

## Macro Roundup Article

**Headline:** [Deposit Insurance, Uninsured Depositors, and Liquidity Risk During Panics](#)

**Article Link:** <https://www.nber.org/papers/w32284>

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Publication	National Bureau of Economic Research
Publication Date	April 09, 2024

**Tweet:** Jaremski and Schuster document that before the establishment of the FDIC, deposits fled to the safety of local insured postal banks, illustrating that lack of universal deposit coverage amplifies run risk. @ssprickschuster

**Summary:** Before the Federal Deposit Insurance Corporation (FDIC) became active in 1934, the only federally insured deposit accounts available to American households were through the U.S. Postal Savings System. To examine the role that postal savings played on bank closure, we collect the balance sheets of over 16,000 commercial banks just before the start of the Great Depression and match them with information on which post offices accepted deposits. We find banks that operated nearby a post office that accepted deposits were more likely to close between 1929 and 1935. The effect of postal savings is severely weakened after deposit insurance was installed across commercial banks in 1934. This lends evidence to the theory that we are capturing a competitive liquidity effect due to the lack of universal coverage.

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**Primary Topic:** Banking

**Topics:** Academic paper, Banking, Business Cycle, Database, Financial Markets, GDP, Monetary Policy

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