Summary

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“Too Big to Fail?
The Newfoundland Bank Crash of 1894“

In the Newfoundland Bank Crash of 1894, the commercial banks in a duopolistic loan market both went under simultaneously. The banking system was “free”, as central bank, deposit insurance, and lender of last resort were all absent. The objective of this study is to shed light on our understanding of the working of a duopolistic bank loan market and to provide lessons for banking regulation and policies, the too-big-to-fail doctrine in particular. Our regression results suggest a price leader-follower relationship before 1887, and a drastic decline in exports that year triggered a regime change into simultaneous loan expansion that ultimately precipitated a systemic banking failure. The short-lived liquidity crisis, however, was alleviated by entries of Canadian banks. More important, results of intervention analysis suggest that the Crash did not have any significant adverse impact on the fishery sector, the pillar of the single-resource economy. (JEL E5, G2, N2)