History of Panics in the United States

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Overview

- Look at various panics that have occurred in the United States
- Explore Trends in panics over time
- Examine why the severity and frequency of panics has changed over time
Early Panics in the United States (1785-1836)

- Lack of economic data makes it difficult to estimate the effects of early panics on the macroeconomy
- All records based on historical accounts
- Ended when the second bank of the United States lost its charter
Panic of 1792

• Crash in price of securities in March 1792 initiated the panic
• Followed opening of First US Bank in 1790
• Market manipulation by bankers led to securities crash
• This was the first panic caused by falling securities prices
• Panic did not induce a recession due to Alexander Hamilton’s open-market policy
Panic of 1796-1797

- Caused by collapsing speculative bubble on Western Lands
- British monetary policy reduced cross-Atlantic trade simultaneously
- Port cities along the eastern seaboard suffered the most
Panic of 1819

• Fueled by global market adjustments following Napoleonic war and excessive land speculation
• Second Bank of the US reacted by severely contracting extension of credit
• Created a collapse in the American economy that lasted through 1821
• Hit Southern and Western lands the hardest
• Relief was offered to debtors who owed money for Western Lands
Pre-great depression panics (1836-1913)

• Second Bank of the United States Closed in 1836 under president Andrew Jackson
• From 1837-1863 there was no national banking system
• In 1913 the federal reserve system was established
• 1835 Cleveland Trust Company starts tracking an index of business activity
Panic of 1837

- Caused by poor monetary policy by Andrew Jackson
- Specie reserves depleted 80% over a six month period
- First suspension of payments by banks in US history
- Created a 7 year recession
Panic of 1857

• Preceded by the California Gold rush during the 1850s
• Failure of the Ohio Life Insurance company triggered this panic
• Sinking of the SS Central America meant NY banks could not replenish their gold supplies
• Southern states had the most stable economies during the panic and ensuing recession
Panic of 1873

• Triggered by railroad bubble and property losses from fires in Boston and Chicago
• Bank reserves plummeted in September and October of 1873 from $50 million to $17 million
• The stock exchange had to close for ten days
• 18,000 firms failed in the ensuing depression and the majority of US railroads declined into bankruptcy
• Depression ended in 1879
Panic of 1893

• In 1893 international commodity prices crashed causing a run on US Treasury gold reserves
• Overinvestment in the market amplified the effects of the run
• 14,000 companies and 4,000 banks failed
• Railroad sector most affected by failures
• 17-19% of the workforce was unemployed at the panics peak
• Silver purchase act was repealed and gold imports somewhat stabilized the monetary supply
• Ensuing depression lifted by poor European corps in 1897 boosting US Exports
Panic of 1907

- Initiated in mid-October 1907 when the NYSE fell 50% from its high the previous year
- Panic caused runs on banks and trust companies
- Knickerbocker Trust company (3rd largest in New York) failed spreading fear and amplifying the panic
- US Treasury was unable to inject liquidity into the market, instead private sector bankers led by J.P. Morgan
- Panic of 1907 led to demand for a strong central bank that could increase monetary supply during runs
- This panic showed the danger to the US Economy of large monopolies failing
Panic of 1929 and the Great Depression

• Roaring 20s created unsustainable market growth thanks to a speculative boom that was largely ignored by politicians and bankers alike

• In June 1929 bankers became wary of continued rapid rise of securities prices and the newly established Federal Reserve raised the discount rate with intentions of slowing the growth

• However the market continued to rise until the stock market collapse of October 1929

• During the collapse bankers attempted to stimulate the market with large investments in blue-chip stocks (US Steel)
Panic of 1929 and the Great Depression (continued)

- Slide continued despite efforts to stimulate economy
- Dow Jones bottomed at $41.22 down from over $300 before the panic
- Stock Market Failure created a significant run on US Gold Deposits causing the Fed to have to raise interest rates
- This panic and the subsequent great depression lasted for years until WWII
- Economic historians contest beliefs that the panic of 1929 was the sole cause of the Great Depression
Post-Great Depression

• Only panic post-great depression: the panic of 2008
• Subprime mortgage crisis created a panic as Lehman Brothers collapsed and other banks threatened to join them
• Showed that diversification still leaves banks prone to economic downturn
Key Trends
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• Excessive speculation and ensuing failures contributes significantly as individuals try to liquify their assets
• Unit Banks are more prone to panics because their investments are geographically constrained leaving them prone to localized shocks
• Lack of a strong “lender of last resort” leaves economy prone to contractions
• Abandoning the gold standard gives the fed more authority to control panics
• Panics often coincide with recessions but are not necessarily responsible for them
Sources


