

THE PANIC OF 1857

Lesson by

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Subject

Economic and Financial History of America and the United States

Academic Level

Secondary/Collegiate

Bloom Level

Knowledge

Comprehension

Analysis

Unit

The Art of Political Finance, Volume I, Part I—Chapter 11

Lesson Number within Unit: 8**Lesson Description**

This lesson covers roughly the period from the 1840s to the beginning of the Civil War. It will set the political climate and recount some of the key events of the Panic of 1857, the beginning of JP Morgan & Co and monetary and banking policy during this Free Banking Era.

Time Required

Two 60-minute classes

Objectives

Students will be able to:

1. Understand the political climate prior to the Civil War
2. Identify three causes of the Panic
3. Identify three effects of the Panic
4. Compare and Contrast the Panic of 1837 with the Panic of 1857
5. Begin to identify and understand the major personalities of this era

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Concepts, Terms, Events, Personalities

Coinage Act of 1857

An act of the United States Congress approved on February 21, 1857, which prohibited the use of foreign coins as legal tender.

The act repealed all other previous acts which had authorized such use of foreign coins. Provisions were included which allowed for certain coins to be exchanged at the Treasury where they would be melted down and re-minted.

Recovery

A phase of the business cycle following a recession, during which an economy regains and exceeds peak employment and output levels achieved prior to downturn. A recovery period is typically characterized by abnormally high levels of growth in real gross domestic product, employment, corporate profits, and other indicators.

Ohio Life Insurance and Trust Company

The Ohio Life Insurance and Trust Company was a banking institution based in Cincinnati, Ohio, which existed from 1834 to 1857. The Panic of 1857, an economic depression, resulted after the company's New York City offices ceased operations due to bad investments, especially in agricultural-related businesses.

Tycoon

1857, title given by foreigners to the shogun of Japan (said to have been used by his supporters when addressing foreigners, as an attempt to convey that the shogun was more important than the emperor), from Japanese taikun "great lord or prince," from Chinese tai "great" + kiun "lord." Transferred meaning "important person" is attested from 1861, in reference to U.S. president Abraham Lincoln (in the diary of his secretary, John Hay); specific application to "wealthy and powerful businessman" is post-World War I.

Shogun

("general", literally "military commander") was a hereditary military dictator in Japan during the period from 1192 to 1867, with some caveats. In this period, the shoguns were the de facto rulers of the country, although nominally they were appointed by the Emperor as a formality.

JP Morgan & Co

1854 Junius Morgan (JP's father) joined George Peabody & Co. (a London-based banking firm) to become Peabody, Morgan & Co. Junius took control of the company and renamed it J.S. Morgan & Co. in 1864 when Peabody retired. John Pierpont Morgan found his own company that same year. **Pierpont used his Peabody connection to bring British financial capital together with rapidly growing U.S. industrial firms**, such as railroads. Anthony J. Drexel, Philadelphia banker and founder of what is now Drexel University joined Morgan to form Drexel, Morgan & Co.

On Junius' death in 1890, Pierpont Morgan took his place at J.S. Morgan and Company. After Drexel's death, Drexel, Morgan reorganized in 1895 and became J.P. Morgan and Company, eventually becoming one of the most powerful banking companies in the world and helping to transform the United States from an economic novice into the strongest industrial power in the world.

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Procedures and Pupil Activity

Motivational Techniques:

- A) Questions – Has anyone heard of a company called JP Morgan?
- B) What do they specialize in? *Banking & Finance*

Review: The Panic of 1837

Teacher Presentation:

- August 16, 1841 - President Tyler vetoed the creation of the Third Bank of the United States, leading to rioting outside the White House by fellow Whig party members. The riot led to the formation of the District of Columbia police force.ⁱ
- In the late 1840s the United States was experiencing a recovery.
- The state banks and wildcat banks were prevalent during this period known as the **Free Banking Era**, (1837 to 1864).
- The Industrial Revolution was transforming the northeast.
- On Wall Street May 24, 1844 - Samuel F. B. Morse transmitted the first viable telegraph message. Securities brokers quickly adopted the technology to send market quotations. The telegraph helps expand the stock market by making trades accessible to brokers and investors outside of New York.
- August 6, 1846 - President Polk signed the Second Independent Treasury Act. During the Mexican-American War the independent treasury prevented the inflation and economic booms seen during the War of 1812 and the Civil War. The prevention of inflation and the artificial economic boom also prevented a postwar financial panic, something that occurred following both the War of 1812 and the Civil War.ⁱⁱ

Ask students how they think the economy breaks down in the 1850s.

The economy was 64% Agrarian and ~30% industrial by this time.

1850

Total population: 23,191,786; farm population; 11,680,000 (est.); farmers were 64% of labor force; Number of farms: 1,449,000; average acres: 203ⁱⁱⁱ

Irish & German immigrants were still pouring into the United States.

Letter to the London Times from an Irish Immigrant in America, 1850

I am exceedingly well pleased at coming to this land of plenty. On arrival I purchased 120 acres of land at \$5 an acre. You must bear in mind that I have purchased the land out, and it is to me and mine an "estate for ever", without a landlord, an agent or tax-gatherer to trouble me. I

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would advise all my friends to quit Ireland — the country most dear to me; as long as they remain in it they will be in bondage and misery.

What you labour for is sweetened by contentment and happiness; there is no failure in the potato crop, and you can grow every crop you wish, without manuring the land during life. You need not mind feeding pigs, but let them into the woods and they will feed themselves, until you want to make bacon of them.

I shudder when I think that starvation prevails to such an extent in poor Ireland. After supplying the entire population of America, there would still be as much corn and provisions left as would supply the world, for there is no limit to cultivation or end to land. Here the meanest labourer has beef and mutton, with bread, bacon, tea, coffee, sugar and even pies, the whole year round — every day here is as good as Christmas day in Ireland.^{iv}

In 1854, the Missouri Compromise was repealed by the Kansas-Nebraska Act. Three years later the Missouri Compromise was declared unconstitutional by the Supreme Court in the Dred Scott decision, which ruled that Congress did not have the authority to prohibit slavery in the territories. This didn't sit well with abolitionists.

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John Brown, an abolitionist from New England who thought that armed conflict was the only way to banish slavery, was having effects throughout the nation. In 1856 he and his raiders killed 6 pro-slavery people in Kansas. In 1859 his group attempted to capture an armory in Harper's Ferry, Virginia. They were captured and Brown was convicted of treason and hanged.



Figure 1 John Brown in Kansas by John Steuart Curry

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Political Climate

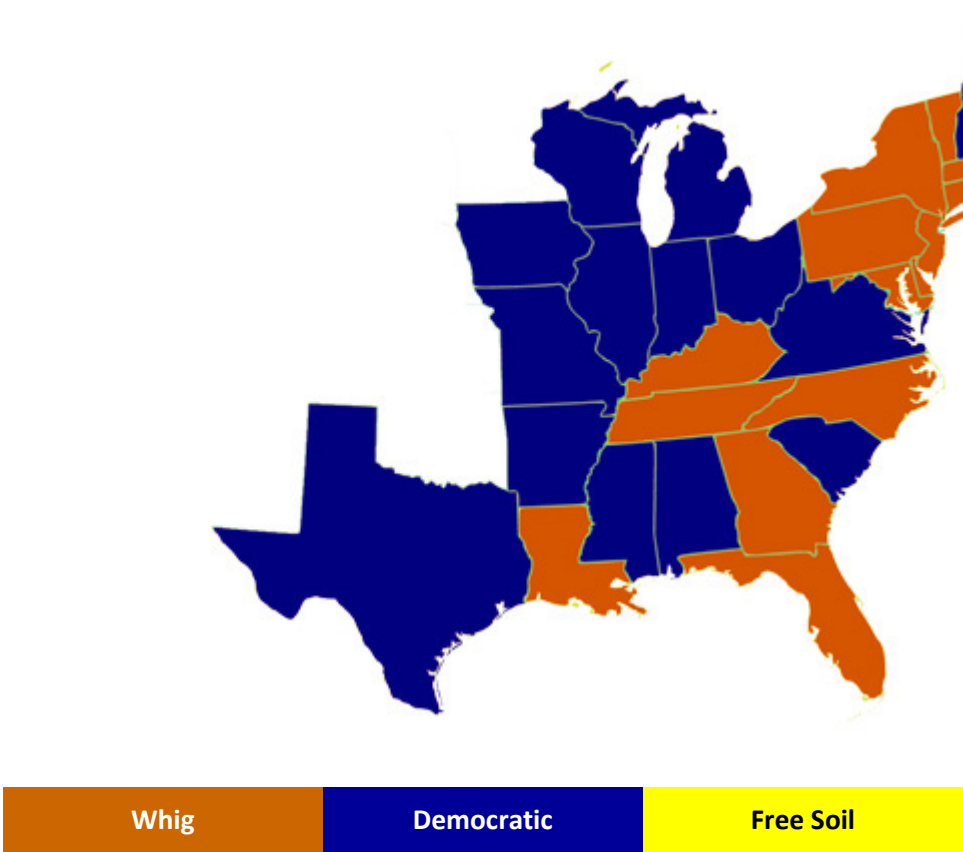


Figure 2 - 1848 Electoral College Map
<https://www.presidency.ucsb.edu/statistics/elections/1848>

| 1848-1850 | President | Party |
|-----------------|------------------|-----------|
| | Zachary Taylor | Whig |
| 1850-1852 | Millard Fillmore | Whig |
| Senate Majority | | Democrat |
| House Majority | | Whig/None |
| Senate Minority | | Whig |
| House Minority | | Democrat |
| Conflicts | | |

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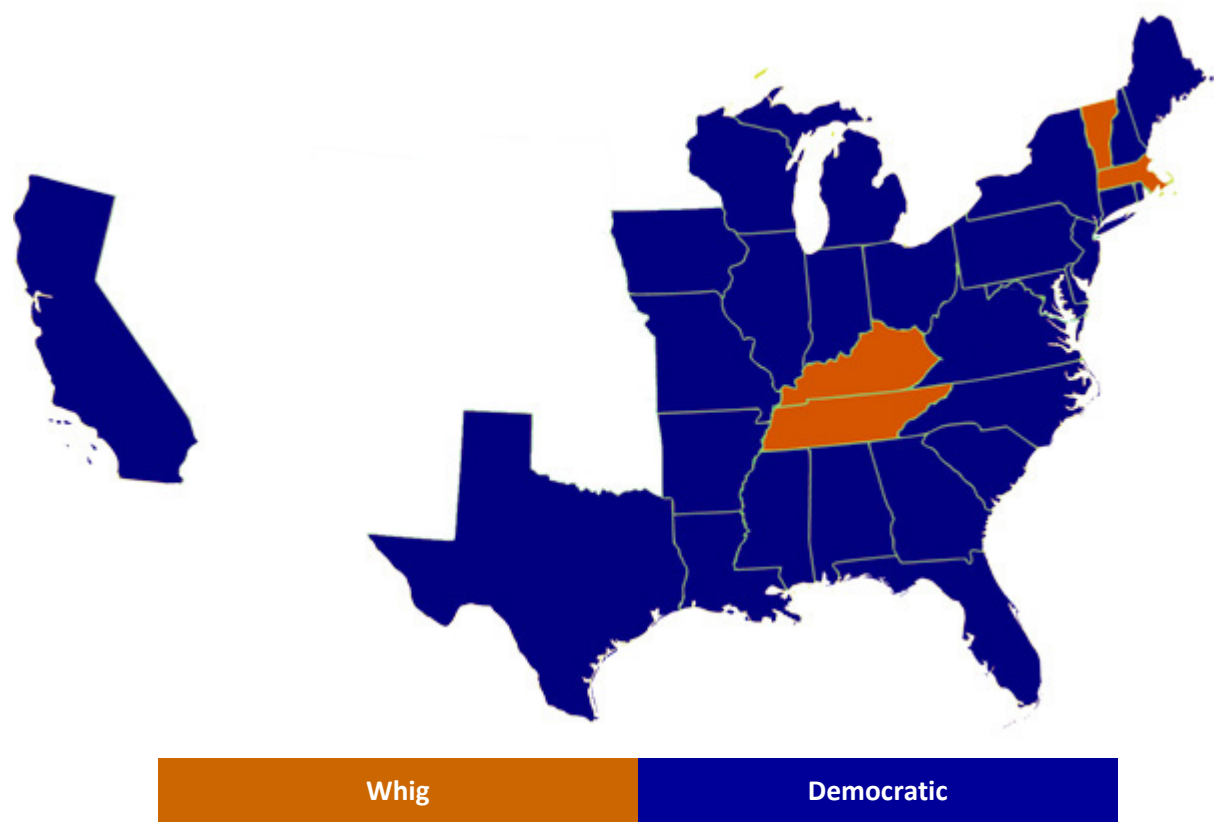


Figure 3 - 1852 Electoral College Vote
<https://www.presidency.ucsb.edu/statistics/elections/1852>

| 1852-1856 | President | Party |
|-----------------|--------------------------------|----------|
| | Franklin Pierce | Democrat |
| Senate Majority | | Democrat |
| House Majority | | Whig |
| Senate Minority | | Whig |
| House Minority | | Democrat |
| Conflicts | Free Staters vs. Abolitionists | |

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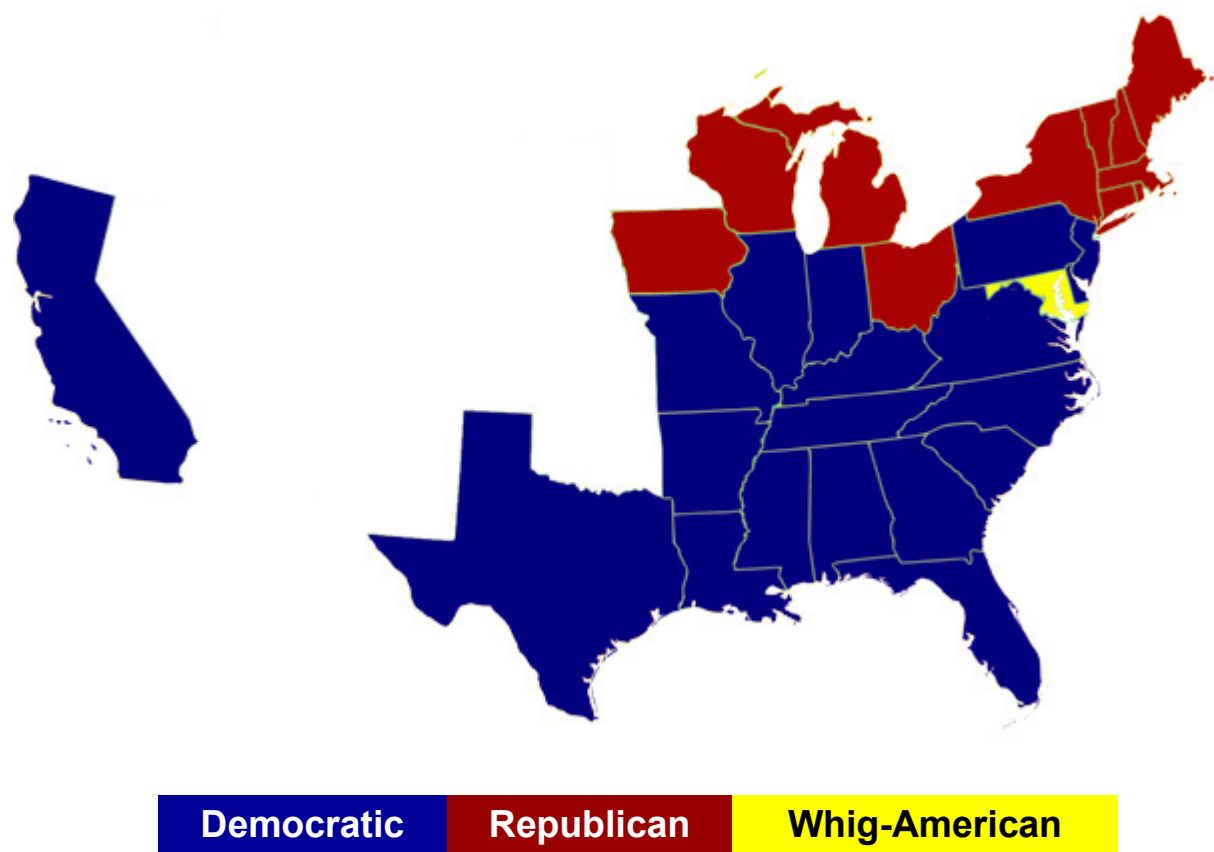


Figure 4 1856 Electoral College Vote
<https://www.presidency.ucsb.edu/statistics/elections/1856>

| 1856 | President | Party |
|-----------------|----------------|----------------------------|
| | James Buchanan | Democrat |
| Senate Majority | | Democrat |
| House Majority | | Opposition |
| Senate Minority | | Opposition |
| House Minority | | Democrat |

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Reading Activity:

The financial panic of 1857 in the United States was caused by the declining international economy and over-expansion of the domestic economy. Because of the interconnectedness of the world economy by the 1850s, the financial crisis that began in late 1857 was the first world-wide economic crisis.^v This is not entirely accurate as earlier panics were affected by international events as well.

Until the onset of the panic, the national economy has been expanding rapidly during the 1850s, except for a deep dip in 1854. The acquisition of western territories following the Mexican War (1846-1848), and the subsequent discovery of gold in California, encouraged land speculation and railroad construction, and made the United States a **net exporter of gold**. Railroads were the backbone of the economic growth, with the construction of over 20,000 miles of track during the 1850s. They were aided by **state land grants and financed by government bonds**, stock sales on Wall Street, and foreign, particularly British, investments.

Public land sales and improved agricultural production multiplied the number of farms, and the Crimean War (1854-1856) increased Europe's demand for American grain crops. Land speculators also participated enthusiastically in the lucrative real estate market. Railroad and agricultural expansion rebounded to the benefit of commerce and industry, which experienced similar growth. The number of banks almost doubled from 1850 to 1857, and **provided easy credit to their clientele**. Particularly important was New York City, the nation's financial center and home to the **Stock Exchange and financial institutions where banks across the country deposited their reserve funds**.

European demand for American grain crops fell drastically as the end of the Crimean War reopened Western European markets to Russian grains. In addition, bumper crops produced a glut of agricultural goods and, therefore, lower prices and less profits for American farmers, many of whom were in debt to **Eastern merchants and bankers**. The United States was also running a trade imbalance with foreign nations, and the excess of imports over exports meant that gold was being drained from the country. During the summer of 1857, banks raised interest rates as they desperately sought to build up their gold reserves. Furthermore, much of the investment in railroads and land was speculative, based on credit, and not expected to be profitable for years.

The first obvious sign of major trouble was the failure of the Ohio Life Insurance and Trust Company in late August 1857. The financial institution had loaned \$5 million to railroad builders, and had been **swindled out of millions more by the manager of its New York branch**. Unable to pay its extensive debt to Eastern bankers, Ohio Life was forced into bankruptcy. New York bankers began to panic for fear that they would not be able to meet their financial obligations, and shifted suddenly to hard credit policies. They demanded immediate payment on all mature loans, refusing to accept promissory notes from merchants and other debtors who were short on money. Depositors began to withdraw gold from banks, dropping gold reserves by \$20 million by mid-September. Hopes for gold from California sunk on September 12 when the steamer Central America, with its \$1.6 million in gold and 400 passengers, was lost at sea in a hurricane.

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The panic rippled outward as banks suspended gold payments, stocks plummeted, and thousands of businesses, including half of New York City's brokerages, went bankrupt. People crowded around bulletin boards outside newspaper offices to read the daily updates of suspended banks and failed businesses. Banks in Philadelphia and other American cities soon suspended gold payments, as well. The collapse of credit halted construction of buildings and railroads, and reduced the nation's trade to a trickle. Unemployment in the Northeast and Midwest skyrocketed, with an estimated 100,000 in Manhattan and Brooklyn out of work by late October. By December, the loss from business failures in New York City alone was \$120 million. The economic repercussions spread to Europe and South America, and immigration to the United States dropped substantially.

New York City's unemployed took to the streets to press for employment and government action. On November 5, 1857, 4000 rallied at Tompkins Square to listen to speakers demand that the city government establish more public works to hire the unemployed, guarantee a minimum wage, build housing for the poor, and prevent landlords from evicting the unemployed. The next day, 5000 marched to Merchants' Exchange on Wall Street to call on the city's financial institutions to loan businesses money so the unemployed could be hired. On November 9, an even larger crowd gathered at City Hall. At the insistence of Mayor Fernando Wood, a mass meeting at City Hall the next day was met by 300 city police and a brigade of state militia, while federal troops under General Winfield Scott guarded the federal sub-treasury and customhouse.

Despite the strong show of force, the mayor was sympathetic to the protestors' plight, and saw to it that thousands of unemployed were hired over the next year in various public works projects, including the construction of Central Park. However, his plan for direct aid to the unemployed was rejected by the City Council. By the end of November, though, the crowds of protestors had dwindled to only a few. Prominent Democrats were unhappy with what they considered Wood's capitulation to the angry masses, so the Tammany Hall Democratic machine joined forces with the Republicans to run an independent candidate, Daniel Tiemann, for mayor. In December 1857, Tiemann defeated Wood in a close election.

By the end of 1857, the worst of the economic crisis was over, although it would take two years for the economy to fully recover. Not all had been affected equally, though. Some investors, such as Moses Taylor and Cornelius Vanderbilt, took advantage of low stock prices and failed businesses to expand their financial holdings. The South suffered some initial impact from the panic, but low tariffs sustained its cotton trade with Europe and its overall economy. Therefore, the Panic of 1857 served to widen the gap that already existed between the economic interests of the North and South.^{vi}

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Closure

Like the financial problems and upheavals of 1819 and 1837, loose monetary policy would eventually lead to a contraction of money, a bust for many, asset accumulation for a few, and again the call for the government to fix the problem.

Recommended Reading

The Shipwreck of 1857 – SS Central America

http://en.wikipedia.org/wiki/SS_Central_America

Fun Websites

<http://www.harpweek.com/>

Entertainment

Movie: The Gangs of New York – will give you an idea of some of the political affiliations and events of the day, e.g., The Nativists vs. The Catholics.

ⁱ <http://www.treasury.gov/about/history/Pages/1800-1899.aspx>

ⁱⁱ <http://www.treasury.gov/about/history/Pages/1800-1899.aspx>

ⁱⁱⁱ https://www.agclassroom.org/gan/timeline/farmers_land.htm

^{iv} <http://www.ushistory.org/us/25f.asp>

^v http://en.wikipedia.org/wiki/Panic_of_1857

^{vi} NY Times 2001 Robert C. Kennedy <http://www.nytimes.com/learning/general/onthisday/harp/1024.html>