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## New York and the Panic of 1873

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Investors running from Wall Street on Sept. 18, 1873, after the announcement of the failure of the prominent financial house, Jay Cooke & Company, sparked what would become the panic of 1873. (Photo: Originally painted by Howard Pyle. Published in ["The United States in Our Own Time,"](#) by Elisha Benjamin Andrews)

Comparisons to the stock market crash of 1929 were tossed around last week as the Dow Jones industrial average had its worst week in at least 75 years. Despite [a big rally on Monday](#) after countries around the world vowed to inject new capital into banks, anxieties linger about the long-term effects, particularly in New York, where the city's economic fate is so closely intertwined with what happens on Wall Street.

In trying to make sense of recent events, a historian at the College of William and Mary has argued the crisis is not unlike the Panic of 1873, when rampant real estate speculation culminated in a credit crunch, and banking failures that led to broad panic in the stock markets. That crash lasted more than four years.

While the 1929 stock market collapse is [widely perceived by economists to have played a role in the economic contraction](#), the stock market collapse in 1873 — much like the one now — came after a building boom created by easily obtainable mortgages and an ensuing banking crisis, said Prof. Scott Reynolds Nelson, [whose piece in The Chronicle of Higher Education](#) has been widely translated into Korean, Spanish, Italian and Russian (and [noted in our sister blog, Economix](#)).

"Most people don't know a lot about it, but people who do know a lot about it are really creeped out," Professor Nelson said of the 1873 crisis, which resulted in a near total collapse of the financial system.

Since his article was published, Professor Nelson, who specializes in 19th-century history, has gotten many calls from Wall Street observers asking about how the 1873 crisis played out. He has even received an offer to write a financial column for the [Motley Fool](#), which he found amusing.

"Can you imagine how bizarre it would be for a 19th-century historian to write about the lessons of the day?" he said.

A visit to Google Books and The Times's archives helps trace the arc of the 1873 crash.

Before the panic, [railroad and real estate speculation had been rampant](#) [pdf] — and values had multiplied to unheard of heights. Credit was easy, and new financial instruments were created, including new types of railroad bonds whose values no one could be sure of.

American securities were traded worldwide and about two-thirds of those bonds were held overseas, according to Professor Nelson.

As one historian, James Ford Rhodes, who lived through the period, [observed](#)

Prosperity was written all over the face of things. Manufacturers were busy workmen

in demand. Streets and shops were crowded and everywhere new buildings going up. Prices of commodities were in high, demand pretty good. Everybody seemed to be making money.

Yet, there were already financial problems in Europe.

The panic here started on a Thursday, Sept. 18, when the prominent house that had essentially financed the Civil War, Jay Cooke & Company, had a cash crunch — in part because of the [collapse of the ill-conceived Northern Pacific Railroad](#) — and said it [would suspend payments](#) on the notes it had issued — akin to declaring bankruptcy. The announcement hit Wall Street with [the force of a thunderbolt from a clear sky](#). As the Times [reported at the time](#):

The brokers stood perfectly thunderstruck for a moment, and then there was a general run to notify the different houses of Wall Street of the failure. The brokers surged out of the Exchange, stumbling pell mell over one another in general confusion and reached their offices in race horse time. The members of the 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.

Within a day, other financial houses began to fail, including Fisk and Hatch, believed to be “one of the richest and soundest in New York.” The [names of 18 other companies](#) [pdf] unable to stand by their contracts were read off, leading to greater panic, [a scene where](#) “jobbers squared off at each other and screamed and yelled violently, flinging their arms around and producing a scene which bedlam itself could not equal.”

The government [announced it would buy \\$10 million in bonds](#) [pdf] to try to inject confidence into the financial system. Investors started trading [the next day, a Saturday, optimistic that the panic had subsided](#) [pdf]. But it hadn't and on that day, Sept. 20, [the New York Stock Exchange suspended trading](#) for the first time in its history.

On Sunday morning, President Ulysses S. Grant and the treasury secretary, William A. Richardson, came to New York, spending the day in consultation with Cornelius Vanderbilt, Henry Clews and other prominent business men to cobble together a solution. Businessmen, bankers and merchants flocked to the Fifth Avenue Hotel, [beseeching President Grant](#) to increase the currency by every means in his power, declaring that unless the government came to the rescue nothing could save the country from bankruptcy and ruin. Meanwhile, banking houses in cities outside New York also failed.

Meanwhile, the government, having bought about \$13 million in bonds, had reached the end of its tether and stopped this mode of relief.

With the credit markets frozen, at one point the overnight lending rate shot to a quarter of a percentage point, Professor Nelson said, which annualized is about 148 percent. The top national banks of New York formed [a Clearing House Committee](#) [pdf], pooling their cash and collateral into a common fund and issuing loan certificates against it that would operate like cash. This became the basis for the reconstruction of the credit markets.

Eventually, on Wall Street, the panic [“had run its course, like a great fire that burned itself out”](#) [pdf]. But it [took about 40 days](#) [pdf]. During the full course of the crisis, [73 members of the stock exchange and 5,000 mercantile companies](#) [pdf] failed.

Even though the Wall Street panic was over, the commercial crisis across the country was just beginning because of the lingering credit crunch. Even two months later in Richmond, Va., just before Election Day, [the effects of the economic crash were quite visible](#) with shuttered tobacco companies, all-but-closed flour mills and a retail slowdown.

A [number of railroads defaulted](#) in the payment of the interest on their bonds (and railroad construction [dropped from 7,000 miles in 1873 to 1,700 in 1875](#)) [pdf]. Businesses with good credit curtailed their purchases, while those with bad credit had no buying power. The closing of cotton and iron mills and other manufacturers threw hordes of laborers into unemployment, many of them former Civil War soldiers. They became transients, and [the words "tramp" and "bum" became commonplace American terms](#). Relief rolls grew rapidly in major cities, with 25 percent unemployment in New York City alone.

The panic was not without political consequences. The collapse of farm prices set the scene for an agrarian insurgency. Disenchanted farmers who believed that the government's mismanaged currency policy was determined by Eastern bankers and industrialists [eventually formed the short-lived Populist Party](#), which called for a graduated income tax, pensions and nationalizing transportation and communication.

This recession hit industrial workers particularly bad. A bitter antagonism emerged between workers and the leaders of banking and manufacturing, which led to labor unrest that continued through the following decades, resulting in some of the most violent strikes in American history. In January 1874, [police violently broke up a demonstration by thousands of unemployed workers](#) in New York's Tompkins Square Park, which was the largest demonstration in the city's history.

The financial crisis led Congress to pass a bill in 1874 that would allow for more printing of currency to spur inflation and reduce the real value of debts. In a surprise move that was viewed by many as the most important event of his administration to that point, President Grant [vetoed the bill](#).

In early 1875, Congress passed a bill, known as the [Specie Resumption Act](#), which would back United States currency with gold. By pegging the dollar against hard currency, the act helped curb inflation, tame speculation and produce a stable dollar. It turned the Republican Party toward a stance of conservative fiscal policies.

The American and world economy did recover — slowly, but it took more than four years of depression. A 1911 New York Times magazine article assessed the panic, observing in a perhaps overly lyrical way:

However, as the sun always shines after rain, so conditions began to improve in 1877, and by 1878 there was a better feeling throughout the nation.

Confidence returned slowly, but it did return, and the tide of prosperity rose steadily until its inspiration had penetrated every city and hamlet in the country. The fertile lands of the West and South brought forth bountiful harvests, and ocean commerce expanded under the stimulus of good crops. The excess of American exports was only one of the features of this golden period in our affairs, which broke all records.

Stocks began their rise in spring of 1878, and in 1879, men of means awoke suddenly to the fact that railroads were of value as investments after all, and a marvelous buying of securities sprang up, which electrified the financial world and led to a boom in prices."

The article argued (perhaps too simplistically) that the panic ultimately helped to impose belt-tightening for consumers and businesses, a moderation that proved healthy for the post-panic economy: “During the depression of the 1870s, much wealth had been accumulated and people had learned to be economical and more efficient.”

An optimist could perhaps argue that the current financial crisis will also cause consumers and businesses to change their habits. Indeed, some changes are already happening: The last independent investment banks [have agreed to live with more regulations as they become bank holding companies](#), and [consumer debt dropped in August](#), the first time it has fallen in a decade.