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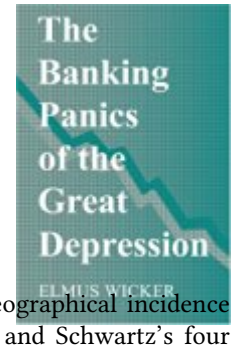
**Elmus Wicker**. *The Banking Panics of the Great Depression.* New York: Cambridge University Press, 1996. xvii + 174 pp. $80.00 (cloth), ISBN 978-0-521-56261-4.




**Reviewed by** John H. Wood (Wake Forest University)
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The number of commercial banks in the United States nearly tripled during the first two decades of the twentieth century, reaching 30,000 in 1920. The vast majority of these were unit banks as required by their national and many state charters. Illinois had nearly two thousand, and Nebraska, with a population of 1.3 million, had a bank for every one-thousand residents. Failures averaged about seventy banks per annum, or one of every three-hundred existing banks, during those two decades. The agricultural depression of the 1920s raised the failure rate to more than six-hundred banks per annum, or one of fifty. Failures showed few signs of abating as the decade drew to a close, and the banking system, especially in rural America, entered the Great Depression in a fragile state.

In *A Monetary History of the United States, 1867-1960*, Milton Friedman and Anna Schwartz attributed much of the depression's severity to four banking crises, or panics. They argued that the crisis of late 1930 and early 1931, in particular, converted a mild recession into a major depression as "a contagion of fear" initiated by crop failures swept the country. Friedman and Schwartz reported the significant increase in the failure rate (seven-hundred and sixty-one banks during November 1930 to January 1931, compared with seven-hundred and forty-four during the first ten months of 1930), led by New York City's Bank of the United States, then the largest failure in American history (pp. 308-11). They found the Federal Reserve guilty of neglect for failing to deal with these panics, a failure that was particularly culpable because correct, "lender-of-last resort," actions would simply have required "the policies outlined by the System itself in the 1920s, or for that matter by Bagehot in 1873" (p. 407).

Professor Wicker's major contribution in this important book is to examine the geographical incidence of bank failures during Friedman and Schwartz's four "crises," or "contagions." His basic unit of observation is the Federal Reserve District, and he finds that in the first three crises, at least, failures were geographically concentrated. None became national in scope or involved significant pressure, not to say panic, in the New York money market. The three crises of 1930-31 accounted for only forty percent (about 2,100 of 5,100) of failures during 1930-32. A high proportion of failures during the first crisis occurred in the St. Louis district and were caused by the collapse of the Caldwell investment banking firm of Nashville, Tennessee, which controlled the largest chain of banks in the South and had invested heavily in real estate in the 1920s. There is no evidence of contagion in the form of runs on other banks. The experience of the Bank of the United States was similar. It was also heavily involved in real estate, and its failure did not instigate a liquidity crisis among other New York banks.

The second crisis (April-August 1931) was concentrated in the Chicago and Cleveland districts (nearly half the failures and two-thirds of the deposits of failed banks), and in the case of Chicago resulted from the large increase in the number of unit banks during the real estate boom of the 1920s in Chicago and its suburbs. The crisis of September-October 1931 following Britain's departure from gold more nearly approached national proportions, but even it was concentrated in three cities: Chicago, Pittsburgh, and Philadelphia.

The panic of 1933 is a special case, and was caused by the unprecedented resort of state banking officials to the declaration of bank holidays and the resulting uncertainty for depositors, who rushed to withdraw funds before their own banks were closed. Bank failures, al-

though still at a high level, had declined and there was reason to hope for a return to stability when the Governor of Michigan declared a bank holiday on February 14 to protect the Guardian Group (Ford family) of Banks. This led to holidays in other states as Michigan (then Indiana and Ohio, then Illinois and Pennsylvania, etc.) depositors sought cash elsewhere until by the time Franklin Roosevelt was inaugurated on March 4 banks in all forty-eight states had either been closed or restrictions had been placed on their deposits. Although national in scope, the panic of 1933 was due less to depositors' fears of bank insolvency than to the actions of public officials.

The banking crises of the Great Depression do not appear to correspond to those of popular banking history or the academic literature in which irrational or even rational responses to information asymmetries generate widening circles of panic that ultimately reach the central money market and in the absence of a lender of last resort force the collapse of the monetary system. Wicker finds them to be region specific without perceptible nationwide effects. They were more consequences (especially of falling real estate prices) than causes of the depression.

What should the Federal Reserve have done? The traditional role of the central bank, forged in England in the nineteenth century, was not called for because there was little or no pressure on the money market. On the other hand, might we not blame the Fed for failing to provide "an elastic currency" in accordance with the Federal Reserve Act, which might have meant actions to ensure a growing stock of money? However, this would be holding it accountable for concepts concerning the control of money and its influence of which it could not have been aware at the time, and which remain unclear today.

This book is an important contribution to our understanding of the interactions between the banking system and the course of the Great Depression, and it should inspire more detailed investigations of other banking crises to determine whether the lack of contagion was peculiar to the 1930s.

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