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How the U.S. Got It Wrong: American Financial Deregulation in Comparative and Historical Perspective

Abstract

I challenge conventional wisdom about the causes of American financial deregulation by placing the American case in comparative perspective. Drawing from over 5000 pages of archival material and 24 in-depth interviews with banking regulators, I compare paths to financial deregulation in the U.S., Canada, and Spain, 1966-2007. I find that Depression-era policy choices had lasting implications for the evolution of financial regulation in each country. In the United States, deposit rate ceilings, branching restrictions, and the separation of investment and commercial banking were all theorized to prevent the concentration of financial power. The meaning that American policymakers attached to these regulatory restrictions explains why the U.S. initially lagged behind in the pace of financial deregulation, 1966-1989. However, in the mid-1990s, the U.S. caught up to and eventually surpassed other countries in the extent of regulatory permissiveness. I show that the emergence of a new frame of regulatory order (the *frame of market discipline*) after the Savings and Loan crisis ultimately accounts for the rise of permissive banking regulation in the United States.