CHANGING ENVIRONMENTS AND CORPORATE POLITICAL ACTIVITY:

THE DEBATE OVER US BANKING REGULATIONS, 1896-1978•

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ABSTRACT

In this paper, I examine the timing of legal changes and in particular when corporations are able to influence their legal environment. I argue that both the motivation to work to change laws as well as the success in doing so is contingent on aspects of organizations' economic, technical and political environments. I study how presence of multi-unit and single-unit banks in US states leads to either liberalization or restriction of state-level branching regulations from 1896-1978, and how success of these two groups is modified by changing historical conditions. I conducted historical analyses of meeting minutes of national, regional and state banking associations to understand why, when and how banks organize their political activities. Based on these findings and existing theory, I offer a number of hypotheses about when banks are likely to be successful in changing state laws. I test these hypotheses using event history analyses on a database of legal changes in the 48 contiguous US states between 1896 and 1978. As expected, the stronger the presence of multi-unit banks, the more likely it is that states pass more liberal laws; as well, the stronger the presence of single-unit banks, the more likely that states pass more restrictive laws. These effects are accentuated by the economic, technical, and political environments of the states. As state wealth and transportation infrastructure increase, and when the Federal government has a more liberal policy, the effect of multi-unit banks on state-level liberalization increases. Conversely, for single-unit banks, the most important factor contributing to restrictive state-level changes is the degree to which neighboring states have restrictive branching laws.

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A number of academic fields including sociology (Davis and Thompson, 1994; Ingram and Rao, 2004), political science (Baumgartner and Jones, 1993; Baumgartner, 2001) and economics (Becker, 1983; Abrams and Settle, 1993) have analyzed the role of business organizations in influencing governmental actions. These diverse approaches can be generally grouped into two classes of explanations: those focused on the actors who aim to influence policy, and those focused on the external environmental conditions that enable policy changes. In sociology, organizations work that draws on the social movement literature (McAdam, McCarthy and Zald, 1996) is mostly focused at the actor level, analyzing firms' ability to mobilize (Ingram and Rao, 2004) and frame issues (Davis and Thompson, 1994). Political science, as well, focuses on actors, in particular the interest groups that have proliferated to influence policies (Baumgartner, 2001; Baumgartner and Leech, 1998). Other theories that examine the environmental conditions that make political change possible include those focusing on opportunities created by the political structure, (Tarrow, 1998) and economic theories that suggest that changing economic conditions influence political action (Becker, 1983). In this paper, I argue that understanding *when* one opposing corporate group is able to create governmental action, it is important to consider *both* actors and environments.

The context in which I examine the interactive effect of corporate actors and external environments on governmental actions is a debate over the extent to which banks can establish geographically dispersed satellite offices, i.e. branch locations. This debate occurred for much of the twentieth century in most of the US states. During the twentieth century, the US political, economic and technical environments all underwent drastic changes which had profound effects on how US business activity was and could be organized. In this paper, I analyze how organizational actors (single-unit v. multi-unit banks) with specific political agendas were able to capitalize on changes in the broader environmental conditions (political, economic, and technical) to influence US states to pass laws that were favorable to their group. I ground my understanding of this process in historical analysis of meeting minutes from national, regional and state banking associations (see Appendix A for listing of materials consulted). These documents describe in detail the motivations, goals, strategies and tactics of bankers' lobbying activities for the early part of the twentieth century. Empirically, I follow Ingram and Rao (2004) and analyze the factors that lead to both liberalization and restriction of state laws.

On a theoretical level, my historical analyses and arguments suggest that there are two reasons why both actors and environments are important to understand corporate influence on governmental actions. First, changing environmental conditions have a priming effect on organizational actors. My historical analyses indicate that changing environments influenced the direction and types of action that banks sought. As economic and technical conditions modernized, banks had a new sense of what was possible which led to them to shift their political focus and tactics. Environmental changes also lead to a shift in the balance of power between opposing business interests (i.e. multi-unit banks that wanted liberalization and single-unit banks that wanted restriction). While equilibrium between opposing interest groups is historically the norm (Dahl, 1961; Becker, 1983), there are considerable changes in policy occur over time and it is not clear why or when the balance of power shifts to favor one group over another.

My historical materials suggest that organized trade associations are the primary vehicle for bank lobbying, and changes in external environments influences the mix of firms that belong to these groups, which then leads to shifts in these groups' advocacy.

This paper is organized as follows: First, I recount the debate over bank branching, and the important actors on each side of the debate. Next, I suggest that external environments, particularly states' economic, technical, and political contexts were influential in when banks identified new opportunities and that changes in these contexts also enhanced the likelihood of these groups enacting their agendas. Throughout these sections, I draw on historical research to ground my theory and predictions. Following that, I discuss methodological issues, results, and then conclude with a summary of the contributions and next steps suggested by this paper.

CONTESTATION OVER STATE BRANCHING LAWS, 1896-1978

While today the banking industry is seen as relatively benign and old-fashioned (Mayer, 1997), throughout US history it has been the focus of public and governmental fear over concentrated capital (Roe, 1994). As a result, the ability of banks to establish branch offices was curtailed for much of US history. At the turn of the twentieth-century, there were over twelve thousand commercial banking firms in the US, only eighty-seven of which had branches; and these eighty-seven banks operated only 119 branches. The twentieth century however witnessed extensive contestation over the issues of establishing branches (Roe, 1994) and significant variation developed among US states on the degree to which branching was permitted. Generally, there have been three different types of state regulation on bank branching: unit banking where banks are permitted to only operate in one location (i.e. no branches), statewide banking where banks are permitted to operate branches throughout the state, and limited statewide banking where banks are permitted to operate branches, but on a limited basis. As noted previously there was a general move from unit to statewide banking. Figure 1 documents this dramatic shift[1] and the table in Appendix B provides further detail on each state's regulatory history. Unit banking predominated in the early part of the twentieth century through the 1930s, while statewide banking did not become dominant until the past two decades.

INSERT FIGURE 1 ABOUT HERE

There has been much speculation in economic history about why the branching debate began at around the turn of the twentieth century. Some suggest that the high rate of bank failures during the 1890s prompted consideration of branching since it was generally assumed that being able to geographically diversify provided greater economic security for banks (Chapman and Westerfield, 1942). Others argue that the growth of large manufacturing firms around this time created a new set of borrowing needs. Since a unit banking system was ill-suited for financing large scale enterprises, pressure mounted to create larger and more expansive organizations (Calomiris, 1993). Others have suggested that, for most of US history, banking markets were fragmented naturally by high transportation and informational costs. As technical advances increased, natural

[1] For informational purposes, this figure presents data to 2001, although in this paper I only analyze the period until 1978, when states began allowing inter-state banking.

barriers to outside competition receded. In order to protect local markets from this newly possible competition, state legislatures created legal barriers (Kane, 1996).

Examination of bankers association meeting minutes corroborate that this debate began from around the turn of the century, and suggest that the debate was spurred by the changing nature of external environments, particularly in relation to technical changes and urbanization. For example, in the meeting minutes of the American Bankers Association, branching is only mentioned at the annual meetings twice between 1875 and 1893, and one of these references in 1891 (ABA, 1891: 86) notes that the topic is "seldom considered." After the mid-1890s, the topic was frequently discussed at the meetings, typically in the context of how technical changes and urbanization have created new opportunities for banks. For example, in 1926, an address by the Chief National Bank Examiner notes (ABA, 1926: 196) that "marvelous economic development … has brought about new conditions not contemplated by the previous generation. Our methods of transportation and communication have become completely revolutionized and our whole industrial fabric operates upon a procedure today which calls for new forms of banking service and new instrumentalities of finance."

These changes created significant debate on whether bank expansion was prudent. Organized opposition to branching was from small and medium banks who capitalized on public fear of consolidated capital and argued that branching would break an important link between local bankers and community borrowers. Others have suggested that the unit bankers' motivation was based more on a fear that large city banks would expand into what was, in effect, their monopoly position in small communities (Calomiris, 1993). Support for relaxation of laws came primarily from existing banks with branches, and urban bankers that wanted to expand (Collis, 1926; Fischer, 1968). This group argued that economic efficiency was on their side and that banks with branches were safer because they were able to spread credit risk across multiple geographies.

Social movement theory provides a helpful framework to unpack the ability of social groups such as business organizations to influence the political process. The most obvious signal of collective action was the creation of mobilizing structures, described by McAdam, McCarthy and Zald (1996) as "collective vehicles, informal as well as formal, through which people mobilize and engage in collective action." Similar to patterns suggested by other work on social movements by business, these took the form of trade associations (Ingram and Rao, 2004) with the explicit goal of lobbying governmental units. One of the primary goals of these associations was influencing legislation. For example, in the budgets of the associations, the largest line item is frequently connected to the legislative committee activities.

These associations engaged in a wide variety of activity to influence opinion. As described in the ABA annual proceedings in 1912 (237):

> The committee has devoted much time and attention to the various measures by personal attendance of a number of its members at Washington on different occasions, by mail and by telegraph and has enlisted the active support and co-operation of Clearing House Associations, States Bankers Associations and other organizations and individuals along lines of procedure mapped out by the Committee.

New Jersey association minutes frequently recount members' time in Trenton and efforts in letter writing and delivering briefs to legislature members.[2]

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[2] And the volume of activity was tremendous. In New York alone (New York Banking Association, 1932: 16): "Circulars, bulletins and letters have been sent on an average of three a month, or more than 40,000

There was also extensive coordination between states and the national association. For example, in 1918 the ABA created a committee to synchronize activities of state associations with ABA to avoid (ABA, 1918: 295) "constant duplication of efforts and ofttimes absolute interference with one another." This committee reports that of the 30,000 US banks at that time, 19,000 were ABA members, of the remaining, almost all were members of state associations. In 1923, following the lead of the ABA, the Kansas, Missouri, and Pennsylvania bankers associations all declared themselves to be opposed to branch banking. Other national-level organizations included an anti-branching group in Chicago called the United States Bankers Association Opposed to Branch Banking (James, 1938) and, in 1930, unit bankers established the Independent Bankers Association (Calomiris, 1993) which came to be the primary national trade organization for independent banks. On the opposite side of the debate, A. P. Giannini of the Bank of Italy (later Bank of America) was nationally known for his mobilization for support for branch banking (James and James, 1954).

An important part of the mobilization effort was framing the debate, or the "conscious strategic efforts by groups of people to fashion shared understandings of the world and of themselves that legitimate and motivate collective action" (Snow, quoted in McAdam, McCarthy and Zald, 1996: 6). While the unit banks controlled a very small percentage of overall industry assets, their view was often supported by the public and by legislators because of their success in framing the debate as one of community banking versus consolidated capital. Results of a survey of Nebraska unit bankers in mid-1930s, showed that 90% opposed branching (Kuhn 1968), indicating strong agreement that

mailings. Including letters, more than 45,000 pieces of mail have been issued from the office. We have had more than 3,600 outgoing telephone calls and 125 outgoing telegrams."

banking was a community-based activity. Their argument was that branching was undesirable because it would lead to banking that was dominated by large banks and would break the link between depositors and directors of banks (Chapman and Westerfield, 1942; Fischer 1968). For example, a 1924 referendum in Illinois rejected branching by a large majority (White 1984); and opposition was greatest in areas with larger unit bank presence. Relying on historical records from the time such as newspapers that documented large banks pushing for branching and the legislation drawing severe critiques from unit bankers, the author interprets his findings that the public was influenced by the rhetoric of unit banks. While unit bankers focused on consolidated financial power as their frame of choice, large, urban, and branch banks focused on economic efficiency and the assumption that geographic diversification would lead to more secure banks. This is reflected by William B. Ridgely, the Comptroller of the Currency, who stated at the meetings of the American Bankers Association in 1902 (ABA, 1902*:* 72), "I believe in branch banking. Theoretically, it is the best system, as it is more economical, more efficient, will serve its customers better, and the organization can be such as to secure in most respects better management."

The historical record, which illustrates the success of these movements to change banking laws at various points in time, supports the effectiveness of these mobilizing structures and framing by unit and multi-unit bank groups. While social movement scholars lament that little work has examined the success and outcomes of movements (Guigni, 1998) the economic history literature on banking has numerous examples of banking movements' achieving their desired outcome. As noted above, local bank presence influenced individual voting patterns in Illinois (White, 1984). Regarding the ability of banks to branch across borders, Kroszner and Strahan (1999) found that states with greater presence of small banks or where small banks were weaker took longer to pass inter-state branching legislation. And Economides, Hubbard, and Palia (1996) find empirical support that representatives from states with a large number of poorly-capitalized state banks were more likely to vote against the McFadden Act of 1927 which curtailed branching.

While it is clear that banks are effective and organized lobbyists, it is not clear how power shifts within the given associations or even how the specific positions are generated. Below, I theorize how the changing external environments during the early twentieth century is important to understanding the timing of banks influence on legal changes.

THEORY AND HYPOTHESES

As noted above, my thesis is that interaction between organizations and environments is important for understanding which groups have political power or not. It is clear from the record of these state associations that the majority of lobbying is through bankers associations and that the associations position switches in response to changes in the needs of the membership. In many years, the proceedings recount votes of members over which side of a given debate to focus the associations' interests. For example, in 1934 in New York, there was a vote of 198 to 135 in opposition to a branch banking measure and this guided the states advocacy. In New Jersey in 1915 (91), it was reported that the majority of the association members did not want branching laws expanded and so the association "determined to use every endeavor to prevent the extension of branch banking."

An important example is the shift in discourse on branch banking by the American Bankers Association between 1916 and 1932. In 1916, the associations' Federal Legislation Committee wanted to understand the association members' positions on branching. In the general session there was extensive debate on the topic (9 pages of typed dialog), and finally, the association passed a motion stating that the association was opposed to branching. This was followed-up in 1923, with a formal resolution reiterating this opposition. In 1930 however, the association issued a revised resolution which stated (ABA, 1930: 134-135):

> Modern transportation and other economic changes, both in large centers and county districts, make necessary some readjustment of banking facilities. In view of these facts this Association, while reaffirming its belief in the unit bank, recognizes that a modification of its former resolutions condemning branch banking in any form is advisable. The Association believes in the economic desirability of community-wide branch banking in metropolitan areas and county-wide branch banking in rural districts

Following this, in 1932, the association issued another resolution which stated that its membership was too diverse to have an opinion on the branching issue and withdrew its prior resolutions. It suggested that the sub-groups within the association (i.e. those focused on state or national banking, trust companies, etc) were better suited to have positions on the topic.

As I noted, the relative power of one group vis-à-vis another is an important consideration in when one group is able to enact their agenda or not. As these examples suggest, it is through these associations that banks are able to exercise organized power and the positions of these associations change as external environments change. Below, I theorize and test how economic, technical, and political environments in states influenced the success or failure of the multi-unit and single-unit banks in achieving their political goals.

Economic Environments:

An important consideration in understanding how business organizations differ from more traditionally studied social movements or interest groups, is that a primary source of organizational power is economic strength, and changes in the relative economic positions of given groups may significantly alter their ability to achieve their desired outcomes. Two important characteristics of state economic environments that may lead multi-unit banks to gain a disproportionate amount of power are state wealth and the degree to which the state is urbanized. Changing economic environments and the need for adjustment in banking law is for example highlighted in 1927 by the President of National Capital Bank of Washington at the American Institute of Banking (61-68)

> Five or six years ago it became evident that the power of the national banking system was not increasing in proportion to the development of industry or commerce… branch banking is not a problem in the smaller cities of the country, but it is a very acute problem in the larger cities, where the population is shifting rapidly and new business areas are springing up.

The connection between the economic wealth of a state and the growth of banking is relatively straight-forward. As consumers and businesses grow and prosper, one beneficiary is the banks that are headquartered in that state. They would be the important financial intermediaries that channel the financial growth between business and consumers. Greater levels of economic activity would generally lead to larger banks, as there is greater business activity and consumer spending. Further, if some degree of branching is allowed in a given state, it is likely that the multi-unit banks would grow at a greater rate than the single unit banks since each individual banking unit would be growing. Thus, with an expanding economic environment, multi-unit banks will gain disproportionate power as compared to single-unit banks.

A second important factor relating to state economic growth and banking is the rise of urbanization. A number of histories of banking suggest that the growth of cities was a prime mover in the rise of branching (Fischer, 1968; Collis, 1926). The basic story is that as customers moved to the suburbs they wanted to continue doing business with the same banks as they previously used, and this led to a proliferation of branches. Specific examples of how banks grew as cities expanded abound. A history of NationsBank noted that its growth was closely tied to the growth of suburbs (Covington and Ellis, 1993). A history of Michigan-based Comerica Bank makes this link even more explicit, describing how (Comerica, 1999: 31): "When most Detroiters still lived around the downtown area, one office served the bank well. As the population moved to the edges of the core city and beyond, banks, like other retailers, had to follow if they wished to remain competitive in serving customers." An early description of branch banking cites the growth of cities as having important effects on the growth of branching (Collis, 1926) and a history of the growth of commercial banking in the US describes that intra-city branches tripled between 1920 and 1930, and attributed this increase to geographic dispersion of population as a result of the advent of the automobile (Klebaner, 1990).

Thus, one could anticipate that with growing levels of urbanization came a growth in the movement to establish branches where it was not already possible. Prior work in economic history has suggested such a relationship exists. For example, in a study of changes in branch laws during the Great Depression, Abrams and Settle (1993) find that increasing urbanization leads to a relaxing of branching laws. Calomiris (1993) also describes how, during the 1930s, banks in limited banking states established city branch networks which increased their power and they then pressured for full state-wide branching. This prior work on the growth of branching suggests that as states were urbanizing it is likely that banks pressured their legislatures to pass more liberal regulations. I hypothesize that these two important economic factors, wealth and urbanization, would give power to multi-unit banks as opposed to single-unit banks and would therefore aid these actors in achieving their goal of more liberal branching legislation.

Hypothesis 1: (a) States with a greater per-capita income are more likely to pass more liberal branching legislation, and (b) this effect increases when there is a greater presence of multi-unit banks.

Hypothesis 2: (a) States with a greater degree of urbanization are more likely to pass more liberal branching legislation, and (b) this effect increases when there is a greater presence of multi-unit banks.

Technical Environments:

Related to the growth of cities, there is much to suggest that changing technical environments may also be an underlying force in the branching debate; and as transportation capabilities increased, banks and governments increasingly came to realize the potential of establishing outlying banking offices. As noted previously, Kane (1996) suggested that beginning in the late 1800s, natural barriers to outside competition started to recede, so state legislatures installed statutory barriers that functioned as a replacement. Basically, before the development of transportation technologies, banking markets were naturally fragmented, so there was not a need for legal barriers.

Prior investigators have also suggested that the development of transportation was an important force in the development of branching. In creating branches, there is an indication that banks were dependent on physical communication due to agency issues. As Chapman and Westerfield (1942) describe in an exposition on the management of bank branches, there was a range of paper systems that banks used to monitor branch activities. These included duplicate records, daily reports, as well as documentation of personnel, financial statements, and other information on business conditions. The transportation of these documents was a serious constraint for the management of multi-unit systems. A second important feature in managing at distance, beyond transportation of records, is the ability of headquarters personnel to inspect branches. Similar to the "inspectors" or "road men" that Chandler (1977) cited as important to administer geographically dispersed chain stores, banks typically employed a staff of auditors that traveled to monitor branch locations. For example, a history of the rise of Comerica Bank (Comerica, 1999:19-20) described that an "…auditing department wasn't introduced until around 1922. Auditors, known as the 'eyes and ears of management,' traveled to all locations to check accounts and records." Once agency issues began to be addressed with increasing ability to travel, White (1984) notes that there was a shift in branching activity during the 1920s and illustrates that in 1915 there were only 785 branches, yet by 1925 this count had dramatically grown to 2525.

These technical changes effectively changed the potential choice set available to banks, and as branching became technically easier, it was more likely that branching increased where legally possible and that there was lobbying for reducing any legal barriers. A similar process unfolded in the 1970s, with the initiation of the inter-state banking movement. As Kroszner and Strahan (1999) document, the drive to eliminate branching restrictions during this period stemmed from technological advances in information processing and communications, and other financial innovations. Thus, as banks were technically able to coordinate their activities among an expanding set of outlying locations, there was pressure to continually increase the legally allowed geographic range of activity. This suggests that as technical capabilities increase, pressure for liberalization of laws will mount and the most change will occur in locations where there are a greater number of multi-unit banks.

Hypothesis 3: (a) States with a more developed transportation infrastructure are more likely to pass more liberal branching legislation, and (b) this effect increases when there is a greater presence of multi-unit banks.

Political Environments:

Social movement and interest group approaches have conceptualized the external environment mostly in terms of opportunity structures created by political institutions and actors. Tarrow (1998: 76-77) describes this as “dimensions of the political environment that provide incentives for collective action by affecting people’s expectations for success or failure.” While much of this work has examined how these factors kindle protest, a growing literature has examined how these external factors influence the success of achieving the movement’s goal, particularly as a mediating effect. For instance, Soule and Olzak (2004) examine how political party representation combined with organizational infrastructure influenced state-level adoption of the Equal Rights Amendment. Amenta and colleagues (Amenta, Carruthers and Zylan, 1992; Amenta, Dunleavy and Bernstein, 1994), in developing a political mediation model, illustrate that the success of mobilization efforts is contingent on favorable political context. In examining the specific effects of a political environment on a movement, these authors characterize movement dynamics as dyadic. The primary relation of interest is that between the movement and the state, and thus the political context is the essential element when considering the movement’s influence.

When business works to change laws, the political environment is clearly an important consideration. Tarrow (1998:76-77) defined political opportunity structure as “dimensions of the political environment that provide incentives to undertake collective action by affecting their expectations for success or failure.” While much of this literature focuses on the creation of a movement, it has also been used to suggest that political climate affects political outcomes sought by movements (Soule and Olzak, 2004). To understand how political context influences the passage of branching law, I focus on three environments, the political party in power within the focal state, the activity of neighboring states and also Federal policies. Within states, one way to assess political context is in regard to lawmaker ideology (Burstein and Linton, 2002; Soule and Olzak, 2004); and I examine the degree to which states have Republican governors. Consistent with prior studies of branching adoption, I suggest that Republican states are more likely to pass branching laws. I also look regional environments and assess if neighboring states' policies influence focal state legal changes and if there is an effect of Federal legal changes.

Republican lawmakers and the success of the branch banking movement: There is significant evidence that the types of lawmakers in power have an influence on which types of programs are eventually enacted. For example, Democrats are usually seen to favor policies oriented more toward overall social welfare (Huber, Ragin and Stephens, 1993; Burstein and Linton, 2002); and Republican are more conservative (Soule and Olzak, 2004) and typically favor corporate interests. This suggests that Republicans would be in favor of removing branching restrictions and Democrats in favor of strengthening restrictions. For the majority of my time period, since 1896 when William McKinley was elected president, Republicans have been known as the party of big business (Odegard, 1935), which suggests that they would favor branch banking.[3] Work on state banking regulations enacted after the 1970s supports these positions. For

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[3] Of course political ideologies have changed over time and it is difficult to assign a specific position to one group over my 82-year period. The most notable exception to the Republican-business connection may be Theodore Roosevelt, the famous trust-buster. However, even while he busted trusts, Roosevelt and his policies obtained business support because their ideology was less severe than other parties. For instance, even John D. Rockefeller, the leader of the Standard Oil trust which suffered greatly under Roosevelt, endorsed Roosevelt's hand-picked successor, William Howard Taft in 1908, since Taft's Democratic opposition, William Jennings Bryan, advocated that Rockefeller be sent to prison (Chernow, 1998).

example, states having a Democratic Governor and/or legislature are slower to pass legislation that supports branching (Garrett, Wagner and Wheelock, 2003; Kroszner and Strahan, 1999). Recent work also suggests that the political party representation alone is not enough to secure passage of laws, but has an effect only when considered together with the strength of the mobilization effort. Soule and Olzak (2004), for instance, found that the main effect of political party on passage of the Equal Rights Amendment was not significant, but that the interaction between supporting groups and political party was. Put another way, it is only when there are organized groups pushing a certain agenda and sympathetic lawmakers that legal change occurs. Historical evidence suggests that bankers were in tune with legislators inclinations. For example, the legislative committee chair of the New York State Banking Association said in 1922 (25): "We attempted very little new legislation as we found that the legislators were not keen for making many changes this year." While reference to specific political parties is rare, frequently specific lawmakers are singled out for championing bankers interests. Given their general pro-business stance and interest in removing legal restrictions on trade, combined with these prior findings suggest that Republicans would be more likely to pass branching laws, and that this effect may be even stronger when combined with the extent to which there were branch banks in a state.

Hypothesis 4: (a) States with a Republican governor[4] are more likely to pass more liberal branching legislation, and (b) this effect increases when there is a greater presence of multi-unit banks.

Regional effects: A number of recent studies have shown that there are strong inter-state effects in the passage of laws, suggesting a number of diffusion mechanisms that lead to these effects. For example, Soule and Zylan, (1997) demonstrated that similarity between states affects diffusion of legislation between them. Ingram and Rao (2004) suggest that it is not just the outcomes that are diffused, e.g. one state's copying a proximate state's laws, but that another method of diffusion could be that the tactics of contention can also spread. So, for example, unit banks in Iowa may begin using the same legislative strategies as unit banks in Illinois. Schneiberg and Soule (2005) also theorize the importance of inter-state effects and show that a number of states served as referents for the rest of the country. Prior work in the banking literature on the post-1970s period suggests that there are strong regional patterns in branch laws (see Figure 2).

INSERT FIGURE 2 ABOUT HERE

Traditionally, states in the Midwest and South had the most restrictive banking regulations, likely reflecting the large influence of small banks and rural interests in the state legislatures (Garrett, Wagner and Wheelock, 2003). This work has also found a

[4] Representation of state legislatures would be the best test of this theory; however this data is not easily accessible for the entire time period under study.

regional pattern of branching law changes. Using a spatial autocorrelation model, these investigators have shown that, even when controlling for the state factors mentioned that could influence the laws, there are strong regional effects that influence legal regime change decisions.

I observed a strong pattern of regional and cross-state contact between bankers at the state banking associations, and a number of avenues by which information is transmitted between state bankers. First, bankers and banking officials from neighboring states frequently speak at state association meetings. For example, in a number of years, the New Jersey banking association had speakers from New York banks. After the advent of the Federal Reserve in 1914, it was common for the regional Federal Reserve officials to speak at multiple different state banking association meetings, which may contribute to a regional isomorphism. And finally, in addition to the national and state banking associations, there were also regional associations that had annual meetings. For example, one of the association meeting minutes I examined was the Pacific Northwest Bankers Association, in which Washington, Oregon, Idaho, Montana, and British Columbia participated. In a further example, in 1931, the following was reported at the New York Bankers Association (35):

> We co-operated in the Second Central Atlantic States Bank Management Conference held in Washington on February twenty-sixth-twenty-seventh, under the auspices of the Bank Management Commission of the American Bankers Association and the Bankers Associations of Delaware, District of Columbia, Maryland, New Jersey, New York, Pennsylvania and West Virginia.

This prior work in the banking literature, combined with the social movement work on diffusion of laws, and historical examples suggests the following hypothesis:

Hypothesis 5: (a) States are more likely pass more restrictive (liberal) branching legislation when other states in their region have restrictive (liberal) laws, and, (b) this effect increases when there is a greater presence of single (multi)-unit banks.

Supra-state influence: As Walker (1969) noted, constituent units of any federal system are under considerable pressure to conform to national standards. So, there may be an important influence of the Federal government. Recent work has suggested this plays an important role in federal systems. Ingram and Rao (2004) conceptualize the importance of these supra-state effects and show how Supreme Court decisions had an effect on the repeal of state anti-chain laws. In their analysis of the multiple levels of influence on rate regulation in the fire insurance industry, Schneiberg and Soule (2005) suggest that in understanding legal behavior in a multi-layer federal system such as the US, the national level plays an important role. For them, there were certain time periods where federal policy was more likely to lead to the adoption of rate regulation. Similar to the Schneiberg and Soule (2005) study, for the branch banking issue, certain time periods may be more important than others with regard to Federal influence. Perhaps the most important Federal action during this time was the passage of the McFadden Act in 1927 which prohibited national banks from establishing branch locations outside of their home state and required all national banks to conform to branching regulations of their home state. This act imposed Federal limitations on branch banking, what had previously been fully under states' purview. Following this Act, there was considerable debate on the topic between banks and policy makers. Similar to Schneiberg and Soule (2005), I include period dummies to test for the effects of these national laws. The restrictive effect of this law suggests that it is in the period before 1927 that it is most likely that there would be more liberal laws passed and the period after 1927 would be more likely characterized by more restrictive legislation.

Hypothesis 6: (a) States are more likely to pass more liberal branching legislation prior to 1927, (b) more likely to pass more restrictive branching legislation after 1927 and (c) these main effects are accentuated by the greater presence of banks that support those policies (i.e. multi-unit supporting liberalization and single-unit supporting restriction).

METHODS AND ANALYSES

To test these hypotheses, I examine annual state-level banking laws for all contiguous US states from 1896-1978. As noted, there is substantial evidence that the branching debate began around the turn of the twentieth century and 1896 is the date when the federal government began systematic collection of state-level banking information. I stop the analyses in 1978 because of legal changes in this year that allowed banks to engage in inter-state banking. The annual state-level data results in 3,941 state-year observations (48 observations for every year, except for Oklahoma which became a state in 1907, and New Mexico and Arizona which became states in 1912). For empirical reasons[5], I present two separate analyses, models predicting the passage of liberal laws and models predicting the passage of restrictive laws. Thus, this study has two dependent variables, whether a state passes a more restrictive banking law than it previously had and if it passes one that is more liberal. I created annual state-level legal environment histories for all 48 states in the sample from 1896-1978. There was not a pre-existing list of these for each state, so I examined over 15 separate secondary sources, as well as in many cases the actual state statutes to construct a regulatory history for each of the 48 contiguous states. (See Appendix C for more detail on how this time series data was constructed). Regulations were divided into four categories[6], from most liberal to most restrictive: if they offered banks full statewide banking (i.e. no geographic restrictions on locations), full statewide banking, but only by merger, (i.e. banks could expand throughout their state only by acquisition, but not by establishing new branches), limited statewide banking, where banks are permitted to branch, however with a geographic restriction, and unit banking (banks are limited to one location). There were 68 total regulatory changes in the period from 1896 to 1978, 27 of which were more restrictive than the prior law, and 41 of which were more liberal.

INSERT TABLE 1 HERE

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[5] Mainly that there are different risk sets for the passage of each type of law. E.g. states that are already state-wide banking (the most liberal type) cannot pass more liberal regulations, so are effectively right censored when they achieve that state. They are however still at risk to pass more restrictive regulations.

[6]Typically branching regulations are thought of as either unit, limited and statewide. I used this four category system to better capture the frequency of changes during the period.

Table 1 captures the distribution of these changes and shaded areas in the table illustrate the more restrictive changes. The values in the diagonal include the formal passage of laws that were assumed to be enforced by state banking authorities prior to passing of branching laws (as described in Fischer, 1968 and the Federal Reserve publications listed in Appendix C).

Independent variables: I measure the extent to which there are single-unit and multi-unit banks in a state using data from the Federal Reserve, which has published counts of banks and branches annually from 1929 to 1992 and a number of historical compilations that extend back to the late nineteenth century. Between 1900 and 1929, a number of years are linearly interpolated. In order to assess the relative power of each group in a given state, I measure the percentage of banks that multi-unit (branch) banks. Because there are only two categories, multi-unit (branch banks) and single-unit banks, the negative results for branch banks in the reported analyses can be interpreted as positive effects for unit banks.

To assess economic environment, I measured per capita income (data from Bureau of Economic Analysis, and prior to 1929, <u>Population Redistribution and Economic Growth, 1870-1950</u> (Lee et. al, 1957)), and also percentage of the population that lived in urbanized areas. The urbanization data was obtained from the US Census Bureau at 10 year intervals beginning in 1900. To measure the transportation infrastructure, I created a principal component factor of state highway maintenance and capital expenditures (see Appendix D). To capture political environment, I measured whether there was a Republican governor (from ICPSR databases). These are linearly interpolated for years where there was not an election. To address the degree to which other states and the

Federal government influence a focal state's legislation, I include the percentage of other states in a state's Census region that have either unit or statewide branching and I also included a period dummy variable for the period before 1927, the year of the McFadden Act.

Control variables: A staple of social movement theory is that the success of social movements hinges on the existence of allies (McAdam, McCarthy and Zald, 1996). Strength of supportive organizations can affect policy decisions at state, local and national levels (Cress and Snow, 2000; Ingram and Rao, 2004). For example, Ingram and Rao (2004) find that the number of retail employees in a state, allies of the chain store movement, is negatively related to a state's passing an anti-chain law. One potentially important constituent in the branch banking debate was the growth of large manufacturing firms (Calomiris, 1993) that desired a more convenient and stable banking system. In states where manufacturing was expanding, it is likely that manufacturing firms pushed for laws that enabled branching and growth of banks. The percent of the population that worked in manufacturing was collected from Historical Statistics of the States of the United States (Dodd, 1993) and the Census Bureau to reflect manufacturing power. The opposing side was supported by farming and small town interests who opposed branching (Roe, 1994), hoping their local banks would continue to supply credit during economic downturns. I measure the number of farms in a state (logged), collected from the US Agriculture Department's historical database on farms. This data exists only back to 1910, and for the period prior to that, values were linearly extrapolated (epolate command in STATA). Total state population (data from the US Census Bureau) was also included as a control variable. Furthermore, to account for the fact that highways grew over the time period and that they are to some extent a function of the size of a state, I included a linear time trend variable, as well as the square miles of the state. I include a measure of the extent to which states have a tradition of progressive legislation. This is a principle component factor of whether a state has passed other progressive laws, as identified by Fishback and Kantor (2000)[7]. To account for the repeated events in my study, I also include a variable for whether a state had implemented a similar law previously.

Models:

I use discrete time event history analysis[8] to analyze these panel data with a dichotomous dependent variable (Allison, 1995). This is similar to empirical strategies used by other investigators of similar processes (Soule and Olzak, 2004; Schneiberg and Bartley, 2001). As Yamaguchi (1991) and these authors have noted, discrete time models are appropriate for such data since the event of interest can occur only at regular, discrete time points (years) and state-level covariates are measured in yearly increments. A few differences also exist between my analyses and what has been done previously. While establishing within-group robust standard errors was appropriate given the shorter time span of Soule and Olzak (2004), because of my longer time period, I have more observations per group than I do groups, (see the methodological appendix in Mizruchi and Stearns, 2001 for a discussion of the appropriate scenarios for using clustering). For

[7] These include: Compulsory School Attendance, State Tax Commission, State Welfare Agency, State Merit System Established, Initiative and Referendum Laws, Direct Primary, Minimum Age for Child Labor, and Electric Rate Regulation

[8] Because of the multiple types starting points (states start with one of 4 types of regulation) and the low number of regulatory changes between the four states (see Appendix B), I am unable to use a competing risks framework to analyze these data.

my data, random effects are a better way to account for multiple observations per state, and that is what I use in the reported logit models. Also, my right censoring rule is different from these prior investigators. While they were dealing with the passage of one type of law, and so when the law was passed, the state was censored, in my case, states can make multiple changes and are not censored until they reach the extreme ends of the regulatory continuum (statewide and unit). Thus, the populations "at risk" for these analyses include all states in a given year that have not yet become statewide or unit banking states. Because of censored values, my analyses are conducted on datasets of 2779 for the liberal changes and 2352 for the restrictive changes.

RESULTS

Table 2 presented below has the models which test the above hypotheses. Models 1 to 8 present the analyses of liberal changes and models 9 to 12 the restrictive changes. As would be expected, in model 2 the percentage of banks in a state that have branches is a significant predictor of a state's passing a more liberal branching law. Further, percentage manufacturing employment was also a significant influence, which suggests that having powerful allies was also important to passing these laws.

TABLE 2 ABOUT HERE

The tests of the hypotheses regarding economic influences on passing a law provide contradictory and results that are not fully consistent with my expectations. As expected, the interaction effect between per capita income and multi-unit banks is positive, providing support for H1b. The test of H1a, the main effect of per capita income is significant in the opposite direction, so when there is no branch banking, income has a negative effect. The urbanization effects run in the opposite direction of the per capita income findings. As expected, the main effect of percentage urban has a positive influence on passing more liberal branching laws. So, as urbanization increased, it was more likely states passed more liberal laws, supporting H2a. However, the interaction with branch banks is in the opposite direction contrary to expectations. Regarding the interactive effect of highway infrastructure and branch banking presence, note that for all the models without an interaction effect, the main effect is not statistically significant, so H3a is not supported. However, the interaction term is significant, which provides support for H3b that combination of highways and branch banking does have an effect on the establishment of more liberal laws. Regarding political environments, there is no support for having a Republican governor nor does the interaction effect between governor and branch banks have a significant effect (model 8) suggesting that the political environment, reflected in H4a and H4b do not hold in this context. For the effect of neighboring states with branching laws, the models suggest this is an important factor. Both regional main effects are important in when branch laws are passed. While the interaction between region and multi-unit banks is not statistically significant, the opposite is true for unit banks as the negative interaction of multi-unit banks and percentage in region shows. Note as well that the pre-1927 dummy, testing H6a, is strongly significant in the positive direction indicating that, when controlling for all of the factors above, it was more likely that states passed liberal branching laws prior to 1927 and that this effect is accentuated with more multi-unit banks in the state. This is interesting and somewhat counterintuitive since examining the maps presented in Figure 2, it appears that it is after 1927 that the majority of the liberalization occurs. The analysis suggests however that this is more a result of the other factors in the model, as opposed to specific period effects.

Models 9-12 present the regressions which analyze the factors that contribute to a state's passing a more restrictive branching law. Model 9 is a model with all of the environmental main effects, and Model 10 adds the percentage of branch banks in a state. As expected, in model 10 the percentage of banks in a state that are multi-unit banks makes it much less likely that a state passing a more restrictive branching law (or conversely a greater percentage of unit banks makes it more likely). Further, the number of farmers was also a marginally significant influence in these models, which suggests that having powerful allies was also important to passing these laws as well. As noted, regional effects are also important to understanding when a state passes a more restrictive branching law, particularly when there is a greater presence of unit banks in the focal state and finally, a more liberal Federal environment in the period before 1927 led to liberalization only in conjunction with a greater presence of unit banks.

DISCUSSION AND CONCLUSIONS

At the core of this paper is the claim that when analyzing business political activity and contestation between corporate groups, one needs to understand the role of the external environment in priming the potential choices these groups make and also creating disproportionate power for one side or the other. While not all of my environmental measures were statistically significant in the models predicting legal changes, the general pattern indicates that external environments are important to understanding the success of a given group in achieving its aim. For example, when considering states passing more liberal laws, the extent to which there were branch banks in the state interacted with both state wealth and transportation infrastructure were strongly significant predictors of when a state passed a more liberal law. My historical analyses suggested that these changes had an effect of priming organizations as to the possible choices and opportunities available to them. In the association minutes I studied, I further witnessed that changing conditions had the effect of shifting the balance of power in the state associations that most effectively lobby governmental units.

Regarding the political environments I tested, I found relatively consistent support for how forces outside the focal state influenced changes in state policy. The more liberal (or restrictive) the state's regional neighbors influenced whether a state changed its regulations to be more liberal or restrictive. Further, the greater the presence of unit banks in a state interacted with the regional presence of unit banking led to greater likelihood of a state adopting restrictive regulations. These interaction terms suggest that it is not only the organizational groups or environmental contexts that are most important to passing laws, but a combination of the two that is important to understanding when laws are passed. As noted, existing theory (Ingram and Rao, 2004) and my historical investigations suggest that there are many routes for the transmission of tactics of contention. Perhaps this is more important for the unit bankers because in many instances they were in the weaker positions as the economic and technical advances of the twentieth century disproportionately added to the power of the multi-unit banks.

A surprising finding is that one of the traditional political opportunity structure variables, major US political party, in this case Republican governor was not a significant predictor. While this is surprising, I don't take this as definitive proof that the political context is unimportant. First, as noted, it is difficult to boil political positions down to one variable for such a long period of time. I plan to investigate more refined measures such as state legislature composition and how votes for parties that were sympathetic to the Progressive movement influence state lawmaking. Note as well that the control variable for progressive laws has a negative influence on passing more liberal laws.

In combining actor and environmental factors in understanding *when* laws would be changed, I have aimed to contribute to our understanding of why at certain historical points one corporate group would be more likely than another to have its agenda enacted. I have suggested that environments are important because they create new ideas of what is possible action for organizations and are an exogenous source of power which can give one group an advantage over another. For empirical reasons, I have presented two separate analyses, however my historical investigations, theory and findings suggest that the same process leads to both the passage of liberal laws and passage of restrictive laws. While this contributes to our understanding of business political activity, a larger contribution may be to understanding contested political processes more generally. Recent work on social movements (Soule and Olzak, 2004; Ingram and Rao, 2004) for instance, notes a criticism of the movements literature is the lack of attention to the interaction between movements and counter-movements (Meyer and Staggenborg, 1996; Zald and Useem, 1987). The model that I have presented conceptualizes state influence as a contest between two identified interests within existing trade organizations and suggests that features of the external environment influence a group's power in relation to the opposing side. While the economic, technical and political environments I have analyzed are arguably the most important for the development of business power, other features of the environment may be salient for other political activity. While the political environment has already been identified as an important source of power for movements (Tarrow, 1998), there are many other types of environments that may be significant as well. For example, religious environments in a state and changes in religiosity may be important to understand the ebb and flow of the abortion rights debate. Recognizing that group success is in some part contingent on external environments and changes in these environments will help both social scientists and policymakers better understand how organized groups have come to influence the political process.

Appendix A: List of Historical Documents[•]

National and Regional Banking Association Proceedings/Conference Minutes:

- Proceedings of the Convention of the American Bankers' Association (1876-1939)
- National Association of Supervisors of State Banks. Convention (1902-1941)
- American Institute of Banking. Title: Proceedings of Departmental conferences (1924-1931)
- Pacific Northwest Conference on Banking (1936-1960)

State Banking Conference Proceedings:

- Alabama (1927-1969)
- Arizona (1903/1905-1930)
- California (1907-1940)
- Illinois (1917-1952)
- Kansas (1911-1931)
- Louisiana (1914-1915)
- Maryland (1925-1945)
- Massachusetts (1905-1978)
- Michigan (1899-1948)
- Missouri (1903-1951)
- New Jersey (1906-1939)
- New Mexico (1916-1920)
- New York (1898-1941)
- Nebraska (1903, 1915)
- North Dakota (1911, 1932-1933)
- Oregon (1931)
- Pennsylvania (1896-1919)
- Texas (1925-1943)
- Washington (1902-1967/68
- Wisconsin (1912-1924)

[•] Not all of these are continuous runs, some have years missing

Appendix B**:** Intra-state Banking Regulations for the 48 Contiguous US States Every 5 Years since 1896 (U=Unit Banking, L=Limited Statewide Banking, S=Statewide Banking)

	1896	1901	1906	1911	1916	1921	1926	1931	1936	1941	1946	1951	1956	1961	1966	1971	1976	1981	1986	1991	1996	2001
AL	U	U	U	U	U	U	U	U	L	L	L	L	L	L	L	L	L	L	L	S	S	S
AR	S	S	S	U	U	U	U	U	L	L	L	L	L	L	L	L	L	L	L	L	L	S
AZ	.	.	.	.	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S
CA	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S
CO	U	U	U	U	U	U	U	U	U	U	U	U	U	U	U	U	U	U	U	S	S	S
CT	U	U	U	U	U	U	U	U	S	S	S	S	S	S	S	S	S	S	S	S	S	S
DE	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S
FL	S	S	S	S	S	U	U	U	U	U	U	U	U	U	U	L	L	L	L	S	S	S
GA	S	S	S	S	S	S	S	L	L	L	L	L	L	L	L	L	L	L	L	L	S	S
IA	U	U	U	U	U	U	U	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L
ID	U	U	U	U	U	U	U	U	S	S	S	S	S	S	S	S	S	S	S	S	S	S
IL	U	U	U	U	U	U	U	U	U	U	U	U	U	U	U	U	U	U	L	L	S	S
IN	U	U	U	U	U	U	U	L	L	L	L	L	L	L	L	L	L	L	L	S	S	S
KS	U	U	U	U	U	U	U	U	U	U	U	U	U	U	U	U	U	U	U	S	S	S
KY	U	U	U	U	U	U	U	U	U	U	U	U	L	L	L	L	L	L	L	S	S	S
LA	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	S	S	S
MA	U	U	U	U	U	L	L	L	L	L	L	L	L	L	L	L	L	L	S	S	S	S
MD	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S
ME	L	L	L	L	L	L	L	L	S	S	S	S	S	S	S	S	S	S	S	S	S	S
MI	L	L	L	L	L	L	L	L	S	S	L	L	L	L	L	L	L	L	L	S	S	S
MN	U	U	U	U	U	U	U	U	U	U	U	U	U	U	U	U	U	L	L	L	S	S
MO	U	U	U	U	U	U	U	U	U	U	U	U	U	U	U	U	U	U	U	S	S	S
MS	U	U	U	U	U	L	L	L	L	L	L	L	L	L	L	L	L	L	S	S	S	S
MT	U	U	U	U	U	U	U	L	L	L	L	L	L	L	L	U	U	U	U	S	S	S
NC	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S
ND	U	U	U	U	U	U	U	U	U	L	L	L	L	L	L	L	L	L	L	S	S	S
NE	U	U	U	U	U	U	U	U	U	U	U	U	U	U	U	U	U	U	S	S	S	S
NH	U	U	U	U	U	U	U	U	U	U	U	U	U	U	L	L	L	L	L	S	S	S
NJ	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	S	S	S	S	S
NM	.	.	.	.	U	U	U	U	L	L	L	L	L	L	L	L	L	L	L	S	S	S
NV	S	S	U	U	U	U	U	U	S	S	S	S	S	S	S	S	S	S	S	S	S	S
NY	U	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	S	S	S	S	S	S
OH	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	S	S	S
OK	.	.	.	U	U	U	U	U	U	U	U	U	U	U	U	U	U	U	U	S	S	S
OR	S	S	S	S	S	U	U	U	S	S	S	S	S	S	S	S	S	S	S	S	S	S
PA	U	U	U	U	U	L	L	L	L	L	L	L	L	L	L	L	L	L	L	S	S	S
RI	U	U	U	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S
SC	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S
SD	U	U	U	U	U	U	U	U	S	S	S	S	S	S	S	S	S	S	S	S	S	S
TN	S	S	S	S	S	S	L	L	L	L	L	L	L	L	L	L	L	L	L	S	S	S
TX	U	U	U	U	U	U	U	U	U	U	U	U	U	U	U	U	U	U	U	S	S	S
UT	U	U	U	U	U	U	U	U	S	S	S	S	S	S	S	S	S	S	S	S	S	S
VA	S	S	S	S	S	S	S	S	S	S	S	L	L	L	S	S	S	S	S	S	S	S
VT	U	U	U	U	U	U	U	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S
WA	S	S	S	S	S	U	U	U	S	S	S	S	S	S	S	S	S	S	S	S	S	S
WI	S	S	U	U	U	U	U	L	L	L	L	U	U	U	U	L	L	L	L	S	S	S
WV	U	U	U	U	U	U	U	U	U	U	U	U	U	U	U	U	U	U	U	S	S	S
WY	U	U	U	U	U	U	U	U	U	U	U	U	U	U	U	U	U	U	U	S	S	S

Appendix C: Assembling Data on Intra-state Banking Laws From 1896-1978

Data on state-level intra-state banking regulations for the 48 contiguous US states from 1896-1978 were collected from numerous sources. Chapman and Westerfield, (1942) *Branch Banking: Its Historical and Theoretical Position in American and Abroad* reports a survey from the Comptroller of the Currency which contains information on branching regulations in 1896. This is noted by a number of sources as the first such survey of branch banking in the US. Fischer (1968) reports on changes between 1896 and 1909, and cites his data sources as the Comptroller of the Currency and, for 1910, the National Monetary Commission. For 1910, I examined Fisher's source, the "Digest of State Banking Statutes" compiled by Weldon Frederick for the National Monetary Commission. Bradford (1940) The Legal Status of Branching in the United States" contains information for the years 1910, 1924, 1929, 1932, 1936, and 1939 which was assembled from a periodic publication of the Federal Reserve in the various years. I also examined the Federal Reserve publications as "State Laws Relating to Branch Banking" (Federal Reserve Bulletin, March 1925; April, 1930; July 1932; November, 1936; October 1939; July 1951 contains the text of the state statutes). Fischer (1968 p. 62-3) additionally has a state-by-state breakdown of intra-state banking and regulations between 1924 and 1967 documenting the years of changes. The Federal Reserve also published monograph-length Compilations of Federal and State Statutes Relating to Branch Banking in October 1967 and December 1956 which contains statutes at those times. For the period after 1967, I use various years of the Conference of State Bank Supervisors <u>A Profile of state-chartered banking</u>, bi-annual, beginning in 1965. Berger, Kashyap and Scalise, (1994) have a summery of laws since 1960, Rhoades (1981) "Banking Structure and Performance at the State Level During the 1970s provided the regulations during the 1970s. In some of the earlier years, I had to make assumptions about the branching regulations. Fischer (1968) describes how during this period regulation was in many cases by custom rather than law, and I followed his assessment of the type of branching enforced in a given state. In a minority of cases, I did not have branch law information for a particular year. When that was the case, I assumed the legal history to be continuous, e.g. if I had information that Illinois was a unit banking state in 1911 and 1915, I assumed it was a unit banking state from 1912-1914.

Appendix D: Construction of the Transportation Infrastructure Measure

My arguments suggest that as roadway infrastructure increases banks expand through branching. The most logical measurement of this argument is total roadway mileage. However, I was not able to locate this data for the historical period which I needed. I was however able to find two alternative operationalizations which I was able to locate for almost the entire period: annual state capital spending on roadways and annual state level highway maintenance spending, both from the US Bureau of Transportation Statistics, (http://www.bts.gov/). The capital spending on roads should reflect the expansion of highways and the level of highway maintenance should also be a direct function of the extent of the roadways. These measures should also capture the quality of the roads which would have a significant influence on transportation capability. At the national level since 1921 when the data became available, both measures are correlated at .95 with total highway mileage. Because these data extend only back to 1921, to be able to use the full range of observations on my dependent variable, I had to extrapolate back from 1921 to 1896. To accomplish this for both variables, I took the percent of the overall total highway expenditures in 1921 multiplied by the percent change in total national highway mileage (exists back to 1900). So, for example, in 1921 the total national maintenance expenditures were $65,000 (11 states had $0 and 20 states less than $200). New York had $9,000 which was 14% of the total. During 1921, the national annual mileage increased by 15% (to 55,000 miles), so I subtracted 15% from $9000 to get approximately $7500 for New York maintenance spending in 1920. By 1900, the end of this data series, the total national mileage is reduced to 100, and to get the 1896 to 1899 values, I linearly interpolated for each state with the assumption that in

1896 there were 0 miles. Because it was only after 1921 that the highway system significantly grew, I do not think that the extrapolation and interpolation of these values will bias the analyses. Highway maintenance and highway capital expenditures are correlated at 0.97, and both return similar results, so I created a principle component factor score of the extent of highways for each state-year.

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Table 1: State Banking Laws and Changes, 1896-1978

t-0 t-1	Unit	Limited	Statewide - Merger	Statewide
Unit	15	17	0	9
Limited	2	3	1	4
Statewide - Merger	0	0	0	0
Statewide	7	2	1	7

Table 2:

		1	2	3	4	5	6	7	8	9	10	11	12
		Liberal	Liberal	Liberal	Liberal	Liberal	Liberal	Liberal	Liberal	Restrictive	Restrictive	Restrictive	Restrictive
	% Branch Banks		2.2207	1.8873	-76.431	11.749	1.0412	2.2207	2.0485		-45.5603	-16.3793	-35.8759
			(1.0882)*	(1.3927)	(24.7131)**	(3.1267)**	(1.1314)	(1.0882)*	(1.0976)+		(10.2820)**	(8.1143)*	(9.4371)**
	% Employment in Manufacturing	14.299	13.927	14.3519	17.2508	8.0507	12.8986	13.9268	12.5722	-12.6122	-2.592	1.6202	3.9282
		(7.1688)*	(7.0563)*	(6.6798)*	(6.7959)*	(7.3800)	(6.6166)+	(7.0563)*	(7.2342)+	(15.6760)	(14.1316)	(14.1951)	(15.9584)
	Number Farms (log)	-0.5303	0.0814	0.1318	0.3111	-0.0888	0.0111	0.0814	0.0073	2.075	1.8661	2.2213	1.4754
		(0.3777)	(0.4815)	(0.4805)	(0.4726)	(0.4824)	(0.4628)	(0.4815)	(0.4812)	(1.1843)+	(1.2353)	(1.3249)+	(1.3758)
H1a	Income/Capita	-5.8832	-5.535	-5.598	-4.9831	-6.0625	-4.7902	-5.535	-5.4015	0.009	1.007	1.0853	0.806
		(1.0394)**	(1.0489)**	(1.0584)**	(1.0199)**	(1.0933)**	(0.9832)**	(1.0489)**	(1.0586)**	(1.4842)	(1.3098)	(1.2496)	(1.3752)
H1b	Income/Capita * % Branch Banks				7.8708								
					(2.4723)**								
H2a	% Urban	3.5757	5.304	5.3515	5.2235	7.8853	5.046	5.304	5.3142	2.6039	3.0842	3.159	-1.0528
		(2.6752)	(2.7349)+	(2.7094)*	(2.6423)*	(2.8944)**	(2.6446)+	(2.7349)+	(2.8548)+	(6.0043)	(5.9971)	(5.9630)	(6.1938)
H2b	% Urban * % Branch Banks					-12.749							
						(3.9142)**							
H3a	Highway	0.4608	0.9684	0.9212	1.2829	0.516	0.7937	0.9684	0.8318	2.9656	1.386	1.0156	1.969
		(0.9870)	(1.0320)	(1.0423)	(1.0500)	(1.0072)	(0.9663)	(1.0320)	(1.0768)	(1.5815)+	(1.4723)	(1.5052)	(1.4929)
H3b	Highway * % Branch Banks						0.01						
							(0.0026)**						
H4a	Republican Governor	-0.2137	-0.1964	-0.2253	-0.284	-0.1564	-0.5124	-0.1964	-0.6175	0.1999	-0.2038	-0.0004	-0.5334
		(0.3279)	(0.3345)	(0.3353)	(0.3380)	(0.3392)	(0.3408)	(0.3345)	(0.4439)	(0.6386)	(0.6203)	(0.6219)	(0.6612)
H4b	Republican Governor * % Branch Banks								0.004				
									(0.0025)				
H5a	% in Region Branching	4.5472	4.7381	4.4706	4.0613	4.6527	4.4136	4.7381	4.6458				
		(0.9249)**	(0.9686)**	(1.0772)**	(0.9174)**	(0.9387)**	(0.9049)**	(0.9686)**	(0.9769)**				
H5b	% in Region * % Branch Banks			0.8877									
				(1.7891)									
H5a	% in Region Unit									5.0489	4.583	6.2736	5.0814
										(1.4315)**	(1.3406)**	(1.4671)**	(1.5344)**
H5b	% in Region * % Branch Banks											-100.1408	
												(30.8739)**	
H6a/b	Before 1927 (0/1)	2.8984	2.6538	2.7191	2.2404	2.8111	2.2143	2.6538	2.1158	0.9468	0.8371	1.3351	4.8349
		(0.7069)**	(0.7083)**	(0.7088)**	(0.7049)**	(0.7239)**	(0.6946)**	(0.7083)**	(0.7856)**	-0.9822	-1.0342	-1.1248	(1.6046)**
H6c	Before 1927 * % Branch Banks								18.9321				-149.7137
									(8.8116)*				(49.7915)**
	Progressive Laws	-1.5236	-1.6405	-1.681	-1.5277	-1.4224	-1.0327	-1.6405	-1.54	-0.3282	-0.4979	-0.2294	0.2881
		(0.5725)**	(0.5762)**	(0.5785)**	(0.5453)**	(0.5856)*	(0.5356)+	(0.5762)**	(0.5869)**	(0.7340)	(0.7135)	(0.7664)	(0.8617)
	Total Banking Assets in State (log)	0.3278	0.1558	0.1031	-0.0041	-0.0327	-0.1206	0.1558	0.1869	0.9253	0.4454	0.3679	0.9485
		(0.5906)	(0.6013)	(0.6046)	(0.5804)	(0.6202)	(0.5496)	(0.6013)	(0.6231)	(1.3111)	(1.1811)	(1.1377)	(1.2085)
	State Population (log)	-0.3717	-0.9446	-0.954	-1.0918	-0.3389	-0.9645	-0.9446	-1.0185	-3.2378	-2.3249	-2.6739	-2.1753
		(0.6560)	(0.7086)	(0.7201)	(0.7158)	(0.7687)	(0.6667)	(0.7086)	(0.7170)	(1.7280)+	(1.7573)	(1.8762)	(2.0004)
	Time	0.2142	0.1922	0.1997	0.1684	0.1951	0.1515	0.1922	0.1858	-0.0303	0.0982	0.1065	0.077
		(0.0345)**	(0.0362)**	(0.0374)**	(0.0389)**	(0.0369)**	(0.0354)**	(0.0362)**	(0.0368)**	(0.0534)	(0.0607)	(0.0614)+	(0.0587)
	# Prior Liberal Changes	-2.0589	-2.3788	-2.349	-1.8252	-2.5775	-1.9788	-2.3788	-2.3935				
		(0.4417)**	(0.5035)**	(0.4891)**	(0.4597)**	(0.5045)**	(0.4675)**	(0.5035)**	(0.4949)**				
	# Prior Restrictive Changes									-5.0511	-5.381	-4.6376	-4.567
										(1.1348)**	(1.4390)**	(1.3812)**	(1.3617)**
	Constant	41.338	42.434	43.1189	41.0433	42.2449	43.2762	42.4341	43.1325	3.5043	-11.0612	-11.3969	-13.8809
		(9.3810)**	(9.0144)**	(9.0840)**	(8.4443)**	(9.3162)**	(8.4874)**	(9.0144)**	(9.1943)**	(14.6803)	(13.7098)	(13.3413)	(15.0656)
	Observations	2779	2779	2779	2779	2779	2779	2779	2779	2352	2352	2352	2352
	Number of group(state)	47	47	47	47	47	47	47	47	46	46	46	46

Standard errors in parentheses; + significant at 10%; * significant at 5%; ** significant at 1%

Figure 1: Prevalence of Types of State Banking Laws, 1896-2001

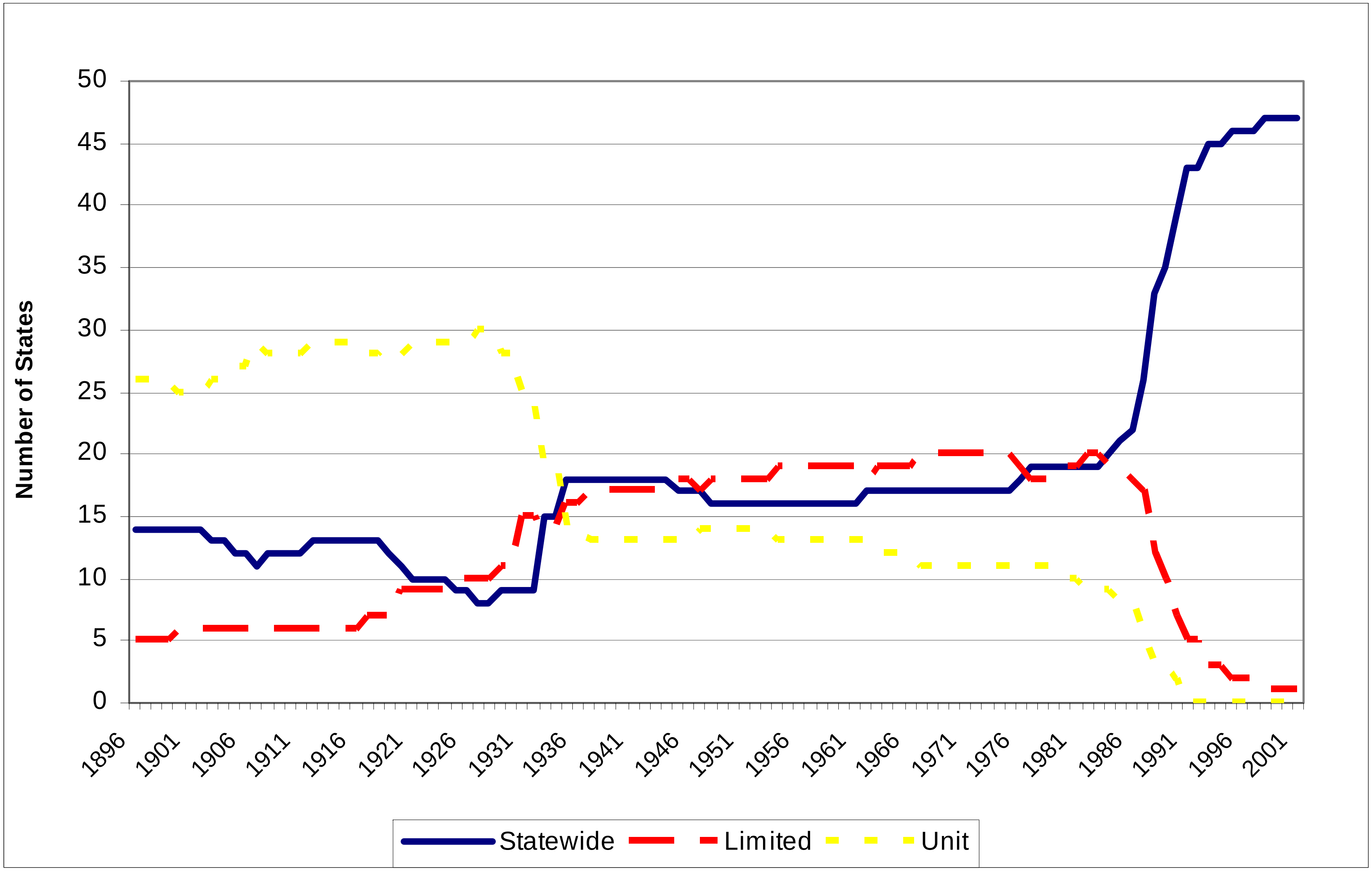

Figure 2: State Banking Laws, 1896, 1926, 1956 and 1978