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A BRIEF HISTORY OF REGULATIONS REGARDING FINANCIAL MARKETS IN THE UNITED STATES: 1789 TO 2009

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ABSTRACT

In the United States today, the system of financial regulation is complex and fragmented. Responsibility to regulate the financial services industry is split between about a dozen federal agencies, hundreds of state agencies, and numerous industry-sponsored self-governing associations. Regulatory jurisdictions often overlap, so that most financial firms report to multiple regulators; but gaps exist in the supervisory structure, so that some firms report to few, and at times, no regulator. The overlapping jumble of standards; laws; and federal, state, and private jurisdictions can confuse even the most sophisticated student of the system. This article explains how that confusion arose. The story begins with the Constitutional Convention and the foundation of our nation. Our founding fathers fragmented authority over financial markets between federal and state governments. That legacy survives today, complicating efforts to create a financial system that can function effectively during the twenty-first century.

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A History of Financial Regulation in the United States from the Beginning Until Today: 1789 to 2011.

Alejandro Komai and Gary Richardson

Abstract

This is a history of the financial regulatory system in the United States, beginning with the US Constitution and ending with a look at Dodd-Frank. We stress the break in history that occurs at the Great Depression. Fragmented regulatory authority is identified as the root cause of financial instability.

A. Introduction

In the United States today, the system of financial regulation is complex and fragmented. Responsibility to regulate the financial services industry is split between about a dozen federal agencies, hundreds of state agencies, and numerous industry-sponsored self-governing associations. Regulatory jurisdictions often overlap, so that most financial firms report to multiple regulators; but gaps exist in the supervisory structure, so that some firms report to few, and at times, no regulator. The overlapping jumble of standards; laws; and federal, state, and private jurisdictions can confuse even the most sophisticated student of the system. At times, it can be unclear exactly who regulates whom, what rules apply in which instances, and where to

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turn for a resolution of these questions. This confusion occasionally inhibits innovation in the financial services industry and investments in some sectors of the economy. At other times, this confusion enables firms and investors to fly under the radar and profit from regulatory arbitrage. Whether this confusion promotes economic growth or causes economic instability is an open question.

How this confusion arose can be explained. The history of financial regulation is long but well documented. Responsibility for overseeing the financial services industry evolved in the United States during the last two centuries. Debate about how to regulate financial activity began at the Constitutional Convention in 1787 and continued unabated for two centuries. The political debate dictated the structure of the financial system; scholars have long noted this fact. An example comes from Jacob Viner's address at the American Economic Association's annual meeting in 1936. Viner argued that America's fragmented financial system,

> […] has deep roots in our history, in our regional diversities, and local loyalties. Its persistence is due to the support it derives from state jealousy of encroachments on state autonomy, from agrarian and small-town jealousy of the metropolitan areas, and from the nation-wide fear of undo concentration of financial power in the great metropolitan centers, and especially fear of Wall Street domination (Viner 1936).

This chapter summarizes that history. Section 1 briefly describes the foundations of the financial system in the eighteenth and nineteenth centuries. The story begins with the United States Constitution, which establishes the parameters of the debate. Section 2 examines the response of the system to financial crisis in the early decades of the twentieth century, focusing on the creation of the Federal Reserve System. Section 3 examines the reform of the system in response to the financial crises of the Great Depression of the 1930s. Section 4 discusses the creation of the modern financial system during the 1980s and 1990s. Section 5 discusses

attempts to plug leaks that arose in the modern financial system during the first decade of the twenty-first century.

To illuminate the story that we tell, we reproduce a figure previously published in January 2009 by the General Accounting Office of the United States in a report to Congress entitled "Financial Regulation: A Framework for Crafting and Assessing Proposals to Modernize the Outdated U.S. Financial Regulatory System." This figure is the useful visual depiction of the history of the system known to the authors. The figure begins describing the history during the 1860s, at the time of the United States Civil War. But the complexity of financial regulation in the United States begins before that date. Understanding why requires a discussion of the founding of our nation.

B: Constitutional Foundations of our Financial System

At the Constitutional Convention in 1787, delegates debated how to regulate financial activity. Some delegates advocated the creation of a national currency and a national bank. Other delegates opposed those proposals and argued that the regulation of financial activity should be left to state governments. Bitter divisions engendered broad comprises. These appear in the portion of the constitution that delineates powers of the federal legislature. Article 1, Section 8 provides Congress with powers to

- Borrow money on the credit of the United States
- Coin money, regulate the value thereof, and of foreign coin
- Regulate commerce with foreign nations and among the several states
- Establish uniform laws on the subject of bankruptcies throughout the United States.

In 1791, Congress chartered the First Bank of the United States to handle the financial needs of the federal government and the credit and coinage of the nation. In 1811, the charter expired, and by one vote, Congress defeated the bill reauthorizing the institution. In 1816,

Congress chartered the Second Bank of the United States, whose charter expired in 1836. These charters expired because politicians disagreed about the federal government's role in the regulation of the financial system. Politicians from northern industrial states favored federal government. Politicians from southern and western states feared financial conglomerates and favored regulating financial activity through state legislatures. Their opposition prevented the United State from establishing a central bank, or a uniform fiat currency, or uniform nationwide regulations for financial institutions.

State governments filled these gaps. State courts enforced financial contracts. States chartered corporations that provided financial services, particularly banks, and regulated their behavior. The profitability of these charters created problems with political corruption, which were mitigated when states adopted general incorporation and free banking laws, which enabled anyone meeting specific criteria to obtain a charter and open a bank. By the middle of the 1830s, financiers had little difficulty chartering banks. Banks opened in large numbers. Each bank issued its own currency, which traded at an exchange rate that reflected the banks reputation and risk of default. State governments left bank regulation to market forces. About half of all banks failed. Most failures occurred within a few years of the opening of an institution. Average longevity for financial firms appears to have been about 5 years. Because of these characteristics, financial historians refer to this era as one of wildcat banking.

The Civil War provided an opportunity to reform the financial system, because southern politicians who opposed federal regulation of financial markets withdrew from Congress. In their absence, Congress passed the National Currency Act (ch. 58, 12 Stat. 665; February 25, 1863). This act established a national currency printed by the United States Treasury and issued by commercial banks. The value of the notes that a commercial bank could issue was proportional

to the value of the capital that the bank deposited with the Treasury. To discourage the circulation of privately printed currencies, the Act taxed currencies of all other types, effectively forcing them out of circulation. One year later, Congress passed the National Banking Act (ch. 106, 13 Stat. 99; June 3, 1864), which established a system for issuing federal charters to commercial banks and authorized the Office of the Comptroller of Currency to supervise those banks. The act established a pyramid structure of reserves cities which shaped the financial landscape of the United States during the decades that followed.

Figure 1's second panel depicts the regulatory landscape after the passage of the National Banking and Currency Acts. The Office of the Comptroller of Currency (OCC) appears as the sole federal regulator of financial activity. The governments of the 36 states regulated financial activities within their borders. Most of these states possessed an agency headed by an individual with a title such as Superintendent of Banks. These agencies regulated the activities of commercial banks, trust companies, and building and loan corporations. Many of these states also possessed (or soon established) an agency that regulated insurance companies.

C: Responses to Financial Panics, 1890 to 1930

In the decades between the Civil War and World War One, financial panics occurred frequently, including major panics in 1873, 1893, and 1907. After these panics, legislators (both federal and state) debated reforming financial regulation. The panics of the 1890s contributed to the passage of the Bankruptcy Act of 1898 (1 July 1898, ch. 541, 30 Stat. 544). The act established federal-court procedures for court-supervised liquidation of corporations unable to pay creditors, but left the liquidation of commercial banks in the hands of state bank supervisors and the Office of the Comptroller of Currency.

The panic of 1907 inspired further reform. The panic started when a cabal tried to corner the market on the stock of the United Copper Company. This bid failed, and the banks that had lent money to the cabal sustained substantial losses. Depositors lost faith in these institutions and withdrew large sums. Runs spread rapidly to associated banks and trust companies, culminating in the collapse of the Knickerbocker Trust Company, New York City's third-largest trust institution. Knickerbocker's failure frightened depositors around the nation. Millions of men and women withdrew vast sums from financial institutions. The famous financier J. P. Morgan may have pulled the financial system back from the brink. Morgan convinced New York's bankers to pledge funds to shore up depositories beset by the cash crunch. One year later, Congress established a commission, chaired by Senator Nelson Aldrich, to investigate the crisis and propose solutions. The commission studied financial systems in numerous nations. Its exhaustive report inspired the creation of the Federal Reserve System.

The Federal Reserve continued the compromise between advocates of local and national regulation. The system consisted of 12 district banks, each of which acted as the central bank for a region of the nation, with a board of directors located in Washington, DC, which coordinated (but did not control) the activities of the system. Federal Reserve district banks possessed authority to conduct monetary policy – including discount lending and open market operations – at its own discretion. District banks could extend loans only on the security of 'eligible commercial paper,' which consisted of short-term self-liquidating loans from banks to wholesalers, retailers, and manufacturers that financed inventories during the process of production and distribution. District banks lacked authority to extend loans on other collateral, without security, or to institutions other than banks that belonged to the system. District banks also supervised the commercial banks that joined the system. The Federal Reserve Act required

all nationally chartered banks to join the system and permitted state chartered banks to do so, if they fulfilled all federal regulations – such as levels of required reserves and restrictions on risky investments – which tended to be stricter than those imposed by state statutes.

Figure 1's third panel depicts the regulatory landscape after the creation of the Federal Reserve in 1913. State governments continued to be the principal regulators of financial activity. State courts enforced most financial contracts. State legislators chartered most financial corporations. State regulators supervised roughly 2 out of 3 commercial banks and all other financial institutions, including insurance companies, trust companies, mutual savings banks, credit unions, mortgage originators, and building and loan societies. State chartered commercial banks could join the Federal Reserve System. All nationally chartered banks belonged to the system and reported to two federal government authorities: the Fed, which regulated and examined all member banks, and the OCC, which regulated and examined nationally chartered banks.

An array of private entities also supervised financial intermediation. Clearing houses operated in nearly one hundred cities. Banks that belonged to clearing houses had to fulfill their rules regarding reserves, risk, and regular inspections. State banking associations and the American Banking Association imposed codes of conduct on the behavior of members. Financial conglomerates – some of which began to form bank holding companies – began to purchase shares of stock in large numbers of banks and place directors on the banks' boards. Rating agencies (e.g. Moody's) and business information providers (e.g. Rand McNally) began to collect and disseminate balance sheet information from most banks operating in the United States. Stock exchanges operated in dozens of cities; some, such as New York, possessed

several. Exchanges regulated transactions in equity, bond, and futures markets, ensuring that those who bought and sold in those venues fulfilled the terms of their contracts.[1]

Figure 1's fourth panel depicts further changes in the regulatory landscape during the 1910s and 1920s. On 21 September 1922, Congress passed the Grain Futures Act (ch. 369, 42 Stat. 998, 7 U.S.C. § 1), which established the Grain Futures Administration (GFA). The GFA supervised trading of commodities futures contracts. The City of Chicago challenged the constitutionality of this act, and the Supreme Court declared it constitutional in a case named *Board of Trade of City of Chicago v. Olsen,* 262 US 1 (1923). The Supreme Court had ruled against an earlier version of the act (Futures Trading Act of 1921) in the case *Hill v. Wallace,* 259 U.S. 44 (1922). These court cases illuminate the political tension generated by the federal government's increasing attempts to regulate – and at times shape – the financial markets.

The government's broadest intervention at the time may have been in agricultural credit. In 1916, Congress passed the Federal Farm Loan Act. This act established a Federal Farm Loan Board to supervise twelve Federal Intermediate Credit Banks. These banks extended short-term, seasonal loans to farms, ranches, and companies that processed agricultural products. Funds for these loans came from bonds with similar maturities sold on securities markets in major cities. The Farm Loan Act also established Federal Land Banks and National Farm Loan Associations. These organizations raised funds for farm mortgages by selling mortgage-backed bonds in cities with sizeable securities markets. Capital for the land banks and intermediate credit banks came from the United States Treasury and from farmers who were the customers, who were required to purchase stock in the corporations.

[1] One of the contemporary descriptions of the U.S. financial system appears in Rand McNally Bankers Directory, which was published biannually, in January and July, beginning in the 1890s.

The federal government's intervention into mortgage markets expanded in 1932, when the Congress passed the Federal Home Loan Bank Act. The act created the Federal Home Loan Board to oversee twelve government-backed banks with the authority to purchase mortgages loans issued by originators – primarily building and loan and savings and loan organizations – operating within their jurisdiction.

D: Policy Responses to the Great Depression

Thousands of banks failed during the contraction beginning in 1929 and continuing until March 1933 (Richardson 2007, Richardson and Troost 2009). Policy makers believed the collapse of the financial system contributed to the length and depth of the recession. While the Federal Government made a few attempts to address the financial calamity during the years of 1930-1932, their efforts proved to be too little and too late. In early 1933, the public lost faith in banks in general. Depositors fled from the financial system, forcing twenty-eight states to close all financial institutions and eventually forcing the president to declare a national banking holiday, which shut down all financial institutions for seven business days before gradually resuscitating the financial system. In response to this disaster, the federal government changed the structure of financial regulation.

On 22 January 1932, Congress passed an act (c. 8, 47 Stat. 5) chartering the Reconstruction Finance Corporation (RFC) and authorized the RFC to extend loans to all financial institutions in the United States, including state-chartered banks lacking links to the Federal Reserve, and to accept as collateral an array of assets, as long as the RFC's leaders deemed the loans to be "amply" secured. The RFC's mandate emphasized loaning funds to solvent but illiquid institutions, whose assets appeared to have sufficient long-term value to pay

all obligations, but which in the short run could not be sold at a price high enough to repay current creditors. The RFC also loaned funds to the receivers of banks in liquidation, which enabled receivers to repay depositors as soon as possible, and repay the RFC in the future, when assets could be sold at higher prices. The RFC also loaned funds to Federal Land Banks, which financed farm mortgages, and Federal Intermediate Credit Banks, which financed seasonal agricultural lending. The RFC also advanced funds to railroads, which indirectly aided banks, since numerous banks possessed portfolios of railroad bonds, which declined in value as rail traffic declined during the depression, and to insurance companies, which also aided banks, since banks often purchased insurance on the values of their bond portfolios.

The Reconstruction Finance Corporation was a quasi-public corporation, staffed by professionals recruited outside of the civil service system, but owned by the federal government, which appointed the corporation's executive officers and board of directors. The RFC's initial capital came from $500 million in stock sold to the U.S. Treasury. The RFC raised an additional $1.5 billion by selling bonds to the Treasury, which the Treasury in turn sold to the public. In the years that followed, the RFC borrowed $51.3 billion from the Treasury and $3.1 billion directly from the public. All of the RFC's obligations were guaranteed by the federal government (Jones 1951).

On 21 July 1932, an amendment authorized the RFC to loan funds to states and localities for self-liquidating public relief projects, such as the construction of utilities and bridges, whose construction costs would be repaid by user charges and tolls. The amendment also authorized the RFC to loan funds to states and localities to provide relief for the unemployed, when those loans could be repaid by future tax receipts.[2]

[2] To accomplish its goals, the RFC established several subsidiary and allied corporations. These include the Metals Reserve Company, the Defense Plant Corporation (DPC), Defense Homes Corporation (DHC), War Damage

On 27 February 1932, Congress passed the Banking Act of 1932. Senator Carter Glass and Representative Henry Steagall coauthored the legislation, which was initially called the Glass-Steagall Act, until that label became the universal appellation for the act that Senator Glass and Representative Steagall cosponsored in the summer of 1933. The Banking Act of 1932 expanded the Federal Reserve's lending powers, allowing Federal Reserve district banks to loan funds to member banks on the security of a broad range of assets equivalent to the assets accepted by the RFC. Loans secured by collateral previously ineligible for rediscount had to be approved by a minimum of five members of the Federal Reserve Board and had to pay a rate at least one percent above the prevailing discount rate. Federal Reserve districts could also loan funds to individuals, firms, and corporations, under restrictions mentioned above, and with the added stipulation that the borrowers prove that they had applied for but could not obtain credit from commercial banks in their own communities.

Congress passed the Emergency Banking Relief Act on 9 March 1933, in the midst of the banking holiday, to facilitate reopening the nations' banks. The Emergency Banking Relief Act clarified the Federal Government's authority to act during a national financial emergency. Herbert Hoover's subordinates in the Department of Treasury and the Reconstruction Finance Corporation wrote the Act, which sat on Herbert Hoover's desk for many months, as a last resort, to be used in dire circumstances. Franklin Roosevelt implemented the disaster plan immediately after his inauguration. He shut down the financial system using legal powers granted the president by the Trading with the Enemy Act which Congress passed during World War I. The

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Corporation (WDC), Rubber Reserve Company (RRC), Electric Home and Farm Authority (EHFA), Lafayette Building Corporation (LBC), Federal Facilities Corporation (FFC). Many of these agencies played important roles in financing economic expansion during World War Two. In 1953, Congress passed an act that disbanded the RFC, transferring most of its functions to the Treasury Department effective June 1954, to wind down its affairs. Treasury completed that task in 1954. Vestiges of the RFC survive in the federal bureaucracy today. Successor agencies include the National Science Foundation, General Services Administration, and the Office of Defense Lending.

Emergency Banking Relief Act ensured that the president possessed those wartime powers during times of peace and created the legal structure and financial authority needed to close, reopen, or liquidate all financial institutions in the United States.

The act contained five titles. Title I provided extraordinary powers to the President, authorizing him to declare an emergency, during which he could control the national finances and foreign exchange of the United States; prohibit the hoarding and export of gold; and dictate which banks would reopen, merge, or remain closed. Title II authorized the Comptroller of the Currency to seize and operate any bank in the United States. The Comptroller used this authority to appoint conservators for banks deemed unfit to resume operations but with the potential to recover. Conservators 'froze' existing deposits, allowing depositors access to funds according to a schedule determined by recoveries on assets, and segregated new deposits into separate accounts. Conservators strove to reopen, reorganize, or merge banks under their supervision. Title III authorized national banks to issue preferred stock. Preferred stock paid dividends not exceeding six percent per year and did not subject holders to double liability. The Reconstruction Finance Corporation could purchase preferred stock, and during the years that followed, did so in large quantities. Title IV expanded powers of the Federal Reserve. Federal Reserve banks were authorized to use as collateral for Federal Reserve notes all direct obligations of the United States government (in the past they could only use gold and government bonds issued prior to World War One). Fed banks could also use as collateral all notes, drafts, bills of exchange, and bankers' acceptances acquired during the banking emergency. Fed banks could issue notes summing to 100 percent of the value of their United States government obligations and 90 percent of the estimated value of all other collateral. Fed banks also received expanded lending powers. Fed banks could make loans to member banks under "exceptional and exigent

circumstances" whenever the loan was secured to the satisfaction of the Federal Reserve Bank. This provision expanded powers granted to Federal Reserve banks by the Glass-Steagall Act of 1932. Title V of the Act contained three sections. Section 1 allowed Federal Reserve banks to convert debt instruments of the United States federal government into currency at par value and to convert any circulating liability of a commercial bank (e.g. check, draft, or banker's acceptance) into cash at 90% of its apparent value. Section 2 authorized Federal Reserve banks to make unsecured loans to member banks at a rate at least one percent above the discount rate. Section 3 authorized Federal Reserve banks to loan funds to any individual or corporation for 90 days if the loan was secured by United States government securities. On 24 March 1933, an amendment expanded these powers, enabling Federal Reserve banks to loan funds directly to non-member banks and trust company for the duration of the existing emergency.

On 16 June 1933, the Banking Act of 1933 (Pub.L. 73-66, 48 Stat. 162) became law. Congress had considered progenitors of the legislation during preceding years. Senator Carter Glass had introduced banking reform bills in 1931 and 1932. Glass's bills advocated unifying banks into a single national system by permitting branch banking, confining commercial bankers to the banking business (i.e. taking demand deposits and extending short-term commercial loans), increasing their liability for misconduct, and subjecting them to stricter governmental regulation. Representative Henry Steagall, then chairman of the House Committee on Banking and Currency, sought to protect depositors by guaranteeing deposits, opposed unification of the state and national banking systems, and opposed branch banking. Glass's bill became a leading piece of legislation, generating discussion among businessmen and economists around the nation. Glass's bill passed the Senate in February 1932, and was reintroduced on the first day of the special session called during the banking holiday, and passed the Senate in May 1932.

Representative Henry Steagall introduced his deposit-insurance bill in 1932. His bill passed the House of Representatives in May 1932 and again in May 1933. In June 1933, the two bills went to conference, where they were merged into a single act, which Congress approved on June 13 and the President signed on June 16. The final bill contains most of the provisions proposed by Senator Glass, with the exception of branch banking, which Steagall opposed, and the addition of deposit insurance, which Steagall advocated.

The Glass-Steagall Act contained several provisions which shaped the financial landscape in the United States during the next decades. First, the act established nationwide deposit insurance. This provision replaced the temporary insurance fund established by the Emergency Banking Act. This provision created the Federal Deposit Insurance Corporation (FDIC), under the management of a board of directors appointed by the President of the United States. The corporation's capital came from the United States Treasury, Federal Reserve District Banks, and banks that joined the insurance system. All banks that belonged to the Federal Reserve had to join the deposit insurance system. Non-member banks could join the system by subscribing to stock in the association. Those that joined had to meet the requirements for Federal Reserve membership by 1 July 1936. All insured banks could be charged assessments, if the stock of the corporation proved insufficient to cover required insurance payouts. The FDIC insured the all deposits up to $10,000 and of larger deposits, 100% of the first $10,000; 75% of the next $40,000; and 50% of any deposit over $50,000.

Second, the act separated commercial from investment banking. The act required commercial banks to sell their securities affiliates within one year and restricted their bond departments to the purchase and sale of securities on the order of and for the account of customers. Underwriting investment securities was prohibited. Interlocking directorates between

commercial banks and securities companies was also forbidden. Firms engaged in selling securities were prohibited from taking deposits one year after the enactment of the law (i.e. after 16 June 1934). The use of bank credit for the purchase of securities and speculation in securities markets was restricted. The Federal Reserve received powers to prevent member banks from extending loans for investment in securities markets.

Third, Banking Act of 1933 imposed stricter regulations on financial institutions. Some of these regulations sought to reduce conflicts of interest among officers and directors. For example, the act prohibited officers and directors of member banks from borrowing from their own institutions and required them to report all borrowing from all other organizations. The act also prohibited officers and directors of member banks from associating with corporations that loaned funds on the security of stocks and bonds. Officers and directors of federally insured banks also had to conform to these regulations.

Other regulations sought to alter conditions that engendered bank failures, particularly among small banks. One example is an increase in minimum capital requirements. Another example was the prohibition of payments on demand deposits, which legislators expected would reduce the cost of funds for commercial banks and encouraged depositors to place more of their funds in time deposits (i.e. savings accounts and certificates of deposit), providing commercial banks with a stable source of funds that was less subject to panics and runs. Additional examples were the restriction upon the use of bank credit for speculation, authorization of state-wide branch banking, federal supervision of group banking, modification of double liability, and increased authority of bank examiners.

Another restriction was the prohibition of private banking. Private bankers were individuals (or partnerships) that accepted demand deposits. The act required private bankers,

after one year, to surrender either their deposit business or their dealing in investment securities. If they elected to conduct a deposit business, the law required them to submit to periodic examination by the Comptroller of the Currency.

In 1935, Congress passed the Banking Act of 1935. The act contained two key sections. Title I modified the deposit insurance system. Now, the FDIC insured the first $5,000 of all deposits and nothing over that amount. The FDIC collected an annual assessment of 1/12 of 1 percent of all deposits in insured banks with no provision for collecting ‘special assessments’ to cover periodic losses. Insured state chartered banks with deposits over $1,000,000 were still required to join the Federal Reserve System, but the deadline for doing so was pushed from 1936 back to 1942. Banks with deposits less than $1,000,000 were no longer required to join the Federal Reserve System. Those that had joined were given the option to depart, but only 50 of the roughly 7,500 banks that joined the system chose to leave it.

While Title I made minor modifications to the FDIC, Title II made major changes to the structure of the Federal Reserve System. These changes centralized control of supply of money and credit in the hands of the Federal Reserve Board of Governors. Title II changed the Federal Reserve Board in the Board of Governors. The Board of Governors received the power to approve the governors and vice-governors of the twelve district banks. The Board of Governors also received the authority to set discount rates and establish lending policies. The act provided that “subject to such regulations as to maturity and other matters as the Federal Reserve Board may prescribe,” a federal reserve district bank might discount any commercial, agricultural, or industrial paper for member banks, and might make advances to member banks secured by “any sound asset.” The act also permitted the Federal Reserve to purchase securities issued or guaranteed by the United States government.

The new Board of Governors dominated a new Federal Reserve Open Market Committee, consisting of the seven members of the Board of Governors, the President of the Federal Reserve Bank of New York, and the presidents of four other Federal Reserve districts on a rotating basis. Title II provided this committee with the authority to establish policies pertaining to the purchase of securities in the open market. The committee's decisions became binding on Federal Reserve banks, which in the past, need to participate in programs of open-market purchases and sales recommended by the Federal Reserve Board.

The Depression-era Congress passed an array of additional acts which shaped the financial system for decades to come. Several of these acts dealt with deposit-taking institutions other than banks, such as savings and loans and credit unions. These organizations differed in the types of deposits that they accepted and the types of assets that they held. Commercial banks accepted deposits payable upon demand and provided customers with the opportunity to circulate those liabilities by writing checks. Commercial banks invested the preponderance of their short-term liabilities in short-term commercial loans, providing credit (often seasonal) to manufacturers, wholesalers, retailers, and farmers. Savings and Loans accepted only savings deposits and invested the bulk of these long-term liabilities in long-term investments like home mortgages. Credit Unions did not accept deposits. Instead, members of credit unions (and related entities such as mutual savings banks and building and loan societies) held stock in a non-profit credit cooperative. The cooperative typically treated the shares of stock like savings accounts, allowing members to buy and sell shares just like individuals deposited and withdrew funds from commercial banks. In 1934, Congress passed the National Housing Act, which established the Federal Savings and Loan Insurance Corporation (FSLIC), which insured deposits in savings and loans and regulated the S&L industry. Congress also passed the Federal Credit Union Act, which

established the Bureau of Federal Credit Unions to insure and regulate member-owned credit cooperatives.

Another series of acts regulated stock exchanges and securities markets. In 1933, Congress passed the Securities Act, which established federal regulation of securities issues. In 1934, Congress passed the Securities Exchange Act which established the Securities and Exchange Commission (SEC) to regulate the issuance, purchase, and sale of securities, particularly equities and debt instruments. The act required all public companies to submit periodic financial statements under penalty of perjury. In 1936, Congress passed the Commodities Exchange Act (ch. 545, 49 Stat. 1491, enacted June 15, 1936) which required all commodities futures and options to be traded on organized exchanges. To regulate those exchanges, the legislation established the Grain Futures Administration (GFA).

E: Constructing the Modern Financial System, 1940 to 1995

Financial markets operated calmly from the 1940s through the 1980s. Institutions created in the wake of the New Deal held significant sway over the financial world and regulatory practices during this period.

One of the hallmarks of the SEC's oversight of securities markets was the preference for industry self-regulation. While the SEC has the authority to create accounting standards for publicly traded companies, it often defers to private accounting standards boards such as the Financial Accounting Standards Board (FASB) and its predecessors (Moehrle, Reynolds-Moehrle, Tomlinson 2002). The most prominent example of this tradition is the FASB, which sets the Generally Accepted Accounting Principles (GAAP) for the industry. In 1972, the American Institute of Certified Public Accountants (AICPA) issued a report calling for an end to

the Accounting Principles Board (APB) and the creation of a fully-independent FASB (Seidler 1972). Whereas the members of the APB were part-time, unpaid members who worked for firms as accountants, members of the FASB are paid to work full-time devising standards. This set of distinctions is the intended source of independence, though Meyer concludes from his examination of APB Opinions that the APB was not systematically influenced by the connections between members and their "external constituencies" (Meyer 1974). Seidler points out that members may be influenced on an industry- and national-level rather than an individual- and company-level, and that this influence would not be broken when transitioning to the FASB (Seidler 1972).

The Financial Accounting Standards Board sets the Generally Accepted Accounting Principles in the US. A five-tiered hierarchy of rulings and opinions make up GAAP. Category A, the highest category, consists of Statements of Financial Accounting Standards (SFAS), Financial Accounting Standards Board Interpretations (FINs), Accounting Principles Board Opinions, and Accounting Research Bulletins (ARBs). SFAS and FINs are issued by the FASB; its predecessor, the APB, issued Opinions, and the APB's predecessor, the AICPA Committee on Accounting Procedure (CAP), issued ARBs (Moehrle, Reynolds-Moehrle, Tomlinson 2002). Category B consists of FASB Technical Bulletins (FTB), AICPA Industry Audit and Accounting Guides, and AICPA Statements of Positions (SOPs). FTBs are created by FASB staff, rather than the actual board, the Audit and Accounting Guides are created by committees and task forces in AICPA, and SOPs are the work of AICPA Accounting Standards Executive Committee (AcSEC) (Moehrle, Reynolds-Moehrle, Tomlinson 2002). Category C consists of consensus positions of FASB's Emerging Issues Task Force (EITF) and AcSEC practice bulletins. The EITF is designed to provide more timely opinions than SFAS (Moehrle, Reynolds-Moehrle,

Tomlinson 2002). Category D consists of AICPA Accounting Interpretations (AINs), FASB Staff Implementation Guides, and "practices that are widely recognized and prevalent either generally or in the industry" (Moehrle, Reynolds-Moehrle, Tomlinson 2002, AICPA 2000). Category E is a catchall encompassing all other written sources of accounting authority (Moehrle, Reynolds-Moehrle, Tomlinson 2002, AICPA 2000). Since the Norwalk Agreement with the International Accounting Standards Board (IASB) issued 18 September 2002 (FASB web site), the stated goal of the FASB has been to align US GAAP with international standards.

From the 1940s through the 1980s, practices of the FDIC influenced bank behavior. Banks insured by the FDIC must submit a Report of Condition and Income, also known as a Call Report, each quarter. The FDIC is responsible for maintaining and correcting this data, as well as making it available for the public. This responsibility is set down in the Federal Deposit Insurance Act. The bank's Call Report must follow Federal Financial Institutions Examination Council (FFIEC) and FASB rules, as enforced by the FDIC. This data, from "insured national and state nonmember commercial banks and state-chartered savings banks," is the principal source of information on the banking system available to the public and is often used by regulators as a measure of the system (FDIC web site).

When a bank fails, the FDIC can resolve the failure in a couple of ways. In a payoff, the FDIC assumes all the assets and liabilities of the failed financial institution and sells the assets to pay off the depositors. The other alternative for the FDIC is a purchase and assumption (P&A). A P&A resembles an assisted merger in that a failed financial institution is absorbed by a healthy one (James 1991). The FDIC auctions a package of assets from the failed institution and replaces them on the balance sheets with "good" assets (Glaessner and Mas 1995). The way the FDIC chooses between these two methods is by estimating the cost of covering uninsured

depositors of the failed institution, plus FDIC administrative costs of executing a payoff and liquidation, and seeing if it can find bidders among healthy institutions willing to cover those costs to absorb the failed institution. Clearly, this demonstrates the preferred method of handling a failed institution is P&A, mainly because payoff and liquidation leads to a loss of going-concern value (Buck 1984).

In 1974, Congress amended the Commodities Exchange Act and created the Commodity Futures Trading Commission (CFTC). It succeeded the GFA, a division of the Department of Agriculture that supervised commodity exchanges. The CFTC succeeded the Commodity Exchange Commission, as seen in the sixth panel of Figure 1. THE CFTC consists of five commissioners appointed by the President and confirmed by the Senate. The CFTC is charged with the "authority to regulate futures trading in all goods, articles, services, rights, and interests traded for future delivery" (Michigan 1975). To that end it was granted power of injunction, giving it authority to pursue its own matters. The CFTC is also granted power to take special action in emergencies to maintain order (Michigan 1975). The proximate cause of the creation of the CFTC was the leap in prices in 1973 attributed to the action of speculators (Michigan 1975). In order to ease passage of the CFTC Act, some issues were left for the Commission to decide. Among these issues were the regulation of option trading in previously unregulated futures commodities, time-stamping, and regulation of whether to permit futures commission merchants (FCMs) to dual trade - "trading for their own accounts as well as for the accounts of their customers" (Michigan 1975).

Besides the SEC and FDIC, other new regulations and regulatory agencies were created in this period. The Employment Retirement Income Security Act (ERISA) was passed to protect retirees. The Home Mortgage Disclosure Act (HMDA) was designed to help communities from

falling into diminished investment due to geographic discrimination. Furthermore, the powers and responsibilities of the SEC and the FDIC changed as well.

The Employment Retirement Income Security Act of 1974 (ERISA) was designed to aid and protect retired workers. It required retirement plans disclose information to participants, provide a system by which participants can file grievances and appeals, and set minimum standards (DoL web site). Some information required by ERISA includes "corporate plan sponsors provide participants with audited annual reports, summaries of plan descriptions, and other disclosures" (Langbert 1994). ERISA also asserted the right of retirement plan participants to sue their plan providers for delivery of services (DoL web site). Additionally, ERISA marked a movement in setting retirement standards from the state to the federal level. ERISA superseded state laws on employee benefits and gave jurisdiction over disputes regarding employee benefit claims to the federal courts (Langbert 1994). Over time, several amendments to ERISA have been passed, including the Consolidated Omnibus Budget Reconciliation Act of 1974 (COBRA), the Health Insurance Portability and Accountability Act (HIPAA), the Newborns' and Mothers' Health Protection Act, the Mental Health Parity Act, and the Womens' Health and Cancer Rights Act (DoL web site). COBRA continues a participant's health coverage for a limited time after loss of a job and HIPAA provides protections for workers who, "might otherwise suffer discrimination in health coverage based on factors that relate to an individual's health" (DoL web site). Other pieces of legislation that affected ERISA include the Tax Equity and Fiscal Responsibility Act, the Retirement Equity Act, the Revenue Act of 1978, and the Tax Reform Act of 1986 (Langbert 1994).

The Home Mortgage Disclosure Act (HMDA) of 1975 was initially implemented to help discern whether depository institutions were failing to reinvest in their communities. In this

light, the information HMDA required institutions to report did not include racial or other demographic data on loan applications. The data financial institutions covered by HMDA had to report was mainly aggregated on dollars and locations (Kolar Jerison 2005). This model prevailed from HMDA's passage to the 1989 Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA). FIRREA was one of many amendments to HMDA that expanded its scope to more mortgage lenders (Kolar Jerison 2005). The important aspect of FIRREA's impact on HMDA was that it required lenders to report demographic information such as race, sex, and income, as well to include reports on rejected applications (Kolar Jerison 2005). From FIRREA up through the twenty-first century, HDMA was amended so the data collected could be used to address issues of discrimination. In the early 2000s, HDMA was amended through changes in regulation rather than through passage of laws. Most significantly, in 2004, lenders under HMDA began to be required to report information on pricing of loans (Kolar Jerison 2005). This has marked a trend towards using HMDA loan/application register (LAR) data to collect data on predatory lending and discriminator pricing.

The Securities Acts Amendments became law on June 4, 1975. In these Amendments Congress directed the SEC to promote the creation of National Market and National Clearing Systems (Gillis 1975). Congress directed the SEC to pursue several goals with the creation of the National Market System. The National Market System was meant to improve competition, liquidity, efficiency and stability in securities markets (Werner 1975). The SEC sought methods to exploit advances in computer technology to combine the several regional exchanges into the Intermarket Trading System (ITS) (Macey and Haddock 1985, Gillis and Dreher 1982). To that end, on 28 April 1981 the SEC ordered the ITS and the National Association of Securities Dealers (NASD)'s Computer Assisted Execution System (CAES) be automatically linked (Gillis

and Dreher 1982). Additional SEC-backed projects include the Consolidated Transaction Reporting System to provide real-time transaction reports for NYSE, AMEX, and regional exchanges and the Composite Quotation System to display quotations and quotation sizes for the Consolidated Transaction System (Gillis and Dreher 1982). In an effort to end anti-competitive regulations, the SEC ended fixed minimum commission rates by 1975 (Werner 1975).

Despite its orders from Congress, ten years after the passage of the Securities Acts Amendments, a National Market System had not materialized. Macey and Haddock pointed to off-board trading restrictions as a key way the SEC could act to improve competition, and noted, "[t]he SEC [...] was concerned that too much freedom in the marketplace might be detrimental. The Commission was particularly concerned with three phenomena: fragmentation of orders, overreaching, and market surveillance. These considerations are the only policy reasons that the SEC has advanced in defense of its failure to ban off-board trading restrictions" (Macey and Haddock 1985). Macey and Haddock go on to argue that "fragmentation is an unwarranted fear," by applying arbitrage logic, that overreaching is a fallacy, and that the SEC had ample market surveillance facility (Macey and Haddock 1985). In sum, it appears there was no valid reason given to explain why the SEC failed to enact a National Market System.

E: Constructing the Modern Financial System, 1980 to 1995

During the 1980s and 1990s, the structure of financial regulation in the United States changed dramatically. Figure 1's sixth panel summarizes these changes.

Impetus for change came from three directions. First, free-market thinking increasingly prevailed in policy debates. Second, globalization forced financial institutions in the United States to compete in ever more competitive international markets against institutions operating in

more permissive regulatory environments. U.S. institutions incessantly lobbied to loosen regulations and level the playing field. Third, during the 1970s, the S&L industry collapsed. Many savings and loans became insolvent. Most teetered on the edge of the abyss. The crisis occurred because policy-makers during the Great Depression designed the S&L industry to operate in an environment with low and stable inflation. Regulations capped interest on deposits, S&L's principal source of funds, at 6%. Regulations capped interest on home loans, S&L's principal investment, at 6%. When inflation and (nominal) interest rates rose above 6% during the 1970s, S&L's could not operate profitably. The industry, by design, became bankrupt. S&L's lobbied Congress to remove restrictions that prevented them from operating profitably. Congress complied, with disastrous results, as bankrupt but fully-insured institutions expanded operations into areas of the financial service industry in which they had little, or no experience.

The Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA) was passed in response to the S&L crisis of the 1980s, mainly to restore confidence to the public (Providenti 1991). FIRREA amends the Home Owner's Loan Act of 1933, replacing the Federal Home Loan Bank Board, and creating the Office of Thrift Supervision (OTS), as seen in the sixth panel of Figure 1 (Providenti 1991). The OTS was created in the Department of the Treasury (Providenti 1991). FIRREA also created the Resolution Trust Corporation to resolve failed S&Ls (Providenti 1991). This corporation was put under the management of the FDIC (Providenti 1991). While the FDIC took over the FSLIC's operations through the Resolution Trust Corporation, the explicit successor to FSLIC in FIRREA was the Savings Associations Insurance Fund (SAIF) (Providenti 1991).

Changes in regulations in that period tended to push in the same direction. Most changes reduced restrictions on the operations of financial institutions, allowing them to enter new lines

of business. Inter- and intrastate bank branching was heavily restricted up to the 1970s. Intrastate branching was limited, but deregulation began in the 1970s; interstate branching restrictions began to be lifted starting in 1978 (Dick 2006). The shift to deregulation was slow and gradual, culminating in the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (Dick 2006). This act allowed nationwide branching starting June 1997, but it also had opt-in and opt-out provisions. The opt-in provision allowed states to pass legislation to allow branching earlier than the June 1997 deadline. Only two states, Texas and Montana, passed legislation to opt-out of the provisions of the act (Dick 2006).

Since the Banking Act of 1933, banks were prevented from engaging in universal banking, or banking in both commercial and investment industries. The Gramm-Leach-Bliley (GLB) Act sought to allow increased competition by removing barriers between the banking sectors of commercial, investment, and insurance, repealing limitations set by the Banking Act and Bank Holding Company Act of 1956 (Janger and Schwartz 2002). It did this by allowing financial institutions to form a "financial holding company" which can engage in all three industries (Janger and Schwartz 2002). Anticipating the potential problems associated with the merging of personal financial data in these three industries, GLB included several privacy provisions. These provisions included required annual privacy notices for customers and an opt-out provision for customers to disallow financial institutions from sharing personal information with non-affiliates. GLB also required financial institutions "develop policies to promote data security" (Janger and Schwartz 2002). A right of enforcement was assigned to federal agencies including the Federal Trade Commission, the Board of Governors of the Federal Reserve, the office of the Comptroller of the Currency, and the SEC (Janger and Schwartz 2002). Despite

these efforts, the privacy provisions were universally considered a failure soon after the passage of GLB (Janger and Schwartz 2002).

The Federal Deposit Insurance Corporation Improvement Act of 1991 reformed rules for bank regulators and aimed to implement principles of prompt corrective action (PCA) and least-cost resolution (LCR) (Benston and Kaufman 1997). The principle of PCA was a response to banking and savings and loan troubles of the 1970s and 80s when regulators delayed taking action. PCA and LCR were designed to realign the incentives of regulators – who may be jockeying for industry jobs – to oversee the industry more conscientiously. To that end, FDICIA mandated more inspections of banks by the FDIC and annual audits of the FDIC by GAO (Benston and Kaufman 1997). Subverting this structure, regulators were given discretion, under FDICIA, to set capital/asset thresholds which would trigger additional regulation and restrictions on banks, and immediately set the thresholds low enough for most banks to be considered "adequately capitalized" (Benston and Kaufman 1997). "The act also addressed such issues as the need for higher capital levels, risk-based deposit insurance, and a strengthening of the regulatory responsibility for early intervention" (Gupta and Misra 1999). Risk-based deposit insurance was intended to minimize moral hazard distortions on the part of bankers. In this same vein, FDICIA prevented the FDIC from protecting deposits of uninsured depositors – depositor with deposits in excess of $100,000 (Benston and Kaufman 1997).

FDICIA addressed the doctrine of "too big to fail." Effective in 1995, the FDIC was prohibited from protecting "uninsured depositors or creditors at a failed bank if it would result in an increased loss to the deposit insurance fund," with the exception being the case that the institution is considered "too big to fail" (Benston and Kaufman 1997). "Articulated by the Comptroller of the Currency after the failure of the Continental Illinois in 1984, the too-big-to-

fail policy is based on the premise that the failure of a large institution could have a domino effect, starting bank runs that could bring down the financial system" (Gupta and Misra 1999). FDICIA actually weakens this policy by requiring, "written approval of two-thirds of the Board of Directors of the FDIC and the Board of Governors of the Federal Reserve System […] permission from the Secretary of the Treasury, after the secretary has consulted with the President of the United States. The FDIC is also required to recover any losses incurred from protecting uninsured claimants" (Gupta and Misra 1999). It was considered that "too big to fail" policy would only rarely, if ever, be used.

F: Fine Tuning the System: 2000 until today

During the last decade, the regulatory system continued to evolve. Some policymakers intended these changes to loosen restrictions on the behavior of financial institutions. These changes are visible in the seventh and eighth panels of Figure 1.

The Commodity Futures Modernization Act of 2000 (21 December 2000) clarified regulatory jurisdictions between the Commodity Futures Trading Commission (CFTC) and the Securities and Exchange Commission (SEC) over many financial instruments. Title I amends the Commodity Exchange Act, limiting its scope. Title II amends the Securities Act of 1933, Securities Exchange Act of 1934, Commodity Exchange Act, and Shad-Johnson Jurisdictional Accord, "to provide implementing rules necessary for shared oversight by the SEC and CFTC of single stock futures trading" (Kloner 2001). "Title III provides additional legal certainty for swap agreements by providing guidelines for SEC regulation of equity based swaps" (Kloner 2001). Title IV further limits the Commodity Exchange Act by clarifying that it does not apply "to

certain swap agreements (including credit and equity swaps), hybrid instruments and other products commonly offered by banks (Kloner 2001)."

The Public Company Accounting Reform and Investor Protection Act of 2002, more commonly referred to as Sarbanes-Oxley (SOX), passed 25 July 2002 after several "prominent companies [were] involved in financial scandals and bankruptcies: Enron, Worldcom, Xerox, Sunbeam, Waste Management, Adelphia, Tyco, HealthSouth, Global Crossing, and others" (Coates 2007). SOX was a direct response to these scandals. SOX contains three main components. First, in an attempt to provide market participants with access to identical information and a level playing field, SOX "forbids preferential disclosures to market analysts," although this provision may have the unintended consequence of "less total disclosure (Easterbrook 2009)." Second, in an attempt to create accountability and monitoring within corporations, SOX requires the CEO and CFO of all publicly traded corporations to sign the balance sheets that they submit to the SEC, opening them up to criminal penalties for perjury should the forms prove fraudulent. In addition, SOX requires publicly traded companies have an independent board of directors. Third, SOX mandated "more monitoring by accountants, in addition to monitoring by independent directors (Easterbrook 2009)." SOX created the Public Company Accounting Oversight Board (PCAOB) to "enlist auditors to enforce existing laws against theft and fraud by corporate officers (Coates 2007)." The PCAOB is charged with "registering, setting standards for, inspecting, investigating, and disciplining audit firms for public companies (Coates 2007)." The PCAOB appears in the seventh panel of Figure 1.

The Sarbanes-Oxley Act also gave the SEC the task of reviewing the Financial Accounting Standards Board's (FASB's) process of creating Generally Accepted Accounting Principles (GAAP). Specifically, it was a commonly held belief that Enron had avoided detection

for so long by adhering to the letter of the rules set down by GAAP. The SEC was asked to determine how long it would take to move from a rules-based system to a principles-based system, the reasoning being that a principles-based system would have exposed Enron earlier than the rules in place under GAAP (Bratton 2003). After Enron, the FASB was asked, under SOX, to seek an alignment of US GAAP with international standards (Bratton 2003). Doubts have been raised as to whether convergence is a feasible goal and whether it will ever happen.

The Dodd-Frank Wall Street Reform and Consumer Protection Act, (Pub.L. 111-203, H.R. 4173) commonly known as Dodd-Frank, is a hodgepodge of several unrelated regulations. Passed in July 2010 in response to the financial crisis at the end of the first decade of the twenty-first century, Dodd-Frank restructured the regulatory system. A few highlights from this act include an overhaul of the bankruptcy code, a re-regulation of most derivatives previously deregulated, and regulations disallowing bailouts in many cases (Davis Polk & Wardwell 2010). The act also led to the creation and destruction of many new government agencies. For example, the act led to the creation of the Financial Stability Oversight Council, the elimination of the Office of Thrift Supervision, the creation of the Bureau of Consumer Financial Protection, and the creation of the Federal Insurance Office (Davis Polk & Wardwell 2010). Many of the final implications of Dodd-Frank will not be known until regulatory agencies create rules to implement their respective mandates from Dodd-Frank.

One prominent aspect of Dodd-Frank is the Volcker Rule. "***The Volcker Rule*** prohibits proprietary trading and certain fund activities by bank holding companies and their affiliates and imposes enhanced capital and other quantitative limits on such activities by systemically important nonbank financial companies, including systemically important hedge funds" (Davis

Polk & Wardwell 2010). This acts as a repeal of Gramm-Leach-Bliley's deregulation of restrictions on banking activity imposed by the Banking Act of 1933.

As previously mentioned, most derivatives deregulated under the Commodity Futures Modernization Act of 2000 were re-regulated under Dodd-Frank. “Largely following the historical jurisdictional divisions between the CFTC and the SEC, the Act categorizes the derivatives transactions within its scope as either “swaps,” which are subject to primary regulation by the CFTC, “security-based swaps,” which are subject to primary regulation by the SEC, or “mixed swaps,' which are subject to joint regulation by the CFTC and SEC” (Davis Polk & Wardwell 2010).

Nationally recognized statistical rating organizations (NRSROs) have held government-backed significance since the Great Depression. During the Great Depression the Comptroller of the Currency ruled that banks needed to hold well-rated assets, but the SEC ruled which organizations were nationally recognized statistical rating organizations. After Dodd-Frank, Fed investigators are not allowed to use NRSRO ratings at all in their evaluation of the risk of any securities. Additionally, Dodd-Frank “requires each NRSRO [Nationally Recognized Statistical Rating Organization] Board to oversee: policies and procedures for management of conflicts of interest; policies and procedures for determining ratings and the effectiveness of internal controls with respect to such policies and procedures; and policies and procedures for compensation and promotion” (Davis Polk & Wardwell 2010). NRSROs are now liable for their ratings. “The Act establishes that the enforcement and penalty provisions of the Exchange Act apply to statements made by credit rating agencies in the same manner and to the same extent as they apply to statements made by registered public accounting firms or securities analysts under the securities laws” (Davis Polk & Wardwell 2010).

Government agencies are now writing the rules that implement the Dodd-Frank legislation. Whether these rules will prevent future financial crises remains to be seen. The authors of this essay are skeptical. Prior to the Great Depression, the United States financial system experienced periodic financial panics. Their cause was, in part, the complex and fragmented regulatory system created by the constitutional structure of the United States government. During the Great Depression, policymakers prohibited all practices that they believed contributed to financial instability. That regulatory structure prevented financial panics from occurring for fifty years. In the 1990s, our nation dismantled the last of the Depression-era restrictions but took no actions to solve the systemic problems that caused financial instability in the past and that appears to be causing financial instability in the present. Unless our nation deals with the root cause of the problem – fragmented regulatory authority – we should expect financial panics as regularly in the future as they were before the Great Depression.

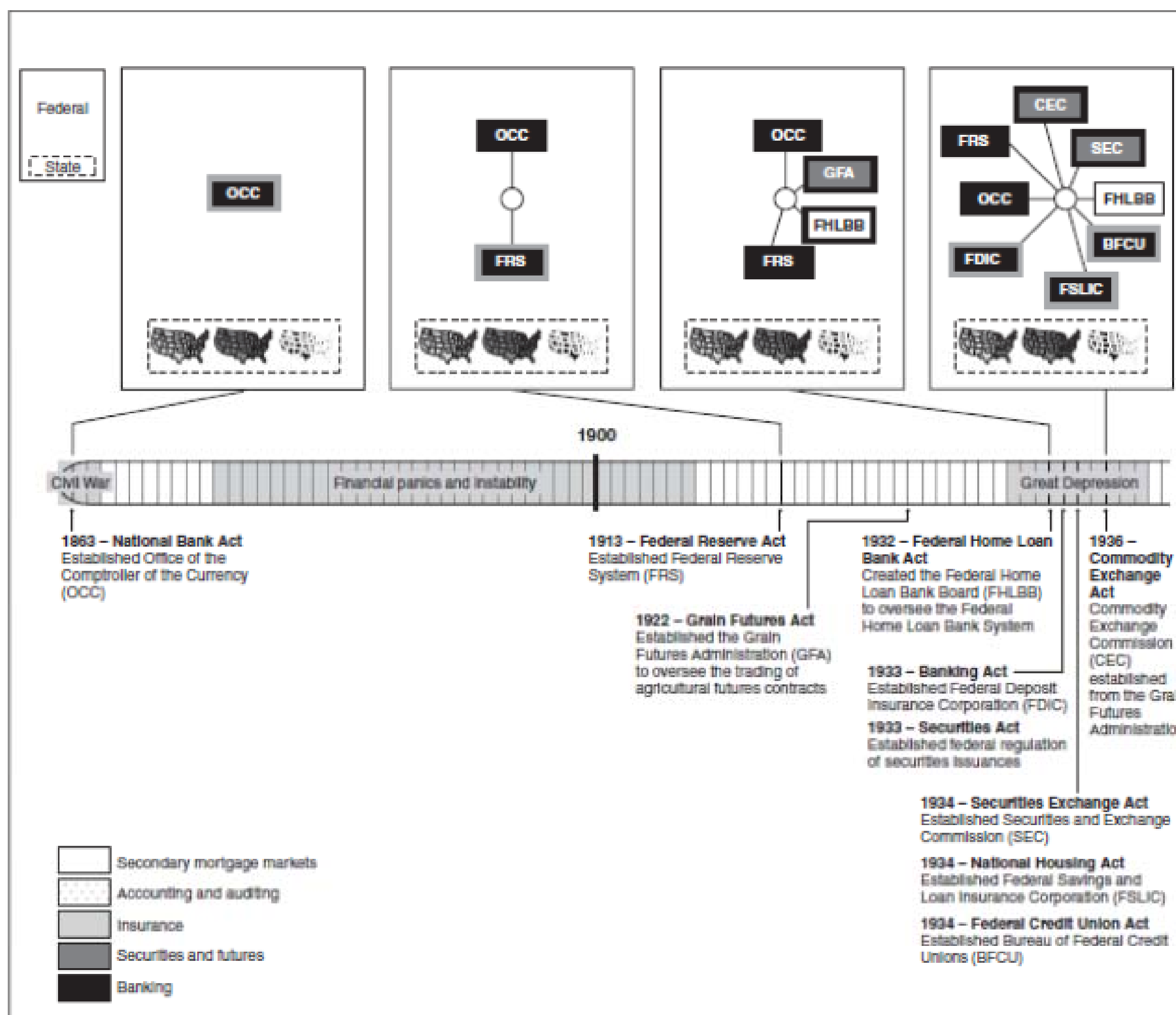

Figure 1: Graphical representation of evolution of financial regulation in the US, through Great Depression

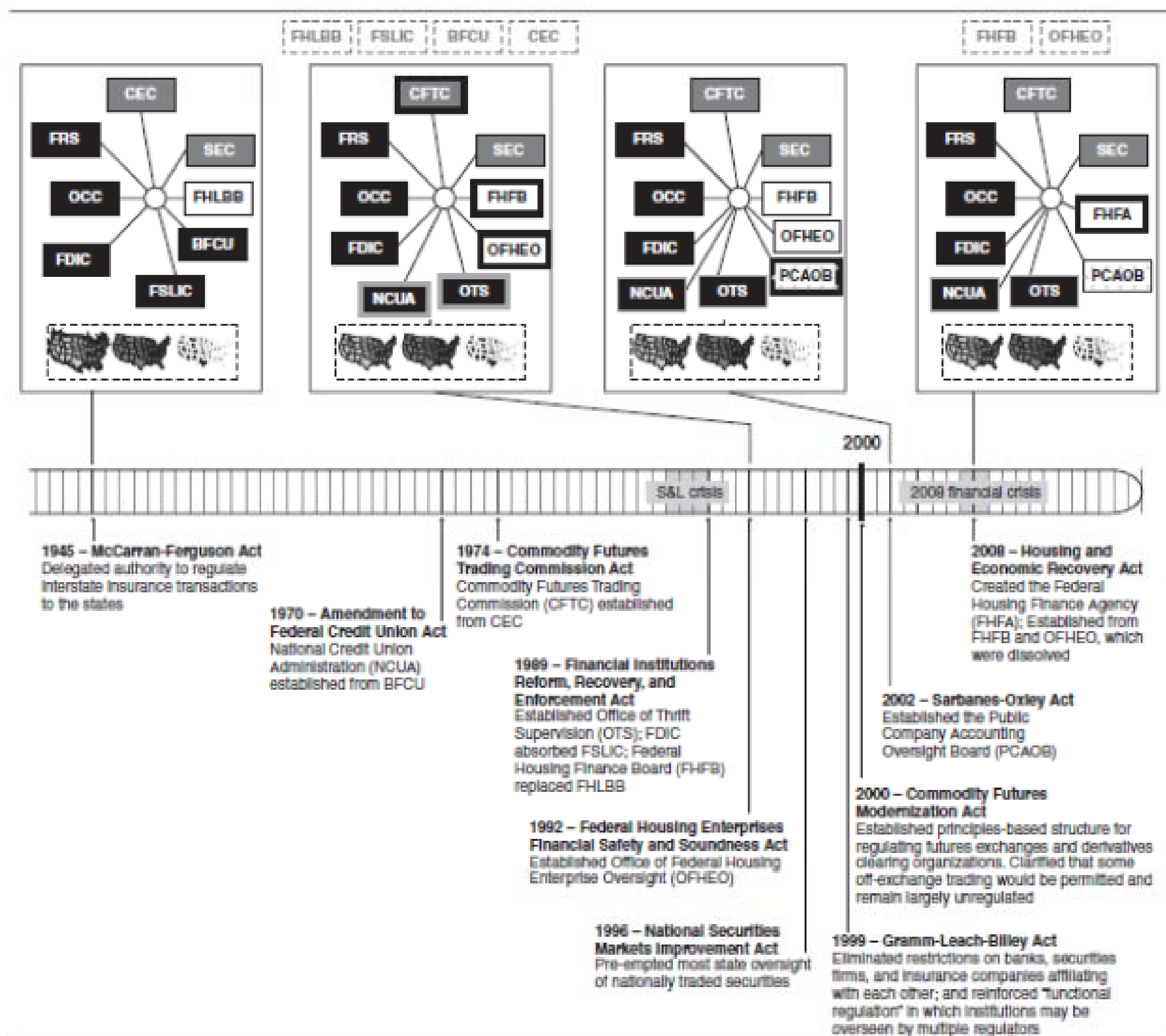

Figure 2: Graphical representation of evolution of financial regulation in the US, Great Depression through today

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