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The Political Economy of the Reconstruction Finance Corporation's Bail-out of the U.S. Banking System During the Great Depression

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Summary

During the Great Depression, the federal government created the Reconstruction Finance Corporation (RFC) to provide support for the banking system. Studying the operations and impact of the RFC may help to shed light on the controversy surrounding the appropriate response to banking crises and how political factors affect those responses. Between 1933 and 1935, the RFC purchased more than \$1 billion in preferred stock in individual banks at a time when the total book value of equity capital (including the RFC investment) for all commercial banks was roughly \$3.6 billion. This paper investigates the political and economic influences on the allocation of government investment in banks among the 48 states. After controlling for the severity of the banking and general economic collapse in each state, political variables such as the length of tenure of the representatives from a state on the House Banking Committee influence where the RFC invested.

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