

Should Consumer Subsidies Be More Flexible? A Structural Analysis and Case Study of the Food Stamps Program

Abstract: Many government funded welfare programs provide its recipients in-kind transfers which are subject to different spending restrictions. What would be the consequences if benefits from such programs are replaced with more flexible benefits or simple cash benefits? In the context of SNAP (commonly known as the Food Stamps Program), we analyze the effect of SNAP benefits from the perspective of recipients (who care about overall consumer welfare) and the policymaker (who prefers that funds are used to buy food). To simulate consumer behavior under different benefit systems, we develop a structural model of consumer demand which integrates consumer decisions for brands, categories, and stores. Our main finding is that expanding food stamp benefits to include household goods would be preferred by both benefit recipients and the policymaker. The mechanism driving this result is that flexible benefits give access to a wider selection of items which provides greater incentives to visit stores. In addition, we quantify trade-offs between different benefit designs and also study the effect of banning benefit use on sweetened soda. Finally, our model of brand, category and store choice makes a technical contribution that could be interesting beyond the application considered in this paper.

Keywords: structural modeling, supermarket demand, food policy.