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The political economy of Reconstruction Finance Corporation assistance during the Great Depression ☆

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Abstract

This paper analyzes the role of political rent-seeking in New Deal expenditures focusing on the Reconstruction Finance Corporation (RFC). Unlike other New Deal agencies, the RFC was not financed by government appropriations, it devolved assistance decisions, and primarily offered loans rather than grants. Although the RFC was subject to pressures for political favor during the Great Depression, the geographic distribution of RFC funds across states is not associated with standard political measures used to examine rent-seeking behavior in other studies of the New Deal.
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1. Introduction

Government assistance programs are typically susceptible to political rent-seeking that may detour resources from their most productive use and produce second best

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outcomes. While most researchers agree that losses due to rent-seeking from New Deal expenditures were unavoidable, their magnitude is widely disputed (see Anderson and Tollison, 1991; Bateman and Taylor, 2000, 2003; Couch and Shughart, 2000, 1998; Fishback et al., 2000; Fishback and Kantor, 2000; Reading, 1973; Rhode, 1999; Fleck, 2001; Wallis, 1981, 1984, 1987, 1991, 1998, 2001; Wright, 1974). Wallis (2001) notes that "the pre-1998 papers ... all found a strong role for political forces...," in shaping the distribution of New Deal monies (p. 305). But none of these studies, including those after 1998, examined the detailed spending patterns of an individual New Deal program.

New Deal programs differed significantly in their procedures for allocating funds. The focus of this study, the Reconstruction Finance Corporation (RFC) was one of the key New Deal funding conduits. The RFC did not depend on Congress to renew funding from year to year, devolved assistance decisions to regional levels, and primarily made loans rather than grants, features atypical of previously analyzed New Deal programs.

This paper describes and measures the effect of political influence on the RFC and its relation to 1932 federal election outcomes. Section 2 describes how RFC New Deal expenditures were funded by capital infusions rather than expropriations, removing considerable Congressional discretion and reducing rent-seeking through the power of the purse. Section 3 describes the processes and procedures by which the RFC distributed funds in a decentralized organization where few funding decisions were made in Washington. Still, Section 4 describes some examples of political pressures faced by the RFC. Influential politicians routinely appealed for assistance for their constituents, and these requests were sometimes met by the RFC. Section 5 presents econometric models of the political and economic determinants of the distribution of RFC assistance in the style of Anderson and Tollison (1991) and Wallis (1981, 1984, 1987). Overall, the paper demonstrates that while the RFC was sometimes swayed by personal appeals from prominent politicians, the geographic distribution of RFC funds across states is not associated with standard measures of political rent-seeking used in other studies of New Deal expenditures.

2. RFC structure and funding

The RFC was an agency of the Executive branch of the United States government. "Under the broad executive powers granted under [the RFC] Act, legislative authority can be supplanted by an executive order," (Waller, 1934, p. 20). Hence the President could alter the scale and/or scope of the agency unilaterally. The first use of such authority took place when President Hoover extended the original expiration of the RFC's powers by Executive Order on December 8, 1932. A more complex example is offered in Waller's (p. 20) description of Roosevelt's substantial reorganization of the agency by Executive Order on March 27, 1933. Neither Hoover nor Roosevelt required legislative approval for these changes, though both marked radical changes from the original legislative intent of the RFC Act. Furthermore, as

an Executive agency the RFC was immune from Civil Service regulations for hiring and promotion and Congressional General Accounting Office audits (Delaney, 1954, p. 12).

Not only was the RFC not accountable to Congress, it was also not funded by Congress. When the RFC was founded, the operation was too large to fund directly out of federal budget allocations. Therefore the RFC was established as a government-owned corporation with an initial appropriation from Congress and the right to borrow more money from private sources.

The capital stock of the RFC was initially fixed by Section 3 of the RFC Act at $500 million, all of which was subscribed by the Secretary of the Treasury on behalf of the Government of the United States on February 2, 1932. The RFC was additionally authorized, with the approval of the Secretary of the Treasury, to have outstanding subordinate notes, debentures, bonds, and other obligations not in excess of three times its subscribed capital stock. These additional notes, debentures, and bonds were marketed to the public by the US Treasury, using all the facilities of the Treasury Department. The Secretary of the Treasury was authorized, at his discretion, to purchase or sell any obligations of the RFC. RFC security interest and principal was fully and unconditionally guaranteed by the federal government and was restricted to maturities of not more than five years from their dates of issue (Agnew, 1945, p. 31; Waller, 1934, p. 41). The limit on additional notes, debentures, and bonds was raised by executive order to accommodate additional New Deal programs and agencies established under the aegis of the RFC. By December 1935, $4.3 billion had been raised from private sources (Waller, 1934, p. 44).

3. RFC programs, processes, and procedures

Members of the RFC Boards of Directors were appointed by the President for a term of five years subject to Senate confirmation. The board initially included the Secretary of the Treasury, the Governor of the Federal Reserve Board, and the Farm Loan Commissioner as ex officio members, and four appointed directors (Olson, 1977, pp. 38–41; Subcommittee of the Committee on Banking and Currency, 1932, pp. 1–5). As the RFC was established as a temporary expedient with the goal of reinvigorating the economy, it was granted wide flexibility to achieve its goals.[1]

The only program the RFC operated between its inception on February 2, 1932 and its first expansion of powers on July 21, 1932 was making loans to financial institutions and railroads. Since the agency had a rather limited scope, operational details of the Washington office principally revolved around ensuring sound banking

[1] As a true corporation, the RFC could sue and be sued in a court of law. Most lawsuits in which the RFC was a party regarded rejected loans that were judged not suitable for the agency. I know of no cases where the suit was concerned with the more complex question of collateral values underlying RFC assistance.

and investment practices. From its inception, the RFC strongly insisted that all advances (other than those made in direct aid to states) be fully secured. Therefore, Washington operations remained "…less a pure administrative overseer and more a location to resolve occasional field [lending] difficulties… at a central Washington location," (Delaney, 1954, pp. 12–13).

RFC bank and railroad lending operations functioned primarily through loan agencies (field offices) established in principal cities throughout the country. On February 6, 1932, *RFC Loan Agency Bulletin No. 1* authorized the establishment of field offices consisting of one loan agency covering each of the 12 Federal Reserve Districts. In order to expedite the process and conserve capital, loan agencies were instructed initially to arrange for office space with the Federal Reserve Banks, which were authorized to act as depositories, custodians, and fiscal agents for the RFC (Delaney, 1954, p. 9; Waller, 1934, p. 27).[2] Soon additional loan agencies were added. By 1935 the RFC had offices in 34 cities throughout the US.

The location of these field offices was fairly ad hoc. Four of the offices were in Texas, and two were in California. Delaney contends the only good reason advanced that Texas needed four offices was because Jesse Jones, who was a RFC Board Member from the agency's inception and its Chair after March 1933, was from Texas.

The management style in Washington was typical of private sector practices: "…pick a man to be completely responsible for the operations of an office and let him succeed or fail on the basis of whether or not his office showed a profit," (Delaney, 1954, p. 12). Although field office managers were directly under the control of the Board in Washington, they had authority to approve loans up to $100,000. Only unusual loans required clearance by the Board of Directors in Washington. In practice, each field office was almost autonomous, and only major problems were taken up with Washington (p. 7).

In the field offices the processes and procedures behind assistance were rather simple. Once the RFC received an application, the agency only had the power to evaluate whether asset values were sufficient to secure assistance. Since RFC loans were underwritten by a staff that consisted primarily of displaced bank loan officers who were instructed to value assets liberally, RFC decisions about collateral were rarely challenged (Delaney, 1954; Hempel and Simonson, 1993). The RFCs discretion largely resulted from its right of regional loan agencies to inquire into the business conditions of loan applicants and request detailed information to determine the adequacy of security offered as collateral. Discretion devolved to the regional field offices held to profitability yardsticks seems to have effectively constrained inefficient lending.

A Self-Liquidating Division, an Emergency Relief Division, and an Agricultural Credit Division, as well as an additional $1.8 billion in capital were added to the RFC under the Emergency Relief and Construction Act of 1932 (ERCA), effective July 21, 1932. However, even though the new functions were structured in different

[2] In this capacity, the Federal Reserve Banks disbursed loan funds and, as custodians, held the physical loan documents and collateral.

divisions from the bank and railroad loan operations, they operated under the existing lending infrastructure and philosophy and established capital constraints of the overall agency.

3.1. The Self-Liquidating Division

The Self-Liquidating Division of the RFC financed large public infrastructure projects with loans that would be repaid out of the projects' future revenue, relying on procedures developed to analyze bank and railroad loans. The Division faced several difficulties from the outset and the RFC often took a long time to analyze each project. Between July and October 1932, the RFC approved a total of only three projects under the Self-Liquidating Division (Olson, 1988, pp. 20–22). The Hoover administration suffered widespread criticism for the slow evaluation of individual applications. By October 1932, it was appeared that the Division would not stimulate short-term economic growth nor garner goodwill that could contribute toward a Republican electoral victory, and RFC representatives undertook a last-ditch effort to approve loans before the election. The RFC approved many small projects between October and November and financed three large projects of note: the Oakland-San Francisco Bay Bridge, the waterworks in Pasadena, and the Metropolitan Aqueduct from the Colorado River to Los Angeles. Few of the small and none of the three large projects could be started before the election; thus as late as March 1933, the Division had distributed only $20 million of the $1.5 billion it had been allocated.

In February 1933 the RFC administration was restructured to let the Division make loans to a wider variety of projects and focus more on job creation instead of loan repayment. Congress removed the Self-Liquidating Division from the RFC and replaced it with the Public Works Administration (PWA), which assumed all lending responsibilities of its predecessor by June 1933 (Olson, 1977, pp. 76–80).

3.2. The Emergency Relief Division

The Emergency Relief Division was placed in charge of loans to states for their own public works projects. Though this assistance was principally allocated out of Washington, the Emergency Relief Division, like the Self-Liquidating Division, faced serious difficulties that probably hampered its ability to meet the demands of rent seekers, even if it desired to do so.

Under ERCA the Emergency Relief Division was allocated $300 million to lend to state governments. Within the first two weeks, requests for loans totaled over $200 million. In response to this demand the RFC began to ration credit through what has been characterized as complex requirements for applications and approval:

> Each state had to make out separate applications for every political subdivision needing relief money. The governor had to list the funds at his disposal from state, local, and private sources. He had to list his state's relief expenditures for each month of 1931 and 1932 and in detail explain the reasons for any increases or proposed increases for 1932. And he had to

outline the steps the state would take to increase the revenue available for relief (Olson, 1977, p. 80).

After the application process was complete, the RFC would only make a loan upon the satisfaction of three additional conditions: (1) the state's tax base was extended to its limit; (2) the state established state, county, and municipal relief boards to administer the loans; (3) the loan carried a maturity less than one month.

Several states received loans during the early days of the program only because they had already established the required relief boards and were already issuing bonds to meet relief expenditures. By the end of August the program was proceeding favorably in these states despite the excess demand for funds. Other states faced legal and other constraints that delayed RFC decisions, despite high levels of unemployment.

In Pennsylvania, for instance, state welfare resources had been exhausted since early 1932, and the state's constitution prohibited debt financing of relief appropriations. The Republican governor of Pennsylvania, Gifford Pinchot, applied for RFC assistance even before the ERCA was passed: but the RFC tabled the application until it could assess the nationwide demand for funds. Several weeks later the RFC denied the application, reasoning that the state had not done enough to meet its relief needs from debt financing. The governor appealed the decision and faced several more rejections. In September, the governor lost patience with the administration and levied charges that Hoover possessed sympathies only for the rich. Relief began to filter in to Pennsylvania toward the end of September, although then only slowly. Pinchot vociferously maintained his criticism throughout October, charging on the eve of a Presidential election that the philosophy of the Emergency Relief Division and the administration in general was inappropriately conservative (Olson, 1977, pp. 80–86).

During the lame duck session of Congress several bills were introduced to liberalize Emergency Relief Division lending practices. However, President Hoover did not approve of any of these measures. During Roosevelt's first 100 days the Emergency Relief Division was replaced by the Federal Emergency Relief Administration (FERA). FERA worked closely with the Emergency Relief Division during 1933, and drew upon the staff and experience the Division had developed.

3.3. The Agricultural Credit Division

The ERCA also mandated that the RFC set up a system of 12 Regional Agricultural Credit Corporations to "help farmers refinance outstanding obligations and sustain their agricultural activities," (Olson, 1977, p. 88). In doing so, the RFC assembled one Regional Agricultural Credit Corporation in each Federal Land Bank district, allocating to each a capital base of $3 million to begin operations.

Again, these Regional Agricultural Credit Corporations depended principally upon the existing infrastructure and established lending policies and procedures. In so doing, the Agricultural Credit Division's effectiveness was limited by these conservative policies. Loans were only made to farmers and stockmen, excluding proces-

sors, commission merchants, and cooperatives, and could only be obtained at the exorbitant interest rate of 7%. Furthermore, the loans could be made only for refinancing and the cost of seed, cultivation, harvesting, and marketing. Unsurprisingly, by November only $5 million was lent through the entire Agricultural Credit Division. Under Roosevelt, the Commodity Credit Corporation was established to take over the functions of the Agricultural Credit Division. The Commodity Credit Corporation lent directly to businessmen as well as farmers and bankers at more reasonable rates of interest (Olson, 1977, pp. 86–90).

4. Political pressures for RFC assistance

The RFC was often pressured for assistance by state and federal officials during the banking panics of the Great Depression. One of the earliest and well-known instances occurred during the Chicago banking panic of June 1932. Prior to the panic, the city of Chicago experienced a dire fiscal crisis. Chicago banks supported the city during this period by purchasing city tax anticipation certificates to avert a municipal default. When banks suffered from local business failures and other economic pressures, bankers and city officials visited Washington to petition Congress and the RFC for assistance. The delegation was rebuffed and returned to Chicago on June 22, 1932, the day the bank panic erupted.

During the Chicago panic the Central Republic Bank, owned by Charles Dawes (who was well-connected to the Hoover administration), was given two RFC loans totaling $90 million, the largest total to any one bank in the RFCs history. There is considerable controversy in the historical record surrounding these loans. Although the popular belief is that Dawes exploited his political connections to obtain these loans, Dawes maintained he only wanted to liquidate Central Republic in an orderly fashion and other Chicago bankers felt that closing the Central Republic in late June would only add to the crisis. According to Dawes, those bankers demanded the Central Republic be kept open temporarily with RFC assistance and the RFC concurred. In fact, several months after the crisis the Central Republic was voluntarily liquidated and Dawes chartered a replacement bank that purchased most of the assets to speed depositor recoveries. In any case, these events led to the publication of the names and amounts given to all RFC borrowers and aid recipients starting in July 1932.[3]

In July 1932, the Wingfield chain of banks in Nevada began to experience difficulties. The Wingfield chain of banks was the largest in Nevada. Furthermore, Wingfield's banks handled most of the financing for Nevada's industry and all the state's public funds. The RFC estimated that Wingfield's banks held 65% of the deposits and made 75% of all commercial loans in the state during 1932. Prior to the

[3] Publication requirements were stipulated in the ERCA. Note the reports were only made public while Congress was in session, with the exception of the first recess after July 1932. A summary report covering the inception of the agency to July 1932 was issued to Congress January 1933.

suspension of the Wingfield chain, the RFC had already loaned over $5 million to various banks in the chain (Doti and Schweikart, 1991, pp. 116–119; Kennedy, 1973, p. 62; Olson, 1977, p. 94; 1975, p. 153).

After liquidating many of the chain's best assets to meet the demands of the RFC, the banks had little left to meet the demands of depositors when a run began in July. In late October, "[George] Wingfield appealed to Governor Fred B. Balzar for a bank holiday to allow liquidation of some of his personal assets for application to the bank's capital structures." After consulting with President Hoover and pleading for additional funds from the RFC, Governor Balzar declared a general business holiday beginning November 1, 1932 (Doti and Schweikart, 1991, p. 118; Olson, 1975, p. 156).[4]

While Wingfield made plans for a private reorganization, a special team of RFC examiners was sent to Nevada to investigate the soundness of the system. Wingfield's appeals for loans from California correspondents were rejected, and the RFC refused further loans to the chain, as they had already earmarked many of the best assets for collateral on earlier loans.[5] On January 31, 1933, Senator Key Pittman demanded assistance from the Emergence Relief Division, claiming that the University of Nevada was preparing to close its doors, but his plea was rejected. The Wingfield chain finally went into receivership in November 1933 (Doti and Schweikart, 1991, pp. 118–123; Olson, 1975, pp. 157–158).

Similarly, Senators William E. Borah (R-ID) and John Thomas (R-ID) personally appealed for RFC assistance during the bank panic in Boise, Idaho. Such appeals attracted little in the way of assistance and failed to stem the crisis (Olson, 1975). Banking crises soon reached Louisiana. During January a large insurance company related to Hibernia Bank and Trust Company in New Orleans failed despite massive RFC assistance. By Friday evening, February 3, Hibernia could no longer continue to meet withdrawals. Senator Huey P. Long appealed to the RFC on the state's behalf. Long arranged a $20 million loan from the RFC on the assertion that Hibernia's collapse would bring down correspondents as far away as Arkansas, Tennessee, and Texas. Unfortunately, the funds could not be delivered from the Federal Reserve until Monday, and the governor could find no pretext under which he could proclaim a legal holiday to avert widespread bank runs until that date. Long suggested a state holiday celebrating the 16th anniversary of the wartime severance of US diplomatic ties with Germany, trying to keep the real reason for the holiday a secret. When a newspaper attempted to publicize the crisis, Long ordered it seized by the militia. On Monday morning the Senator was first in line at Hibernia, depositing $12,000 to illustrate his confidence in the institution (Kennedy, 1973, pp. 75–76; Olson, 1977, pp. 101–102).

[4] In the Governor's opinion, the state constitution did not permit a specific bank holiday.

[5] Loans from California correspondents were ostensibly refused because the California banks would have rather used the opportunity to buy the chain at fire sale prices in order to enter the Nevada market. See Doti and Schweikart, pp. 134–140 for a discussion of A.P. Giannini's attempts to establish the largest bank in California, and make incursions into the Pacific Northwest and Southwest during this period.

At the same time, an even larger crisis was brewing in Detroit. Most of the banking activity in Michigan centered on two large holding companies, the Detroit Bankers Company and the Guardian Detroit Bank, both of which suffered from loans to the depressed auto industry. In January 1933, the Guardian group began applying for assistance from the RFC. Senator Couzens of Michigan visited the offices of the RFC in Washington to ask for special consideration because of the prominent stature of the bank within the state. The RFC agreed to loan a significant sum to the Guardian group on the condition that Henry Ford, a fierce rival of Couzens, agree to freeze his deposits in the system.[6] At first, Ford seemed compliant, but as the loan was about to be approved he changed his mind. Ultimately, the governor of Michigan was forced to proclaim an eight-day banking holiday beginning February 14, 1933 (Jones, 1951, pp. 54–71; Kennedy, 1973, pp. 77–102; Olson, 1977, pp. 101–104).

5. Modeling the effects of political influence on RFC assistance

Kroszner (1994) has produced the only study of the effects of political influence on RFC assistance, focusing on political considerations surrounding the preferred stock program between 1933 and 1935. He found no evidence of direct political influence from the House or Senate, but argued that the distribution of funds may have been influenced by the Executive branch and members of the House Banking Committee. In contrast, I find little role for influence over the pattern of RFC assistance between the agency's inception in 1932 and the end of 1933.

Most of the House and Senate votes against the initial RFC bill came from midwestern states that probably desired more agricultural support than that provided in the original bill.[7] Nevertheless, the initial bill passed by the substantial bipartisan margins of 344-59 in the House and 76-12 in the Senate.

Prior to December 1934, the RFC published aggregate quarterly data on the number assistance transactions per state, but not the amount. Hence the present paper analyzes the distribution of RFC assistance to banks, which were the predominant form of assistance during the entire period prior to December 1935. Between the agency's birth and July 31, 1932, assistance to banks comprised over 74% of total RFC assistance granted. Even with the passage of the ERCA in July 1932 and other New Deal programs after March 1933, assistance to banks was still 66% of the total up to the eve of the presidential election in November 1932, and 51% of total assistance to December 31, 1935 (RFC *Quarterly Reports*, various years).

Table 1 tests the differences between the mean levels of RFC assistance to banks between February 1932 and March 1933 (as a proportion of total deposits of each state on December 31, 1931) in states whose legislators voted for and against the

[6] Ford's deposits in the Guardian system totaled about $32.5 million at the time (Jones, 1951, p. 61).

[7] Evidence for this view is supported by the fact that subsequent legislation gave much more assistance for mortgage lending in general, and agricultural marketing and export assistance in particular.

Table 1
t Tests of differences between the means of state level aggregate RFC loans/total bank deposits by voting behavior on the initial RFC bill

		Nay	Yea	Test statistics for differences between the means	
Senate	Mean	0.0289	0.0413	t Statistic	−1.33
	Variance	0.0004	0.0016	t Critical two-tail	2.08
	Number	8	41	$P(T <= t)$ two-tail	0.20
House	Mean	0.0377	0.0404	t Statistic	−0.25
	Variance	0.0014	0.0015	t Critical two-tail	2.02
	Number	20	29	$P(T <= t)$ two-tail	0.81

Note. The actual House vote for the RFC bill was 344-59 and the Senate vote was 76-12. In the table above, a state is considered to have voted "No" on the Initial RFC bill if any one of its Senators or Representatives voted against it. RFC assistance is that authorized between February 2, 1932 and March 1, 1933. Total Deposits are those of all banks on December 31, 1931. Similar results are obtained using the total amount of RFC assistance, without normalizing for the size of the state.

RFC bill.[8] RFC assistance data is found in the published and unpublished Monthly *Report of Activities of the Reconstruction Finance Corporation*. Total deposits were obtained from *All Bank Statistics*. The tests in Table 1 show no statistical difference between amounts received in states voting for or against the RFC bill. However, this analysis does not take into account co-varying influences of the depression that may obscure political influence.

To investigate whether political influence was a decisive factor in allocating assistance, I use two models to capture the effects of political influence on RFC assistance. First, I begin by using ordinary least squares models where the dependent variable is the ratio of RFC assistance to total deposits in each state. The first two variables in the OLS models are Wright's (1974) political productivity index for the Democratic Party for the 1928 or 1932 elections and each index's standard deviation of the Democratic presidential vote share. The productivity index variables measure the value of a state's votes, weighted by the number of electoral votes it could supply, and the probability that the state could be attracted to the party. The standard deviations are included, "...to capture the diminishing returns of spending in low-variance states... Other things being equal, the government should spend more in a state with high variance than one with low variance, even if both have identical initial [index numbers] (provided the budget is large enough to reach the point of diminishing returns in both states)" (p. 32). Wright (1974) and Wallis (1987, 1991) find that these variables provide a surprising amount of explanatory power for New Deal expenditures as a whole, and are positively related to the overall

[8] RFC authorizations, rather than disbursements, are used throughout the analysis that follows. Authorizations are more important than actual disbursements, since they are often by themselves sufficient to prevent failure in a panic (Ebersole, 1993, p. 475). Additionally, it may be argued that politicians may be interested more in the absolute amount authorized to their state rather than the size of the authorizations relative to the size of the state. The results established here generalize to the analysis of absolute amounts authorized by the RFC.

amount of New Deal assistance during the Roosevelt administration.[9] If Hoover attempted to distribute RFC funds in a manner that would increase his chances in the 1932 elections, a negative statistically significant coefficient would be expected on the political productivity variable and a positive statistically significant coefficient would be expected on the standard deviation.

The Congressional committee variables are taken from the *Congressional Directory* (United States Congress, Various Years). The key committees chosen for analysis are the House Banking, Rules, and Executive Committees, and the Senate Banking, Finance, Rules, and Appropriations Committees. The variables consist of the tenure of committee members whose homes are in a state as a proportion of the tenure of all Senators or Representatives in that state. These variables should capture the political clout of the legislators; and, at least for representatives, hold constant the degree of influence the legislator would be expected to have over RFC assistance decisions at the state level. All things equal, I expect that these legislators may have influenced RFC assistance more than other junior members of Congress (see Anderson and Tollison, 1991, 1993).

It is widely acknowledged that state banks fared worse than national banks during the Great Depression. I adjust for the share of national banks in the state by including the ratio of total assets of national banks to total assets of all banks in 1931 (from *All Bank Statistics*). If the above assertion is correct I expect a negative coefficient on this variable. The lagged ratio of total deposits in failed banks (from the *Federal Reserve Bulletin*) to total deposits in all banks (from *All Bank Statistics*) in 1929 is included to control for expected bank weakness. The lagged variable is constructed to coincide with the dates used for the dependent variables. For instance, the first dependent variable in column one of Table 3 employs assistance granted from the RFCs inception, February 2, 1932, through October 31, 1932, as a percent of total deposits in all banks on December 31, 1931. Lagged measures begin on December 31, 1929 and continue up to the starting date of the period covered by the dependent variable, in the present example, January 31, 1932. If states with greater banking difficulties attracted more RFC assistance than others, I expect the sign on this coefficient to be positive.

Farm population as a proportion of total population in 1930 is included to adjust for the residual effects of agricultural difficulties. In the event that political influence did not have a statistically significant effect on loan distribution, I would expect this variable to have a positive effect on the amount of assistance going to the state. I also include the percent change in real personal income from 1929 to 1932. This should act as a proxy for the effects of the Depression on differing regions. I expect that the percent change in personal income is inversely related with RFC assistance in the absence of political influence. The sources of these data are the *1930 Census of Population* and *Historical Statistics of the US*, respectively. Summary statistics for all variables are included in Table 2.

[9] I thank John Wallis for providing me with the data and code used to compute these indices.

The specification in Table 3 models the state-level distribution of RFC assistance as a function of political and economic variables. As in Table 1, the dependent variables in Table 3 are total loans to banks in the state divided by total deposits in banks on December 31, 1931. Since incumbent political beliefs may have changed with the 73rd Congress, regression results are included for periods before and after the elections of November 1932 and the inauguration of March 1933. The most

Table 2
Summary statistics

Variable	*N*	Mean	SD
Total Bank Deposits Dec. 1931 ($ thousands)	49	935,113	2,161,558
Total Bank Deposits Dec. 1929 ($ thousands)	49	1,182,490	2,538,315
Amount of RFC Assistance Feb. 1932–Oct. 1932/Total Bank Deposits Dec. 1931	49	3.137	2.924
Amount of RFC Assistance Nov. 1932–Dec. 1935/Total Bank Deposits Dec. 1931	49	2.172	2.924
Amount of RFC Assistance Feb. 1932–Feb. 1933/Total Bank Deposits Dec. 1931	49	3.928	3.767
Amount of RFC Assistance Mar. 1933–Dec. 1935/Total Bank Deposits Dec. 1931	49	1.381	2.027
Wright's Index of Political Productivity for the Democratic Party, 1892-1928	48	0.428	0.516
Standard Deviation of Democratic Vote Share, 1892-1928	48	8.656	4.543
Wright's Index of Political Productivity for the Democratic Party, 1986-1932	48	0.392	0.376
Standard Deviation of Democratic Vote Share, 1896-1932	48	9.588	4.094
Proportion of Representatives' Tenure on the Banking Committee	48	4.281	8.857
Proportion of Representatives' Tenure on the Rules Committee	48	2.864	7.417
Proportion of Representatives' Tenure on the Executive Committee	48	4.899	14.596
Proportion of Senators' Tenure on the Banking Committee	48	13.531	25.508
Proportion of Senators' Tenure on the Finance Committee	48	19.451	32.600
Proportion of Senators' Tenure on the Rules Committee	48	17.038	32.390
Proportion of Senators' Tenure on the Appropriations Committee	48	23.398	33.728
Total Assets of National Banks/Total Assets of All Banks	49	0.545	0.511
Deposits in Failed Banks Dec. 1929–Jan. 1932/Total Bank Deposits Dec. 1929	49	6.216	6.293
Deposits in Failed Banks Dec. 1929–Nov. 1932/Total Bank Deposits Dec. 1929	49	8.043	6.990
Deposits in Failed Banks Dec. 1929–Mar. 1933/Total Bank Deposits Dec. 1929	49	9.800	8.622
Farm Population as Percent of Total Population, 1930	49	29.349	
Percent Change in Real Personal Income, 1929–1932	48	−0.287	0.079
Number of Failed Banks/Total Number of Banks Dec. 1931	46	5.844	4.782
Number of RFC Bank Loans/Total Number of Banks Dec. 1931	46	41.192	20.604
Amount of RFC Bank Loans/Total Bank Deposits Dec. 1931	46	3.190	2.974
Emergency Relief Division Grants Jul.–Oct. 1932/Personal Income 1932	46	0.322	0.621
Self-Liquidating Project Loans Jul.–Oct. 1932/Personal Income 1932	46	0.634	2.727
Percent of Congressional Races Won by Incumbents	46	63.488	35.186
Percent of Congressional Races Won by Democrats	46	75.584	32.962

straightforward results are obtained in the first and fourth columns of Table 3, both of which exclude the lame duck session. The results suggest that incumbent political influence did not play a meaningful role in the distribution of RFC assistance decisions prior to the 1932 elections, nor did they do so afterward. The major influences on the distribution of RFC assistance in Table 3 prior to the election are banking distress, as measured by the percentage of deposits in failed banks in the state, and political productivity for the Democratic Party. After the election there is little evidence that politics influenced RFC assistance.

The coefficients on Wright's index of political productivity prior to the election and inauguration (specifications 1 and 2) indicate that states whose votes were important to the Democrats may have received higher than average levels of loans before the 1932 presidential election. However, Hoover was a *Republican*. Since the standard deviation in these specifications is not statistically significant, this result was not part of a plan to court otherwise Democratic swing states. Thus Hoover did not benefit significantly from RFC assistance. No political productivity index or standard deviation is statistically significant after the 1932 election. The distribution of RFC assistance worked against the incumbent in the 1932 election and was neutral afterwards.

Among the Congressional committee variables, only the Senate Banking Committee tenure is statistically significant before the election but it has the wrong sign. Senator Couzens of Michigan was a member of the Senate Banking Committee, though assistance relating to the Detroit banking crisis was not forthcoming until after the election. Other powerful members of the Committee were from Florida (Fletcher), Virginia (Glass), and South Dakota (Norbeck), none of which are known to have experienced egregious banking difficulties prior to the election.

Only the coefficient for the Senate Appropriations Committee is statistically significant after the inauguration, although it loses significance when the lame duck period is excluded (column 4). It is unclear why the Appropriations Committee would command RFC assistance during the lame duck period, especially given Hoover's inaction during the period. Powerful members of the Appropriations Committee were from Maine (Hale), Tennessee (McKellar), Wyoming (Kendrick), New Hampshire (Keyes), and Virginia (Glass), again states whose banking experiences during the Depression were not exceptional. Although Maryland did experience some banking difficulties leading up to the inauguration, its Senator (Tydings) ranked only 10th on the Committee in terms of tenure.

Taken as a whole, the political variables appear to be poor predictors of the distribution of RFC loan assistance. In the models prior to the election, *F*-tests of joint significance reject the hypothesis that the political variables do not add statistically significant predictive power to the model. Of course, it is important to realize that this predictive power primarily arises from the estimated coefficients for political productivity and membership on the Senate Banking Committee, both of which have the wrong sign. In models after the election/inauguration, F-tests of joint significance cannot reject the hypothesis that the political variables do not add statistically significant predictive power to the model.

The influence of national banks is statistically insignificant in columns 1 and 2, though the coefficients have the expected sign. The only economic variable that is

Table 3
OLS regression results for RFC assistance

Dependent variable	RFC Loans to Banks/Total Deposits in All Banks$_{Dec.31,1931}$			
Time period	Jan 1932–Oct 1932 (excludes lame duck session)	Jan 1932–Feb 1933 (includes lame duck session)	Nov 1932–Dec 1933 (includes lame duck session)	Mar 1933–Dec 1933 (excludes lame duck session)
	(1)	(2)	(3)	(4)
Number of observations	49	49	49	49
R-squared	0.440	0.493	0.375	0.406
Adjusted *R*-squared	0.226	0.299	0.136	0.178
Variable	Coefficient SE	Coefficient SE	Coefficient SE	Coefficient SE
Constant	2.231	2.697	0.636	−0.227
	1.916	*2.351*	*2.072*	*1.372*
Wright's Index of Political Productivity for the Democratic Party	1.858**	2.363**	−0.160	−0.311
	0.830	*1.018*	*1.175*	*0.845*
Wright's Standard Deviation of Democratic Share of Votes	0.082	0.027	−0.188	−0.120
	0.101	*0.123*	*0.123*	*0.082*
Proportion of Representatives' Tenure on the Banking Committee	0.036	0.041	0.033	0.036
	0.056	*0.069*	*0.061*	*0.041*
Proportion of Representatives' Tenure on the Rules Committee	0.060	0.040	−0.046	−0.021
	0.058	*0.071*	*0.063*	*0.042*
Proportion of Representatives' Tenure on the Executive Committee	0.046	0.062	0.015	0.004
	0.032	*0.039*	*0.033*	*0.022*

Proportion of Senators' Tenure on the Banking Committee	−0.031*	−0.041*	−0.018	−0.009
	0.017	*0.021*	*0.017*	*0.011*
Proportion of Senators' Tenure on the Finance Committee	−0.020	−0.028	−0.010	−0.003
	0.015	*0.018*	*0.015*	*0.010*
Proportion of Senators' Tenure on the Rules Committee	−0.006	−0.002	0.005	0.001
	0.015	*0.018*	*0.016*	*0.011*
Proportion of Senators' Tenure on the Appropriations Committee	0.015	0.024	0.028*	0.016
	0.014	*0.017*	*0.014*	*0.010*
Total Assets of National Banks/Total Assets of All Banks	−0.466	−0.983	0.689	1.240
	1.040	*1.277*	*1.113*	*0.745*
Deposits in Failed Banks$_{\text{Dec. 31, 1929 to } t}$/Total Deposits of Banks$_{\text{Dec. 31, 1929}}$	0.230**	0.276**	0.064	0.024
	0.094	*0.115*	*0.088*	*0.041*
Farm Population as Percent of Total Population$_{1930}$	0.019	0.037	0.033	0.009
	0.035	*0.043*	*0.035*	*0.023*
Percent Change in Real Personal Income$_{1929\text{–}1932}$	8.102	8.103	−3.575	−4.531
	7.211	*8.847*	*7.971*	*5.061*

Note. In the table above, t is the beginning of the time period observed. Thus for the first model above, Deposits in Failed Banks$_{\text{Dec. 31, 1929 to } t}$ consists of deposits of banks that failed between December 31, 1931 and January 1932.

* Statistical significance at $\alpha = 0.10$.

** Statistical significance at $\alpha = 0.05$.

statistically significant in the pre-election period is that for deposits in failed banks prior to February 1932. The coefficient for this variable in column 1 is 0.230, and in column 2 (including the lame duck period) is 0.276, indicating that a one standard deviation increase in the deposits in failed banks in the state (relative to total deposits in banks at December 31, 1929) is associated with an increase in RFC assistance of approximately 1.5% (relative to total deposits in banks December 31, 1931), or about a one-half standard deviation increase in RFC assistance. According to the summary statistics in Table 2, an additional one standard deviation increase of deposits in closed banks would be about $74 million, which would attract about one quarter that amount (around $20 million) in assistance to the state. Both the percent of farm population and the percent change in real personal income are positive, as expected, though statistically insignificant at conventional levels. Hence, economic conditions seem to have been more important to RFC loan distribution than politics during the pre-election period. Although the deposits in failed banks and farm population variables have the correct signs in the post-election/inauguration period neither of these is statistically significant at conventional levels. In summary, we can conclude from Table 3 that the primary determinant of RFC loan distribution across states before the election and inauguration was banking difficulties. Neither economic nor political influences seem to have affected the distribution of RFC assistance after the election and inauguration.

Another way to examine the role of politics in RFC lending is to examine the influence of RFC assistance on the Congressional election outcomes in November 1932. Here I analyze the responsiveness of RFC to *demands* placed upon them for funds, rather than whether the RFC *supplied* funds to maintain their bureaucratic interests.[10] Whether I examine the number of incumbents or the number of Democrats that won congressional seats, I find no reason to believe that RFC Bank Loan, Federal Emergency Relief, or Self-Liquidating Projects programs had any systematic effect on election outcomes.[11]

The national bank share, the deposits of failed banks, farm population, and percent change in real personal income in the models in Table 4 are constructed the same as above. To these I add; the ratio of the number of failed banks to the total number of banks in December 31, 1929 (*Federal Reserve Bulletin*); the ratio of the number of RFC loans to banks to the number of banks on December 31, 1931 (the number of RFC loans is found in the *RFC Monthly Reports* and total number of banks in *All Bank Statistics*); the ratio of the amount of RFC loans to banks to

[10] As a caveat, it is important to realize that this analysis cannot reject the view that economic conditions resulted in political appeals to the RFC that were ultimately successful. However, I am only concerned with such appeals in cases where the RFCs response was disproportionate to the magnitude of the crisis, and related to the petitioner's legislative clout. Thus the present analysis should distinguish RFC authorization levels that sharply deviated from those that would be appropriate from the standpoint of economic considerations.

[11] Agricultural Credit loans were granted to regional Credit Corporations and cannot easily be tied to particular states. Therefore Agricultural Credit assistance is not included in the analysis.

Table 4
Tobit results of 1932 congressional election outcomes

Dependent variable	Proportion of races won by incumbents		Proportion of races won by democrats	
Number of observations	48		48	
Log-likelihood	−204.415		−215.349	
Restricted (Slopes = 0) Log-L.	−211.355		−217.859	
Variable	Coefficient SE	Marginal effect SE	Coefficient SE	Marginal effect SE
Constant	69.629**		81.497**	
	39.750		*38.240*	
Total Assets of National Banks/Total Assets of All Banks	−0.047	−0.045	−0.063	−0.063
	0.103	*0.099*	*0.098*	*0.097*
Banks Failed_{1932}/Number of $\text{Banks}_{\text{Dec. 31, 1931}}$	1.404	1.351	0.610	0.603
	2.194	*2.110*	*2.022*	*1.999*
Deposits in Failed Banks_{1932}/Total Deposits of $\text{Banks}_{\text{Dec. 31, 1931}}$	−4.381*	−4.214*	1.422	1.406
	2.818	*2.708*	*2.409*	*2.381*
Farm Population as Percent of Total Population_{1930}	0.112	0.108	0.192	0.190
	0.338	*0.325*	*0.323*	*0.319*
Percent Change in Real Personal $\text{Income}_{1929\text{–}1932}$	−0.585	−0.563	0.527	0.521
	0.967	*0.930*	*0.927*	*0.916*
Number of RFC Loans/Number of $\text{Banks}_{\text{Dec. 31, 1931}}$	−0.882**	−0.848**	−0.014	−0.013
	0.403	*0.388*	*0.372*	*0.367*
Amount of RFC Loans/Total Deposits of $\text{Banks}_{\text{Dec. 31, 1931}}$	2.760	2.655	2.097	2.073
	2.465	*2.371*	*2.318*	*2.292*
Emergency Relief Division Grants/Personal Income_{1932}	−6.919	−6.655	0.040	0.039
	9.309	*8.953*	*8.857*	*8.756*
Self-Liquidating Projects/Personal Income_{1932}	−2.050	−1.972	−0.230	−0.227
	2.054	*1.975*	*1.947*	*1.925*

Note. Races are defined as seats that are opposed in the election. Incumbent races exclude seats that are vacant prior to the election and new districts.
* Statistical significance at $\alpha = 0.10$.
** Statistical significance at $\alpha = 0.05$.

total deposits in banks on December 31, 1931 (RFC loans are from the *RFC Monthly Reports* and total deposits of banks are from *All Bank Statistics*).

Additionally, I add Emergency Relief Division loans and Self-Liquidating Projects divided by 1932 state personal income. Emergency Relief Division loans were given directly to states to assist unemployment and work relief programs. Self-Liquidating Projects were construction projects sponsored by states, municipalities, or private companies to boost employment and ultimately pay for themselves through fees charged to users.[12] As described above, funds for Emergency Relief Division loans were limited and both state and federal politicians became embroiled in heated debates over how they should be distributed, and Self-Liquidating Projects were often slow to be approved. The Emergency Relief Division loans and Self-Liquidating Projects come from *Monthly Reports of RFC Activity*, while *Historical Statistics of the US* is the source for personal income.

The models in Table 4 estimate the outcomes of congressional races each state. If the incumbent did not participate in the election, I assume neither candidate would have had a directly observable opportunity to buy votes with RFC assistance.[13] Thus a single election is classified as a race only if the seat is contested, and if the incumbent participated. When viewed in this manner, there were 340 races for seats in the House and Senate in the November 1932 elections. I classify the outcomes of the races in two ways: those races won by incumbents and those won by Democrats. Both variables are skewed to the right of the distribution, with incumbents winning more than 70% of the races in half the states and Democrats winning over 90% of the races in more than half. Hence I use right-censored tobit specifications to estimate both models in Table 4.

The independent variables in Table 4 explain very little of the variation in election results across states. Only two of the independent variables are statistically significant at conventional levels: deposits in failed banks and the number of RFC loans going to banks in the state. While it is not entirely surprising that deposits in failed banks had a strong negative effect on the percentage of incumbents that won, it is striking that the higher the number of RFC loans, the greater the percentage of incumbent seats overturned. Calculations using the marginal effects of the estimators show that a one standard deviation increase from the mean in the level of deposits of failed banks as a proportion of total deposits in the state results in an estimated 40% decrease in the percentage of races won by incumbents. A one standard deviation increase in the level of RFC loans as a proportion of total deposits produced an estimated 45% decrease in races won by incumbents. Voters may have felt RFC

[12] The Oakland-San Francisco Bay Bridge is the Hoover administration's most famous project approved under the Self-Liquidating Project program.

[13] It could also be the case that, even in an incumbent race, the challenging candidate could have the opportunity to visibly lobby the RFC through some other political position, i.e., a state or municipal office. Additional influences could also enter through the incumbent seeking to build political capital for an "heir apparent" party member in the election. However, data for testing such hypothesis are not available.

assistance was an insufficient remedy for the economic crises, and ousted the incumbent politicians. Mason (2001a) suggests that those voters may have been correct.

Although incumbents may have been able to mitigate political damage from economic difficulties and bank crises by attracting RFC loans, it is still not clear whether RFC assistance could have been used in a systematic manner to affect the 1932 Congressional election outcomes. I use the percentage of races won by the Democrats as an alternative dependent variable to give a feel for the degree to which the changes that occurred as a result of the elections were brought about by a change in political ideology. Assuming the Democrats would have been the most willing and able to use RFC assistance to buy votes since the RFC Board had a Democratic majority, I examine the extent to which the Democrats won Congressional races. However, the model lacks explanatory power in that none of the included variables explains a statistically significant amount of variation in the Democratic share of Congressional wins. Thus there is no evidence to show that Congressional election results were influenced by the allocation of RFC funds.

6. Conclusion

This paper describes the structure of the RFC and the political pressures it faced in allocating early New Deal expenditures in a crisis environment. Key elements of the RFCs structure are its off-budget financing, its decentralized decision-making, and its focus on loans over grants. Throughout the Great Depression, state and federal legislators (sometimes successfully) appealed to the RFC for funds to alleviate banking and fiscal crises nationwide. Nonetheless, the empirical tests in this paper provide no evidence that the geographic distribution of RFC assistance influenced 1932 presidential or Congressional election outcomes. Furthermore, there is scant empirical evidence to suggest that RFC assistance was distributed on the basis of anything more than economic conditions. These empirical results run counter to the conjectural evidence of successful political appeals. Unlike other New Deal programs, it appears the RFC may have been structured, whether by accident or design, in a manner that reduced federal government rent-seeking and capture.

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