Name:____ Class Period:______

FIRST SEMESTER PANIC AND DEPRESSION REVIEW

Read & Highlight Main CAUSES of each panic and depression.
In the margins, add notes comparing and contrasting each to the others.

The Panic of 1819

A PANIC IS PRECIPITATED BY wild speculation in western lands, followed by a sharp contraction of credit, led by the Second Bank of the United States. A six-year depression ensues. America's first serious panic, occurring early in the year, is followed by a depression.

Many state banks collapse, and enormous amounts of Western real estate are foreclosed by the Bank of the United States. But there are more fundamental causes for the crisis, of which the credit collapse is only a consequence and a symptom. The swollen demand for the products of American farms and factories, resulting from scant supply of such goods at home and abroad during the war, is now satisfied: the market is declining. As prices fall, money becomes difficult to come by, but the habit of borrowing, formed in the expansive years, cannot be shaken. Those who insist on a return to specie-hard money, are seen as turning the clock back.

Panic and Depression 1832

WHEN PRESIDENT ANDREW JACKSON refuses to renew the charter of the Second Bank of the United States and transfers government funds to state banks, Nicholas Biddle, head of the National Bank, calls in commercial loans. A panic and recession follow.

Eight hundred banks close and the banking system collapses. One third of manual laborers are out of work in New York City alone. Nationwide, unemployment reaches 10 percent.

Panic and Depression 1836

PRESIDENT JACKSON HAS THE SATISFACTION, in his last year in office, of seeing the demise of the Bank of the United States and the transfer of Federal deposits to the state banks.

But he also foresees the long-range results of his triumph. In an effort to avoid the inflationary consequences of unrestrained printing of paper money by uncontrolled state banks (now that the Bank of the United States no longer exists), the President, always an advocate of " hard money," issues the Specie Circular, requiring that public lands be paid for in gold or silver. It is not successful. Land sales and prices drop: those who have specie hoard it: speculators thrive.

The Panic Of 1837

IN 1837, THERE OCCURRED THE FIRST GREAT business panic with which the nation has been visited, and New York was as hard hit as the rest of the country.

Unfortunately no practical measures were at first instituted to relieve the distresses of the working classes, and advantage was taken of the opportunity by politicians and demagogues to inflame the passions of the ignorant and the vicious.

The economic harvest of the Jackson years is the Panic of 1837, with an ensuing depression. During these years cotton production increased in the South, agriculture expanded in the West, cities grew, manufacturing replaced trade as the economic base in the North. These phenomena were accompanied by a rise in the sales of land, and also in the price paid for land. There was a need for internal improvements, roads, canals, etc. and these had to be financed by states and private companies. Inevitably, speculation and inflation accompanied such activities, and President Jackson hoped to curb the unhealthy aspects of a growing economy by extirpating the central bank, which he considered the root of the evil.

But with Federal funds distributed widely in "pet banks" and surplus revenues distributed among the states, the control exercised by the Bank of the United States is replaced by financial anarchy: the number of banks and the number of bank notes increase. In response to the President's Specie Circular issued in 1836, the local banks are faced with a critical situation, and call in their loans. (At the same time, a depression in Great Britain results in withdrawals of British investments and a decline in the demand for cotton.) First the New York City Banks suspend specie payment; then others follow suit. Lacking sufficient hard money, banks fail, enterprises go bankrupt, unemployment spreads. As the depression deepens, President Van Buren continues to follow Jackson's policy, with the ill-advised codicil of a plan to fragment the single treasury into a system of "sub-treasuries."

Sub-treasury System

The sub-treasury system of the United States is an outgrowth of the panic of 1837. In his special session message to Congress that year President Van Buren strongly recommended such a system (III, 324). Silas Wright of New York, introduced a bill in Congress in accordance with the President's recommendations. It prohibited Government agents from receiving anything but gold and silver. In 1840 the bill became a law and sub-treasuries were established at New York, Boston, Charleston, and St. Louis, the mint at Philadelphia and the branch mint at New Orleans having been also made places of deposit. The law was repealed in 1841 and reenacted in 1846.

Six Year Depression 1837-1843

ENGLISH BANKS RAISE INTEREST RATES and reduce credit, sending shock waves through the cotton market that initiate a six-year depression.

On October 12, 1837, the issuance of $10,000,000 in Treasury notes is authorized. On May 21, 1838 Congress rescinds the Specie Circular. On July 28, 1841, a bill reestablishing a national bank passes in the Senate by a vote of 26 to 23. On August 6, 1841, the bank bill is approved in the House of Representatives, 128 to 97. On August 13, 1841, The Independent Treasury Act of 1840 is repealed. On August 16, 1841, President Tyler vetoes the bank bill. On August 19, the U.S. Senate fails to override Tyler's veto. On August 23, 1841, by a vote of 125 to 94, the House of Representatives passes a second bank bill providing for the establishment of a national bank under another name.

On September 3, 1841, The U.S. Senate approves, 27 to 22 the second bank bill. On September 4, 1841, Congress passes the Distribution Preemption Act, which allows settlers to purchase ("preempt") up to 160 acres of public land at $1.25 an acre. In addition, it provides for the distribution of the revenues from land sales among the states. However, the act also stipulates, that distribution will be suspended if the tariff rate exceeds 20 per cent. (A tariff increase in 1842 voids this section of the act.) On September 9, 1841, the second bill to reestablish a national bank is vetoed by President Tyler. The next day this veto is sustained in the Senate. On September 11, 1841, all the members of the Cabinet except Webster, resign because of President Tyler's veto of the bank bills. On September 13, the President makes new Cabinet appointments.

The Panic Of 1857

IN 1857,DURING THE PANIC AND DISTRESS OF THAT YEAR, crowds of the unemployed flocked into the Park and threatened the authorities unless they were given food and work. Their riotous action was repressed by

giving them work in Central Park, recently purchased and then in course of development. The charitable societies and people of the city established soup kitchens for the needy and starving thousands, so that danger of an uprising was averted. This brief panic is notable for the role that telecommunications plays. When a branch of the Ohio Life Insurance and Trust Company fails, news that would formerly have taken weeks to criss cross the nation, its impact diminishing with time is known within hours, thanks to the telegraph. The news induces one of the first waves of panic selling in the stock market. The underlying cause of the recession is a downturn in agricultural exports brought on by the end of the Crimean War in Europe, as well as over-speculation in railroads and real estate.

Panic and Depression 1869-1871

THE NEW YORK STOCK EXCHANGE ROSE TO A POSITION OF REAL PROMINENCE only after the Civil War. In the 1860's the United States was not on the gold standard. Monetary values were expressed in terms of paper money.

Gold was scarce, and the scarcity resulted in high interest rates. By 1869 the federal treasury held in reserve $95,000,000 in gold, but only $15,000,000 worth of the precious metal circulated throughout the country. Even at that time the fact that it did not deal in gold as a commodity threw a great part of the community's highly speculative business over to the Gold Exchange, which was formed for that purpose exclusively.

The Gold Exchange was established in 1864 on the corner of Broad Street and Exchange Place. The dramatic incident of this period was the gold panic on Black Friday in September, 1869, when a combination of several unscrupulous speculators, among them James Fisk, Jr., and Jay Gould, attempted to corner and put to extravagant figures the gold supply of the market. Operations on the Stock Exchange proper at that time were largely made up of the personal struggles of rival capitalists, notably in connection with the Erie and New York Central railroads.

The completion of the Pacific Railway (1869) caused extensive speculation in shares of the two transcontinental railways, and as capital increased and the railway mileage of the country extended the transactions of the Exchange became of a national rather than provincial character. The leading operators of that time were Gould, Fisk, Daniel Drew, Cornelius Vanderbilt and their associates. None of the capitalists named was accustomed to trade personally on the Stock Exchange; indeed, such a practice has always been the rare exception among active financiers.

BLACK FRIDAY: The term is often used to designate a dark financial day. September 24, 1869, is sometimes referred to as Black Friday in the United States. On this day a syndicate of New York bankers advanced the price of gold to 162 1/2, causing a panic. It sold at 143 1/8 the previous evening. The Grant Administration dumped $4,000,000 in gold on the market, the price falls in fifteen minutes from 162 to 133, and many investors were ruined. Fortunes were lost. Wall Street brokerage houses failed. Railway stocks shrank. The nation's business was paralyzed. Another such day was Friday, Sept. 19, 1873, when Jay Cooke & Co., leading American bankers, failed. A great crash ensued in Wall Street, the center of financial operations in America, and the historic panic of 1873 began. Credit generally was impaired and many financial institutions were forced into bankruptcy.

The Panic Of 1873

THE PANIC OF 1873 BEGAN ANOTHER PERIOD of depression, which had its effect in keeping down the city's growth. The country's seeming economic well-being is shattered by a major financial crash.

The economy is in fact over-expanded, particularly in railroad construction, and the weak link turns out to be the banking house of Jay Cooke and Company, which helped the U.S. Government finance the Civil War and also underwrote the construction of the Northern Pacific Railroad. Jay Cooke and Company, a large and respected banking house declares itself bankrupt, and announces its failure on September 18, 1873.. (The bank's collapse precipitates the "Panic of 1873" and the ensuing three yea depression during which more than 10,000 businesses fail.

The basic economic problems are overproduction, a declining market and deflation. Investors in Europe, where a depression is already underway, begin to call in American loans. The New York Stock Exchange closes its doors for 10 days; other businesses fail; and railroad construction is curtailed, with some railroads defaulting on their bonds. The unemployed begin to move about the country seeking jobs, and bread lines appear in the cities. The hard times drove numbers of laboring people and those in humble circumstances to the West and other portions of the country, to k the rewards which the stagnation of business in the great commercial centre denied them.

1 "It was a wild day in Wall street yesterday. The announcements of The Times in the morning prepared the public in a certain degree for the trouble which was to ensue, and many parties were enabled to go in the market early in the morning and protect themselves from loss. While many did this, and so saved themselves from ruin, there were others, and by far the majority, who thought that the trouble was solely brought about by machinations of the bears, and that there would only be a small sized panic, which would result in a sudden rebound in prices. Those who took this view of the situation held on to their investments as long as possible, and, so soon as their margins gave out, were compelled to go under. Of course, there were many who, by superior strength, were enabled to hold on to their purchases, and so escaped being sold out, at least for the time.

Parties who were frightened the night before by the marked decline in prices became sanguine and predicted an altogether better date of the market. This continued, however, but for a short time. The first intimation which came into the Stock Exchange of any change in the program was contained in a brief notice, which said authoritatively that Jay Cooke & Co. had suspended payment. To say that the street became excited would only give a feeble view of the expressions of feeling. The brokers stood perfectly thunderstruck for a moment, and then there was a general run to notify the different houses in Wall Street of the failure.

The brokers surged out of the Exchange, tumbling pell-mell over each other in the general confusion, and reached their respective offices in race-horse time. The members of firms who were surprised by this announcement had no time to deliberate. The bear clique was already selling the market down in the Exchange, and prices were declining frightfully.

The news of the panic spread in every direction down-town, and hundreds of people who had been carrying stocks in expectation of a rise, rushed into the offices of their brokers and left orders that their holdings should be immediately sold out. In this way prices fell off so the wall. Men went about the street with blanched faces, and requested piteously of their brokers that their stocks should not be sold out as more margin would be obtained in the morning; but self-preservation seemed to be the first law of nature with every one, so the accounts of the customers were closed out, and the losses became a fixed fact.

Some of the men who were ruined swore, some of them wept, some went out of the street without saying a word; others talked of the trouble in a jovial way, and went about trying to borrow money from friends to get on the short tack with."

The Panic Of 1893-Financial World

EVEN BEFORE CLEVELAND TAKES OFFICE AN ECONOMIC crisis is seen to be brewing. Ten days before the inauguration, the Philadelphia and Reading Railroad files bankruptcy proceedings. Later, prices of grain, cotton, steel, and timber fall steadily, while the stock market fluctuates wildly. Many financiers, including August Belmont, J.P. Morgan and Henry Villard, warn Cleveland that a panic is nearing, and add their pressure to get a repeal of the Sherman Silver Purchase Act of 1890, which they blame for the crisis.

The chief fear among Eastern financiers and businessmen is that in a panic the United States could easily be forced off the gold standard. Early in May the panic begins. More railroads go broke; many of the great financial trusts begin to collapse; European banks begin selling their American stocks and bonds, and a huge run on banks ensues, until more than 500 Banks have failed. A vigorous battle begins, with the goal of repealing the Sherman Act. Forces for and against repeal are lined up geographically: the West and South favor retention of the act, and the East favors immediate repeal. Despite the repeal of the act in October, the deepening depression is becoming worldwide, and is wiping out prosperity in all sections of the economy.

The Financial World

The events of the past week will pass into Wall Street history as the "industrial panic." As a panic it was the worst since 1873, and the full force of it fell on the industrial stocks. It fell upon them because the speculation was concentrated in that group, and it did not touch the railroad shares with any severity because so little has been doing in them as compared with the industrials. One railroad stock there had been an inflated speculation in, and it suffered as much as the industrials, Manhattan. The time of extreme stress lasted over three days. It reached its most acute stage on Friday morning, when for nearly two hours it seemed as if the whole Street would go down in a crash of bankruptcy similar to 1873.

By noon the worst was over; by the afternoon there had been a rebound of prices almost as great as the morning fall: and three o'clock struck the excited throngs of brokers on the floor of the Exchange gave vent to a wild cheer, thankful that the trying day was over. Yesterday the market was feverish and from feverishness it is likely to quiet down into a weak dullness, like a patient who has been exhausted by violent spasms. It is unnecessary to note here the extreme declines, or the rapid recoveries in prices. They have already been set forth minutely and at length. But it may be said that to see the like, one must go back twenty years: and in those days it was all railroad stocks. There were no others to speculate in.

The fact that they were railroad stocks, and not industrials, did not secure them against the effects of excessive speculation; neither because this panic, of 1893, has taken place in the industrials, does it follow that industrial stocks are of less value than railroad stocks. When a period of financial or commercial stress comes upon us, whatever speculation has been the most active in suffers the most in the general collapse.