Clearinghouse Membership and Deposit Contraction during the Panic of 1907

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Summary

"Was clearinghouse membership a key factor mitigating withdrawals from intermediaries during the Panic of 1907? Analyzing balance-sheet information on institutions in New York and Chicago, we find evidence that clearinghouse members had institutions in New York and Chicago, we find evidence that clearinghouse members had smaller contractions in demand deposits than did nonmembers. New York City trusts, isolated from the clearinghouse, were subject to heightened perceptions of risk, and suffered large-scale withdrawals because they were outside of the clearinghouse and therefore much less prepared to withstand large-scale depositor runs. We suggest that this aspect of the Panic of 1907 helped to forge support for the creation of a U.S. central bank." (Moen, Tallman)

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