GOVERNMENT ACCOUNTABILITY INSTITUTE

Profits from Poverty: How Food Stamps Benefit Corporations

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"Perhaps the greatest, if not the only difficulty, which will arise against the adoption of this New Federal System of Government, will be made by those ambitious citizens, in the different States, who either *now are in power*, or who will practice their political wiles on the ignorant and unsuspicious part of the people, in order to obtain their own *private purposes*. It is a lamentable consideration, that men of this stamp too frequently, by the folly and blindness of the people, are put in the exercise of such offices as give them a very dangerous degree of influence – Hence the social compact is often violated, and sometimes dissolved."

- *Daily Advertiser*, September 24, 1787

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Executive Summary

Originally conceived as a means to prop up sagging crop prices to support American farmers, the Food Stamp Program, now called the Supplemental Nutrition Assistance Program, or SNAP, has exploded into a welfare program that costs tax payers a record $75.67 billion in 2011.[1] Almost everyone has heard this story, but few realize that only three corporations have cornered the market for providing SNAP services to the needy and destitute. According to JP Morgan, the largest food stamp industry player, the business of food stamps "is a very important business to JP Morgan. It's an important business in terms of its size and scale…. Right now volumes have gone through the roof in the past couple of years or so. The good news from JP Morgan's perspective is the infrastructure that we built has been able to cope with that increase in volume."[2] And JP Morgan has good reason to be pleased, since the bank profits from programs designed to help the poor.

An investigation by the Government Accountability Institute has found that:

- Three companies – J.P. Morgan EFS, Affiliated Computer Services, and eFunds – provide EBT services for 49 states and 3 US territories.
- Since 2004, 18 of 24 states who contract with J.P. Morgan to provide welfare benefits have contracted to pay $560,492,596.02. New York alone has a seven-year contract worth $126,394,917.
- Projected average food stamp spending post-recession will be 175% greater than pre-recession average spending, from $28 billion to $77 billion.[3]
- Since 2009, 32 states have followed the USDA's suggestion to use Broad Based Categorical Eligibility "as a way to increase SNAP participation and reduce State

1 "Supplemental Nutrition Assistance Program Participation and Costs (Data as of August 30, 2012),"SNAP Annual Summary, http://www.fns.usda.gov/pd/SNAPsummary.htm.
2 "JPMorgan's Paton Discusses U.S. Food Stamp Use,"Bloomberg TV, January 8, 2011, http://www.bloomberg.com/video/57038578-jpmorgan-s-paton-discusses-u-s-food-stamp-use.html.
3 "Proposed Food Stamp Spending Remains More Than Double Pre-Recession Levels," United States Senate Committee on the Budget: Republicans,
http://budget.senate.gov/republican/public/index.cfm/files/serve?File_id=e4436da4-4f38-4663-b377-5b9abe6ddbc5.

workloads."[4] Changing the rules for eligibility, along with state-level changes in application methods, has contributed to a 70 % increase in food stamp participation from 2007 to 2011.[5][6]

- Lax security by EBT processors and states invites food stamp fraud, often through social media.
- There are understaffed fraud investigation units at both the federal and state level. For example, Florida has just 63 staff positions to police approximately 3 million EBT users state-wide. These investigators not only handle TANF and SNAP eligibility fraud, but also EBT trafficking, Social Security Disability and Medicaid eligibility fraud, Emergency Financial Assistance for Housing, and Low Income Energy assistance, among many others.[7]

The Evolution of Food Stamps

The Food Stamp Program began as an attempt to support farmers through stabilizing the prices of farm products. During the Great Depression, the federal government began purchasing "excess commodities" with federal money and distributing them to the poor. In 1935, the Federal Surplus Commodities Corporation "was formed to dispense commodities by focusing on encouraging domestic consumption of surpluses." On May 16, 1939, in Rochester, New York, this first foray into the public provision of commodity support transitioned into the first food stamp program. By May 1941, advocates of the Food Stamp Program promoted its expansion as

4 "Improving Access to SNAP through Broad-Based Categorical Eligibility," Jessica Shahin to Regional Administrators, September 30, 2009, www.fns.usda.gov/**snap**/rules/Memo/2009/093009.pdf.
5 "Supplemental Nutrition Assistance Program: Improved Oversight of State Eligibility Expansions Needed," U.S. Government Accountability Office Report (GAO-12-670), July 26, 2012, http://www.gao.gov/products/GAO-12-670.
6"Supplemental Nutrition Assistance Program Participation and Costs (Data as of August 30, 2012),"SNAP Annual Summary, http://www.fns.usda.gov/pd/SNAPsummary.htm.
7 Florida Department of Financial Services Long Range Program Plan, September 30, 2011, floridafiscalportal.state.fl.us/PDFDoc.aspx?ID=6152

part of the National Defense Plan. However, this first attempt at commodity price regulation ended in 1943 amid widespread fraud, abuse, and general mismanagement. [8]

No food stamp program was proposed again until the Kennedy Administration. Fulfilling a campaign promise, President Kennedy began a food stamp pilot program in 1961 under executive order 10914.[9] This program carried what became known as the "purchase requirement." Participants were required to purchase stamps that carried a value greater than the dollars used to purchase them, which could be redeemed at participating establishments. President Kennedy continued to push for legislation that would make the program permanent. It was not until August 31, 1964, that Lyndon Johnson signed into law the Food Stamp Act of 1964. Like its predecessor during the Great Depression, this program was intended to make use of domestic food supply abundance by giving low-income families greater food purchasing power. The Food Stamp Act generally left the determination of eligibility for the program to the states and restricted the use of the stamps to government-approved retail establishments.[10]

The late 1960s saw unexpectedly widespread participation in the new Food Stamp Program. Congress predicted that the Food Stamp Program, once implemented on a national scale, would serve approximately four million individuals at a cost of $360 million per year.[11] That did not happen. Instead, by the time the program was extended to the entire nation in July of 1974, it had already ballooned to 14 million participants. By October of the same year, 15 million were participating at a cost of $2.8 billion annually.[12]

Several innovations to the program first appeared in the 1970s. A 1971 amendment to the Food Stamp Act introduced rules for 'expedited eligibility' for food stamp participants.[13] These rules were rescinded under the Food and Agriculture Act of 1977, but were reinstated later. The rules also began a slow but steady expansion of the definition of who could be included as eligible for

8 "From Food Stamps to the Supplemental Nutrition Assistance Program," USDA Legislative Timeline, 1, www.fns.usda.gov/snap/rules/Legislation/timeline.pdf.
9 "Executive Order 10914," The American Presidency Project Website, issued January 21, 1961, http://www.presidency.ucsb.edu/ws/index.php?pid=58853.
10 "From Food Stamps to the Supplemental Nutrition Assistance Program," USDA Legislative Timeline, 3, www.fns.usda.gov/snap/rules/Legislation/timeline.pdf.
11 "A Short History of SNAP,"USDA Food and Nutrition Service: Supplemental Nutrition Assistance Program, http://www.fns.usda.gov/snap/rules/Legislation/about.htm.
12"Supplemental Nutrition Assistance Program Participation and Costs (Data as of August 30, 2012),"SNAP Annual Summary, http://www.fns.usda.gov/pd/SNAPsummary.htm.
13 Section 6 of P.L. 91-671.

food stamps. The Food and Agriculture Act made other important changes to food stamps. Perhaps the most significant change was the removal of the "purchase requirement." By removing this requirement, food stamp recipients would simply receive an allotted portion of stamps each month rather than using cash to purchase stamps of greater value than the cash used to purchase them.

The 1980s brought important updates to categorical eligibility rules. The Omnibus Budget Reconciliation Act of 1982 marked first time Food Stamp eligibility was linked to another program: Aid for Families with Dependent Children (AFDC), a Depression-era anti-poverty program. Established in 1935, AFDC provided cash assistance to families with needy children.[14] Since eligibility for Food Stamps and AFDC hinged on similar income and asset limits, Congress decided to allow households that qualified for AFDC to automatically, or categorically, qualify for food stamps.[15] Under the Food Security Act of 1985, Congress expanded the eligibility rules to include households qualifying either for AFDC or Social Security Insurance.[16] In 1990, categorical eligibility was expanded yet again to include state-level assistance programs.[17]

The welfare reform of 1996, the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA), set the definitions for current categorical eligibility standards relating to the Food Stamp Program and ushered in a fundamental change in the distribution of food stamp benefits. First, AFDC was ended in favor of a new program: Temporary Assistance for Needy Families (TANF). Unlike AFDC, which was an entitlement program—meaning that there were no limits on the amount of money that could be spent by the federal government on the program—TANF was structured as a block grant to be administered by the states. Block grant programs differed from entitlement programs by giving the state a fixed amount of funds to spend on a program in a given fiscal year. Beyond that the amount of the block grant, no other federal money would be made available. This structure was adopted intentionally as an attempt to curb federal spending on poverty programs. Additionally, the states were given broad

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14 "Aid to Families with Dependent Children (AFDC) and Temporary Assistance for Needy Families (TANF) Overview,"U.S. Department of Health and Human Services, http://aspe.hhs.gov/hsp/abbrev/afdc-tanf.htm.
15 "From Food Stamps to the Supplemental Nutrition Assistance Program," USDA Legislative Timeline, 20, www.fns.usda.gov/snap/rules/Legislation/timeline.pdf.
16 "From Food Stamps to the Supplemental Nutrition Assistance Program," USDA Legislative Timeline, 22, www.fns.usda.gov/snap/rules/Legislation/timeline.pdf.
17 Gene Falk and Randy Alison Aussenberg, "The Supplemental Nutrition Assistance Program: Categorical Eligibility," Congressional Research Service, July 17, 2012, www.fas.org/sgp/crs/misc/R42054.pdf.

authority to determine both the benefit level and the standards for eligibility in the program. The connection previously established between AFDC and the Food Stamp Program remained the same between TANF and the Food Stamp Program. So, if a person was deemed eligible to receive TANF benefits, they would also be eligible to receive food stamps.

Besides the difference in funding, the scope of issues addressed by the goals of TANF were also broader than AFDC. This difference in issues to be addressed made TANF more wide ranging than AFDC, and thus allowed for an expansion of Food Stamp eligibility by means of expanded TANF eligibility. Consider TANF's four explicit goals:

> (1) provide assistance to needy families so that children may be cared for in their own homes or in the homes of relatives;
>
> (2) end the dependence of needy parents on government benefits by promoting job preparation, work, and marriage;
>
> (3) prevent and reduce the incidence of out-of-wedlock pregnancies and establish annual numerical goals for preventing and reducing the incidence of these pregnancies; and
>
> (4) encourage the formation and maintenance of two-parent families.[18]

Because these four goals are so broad, the Congressional Research Service concluded that TANF services aimed at addressing the third and fourth goals stated above "are potentially available to a state's entire population."[19] Whereas the Food Stamp Program required a means test, any TANF-funded benefit program that is aimed at addressing the third or fourth goal listed above does not require a means test, meaning that benefits can apply to a much larger portion of the population. Aside from the cash assistance provided to the lowest income levels, TANF funds also went to non-cash programs, such as family counselling, transportation, and child-care services, which fulfilled the third and fourth goal of TANF. Practically, this means an expanded pool of eligible food stamp recipients.

A second major modification to the program was the mandate, included in PRWORA, that all states transition the distribution of benefits away from paper stamps to electronic benefit transfer

18"Part A-Block Grants to States for Temporary Assistance for Needy Families: Purpose,"Compilation of the Social Security Laws: Social Security Online, Last reviewed July 11, 2012, http://www.ssa.gov/OP_Home/ssact/title04/0401.htm.
19 Falk and Aussenberg, 4.

(EBT) cards by October 1, 2002. As it happened, nearly all states hired private companies to manage the distribution of benefits. States undoubtedly did so to comply with the mandate at the lowest cost possible, but as will become clear, this relationship opened the door for cronyism in the EBT services market.

In 2000, the USDA expanded the scope of eligibility rules yet again. The expanded list included any person participating in a welfare program funded through TANF or a state-level welfare program, including both cash and non-cash assistance programs. It also gave states the option to include on its rolls persons who are under 200 percent of the Federal Poverty Line and who are "authorized" to receive aid, which means that they do not need to receive TANF aid to be categorically eligible through TANF for food stamps.[20]

Such changes seem to have reversed the downward trend in food stamp participation. The participation rate in 1996 was 25.5 million. By 2000, that had dropped to 17 million. But by 2004, the trend was reversed as 23.8 million Americans were back on food stamps.[21]

The Food Stamp Program was officially renamed the Supplemental Nutrition Assistance Program (SNAP) under the Food, Conservation, and Energy Act of 2008.[22] This name change was intended to alter perceptions and help remove the stigma associated with using food stamps, but did not in any way change the program's structure.

The Obama Administration made two important changes to USDA food stamp policy. First, it increased the amount of money each household received in food stamps by 13.6 percent.[23] According to the USDA's Economic Research Service, "The original rationale for increasing SNAP benefits as a part of [the stimulus program] was that SNAP benefits are spent quickly and have a multiplicative effect on total economic activity."[24] Second, the USDA took an active role

20 Falk and Aussenberg, 4.
21 "Supplemental Nutrition Assistance Program Participation and Costs (Data as of August 30, 2012),"SNAP Annual Summary, http://www.fns.usda.gov/pd/SNAPsummary.htm.
22"From Food Stamps to the Supplemental Nutrition Assistance Program," USDA Legislative Timeline, 54, www.fns.usda.gov/snap/rules/Legislation/timeline.pdf.
23 Joe Richardson, "The Federal Response to Calls for Increased Aid from USDA's Food Assistance Programs," Congressional Research Service, 3, February 17, 2010, www.nationalaglawcenter.org/assets/crs/R41076.pdf.
24 "Supplemental Nutrition Assistance Program: ARRA," USDA Economic Research Service, http://www.ers.usda.gov/topics/food-nutrition-assistance/supplemental-nutrition-assistance-program-%28snap%29/arra.aspx.

in encouraging states to adopt a variation of categorical eligibility called "broad based categorical eligibility."[25]

The EBT Industry

The Players

The current EBT card industry is dominated by three main players: J.P. Morgan Electronic Financial Services, Affiliated Computer Services, and eFunds.

- J.P. Morgan Electronic Financial Services, a subsidiary of JPMorgan Chase & Co., entered the EBT market at the end of 2003 when it acquired Citicorp Electronic Financial Services (CEFS) and the state contracts owned by CEFS.[26] It currently contracts with 24 U.S. states and 2 U.S. territories,[27] making it the largest EBT services provider in the country.
- Affiliated Computer Services (ACS) was acquired by Xerox Corporation in February, 2010. It has become the second largest EBT provider with a total of 15 state contracts.[28]
- eFunds Corporation, a subsidiary of Fidelity National Information Services (not connected to Fidelity Investments), controls 10 state contracts for EBT services and one U.S. territory.

The structure of service provided by these contracts in each state is very similar. Each contract includes several sources of revenue for service providers.

Cost Per Case Month

25 Lizebeth Silbermann to Regional Directors, "Questions and Answers on Broad-Based Categorical Eligibility,"January 31, 2011, www.**fns**.usda.gov/**snap**/rules/**Memo**/2011/013111.pdf.
26 "JPMorgan Chase to acquire Citicorp Electronic Financial Services Inc," JPMorgan Chase & Co., November 26, 2003, http://investor.shareholder.com/jpmorganchase/releasedetail.cfm?releaseid=145716.
27 "EBT Customer Service Numbers," USDA Website, dated May 8, 2012, http://www.fns.usda.gov/snap/ebt/pdfs/state-lines.pdf.
28 LexisNexis, Affiliated Computer Services Company Dossier (online), retrieved September 6, 2012.

The bulk of each company's revenue for EBT services come from the total number of persons enrolled for food stamps each month in a state. In contract language, this is known as the Cost Per Case Month (CPCM). Every month the company is paid a fee for each individual enrolled in the program. CPCM typically ranges anywhere from $0.65 to $1.45, depending on the state. The fee can easily be higher if a state chooses to have the contracting company distribute multiple welfare services on a single EBT card. For example, many states provide both TANF and SNAP benefits on a single EBT card.

Point of Sale (POS) Machines

Point Of Sale (POS) machines—the machines used to make EBT purchases with SNAP funds and transmit the purchasing information—are a second source of revenue for providers. Federal regulations only allow federally authorized retail establishments to accept EBT cards. States typically rent a POS machine for each authorized retail location and pay a monthly fee to the EBT service provider for use of the machine. As an example, Arizona pays a fee of $14.95 per machine each month.

ATM Fees

A third source of revenue comes from fees charged at ATM machines when an EBT card is used to withdraw TANF-provided cash funds and when making a balance inquiry.[29] In the case of J.P. Morgan EFS, withdrawals made from ATM machines that are in J.P. Morgan's network are not charged a withdrawal fee, but any other out-of-network withdrawals and balance inquiries do incur costs to the recipient of welfare benefits. In Nevada, as an example, cardholders are charged $0.85 for each withdrawal that occurs at an out-of-network location.[30]

Card Replacement Fees

Replacement fees for lost cards are a fourth source of revenue. Arizona recipients are allowed one free replacement per year. Every replacement after that costs the user $5.00.

29 It is important to point out, as discussed previously, that many states use EBT cards to dispense food stamp (SNAP) benefits and cash benefits (TANF) on the same card.
30 "EBT and Debit Card Client Transaction Fees," Nevada State Legislature, http://www.leg.state.nv.us/Session/76th2011/Exhibits/Senate/FIN/SFIN436C.pdf.

Customer Service Calls

Lastly, there is a fee for customer service calls made by EBT users. New York's contract charges the cardholder $0.25 per call.

Lacking Security Measures

Given the amount of money that flows through SNAP every year, few security measures are in place to monitor EBT card fraud, despite the fact that EBT card providers like JP Morgan are also leaders in card fraud prevention in the commercial electronic payments market.[31] Instead, the USDA directs retailer fraud investigations, and the individual states are responsible for individual user fraud.[32]

User fraud typically comes in two varieties. The first is eligibility fraud. Eligibility fraud occurs when an individual applies for EBT benefits but falsifies application information relating to their eligibility for the program, such as their income level, total assets held, etc. Dealing with such a seemingly straightforward method of fraud can be complicated. In Florida, to bring this kind of case to a successful end, investigators must be able to secure documentation relating to the fraudulent allegations, positively identify that the person filing the fraudulent claim was the same person benefiting from the claim, and validate that the information given was incorrect. Any missing puzzle pieces will result in a failed prosecution.

The second kind of user fraud is trafficking. Trafficking involves the selling of EBT cards. The original card holder usually receives cash that can be used to purchase anything the card holder wants, and the purchaser can then use the money remaining on the card. The EBT card seller then reports the card as lost and gets a replacement the following month from the EBT card processor.[33] Like commercial debit cards, EBT cards come equipped with a 4-digit Personal Identification Number (PIN). This number must be entered at the time of purchase and is

31 "JP Morgan Ranked First in ACH Originations for 2008," JPMorgan Website, April 6, 2009, http://www.jpmorgan.com/tss/General/J_P_Morgan_Ranked_First_in_ACH_Originations_for_2008/1159382158283.
32 Anonymous Source, email message to Government Accountability Institute, July 27, 2012.
33 JPMorgan Chase & Co., https://www.ebtaccount.jpmorgan.com/JPM_EFS/;
For ACS, see "Electronic Benefit Transfer," https://www.ebt.acs-inc.com/.

designed to protect stolen cards from being used. The problem is that traffickers can and do easily sell their PIN along with the card. Craigslist, Twitter, eBay, and Facebook have become hot zones for trading in trafficked EBT cards.[34] Some Craigslist advertisements go so far as to try and sell appliances for food stamps.[35] On April 9, 2012, the USDA sent letters to each of the four companies providing EBT services to request their assistance in fighting fraud. Not surprisingly, sellers have relocated their advertising efforts. Clearly, PIN protection is not sufficient fraud protection for people seeking to sell their cards.

1. North Carolina Craigslist advertisement on August 11, 2012

eastnc.craigslist.org/ppd/3198187224.html

FREE DEEP FREEZER FOR AUGS 2012 - $650 (EASTERN NORTH

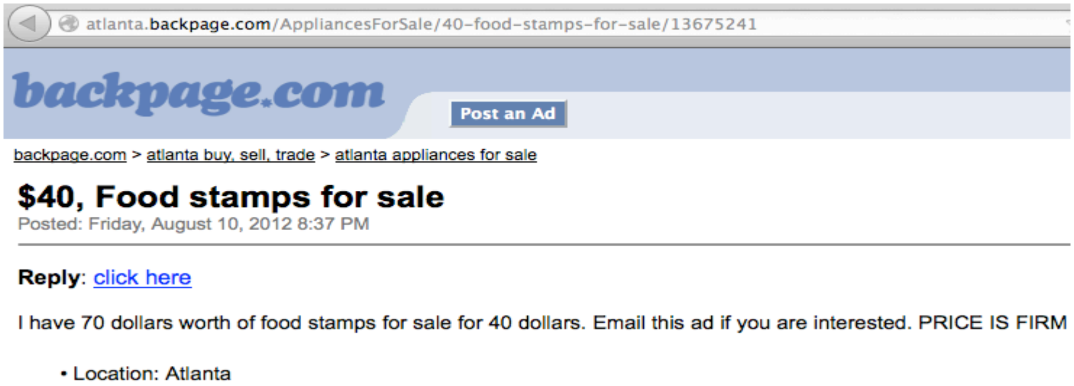
Date: 2012-08-11, 6:07AM EDT
Reply to this post vj2fq-3198187224@sale.craigslist.org [Errors when replying to ads?]

Yes are you looking for that new deep freezer this month folks
Well now it here for free folks if you eat choice cut steaks gourment chicken choice cut pork packs aand seafood
Its time to get it all now
We are having a big blow out sale folks For Augs 2012 back to school time folks
So if you want a deal now time to get it all folks
please call me at 910-508-5838 for deatils folks
We do take Cash credit cards and ebt food stamps as well folks

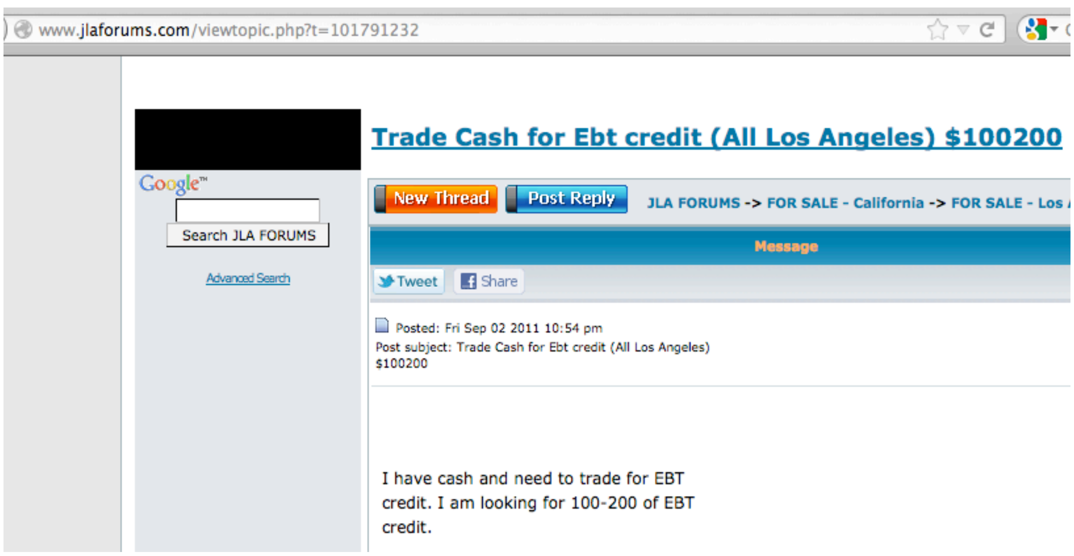
2. Atlanta Backpage advertisement on August 10, 2012.

34 See USDA letters from: Audrey Rowe to Jim Buckmaster (Craigslist CEO), USDA Website, April 9, 2012, www.fns.usda.gov/snap/fraud/craigslist.pdf; Audrey Rowe to Dick Costolo (Twitter CEO), USDA Website, April 9, 2012, www.fns.usda.gov/snap/fraud/twitter.pdf; Audrey Rowe to John Donahoe (eBay Inc. CEO), USDA Website, April 9, 2012, www.fns.usda.gov/snap/fraud/ebay.pdf; Audrey Rowe to Mark Zuckerberg (Facebook CEO), April 9, 2012, www.fns.usda.gov/snap/fraud/facebook.pdf.

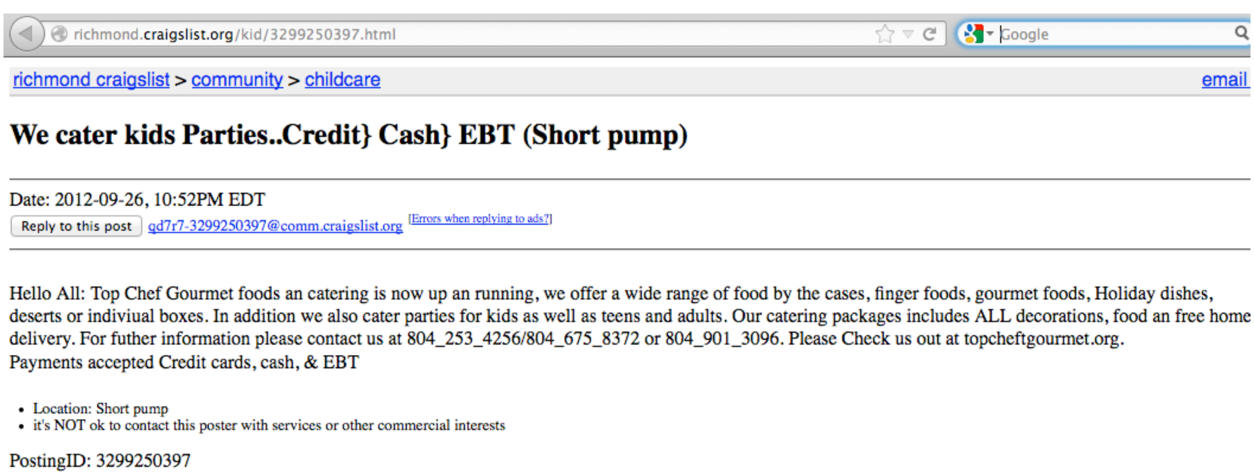
35 "Free Deep Freezer For AUGS 2012- $650 (Eastern North Carolina S)," Craigslist, August 11, 2012, http://eastnc.craigslist.org/ppd/3198187224.html.



3. Los Angeles jlaforums advertisement September 2, 2011.



4. Richmond Craigslist advertisement, September 26, 2012.



Retailer fraud occurs when stores authorized to accept food stamp benefits either allow recipients to purchase items not allowed for purchase, such as cigarettes or alcohol, or give the recipients cash and ring up fake purchases for which they will be reimbursed by the program.[36] Here again, the PIN number can easily be given to the retailer to be used at the time of the transaction. It is important to keep in mind that retailer fraud only exists because EBT recipients are complicit in allowing their benefits to be inappropriately purchased and used by retailers.

All of these forms of fraud have become widespread. Recently, USDA has proposed measures to increase the fight against retailer and user fraud. Conviction of retailer fraud now carries a penalty of up to a $10,000 fine or up to five years in prison.[37] Before this rule, retailers were warned and possibly temporarily disqualified from processing EBT cards.

Compounding the problem is the size of the program. Nationwide, the USDA has approximately 100 investigators policing over 200,000 authorized EBT retailers.[38] In FY2011, only 15,000, or approximately 7.5 % of stores, were reviewed by USDA.

Regarding user fraud, in May of 2012, USDA removed measures that previously blocked states from investigating households that reported high rates of supposedly "lost" cards. Now states have the option to investigate such households, and they are required to investigate any household that reports four lost cards within a 12-month period.[39] Furthermore, federal rules currently prevent states from taking the same kinds of measures as commercial card companies in preventing fraudulent transactions. For example, a state may not place a hold on an EBT account when it suspects fraudulent purchases are being made. The state instead allows fraudulent activity to continue until a team of investigators is able to follow up on that case. In Florida's case, 63 investigators are tasked with policing over three million EBT users.[40]

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36 "Florida Retailers Busted In EBT Card Fraud," *North Country Gazette*, March 18, 2010, http://www.northcountrygazette.org/2010/03/18/florida-retailers-busted-in-ebt-card-fraud/.
37 "Fighting SNAP Fraud: What is FNS doing to Fight SNAP fraud?" USDA Website, http://www.fns.usda.gov/snap/fraud/fraud_3.htm.
38 "Fighting SNAP Fraud: What is SNAP Fraud?" USDA Website, http://www.fns.usda.gov/snap/fraud/fraud_2.htm.
39 "USDA Announces Steps to Fight Fraud and Enhance SNAP Integrity," Release No 0164.12, USDA Website, May 24, 2012, http://www.usda.gov/wps/portal/usda/usdahome?contentid=2012/05/0164.xml&navid=NEWS_RELEASE&navtype=RT&parentnav=LATEST_RELEASES&edeployment_action=retrievecontent.
40 Anonymous Source, email.

The recent USDA rule changes to combat fraud are laudable in their intent, but are inefficient and ineffective in combating fraud.

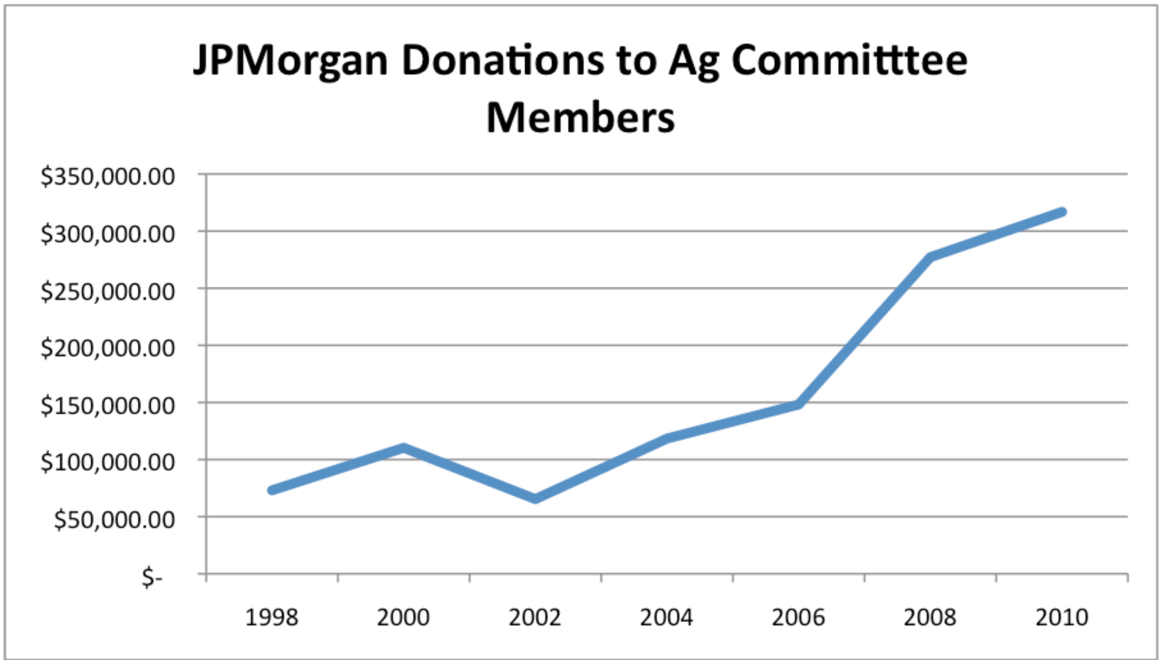
One step in the right direction can be seen in Florida. Florida initiated an eight-month pilot program with JP Morgan. The state program is designed to utilize JP Morgan's expertise in data mining and tracking to aid state investigators in fraud detection and prevention. That program, unfortunately, is staffed by just one JP Morgan employee and involves just 5 to 10 state employees.[41]

Political Donations

The Supplemental Nutrition Assistance Program (SNAP) is an unusual entity in that, even though it was designed as a human welfare program, it exists administratively as a part of and is run by the Department of Agriculture. Recall that the program was originally conceived as a way to maintain high agricultural commodity prices. As such, the House and Senate Agricultural Committees have jurisdiction over all food assistance and distribution programs, including SNAP,[42]and the Department of Agriculture oversees the execution of such programs. Thus the politicians making up these committees are in a unique position to determine legislation relating to the SNAP program.

Analysis by the Government Accountability Institute uncovered a clear trend of increasing contributions to Agriculture Committee members of both the House and Senate on the part of JPMorgan that appears to coincide with their entry into the EBT market.

41 Ibid.
42 "Jurisdiction of the Committee," House Committee on Agriculture, http://agriculture.house.gov/about/jurisdiction-committee; "Jurisdiction," United States Senate Committee on Agriculture Nutrition & Forestry, http://www.ag.senate.gov/about/jurisdiction.



The above chart, constructed using data gathered by the Center for Responsive Politics, shows a clear upward trend in donations from 2004 onward. Between 1998 and 2002, JPMorgan's total contributions per election cycle averaged $82, 897. After JP Morgan entered the EBT services market until the 2010 election cycle, their average donation per cycle more than doubled to $215,120.

But the Agriculture Committees are not alone in their influence over the program. The USDA and its presidential appointees also influence the direction of program policy. This can be seen in the development of broad based categorical eligibility. JPMorgan's donations to political campaigns also show a clear trend. During the 2008 election, Barack Obama received more than twice the contributions of John McCain: $807,000 for Obama compared to McCain's $345,505.[43] After Obama's election, the American Recovery and Reinvestment Act made two important changes to existing SNAP policies. First, it increased SNAP benefits by 13.6 percent.[44] Second, it actively encouraged states to adopt broader rules to increase SNAP caseloads.[45] From

43 "Heavy Hitters: JPMorgan Chase & Co: All Recipients," OpenSecrets, 2008 Cycle, http://www.opensecrets.org/orgs/recips.php?id=d000000103&type=P&state=&sort=A&cycle=2008.
44 Arthur T. Foley to Regional Directors, "Economic Stimulus – Adjustments to the Maximum Supplemental Nutrition Assistance Program (SNAP) Monthly Allotments," February 18, 2009, www.fns.usda.gov/snap/rules/Memo/2009/021809.pdf.
45 Joe Richardson, "The Federal Response to Calls for Increased Aid from USDA's Food Assistance Programs," Congressional Research Service, February 17, 2010, www.nationalaglawcenter.org/assets/crs/R41076.pdf.

2009 to 2012, 32 states adopted the interpretation.[46] The first change creates a stronger incentive for individuals to enroll for food stamps, and the second change accommodates this increase in enrollment. All of this, working together with an underperforming economy, sets the stage for increasing profits for the companies providing EBT services. The more persons enrolled in the program, the more money the EBT industry makes.

Unfortunately, the crony connections do not stop with congressional lobbying. Several members of Congress and the executive branch have significant investments in JP Morgan stock. President Obama has up to $1 million in a private client asset checking account.[47] In 2010, then White House Chief of Staff William M. Daley also had invested up to $5 million with JP Morgan. [48] In 2007, West Virginia Senator Jay Rockefeller had over $50 million with the bank.[49] Increasing profits for JP Morgan in turn means increasing returns for investors.

EBT card systems were guaranteed expansion on December 13, 2010, when President Obama signed the Healthy, Hunger-Free Kids Act. This legislation requires all states to develop and implement the use of EBT cards for the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) by October 1, 2020.[50] According to the most recent participation data released by the USDA's Food and Nutrition Service, WIC served 8.9 million consumers in FY 2011[51], which means that EBT card providers are looking at many new customers thanks to the legislation.

The expansion of the EBT program did not happen in a vacuum. In fact, JP Morgan was lobbying on issues related to the use of EBT cards in the WIC program during 2009, months before the Healthy, Hunger-Free Kids Act was introduced in the Senate.[52] While the justification

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46 GAO-12-670.
47 Executive Branch Personnel Public Financial Disclosure Report, Calendar Year 2011, OpenSecrets, pfds.opensecrets.org/N00009638_2011.pdf.
48 "Personal Finances: Search Results," Search criteria on OpenSecrets: JPMorgan Chase & Co-Assets, http://www.opensecrets.org/pfds/search_results_detail.php?filtertype=H&year=2010&org=JPMorgan+Chase+%26+Co&srchorg=JPMORGAN+CHASE&srchtype=O.
49 "United States Senate Financial Disclosure Report for Annual and Termination Reports," Calendar Year 2007, Open Secrets, pfds.opensecrets.org/N00001685_2007.pdf.
50 "S. 3307 -111th: Healthy, Hunger-Free Kids Act of 2010,"Database of federal legislation, http://www.govtrack.us/congress/bills/111/s3307.
51 "Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) (Data as of August 30, 2012),"WIC Program Monthly Data, http://www.fns.usda.gov/pd/37WIC_Monthly.htm.
52 JP Morgan 2009 Lobbying Report, US Senate Public Disclosure Documents, soprweb.senate.gov/index.cfm?event=getFilingDetails&filingID=629C9F06-2C82-4EF3-9E1C-5DAB47E673D1.

may be that the EBT program is more efficient than the use of actual stamps, the industry pushing for the increased "efficiency" is also the industry that stands to benefit from the change.

Solutions

The Food Stamp program has grown in size and complexity over the years into its current unsustainable state. Simple answers may provide a remedy to a daunting problem. Combating these problems is possible but requires sustained effort and vigilance. We present three steps to begin this process.

First, effective change must create greater transparency. The inner details and workings of the program must be open for all to see and critique. Such transparency should include all national data collected by the USDA on EBT store-level purchases. Similar data sets, such as Dominick's Database collected by the Booth School of Business, provide detailed, store-level purchase data and are invaluable research tools for researchers. The USDA already collects such data.[53] So far, however, the data have not been made available to the public.[54] This policy of information secrecy must change. Transparency for the EBT program must begin immediately.

Second, fraud prevention measures used in the commercial electronic payments market should be standard for the EBT program. Since banks are able to follow purchases and place holds on accounts immediately when they suspect identity theft or bank fraud, the same degree of rigor should be applied to trafficking taxpayer dollars spent with EBT cards. Chase credit cards provided by JPMorgan Chase & Co. provide this protection. In their own words: "Chase uses highly sophisticated Fraud Monitoring tools to review how and where your card is being used. This enables us to contact you if abnormal patterns are detected and to block potentially

53"Dominick's Database," Kilts Center for Marketing, http://research.chicagobooth.edu/marketing/databases/dominicks/index.aspx; "USDA Takes Aggressive Action to Fight Trafficking,"USDA website, www.fns.usda.gov/cga/FactSheets/SNAP_Trafficking.pdf.
54 Luke Rosiak, "Top secret: $80B a year for food stamps, but feds won't reveal what's purchased," *The Washington Times*, June 24, 2012, http://www.washingtontimes.com/news/2012/jun/24/top-secret-what-food-stamps-buy/?page=all.

fraudulent transactions."[55] Taxpayer funds are no less important nor in any less need of protection than private funds protected by such technology. These same commercial measures must apply to taxpayer-funded EBT programs.

Third, those who use EBT cards should be required to provide identification when making purchases. Since traffickers can sell their PIN number with their card, positive identification would also prevent fraud on the front end. This is already a common protocol for many purchases made every day. The law already requires identification to verify age for cigarette and alcohol purchases. The same easy, convenient measure would assist in removing part of the incentive to traffic EBT cards.

Despite being the richest country in the world, poverty remains an important social issue in the United States. All too often poverty in America is used as a political weapon by both political parties to galvanize their voting base. What is lost in the midst of such politicking is the crony connection of corporations that have positioned themselves to profit from poverty. The welfare programs we use to attempt to alleviate poverty actually play directly into the plans of companies that lobby on behalf of legislation lauded as anti-poverty programs. Rather than overcoming poverty, these programs line the pockets of their promoters. Such crony connections must end.

55 "Chase Business Debit Card Security,"Chase website, Accessed September 8, 2012, https://www.chase.com/index.jsp?pg_name=ccpmapp/smallbusiness/business_banking/page/bb_check_card_security.