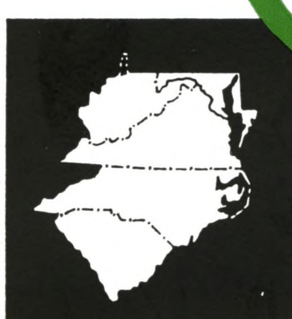
FEDERAL RESERVE BANK OF RICHMOND

MONTHLY REVIEW



NOVEMBER 1971

THE BANKING STRUCTURE:

What It Means and Why It Matters

Nearly anyone who customarily reads business and financial publications has encountered the phrase "the banking structure." Most readers are aware that the phrase refers to certain characteristics of the banking industry such as the number of banks in particular localities and the size and relative market power of specific banking institutions. But many readers would probably like the answers to three basic questions. First, precisely what is meant by the structure of the banking industry and how is it measured? Second, what factors determine the banking structure and which of these factors can bank regulatory agencies control or influence? Third, what is the operational significance of the banking structure? That is, how does the banking structure affect bank performance? This article will discuss each of these questions in turn. In doing so, the goal of the article is to provide the reader with the means to evaluate critically published material concerning the banking structure.

I. WHAT IS THE BANKING STRUCTURE?

Economists use the word "structure" to refer to the number and size distribution of buyers and sellers making up a particular economic market. The key word in the preceding sentence is market, for one cannot determine the structure of a market until the market under consideration is carefully defined and delineated. It will be useful to discuss the market definition problem generally and subsequently apply this discussion to the definition of banking markets.

General Problems in Market Specification Speaking broadly, the market for any good or service consists of the individuals, business firms, and government agencies buying or selling the item in question. In practice, however, it may be quite difficult to designate precisely which buyers and sellers constitute a particular market. In defining a market, two especially vexing problems arise: (1) specification of the product or products exchanged in the market and (2) delineation of the geographic area covered by the market.

Product Definition Two distinct conceptual difficulties exist with respect to market classification according to product. First, some nonidentical goods (such as coffee and tea) are substitutes in the eyes of the consuming public. Second, some goods (such as bread and butter) complement one another when consumed jointly.

(1) *Substitutable Products* Prior to the 1930's, economists traditionally considered a market to encompass the exchange of a narrowly specified good at a uniform price. The work of Edward Chamberlin and others, however, suggested that it is useful for many analytical purposes to study market activity in terms of groups of nonidentical but substitutable goods.[1] This approach raised an immediate question: how broadly should one define the group of substitutable goods traded in a particular market? Unfortunately, economic theory does not offer a precise criterion. For the purposes of practical market analysis, an eclectic approach is taken: markets are defined both narrowly and broadly with respect to product groups, the choice in any particular case depending on the goals of the study at hand. To give a simple illustration, an analyst might consider the market for all passenger automobiles. Or, he might prefer to analyze more narrowly defined markets for automobiles having particular mechanical or stylistic characteristics such as sport cars or station wagons.

(2) *Complementary Products* The product specification problem posed by the existence of complementary goods is particularly relevant to service industries. Specifically, what particular products constitute an integrated service product? For example, hospitals provide a wide variety of specific medical services. Does a separate market exist for each of these services? Or is there a broadly defined market for the composite group of "hospital services"?

The Geographic Delineation of Market Areas Designating the geographic area covered by a market presents an additional set of conceptual difficulties. Speaking generally, the geographic area covered by a specific market is the region within which a particular group of consumers and producers customarily exchange a product among themselves. The geographic segmentation of markets results from bar-

[1] See reference (5) in the bibliography accompanying this article.

riers to the transfer of goods and services over distance. The character and strength of these barriers vary greatly from one product or group of products to another. For bulky or highly perishable physical goods, the barrier is high transport costs. For certain legal and financial services, the barrier is the unfamiliarity of individuals and firms in one locality with individuals and firms in another locality. In contrast, the markets for certain financial instruments exhibit relatively weak spatial barriers. For example, the market for U. S. government securities extends over much of the world. In attempting to define the geographic region covered by a particular market, the principal difficulty lies in determining precisely what barriers to interlocational trade exist, the strength of these barriers, and the market boundaries to which they give rise.[2]

The Definition of Banking Markets This general discussions of markets and market definition can now be related to banking.

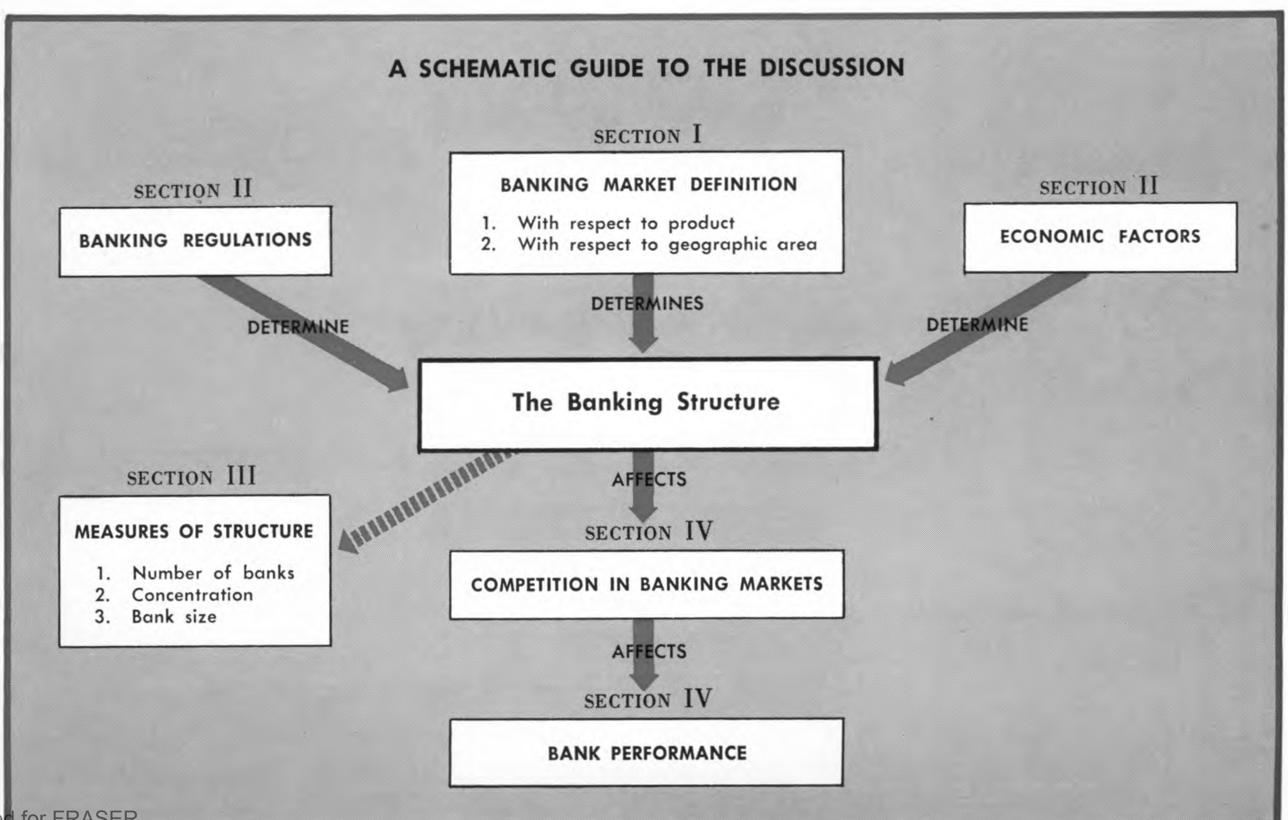
The *product specification problem* for banking markets is complicated by both product substitutability and product complementarity. With respect to complementarity, the essential question concerns the degree to which the wide variety of services banks provide are related. Banks make loans, accept deposits, process checks, and provide trust services. In addition to these traditional services, banks have expanded their activities in recent years to include the provision of such diverse services as investment consultation and the leasing of computer facilities. Do all of these services so complement one another that it is reasonable to speak of a market for "banking services"?[3] Or, at the other extreme, does each of the individual services provided by banks constitute a distinct product for purposes of market definition?

Whether one views banking services as a composite product or as a group of distinct products, it is clear that nonbank financial institutions provide a variety of services similar to and, in varying degrees, substitutable for the services offered by commercial banks. Hence, in defining markets for banking services, one must determine which nonbank institutions should be included as sellers in these markets. This is the problem posed by product substitutability for the definition of banking markets.

Determination of the *geographic pattern of banking markets* is directly related to product specification. If a distinct market exists for each bank service, it seems reasonable to speculate that the geographic extent of these markets varies considerably from one

[2] For a classic discussion of the geographic characteristics of markets, see Marshall (19; pp. 323-330).

[3] The banking industry itself has vigorously promoted the idea that individual banking services are interrelated with its "full service bank" advertising slogan.



service to another. For example, while markets for loans to small business firms appear to be local in character, the market for large loans to prime corporate borrowers is probably national in scope. Yet even where the decision is made to differentiate the markets for particular bank services extensively, the geographic area covered by the market for a specific service is often unclear. For example, do markets for loans to small business firms in urban areas include the entire metropolitan region or only some portion of the region? At the other extreme, if the aggregate group of bank services is considered a composite product for purposes of market definition, it becomes quite difficult to specify criteria for geographic market delineation.

One additional issue regarding the geographic specification of banking markets should be noted. In the United States, legal restrictions on bank branching differ from one state to another. Other factors aside, the market area for a given bank service may depend to some degree on the stringency of branching restrictions. Branching regulations are especially relevant to the designation of market areas in metropolitan regions. In cities where branching is permitted, each bank can, with the approval of the proper bank regulatory agencies, enter any neighborhood in the city through the establishment of a branch office. Where branching is prohibited (that is, where "unit" banking prevails), each bank must confine its facilities to a single office in a particular neighborhood or financial district. On these grounds, it has been argued that markets for such bank services as checking deposits cover the entire metropolitan area where branching is permitted, but that these markets are segmented in cities where branching is prohibited.[4]

The Measurement of Banking Market Structure

As stated earlier, the structure of a specific market refers to the number and size distribution of buyers and sellers transacting business in that market. Often, the term is more restrictively employed to designate the number and size distribution of *sellers* in a given market. Throughout the remainder of this study, the phrase "banking structure" will be used in this more limited sense; that is, the term will refer to the number and size distribution of *banks* in particular banking markets.

Certain statistics are commonly employed to specify the structure of banking markets. These statistics include: (1) the number of banks in the market, (2) the number of bank offices in the market, (3) the ratio of banks or bank offices to the population of the market area, (4) "concentration ratios," which indicate the percentage of total deposits held by the largest banks in the market, and (5) the absolute size of individual banks in the market as measured by total deposits or total assets.

In evaluating such data, the essential point is that each statistic, if it is to provide useful structural information, must be appropriately applied to a particular market defined with respect both to product and geographic area. To take an extreme example, the number of banks in the United States or the percentage of total domestic deposits held by the three largest banks in the nation tells one little about the structure of local markets for small business loans or checking accounts. In practice, the difficulty encountered in developing useful data on the structure of banking markets arises at a considerably finer level of detail. In states where branching is permitted, for example, should the geographic market area for a particular bank service be defined to include the entire state, local regions, or portions of local regions? What groups of bank services constitute integrated banking service markets in given areas, and which nonbank financial institutions compete with banks in these markets? In short, the problem encountered in developing and evaluating information concerning the structure of banking markets amounts largely to the problem of defining banking markets.

This discussion began by asking what constitutes the banking structure. As we have seen, no definitive answer can be given to this question until some ultimate consensus is reached regarding the pattern of banking markets. No such consensus is likely to be achieved. Moreover, no agreement would be permanent if it were attained, since the pattern of banking markets is in a continual state of evolution. For purposes of practical analysis, however, the situation is not as bleak as it might appear at first glance. Economists have devoted considerable effort to the analysis of banking markets, and some fundamental results have been achieved.[5] Most economists agree that banking services form a group of related but distinguishable products rather than a composite product. Further, it is generally recognized that geographic market areas vary in extent from one service product to another. Finally, most students of financial markets agree that both bank and nonbank institutions compete in integrated markets for certain types of financial services.

[4] See Shull and Horvitz (23; pp. 328-330).

[5] For two examples of recent detailed banking market studies see Gelder and Budzeika (10; pp. 258-266) and Luttrell and Pettigrew (18; pp. 9-12).

The Banking Structure and the Organization of Banking Institutions The banking structure was defined above as the number and size distribution of banks in given banking markets. A full understanding of the structure and functioning of banking markets, however, requires additional information regarding the organization of banking institutions. For example, it is important to know whether banks in a given market are unit banks or whether they belong to branch bank or bank holding company systems. The existence of such systems can directly affect the structure of banking markets. As indicated earlier, the proper geographic delineation of a given banking market may depend on branching regulations affecting banks in the market. Moreover, some banking analysts have argued that markets are characterized by fewer banks and greater concentration of bank resources where branching is permitted than where unit banking prevails.[6]

A particularly important organizational phenomenon during the past decade has been the extensive growth of bank holding companies.[7] The structural significance of bank holding companies is twofold. First, the holding company device can be used to bring two or more banks under common corporate control. Second, the device can be employed to bring one or more banks and one or more nonbank institutions under common corporate control. Therefore, bank holding company expansion can directly affect the number of independent banks operating in a market and the concentration of financial resources in the market. In addition, the linking of bank and nonbank activities by bank holding companies may broaden the market (with respect both to service product and geographic area) within which a given subsidiary bank operates.

II. WHAT DETERMINES THE BANKING STRUCTURE?

Since the banking structure refers to the number and size distribution of banks operating in particular banking markets, it follows that the factors which determine the structure of a specific market are the factors which affect the number and size distribution of banks operating in the market. In this section, these factors are identified and briefly discussed.

Economic Factors A basic tenet of general market theory is that demand and supply conditions characterizing a given market effectively determine the number and size distribution of firms serving the market. Other things equal, the strength of demand in a market determines how many firms can operate profitably in the market. On the supply side, two especially important determinants of market structure are the technical characteristics of production and the relative ease with which new suppliers can enter the market. Regarding these latter two factors, it is well known that firms in certain industries enjoy economies of large-scale production: that is, decreasing average or "unit" costs up to a certain level of output. If, in a given market, the output volume at which unit costs begin to rise is high in relation to total market demand, small firms will be driven from the market and new entry will be discouraged. Under these conditions, the market is likely to be characterized by a small number of large firms and a high degree of resource concentration.

Which of these economic determinants of market structure play active roles in shaping the structure of banking markets? The demand for banking services clearly influences the number of banks operating in particular areas. Moreover, demand conditions directly affect bank size. With respect to supply conditions, much attention has been given to the possibility that scale economies exist in the production of banking services. While statistical evidence suggests the presence of such economies, there is little agreement regarding their quantitative significance or their precise impact on the structure of banking markets.

Legal and Institutional Factors Economic factors, such as those just outlined, only partially determine market structure. Of great importance is the regulatory environment within which a market functions. In the United States, market structure has been directly and extensively affected by the application of antitrust statutes to particular industries. Moreover, entry into several strategic industries is restricted by law or by regulatory authority.

It is quite clear that a principal determinant of the structure and organization of American banking markets is the complex "duel" system of federal and state banking regulations. Two categories of banking regulations directly affect the banking structure: (1) restrictions on the formation of new banks and (2) regulations which affect structure through their impact on bank organization.

Restrictions on bank formation are embodied in the chartering authority of federal and state regulatory agencies. Federal law and most state laws contain criteria to guide these authorities in approving or disapproving specific applications to establish new banks. These criteria include capital adequacy,

[6] For evidence on this point, see Shull and Horvitz (23; pp. 312-339).

[7] Briefly defined, a bank holding company is a company which controls one or more banks in addition to whatever nonbank institutions it owns.

the general character of proposed management, and probable effects on the convenience and needs of the community to be served. Because these guidelines are quite broad, regulatory agencies exercise, in effect, discretionary control over bank formation. Through the exercise of this authority, agency decisions directly influence the number of banks and the distribution of bank resources in specific markets.[8]

We have already discussed the impact of bank organization on the structure of banking markets. In the United States, bank organization is shaped by federal and state laws affecting branching, bank mergers, and acquisitions by bank holding companies. Branching across state lines is prohibited. State laws variously permit statewide branching, permit limited branching (usually within local areas) or prohibit branching altogether. Where branching is permitted, federal and state regulatory agencies rule on applications to establish new branches and on applications to merge two or more banks. Agency decisions in specific cases directly influence the number of banks and the distribution of bank resources in particular markets. Further, the authority of the Board of Governors of the Federal Reserve System to approve or disapprove bank holding company acquisitions permits the Board to influence the number of independently controlled banks and the pattern of resource ownership in particular banking markets.

III. WHAT IS THE SIGNIFICANCE OF THE BANKING STRUCTURE?

Some Theoretical Considerations Perhaps the most significant hypothesis generated by general market theory concerns the relationship between the structure of a market and the efficiency with which the market allocates economic resources. Specifically, the theory asserts that the structure of a market determines the degree of competition in the market and that the degree of competition, in turn, affects the performance of producers with respect to the quantity of goods or services produced, efficiency in production, and prices charged in the market. Speaking generally, the theory draws the following conclusions. First, greater competition exists in markets characterized by large numbers of producers where no producer controls a significant share of the market. Second, given market demand, more competitive markets lead to greater output at lower prices. Hence, according to the theory, the aggregate welfare of the consuming public is improved by markets having numerous competitive producers.

With respect to banking, these theoretical propositions imply that the significance of the banking structure lies in its impact upon the performance of the banking industry in providing bank services to the public. Further, the theory seems to imply that markets with numerous competitive banks are preferable to markets exhibiting other structural characteristics.

The validity of market theory, however, depends critically on several highly restrictive preliminary assumptions regarding the nature of particular industries or markets to which the theory is applied. Where these preliminary assumptions do not correspond to reality, one cannot conclude that a competitive market structure is optimal.

Two of these assumptions are especially relevant to banking. First, the theory assumes that the rapid exit of relatively inefficient firms from competitive markets will not, in and of itself, detrimentally affect the functioning of the market. By eroding public confidence, however, bank failures may disrupt the operation of banking markets. It is true that deposit insurance mitigates some of the harmful effects of bank failures. Nonetheless, the fact that bank failures produce effects external to the failing banks themselves raises serious doubts regarding the desirability of unrestrained competition between banks.

Second, the theory assumes that the technically efficient level of an individual firm's total output is small in relation to aggregate market demand for the product in question. This condition is not met by firms engaged in productive activities characterized by significant economies of scale. Where scale economies exist, highly competitive market structures may be undesirable, since the numerous firms producing in such markets may be forced to operate at suboptimal output levels. As indicated above, several empirical studies have suggested the existence of scale economies in banking. The results of these studies are controversial and by no means conclusive. Nonetheless, they raise additional doubts regarding the desirability of competitive bank markets.

The Banking Competition Controversy These considerations lie at the heart of what has become known as the "banking competition controversy." Essentially, this debate focuses on a single question: what is the optimal structure of the banking industry? The controversy has a long history and is

[8] For a detailed analysis of the regulation of bank formation, see Motter (20; pp. 299-349).

reflected in the development of bank regulation during the past several decades.

During the 1920's and early 1930's, the highly unsettling effect of widespread bank failures stimulated an equally widespread distrust of unrestricted bank competition.[9] As a result, the Banking Acts of 1933 and 1935 included provisions designed to reduce competition among banks. In particular, the 1935 Act established standards for chartering national banks which tightened restrictions on bank formation. At the same time, state governments imposed a variety of additional restrictions.

In conjunction with the introduction of deposit insurance, these regulations have reduced the rate of bank failure significantly. Within this regulatory environment, however, structural changes of a different sort have appeared during the past two decades. Specifically, the number of independent banks has declined during these years as a result of numerous mergers and bank holding company acquisitions. Consequently, many observers of bank activity have become convinced that too little rather than too much competition exists in banking markets, causing harmful effects on the consumers of bank services. This attitude received its principal practical manifestation when, in 1963, the United States Supreme Court held that a proposed merger of The Philadelphia National Bank with The Girard Trust Company Exchange Bank violated Section 7 of the Clayton Antitrust Act.[10]

Statistical Evidence In its present form, the banking competition controversy is essentially a debate concerning the effects of the apparent decline in banking competition on bank performance. To enlighten the debate, a number of studies have attempted to measure statistically the relationship between the banking structure on the one hand and bank performance with respect to the quality and pricing of bank services on the other. As indicated earlier, market theory suggests that producers in more competitively structured markets supply greater output at lower prices.

In order to test the validity of this hypothesis for banking markets, the studies just mentioned have employed two sets of variables designed to measure (1) the structure of banking markets and (2) the market performance of banks. Structural variables include the number of banks serving a market, the concentration of banking resources in the market (usually measured by the proportion of total market deposits held by the largest banks serving the market), and bank size. Performance variables include (1) price variables such as interest charged for various types of bank loans and interest paid on time and savings deposits and (2) quantity (i.e., "output") variables such as the ratio of loan volume to total deposits.[11] Market theory suggests that, where other market characteristics are identical, banks will charge lower interest rates on loans, pay higher interest rates on time and savings deposits, and maintain higher loan-deposit ratios in markets having larger numbers of independent banks, larger numbers of competing nonbank financial institutions, and less concentration of banking resources.

The statistical studies referred to above have attempted to test these hypotheses. They have also analyzed other relationships between structure and performance and have attempted to determine whether or not economies of scale exist in the production of bank services. For the reader's convenience, these studies are listed in the accompanying bibliography. Their major findings are briefly summarized in the following paragraphs.

(1) Several studies [14, 15, 22] attempted to determine whether or not the number of banks and nonbank financial institutions competing in particular markets affected bank performance in these markets. While some of the results tend to confirm the above hypotheses, other results either contradict these hypotheses or suggest that no systematic relationship exists.

(2) Conclusions regarding the effects of banking resource concentration were also mixed. A number of studies [7, 8, 15, 21], however, found that less concentrated markets generally exhibited lower interest rates on loans and higher interest rates on time and savings deposits, results which support the theoretical hypotheses.

(3) The results of several studies [4, 8, 14, 16, 22] appear to suggest that, on balance, the performance of large banks is superior to the performance of small banks with respect to both interest rates and the proportion of total bank resources devoted to lending. This finding must be approached very cautiously, however, since large and small banks serve characteristically different types of customers.

(4) Test results were generally inconclusive regarding the performance effects of the organization

[9] Significantly, use of the term "overbanked" to refer to markets containing an excessive number of (consequently weak) banks originated during these years.

[10] U. S. v. The Philadelphia National Bank, *et. al.*, 374 U. S. 321 (1963).

[11] Use of the loan-deposit ratio as a measure of bank "output" arises from the preeminence of lending among bank activities. While the issues raised by this choice are beyond the scope of this article, it should be noted that many students of banking object to the procedure on theoretical grounds.

(Continued on page 10)

Income and Employment In the Fifth District

Three important indicators of economic growth are income, employment and population. Recent changes in Fifth District population were reviewed in the September issue of the *Monthly Review*;[1] this article will examine trends in income and employment in the District.

There are numerous measures or indicators that can be used to describe economic growth for states and regional areas. One of the most commonly accepted and frequently used measures is the amount of income received by people in a given area. Since income results from economic activity, it is a good measure of the extent of economic activity. Moreover, income is a good measure of economic well being, because it indicates the amount of money that people in a given area have to spend for goods and services. To remove the effects of price changes, per capita personal income expressed in 1958 dollars (per capita real personal income) is used as the income measure in this article.

Impressive gains in real income have been made in the District since 1960. The percentage increase in per capita real income in all District states exceeded the national increase (Table I). In Maryland and the District of Columbia the level of per capita real income exceeded that of the United States. Although per capita income in all other District states was less than for the United States, considerable progress in closing the gap was made between 1960 and 1970 (Chart 1).

[1] Thomas E. Snider, "Fifth District Population Growth and Distribution, 1950-1970," *Monthly Review*, Federal Reserve Bank of Richmond (September 1971), pp. 2-6.

Table I

PER CAPITA REAL PERSONAL INCOME IN THE U. S. AND FIFTH DISTRICT STATES, 1960-1970[1]

Area	1960	1970	Percent Change
United States	2,154	3,030	40.7
Maryland	2,276	3,288	44.5
Virginia	1,789	2,787	55.8
District of Columbia	2,936	4,163	41.7
West Virginia	1,551	2,335	50.5
North Carolina	1,518	2,478	63.2
South Carolina	1,340	2,269	69.3

[1] Per capita real income is per capita income obtained from the August 1971 **Survey of Current Business** expressed in 1958 dollars. The personal consumption expenditure component of the GNP Implicit Price Deflator was used to make this adjustment.

Employment Changes in employment vary sharply from year to year. When growth of the national economy slowed in 1969, the rate of growth of employment decreased in all District states (Table II).

Table II

TRENDS IN FIFTH DISTRICT AND UNITED STATES UNEMPLOYMENT RATES AND ANNUAL RATES OF CHANGE IN TOTAL WORK FORCE AND EMPLOYMENT, 1966-1970

	Unemployment rate (Percent)					Work Force: Annual rate of change (Percent)				Employment: Annual rate of change (Percent)			
	1966	1967	1968	1969	1970	1966-67	1967-68	1968-69	1969-70	1966-67	1967-68	1968-69	1969-70
Maryland	3.1	3.1	3.2	3.0	3.9	3.6	3.3	3.5	3.0	3.6	3.1	3.7	2.0
Virginia	2.7	2.8	2.7	2.7	3.1	2.8	3.0	3.5	2.1	2.6	3.2	3.4	1.6
Washington, D.C.-Md.-Va.-SMSA	2.4	2.2	2.2	2.3	2.6	5.6	3.8	3.6	3.0	5.8	3.9	3.4	2.7
West Virginia	6.8	6.4	6.4	5.5	6.4	0.3	0.6	−0.9	1.0	0.9	0.2	0.3	0.2
North Carolina	3.2	3.4	3.2	2.9	3.8	2.1	2.4	4.3	2.5	1.8	2.7	4.6	1.6
South Carolina	4.2	4.7	4.3	4.0	5.1	0.7	2.3	3.0	3.1	0.2	2.6	3.6	1.8
United States	3.8	3.8	3.6	3.5	4.9	2.1	1.8	2.5	2.4	2.0	2.1	2.6	0.9

Source: State data from state bureaus of employment. National data from the **Manpower Report of the President**, United States Department of Labor, April 1971, pp. 218 and 219.

In the period between 1966 and 1970, total employment in the United States increased by 5.7 million or 7.9 percent. In District states, gains in employment during the same period varied from 1.4 percent in West Virginia to 12.9 percent in Maryland, with all states except West Virginia exceeding the national rate of increase.

Generally, the unemployment rate in the District compares quite favorably with that of the nation. In every year since 1966 only two states, West Virginia and South Carolina, have had an unemployment rate higher than the national rate (Table II).

Employment by Industrial Sectors Employment data by industrial sector reveal that growth has varied considerably from industry to industry. Chart 2 is based on sectoral employment data.[2] Sectoral employment data differ from the data on total employment, in that government employees, self employed persons, farm workers and domestic service workers are excluded.

Thomas E. Snider

[2] Data for these charts was obtained from *County Business Patterns*, 1959 and 1969, U. S. Bureau of the Census, Department of Commerce.

Chart 1

PER CAPITA REAL PERSONAL INCOME AS A PERCENT OF U. S., 1960 AND 1970

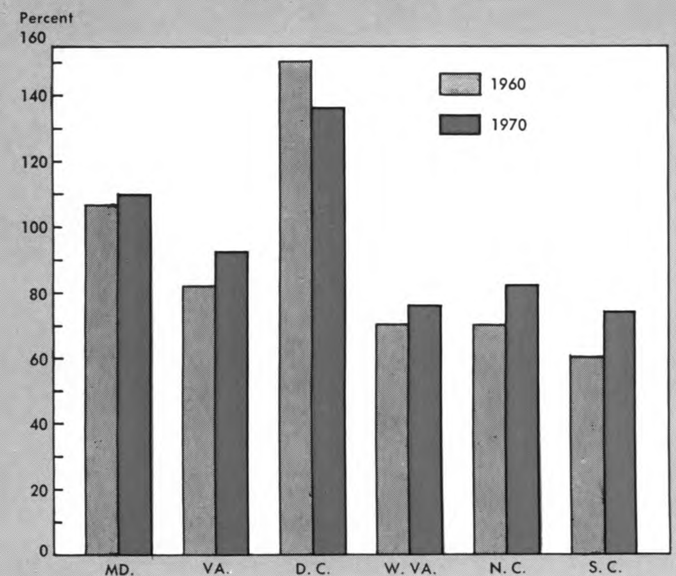
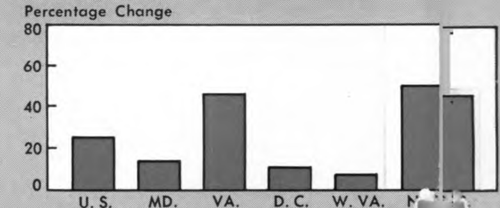


Chart 2

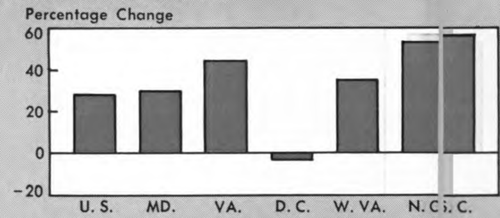
PERCENT CHANGE IN EMPLOYMENT IN U. S. AND FIFTH DISTRICT STATES, 1959-1969

MANUFACTURING



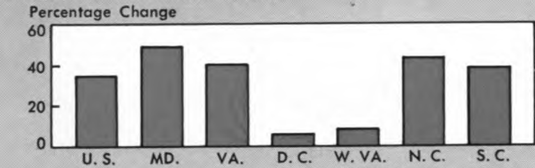
Between 1959 and 1969 employment in manufacturing increased substantially in most District states; growth in manufacturing in Virginia, North Carolina and South Carolina exceeded United States growth.

CONTRACT CONSTRUCTION



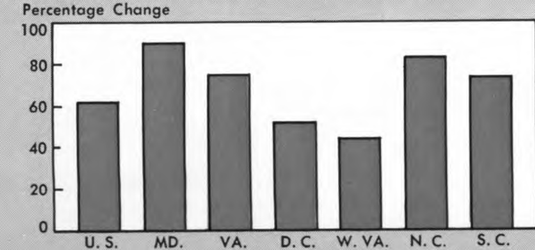
Growth in employment in contract construction was very strong. Increases in all District states, except the District of Columbia, exceeded the national i[illegible]

TRADE (WHOLESALE AND RETAIL)



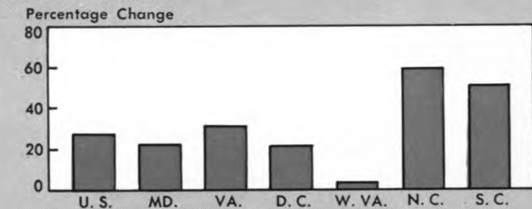
Increases in employment in wholesale and retail trade exceeded the national increase in all District areas except West Virginia and the District of Columbia.

SERVICES, FINANCE, INSURANCE, AND REAL ESTATE



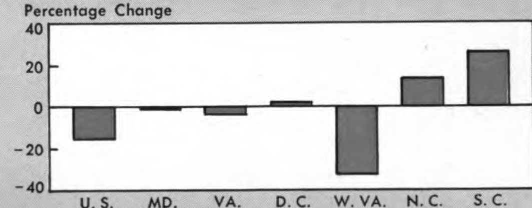
Employment in services, finance, insurance and real estate grew significantly between 1959 and 1969. Growth in most District areas far exceeded the national growth.

TRANSPORTATION



In Virginia, North Carolina and South Carolina increases in employment in transportation exceeded the national increase. North and South Carolina experienced especially large employment increases in this category.

MINING



Employment in mining declined in four District states with West Virginia and South Carolina registering large decreases.

BIBLIOGRAPHY

1. Alhadeff, D. A. *Monopoly and Competition in Banking.* Berkeley, California: University of California Press, 1954.

2. Bell, F. W. and N. B. Murphy. *Costs in Commercial Banking: A Quantitative Analysis of Bank Behavior and IB Relation to Bank Regulation.* Boston: Federal Reserve Bank of Boston, 1968.

3. Benston, G. J. "Economies of Scale and Marginal Costs in Banking Operations," *The National Banking Review,* 2 (June 1965), 507-49.

4. Carson, D. and P. H. Cootner. "The Structure of Competition in Commercial Banking in the United States," *Private Financial Institutions.* Englewood Cliffs, New Jersey: Prentice-Hall, Inc., 1963. pp. 55-155.

5. Chamberlin, E. H. *The Theory of Monopolistic Competition.* Cambridge, Massachusetts: Harvard University Press, 1933.

6. Cohen, K. J. and S. R. Reid. "Effects of Regulation, Branching, and Mergers on Banking Structure and Performance," *Southern Economic Journal,* 34 (October 1967), 231-49.

7. Edwards, F. R. *Concentration and Competition in Commercial Banking: A Statistical Study.* Boston: Federal Reserve Bank of Boston, 1964.

8. Edwards, F. R. "The Banking Competition Controversy," *The National Banking Review,* 3 (September 1965), 1-34.

9. Flechsig, T. G. *Banking Market Structure and Performance in Metropolitan Areas.* Washington, D. C.: Board of Governors of the Federal Reserve System, 1965.

10. Gelder, R. H. and G. Budzeika. "Banking Market Determination: The Case of Central Nassau County," *Federal Reserve Bank of New York Monthly Review,* 52 (November 1970), 258-66.

11. Gramley, L. E. *A Study of Scale Economies in Banking.* Kansas City: Federal Reserve Bank of Kansas City, 1962.

12. Greenbaum, S. I. "Banking Structure and Costs: A Statistical Study of the Cost-Output Relationship in Commercial Banking," Unpublished Ph.D. dissertation, Johns Hopkins University, 1964.

13. Horvitz, P. M. "Economies of Scale in Banking," *Private Financial Institutions.* Englewood Cliffs, New Jersey: Prentice-Hall, Inc., 1963. pp. 1-54.

14. Horvitz, P. M. and B. Shull. "The Impact of Branch Banking on Bank Performance," *The National Banking Review,* 2 (December 1964), 143-88.

15. Kaufman, G. G. "Bank Market Structure and Performance: The Evidence from Iowa," *Southern Economic Journal,* 32 (April 1966), 429-39.

16. Kohn, E. *Branch Banking, Bank Mergers and The Public Interest.* New York: New York State Banking Department, 1964.

17. Lawrence, R. J. *The Performance of Bank Holding Companies.* Washington, D. C.: Board of Governors of the Federal Reserve System, 1966.

18. Luttrell, C. B. and W. E. Pettigrew. "Banking Markets for Business Firms," *Federal Reserve Bank of St. Louis Review,* 48 (September 1966), 9-12.

19. Marshall, A. *Principles of Economics.* 9th ed. New York: The Macmillan Co., 1961.

20. Motter, D. C. "Bank Formation and the Public Interest," *The National Banking Review,* 2 (March 1965), 299-349.

21. Phillips, A. "Evidence on Concentration in Banking Markets and Interest Rates," *Federal Reserve Bulletin,* 53 (June 1967), 916-26.

22. Schweiger, I. and J. S. McGee. "Chicago Banking," *Journal of Business,* 34 (July 1961), 255-63.

23. Shull, B. and P. M. Horvitz. "Branch Banking and the Structure of Competition," *The National Banking Review,* 1 (March 1964), 301-41.

24. Wallace, R. S. "Banking Structure and Bank Performance: A Case Study of Three Small Market Areas," Unpublished Ph.D. dissertation, University of Virginia, 1965.

THE BANKING STRUCTURE:

(Continued from page 7)

of banks into branch and bank holding company systems. Four studies [8, 16, 17, 22], however, found that banks belonging to branch and holding company systems maintained higher loan-deposit ratios than banks not associated with such systems.

(5) Economies of scale appear to exist in the production of many banking services. While some studies [1, 11, 12, 13, 22] found these economies to be quantitatively significant, two recent tests [2, 3] concluded that they are relatively small.

While the findings of particular studies were often contradictory or inconclusive, this summary has indicated that, in some cases, several studies (usually employing quite different data) reached similar conclusions. One must be extremely careful, however, in generalizing on the basis of these results. Statistical tests of the sort employed in these studies are subject to inherent limitations. Moreover, the conclusions reached in several of the studies reflect the manner in which market areas comprising study samples were delineated. The earlier discussion of the problems encountered in defining banking markets, therefore, raises additional doubts regarding the validity of test results. In short, the findings summarized here can only be considered suggestive.

IV. CONCLUSIONS

This article has attempted to clarify the meaning of the banking structure, to specify its determinants, and to suggest how it might affect individual bank behavior. Section I listed several common measures of banking market structure and indicated the critical problem posed by accurate market definition in applying and evaluating these measures. Section II described the combination of economic conditions and regulatory practices which determines the structures of actual banking markets. Finally, Section III outlined several theories of the relationship between banking market structure and bank performance and summarized related statistical evidence. It is hoped that this discussion has illuminated some of the issues surrounding the banking structure and related questions regarding bank competition.

Alfred Broaddus

The Food Stamp Program

INTRODUCTION

Since November 1968, when the *Monthly Review* last published an article on the Food Stamp Program, the program has been liberalized and expanded. Because of these developments, plus the President's proposal for welfare reform, which has focused attention on all aspects of welfare, it would seem appropriate to reexamine the Food Stamp Program at this time.

THE MECHANICS OF THE FOOD STAMP PROGRAM

The Food Stamp Program, enacted in 1964, gives qualified low-income families and individuals the opportunity to purchase food stamps at a low price. The stamps can then be exchanged for a stock of groceries whose market value exceeds the price of the stamps. For example, a family of four having a net income of $150 per month can spend $41 and get a food stamp allotment of $136, which, according to the U. S. Department of Agriculture's Food and Nutrition Service, will purchase a minimum nutritional diet.

The difference between the cost to the recipient and the face value of the stamps varies according to family size and income. The smaller the income and the larger the family, the greater the subsidy. According to the latest tables, families earning net income of less than $20 per month receive food stamps free, regardless of family size. At the highest levels of income at which families of various sizes remain eligible, the families must pay from 81% to 95% of the face value of the stamps they receive. Thus, the subsidy varies from a low of about 5% to a maximum of 100%. Reflecting liberalization of the program over time, the extent of subsidization has increased substantially. One measure of this increase is the total bonus value of stamps (the difference between the purchasing power of the stamps and their price), which increased from 38% in May 1968 to 56% in November 1970.

The Food Stamp Program is administered by the USDA's Food and Nutrition Service, which contracts with the state governments to handle the details of the program. Normally, the states delegate the responsibility to county welfare departments, which, under specific guidelines set by the USDA, determine what families are eligible for food stamps, how many stamps each family may buy, and how much each family must pay. Families receiving Federally aided public assistance are automatically eligible. Others may be eligible, depending on income and size of family. Eligibility standards are now uniform throughout the nation, except for Alaska and Hawaii.

The family declared eligible to buy food stamps receives each month an authorization card that specifies the size of the food stamp allotment and the price to be paid for that allotment. The amount to be paid by the family is the amount which a family of that income and size would "normally" spend for food. USDA economists have determined the average amounts spent for food by low-income families of all sizes. Tables have been established to show all possible combinations of size and income, and the amounts to be paid by families are based on these tables. For example, according to the latest table, a family of eight having a monthly income in the range from $510 to $539.99 would "normally" spend $153 per month for food. The size of the allotment in this case would be $224, the amount considered necessary to provide a family of eight with a minimum nutritional diet.

The welfare department normally sends out the food stamp authorization cards at the same time welfare checks are distributed. This procedure provides welfare recipients with the necessary cash to purchase their stamp allotments. Under recent legislation, persons may even elect to have payments for food stamps automatically deducted from their welfare payments.

The method by which stamps are actually issued varies from place to place. In some areas, the sale is handled by the county welfare department. In other areas, the county welfare department contracts with banks, savings and loan associations, credit unions, armored car companies, and other institutions to issue the stamps. Private institutions bid competitively for the franchise, and the winning issuer is paid a flat fee for each transaction. In some cases, the direct and indirect costs involved in stamp-issuing may exceed the income from fees. Profitability probably varies from one location to another, depending on circumstances.[1]

The stamps themselves were available only in 50¢ and $2.00 denominations until January 1971, when $5.00 denominations were introduced to save printing and other costs associated with handling the large volume of paper involved. The stamps are sold in small booklets, which recipients must sign before using. The purpose of this procedure is to provide a signature that the grocer can compare with the signature on the authorization card. Stamps can then be used to buy food at any grocery store licensed to accept them.

Licensing by the USDA obligates the grocer to follow certain rules designed to prevent abuse of the program. For example, the grocer must check the identification of the person presenting the stamps for payment, accept $2.00 and $5.00 stamps only if they are still attached in the coupon book, and make change in a specified way. For instance, he can pay out cash only if the change due is less than 50¢. If the change due is 50¢ or more, he must give either a credit slip or a 50¢ coupon. In addition, the grocer must ensure that food stamps are not used to purchase ineligible items, which include such nonfood items as soap, tobacco, and alcoholic beverages and such items as imported meats, meat products, and other goods labeled or known by the grocer to be imports. A list of ineligible items must be posted in the store.

Redemption of food stamps is accomplished through normal banking channels. The retailer who accepts the stamps as payment for groceries can either deposit them with his commercial bank or use them to pay his wholesale grocer. In the latter case, the wholesaler would then present the stamps for deposit at his bank. In either case, all food stamps that are issued eventually find their way to commercial banks, which forward them to a Federal Reserve Bank or Branch. The Federal Reserve verifies the deposit of food stamps for accuracy, checks for counterfeits, credits the reserve account of the sending bank, and then destroys the food stamps by maceration or burning.

BACKGROUND OF PROGRAM LIBERALIZATION

The modern Food Stamp Program began with President Kennedy's announcement in early 1961 that a pilot food stamp plan would be initiated in six depressed areas. The objective of the program was twofold: to provide better nutrition for needy people (poor relief) and to increase food consumption for the sake of the farmer (farm relief). By August 1964, a pilot Food Stamp Program was operating in 43 project areas in 22 states, with more than 350,000 participants. Studies made by the USDA during the pilot program period concluded that the program was both desirable and practical. Consequently, President Johnson recommended legislation in 1964 to establish the Food Stamp Program on a permanent basis and make it more widely available.

Since the Food Stamp Act was signed into law on August 31, 1964, it has become apparent that the Food Stamp Program is almost totally ineffective as a farm relief measure. Government expenditures on the program are simply too small to affect total food consumption significantly. Moreover, since there are few restrictions on the kinds of food that can be purchased with food stamps, the program aids the disposal of surplus food items only to the extent that the food stamp user voluntarily chooses surplus commodities. Consequently, the Food Stamp Program cannot be considered a serious solution to either general or specific overproduction in agriculture.[2] Therefore, the Food Stamp Program must be regarded primarily as a welfare measure.

Even as a welfare program, food stamps have been attacked by some as an ineffective method of coping with the problem of hunger and malnutrition. The attention of the nation was arrested by the publication of *Hunger, U.S.A.* in April 1968, a document produced by a twenty-five-member board of inquiry after nine months' preparation.[3] The board of inquiry, which was organized following reports of hunger and malnutrition in Mississippi in 1967, examined the extent of hunger in selected poverty areas. Its findings suggested that probably more than ten million Americans were affected by chronic hunger and malnutrition and that government programs designed to provide food assistance were largely unsuccessful in their mission. The board of inquiry called upon the President to declare a national emergency in 256 "hunger counties" and to initiate programs that would adequately feed the hungry people.

Within a month after *Hunger, U.S.A.,* CBS tele-

[1] For a discussion of profitability see Robert Johnston, "Food Stamps and the Banks," *Monthly Review*, Federal Reserve Bank of San Francisco (October 1970), pp. 191-95.

[2] For a further discussion of the relationship between the Food Stamp Program and the farm problem see "Food Stamps for the Needy," *Business Conditions*, Federal Reserve Bank of Chicago (July 1965). See also Gilbert Y. Steiner, *The State of Welfare* (Washington, D. C.: The Brookings Institution, 1971), pp. 202-03.

[3] *Hunger, U.S.A.*, A Report by the Citizens' Board of Inquiry into Hunger and Malnutrition in the United States (New Community Press, 1968).

vision issued an additional indictment of the food programs. The CBS documentary, "Hunger in America," which focused on selected hunger areas in the country, concluded that hunger was extremely widespread:

> Hunger can be found many places in the United States—too many places. Ten million Americans don't know where their next meal is coming from. Sometimes it doesn't come at all.
>
> More than one thousand counties in need of food programs have no program whatsoever . . . There is also the failure of these programs themselves. Surplus commodities are free but do not contain the right foods. Food stamps are not free and too often the people who need them most can't afford them.[4]

The hunger studies prompted further investigation by several Congressional committees, which discovered, among other things, that a majority of apparently eligible poor families failed to participate in the Food Stamp Program. A Senate committee concluded that:

> Nationally only 21.6 percent of the poor people living in counties with food stamp programs participate in the program. Only in the State of Washington and the District of Columbia do food stamp programs reach over 40 percent of the poor. Seven states have programs that reach less than 15 percent of their poor. Only 116, or 10 percent, of all counties with food stamp programs reach 40 percent or more of their poor.[5]

Not only were participation rates found to be low, but it was further discovered that participation rates typically declined when counties switched from direct distribution of surplus commodities to the use of food stamps.[6] For example, when St. Louis made the switch in 1963, participation quickly fell from 50,000 families to 7,500. By 1969 participation had recovered to only 25,000. These and similar facts apparently led Congress to conclude that the Food Stamp Program had been too restrictive. As a result, in recent years the rules and regulations of the program have been progressively liberalized.

MORE LIBERAL RULES

Program liberalization has occurred mainly in two stages: the first was taken in late 1969, and the other is undergoing final implementation at the present time. In 1969 the following significant changes were made.[7] (1) Allotments were increased substantially. For example, the coupon allotment for a family of four was increased by 83% over the previous allotment. In addition, coupon allotments were set at a uniform level nationally, eliminating the separate schedules that had been used in northern and southern states. (2) The amount a family must pay for its stamp allotment was reduced as far as possible within the requirement of the law that this payment not be less than a family's normal food expenditure. For this normal expenditure, the family would be able to purchase an allotment which would provide a minimal nutritional diet. (3) As a result of increased allotments and reduced payments, "bonuses" increased in most instances. For very low-income families, bonuses more than doubled. (4) USDA appropriations were made sufficient to extend the Food Stamp Program to all counties and cities that requested it. (5) An "outreach" campaign was started by USDA to inform all eligible families of the benefits available under the Food Stamp Program and to sign up new counties and cities for the program.

Equally far-reaching changes were announced in final form in July 1971.[8] While a major purpose of these revisions was to liberalize the program further, it is significant that several of the changes were directed toward prevention of abuses. Some of the more important changes are listed below. (1) The size of the uniform national allotment was further increased slightly; and, because of higher food costs, allotments for Alaska and Hawaii were set higher than elsewhere. More significant was the provision allowing participants at time of stamp issuance to purchase less than the full amount of their allotment, with their payments reduced accordingly. Under the old rules, a participant had to buy the whole allotment or none at all. If a participant bought no food stamps for a period of time (perhaps because of an emergency), he had to be requalified by the state welfare department to participate in the program again. Since it was believed that this practice contributed to permanent discontinuance of food stamp use and helped account for low participation rates, the rule was changed to permit the purchase of three-quarters, one-half, or one-quarter of the monthly allotment. (2) Eligibility requirements were lowered by permitting higher income families to participate in the program and by allowing certain deductions in computing monthly family income. These deductions include: 10% of income from earned

[4] A transcript of the documentary, "Hunger in America," appears in *Congressional Record* (May 29, 1969), pp. 15568-72.

[5] *Poverty, Malnutrition, and Federal Food Assistance Programs: A Statistical Summary*, prepared by the Senate Select Committee on Nutrition and Human Needs, 91 Cong. 1 Sess. (1969), p. 29.

[6] For an interesting discussion of this point, see Steiner, pp. 215-20.

[7] U. S. Department of Agriculture Press Release 3873-69 (December 18, 1969).

[8] U. S. Department of Agriculture Press Release (July 22, 1971).

wages or training allowances, up to a maximum of $30 per month; earnings of a child under 18 who is still in school; benefits of a noncash nature, such as free use of living quarters; certain deductions from earnings, such as income tax, Social Security tax, and union dues; educational tuition and fees; shelter costs that exceed 30% of income; medical payments in excess of $10 per month for the household; child care costs necessary for a household member to accept and continue employment; and unusual expenses resulting from disaster and casualty losses. The use of deductions not only brings some formerly excluded families under the program, but also enables existing participants to get their allotments for less. (3) The schedules were revised so that poor families, regardless of size, would pay less for their allotments, and very low-income families would pay nothing. While higher income families in some instances are now required to pay more than under the previous schedule, no family is required to pay more than 30% of income for an allotment. (4) Elderly participants who are so disabled or feeble that they cannot adequately prepare their own meals can now use food stamps to pay for meals delivered to them by nonprofit meal services. (5) When a county or city switches from direct distribution of commodities to the Food Stamp Program, the state may request permission to operate both programs simultaneously in the locality for a transition period of up to three months. (6) To prevent disruption of food stamp use when a family moves from one food stamp area to another, recertification of the family is not required in most instances, provided household circumstances remain the same. (7) Each state is required, rather than merely encourage, to develop an "outreach" program.

Table I

THE FOOD STAMP PROGRAM, 1962-1971

Fiscal Year	Average Monthly Participation	Number of Participating Areas	Value of Stamps Issued	Bonus Value
	(000)		($ millions)	($ millions)
1962	143	8	35	13
1963	226	42	50	19
1964	367	43	73	29
1965	425	110	85	33
1966	864	324	174	65
1967	1,447	838	296	106
1968	2,211	1,027	452	173
1969	3,222	1,489	603	229
1970	4,340	1,747	1,090	550
1971*	10,170	1,997	1,686	959

*The 1971 participation figures are for February 1971. Stamp valuation figures are for fiscal year 1971 through February.

Source: U. S. Department of Agriculture, **Food and Nutrition Service Annual Report,** "Agricultural Statistics."

As indicated earlier, all of the above changes were designed to increase participation in the Food Stamp Program and to improve nutrition. The above changes have not yet gone into effect. When they do, it is reasonable to expect another noticeable increase in food stamp activity.

The latest amendments also contain provisions designed to eliminate abuses of the program. One such provision concerns the definition of a household. All members of a household under 60 years of age must now be related by blood, marriage, or legal relationship sanctioned by state law in order for the household to be eligible for food stamps. Foster, adopted, and other children under 18 years of age, for whom an adult member has assumed a parental role, are considered related members. While an unrelated roomer or boarder is not considered part of the household, his presence would not disqualify the household from the Food Stamp Program.

No household can be allotted food stamps if it has a member over 18 years of age who is claimed as a dependent for Federal income tax purposes by a parent or guardian of another household, which itself is not eligible for either food stamps or USDA donated foods. This provision and the one related to household definition are presumably directed toward students and other young persons electing a group or "communal" mode of living and qualifying in that way as food stamp recipients under the original law and its definitions.

Mandatory quality control plans are to be part of each state's Food Stamp Plan of Operation, and misuse of authorization cards now carries the same penalties as unauthorized issuance and use of the food stamp coupons themselves. In some instances, such misuse is considered a felony and can result in as much as five years' imprisonment, or a fine of $10,000, or both.

Work registration is now part of the application and recertification process, if the household has an able-bodied member between 18 and 65. Exceptions are made if that member is (1) responsible for the care of dependent children under 18 or incapacitated adults, (2) a student enrolled at least half time in any school or training program recognized by any Federal, state, or local government agency, or (3) working at least 30 hours per week. The work registration form is to be forwarded by the food stamp certification office to the state or Federal employment office for the area.

Table II

FOOD STAMP PROGRAM IN THE FIFTH FEDERAL RESERVE DISTRICT

November 1970

	Total Resident Population* (000)	Participation	Percentage Participation	Coupons Issued: Total Value ($ millions)	Coupons Issued: Bonus Value ($ millions)	Coupons Issued: Bonus as Percent of Total	Coupons Issued: Average Bonus per Participant ($)
District of Columbia	798	80,474	10.0	2.0	1.2	60	15.06
Maryland	3,765	158,245	4.2	3.9	2.4	62	15.18
Virginia	4,669	128,593	2.8	3.1	1.9	60	14.55
West Virginia	1,819	213,095	11.7	5.1	3.5	68	16.34
North Carolina	5,205	164,050	3.2	4.0	2.7	69	16.59
South Carolina	2,692	258,954	9.6	6.1	4.7	77	18.06
Fifth District	18,948	1,003,411	5.3	24.2	16.4	68	16.32
National Total	201,921	9,497,440	4.7	225.4	126.9	56	13.36

*1969 Preliminary.

Source: U. S. Department of Agriculture and U. S. Department of Commerce.

PROGRAM EXPANSION

Nationwide With program liberalization has come program expansion in terms of the number of participants, geographic coverage, dollar volume, and cost to the Federal Government. Although there has been keen disappointment in certain quarters with the extent of program participation, the number of participants has more than tripled since June 1969 and currently totals about 11 million persons. In the same period the number of participating areas almost doubled to over 2,000 counties and cities. The Food Stamp Program now covers twice as many city and county areas as the commodity distribution program, and only nine counties in the U. S. are without any recognized food assistance program.[9] As indicated by Table I, dollar volume has tripled since June 1969 and amounted to $1.7 billion in February 1971. Moreover, the Federal Government is now picking up a bigger percentage of the tab. Total cost to the Federal Government, including administrative expense, is now running at an annual rate of about $1.5 billion per year. Appropriations of $2 billion were asked by President Nixon for fiscal year 1971-72.

Fifth District Expansion of the Food Stamp Program has also occurred in the Fifth District. The number of participants increased from 300,438 in mid-1968 to just over a million near the end of 1970. The total value of food stamps issued jumped during the same period from $5.0 million to $24.2 million, an increase of nearly 400%. Geographic coverage has also increased as counties have switched from direct distribution to food stamps. Of the six areas comprising the Fifth District, four now have 100% food stamp coverage—Maryland, West Virginia, South Carolina, and the District of Columbia. Virginia and North Carolina are both about equally divided between the commodity distribution and food stamp plans. No city or county area in the Fifth District is without some form of Federal food assistance.

The current status of the Food Stamp Program in the Fifth District is summarized in Table II, which indicates that the program is somewhat more widely used in the District than in the nation at large. The District participation rate is slightly higher than the national average due to very high participation in D. C., West Virginia, and South Carolina. The degree of subsidization is higher than the national average, suggesting that District participants tend to have somewhat lower average incomes than participants elsewhere.

UNSETTLED QUESTIONS

While the Food Stamp Program has apparently been given the green light by Congress, criticism of the program continues. Some observers argue strongly that grants to needy families should be in the form of cash, not food stamps, on grounds that such families ought to be given more discretion over their spending than the Food Stamp Program per-

[9] U. S. Department of Agriculture Weekly Summary of Family Food Assistance Programs (April 30, 1971).

mits. While admiting that many families would not spend as much for food, the critics argue that a family can learn responsibility only by being given the opportunity to exercise it and, further, that individual families are in a better position than the government to allocate available purchasing power efficiently.

Second, those favoring cash grants argue that food stamps constitute a specialized supplementary currency system that is expensive to operate and maintain. Food stamps are costly to print, distribute, redeem, and destroy. In addition, there are costs of policing the system to prevent abuse. There are also some hidden costs. Grocery stores and banks, for instance, have to give food stamps special handling, which is costly. Spokesmen for the Food Stamp Program generally defend the present system on grounds that only a supplementary currency system can insure use of the subsidy for food rather than for other items.[10]

Another concern, recently voiced in the press, is the growing use of food coupons by strikers. This is a practice that may be inflationary, since strikers, who are able to supplement strike-fund income with food stamps and other welfare payments, may be bolder and more insistent in their demands. Interestingly, while the latest regulations do not prohibit strikers from obtaining food stamps, strikers are required to meet the work registration provision in order to be eligible. Further, the registered member or members of the household must cooperate in seeking and accepting employment.

One of the perennial concerns about the Food Stamp Program has been the possibility of abuse. The likelihood and extent of abuse have probably increased with the degree of subsidization and the program's rapid expansion. Program abuses can range all the way from making nickel expenditures in order to get 45¢ in change to major crimes, such as discounting of food coupons and counterfeiting. The latest revisions reflect a continued effort to make dishonest use of the program more difficult and costly.

Elaine Eastham and Jimmie R. Monhollon

[10] For a very interesting discussion of these issues, see Steiner, pp. 196-97, 232, and 236.