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Liquidity provision during the crisis of 1914: Private and public sources

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Summary

Caught between the end of the National Banking Era and the beginning of the Federal Reserve System, the crisis of 1914 provides an example of a banking panic avoided. We investigate how this outcome was achieved by examining data on the issues of Aldrich-Vreeland emergency currency and clearing house loan certificates to New York City institutions that identify the borrower and the quantity requested for each type of temporary liquidity measure. The extensive provision of temporary credit to a wide array of financial intermediaries was, in our opinion, essential to the successful alleviation of financial distress in 1914. Empirical results indicate an important role for clearing house loan certificates that is distinct from the influence of Aldrich-Vreeland emergency currency issues.

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