Regulatory Responses to the Financial Crises of the Great Depression: Britain, France and the United States

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Lessons from the Great Depression

Exemplary case of lesson-drawing

• Banking regulation (Banking Acts in most countries)
• Regulation of financial markets
• New monetary order (Bretton Woods)

Results: the financial stability during the Golden Age
Different responses

• Severe regulatory measures in the United States
  Glass-Steagall Act (1933)
  Securities Exchange Act (1934)
  Banking Act (1935)

• Belated and milder ones in France
  Banking legislations of 1940 and 1944

• No regulation at all in Great Britain

• How to explain these differences?
  Severity of the crisis
  Perception of the crisis
  Context of enactment
Stock market collapse

• New York Stock Exchange
  Wall Street crash
  Down 89 per cent from peak (1929) to bottom (1932)

• Paris Bourse
  Down 57 per cent

• London Stock Exchange
  Never lost more that a third of its value
Banking Crises

• **United States: the most severe**
  Four banking crises between 1930 and 1933
  Total paralysis of the banking system in March 1933 – national bank holidays declared by Roosevelt
  More than 10,000 banks disappeared in four years

• **France: protracted but less acute**
  670 banks failed between 1929 and 1937
  Orderly liquidation of one big bank (BNC)
  Rescue of a large investment bank (BUP)

• **Britain**
  Rescue of a few middle-sized banks

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Economic Downturn

• Level of GDP in 1938 – 1929=100
  United States:  88
  France:  96
  Britain  110

• GDP per head in 1933 – 1929=100
  United States:  69
  France:  84
  Britain:  93

• Level of unemployment (%)
  
<table>
<thead>
<tr>
<th>Country</th>
<th>1930-33</th>
<th>1934-38</th>
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<tbody>
<tr>
<td>United States</td>
<td>18.2</td>
<td>18.3</td>
</tr>
<tr>
<td>Britain</td>
<td>14.2</td>
<td>8.7</td>
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<tr>
<td>France</td>
<td>0.6</td>
<td>3.5</td>
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Perception of the crisis: the United States

Emphasis on stock market crisis
Wall Street crash of 1929 and the narrative of the Great Depression
Democratisation of share ownership

Financial scandals
Deceit of small investors by unscrupulous bankers

Pecora inquiry
Wall Street grandees accused of malpractices
Public opinion increasingly hostile to the financial world
Perception of the crisis: France and Britain

• France: politico-financial scandals
  Banque Oustric
  Stavisky affair

• Britain: the pound and the gold standard
Context of enactment of the Glass-Steagall Act

• Return of the old banking orthodoxy
• Sequels of previous financial crises
  1907, Pujo Committee, ‘money trust’
• Public opinion
• Interest groups
• Balance of power between Senate (Glass) and House of Representatives (Steagall)
• Limits of the Glass-Steagall Act
Britain and France: the impact of the War

- Limits of the Banking Law in France: ‘Doctrine Henri Germain’
  Belated acceptance of the need to regulate the banking industry
- Nationalisations and State intervention in Britain and France
- The ‘Thirty Years War’ of the twentieth century