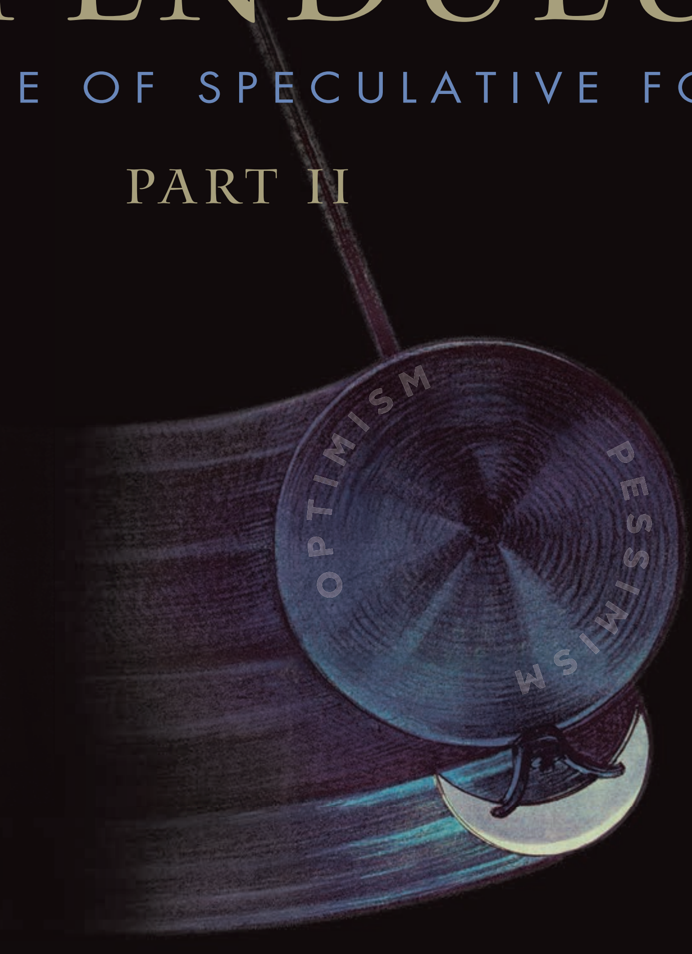
An extract from

THE PIT & THE PENDULUM

A MENAGERIE OF SPECULATIVE FOLLIES

PART II



DAVID W. HARDING | JAMES W. HOLMES

THE PIT & THE PENDULUM

A MENAGERIE OF SPECULATIVE FOLLIES

PART II

WINTON

THE DUTCH FLOWER DERANGEMENT

TULIPOMANIA

1637

WHEN DUTCH SPECULATORS HEARD ABOUT RISING TULIP PRICES, THEY THOUGHT THEY HAD A CUT-AND-DRIED WAY OF MAKING ORGANIC PROFITS AND SOWED THEIR LIFE SAVINGS IN BULB FUTURES. WATERED BY IMAGINARY CREDITS, BULB PRICES BLOOMED TO THE MOST EXTRAORDINARY LEVELS BUT, WITH THE APPROACH OF THE CONTRACT SETTLEMENT SEASON, WILTED ALMOST OVERNIGHT.

‘A GOLDEN BAIT HUNG TEMPTINGLY OUT BEFORE THE PEOPLE, AND ONE AFTER THE OTHER, THEY RUSHED TO THE TULIP-MARTS, LIKE FLIES AROUND A HONEY-POT’

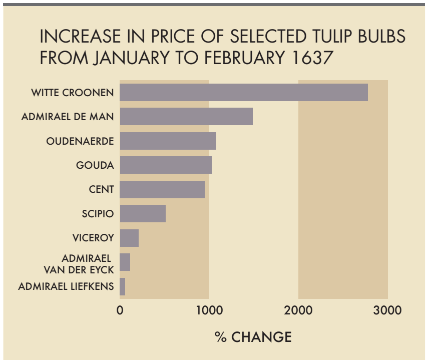
CHARLES MCKAY (1846) ON TULIPOMANIA

FERTILE GROWING CONDITIONS

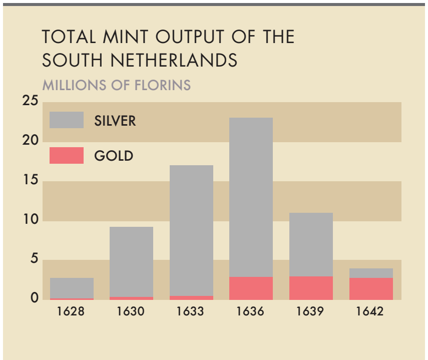
By the early 1630s, the Dutch economy was in bloom. Following major victories against the Spanish in the Dutch War of Independence, Holland's merchants revelled in their new-found freedom and eagerly anticipated the acquisition of new colonies. Amsterdam had become the world's finance capital and was animated by a number of profound innovations such as the joint-stock companies, the central bank, and new speculative techniques such as short selling: *windhandel*. Monetary conditions were also very easy. Interest rates had fallen drastically while immense liquidity was produced by the seizures of Spanish silver on the high seas, the introduction of a sound money policy (backing all coins with specie to mitigate the effects of debasement) and the free coinage laws of 1634.

The subsequent years witnessed manias in canals, property and Dutch East India Company stock, but it was the dramatic bubble in tulip bulbs that became a legend. Tulips were originally introduced from Turkey to Western Europe in the mid-15th century, where they became famed for their beauty and an essential status symbol for the wealthy, especially in Holland and Germany. Tulip bulbs had always commanded high prices – a single bulb of the exotic Semper Augustus variety had sold for the equivalent of $480 in 1624 – though things took a new step ten years later.

By 1634, the market for tulip bulbs was highly speculative. Originally bulbs were traded on the spot during the fallow period of summer. From the mid-1620s, however, bulbs began to be traded on a futures basis throughout the year. Consequently buyers purchased a bulb 'on the grow' without seeing a specimen – they could only go by the registered weight of the bulb at the time of planting. Simultaneously, a futures trade developed in the 'excrescences' or outgrowths on the mother bulbs, which can be separated from the mother bulb after a certain period and replanted on their own. The trade in excrescences was particularly speculative, since no-one could guarantee that they would ever grow or produce flowers resembling those of the mother bulb.



Most bulb varieties experienced significant gains with rarer varieties exceeding all limits



The influx of South American silver preceding the mania increased liquidity in Netherlands and created the fertile conditions for speculation


Tooneel van FLORA.

Vertonende :

Grondelijcke Redens-onderfoekinge,

HANDEL DER FLORISTEN.

ABOVE | *A satire on Tulipomania*
ABOVE INSET | *Pamphlet about Tulipomania*
RIGHT | *Tulip bulb prices (1637)*

GREEN WITH ENVY

Highly speculative markets are not generally suitable places for greenhorns. At first only professional bulb growers were allowed to participate, but after the tulip futures market was opened up to outsiders in late 1634, crowds of financially inexperienced and credulous spinners, cobblers, weavers and other small tradesmen piled in, attracted by the sweet scent of easy gain. Many were encouraged by rumours of the high tulip prices in Paris.

The mania started in earnest in mid-1635 following two new developments. For the first time, bulb growers now offered credit, allowing buyers to agree to unaffordable prices. Moreover, bulbs were now sold in lots of one ace (a weight unit equivalent to 0.05 grams), replacing the previous system in which bulbs were sold individually according to their registered weight (i.e. the weight of the individual bulb before planting). Thus tulip bulbs were now treated as a fungible commodity like grain or milk, providing much greater possibilities for speculation.


Lijste van eenighe Tulpaen/

Previously bulb deals involved written contracts, but these were too elaborate and time-consuming for most of the newly arrived outsiders. Consequently, they set up 'colleges' – informal organisations for dealing in bulb futures. Although they evolved their own conventions, these colleges, typically based in taverns, were completely unregulated and fostered an atmosphere of reckless risk-taking, not least because many participants had little to lose: futures dealing and alcohol were probably not a great combination. By November, the market for bulb futures had turned into a shameless gambling mania where sellers sold bulbs they did not have for money that buyers did not have, the buyers hoping to pass on their bulb contracts to an even 'greater fool'. In this way, it was possible for many speculators to make large paper profits of several thousand florins a day.

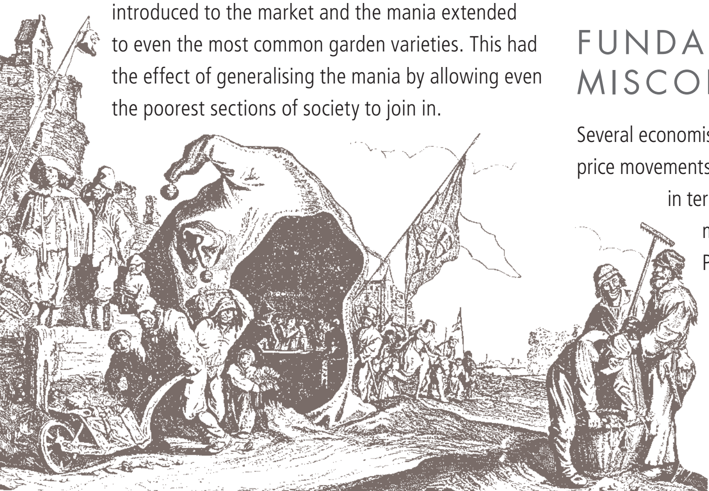
BLOOMING PRICES

Bulb prices reached incredible levels. The following items were exchanged for a single bulb of the Viceroy species:

	florins
Two lasts of wheat	*448*
Four lasts of rye	*558*
Four fat oxen	*480*
Eight fat swine	*240*
Twelve fat sheep	*120*
Two hogsheads of wine	*70*
Four tuns of beer	*32*
Two tuns of butter	*192*
One thousand lbs. of cheese	*120*
A complete bed	*100*
A suit of clothes	*80*
A silver drinking-cup	*60*
	2,500

Predictably enough, bulbs were jealously guarded, since theft or damage to a bulb cowwuld ruin its owner. A poor cobbler succeeded in growing a black tulip – an extremely rare occurrence. When the local guild of florists heard of this, they came to the cobbler's house and offered him one thousand florins for the tulip, which he readily accepted. As soon as the transaction was concluded, however, the florists trampled the tulip underfoot exclaiming, 'Fool, we already have a black tulip and would have given you 10,000 florins if only you had asked.' The distraught cobbler took to his bed and instantly expired, from thinking what might have been. There was also the story of a sailor who arrived in Holland at the height of Tulipomania; mistaking a merchant's Semper Augustus bulb for an onion he ate it for breakfast; and another of an English botanist who dissected a Dutchman's bulb worth 4,000 florins in the belief that it was 'a most extraordinary onion'. Both events nearly ruined their owners and resulted in lengthy prison sentences.

Thus far, the mania had been based on rare, exotic breeds such as the Semper Augustus. By the end of 1636, however, new and cheaper varieties had been introduced to the market and the mania extended to even the most common garden varieties. This had the effect of generalising the mania by allowing even the poorest sections of society to join in.



WITHERING PROFITS

By early 1637, many of the original participants, 'the insiders', had taken their profits and left. Many rookie speculators, however, were still willing to believe that prices would go on rising indefinitely. Suddenly, for reasons that are not clear, fear seized the market on 3 February and the crisis broke like a cumulonimbus, dousing the febrile delusions of Tulipomania in a trice. The spot price of tulip bulbs plummeted, such that many buyers were left holding contracts to buy tulips for over ten times the market price, which many of them would not have been able to honour.

Seeking to stave off ruin, representatives of the florists throughout Holland met in Amsterdam on 24 February and discussed what to do. It was resolved that all tulip sales made before 30 November 1636 would be executed, whilst buyers would have the right to cancel any sale made after this date on condition that the seller would receive 10% of the sale price. Despite the many grievances between buyers and sellers, the national government chose not to intervene, so the resolution was carried out.

FUNDAMENTAL MISCONCEPTION

Several economists have tried to explain the dramatic price movements of tulips between 1634 and 1637 in terms of changing fundamentals. The most notable attempt was made by Peter Garber, an American economist, in the wake of the 1987 stock market crash. He argued that Tulipomania was essentially a temporary spike in demand for a

modish commodity and mirrored similar occurrences after the introduction of other flowers (though it could equally be argued that these frequent spikes merely show the susceptibility of the Dutch flower market to speculative manias). Garber also claims that when the tulip prices declined there was no economic depression such as one would expect after a speculative bubble. In fact, before resuming its upward course in the 1650s, the Dutch economy slowed down significantly during the 1640s, as indicated by the increased level of bankruptcies – households spent less after their wealth declined.

Tulipomania had profound effects on Dutch commerce. The failure of buyers to meet their obligations challenged the personal trust upon which Holland's economy was based, and rent asunder long established social ties. Tulips remained popular but future generations were taught to pick their floral investments with more caution.

LEFT | *'Flora's Cap of Fools' (1637), tulip traders conduct their business in a mammoth fools cap*
ABOVE | *'The Tulip Folly' (1882)*
RIGHT | *Semper Augustus tulip*

DE LA VEGA

JOSEPH DE LA VEGA's Confusion de Confusiones, published in 1688 in Amsterdam, provides the first description of stock market activity. Whilst traders at the Amsterdam Bourse could be accused of many things, acting calmly and rationally was not among them. The trader is 'either lifted up to the top of mad joy with success, or plunged to the bottom of despair by misfortune; always extremes, always in a storm… and, as he is transported as he wins, so is tossed upon billows of a high swelling passion, till he hath lost sense of both sense and reason.' Only the shrewd observer 'who makes it his business to watch these things conscientiously, without blind passion and irritating stubbornness, will hit upon the right thing innumerable times.'

The market is yanked in opposite directions by the liefhebbers ('lifters-up' or bulls) and the contremines ('underminers' or bears). 'The bulls are like the giraffe, which is scared by nothing or like the magician… who in his mirror made the ladies appear much more beautiful than they are in reality. They love everything; they praise everything; they exaggerate everything. The bears, on the contrary, are completely ruled by fear, trepidation and nervousness. Rabbits become elephants; brawls in a tavern become reb*ellions; faint shadows appear to them as a sign of chaos.'* Often both animals coexisted in the same person. '*There are many occasions in which every speculator seems to have two bodies, so that astonished observers see a human being fighting himself.'* To no-one's astonishment, many traders had brittle temperaments – the speculator '*chews his nails, pulls his fingers, closes his eyes, takes four paces and four times talks to himself, raises his hand to his cheek as if he has a toothache, puts on a thoughtful countenance, sticks out a finger, rubs his brow, and all this accompanied by a mysterious coughing as though he could force the hand of fortune.'*

The tulip next appeared, all over gay,
But wanton, full of pride, and full of play;
The world can't shew a dye but here has place;
Nay, by new mixtures, she can change her face;
Purple and gold are both beneath her care,
The richest needlework she loves to wear;
Her only study is to please the eye,
And to outshine the rest in finery.

Abraham Cowley


HAMILTON
HAMILTON

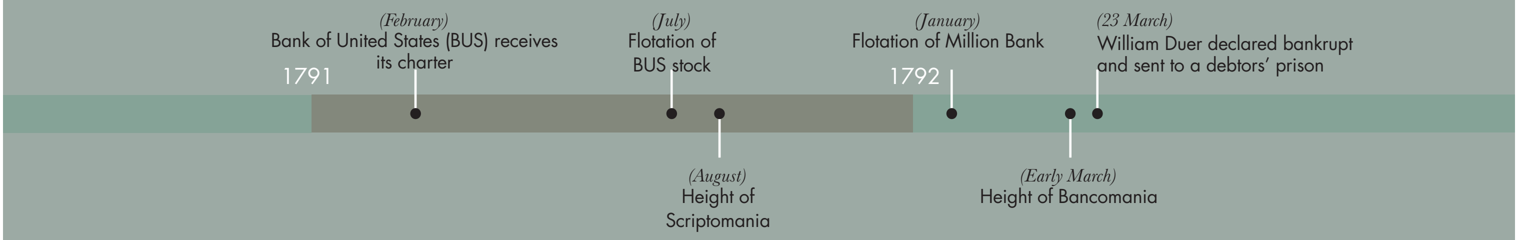
UPSETTING THE BIG APPLE CART

PANIC OF 1792

EIGHT YEARS AFTER INDEPENDENCE, THE UNITED STATES EXPERIENCED ITS FIRST SPECULATIVE MANIA, PROVING THAT EVEN THE LAND OF THE FREE WAS NOT QUITE AS INDEPENDENT FROM WISHFUL THINKING AND OLD-WORLD CHICANERY AS MIGHT HAVE BEEN SUPPOSED. BUT THE MANIA SOON LOST ITS ROSINESS AND THE RESULTANT PANIC BIT TO THE CORE OF NEW YORK SOCIETY.

‘THE CREDIT AND FATE OF THE NATION SEEM TO HANG ON THE DESPERATE THROWS AND PLUNGES OF GAMBLING SCOUNDRELS.’

THOMAS JEFFERSON, 1792



SOWING THE SEEDS

In 1790, Alexander Hamilton, the US Secretary of the Treasury, believed that his country's debt bills were selling too low and set in motion a repurchase scheme. He also planned a Bank of the United States (BUS), which would guarantee the public debt. Both measures strengthened the confidence of foreign and domestic investors and initiated a bull market in US debt, and US securities in general.

The much anticipated BUS flotation on 4 July 1791 took the market by storm and sold out within the first hour. Few investors bought for genuine investment purposes and most paid with IOUs, intending to cash out before having to pay any real money. BUS scrip, originally issued at $25, soared over the next six weeks, reaching $185 by late August. It dipped through September but returned to $170 by late October. From very early on, newspapers recognised the bubble for what it was and warned readers against getting involved:

'The Scriptomania is at full height. It has risen like a rocket – like a rocket it will burst with a crack – then down drops the rocket stick. What goes up must come down.' (*New York Journal*, August 1791)

'The National Bank stock has risen so high, so enormously above its real value that no two transactions in the annals of history can be found to equal it.' (*New York Advertiser*, August 1791)

Nevertheless, speculators remained effervescently bullish and the Treasury continued to purchase bills which supported the price increases. Hamilton encouraged several of his speculator friends, believing that a sustained boom would make the new nation look strong and confident and attract foreign capital.

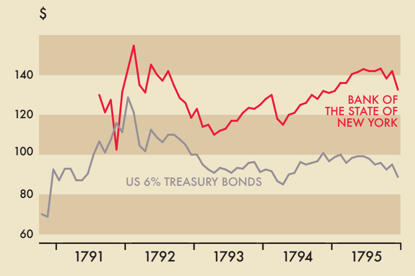
LEFT | *Alexander Hamilton*
TOP RIGHT | *The First Bank of the United States*
BOTTOM RIGHT | *Alexander Hamilton and his married mistress, Maria Reynolds*

BRANCHING OUT

The New Year brought with it a new mania, which became closely associated with a speculator called William Duer. Duer, who was the former Assistant Treasury Secretary and Hamilton's friend, had grander ambitions than mere speculation but these projects required large amounts of money. Consequently, in late 1791, he resolved to gain control over one or more banks.

His first opportunity came in early January when a new bank, the Million Bank of the State of NY, was floated. Like the BUS in July, the subscription was immensely successful and within the week scrip prices had risen by over 100%, prompting the flotation of many other banks, mainly in New York. This was a worrying development for many of the more sober heads. The *Advertiser* complained that New York already had more banks than it needed and that 'More banks may certainly assist gambling, and enable adventurers to longer swim on the fluctuating waves of speculation.' Hamilton too was now concerned, and wrote to ask the Bank of New York not to do any business with 'this newly engendered monster' (referring to the Million Bank), complaining that 'These extravagant sallies of speculation do injury to the Government and to the whole system of public Credit, by disgusting all sober Citizens and giving a wild air to everything.'

SHARE PRICE OF MILLION BANK



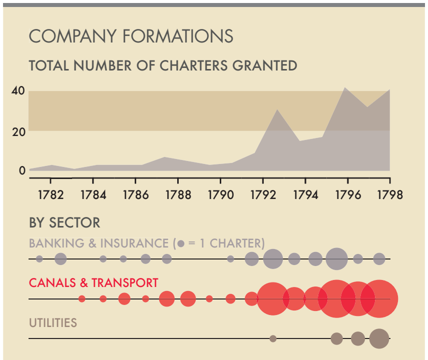
THE BIG APPLE CRUMBLES

Buying and selling at the same time, Duer's actions in the bancomania were at first rather confusing – though they were immediately imitated by the general public. In early March, however, misled by the success of his other schemes and tempted by the rapid rise in share prices, Duer started making massive stock purchases on a deferred basis (typically two weeks), committing much of his wealth and that of his friends in the expectation that the bull market would continue. Instead of rising, however, the stock market underwent a correction in the first two weeks of March, causing liquidity on Wall Street to dry up and leaving Duer unable to meet his obligations. To make things worse, Duer was informed that he owed the government hundreds of thousands of dollars, dating from his tenure as Assistant Secretary.

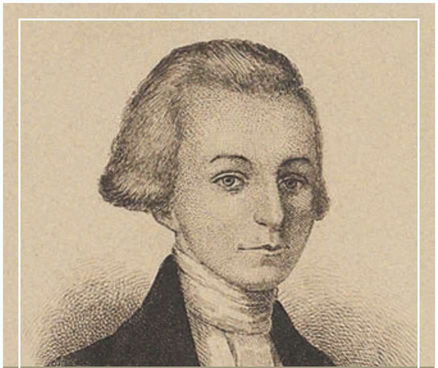
He desperately tried to borrow money – at whatever rate – but nobody was willing to lend. On 22 March the delusional Duer assured his associate Walter Livingston that everything was fine: 'I am now secure from my enemies, and feeling the purity of my heart I defy the world', yet next day he was taken to a debtors' prison. When the news of his incarceration reached the city, a lynch mob gathered outside the prison and pelted it with stones. One creditor, who owned a $1,500 Duer note, even turned up at the prison with a brace of duelling pistols, demanding that Duer should either pay up or defend his honour – Duer paid.

Duer's imprisonment sent a wave of panic throughout New York and resulted in dozens of commercial failures, as noted by Thomas Jefferson in a letter to a friend: 'At length our paper bubble is burst. The failure of Duer in New York soon brought on others, and these still more, like nine pins knocking one another down, till at that place the bankruptcy is become general, every man concerned in paper being broke, and most of the tradesmen and farmers [who lent money to the speculators] have lost the whole.'

More remarkable than Duer's errors was Hamilton's response. By pioneering the use of open market operations during the panic, the Treasury Secretary not only ensured the survival of the financial revolution but anticipated Bagehotian prescriptions for crisis management by over 80 years. Unfortunately, his financial achievements were somewhat overshadowed by his highly publicised sexual misadventures with a married woman.



ABOVE LEFT | *The Tontine Coffee House, c.1791*



WILLIAM 'KING OF THE ALLEY' DUER

WILLIAM DUER, son of a wealthy West Indian planter, was born in England in 1747. After serving in India with the British Army, he settled in New York where he set up a business supplying masts to the Royal Navy. During the American Revolution he sided with the rebels and profited greatly from supplying provisions to the Continental Army. In 1789, Duer was appointed Assistant Treasury Secretary but stood down the following year amidst allegations of insider trading, whereupon he devoted his energies to speculating in securities. For a while, Duer utterly dominated the market and seemed invincible; he became one of society's leading lights, famous for his lavish dinner parties in which he reportedly offered guests no fewer than fifteen different wines. However, his haughty manner and increasingly madcap plunges tempted fate and in 1792 he lost all of his money; he spent the rest of his days languishing in a debtors' prison.

'MOON-SCRIP'

The following letter was published at the height of the Scriptomania in August 1791:

Some worthy patriots have devised an additional source of national wealth and aggrandizement, which in all probability, will surpass the many already discovered in this young commonwealth, so highly favoured above all the old nations in the science of acquiring riches without labour! They mean to keep up by means of balloons an easy, quick, and constant intercourse with the moon and thereby to carry on a lucrative commerce with the people of that planet. Especially is it their design to purchase landed estates there for our bank scrips, canal scrips, and national manufactory scrips. As the plan is absolutely sure, and the profits must be immense, the generous and enlightened freemen of the United States will no doubt patronize the enterprise.

The underwritten directors of it sell 10,000 acres of the best lands for one share in the national manufactory, and so in proportion for any other kind of paper money even the old Congress dollars, which after so many years degradation may now be changed into gold.

Though the moon probably contains 1000 times more good land than our Kentucky, yet as it will quickly be disposed of on terms so advantageous, we sincerely wish that all who have the laudable ambition of becoming great, and of exalting their families to a splendid fortune, may speedily apply. The first purchases will certainly in less than a fortnight gain 100 per-cent on their shares: for such is now the NATIONAL SPIRIT, that the manufactory scrips are 50 dollars beyond par; though not a single loom can be in motion for these six months, and everybody knows how agreeably many have failed on the canals which perhaps will never be dug in our days.

DOCTOR FAUSTUS, Jun

ALBERTUS MAGNUS, Jun

By order,

C. SECRETARY.


UNDER MY WINGS EVERY THING PROSPERS

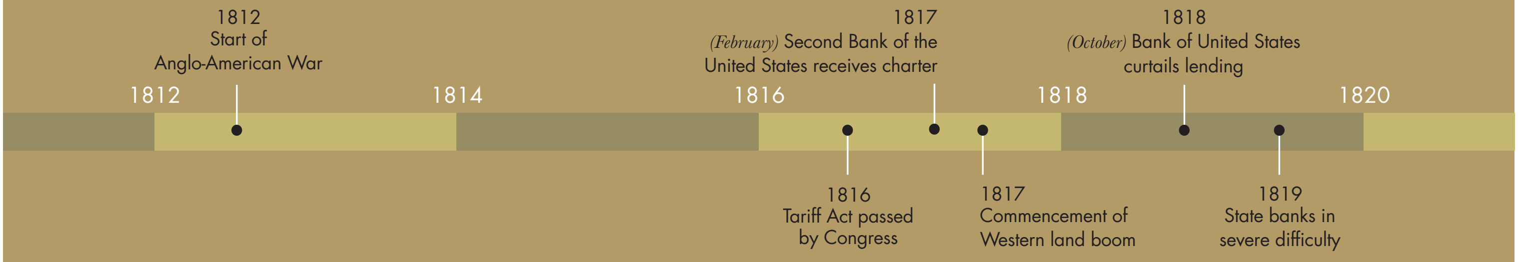
MR JONES'S
THREE-RING CIRCUS

PANIC OF
1819

FOLLOWING THE 1812 WAR WITH BRITAIN, AMERICAN LAND SPECULATORS BEGAN JUGGLING WITH MORE PAPER CREDITS, TOSSING ASSET PRICES HIGHER INTO THE AIR. BUT WHEN A NEW RINGMASTER ATTEMPTED TO SNATCH SOME OF IT AWAY IN 1818, THE PERFORMERS LOST THEIR BALANCE AND FELL FLAT ON THEIR FACES.

'OUR ENTIRE BANKING SYSTEM I EVER ABHORRED, I CONTINUE TO ABHOR, AND SHALL DIE ABHORRING.'

JOHN ADAMS, 1819



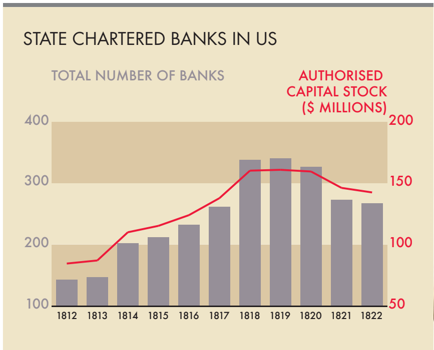
CRACKING THE WHIP

Disruptions to foreign trade during the 1812 war with Britain stimulated the development of domestic manufactures in the US. After the war, however, normal trading patterns resumed, and America's nascent manufacturers suddenly found themselves having to compete against the greater efficiency of European industry. Consequently, they demanded protection and were duly awarded the Tariff Act of 1816, which provided them with a warm and fuzzy place in which they could prosper, setting the stage for a boom. Booms also like easy money, and by 1816 there was certainly no shortage of this. Ever since the charter of the Bank of the United States expired in 1811, America's improvident state banks had been gushing out oceans of paper money with the inevitable corollary of rampant inflation.

Consequently, in early 1817, the Bank of the United States (BUS) was revived and given the task of chastening the state banks and getting them to resume specie payments. It was to do this by setting up branches all over the country and backing all of its notes with gold. In practice, although the BUS never redeemed its notes in gold, it printed money recklessly and was run as a 'strictly profit-making enterprise, under very liberal rules'. The BUS's President William Jones, who has been described as a 'politician of questionable intelligence but proven bad judgement', failed to manage the branches properly, which led to problems of risk taking and moral hazard. Thus, far from bringing order to the ranks, the BUS merely added to the problem.

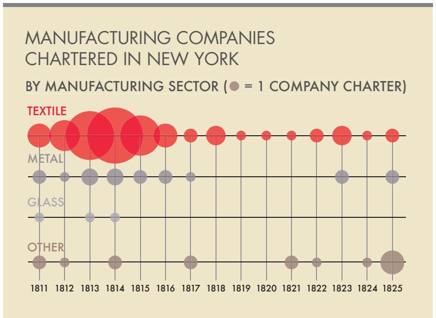
THE TUMBLERS LOSE THEIR FOOTING

These liberal effusions of easy money encouraged a frenzy of turnpike and canal building and a speculative land boom, most notably in the Western States and Louisiana. Humbuggery abounded. 'Speculators formed their plans on the commonly received principle that the public is a goose, and while its enchanting plumage offered so many temptations to pluck a few feathers, no other danger was to be apprehended than that of being hissed at.' Cheating was not the only problem. Given the BUS's practice of accepting all notes, irrespective of origin, and the state banks' refusal to redeem notes in gold, severe specie imbalances emerged across the country as Eastern bullion migrated towards the overheated Western markets. The BUS's specie reserves were also under strain from the nation's rising import costs and the repayment of the Louisiana debt. By October 1818, the BUS was losing its reserves so rapidly that the bank's new president, Langdon Cheves, determined upon a more restrictive course, curtailing its lending and recalling its loans to the state banks.



Private banks proliferated during the post-war manufacturing boom, reaching a peak in 1819

Although this boosted the BUS's reserves, it created great difficulties for the state banks. The monetary contraction resulted in scores of bank runs and failures, and the country was plunged into a deep depression that lasted for several years. One commentator wrote in 1820: 'There has been within these two years an immense revolution of fortunes in every part of the Union; enormous numbers of persons utterly ruined; multitudes in deep distress', whilst another lamented that 'families [were] naked – children freezing in the winter's storm – and the fathers without coats and shoes to enable them to perform the necessary labours of the inclement season.'



The post-war manufacturing boom was dominated by textiles companies

INSET | *Contemporary cartoon*
LEFT | *British officer paying Native American allies for American scalps*

CIRCUS REVIEWS

One of the more enduring legacies of the crisis was the hardening of hard and soft money ideologies. Much of Jackson's and Van Buren's antipathy towards banks and paper money in the lead-up to the Panic of 1837 comes from this period. Western states saw the BUS as an Eastern creation and blamed it for their misfortunes. 'All the flourishing cities of the West are mortgaged to this money power. They may be devoured by it at any moment. They are in the jaws of the monster! A lump of butter in the mouth of a dog! One gulp, one swallow, and all is gone!' declared the senator for Missouri. A provincial newspaper was even more outspoken in its contempt for the BUS: 'This mammoth juggle; this queerest of all queer banks; this afterbirth of a midnight caucus, is said to be now in a quick consumption; and, if justice should not falter, it will probably soon be breathing its last.' Thomas Jefferson also had strong reservations about soft money, writing in late 1819: 'The paper bubble is then burst. This is what you and I, and every reasoning man, seduced by no obliquity of mind or interest, have long foreseen; yet its disastrous effects are not the less for having been foreseen. We were laboring under a dropsical fulness of circulating medium.'

Some imputed the blame to Langdon Cheves and his fellow directors: 'It is the first instance from the origin of the bank of Venice to this day, of a combination of the directors of a bank to make a run on its [own] vaults. It is perfectly new and ingenious, and no one, I am sure, will dispute their claim to originality.' Others, however, considered blaming the BUS's curtailment policy unfair and placed responsibility for the panic directly with the speculators: 'the Bank's curtailment had, indeed, precipitated the panic, for which, however, it was hardly more responsible than was Noah for the flood.'

Despite the human tragedy, the US emerged a stronger country after the panic. It cemented the authority of BUS and encouraged banks with idle capital to throw weight behind Erie Canal and other infrastructure projects, with profound implications for America's material development. It also brought about an increased sense of social responsibility for the poor, with the promulgation of the 1821 Relief Act.

POPULAR CULTURE

The contemporary Broadway production 'Wall Street – or Ten Minutes Before Three' lampooned the new breed of Wall street speculator, whom many associated with the crisis. Characters such as 'Hardrun', 'Easy', 'Shaves', 'Addlehead' and 'broker' thrived in a world of bank failures and bad debts. 'Oldtimes' lamented that once 'Honest men lived here' but now Wall Street and Pearl Street were thronged with sharpers and rakes, who 'joked and drank' from one financial disaster to 'the next'. At ten to three they would call it a day and spend their leisure time in 'ruffled shirts', frequenting 'hotels and theatres to play billiards and cards and dice and ride, and walk Broadway, and drink brandy and water and hot whisky punch and so on.'

LEFT | *'A new scout on the old trail'*
ABOVE, INSET | *The Erie Canal at Little Falls, New York*
THIS PAGE | *New York wharfage, early 19th century*

SEE-SAW IN WALL-STREET:

THE WESTERN BLIZZARD

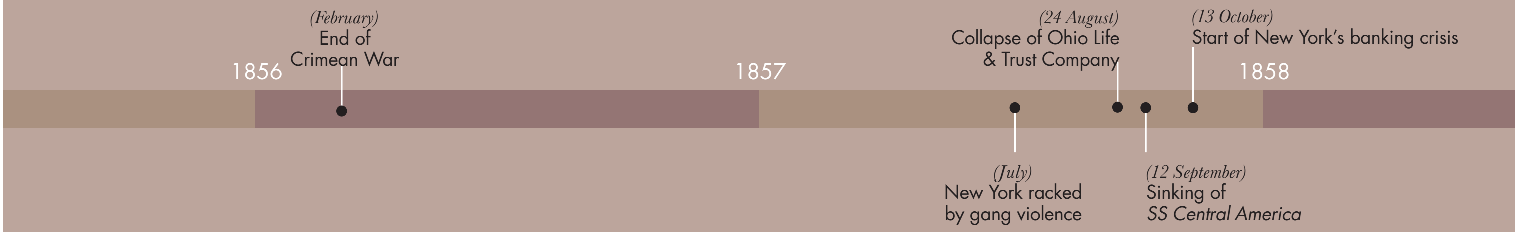
PANIC

1857

AFTER A PERIOD OF BLAZING SPECULATION IN RAILROADS AND MINES, A COLD FRONT SUDDENLY SWEPT OVER NEW YORK'S STOCK EXCHANGE IN MID-1857, UNLEASHING A HAIL OF LOSSES ON UNSUSPECTING INVESTORS. ALTHOUGH STOCK PRICES QUICKLY THAWED, THE REST OF WALL STREET FROZE UP SOON AFTER, WITH THE SINKING OF A GOLD SHIP AND A SERIES OF BANK RUNS.

'WALL STREET BLUE WITH COLLAPSE. EVERYTHING LIMP AND FLACCID LIKE A DEFUNCT ACTINA.'

GEORGE STRONG, 15 OCTOBER 1857



STRIKING GOLD

Gold discoveries in California (1848) and Australia (1851) dramatically increased the level of world gold production. Much of this gold was shipped to London and New York, and led to a credit expansion which fuelled investments in American mining and railway stocks. As a result, the US economy enjoyed rampant growth between 1850 and 1856. True, there had been a near-panic in 1854 following revelations about several railroad frauds, but confidence soon bounced back. Concerns had also been raised over the nation's growing trade deficit, but then came the Crimean War. The blockade on Russian wheat during the war increased European demand for US grain and shifted the trade balance in America's favour.

By June 1857 some newspaper editors were warning that the boom was unsustainable:
'What can be the end of all this but another general collapse like that of 1837, only upon a much grander scale? The same premonitory symptoms that prevailed in 1835–36 prevail in 1857 in tenfold degree. Government spoliations, public defaulters, paper bubbles of all descriptions, and a general scramble for western lands and town and city sites, millions of dollars, made or borrowed, expended in fine houses and gaudy furniture; hundreds of thousands in the silly rivalries of fashionable parvenus, in silks, laces, diamonds and every variety of the costly frippery are only a few among the many crying evils of the day. The worst of all these evils is the moral pestilence of luxurious exception to honest labour which is infecting all classes of society.'

GANGS OF NEW YORK

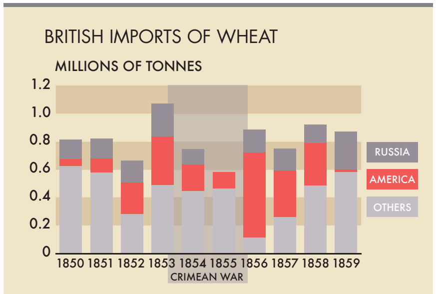
Such warnings, however, were brushed aside by most. Even the news that the Crimean War had ended and the reports of record European crops which would surely depress world prices and American exports, did not shatter the illusion of prosperity. Instead, the first blow to confidence came from an explosion of gang violence in New York that summer. Throughout July, the Dead Rabbit Club, the Spartan Band, the Empire Club and the Bowery Boys fought pitched battles on the streets of New York, and stopped only when they had grown bored with violence. The second (and more devastating) blow came from the announcement from the Ohio Life & Trust Company on 24 August that it had suspended payments. Ohio Life had specialised in funnelling Eastern and foreign funds in Western investments, in particular land and railroads (both of which were at the heart of the recent boom). Stock prices plummeted, prompting the following outbursts:

'The Stock Exchange, as at present managed, is very little more than a giant gambling establishment – and the whole scale of its operations is quite as ruinous, quite as infamous, as any of the Broadway hells which have recently enjoyed the attention of the Metropolitan Police.'

'Their houses are dens of iniquity. Their aim is financial ruin. Their code of laws is the gambler, the sharper, the imposter, the cheat and the swindler.' ('Babylon on the Hudson', *Louisville Courier*)

Stocks soon recovered but Wall Street was not out of the woods yet. Things were about to get a great deal worse. In early September, there were some bank runs and several small institutions failed. Yet confidence, if not high, was at least bolstered by the expectation of a large shipment of Californian gold, due sometime in late September. But on 12 September the ship, *SS Central America*, ran into a hurricane en route and sank, drowning any remaining hopes of a commercial recovery.

LEFT | *California gold diggers*
ABOVE | *'Authentic Portrait of the Panic'*

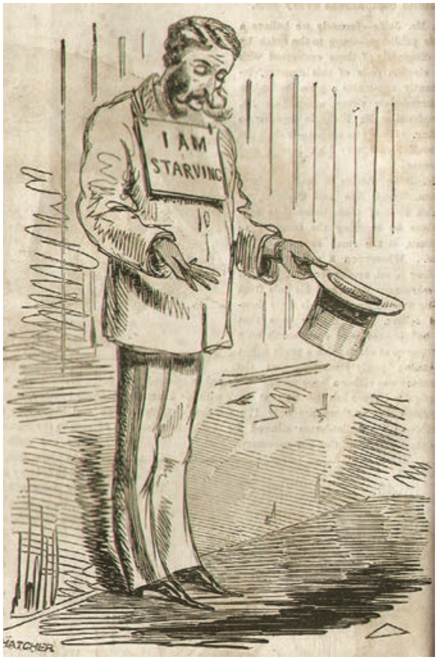


Because of the embargo on Russian exports during the Crimean War, European countries such as Britain shifted their wheat import demand from Russia to the US

RUNNING FOR COVER

By early October, New Yorkers were in a blue funk. 'Everybody could hear the thunder now. It was full upon the City, presaging tornados, earthquakes, volcanos, universal destruction.' On 13 October the storm broke and hordes of anxious depositors descended upon the city's banks. At the Brooklyn Central Bank, for example, 'the rush upon the counter by this mass of frantic human beings was at one time too fearful to look upon. Several very respectable citizens attempted to quiet their fears, but there were no listeners – reason was not what they wanted, it was gold.' 'Never did a double eagle look more golden – never was it more the representative of the wealth "of Ormuz and Ind"… Even the thieves had a respect for the man who had his pocket full of them, and only dared to follow him for the space of a block and a half.'

For some, the most terrifying aspect of the panic was the large number of women taking part in the runs. 'Old Mammon must have trembled in his vaults under the bank when he heard those women's tongues.' However, not all of these were strident Amazons. The *New York Times* reported that at one bank there had also been a 'run upon some of the Directors'. 'One of them, a bachelor… undertook to explain [to a young girl of comely appearance] that there was no necessity for withdrawing her funds from the Bank, if her only object was their safety. She lent a pliant ear to his discourse, would thank him and start for the door, as if to depart, but as soon as she had got thus far she would turn around and come again to the pleased but embarrassed Director, and ask for further information. In this way she started off three or four times and came again, till another of the Directors, a Benedick, and wearing a married look came to the assistance of his unmarried friend. As soon as he had answered one of her questions she went away.'



WOLF AT THE DOOR

Before long, the panic had sunk its fangs into the entire city and sapped its commercial vigour. 'The wolf – business – goes over the ferry, up Broadway, in the omnibus, in the car, wherever man, woman or shop-girl goes, in close companionship. He will not be preached away, laughed away, read away.' Previously prosperous New Yorkers were reduced to penury. Families could no longer afford things that they had always taken for granted. 'The bluest of all the blue times has fallen on the dealers of luxuries. And by luxuries we do not mean the ornaments of the outer man or woman – diamonds, Jersey pearls, emeralds, opals, or gold and silver gewgaws. Books and music are luxuries now, as much so as new silk and satin dresses, and their adornments.' For many, food was a luxury, let alone books and music, and that winter people had to put up with execrable fare, such as potatoes 'that, eaten in the morning can be tasted till bedtime – a horrible bitterness that makes a body suspect his gall-bladder has been suspended a foot above its normal position in the abdominal cavity. If they were furnished for nothing, they might, when smothered in onions, be better than nothing to prevent an actual cavity in the stomach.' Lard was also not up to much in these lean times: 'Good looking lard nowadays, if put upon a hot griddle, instead of melting softly away, flames up in a moment, and many an unladylike expression has the cook been betrayed into by this new quality of which our mothers never knew.'

Still, not all commodities suffered. Housemaids, observed one reader in a letter to the *NYT*'s editor, had become more tractable since the panic. 'These girls have been very sarcy. People only kept them because they were obliged to. Now, if they get a place, should they be so lucky, they keep it and behave themselves, lest they should be sent off. Girls wouldn't wash, or milk, or do many other things they were wanted to do; they wanted light work, to mind children or such like. When wages are low and there is much competition, the servants always behave better. Their way, so far, has been to put on airs and dance rather sarcily. Sir, if this continues a year or so servants will be less of a plague. They will have lower wages, and will be more respectable to their employers. They will not leave their situations almost every week.'

FAR LEFT | *'Effects of the Panic on the Literary Man'*
LEFT | *Gang violence in New York*
FAR LEFT | *'The Game of Panic'*

THE GREAT REVIVAL

Most people, however, required more than prognoses about servants' behaviour to cheer them up. Many turned to religion, encouraged by the exhortations of churchmen and the nation's press. The *Journal of Commerce*, for instance, urged its readers to:

'Steal awhile away from Wall Street
And every worldly care,
And spend an hour about mid-day
In humble, hopeful prayer.'

Churchgoers were told that the panic was of providential origin and 'partook of the visitation of locusts, and pestilence, in the ancient days'. But God's wrath was not without purpose: 'Let the young believe when their father came home with saddened brow from the heavy business troubles of the day, when their mother gave them food moistened with her own tears – let them believe that God had sent the affliction to work some good. He had provided that after the storm the bow of promise, and then the bursting sunshine should break forth.' Sometimes, in addition to these optimistic meditations, churchgoers received specific motivational advice. 'Never let New-York cross the ferry with you. Never let it cross your threshold any more than you would a wolf. Rest yourself at your home, leave your business behind you, and change the current of your life every night in the company of your wife and children. If necessary, go home to a bath. It would do you good to bathe every day, some of you. Bathe in music. Try that. If you have no piano, no band of corded instruments is half so sweet as the voice of an affectionate wife and

the prattle of children. Don't go home to burrow in your bed as an animal burrows in the earth, to hide yourself. If you have been in the habit of riding out, don't sell your horses. Take your ride as you have been accustomed to do – morning, afternoon and evening. Love music. Find recreation. Go to the Philharmonic Concerts; go and buy tickets to them, if times are hard; the music will do you good.'

Other people sought atonement in more singular ways. As hardships grew, so did the level of anger against the rich Wall Street gamblers, who were held responsible for the whole mess. Consequently, some of the newly wealthy expressed their remorse by attending 'poverty parties' where guests wearing calico and homespun drank cold water and ate bread and butter, raising money for the poor. In doing so, they sought to distinguish themselves from 'the annoyance of snobs who go only to guzzle champagne and to stuff themselves with oysters'.

The panic was not confined to New York but rapidly spread across the nation and thence to almost every corner of the world, making it the first truly international financial crisis. By the end of October, over 1,400 banks had failed in America alone, dragging down their foreign correspondents and causing recessions and bankruptcies across Europe. Only the bailout provided by the British government and the suspension of the Bank Act (i.e. suspension of convertibility) averted full-scale disaster in the UK.

LEFT | *Wall Street, Half Past Two, 13 October 1857*
RIGHT | *The Marine Redowa rescuing the few survivors from the stricken SS Central America*

SCHADENFREUDE

Predictably, the panic was not bad news for everybody. Frederic Engels confided to Karl Marx that he found the whole situation 'delicious', whilst the other members of the Manchester Exchange grew 'black in the face with rage at my suddenly rising good spirits'. Southern leaders in the US also saw the panic as a good thing and used it to strengthen their case for secession, exclaiming 'Why does the South allow itself to be tattered and torn by the dissensions and death struggles of the New York moneychangers?' The South, thanks to its strong cotton exports, remained relatively unaffected by the panic, leading many Southerners to feel that 'the wealth of the South is permanent and real, that of the North fugitive and fictitious'. Moreover, many Southern leaders observed that, while the black slaves of the South were still being fed, 200,000 workers in the North had lost their jobs. 'How can any candid, common sense man profess the belief that slavery is a horrible, atrocious, accursed, God-defying sin?' asked one pro-Southern paper. In such circumstances, secession became not only possible but an almost riskless venture and by 1860 decisive steps were being taken to this end. The wheels of war had now been set in motion.

New York's money market may have frozen blue, but the panic was a boon for Wall Street (and the economy in general) as it swept away the old guard and allowed less socially refined but more innovative financiers to come to the fore, such as 'Commodore' Vanderbilt. The panic also saw the first use of clearing-house certificates; these allowed banks to pay depositors in the absence of coin.

HEAVY METAL

THE SS CENTRAL AMERICA was a large steamship which plied the waters off California and Central America in the 1850s. One stormy night in September 1857, when bound for New York, it foundered, taking hundreds of passengers to a watery grave and, more importantly for the money markets, 30,000 pounds of freshly prospected California gold. Many of the passengers were prospectors returning to their families with the fruits of their hard labour. As soon as the ship started to sink, men cast off their treasure belts in a vain attempt to stay afloat, but drowned all the same.


Crash
LEGITIMATE BUSINESS.
NO OVER-CERTIFICATION.
CLEARING HOUSE
GAMBLER
STOCK'S
STOCK GAMBLER
J. KEPPLER

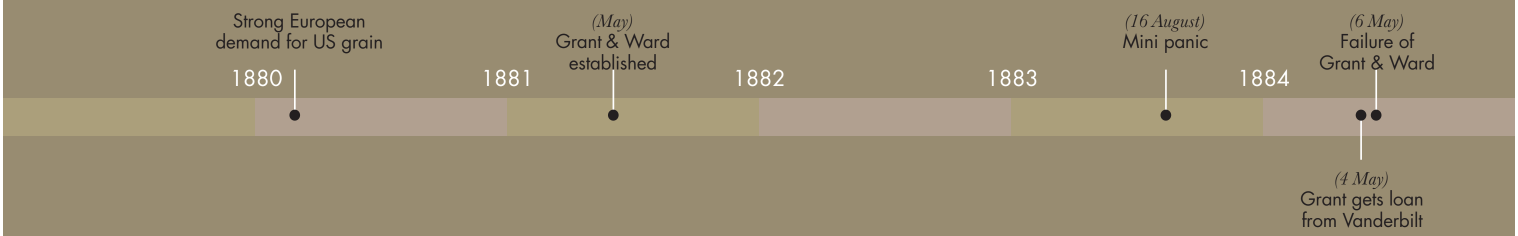
THE GREAT MONEY ILLUSION

PANIC OF 1884

INFLOWS OF EUROPEAN GOLD WORKED LIKE MAGIC UPON WALL STREET, CAUSING STOCK PRICES TO LEVITATE. MORE ASTONISHING STILL WERE THE ARTFUL DISPLAYS OF FINANCIAL PRESTIDIGITATION BY A YOUNG CONJURER CALLED FERDINAND WARD. BUT WHEN WARD DISAPPEARED INTO THIN AIR IN MAY 1884, TAKING EVERYBODY'S MONEY WITH HIM, INVESTORS WERE NOT SO IMPRESSED.

'THE AMERICAN WITH A MILLION SPECULATES TO WIN TEN.'

LONDON STANDARD, 1884



ABRACADABRA

In early 1879, corporate America was still feeling the effects of the Panic of 1873. Wall Street was a ghost town, bereft of the vim and impetuosity of the previous decade. A series of freak weather events in England and France during the summer of 1879, however, changed all this. European demand for US grain suddenly shot up, resulting in large gold inflows to America. Demand for US agricultural exports remained high in 1880 and 1881, due to poor harvests across Europe and the failure of India's cotton crop. America's financial fortunes suddenly recovered and blood started flowing through Wall Street's veins again. Old speculators returned and new speculators came to the fore, replacing those who had been destroyed in 1873. Stock prices rose. Matthew Smith, a contemporary observer, describes the scene:

'At ten o'clock, Wall Street, at the corner of the Broad, is an interesting spot. Men rush in from all directions. Knots and cliques gather for the contest. Muscular brokerage is at a premium. Young roughs are dressed like expressmen, with low-crowned hats, docky coats, stunning jewelry, and flaming rings. Old men are nowhere… At the Stock Board… members sit in elegant chairs, or are broken up into little knots, and quietly discuss matters. The cockpit is empty. But when an exciting stock is called all is changed. Members rush for the centre of the room pell mell. The crowd, the rush, the jostle, the fierce pushing, the clang of conflict, is too much for the old men. Young men and mere boys raise the din, buy, sell, loan and borrow. Millions pass through their hands in a minute. They tear up and down stairs, rush in and out, race down the street, and across, and pitch into quiet citizens as they turn corners.'

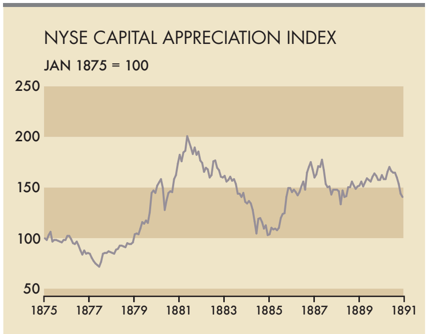
ABOVE | *'Cut-throat business in Wall Street. How the inexperienced lose their heads.' Razor is operated by Vanderbilt (left) and Gould (right) (1882)*

SHATTERED ILLUSIONS

By 1882, however, European agriculture had recovered and Wall Street's Indian summer came to a close. Stock prices levelled off and, towards the end of the year, began to dip, resulting in several near-panics. Although the market held up fairly well throughout the first half of 1883, it resumed its downward course in July. Yet bearish sentiments were brushed aside. On 14 August, the president of the New York Stock Exchange declared, 'The chief trouble with the stock market is that liquidation has been carried too far. Prices are very low indeed and people will soon begin to see that securities are too cheap, and are likely to be scrambling over each other's shoulders to buy.' He cheerily concluded that 'There is no more chance of a panic than there is of your being struck by lightning, out in the sunshine.'

Two days later, there was a panic. Although it was short-lived and relatively minor, it nevertheless dented confidence and focused attention on America's money supply (this was rapidly contracting due to gold shipments to Europe, a fall in demand for US exports and the government's efforts to pay off the public debt). As prices continued to decline, rumours of panic spread everywhere.

But in early March new bull groups were being organised and by the middle of the month the market's downward slide had been arrested. Disaster had seemingly been averted and a dull listlessness soon set in on Wall Street. According to the Herald's financial columnist, 'To write a line about today's stock market that would contain an atom of interest is about as hopeless a task as one could be forced to encounter. In fact there is no market to speak of.' Junior partners were left to get on with things whilst their bosses went on holiday and even Wall Street's most notorious operator, Jay Gould, appeared to have lost interest in the market. In May, few expected the market to change until the autumn crop reports came out. Luckily for the Herald's financial columnist, however, he would soon have plenty to write about.



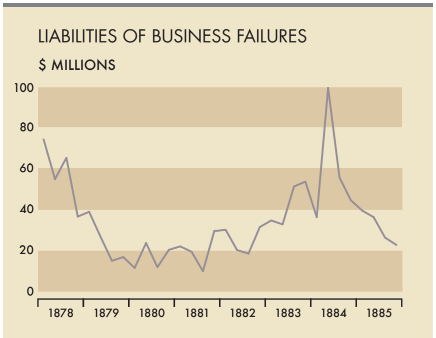
As the mining boom took off, capital returns on the NYSE increased by more than 50% in 3 years, reaching a peak in 1882. In the month of the panic, returns declined by more than 30%.

TOP | *Jay Gould was caught off guard by the panic and made great losses*
ABOVE | *'A great past and a pitiful present'*

SLEIGHT OF HAND

Several years earlier in May 1881, Ferdinand Ward, a young financier dubbed the 'Napoleon of Wall Street', had prevailed upon the ex-President and civil war hero Ulysses Grant, and his son 'Buck', to go into business with him, and the three established the Wall Street brokerage house, Grant & Ward. Although the Grants were basically honest, they were also credulous and lacked business acumen. Ward, for his part, was dishonest and canny. He traded on Grant's name and spread rumours that the firm had influence in Washington. As a result, money started to pour in and Grant & Ward appeared to do very well, paying its investors good dividends. In reality, however, Grant & Ward was little more than a Ponzi scheme: Ward was using incoming funds to pay dividends to earlier investors and to secure loans for proprietary investments. These irregularities did not matter as long as the market continued to go up and funds to come in, but after the panic of mid-1883 the farce became more difficult to maintain. At first, Ward was able to borrow heavily from the Marine National Bank (whose president, James Fish, was on good terms with him), but this lifeline disappeared in early May 1884 when the bank's largest depositor withdrew its money, spooked by rumours about Grant & Ward and the Marine National Bank.

On Saturday 4 May, Ward hurried to Grant's residence and pleaded with him for a loan of $150,000 to help the Marine National Bank with a short-term liquidity problem, suggesting that Grant might approach William Vanderbilt, son of the railroad magnate Cornelius Vanderbilt. Grant would not have agreed if he had known how things really stood, but Ward disingenuously explained that although Grant & Ward was sound, it held big deposits in the Marine National Bank which had been wrong-footed by a recent withdrawal, and if it was short of funds on Monday, there would be a run, which would be ruinous for their firm. A dazed Grant, previously unaware of his firm's difficulties, visited Vanderbilt that evening and asked him for the loan. Vanderbilt accepted but said, whilst writing out the cheque, 'I don't care anything about the Marine National Bank. It can fail without disturbing me; and as for Grant & Ward – what I've heard about the firm would not justify me in lending it a dime. But I'll lend you a hundred and fifty thousand dollars personally. To you – to General Grant – I'm making this loan, and not to the firm.'



TOP | *Satirical print showing Ulysses Grant as King, surrounded by corrupt retainers including Ward and Fish* ABOVE | *Ferdinand Ward, Napoleon of Wall Street* OPPOSITE, TOP | *Wall Street panic scene*

ESCAPE ARTISTS

Grant returned home and gave the cheque to Ward, who cashed it the next morning and kept the proceeds for himself. Ward knew that the game was up and, after trying to get more money out of Vanderbilt, fled the city. On Tuesday 6 May Grant & Ward failed, followed shortly by the Marine National Bank. News of these failures excited suspicions about other Wall Street firms, and when it was discovered on 13 May that the 26-year-old president of the Second National Bank had absconded with $4m of the bank's money, there were precipitous declines in all stock prices at the Exchange: 'Brokers rushed aimlessly hither and thither, catching each other by the arms or shoulders. For a few minutes it seemed... as if every man on the floor had lost his head. The uproar was deafening. It was a terrible medley of noises without intelligible words.'

AUDIENCE REVIEWS

Condemnation of Wall Street financiers came in thick and fast. European newspapers showed supercilious contempt for what they saw as the reckless adventurism of American speculators, with one French paper claiming: 'Without a sou in the morning, they are millionaires after lunch, and after supper perhaps they have lost everything. Instead of blowing out their brains, however, as surely would be the result in Europe, they drink half a dozen glasses of whisky and go to bed as if nothing unusual had happened.'

Clergymen across America were also quick to condemn the iniquities of Wall Street and the nation's apparent indifference to them. A prominent New York preacher explained to his congregation that 'The cause of our financial trouble... is our endeavour to support semi-parasites and parasites upon the body politic'; and that Americans put too high a premium

on financial smartness and were apt to say, 'It is a pleasure to be skinned by that man. He skins me so nicely.' Some also questioned Grant's innocence in the affair: 'Are we to say that a man who was able enough to be General of our armies, and fill his place in our White House, was so absolutely bereft of all his powers of observation and reflection that he was a perfectly innocent and unsuspecting victim to the wiles of a dangerous and unscrupulous wildcat?'

However, most people pitied Grant and regarded him as a 'simple, dear old fellow' who had been misused by rogues. He never went back to Wall Street and, unlike the economy, which quickly recovered, sank into a deep depression and died the following year. Fish and Ward, meanwhile, both received lengthy prison sentences, with the former shouting to the guards when learning that his old comrade was just a few cells down from him 'Don't let me get at him. I'll kill the scoundrel!'

The panic was comparatively mild and, according to one paper, 'fell upon general business with no more rebound than a blow upon a mass of putty'. In fact, it was rather beneficial as it purged Wall Street of conmen such as Ward and Fish and effectively ended the destructive price wars between America's railroad operators.

MAKING INVESTORS TICK

DURING THE 1880s, investors were becoming obsessed with the stock ticker – a printing device for telegraphic transmissions of exchange data, invented in 1867. Some brokerages had to restrict access to their tickers on account of the great number of 'chair warmers, just sitting there and watching the ticker and talking, who repel the better class of business men.' Investors regarded the ticker as 'the only God' of the market. 'The men of the masses… stand about and listen to the "tick!" "tick!" "tick!" from early morn till dewy eve.' However, this God was not kind to all of his children. A contemporary journalist complained that 'it has ticked the profits of all legitimate trade into the pockets of money-grabbing schemers… It is filling our morgues and graveyards with bodies, and our lunatic asylums and poor-houses with the mental wrecks of Wall Street.' These did not include its high priests however – speculators like Jay Gould and Vanderbilt – for whom 'the "tick" of the "ticker" is money making music. The "ticker" could not jar their nerves any more than it could the bronze statue of Franklin in Printing-house-square.'


WALL STREET
SPECULATION
POOL
AND STEEL TRUST
INGENUOUS INVESTOR.
$

THE CLASHING ROCKS OF THE NORTHERN PACIFIC

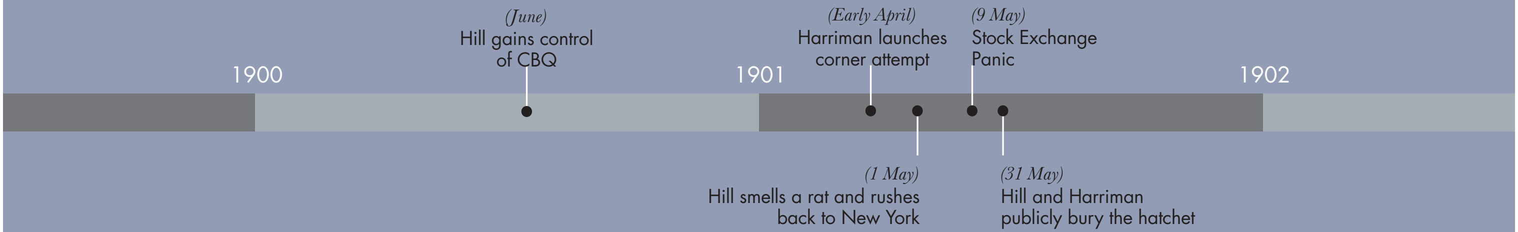
PANIC

1901

WHEN TWO CAPITALIST TITANS ATTEMPTED TO CORNER THE NORTHERN PACIFIC RAILROAD IN 1901, BOATLOADS OF SPECULATORS SET OFF IN SEARCH OF THE GOLDEN FLEECE BUT, AFTER A PROMISING START, FOUND THEMSELVES CAUGHT BETWIXT TWO CLASHING INTERESTS IN STRAITENED CIRCUMSTANCES.

‘THE THING WAS SO SUDDEN THAT CONSERVATIVE MEN LOST THEIR HEADS, AND LANGUAGE WAS HEARD FROM REPUTABLE CHURCH-GOING MEMBERS OF SOCIETY THAT WOULD NOT BEAR REPETITION IN A BARROOM OR EVEN THE SECOND CLASS.’

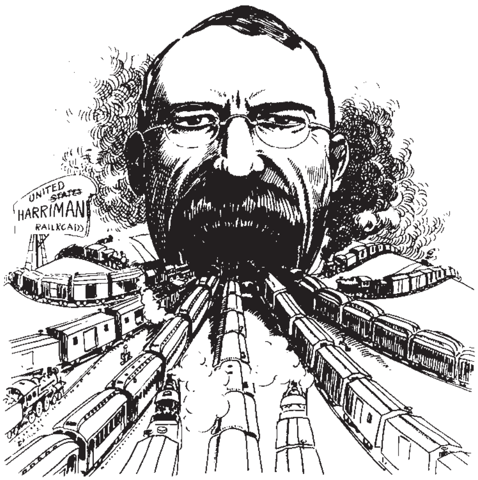
NYSE BROKER ON THE STOCK EXCHANGE PANIC, 17 MAY 1901

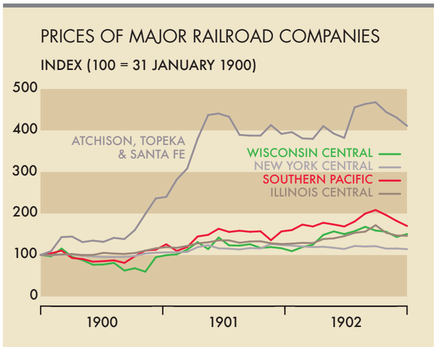


BATTLE LINES

Edward Harriman and James Hill, the respective managers of Union Pacific and Northern Pacific (NP), shared a dream. They longed to create a true transcontinental line, running from New York to the West Coast, linking Asia and Europe and reversing 'the needle of trade'. In order to do this, however, they each needed a central connection in Chicago. So, when the Chicago, Burlington & Quincy line (CBQ) went on the market in spring 1900, Hill and Harriman raced against each other to buy it. It was a close run thing; however, Hill, in alliance with his banker, J. P. Morgan, carried the day, leaving Harriman out in the cold. Plans were immediately made for a Northern Pacific merger with CBQ and Hill's dreams of a transcontinental line finally appeared to be coming true. Harriman, meanwhile, was busy plotting his revenge; it occurred to him that, were he to gain a controlling interest in Hill's Northern Pacific, CBQ would be delivered to him on a plate. Thus he resolved to 'buy the mare to get the filly'. Although this would not be cheap, he already had plenty of cash (from his post-defeat sale of CBQ shares) and was in cahoots with the eminent banker Jacob Schiff, whose puissance rivalled that of Morgan.

Of course, Harriman knew that snatching NP stock from under the noses of Hill and Morgan would not be easy, but in the event he was aided by several factors. First, with all seeming to be going well with the NP/CBQ merger, Hill and Morgan had taken the opportunity to escape Wall Street: Hill had gone westwards to Seattle whilst Morgan was 'enjoying the baths and basking under the bland, blond skies' of the Alps. Second, Wall Street was experiencing a bacchanalian frenzy of speculation. This was the age of consolidations, when new flotations of giant trust companies were appearing every day. Although these mainly involved industrials, railroad stocks had also been caught up in the excitement and consequently wild fluctuations on heavy volumes had become the norm, meaning that Harriman's purchases of NP stock were unlikely to rouse any particular suspicions.

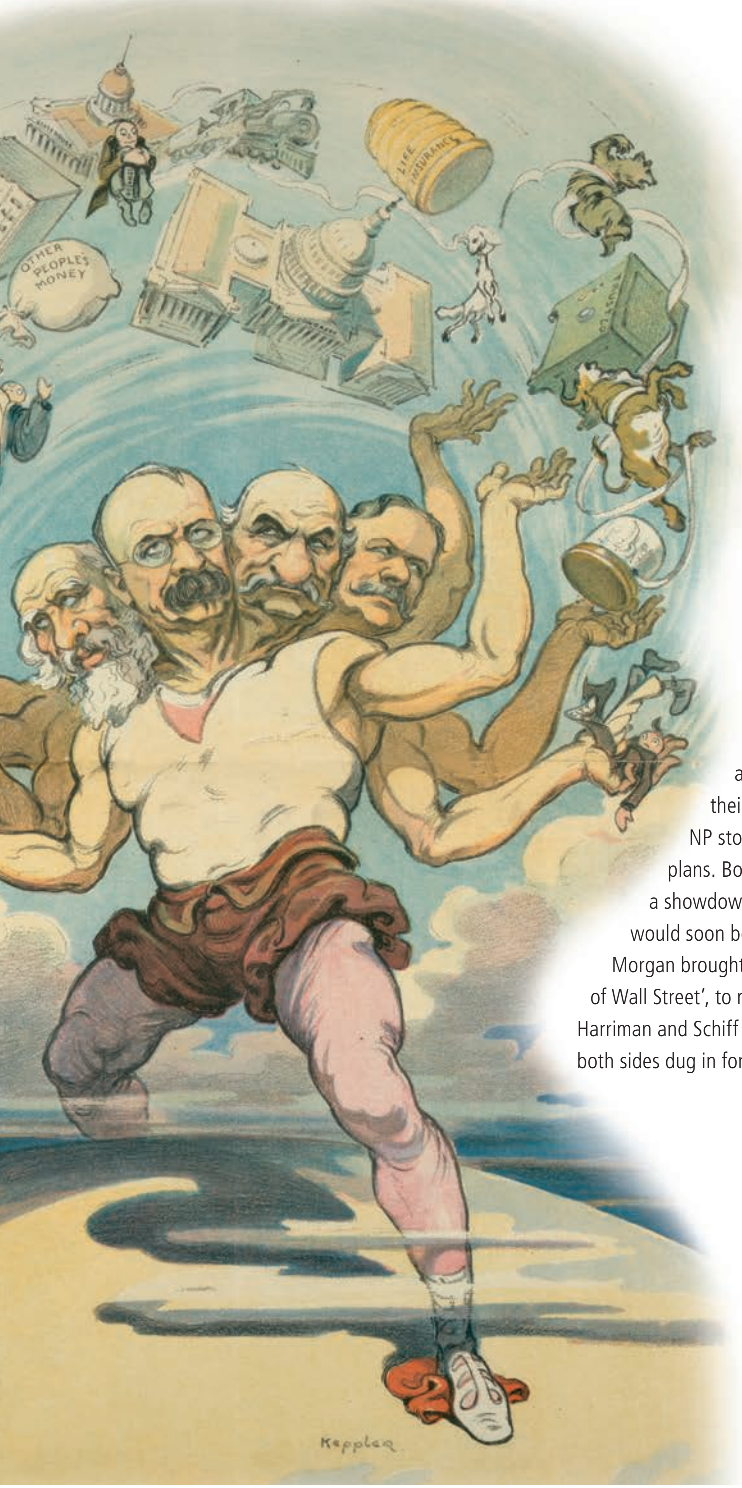




RUMBLING THE RUSE

Thus, taking advantage of these propitious circumstances, Harriman – through Schiff's agency – began buying NP in early April. For most of that month, these transactions did indeed pass unnoticed. Everybody seemed more interested in the flotations of US Steel (another Morgan c oncern) and the New York Stock Exchange's move to new premises. Even when people did care to remark on NP's steady rise, most put this down to the forthcoming merger with CBQ. On 1 May, however, Hill, noticing the increased activity in NP stocks, felt that something was not quite right and sped to New York to find out what was happening. Once there, he went to Schiff – the only person he could imagine who might have an interest in NP – and demanded answers. Schiff readily admitted his purchases, explaining, 'You secretly bought the CBQ and refused to give us a fair share; now we're going to see if we can't get a share by purchasing a controlling interest in the Northern Pacific.'

LEFT | *'Design for a Union Station' – caricature of Edward Harriman*
CENTRE | *'The greatest juggling act on earth' showing (left to right James Hill, Edward Harriman, J. P. Morgan and George Gould*
FAR RIGHT | *James Hill cartoon*



After this meeting, Schiff contacted Harriman and assured him that they were in control of NP. But Harriman was still uneasy and on Saturday morning decided to buy another block of shares, just to be sure. However, Schiff was in the synagogue and refused to do business on the Sabbath; consequently Harriman's buy order was not executed on that day. This gave Hill the opportunity to contact Morgan, explain the situation and get approval for making their own additional purchases of NP stock in order to thwart Harriman's plans. Both sides were now locked in a showdown and it was clear that there would soon be blood on the floor. Hill and Morgan brought in James Keene, 'the Silver Fox of Wall Street', to manage their operations, whilst Harriman and Schiff wheeled out Otto Kahn, and both sides dug in for Monday morning's opening.

EARLY SKIRMISHES

After the gavel had sounded, Keene and Kahn acted coolly and until lunchtime NP's price remained relatively stable. As the contest wore on, however, supply dwindled and NP's stock price drifted upwards. Some small speculators, not suspecting what was happening, began to view NP as an ideal short-sale and by the early afternoon most of the trades were of this type. On Tuesday morning the drama continued and everybody seemed to be shorting. By noon, however, some speculators and brokers began to suspect that 'something was on' and started to cover their short positions, whilst others continued to short the stock, sending NP's price all over the place. That night both sides thought that they controlled NP. It soon dawned upon them, however, that some of the stock must have come from short sellers who in the next few days would be trying to buy for delivery when and if NP fell. But how could NP fall when there was no supply?

On Wednesday morning Keene and Kahn did not buy any NP, having done their work the previous day. Now the shorts were crazily trying

MR. HILL'S EXPLANATION OF IT.
"The Northwest has grown too fast for its railroad facilities."

to cover their positions and were liquidating their other holdings, leading to a slump in every other stock, including Morgan's US Steel: 'Where before the cry had been only, "Buy, buy, buy", it became, "Sell, sell, sell". Stocks were literally tumbled out sold without rhyme or without reason – anything "to get out".' After Wednesday's trading came to a close, all Wall Street knew the worst: that NP was cornered. This corner, however, was different. Previous corner attempts had aimed to squeeze short sellers, who, in the end, would be allowed to cover their positions, albeit at a high price. But this time neither Harriman nor Hill was interested in squeezing the shorts; they aimed at full mastery over NP and would not part with a single share, whatever the price.

ABOVE | Harpers Weekly *cover 'Establishing a Community of Interest'*
CENTRE | *'Wall Street bubbles; always the same', 1901*

THE DAY OF RECKONING

Full panic conditions reigned on Thursday morning as brokers rushed to sell all securities except NP and bid for that issue. Consequently, all stock prices plunged apart from NP, which spiralled upwards to dizzying heights, hitting a peak of $1,000 by noon (a 1000% rise on the opening price). Yet there were still no takers. Before long, there were reports of suicides. One man facing ruin killed himself by jumping into a vat of hot beer.

This was one of the wildest days in the Exchange's history. A *New York Times* reporter, gazing down on the action from the gallery, described it as 'a football field, with 600 determined players striving for the goal… Every railroad post seemed to be lodestone, and around it humanity whirled and seethed and fought for place. Many fortunes went into the vortex this formed, and were sucked out of sight in a twinkling.' Indeed, for many of the spectators in the viewing gallery, there was 'something incomprehensible, almost demoniac – this struggle, this Babel of voices, these wild-eyed excited brokers, selling and buying, buying and selling'. Respectable men became feral beasts: 'dignity was thrown to the winds. There was no more of it on the floor than Justice Jerome and his associates find in a down town poolroom raided by the Committee of Fifteen.' The 'brokers acted as insane men. Men, rational and responsible, fairly fought with one another in the execution of their orders. Big men lightly threw little men aside, and the little men, fairly crying with indignation, jumped anew into the fray – using hands, arms, elbows, feet – anything to gain their point.'

Even Wall Street's top brass shed their customary aloofness and plunged headlong into the frenzy: 'not within memory of the corporation have so many senior members of firms been seen upon the floor, and silver hairs did not aid them in their efforts to conceal the

excitement under which they were labouring.' As the day wore on, however, some of these disappeared, to be replaced by juniors more active and less cautious. 'Young brokers, flushed with excitement kindled by their first battle royal, led the van, and it was stated that had they not lost their heads values would not have fallen as rapidly as they did.'

Inevitably, many of the brokers and speculators were making great losses, 'Men went around with ashen faces, wild-eyed, and haggard looking. A moment before they had been rich. Now they were paupers.' Some people nevertheless were having a great time. These were the bargain hunters, who according to an observer were 'the noisiest coterie of a deafening crew'. 'These men, buying at or near the low figures of the day, were able in a few short hours to make fortunes. And at their elbows, gathered around the tickers, were men who had just lost fortunes… That is Wall Street.' These were the bargain hunters, who according to an observer were 'the noisiest coterie of a deafening crew'. 'These men, buying at or near the low figures of the day, were able in a few short hours to make fortunes. And at their

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FIRST AID

As soon as Schiff and Morgan's deputy reported the gravity of the situation, they immediately resolved to relieve the short sellers. Both men wished to prevent major panic, which might harm their other interests. Accordingly, they said that they would not demand immediate delivery of shorted stock and authorised their associates in the Exchange to lend Northern Pacific stock to the shorts. One of Schiff's associates – a certain Al Stern – was the first to reach the Northern Pacific post with the news, asking the mob of hysterical brokers, 'Who wants to borrow Northern Pacific? I have a block to lend.' He did not have to wait long for an answer. 'The hapless broker was bitten, gouged, and pummelled; one customer took off his hat and repeatedly hit Stern over the head with it in order to gain his attention. The dishevelled Stern, known as one of the most dapper men in Wall Street, barely managed to escape, and he staggered from the scene, his clothes in shreds.'

However, the work was done and by the end of the day NP had come crashing down from 1,000 to 325; on Friday, normal trading conditions resumed. Inevitably there was much soul searching in the days and weeks that followed. In trying to make sense of what happened, Hill remarked:

'All I can do is to liken it to a ghost dance… the Indians begin their dance and don't know why they are doing it. They whirl about until they are almost crazy. It is so when these Wall Street people get the speculative fever. Perhaps they imagine they have a motive in that they see two sets of powerful interests which may be said to be clashing. Then these outsiders, without rhyme or reason, rush in on one side or the other. They could not tell you why they make their choice, but in they go, and the result is such as has been seen here for the past few days.'

The newspapers, however, assumed more wrathful tones, the *New York Times* publishing the following jeremiad: 'It was more than a panic: it was a wholesale sacrifice of prices and of people – a sacrifice...if not to greed, at least to the stupidity and vaulting ambition of men, leaders in the financial and railroad worlds, who in their efforts to secure control of a great railroad property sacrificed all things else…Securities were dumped on the market altogether without regard to value, in some cases through sheer unreasoning fright.'

Amazingly no banks or brokerage firms failed, but many speculators who had been 'pyramiding' their accounts during the recent bull market were wiped out. 'The youths and others who, elated by their new-found fortunes, have been slapping one another on the back...were chewing the "bitter cud" of despair and disaster, and wondering how it all happened.'

THE WITCH OF WALL STREET

ONE OF THE PROMINENT 'bargain hunters' during the panic was the Quaker heiress Hetty Green, who, dressed in black crêpe and nicknamed the Witch of Wall Street, was one of a handful of female operators in what was still very much a man's world. She was certainly no shrinking violet and once got her way by threatening a robber baron with a revolver. By buying low and selling high she became America's richest woman, leaving $100m on her death, yet she always feared poverty and was a notorious miser, reportedly saving money when staying in hotels by washing her own underwear.

THE TEQUILA SLAMMER

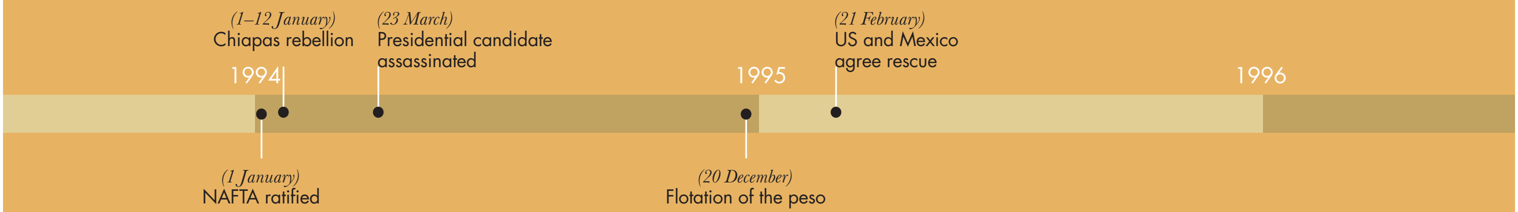
MEXICO'S PESO CRISIS

1994

WHEN MEXICO OPENED UP ITS BORDERS IN THE LATE 1980S AND EARLY 1990S, HORDES OF GRINGOS HEADED SOUTH AND DOWNED SHOTS OF MEXICAN DEBT. BUT FOLLOWING THE INVASION OF CONFIDENCE-SUCKING EVENTS IN 1994, THE TERRIFIED INVESTORS ALL LEFT TOWN. SALVATION EVENTUALLY ARRIVED AND AFTER THE COUNTRY'S DEBT PROBLEMS HAD BEEN SLAIN, MEXICO REOPENED FOR BUSINESS.

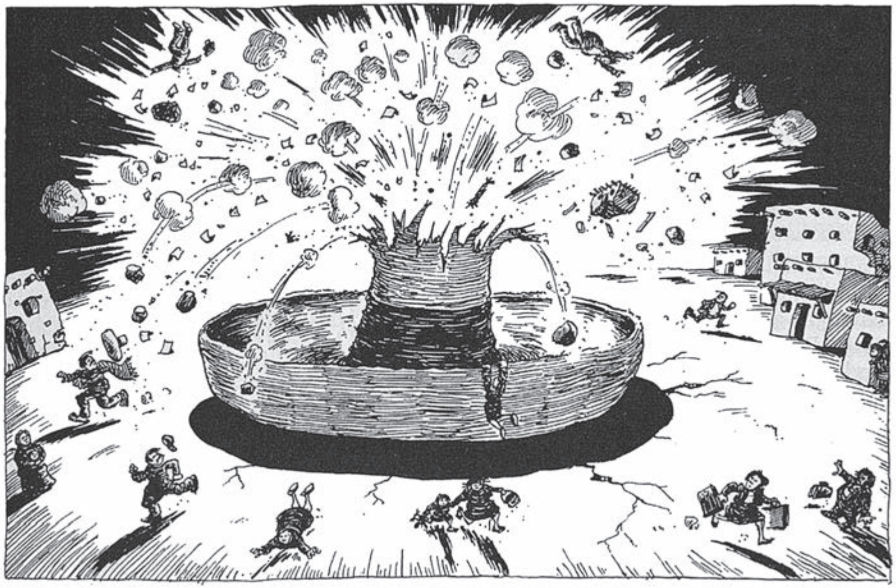
'THERE WILL BE A GIANT SUCKING SOUND GOING SOUTH.'

SENATOR PEROT ON NAFTA, 1992



YEAR OF THE LIVING DEAD

In the late 1980s, Mexico started to reform its economy, resulting in strong domestic growth, a surge in foreign investment and radically reduced inflation, and by the time Mexico joined the North American Free Trade Agreement (NAFTA) in January 1994, its economic prospects were looking quite rosy. However, a series of political shocks over the following year sapped investor confidence. In January, immediately after the ratification of NAFTA, a peasant insurrection broke out in the southern state of Chiapas; the leading presidential candidate was assassinated in March; the ruling party's general secretary was assassinated in September; there was renewed fighting in Chiapas in December and a series of kidnappings in Mexico City in the course of the year.



In view of these events, foreign investors became increasingly anxious and began liquidating Mexican securities, weakening the peso. The Mexican Central Bank initially propped up the exchange rate by selling dollars and buying pesos, but lost much blood in the process. After losing $2bn a week, Mexico abandoned the currency peg on 20 December. The peso immediately fell from 3.5 to 3.9 against the dollar, and thence to 5.2 by the end of the month. The situation was further complicated by the fact that Mexico had previously issued copious amounts of dollar-denominated bonds (*tesobonos*), which it could no longer afford o repay, turning the currency crisis into a debt crisis.

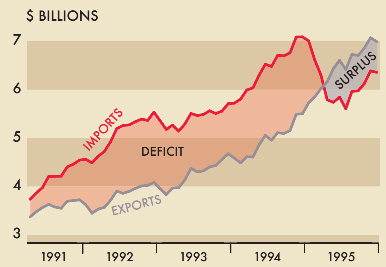
ABOVE | *Mexican cartoon 'with attitude'*
LEFT | *Cartoon depicting the 'tequila effect'*

BITING BACK

Mexico's sudden devaluation, which came after seven years of currency stability, had caught currency traders off-guard and led to mass sell-offs of Mexican securities. There were also kneejerk, panicky sell-offs in other Latin American markets in the two weeks following the devaluation – called the 'tequila effect' – as investors sought to extricate themselves from anywhere that vaguely reminded them of Mexico. In a bid to prevent Mexico from defaulting and the contagion from spreading, a $50bn rescue package was cobbled together in February 1995 with $20bn from the US and $15bn from the IMF, secured by Mexico's oil revenues.

The devaluation had mixed results. On the one hand, the weaker exchange rate made Mexico's exports more competitive and, by mid-1995, the trade deficit had switched to a surplus. Moreover, a default had been averted, portfolio inflows returned and Mexico was able to repay the loan with interest far sooner than had been expected. But on the other hand, imports were much more expensive and IMF austerity measures resulted in lower living standards. Interest rates shot up to 100%, bankruptcies and bank failures surged, unemployment doubled and GDP declined by 7%, which is a very large contraction for a modern economy.

MEXICO'S CURRENT ACCOUNT BALANCE



HOW TO BE NAMED MAN OF THE YEAR

IN THE FOLLOWING satire, 'Marcos', from the Chiapas' Zapatista movement, explains how one could become president in 1994 Mexico.

Carefully combine a technocrat, a repentant oppositionist, a sham businessman, a union bully, a landowner, a builder, an alchemist in computational arts, a 'brilliant' intellectual, a television, a radio, and an official party. Set this mixture aside and label it 'Modernity'.

Take an agricultural worker, a peasant with no land, an unemployed person, an industrial worker, a teacher without a school, a dissatisfied housewife, an applicant for housing and service, a touch of honest press, a student, a homosexual, a member of the opposition to the regime. Divide these up as much as possible. Set them aside in a jar and label them 'Anti-Mexico'.

Take an indigenous Mexican. Take away the crafts and take a picture of her. Put her crafts and the photo in a jar and set aside. Label it 'Tradition'.

Put the indigenous Mexican in another jar, set it aside, and label it 'Dispensable.' One must not forget to disinfect oneself after this last operation.

Well, now open a store and hang up a huge sign that says, 'Mexico 1994–2000. Huge-End-of-the-Century-Sale'.

Smile for the camera. Make sure the makeup covers the dark circles under the eyes caused by the many nightmares the process has caused.

Note. Always have on hand a policeman, a soldier, and an airplane ticket out of the country. These items may be necessary at any time.

The Mexican Peso Crisis is sometimes described as 'the first major crisis of the 21st century', meaning that it was the first crisis to hit an emerging market in the new era of globalised financial markets. But it bears many similarities to the Baring Crisis over a hundred years earlier. Argentina, like Mexico, was the single largest borrower in its day; in both cases capital inflows funded consumption rather than productive enterprise; and there was a nasty hangover to nurse in both instances.

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