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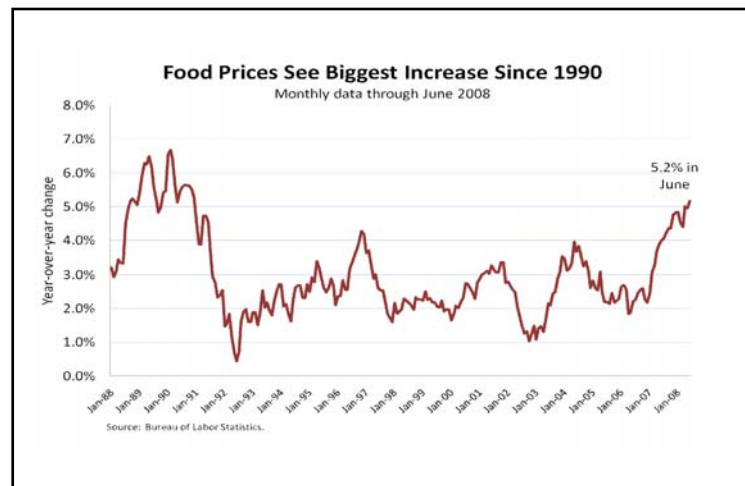
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Impact of Rising Food Prices on U.S. and Family Budgets

On July 30th, the House Budget Committee held a hearing titled “Rising Food Prices: Budget Challenges” to explore the effect that the high cost of food is having on federal programs that purchase food, as well as on family budgets. The hearing also put the food price spike in the context of our other economic challenges, including rising inflation, stagnant wages, and ongoing job losses. The witnesses recommended a temporary increase in food stamp benefits to mitigate those challenges. The Committee heard testimony from Josette Sheeran of the United Nations World Food Programme, Jared Bernstein of the Economic Policy Institute, Susan Berkowitz of the South Carolina Appleseed Legal Justice Center, and Steve H. Hanke of the Cato Institute. Below are some highlights from the hearing.

The United States and other countries around the world are experiencing the biggest spike in food prices in 18 years. World market prices for major food commodities such as grains and vegetable oils have risen more than 60 percent above levels just two years ago. Inflation, driven largely by food and energy costs, rose at 4.2 percent over the past year, with an increase of 5.6 percent for groceries (food purchased specifically for at-home consumption). A year ago, those inflation rates were 2.8 percent and 4.2 percent, respectively.



Food assistance programs for Americans are having trouble keeping up with demand, and their needs may stress future federal budgets. In April, food stamp enrollment hit the second highest level on record, even though one out of three Americans eligible for assistance is not enrolled in the program. States are also concerned that they may have to deny nutritional benefits from the Women, Infants, and Children (WIC) program to eligible children and pregnant women as higher food prices reduce the number of people who can be served within their budgets. WIC has a strong track record of reducing infant mortality and improving child health.

Rising food prices are having harmful impacts internationally, including civil unrest. Josette Sheeran (World Food Programme) told the Committee that the food crisis has pushed some 130 million people into poverty, a figure reported by the U.S. Department of Agriculture. Most of this poverty is in Sub-Saharan Africa. Ms. Sheeran noted that the United States provides

more than half of the world's total food assistance but made the case for additional aid. She warned that the world's poorest one billion people, who live on less than \$1.00 a day, may become the world's "bottom two billion" as purchasing power is cut in half due to soaring food and fuel prices.

In the United States, a decline in real wages has made the food price spike particularly challenging, especially for lower income families. Because low-income families spend a greater share of their total income on food, faster food inflation hits them much harder than higher income families. Rising unemployment and poverty rates and stagnant or declining real wages have created a squeeze that makes it harder for families to maintain their standard of living. An hour's wage no longer buys as many groceries as it used to do.

How Much Commodity Does an Hour's Wage Buy? 2003 vs. 2008						
	Gas	Milk	Apples	Flour	Rice	Bread
2003	4.9 gal	2.9 gal	7.8 lbs	23.7 lbs	17.7 lbs	7.7 lbs
2008	2.4 gal	2.4 gal	7.1 lbs	17.0 lbs	13.1 lbs	6.5 lbs

Note: Data are from BLS and for the 2nd quarter of each year. Gas is unleaded gasoline.

The witnesses disagreed about some of the causes behind growth in food prices and the actions the U.S. should take in response. There was general agreement that increased energy cost and increased global demand are causes of food price growth, but disagreement about the importance of other factors. Steve Hanke (Cato Institute) argued the monetary policy of the Federal Reserve, particularly lowering of interest rates, coupled with a "massive, wild spending spree" by the Bush Administration and the resulting deficits, led to a weak dollar, which in turn drove commodity price increases. Jared Bernstein (Economic Policy Institute) countered that while interest rates and exchange rates might play a role in food prices, more concrete phenomena like droughts, rising demand in developing countries, diversion of grains and land into biofuel production, and hoarding by food producing nations have had much more direct effects. He also said that focusing exclusively on the dollar was a distraction from the urgent problems faced by food consumers and that raising interest rates would slow economic growth even further, worsening the current economic situation.

Two witnesses recommended a temporary increase in food stamp benefits to address rising prices and provide fast, effective economic stimulus. Moody's economy.com found that for every additional dollar spent on the food stamp program, real Gross Domestic Product (GDP) grows by \$1.73 -- the largest multiplier effect of any of the tax and spending options that Moody studied. The Congressional Budget Office and a number of academic researchers have noted that food stamp benefits are spent rapidly, providing a quick effect on the economy. Witnesses said that more food stamps are needed (although there was debate about whether this should be deficit-financed or not), since rapidly rising food prices mean the purchasing power of food stamps is declining, forcing more families to seek assistance at food pantries and other emergency sites.