Abstract: Why did Democrats in Congress upend the financial regulatory regime they had maintained since the New Deal? In this paper, I argue that the congressional reforms of the 1970s paved the way for the Democratic Party’s repositioning on financial regulation. Prior to congressional reform, Democrats in Congress were especially parochial, and southern populists antagonistic to large Wall Street dominated the House and Senate banking committees. These parochial and populist orientations complimented the radically decentralized banking system (and tangential industries) buttressed by the New Deal regulations. The elimination of the seniority rule and other centralizing reforms reduced parochialism and strengthened Democratic Party leadership, enabling the party to enact deregulatory reforms that provided (short-term) benefits to the diffuse interests of American savers and consumers at the expense of entrenched industry groups. In the long run, however, these deregulatory reforms significantly accelerated the concentration of economic power held by the nation’s largest firms and wealthiest individuals. In this sense, this article provides an important contribution to the study of the politics of economic inequality, by describing how and why the Democratic Party exacerbated these trends.
New Deal financial regulations buttressed a radically decentralized system of small local banks by mitigating “cutthroat” competition, constraining interest rates as well as bank mergers and acquisitions, and imposing a firewall between commercial and investment banking (i.e. Glass-Steagall). For nearly half a century, the Democratic Party preserved this New Deal regulatory regime, and stymied encroachment from Wall Street firms determined to move American savings and debt out of local depository institutions and into more volatile securities markets. However, the Depository Institutions Deregulation and Monetary Control Act of 1980 (DIDMCA) and the Garn-St. Germain Depository Institutions Act of 1982 (GSDIA) fundamentally upended the New Deal regulatory regime by removing interest rate restrictions, placing savings and loans (S&Ls) and commercial banks in direct competition, enabling greater consolidation in the industry and significantly eroding Glass-Steagall.

Even a sophisticated observer of American politics may be forgiven for assuming that Republicans were the chief architects of financial deregulation, but this is not the case. DIDMCA was sponsored by Fernand St. Germain, the soon-to-be Democratic chair of the House Banking, Finance, and Urban Affairs Committee, advanced to the floor by Democratic Party leaders in both chambers, supported by overwhelming majorities of House and Senate Democrats on the floor, and signed into law by Jimmy Carter. Twenty-seven of the 28 cosponsors of GSDIA were Democrats, including future party leaders Chuck Schumer and Steny Hoyer, and the bill was supported by the party leadership and Democratic majorities in both chambers. Democrats did not reluctantly
consent to a Republican plan to deregulate the financial industry; rather, the Democratic Party initiated financial deregulation.

The Democratic Party’s position change on financial regulation is even more puzzling in light of recent theoretical and empirical work on political parties and partisan position change. A fruitful body of research argues that parties strategically make political and policy decisions at the behest of intense policy demanding groups within their coalition (Karol 2009; Cohen et al. 2008; Bawn et al. 2012; Schlozman 2015; Hacker and Pierson 2014; Hacker et al. 2021). The analysis of financial deregulation that follows, however, shows that both a core Democratic interest group (organized labor) and the entrenched crosscutting groups that benefited from the existing regulatory regime (local banks, savings and loans, real estate brokers and construction firms) continued to support the New Deal regulatory regime until the end. There is little evidence that interest groups aligned with the Democratic Party—or the local interests upon whom Democratic members of Congress relied upon—desired reform, and considerable evidence that many of these opposed it.

I argue that the Democrats’ rapid and substantial position change on financial regulations is poorly explained by existing accounts of party position change, and I outline a new theory that better accounts for this shift. Of central importance to this theory is the role of congressional institutions, which are largely neglected as independent causal factors in alternative accounts of position change.

From the New Deal to the mid-1970s, a decentralized institutional structure in Congress oriented the Democratic Party towards a form of parochialism centered on the
small, local banks, firms and labor unions. These constituency interests helped sustain a commitment to the regulatory policies that buttressed the nation’s radically decentralized system of small local commercial banks and S&Ls. However, as a result of the congressional reforms of the 1970s, the Democratic Party became more centralized as party leadership gained greater control over committees and legislative process. In an effort to promote the party’s collective interest, the more centralized Democratic Party in Congress used its newfound capacity for collective action to enact deregulatory reforms intended to advance the diffuse interests of American savers and consumers, despite the continued lobbying from entrenched interest groups. This effort to advance what Arnold (1991) would consider ‘public interest legislation’ would have been unlikely to occur absent the prior reorganization of congressional institutions—a reorganization that was largely undertaken for distinct purposes and with different goals in mind.

I develop my theory on the effects of congressional reform in two empirical sections. First, I construct a legislative history of the most consequential financial deregulation bill, DIDMCA, using a wide variety of qualitative data sources including Banking Committee correspondence and internal documents acquired through original archival research, testimony from committee hearings, markup sessions and the Congressional record, periodicals, and a close reading of legislative bills. I find that, as a result of institutional reforms, newly empowered party leaders increased the likelihood of financial deregulation by reshaping the Banking Committees and controlling the legislative agenda (Cox and McCubbins 2005, 2007; Aldrich and Rohde 2000).
In the final empirical section of the paper, I test the effects of state- and district-level industry and demographic variables on an original measure of members’ roll call voting that captures support for financial deregulation. I find that up to the period of congressional reform, members from districts with more union representation and a less concentrated banking industry (i.e. more small local banks) were especially likely to vote for the New Deal regulatory regime and against deregulatory reforms. However, after congressional reforms undercut southern committee chairs and centralized power within party leadership, district-level variables became far less predictive of voting behavior on financial regulation. These findings are consistent with my theory that congressional reform mitigated parochialism. As a result, Democrats became more willing to buck entrenched local industry groups that continued lobbying to preserve the New Deal regulatory regime.

These findings are consistent with the claims made by the prominent mid-twentieth century proponents of the “Responsible Parties Thesis,” who argued that stronger parties in government would advance their collective interest in winning or maintaining power by enacting policies that benefit the diffuse interests of the general public, rather than simply catering to the parochial interests of well-organized groups (Key 1960; Schattschneider 1942; APSA 1950; Ranney 1962). Under the conditions of hyperinflation and tight credit markets, the deregulatory reforms championed by Democrats expanded access to credit, and enabled working-class Americans and small businesses to enjoy the higher—albeit far more volatile—rates of return offered by
securities markets, at the expense of entrenched industry and labor groups (Davis 2009; Krippner 2011).

However, to the extent that this paper demonstrates the promises of stronger party government, it also reveals the benefits of parochialism and pitfalls of centralization. While financial deregulation made it easier for working- and middle-income Americans to obtain a loan, and increased the rate of returns on their savings, it also encouraged the “financialization” of the American economy (Krippner 2011; Witko 2016; Keller and Kelly 2015; Kelly 2019). The movement of Americans’ debt and savings into securities markets fueled the financial industry’s growing dominance over the broader economy.

Over the course of the 1980s, finance, insurance and real estate’s (FIRE) share of corporate profits in the U.S. economy *doubled*, and FIRE rapidly eclipsed manufacturing as a share of GPD (BEA). In contrast to stagnating median incomes in the broader economy, salaries on Wall Street have soared since the 1980s. Moreover, the regulatory unraveling that began in the early 1980s created the conditions for the Great Recession of 2008. In short, financialization has been an engine of economic inequality and instability.

In this sense, this paper makes an important contribution to the study of American political economy and inequality. A burgeoning literature on the politics of economic inequality details the rightward turn in public policy since the Reagan Revolution (Hacker and Pierson 2010, 2016; Jacobs and Skocpol 2005). This important body of research largely attributes this policy trend, and the corresponding rise in economic inequality, to the mobilization of economic elites and conservative groups on the right (Prasad 2006; Vogel 1989; Hertel-Fernandez 2013, 2014, 2016, 2019; Skocpol and
Williamson 2016; Skocpol and Hertel-Fernandez 2016), and an increasingly conservative and electorally successful Republican Party (Hacker and Pierson 2006, 2010, 2016, 2020; Bartels 2008). By contrast, this paper showcases the Democratic Party’s crucial role in restructuring the American economy, and exacerbating inequality, over the last several decades.

**New Deal Regulatory Regime**

The New Deal regulatory regime created a set of entrenched interests that represented a sizable share of the American economy, and fought to preserve these policies, in large measure, through the Democratic Party. Glass-Steagall separated depository institutions and investment banks by prohibiting investment firms from offering interest payments on deposits. This provision buffered ordinary Americans from the whims of markets, and ensured the credit was available for local home and construction loans. By building a firewall around the debt and savings of middle- and working-class Americans, Glass-Steagall constrained more lightly regulated securities brokers and investors from speculating with the burgeoning savings and debt of American consumers. It also had the effects of buffering small, local commercial banks and savings and loans (S&Ls) from direct competition with investment firms, which were generally large, national institutions located in metropolitan cities.

While Glass-Steagall protected local commercial banks and S&Ls from competition from national investment banks, complimentary New Deal policies substantially minimized competition among commercial banks and S&Ls. The most important of these was a Federal Reserve rule, created in accordance with the Banking
Act of 1933, called Regulation Q, which set limits on the interest rate commercial banks and S&Ls could offer depositors for their savings. When the original legislation was drafted during the Great Depression, Regulation Q was intended to prevent future bank runs and speculative lending. In practice, Regulation Q functioned much like a price control. By setting a ceiling on the interest rate banks and S&Ls could pay their depositors, small local banks could limit their expenses (i.e. interest payments) without worrying that a competitor would lure away their customers by offering higher interest rates on deposits. Since larger financial institutions had the excess capital to survive rate wars, it was widely accepted that Regulation Q benefitted the small- and medium-sized local banks and S&Ls, which constituted the overwhelming majority of depository institutions in the mid-20th century (Brandeis 1915; Kaufman 1986; Krippner 2011).

Still another set of policies limited competition between banks and S&Ls. Only commercial banks were permitted to offer checking accounts, but in an effort to reduce the attractiveness of checking accounts in relation to S&Ls accounts, banks were prohibited from paying interest to depositors in these highly convenient and liquid accounts. Moreover, lawmakers also imposed what became known as the “differential,” which provided an advantaged to S&Ls by allowing them to offer slightly higher interest rates than commercial banks and savings accounts. Meanwhile, various regulations successfully encouraged commercial banks to specialize in business loans, while S&Ls predominately issued mortgages.

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1 Moreover, federal and state laws restricted mergers and acquisitions, and constrained interbank branching across states or counties provided additional safeguards to protect the decentralized system of banking, and ensure that credit would remain local.
The New Deal regulatory regime ensured that commercial banks would mostly serve local businesses, S&Ls would mostly serve individual savers and homebuyers, while investment firms would serve wealthy individuals and large corporations. Small and medium-sized commercial banks and S&Ls favored these anticompetitive regulations. Local bankers during this period would joke that they lived by the 3-6-3 rule: pay 3% interest to depositors, lend those deposits to borrowers at a rate of 6%, and make it to the golf course by 3pm (Zweig 1995).

But the entrenched defenders of the New Deal regulatory regime extended far beyond the banking industry. Since local depository institutions were highly restricted in their ability to invest member deposits outside of the community, banks and S&Ls predominately issued loans for local business and home construction. Consequently, local real estate agents, developers, construction firms and labor unions across the country consistently allied with small- and medium-sized commercial banks and S&Ls to preserve these financial regulations.

**Policy Demanders During Committee Hearings**

According to the UCLA framework on political parties, position change occurs if groups ensconced within the party coalition issue new demands, or if the party is attempting to consolidate the support of a crosscutting group (Karol 2009). If this theory explains Democrats’ pivot on financial regulation, we should observe that Democratic

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2 In the extraordinarily decentralized financial system in mid-20th century America, small and medium sized banks and S&Ls represented the overwhelming majority of depository institutions.
allies or crosscutting groups abandoned their support for the NDRR, or that, during the
economic crises of the 1970s, a more electorally crucial coalition mobilized against it.

To test the coalition management theory of party position change on financial
deregulation in the late 1970s and early 1980s, I analyze the policy positions of interest
groups that were either ensconced within the Democratic Party, or that Democrats might
have been attempting to consolidate. For each House and Senate hearing on financial
reform that was conducted in the decade before the financial reforms of the early 1980s, I
systematically tracked the positions of interest groups on five of the major deregulatory
provisions that were included in DIDMCA and GSDIA: 1) the elimination of the
Regulation Q interest rate ceiling on deposits, 2) expansion of negotiable order
withdrawal (NOW) accounts, which allowed banks and S&Ls to pay interest rates on
checking accounts, 3) the sanctioning of money market mutual funds (MMFs) without
regulation, 4) the sanctioning of variable-rate mortgages, and 5) the preemption of state
usury laws.

The first two reforms liberalized the liabilities of depository institutions. The
third, MMFs, allowed investment banks to offer ordinary savers liquid accounts in which
funds were pooled together and invested in the bond market.

If banks and S&Ls were to compete by paying out higher rates on deposits, they
would need greater flexibility to generate revenue. Thus, the deregulation of banking

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3 From the perspective of a depository institution, deposits and the interest paid on
deposits are liabilities.
4 Investment banks began offering MMFs during the hyperinflationary period of the
1970s. Many expected Congress to explicitly prohibit these accounts since they clearly
defied the spirit of the Glass-Steagall separation between depository and investment
banking.

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liabilities was necessarily coupled with the deregulation of asset powers. Democrats in Congress did this by implicitly sanctioning variable-rate mortgages (VRMs). Moreover, DIDMCA also exempted mortgage, business and agricultural loans from state usury laws. These reforms allowed depository institutions to charge significantly more for credit, and to effectively index rates to the federal fund rate, and thereby increase the cash flow from borrowers as the cost of interbank borrowing increased.

Figure 1 summarizes the positions of entrenched policy demanders on these provisions. I use a plus sign to indicate that the group supported the deregulatory reform, and a negative to indicate opposition. A plus sign with an asterisk indicates that the group changed positions from opposition or neutrality to support.

Small commercial banks, represented by the Independent Bankers Association of America (IBAA), and small S&Ls, represented by The U.S. League of Savings Associations (USLSA), expressed the most uniform support for the New Deal regulations on bank liabilities. Meanwhile, large S&Ls, represented by the National Savings and Loan League (NSLL) and the Great Western Savings and Loan Association (GWSLA), advocated for the ability to offer checking accounts with interest payments (i.e. NOW).

**Figure 1: Positions of Entrenched Interest Groups on Deregulatory Provisions**

<table>
<thead>
<tr>
<th>Policy Demanders</th>
<th>Bank Liabilities</th>
<th>Bank Assets</th>
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<tbody>
<tr>
<td></td>
<td>Reg Q Phase Out</td>
<td>NOW Expansion</td>
</tr>
<tr>
<td>Small Banks</td>
<td>−</td>
<td>−</td>
</tr>
<tr>
<td>Large S&amp;Ls</td>
<td>−</td>
<td>+</td>
</tr>
<tr>
<td>Small S&amp;Ls</td>
<td>−</td>
<td>−</td>
</tr>
<tr>
<td>Home Builders</td>
<td>−</td>
<td>+*</td>
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</tbody>
</table>
The National Association of Home Builders (NAHB), and the National Association of Realtors (NAR), and the AFL-CIO also eventually came around to supporting NOW accounts. These industries relied on the availability of mortgage credit, and were thus heavily invested in the success of S&Ls. Accordingly, the NAHB and NAR strongly opposed the elimination of Regulation Q, and supported the liberalization of thrift asset powers.  

Organized labor clearly believed that deregulating interest rates on deposits would significantly harm the thrift industry, and result in less credit for home building, which would lead to less work for their laborers. In fact, union leaders were generally opposed to deregulating the assets and liabilities of S&Ls, with one important exception: the

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5 Regulation Q and Related Measures: Hearings Before the House Subcommittee on Financial Institutions Supervision, Regulation and Insurance, 96th Cong. (1980)(statements by Roland Ferland, NAHB; and Ralph Pritchard, president of NAR); NOW Accounts, Federal Reserve Membership and Related Issues: Hearings Before the Senate Subcommittee on Financial Institutions, 95th Cong. (1977)(statements by Roland Ferland, Vice Chairman of NAHB; and Daniel Hanrahan, chairman of Legislative Committee of NAR).

AFL-CIO supported the expansion of NOW accounts, on the condition that Regulation Q limits would be extended to these accounts.\(^7\)

While entrenched industry groups held distinct positions on some bank liability and asset liberalization, the variation displayed in Figure 1 actually greatly understates preference homogeneity on the New Deal regulatory regime. Each of these entrenched industry groups had the most intense preference on Regulation Q, and on this provision they were unanimous.

Small commercial banks, and S&Ls of all sizes, insisted that removal of Regulation Q, and the “differential” rate ceiling for commercial banks and S&Ls, would pose an existential threat to the savings and loans industry. Moreover, industry and labor groups dependent on local lending institutions shared this assessment, and thus lobbied for Regulation Q to prevent what they claimed would be a catastrophic disruption to the mortgage industry, and thus construction and real estate. This broad array of groups made it clear that retrenchment of the interest rates ceiling was not a bargaining chip they were willing to exchange for other asset and liability deregulations. A leader of the USLSA, the nation’s largest association of S&Ls, unequivocally articulated this position:

“We would much prefer to keep the differential. We feel we have to keep the differential even with NOW accounts. Clearly, the NOW account is no substitute for the differential. If giving us NOW accounts means further loss of or erosion of

the differential on savings accounts generally and the clear elimination of the
differential, then we say don’t give them to us.”

If the entrenched crosscutting and ally groups maintained support for the New
Deal regulatory regime, perhaps the emergence of new policy demanders explains the
Democratic Party’s repositioning on financial regulation.

Figure 2: Positions of Other Groups on Deregulatory Provisions

<table>
<thead>
<tr>
<th>Policy Demanders</th>
<th>Bank Liabilities</th>
<th>Bank Assets</th>
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<tbody>
<tr>
<td></td>
<td>Reg Q Phase Out</td>
<td>NOW Expansion</td>
</tr>
<tr>
<td>Investment Firms⁹</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Large Banks</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>Consumer Activists</td>
<td>+ *</td>
<td>+ *</td>
</tr>
<tr>
<td>Civil Rights Activists</td>
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</tbody>
</table>

As Figure 2 shows, more than any other policy demanding groups, DIDMCA and
GSDIA reflected the preferences and interests of large, national financial institutions.

Large commercial banks, represented by the American Bankers Association (ABA), and
large investment firms like Morgan Stanley, held clear competitive advantages in this

demanding for the “differential,” Strunk is implicitly also demanding for the continuation
of Regulation Q. If interest rate ceilings are not imposed on depository institutions, then
there can be no “differential” between the interest rate imposed on commercial banks and
that imposed on S&Ls.

⁹ Large investment banks remained evasive on most of these provisions, but they strongly
endorsed deregulation in general terms. Based on this and the economic benefits
deregulation promised for large investment banks, we might infer that they strongly
supported most if not all of these provisions.
new regulatory environment. So did the Democratic Party reposition on financial regulation to consolidate support from Wall Street?

Large commercial and investment banks eventually found allies in the fight for deregulating asset powers among groups with a more sympathetic valence: consumer advocates. In particular, the Gray Panthers and National Association of Retired People (AARP) conducted intensive letter writing campaigns in favor of a quick Regulation Q phase out, the expansion of NOW accounts, and statutory approval of MMFs. These organizations argued that their members, who were senior citizens dependent on their retirement savings, were watching the value of their wealth dwindle as a result of inflation and the interest rate ceiling.

Did the emergence of consumer rights advocates, as policy demanders for the deregulation of bank liabilities, prompt Democrats to pivot on the New Deal regulatory regime? That is, despite fierce opposition from the many entrenched interests of Regulation Q, Democrats may have perceived that appealing to consumer activists would have helped the party consolidate support among the burgeoning and increasingly pivotal

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10 The American Bankers Association (ABA) boasted that about 90% of the nation’s commercial banks enjoyed the benefits of membership, but since the New Deal regulatory regime safeguarded the nation’s decentralized system of small community banks from the existential threat of large national banks, it was impossible for the ABA to represent both large and small commercial banks on most important regulatory issues. The ABA toed the line from time to time, but on the most salient and divisive issues it reliably took positions that advanced the interests of the nation’s largest commercial banks (Zweig 1995).


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demographic of middle-class suburbanites (Geismer 2015; Cohen 2003), as well as more affluent senior citizens.

There is reason to doubt that consumer advocacy organizations, as policy demanding groups, galvanized the Democratic Party’s position change. First, it is not at all clear from the testimony of the consumer advocates that they were willing to trade the deregulation of bank assets for the deregulation of liabilities. Indeed, while most retirees might enjoy net benefits from the regulation of bank assets and liabilities, it was far from clear that such an arrangement would provide net benefits to the average working consumer-saver. After all, most working Americans owe more in debt than they hold in savings. While consumer advocates wanted savers to receive a higher rate of return on their savings, they remained skeptical that banks would use more liberal loan standards to exploit borrowers. As one consumer advocate presciently warned,

“How many steelworkers, how many autoworkers, how many public service employees, how many people working in any area can commit themselves to a 35-year mortgage with a fluctuating interest rate? As his mortgage goes up, will his employers raise his hourly rate to help meet the unanticipated, inflationary increased cost? If this answer is no, then where does he get the increased money? From another loan? Perhaps a second fluctuating variable mortgage?”

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12 To argue, as I do here, that Democrats made decisions to benefit the diffuse interests of American consumers is not akin to arguing that Democrats catered to the demands of organized consumer advocacy groups.

Moreover, in addition to the inclusion of provisions opposed by consumer advocates, the omission of other provisions provides further evidence that Democrats were not merely catering to these groups. For example, while Ralph Nader, the most high-profile consumer advocate, lamented that interest rates ceilings hurt savers and “shielded inept management,” he also worried that deregulatory reforms would exacerbate conglomeration in the bank industry, which would ultimately hurt borrowers and taxpayers. Indeed, this was the principle concern Nader expressed in his testimony:

“When banks become too big to fail, they in effect have an unwritten guarantee that Uncle Sam is going to bail them out. And in times of trouble, where some banks may be considered shakier than others, and where some cities may be going bankrupt, it is quite clear that some depositors or investors in CD’s are going to say, well, let us put the CD in a big New York bank, because that is not going to fail. Uncle Sam will back it up. So why put it in a bank in Topeka, or even a bank in St. Louis, when you can put it in a bank in New York or in the Bank of America in California?”

Nader was cognizant that the elimination of Regulation Q would result in further concentration in the industry, as small banks failed to remain profitable as interest rates on deposits increased, and large national banks moved in to fill the void. Consequently, Nader and other consumer advocates demanded further regulations on bank holding companies, and on interstate and intrastate branching, and prohibitions against S&Ls converting to stock companies. But Democrats largely ignored these demands during the

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14 Ralph Nader, FINE Hearings, p. 919.
legislative process, and DIDMCA and GSDIA omitted complimentary reforms to stymie conglomereration in the post-Regulation Q banking industry.

In sum, the optimal electoral strategy for the Democratic Party’s on financial regulation was ambiguous. On the one hand, we can reasonably assume that Democrats thought that championing financial deregulation would help the party win more support from Wall Street, particularly in the form of campaign contributions (Kelly 2019; Keller and Kelly 2015), and that the party could strategically employ these increased funds to maintain power. On the other hand, from the party’s vantage point during this period, it would have been unclear at best, and arguably unlikely, that the marginal gains from Wall Street would be greater than the electoral costs of alienating other influential cross-cutting groups (i.e. local banks, real estate brokers and construction firms), and weakening a crucial ally (i.e. organized labor).

In short, during the 1970s, the Democratic Party unquestionably reoriented its policy prerogatives in favor of large national financial institutions, and to a lesser extent the national consumer movement, at the expense of groups who enjoyed entrenched advantages under the New Deal regulatory regime. However, it seems unlikely that this reorientation was driven by a sheer strategic calculation that catering to Wall Street and consumer advocates would improve the party’s electoral fortunes against Republicans.

Rather, it seems as though many congressional Democrats and bureaucrats genuinely believed that deregulating bank liabilities (i.e. eliminating Regulation Q, sanctioning NOW accounts) and eroding Glass-Steagall (i.e. permitting Money Market Mutual Funds) had the potential to provide immediate relief to American savers.
Although consumer advocates were wary about deregulating bank assets (i.e. sanctioning variable rate mortgages, usury preemption), Democrats in Congress reasonably assumed that many depository institutions could not remain profitable if banks had to pay market prices for deposits but could not charge market prices for loans. Moreover, Democrats in Congress and regulators reasonably assumed that allowing banks and S&Ls more asset flexibility would benefit consumers by expanding access to credit.

**Congressional Reform**

In the remainder of this article, I argue that institutional reforms in Congress—committee reforms in particular—altered power dynamics within the congressional Democratic Party in ways that increased the likelihood of serious deregulatory reform.

Prior to the 1970s, power in Congress was highly decentralized, and the Democratic Party was a cross-regional alliance that on many issues could be highly contentious or even openly conflictual. Due to the widespread disenfranchisement of African Americans in the Jim Crow South, and the Democratic Party’s corresponding dominance in southern elections (Valelly 2004), Southerners had longer careers in Congress than northern Democrats and, since the New Deal, had been overrepresented as committee chairs (Key 1964; Rohde 1991). Moreover, given the national Democratic Party’s longstanding dependence on the South in maintaining a winning coalition, southern legislators at-times wielded disproportionate influence within the party (Bateman et al. 2018). While agrarian southern Democrats were concerned about the burgeoning federal government, they were also highly suspicious of large corporations...
and financial institutions located in the north (Brandeis 1914; Schlesinger 1959, 1960).
Consequently, southern committee chairs often used their outsized influence to direct
national policy towards imposing and preserving constraints on large national banks and
industry.

In these highly decentralized Congresses, members generally self-selected into
committees (Fenno 1973), and chairpersonships were achieved through tenure (Polsby et
al. 1969). Consequently, ambitious politicians in Congress could only advance their
careers slowly by repeatedly winning renomination and reelection, as opposed to pleasing
party leaders. Under these institutional conditions, congressional Democrats were far
more responsive to the parochial concerns of organized groups and citizens in their
district than to party leaders or any sense of the party’s collective interest.

Parochialism – long present in Congress, but exacerbated by the relative weakness
of party leaders – undermined collective action towards reforms justified as
improvements in market efficiency and advancing the diffuse interests of American
consumers, since these policies often threatened entrenched business and labor interests.
Moreover, decentralized industries that were diffusely distributed across states and
congressional districts, such as the commercial banking and savings and loans industries,
were especially well positioned to achieve legislative support in this parochial
environment. That their decentralization was in part the result of policy ensured that these
interests would be especially sensitive to policy changes.

In the early 1970s, congressional reforms consolidated party leaders’ authority in
Congress and eliminated the seniority rule, thereby ending committee (as opposed to

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party) dominance in Congress (Rohde 1991; Sinclair 1995, 2012; Zelizer 2003; Bloch Rubin 2017; Schickler 2001). I theorize that these institutional reforms paved the way for financial deregulation by 1) empowering Democratic Party leadership to exercise greater influence of the Banking Committees, and the legislative process, enabling them to hide controversial provisions and shield members for interest group attacks, and 2) by making rank-and-file Democrats less parochial and more oriented towards the party’s collective interests.

**Reshaping the Banking Committees**

Prior to 1975, Wright Patman (D-TX), an agrarian southerner who was overtly hostile to large financial institutions and the technocratic administrators who sided with them, chaired the House Committee on Banking and Currency. Patman’s counterpart in the Senate was John Sparkman (D-AL), another prominent southern populist.

For Patman and Sparkman, seemingly anticompetitive federal regulations on bank assets and liabilities were, in fact, necessary to buffer small local banks and communities from the threat of large national banks, which would fill the void that would inevitably emerge in a hypercompetitive environment with minimal regulations. Patman, who spent his freshman term in the House responding to the Great Depression and found a close mentor in Louis Brandeis, was especially consistent in expressing such views. Indeed, his zeal for using federal banking regulation to disrupt the concentration of economic power was unwavering throughout his career.

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15 For example, Patman once asked Federal Reserve chair Arthur Burns, “Can you give me any reason why you should not be in the penitentiary?” [https://www.theatlantic.com/politics/archive/2016/10/how-democrats-killed-their-populist-soul/504710/](https://www.theatlantic.com/politics/archive/2016/10/how-democrats-killed-their-populist-soul/504710/)
The Watergate scandal swept scores of reform Democrats into office, and in Congress these freshmen coalesced with veteran reformers to eliminate the seniority rule for committee chairs and empower party leadership. These reforms themselves were not endogenous to the fight for deregulation, even if the subsequent elevation of reformers was. With these new institutional tools, reformers immediately targeted the Committee on Banking and Currency. Party leadership stacked the House Banking Committee with incoming members who were disproportionately reform-minded. Scholars and journalists typically refer to the “Watergate Babies” as liberal cohort, and on socio-cultural issues they clearly were. However, on economic issues, the Democrats who entered office in the post-Watergate election cycles were more ideological moderate, and more likely to vote with Republicans. As evidence, Democrats who entered Congress from 1975 to 1979 were one-third of a standard deviation more to the right of their more senior Democratic colleagues on first dimension DW-Nominate Scores—which are associated with economic and administrative ideology—and one-third of a standard deviation to the left on second dimension DW-Nominate Scores—associated with socio-cultural ideology.

Table 1 reveals the disproportionate share of Democrats elected after Watergate on the House Committee on Banking and Currency in the 94th and 96th Congress. After the historic landside elections of 1974, a record 72 freshman Democrats constituted nearly one quarter of the party’s House caucus. However, the “Watergate babies” were an especially dominant force on the Banking Committee, in which they held just under half (13 out of 28) of the seats. By the 96th Congress, this new generation of Democrats
controlled a full two-thirds of the seats on the House Banking Committee, while they only held a slim majority of seats in the entire caucus.

<table>
<thead>
<tr>
<th>Congress</th>
<th>House Caucus</th>
<th>Banking Committee</th>
</tr>
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<tbody>
<tr>
<td>94th (1975-6)</td>
<td>72 out of 289 (25%)</td>
<td>13 out of 28 (46%)</td>
</tr>
<tr>
<td>96th (1979-80)</td>
<td>146 out of 278 (52.5%)</td>
<td>18 out of 27 (67%)</td>
</tr>
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Reformers within the House Banking Committee immediately replaced Patman with the committee’s 4th ranking member, Henry Reuss (D-WI).\(^{16}\) During a Democratic Caucus meeting, William Moorhead (D-PA) spoke “in support of the candidate of reform…one of the ablest economists in this Congress, our good friend from Wisconsin, Mr. Henry Reuss (Baer-Bositis, p.203).”

While Reuss expressed a seemingly genuine commitment to financial reform, he was also a strategic political actor who recognized the changing power dynamics within the congressional party. Soon after assuming his new position, Reuss candidly and colorfully explained, with a gesture towards the empowered reform caucus and the party leadership, “from now on, the sword of Damocles will be hanging over every chairman (Zelizer 2004, p.168).”

A parallel development occurred in the Senate, as William Proxmire (D-WI), another Wisconsinite, replaced Sparkman (D-AL) as chair. As Proxmire warned upon his ascension to the chairmanship, “The banking industry was too comfortable with Sparkman and Robertson and Fulbright—a long succession of Southern chairmen.”\(^{17}\)

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\(^{16}\) After serving as committee chair for over a decade, Patman would awkwardly serve his 23rd and final term in Congress under Reuss’s chairmanship.

The new northern Banking Committee chairs shared a fundamental belief in market competition that was increasingly common among the now dominant reformist faction of the Democratic Party, and distinct from their southern populist counterparts. While Patman and Sparkman warned that eliminating the New Deal regulatory regime would pave the way for a national banking monopoly, Reuss and Proxmire argued that repealing these “artificial” constraints would disrupt local monopolies to the advantage of savers and borrowers.\textsuperscript{18}

On assuming their respective positions as chair of the Senate and House Banking Committees, Proxmire and Reuss heightened the anxieties of the entrenched industries that benefited from the New Deal regulatory regime that the end of southern rule marked the discontinuation of business as usual. In his first major decision as House chair, Reuss commissioned a study of “Financial Institutions and the Nation’s Economy (FINE)” headed by pro-deregulation economists, and scheduled a seven-day hearing focusing on the commission’s findings, which unsurprisingly called for the elimination of Regulation Q, expansion of NOW accounts, and the deregulation of bank assets.\textsuperscript{19}

Ruess and Proxmire failed to achieve deregulatory reform during their first two Congresses as committee chairs. However, during the 94\textsuperscript{th} (1975-76) and 95\textsuperscript{th} (1977-78) Congresses, these Wisconsinite reformers laid the foundation for fundamentally upending

\textsuperscript{18} It is not entirely clear if Reuss and Proxmire’s faith in markets led them to believe that small local banks and S&Ls could survive in an unregulated environment. Most likely, Reuss and Proxmire recognized that deregulation would promote centralization in the industry, but thought that antitrust and branching regulations would effectively mitigate this tendency, and most of all, that the benefits of higher rates of return for savers, and greater access to credit for borrowers, were simply higher priorities.

\textsuperscript{19} James Pierce, Consultant and Director of the FINE Study, House FINE Hearings.
the New Deal regulatory regime. By the time inflation reached double digits in late 1979, the House and Senate Banking Committees had held dozens of hearings on deregulating bank assets and liabilities, and eroding Glass-Steagall, and committee members had introduced numerous bills that would achieve these reforms.

**A Legislative History of DIDMCA**

In addition to reshaping the ideological character of the Banking Committees, Democrats Party leaders, empowered by the institutional reforms of the 1970s, also increased the likelihood of major financial deregulation by using the Rules Committee and other legislative tactics to bury controversial provisions and shield members from interest group attacks. In this section, I construct a legislative history to test these claims by using a wide variety of qualitative data sources including Banking Committee correspondence and internal documents acquired through original archival research, testimony from committee hearings, markup sessions and the Congressional record, periodicals, and a close reading of legislative bills.

While Henry Reuss and William Proxmire shared an ideological commitment to financial deregulation, at the beginning of the 96th Congress (1979-80), Reuss did not believe he could get the votes in the House for Regulation Q repeal. Moreover, Reuss prioritized another economic problem more directly related to inflation: Federal Reserve membership.

While Fed membership included several perks, reserve requirements became increasingly costly for banks during the period of persistent inflation—the depreciation of funds in savings accounts incentivizes businesses and consumers to spend more while
saving less. But the same inflationary pressures that made Fed membership more costly for banks also intensified the Federal Reserve’s ambition to include more banks in the Federal Reserve System. The Federal Reserve believed that systematic increases in interest rates were required to curb inflation, and the Fed’s ability to systematically increase interest rates required expanding membership in the Federal Reserve System.

At the beginning of the 96th Congress, Reuss was intent on solving the Fed membership problem, but did not anticipate fundamentally restructuring the banking industry during the session. Ironically, at the start of the term, Reuss insisted, “We don’t have the heavy legislative workload we had in the last Congress, but we do have one matter of primary importance and that is the Monetary Control Act of 1979, which I have just put into the hopper.”

Reuss’s Monetary Control Bill would impose mandatory reserve requirement on all national banks, thereby eliminating the main motivation banks had for opting out of the Federal Reserve System. An alternative solution, preferred by the commercial banking industry (including the ABA and the IBA), was for the U.S. Treasury to pay banks interest on their reserves, and thereby provide a financial incentive for banks to join the Federal Reserve. The former solution was a carrot, and the latter a stick. Reuss urgently wanted to solve the membership problem, but he was reluctant to provide such a generous windfall to commercial banks at the expense of taxpayers.

In May, after several failed attempts at passing his preferred bill out of committee, Reuss hashed out a compromise bill with William Moorhead (D-PA) and the House

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Banking Committee’s most conservative Democrat, Doug Barnard (D-GA), which effectively lowered the share of funds banks would need to hold on reserve by excluding funds in savings accounts from the calculation.\(^{21}\) Moreover, the compromise bill would only impose mandatory reserve requirements on the nation’s largest commercial banks. On June 5\(^{th}\), 1979, the House Banking Committee approved the revised H.R.7 bill by a vote of 26-14.\(^{22}\)

While Reuss was still unable to push a substantial deregulation bill through his committee, he was simultaneously plotting with party leadership on how to circumvent the committee. Later on June 5\(^{th}\), sometime after the committee approved of the monetary control bill, Reuss wrote to Richard Bolling, House Chairman of the Rules Committee, to request a “one-hour open rule” vote on the revised H.R.7, and expressed his intention to introduce an amendment that would establish “competitive equality among depository institutions.”\(^{23}\)

Ultimately, however, Reuss could only marshal sufficient support on the floor for a relatively modest—albeit important—deregulatory reform provision that sanctioned depository institutions to pay interest on checking accounts (i.e. NOW accounts). In late July 1979, the House easily passed the compromise Monetary Control Bill on a 340 to 20 vote.\(^{24}\)


\(^{23}\) Congressional Archives, 96\(^{th}\) Congress, Legislative File H.R. 7, Box 1.

Under Proxmire’s leadership, the Senate responded to H.R. 7 by passing a considerably more ambitious reform bill that included the elimination of Regulation Q, among other major deregulatory reforms.

As a matter of economic policy, Reuss remained supportive of Regulation Q repeal. However, as a matter of congressional politics, Reuss’s experience made him confident that he could not pass a bill with a phase out provision.\footnote{The Baltimore Sun. Sep 26, 1979. Reuss Warns of ‘Problems’ in Senate Banking Bill} Opposition from small commercial banks, S&Ls, Realtors and laborers weighed Reuss’s Democratic colleagues in the committee. Moreover, although large national banks fiercely advocated for a Regulation Q phase out, they were not prepared to lobby \textit{against} a bill that failed to remove the interest rate ceiling on deposit, if it liberalized other bank assets and liabilities, and lowered reserve requirements.\footnote{The nation’s largest commercial banks were already part of the Federal Reserve System anyway. While they would have preferred the windfall of the U.S. Treasury paying banks interest of reserves, they also preferred H.R. 7’s package of mandatory reserves with a lower reserve requirement than the status quo.}

More than pressure from any interest group or administrative agency, the decisive factor that, in the fall of 1979, prevented the passage of a less ambitious deregulation bill—as part of the Monetary Control Bill—was William Proxmire. In a “sort of legislative chicken game,” Proxmire refused to advance a monetary control bill that did not include the elimination of Regulation Q, even as Reuss and St. Germain maintained that they could not get a bill that eliminated Regulation Q through the House.\footnote{Hartford Courant. Nov 25, 1979. House, Senate Split Over Deregulation of Banking.}

Proxmire’s willingness to delay resolving the membership issue—and ultimately use Reuss’s preoccupation with the issue to advance his own deregulatory priorities—was
predicated on the conviction that curbing inflation did not require expanding Federal Reserve membership. Interestingly, the renowned libertarian economist Milton Friedman, whose advice Proxmire sought, may have informed Proxmire’s views. A detailed letter from Friedman to Proxmire began, “I do not believe that a decline in Federal Reserve membership threatens the conduct of monetary policy or control of the monetary aggregates. Neither does the erosion of the membership threaten the safety and soundness of the banking system.”

In January and February of 1980, the House Subcommittee on Financial Institutions Supervision, Regulation and Insurance, led by St. Germain, held a hearing on Regulation Q. The prioritization of speakers at the hearing reveals Reuss’s and St. Germain’s strategy—and in the reformed Congress, we might infer the priorities of Democratic Party leadership. Under the stewardship of Wright Patman, during hearings on Regulation Q in 1973, several trade representatives of S&Ls and mutual savings banks set the tone of the hearings by testifying first—they capitalized on their opportunity to unequivocally express their strong support for Regulation Q. By contrast, in the 1980 hearings, Reuss and St. Germain invited Freddie Mac and Fannie Mae to lead off the hearings. These government-sponsored enterprises (GSE) argued that, by their own estimation, S&Ls would survive in a future without interest rates ceilings on deposits if they were also granted new asset powers—such as variable-rate mortgages and federal preemption of state usury laws. But, prophetically as it turns out, Fannie and Freddie mostly discussed their ability to generate credit for the housing industry through

28 95th Congress, Senate Committee on Banking, Federal Reserve Membership, Box 46. Letter from Milton Freidman to Senator Proxmire (Dated August 21st, 1978).
secondary markets. The subtext Reuss and St. Germain fostered by allowing these GSEs to lead off the hearing was profound: If S&Ls could not survive in a deregulated environment, GSEs were capable of providing credit for the housing industry.

By February of 1980, Reuss began scheming on the possibility of enacting a comprehensive deregulatory bill—that would include the elimination of Regulation Q and the preemption of state usury—through untraditional legislative tactics. In his notes, Reuss jotted down that these structural changes would function better than price controls to battle inflation.29

In early March, Democrats established a joint conference committee led by Proxmire and Reuss, which hashed out a comprehensive reform bill, and successfully kept the compromise package under the radar by withholding crucial details from the public for several weeks. Consequently, the Washington press corps paid almost no attention to the joint conference. On March 21st, 1980, the House and Senate released their Conference Report. Buried on page 72 of the 85-page report was a provision that would phase out Regulation Q over the course of 5 years. The description of the bill omitted Regulation Q repeal, as well as usury preemption, which was the second most highly controversial provision of the bill. The House Rules Committee quickly advanced the compromise bill to the floor for a closed vote. Ultimately, the House voted overwhelmingly to pass the version of H.R.7 that came out of the joint conference committee. Only a small handful of Democrats voted against the bill.30

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29 Congressional Archives, 96th Congress, Legislative File H.R. 7, Box 1.
30 Fellow Illinoisan Paul Simon and seven southern Democrats joined Annunzio.
The overwhelming number of Democrats who voted for DIDMCA surely overstates the party’s level of enthusiasm for the bill. Rather, the clandestine process orchestrated by Reuss, Proxmire and the Democratic Party leadership explains the lopsided vote. A spokesperson from Ralph Nader’s Public Interest Research Group complained, “It’s an incredible way to legislate.” Another critic lamented, “People didn’t know what they were voting on.” Indeed, Frank Annunzio (D-IL)—a protégé of Wright Patman and chair of the House Subcommittee on Consumer Affairs—was so upset by the compromise bill, and the untraditional process that produced it, that he stormed out of the conference room without signing the joint report.

Diminished Parochialism in Democrats’ Voting on Financial Regulation

In addition to reshaping the House Committee on Banking and Currency, and empowering party leadership to employ tactics that shielded members from industry lobbying and the policy details in the run up to the final floor vote, I also theorize that congressional reforms also reoriented rank-and-file members away from parochialism in favor of leadership and the party’s perceived collective interests.

More specifically, I test the effects of congressional reform on the move away from parochialism by measuring the relationship between district factors and legislative behavior on financial regulation. I combine state and district-level economic and demographic data with an original dataset of members’ voting behavior on financial and banking regulatory bills that structure competition and the concentration of economic

power. More specifically, these bills addressed regulations on at least one of the following issues: interest rates on deposits (and the differential between S&Ls and commercial banks), interest rates on loans, NOW accounts, intra and interstate bank branching, and bank holding companies. I identified 35 roll calls on such votes held in the House during this period, within nine distinct congressional sessions from the 81st (1949-50) to the 102nd (1991-92) Congress.

I coded each relevant House bill as either increasing or decreasing the overall level of economic regulation. For each roll call, I assigned a member a 0 if she casted a pro-regulatory vote, a 1 if she took anti-regulatory vote, and dropped her if she abstained or was absent.33

For each House Democrat who served during a Congress in which a significant financial regulatory bill reached the floor, I use the average of these scores as an indicator of their legislator behavior on financial deregulation. A positive 1 indicates that a member voted yes on every bill that would reduce financial regulation, and voted no on every bill that would increase it. A zero indicates the opposite.

A difficulty in interpreting quantitative measures based on roll call voting across Congresses is that such scores are not comparable if the ideological substance of the agenda is relatively static, which is often not the case, and this was certainly not the case with regards to financial and banking regulation during this period. Nevertheless, these deregulatory scores provide a reliable measure of the relative position of Democrats

33 Pro-regulatory votes are yes votes on bills that would yield an overall expansion of financial regulation, or no votes on bills that would retrench financial regulations. Anti-regulatory votes are yes votes bills that would decrease financial regulation, and no votes and bills that would increase regulation.

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within a Congress. What we are interested in here is a comparison of the predictive power of state and district-level economic and demographic variables on the relative position of Democrats on financial regulation (i.e. deregulation score) across Congresses.

For predictive variables, I include estimates of state and district-level demographic and industry variables helpfully compiled and shared by Scott Adler. District-level variables come from the Census. These include the number of blue-collar workers, construction workers, African Americans, senior citizens, employees in finance, insurance and real estate (FIRE) and the number of residents living in urban areas and in rural farm areas. I also include a state-level measure of an estimate of union laborers. Finally, I use data from the Federal Deposit Insurance Corporation (FDIC) to construct a measure of banking concentration by state. Specifically, I divide the total bank deposits by the number of banks as a proxy of banking concentration within the state.

For the most part, each of these variables is intended to represent an interest or identity group that the New Deal regulatory regime materially benefitted or harmed. Most importantly, if member were more parochial prior to the congressional reform of the mid-to late-1970s, we should expect to see that members from districts with a larger share of union members and blue-collar workers—who benefitted from regulations the buttressed local S&Ls and commercial banks, and thereby promoted local homebuilding and business construction—were less likely to cast anti-regulatory votes against the New Deal regulatory regime.

I ran multivariate regression models on Democrats in each Congress in which an important bill significantly related to the New Deal regulatory regime reached the House
floor. The results are presented in Table 1 below. A plus sign indicates that an increase in the respective independent variables predicts more deregulatory voting behavior. A minus sign indicates that an increase in the independent variable generally corresponds to a decrease in deregulatory scores. Coefficients that are significantly significant are represented with an asterisk. The vertical dotted line between the 93rd and 94th Congresses demarcates sessions before and after the elimination of the seniority rule.

As Table 1 reveals, in most Congresses from the 81st to the 93rd, higher union membership predicts a lower deregulation score, and in most Congresses this relationship is statistically significant. In general, in the pre-reform period, members from states with greater concentration in the banking industry were more likely to support deregulation, although the relationship is only significant in the 91st Congress. Other variables trend in predictable ways, and are often statistically significant.

| Table 1: Effects of District-Level Group Variables on Democrat’s Deregulation Scores |
|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| 81st 1949       | -               | **              | +               | +               | -               | -               | -               | +               | +               |                |                 |                 |                 |                 |                 |                 |                 |                 |
| 89th 1965       | -***            | -***            | -***            | -***            | -***            | +               | -               | +               | -               |                |                 |                 |                 |                 |                 |                 |                 |
| 91st 1969       | +               | +               | +**             | +               | -               | -               | +               | -               | +               |                |                 |                 |                 |                 |                 |                 |                 |                 |
| 93rd 1973       | -**             | -**             | +               | -               | -***            | +               | -               | +               | -               |                |                 |                 |                 |                 |                 |                 |                 |                 |
| 94th 1975       | +               | +               | +**             | +               | -               | +               | -               | +               | -               |                |                 |                 |                 |                 |                 |                 |                 |                 |
| 95th 1977       | +***            | +               | +               | +               | -               | +               | -               | +               | -               |                |                 |                 |                 |                 |                 |                 |                 |                 |
| 96th 1979       | +               | +               | +               | -               | -               | +               | -               | +               | -               |                |                 |                 |                 |                 |                 |                 |                 |                 |
| 101st 1989      | -               | +               | -               | +               | -               | -               | +               | -               | +               |                |                 |                 |                 |                 |                 |                 |                 |                 |
| 102nd 1991      | +               | +               | +               | -               | +***            | -               | -               | +               | -               |                |                 |                 |                 |                 |                 |                 |                 |                 |
| R²              | .57             | .30             | .11             | .27             | .32             | .03             | .14             | .06             | .08             |                |                 |                 |                 |                 |                 |                 |                 |                 |                 |
| N               | 240             | 288             | 232             | 206             | 284             | 285             | 276             | 242             | 263             |                |                 |                 |                 |                 |                 |                 |                 |                 |                 |
| Floor Votes     | 3               | 3               | 2               | 1               | 6               | 3               | 4               | 1               | 8               |                |                 |                 |                 |                 |                 |                 |                 |                 |

* p < .05, ** p < .01, *** p < .001

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If Congress became oriented towards parochialism after the centralizing institutional reforms of the 1970s, we should expect to see a noticeable decline in the predictive power of these economic and demographic variables. The 94th Congress, the Congress in which the seniority rule was eliminated, looks very similar to earlier Congresses. However, in the subsequent sessions, union membership and other economic and demographic variables are less predictive.

Moreover, the general pattern of declining $R^2$ values in the post-reform period demonstrates the declining predictive power of these models in the Congresses after reform. The results are largely—albeit imperfectly—consistent with my theory that congressional reform mitigated the incentive for Democrats in Congress to prioritize the parochial demands of their constituents.

**Counterfactual History: A Cumulative Analysis of the Evidence**

The evidence presented in this paper suggests that the economic crises associated with hyperinflation, the lobbying of Wall Street and consumer advocates, and the idiosyncratic policy entrepreneurship of William Proxmire were important causal factors that shaped the Democratic Party’s pivot on financial regulation. Nevertheless, despite these other variables, congressional reforms that undermined “committee government” and empower party leadership played a crucial role in the party’s position change.

To assess this central claim of the article, let us consider how the legislative process on financial deregulation would have unfolded in the counterfactual history in which committee reform never occurred.
First, if the seniority rule remained in place, the House Committee on Banking and Currency likely would have remained dominated by Democrats more sympathetic to the New Deal regulatory regime. Granted, Patman and William Barrett (D-PA), the committee’s second ranking member, died during the term, which might have made Henry Reuss the committee’s most senior member by the start of the 95th Congress (1977-78). However, if committee reform had not occurred, there is good reason to believe that Reuss would not have been the most senior member even by 1980. In the 94th Congress, Reuss was outranked by Patman, Barrett and southern populist Leonor Sullivan (D-MO). However, during the reform revolution of 1975, Sullivan was removed from her posts as Chair of the Subcommittee on Consumer Affairs and Secretary of the House Democratic Caucus, for her staunch support of Patman and opposition to Reuss. These demotions prompted Sullivan to retire prematurely from Congress at the end of the term. If she had maintained these positions of power, one might reasonably assume that Sullivan, who lived until 1988, would have maintained her post as Chairwomen of the House Committee on Banking and Currency until long after the inflation crisis—and with it the window for upending the New Deal regulatory regime—subsided. In sum, at best, Reuss would have had less time to shift the legislative agenda and build a coalition around deregulatory reforms. At worst, and perhaps more likely, Sullivan would have functioned as a veto point for deregulatory reform efforts.

34 Barrett did not match Patman’s fiery populist rhetoric, but his voting record indicates that he was nearly equally committed to maintaining the New Deal regulatory regime. 35

Second, in the absence of centralizing congressional reforms, Democratic Party leadership would not have wielded the necessary influence over the legislative process. The most controversial deregulatory provisions (i.e. elimination of Regulation Q or the preemption of state usury laws) would have been incorporated in a bill that passed through the House Committee on Banking and Currency, and likely brought to the floor with an open rule and the possibility for amendments. Even in the actual 96th Congress, which party leaders stacked with reformers, Reuss was unable to move such a bill out of committee—which is why the party ultimately coordinated the less transparent and unorthodox process.

Finally, the findings above suggest that even if a major deregulatory bill did reach the floor for a vote 1980, in a counterfactual scenario in which the seniority rule persisted and party leadership was weak, rank-and-file Democrats would have been less likely to vote for measures that would advance the interests of American saver-consumers—and presumably the party’s collective interest—at the expense of the parochial concerns of local banks, S&Ls, related industries, and organized labor.

**Conclusion**

The New Deal regulatory regime was created and perpetuated within an institutional context that encouraged members of Congress to be parochially oriented, and to empower southern populist committee chairs. In this context, the caucus as a whole was especially responsive to the parochial demands of small local banks and S&Ls—and allied industry groups and labor unions—that were situated across many districts and states. In these decentralized Congresses, Democratic Party leaders were unable address
national concerns about market efficiency and consumer interests, since deregulatory reforms threatened the local banks, S&Ls, realtors, construction firms and laborers who benefitted from the New Deal regulatory regime.

During the 1970s, these entrenched interests continued to defend the key provisions of the New Deal regulatory regime, but Democrats became less responsive to their demands. In the new institutional context of the 1970s, a more centralized Democratic Party in Congress stacked the House Banking committee with reformers, who in turn elected a pro-reform committee chair. By enabling the Democratic Party to exercise greater influence over the Banking Committees and legislative process, and by shifting the incentive structure for rank-and-file members, the congressional reforms of the 1970s made it possible for Democrats to enact laws that served the diffuse interests of American consumer-savers, despite fierce opposition from the entrenched interests of the New Deal regulatory regime.

However, given economic developments since 1980, these findings showcase the tension between the diffuse interests of Americans as saver-consumers, and the diffuse interests of Americans as workers and citizens. The New Deal regulatory regime did not merely buttress small local banks and S&Ls, and adjacent industries and laborers, at the expense of Americans looking for access to mortgage credit or the higher rates of return offered by financial markets. The New Deal regulatory regime protected decentralized industries that, in turn, used their economic and political might to constrain Wall Street and financial markets, and thereby substantially mitigate the concentration of economic and political power. As Louis Brandeis and his disciples (including Wright Patman and
Frank Annunzio) predicted, by eliminating protections for small local “monopolies,” and unleashing financial markets on the broader economy, Democrats betrayal of the New Deal regulatory regime resulted in (inter)national monopolization, and unprecedented levels of wealth inequality between individuals and across geographic regions of the nation.

Bibliography


