Tracing the Impacts of Food Assistance Programs on Agriculture and Consumers

A Computable General Equilibrium Model

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Abstract

Changes in food assistance policy can have impacts on economic activity and household income across the economy. Using a Computable General Equilibrium model focusing on food assistance, we found that both a hypothetical cut in food stamp benefits and a hypothetical cash-out of the Food Stamp Program led to reductions in food demand and farm production. In addition, this hypothetical cut in food stamp benefits resulted in a decline in transfer income for low-income households that was not compensated for by increased labor income. The cash-out triggered general equilibrium effects that led to higher taxes and reductions in labor income, chiefly for high-income households. The Food Assistance Computable General Equilibrium model includes modeling innovations that make it particularly useful for investigating the potential economic impact of changes in food assistance policy. These innovations include allowing household consumption patterns to vary by income and food stamp benefits, letting labor supply and demand vary by skill level and occupation, and using considerable industry detail for key agricultural and food processing sectors.

Keywords: General equilibrium analysis, computable general equilibrium model, food stamps, food stamp cash-out, food assistance policy, agricultural linkages.

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