How Are SNAP Benefits Spent?
Evidence From a Retail Panel

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A new study by Justine Hastings and Jesse Shapiro of Brown University and the Rhode Island Innovative Policy Lab (RIIPL) finds that (1) every $100 in SNAP benefits leads to between $50 and $60 extra dollars of food spending each month; (2) an equivalent amount of cash benefits would lead to much smaller increases in food spending; (3) receipt of SNAP benefits makes households less likely to buy store brands or redeem discount coupons on SNAP-eligible food products; and (4) SNAP has a larger effect on food spending than traditional economic models would predict.

BACKGROUND

The Supplemental Nutrition Assistance Program (SNAP, formerly known as the Food Stamp Program) is the second largest means-tested program in the United States after Medicaid, with almost one in five[1] American households receiving an average monthly benefit of $256 in 2015. This benefit is available via an Electronic Benefit Transfer (EBT) card, a payment method similar to a debit card that can be used to buy groceries at eligible retailers.

In 1964, President Johnson declared the Food Stamp Program would "enable low-income families to increase their food expenditures" (Johnson 1964). The USDA has said that SNAP "raises food expenditures" and helps "to put food on the table."

Whether SNAP benefits lead to large increases in food spending is a matter of some debate. Many SNAP recipients spend more on groceries than they receive in benefits. A household with, say, $300 a month in grocery expenses and a $200 SNAP benefit could use SNAP to free up $200 of cash that would otherwise have to be spent on groceries. In this scenario, SNAP works just like a $200 cash benefit. This is what many economic models predict. There have been many tests of this prediction, with some finding that the model holds and others finding that it does not. Whether SNAP has large effects on food spending is important for understanding its effects on the economy and on the lives of recipients.

Hastings and Shapiro's study brings new data to bear on this question. They use novel anonymized data from a grocery retailer consisting of detailed records on over 500 million transactions by nearly half a million households over more than six

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years. The data include information on mode of payment, including EBT, allowing the researchers to study the effect of transitions on and off of SNAP. The researchers couple their analysis of the retail data with analysis of anonymized data from Rhode Island state agencies to paint a broader picture of the experiences of SNAP recipients.

FINDINGS

Households in this study who receive SNAP get approximately $200 per month in benefits. In their first few months in the program, those households increase their spending in SNAP-eligible food products by approximately $110. This means that SNAP benefits raise food spending by between 50-60% of the benefit’s value. This is not caused by SNAP awarding families more grocery money than they need. Some 93% of families in the study pay out-of-pocket for groceries over-and-above their SNAP grocery purchases.

The study finds that SNAP has a much larger effect on food spending than would an equivalent cash benefit. The authors argue that a cash benefit of $200 per month would raise food spending by less than $20, or 10% of the subsidy value.

Hastings and Shapiro then consider possible reasons for these findings, including that households may engage in mental accounting, treating SNAP benefits as earmarked for food. Past work by the researchers shows evidence of mental accounting at the gas pump, and other work shows that mental accounting is important in households’ response to labeled government benefits. The new study shows that access to SNAP causes households to buy significantly fewer store-brand products and to redeem fewer coupons, especially for products eligible for SNAP, possibly because SNAP enlarges households’ mental food budgets.

CONCLUSION

The study shows that SNAP has a large effect on food spending, beyond what would be expected from equivalent cash benefits. It also changes how households shop for bargains. This may indicate an important role for consumer psychology in understanding the effects of the program. And it means that SNAP likely has a much larger economic effect than many traditional economic models would predict.

[1] There were 22,388,684 participating households in fiscal 2015 and 116,926,305 households in the US on average from 2011-2015.

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