

Macro Roundup Article

Headline: [Can The SVB Crisis Be Solved in the Longer Run?](#)

Article Link: <https://marginalrevolution.com/marginalrevolution/2023/03/can-the-svb-crisis-be-solved-in-the-longer-run.html>

Author(s)	Tyler Cowen
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Tweet: [@tylercowen](#) speculates that the SVB resolution will likely “push additional resources outside the formal banking system altogether,” as the formal banking system now has to accommodate increased regulations and higher deposit insurance premia.

Summary: Raising the FDIC protection limit from \$250,000 to ??? raises political eyebrows in a dramatic manner. For one thing, the FDIC would then be seen as guaranteeing a much larger part of the financial system. Over time, the pressures for the government to protect yet additional parts of the financial system will grow, just as they did after the bailouts from the 2008-2009 financial crisis. Furthermore, if the FDIC keeps on increasing its protections in the quest for financial stability, that means a larger FDIC, a larger regulatory apparatus, perhaps higher capital requirements, and over time higher premia for banks to pay to the FDIC. As that scenario unfolds, there will be all the more incentives to supply more lending and also deposit-taking services outside the formal and more heavily regulated banking sector. Rather than pushing more resources into the larger banks, this policy would push additional resources outside the formal banking system altogether.

Primary Topic: Business Cycle

Topics: Banking, Business Cycle, Financial Markets, Op-Ed/Blog Post

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