# Bank Failures, Regulation, and Inequality in the United States

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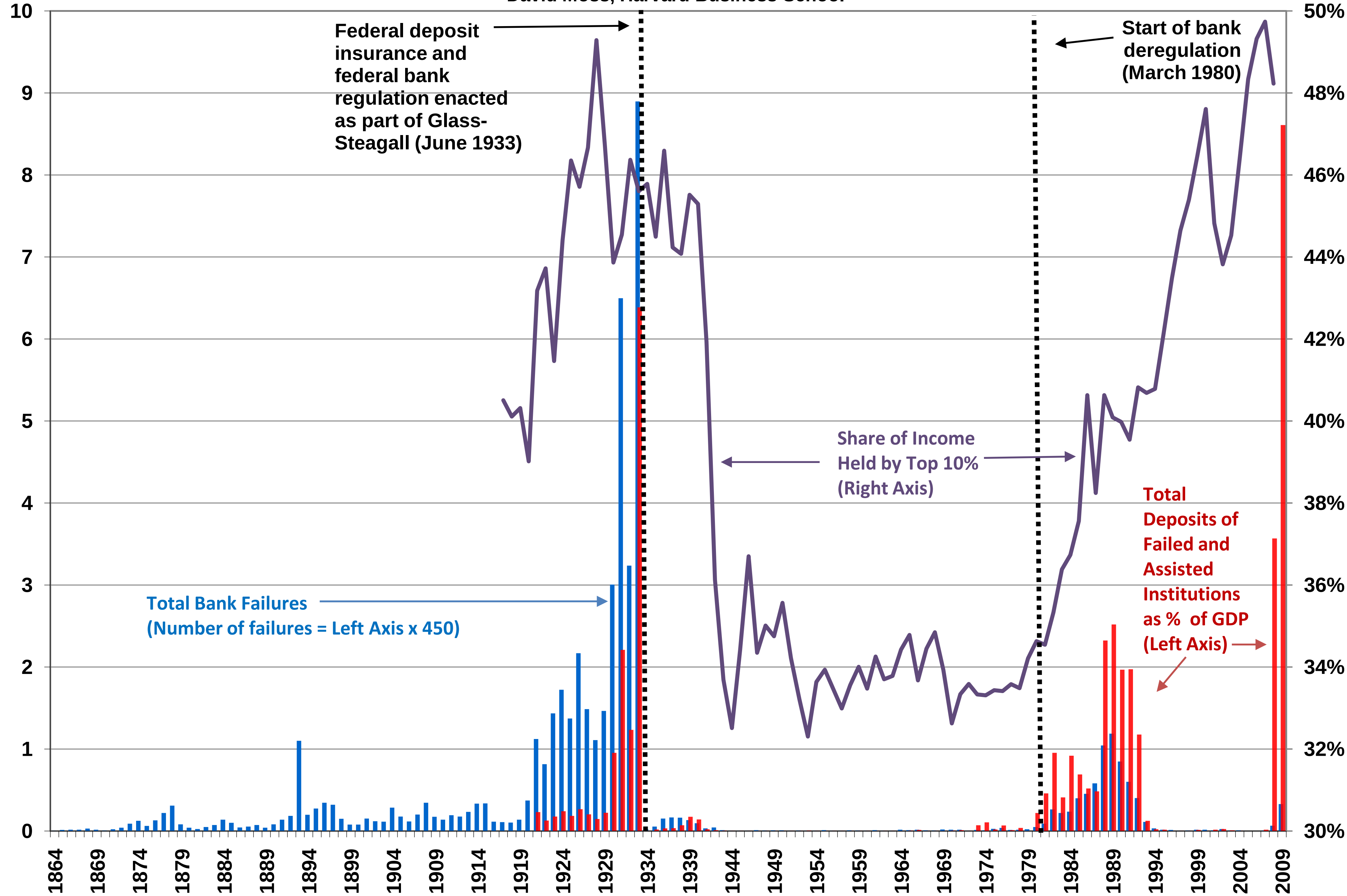


Sources: *Historical Statistics of the United States: Colonial Times to 1970* (Washington, D.C.: Government Printing Office, 1975), Series X-741,8 (p. 1038); "Federal Deposit Insurance Corporation Failures and Assistance Transactions United States and Other Areas," Table BF01, FDIC website (http://www2.fdic.gov/hsob); Richard Sutch, "Gross domestic product: 1790–2002." Table Ca9-19 in *Historical Statistics of the United States, Earliest Times to the Present: Millennial Edition*, eds. Susan B. Carter et al. (New York: Cambridge University Press, 2006); Bureau of Economic Analysis, "Gross Domestic Product." NIPA Table 1.1.5. (http://www.bea.gov/national/nipaweb/SelectTable.asp); Thomas Piketty and Emmanuel Saez, "Income Inequality in the United States, 1913-1998," *Quarterly Journal of Economics*, 118(1), 2003, pp. 1-39, with updated data available at: http://elsa.berkeley.edu/~saez/TabFig2008.xls. For an earlier version of this chart, without the inequality overlay, see David Moss, "An Ounce of Prevention," *Harvard Magazine*, September-October 2009.

Note: David Moss prepared this chart with the assistance of Darin Christensen and Arthur Kimball-Stanley and is deeply indebted to Mitchell Weiss for his insightful observation about the pattern of inequality.



**See comments on next page →**

# Comments on Bank Failure/Regulation/Inequality Chart

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- There are remarkable correlations between bank failures (and financial crises), financial regulation/deregulation, and income inequality across U.S. history.
- Bank failures and financial crises were common in the U.S. until 1933. Then federal financial regulation was dramatically strengthened (starting in 1933). Bank failures and financial crises virtually disappeared after that, for nearly 50 years, but reappeared after financial deregulation commenced beginning in the 1980s.*
- Income inequality followed a remarkably similar pattern: rising in the lead up to the Great Depression, falling sharply after that, remaining at a historically low level from the 1940s through the 1970s, and then rising sharply after that.
- It is also striking that the two peaks in inequality occurred in 1928 and 2007 – in each case immediately before a major financial crisis.
- Of course, correlation is not causation. We do not yet know if there are meaningful connections between financial crises, financial regulation or deregulation, and income inequality. But the patterns across American history are sufficiently striking that further investigation of possible connections seems merited.

* See David Moss, "An Ounce of Prevention: Financial Regulation, Moral Hazard, and the End of 'Too Big to Fail,'" *Harvard Magazine*, September-October 2009 (http://harvardmagazine.com/2009/09/financial-risk-management-plan).