Overview of Presentation/Discussion

- A Few Words on the Word ‘Policy’
- Rationale for Public Policy Attention
- The Broad Array of Alternative Policy Actions
- Deciding on Public Policy Action
- An Economist’s View of Food Stamps
- Possible Changes to the FSP to Address Obesity
- Questions from You

What Do We Mean by “Policy”?

- Objectives (e.g.)
  - Meet Kyoto objectives versus an alternative set
  - Restore native vegetation versus increase biodiversity
  - Reduce calorie undernutrition versus improve diet quality versus reduce vitamin A deficiencies

- Instruments
  - Available to meet policy objectives
    • Changing relative prices/incentives versus changing disposable income

- Implementation/Action
  - Policy action using specific instruments

- Impact
  - Timing, size, side effects

Policy Instruments

- Usual Suspects
  - Price policy, income policy, asset taxation, service provision, regulations, investments, management of public assets, etc.

- Truly Available Tools
  - Incomplete services
  - Limited regulations
  - Investments
    • roads, communication, schools, health posts, post-harvest processing
    • Human resources

Rationale for Public Policy Attention

- Natural Monopolies
- Externalities
  - Environmental and other
- Public Goods
  - Street lights, etc.
- Asymmetric Information and Incomplete Markets
  - Complementary markets
  - Risk Aversion
  - Cost of capital
  - Project size
- Poverty Reduction
- Merit Goods

Obesity Trends* Among U.S. Adults

BRFSS, 1986

(*BMI ≥ 30, or ~ 30 lbs. overweight for 5’ 4” person)
Obesity Trends* Among U.S. Adults
BRFSS, 1996

Vosti et al., UCD/AIC/ARE

(*BMI ≥ 30, or ~ 30 lbs. overweight for 5’ 4” person)

No Data           <10%          10%–14% 15%–19%           20%–24%          25%–29%          ≥ 30%

Source: Behavioral Risk Factor Surveillance System, CDC.

Obesity Trends* Among U.S. Adults
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Source: Behavioral Risk Factor Surveillance System, CDC.

Trends Among U.S. Children and Adolescents Are Also Troubling

Medical Costs of Overweight and Obesity

<table>
<thead>
<tr>
<th>Medical Costs, by Insurance Category</th>
<th>Overweight and Obesity</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998 US $</td>
<td></td>
</tr>
<tr>
<td>Out-of-pocket</td>
<td>Overweight 12.8 Obesity 6.9</td>
</tr>
<tr>
<td>Private</td>
<td>16.1</td>
</tr>
<tr>
<td>Medicaid</td>
<td>10.7</td>
</tr>
<tr>
<td>Medicare</td>
<td>13.8</td>
</tr>
<tr>
<td>Total</td>
<td>47.5</td>
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</tbody>
</table>

Morbidity and Mortality Effects Are Large and Increasing

Gregg and Guralnik (JAMA, 2007, Vol 298, No. 17)

Have Some Agricultural Policies Contributed to the Problem?

• There Is an Increasing Imbalance between Caloric Intake and Caloric Expenditure
• Are Certain High-Calorie Foods Made Significantly Cheap by Particular Agricultural Policies?
  – If so, which foods, and which policies are responsible?
  – If these policies were changed, what would be the implications for food prices, and perhaps nutrition outcomes?

Types and Magnitudes of U.S. Agricultural Policy Outlays

<table>
<thead>
<tr>
<th>USDA Program</th>
<th>Outlays in 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food, Nutrition, and Consumer Services</td>
<td>52.8</td>
</tr>
<tr>
<td>Farm and Foreign Agricultural Services (mainly farm commodity programs)</td>
<td>26.1</td>
</tr>
<tr>
<td>Natural Resources and Environment</td>
<td>8.7</td>
</tr>
<tr>
<td>Marketing and Regulatory Programs</td>
<td>2.7</td>
</tr>
<tr>
<td>Research, Education and Economics (mainly ag. R&amp;D)</td>
<td>2.6</td>
</tr>
<tr>
<td>Rural Development</td>
<td>2.8</td>
</tr>
<tr>
<td>Food Safety</td>
<td>8.6</td>
</tr>
<tr>
<td>Other</td>
<td>6.6</td>
</tr>
<tr>
<td>TOTAL</td>
<td>96.1</td>
</tr>
</tbody>
</table>

Source: USDA FY 2008 Budget
Food Availability

- Economic Determinants of Food Availability
  - Resources available -- income & time
  - Product options
  - Relative prices

Public Policy Instruments for Changing Food Choices

- Change Incomes
  - Targeted groups
  - Poor, children -- WIC
  - Special currencies
    - Poor -- Food Stamp Program

- Change Relative Prices
  - Tax ‘fat foods’
  - Make ‘healthy foods’ cheaper

- Change Product Options
  - E.g., allowable foods for the Food Stamp Program

- Change Food Preferences
  - Revised USDA Pyramid and other ad campaigns

  No Policy Action Is Costless
  - Some are more effective and more cost effective than others

The Food Stamp Program

- Established in 1930s to
  - Stimulate consumption of surplus farm commodities
  - Provide additional calories to the food poor

- Eligible households: income < 130% of poverty line

- 50 % of eligible individuals have participated

- 26 million participants (from ~11 m. households) in 2005
  - 50 % children under 17, 17 % elderly, 23 % disabled non-elderly
  - 46 % in households headed by white adults

- FSP spent $31 billion in 2005
  - $ 93 per participant per month
  - $200 per participating household per month
  - $300 per household per month for families with children

Effects of Food Stamp Program

- Trade-Offs Acceptable to Consumer B

  - Non-Food

  - Food

Proposed Modifications to FSP

- Eliminate
  - White bread, cookies, cakes, muffins
  - Cream, cream cheese, whole milk, cheese
  - Fruit juice drinks, soft drinks, punch, sport drinks
  - Most mixed prepared foods (pizza, frozen dinners)
  - Savory snacks, sweet snacks
  - Breaded and fried fish
  - Fattier cuts of meat

- Keep
  - Wholegrain bread, pasta, hot and cold cereals
  - Milk < 2% fat, cottage cheese, yogurts
  - All forms of fruit and veg., 100% fruit and veg. juice
  - Mixed prepared foods meeting dietary guidelines
  - All beans and legumes, peanut butter
  - Fresh, frozen, canned fish
  - Low fat cuts of meat, eggs
Faced With Identical Incomes and Relative Prices, Food Choices Can Differ Greatly

FSP Changes May Not Be Sufficient To Move Consumer B to Consumer A's Diet

Budget Line

'Healthy Foods'

Consumer A

Healthy Food

Budget Line

'Unhealthy Foods'

Consumer B

Unhealthy Food

Main Points

- Restriction of food stamps to only healthy foods may have unintended consequences
  - If constraint is not binding (because “healthy” food expenditure exceeds food stamp value) no effect
  - If constraint is binding . . .
    - Reduced participation by some eligible households
    - Reduced consumption of “unhealthy” foods by some FSP households => induced price changes and increased consumption of “unhealthy” foods by non-participants

- Targets and instruments
  - Use food stamps to provide food for the poor
  - Use other policies to encourage a healthy diet