The U.S. Postal Savings System and the Collapse of B&Ls During the Great Depression

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Building and Loan Associations (B&Ls) financed over half of new houses constructed in the U.S. during the 1920s but they lost their predominance within the following decades as they were pushed to convert into Savings and Loans (S&Ls). This study examines whether the U.S. government-insured Postal Savings System attracted funds away from B&Ls precisely when they needed them the most in the Great Depression. Annual town- and county-level data from 1920 through 1935 for 3 states show that the sudden rise in local postal savings was associated with local downturns in B&Ls. Using a panel vector autoregression, we find that postal savings significantly reduced the amount of money in B&Ls, yet B&Ls had no significant effect on postal savings banks. Alternatively, postal savings had no significant effect on commercial banks. The results suggest that this competitive dynamic prevented B&Ls from rebounding in the mid-1930s and helped contribute to Great Depression’s local real estate lending decline.

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