

1. General Deposit Insurance Theory and Policy

Entries in this section are more general than entries in the other sections, and their perspective on deposit insurance issues is broader. These entries examine government-provided deposit insurance, alternative insurance structures and regimes, historical background, and budgeting and accounting issues.

Baglioni, Angelo, and Giuseppe Marotta. 1993. Deposit Insurance: Implications from Financial Intermediation Theory. In *Financial Markets' Liberalization and the Role of Banks*, edited by Vittorio Conti and Rony Hamoui, 337–64. Cambridge University Press.

The authors survey the literature on the characteristics of a bank and highlight some implications for asset and liability management and for the principles of banking supervision. They put special emphasis on deposit insurance. They also examine the motivations and drawbacks of the U.S. deposit insurance system and then assess selected proposals of reform for the system, which have had a bearing on the recent evolution of deposit protection schemes in other industrialized countries.

Barth, James R., Michael G. Bradley, and John J. Feid. 1989. The Federal Deposit Insurance System: Origins and Omissions. Research Paper no. 153. Federal Home Loan Bank Board.

The authors maintain that federal deposit insurance practices differ significantly from private insurance practices. Indeed, federal deposit insurance is not insurance in the normal sense of the word. It is a guarantee that all insured depositors will be fully protected against loss. Flaws in the federal deposit insurance system have permitted insolvent thrift institutions to remain open. The very poor performance of these institutions masked the performance of solvent thrift institutions and drew attention away from the potential value of the thrift charter.

Barth, James R., R. Dan Brumbaugh Jr., and Robert E. Litan. 1992. *The Future of American Banking*. Columbia University Seminar Series. Sharpe.

Analyzes the current and prospective condition of commercial and savings banks in the United States. Frames the major economic and policy issues raised by the banking crisis. Considers the current reported condition of the banking industry, concentrating on large banks. Presents a longer-run prognosis for the banking industry and discusses the implications of these projections for the financial services sector and for federal regulatory policy toward that sector. Assesses the condition of the Bank Insurance Fund, which is administered by the Federal Deposit Insurance Corporation. Presents and discusses alternative methods of financing the payment of the potential liabilities. Concludes with suggestions for changes in the nation's deposit-insurance system and accompanying banking laws. (©1999 EconLit)

Barth, James R., John J. Feid, Gabriel Riedel, and M. Hampton Tunis. 1989. Alternative Federal Deposit Insurance Regimes. Research Paper no. 152. Federal Home Loan Bank Board.

The authors trace the evolution of the federal deposit insurance system, discussing the initial legislated insurance assessment, subsequent changes in it, and the level of basic insurance coverage for the FSLIC and the FDIC. For both of the deposit insurance funds, data are provided on the reserves and on costs incurred. Much of the discussion is about the reserves at each fund in comparison with actual cost experience. For the FSLIC the authors find, in retrospect, that the insurance assessment did not increase rapidly enough when reserves relative to insured deposits fell.

Bordo, Michael D. 1999. International Rescues versus Bailouts: A Historical Perspective. *Cato Journal* 18, no. 3:336-75.

This paper studies the record of the nineteenth and twentieth centuries and suggests that international financial rescues of the past were quite different from the series of bailouts during the 1990s. The international rescues of the 1990s marked a watershed in the purpose, size, and term of the funds provided to countries in distress. These recent bailouts were justified, however, on the grounds that they would stop the financial crisis from spreading to other countries.

Calomiris, Charles W. 1990. Is Deposit Insurance Necessary? A Historical Perspective. *Journal of Economic History* 50, no. 2:283-95.

In evaluating the performance of various government-created liability insurance schemes, the author asks two principal questions: First, which experiments failed or succeeded, and why? More particularly, the author attempts to ascertain whether the failures of insurance systems were attributable to a flaw inherent in their design or to insurmountable exogenous shocks. Second, would branch banking (a perceived alternative to insurance) have provided a more effective way to protect the payments system than bank insurance? The author concludes that unlimited branch banking combined with privately administered insurance programs would protect the payments system from exogenous disturbances that could produce banking panics.

Calomiris, Charles W. 1992. Deposit Insurance: Lessons from the Record. In *Financial Crises*, vol. 1, edited by Michael Bordo, 400-420. Ashgate. Also 1989. Deposit Insurance: Lessons from the Record. Federal Reserve Bank of Chicago *Economic Perspectives* 13 (May): 10-30.

This article considers possibilities for deposit insurance reform in the light of historical successes and failures of bank liability insurance in the United States. The author address four central questions: What was the historical motivation for bank liability insurance? Is this motivation justified by the historical record? Which safety nets for bank liability holders were most successful, and why? What are the lessons of the historical record for current reforms?

Calomiris, Charles W., and Eugene N. White. 1994. *The Origins of Federal Deposit Insurance*. In *The Regulated Economy: A Historical Approach to Political Economy*, edited by Claudia Golden and Gary D. Libecap, 145–88. National Bureau of Economic Research Project Report Series. University of Chicago Press.

This paper explains how and why federal deposit insurance was adopted with near unanimity in 1933. The authors consider the forces for, and against, federal deposit insurance from the nineteenth century to 1933. They argue that even though the traditional supporters of federal deposit insurance had suffered repeated defeats and their power was at its nadir in 1933, the nature of the political struggle over deposit insurance changed in the 1930s: instead of being a battle waged in Congress among special interests, it became one that engaged the general public. The banking collapse focused the attention of the public on the otherwise esoteric political issue of banking reform and offered supporters of deposit insurance the opportunity to wage a campaign to convince the public that federal deposit insurance was the best solution to banking instability.

Carisano, Rita. 1992. *Deposit Insurance: Theory, Policy and Evidence*. Ashgate.

This book examines the relation between banks and deposit insurance schemes, analyzes the economics of banks, and discusses the role of deposit insurance within the safety net established in most countries to stabilize the banking system. Considers the rationale for deposit insurance, discussing both banking panic models and systemic risk as a source of financial instability. Examines the fundamental dilemma of deposit insurance, discussing the moral hazard problem, the social costs of moral hazard, and regulation and supervision as responses to deposit insurance. Analyzes various proposals for coping with the perverse effects of deposit insurance, including risk-related pricing of deposit insurance, solutions calling for greater reliance on market discipline, the possibility that market efficiency can be enhanced by increased information disclosure, use of a risk-related capital regulation, and radical alternatives that argue for a private deposit insurance and for narrow banks. Presents a comparative analysis of deposit insurance schemes across various countries, including the United States, Canada, Japan, the United Kingdom, Italy, France, and Germany. (©1999 EconLit)

De Lange, Michel. 1992. *Essays on the Theory of Financial Intermediation: Market Imperfections, the Allocation of Credit, Deposit Insurance and the Transmission of External Shocks*. Thesis Publishers.

In this collection of essays, the author examines financial institutions, credit market imperfections, financial intermediation, and the theory of deposit insurance. He also examines deposit insurance in a variety of countries, discusses the criticisms of deposit insurance, and suggests a system to prevent moral hazard.

Dowd, Kevin. 1996. Re-examining the Case for Government Deposit Insurance: Reply [to Hazlett comment in same issue]. *Southern Economic Journal* 62, no. 4:1092.

The author defends his earlier opinion that share capital can reassure depositors of the safety of their deposits and can provide an alternative and probably superior means of protecting the banking system against problems caused by bank runs. He explains why Hazlett's claim that the banker must necessarily make zero profits is incorrect and why her assertion that the pledge of capital is unlikely is mistaken.

Federal Deposit Insurance Corporation (FDIC). 1990. Findings and Recommendations Concerning "Pass-Through" Deposit Insurance: Report to the 101st Congress. FDIC.

FIRREA (1988) required the FDIC to review the pass-through deposit insurance coverage provided to individual participants in pension and profit-sharing 401k plans, as well as to individual investors in unit investment trusts. This is the final report.

Federal Reserve Bank of Chicago. 1990. *Game Plans for the '90s*. Proceedings of the 26th Annual Conference on Bank Structure and Competition.

Conference proceedings include topics such as Innovation in Financial Markets; The Superregional Challenge; FIRREA: Implications for the U.S. Financial System; The Future Role of Commercial Banks in Commercial Lending; Interstate Acquisitions; Japanese Banks: Emerging Global Competitors; Europe 1992; and Globalization and Public Policy. Specific papers related to deposit insurance include "Risk-Based Deposit Insurance: Is Price Regulation Necessarily Better Than Quantity Regulation?" by William R. Keeton; "Market-Based Deposit Insurance Premiums," by Kathleen A. Kuester and James M. O'Brien; "The Impact of Deposit Insurance on S&L Shareholders' Risk/Return Trade-offs," by Elijah Brewer III; "Deposit Insurance and Risk-Shifting Behavior of Commercial Banks," by Jin-Chuan Duan, Arthur F. Moreau, and C. W. Sealey; "Post-FIRREA: The Need to Reform the Federal Deposit Insurance System," by James R. Barth; and "FIRREA: Implications for the U.S. Financial System," by Bert Ely.

Federal Reserve Bank of Chicago. 1991. *Rebuilding Banking*. Proceedings of the 27th Annual Conference on Bank Structure and Competition.

Conference proceedings include topics such as The Condition of the FDIC; Assessing Current Legislative Proposals for Deposit Insurance Reform; Moral Hazard and Franchise Value: Theory and Evidence; Managerial Incentives and Bank Performance; Behavior of Poorly Capitalized Banks; Creditor Discipline, Bank Closure Policy: The Case for Early Intervention; FDIC Premiums; Market Value Accounting; and Future Bank Profitability. Papers on deposit insurance include "The Condition of the Bank Insurance Fund: A View from Washington," by Gillian Garcia; "Assessing the Condition of the Bank Insurance Fund," by Philip F. Bartholomew and Thomas L. Lutton; "Comments on Deposit Insurance Reform," by Thomas C. Theobald; "Dissecting Current Legislative Proposals for

Deposit Insurance Reform,” by Edward J. Kane; “Assessing the Current Legislative Proposals for Deposit Insurance,” by John C. Dugan; “The Impact of Reform on Community Banks,” by Kenneth A. Guenther; “The Asset Flexibility Option and the Value of Deposit Insurance,” by Peter Ritchken, James Thomson, Ramon DeGennaro, and Anlong Li; “Dealing with Poorly Capitalized Banks from the Perspective of the Deposit Insurance Agency,” by George J. Benston; “Subordinated Debt Market Information and the Pricing of Deposit Insurance,” by Carolin D. Schellhorn and Lewis J. Spellman; “Reforming Deposit Insurance: The Danish Case,” by Randall J. Pozdena; “A Simple Approach to Better Deposit Insurance Pricing,” by Sarah B. Kendall and Mark E. Levonian; and “Deposit Premiums of Failed Banks: Implications for the Values of Deposits and Bank Franchises,” by James A. Berkovec and J. Nellie Liang.

Federal Reserve Bank of Chicago. 1992. *Credit Markets in Transition*. Proceedings of the 28th Annual Conference on Bank Structure and Competition.

Conference proceedings include topics such as Regulatory Intervention; Interest-Rate Risk and Capital Requirements; Inside Information and the Allocation of Credit; Deregulation and the Changing Role of Banks; The Credit Crunch; Consolidation in the Banking Industry; The Japanese Banking System; and The Insurance Industry in Transition. Papers on deposit insurance include “Incentive Conflict in Deposit-Insurance Regulation: Evidence from Australia,” by Edward J. Kane and George G. Kaufman; and “Bank Failure Resolution, the Cost Test, and the Entry and Exit of Resources in the Banking Industry,” by Frederick S. Carns and Lynn A. Nejezchleb.

Federal Reserve Bank of Chicago. 1993. *FDICIA: An Appraisal, Renaissance, Requiem, or Just Another Acronym?* Proceedings of the 29th Annual Conference on Bank Structure and Competition.

Conference proceedings include topics such as Systemic Risk; Estimating BIF Losses; The Response of Banks to Capital Shocks; Risk-Taking by Banks; Bank Accounting Issues; Bank Lending Practices; Bank Mergers; Bank Closure Policy; Banking in the Global Market; FDICIA: Renaissance or Requiem? and Bank Regulation after FDICIA. Papers related to deposit insurance include “FDICIA and the Future of Banking Law and Regulation,” by Alan Greenspan; “The Importance of Accurate Bank Accounting under FDICIA,” by Allen N. Berger; “A Moral Hazard Rationale for Early Closure in FDICIA,” by Raman Kumar and George Emir Morgan; “Deposit Guarantees, Nonperforming Loans, and the Postal Savings System in Japan,” by Thomas F. Cargill; “Politics of Deposit Insurance Reform: The Case of Argentina,” by Geoffrey P. Miller; “The Implications of FDICIA for Bank Management,” by Lawrence Connell; “Remarks on FDICIA,” by William M. Isaac, “FDICIA: Renaissance or Requiem?” by George G. Kaufman; “Remarks on FDICIA,” by Richard L. Thomas; “The Meaning of FDICIA,” by Harrison Young; “New Private Sector Deposit Insurance,” by Warren G. Heller; and “Remarks on Banking after FDICIA,” by Karen D. Shaw.

Federal Reserve Bank of Chicago. 1995. *The New Tool Set: Assessing Innovation in Banking*. Proceedings of the 31st Annual Conference on Bank Structure and Competition.

Conference proceedings include topics such as Assessing Innovations in Banking; Strategies for Utilizing the New Tool Set in Banking; Derivatives and Risk Management; Lessons from Financial Crises; Mortgage Financing and Community Development; Responding to Bank Regulations; Interstate Bank Activity; Advances in Bank Cost Analysis; Financial Intermediation and Bank Uniqueness; Assessing and Monitoring Risk; Capital Regulation; and Expanding Bank Product Powers. Papers dealing specifically with deposit insurance include "Financial Innovations and Deposit Insurance," by Ricki Tigert Helfer; "Acquirer Gains in FDIC-Assisted Bank Mergers: The Influence of Bidder Competition and FDIC Resolution Policies," by Matthew T. Billet, Jane F. Coburn, and John P. O'Keefe; and "Banks' Deposit Insurance Liabilities: Exogenous vs. Managerial Determinants," by Jin-Chuan Duan and C. W. Sealey.

Garfield, Reed Roy. 1992. *The Lender of Last Resort: Theory and Alternatives*. Ph.D. diss., George Mason University.

The author discusses possible laissez-faire banking rules and procedures, as well as the defects of the rules and procedures in place. He contends that true laissez-faire banking will satisfy the stability-provisions demanded by orthodox economic theorists, thereby proving that deposit insurance is not necessary for bank stability.

Golembe, Carter H. 1995. Some Unfinished Business. *The Golembe Reports* 1995-9.

The author examines several deposit insurance issues. He begins with the reduction of deposit insurance assessments almost to zero and asks how this could happen, why, and what it might portend. He then discusses the matter of privatization of the federal deposit insurance system, and includes some history not included in his preceding report (*The Golembe Reports* 1995-8).

Hein, Scott E. 1992. A Reexamination of the Costs and Benefits of Federal Deposit Insurance. *Business Economics* 27, no. 3:26-31.

Mention of federal deposit insurance evokes two disparate responses in today's financial environment. Bankers and the public seem to view federal deposit insurance in an overall favorable light. While bankers are concerned about increased premiums, they don't seem to favor major changes in our federal deposit insurance system. Business economists and the academic community, on the other hand, are far more critical of the current structure of federal deposit insurance. This paper examines today's federal deposit insurance system by summarizing recent thinking in the area of perceived costs and benefits of federal deposit insurance. (©1999 EconLit)

Independent Bankers Association of American (IBAA). 1990. *Protecting the Federal Deposit Insurance System*. IBAA.

This publication presents the IBAA's analyses and positions on the following issues: (1) the purpose and history of federal deposit insurance; (2) monitoring and measuring risk; (3) incentives to control risk; and (4) closure or recapitalization of insolvent, or nearly insolvent, institutions.

Kane, Edward J. 1992. Comment on Government Deposit Insurance [Comment on Wall in same volume]. In *Emerging Challenges for the International Financial Services Industry*, edited by James R. Barth and Philip F. Bartholomew, 177–81. Research in International Business and Finance, vol. 9. JAI Press.

Kane agrees with Wall on the basic elements of government deposit insurance, on its problems and prospects, and in particular on the costly role that political and bureaucratic incentives have played in keeping insolvent and inefficient institutions from being put out of business. However, Kane explains why he thinks the damage from the current deposit insurance system will be greater than Wall predicts.

Keeton, William R. 1990. Small and Large Bank Views of Deposit Insurance: Today vs. the 1930s. Federal Reserve Bank of Kansas City *Economic Review* (3d quarter): 23–35.

In the late 1980s, small and large banks advanced very different proposals for changing the level of protection for depositors. Small banks favored covering all depositors regardless of the amount. In contrast, large banks preferred imposing some loss on large depositors when a bank fails. However, small and large banks have not always differed so sharply on deposit insurance. In the 1930s proponents tried to convince smaller banks that it was in their best interest to support deposit insurance, but most small banks ignored this advice and sided with larger banks against deposit insurance. In the 1980s, small banks rejected the proposals of large banks to reduce coverage of deposit insurance. This article argues that small banks have always needed deposit insurance more than large banks and opposed the idea in the 1930s only because of certain factors. Small banks need deposit insurance more than large banks because they lack diversification and are more susceptible to local economic shocks.

Keeton, William R. 1992. The Reconstruction Finance Corporation: Would It Work Today? Federal Reserve Bank of Kansas City *Economic Review* (1st quarter): 33–54.

The high rate of bank failures and the sharp decline in the bank insurance fund during the late 1980s and early 1990s intensified debate over the best way to deal with poorly capitalized banks. Some banking experts and government officials have argued that government investment in the banking industry is the best solution because it minimizes the costs of bank failures to the FDIC and to society as a whole. This article presents the success of the Reconstruction Finance Corporation (RFC) during the Great Depression as evidence that the same approach would work today, but the article also maintains that government

investment should be used with caution. The article describes how the preferred stock program came into existence and presents evidence that the program worked better than the more-recent prompt corrective action or forbearance have worked. Last, it considers the implications of the RFC experience for the deposit insurance debate in light of key differences between the 1930s and 1992.

Kolb, Robert W., ed. 1991. *The Financial Institutions and Markets: A Reader*. Kolb Publishing Company.

This collection of 36 previously published papers examines the changing global financial scene. Deposit insurance topics includes “Financial Panics, Bank Failures, and the Role of Regulatory Policy,” by Stephen Smith and Larry Wall; “Ex Ante Risk and Ex Post Collapse of S&Ls in the 1980s,” by Elijah Brewer III and Thomas Mondschean; “Underlying Causes of Commercial Bank Failures in the 1980s,” by Lynn Seballos and James Thomson; “FIRREA and the Future of Thrifts,” by Elizabeth Laderman; “The RTC and the Escalating Costs of the Thrift Insurance Mess,” by Christopher Pike and James Thomson; “FDICIA’s Prompt Corrective Action Provisions,” by Christopher Pike and James Thomson; “Too Big to Fail: Origins, Consequences and Outlook,” by Robert Hetzel; “Risk-Based Capital Standards and Bank Portfolios,” by Jonathan Neuberger; “Early Warning Systems,” by Mark Levonian; “The Effects of Interstate Banking,” by Elizabeth Laderman; “Market Value Accounting for Commercial Banks,” by Thomas Mondschean; and “Banking and Commerce: A Dangerous Liaison,” by Loretta Mester.

Lewis, Mervyn K., ed. 1995. *Financial Intermediaries*. Library of Critical Writings in Economics, vol. 43. Edward Elgar Publishing.

This is a collection of previously published articles on financial intermediation. A majority of initial publication dates predate 1989. Deposit insurance papers include “Bank Runs, Deposit Insurance, and Liquidity,” by Douglas Diamond and Philip Dybvig (1983); “Models of Banking Instability: A Partial Review of the Literature,” by Kevin Dowd (1992); “Banking Theory, Deposit Insurance, and Bank Regulation,” by Douglas Diamond and Philip Dybvig (1986); “Deposit Insurance: Theory and Practice,” by Ian McCarthy (1980); “An Analytic Derivation of the Cost of Deposit Insurance and Loan Guarantees: An Application of Modern Option Pricing Theory,” by Robert Merton (1977); “Federal Deposit Insurance, Regulatory Policy, and Optimal Bank Capital,” by Stephen Buser, Andrew Chen, and Edward Kane (1981); and “The Reform of Federal Deposit Insurance,” by Lawrence J. White (1989).

Mayer, Martin. 1991. Banking on the Government. *Modern Maturity* 34, no. 5:65–67.

The author expresses concern that the S&L crisis could repeat itself on the banking stage and could result in a bailout costing over twice as much. He then strongly encourages the Treasury and Congress to take steps to prevent what he sees as the imminent collapse of the banking system.

Moysich, Alane K. 1991. Summary of Proceedings: International Conference on Deposit Insurance and Problem-Bank Resolution Policies. *FDIC Banking Review* 4, no. 1:27–34.

Representatives from various countries met at the FDIC on September 26, 1990, to discuss alternative approaches to deposit insurance, bank-failure resolution strategies and the bank safety net. This paper summarizes the four panel discussions.

Murphy, M. Maureen, Thomas Woodward, and Ray Schmitt. 1991. Federal Deposit Insurance Corporation (FDIC) Pass-Through Insurance for Pension Plans. Report for Congress (May 8), no. 91-411 EPW. Congressional Research Service.

This report explains the economics of deposit insurance, summarizes laws and proposals for change, and provides a side-by-side comparison of the provisions that affect pension plans. Under 1991 law, the \$100,000 insurance limit for individuals is applied on a per participant basis when a pension fund is involved. Legislative proposals with the general effect of scaling back these insurance protections have been introduced.

Osterberg, William P. and James B. Thomson. 1993. Making the SAIF Safe for Taxpayers. Federal Reserve Bank of Cleveland *Economic Commentary* (November 1).

This article traces the evolution of the regulatory quagmire and takes a look at the policy options then facing Congress. Assessing these options requires an understanding of three trends in the financial-services industry. First, regulatory changes have largely removed the rationale for separate regulatory structures for banks and thrifts. Second, thrifts have become more like banks. And third, as banks have become healthier and a portion of the thrift industry has continued to falter, the premiums necessary to fund the SAIF have put thrifts at a competitive disadvantage.

Patin, Roy P., and Douglas McNiel. 1992. Safety of Nonfederally Insured versus Federally Insured Credit Unions in the United States. *Journal of Economics and Finance* 16, no. 3:49–56.

The failure of the Rhode Island Share and Deposit Indemnity Corporation heightened the debate about mandating federal deposit insurance for credit unions. However, opponents of and proponents for required federal deposit insurance for credit unions relied primarily on anecdotal evidence to support their positions. This study provides empirical evidence concerning differences in the behavior of federally insured versus nonfederally insured credit unions in the United States in 1989. Results suggest that the problems occurring in Rhode Island are not symptomatic of widespread differences in the safety of the two groups of credit unions throughout the country. (©1999 EconLit)

Russell, Steven, ed. 1993. *The Government's Role in Deposit Insurance*. Federal Reserve Bank of St. Louis *Review* 75, no. 1:3-34.

During the 1980s, banks and thrifts failed at a rate the United States had not experienced since the Great Depression. Deposits at most of these institutions were insured by the federal government, and covering the insurance liabilities required over a hundred billion dollars in taxpayer funds. The crisis in the banking and thrift industries has led to a reexamination of the federal deposit insurance system. These pages are a collection of six essays (introduced and edited by Steven Russell) on deposit insurance and the federal government's role in providing it: "Remarks on Banking and Deposit Insurance," by Philip H. Dybvig; "Deposit Insurance: A Skeptical View," by Kevin Dowd; "Banking without Tax-Backed Deposit Insurance," by J. Huston McCulloch; "What Have We Learned about Deposit Insurance from the Historical Record?" by David C. Wheelock; "Deposit Insurance: Problems and Solutions," by Mark D. Flood; and "Deposit Insurance Policy," by Anjan Thakor.

Short, Genie D., and Kenneth J. Robinson. 1998. *Bank Deposit Guarantees: Why Not Trust the Market?* In *Money and the Nation State: The Financial Revolution, Government, and the World Monetary System*, edited by Kevin Dowd and Richard H. Timberlake Jr., 213-45. Transaction Publishers.

The authors explore the evolution of deposit guarantees in the United States. They also offer a comparative analysis of deposit insurance programs elsewhere in the world and review the reasons that 100 percent deposit guarantees have become an accepted policy norm for maintaining deposit market stability throughout the world. They argue, however, that the expanded role given the financial safety net has not minimized deposit market instability, but, instead, has contributed to and exacerbated financial-sector problems throughout the world. They conclude by arguing that changes are needed to allow bank deposit markets to function more freely and thereby improve the price-signaling mechanism for monitoring risk-taking in banking.

Tammen, Melanie S. 1990. *The Savings & Loan Crisis: Which Train Derailed—Deregulation or Deposit Insurance?* *Journal of Law and Politics* 6, no. 2:311-42.

This article examines four important issues relating to the S&L crisis of the 1980s: (1) how the U.S. Congress postponed the necessary deregulation of the thrift industry for more than a decade; (2) how Congress tolerated, and legislated, the ballooning of the deposit insurance safety net; (3) why FIRREA fails to solve the problem; and (4) how some proposed changes will introduce market discipline to the deposit insurance system and help taxpayers police the growth of their "contingent liabilities" in this area.

Taylor, John. 1992. The Budgetary Arithmetics of Loan Guarantees and Deposit Insurance: A Comment [on Weil in same volume]. *Carnegie–Rochester Conference Series on Public Policy* 37 (December): 123–26.

Weil's paper describes the U.S. budgetary treatment of direct loans and loan guarantees that began with the Credit Reform Act of 1990. Even though Taylor disagrees with Weil's recommendation of returning to the old precredit-reform accounting, he stresses the importance of such research to U.S. federal budget policy and to economic performance in the United States and other countries.

Temzelides, Ted. 1997. Are Bank Runs Contagious? Federal Reserve Bank of Philadelphia *Business Review* (November): 3–14.

History shows that banks are subject to runs and panics. Researchers disagree, however, about whether runs are contagious: that is, do problems at insolvent banks spread to solvent ones? If runs are contagious, what, if anything, can be done to stop the spread, and what are the implications for deposit insurance and banking regulations? In this article, Ted Temzelides reviews the basic theory and presents some recent evidence on contagious bank runs. (©1999 EconLit)

Thies, Clifford F., and Daniel A. Gerlowski. 1989. Deposit Insurance: A History of Failure. *Cato Journal* 8, no. 3:677–93.

This article describes deposit insurance from a historical perspective and examines the record of state-sponsored deposit insurance. What emerges is a surprisingly consistent pattern: "reckless banking," losses in excess of assessments, increased assessments and borrowing, and the exit of sound banks from the insurance system, leaving an increasingly risky and ultimately uninsurable pool of remaining banks. In short, the history of deposit insurance funds shows that all have exhibited the same moral-hazard problem that was evident at the federal level in the 1980s.

Todd, Walker F. 1992. History of and Rationales for the Reconstruction Finance Corporation. Federal Reserve Bank of Cleveland *Economic Review* (4th quarter): 22–35.

This paper reviews some of the lessons to be learned from the experience of the original Reconstruction Finance Corporation (RFC), which was the principal government-funded bailout agency for both banks and nonbanks from 1932 to 1947. Having tried forbearance and seen it fail to deal adequately with the thrift industry's problems after 1982, Congress created the Resolution Trust Corporation (RTC) in 1989, which it hoped would resolve those problems much as the RFC had done in the 1930s. According to the author, the RTC has proved to be a much weaker entity. He then discusses why creating an RFC would probably have been a better solution in the 1980s.

U.S. House. 1990. Committee on Banking, Finance, and Urban Affairs. Briefing Paper on Deposit Insurance: How It Originated and How It Works, by Charles E. Schumer. Committee Print 101-5. U.S. Government Printing Office.

This report objectively explains the deposit insurance system in the United States: how it currently works (1990), how it originated and evolved, and why it exists as it does.

U.S. House. 1992. Committee on Banking, Finance, and Urban Affairs. *To Examine the Current Condition of the U.S. Banking Industry and Projections for the Bank Insurance Fund: Hearings*. 102d Cong., 2d sess., June 30 and July 2, 1992.

Witnesses include Charles Bowsher, Edward Kane, William Taylor, William Ferguson, Norman Jones, Timothy Ryan, and Lawrence J. White.

U.S. Office of Management and Budget. 1991. *Budgeting for Federal Deposit Insurance*. U.S. Office of Management and Budget.

This report presents options for budgeting for the deposit insurance system within the federal government. The report's major conclusions include the following: (1) cash accounting for deposit insurance has served the United States poorly; (2) costs should be measured as they arise rather than later when they are paid; (3) alternative methods are available to use these better cost estimates to improve deposit insurance accounting; (4) alternative means are available to control costs; and (5) phasing in a new system for deposit insurance budgeting can minimize transition problems.

Wall, Larry D. 1992. Government Deposit Insurance: Problems and Prospects. In *Emerging Challenges for the International Financial Services Industry*, edited by James R. Barth and Philip F. Bartholomew, 157-76. Research in International Business and Finance, vol. 9. JAI Press.

The article focuses on the U.S. deposit insurance system partly because it is one of the oldest systems sponsored by a national government and partly because it is one of the most spectacular examples of what can go wrong with deposit insurance. The first section reviews the goals of deposit insurance and describes the methods used to limit bank risk. The second section discusses why deposit insurance has failed. The third section considers the costs of the breakdown. The fourth section analyzes the effectiveness and prospects for adoption of a variety of deposit insurance reform measures. Last, the article discusses the implications of the U.S. experience for deposit insurance systems in other countries.

Weil, Philippe. 1992. The Budgetary Arithmetics of Loan Guarantees and Deposit Insurance. *Carnegie-Rochester Conference Series on Public Policy* 37 (December): 97-122.

The Credit Reform Act of 1990 required that starting with FY1992, loan guarantees—but not deposit insurance, Social Security, or any source of revenue—be budgeted on an accrual basis. Such accounting inconsistencies are neutral and innocuous in a world with optimizing rational agents and a tax-

smoothing government, but they are not neutral and innocuous in a tax-weary policy environment. This paper argues, therefore, that the Credit Reform Act of 1990 should be rescinded and a pure cash-basis accounting principle be restored. A present-discounted-value accounting of the government's activities could still be attempted, but off-budget and not solely for loan guarantees.

Wheelock, David C. 1993. Government Policy and Banking Market Structure in the 1920s. *Journal of Economic History* 53, no. 4:857–79.

This article investigates interstate differences in banking market structure during the 1920s. It finds that the number of banks per capita and the ratio of state-chartered to federally chartered banks were highest in states with deposit insurance systems, low minimum capital requirements, and branching restrictions. In the 1920s, banking consolidation was greatest where falling incomes caused high failure rates, in states with deposit insurance, and where branching increased. After 1920, the high failure rate of insured state banks caused the ratio of state-chartered to federally chartered banks to decline relatively more in states with insurance systems. (©1999 EconLit)

White, Eugene N. 1997. Deposit Insurance. In *Reforming Financial Systems: Historical Implications for Policy*, edited by Gerard Caprio Jr. and Dimitri Vitas, 85–100. Cambridge University Press. Also 1995. Deposit Insurance. Policy Research Working Paper no. 1541. The World Bank.

The author argues that deposit insurance was the peculiar creation of the U.S. banking experience and, generated by some of that system's worst features, is inappropriate for developing or transition economies. Deposit insurance not only presents enormous incentive problems but also demands additional regulations and close supervision to be workable in the short run. Simpler, less-costly alternatives may achieve the same objectives.

White, Eugene N. 1998. The Legacy of Deposit Insurance: The Growth, Spread, and Cost of Insuring Financial Intermediaries. In *The Defining Moment: The Great Depression and the American Economy in the Twentieth Century*, edited by Michael D. Bordo, Claudia Goldin, and Eugene N. White, 87–121. University of Chicago Press.

Without the Great Depression, the United States would not have adopted deposit insurance. This article examines how market and political competition for deposits raised the level of coverage and spread insurance to all depository institutions. The author explores the cost of insurance with a counterfactual analysis of an insurance-free post–Great Depression financial system in order to assess the burden imposed by the legacy of the New Deal.

White, Lawrence H. 1993. Why Is the U.S. Banking Industry in Trouble? Business Cycles, Loan Losses, and Deposit Insurance. In *The Crisis in American Banking*, edited by Lawrence H. White, 7-28. The Political Economy of the Austrian School Series. New York University Press.

The author explains why he believes (1) the FDIC will run out of insurance funds because of asset-quality problems at large banks; (2) banks will continue to fail because of bad loans; (3) the number of loan losses is cyclical, secular, and regulatory; and (4) the 1993 deposit guarantee system allows a bank to take the risks without paying a correspondingly higher price for funds.

White, Lawrence J. 1991. The Value of Market Value Accounting for the Deposit Insurance System. *Journal of Accounting, Auditing and Finance* 6, no. 2:289-302.

The purpose of an accounting system should be to provide a depository's managers, owners, and insurer-regulator with a picture of current economic reality so that private and public decisions concerning that depository have a power base. This article argues the case for market-value accounting primarily for thrifts and their insurance fund; but the basic argument and logic apply with equal force to commercial banks and credit unions and their insurance funds.