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Elaine Waxman
Feeding America, Chicago

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THE COSTS AND IMPACTS OF RISING FOOD PRICES AMONG LOW-INCOME HOUSEHOLDS

*Elaine Waxman, Ph.D.**

I. INTRODUCTION

The pressure of rising food prices on low-income households is often assumed to be primarily an issue for developing economies, where fluctuations in food staple prices can have dramatic consequences for food security and social and political stability.¹ Observers often note that Americans benefit from relatively low food prices and spend far less to feed their families than their counterparts in many other parts of the world.² Indeed, the average American household spent 7.6% of their household expenditures on food purchases at home in 2009,³ while the comparable percentage exceeded 40% of household expenditures in diverse countries such as Mexico, Ukraine, and Indonesia.⁴ When contrasted to other

* Elaine Waxman, Ph.D. is Vice President of Research and Partnerships at Feeding America, where she also previously served as Director of Social Policy Research and Analysis. At Feeding America, Dr. Waxman oversaw the completion of *Hunger in America 2010*, the largest study ever conducted of emergency food assistance in the United States, and the *Map the Meal Gap* project, which provides the first county-level estimates of food insecurity. She has over 20 years of experience in social policy research and consulting. Dr. Waxman received her Ph.D. from the University of Chicago School of Social Service Administration, where her research focused on opportunity in lower-level jobs and the challenges facing lower-income working families.

1. *Floods in Thailand Add Further Uncertainty. Food Crisis in the Horn of Africa Continues*, THE WORLD BANK, 2 (Poverty Reduction and Equity Group, Nov. 2011), available at http://siteresources.worldbank.org/EXTPOVERTY/Resources/336991-1311966520397/FPW_Nov2011.pdf.

2. Christina Gregory & Alisha Coleman-Jensen, *Do Food Prices Affect Food Security for SNAP Households? Evidence From the CPS Matched to the Quarterly Food-at-Home Price Database*, ECON. RESEARCH SERVICE, U.S. DEP'T OF AGRIC., 2 (March 2012).

3. *Consumer Expenditures in 2009*, U.S. DEP'T OF LABOR AND U.S. BUREAU OF LABOR STATISTICS, Report 1029, 3 (May 2011), available at <http://www.bls.gov/cex/csxann09.pdf>. The Consumer Price Index is divided into two parts: Food at Home and Food Away from Home. The Food at Home trend is most relevant to retail prices.

4. *Statistical Abstract of the United States: 2012*, U.S. CENSUS BUREAU, at 853 (Washington, D.C. 2011). *The 1359. Percent of Household Final Consumption Expenditures Spent on Food, Alcohol, and Tobacco Consumed at Home by Selected*

American expenditures, such as housing costs (34.4% in 2009, according to the U.S. Bureau of Labor Statistics⁵), it is not surprising that food prices do not often emerge as a topic of concern. However, for families who routinely struggle to make ends meet, they must trade off which bills to pay each month to meet their basic needs. Recent episodes of food price inflation in the midst and aftermath of the Great Recession are particularly challenging for these families. An examination of families' desperate struggle to afford basic needs and to weather shifts in their purchasing power suggests that both the public and policymakers have hastily overlooked the impact food prices have on low-income families.

II. FOOD EXPENDITURES AND FOOD PRICES: RESEARCH ON LOW-INCOME HOUSEHOLDS

The average American household spends approximately 13% of household expenditures on food.⁶ Roughly 7.6% of food expenditures are spent on food prepared at home⁷ and approximately 5.3% of these expenditures are spent on food purchased away from home.⁸ However, the relative burden of food costs differs with household income. People in the highest quintile of income spend 11.4% of their expenditures on food, both at home and away from home, whereas those in the lowest quintile spend significantly more, 16.2%, of their expenditures on food.⁹ Shifts in retail prices are particularly important for food purchased for home consumption, and the lowest quintile of households pay almost double the percentage of their total household expenditures on food at home than the highest quintile (11.4% versus 6%).¹⁰

Research on food prices and its impact on low-income households have sometimes focused on a rather narrow definition of relative prices paid by lower and higher income households. A study conducted by Christian Broda used 2005 household-based scanning data from the Nielsen Company to compare price variations in food purchased by households in

Countries: 2009, <http://www.census.gov/compendia/statab/2012/tables/12s1359.pdf> (last visited Jan. 28, 2012).

5. U.S. DEP'T OF LABOR, *supra* note 3, at 1.

6. RANDY SCHNEPF & JOE RICHARDSON, CONG. RESEARCH SERV., R40545, CONSUMERS AND FOOD PRICE INFLATION at 7 (2011), available at <http://www.fas.org/sgp/crs/misc/R40545.pdf>.

7. *Id.* at 8.

8. *Id.*

9. *Id.* at 7.

10. *Id.* at 8.

multiple income categories.¹¹ The study found that there can be wide variation in food prices among stores and that having access to cheap stores can impact a household's real income.¹² However, the study argued that people, regardless of their household income, do not vary dramatically in their tendency to shop at lower-priced stores, such as supercenters.¹³ The study further concluded that low-income households do not pay more, and may even pay less, for food than higher-income households.¹⁴ Shawn Fremstad critiqued Broda's study, because the data analysis suggested that some proportion of very low-income households do pay modestly more in food prices.¹⁵ Further, the narrow analysis of cost in Broda's study does not account for other significant cost factors that may influence the actual cost of acquiring food, such as transportation to stores with better prices, time spent in careful comparison shopping, and costs associated with buying and storing in bulk to save money.¹⁶ Neither Broda nor Fremstad address the issue of whether poor households are able to buy enough food within their constraints, although Fremstad does allude to a food quality-price tradeoff that families may face. As families struggle to make ends meet, there may be a significant incentive to substitute cheaper, energy-dense calories in lieu of more expensive, nutrient-rich foods, which represents another "hidden" cost of food acquisition for low-income households.¹⁷

11. Christian Broda et al., *The Role of Prices in Measuring the Poor's Living Standards*, 23 J. ECON. PERSPECTIVES 77, 79 (2009), available at https://docs.google.com/viewer?a=v&q=cache:1rYlFnvLcy4J:pubs.acaweb.org/doi/pdfplus/10.1257/jep.23.2.77+&hl=en&gl=us&pid=bl&srcid=ADGEESj_6gjQrx102afU7dPbswL60Esl86YYDIDUYz4XRgMpVRwobVtV2nJrcCB1phLb4ScAYCGgKXxn8Y9dGDaWULxnCRNukmIP0zVrkLisuN6gWUQW0iUjxzQT2UVpQY2a60kNjfl9&sig=AHIEtbRF7P5bhReuEZ1ncCj3OXn5HkMlfw.

12. *Id.* at 80.

13. *Id.* at 82.

14. *Id.* at 96.

15. Shawn Fremstad, *Income, Inequality, and Food Prices: A Critique of Broda, Leibtag, and Weinstein's "The Role of Prices in Measuring the Poor's Living Standards,"* CTR FOR ECON. AND POL'Y RESEARCH, 13 (Washington, DC, 2010), available at https://docs.google.com/viewer?a=v&q=cache:Di9q4r0DTCUJ:www.cepr.net/documents/publications/poverty-2010-12.pdf+&hl=en&gl=us&pid=bl&srcid=ADGEESh9_GxfWbgU88gVCMCF5984Z7cWbmJnM9dxoH1bigCkk_phMpKM5_B_ZRRnhtasJMy14-Qz3nEujupfU9I3qy747lEteucCAjft2R-H8bS5NsU5yyKb_EzAHYLhYNhVX-6ibNr&sig=AHIEtbQNzZLhdJaaXXvOI9YrG0lurhIVHg.

16. *Id.*

17. Adam Brownowski & S.E. Specter, *Poverty and Obesity: The Role of Energy Density and Energy Costs*, 76 AM. J. CLINICAL NUTRITION 6, 10 (2004), available at <http://www.ajcn.org/content/79/1/6.full.pdf+html>.

Regardless of how food acquisition cost is defined, what is clear is that low-income families have little margin for error in managing their expenses and absorbing unexpected costs on an ongoing basis. Feeding America, the national network of more than 200 food banks that serve more than 61,000 agencies and help feed 37 million Americans (1 in 8), conducts a study of emergency feeding clients every four years to better understand the circumstances facing those seeking assistance from food pantries, kitchens and shelters.¹⁸ The most recent Hunger in America study, conducted on behalf of Feeding America by Mathematica Policy Research, Inc., surveyed more than 61,000 clients during the winter and spring of 2009 – deep in the midst of the Great Recession.¹⁹ Respondents were asked if they had been forced to choose between purchasing an adequate food supply and other household expenses during the 12 months prior to the interview.²⁰ Forty-six percent (46%) of clients reported trading off between food and utilities expenses, 40% between food and housing expenses (rent or mortgage) and approximately one-third had traded off purchases of food and transportation costs.²¹ Of particular concern were the approximately 34% that stated they had made trade-offs between food and medicine or medical care.²² Food-insecure households appear to be struggling with a Gordian knot that economists have not yet learned how to fully quantify. Food insecure household involve low-income populations who are at a higher risk for many chronic diseases related to diet, however, maintaining a consistent, healthy diet is important factor in managing these diseases, but food-insecurity erodes the ability to manage these diseases.²³

18. *Study: Food Assistance Shifts from “Emergency” to “Chronic,”* FEEDING AMERICA, <http://feedingamerica.org/press-room/press-releases/hungers-new-staple.aspx> (last visited Aug. 19, 2012).

19. James Mabli et. al, *Hunger In America 2010 National Report Prepared For Feeding America*, Mathematica Policy Research, Inc. Final Report, 26 (2010), available at http://www.mathematica-mpr.com/PDFs/Nutrition/Hunger_in_America_2010.pdf.

20. *Id.* at 167.

21. *Id.* at 2-3.

22. *Id.* at 3.

23. Hilary Seligman & Dean Schillinger, *Hunger and Socioeconomic Disparities in Chronic Disease*, 363 NEW EN. J. MED. 6, 8 (2010), available at https://docs.google.com/viewer?a=v&q=cache:L-clGbh7G34J:www.caldiabetes.org/get_file.cfm%3FcontentID%3D1249%26ContentFilesID%3D1296+&hl=en&gl=us&pid=bl&srcid=ADGEESjaApohmru2ffJoQs_uk4Cb0fk3—B5f8yx3fXjqBAqg8AZW01a1i8cbvG1TPyhTAyHxcUDYQMHyDnYIdEKz_OX99DN-Yq-5fhmr3_ibceNCshv9_CqXEqfXUI5_qcXU0x2ZdVa&sig=AHIEtbRAiEFKsplUVc_qdMkZNPXt1ArlbQ.

III. THE IMPACT OF VARIATION IN FOOD PRICES ON LOW-INCOME AND FOOD-INSECURE HOUSEHOLDS

Over the period 1991 to 2006, the average annual rate of food price inflation was 2.5% below the annual average Consumer Price Index (CPI) inflation rate of 2.7%.²⁴ However, just as the Great Recession began, a sudden spike in commodity prices in 2007 and 2008 challenged the conventional wisdom that American food would always be inexpensive. The flurry of headlines about the consumer impact of the commodity prices spiking faded somewhat as price pressures abated in late 2008. But after a short reprieve, prices began to rise again. By November 2011, prices for food at home had risen by 5.9% over the prior 12 months.²⁵ While past volatility in food prices was often attributed to short-term issues such as weather-related shortages, recent trends suggest that there may be a long-term upward shift in food costs due to global shifts in food and energy demands.²⁶ Thus, the issue of food prices may no longer be a matter of short-term shocks, but another ingredient in a “perfect storm” for those struggling to feed their families. Higher prices in the grocery aisles are intersecting with unprecedented long-term unemployment, a slow economic recovery, and increasing political appetite for reductions in safety net programs like the federal Supplemental Nutrition Assistance Program (SNAP, formerly known as food stamps) to erode the ability for many low-income families to meet basic needs. Not surprisingly, the extraordinary number of Americans who describe themselves as food-insecure (approximately 49 million) has remained largely unchanged since the onset of the recession.²⁷

A multitude of factors can create the economic pressures that lead to food insecurity, which is the inability to acquire enough food for all members of a household to maintain an active, healthy lifestyle.²⁸ Recent evidence suggests that changes in food prices may have an influence on the level of food insecurity in the United States.²⁹ Analyzing data from the Current Population Survey and the Quarterly At-Home Food Price Database for the period of 2002 to 2006, Christian Gregory and Alisha Coleman-Jensen found that a ten dollar increase (one standard deviation) in

24. *Id.* at 13.

25. U. S. DEP'T OF AGRIC., *supra* note 3, at 3.

26. Ronald Trostle et al., *Why Have Food Commodity Prices Risen Again?* ECON. RESEARCH SERVICE, DEP'T OF AGRIC., 9 (2011), available at <http://www.ers.usda.gov/Publications/WRS1103/WRS1103.pdf>.

27. Seligman, *supra* note 23, at 7.

28. Gregory, *supra* note 2, at 2.

29. *Id.* at 2.

the price of the Thrifty Food Plan (the market basket of foods upon which SNAP benefits are based) is associated with a significant positive increase of 2.4 percentage points in food insecurity and a 3.7 percentage points increase in child food security.³⁰ As a result of these marginal effects, the authors estimate that food insecurity prevalence may be increased by 8.4 percent for adults and 15.9 percent for children due to rising food costs.³¹ Nord examined a similar period of relatively modest food price inflation—from 2000 to 2007—and found that the cost of a Thrifty Food Plan (TFP) market basket upon which the SNAP program is based was already rising at a higher rate than general food prices in the Consumer Price Index prior to the price shocks in 2008.³² The TFP includes a mix of foods monitored for the purposes of SNAP benefits and represents a more healthful mix of foods than in all foods tracked in the CPI. During this same period, food security and consumer expenditures on food among lower-income households were already declining, even though this was a period of relatively stable economic conditions prior to the recession.³³

Geographic variations in food prices may limit the ability of low-income households to afford an adequate diet even when receiving assistance from federal nutrition programs since SNAP benefits and some benefits under the Supplemental Nutrition Program for Women, Infant and Children (WIC), a program for pregnant, breastfeeding and post-partum mothers and children under 5 at nutritional risk, are not adjusted for regional variation in price in the 48 contiguous states (Alaska and Hawaii do receive an adjustment). Research by Ephraim Leibtag and Aylin Kumcu found that the 20 most commonly purchased fruits and vegetables varied in price by 30% to 70% across multiple metropolitan markets. Their research also found that this variation likely erodes the value of the recently implemented, fixed price WIC voucher for fruits and vegetables for many households.³⁴ An analysis of local food price variation faced by SNAP households with children found considerable evidence that local price matters significantly to the purchasing power of these households, and that

30. *Id.* at 15.

31. *Id.*

32. Mark Nord, *Food Spending Declined and Food Insecurity Increased For Middle-Income and Low-Income Households From 2000 to 2007*, ECON. RESEARCH SERVICE, U.S. DEP'T OF AGRIC., Economic Information Bulletin Number 61, 4 (2009), available at <http://www.ers.usda.gov/Publications/EIB61/EIB61.pdf>.

33. *Id.* at 5.

34. Ephraim Leibtag & Aylin Kumcu, *The WIC Fruit and Vegetable Cash Voucher: Does Regional Price Variation Affect Buying Power?*, ECONOMIC RESEARCH SERVICE, U.S. DEP'T OF AGRIC., Economic Information Bulletin Number 75, at 7 (2011), available at <http://www.ers.usda.gov/Publications/EIB75/EIB75.pdf>.

the program's effectiveness may be undermined in the absence of indexing to take into account these variations.³⁵

An analysis of 2009 Nielsen store and homescan data conducted by Feeding America calculated the relative price of the Thrifty Food Plan market basket at the county level across the continental U.S., while also including the impact of state and local food taxes.³⁶ The results show that if the average national cost of the Thrifty Food Plan is set as 1.0, the relative cost index can vary anywhere from .73 in Zavala, Texas to 1.74 in Nantucket, Massachusetts.³⁷ The analysis, known as "Map the Meal Gap," also estimated the incidence of food insecurity at the county level across the United States, allowing for identification of those counties that suffer the double disadvantage of high need and high food cost.³⁸ Thirty-six counties in the U.S. fell into the top 10% of categories for both food insecurity and food price costs.³⁹ On average, these counties faced food prices 21% above the national average and approximately 1 in 5 individuals was estimated to be food insecure, compared to 1 in 6 nationally in 2009.⁴⁰ These counties are disproportionately likely to be majority African-American – while only three percent of all counties in the U.S. are majority African-American, one-third of the counties with both high food costs and high food insecurity rates are composed of more than 50% African-American residents.⁴¹ Initial improvements in employment prospects in late 2011 do not appear to be reaching the African-American population. As a result, areas of concentrated disadvantage are of particular concern, as their ability to rebound in the post-recession era may be particularly limited.

IV. LOOKING AHEAD

Despite some small signs of improvement in unemployment at the close of 2011, the prospects for a return to pre-recession levels of economic well-being are likely to be out of reach for the next several years. The

35. Gregory, *supra* note 2, at 2.

36. *How We Got the Map Data*, FEEDING AMERICA, <http://feedingamerica.org/hunger-in-america/hunger-studies/map-the-meal-gap/how-we-got-map-data.aspx> (last visited Aug. 19, 2012).

37. Craig Gundersen et al., *Map the Meal Gap: Child Food Insecurity 2011*, FEEDING AMERICA, at 19 (2011), available at http://feedingamerica.org/hunger-in-america/hunger-studies/map-the-meal-gap/~media/Files/research/map-meal-gap/ChildFoodInsecurity_ExecutiveSummary.ashx.

38. *Id.* at 7.

39. *Id.* at 21.

40. *Id.*

41. *Id.*

continued high levels of demand at food pantries, kitchens and shelters across the country are a testament that the end of the Great Recession in 2009 has meant little to millions of Americans. An analysis of client visits to Feeding America pantries shows that many Americans rely on food pantries month after month as a supplemental source of food, including those receiving SNAP benefits.⁴² Over half of all pantry clients in 2009 reported that they had visited a food pantry at least six months in the prior year, and a third reported that they had visited a pantry every month for at least 12 months.⁴³ Charitable food organizations have shifted roles from short-term emergency food provisions to supplemental support for many families who struggle to meet basic needs. This shifting role of charitable food organizations highlights the multiple coping strategies that families have come to rely upon and the fragility of their ability to absorb additional economic pressures, especially if higher food prices are also likely to become a persistent fixture in the equation.

Few people outside the emergency food network have realized the impact higher food prices may have on the ability of the charitable sector to continue meeting unprecedented levels of need. In 2011, higher agricultural commodity prices have meant that the federal government had little incentive to intervene in agricultural markets.⁴⁴ The result was sharply lower levels of “bonus” commodity purchases that are made available to food banks through The Emergency Food Assistance Program (TEFAP).⁴⁵ Because approximately 25% of all food distributed through the Feeding America network of food banks and partner agencies comes from the federal government through TEFAP, reductions in available commodities without a parallel drop in demand create significant stress on food supplies.⁴⁶ During this same period pressures in the food manufacturing sector to realize greater cost efficiencies have resulted in a decline in donations from many companies, further reducing food bank inventories.⁴⁷ Food banks have had to increase their food purchases to meet their clients’ needs because support from the government and donations from others have declined. Thus, rising food prices have

42. Samuel Echevarria et al., *Food Banks: Hunger’s New Staple*, FEEDING AMERICA, 4 (2012) <http://monarchhousing.org/wordpress/wp-content/uploads/2011/10/HungerPantry.pdf> (last updated Sept. 27, 2011).

43. *Id.* at 7.

44. *Id.* at 21.

45. *Id.* at 21.

46. *Id.*

47. *Partnering For a Hunger-Free America: 2011 Annual Report*, FEEDING AMERICA, 10 (2011), available at <http://annualreport.feedingamerica.org/donors/leadership-partners.aspx>.

imposed multiple constraints on the ability of the charitable sector to respond at the same time that clients are turning to food pantries and other agencies for ongoing assistance. If threatened cuts in federal nutrition programs become a reality as Congress continues to wrangle over deficit reduction in 2012, both the government and private safety nets will be ill equipped to respond to the very real needs of many food-insecure Americans.

