

Constituencies and Legislation: The Fight over the McFadden Act of 1927¹

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Abstract

The McFadden Act of 1927 was one of the most hotly contested pieces of legislation in U.S. banking history, and its influence was still felt over half a century later. The act was intended to force states to accord the same branching rights to national banks as they accorded to state banks. By uniting the interests of large state and national banks, it also had the potential to expand the number of states that allowed branching. Congressional votes for the act therefore reflect the strength of various interests in the district for expanded banking competition. Congressmen in districts in which landholdings were concentrated (suggesting a landed elite), and where the cost of bank credit was high and its availability limited (suggesting limited banking competition and high potential rents), were significantly more likely to oppose the act. The evidence suggests that while the law and the overall regulatory structure can shape the financial system far into the future, they themselves are likely to be shaped by well organized elites, even in countries with benign political institutions.

¹ We thank Edward Scott Adler, Daron Acemoglu, Lee Alston, Charles Calomiris, Price Fishback, Oded Galor, Sebnem Kalemli-Ozcan, Gary Richardson, Eugene White and seminar participants at the IMF, and the NBER Development of the American Economy and Income Distribution and Macroeconomic Groups for useful comments. Keith T. Poole and Kris James Mitchener kindly provided data.

I. INTRODUCTION

It has been argued that the constituencies or interest groups that arise from the pattern of land holdings or other forms of economic production in a country can shape important economic institutions such as the financial system, and consequently, economic development (Engerman and Sokoloff (2002, 2003), Haber (2005), Rajan and Ramcharan (forthcoming)). But the channel through which interest groups might operate remains a matter of debate. Some (see, for example, Acemoglu, Johnson, and Robinson (2005)) argue that the mediating channel is political institutions, as elite interest groups create coercive political institutions that give them the power to hold back the development of economic institutions, such as finance, and hence economic growth. However, legislation, and its effects on perpetuating rents and hence political power, may be another principal channel through which constituencies might shape the financial system and project their influence through time, even in benign democratic political systems (see Do (2004), Glaeser, Scheinkman, and Shleifer (2004), or Rajan and Zingales (2003), for example).

In this paper, we study whether, and how, constituencies influence the development of the financial system, using evidence from congressional voting on the McFadden Act of 1927. The United States has long had a dual banking system, where state banks are chartered and regulated at the state level, while national banks operate under federal oversight. The McFadden Act was the key piece of federal legislation that regulated the relationship between state and national banks in the United States for about 70 years—up until the passage of the Riegle-Neal Act in 1994 (Calomiris (2000)). Before the McFadden Act, some states allowed state banks to open multiple branches, while

others prohibited all branching. However, nationally chartered banks were, in all cases, not allowed to open branches (Cartinhour and Westerfield (1980), Southworth (1928)).

The duality of the US banking system has often engendered fierce competition between state and national banks. And the period leading up to the act's passage saw a seeming race to the bottom, as regulatory entities lowered bank capital requirements and relaxed chartering requirements to gain a competitive advantage.² In response, the McFadden Act attempted to level the competitive landscape so as to induce national banks to not give up their charter (which typically meant their leaving the Federal Reserve System also). The act forced states to accord largely the same branching rights to national banks as to state banks (Preston (1927)).

The act proved enormously controversial, and a study of how the vote of each congressional district varied with the constituencies in that district can be extremely informative on (1) whether constituencies had political influence; and (2) whether the influence was directed in expected ways for, or against, greater competition and financial development.

In Rajan and Ramcharan (forthcoming), constituencies did appear to influence the structure of the financial sector. Specifically, landed elites—a key political constituency during this period--were successful in restricting local bank competition in different counties in the United States. Counties where the agricultural elite had disproportionately

² The Comptroller of Currency in 1922 observed: “National banks are compelled to compete with state institutions. If state laws are more liberal they will constitute an inducement to banks to operate under the laws of the states rather than the Nation...If the system is to be perpetuated there must be national banks in sufficient number and strength..they must be given charters liberal enough to remain in the system. The advantage of the more liberal conditions that can be enjoyed outside the national banking system...will presently become a menace to the strength, and may ultimately threaten the very existence, of the Federal Reserve System (Report of the Comptroller of Currency (1922)).

large land holdings had significantly fewer banks per capita, even correcting for state level effects. Moreover, credit appears to have been costlier, and access to it more limited, in these counties.

The literature suggests three main reasons why landed interests might have opposed more local bank competition. First, limits on bank competition and control over exit could provide landowners insurance during periods of agricultural distress. While large national banks or state banks with branches could foreclose more easily on loans and exit the locality, transferring capital to urban or less distressed rural areas, small local banks would have fewer options, and would have to continue lending to large local farmers during periods of distress (Calomiris and Ramirez (2004)).

Second, controlling bank entry could accord landed interests greater influence over the local financial system, rendering them better able to prevent or delay the emergence of alternative centers of economic power and status (Chapman (1934)). For example, a rapidly growing manufacturing sector could increase the returns to schooling and attract labor away from agriculture, and there is evidence that landed interests may have used their political influence to restrict not just finance, but education and other public goods (Galor et. al (2009), Ramcharan (2010)).³

Third, large landowners generated surpluses which they could lend. They also often had a stake in, or influence over, the local bank. The entry of more formal credit institutions could be competition for their lending business. They also had indirect reasons to keep out competition in lending. Landowners often owned the local store.

³ In addition, Alston and Ferrie (1993) argue that in response to the desire of landed interests to maintain a paternalistic state in order to ensure a steady supply of farm labor, the Southern congressional delegation may have systematically blocked the development of the federal welfare state in the U.S. until mechanization reduced the demand for unskilled labor.

Tenants and small farmers needed credit to buy supplies from the local store. By limiting credit from alternative sources – for instance by keeping banks out -- the local merchant cum landlord could lock the farmer in and charge exorbitant prices, perpetuating the lucrative debt peonage system (Haney (1914, p55-56)).^{4 5} To be sure, there remains some uncertainty over the extent of debt peonage and the “bankability” of tenant farmers and share croppers during this period.⁶

While we know the landed elite had the incentive and the ability to influence outcomes, we do not know whether their influence worked through the political process. For instance, Rajan and Ramcharan (forthcoming) argue that landed elites could have shaped local bank competition by giving business to favored banks. Indeed, if politicians were strictly motivated by doing good for the mass of voters, it seems unlikely that they would have sided with the views of the landed interests. If, however, concentrated money power trumped dispersed voter interests, one might expect a district’s politicians to

⁴ Initially, there was a conflict of interest between large landlords and the local merchant because both had an interest in tenant farmers. But “as time went on the two classes tended more and more to become one.” Landlords were drawn into the store business by “the desirability of supplying their tenants”, while “storekeepers frequently became landowners by taking over the farms of those who were indebted to them or by direct purchase at the prevailing low price”. Hicks (1931, p32). Haney (1914, p54) writes that in most parts of central Texas, “over 90 percent of those tenants who owe the store are also indebted to their landlords for larger or smaller advances.” See also the surveys in Goodwyn (1978) and Ransom and Sutch (2001).

⁵ There were other benefits for the rich landlord to limiting access. Landlords would also enjoy a competitive advantage, for instance by being able to buy land cheaply when small farmers were hit by adversity, or by having privileged access to loans in the midst of a prolonged drought.

⁶ For example, the evidence in Fishback (1989) suggests that most farmers may have been able to repay their debts shortly after harvests. Also, while debt peonage is most closely associated with racial discrimination, Alston and Kauffman (2001) find little evidence of discrimination in sharecropper pay for a sample of southern counties.

reflect the interests of the landed elite.⁷ If so, we should see representatives of districts where landed elites were important vote disproportionately against the McFadden Act.

The McFadden Act proposed to extend bank branching powers to national banks only in those states that already allowed state banks the right to open branches. One could argue that opposition to the McFadden Act would have come primarily from landed elites in states that allowed branching. Yet contemporary texts (see, for example, Preston (1927)) suggest that the expectation was that if the McFadden Act allowed national banks liberal branching powers, then subsequent to the passage of the act, national banks would unite with large state banks to push for branching in all states. Thus landed elites in non-branching states could be expected to be even more opposed to the McFadden Act than were landed elites in branching states, especially because the latter's rents would already have been diminished by branching by state banks.⁸

The Act evolved in Congress as constituencies worked to influence the legislation. Examining the initial congressional roll call data, we find that congressmen from districts with more concentrated land holdings (our proxy for the relative importance of landed interests) were far more likely to oppose the McFadden Act during its first House vote in 1926. The association of land concentration with congressional

⁷ There is evidence that local politicians had some influence over bank structure, over and above their votes on legislation. For example, members of Congress often influenced bank chartering decisions in their district. Referring to state charter applications, American Bankers Association (1935) quotes a Comptroller on political influence: "prior to the disposition of an application a copy thereof is sent to the national-bank examiner, to the *Member of Congress for the district in which the bank is located*, and to the superintendent of the state banking department, with request for information on the character and standing of the applicants, the existing demand for a bank at the locality, and an expression of opinion as to whether success is probable."

⁸ It is also likely, of course, that landed elites in branching states had less power than landed elites in unit-bank states, as suggested by their inability to prevent the state from allowing any branching whatsoever. Indeed, Rajan and Ramcharan (forthcoming) find that states with more concentrated landholdings were less likely to allow bank branching.

opposition was especially strong in those districts where agriculture was relatively more important than manufacturing, suggesting that landed elites were politically more effective when they also dominated economically. Similarly, the association of landed interests with congressional opposition was particularly strong in non-branching states, perhaps because of the fears of the local elite about the incipient spread of branching.

Also, using hand collected data from the 1930 Census on measures of credit cost and access, such as the interest rate and loan to value ratios of farms, we find that congressional support for the McFadden Act, was significantly lower in those districts with high credit costs and limited credit availability, suggesting that the desire to protect incumbents' rents may have indeed inspired political opposition to the Act.

We use the legislative history of the McFadden Act to help identify more precisely the role of landed interests in shaping its passage. Some of the more aggrieved landowners, especially those in smaller communities, were appeased by provisions that were introduced into the act limiting the ability of national banks to open branches in small towns. The historical commentary also suggests that political horse-trading in the House may have been key in securing the Act's final passage, as government price support for grain was extended to cotton and tobacco, allegedly in order to entice the Southern delegation to support the McFadden Bill and break the deadlock with the Senate (the House disagreed with the Senate version that was more favorable towards bank competition). Consistent with this narrative, we find evidence that the association between congressional opposition and the strength of landed elites declined significantly in tobacco growing districts, ensuring the Act's passage. Finally, using county level data, we explore the impact of the Act on local banking structures. There is evidence that in

those states allowing branching, the Act's passage did lead to faster national bank growth, and a decline in deposits held in state banks. The legislation thus had a significant impact on local bank structures.

Eventually, technological changes in banking, which allowed banking at a distance, made it hard to maintain bank branching restrictions in the US (Kroszner and Strahan (1999)). The Riegle-Neal Act repealed the remaining restrictions on bank branching in 1994.

Ours is clearly not the first paper to try and explain the political economy of voting on the McFadden Act. But most papers have looked at how the differences in state regulatory structure (unit-banking or branch-banking) affected how legislators from those states voted (see Economides, Hubbard, and Palia (1996), for example). We go deeper in this paper to explain how the votes of districts, correcting for state fixed effects, could be explained by the strength of the landed interests.

Ours is also not the first paper to show that landed interests matter for financial development (see, for example, Rajan and Ramcharan (forthcoming), and Vollrath (2009)). While Rajan and Ramcharan (forthcoming) argue that landed interests have influence that helps them restrict local bank entry and competition, they do not provide evidence of such influence working through political channels and congressional votes. The pattern of voting on the McFadden Act helps us establish the necessary link between landed interests and political influence.

By restricting the scope of the McFadden Act and protecting small banks from competition, landed interests created a new interest group, small community banks, which gained political influence and maintained the protections long after their initial

protectors lost their economic and political heft. Thus constituencies can have influence long after they pass from the scene. In the next section we briefly describe the Act.

We describe the data in section III, the main results are in section IV, and conclude in section V.

II. THE MCFADDEN ACT

The Federal Reserve Act of 1913 did not grant national banks branching rights. Some regulators feared that the national banks would not be competitive with state banks in states that allowed state banks branching powers. The Comptroller of the Currency ruled in 1922 that national banks could open intra-city offices for the purpose of deposit when this did not conflict with state laws (see White (1985)). Two days after the Comptroller's ruling, the First National Bank of St. Louis opened a full-fledged branch and argued that, as a federally chartered institution, it was not subject to state regulation. Two years later, the Supreme Court ruled against it, but the fight had been joined.

Fearing that once the national banks got branching powers, they would join large state banks in pressing for branch banking in every state, banks in many of the unit banking states formed state associations that declared themselves opposed to branch banking. On the national level, the United States Bankers Association Opposed to Branch Banking was formed. Unit bankers pressed their state legislatures to remove any ambiguity about whether branching banking was prohibited, and by 1924, nine states added anti-branching provisions to their banking laws.

The McFadden Act was motivated by the federal government's desire to resolve the ambiguity about the powers of national banks, and preserve the attractiveness of national bank charters and membership in the nascent Federal Reserve System against

regulatory competition from state bank regulators. It provided that in states where state branch banking existed, or could exist in the future, both national and state banks members of the Federal Reserve System would also be allowed to operate branches within the city limits of the parent bank. This was viewed as a step towards further branching liberalization and greater bank competition at the local level.

The local political constituencies who had historically guarded their control of the banking system saw their rents threatened by the prospect of increased competition and the potential dominance of local banking by large national banks. Moreover, as discussed above, they feared that the Act would lead to more states opening up to branching. Opposition to branching was also intense in those areas with many small unit banks. The 1920s was a period of agricultural distress, and rural small bank failures became increasingly common. These unit bankers feared that the introduction of bank branching and the entry of large national banks into small towns could accelerate small bank failures. The Mid West was the area most populated with small unit banks, and Chicago became the epicenter of opposition to the McFadden Act (see Chapman and Westerfield (1980), Southworth (1928), White (1985)).

The Act went through several metamorphoses in Congress, as the various constituencies sought to influence the legislation. For example, in its original form, before February of 1926, the branching issue was phrased in language widely viewed as favoring further branching and local competition.¹⁰ But the Hull amendment, which delayed the Act's passage amid much controversy, sought to "limit bank branching to

¹⁰ Specifically, this version of the Act "provided that state bank members of the Federal Reserve System might not establish branches outside their home cities and that national banks might establish branches in their home cities in those states where state banks were accorded a like privilege" Collins, "Report on the Bank Branching Question", pp 82-83.

those States which permitted branch banking *at the time of the approval of the bill*—so far as the national banking and the Federal Reserve Systems are concerned.” In so doing, the amendment was intended to create constituencies against the spread of branching, thus allowing the act to obtain support from unit-banking states.

That is, the Hull amendment would ensure that any subsequent legislation to permit branching would encounter three-fold opposition from (1) national banks that could not now have branches in those states (2) the state bank members of the Federal Reserve System, who also could not have any branches in those states (3) and of course, the incumbent unit bankers. The Hull amendment was dropped from the final bill before it passed. In sum, the sections pertaining to branching in the Act were vigorously contested, right from the Act’s introduction in the House in 1922 through its final passage in 1927, which was assured only after the Senate invoked a closure motion for the third time in its history at that point. The Act was signed into law by President Coolidge in February 1927.

Clearly, unit banks were opposed to the Act. But what interests lay behind the unit banks? As we argue in the introduction and in Rajan and Ramcharan (forthcoming), landed agrarian interests were strongly opposed to any reforms perceived to be fostering more local bank competition. In what follows, we will attempt to tease out the role of these deeper interests in opposing competition.

III. DATA

A. LAND CONCENTRATION

What could be a proxy for the strength of landed interests and their desire to limit access to finance? In any of these hypotheses where there is a group of larger farmers

who “exploit”, there has to be another group of small farmers or tenants who are explicitly “exploited” (as in the debt peonage hypothesis) or are implicitly “exploited” (for instance, if they contribute savings to the local pool but do not get loans in a downturn because their access to finance is deliberately left underdeveloped, as in Calomiris and Ramirez (2004)). One measure of the strength of these two constituencies is the Gini coefficient of land farmed, which measures the degree of inequality of land holdings. If land holdings are very unequal, large landowners could have both the ability and incentive to limit access to finance, while if land holdings are relatively equal (whether uniformly large or small), no one has the power or the interest to alter access for others.¹¹

Our measure of the concentration of land holdings is based on the distribution of farm sizes as in Rajan and Ramcharan (forthcoming). The data are collected by the U.S. Census Bureau at the county level for 1920. A farm is defined as “all the land which is farmed by one person, either by his own labor alone or with the assistance of members of his household or hired hands”. Note that a tenant is also a farmer by this definition. We have information on the number of farms falling within particular acreage categories or bins, ranging from below 3 acres up to 1000 acres. Assuming the midpoint of each bin is the average size of farms in that bin, we construct the Gini coefficient to summarize the farm acreage data (see Appendix for a precise formula and definitions). The Gini coefficient is a measure of concentration that lies between 0 and 1, and higher values

¹¹ This presupposes, of course, that those without land either do not have the basic minimum surplus to be worth squeezing (such as field hands) or live in towns, far from the clutches of the landlords. We will show that a greater fraction of activity in manufacturing (a measure of non-land activity) does diminish the effect of land concentration on opposition to the Act.

indicate that farms at both ends of the size distribution account for a greater proportion of total agricultural land—that is, the holding of agricultural land is unequally distributed.

In 1920, the average Gini coefficient of a county is 0.426, the 99th percentile county is at 0.687, the 1st percentile county is at 0.2 , and the standard deviation is 0.10. The correlation between the Gini for a county and the share of agricultural land in small farms (below 20 acres) is positive, as is the correlation with the share in large farms (above 175 acres. The correlation between the Gini and the share in medium sized farms (between 20 acres and 175 acres) is negative. Thus counties with high Gini coefficients tend, as we would expect, to have more land in both small, as well as large, farms. Interestingly, as a result of the greater weight in small farms, counties with Gini above median have smaller farms on average than counties with Gini below median.

This pattern of correlations between the Gini coefficient and the various farm sizes suggest that agricultural production might have been increasingly dominated by a landed elite in those counties with a higher Gini coefficient. However, because the Gini coefficient is based on production units rather than ownership, some care is required in its interpretation. A county with a plantation owned by a single individual but farmed by tenants in equal sized plots may have a low Gini coefficient, yet agricultural production would ultimately be controlled by a few.

We consider a number of robustness exercises to help assuage these concerns, but Figure 1 and the correlations in Table 2 suggest that this source of measurement error may be limited. Figure 1 for example shows that the Southern and Border counties, areas known for plantation agriculture, generally had higher Gini coefficients than elsewhere. Similarly, the correlations in Table 2 suggest that areas with high levels of land

concentration tended to have higher levels of rainfall, a key requirement for plantation crops like cotton and sugar; counties with higher Gini coefficients also tended to specialize less in grain and other crops more suited to independent smaller family farms, given the technologies of the era (see Ramcharan (2010 and the references contained therein).

B. Congressional District Votes

The McFadden Act was first introduced into the 69th Congress on Feb 4th, 1926. There is a weak positive correlation between the percent of a state's congressional delegation that voted against the Act and the average level of land concentration within that state in 1920. But by constitutional design, the voting behavior of House members, in contrast to the Senate, is designed to reflect the interests of local constituents rather than aggregate state level issues, and we focus more systematically on the district level voting data (see Rusk (2001) and references contained their in).

To this end, we merge the detailed county level data on land concentration and other demographic and economic variables with the congressional district voting data on the McFadden Act. There are about 3000 counties surveyed in 1920 Census, but 427 districts in the 69th Congress, which were apportioned based on the population estimates from the 1920 Census. In about 330 cases there is a direct correspondence between congressional districts and counties: one or more whole counties are aggregated into a single district. In these cases, we construct the district level data by aggregating the "whole" county level economic and demographic data using basic measures of central tendency such as the mean and median, where appropriate, and weighted by each county's relative size in the district. For instance, the First congressional district of Maine

is comprised of both Cumberland and York counties, and we use the population weighting scheme: each county's characteristic is attributed to the First district in proportion to the county's relative population in the district.

However, for about 20 districts, counties have either been split into several districts, or pieces of various counties and towns have been combined to form a district. We call these cases "splits" and they primarily occur in urban areas. For example, Manhattan (New York county) was "split" or divided into 11 different districts in the 69th Congress. To aggregate up county level data in the "split" districts, we simply ascribe the county's characteristics uniformly to those districts contained within the county (Adler (2002)). Some districts were however formed from towns and were omitted from the sample as there is no correspondence with county level data. We are thus left with a sample of 354 congressional districts.

Table 3A decomposes the initial vote on Feb 4th, 1926, revealing that the voting pattern in the available sample of districts are similar to the full roll call data. And while 80 percent of House Republicans and only 47 percent of the Democrats voted in favor of the act, this difference in support across party lines largely reflected varying regional economic interests rather than ideological differences (Southworth (1928)). For instance, from Table 3B, opposition was mainly concentrated in the agrarian South, and parts of the upper mid West.

The correlation between land concentration and a "Nay" vote is 0.17, which is significant at the 5 percent level. Also, Figure 2, which plots the distribution of land concentration by "Yea" and "Nay" votes, suggests that House members from districts with a greater similarity in the size of land holdings—"more equal counties"—were far

more likely to vote in favor of the legislation than those from more unequal districts. These differences across the two distributions are significant at the one percent level. Of course, this non parametric evidence is only suggestive, as omitted demographic and economic variables might explain the motivation for opposition to the Act, rather than simply the influence of landed interests. We thus use the legislative history of the Act to understand the role of landed interests in shaping the legislation.

IV. RESULTS: LAND CONCENTRATION AND THE MCFADDEN ACT

A. THE INITIAL BILL, 1926

To this end, the first two columns in Table 4, use a simple linear probability model to measure the relationship between land concentration within a congressional district and the probability that the district's representative voted against the McFadden Act in its initial form on February 4th 1926. Specifically, omitting the abstentions and paired votes, the dependent variable equals 1 if a congressman voted against the act, and 0 if he voted "Yea". In column 1, we also include state indicator variables to control for the potential impact of state level factors on the House vote.¹²

Consistent with the non parametric evidence, from column 1, there is a statistically significant and large positive relationship between the probability of a "Nay" vote and land concentration. A one standard deviation increase in land concentration is

¹² The bicameral nature of the Congress and the design of House terms are intended to make House members more responsive to local interests than the Senate, but aggregate state and regional factors might still affect House voting patterns. For example, state level "machine" politics might sway the House delegation from a given state to vote in a particular way. Likewise, broad regional interests—the Mid West and South were far more agrarian than other parts of the country—could also sway the voting behavior of a state's House delegation (Rusk (2001)).

associated with a 0.05 increase in the probability of observing a “Nay” vote; recall that the unconditional probability of a “nay” vote in the sample is 0.26.

To more easily interpret these results, we include in column 2 a broad array of geographic and demographic controls. Waterways were centers of economic activity as well as transportation (and if freshwater, of irrigation). For instance, waterways such as the Great Lakes in the upper mid west, and the Atlantic Ocean along the East coast helped spur industrialization and the demand for financial services in those regions (Pred (1966)). And including these variables help control for plausibly exogenous determinants of a county’s prosperity and the kind of economic activity it might undertake. The socioeconomic controls include: the fraction of the district’s population that is illiterate, the fraction that is young, and the fraction that is black. Also included are the log population, as well as the fraction of the population that is urban (reflecting the fact that urban interests vis a viz banking might have differed from rural groups).

The coefficient estimate on land concentration in Table 4 column 2 nearly doubles, and remains significant at the 5 percent level. In column 3, we model the abstentions and paired votes using an ordered probit. In this case, the dependent variable equals 0 if a congressman voted in favor of the act; 1 if he abstained or paired his vote; and 2 if he voted against the act. The coefficient on land concentration remains positive, but is imprecisely estimated along with the other covariates in this specification. And using the binary indicator of opposition to the McFadden Act as the dependent variable, we now focus on a variety of different specifications to understand better the possible role of landed interests and other constituencies in shaping the legislation

First, the relative economic clout of agrarian interests within a district might affect their ability to influence the political process. During this period the manufacturing sector, an important consumer of financial services, was growing, and becoming increasingly politically powerful. And in those districts where the economic power of the agricultural sector was offset by the power of the manufacturing sector, the influence of land concentration on congressional voting behavior might have been more muted. Conversely, in districts in which landed interests were the dominant economic power, they would likely wield greater political power, and thus, have greater influence over congressional district voting behavior.

We thus exploit the variation in the underlying economic structure across districts. One measure of the relative economic power of the manufacturing sector is the ratio of the value of manufacturing output to the value of manufacturing and agriculture output in 1920. In Table 4 Column 4, we include the interaction between manufacturing share and land concentration in our baseline regression, taking care to include manufacturing share and its square directly. The estimates suggest that the positive impact of land concentration on congressional opposition to the Act was significantly more muted in those districts in which manufacturing was economically more important. For a district at the 25 percentile share of manufacturing in output, a one standard deviation increase in land concentration is associated with a 0.18 increase in the probability of observing a “Nay” vote. However, for a district with a relatively economically important manufacturing base, at the 75 percentile, a similar change in land concentration suggests only a 0.1 increase in the probability of a “No”.¹³

¹³ Clearly, we cannot rule out the possibility that the extent of manufacturing share (or of national bank share, see below) was endogenous – areas where agrarian interests were stronger held back financial

National banks obviously stood to gain from the Act's passage, possibly at the expense of small state unit banks, and we next explore the association between the existing structure of the local banking system and local political support for the act. In Table 4 Column 5, we include the share of national banks in total banks within the district in 1920 (and thus unaffected by the Act's passage in 1927). The coefficient estimate indicates that congressional opposition to the Act was significantly attenuated in those districts in which national banks were more dominant in the local banking system. A one standard deviation increase in this share suggests a 0.08 decline in the probability of observing a "Nay" vote.

Clearly, districts with more unit banks or with smaller banks may have been differentially disposed to vote on the legislation. To proxy for the relative number of banks, we include the per capita number of state banks in Table 4 Column 6, and to proxy for bank size, we include the average value of deposits in each state bank in the district. Of course, these "explanatory" variables are endogenous since we have argued that bank structure is shaped by landed interests, and we must be careful in drawing strong conclusions from this exercise. Nevertheless, it is interesting that in Table 2 Column 5, the coefficient on land concentration remains significant, and increases in magnitude.

Preexisting state level branching regulations can also illustrate the impact of local constituencies on congressional support. Specifically, while the McFadden Act was in part focused on equalizing the regulatory environment surrounding branching between national and state banks, it was viewed by its opponents more generally as a fundamental

development and hence industrialization. This is not inconsistent with our point that the extent of industrialization is a proxy for the political power of agrarian interests, which is all we want to draw from this exercise.

step towards more widespread bank branching. Thus, opposition to the McFadden Act among local constituencies would have been expected to even be more vigorous in those states that did not already permit branching, fearing that the Act's passage would embolden supporters of branching.

We explore this hypothesis by interacting land concentration with an indicator variable that equals 1 if a state allowed branching in 1920, and 0 otherwise—Table 4 Column 7. Among the anti branching states, the impact of land concentration on the probability of observing a “Nay” vote is about two thirds higher than the overall sample, suggesting that in those states already opposed to branching and concerned about its spread, the influence of local land interests on the vote appeared to have been substantial.

Of course, a related interpretation is that the power of landed interests was stronger in unit banking states (which is why the states still had unit banking). It is not possible for us to differentiate the effects of more influential opposition from the effects of a greater desire and incentive to oppose the Act.¹⁴

Cost and Availability of Credit

Our hypothesis is that the opposition to the McFadden Act was largely driven by the desire of incumbents to preserve the local market structure in order to protect rents. We now investigate this hypothesis more directly. We collected by hand several county level indicators of local land mortgage loans from the 1930 US Census archives. We have

¹⁴ State regulators themselves may have had an interest in the act, as the possible expansion of national banks and branching may have affected regulatory rents. There is for example some evidence that features of the state regulatory system may have been designed for rent seeking at the expense of stability in the 1930s (Mitchener (2007)). However, we find no evidence that measures of the state regulatory system, from data kindly provided by Kris Mitchener, such as the length of the supervisor's term and whether the supervisor had the power to charter or liquidate banks, shaped congressional opposition to the act—these results are available upon request.

the average interest on farm mortgages held by banks, a proxy for the cost of credit. We also have data on the fraction of indebted farms, and the debt to value ratio for farms. Finally, we have the amount of bank mortgage credit, which when scaled by local state bank deposits, gives us a credit to deposit ratio, a standard measure of local credit activity.

Of course, it is possible to argue against each of these variables taken alone as a measure of local rents – they could be a measure of effective demand, as determined both by the need for credit as well as the creditworthiness of the borrower. However, assuming the underlying distribution of creditworthiness is the same across counties, the simultaneous prevalence of lower interest rates and higher credit volumes is more consistent with higher supply and less rents. The simple correlations in Table 5 suggest that counties with lower interest rates also had a greater fraction of indebted farms and higher loan to value ratios. To focus further on common supply side factors, we extract the principal component from our four proxies for access to credit. The first component explains about 41% of the variance in the data, nearly twice as much as the second component. Moreover, it correlates negatively with interest rates and positively with the proxies for credit volume; the share of indebted farms, the debt to value ratio, and the mortgage credit to deposit ratio, suggesting that the first component might be a useful summary measure of local credit supply conditions.

In Table 6A, we examine the impact of these credit variables on voting outcomes. There is evidence that congressmen in districts with higher interest rates and less credit availability were more likely to vote against the Act. In Table 6A Column 1, for example, a one standard deviation increase in the interest rate is associated with a 0.21 increase in

the probability of a “Nay” vote. However, before making too much of these results, we should note that since these credit variables are observed about three years after Act’s passage, and they could reflect the expected impact of the Act rather than simple rent preservation. For example, congressmen may have voted against the Act because they expected that the Act’s passage would raise the cost of credit within their district – though, of course, it is hard to see how an Act enhancing competition could raise local lending rates.

Nevertheless, to address this issue, we instrument the 1930 district level credit variables with 1920 land concentration. Land concentration in 1920 is observed well before the Act’s introduction in Congress, and it can be taken as predetermined. There is also substantial evidence that landed interests restrained the supply of banks in order to restrict credit and make it more expensive at the county level (see Rajan and Ramcharan (forthcoming)). When conditioned on a wide array of district level observables, the 1920 land concentration variable is also likely to satisfy the exclusion restriction assumption.

In Table 6B, the IV estimates are uniformly significant and economically large. A one standard deviation increase in the fraction of indebted farms within the district (signifying greater availability of credit) is associated with a decline in the probability of observing congressional opposition to the Act by 0.2. A similar increase in state bank lending, scaled by deposits, suggests 0.46 drop in the probability of a “Nay” vote, suggesting that congressional opposition to the Act was significantly more likely in districts with less credit availability. The principal component—the summary measure of district credit supply conditions—is also negative and statistically significant.

B. Final House Roll Call, Jan 1927

The House bill that was initially passed contained the Hull amendments which “...limit branch banking to those States which permitted branch banking at the time of the approval of the bill – so far as the national banking and the Federal Reserve System are concerned.” This was an attempt to defang the opposition of the congressmen from unit-banking states, who were worried that national banks and state bank members of the Federal Reserve System might join hands after the passage of the Act to push for branch banking in their states. By limiting the branching powers of national banks to only those states that allowed branch banking at the time of the Act, national banks elsewhere would continue to oppose branch banking.

The Senate Committee eliminated both the Hull amendments as well as some limitations on post-Act branching by state members of the Federal Reserve System. In May 1926, the Senate passed the bill in its Senate Committee form. The differences between the House and the Senate were finally overcome when the House adopted a resolution on Jan 24th 1927, accepting all the important amendments to the bill made by the Senate Committee. Bitter recriminations followed. It was alleged that advocates of the bill had made a deal with supporters of farm-relief legislation, and Senator Glass, an advocate of the bill, asked for a formal investigation.

Specifically, it was alleged that the McNary-Haugen Farm Bill, which originally included government price support for grain, was extended to cotton and tobacco allegedly in order to entice the Southern delegation to support the McFadden Bill.¹⁵ Price

¹⁵ These allegations of vote trading and lobbying proved controversial at the time, and Senator Glass presented a resolution asking for an investigation into the alleged lobbying surrounding the Act’s passage; this resolution was adopted in March of 1927.

supports for plantation crops would have greatly benefitted landed interests, especially those in plantation districts. We now investigate the role of landed interests in explaining the switch in House position on the Hull Amendment, which led to the Act's passage.

At first glance, there is little significant relationship between the final vote in favor of the Senate's position on the bill (Jan 24th) and land concentration in the district (Table 7, column 1); and in fact, the coefficient estimate is negative. But, we now focus on the switching decision. To this end, we create an indicator variable that equals 1 if a House member switched his vote from opposing the compromise proposition in place of the Hull Amendment on June 24, 1926, which was agreed in the Senate-House conference committee in an attempt to reconcile the two versions of the bill, to finally accepting the Senate compromise on January 24, 1927. The indicator variable equals 0 if there was no change in the member's position across the two votes. In column 2, there is a robust positive association between the probability of vote switching and land concentration, and this impact does not seem to depend on whether a state permits branching (available upon request).

Of course, the concentration of agrarian land holdings is most often associated with plantation crops such as tobacco. And to examine the role of vote trading over including tobacco and cotton in the McNary-Haugen Farm Bill in exchange for supporting the McFadden Act, we turn to the 1910 Agricultural Census, which records detailed county level data on crop values, including the value of tobacco grown—cotton values are not available. We aggregate these data up to the congressional district level, and create the share of tobacco in the value of total crops grown in the district. We

interact this variable with land concentration, and include it both linearly and through a squared term to control for any direct impact it might have on explaining the switch.

The results are striking. Among the non branching states (Table 7 Column 3), where opposition to the Senate's weakening of the Hull Amendment was most concentrated, the interaction term between land concentration and the value of tobacco grown in the county from the 1910 census is positive and significant; the individual linear terms are also significant at the one percent level. For a county at the median level of tobacco intensity, a one standard deviation increase in land concentration is associated with a 0.22 increase in the probability that the Congressman switched his vote. However, for a district dominated by tobacco—one at the 90 percent level of tobacco intensity—a similar increase in land concentration suggests a 0.27 increase in the probability of observing a switch from a “Nay” on June 26, 1926 compromise intended to reconcile the Senate and House versions of the act, to a “Yea” in January 1927, ensuring final passage.

For the branching states, which were already in favor of the Act, there is no evidence that tobacco played any role in explaining the limited switching observed in those districts (Table 7 Column 4). As a robustness exercise, the remaining columns replicate the vote switching analysis for the final 1927 vote with respect to the initial roll call vote February 4th, 1926, rather than the June 26, 1926 Hull Amendment vote. The results are similar, though the magnitudes are smaller and less precisely estimated.

Taken together, the evidence suggests that in order to protect their rents, landed interests opposed the McFadden Act, and were able to influence the congressional vote, especially in those districts in which they held greater economic clout. But in exchange for the possibility of lucrative price supports for key crops, landed interest were in the

end willing to acquiesce on bank competition. We next examine the impact of the Act's passage on the local bank structure.

V. RESULTS: IMPACT OF MCFADDEN ACT ON LOCAL BANK STRUCTURES

The previous section has showed that landed interests were pivotal constituencies in influencing the vote on the McFadden Act. Were the fears of enhanced competition correct? Among those states that already had branching, did the Act's passage redress the disadvantage that national banks had vis a vis state banks?

To address this question, we turn to county level data on banks over the period 1921-1930. In Table 8 Column 1, we use the log change in the average number of national banks over the period 1927-1930, relative to 1926—the year before the Act's passage as the dependent variable. We exclude the post 1930 period, which was highly unstable. The branching indicator variable equals 1 for those counties located in states permitting branching before the Act's passage, and 0 otherwise. The estimate in Table 8 Column 1 suggests that after the Act's passage, the number of national banks was about 3.1 percentage points higher relative to 1926 in those counties located in branching states. Column 2 includes a number of county level observables, and here the estimated impact of the Act is larger and more precisely estimated at 4.4 percentage points.

To discern whether the apparent impact of the Act on national banks might have been part of a broader trend, affecting state banks as well, we include the change in the share of national banks within the county as the dependent variable in Table 8 Column 3. The coefficient estimate suggests the share of national banks increased after the Act's

passage in counties located in states that had bank branching, suggesting that the Act disproportionately affected national banks in those branching counties.

Does the increase in national bank shares after the Act's passage stem from new national bank entrants rather than the failure of state banks? To check this, the dependent variable in Table 8 column 4 is the failure rate of state banks, defined as the ratio of state bank failures to the number of state banks the previous year, and averaged over the 1927-1930 period. After controlling for county level characteristics, including the state bank failure rate in 1926, there is no evidence that the state bank failure rate was higher in counties permitting branching during the 1927-1930 period. This suggests that new entry was responsible for the increase in national bank share.

Of course, these average changes can mask important dynamics in the adjustment of the local bank market to the legislation. Likewise, omitted state and local characteristics could still be a source of bias. Thus, to gauge the robustness of these results, we use annual bank data from 1920-1930 at the county level, and employ a step function approach to model the adjustment dynamics. This specification also allows us to include county and year effects to absorb the impact of both time invariant county specific factors, as well as time varying characteristics that affect all counties similarly. Standard errors are clustered at the state level to allow for the serial and cross sectional dependence of shocks to the banking variables.

The results from the step function approach are similar to those obtained in Table 8. In the post McFadden period, there is evidence that the growth rate of national banks in counties within branching states was faster than otherwise, especially in the years 1929 and 1930 (Table 9, Column 1). The impact on the growth in national bank shares is also

positive but earlier (Table 9, Column 2), as the legislation's impact appears significant somewhat earlier, in 1927. There is also no evidence that the legislation significantly affected the failure rate of state banks during this period (Table 9 Column 3), suggesting that the impact on national bank shares may have occurred through new national bank entry and to a lesser extent, the exit of state banks.

That said, there is evidence that the Act's passage may have affected the size of state banks. Column 4 uses the real growth in the average size of state banks—real total deposits divided the number of state banks within the county—as the dependent variable. In 1928, this growth rate is about 4 percentage points lower than otherwise in counties that allowed bank branching, suggesting that the increase in the number national bank may have siphoned deposits away from state banks.

VI. CONCLUSION

This paper has examined the role of constituencies in shaping the development of the financial system, using evidence from congressional voting on the McFadden Act of 1927. This act regulated the relationship between state and national banks in the United States for decades, and at the time, it was viewed as a precursor to more widespread bank branching, engendering opposition from rural interests and incumbent banks concerned about greater competition and a diminution of rents.

We find evidence that House representatives from districts with more concentrated land holdings (our proxy for the relative importance of landed interests) were far more likely to oppose the McFadden Act during its first House vote in January 1926. The association of land concentration with congressional opposition was especially strong in those districts where agriculture was relatively more important than

manufacturing, suggesting that landed elites were politically more effective when they also dominated economically. Measures of the size of incumbent rents, such as the interest rate, also positively predicted congressional opposition. And consistent with historical narratives suggesting that political horse trading eventually led to the act's passage, there is evidence that landed interests supported the act in exchange for key agricultural price supports. Finally, examining the immediate impact of the act, we find evidence of greater national bank entry in those states that permitted branching.

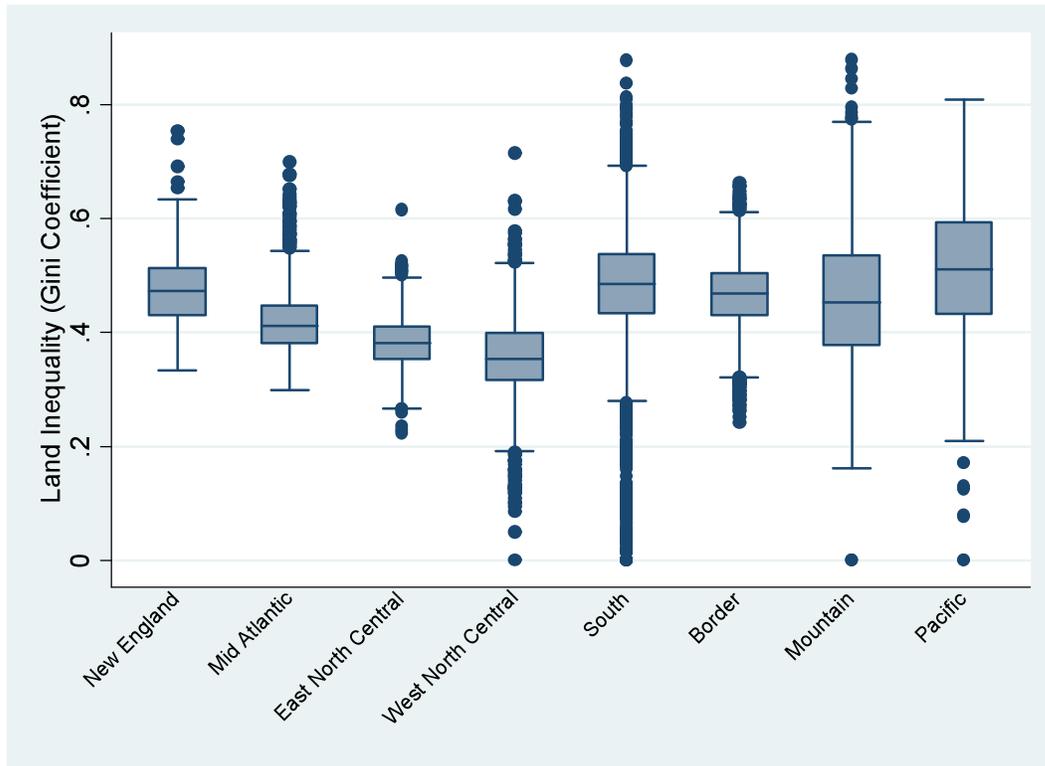
These results suggest that the constituencies or interest groups that arise from the forms of economic production can shape important economic institutions by using existing political institutions and the legislative process rather than through coercive control of the state and the threat of force (Stigler (1971)). In addition, long after landed interests ceased to be a political force, the McFadden Act endured for many decades, as new politically influential interest groups, like small community banks, emerged in the wake of the act and sought to maintain the status quo. Thus, constituencies can have an influence on economic outcomes long after they have passed from the scene.

VII. TABLES AND FIGURES

Table 1: Variables' Definitions and Sources

Variable	Source	Definition
Land Inequality (Gini Coefficient)	United States Bureau of Census; Inter-University Consortium for Political and Social Research (ICPSR) NOs: 0003, 0007,0008,0009,0014,0017	<p>The number of farms are distributed across the following size (acres) bins: 3-9; 10-19 acres; 20-49 acres; 50-99 acres; 100-174;175-259;260-499;500-999; 1000 and above. We use the mid point of each bin to construct the Gini coefficient; farms above 1000 acres are assumed to be 1000 acres. The Gini coefficient is given by</p> <p>Where farms are ranked in ascending order of size, y_i, and n is the total number of farms, while m is the mean farm size. [Atkinson, A.B. (1970)]. At the state level, we sum the total number of farms in each bin across counties, then compute the Gini coefficient.</p>
Number of State and National Banks Active in each county.	Federal Deposit Insurance Corporation Data on Banks in the United States, 1920-1936 (ICPSR 07).	
Urban Population; Fraction of Black Population; Fraction of Population Between 7 and 20 years; County Area; County Population; Value of Crops/ Farm Land Divided by Farm Population	United States Bureau of Census; Inter-University Consortium for Political and Social Research (ICPSR) NOs: 0003, 0007,0008,0009,0014,0017	
Distance From Mississippi River; Atlantic; Pacific and the Great Lakes.	Computed Using ArcView from each county's centroid.	
Voting Roll Call Data, McFadden Act.	www.voteview.com	

Figure 1. Land Inequality, Box Plots, by Region, 1920



The shaded rectangle represents the interquartile range, which contains the median—the solid line. The ends of the vertical lines extend to a maximum of 1.5 times the interquartile range. Dots beyond this range are possible outliers.

Table 2: Pairwise Correlations

This table presents the pairwise correlations between land concentration, crop shares, and rainfall. (**) significance at the 5% level or higher. Unless otherwise noted, all variables are expressed as shares of land within the county.

	Land Concentration	Basic cereals	Grains and Seeds	Hay and forage	Fruits and Nuts	Vegetables	Average Annual rainfall	Standard deviation of rainfall	Average temperature
Land Concentration	1								
Basic cereals	-0.446**	1							
Grains and Seeds	-0.048*	-0.024	1						
Hay and forage	-0.175*	-0.159**	-0.023	1					
Fruits and Nuts	0.341**	-0.284**	-0.049**	-0.016	1				
Vegetables	0.299**	-0.377**	-0.028**	0.063*	0.163**	1			
Average Annual rainfall	0.346**	-0.212**	-0.167**	-0.461**	0.042**	0.118**	1		
Standard deviation of rainfall	0.360**	-0.171*	-0.059**	0.332**	0.148**	0.135**	0.661**	1	
Average temperature	0.436**	-0.223*	-0.009	0.617**	0.082**	-0.065**	0.498**	0.532**	1

Table 3A. McFadden Act Roll Call, February 1926.

Vote	Full Sample		Available Sample		
	Number	Percent	Number	Percent	
Yea	289		67	233	66
Paired Yea	4		0.9	4	1
Paired Nay	3		0.7	2	0.6
Nay	91		21	84	23
Present	8		2	8	2
Not Voting	32		7	23	6
Total	427			354	

Table 3B. McFadden Act Roll Call, February 1926, By Region

	New England		Mid Atlantic		East North Central		West North Central	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Yea	19	86	41	76	62	82	33	62
Paired Yea	1	5	2	4	1	1		
Paired Nay					1	1		
Nay			1		10	13	15	28
Present			3	6			1	2
Not Voting	2	2	7	13	2	3	4	8
Total	22		54		76		53	

	South		Border		Mountain		Pacific	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Yea	42	46	17	67	8	80	11	69
Paired Yea	1	1	9	29				
Paired Nay								
Nay	46	50			2	20	1	6
Present	2	2	1	3			1	6
Not Voting	1	1	4	13			3	19
Total	92		31		10		16	

A "Pair" occurs when the leaders of the two parties both have members who want to be absent from the vote. If one member would vote "Yea" and the opposite "Nay" then the leadership would "pair" them so that their absence would not affect the outcome of the roll call.

Figure 2. Land Concentration and McFadden Act (1926) Congressional Votes

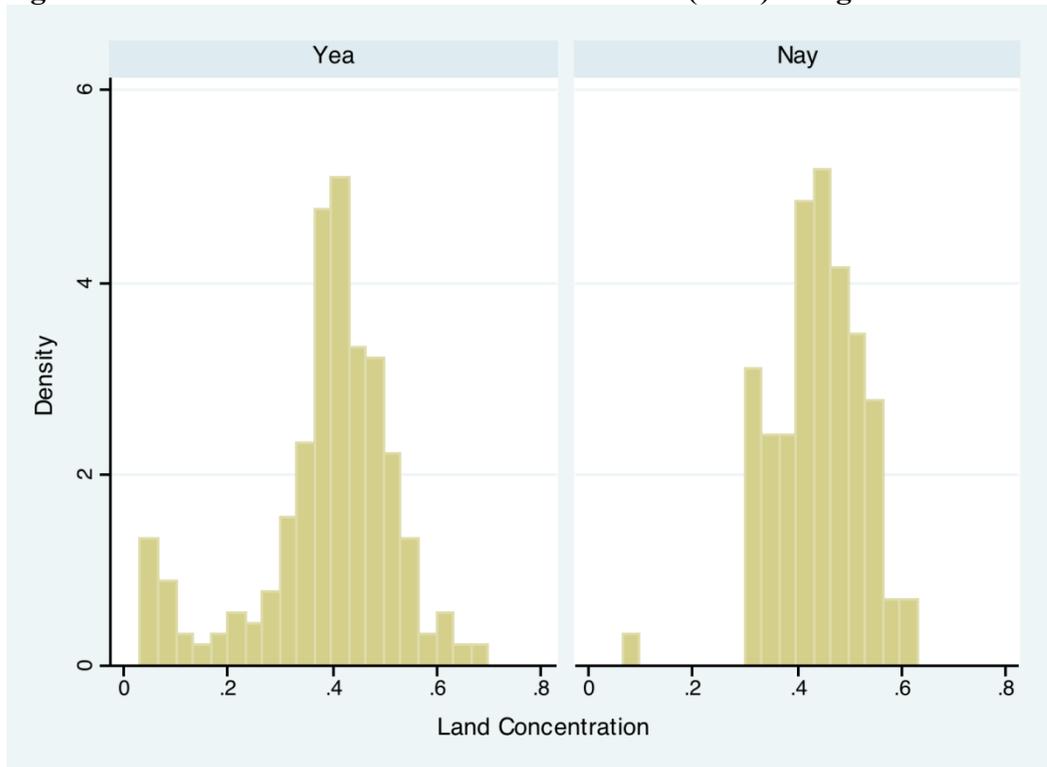


Table 4. The McFadden Act, The Initial Bill, February 1926.
Dependent Variable: Nay (1), Voted Yea (0).

VARIABLES	(1) <i>No Controls</i>	(2) <i>Geographic and Demographic Controls</i>	(3) <i>Ordered Probit</i>	(4) <i>Manufacturing</i>	(5) <i>National Banks</i>	(6) <i>State Banks</i>	(7) <i>Branching</i>
Land Concentration (Log)	0.246** (0.109)	0.482** (0.218)	0.475 (1.007)	1.059*** (0.335)	0.477** (0.203)	0.660** (0.251)	0.562** (0.222)
Land Concentration (Log)*Manufacturing				-0.828* (0.448)			
Manufacturing				-2.252** (0.873)			
Manufacturing, squared				1.270* (0.653)			
Share of National Banks, 1920					-0.305* (0.188)		
State Banks Per Capita, 1920						570.0* (296.3)	
Ratio of State Bank Deposits to Number of State Banks, 1920						0.0698 (0.295)	
Land Concentration (Log)*Branching							-0.276* (0.161)
Branching							-0.273 (0.384)
Observations	317	317	354	314	317	317	317
R-squared	0.503	0.534	0.29	0.562	0.538	0.542	0.536

All specifications include state dummy variables. Standard errors clustered at the state level. *** p<0.01, ** p<0.05, * p<0.1. All regressions include state dummies. Columns 2-7 also include distance from major waterways, area, population, urbanization, black population, and age structure (5-17 year olds). In Column 3 the dependent variable equals 0 if the vote was "Yea", 1 if "paired" or "abstained" and 2 if "Nay".

Table 5. Simple County Level Correlations, Credit Variables

	Mortgage Interest Rate	Mortgage Debt to Farm Values	Fraction of Indebted Farms	Ratio of Mortgage Debt to Banks Deposits	Principal Component
Mortgage Interest Rate	1				
Mortgage Debt to Farm Values	-0.1845*	1			
Fraction of Indebted Farms	-0.3365*	0.2977*	1		
Ratio of Mortgage Debt to State Bank Deposits	0.0029	0.2473*	0.0975*	1	
Principal Component	-0.6366*	0.7130*	0.7663*	0.3844*	1

Table 6A. The McFadden Act, The Initial Bill, 1926 & The Cost & Availability of Credit.

Dependent Variable: Nay (1), Voted Yea (0).

OLS Estimates

	(1)	(2)	(3)	(4)	(5)
Interest Rate	0.236*				
	(0.127)				
Fraction of Indebted Farms		-0.506			
		(0.343)			
Mortgage Debt, as a Share of State Bank			-0.00778		
			(0.0249)		
Mortgage Debt as a Share of Farm Value				0.00181	
				(0.00627)	
Principal Component					-0.048
					(0.045)
Observations	316	316	316	316	316
R-squared	0.531	0.542	0.536	0.531	0.534

Table 6B. IV Estimates

	(1)	(2)	(3)	(4)	(5)
Interest Rate	0.944*				
	(0.520)				
Fraction of Indebted Farms		-2.007**			
		(0.812)			
Mortgage Debt, as a Share of State Bank			-0.526*		
			(0.286)		
Mortgage Debt as a Share of Farm Value				-0.0235**	
				(0.0107)	
Principal Component					-0.156**
					(0.063)
Observations	316	316	316	316	316
R-squared	0.531	0.542	0.536	0.531	0.516
<i>First Stage</i>					
Land Concentration	0.503	-0.237	-20.24	-0.903	-3.054
F-Statistic	4.150	23.11	45.38	2.339	88.91
(p-value)	0.0273	0.000845	0.000137	0.116	(0.00)

Standard errors are clustered at the state level. ***, **, * denote significance at the 1, 5 and 10 percent respectively. All regressions include state dummies; distance from major waterways, area, population, urbanization, black population, and age structure (5-17 year olds).

Table 7. The McFadden Act, The Final Bill, 1927

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	1927 Roll Call Vote Nay (1), Voted Yea (0)	Vote Switching Yes (1) No(0)	Vote Switching Yes (1) No(0) Non Branching States	Vote Switching Yes (1) No(0) Branching States	Vote Switching Yes (1) No(0)	Vote Switching Yes (1) No(0) Non Branching States	Vote Switching Yes (1) No(0) Branching States
		Hull Amendment (June 26, 1926)			Initial Bill (February 4 th , 1926)		
Land Concentration	-0.352 (0.270)	0.650* (0.334)	1.050** (0.393)	-0.638 (1.817)	0.465** (0.213)	0.592 (0.451)	0.367* (0.182)
Land Concentration (Log)* Tobacco Value Share			8.871** (3.813)	-1.193 (8.780)		6.933** (3.041)	5.377 (4.953)
Tobacco Value Share			7.558** (3.156)	-2.362 (11.37)		7.587* (4.119)	8.501 (7.608)
Tobacco Value Share, Squared			3.206 (4.213)	5.646 (21.68)		-4.799 (3.727)	-19.92 (14.28)
Observations	294	228	153	56	224	140	67
R-squared	0.583	0.511	0.567	0.546	0.259	0.373	0.319

Standard errors are clustered at the state level. ***, **, * denote significance at the 1, 5 and 10 percent respectively. All regressions include state dummies; distance from major waterways, area, population, urbanization, black population, and age structure (5-17 year olds). The dependent variable in columns 2-4 equal 1 if a congressional district switched from a “Nay” in the 1926 Hull Amendment vote to a “Yea” vote in 1927 and 0 if the vote remained the same. For columns 5-7, the dependent variable equal 1 if a congressional district switched from a “Nay” in the 1926 initial vote to a “Yea” vote in 1927 and 0 if the vote remained the same.

Table 8. The Impact of the McFadden Act in a County Level Cross Section.

VARIABLES	(1) Change in Number of National Banks	(2) Change in Number of National Banks	(3) Change in Share of National Banks	(4) State Bank Failure Rate, 1927-1930
Branching	3.125* (1.768)	4.408** (1.712)	4.042** (1.779)	-0.226 (0.819)
Observations	2163	2082	2108	2761
R-squared	0.011	0.031	0.020	0.044

Standard errors are clustered at the state level. ***, **, * denote significance at the 1, 5 and 10 percent respectively. Columns 2-4 also include distance from major waterways, area, population, urbanization, black population, and age structure (5-17 year olds). Changes are defined as the log difference between the 1927-1930 average and the 1926 level. All regressions include the log 1926 level.

Table 9. The Impact of the McFadden Act in an Annual Panel, 1920-1930.

VARIABLES	(1) Log Change in Ntl banks	(2) Log Change in share of Ntl banks	(3) State bank failure rate	(4) Log Change in Ntl bank size	(5) Log Change in state bank size
Branching*1927	0.971 (1.169)	2.861*** (1.051)	-0.0836 (0.571)	-0.0257 (0.0240)	-0.00585 (0.0290)
Branching*1928	0.984 (0.864)	1.706 (1.276)	-0.0327 (0.722)	-0.0199 (0.0249)	-0.0415** (0.0191)
Branching*1929	2.326* (1.330)	1.952 (1.578)	0.0350 (1.517)	0.0106 (0.0263)	-0.0192 (0.0345)
Branching*1930	2.885** (1.415)	0.734 (1.541)	-2.310 (2.020)	0.000145 (0.0388)	0.0435 (0.0308)
Branching*1926	2.153 (1.417)	2.160 (1.350)	2.471 (2.942)	0.00959 (0.0258)	-0.0159 (0.0277)
Branching*1925	0.737 (1.640)	0.655 (1.482)	-0.825 (0.570)	0.0319 (0.0370)	0.0340 (0.0484)
Branching*1924	0.670 (0.865)	0.151 (0.853)	-1.703** (0.713)	-0.00970 (0.0157)	-0.0162 (0.0247)
Observations	21700	21700	28836	19764	25744
R-squared	0.114	0.094	0.197	0.131	0.128

All specifications include county and year dummies. The estimating equation is $\Delta y_{ijt} = \phi_i + \gamma_t + \beta_1 \text{Branching}_j * \text{McFad}_t + v_{ijt}$, where Branching_j is an indicator variable that equals one if county j was located in a state that allowed branching, while McFad_t represents the time relative to the 1927—the act’s passage.

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Eugene Nelson White *Southern Economic Journal*, Vol. 51, No. 4 (Apr., 1985), pp. 1084-1098