Available online at www.sciencedirect.com

ScienceDirect

Explorations in Economic History 44 (2007) 411–431

Explorations in Economic History

www.elsevier.com/locate/eeh

Bank runs, information and contagion in the panic of 1893

Brandon Dupont *

Western Washington University, Department of Economics, 315 Parks Hall, Bellingham, WA 98225, USA

Received 27 December 2005
Available online 30 June 2006

Abstract

Contagious bank runs, which spread to both solvent and insolvent banks, should not occur if bank-specific information is provided regularly to the banking public. By mitigating the information asymmetry between banks and depositors, information should restrict runs to insolvent banks. However, official bank statements collected from quarterly reports to local newspapers in Kansas demonstrate that runs did become contagious in the 1893 panic even in an information-rich banking system. Important differences between national and non-national banks were also found, which suggests the maturity of the regulatory system may have played an important role in the panic.
© 2006 Elsevier Inc. All rights reserved.

Keywords: Contagion; Bank panic; Panic of 1893; Bank runs; Bank suspensions

1. Introduction

While it occurred well over a century ago, the bank panic of 1893 is an important though often neglected aspect of American economic history and one that also holds important lessons for contemporary policymakers. I argue in this paper that locally contagious bank runs developed in the state of Kansas during the Panic of 1893 despite the existence of a relatively information-rich banking environment. Contagion, according to previous theoretical work, should not develop if bank-specific information is provided

* Fax: +1 360 650 6315.
E-mail address: Brandon.Dupont@wwu.edu

0014-4983/$ - see front matter © 2006 Elsevier Inc. All rights reserved.
doi:10.1016/j.eeh.2006.05.001

to the public since providing this information allows depositors to discriminate between banks that are at risk of failure and those that are not.[1] Weak banks may experience deposit withdrawals and may end up closing but contagious runs that spread indiscriminately from one bank to another should not develop in this environment.

The analysis presented here suggests that contagious runs developed in 1893 even though bank-specific information was regularly provided to the public. This conclusion is supported by analyses of county- and bank-level deposit flows and probit regressions on bank suspensions. These results have important implications for structuring policies that are designed to stop or prevent banking instability.

What type of information is required in an information-rich system? Theoretically, one would like to have continuous information about specific bank customers, loan quality and other investments and the financial standing of the bank's principal investors. Of course, such real-time perfect information cannot be expected, particularly in 1893. Indeed, such stringent informational requirements are not required—what is required is that the bank depositors have accurate information about the bank's general solvency just prior to the panic. Kansas depositors could obtain such general solvency information quite easily in 1893 thanks to the General Banking Law of 1891. The 1891 Kansas law required this information to be printed in a local newspaper every 3 months so depositors regularly had easy access to bank-specific information. As pointed out later, one of these reports was printed just days before most of the bank runs in 1893. By reducing the asymmetry of information between a bank and its depositors, this information should have prevented contagion.

Act 21 of the 1891 Kansas bank law established the Kansas State Bank Commissioner as the official state regulatory agency and created the information-rich system that is central to the following analysis. According to this law, the bank commissioner's representatives were to visit every bank doing business in the state, except national banks, at least once per year for an examination of the bank's financial standing.[2] The commissioner and his deputy had the power to investigate all people connected with banks when making an investigation.[3] The commissioner could also call on all banks, except national banks, at any time for a report of their condition and four such reports were to be made each year. These reports were transmitted to the state commissioner's office and were also required to be published in a local newspaper in the town where the bank operated. The bank commissioner would take charge of insolvent banks until a receiver was appointed and was required, in each even numbered year, to report the "names of owners or principal officers, the paid-up capital of each, the number of banks in the state, the name and location of each and the number and date of examinations and reports of and by each."[4]

[1] As explained later in the paper, the prevailing assumption throughout is that depositors only need basic but regular information about bank quality—essentially, depositors only need to know whether their bank is "weak" or "strong."

[2] The national banks were under the purview of the U.S. Comptroller of the Currency, which had similar oversight abilities.

[3] A graduated fee was to be charged for these examinations ranging from $5 for banks of $5000 capital stock to $20 for banks of $50,000 capital stock and over.

[4] These created the bank commissioner's biennial public reports. In the normal course of events, 1893 would not have been among these years but because of the unique events of that year, the commissioner prepared a Special Report of 1893, which was used heavily in this research.

دریافت فوری ← متن کامل مقاله

ISIArticles
مرجع مقالات تخصصی ایران

- ✓ امکان دانلود نسخه تمام متن مقالات انگلیسی
- ✓ امکان دانلود نسخه ترجمه شده مقالات
- ✓ پذیرش سفارش ترجمه تخصصی
- ✓ امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
- ✓ امکان دانلود رایگان ۲ صفحه اول هر مقاله
- ✓ امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
- ✓ دانلود فوری مقاله پس از پرداخت آنلاین
- ✓ پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات