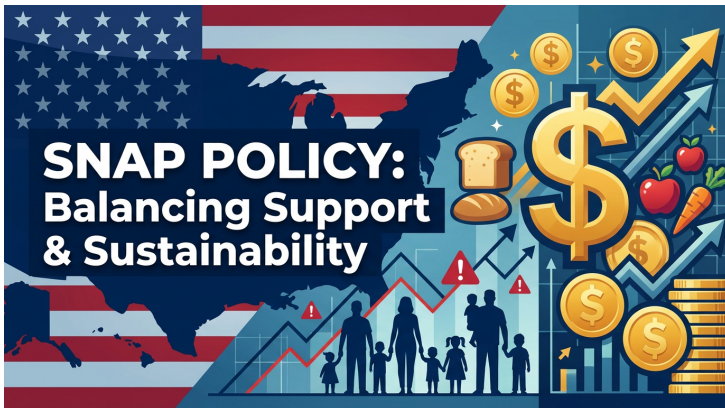


Why America's largest food assistance program is trapped between waste, incentives and politics

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The battle over SNAP is no longer simply about welfare spending. It is about incentives, federalism and whether America's anti-hunger safety net can remain effective without becoming fiscally unaccountable

The debate surrounding the Supplemental Nutrition Assistance Program (SNAP) has long been framed as a contest between compassion and fiscal discipline. One side views food assistance as an indispensable safeguard against hunger and poverty. The other points to mounting evidence of payment errors, weak oversight and a system increasingly vulnerable to waste.

Yet the latest controversy surrounding SNAP suggests that the programme's deepest challenge may not be fraud, bureaucracy or inadequate enforcement. Rather, it may be the incentives embedded within its very architecture.

Recent analyses from the Cato Institute argue that America's largest food assistance programme suffers from a structural accountability deficit. Whether examining state-level manipulation of payment error rates, congressional reform proposals, or debates over mass recertification, the central conclusion remains remarkably consistent: states administer SNAP, but Washington finances almost all of it. Responsibility and accountability have become divorced from one another. The implications extend far beyond technical discussions about welfare administration. They touch upon fundamental questions of governance, federalism and the long-term sustainability of one of the largest social programmes in the United States.

A \$100 Billion Programme with a Growing Integrity Challenge

SNAP has expanded into one of the most significant pillars of the American welfare state. Federal spending on the programme reached approximately \$100 billion in fiscal year 2024, providing food assistance to tens of millions of Americans. Yet concerns about programme integrity have grown alongside its size. According to estimates cited by Cato Institute

researchers, improper payments amounted to roughly \$10.5 billion annually. Importantly, improper payments do not necessarily imply fraud. They include overpayments, underpayments, eligibility errors, reporting inaccuracies and administrative mistakes.

Nonetheless, the scale of the problem is difficult to dismiss.

When nearly one-tenth of programme expenditures are classified as improper, policymakers inevitably begin asking whether the problem lies not merely in execution but in the design of the system itself. The answer, critics argue, lies in SNAP's unusual division of responsibilities. State governments process applications, determine eligibility, conduct interviews and administer benefits. However, while states share some administrative costs, the federal government covers 100 per cent of SNAP benefit expenditures.

This creates what economists describe as a classic moral hazard problem: the entity making decisions does not fully bear the consequences of those decisions.

The Incentive Problem at the Heart of SNAP

Imagine a bank empowered to issue loans while another institution absorbs all potential losses. Lending standards would almost certainly weaken because the consequences of poor decisions would be borne elsewhere. Critics contend that SNAP operates according to a similar logic.

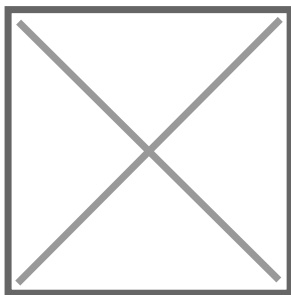
State agencies incur costs when conducting rigorous eligibility reviews, strengthening verification systems or investigating questionable claims. These activities require staff, technology and administrative investment. Yet the financial benefits generated by preventing improper payments flow primarily to federal taxpayers rather than state budgets. The result is a system in which states often possess stronger incentives to maximise enrolment and minimise administrative burdens than to aggressively police payment accuracy. For decades, this tension remained largely academic. Increasingly, however, it is becoming visible in policy outcomes.

The Alaska Carveout and the Politics of Unintended Consequences

The clearest illustration emerged from provisions included in the One Big Beautiful Bill Act (OBBBA), which introduced a new cost-sharing mechanism intended to strengthen accountability.

Beginning in fiscal year 2028, states with SNAP payment error rates exceeding six per cent would be required to absorb between five and fifteen per cent of programme benefit costs. The principle was simple: if states bore some financial consequences for administrative failures, they would have stronger incentives to improve performance. However, lawmakers also inserted what became known as the "Alaska Carveout."

The provision granted temporary relief to states with exceptionally high error rates, ostensibly providing additional time to improve programme administration before financial penalties took effect. What appeared politically expedient soon revealed itself as economically problematic.



As **Romina Boccia, Director of Budget and Entitlement Policy at the Cato Institute**, argues:

"Nearly 1 of every 9 dollars spent on SNAP was paid improperly in fiscal year 2025. The OBBBA aimed to address this by requiring states to foot the bill for some of the SNAP benefits they provide if their payment error rates exceed 6 percent. The Alaska Carveout, however, inadvertently incentivizes the very failure the reform was meant to correct. It was a last-minute provision shoehorned into the bill to get it past the Senate. In theory, it was meant to give states with the highest improper payments more time to reduce their error rates. In practice, it weakens OBBBA's reforms, rewards the worst-performing states while penalizing those making good-faith efforts to reduce their payment errors, and delays the spending reductions meant to offset the bill's tax cuts. Officials from some states are even keeping their error rates elevated to qualify for the temporary

exemption."

The irony is striking.

A reform designed to reward accuracy and accountability may have created incentives to preserve poor performance. States approaching the exemption threshold suddenly found themselves confronting a perverse calculation: improve too quickly and incur financial obligations; remain above the threshold and continue enjoying temporary protection. Reports emerging from several jurisdictions suggested that officials became acutely aware of these distorted incentives. Whether such behaviour proves widespread is almost secondary to the broader lesson. Once policy rewards failure and penalises improvement, dysfunctional outcomes become entirely predictable.

Beyond Bad Actors: A Structural Problem

For Romina, the Alaska Carveout merely exposes a deeper flaw. As she argues:

"However, this problem runs deeper than a few bad actors. SNAP's integrity problems are the predictable result of a financing structure in which states administer the program while federal taxpayers cover nearly all its costs. States have little incentive to police improper payments when the costs of mismanagement fall on someone else, and the exploitation of the Alaska Carveout is only the latest example of this moral hazard problem. Taxpayers should demand greater accountability for where their money goes, and pushing for Congress to eliminate provisions like the Alaska Carveout is a good place to start. A better fix is for Congress to end federal funding for SNAP and leave nutrition assistance to state and local governments. States that choose to run such programs would answer directly to the constituents funding them, who are far better positioned to hold them accountable."

Her argument reflects a broader public-choice critique of welfare administration: institutions respond to incentives, not intentions. The Alaska Carveout did not create the underlying problem. It merely exposed the contradictions already embedded within the programme.

Why Mass Recertification May Miss the Point

Against this backdrop, USDA Secretary Brooke Rollins proposed a sweeping recertification initiative requiring all SNAP beneficiaries to reapply for benefits. The proposal generated immediate political attention because it appeared to offer a direct response to concerns about programme integrity.

Yet critics argued that mass recertification risks confusing symptoms with causes. SNAP already contains recertification requirements. Beneficiaries periodically update information regarding income, employment status, household composition and residency. States already possess the authority and mechanisms necessary to verify eligibility.

The challenge is often not the absence of rules but the inconsistent enforcement of existing ones. Requiring millions of beneficiaries to repeat processes already mandated by law could generate significant administrative burdens without fundamentally addressing the incentive structures that contribute to payment errors in the first place. Even the most rigorous verification system struggles when institutional incentives discourage aggressive oversight.

The Republican Reform Agenda

Recognising these concerns, Republican lawmakers have increasingly focused on broader structural reforms. Proposals include strengthening interstate data sharing through the National Accuracy Clearinghouse, tightening eligibility verification, reducing tolerance thresholds for payment errors, restricting certain categories of eligibility and requiring greater state financial participation. Supporters argue these measures would improve accountability, reduce improper payments and restore public confidence in the programme.

Critics counter that excessive emphasis on error reduction risks creating barriers for genuinely eligible households, particularly vulnerable populations that already face administrative hurdles. Both arguments contain merit. Administrative integrity and programme accessibility are not mutually exclusive goals, but balancing them remains politically difficult.

The more fundamental question is whether improved administration alone can resolve problems that originate in programme design. Increasingly, many reform advocates believe it cannot.

The Federalism Debate Re-emerges

At its core, the SNAP controversy has evolved into a debate about federalism itself. Should food assistance remain a federally financed entitlement administered by states?

Or should states assume greater financial responsibility for programmes they operate? Advocates of decentralisation argue that accountability improves when decision-makers directly bear the fiscal consequences of their choices. Under such a model, states would possess stronger incentives to prevent waste, strengthen verification systems and innovate in programme administration.

Yet decentralisation introduces its own risks. States vary significantly in fiscal capacity, administrative competence and political priorities. Wealthier states may sustain generous programmes during economic downturns, while poorer states could struggle precisely when assistance is most needed.

One of SNAP's traditional strengths has been its ability to expand automatically during recessions when state budgets are under severe pressure. A fully decentralised system might enhance accountability while weakening uniformity and crisis responsiveness. The tension between these objectives remains unresolved.

The Politics of Accountability

The SNAP debate also illuminates a recurring reality of public policy. Politicians routinely promise to eliminate waste, fraud and abuse. Yet such promises often underestimate the extent to which institutions adapt to incentives. The Alaska Carveout offers a textbook example.

What began as a political compromise designed to facilitate legislative passage ultimately altered behavioural incentives across the system. States responded rationally to the signals embedded within the policy. This phenomenon extends far beyond SNAP. It appears whenever governments separate authority from responsibility, decision-making from accountability, or spending decisions from financial consequences. Successful reform therefore requires more than new regulations or additional paperwork. It requires institutions that align incentives with desired outcomes.

A Programme at a Crossroads

America's largest food assistance programme now stands at a crossroads. The status quo continues to provide critical support to millions of households while struggling with persistent accountability concerns. Reform efforts promise greater fiscal discipline but risk introducing new administrative complexities and political controversies.

Neither path offers an uncomplicated solution. Maintaining current arrangements risks perpetuating the very incentive failures that undermine public confidence. Yet radical decentralisation could create disparities that weaken the programme's ability to function as a national safety net.

The real challenge is not choosing between compassion and accountability. It is designing a system in which the two reinforce rather than undermine one another. The recent controversies surrounding SNAP suggest that the programme's difficulties stem less from isolated instances of fraud than from deeper structural contradictions. States administer the programme. Federal taxpayers finance it. And accountability remains suspended somewhere in between. Until policymakers confront that underlying reality, debates over recertification, payment errors and programme integrity are likely to remain trapped in a cycle of temporary fixes and recurring controversies.

The future of SNAP may ultimately depend not on how many audits are conducted or how many forms beneficiaries complete, but on whether responsibility and consequences can finally be brought back into alignment. For in public policy, as in economics, incentives are rarely defeated by good intentions. They merely wait to reveal themselves.

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