

Big Bad Banks?

The Winners and Losers from Bank Deregulation in the United States

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ABSTRACT

We assess the impact of bank deregulation on the distribution of income in the United States. From the 1970s through the 1990s, most states removed restrictions on intrastate branching, which intensified bank competition and improved bank performance. Exploiting the cross-state, cross-time variation in the timing of branch deregulation, we find that deregulation materially tightened the distribution of income by boosting incomes in the lower part of the income distribution while having little impact on incomes above the median. Bank deregulation tightened the distribution of income by increasing the relative wage rates and working hours of unskilled workers.

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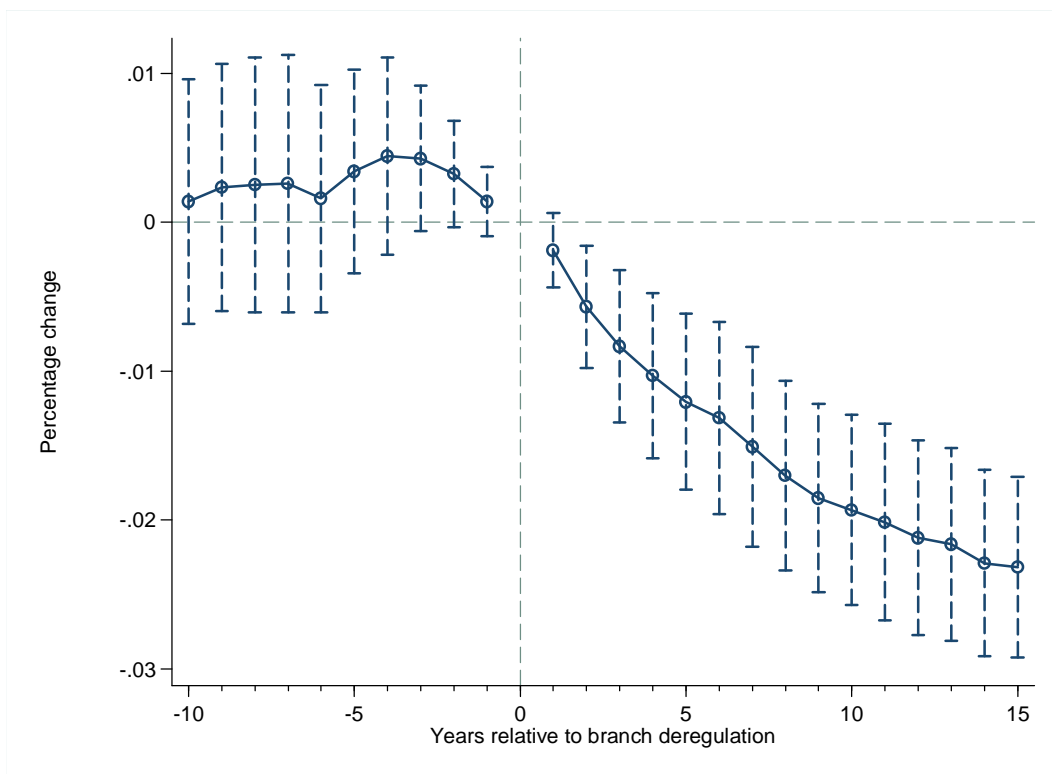


Figure 6. The Impact of Deregulation on Unemployment Rate. The figure shows the dynamic impact of branch deregulation on unemployment rate. The impact of deregulation on unemployment rate is represented by connected circles; dashed “arms” around the circles represent 95% confidence intervals, adjusted for state level clustering. All estimates are relative to the year of deregulation. Specifically, we report estimated coefficients from the following regression:

$$\text{Log(unemployment)}_{st} = \alpha + \beta_1 D^{-10}_{st} + \beta_2 D^{-9}_{st} + \dots + \beta_{25} D^{+15}_{st} + \mathbf{A}_s + \mathbf{B}_t + \varepsilon_{st}$$

where unemployment_{st} is unemployment rate in state s in year t . The D 's equal zero, except as follows: D^j equals one for states in the j^{th} year before deregulation, while D^{+j} equals one for states in the j^{th} year after deregulation. We exclude the year of deregulation, thus estimating the dynamic effect of deregulation on unemployment rate relative to the year of deregulation. \mathbf{A}_s and \mathbf{B}_t are vectors of state and year dummy variables that account for state and year fixed effects, respectively.