UI study links 1930 bank suspensions to contemporary suicide rates

Depression-era bank suspensions have had a lasting harmful effect on the hardest-hit communities, affecting suicide rates and disheartening residents decades down the road, a new University of Iowa study suggests.

The lead researcher said these communities have turned out a bit more like the fictional town of "Pottersville" depicted in the 1946 film "It's a Wonderful Life."

Counties with higher bank suspension rates in 1930 experienced elevated suicide rates 70 years later. In addition, the residents were less trusting and the communities were less residentially stable, according to the study, published this month in the journal Suicide and Life-Threatening Behavior.

"Economists have demonstrated that banking distress in the Great Depression damaged communities in terms of subsequent incomes and new construction," said lead author Rob Baller, associate professor of sociology in the UI College of Liberal Arts and Sciences. "Our results suggest that these communities came to exhibit other ills that lasted for decades, including diminished trust and higher suicide rates."

Baller said the findings point to the importance of better regulating the financial industry.

"When a big bank like Lehman Brothers fails, you hear about ripple effects on other parts of the economy, but this study provides evidence that the consequences are much more than financial," Baller said. "And, with banks being far more global today than in the 1930s, these consequences could be far reaching."

Recent legislation has increased consumer protections. The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 permanently raised Federal Deposit Insurance Corp. coverage from $100,000 to $250,000 per depositor, created new regulations for derivatives, and increased capital requirements for financial institutions.

"Bank markets in 1930 did not enjoy protections we have today, including federal deposit insurance," Baller said. "Our results point to the long-term and harmful consequences of those relatively unregulated markets."
Nationwide, bank suspensions and failures soared to 1,350 in 1930, when banks were unable to meet customer demand for withdrawals. With few restrictions in place, the banks made risky loans. And when unemployment shot up and agricultural prices fell, borrowers were unable to make payments. Word that the bank was broke would spread through a community, creating a panic known as a "bank run." When banks couldn’t come up with the cash, they were forced to shut down and depositors lost some or all of their money.

The study examined data from more than 2,600 counties east of the Rocky Mountains, where bank suspension rates were on average four times higher than those in the western United States. Researchers looked at suicide rates for those counties in 1999-2001, using data from the National Center for Health Statistics.

To isolate the link between the suspensions and suicides, Baller and his UI team controlled for other factors that may have influenced that relationship, including the value of agricultural goods, radio ownership, and unemployment in 1930, loss of male population during World War II, and contemporary measures of unemployment, social integration, inequality, poverty, divorce, religiosity, race and age.

"The effect of Depression-era bank suspensions on contemporary suicide rates was small—about seven times smaller than the effect of contemporary poverty and inequality—but it’s still a non-zero effect, and the fact that it has lasted for over 70 years is significant and worth reporting," Baller said.

The research team established the relationship between bank suspensions and trust and demoralization by examining 83 communities’ responses to the General Social Survey conducted in the mid-1970s. Residents in each community answered questions that reflected their outlook on the future and how much people cared about each other.

"People in these communities may not have experienced the Great Depression first-hand, but our research suggests that the cultural consequences of suspensions, especially as they relate to trust and demoralization, have been passed along for generations," Baller said.

The research was supported by the Center for Criminology and Socio-Legal Studies at the UI. Co-authors of the paper are Phil Levchak and Mark Schultz, current and former UI graduate students in sociology.

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