

The effects of reconstruction finance corporation assistance on Michigan's banks' survival in the 1930s[☆]



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Received 5 November 2012
Available online 3 August 2013

Abstract

We examine the effects of the Reconstruction Finance Corporation's (RFC) loan and preferred stock programs on bank failure rates in Michigan during the period 1932–1934, which includes the important Michigan banking crisis of early 1933 and its aftermath. Using a new database on Michigan banks, we employ probit and survival duration analysis to examine the effectiveness of the RFC's loan program (the policy tool employed before March 1933) and the RFC's preferred stock purchases (the policy tool employed after March 1933) on bank failure rates.

We find that RFC's purchases of preferred stock—which did not increase indebtedness or subordinate depositors—increased the chances that a bank would survive the financial crisis, but RFC loans did not. Preferred stock assistance not only contributed to loan supply by reducing failure risk; conditional on bank survival, RFC preferred stock assistance was associated with significantly higher lending by recipient banks from 1931 to 1935.

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JEL classification: G21; G28; N12; N22; E53; E58

Keywords: Reconstruction Finance Corporation; Great Depression; Banking crises

1. Introduction: RFC assistance to banks during the Depression

This paper examines the effects of the Reconstruction Finance Corporation's (RFC) loan and preferred stock programs on failure rates of Michigan banks during the period 1932–1934, which includes the important Michigan banking crisis of early 1933. Using a new database collected from primary sources, we employ probit and survival duration models to examine the effectiveness of the government's loan program and preferred stock purchases on bank survival and failure rates, and on loan growth of surviving banks. We study Michigan banks because the failure to stem Michigan's statewide banking

[☆] This paper was prepared for the National Bureau of Economic Research Conference, "The Microeconomics of New Deal Policy," July 26–27, 2012. For helpful comments, we thank Bill Collins, Price Fishback, Eugene White, Kris Mitchener, Larry Neal, Gary Richardson, Eric Hilt, Shawn Kantor, other participants in the February 2012 "pre-conference," and July 2012 conference, and two anonymous referees for helpful comments on an earlier draft. Adonis Antoniadis and Guojun Chen provided superb research assistance.

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