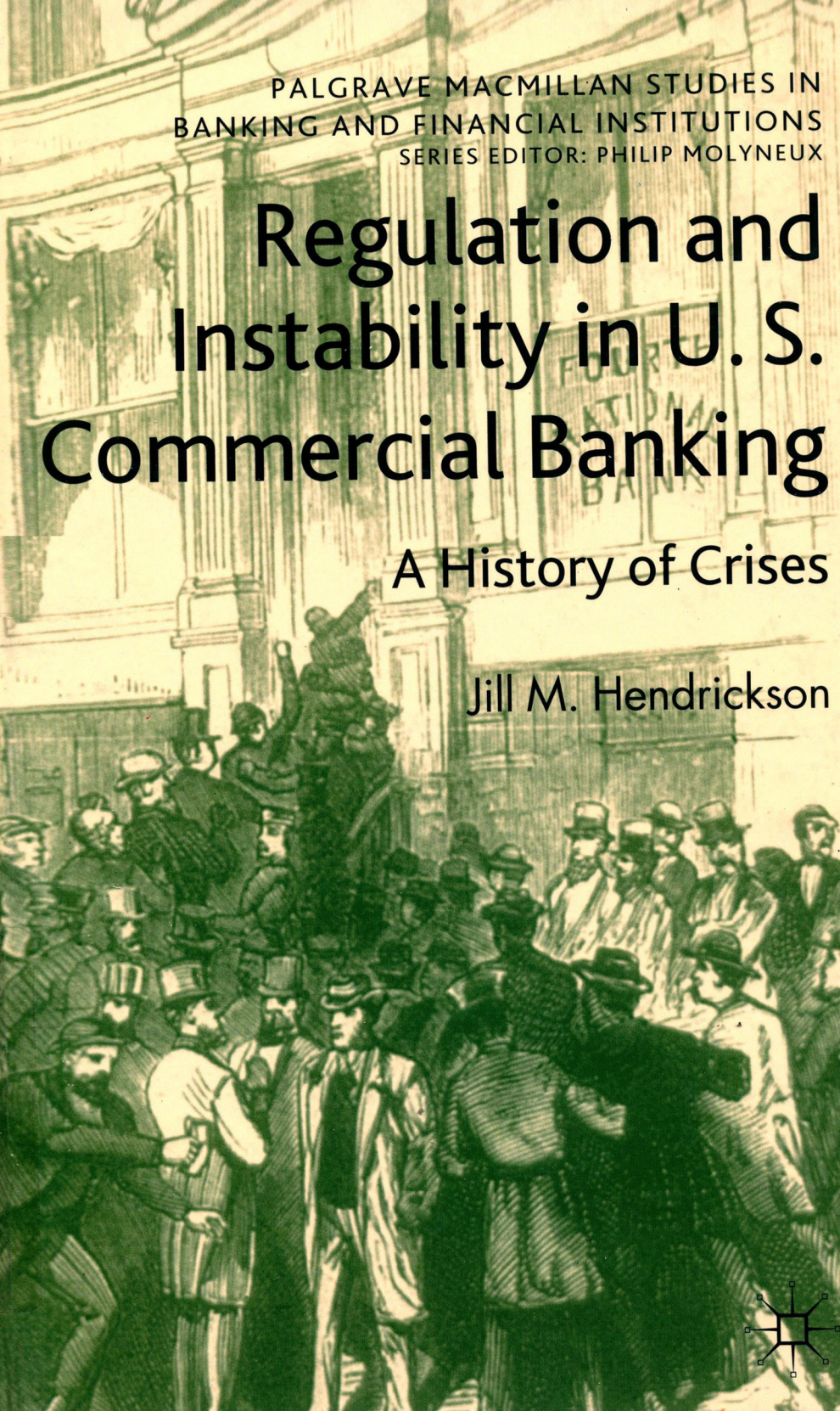


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Regulation and Instability in U. S. Commercial Banking

A History of Crises

Jill M. Hendrickson

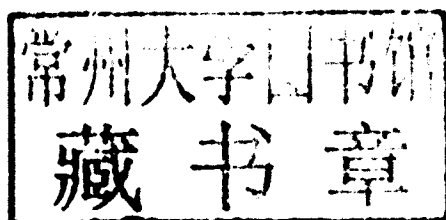


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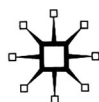
A History of Crises

Jill M. Hendrickson

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To my family

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1

Commercial Bank Instability

In early 2001, a colleague of mine expressed concern that the deregulation of banking witnessed in the previous ten years would make the U.S. vulnerable to another experience similar to the Great Depression. Between 1929 and 1933, close to 10,000 commercial banks failed, costing depositors millions of dollars. Though my colleague probably did not fear another catastrophe of quite that magnitude, he was concerned that instability would follow deregulation. Similarly, students in my classes often conclude that banking systems outside the United States must be more vulnerable to crises and instability because they lack the regulation of U.S. banks. In both cases, my colleague and my students simply assume that regulation preserves or creates stability and prosperity. They are not alone. Many scholars of banking contend that periods of stability and prosperity are rooted in public policy decisions regarding the regulation and supervision of commercial banking. Indeed, the most recent 2007–2009 financial crisis has been blamed on the very deregulation that my colleague alluded to several years ago. However, it is increasingly difficult to accept the assumption that bank regulation begets bank stability because the U.S. experience clearly suggests otherwise.

Two historical themes

Reflecting on the historical evolution of banking in the U.S., two prevalent themes emerge. First, regulation has always played an important role in the development and performance of banking. Indeed, the U.S. commercial banking industry has been regulated since the first bank was chartered in the eighteenth century and the industry continues to be highly regulated today. This regulation has taken many forms. Some