

# It's a Panic!!!

*Nowadays we call "ordinary" economic downturns "recessions":  
in early times they were called "panics." There have been a lot of them:*

## **Panic of 1819.**

In 1819 the boom that had followed the War of 1812 ended. The downturn that followed was triggered by the revival of European agriculture after the ending of the Napoleonic Wars and by the contraction of credit instituted by the Second Bank of the United States, which was paying off loans that had been made to finance the Louisiana Purchase. Sales of undeveloped land on the frontier then slowed to a trickle, and the price of cotton and other crops dropped sharply. Many farmers were unable to pay their debts, and this led to foreclosures and to numerous bank failures. The bad times lasted until about 1822. Although the Bank of the United States was not really responsible for the troubles, many Westerners blamed it. Among them was Andrew Jackson, who took his revenge, so to speak, by vetoing a bill to extend the charter of the bank in 1832. Ironically, this set in motion events that led to the ...

## **A Panic of 1837.**

The transfer of federal money from the conservative Bank of the United States to the "wildcat" state banks after President Jackson had vetoed the bill extending the charter of the bank enabled the wildcats to make credit available on easy terms. This led to soaring land sales in the West (up from \$2,600,000 in 1832 to \$24,900,000 in 1836) and an accompanying boom in canal and road construction, the latter largely financed by British investors. But in 1836 Jackson issued the Specie Circular, which required purchasers of government land to pay for it with gold or silver. This caused purchasers to withdraw specie from the banks and to buy less land. The loss of their gold and silver reserves in turn led to the restriction of bank credit and to many bank failures. The panic occurred when every bank in the country had to suspend converting its paper currency into specie on demand. Conditions improved thereafter, and in 1838 the banks resumed specie payments; but the revival was short-lived. The economy remained depressed until 1843.

## **Panic of 1857.**

This downturn was the result of falling grain prices caused by a big increase in Russian exports of wheat after the Crimean War. As a result, Western farmers could buy less, and their declining consumption hurt the business of both Eastern manufacturers and the railroads. The bankruptcy of the Ohio Life Insurance and Trust Company in August 1857 was followed by the collapse of many hundreds of rural banks. The Southern states were hurt less by the bad times because the European demand for cotton remained high. This strengthened Southerners' confidence in the viability of their slave economy.

## **Panic of 1873.**

The failure of the banking house of Jay Cooke and Company precipitated this panic, which was by far the most severe one up to that date. The New York Stock Exchange had to be shut down for ten days to check the steep decline of prices. But like all others, the causes of the following economic downturn, which lasted for several years, were complex. Dislocations caused by the Civil War played a part, but more important were the reckless overbuilding of American railroads and the opening of the Suez Canal, which caused major readjustments in world trade patterns. The year 1873 also marked the beginning of a period of severe worldwide price deflation that extended far beyond the bad times of the mid-1870s.

## **Panic of 1893.**

Triggered by the failure of the National Cordage Company in May and marked by many bank failures and business bankruptcies later in the year, this panic exacerbated an already serious economic decline. The causes were worldwide, but in the United States the conflict over the coinage of silver, which was advocated by groups hurt by the long deflationary cycle, was a major factor. The Treasury's declining gold reserves, which fell below a hundred million dollars (considered a danger point), further eroded public confidence in the economy. The next few years were among the darkest in American history, being marked by the Pullman Strike, in which federal troops were used to keep the trains running, widespread protest marches by unemployed people, and the spectacle of the government's having to turn to a private banker, J. P. Morgan, to obtain enough gold to avoid bankruptcy. The question of the free coinage of silver seems less important today than it did in the 1890s, but it split the Democratic party, gave force to the Populist movement, and made a national figure of William Jennings Bryan.