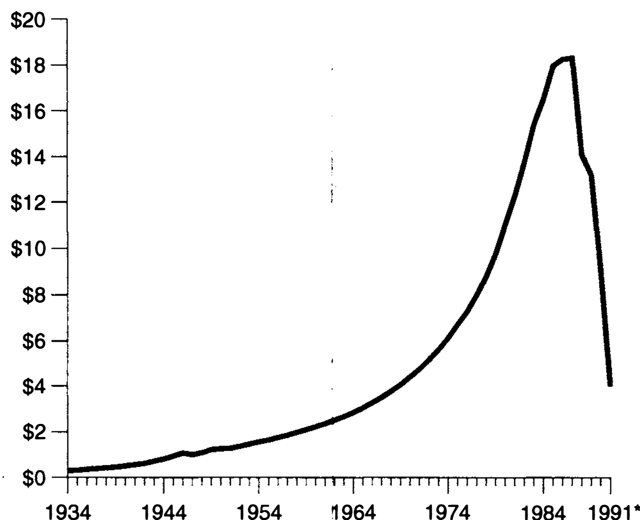
But the decision to cut bank deposit insurance is quite tricky, since the perception that deposits are backed by the federal government is the only thing standing between the banks and massive runs on deposits. In fact, such runs are already under way, not only in New England, but also in New York and other parts of the country.

To make this fascist reorganization palatable to the public, the regulators and the bankers are attempting to portray it as a way to ensure that the taxpayers don't get stuck with the tab, as they did in the S&L fiasco. The big problem with this consolidation scheme, of course, is that it will cost a lot of money—money that neither the bankrupt banks nor the bankrupt FDIC have.

The FDIC is hopelessly insolvent. The agency's Bank Insurance Fund (BIF) peaked at $18.3 billion in 1987, and has dropped like a rock ever since (see **Figures 1** and **2**). By the end of 1990, the BIF contained just over $9 billion, a 50% drop in three years. By the end of 1991, the FDIC estimates, the BIF will have only $4 billion to back some $2.5 trillion in insured deposits, or about 18 cents for every $100 in insured deposits (see **Figure 3**), and even less compared to total deposits.

To remedy this, the administration is considering several

FIGURE 1
Size of FDIC Bank Insurance Fund, 1934-91*
(billions $)



* FDIC estimate
Source: FDIC

How the banking system collapsed in 1933

The rapid escalation of bank failures in the United States today recalls the banking crisis of the 1930s, when the federal government was forced to declare a bank holiday and shut down the entire banking system.

The collapse started gradually. Between 1904 and 1920, some 1,170 of the nation's banks failed. That number jumped to 5,624 between 1921 and 1929. After the stock market crash in October 1929, the crisis deepened, and 3,635 banks failed in 1930 and 1931 alone.

The final phase of the banking crash began in October 1932, three years after Black Friday, when Nevada declared a statewide banking moratorium. As Christmas approached, sporadic runs hit country banks in parts of the Midwest and Pennsylvania.

In January 1933, the runs spread to Memphis, Little Rock, Mobile, Chattanooga, Cleveland, and St. Louis. By early February, they had spread further to Baltimore, Nashville, San Francisco, New Orleans, and Kansas City. On Feb. 14, 1933, Michigan Gov. William A. Comstock closed all the banks in the state. On Feb. 24, Gov. Albert C. Ritchie declared a three-day banking holiday in Maryland. Three days later, the seven member banks of the Cleveland Clearing House Association limited withdrawals from their 103 branches. Similar restrictions were imposed in Akron and Indianapolis. Before the following dawn, the legislatures of Ohio, Pennsylvania, and Delaware amended their banking laws to allow regulators to limit withdrawals by depositors.

On March 1, bank holidays were declared in Alabama, Louisiana, and Oklahoma. The next day, banks were ordered shut in Texas, Oregon, Arizona, Idaho, Nevada, Washington State, and Utah. Visitors arriving for Franklin Roosevelt's inauguration found notes in their hotel rooms announcing that no out-of-town checks would be accepted.

On March 3, four more states—Missouri, Wisconsin, Georgia, and New Mexico—declared holidays. After midnight, a few hours before the presidential inauguration, state moratoria were declared in New York and Illinois. That was the knockout blow: By breakfast, every state that still had banks open, closed them.

It took from October 1929 until March 1933, nearly three and one-half years, for the financial blowout triggered by the stock market crash to bring the entire banking system to a halt. By that schedule, the events of October 1987 would bring down the U.S. banking system in March 1991.

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