



Research Working Papers

Shared Destinies? Small Banks and Small Business Consolidation

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The futures of small banks and small businesses are connected: when small businesses decline, small banks follow.

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We identify a new source of bank consolidation in the United States. For decades, both the financial and real sides of the economy have experienced considerable consolidation. We show that banking-sector consolidation is, in part, a consequence of real-sector consolidation; because small banks are a disproportionate source of small business credit, they are disproportionately exposed to shocks to small business growth. Using a Bartik instrument based on national small business trends and county-level industry exposure, we show that changes to the real-side demand for small business credit are partially responsible for the relative decline in small banks' deposits, income, and loan growth.

JEL Classifications: G21, G34, L25, R12

Article Citations

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Related Research

- Berger, Allen N., Rebecca S. Demsetz, and Philip E. Strahan. 1999. "The Consolidation of the Financial Services Industry: Causes, Consequences, and Implications for the Future." *Journal of Banking & Finance*, vol. 23, pp. 135-194. Available at [https://doi.org/10.1016/S0378-4266\(98\)00125-3](https://doi.org/10.1016/S0378-4266(98)00125-3)
 - Chodorow-Reich, Gabriel, Olivier Darmouni, Stephan Luck, and Matthew C Plosser. Forthcoming. "Bank Liquidity Provision across the Firm Size Distribution." *Journal of Financial Economics*, forthcoming. Available at <https://doi.org/10.1016/j.jfineco.2021.06.035>
 - Goldsmith-Pinkham, Paul, Isaac Sorkin, and Henry Swift. 2020. "Bartik Instruments: What, When, Why, and How." *American Economic Review*, vol. 110, pp. 2586-2624. Available at <https://doi.org/10.1257/aer.20181047>
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Stefan Jacewitz serves as an Assistant Vice President and economist at the Federal Reserve Bank of Kansas City, where he is the oversight officer of the Banking and Financial Markets group. Stefan has held leadership positions within the Federal Reserve System, the U.S. Department of the Treasury, and the Federal Deposit Insurance Corporation (FDIC). In 2024, he served as Lead Author for the Financial Stability Oversight Council's annual report to Congress. Stefan's research has been published in the Review of Financial Studies, the Journal of Econometrics, the Journal of Money, Credit, and Banking, the Journal of Financial Stability, the Review of Corporate Finance Studies, and the Journal of Financial Services Research. Stefan has a Ph.D. in Economics with a focus in financial econometrics from Texas A&M University and B.A. degrees in Mathematics and Economics from the University of Oklahoma. He has also completed the Senior Executive Fellows program at the Harvard Kennedy School and the Yale Program on Financial Stability's Symposium at the Yale School of Management.
