

A Long Road to the U.S. Banking Union

Anna Gelpern

Nonresident Senior Fellow, PIIE and Professor of Law, Georgetown

Nicolas Véron

Senior Fellow, PIIE and Bruegel



Is There a U.S. Banking Union?

- “Banking union” vs “banking federalism”
- 1780s-1836: Early developments to Bank Wars
- 1837-63: Free banking to National Banking Act
- National Banking era to New Deal
- S&L Crisis and “Single Banking Market”



Limited Historical Parallels

- U.S. banking integration took more than 200 years
 - Dual chartering persists
 - State business conduct regulation
 - Competition among states, with federal government
- (Very) Simplified Sequence

Political Union



Fiscal Union



Monetary
Union



Single Banking
Market

- “Doom Loop” or “Bank-State Vicious Circle”
 - Observed in isolated instances
 - Mostly pre-Civil War



Moral Hazard?

- U.S. began from “market discipline” (panics, bank runs) pre-monetary union
 - State safety nets generally inadequate / distortive
 - State insurance funds failed in 1840s, 1850s, 1920s, 1980s
- Federal safety net extended in increments
 - 1860s, 1910s, 1930s
- Regulation and supervision *quid pro quo*
- In Europe, strong national safety nets for financial firms backfired in crisis (bank-sovereign vicious circle); no longer viable in a monetary union and integrated financial markets



Reversals and Iterations

- “Giant Leap” centralization projects unite opposition, vulnerable to wholesale reversal
 - First & Second Bank of the United States
- Incomplete frameworks are vulnerable to regulatory arbitrage
 - State charter revival, deposit banking during National Banking era
- Successful reform has been iterative
 - Significant adjustments over the life of institutions
 - ... including dramatic reinventions in the early years of the Federal Reserve, FDIC