Abstract

Banking crises are notoriously difficult to define, leading to limited consensus among existing chronologies of these events. A persistent issue in the literature is whether banking panics are a necessary prerequisite for bank crises or if substantial bank losses, even without panics, can trigger severe economic downturns. Baron et al. (2022) contributed to this debate by constructing a new dataset of bank equity returns for 46 countries between 1870 and 2016. Their research revealed that banking crises can have adverse economic consequences even in the absence of panics, thereby identifying a category of crises referred to as "quiet crises".

This paper complements Baron et al.'s work. While their research significantly contributes to the literature by unveili1ng these quiet crises, it maintains a high-level perspective and remains somewhat agnostic regarding the underlying mechanisms driving such crises. Our study focuses on the case of the Netherlands during the Great Depression. We find that despite the absence of a banking panic, significant transfers of deposits away from commercial banks toward the publicly-owned postal savings bank occurred, largely unnoticed in the literature until now.

Drawing inspiration from Baubeau et al. (2020) and Degorce & Monnet (2023 forthcoming), we argue that these deposit withdrawals led to constraints in commercial banks' credit supply. However, in contrast to their work, we assert that the observed reallocation of deposits in the Netherlands was not exclusively driven by a flight-to-safety. Instead, our analysis demonstrates that this process was reinforced by the postal savings bank offering a comparatively higher interest rate on long-term deposits during the peak of the reallocations between 1931 and 1932.

To support this argument, we rely on two newly constructed datasets. The first one contains yearly balance sheet information for over 140 individual banks between 1925 and 1939. The second dataset comprises monthly balance sheet and deposit interest rate observations for the largest Dutch commercial banks and monthly figures on the in and outflows of deposits in savings banks. Using a dynamic difference-in-differences approach, we show that a drop in long-term interest rates offered by commercial banks was indeed the driving force behind the outflow of deposits.