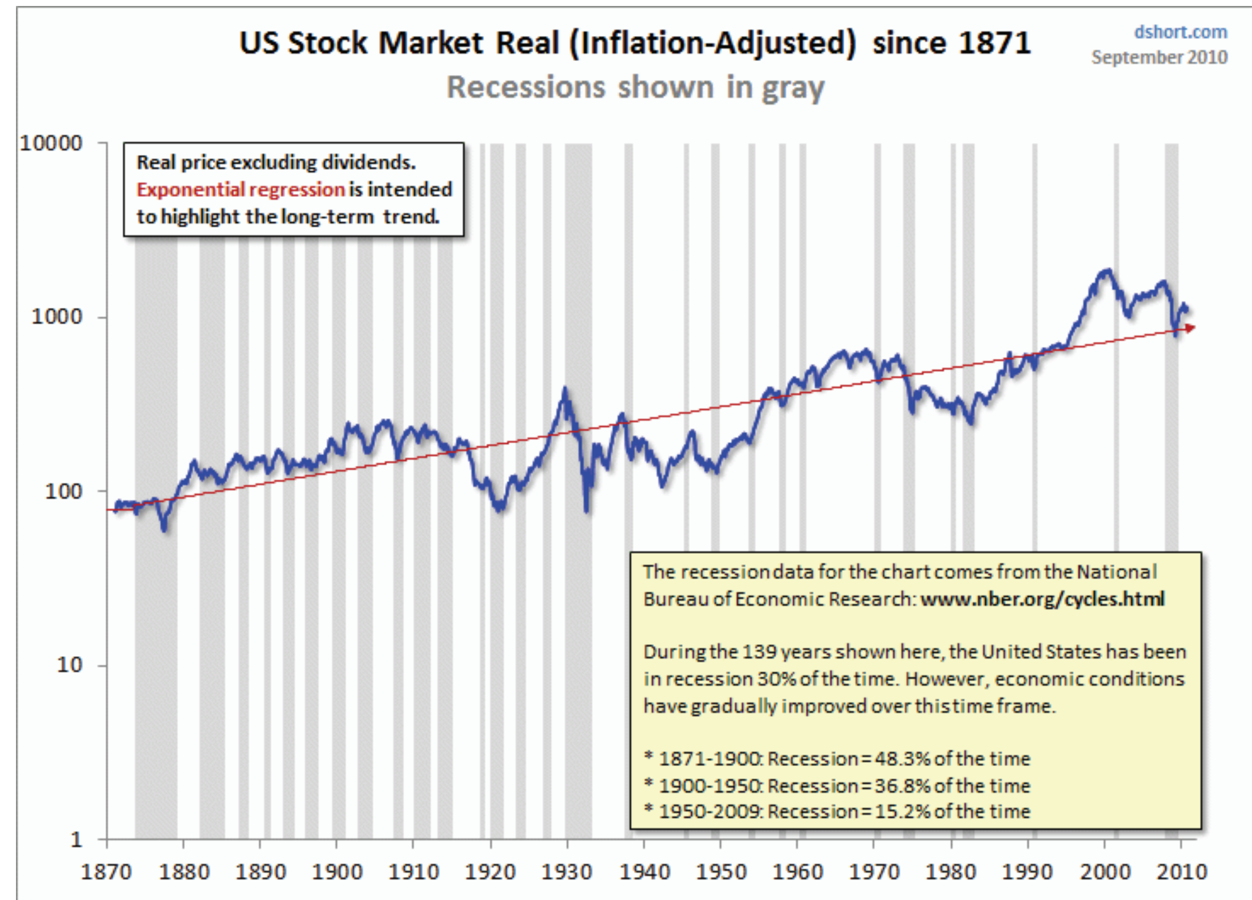
History of Panics in the United States

Christopher Bower

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

Key Trends

- 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

- Bordo, Michael D, and John Landon-Lane. “THE LESSONS FROM THE BANKING PANICS IN THE UNITED STATES IN THE 1930S FOR THE FINANCIAL CRISIS OF 2007-2008.” *National Bureau of Economic Research*, Sept. 2010, www.nber.org/papers/w16365.pdf.
- Gorton, Gary B. “The Panic of 2007.” *NBER*, NBER, 19 Sept. 2008, www.nber.org/papers/w14358.
- Hummel, Jeffrey Rogers. “The History of U.S. Recessions and Banking Crises.” *Cato Institute*, 22 Oct. 2015, www.cato.org/blog/history-us-recessions-banking-crises.
- Kennedy, Robert C. “Untitled.” *The New York Times*, The New York Times, movies2.nytimes.com/learning/general/onthisday/harp/1024.html.
- “List of Economic Crises.” *Wikipedia*, Wikimedia Foundation, 20 Nov. 2018, en.wikipedia.org/wiki/List_of_economic_crises.
- Panics.", "Financial. “Financial Panics.” *The Columbia Encyclopedia, 6th Ed*, Encyclopedia.com, 2018, www.encyclopedia.com/history/dictionaries-thesauruses-pictures-and-press-releases/financial-panics.