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Deposit Insurance

Eugene White

Deposit insurance was the peculiar creation of the U.S. banking experience generated by some of that system's worst features. It is inappropriate for developing or transition economies. It presents enormous incentive problems and demands additional regulations and close supervision to make it workable in the short run. Simpler, less costly alternatives may achieve the same objective.

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Summary findings

Should deposit insurance be recommended? No. History teaches three lessons:

- Deposit insurance was not adopted primarily to protect the depositor. There were many ways to increase the soundness of the banking system, and the problems of deposit insurance were well-known from the state experiments that preceded the FDIC. The leading alternative with which contemporaries had experience was to allow branching and the diversification of institutions by geography and product line. But monetary contraction and the politics of the banking crisis empowered small banks instead.
- The history of federal and state insurance plans shows that it is all but impossible to escape the moral hazard and other problems inherent in deposit insurance, as Canada learned when it adopted it in 1967.
- In setting up banking regulations, including deposit insurance, a banking lobby will be created that will campaign to protect the industry as it stands, and the industry will be pushed on a course that will be difficult to alter. The state experience also contains a lesson: If the government is willing to reduce competition, allow tight cartelization, and impose tight supervision and control, deposit insurance can work for at least 20 years.

The public is greatly concerned about the safety of its deposits and U.S. financial history is littered with schemes to protect depositors or note holders. The designs of these systems were influenced by special interests but were also driven by the public's desire for protection. The key problem is one of information: For households and small businesses, it is costly to monitor the performance of banks and decide which is safest, especially when the economy is subject to fluctuations.

What plan could a policymaker offer that would not have all the perverse effects of deposit insurance? There is a strong historical precedent for at least one alternative: regulators could require each bank to offer deposit accounts that are segregated, treasury-bill mutual funds. This type of account is effectively insurance from the government, with the same guarantee as government bonds, but without the wrong incentives for financial institutions that arise from deposit insurance.

This paper — a joint product of the Finance and Private Sector Development Division, Policy Research Department, and the Financial Sector Development Department — was presented at a Bank seminar, "Financial History: Lessons of the Past for Reformers of the Present," and is a chapter in a forthcoming volume, *Reforming Finance: Some Lessons from History*, edited by Gerard Caprio, Jr. and Dimitri Vittas. Copies of this paper are available free from the World Bank, 1818 H Street NW, Washington, DC 20433. Please contact Daniele Evans, room N9-061, telephone 202-473-8526, fax 202-522-1955, Internet address pinfo@worldbank.org. November 1995. (20 pages)

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by

Eugene White

This paper was presented at a World Bank Seminar, "Financial History: Lessons of the Past for Reformers of the Present," and is a chapter in a forthcoming volume, Reforming Finance: Some Lessons from History, edited by Gerard Caprio, Jr. and Dimitri Vittas. The author wishes to thank the participants at that seminar and the editors for their comments.

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Despite its imperfections, the U.S. financial system remains a very attractive model for architects of financial systems in developing countries and transition economies. The U.S. system efficiently transfers and redistributes funds from one sector to another with a high degree of safety and soundness. Of all the U.S. financial system's components, the banking sector is perhaps the weakest. And yet even this part of the system may look good to developing countries and policymakers.

The U.S. banking sector includes all the institutions that take deposits and make loans, including commercial banks, savings and loans, savings banks, and credit unions. To examine the development of deposit insurance and its role in the performance of the U.S. banking sector, it is important to focus on the big picture: the banking sector in the United States has become less important over time. Relative to other parts of the financial system, the banking sector has undergone a very slow and almost steady contraction throughout the twentieth century. For example, in 1900 commercial banks held approximately two-thirds of the assets of all financial intermediaries. This ratio has fallen steadily, and today commercial banks hold less than one-third of these assets. Although several factors underlie this decline, the leading factor has been regulation. Regulation has come from both the federal government and from state governments. It has constrained the expansion of banks and contributed to the widespread failure of individual institutions.

This chapter analyzes the role of deposit insurance in depository institutions, focusing on commercial banks. Commercial banks are still, by far, the largest group of depository institutions and their experience is representative. Severe geographic and product line constraints are the central problems of banks in the twentieth-century United States. These constraints have prevented them from meeting the changing needs of their household and business customers and weakened their ability to withstand external shocks. Over the course of the twentieth century customer demand for long-term credit has increased. Households have wanted to purchase houses, plan for retirement, and pay for their children's education. Businesses have wanted to increase their capital stock and expand their plant and equipment. Yet the character of U.S. commercial banks was defined in the nineteenth century, during which they were essentially institutions that provided short-term credit. This focus is the result of the prevailing nineteenth century banking doctrine, the real bills doctrine, which held that banks would only be considered sound if they offered loans to finance the production and distribution of goods. Thus banks were prohibited from holding equity and restricted in their holding of debt with long-term maturities. Complicating this picture was the general prohibition on branch banking. In most states banks were forced to operate out of a single office. This constraint produced a highly fragmented industry—at its largest, there were 30,000 commercial banks in the United States.

As a result of this evolution banks could not grow in size or sophistication and thus could not meet the needs of their growing business customers as the economy entered the era of the modern corporation. Branching restrictions forced U.S. banks to remain small relative to the emerging industrial enterprises. Furthermore, restricting banks to one geographic area created small banks that found it difficult to diversify their deposit base and their loan portfolio. Consequently, they were prone to suffer or even fail when they were hit by external economic shocks. When commercial banks were formed in the middle of the nineteenth century, their design was appropriate for an economy of small firms and local markets. But by the beginning of the twentieth century it was clearly inappropriate.

Indeed, the history of U.S. banking in the twentieth century can be partly read as an attempt to escape regulation. To avoid geographic constraints, banks used legal loop-holes to acquire other banks, change the law if they could, and when they failed, created surrogate forms—bank holding companies and chain banks. Although larger institutions were built, particularly in California and New York, the industry remained fragmented by any European standard. On the side of product-line restraints, banks moved into a variety of new activities where the law permitted, including trust activities and financial advice.

The most important diversification in the twentieth century came in investment banking and the brokerage business. Blocked by laws that prevented them from holding equity, commercial banks responded in the 1920s by setting up wholly owned securities affiliates that could enter investment banking and brokerage without restrictions. The larger banks had an advantage because they recognized that they had lost their biggest business customers to investment banks. Profiting from the restrictions on commercial banks, investment banks had created the huge U.S. market for equities and long-term debt to meet nineteenth-century industry's need for long-term financing. The commercial banks' securities affiliates gave them a new vehicle for competing with investment banks. Now commercial banks could handle firms' short-term credit needs through their ordinary operations and their long-term credit needs through securities affiliates. In fact these two activities were complementary in information gathering, servicing customers, and diversifying their portfolios to insulate banks from business cycle fluctuations. Securities affiliates were very successful after a short time, and they took over about half of the investment banking business. They thus represented a real threat to the independent investment banks.

Given time, commercial banks might have slowly whittled down the major product-line and geographic barriers, but this process was halted abruptly during the Great Depression (1929-33). The regulations imposed after 1933, which were collectively part of the New Deal reforms, not only halted the trend toward greater product and geographic diversity, they turned the clock back. The banking sector became a loosely organized cartel into which entry was difficult and pricing by interest rates was limited. Competition between different financial intermediaries was sharply reduced, and investment and commercial banking were separated. Indeed, a very narrow definition of a commercial bank, in terms of geography and products, prevailed after this period.

Although many new forms of control were added to the banking system, the most prominent of these was deposit insurance, which was first offered to commercial banks, then to savings and loans and mutual savings banks, and finally to credit unions. In fact, deposit insurance is probably the most important monument of the New Deal reforms. Although many other regulations have disappeared, deposit insurance remains in place. Interest rate controls, which had a long and tortured history, were finally consigned to the dust bin of history in 1980-86, and barriers to branching—especially interstate branching—have weakened and partly disappeared in the last ten years. Limitations on products are much more resilient, and deposit insurance remains universally acclaimed. Furthermore, its coverage has grown over time and there is little political will in the United States to substantially alter deposit insurance.

Behind this attitude stands the firm conviction of policymakers and many economists that deposit insurance was adopted purely out of public interest to guarantee the stability of the banking system. But this chapter will show that deposit insurance was adopted because of the success of a very narrow group of special interests that wanted to tilt the structure of the financial system in their favor. Deposit insurance was a U.S. invention arising from the politics of the U.S. banking system in the Depression years. It is an invention that does not merit international imitation.

The History of Deposit Insurance

The adoption of federal deposit insurance in the Banking Act of 1933 represented a remarkable change in public opinion. Until the 1930s there was very little support for nationwide deposit insurance. Even after the banking crisis of 1933 strong opposition remained. One authority on U.S. banking and U.S. banking history, Carter Golembe, noted in 1960 that, "Deposit insurance was not a novel idea. It was not untried. Protection of the small depositor, while important, was not its primary purpose. And finally, it was the only important piece of legislation during the New Deal's famous 100 Days, which was neither requested nor supported by the administration."

How did deposit insurance emerge in the United States? The congressional debate—deposit insurance was passed in 1933 amid a vigorous discussion—makes very interesting reading. Economists often consider congressmen as being relatively ill-informed of the merits of any piece of legislation. But in the debate over deposit insurance, they discussed moral hazard, adverse selection, and incentive compatibility. They were well aware of these issues, given the previous experience with deposit insurance at the state level.

Six states before the Civil War and eight states after the Civil War had adopted deposit insurance (table 5.1). The motivation behind all of these insurance schemes was to maintain the stability of small unit banks and insulate them from recurrent economic disruptions and bank failures. All fourteen states that enacted deposit insurance between 1829 and 1917 were unit banking states that were trying to find ways to stabilize the banking system. In a sense, we can think of these states as small and diversified economies, trying to find a way to protect their banking system. The other states chose to follow the Canadian or Scottish system of branch banking, and they did not show much interest in deposit insurance.

Experimenting with Deposit Insurance

Among the pre-Civil War systems there were three success and three failures. Their performance can be related to the ways in which incentives for deposit insurance were set up. The three successes were the systems in Indiana, Iowa, and Ohio. But these systems included a very small number of banks, which had strong incentives to police one another. They were mutual guarantee systems—if one bank failed the other banks were obliged to repay its creditors in full. This approach created a very effective cartel, which was good for maintaining bank safety but not efficiency.

The unsuccessful pre-Civil War experiments—Michigan, New York, and Vermont—were much more like later deposit insurance systems, including the federal system. The industry was not cartelized, assessments were fixed, and supervision provided by the states was very weak. These three systems produced very large bank failures, sufficiently large to bankrupt the insurance fund, and note holders and deposit holders suffered losses.

A second round of experimentation with guarantee systems was stimulated by the panic of 1907 (table 5.1). As was the case with the pre-Civil War deposit insurance systems, these systems were established in unit banking states. The six states adopted the design features of the failed antebellum systems. Their systems suffered very large losses and went bankrupt in the 1920s because of poor incentive mechanisms. These insured banking systems suffered the problems of moral hazard and adverse selection, and there was a large increase in the number of banks that failed in the agricultural decline of 1920s.

By the 1920s unit banking in the United States came under very strong economic pressure because of the post-World War I recession and the decline in agricultural prices. Banks failed at historically high rates even as the rest of the economy continued to thrive. The surviving banks faced tougher competition, and the failure of small banks in the 1920s began to erode the barriers to branching. In this environment smaller unit banks found it harder to compete, and they turned to the political arena to secure protection.

The protection they were most eager to secure was federal deposit insurance. Federal deposit insurance was an old remedy, first proposed in Congress in 1886. Between 1886 and 1933, 150 bills for different types of deposit insurance schemes were introduced in Congress. Although these proposals differed in their particulars, they shared the fundamental features of the eight post-1907 systems—fixed assessments and modest regulations. Such schemes involved cross-subsidization of risk across states: states with higher risks of failure would gain at the expense of states with lower risks of failure. One would thus expect the bankers in vulnerable states, and hence the members of Congress from those states, to favor a national insurance scheme. But one important problem arose. Compared with state insurance schemes, federal deposit insurance was very attractive to those states that had high-risk banking systems because of these undiversified unit banks. But at the same time, it was less likely to pass because the branching states—those with larger, urban, diversified banks—also had very powerful voices in Congress. These two groups were evenly balanced for a long time, preventing legislation from making headway before 1933.

Batting for Deposit Insurance

It is striking that deposit insurance was adopted in 1933, because the weakening position of smaller, particularly rural unit banks should have made them less effective as a special interest group. Their decline should have led to a reduction in the likelihood of federal deposit insurance schemes. But by 1932 the reverse occurred: there was a nationwide call for deposit insurance. And surprisingly, even members of Congress from states in which branch banking was strong pushed for some form of deposit insurance. This change occurred largely because of the extreme, unrelenting, and mistaken monetary contraction engineered by the Federal Reserve beginning in 1929. This contraction provoked large-scale bank failures and gave the political entrepreneurs in Washington the opportunity to press for their own special-interest remedies.

The key to the success of deposit insurance in this new environment was the chairman of the House Banking Committee, Representative Henry Steagall, Democrat of Alabama. He assumed the office in 1930 and was a very strong advocate of state deposit insurance. He held that deposit insurance was necessary for the survival of the unit banking system, and he had a strong aversion to any form of branching within states or across state boundaries. The House Committee thus had a chairman whose position on deposit insurance was unyielding and who would use the power of his office to secure it.

Deposit insurance had equally powerful opponents in Congress, the most important of which was Senator Carter Glass, who held sway over the Senate Banking Committee. He pushed his own panacea, which was to separate commercial and investment banking. According to this throwback to the real bills doctrine, separating commercial and investment banking activities made the banking system safe again.

Steagall would not accept any banking bill that did not include deposit insurance and Glass would not consent to any bill that included it. Thus, very little moved in the way of banking reform in 1931 or 1932.

Looking back as far as the elections of 1932, there is little reason to think that deposit insurance had much of a chance. The Democratic Party, which was confident of victory given that the Republicans had been blamed for the Depression, did not mention deposit insurance in their party platform. Senator Glass had Roosevelt's ear, ensuring the separation of commercial banking but not the passage of federal deposit insurance. The key to the success of deposit insurance was the absence of any change in the Federal Reserve's deflationary monetary policy. As more banks failed, the crisis in the payment system intensified. States that were afraid that their banking systems would collapse declared bank holidays—a nice name for shutting down the banking system. They decided that it was better to shut down the banking system and prevent anyone from withdrawing money rather than to let banks fail en masse.

Nevada began the practice, declaring a holiday in October 1932, and the process slowly built up speed. By March 3, 1933 thirty-six states had some form of banking holiday. When Roosevelt took office, there was some talk of a possible devaluation. Fear of a run on the dollar encouraged the Federal Reserve to raise the discount rate, worsening banking problems. Thus on March 6, 1933 Roosevelt ordered a national bank holiday, shutting down the entire banking system to halt this crisis. On March 11 a partial opening of the banking system began, but only strong banks were allowed to open. When the banking holiday ended only 12,000 banks opened with $23 billion worth of deposits, and another 5,000 banks remained unlicensed. Unopened banks held more than $3 billion. These figures stand in contrast to the end of December 1932, when about 18,000 banks were open, holding $28 billion in deposits. In this environment Congress began to debate what to do.

Explaining Congress's Response

To put this dramatic banking collapse in perspective it is useful to it to compare it with today's savings and loan problems. Between 1930 and 1933, 9,000 banks were suspended, incurring losses of $2.5 billion, half of which was borne by depositors and half by shareholders and other creditors. How do these losses compare with the costs of today's savings and loan problems? At most, the price level has risen about ten-fold, making these losses about $25 billion. As the savings and loan crisis cost about $200 billion, the Great Depression losses seem small by comparison. The political economy of how losses are shared explains why we had a major banking reform in the 1930s but relatively little changed in the 1980s, even though the crisis involved larger sums.

What happened in Congress in 1993 is very interesting because Congress decided not to bail out the depositors at this time. There were petitions to do so, and a few members of Congress suggested the idea, but Congress did not aid injured depositors. Instead, it adopted a system of deposit insurance that protected the existing safe banks, and hence their depositors in the future. The political change that led to the adoption of deposit insurance was the result of widespread losses suffered by depositors. Although there were years of high losses before the Great Depression, 1930-33 was a watershed (figure 5.1). The president, the secretary of the treasury, the head of the Senate Banking Committee, and the American Bankers Association were all opposed to deposit insurance. Even the Federal Reserve, which was not allowed to speak on the issue, was quietly opposed to it. This coalition was formidable opposition, and they offered all the arguments good economists today give in favor of deposit insurance. But they were overcome by the unit banking lobbying, bolstered by the public's fear over the safety of their deposits.

The public's trust in banks changed radically during the Great Depression, partially because bankers were portrayed as perpetrators, rather than victims of the Depression in the media and in congressional hearings. In cartoons bankers were caricatured as gangsters wearing top hats and playing craps with their depositors funds. The media thus helped Steagall, who was an astute political entrepreneur. He responded to the deadlock with Glass in Congress by wooing the public. At the same time Steagall was careful to argue in Congress that he was designing a system that would avoid moral hazard and adverse selection problems.

Until the 1920s, even though depositors made losses, very few people outside of unit bankers were interested in or talked about a deposit insurance system because losses were modest and limited. But when the failure of the 1930s occurred, everyone, even if they haven't suffered a loss, felt threatened because they knew people who had lost money. In this kind of environment the public was willing to listen to a credible panacea. And this change gave Steagall enough power to block all other banking legislation and secure Glass' acquiescence and the President's signature.

The Banking Act of 1933 set up a temporary insurance fund, and a permanent insurance fund was established in 1935. The temporary insurance fund was very limited, reflecting the initial compromise. It insured only $2,500 worth of deposits. The Banking Act of 1935 raised this amount to $5,000. Insured banks were charged a premium of one-twelfth of one percent of their deposits. This legislation represented a clear victory for the small rural banks and lower-income people with small accounts. The losers were the large city banks and wealthy depositors, who, in effect, were being taxed to pay the premium for insuring small accounts. Depositors in failed banks also lost because they were not bailed out. Innovating activity that built larger, stronger banks was thus brought to a halt, and the system was frozen.

The Political Economy of Deposit Insurance Reforms

The passage of deposit insurance in the United States is an informative episode about the political economy of financial regulation. Unit banks would never have been able to, by their own lobbying effort, overcome the opposition of the stronger urban branching banks had the Great Depression not occurred and mobilized the public, who took comfort in the idea of deposit insurance regardless of its long-term consequences. Once protected, the public ignored the issue of deposit insurance and again lost interest in the political debate. The politics of banking regulation returned to the smoke-filled rooms of Congress, where special interests vied with one another for influence over legislation.

The next bill on deposit insurance was the Deposit Insurance Act of 1950. Small banks pressed for an increase in coverage to $10,000 (table 5.2). War time inflation had reduced the real value of the $5,000 maximum (in 1980 dollars) from $30,000 to about $17,000. They were also finding it harder to compete with large banks. Large banks opposed the increase in insurance coverage. But they were induced to compromise by the offer of a prorated rebate of assessments. The insurance fund was growing in the absence of major failures. But this compromise was a devil's pact because insurance coverage was increased in real terms while the growth of the fund was retarded by rebating. But given the insurance, the public was not alarmed by this deal.

Looking at the trend in deposit insurance over the course of the century, there is an almost inexorable expansion of protection, moving farther and farther away from limited coverage and a mutual guarantee of bank funds. This movement is driven by special interests who, once they had their foot in the door, began to push for more. There is a steady upward climb of the percentage insured, driven partly by increasing limits, but also by an increasingly informed public creating multiple accounts. Thus insured deposits increased from 45 percent to nearly 80 percent. With higher coverage, less monitoring took place as more and more deposits were insured. This higher coverage combined with the "Too Big to Fail" doctrine made coverage nearly universal.

Turning to the moral hazard consequences of deposit insurance, some explanation must be given as to why it took so long for moral hazard to manifest itself in the banking system. Following the establishment of deposit insurance, banks were very safe, and it took them a long time to change. They were safe because the Great Depression profoundly altered bank portfolios. It shrank bank deposits and bank loans. It is only a slight exaggeration to say that banks got out of the business of lending. In World

War II banks and savings and loans stuffed their portfolios with government bonds. Hence, by 1950 these were very safe institutions, given the dual shocks of the Great Depression and World War II. They also faced tight regulations. It took banks a long time to unwind from this position. Eventually, competition stimulated them to take more risk, and it was only in the 1970s that increased risk-taking was first noticed. The disasters of commercial banking and savings and loans after the 1970s were the result of allowing insured banks to enter more-risky areas of activity, while limiting examinations, supervision, and discipline.

What to do? Should deposit insurance be recommended? The short answer is no. The historical record teaches three lessons. First, deposit insurance was not adopted primarily to protect the depositor. There were many ways to increase the soundness of the banking system, and the problems of deposit insurance were well known from the state experiments that proceeded the FDIC. The leading alternative, with which contemporaries had experience, was to allow branching and the diversification of institutions by geography and product line. But monetary contraction and the politics of the banking crisis empowered the small unit banks. Second, the historical record of federal and state insurance plans shows that it is all but impossible to escape the moral hazard and other problems inherent in deposit insurance. This is also true for Canada, which adopted deposit insurance in 1967, and soon began to experience similar kinds of problems. Third, in setting up banking regulations, including deposit insurance, a banking lobby will be created that will campaign in the future to protect the industry as it stands, and the industry will be pushed in a particular direction on a course that will be difficult to alter. The state experiences also contain one lesson: if the government is willing to reduce competition, allow tight cartelization, and impose tight supervision and control, deposit insurance can work for at least twenty years.

Although history does not recommend deposit insurance, it does show that the public is greatly concerned about the safety of its deposits. U.S. financial history is littered with all kinds of schemes to protect depositors or to protect note holders. The designs of these systems were influenced by special interests, but they were also driven by the public's desire for protection. The key problem is one of information. For the vast banking public, that is, households and small businesses, it is very costly to monitor the performance of banks and decide which is the safest choice among all alternatives. If deposits of each bank are unequally safe, choosing is a difficult task, particularly when the economy is subject to economic fluctuations, and there is a dispersion of performance by institution.

What plan could a policymaker offer that would not have all the perverse effects of deposit insurance? History provides at least one alternative: regulators could require each bank to offer deposit accounts that are segregated, treasury bill mutual funds. Banks could then advertise these funds as safe assets, perhaps guaranteed or backed by the government. This type of account is in effect insurance from the government, offering the same guarantee as government bonds. But it removes the wrong incentives for financial institutions that arise from insuring bank deposits. There is a strong historical precedent for this type of arrangement (see chapter 4).

Between 1864 and 1914 the creation of currency was the task of national banks. These bank notes were backed by U.S. government bonds. They became completely safe assets regardless of which institution issued them. National banks did fail, but never because of note issuing, and no note holder ever experienced a loss. The system allowed people to choose between safe national bank notes, which bore no interest, and deposits, which were not safe but carried interest. This system functioned very well. Other monetary and banking issues created problems, including the absence of a central bank until 1913, but the public was generally very satisfied with national bank notes.

To conclude, deposit insurance was the peculiar creation of the U.S. banking experience generated by some of the worst features of the system. It is inappropriate for developing or transition economies. Deposit insurance presents enormous incentive problems and requires additional regulations and close supervision to make it workable in the short run. These conditions may demand too much from bank regulators in developing countries, as it did for regulators in the United States. There are simpler, less-costly alternatives that may achieve the same basic objective.

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Table 5.1

Pre-FDIC Insurance Systems

New York 1829-1866	Safety fund with upper limit on assessments, limited regulatory authority
Vermont 1831-1858	Safety fund with upper bound on assessments, limited regulatory authority
Michigan 1836-1842	Safety fund with upper bound on assessments, limited regulatory authority
Indiana 1834-1865	Cartelized Industry, Mutual Guarantee Without Limit, Strict Supervision & Enforcement
Ohio 1845-1866	Restricted Membership, Mutual Guarantee Without Limit, Strict Supervision & Enforcement
Iowa 1858-1866	Cartelized Industry, Mutual Guarantee Without Limit, Strict Supervision & Enforcement
Oklahoma	Limited regulatory authority
1907-09	Unlimited special assessments
1909-23	Upper bound on annual assessments.
Texas. 1909-1925	Safety fund with upper bound on assessments, weak regulatory authority
Kansas 1909-1929	Safety fund with upper bound on assessments, weak regulatory authority
Nebraska 1909-1930	Safety fund with upper bound on assessments, weak regulatory authority
South Dakota 1909-1931	Safety fund with upper bound on assessments, weak regulatory authority
North Dakota 1917-1929	Safety fund with upper bound on assessments, weak regulatory authority
Washington 1917-1929	Safety fund with upper bound on assessments, weak regulatory authority
Mississippi 1914-1930	Safety fund with upper bound on assessments, weak regulatory authority

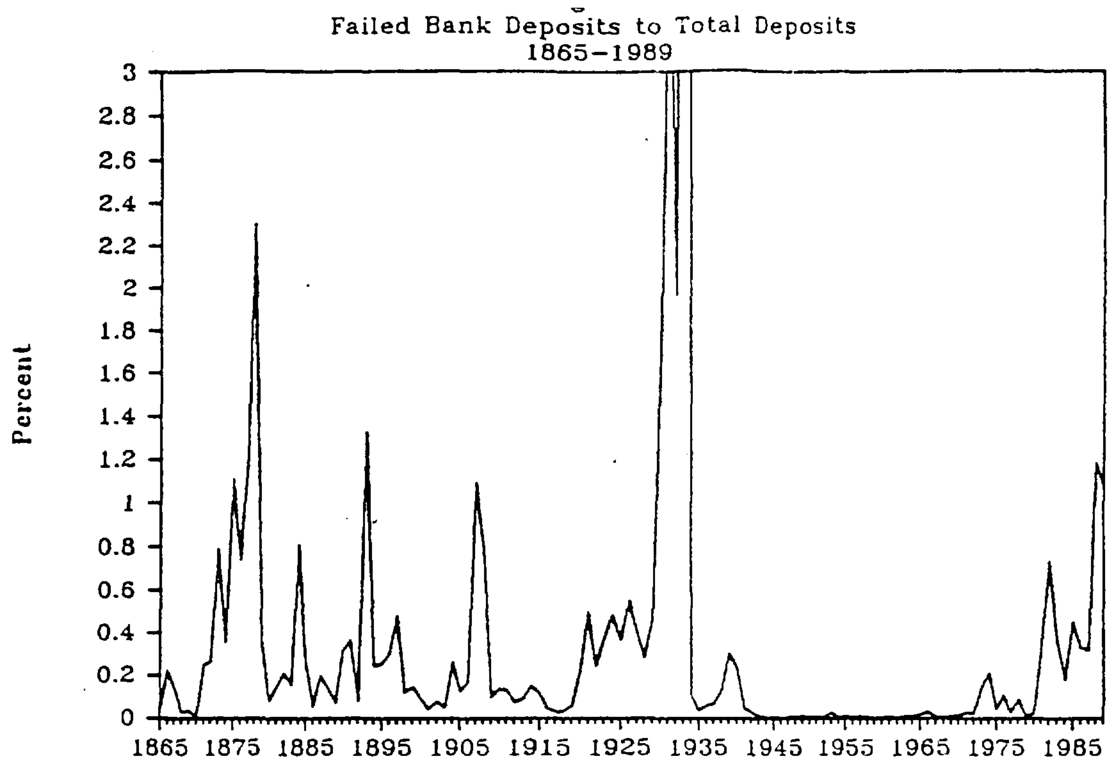
Source: Calomiris (1989); White (1983).

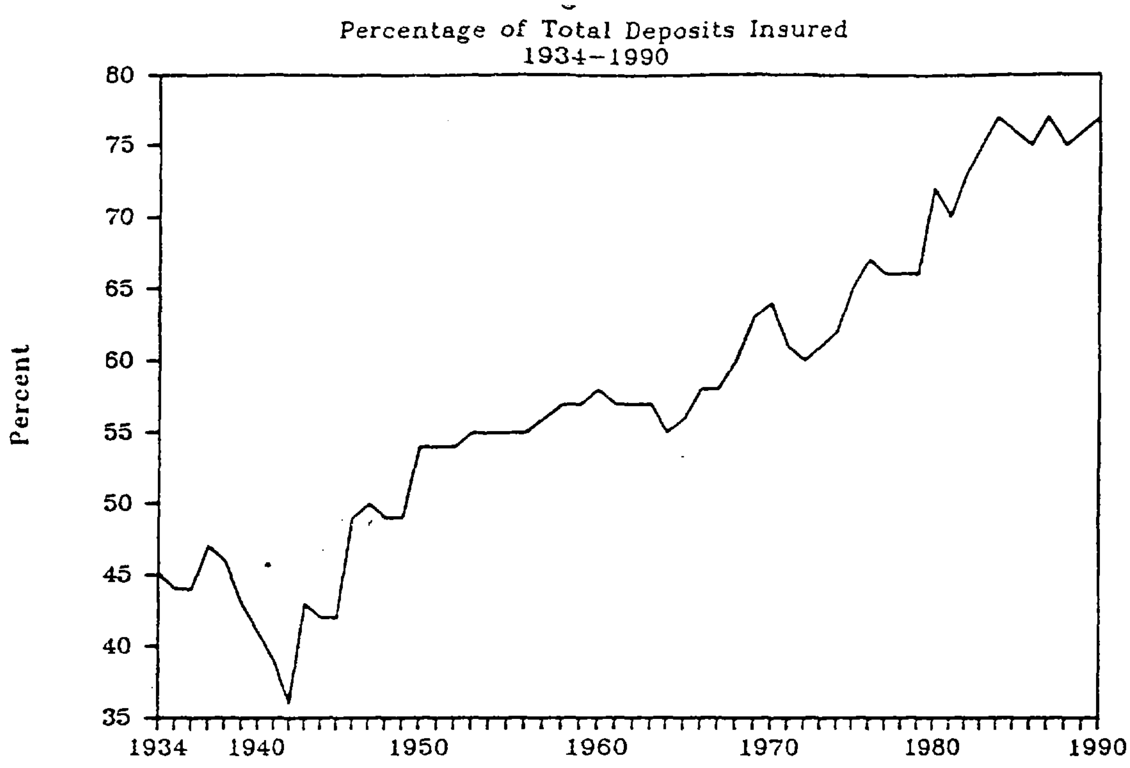
Table 5.2

FDIC and FSLIC Deposit Insurance
1934-1989

Years	Maximum insured deposit amount	Maximum insured deposit amount adjusted for inflation (1980 dollars)
1934-1949	\$5,000	\$30,800 - 17,300
1950-1965	\$10,000	\$34,200 - 26,150
1966-1968	\$15,000	\$38,150 - 35,500
1969-1973	\$20,000	\$45,800 - 37,100
1974-1979	\$40,000	\$66,850 - 45,400
1980-1989	\$100,000	\$100,000 - 66,450

Source: White, The S&L Debacle (1991).


Failed Bank Deposits to Total Deposits
1865–1989
Percent
3
2.8
2.6
2.4
2.2
2
1.8
1.6
1.4
1.2
1
0.8
0.6
0.4
0.2
0
1865 1875 1885 1895 1905 1915 1925 1935 1945 1955 1965 1975 1985


Percentage of Total Deposits Insured
1934–1990
Percent
80
75
70
65
60
55
50
45
40
35
1934
1940
1950
1960
1970
1980
1990

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