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

Youssef Cassis

European University Institute

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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



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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 than a third of its value



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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



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 (%)

	1930-33	1934-38
United States	18.2	18.3
Britain	14.2	8.7
France	0.6	3.5



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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



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Perception of the crisis: France and Britain

- France: politico-financial scandals
 - Banque Oustric
 - Stavisky affair
- Britain: the pound and the gold standard



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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



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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