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The Glass–Steagall Act in historical perspective

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Abstract

Implementation of Volcker's Rule requires a historical perspective on the original Glass–Steagall Act of 1933 that separated commercial banking from investment banks in the United States. Like the Dodd-Frank legislation, the Banking Act of 1933 was passed before full analysis of the financial crisis was possible. The intended consequences of Glass–Steagall made Federal deposit insurance feasible by limiting entry of new banks while preserving unit banking. The unintended consequences, however, cut off access by small- and medium-size enterprises to external finance and also reduced the capital base for investment banks. Despite these harmful effects, the American economy did recover eventually.

Previous Next

Keywords

Commercial bank; Deposit insurance; Financial regulation; Glass–Steagall Act; Investment banks; Volcker rule