recent papers show that when people get more SNAP benefits, they tend to spend a lot more on food than if they had just received cash.

The first of these papers, by economists Justine Hastings and Jesse Shapiro, tracks regular customers at a grocery store in Rhode Island, and watches how they spend. The authors look at increases in SNAP benefits, and measure how food consumption responds. They also look at how spending changes when households cross the eligibility threshold for SNAP, and also when the benefits run out. In all three cases, they find the same thing — 50 cents to 60 cents out of every additional dollar of benefits gets spent on food. This stands in stark contrast to changes in cash income — when people get cash benefits, they spend only about 10 cents out of every dollar on food. SNAP benefits are partially fungible — people are shifting some money toward other things, just not nearly as much as textbook economic theory would predict.

A second paper, by Harvard's Gregory Bruich, looks at about 400 different stores, and 2.5 million households on SNAP. His findings are more modest than Hastings and Shapiro's — he estimates that each additional food stamp dollar translates to about 30 cents more of food spending. But that's still more than people would spend if they had just gotten cash.

These papers are the kind of direct, detailed empirical economics research that was very difficult in the past, but — thanks to information technology — is redefining the discipline, and overturning many of economists' long-cherished assumptions. Putting all your income into a single pile, and then spending out of that pile, is the rational thing to do. But it turns out that most human beings aren't rational — at least, not in this regard.

So what are people thinking? As in many cases, new data is forcing economists to consider behavioral theories. Hastings and Shapiro suggest that people are using so-called mental

accounting, meaning that they think separately about different sources of income, or different assets they own, or different decisions they make. Instead of making a bunch of decisions all at once, they make them piecemeal. Mental accounting isn't the economically efficient thing to do, but it probably saves time and effort on decision-making.

Mental accounting could explain all sorts of weird but important phenomena in the economic world. It might be the reason state leaders tend to spend lump-sum grants from the federal government on whatever the feds tell them to spend it on — a behavior known as the flypaper effect. It could explain why people tend to save their salaries but spend their bonuses.

It could even help us understand why investors seem to care so much about what happens to their individual stocks. Do you ever find yourself tearing your hair out when one of your stocks takes a loss, even if your whole portfolio is up for the year? You might be getting carried away with mental accounting.

Lots of economists will be uneasy about policies that take advantage of mental accounting. If we give people food stamps and they use them to buy more food instead of using them to buy whatever they want, are we somehow tricking them? Should we avoid doing anything that encourages irrational behavior? Is it paternalism, or an infringement of liberty, to use food stamps to encourage poor people to buy more food?

No one has a definitive answer to that question, but I doubt that most non-economists are going to lose sleep over the fact that people are using their food stamps to buy food. The behavior may not be perfectly rational, but that doesn't make it wrong. Go ahead and give food stamps to people.

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