When Capture Fails: Political Realignment and Bank Entry Regulation in the Great Depression *

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Abstract

U.S. bank entry deregulation in the 1920s and 1930s runs counter to conventional pro-cyclical patterns. Using a newly constructed database of state banking laws mapped to local markets, we show that states increasingly restricted bank entry during the 1920s boom but lowered barriers during the Great Depression. These patterns are driven by areas where high pre-crisis capital requirements protecting local banking monopolies had slower post-crisis recoveries. As bank failures eliminated local ownership rents, regulatory capture unraveled. The constituencies that had previously championed restrictive entry realigned in the 1930s to favor branching deregulation to restore banking access.

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1 Introduction

The Great Depression is widely viewed as a watershed in the regulation of American banking. In response to unprecedented financial instability fueled by limited regulation, policymakers introduced deposit insurance and strengthened prudential standards. This narrative, however, largely overlooks a contemporaneous transformation that occurred at the state level, which governed an increasingly larger share of bank entry legislation. In this paper, we show that the Great Depression also dismantled a long-standing restrictive bank chartering equilibrium, fundamentally reshaping states' banking policy and ultimately setting the stage for nationwide branching under the Riegle-Neal Act.

We study this transformation using a newly constructed database of state banking laws between 1920 and 1940. Our database uniquely allows us to track changes in bank entry regulation at the economically relevant level of local banking markets. By combining these legal data with census and banking information, we characterize how entry barriers varied across space before, during, and after the Great Depression. This framework allows us to document how the full set of bank entry requirements—including capital, branching, and organizational restrictions—systematically changed, and how their incidence varied within and across counties and states over time. Tying these restrictions to the specific local economic environments in which they were enforced allows us to assess the causes and consequences of bank entry regulation in the decades surrounding the Great Depression.

Using these new granular data, our first contribution is to establish a set of empirical facts about the evolution and spatial incidence of bank entry regulation in the interwar period. We show that states systematically raised barriers to bank entry during the economic expansion of the 1920s, primarily through higher capital requirements. These changes were most pronounced in small counties, where entry barriers translated into protected local monopolies. After the onset of the Great Depression, this pattern reversed: states that had previously raised barriers now relaxed restrictions on banks entering local markets. This reversal did not take the form of rolling back capital requirements, which largely remained elevated, but instead through the expansion of the geographic scope of bank branches. The result is a sharp countercyclical pattern in entry regulation that runs opposite to conventional accounts of financial reform.

Purely technological or prudential motives cannot explain why entry barriers rose during an expansion and were relaxed only after widespread failures, nor why these changes were driven by support in rural areas. Instead, these patterns point to a political-economy explanation that highlights rural constituencies' role in regulatory change. To formalize this mechanism, in the second part of the paper we develop a stylized model in which voters trade off the rents generated by local bank ownership against the benefits of credit access. We allow for two (endogenously

chosen) policy tools that govern both bank entry and financial stability: capital requirements and bank branching. In normal times, rural areas—where bank ownership is concentrated and demand for credit is relatively stable—support restrictive entry policies that preserve local rents. When bank failures become widespread, those rents collapse and demand for access to basic banking services dominates. The model predicts that rural voters withdraw support for restrictive entry under crisis conditions, generating a political realignment.

While the model predicts a political realignment in favor of expanding bank entry, it does not imply that all entry margins are equally attractive in all states of the world. For instance, policymakers could facilitate bank entry after a financial crisis by lowering capital standards, but only at the cost of increasing fragility. Branching deregulation offers an alternative adjustment margin that can increase access to banking services while maintaining—or even strengthening—prudential standards. Thus, even with fixed preferences over stability, access, and rents, voters' preferred regulatory regime is state-contingent as the underlying risk of bank failures changes the relative payoffs to different policy combinations. As a result, previously unattractive policy tools—such as branching liberalization paired with high capital standards—can become preferable, naturally expanding the set of instruments that voters support.

Guided by this framework, we show five empirical results. First, the tightening of entry regulation in the 1920s was closely linked to rural political influence. States with larger rural population shares were significantly more likely to raise capital requirements during the boom, and county-level exposure to these changes was greatest where local banking markets were most concentrated. Second, we show that these same entry barriers exacerbated the decline in banking access during the Great Depression by raising the cost of replacing failed banks. Third, we provide voter-level evidence of voter re-alignment following banking distress: using a unique institutional feature of Illinois law that required banking statutes to be approved by public referendum, we directly show that rural voters supported higher entry barriers in the 1920s but opposed them in the 1930s, particularly in counties that experienced banking sector disruptions. These voting patterns track the shift from pro-restriction to anti-restriction preferences in response to local banking distress predicted by our model.

This political realignment had direct policy and financial consequences. Fourth, as rural support for restrictive entry collapsed, states liberalized bank expansion through branching, allowing existing banks to restore services in areas where new entry was prohibitively costly. Finally, using household-level data from the mid-1930s, we show that these reforms substantially increased bank account usage and deposit holdings, with effects concentrated in rural communities. Entry regulation thus not only shaped the structure of the banking system, but also the distribution of financial access during the recovery from the Great Depression.

Taken together, our results show how economic crises can unravel regulatory coalitions that appear stable in normal times. Rather than uniformly tightening financial regulation, the Great Depression triggered a reconfiguration of political support over who should be allowed to provide banking services, and on what terms. By documenting this process in detail, we highlight the central role of state-level entry rules and rural political realignment in a key regulatory moment of American banking.

Related literature: This paper contributes to several literatures in finance, political economy, and economic history concerned with how financial regulation is shaped by political coalitions and how those coalitions respond to economic shocks. A central theme in this work is that regulation reflects distributional conflict rather than purely technocratic optimization, with regulatory outcomes often shaped by the tension between concentrated private rents and more diffuse economic losses (Stigler, 1971; Peltzman, 1976, 1989). A large empirical literature documents how political incentives, organizational capacity, and regulatory institutions shape financial policy and its implementation, particularly in the aftermath of crises or major technological or organizational changes (Kroszner and Strahan, 1999, 2001; Mian, Sufi and Trebbi, 2010, 2014; Rajan and Ramcharan, 2011; Bertrand, Bombardini, Fisman, Trebbi and Yegen, 2023; Lucca, Seru and Trebbi, 2014; Agarwal, Lucca, Seru and Trebbi, 2014).

We complement this work by studying a formative period in U.S. banking history in which bank entry regulation was determined almost entirely by states but bound at the level of local banking markets. In contrast to much of the modern literature, which often infers political influence from aggregate outcomes, our setting allows us to link regulatory change directly to specific constituencies and to voter behavior. This level of disaggregation allows us to distinguish changes driven by nationwide shocks from shifts in support among pivotal local constituencies at the geographic level most relevant to regulation.

The paper also relates to research on regulation over the financial cycle. A common view in both policy discussions and empirical work is that regulation tends to loosen during booms and tighten following crises, as instability generates political demand for stricter oversight (Abiad and Mody, 2005; Abiad, Detragiache and Tressel, 2010; Coffee Jr, 2011; Dagher, 2018). We show that this characterization misses an important dimension of regulatory change. In interwar U.S. banking, entry regulation moved countercyclically: barriers tightened during the economic expansion of the 1920s and relaxed only after the onset of the Great Depression. Moreover, this reversal did not affect existing prudential standards. Instead, states substituted across regulatory instruments, maintaining high capital requirements while expanding banks' ability to operate across space. Our findings therefore contribute to this literature by showing that regulation is multi-dimensional, and that crises can redirect reform toward alternative policy margins rather than simply intensifying

existing rules or favoring incumbent private interests.

A substantial body of economic history emphasizes the central role of state regulation in shaping the structure of American banking. Classic accounts document how state chartering authority, capital requirements, and branching restrictions produced a fragmented system dominated by small unit banks well into the twentieth century (White, 1982, 1985; Calomiris and Gorton, 1991; Calomiris, 2000; Calomiris and Haber, 2014). This literature highlights the persistence of restrictive entry regimes and their implications for financial instability and limited integration, particularly in rural areas (Sylla, 1969; James, 1976; Mitchener, 2005, 2007; Wheelock, 1993).[1] We build on this work by assembling new data that capture within-state changes in entry regulation over time, allowing us to document not only the level of regulation but also its active evolution during the interwar period. In doing so, we show that entry barriers were continuously and deliberately intensified during the 1920s, before being partially undone in response to the Great Depression.

Within this historical literature, several studies emphasize the political foundations of opposition to bank branching. Rural elites helped to protect unit bankers against branch banking, motivated by a combination of monopoly rents, concerns over local control, and fears that financial resources would be diverted away from rural communities (White, 1985; Abrams and Settle, 1993; Economides, Hubbard and Palia, 1996; Giedeman, 2005; Rajan and Ramcharan, 2011; Jaremski and Fishback, 2018; Rajan and Ramcharan, 2016). These accounts typically portray rural opposition to branching as a durable feature of the political economy of banking once established, sustained by institutional arrangements and vested interests. Our contribution is to show that this opposition was state-contingent rather than immutable. We document that the same rural constituencies that supported restrictive entry in normal times withdrew that support once widespread bank failures eliminated ownership rents and made access to banking services paramount.

The paper also relates to a growing literature on the economic importance of bank branching and geographic scope. A large body of work shows that relaxing geographic restrictions on banks expands access to financial services, facilitates capital reallocation through internal bank capital markets, and supports local economic activity, particularly in areas with limited initial financial development (e.g., Kroszner and Strahan, 1999, 2001; Fonseca and Matray, 2024; Quincy and Xu, 2025). Similarly, research on capital requirements demonstrates their role in shaping bank entry, competition, and stability over the long run (e.g., Xu and Yang, 2024; Carlson, Correia and

[1] A related economic history literature establishes that state-wide regulations affected bank failure rates during the 1920s and 1930s on a number dimensions: deposit insurance (Dehejia and Lleras-Muney, 2007; Wheelock and Wilson, 1995; Ramirez and Shively, 2012; Jaremski and Wheelock, 2020; Calomiris and Jaremski, 2019), liability laws (Anderson, Barth and Choi, 2018; Aldunate, Jenter, Korteweg and Koudijs, 2021), and bank branching (Ramirez, 2003; Carlson and Mitchener, 2006; Dehejia and Lleras-Muney, 2007; Mitchener, 2007; Carlson and Mitchener, 2009; Das, Mitchener and Vossmeyer, 2022; Quincy, 2024). This work primarily studies the effects of state-level regulatory regimes on aggregate banking outcomes, whereas we focus on the evolution and local incidence of entry regulation within states and on the political forces shaping those changes.

Luck, 2022). However, these literatures have largely studied these instruments separately, with branching as a tool for geographic expansion and credit access, and capital requirements as a tool for controlling entry costs and ensuring stability. Our contribution is to study these two policy instruments jointly, showing how policymakers endogenously adjusted both margins to balance the dual objectives of financial stability and credit access. In addition, we show that changes to branching and capital regimes are shaped through a political process that represents distinct economic interests.

Finally, this paper speaks to a broader literature on crises, political realignment, and institutional change. A growing body of work argues that large economic shocks can unravel existing political coalitions and lead to discrete institutional shifts rather than gradual reform (e.g., Polanyi, 1944; Hirschman, 1970). Recent evidence links financial distress to political conflict and changes in political representation, consistent with the view that crises can reshape coalitions and policy agendas (e.g., Gyöngyösi and Verner, 2022; Funke, Schularick and Trebesch, 2023). We provide a detailed historical case in which such a realignment can be observed directly: the collapse of rural support for restrictive bank entry following the Great Depression. By tracing how this shift reshaped both regulatory policy and financial access, the paper highlights the central role of political economy forces in the evolution of financial regulation and recovery. Our use of referendum voting returns further connects to evidence that voters respond to policy positions and promises when they are salient and credible (e.g., Cruz, Keefer, Labonne and Trebbi, 2024).

2 Historical Background

States have long exerted control over bank entry conditions. The two primary regulatory instruments have been equity (capital) requirements and branch legality. Capital requirements set the minimum amount of paid-in capital for obtaining a charter while branching restrictions determined the scope of entry across locations, ranging from complete prohibition (unit banking) to various forms of limited or even unrestricted branching within-state. Together, these tools shaped the number, size, and geographic reach of banks operating across the country.

2.1 Bank entry before the Great Depression

2.1.1 Capital requirements

Prior to the U.S. Civil War, banks operated through state charters. The rise of "free banking" regimes imposed minimal entry restrictions, with some banking systems operating without any capital requirements. The creation of nationally-chartered banks with the passage of the National Banking Act of 1863 fundamentally altered the landscape of regulating minimum capital require-

ments. Under the national banking system, capital requirements were tied to the population of the town in which the bank would operate, with populations set by the most recent U.S. decennial Census and requirements jumping discontinuously at specified thresholds (Barnett, 1911).[2] By the 1870s, most states had adopted similar frameworks for the state-chartered banks they regulated.[3]

Capital requirements effectively governed the price of establishing new banks, and therefore limited commercial banks' competition in local markets. They were particularly binding for rural areas in which lack of entry often resulted in one or two banks serving the entire community. These regulations thus fundamentally shaped local banking density, determining both the geographic availability of credit and the competitive structure of local banking markets (e.g., Wheelock, 1993; Fulford, 2015; Xu and Yang, 2024).

Rural communities' limited banking access proved to be politically contentious, with capital requirements portrayed as the main barrier to entry. The populist movement of the 1890s crystallized this discontent by mobilizing farmers and small-town merchants around demands for easier bank entry (Eichengreen, 1984; White, 2014; Jaremski and Fishback, 2018). In 1900, at the national level, Congress responded to this pressure to lower entry barriers in rural areas by halving the minimum capital requirement for national banks in places under 3,000 people from $50,000 to $25,000 (James, 2015).

As the federal government eased capital requirements to lower entry barriers, state legislatures followed suit for the dual purposes of meeting constituent demands and of retaining banks that might otherwise seek national charters. This latter motive of regulatory competition drove frequent adjustments in state capital laws, as legislators balanced demands for bank entry against bank safety concerns.[4] Even in the 1920s, capital requirements remained a politically salient policy lever, with regulators consistently responding to local banking interests through threshold and minimum amount adjustments (White, 1982, 2014). We examine these changes in Section 4.3.

2.1.2 Branching restrictions

The incentive for states to encourage regulatory arbitrage also created powerful lobbies to (de)regulate bank branching. A handful of states, like California, allowed branching in the early 20th century, but the vast majority remained resolutely opposed (White, 1982; Quincy, 2024).

The anti-branching constituency across states primarily consisted of unit bankers and local elites (Calomiris, 2000; Rajan and Ramcharan, 2011). The former benefited from lack of competition over

[2]For instance, national banks required $50,000 for towns under 6,000, $100,000 for those above 6,000, $200,000 for population above 50,000 inhabitants, and finally $500,000 for cities with more than 200,000 inhabitants.

[3]States governed bank entry requirements for two-thirds of banks in 1929, only 4% of banks opted for state charters and Federal Reserve membership (with national banks making up the remainder) (of Governors of the Federal Reserve System , US; Board of Governors of the Federal Reserve System, 1930).

[4]States also strengthened their supervisory institutions for the same reason (Mitchener and Jaremski, 2015).

lending rates and service fees while local elites, typically large farmers and small-town merchants, were wary of their deposits being invested outside their local area. These groups believed that a locally-owned unit bank dependent on local business relationships was best-positioned to serve their economic interests. Opposition to branching was especially strong in rural states, where political influence rested with locally owned banks and agricultural elites.

Economic incentives to limit bank branching were also framed in a broader ideological manner. Rural newspapers and banking trade publications regularly portrayed branch banking as a threat to community autonomy and local control. The *Banker Farmer*, a journal explicitly dedicated to rural banking interests, exemplified this ideology by promoting tight alliances between local bankers and agricultural elites. These publications drew on Jeffersonian and Jacksonian traditions that valorized small-scale enterprise and portrayed large banks as predatory monopolies controlled by urban financial interests. In this rhetoric, shown in Appendix C, the unit bank represented independence, local knowledge, and democratic control, while branch banking represented concentration, absentee ownership, and Wall Street domination.

This coalition proved highly effective. By the early twentieth century, branching remained prohibited or severely limited in nearly all states, leaving unit banking as the dominant organizational form nationwide (White, 1985; Rajan and Ramcharan, 2016).

This unit-banking equilibrium was further entrenched at the federal level by the McFadden Act of 1927, which limited nationally chartered banks to branching only where and to the extent permitted by state law. The McFadden Act thus gave state-level anti-branching coalitions effective veto power over the structure of all banks throughout the country, regardless of what federal regulators or large banks might prefer. By the late 1920s, branching remained politically infeasible across most states, leaving capital requirements as the primary adjustable margin of entry regulation.

2.1.3 Demand for branching reform

Two major economic developments during the 1920s placed increasing strain on the unit banking system. First, rapid industrialization required capital investment that was difficult for small, local unit banks to meet. For example, a unit bank in a town of 5,000 people, capitalized at $50,000, could not safely make loans of the size needed by growing manufacturing firms. These businesses sought access to branch networks that could pool resources across multiple locations, creating support for permitting urban branching at minimum (Giedeman, 2005).[5]

Second, a series of agricultural crises in the early 1920s exposed the fragility of small rural banks. The post-World War I agricultural downturn hit farm prices hard, leading to widespread farm failures, particularly in the Midwest and Great Plains. Small unit banks, with loan portfolios

[5]Bond market access was concentrated among large firms in the 1920s and 1930s, so most firms relied on bank credit (Hunter, 1982; Benmelech, Frydman and Papanikolaou, 2019).

concentrated in a single town or county, had no way to diversify away from local agricultural risk. When the local economy collapsed, the local bank often followed (Alston, 1983; Wheelock, 1992; Jaremski and Wheelock, 2020). Regulators began to argue that higher capitalization would buffer rural communities from both financial and real shocks (e.g. Office of the Comptroller of the Currency, 1929).

Pro-branching advocates argued that branch networks, by diversifying across regions and sectors, would prove more stable than isolated unit banks. A branch system could absorb losses in one agricultural area by drawing on profits from urban branches or branches in regions with different crops. This stability argument suggested that relaxing branching restrictions, rather than merely adjusting capital requirements, would better serve both bank safety and credit access goals.

However, these two arguments gained little traction in state legislatures. The rural anti-branching coalition remained politically powerful, and debates over branching in the mid-to-late 1920s typically ended in defeat for reform advocates. Where branching laws did pass, as in the case of the McFadden Act, they often came with severe restrictions designed to protect existing unit banks (Rajan and Ramcharan, 2016). Common provisions included prohibitions on establishing branches in towns that already had a locally-owned bank, requirements for prohibitively high capital for branch networks, or limits on the geographic scope of branching that prevented true diversification.

2.2 Crisis and regulatory change in the 1930s

The Great Depression forced regulators to revisit their policy stances as the systemic banking crisis challenged both banking access and financial stability. The Great Depression transformed these unresolved tensions into a systemic crisis. Between 1930 and 1933, roughly 9,000 banks failed, representing nearly 40 percent of all banks operating at the start of the period (Wheelock, 1995). Coupled with the higher capital requirements imposed during the 1920s, these failures made it prohibitively costly to replace banks precisely when failures were most widespread, leaving many communities without access to basic banking services (72nd Congress, 1932, p.1417).

While the shock to the banking sector spurred an unprecedented increase in federal regulation and oversight of the banking sector, the question of branching remained unresolved. The final compromise of the Banking Act of 1933—brokered by Carter Glass and Henry Steagall—hinged on the question of bank branching. Glass-Steagall, as the Banking Act came to be known went farther than the McFadden Act by resigning all branching decisions entirely to state legislatures. Policymakers' continued ambivalence towards branching contrasted with their newfound support for higher capital requirements to safeguard financial stability, even at the potential expense of new bank charters (Chapman, 1934). As a result, the Depression marked a decisive jurisdictional shift:

for the remainder of the twentieth century, states retained primary control over both margins of bank entry—capital requirements and geographic expansion.

3 Data

Tracing out the political economy of bank entry conditions requires we bring together data on banking laws, their voter support, and local voter characteristics.

3.1 State banking laws

We construct a new panel of state banking laws that captures bank entry conditions and related regulatory changes between 1925 and 1940. Our primary source is the biennial *State Law Index* compiled by the Library of Congress, which summarizes every law passed by state legislatures over the preceding two years. These indexes organize laws by broad topic (e.g., "banks and banking") and by detailed legal provisions (e.g., chartering authority, capital requirements, branching restrictions), reporting the state, legislative session, date of passage, and law number. These volumes are the most comprehensive source of state banking law legislation.

Universe of banking laws. We digitize and harmonize all banking-related entries from these state statutes to code regulations at the level of individual legal conditions. A single statute may introduce multiple regulatory changes, such as tightening entry requirements while expanding supervisory authority. We standardize the topical and sub-topical categories across legislative sessions to ensure comparability over time, manually linking equivalent legal provisions whose labels vary across editions. This process yields a comprehensive database of 2,743 banking-related legal conditions passed over 1,109 legislative days.

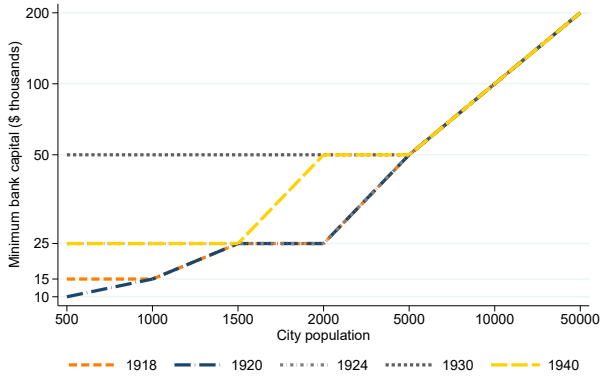
From this universe of banking law conditions, we isolate changes affecting *bank entry*, which states primarily regulated through minimum capital requirements and restrictions on branch banking. Our database therefore combines the condition-level laws with detailed statutory information on capital requirements and branching legality.

Capital requirement schedules. First, to measure the price of bank entry, we hand-collect statutory minimum capital requirements from original state session laws, guided by historical digests such as Welldon (1910).[6] For each state and year, we record the full schedule of minimum paid-in capital requirements and the population thresholds governing those requirements. Unlike prior work that typically records only the lowest requirement in a state (e.g., Wheelock, 1993; Mitchener, 2005, 2007), we document the entire statutory schedule across population bins and over time.

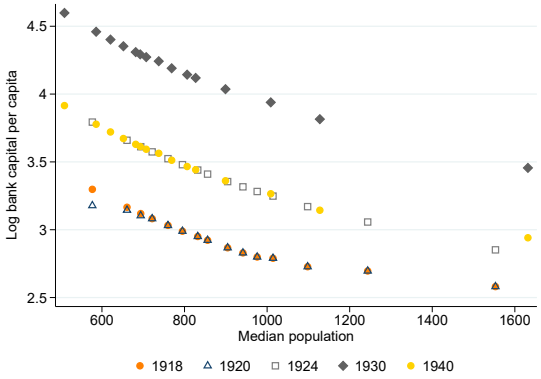
[6] See Figure B.2 for a sample set of capital requirements.

Figure 1: Illinois capital requirements over time and space

(a) Legal bank capital requirements



(b) Bank capital costs per capita



Notes: Panel (a) plots the statutory minimum bank entry capital implied by the active Illinois banking law and the population of each city in the most recent preceding census for each Illinois law active between 1920 and 1940. Panel (b) assigns these statutory requirements to each incorporated place, computes minimum required bank capital per capita at the city level, and aggregates to the county level by taking the median across cities in each county and year, see Section 3.1 for details. Median population is the median incorporated-place population within each county based on the closest preceding census. Sources: Illinois legislative session laws; Ruggles et al. (2021); Bleemer and Quincy (2026); and authors' calculations.

We translate statutory capital requirements into local entry costs by assigning each incorporated place the minimum capital requirement for its population according to the most recent decennial census. Place populations are harmonized across years using crosswalks from Bleemer and Quincy (2026).[7] For each place and year, we compute the minimum required bank capital per capita, defined as statutory minimum capital divided by local population. We then aggregate to the county level by taking the median across incorporated places within each county.

To illustrate this process, Figure 1 presents Illinois capital requirements over time and space. Figure 1a visualizes the statutory schedules from the five Illinois bank entry acts passed between 1918 and 1940, showing how these laws changed both minimum capital and population thresholds over time. For instance, the 1920 law lowered the required capital to $10,000, but only for communities under 500 people, while the 1930 law increased barriers to entry for cities under 5,000 people. Figure 1b shows the resulting county-level median bank capital costs per capita, demonstrating how statutory changes translate into local entry barriers.[8]

Branching eligibility. Second, we code the legality of bank branching and the conditions under which branches may be established. These include outright prohibitions or permissions, as well as restrictions based on population size, geographic scope, existing competition, and capital require-

[7]These crosswalks harmonize the official Census Bureau list of places for each census with the corresponding restricted full count census, available through Ruggles et al. (2021), and standardize places over time.

[8]Figure B.5 presents other state examples.

ments for branch networks. Applying these statutory provisions to city populations, we construct indicators for whether a given location is legally eligible to host a bank branch in each year. We aggregate these indicators to the county level using population weights to capture the share of residents living in branch-eligible locations.

Constructed variables. The resulting dataset produces three key objects used in the analysis: (i) an annual panel of state banking law changes by regulatory dimension, (ii) a county-level panel of median log bank entry costs per capita based on statutory capital requirements, (iii) a county-level measure of branch eligibility capturing the geographic margin of bank network expansion.

3.2 Support for bank laws

We complement our legislative data with direct measures of public support for changes in bank entry regulation. Because modern opinion polling does not exist for this period, we use a distinctive institutional feature of Illinois banking law that allows us to observe voter preferences directly.

Banking referenda. Until 1938, the Illinois state constitution required that all changes to banking laws be ratified by public referendum at the next general election. As a result, every major change to bank entry regulation during this period—including changes to capital requirements—was subject to a statewide vote. These referenda provide a rare opportunity to measure voter support for banking regulation without inferring preferences from legislative behavior.

We identify all bank-related referenda between 1920 and 1940 using Illinois Office of Secretary of State (various years) published by the Office of the Secretary of State. For each referendum, we link the ballot language to the underlying session law to determine the precise regulatory change being proposed, including whether it increased or decreased statutory capital requirements and which population classes were affected.

County-level voting returns. For each referendum, we transcribe county-level "yes" and "no" vote totals from the official election returns. We measure abstentions by subtracting the sum of "yes" and "no" votes from the total number of votes cast for the highest office on the ballot in that election. These data yield a county-by-referendum panel of voting outcomes.

3.3 Economic and banking characteristics

We assemble a set of economic, demographic, and banking variables to relate changes in bank entry regulation to local conditions during the 1920s and 1930s. These data are constructed at the state, county, and household levels.

Demographic and economic characteristics. To measure local economic structure and constituency characteristics, we use decennial state- and county-level census data on population, agriculture, and manufacturing (Haines, 2010). These data provide information on population size and distribution across urban and rural places, farm values and land inequality, and manufacturing activity, which we use to proxy for local demand for banking services and the economic interests of potential voting blocs.

Local banking structure. We measure local banking presence using data on the number of banks headquartered in each county and year between 1920 and 1936 (Federal Deposit Insurance Corporation, 1992).[9] From these data, we construct measures of bank density, monopoly exposure, and banking access that vary across counties and over time.

Banking distress. To capture shocks to local banking access, we use information on bank suspensions drawn from the same FDIC source. These data allow us to identify periods and locations in which communities experienced bank failures, which we use to study how distress interacted with pre-existing entry barriers and shaped subsequent regulatory responses.

Household banking access. Finally, we examine the consequences of bank entry regulation for household financial behavior using the 1935–36 Study of Consumer Purchases, the predecessor to the modern Survey of Consumer Finances. The survey records households' use of checking and savings accounts, along with demographic characteristics and location. The data were originally digitized by US Bureau of Labor Statistics (2009) and harmonized by Hausman (2016). These microdata allow us to assess whether regulatory changes—particularly branch deregulation—translated into improved banking access for households, especially in rural areas.

4 Regulatory Reversal: Patterns and Geography

Having established the institutional backdrop of state control over bank entry, we now characterize how regulatory regimes evolved during the interwar period. We document three key patterns. First, regulation moved countercyclically: entry barriers tightened during the 1920s boom and loosened during the Great Depression. Second, this reversal operated through different instruments: states raised capital requirements in the 1920s but turned to branch deregulation in the 1930s rather than lowering capital barriers. Third, these changes were concentrated geographically: the smallest, most rural counties experienced both the largest increases in entry costs during the boom and the greatest expansion in branch eligibility during the bust.

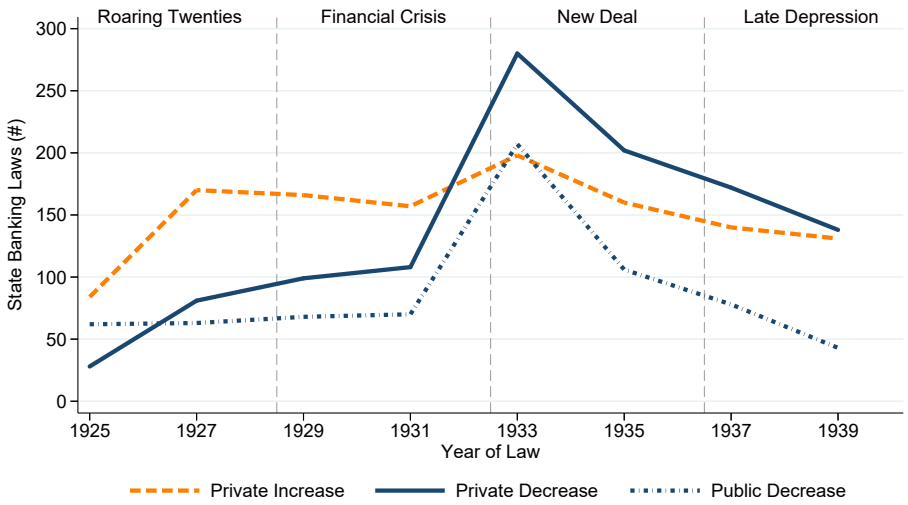
[9]These data do not count bank branches. This is appropriate for our analysis, which focuses on *local* bank ownership and the incentives of incumbent unit banks rather than the total number of banking offices.

We begin by dividing the interwar period into four eras corresponding to stages of the business cycle: 1925–September 1929 (the Roaring Twenties boom), October 1929–February 1933 (the economic collapse and financial crisis), March 1933–1936 (the New Deal), and 1937–1940 (post–New Deal and late Depression). We use these eras to characterize the timing and direction of state banking legislation.

4.1 Countercyclical regulation

Figure 2 summarizes the direction of state banking regulation across four interwar eras. The figure plots the number of banking law provisions that increased regulatory restrictions (orange) versus those that relaxed existing constraints (blue). We classify provisions as public when they expand or contract the regulatory authority of government agencies (e.g., liquidity provision or resolution powers), and as private when they directly alter banks' permissible activities or entry conditions.[10]

Figure 2: Laws governing banking by era



Notes: The figure plots the number of banking laws enacted by U.S. states across four interwar eras, classified by their regulatory direction. Each law is counted once per category based on whether it contains at least one provision that increases regulatory restrictions on private banks (orange line), decreases restrictions on private banks (solid blue line), or decreases restrictions on public/government banking activities (dash-dot blue line). A single law containing provisions in multiple categories (e.g., both increases and decreases) is counted once in each applicable category. Regulatory increases correspond to new limits on bank behavior or entry, while decreases relax existing constraints or permit new forms of banking activity. See Section 3.1 for more details. Eras are defined by the date of passage: 1925–September 1929 (Roaring Twenties), October 1929–February 1933 (financial crisis), March 1933–1936 (New Deal), and 1937–1940 (late Depression). Sources: Library of Congress biennial state legislative indexes and authors' calculations.

Two patterns stand out. First, legislative activity remained high throughout the period and intensified during the New Deal. Second, despite this increase in activity, the direction of regulation shifted sharply over the business cycle. In the late 1920s during the boom, a larger share of laws

[10] We found no cases of decreases in public or government banking activities, as the Supreme Court considered only ex ante temporary expansions of emergency public authority to be valid (e.g. Fliter and Hoff, 2012).

tightened regulation, reflecting a broad move toward more restrictive banking rules. After 1929 and the onset of the Great Depression, the number of new provisions that relaxed regulations more than doubled and dominated legislative output.

Thus, as legislatures became more active during the crisis and recovery, the composition of reforms reversed. This pattern runs counter to the conventional view that financial regulation is relaxed in booms and tightened in downturns. In interwar U.S. banking, the opposite occurred.

4.2 From capital requirements to branch deregulation

Figure 3 decomposes this regulatory reversal by policy instrument, distinguishing between changes to capital requirements and changes to branching laws. Each panel plots the number of states introducing new entry-related provisions in a given biennial session, separating tightening from loosening within each instrument.

Capital requirements. Figure 3a shows that states frequently raised the minimum capital needed to charter a bank in the mid-to-late 1920s. While these laws were static prior to 1925, the frequency of capital requirement escalations rose sharply thereafter, and peaked in 1927 at the height of the Roaring Twenties boom.

During the Great Depression, these higher capital requirements were not reversed because they were seen to be necessary for banking sector stability. This pattern of maintaining high capital entry barriers diverges sharply from earlier historical episodes, such as the 1890s farm crisis, when states rapidly reduced capital requirements in response to financial distress (White, 1982).

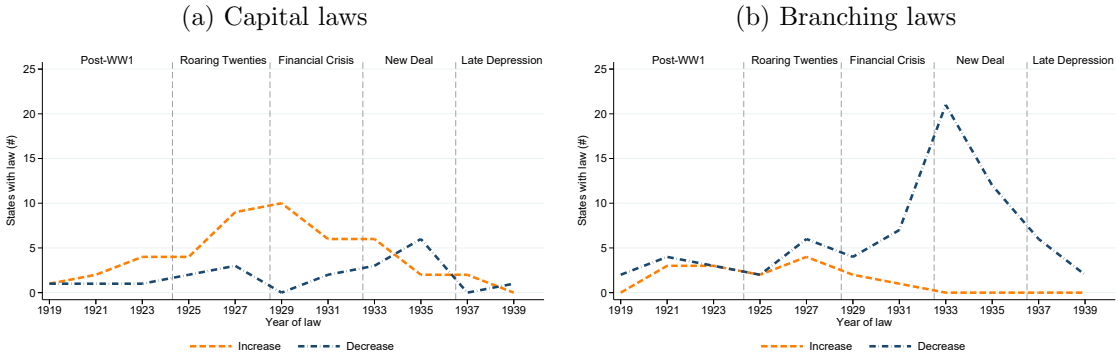
Branching. Figure 3b shows a starkly different pattern for branching laws. Prior to 1930, states rarely legislated branching, and when they did, permissions and restrictions were introduced at similarly modest rates. During the financial crisis and Depression, however, this balance shifted decisively. In 1933 alone, almost half of the states legalized or expanded branching, with additional states following in the subsequent years of the New Deal.

Together, Figure 2 and Figure 3 show that the countercyclical reversal in bank regulation did not operate through a rollback of capital requirements. Instead, states substituted across instruments: they maintained high entry costs for new banks and relaxed restrictions on geographic expansion to preserve both financial stability and banking access.

4.3 Entry barriers across space

We now examine how the state-level regulatory changes documented above translated into local entry barriers and access. Because capital requirements depend on population thresholds and

Figure 3: States passing new entry laws by year and type



Notes: These lines represent the flow of states introducing new bank entry barriers which could increase or decrease. Panel (a) plots changes in minimum bank charter capital requirements, separating increases (orange) from decreases (blue). Panel (b) plots changes in bank branching laws, separating new branching restrictions (blue) from new branching permissions (orange). Counts reflect the passage of new legal conditions related to each entry type in each biennial legislative session according to state session laws see Section 3.1. Sources: State session laws and authors' calculations.

branching laws apply unevenly across locations, identical statutory changes can have very different effects across counties.

To measure local entry barriers implied by state law, we map statutory capital requirements to the population distribution of towns within each county. State banking statutes typically specify minimum paid-in capital requirements as step functions of town population. Using decennial Census data, we assign each incorporated place its applicable minimum capital requirement based on the statute in force at that date. We then scale this requirement by local population to facilitate comparison across places of different size. Finally, we aggregate these place-level per-capita requirements to the county level by computing the median per-capita minimum capital requirement across all incorporated places within a county.[11]

Figure 4 summarizes the spatial incidence of bank entry regulation in 1920, 1930, and 1940. Figure 4a shows the distribution of county-level bank entry costs, measured as the median minimum capital required per capita. Between 1920 and 1930, the distribution shifts sharply to the right (blue relative to orange), indicating a nationwide increase in the cost of chartering new banks, consistent with Figure 3. In contrast, there is little additional movement between 1930 and 1940 (gray relative to blue), reflecting the persistence of elevated capital barriers during the Depression. These effects are not the result of population changes; Figure B.4 fixes population in 1920 to demonstrate that the requirements increased irrespective of later population growth in two-thirds of cases.

This increase in entry costs was not evenly distributed across counties. Figure 4b maps the change in median log bank capital per capita from 1920 to 1930 and shows substantial heterogeneity

[11]Specifically, we calculate the per capita capital requirement $X_{c,t}$ for county c in year t given the regulatory requirement $K(P_{i,t})$ for place i of population P: $X_{c,t} = \text{median}_{i \in c}\left(\frac{K(P_{i,t})}{P_{i,t}}\right)$.

both across and within states. Some states, like Arkansas and North Carolina, raised capital requirements more than others (e.g., Nevada or Oklahoma). However, even where state statutes changed capital requirements at all population thresholds, their local effects varied widely depending on population structure.

Rising entry costs in rural counties. Figure 4c shows that these differences were systematically related to county population. In all years, the relationship is negative: bank entry costs are highest in the least-populous counties. Moreover, the rightward shift that captures the *change* in entry costs from the 1920s to the 1930s was also largest in these same small counties.

Branching expansion in rural counties. Figure 4d turns to the spatial margin of entry—branch eligibility. In 1920 and 1930, branch eligibility is negatively related to bank entry costs, mirroring the structure of capital requirements. However, after the wave of branch deregulation in the 1930s, this relationship reverses and becomes positive. We see that by the 1940s, branching eligibility expands most sharply in counties facing the highest capital barriers to unit bank entry, which tended to be the least populous counties (Figure 4c).

Taken together, these patterns show that the communities most exposed to rising entry costs in the 1920s were also those targeted by branch deregulation in the 1930s. The regulatory reversal was therefore not only countercyclical but also spatially concentrated, operating through a substitution from capital-based to geographic margins of entry.

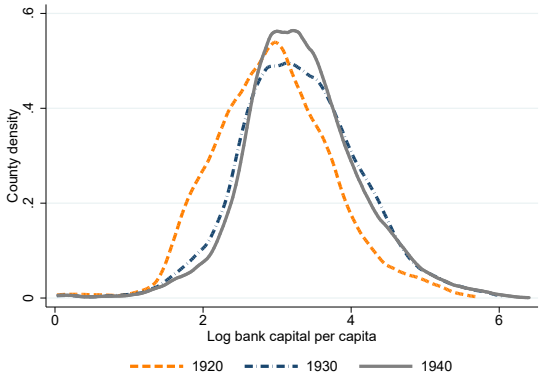
5 A Model of Entry Regulation and Voter Realignment

We develop a conceptual framework to rationalize the regulatory reversal documented in Section 4.3. The model highlights a trade-off between two motivations for regulating bank entry: preserving local ownership rents versus meeting demand for credit access. These two motives reflect the political salience of local bank ownership in rural areas and the importance of credit access during periods of banking uncertainty, both of which are central to the narrative of historical banking regulation.

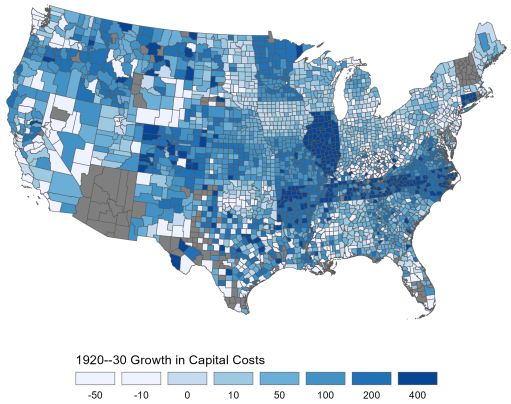
When bank failure risk is low and a larger share of the population owns local banks, voters favor high entry barriers that preserve monopoly rents. When failure risk rises, ownership benefits evaporate and entry barriers exacerbate credit scarcity, leading the same voters to support liberalization, particularly with instruments that expand access without weakening capital safeguards. While the model is static, it remains useful for interpreting a sequence of regulatory choices across economic states.

Figure 4: Characteristics of county median bank entry costs

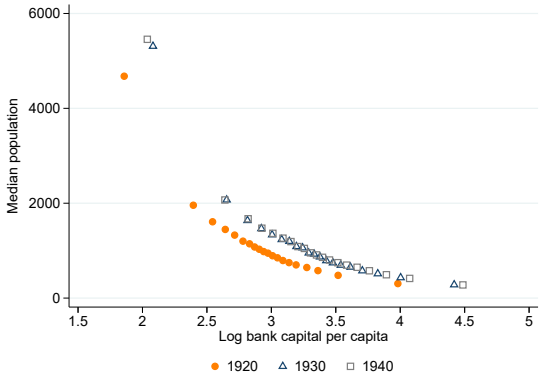
(a) Capital costs over time



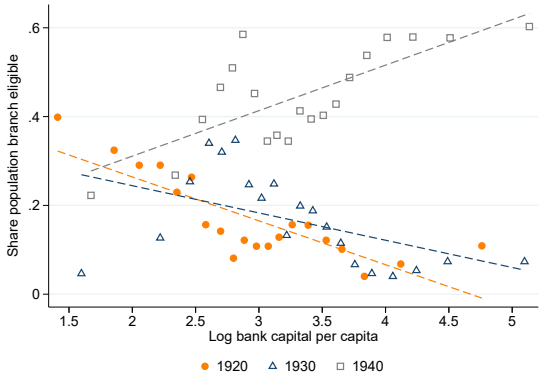
(b) %Δ capital costs, 1920–30



(c) Population versus capital costs



(d) Branching eligibility versus capital costs



Notes: Log bank capital per capita is the median log bank capital per capita in a given county in a given year. Bank capital per capita reflects the minimum bank entry capital assigned by the active state statute and prior census's population estimate, divided by the latter in each city, aggregated to the county level by taking the median in each county and year. Counties in states without minimum capital requirements in 1920 are shaded gray in Panel (b). Branch eligibility flags whether active statues permit branching in a given location. Panels (c) and (d) are binscatters for all US counties in each year with log bank capital per capita data. Counties are excluded if the state does not have minimum capital requirements or if there are no incorporated places in the county in that year. See Section 3.1 for data definitions. Sources: State session laws, Ruggles et al. (2021), Bleemer and Quincy (2026) and authors' calculations.

5.1 Environment

Regulatory tools. Consider a legislative area of the U.S. consisting of two types of regions: Rural (R) and Urban (U). There are states of the world t over which there is a distribution of exogenous macroeconomic conditions that govern the baseline share of bank failures. In each state of the world, regulators choose two banking policy instruments for the legislative area:

- Capital requirement: $e \in [0, \bar{e}]$, representing the minimum paid-in capital needed to obtain a bank charter and operate a bank.

- Branching regime: $b \in \{0, 1\}$, where $b = 0$ denotes unit banking and $b = 1$ indicates that branching across geographic regions is allowed.

Bank profits. Due to entry barriers, the banking sector is monopolistic and therefore banks can charge markups and earn positive profits. We model bank markups m as a function of the two policy instruments:

$$m(e, b) \text{ with } \frac{\partial m}{\partial e} > 0, \frac{\partial m}{\partial b} < 0$$

Higher capital requirements e increase market power by limiting the number of potential entrants and allowing banks to charge higher rates. Branching $b = 1$ reduces markups by increasing local competition, as branch networks can enter markets previously served only by local monopolists.

Bank sector profits in region $r \in \{R, U\}$ are given by:

$$\pi^r(e, b) = m(e, b)D^r - F$$

where D^r is loan demand and $F > 0$ is a fixed operating costs. F imposes an entry condition such that entry may be unprofitable in low-demand regions. This profit function means that conditional on a given legislative regime (e, b), banks in all regions of a legislative area, both urban and rural, access the same banking sector technology that determines markups and fixed costs.

Residents in each region own shares in the local banking sector such that local bank profits are politically salient. Let $\theta_b^r \in [0, 1]$ denote the share of local bank profits accruing to residents in region r under branching regime b.

Bank failure. The average bank failure rate in a region depends on both (endogenous) regulatory environments and exogenous macroeconomic conditions:

$$\phi_t(e, b) = \phi_t \times f(e, b),$$

where ϕ_t captures baseline aggregate failure rate in state t. $\frac{\partial f}{\partial e} < 0$ and $\frac{\partial f}{\partial b} < 0$ as capital requirements and branching reduce failure risk through equity buffers and geographical diversification, respectively.

For simplicity, we focus on two states of the world with ifferent baseline aggregate failure rates: normal times N and a crisis period C with $\phi_C > \phi_N$.

Credit access. $A(D^r, m)$ captures the borrower-side value of equilibrium credit provision in region r, which depends on local credit demand D^r and the effective markup $m(e, b)$. This term can be interpreted as borrower surplus or, more broadly, as the value of credit access net of borrowing

costs.

We assume that:

$$A_D(D, m) > 0,$$
$$A_m(D, m) < 0,$$
$$\frac{\partial}{\partial D}(-A_m(D, m)) > 0.$$

Higher demand raises the value of access, while a higher markup reduces access. Moreover, the marginal harm from an increase in the markup is larger when credit demand is higher, reflecting that tighter banking conditions exclude more projects or destroy more surplus in high-demand environments.

Rural and urban characteristics. We delineate rural and urban preferences by credit demand and ownership shares.

$D^U > D^R$ reflects higher credit demand in urban areas due to larger population and greater economic activity per capita.

We assume that ownership concentration follows these patterns:

1. $\theta^r_{b=0} > \theta^r_{b=1}$: local ownership is more concentrated under unit banking than branching.
2. $\theta^R_b > \theta^U_b$: for either branching regime, ownership is more concentrated in rural than urban areas because rural areas have smaller, less diversified economies. Local bank ownership therefore represents a larger fraction of residents' wealth.

5.2 Policy choices and equilibrium

Welfare. Welfare for residents in region $r \in \{R, U\}$ combines the value of credit provision to borrowers and locally owned bank profits, weighted by the probability that banks remain solvent:

$$W^r(e, b \mid t) = (1 - \phi_t(e, b)) \left[A(D^r, m(e, b)) + \theta^r_b \, \pi^r(e, b)\right]. \tag{1}$$

Capital requirements. Holding the branching regime b fixed, the marginal effect of capital requirements on welfare in region r is

$$\frac{\partial W^r}{\partial e} = -\frac{\partial \phi_t(e, b)}{\partial e}\Big[A(D^r, m(e, b)) + \theta^r_b \pi^r(e, b)\Big] + (1 - \phi_t(e, b))\Big[A_m(D^r, m(e, b))\, m_e(e, b) + \theta^r_b \pi^r_e(e, b)\Big]. \tag{2}$$

The first term captures the *stability benefit* of higher capital requirements: by reducing failure

risk, higher e preserves both borrower surplus and bank profits. The second term captures the *static trade-off* between benefits of ownership and credit access: higher capital requirements raise markups and profits but reduce credit access.

Using $\pi^r(e,b) = m(e,b)D^r - F$, we have $\pi^r_e(e,b) = m_e(e,b)D^r$, so the static component simplifies to

$$(1-\phi_t(e,b))\, m_e(e,b)\Big[\theta^r_b D^r + A_m(D^r, m(e,b))\Big]. \tag{3}$$

Because the marginal borrower-side loss $-A_m(D,m)$ increases with demand, the static cost of raising capital requirements is larger in urban regions. At the same time, ownership rents are more salient in rural regions due to higher ownership concentration.

As a result, for sufficiently low failure risk (ϕ_N), rural regions are more likely to satisfy

$$\theta^R_b D^R > -A_m(D^R, m(e,b)),$$

and therefore favor higher capital requirements, while urban regions are more likely to satisfy

$$\theta^U_b D^U < -A_m(D^U, m(e,b)),$$

and therefore favor lower entry barriers.

Branching regime. Since branching b is discrete, we compare welfare across regimes:

$$\Delta W^r(e \mid t) \equiv W^r(e,1 \mid t) - W^r(e,0 \mid t).$$

We decompose this welfare difference into three components:

$$W^r(e,1 \mid t) - W^r(e,0 \mid t) = \Delta^{\text{stability},r}(e \mid t) + \Delta^{\text{access},r}(e \mid t) + \Delta^{\text{ownership},r}(e \mid t). \tag{4}$$

Let $S^r(e,b) \equiv A(D^r, m(e,b)) + \theta^r_b \pi^r(e,b)$ denote total (borrower plus locally valued profit) surplus in region r conditional on solvency. Define:

$$\Delta^{\text{stability},r}(e \mid t) \equiv \Big[(1-\phi_t(e,1)) - (1-\phi_t(e,0))\Big]\, S^r(e,0), \tag{5}$$

$$\Delta^{\text{access},r}(e \mid t) \equiv (1-\phi_t(e,1))\Big[A(D^r, m(e,1)) - A(D^r, m(e,0))\Big], \tag{6}$$

$$\Delta^{\text{ownership},r}(e \mid t) \equiv (1-\phi_t(e,1))\Big[\theta^r_1 \pi^r(e,1) - \theta^r_0 \pi^r(e,0)\Big]. \tag{7}$$

This decomposition has a direct interpretation. The *stability* term captures the welfare gain from a higher survival probability under branching, evaluated at the unit-banking surplus benchmark.

This term raises the probability that both access and profits are realized. The *access* term captures the borrower-side gain from branching through a lower wedge $m(e, b)$, which increases $A(D^r, m)$. The *ownership* term captures the change in locally valued bank profits under branching, combining both lower markups and dilution of local ownership.

Lemma 1 (**Monotonicity of branching components in baseline risk and demand**). *Fix e and region r. Suppose failure risk factorizes as*

$$\phi_t(e, b) = \phi_t \, f(e, b), \qquad f(e, 1) \leq f(e, 0), \qquad \phi_t \in [0, 1),$$

and that $S^r(e, 0) \geq 0$ and is independent of ϕ_t.

(i) Baseline failure risk. *Holding e fixed, as baseline risk ϕ_t increases:*

1. $\Delta^{stability,r}(e \mid t)$ *is weakly increasing in ϕ_t:*

$$\frac{\partial}{\partial \phi_t} \Delta^{stability,r}(e \mid t) = (f(e, 0) - f(e, 1)) \, S^r(e, 0) \;\geq\; 0.$$

2. $\Delta^{access,r}(e \mid t)$ *is weakly decreasing in ϕ_t:*

$$\frac{\partial}{\partial \phi_t} \Delta^{access,r}(e \mid t) = -f(e, 1) \Big[A(D^r, m(e, 1)) - A(D^r, m(e, 0)) \Big] \;\leq\; 0,$$

   since $m(e, 1) \leq m(e, 0)$ and $A_m < 0$ imply the bracketed term is nonnegative.

3. $\Delta^{ownership,r}(e \mid t)$ *is weakly decreasing in ϕ_t whenever branching weakly reduces locally valued profits:*

$$\theta_1^r \pi^r(e, 1) - \theta_0^r \pi^r(e, 0) \leq 0 \quad \Longrightarrow \quad \frac{\partial}{\partial \phi_t} \Delta^{ownership,r}(e \mid t) = -f(e, 1) \Big[\theta_1^r \pi^r(e, 1) - \theta_0^r \pi^r(e, 0) \Big] \;\geq\; 0,$$

   and equivalently $\Delta^{ownership,r}(e \mid t)$ becomes weakly less negative *as ϕ_t rises (it is discounted by survival).*[12]

(ii) Credit demand. *Holding e fixed, $\Delta^{access,r}(e \mid t)$ is weakly increasing in D^r if the wedge-reduction gain from branching is larger at higher demand:*

$$\frac{\partial}{\partial D} \Big(A(D, m(e, 1)) - A(D, m(e, 0)) \Big) \geq 0.$$

A sufficient condition is $A_D(D, m) > 0$ together with $\partial_D(-A_m(D, m)) > 0$ and $m(e, 1) \leq m(e, 0)$, which ensures that lowering the wedge yields (weakly) larger borrower-side gains when demand is higher.

[12] If $\theta_1^r \pi^r(e, 1) - \theta_0^r \pi^r(e, 0) < 0$, then $\Delta^{\text{ownership},r}(e \mid t)$ is strictly increasing in ϕ_t (toward zero).

Branching is preferred in region r whenever

$$\Delta^{\text{stability},r}(e \mid t) + \Delta^{\text{access},r}(e \mid t) + \Delta^{\text{ownership},r}(e \mid t) > 0.$$

Branching is preferred whenever the sum of the stability and access components exceeds the ownership loss. Lemma 1 shows that rising failure risk shifts weight toward the stability component and away from ownership rents.

5.3 Theoretical predictions

The model yields three testable predictions regarding the political economy of bank regulation across regions and macroeconomic states.

Proposition 1 (**Non-crisis rural protectionism**). *Suppose baseline failure risk is low (ϕ_N sufficiently small). If*

$$\theta_b^R D^R > -A_m(D^R, m(e,b)),$$

then rural voters strictly prefer higher capital requirements and oppose branch deregulation.

In normal times, preferences are governed primarily by the static trade-off between ownership rents and access losses. As a result, rural voters favor restrictive regimes in normal times.

Proposition 2 (**Urban access preference**). *If*

$$\theta_b^U D^U < -A_m(D^U, m(e,b)),$$

then urban voters prefer lower capital requirements. Moreover, their preferred branching regime does not change as baseline failure risk increases.

Urban regions feature higher credit demand and more diffuse ownership. Because the marginal borrower-side loss from higher wedges increases with demand, access considerations dominate ownership rents in urban areas. As a result, urban voters favor competition-enhancing policies in normal times.

Unlike rural voters, whose preferences shift as failure risk rises, urban voters' preferred branching regime is stable across economic states: changes in failure risk alter the intensity of access and stability benefits but do not reverse the direction of their policy preferences.

Proposition 3 (**Crisis-induced realignment**). *There exists a threshold $\bar{\phi} \in (0,1)$ such that, for all $\phi_t > \bar{\phi}$,*

$$W^R(e, 1 \mid t) > W^R(e, 0 \mid t),$$

that is, rural voters prefer branching over unit banking.

This result follows from Lemma 1. As baseline failure risk rises, the stability component of branching becomes more important, while ownership rents are increasingly discounted by the survival probability. Because branching both lowers failure risk and improves access by reducing the effective wedge, there exists a level of aggregate fragility above which the combined stability and access gains outweigh the loss from ownership dilution in rural regions.

Taken together, Propositions 1–3 characterize a political realignment in which rural regions support restrictive entry barriers in normal times but pivot toward branch deregulation during crises. Urban regions, by contrast, consistently favor policies that expand credit access. These predictions map directly to the empirical patterns documented in Section 4.3.

5.4 Numerical illustration

To build intuition for these theoretical results, we present numerical examples parameterized to match key features of the 1920s–1930s banking environment. For simplicity we assume two states: a pre-crisis normal state with $\phi_N = 0.05$ and a crisis state with $\phi_C = 0.35$ to capture the peak crisis intensity during 1930-1933, when roughly one third of banks failed (Wheelock, 1992). Appendix A.2 provides a detailed outline of all of the other parameter values.

Figure 5 illustrates Propositions 1, 2, and 3 by displaying welfare under unit banking (solid blue line) versus branching (dashed red line) as functions of the capital requirement for both region types across both normal (low ϕ_s) and crisis (high ϕ_s) states of the world. Each panel marks the policy that maximizes welfare as defined in Equation (1) with a dot and indicates which regime is preferred.

Proposition 1: Non-Crisis Rural Protectionism. In general, rural voters favor high capital requirements e in order to limit competition and increase markups, as the first-order condition shows that e^* increases in θD. The welfare function is therefore upward sloping in the capital requirement e. When capital requirements are very low, then the failure probability is sufficiently high that the stability gains from branching are relevant, and there is a small region over which rural voters prefer branching to unit banking.

However, for most regions of capital requirements, rural voters prefer unit banking, with the preference growing with capital requirements. In these regions, the monopoly profit motive dominates. The optimal policy is higher capital requirements and unit banking.

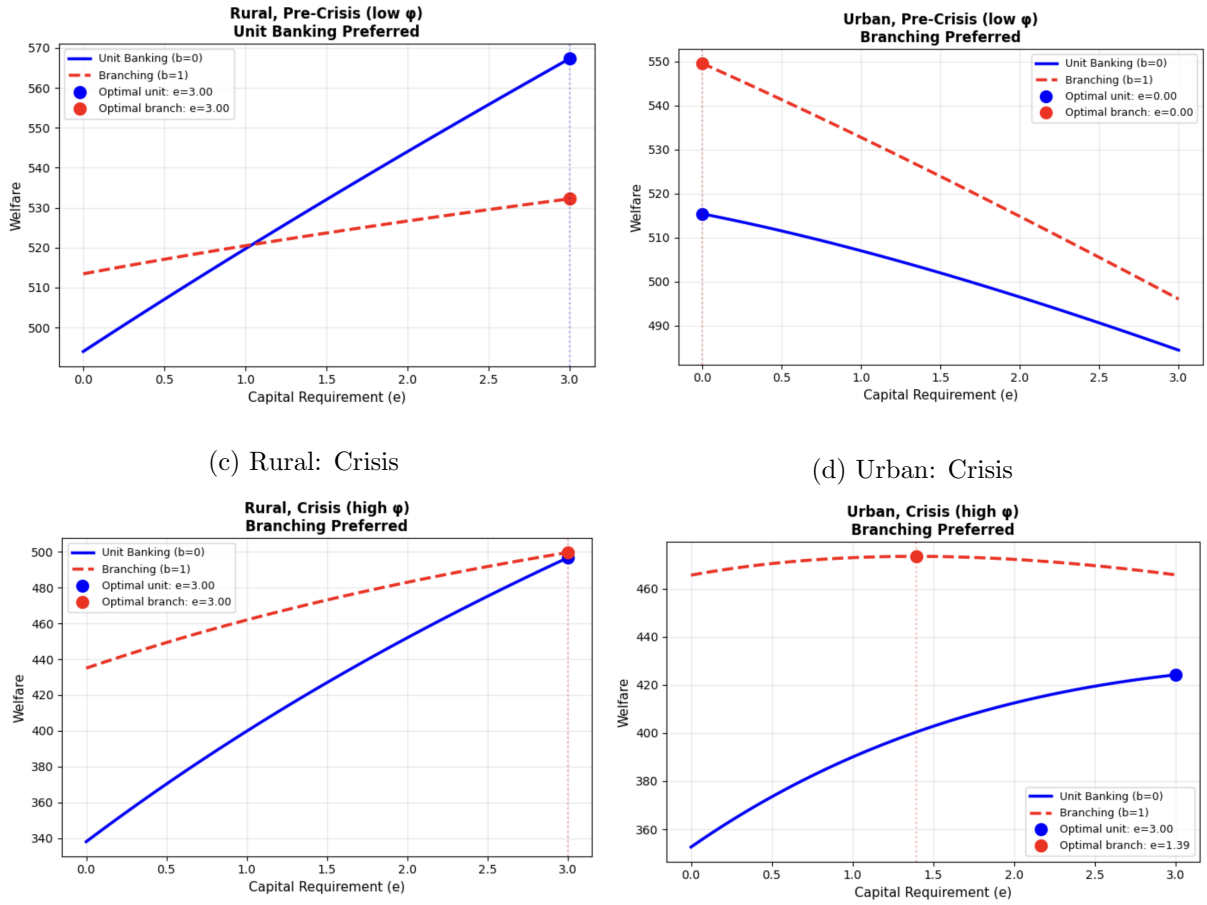
Proposition 2: Urban Preferences. Figures 5b and 5d illustrate urban preferences over capital requirements e and branching b. For urban voters, ownership is diffuse (θ^U small), so the ownership loss is minimal, and they have high demand for credit (D^U large).

Figure 5b shows that urban voters prioritize the competition gain from lower markups relative to the profit motive and so welfare is declining in capital requirements. The competition also leads them to prefer branching as the method for lowering bank failure risk.

Figure 5: Optimal policy choices in normal times

(a) Rural: Non-Crisis

(b) Urban: Non-Crisis



(c) Rural: Crisis

(d) Urban: Crisis

Notes: Each panel plots welfare as a function of the capital requirement e for unit banking (solid blue line, b=0) and branching (dashed red line, b=1). Panels (a) and (b) show normal times with baseline failure risk $\phi_N = 0.05$, while panels (c) and (d) show crisis periods with $\phi_C = 0.35$. Panels (a) and (c) correspond to rural regions with high ownership concentration and low credit demand. Panels (b) and (d) correspond to urban regions with diffuse ownership and high credit demand. Dots indicate the optimal policy choice that maximizes welfare for each region-regime combination. See Appendix A.2 for full parameterization details.

Proposition 3: Crisis-induced Realignment. During crisis states when baseline failure risk (θ_1^0) is large, the stability term $\Delta^{\text{stability}}$ becomes large and positive. This shifts the calculation for both groups, but particularly for rural voters.

For rural voters, the ownership benefit of unit banking evaporates as $\phi_2(e, 0)$ rises: there are no profits to preserve if banks fail. Simultaneously, the stability benefit of branching increases dramatically, as does the value of credit access (which branching better ensures). Rural voters

now prefer branching ($b = 1$) despite the ownership dilution. The optimal capital requirement is ambiguous: higher e reduces failure probability but may restrict entry too much when replacement of failed banks is needed.

For urban voters, credit access remains the dominant concern, and the increased stability benefit of branching reinforces their existing preference for liberalization.

5.5 Discussion and empirical implications

The model generates several testable predictions that we examine in the empirical analysis:

- Capital requirements should rise in rural areas during the 1920s (Proposition 1), as rural coalitions seek to protect local monopolies when failure risk is low.
- Support for higher capital barriers should peak in rural counties during the 1920s and disappear or reverse in the 1930s (Propositions 1–2).
- Counties with fewer banks should be more likely to support branching in the 1930s (Proposition 3), as these areas have more to lose from bank failure and more to gain from stability.

The model abstracts from several institutional details for tractability. We do not explicitly model the political process by which rural and urban constituencies aggregate preferences, instead assuming a representative voter whose characteristics vary by region.[13] We also treat the two policy instruments as chosen simultaneously, while in practice capital requirements and branching laws could be decided in separate legislative sessions. Despite these simplifications, the model captures the key trade-off driving regulatory change: the tension between preserving local ownership rents and ensuring credit access, and how rising failure risk shifts the balance between these two concerns.

6 Empirical Evidence

This section tests the political-economy mechanisms outlined in Section 5 by examining how support for bank entry regulation evolved across regions and macrofinancial conditions. The model yields sharp predictions about when and where voters favor higher entry barriers, and about how rising bank failure rates induces a realignment away from restrictive regimes.

We proceed in five steps. First, we document how rural coalition strength predicts increases in capital requirements during the 1920s but not thereafter, using state- and county-level regulatory outcomes as revealed-preference evidence. Second, we show that these capital requirements materially constrained bank entry and exacerbated banking access during the Great Depression. Third,

[13] The importance of less-populous areas, however, is consistent with bicameral legislatures (e.g. an upper and lower chamber as in Congress). All US states in our period of study were bicameral, as Nebraska did not become a unicameral legislature until 1937.

we supplement this legislative evidence with direct measures of voter preferences from statewide referenda held in Illinois on individual banking laws. These voting data directly test the model's mechanism by allowing us to measure whether counties that stood to lose most from higher entry barriers actively supported them in normal times, and withdrew that support once banking distress made access paramount. Fourth, we provide evidence that the constituencies voting for higher barriers in the 1920s realigned to support bank entry via branching in the 1930s, and finally, we show that these regulatory changes indeed improved banking access.

6.1 Normal-times protectionism: Capital requirements and rural coalitions

We begin by testing the model's first prediction that in normal times, rural coalitions favor restrictive bank entry in order to preserve local ownership rents. Capital requirements provide a natural revealed-preference measure of this behavior: by raising the price of entry, these regulations directly limit competition. Using state- and county-level measures of capital requirement changes, we examine whether rural population shares and related indicators of local ownership concentration predict increases or decreases in entry barriers during the 1920s non-crisis period.

We estimate the following difference-in-differences specification:

$$\mathbb{I}\{\text{Capital Law}_{g,t}\} = \alpha_g + \alpha_t + \beta(\text{RuralPopShare}_g \times \mathbb{I}\{\text{Non-Crisis}_t\}) + \Gamma' X_{g,t} + \varepsilon_{g,t} \tag{8}$$

where g indexes geographical units (states s or counties c) and t indexes periods. The dependent variable $\mathbb{I}\{\text{Capital Law}_{g,t}\}$ is an indicator equal to one if a law is introduced that changes capital requirements in period t. The indicator variatle $\mathbb{I}\{\text{Non-Crisis}_t\}$ is 1 for the two time periods in the 1920s to reflect the legal environment outside of the Great Depression.

At the state level, we use the provisions of the legislation itself to indicate whether capital thresholds or amounts increased or decreased for anywhere in the state. At the county level, statutory capital schedules bind through within-county town-level population thresholds, so the same state-level law change implies different changes in effective entry costs across counties with different city size distributions. To reflect the effective regulatory change, we map town-level populations to counties and compute the implied change in the county's median statutory capital requirement under the relevant capital schedule (as illustrated in, for example, Figure 4b). We measure these changes using indicators for whether the county's median implied capital requirement increases or decreases in period t, denoted $\mathbb{I}\{\text{Increase}_{g,t}\}$ and $\mathbb{I}\{\text{Decrease}_{g,t}\}$, respectively. The specification includes geographical unit fixed effects α_g and time (era) fixed effects α_t. The vector $X_{g,t}$ includes additional county-level controls. These controls vary by specification and are standardized within each census year for comparability over time and geographic level. We cluster standard errors at the level of g.

We treat capital requirement increases and decreases as distinct policy actions rather than collapsing them into a single signed measure. A signed specification would implicitly impose symmetry—i.e., that a loosening of entry barriers is the mirror image of a tightening of the same magnitude. Neither the model nor the institutional setting suggests this restriction is appropriate. Politically, increases in capital requirements are the relevant protectionist instrument in Proposition 1, whereas decreases reflect a different coalition and objective and may occur under different macrofinancial conditions. Economically, tightening and loosening need not have symmetric effects. Separating increases and decreases therefore allows for asymmetric responses across regimes and yields coefficients with a direct interpretation: differential propensity to tighten (or loosen) entry pricing during the boom relative to other periods. The coefficient of interest is β, which measures whether geographic units with greater rural exposure were more likely to introduce legislation increasing or decreasing capital requirements during the 1920s, relative to other periods.

Table 1 presents the results. Panel A estimates Equation (8) at the state level, where $g = s$ and rural exposure is measured using each state's population share living in rural areas.[14] Panel B estimates the same specification at the county level, where $g = c$ and rural exposure is measured using county-level rural population shares.

We report results at both levels because political influence in state legislatures is not determined solely by population shares, but also by the number and distribution of geographically distinct constituencies. While banking laws are enacted at the state level, legislative coalitions are formed through representation approportioned by counties.[15] The county-level specification therefore captures how the rural constituencies' presence and preferences maps into locally binding regulatory outcomes, complementing the state-level specification that reflects overall population weights.

Columns 1 – 3 shows that regions with larger rural population shares were significantly more likely to support increases in capital requirements during the 1920s while columns 4–6 show that these places were significantly less likely to reduce capital requirements. These effects are economically significant: at the county-level, a one standard deviation increase in rural population share is associated with a 8.9 percentage point increase (approximately 40% of the baseline mean) in the probability of raising capital requirements during the 1920s boom. These effects are robust to additional control variables including the population overall, farm sizes, and other observable characteristics.

In Appendix Table B.3, we replicate these results using alternative proxies for local banking concentration: (i) the share of counties in a state served by a single bank and (ii) an indicator for whether a county is served by a single bank. In both cases, the interaction with the 1920s boom

[14] We use the census definition of town populations under 2,500 and convert the population shares to a census- and geographic level-specific standard deviation to make the estimates comparable.

[15] In this time period, all state legislatures had an upper house which gave counties equal representation.

continues to predict capital requirement increases (and to reduce the likelihood of decreases) in a manner similar to Table 1.

Overall, consistent with Proposition 1, we find that rural coalition strength strongly predicts higher capital requirements in the 1920s boom, but not in other periods, indicating that support for restrictive entry pricing was specific to normal economic conditions.

Table 1: Rural constituency and capital requirements

	$\mathbb{I}$(Increase)			$\mathbb{I}$(Decrease)		
	(1)	(2)	(3)	(4)	(5)	(6)
A: State-Level						
$\beta_{\text{Non-Crisis}} \times$ Rural	7.84*	9.89*	8.21	-5.91***	-4.73**	-8.12**
	(4.50)	(5.06)	(5.98)	(2.14)	(2.18)	(3.43)
Dep Var Mean	18.30	18.30	18.30	7.23	7.23	7.23
N	235	235	235	235	235	235
B: County-Level						
$\beta_{\text{Non-Crisis}} \times$ Rural	9.44***	8.92***	8.74***	-7.72***	-6.29***	-6.22***
	(0.92)	(0.92)	(0.92)	(0.91)	(0.89)	(0.89)
Dep Var Mean	23.32	23.32	23.32	9.20	9.20	9.20
Geographic Unit FE	Y	Y	Y	Y	Y	Y
Era FE	Y	Y	Y	Y	Y	Y
Population		Y	Y		Y	Y
Farm Controls			Y			Y
N	15,170	15,170	15,170	15,170	15,170	15,170

Notes: The outcome is an indicator (scaled by 100) for passing a law that increases or decreases capital requirements in a geographic unit in a pooled regression including geographic unit and era fixed effects. The non-crisis period refers to the 1920–1923 or 1924–1928 time periods only. Rural population share is from the closest preceding census and is expressed in standard deviations. Farm controls include log average farm value, the share of farms under 100 acres, and the farmland Gini coefficient, all reflecting the closest preceding census and measured as standard deviations. Standard errors clustered by state (Panel A) or county (Panel B) in parentheses. See Section 3.1 and 3.3 for more detail on law and economic data sources, respectively. Sources: State session laws, Haines (2010), Ruggles et al. (2021), Federal Deposit Insurance Corporation (1992), Bleemer and Quincy (2026), and authors' calculations.

6.2 When protection backfires: Capital requirements and banking access during the Great Depression

We next show the entry regime supported in normal times became politically unsustainable once widespread bank failures occurred. While higher capital requirements deter entry in booms, they also raise the cost of replacing failed banks during crises. Using county-level banking outcomes, we examine how pre-crisis changes in capital requirements affected the evolution of local banking markets during the Great Depression.

We estimate the following specification at the county–period level:

$$\Delta Y_{c,t} = \alpha_c + \alpha_t + \beta_N \, T_{c,t-1} \times \mathbb{I}\{\text{Non-Crisis}_t\} + \beta_C \, T_{c,t-1} \times \mathbb{I}\{\text{Crisis}_t\} + \varepsilon_{c,t}, \tag{9}$$

where $\Delta Y_{c,t}$ is a county-level change in a banking outcome (e.g., an indicator for whether the

number of banks decreases, or the percentage change in the number of banks). The treatment variable $T_{c,t-1}$ captures the county-specific change in statutory capital requirements implied by state policy changes between $t-1$ and t where t is any of our eras. We operationalize $T_{c,t-1}$ as either the actual growth rate over the prior period in median capital costs or an indicator for whether the county's median implied capital requirement increased in the prior period. We estimate regime-specific effects of a capital requirement increase by interacting treatment with indicators for non-crisis (β_N) and crisis (β_C) periods. Because the banking data end in 1936, we compare the 1920–1923 and 1924–1928 non-crisis periods to the 1929–1932 and 1933–1936 eras of financial crisis and immediate legislative response. Throughout, standard errors are clustered by county.

Figure 6 plots the effects comparing the impact of capital requirement increases during non-crisis (blue) relative to crisis (orange) periods. The two outcomes on the banking are expressed on a common "lower banking access" scale. We plot the probability that the number of banks decreases and the negative of the percentage change in the number of banks, so that higher values in both panels correspond to greater contraction in local banking markets. Coefficients marked in solid colors are the baseline effects while those without filling are estimates after adding controls.

The effect of regulators during non-crisis periods are small and close to zero for both outcomes, while crisis-period effects are positive and economically meaningful, indicating larger banking contractions. The consistency of this pattern across outcome measures visually reinforces the central result that capital requirements that appear relatively benign in normal times substantially impede the replacement of failed banks during crises.

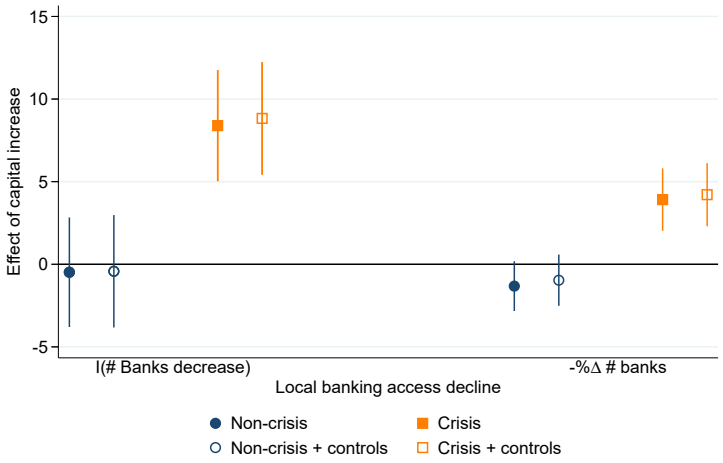
Appendix Figure B.6 reports corresponding effects on bank entry while Appendix Figures B.7 and B.8 replicate this visualization for continuous policy-implied changes in capital costs and capital requirement decreases, respectively.

6.3 Voter realignment: Direct evidence from Illinois banking referenda

The preceding analyses rely on revealed preferences inferred from legislative outcomes. We now turn to direct evidence on voter preferences using a unique institutional feature of Illinois banking law. Until 1940, all changes to state banking statutes—including capital requirements—had to be approved by statewide referendum. These electoral outcomes allow us to observe directly whether voters supported or opposed changes in bank entry barriers in their own local markets, abstracting from legislative bargaining and lobbying. We directly measure county-level variation in exposure to proposed capital requirement changes and test whether voters who stood to face higher entry costs supported such policies in normal times, and whether that support reversed after the onset of the Great Depression.

Empirically, we construct a county-specific exposure measure to changes in bank capital per

Figure 6: County banking markets after capital requirement increases



Notes: The outcome is either an indicator for a net decline in the number of banks or the percent decline in number of banks during the time period. The treatment is an indicator (multiplied by 100) for increasing median capital requirements in that county during prior period. Additional controls include log population, log average farm value, the share of farms under 100 acres, and farmland Gini coefficient, all from the closest preceding census and converted to standard deviations. County and time period fixed effects not shown. Standard errors clustered at county level. See Section 3.3 for more detail on banking data and Section 3.1 on capital requirements. Sources: State session laws, Haines (2010), Federal Deposit Insurance Corporation (1992), Ruggles et al. (2021), Bleemer and Quincy (2026), and authors' calculations.

capita for each election (referendum) e that we denote $X_{c,e}$. We do this by computing the change in capitalization requirements using actual pre-referendum and proposed capital amounts and population thresholds and applied to city populations from the closest preceding census.

We measure the county-level support for these statutory changes in two ways. The first is the county-level vote share in support of the proposal, and the second is an indicator variable for whether the proposal passed. We code the outcome $Support_{c,e}$ so that higher values always indicate support for *higher* entry barriers (i.e., voting "Yes" on proposals that raise capital requirements and voting "No" on proposals that lower capital requirements). We present the indicator version for simplicity but provide the continuous version in Table B.5.[16] We then estimate the following:

$$Support_{c,e} = \alpha_c + \alpha_e + \beta_{\text{Non-crisis}}(X_{c,e} \times \mathbb{I}\{\text{Non-crisis}_e\}) + \beta_{\text{Crisis}}(X_{c,e} \times \mathbb{I}\{\text{Crisis}_e\}) + \Gamma' Z_{c,e} + \varepsilon_{c,e}, \quad (10)$$

where α_c are county fixed effects and α_e are election (referendum) fixed effects. The indicators $\mathbb{I}\{\text{Non-crisis}_e\}$ and $\mathbb{I}\{\text{Crisis}_e\}$ classify referenda into an the pre-Great Depression "non-crisis" period (1920 and 1924) and the crisis period associated with the Great Depression and its aftermath (1930 and 1940). The vector $Z_{c,e}$ optionally includes time-varying county controls (e.g., population and voter turnout). Standard errors are clustered at the county level.

[16] Since the referenda were over capital requirements that monotonically shifted capital requirements in different directions, this transformation allows us to compare all referenda together. Our results are similar when we examine each referendum separately (Table B.5)

Because the specification includes both county fixed effects and referendum fixed effects, the coefficients on the interacted terms are interpreted relative to counties with lower exposure within the same referendum. In particular, the omitted category consists of counties at the baseline level of $X_{c,r}$, pooling across all referenda. The coefficient $\beta_{\text{Non-crisis}}$ therefore captures how voting varies with local exposure during normal times (again defined as the 1920s), while β_{Crisis} captures the analogous relationship during a financial crisis, both relative to other counties participating in the same referendum. The difference between these coefficients then isolates whether the association between local exposure and voting behavior shifts systematically across macroeconomic regimes.

Table 2 reports the results. In Columns 1–3, consistent with the model, we find that counties more exposed to higher entry costs were more supportive of restrictive entry pricing during the non-crisis period, but that this relationship reverses during the financial crisis: the same counties withdraw support for higher entry barriers once banking distress makes access paramount.[17] These voting results provide a clean and direct test of crisis-induced political realignment.

Salience of local banking distress. A further implication of the model is that crisis-induced realignment should be strongest where the costs of restricted entry are largest. We test this prediction by using within-referendum variation across counties. Specifically, we augment equation (10) by interacting county exposure to higher entry costs with an indicator for whether the county experienced a bank suspension in the year preceding the referendum.[18]

Let $\mathbb{I}\{\text{Suspend}_{c,e-1}\}$ denote an indicator equal to one if county c experienced at least one bank suspension in the year prior to referendum e. We estimate:

$$\begin{aligned} Support_{c,e} = \alpha_c + \alpha_e + \beta_{\text{Non-Crisis}}(X_{c,e} \times \mathbb{I}\{\text{Non-crisis}_e\}) + \beta_{\text{Crisis}}(X_{c,e} \times \mathbb{I}\{\text{Crisis}_e\}) \\ + \delta(X_{c,e} \times \mathbb{I}\{\text{Non-crisis}_e\} \times \mathbb{I}\{\text{Suspend}_{c,e-1}\}) \\ + \phi(\mathbb{I}\{\text{Crisis}_e\} \times \mathbb{I}\{\text{Suspend}_{c,e-1}\}) + \kappa(X_{c,e} \times \mathbb{I}\{\text{Suspend}_{c,e-1}\}) + \psi\,\mathbb{I}\{\text{Suspend}_{c,e-1}\} + \varepsilon_{c,e}. \end{aligned} \tag{11}$$

where county and referendum fixed effects are included as before. Equation (11) includes all lower-order terms implied by the triple interaction. With county and referendum fixed effects, the main effect of the crisis indicator is absorbed, but $\mathbb{I}(\text{Suspend}_{c,e-1})$ and $\mathbb{I}(\text{Crisis}_r) \times \mathbb{I}(\text{Suspend}_{c,e-1})$ remain identified given that bank suspensions occur in crisis (1930) and non-crisis (1924) referenda. Including the interaction between exposure and recent suspensions ensures that the triple inter-

[17] Figure 1 shows that the changes in capital requirements all affected the same segment of the city population distribution, so we interpret voting shifts as deriving from the same communities preferences over a $1 increase in capital costs.

[18] We define banking disruptions as whether any bank was suspended in the calendar year following the data definitions in Federal Deposit Insurance Corporation (1992), which elides the distinction between failures and re-openings.

action isolates the additional amplification of voting responses to exposure during crisis periods in suspension counties, net of any baseline differences in sensitivity associated with suspensions. Standard errors are clustered at the county level.

The coefficient δ captures whether the effect of exposure to higher entry costs during the crisis differs in counties that recently suspended banks. Consistent with the model, we find that the negative relationship between exposure to higher capital requirements and voter support for restrictive entry pricing during the crisis is substantially stronger in counties with banking sector disruptions. In these counties, voters are predisposed to oppose higher entry barriers, likely reflecting the heightened salience of banking services.[19]

Importantly, this heterogeneity sharpens the interpretation of the baseline realignment result. The reversal in voting behavior during the crisis is concentrated in locations where the consequences of restricted entry are directly experienced. This pattern reinforces the interpretation that voters update their preferences in response to observed disruptions to the normal-times regulatory regime.

Table 2: Illinois referenda on bank capital increases

	$\mathbb{I}$(County passes capital increase)				
	(1)	(2)	(3)	(4)	(5)
$\beta_{\text{Non-Crisis}} \times \%\Delta\text{Capital}$	75.44**	78.18**	75.26**	12.30	13.35
	(32.21)	(32.34)	(33.37)	(60.12)	(61.14)
$\beta_{\text{Crisis}} \times \%\Delta\text{Capital}$	-31.45	-28.88	-25.45	36.80	39.58
	(21.05)	(21.73)	(15.42)	(31.22)	(34.28)
$\beta_{\text{Crisis}\times\mathbb{I}(\text{Suspend})} \times \%\Delta\text{Capital}$				-233.55*	-239.28*
				(138.84)	(142.93)
Dep Var Mean	30.15	30.15	25.82	56.86	56.86
$\beta_{\text{Non-Crisis}} = \beta_{\text{Crisis}}$ P-value	0.00	0.00	0.02		
County FE	Y	Y	Y	Y	Y
Referendum FE	Y	Y	Y	Y	Y
Time-varying controls		Y	Y		Y
Political controls			Y		
N	408	408	306	204	204

Notes: The outcome is an indicator that a majority of votes in a county favored increasing the state's capital requirements, scaled by 100.The explanatory variable is split into two mutually exclusive treatments, those in the Great Depression or after (1930 and 1940) versus those outside the crisis (1920 and 1924). The explanatory variable is the implied growth in bank capital per capita if the measured passed. Controls include log population, log rural population share, farmland Gini coefficient, and log voter turnout, all standardized in each election. Political controls additionally control for the presidential vote share for Democrats and Republicans, also as standard deviations, which omits 1930 in Column 3. Bank suspension data only available for the prior year for 1924 and 1930 and hence reduce the number of observations in Columns 4 and 5. Capital cost, voting, and bank data described in Sections 3.1, 3.2 and 3.3, respectively. Sources: Illinois Blue Books, Haines (2010), Ruggles et al. (2021), Bleemer and Quincy (2026), and authors' calculations.

[19]The lower-order terms implied by the triple interaction are omitted from the table for brevity.

6.4 Crisis response and policy alternatives: The branching entry margin

We next examine how states responded once capital requirements adopted in normal times were revealed to impede banking access during the crisis. While voter preferences shifted away from restrictive entry pricing (Section 6.3), policymakers still needed to restore banking access while maintaining prudential standards.[20] Branching deregulation provides a natural alternative margin: it allows existing banks to expand geographically and replace failed institutions without lowering capital requirements for new entry.

We show that branching deregulation during the 1930s is systematically associated with indicators of impaired banking access. Moreover, the relationship between capital requirements and branching reverses over time: while the two instruments act as substitutes in the 1920s, they become complements in the 1930s, as states layer branching permissions on top of persistently high capital barriers. This pattern highlights branching as a crisis-specific policy addition, consistent with Proposition 3.

To study this expansion of the policy space, we estimate the following pooled panel specification:

$$Branching_{c,t} = \alpha_c + \alpha_t + \beta_{\text{Non-crisis}} \,\text{Barriers}_{s,t} \times \mathbb{I}\{\text{Non-crisis}_t\} + \gamma_{\text{Crisis}} \,\text{Barriers}_{s,t} \times \mathbb{I}\{\text{Crisis}_t\} + \varepsilon_{c,t}, \tag{12}$$

where c indexes counties and t indexes eras. The dependent variable $Branching_{c,t}$ is either as the share of the county's population now legally able to have branching in t but not $t-1$ or an indicator for whether branching became legal in county c during era t. The variable "$\text{Barriers}_{c,t}$" measures the costs of bank entry at the start of each time period. We use two primary proxies: the first is an indicator for the county having zero banks, and the second is the level of policy-implied bank capital requirements per capita. As before, the indicator $\mathbb{I}\{\text{Non-crisis}_t\}$ is one for the 1920s and $\mathbb{I}\{\text{Crisis}_t\}$ equals one for the 1930s. The specification includes county fixed effects α_c, which absorb time-invariant political and institutional characteristics, and era fixed effects α_t, which absorb common national shocks. The γ coefficient therefore captures the differential effects of demand for banking access during the crisis. Standard errors are clustered at the county level.

Table 3 reports the results. Columns 1–3 use the county population share eligible for branching as an outcome while Columns 3–6 use an indicator for whether branching became legal anywhere in the county. For each outcome, we include a set of lagged county-level controls; the coefficients on these additional controls are suppressed for brevity.

Panel A examines how statutory capital requirements shaped branching policy. The interaction between log capital costs and the crisis indicator is positive and statistically significant across all specifications, while the non-crisis interaction remains small and statistically insignificant. The

[20] Unlike earlier financial crises, regulators strongly preferred not to lower capital requirements in the 1930s, perhaps because deposit insurance required more incentive compatibility for bank management (Chapman, 1934).

estimates imply that rising capital requirements in the 1920s account for approximately half of the expansion in branching access during the 1930s crisis.[21] Counties facing higher statutory entry costs due to their population distributions were disproportionately likely to expand access through branching during the crisis.

Panel B examines banklessness—the most extreme form of barriers to banking access—as a driver of branching reform. Counties without any operating banks at the start of the time period show no differential likelihood of adopting branching during the boom period ($\beta_{\text{Non-Crisis}}$ is small and insignificant). However, during the crisis, bankless counties experienced an 11.6 percentage point increase in branching eligibility relative to counties with banks, more than doubling the baseline rate of 9.6 percent. Together, these patterns indicate that branching deregulation emerged as a targeted response to severe access failures during the Depression.

Tables B.1 and B.2 validate this further by showing that rural population share predicts higher capital costs in the 1930s and introducing bank branching only in the 1930s, and especially when branch legalization emphasized opening offices where no banks operated.

These patterns support the view that branching deregulation emerged as a policy substitute for lower entry costs when capital requirements became binding. Counties facing higher statutory entry costs were disproportionately likely to expand access to banking by lowering geographic barriers during the crisis, consistent with policymakers responding to the access failures documented in Section 6.6 and the voter realignment shown in Section 6.3.

6.5 Restoring banking access: Household evidence from branch deregulation

The preceding analysis shows that capital requirements adopted in normal times impeded replacement entry during the crisis, and that voters and legislators responded by shifting toward geographic expansion through branching. We conclude by examining whether that shift mitigated the access shortfalls that emerged most sharply in rural areas.

We use household-level data from the 1935–36 Study of Consumer Purchases, which provides different measures of bank account usage. We estimate specifications of the following form at the location–period level:

$$Y_{c,t} = \alpha_s + \beta\, \mathbb{I}\{\text{Branching}_{s,t}\} + \varepsilon_{c,t}, \tag{13}$$

$$Y_{c,t} = \alpha_{s,t} + \beta\, \mathbb{I}\{\text{Rural}_c\} \ + \varepsilon_{c,t}, \tag{14}$$

$$Y_{c,t} = \alpha_{s,t} + \beta\, \mathbb{I}\{\text{Rural}_c\} + \delta\, (\mathbb{I}\{\text{Rural}_c\} \times \mathbb{I}\{\text{Branching}_{s,t}\}) + \varepsilon_{c,t}, \tag{15}$$

where $Y_{c,t}$ denotes a measure of banking access in community c and period t, such as having

[21] We calculate this by multiplying the Column 6 estimate in Panel A for log capital costs × crisis by the change in median costs and dividing by the dependent variable mean ($(10.31 \times 0.42)/10.31 = 0.46$).

Table 3: Banking access and branching deregulation

	Share ↑ branching access			𝕀(Branching access ↑)		
	(1)	(2)	(3)	(4)	(5)	(6)
A: Capital costs						
β Non-Crisis × Capital costs$_t$	-1.03	-0.85	-0.13	1.31	1.55*	2.08**
	(0.85)	(0.85)	(0.87)	(0.93)	(0.93)	(0.95)
β Crisis × Capital costs$_t$	6.37***	6.77***	8.04***	8.54***	9.03***	10.31***
	(0.91)	(0.93)	(0.94)	(1.01)	(1.03)	(1.04)
Dep Var Mean	8.56	8.57	8.58	9.36	9.37	9.38
N	9,457	9,446	9,436	9,459	9,446	9,436
B: Banklessness						
β Non-Crisis × 𝕀(Unbanked)$_t$	5.58	5.47	4.68	6.69	6.57	5.61
	(5.91)	(5.91)	(5.82)	(5.93)	(5.94)	(5.86)
βCrisis × 𝕀(Unbanked)$_t$	11.29**	11.13**	12.03**	10.58**	10.41**	11.65**
	(5.11)	(5.11)	(5.07)	(5.19)	(5.20)	(5.18)
Dep Var Mean	8.75	8.75	8.76	9.51	9.52	9.52
County FE	Y	Y	Y	Y	Y	Y
Era FE	Y	Y	Y	Y	Y	Y
Population		Y	Y		Y	Y
Farm controls			Y			Y
N	9,408	9,404	9,400	9,450	9,446	9,442

Notes: Outcomes are county level branching eligibility either as share of the county population living somewhere eligible to open a branch (Columns 1–3) or an indicator that any place in the county could open a branch (Columns 4–6). Eligibility varies by whether states permit any branching, whether branching is dependent on no banks operating in a city and/or city population in the previous census. All counties having branching at the start of the time period are omitted from the sample, as the bank data do not measure branches operating in non-headquarter bank counties. The explanatory variable is split into two mutually exclusive treatments, those in the Great Depression (1929–1936) or previously (1921–1928). The explanatory variable is the log median bank capital per capita at the start of the era in Panel A and an indicator for the county having zero banks in Panel B. Controls include log population in Columns 2 and 5, and also log average farm value, the share of farms under 100 acres, the farmland Gini coefficient in Columns 3 and 6. Regression estimated using Equation 12 including county and time period fixed effects. Branching and capital laws described in Section 3.1. Bank and economic data information can be found in Section 3.3. Standard errors clustered at the county level. Sources: Illinois Blue Books, Haines (2010), Ruggles et al. (2021), Bleemer and Quincy (2026), and authors' calculations.

a bank account, a checking account, and/or a savings account. The indicator $\mathbb{I}\{\text{Rural}_c\}$ equals one for villages and farming communities and zero for all other city size categories. The variable $\mathbb{I}\{\text{Branching}_{s,t}\}$ indicates whether state s permits branching in period t. All specifications include state-year $\alpha_{s,t}$, except Equation 13, which restricts to states deregulating branching in 1935 or 1936 and estimates the post-deregulation access benefit within each state. Standard errors are clustered at the state level.

Table 4 reports the results. Panel A documents that introducing branching increased banking access using fine-grained variation in survey timing within states in the year before or after branch legislation passed (equation (13)).[22] The probability of bank account usage nearly doubled for households surveyed after branch legislation relative to those in the same size community in the same state surveyed just beforehand. The intensive margin, presented in columns 4–6, is similarly

[22]There are not enough rural communities within this subset of states to estimate the difference-in-difference specification in equation (15).

large and precisely estimated, which indicates that branch legalization boosted banking access immediately. These effects remain similar after adding demographic or economic status controls.

Panel B documents that rural areas were no more likely to have banking access overall than other communities in the same state and year (equation (14)). If anything, these estimates suggest a borderline significant ($p = 0.14$) negative relationship between bank deposit holdings and rural communities (column 6).

Panel C combines these two sources of variation to test whether branching regulation was especially effective at restoring banking access for rural communities using Equation 15. The coefficient on the interaction term δ captures the differential effect of branching in rural areas holding constant time-varying shocks to rural areas and state-level differences in bank deposit usage. This coefficient is consistently positive and precisely estimated for both the extensive and intensive margins.

Together, these results indicate that branching deregulation improved banking access even as capital requirements remained elevated. By enabling existing banks to expand geographically, branching reforms disproportionately improved access in rural areas, resolving the access failures that had emerged under the normal-times regulatory regime.

6.6 Discussion

Taken together, the empirical results in this section provide an empirical chain of evidence supporting the political economy mechanism outlined in Section 5. We have shown that: (1) rural constituencies drove the tightening of capital requirements during the 1920s boom (Section 6.1), consistent with Proposition 1's prediction of normal-times protectionism; (2) these same entry barriers impeded banking sector recovery during the Depression by raising the cost of replacing failed banks (Section 6.2), creating the conditions for realignment; (3) direct voting evidence from Illinois referenda show that rural voters actively supported restrictive entry in the 1920s but withdrew that support in the 1930s, particularly in counties experiencing banking distress (Section 6.3), directly testing Proposition 3's crisis-induced realignment; (4) states responded to this shift in political support by liberalizing branching rather than rolling back capital requirements (Section 6.4), consistent with the model's prediction that different policy instruments become attractive under different states of the world; and (5) these branching reforms materially improved household banking access, with effects concentrated in rural communities where the access-stability tradeoff was most acute (Section 6.5).

It is worth noting several limitations of our analysis. First, while we document a clear political realignment in favor of branching deregulation, we observe this most directly in Illinois, where the referendum requirement provides unusual transparency into voter preferences. The legislative evidence from other states is consistent with the same mechanism, but we cannot rule out that

Table 4: Effects of branch deregulation on household bank use

	$\mathbb{I}\{\text{Bank Account}\}$			Net Δ Bank Deposits		
	(1)	(2)	(3)	(4)	(5)	(6)
A: Timing variation only						
$\mathbb{I}\{\text{Branching}_{s,t}\}$	57.89***	70.56***	66.03***	345.74*	345.76*	331.48*
	(11.43)	(13.29)	(13.13)	(193.43)	(179.11)	(180.90)
Dep Var Mean	31.16	31.16	31.16	34.91	34.91	34.91
Fixed effects	State×Size	State×Size	State×Size	Size× State	Size× State	Size× State
N	430	430	430	430	430	430
B: Rural variation only						
$\mathbb{I}\{\text{Rural}_c\}$	2.17	1.40	1.59	-13.25	-19.47	-24.73
	(4.17)	(4.35)	(5.04)	(15.38)	(16.09)	(16.28)
Dep Var Mean	37.49	37.49	37.49	22.26	22.26	22.26
Fixed effects	State×Year	State×Year	State×Year	State×Year	State×Year	State×Year
N	3,209	3,209	3,209	3,209	3,209	3,209
C: Difference-in-difference						
$\mathbb{I}\{\text{Branching}_{s,t}\} \times \mathbb{I}\{\text{Rural}_c\}$	15.46**	16.07**	16.83**	47.49**	47.89**	47.51**
	(6.33)	(6.01)	(6.36)	(17.07)	(18.14)	(17.87)
Dep Var Mean	37.49	37.49	37.49	22.26	22.26	22.26
Fixed effects	State×Year	State×Year	State×Year	State×Year	State×Year	State×Year
Demographic Controls		Y	Y		Y	Y
Economic Controls			Y			Y
N	3,209	3,209	3,209	3,209	3,209	3,209

Notes: The outcome is an indicator for households reporting use of a bank account during the survey year (Columns 1–3) or the net inflow of household savings into bank deposits (Columns 4–6). States already permitting bank branching before 1930 omitted. Panel A compares households in same sized communities in same state based on whether interviewed before or after branching introduced that year with city size bin x state fixed effects. Panel B compares households in the same state and year based on whether they were rural with state x year fixed effects. Panel C presents the interaction between 1930s branch legalization and household rural status with fixed effects for city size bin, and state x interview year. Covariates include demographic characteristic fixed effects (household head age, race and household size) and economic characteristics (single family home, household head employment status, and home ownership). Survey data described in Section 3.3. Standard errors are robust in Panel A and clustered at state level in Panels B and C. Sources: State session laws, US Bureau of Labor Statistics (2009), and authors' calculations.

different political processes or interest group dynamics operated elsewhere. Second, our focus on the interwar period means we study a banking system that differs in important respects from the modern regulatory environment—most notably in the absence of deposit insurance before 1933 and in the much smaller scale of individual banking institutions. Third, while we identify the political realignment that drove branching deregulation, we do not fully characterize the role of other actors in the policy process, such as state banking regulators, governors, or banking industry lobbying groups. These actors likely shaped the timing and specific design of branching reforms, even if the underlying shift in legislative coalitions reflected changing voter preferences in rural constituencies..

Despite these caveats, the evidence strongly supports the view that the Great Depression produced a fundamental realignment in banking regulation driven by changing political coalitions. The collapse of local ownership rents transformed rural constituencies from defenders of restrictive entry into advocates for geographic expansion, breaking a political equilibrium that had persisted for decades and reshaping the regulatory landscape in ways that would have lasting consequences

for the structure of American banking.

7 Conclusion

This paper shows that the Great Depression fundamentally transformed state banking regulation through two distinct phases of regulatory change. During the 1920s economic expansion, states broke from historical precedent by systematically raising capital requirements—a deliberate tightening of entry barriers that protected local banking monopolies, particularly in rural areas. The widespread bank failures of the 1930s exposed the fragility of this regime: capital requirements that had generated rents in normal times now sharply constrained the replacement of failed banks, leaving many communities without access to basic financial services.

The regulatory response to this crisis was not simply to reverse course by lowering capital requirements. Instead, the 1930s marked a new phase of policy innovation in which states expanded their regulatory toolkit to address the dual objectives of financial stability and credit access. Policymakers maintained or even raised capital standards as a bulwark against future instability, while simultaneously liberalizing branching restrictions to restore banking services in underserved areas. This reconfiguration of the policy mix emerged from a political realignment in which rural constituencies withdrew support for the restrictive entry regime they had championed in the 1920s, after that the collapse of local ownership rents made access to banking services dominate.

The interwar experience thus illustrates how crises can reshape regulation not through uniform tightening or loosening, but through the reconfiguration of policy instruments to serve changing political coalitions. By documenting this process in detail, we highlight several broader lessons. First, regulatory change reflects the interaction between economic shocks and potentially conflicting voter preferences. The same crisis that might appear to demand "more regulation" in the aggregate can simultaneously produce tightening on some margins and loosening on others, as policymakers navigate competing objectives with multiple instruments. Second, the political coalitions supporting particular regulatory regimes in normal times can prove fragile when the economic conditions that generated them disappear. Third, the expansion of the policy toolkit in response to crises can have lasting effects on regulatory capacity and institutional development.

In U.S. banking, these dynamics had consequences extending far beyond the Depression era. By establishing that branching could coexist with, and indeed complement, prudential capital standards, the 1930s reforms broke the decades-long political stalemate over geographic expansion. This precedent laid the groundwork for subsequent waves of branching deregulation at the state level during the 1970s and 1980s, and ultimately for nationwide branching under the Riegle-Neal Act of 1994. More broadly, understanding this episode clarifies how political economy forces shape regulatory evolution and why crises can accelerate, not obstruct, transformation.

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A Model appendix

A.1 Proofs not included in main text

Proof of Proposition 1. Fix a branching regime b and state t. Recall

$$W^r(e,b \mid t) = (1-\phi_t(e,b))\Big[A(D^r, m(e,b)) + \theta_b^r \pi^r(e,b)\Big], \qquad \pi^r(e,b) = m(e,b)D^r - F.$$

Differentiating with respect to e yields

$$\frac{\partial W^r}{\partial e} = -\phi_{t,e}(e,b)\Big[A(D^r, m(e,b)) + \theta_b^r \pi^r(e,b)\Big] + (1-\phi_t(e,b))\Big[A_m(D^r, m(e,b))m_e(e,b) + \theta_b^r \pi_e^r(e,b)\Big]. \tag{A.1}$$

Since $\pi_e^r(e,b) = m_e(e,b)D^r$, the second term simplifies to

$$(1-\phi_t(e,b))\, m_e(e,b)\Big[\theta_b^r D^r + A_m(D^r, m(e,b))\Big].$$

In normal times ($t = N$), baseline failure risk ϕ_N is sufficiently small that the stability term $-\phi_{N,e}(\cdot)\,[\cdot]$ is dominated by the static component.[23] Therefore, for ϕ_N small,

$$\operatorname{sign}\left(\frac{\partial W^R}{\partial e}\right) = \operatorname{sign}\big(\theta_b^R D^R + A_m(D^R, m(e,b))\big) \quad \text{(at the relevant } (e,b)\text{)}.$$

If

$$\theta_b^R D^R > -A_m(D^R, m(e,b)),$$

then $\partial W^R/\partial e > 0$, so rural voters (locally) prefer higher capital requirements, i.e. higher entry barriers, holding b fixed.

Finally, rural opposition to branching in normal times follows from the definition of the welfare difference $\Delta W^R(e \mid N) = W^R(e,1 \mid N) - W^R(e,0 \mid N)$ and the maintained assumption that, absent large failure risk, the ownership-loss component dominates the access and stability components (see the decomposition in Section 6.2 and Lemma 1). In particular, when ϕ_N is low the stability component is small, and if $\theta_1^R \pi^R(e,1) - \theta_0^R \pi^R(e,0) < 0$ with sufficiently large magnitude relative to the access gain, then $\Delta W^R(e \mid N) < 0$ and rural voters oppose branching. □

Proof of Proposition 2. Fix e and suppress the dependence on (e,b).

[23] Formally, fix (e,b) and note that $\phi_t(e,b) = \phi_t f(e,b)$ implies $\phi_{t,e} = \phi_t f_e$. Hence the stability term is $O(\phi_t)$, while the static term is $O(1)$ as $\phi_t \to 0$.

(i) Urban voters prefer lower capital requirements. Recall

$$W^U(e,b \mid t) = (1-\phi_t(e,b))\Big[A(D^U, m(e,b)) + \theta_b^U \pi^U(e,b)\Big], \qquad \pi^U(e,b) = m(e,b)D^U - F.$$

Differentiating with respect to e (holding b fixed) gives

$$\frac{\partial W^U}{\partial e} = -\phi_{t,e}(e,b)\Big[A(D^U, m(e,b)) + \theta_b^U \pi^U(e,b)\Big] + (1-\phi_t(e,b))\Big[A_m(D^U, m(e,b))\, m_e(e,b) + \theta_b^U\, \pi_e^U(e,b)\Big]. \tag{A.2}$$

Using $\pi_e^U(e,b) = m_e(e,b)D^U$, the second term simplifies to

$$(1-\phi_t(e,b))\, m_e(e,b)\Big[\theta_b^U D^U + A_m(D^U, m(e,b))\Big].$$

Under the condition in the proposition,

$$\theta_b^U D^U < -A_m(D^U, m(e,b)),$$

the bracketed term is strictly negative. Since $m_e(e,b) > 0$, the static component is strictly negative. The stability component is $-\phi_{t,e}(\cdot)\,[\cdot]$ and is weakly positive because $\phi_{t,e}(e,b) = \phi_t f_e(e,b) < 0$.

Thus, a sufficient condition for $\partial W^U/\partial e < 0$ is that the (negative) static component dominates the (positive) stability component at the relevant (e,b,t), i.e.

$$(1-\phi_t(e,b))\, m_e(e,b)\Big[\theta_b^U D^U + A_m(D^U, m(e,b))\Big] < \phi_t(-f_e(e,b))\Big[A(D^U, m(e,b)) + \theta_b^U \pi^U(e,b)\Big]. \tag{A.3}$$

Under (A.3), $\partial W^U/\partial e < 0$ and urban voters prefer lower capital requirements.

(ii) Urban voters' preferred branching regime does not change with baseline failure risk. Fix e and define the net welfare gain from branching:

$$\Delta W^U(e \mid t) \equiv W^U(e,1 \mid t) - W^U(e,0 \mid t).$$

Using the decomposition in the text,

$$\Delta W^U(e \mid t) = \Delta^{\text{stability},U}(e \mid t) + \Delta^{\text{access},U}(e \mid t) + \Delta^{\text{ownership},U}(e \mid t),$$

and under factorization $\phi_t(e,b) = \phi_t f(e,b)$ we can write (holding e fixed)

$$\Delta W^U(e \mid t) = \phi_t(f(e,0) - f(e,1))S^U(e,0) + (1-\phi_t f(e,1))\Big(\Delta A^U(e) + \Delta\Pi^U(e)\Big),$$

where

$$\Delta A^U(e) \equiv A(D^U, m(e,1)) - A(D^U, m(e,0)) \geq 0, \qquad \Delta\Pi^U(e) \equiv \theta_1^U \pi^U(e,1) - \theta_0^U \pi^U(e,0).$$

Differentiating with respect to ϕ_t yields

$$\frac{\partial}{\partial \phi_t}\Delta W^U(e \mid t) = (f(e,0) - f(e,1))S^U(e,0) - f(e,1)\Big(\Delta A^U(e) + \Delta\Pi^U(e)\Big). \tag{A.4}$$

By construction $f(e,0) - f(e,1) \geq 0$ and $S^U(e,0) \geq 0$. Moreover, $\Delta A^U(e) \geq 0$. A sufficient condition for $\Delta W^U(e \mid t)$ to be weakly increasing in ϕ_t is therefore

$$(f(e,0) - f(e,1))S^U(e,0) \geq f(e,1)\Big(\Delta A^U(e) + \Delta\Pi^U(e)\Big). \tag{A.5}$$

Under (A.5), (A.4) implies $\partial_{\phi_t}\Delta W^U(e \mid t) \geq 0$.

Finally, suppose that in normal times urban voters weakly prefer branching, i.e. $\Delta W^U(e \mid N) \geq 0$. Then monotonicity in ϕ_t implies $\Delta W^U(e \mid t) \geq 0$ for all states t with $\phi_t \geq \phi_N$. Hence the sign of $\Delta W^U(e \mid t)$ does not change as baseline failure risk increases: urban voters' preferred branching regime is stable across economic states. □

Proof of Proposition 3. Fix e and consider rural welfare differences across branching regimes:

$$\Delta W^R(e \mid t) \equiv W^R(e,1 \mid t) - W^R(e,0 \mid t) = \Delta^{\text{stability},R}(e \mid t) + \Delta^{\text{access},R}(e \mid t) + \Delta^{\text{ownership},R}(e \mid t),$$

with the three components defined in Section 6.2.

Under the maintained assumptions, branching reduces failure risk ($f(e,1) \leq f(e,0)$) and reduces the wedge ($m(e,1) \leq m(e,0)$). Hence $\Delta^{\text{stability},R}(e \mid t) \geq 0$ and $\Delta^{\text{access},R}(e \mid t) \geq 0$ for all t. Moreover, if branching weakly reduces locally valued profits, then $\Delta^{\text{ownership},R}(e \mid t) \leq 0$.

By Lemma 1, as baseline risk ϕ_t increases, $\Delta^{\text{stability},R}(e \mid t)$ is weakly increasing in ϕ_t, while the magnitude of $\Delta^{\text{ownership},R}(e \mid t)$ is discounted by survival (it becomes weakly less negative as ϕ_t rises). Together, these monotonicities imply that $\Delta W^R(e \mid t)$ is weakly increasing in ϕ_t provided the access gain does not fall too quickly in ϕ_t (it is weakly decreasing but remains nonnegative).[24]

Assume further that in normal times $\Delta W^R(e \mid N) < 0$ (rural voters oppose branching when failure risk is low), while at sufficiently high failure risk the stability and access gains dominate the ownership loss so that $\Delta W^R(e \mid t) > 0$.[25]

[24] Formally, $\partial_{\phi_t}\Delta^{\text{stability},R} \geq 0$, $\partial_{\phi_t}\Delta^{\text{ownership},R} \geq 0$ whenever $\Delta^{\text{ownership},R} \leq 0$, and $\partial_{\phi_t}\Delta^{\text{access},R} \leq 0$ with $\Delta^{\text{access},R} \geq 0$.

[25] A sufficient condition is that $\Delta^{\text{stability},R}(e \mid t)$ grows without bound relative to the absolute value of $\Delta^{\text{ownership},R}(e \mid t)$ as ϕ_t increases, which holds if the survival gap $(1 - \phi_t f(e,1)) - (1 - \phi_t f(e,0))$ increases linearly in ϕ_t while the ownership term is multiplied by $(1 - \phi_t f(e,1))$.

By continuity of $\Delta W^R(e \mid t)$ in ϕ_t under $\phi_t \in [0,1)$ and the intermediate value theorem, there exists a threshold $\bar{\phi} \in (0,1)$ such that $\Delta W^R(e \mid t) > 0$ for all $\phi_t > \bar{\phi}$. This establishes crisis-induced rural realignment toward branching. □

A.2 Parameterization of numerical illustration

This section provides a numerical illustration of the model to visualize the welfare trade-offs described in Section 5 and to illustrate how preferences over regulatory instruments vary across regions and economic states. The numerical example is intended solely for intuition and exposition. All theoretical results in the main text are derived under general conditions and do not rely on the specific functional forms adopted here.

Functional forms. For tractability, we impose simple parametric forms for bank markups, credit access, and failure risk. In particular, we assume that the effective wedge faced by borrowers is given by

$$m(e,b) = \alpha e - \beta b,$$

with $\alpha, \beta > 0$, so that higher capital requirements raise markups while branching reduces them. This linear specification captures the reduced-form impact of entry barriers and competition on borrowing costs.

Credit access in region r is modeled as

$$A(D^r, m) = D^r - \frac{1}{2}m^2,$$

which satisfies the assumptions imposed in Section 5: access is increasing in local demand ($A_D > 0$), decreasing in the wedge ($A_m < 0$), and the marginal loss from a higher wedge is larger in higher-demand environments ($\partial_D(-A_m) > 0$).

Bank profits in region r are given by

$$\pi^r(e,b) = m(e,b)D^r - F,$$

where $F > 0$ is a fixed operating cost. As in the main text, this formulation allows for the possibility that entry is unprofitable under sufficiently restrictive regimes.

Finally, failure risk is assumed to factorize as

$$\phi_t(e,b) = \phi_t \exp(-\lambda e - \gamma b),$$

with $\lambda, \gamma > 0$, so that both higher capital requirements and branching reduce the probability of

bank failure through capitalization and diversification, respectively.

These functional forms satisfy all sign and monotonicity conditions imposed in the general model and allow us to compute welfare analytically and illustrate the comparative statics underlying Propositions 1–3.

Parameterization. We set the baseline failure risk at $\phi_N = 0.05$ to reflect the relatively low failure rates during the 1920s boom, and $\phi_C^0 = 0.35$ to capture the peak crisis intensity during 1930–1933, when roughly one third of banks failed.

We parameterize the markup effect of capital at $\alpha = 1.6$ and the competition effect of branching at $\beta = 1.5$, reflecting the historical reality that branching substantially reduced local monopoly power.

The stability parameters are $\lambda = 0.3$ (capital reduces failure risk) and $\gamma = 0.6$ (branching provides diversification benefits). Credit access is valued at $A = 550$, borrowers bear markup costs at rate $\chi = 2.5$, and fixed operating costs are $F = 50$.

For regional characteristics, we parameterize urban-type regions with diffuse ownership ($\theta_{b=0}^U = 0.15$, $\theta_{b=1}^U = 0.12$) and high credit demand ($D^U = 100$), satisfying the urban-type condition $\theta_b^U D^U < \chi$. Rural-type regions have concentrated ownership ($\theta_{b=0}^R = 0.6$, $\theta_{b=1}^R = 0.4$) and lower credit demand ($D^R = 50$), satisfying the rural-type condition $\theta_b^R D^R > \chi$. These parameter choices ensure that our definition of urban regions being net borrowers who benefit from competition and rural regions being net owners who benefit from monopoly rents is met.

B Additional Tables and Figures

B.1 Additional Tables

Table B.1: Interest group correlates of state capital requirement increases

	1920–1924	1925–1929	1930–Feb. 1933	March 1933–1936	1937–1939
	(1)	(2)	(3)	(4)	(5)
Pop. share 2500-25K places	-0.030	-0.094	-0.098	0.016	-0.005
	(0.08)	(0.11)	(0.07)	(0.08)	(0.01)
Pop. share under 2500 places	-0.030	0.303**	-0.046	-0.059	-0.011
	(0.15)	(0.12)	(0.08)	(0.11)	(0.02)
Log average farm value	0.081	-0.038	0.049	-0.011	-0.033
	(0.08)	(0.09)	(0.08)	(0.05)	(0.03)
Farm share under 100 acres	-0.262	0.240	-0.201	0.065	-0.005
	(0.16)	(0.20)	(0.14)	(0.09)	(0.07)
Farm land Gini	0.198	-0.209	0.094	-0.041	-0.008
	(0.13)	(0.17)	(0.11)	(0.09)	(0.05)
Log mfg. output per estab.	0.103	0.062	-0.004	0.014	0.035
	(0.09)	(0.12)	(0.05)	(0.05)	(0.03)
Log population	0.175**	0.297***	0.008	-0.047	-0.010
	(0.08)	(0.08)	(0.10)	(0.16)	(0.02)
Dep Var Mean	0.17	0.38	0.17	0.15	0.04
R-sq	0.44	0.46	0.32	0.25	0.23
N	48	48	48	48	48

Notes: The outcome is an indicator for increasing capital requirements in a state between prior period and this one. All covariates are from the closest preceding census and standardized in each year. Census region fixed effects not shown. Standard errors are heteroskedasticity robust. See Sections 3.1 and 3.3 for data details. Sources: State session laws, Haines (2010), Ruggles et al. (2021), Bleemer and Quincy (2026), and authors' calculations.

Table B.2: Interest group correlates of introducing bank branching

	1930–1939			1920–1929	
	𝕀(Any branching)	𝕀(Cross-city branching)	𝕀(Banklessness)	𝕀(Any branching)	𝕀(Cross-city branching)
	(1)	(2)	(3)	(4)	(5)
Pop. share 2500-25K places	-0.171*	-0.161	-0.211**	0.001	-0.118
	(0.10)	(0.11)	(0.09)	(0.12)	(0.12)
Pop. share under 2500 places	0.153	0.300**	0.354**	0.103	0.176
	(0.13)	(0.15)	(0.14)	(0.15)	(0.19)
Log average farm value	0.166*	0.136	0.057	0.154	0.123
	(0.09)	(0.09)	(0.09)	(0.10)	(0.09)
Farm share under 100 acres	0.585***	0.432**	0.459***	0.195	0.131
	(0.12)	(0.18)	(0.15)	(0.15)	(0.15)
Farm land Gini	-0.251**	-0.071	-0.283*	-0.034	-0.065
	(0.10)	(0.16)	(0.15)	(0.13)	(0.15)
Log mfg. output per estab.	-0.054	-0.027	-0.148*	0.021	0.081
	(0.09)	(0.08)	(0.08)	(0.10)	(0.10)
Log population	-0.116*	-0.108	0.036	0.167*	0.035
	(0.06)	(0.14)	(0.12)	(0.10)	(0.12)
Dep Var Mean	0.71	0.67	0.42	0.38	0.25
R-sq	0.46	0.48	0.52	0.48	0.29
N	48	48	48	48	48

Notes: The outcome is an indicator for legalizing bank branching in each period. States already permitting bank branching at start of period omitted from sample. There are no banklessness requirements in state branching laws before 1930. Census region fixed effects not shown. Standardized census covariates from 1930 in Columns 1 to 3 and 1920 in Columns 4 and 5. Standard errors are robust. See Sections 3.1 and 3.3 for data details. Sources: State session laws, Haines (2010), and authors' calculations.

Table B.3: Rural constituency and capital requirements robustness: one banked counties

	$\mathbb{I}$(Increase)			$\mathbb{I}$(Decrease)		
	(1)	(2)	(3)	(4)	(5)	(6)
A: State-Level						
$\beta_{\text{Non-Crisis}} \times \mathbb{I}$(One Bank)	7.84*	141.88	141.53	-44.21	-59.32	-63.17
	(4.50)	(95.75)	(109.69)	(41.15)	(42.21)	(49.85)
Dep Var Mean	18.30	18.30	18.30	7.23	7.23	7.23
N	235	235	235	235	235	235
B: County-Level						
$\beta_{\text{Non-Crisis}} \times \mathbb{I}$(One Bank)	8.80***	8.82***	10.38***	-4.16**	-4.22**	-4.54**
	(2.77)	(2.77)	(2.78)	(2.07)	(1.99)	(2.04)
Dep Var Mean	29.11	29.11	29.11	10.66	10.66	10.66
Geographic Unit FE	Y	Y	Y	Y	Y	Y
Era FE	Y	Y	Y	Y	Y	Y
Population		Y	Y		Y	Y
Farm Controls			Y			Y
N	11,953	11,953	11,953	11,953	11,953	11,953

Notes: The outcome is an indicator (scaled up by 100) for passing a law that increases or decreases capital requirements in a geographic unit in a pooled regression including geographic unit and era fixed effects. Non-crisis defined as either 1920–1923 or 1924–1928. We omit Wyoming and the post-1936 period because they are omitted from the bank data. Independent variable is the share of counties with exactly one bank (states) or an indicator for having exactly one bank (counties) at any point in each time period. Farm controls include log average farm value, the share of farms under 100 acres, and the farmland Gini coefficient, all reflecting the closest preceding census and measured as standard deviations. Standard errors clustered by state in parentheses in Panel A and county in Panel B. See Section 3.1 and 3.3 for more detail on law and economic data sources, respectively. Sources: State session laws, Haines (2010), Ruggles et al. (2021), Federal Deposit Insurance Corporation (1992), Bleemer and Quincy (2026), and authors' calculations.

Table B.4: Illinois Referendum-Specific Capital Increase Votes

	1920	1924	1930	1940
	(1)	(2)	(3)	(4)
A: No Controls				
%ΔCapital	14.37	91.94**	-42.48	-5.71
	(14.85)	(45.32)	(26.38)	(4.16)
Dep Var Mean	4.90	70.59	43.14	1.96
Time-varying controls				
N	102	102	102	102
B: Time-Varying Controls				
%ΔCapital	21.22	99.73**	-16.81	-3.37
	(18.21)	(45.75)	(31.78)	(19.78)
Dep Var Mean	4.90	70.59	43.14	1.96
Time-varying controls	Y	Y	Y	Y
N	102	102	102	102

Notes: Outcomes are county level votes on capital increases either as an indicator a majority of votes favored an decrease in capital requirements (Columns 1–3) or a share of votes cast in the county (Columns 4–6).The explanatory variable is split into two mutually exclusive treatments, those in the Great Depression or after (1930 and 1940) versus those outside the crisis (1920 and 1924). The explanatory variable is the actual growth in bank capital per capita if the measured passed. Controls include log population, log rural population share, farmland Gini coefficient, and log voter turnout, all standardized in each election. Capital cost, voting, and bank data described in Sections 3.1, 3.2 and 3.3, respectively. Sources: Illinois Blue Books, Haines (2010), Ruggles et al. (2021), Bleemer and Quincy (2026), and authors' calculations.

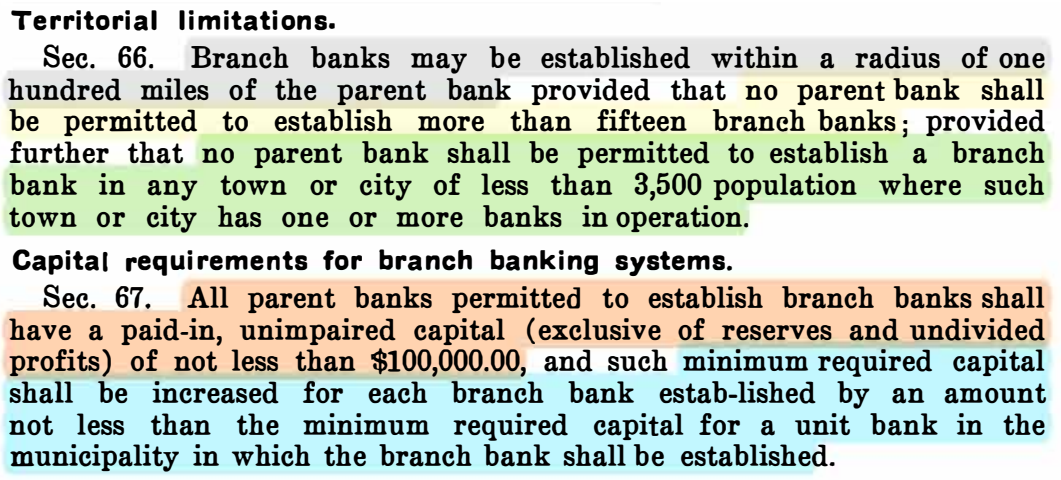
Table B.5: Year-Specific Illinois Referenda Effects

	$\mathbb{I}$(Increase $\geq$ 50%)		Share of votes for increase	
	(1)	(2)	(3)	(4)
%ΔCapital $\times$ $\mathbb{I}$(1920)	55.63	59.88	54.39**	54.93**
	(36.09)	(36.13)	(20.95)	(21.28)
%ΔCapital $\times$ $\mathbb{I}$(1924)	84.92*	86.59*	7.44	7.65
	(45.14)	(45.68)	(13.48)	(13.58)
%ΔCapital $\times$ $\mathbb{I}$(1930)	-25.30	-23.59	-15.51**	-15.29**
	(23.70)	(24.51)	(7.11)	(7.20)
%ΔCapital $\times$ $\mathbb{I}$(1940)	-84.87***	-76.58**	-10.09*	-9.04
	(24.22)	(30.33)	(5.36)	(5.65)
Dep Var Mean	30.15	30.15	41.70	41.70
County FE	Y	Y	Y	Y
Referendum FE	Y	Y	Y	Y
Time-varying controls		Y		Y
N	408	408	408	408

Notes: Outcomes are county level votes on capital increases either as an indicator a majority of votes favored an increase in capital requirements (Columns 1–2) or the share of votes favoring higher capital requirements (Columns 3–4), scaled by 100.The explanatory variable is split into four mutually exclusive election-specific treatments where the treatment variable is the actual growth in bank capital per capita if the measured passed. Controls include log population, log rural population share, farmland Gini coefficient, and log voter turnout, all standardized in each election. Capital cost, voting, and bank data described in Sections 3.1, 3.2 and 3.3, respectively. Sources: Illinois Blue Books, Haines (2010), Ruggles et al. (2021), Bleemer and Quincy (2026), and authors' calculations.

B.2 Additional Figures

Figure B.1: Sample of bank branching regulation



Territorial limitations.

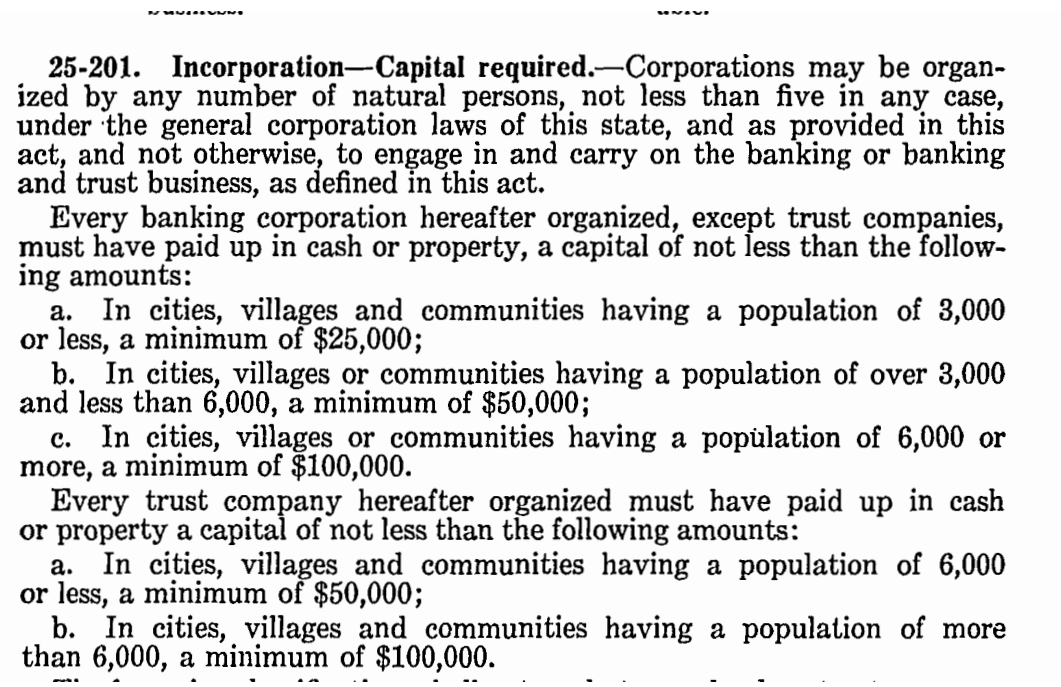
Sec. 66. Branch banks may be established within a radius of one hundred miles of the parent bank provided that no parent bank shall be permitted to establish more than fifteen branch banks; provided further that no parent bank shall be permitted to establish a branch bank in any town or city of less than 3,500 population where such town or city has one or more banks in operation.

Capital requirements for branch banking systems.

Sec. 67. All parent banks permitted to establish branch banks shall have a paid-in, unimpaired capital (exclusive of reserves and undivided profits) of not less than $100,000.00, and such minimum required capital shall be increased for each branch bank estab-lished by an amount not less than the minimum required capital for a unit bank in the municipality in which the branch bank shall be established.

Notes: Each color corresponds to a different clause governing bank branching. These laws apply to all banks except capital for Federal Reserve member banks (which was higher). Sources: Mississippi Session Laws 1934, ch.134.

Figure B.2: Sample of bank capital regulation



25-201. Incorporation—Capital required.—Corporations may be organized by any number of natural persons, not less than five in any case, under the general corporation laws of this state, and as provided in this act, and not otherwise, to engage in and carry on the banking or banking and trust business, as defined in this act.

Every banking corporation hereafter organized, except trust companies, must have paid up in cash or property, a capital of not less than the following amounts:

a. In cities, villages and communities having a population of 3,000 or less, a minimum of $25,000;

b. In cities, villages or communities having a population of over 3,000 and less than 6,000, a minimum of $50,000;

c. In cities, villages or communities having a population of 6,000 or more, a minimum of $100,000.

Every trust company hereafter organized must have paid up in cash or property a capital of not less than the following amounts:

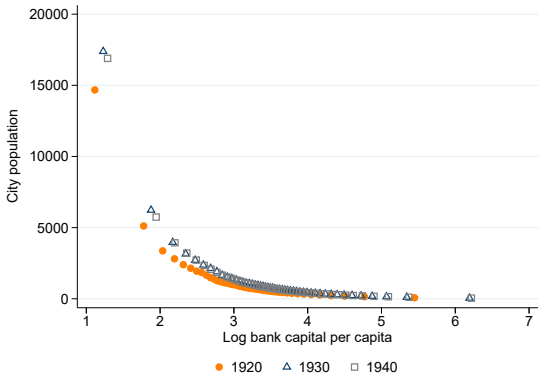
a. In cities, villages and communities having a population of 6,000 or less, a minimum of $50,000;

b. In cities, villages and communities having a population of more than 6,000, a minimum of $100,000.

Notes: These laws apply to all Fed non-member banks because member bank requirements were higher. Sources: Idaho Session Laws 1925, ch. 133 §6.

Figure B.3: Characteristics of city bank entry costs

(a) Population versus capital costs



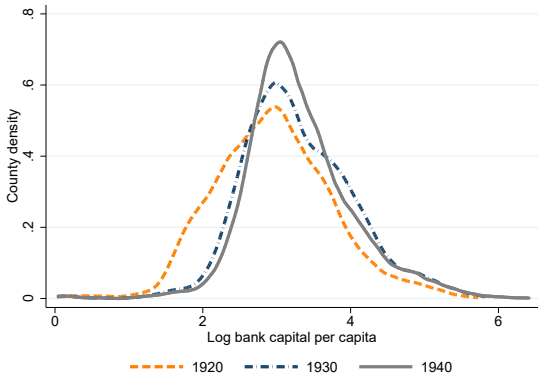
(b) Branching eligibility versus capital costs



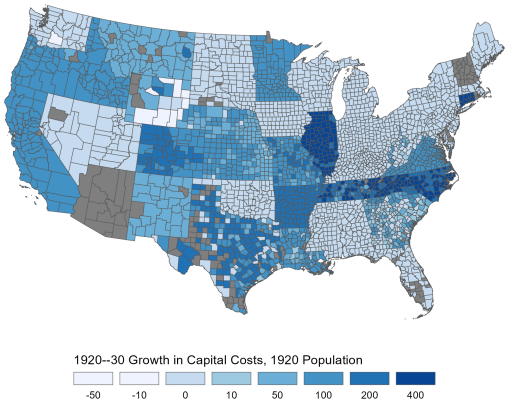
Notes: Log bank capital per capita is the log bank capital per capita in a given city in a given year. Bank capital per capita reflects the minimum bank entry capital assigned by the active state statute and prior census's population estimate, divided by the latter. Branch eligibility flags whether active statues permit branching in a given location. Cities are excluded if the state does not have minimum capital requirements. See Section 3.1 for data definitions. Sources: State session laws, Ruggles et al. (2021), Bleemer and Quincy (2026), and authors' calculations.

Figure B.4: Characteristics of county median bank entry costs fixing population in 1920

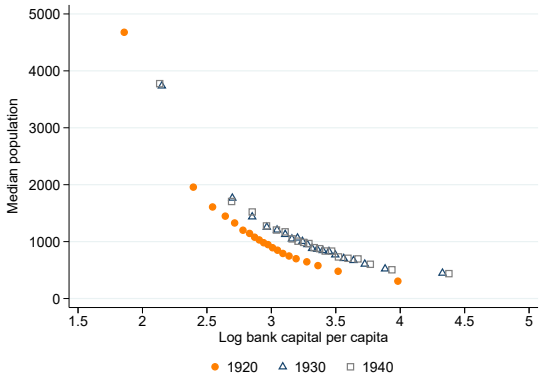
(a) Capital costs over time



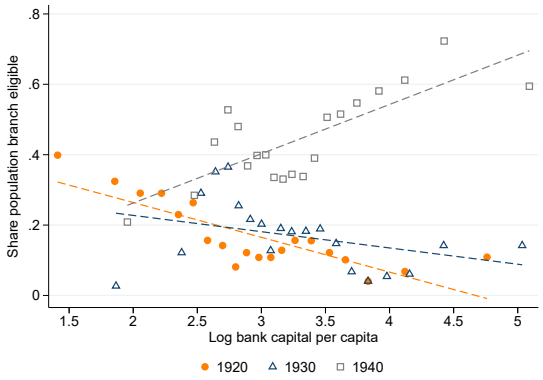
(b) %Δ capital costs, 1920–30



(c) Population versus capital costs

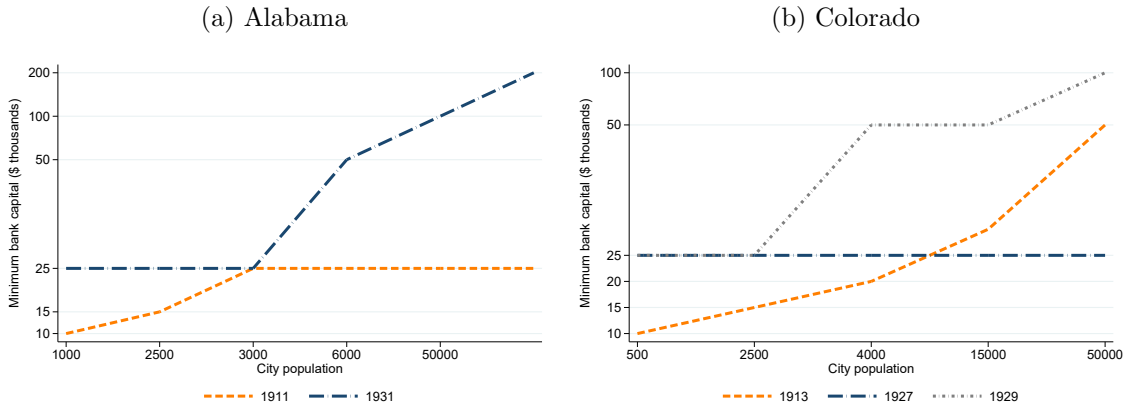


(d) Branching eligibility versus capital costs



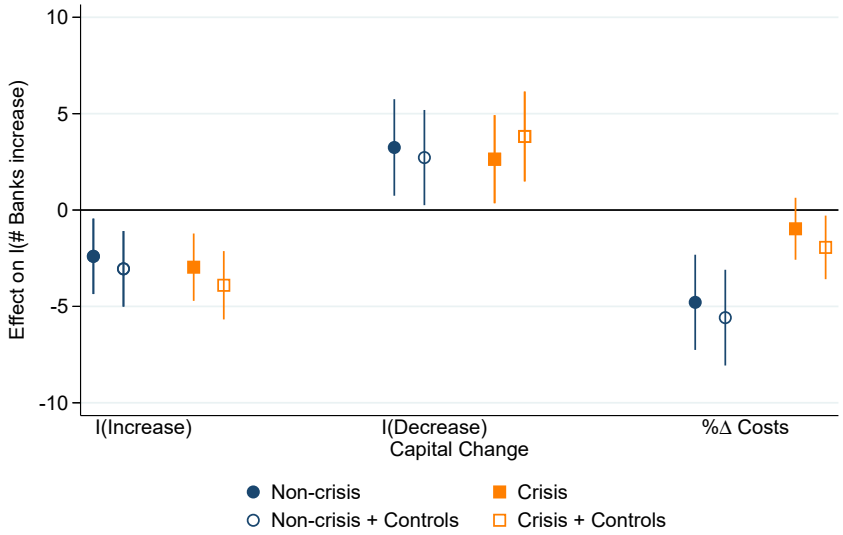
Notes: Log bank capital per capita is the median log bank capital per capita in a given county in a given year using 1920 population to assign capital costs based on each year's laws. Bank capital per capita reflects the minimum bank entry capital assigned by the active state statute and 1920 population estimate, divided by the latter in each city, aggregated to the county level by taking the median in each county and year. Counties in states without minimum capital requirements in 1920 are shaded gray in Panel (b). Branch eligibility flags whether active statues permit branching in a given location using 1920 population information. Panels (c) and (d) are binscatters for all US counties in each year with log bank capital per capita data. Counties are excluded if the state does not have minimum capital requirements or if there are no incorporated places in the county in that year. See Section 3.1 for data definitions. Sources: State session laws, Ruggles et al. (2021), Bleemer and Quincy (2026) and authors' calculations.

Figure B.5: Sample state capital requirement time series



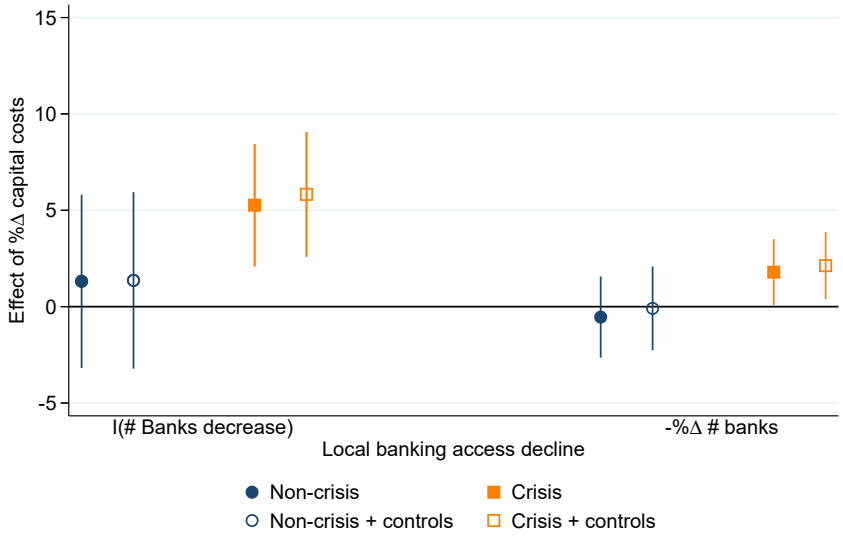
Notes: Each panel plots the statutory minimum bank entry capital implied by the active Alabama (a) or Colorado (b) banking law and the population of each city in the most recent preceding census for each law active between 1920 and 1940 in each state. see Section 3.1 for data details. Median population is the median incorporated-place population within each county based on the closest preceding census. Sources: Alabama and Colorado legislative session laws; Ruggles et al. (2021); Bleemer and Quincy (2026); and authors' calculations.

Figure B.6: Probability of county banking market entry after capital policy changes



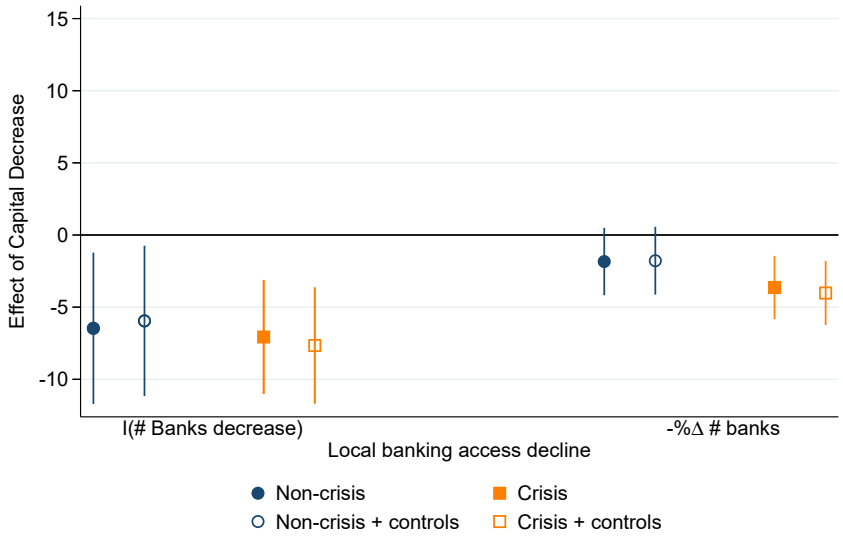
Notes: The outcome is an indicator for an increase in the number of banks in a county between the start and end of a time period. The treatment is an indicator (multiplied by 100) for changing median capital requirements in that county during prior period in either direction or the log change in median per capita bank capital costs at the start of each era. Additional controls include log population, log average farm value, the share of farms under 100 acres, and farmland Gini coefficient, all from the closest preceding census and converted to standard deviations. County and time period fixed effects not shown. Standard errors clustered at county level. See Section 3.3 for more detail on banking data and Section 3.1 on capital requirements. Sources: State session laws, Haines (2010), Federal Deposit Insurance Corporation (1992), Ruggles et al. (2021), Bleemer and Quincy (2026), and authors' calculations.

Figure B.7: Declines in county banking markets in response to the capital cost growth rate



Notes: The outcome is either an indicator for the number of banks falling during the time period or the percentage decline in the number of banks during the time period. The treatment is the log change in median per capita bank capital costs at the start of each era. Additional controls include log population, log average farm value, the share of farms under 100 acres, and farmland Gini coefficient, all from the closest preceding census and converted to standard deviations. County and time period fixed effects not shown. Standard errors clustered at county level. See Section 3.3 for more detail on banking data and Section 3.1 on capital requirements. Sources: State session laws, Haines (2010), Federal Deposit Insurance Corporation (1992), Ruggles et al. (2021), Bleemer and Quincy (2026), and authors' calculations.

Figure B.8: Declines in county banking markets after lowering capital requirements



Notes: The outcome is either an indicator for the number of banks falling during the time period or the percentage decline in the number of banks during the time period. The treatment is an indicator (multiplied by 100) for lowering median capital requirements in that county during prior period. Additional controls include log population, log average farm value, the share of farms under 100 acres, and farmland Gini coefficient, all from the closest preceding census and converted to standard deviations. County and time period fixed effects not shown. Standard errors clustered at county level. See Section 3.3 for more detail on banking data and Section 3.1 on capital requirements. Sources: State session laws, Haines (2010), Federal Deposit Insurance Corporation (1992), Ruggles et al. (2021), Bleemer and Quincy (2026), and authors' calculations.

C Additional evidence on political ideology of bank entry

Regulators and bankers regularly defended unit banking as a cornerstone of rural American life. Unlike other developed countries, the United States remained dominated by unit banks in the years before the Great Depression, which the Comptroller of the Currency defended as the "institution most representative of the genius of the American people" for its support of local community independence (quoted in Bankers Magazine, 1930, p.463). Similarly, the *Commercial and Financial Chronicle* heralded unit banking as "peculiarly suited to the genius of the American people, to the democratic republican form of government which we have developed, ...and to the individualism which is the foundation of our national progress" (cited in Bryan, 1942, p.60–61). The American Bankers Association couched its opposition to branch banking in almost identical language, often emphasizing terms like "Americanism" and "independence" to contrast with the perceived link between branch banking and concentration of economic and political power in other countries (Chapman and Westerfield, 1942; Bryan, 1942). They published periodicals, like the *Banker Farmer*, to advertise the importance of unit banking for agricultural investment and rural prosperity.

Politicians and newspapers also leveraged the same ideological language to drum up voter support. If bankers did not accommodate farmers' and workers' debt burdens, they were continuing a "century of robbery" dating back to the end of Andrew Jackson's presidency, according to a political party newspaper (American Guardian, 1933, p.1). Similarly a former Illinois governor announced his re-election campaign by alleging that the disappearance of rural banks was a conspiracy orchestrated by urban elites to "drive the farmer to distress and bankruptcy [and]...compel the farmer to work the land as if he... were a serf" (Manhattan American, 1931, p.4). However, as the Great Depression worsened, newspapers emphasized that unit banking may have played a role. *Business Week* described the 1932 Chicago banking crisis as "a heavy installment on its bill for preserving rugged individualism in the banking field" (Business Week, 1932, p.6).

Congressional debates on bank reform reflected this populist focus on rural constituencies. In 1932 and 1933, the Senate voted on several forms of branch bank legalization to address the ongoing financial crisis. On one hand, anti-branching advocates called unit banks "the American kind of a bank... owned and managed by the home folks of a community," unlike branch banks which were "a foreign system" reminiscent of the Bank of the United States' control over credit before Andrew Jackson's efforts (72nd Congress, 1932, p.9974–5). Maintaining American unit banking would counteract Wall Street, "international financiers," and other elites' ability to concentrate power and starve rural areas (73rd Congress, 1933*a*, p.3772). On the other hand, pro-branching advocates suggested that branching was the only way to "preserve decentralized life in America" because banklessness was so endemic (72nd Congress, 1933, p.1414–15). Combining branching and higher capital requirements, in other words would "make the small bank safe or ... put it out of

business" (73rd Congress, 1933*b*, p. 3940).