

## The political Economy of Financial market Regulation

Sylla, Richard, 1969. [Federal Policy, Banking Market Structure, and Capital Mobilization in the United States, 1863-1913](#). *The Journal of Economic History*, Vol. 29, No. 4 (Dec., 1969), pp. 657-686.

Rajan, Raghuram G., and Rodney Ramcharan 2008, "Landed Interests and Financial Underdevelopment In The United States." NBER working paper

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History of banking in US as a three way battle

Private interests who argue for low government intervention (free banking)

States who derive revenues from banks but who may also want to tilt the financial system towards people that are locally important

The federal government, who at times wants to use its ultimate control of the money supply to dictate how the system is going to evolve.

Both papers go at this. Sylla deals with the supply side (how banks offer credit) Rajan and Ramcharan deal with the demand side.

- 1) Sylla who looks at the regulations put in place during the civil war and that stay largely in place until WWI. (note the parallel with Glass Steagal put in place during the great depression and removed in the 1990s)

Why does the US Government get into the chartering business?

What rules are developed

What does the reserve/city bank system do to the availability of funds in the country side

Is this good or bad for growth.

Adaptation?

State bank chartering.

Federal response

County banks as local monopolist

Step one: rates of return on performing assets (loans)

Step two reserve ratios

Step three returns on capital

Step four bank balances

- 2) Rajan and Ramcharan look at the 1920s when the advantages of the National laws was supposedly quite large and look at the effect of local economic and political demand for banks.

The model:

Large landowners (1) want to reduce access to loans and (2) get insurance.

How cease control of the banking system by limiting entry

This is a model of class conflict. So if large farmers gain, there must also be some small farmers that pay: less access to credit and because say banks do not pay on time when times are difficult

So issue is whether inequality in farm size distribution is associated with less access to credit and in fact fewer banks

Level 1 evidence: state

- 1) Less branching
- 2) tighter usury laws

Level 2 evidence: counties

Direct estimation of the effect.

But the estimates show that there is a correlation. The problem of reverse causality is real because inadequate credit markets can be responsible for land concentration

So instrumental variables

Trying to deal with demand: 1) a larger share of farm land is controlled by the largest farms.

- 1) Because they are in crops that are not capital intensive
  - a. So there is less demand for financial services
- 2) These are land abundant counties and farmers optimally make a capital vs land trade-off within crop

Final question is the concentration measure right

Are farm sizes a good measure of concentration?