= Panic of 1907 =

The Panic of 1907 ? also known as the 1907 Bankers ' Panic or Knickerbocker Crisis ? was a United States financial crisis that took place over a three @-@ week period starting in mid @-@ October , when the New York Stock Exchange fell almost 50 % from its peak the previous year . Panic occurred , as this was during a time of economic recession , and there were numerous runs on banks and trust companies . The 1907 panic eventually spread throughout the nation when many state and local banks and businesses entered bankruptcy . Primary causes of the run included a retraction of market liquidity by a number of New York City banks and a loss of confidence among depositors , exacerbated by unregulated side bets at bucket shops . The panic was triggered by the failed attempt in October 1907 to corner the market on stock of the United Copper Company . When this bid failed , banks that had lent money to the cornering scheme suffered runs that later spread to affiliated banks and trusts , leading a week later to the downfall of the Knickerbocker Trust Company ? New York City 's third @-@ largest trust . The collapse of the Knickerbocker spread fear throughout the city 's trusts as regional banks withdrew reserves from New York City banks . Panic extended across the nation as vast numbers of people withdrew deposits from their regional banks .

The panic might have deepened if not for the intervention of financier J. P. Morgan , who pledged large sums of his own money , and convinced other New York bankers to do the same , to shore up the banking system . At the time , the United States did not have a central bank to inject liquidity back into the market . By November , the financial contagion had largely ended , only to be replaced by a further crisis . This was due to the heavy borrowing of a large brokerage firm that used the stock of Tennessee Coal , Iron and Railroad Company (TC & I) as collateral . Collapse of TC & I 's stock price was averted by an emergency takeover by Morgan 's U.S. Steel Corporation ? a move approved by anti @-@ monopolist president Theodore Roosevelt . The following year , Senator Nelson W. Aldrich , father @-@ in @-@ law of John D. Rockefeller , Jr . , established and chaired a commission to investigate the crisis and propose future solutions , leading to the creation of the Federal Reserve System .

= = Economic conditions = =

When U.S. President Andrew Jackson allowed the charter of the Second Bank of the United States to expire in 1836 , the U.S. was without any sort of central bank , and the money supply in New York City fluctuated with the country 's annual agricultural cycle . Each autumn money flowed out of the city as harvests were purchased and ? in an effort to attract money back ? interest rates were raised . Foreign investors then sent their money to New York to take advantage of the higher rates . From the January 1906 Dow Jones Industrial Average high of 103 , the market began a modest correction that would continue throughout the year . The April 1906 earthquake that devastated San Francisco contributed to the market instability , prompting an even greater flood of money from New York to San Francisco to aid reconstruction . A further stress on the money supply occurred in late 1906 , when the Bank of England raised its interest rates , partly in response to UK insurance companies paying out so much to US policyholders , and more funds remained in London than expected . From their peak in January , stock prices declined 18 % by July 1906 . By late September , stocks had recovered about half of their losses .

The Hepburn Act , which gave the Interstate Commerce Commission (ICC) the power to set maximum railroad rates , became law in July 1906 . This depreciated the value of railroad securities . Between September 1906 and March 1907 , the stock market slid , losing 7 @.@ 7 % of its capitalization . Between March 9 and 26 , stocks fell a further 9 @.@ 8 % . (This March collapse is sometimes referred to as a " rich man 's panic " .) The economy remained volatile through the summer . A number of shocks hit the system : the stock of Union Pacific ? among the most common stocks used as collateral ? fell 50 points ; that June an offering of New York City bonds failed ; in July the copper market collapsed ; in August the Standard Oil Company was fined $ 29 million for antitrust violations . In the first nine months of 1907 , stocks were lower by 24 @.@ 4 % .

On July 27 , The Commercial & Financial Chronicle noted that " the market keeps unstable ... no sooner are these signs of new life in evidence than something like a suggestion of a new outflow of gold to Paris sends a tremble all through the list , and the gain in values and hope is gone " . Several bank runs occurred outside the US in 1907 : in Egypt in April and May ; in Japan in May and June ; in Hamburg and Chile in early October . The fall season was always a vulnerable time for the banking system ? combined with the roiled stock market , even a small shock could have grave repercussions .

= = Panic = =

= = = Cornering copper = = =

The 1907 panic began with a stock manipulation scheme to corner the market in F. Augustus Heinze 's United Copper Company . Heinze had made a fortune as a copper magnate in Butte , Montana . In 1906 he moved to New York City , where he formed a close relationship with notorious Wall Street banker Charles W. Morse . Morse had once successfully cornered New York City 's ice market , and together with Heinze gained control of many banks ? the pair served on at least six national banks , ten state banks , five trust companies and four insurance firms .

Augustus ' brother , Otto , devised the scheme to corner United Copper , believing that the Heinze family already controlled a majority of the company . He also believed that a significant number of the Heinze 's shares had been borrowed , and sold short , by speculators betting that the stock price would drop , and that they could thus repurchase the borrowed shares cheaply , pocketing the difference . Otto proposed a short squeeze , whereby the Heinzes would aggressively purchase as many remaining shares as possible , and then force the short sellers to pay for their borrowed shares . The aggressive purchasing would drive up the share price , and , being unable to find shares elsewhere , the short sellers would have no option but to turn to the Heinzes , who could then name their price .

To finance the scheme , Otto , Augustus and Charles Morse met with Charles T. Barney , president of the city 's third @-@ largest trust , the Knickerbocker Trust Company . Barney had provided financing for previous Morse schemes . Morse , however , cautioned Otto that he needed much more money than he had to attempt the squeeze and Barney declined to provide funding . Otto decided to attempt the corner anyway . On Monday , October 14 , he began aggressively purchasing shares of United Copper , which rose in one day from $ 39 to $ 52 per share . On Tuesday (Oct. 15) , he issued the call for short sellers to return the borrowed stock . The share price rose to nearly $ 60 , but the short sellers were able to find plenty of United Copper shares from sources other than the Heinzes . Otto had misread the market , and the share price of United Copper began to collapse .

The stock closed at $ 30 on Tuesday and fell to $ 10 by Wednesday (Oct. 16) . Otto Heinze was ruined . The stock of United Copper was traded outside the hall of the New York Stock Exchange , literally an outdoor market " on the curb " (this curb market would later become the American Stock Exchange) . After the crash , The Wall Street Journal reported , " Never has there been such wild scenes on the Curb , so say the oldest veterans of the outside market " .

= = = Contagion spreads = = =

The failure of the corner left Otto unable to meet his obligations and sent his brokerage house , Gross & Kleeberg , into bankruptcy . On Thursday , October 17 , the New York Stock Exchange suspended Otto 's trading privileges . As a result of United Copper 's collapse , the State Savings Bank of Butte Montana (owned by F. Augustus Heinze) announced its insolvency . The Montana bank had held United Copper stock as collateral against some of its lending and had been a correspondent bank for the Mercantile National Bank in New York City , of which F. Augustus Heinze was then president .

F. Augustus Heinze 's association with the corner and the insolvent State Savings Bank proved too much for the board of the Mercantile to accept . Although they forced him to resign before lunch time , by then it was too late . As news of the collapse spread , depositors rushed en masse to withdraw money from the Mercantile National Bank . The Mercantile had enough capital to withstand a few days of withdrawals , but depositors began to pull cash from the banks of the Heinzes ' associate Charles W. Morse . Runs occurred at Morse 's National Bank of North America and the New Amsterdam National . Afraid of the impact the tainted reputations of Augustus Heinze and Morse could have on the banking system , the New York Clearing House (a consortium of the city 's banks) forced Morse and Heinze to resign all banking interests . By the weekend after the failed corner , there was not yet systemic panic . Funds were withdrawn from Heinze @-@ associated banks , only to be deposited with other banks in the city .

A week later many regional stock exchanges throughout the nation were closing or limiting trading . For example , the Pittsburgh city 's stock exchange closed for three months starting on October 23 , 1907 .

= = = Panic hits the trusts = = =

In the early 1900s , trust companies were booming ; in the decade before 1907 , their assets had grown by 244 % . During the same period , national bank assets grew by 97 % , while state banks in New York increased by 82 % . The leaders of the high @-@ flying trusts were mainly prominent members of New York 's financial and social circles . One of the most respected was Charles T. Barney , whose late father @-@ in @-@ law William Collins Whitney was a famous financier . Barney 's Knickerbocker Trust Company was the third @-@ largest trust in New York .

Because of past association with Charles W. Morse and F. Augustus Heinze , on Monday , October 21 , the board of the Knickerbocker asked that Barney resign (depositors may have first begun to pull deposits from the Knickerbocker on October 18 , prompting the concern) . That day , the National Bank of Commerce where J.P. Morgan was a dominant factor , announced it would not serve as clearing house for the Knickerbocker . On October 22 , the Knickerbocker faced a classic bank run . From the bank 's opening , the crowd grew . As The New York Times reported , " as fast as a depositor went out of the place ten people and more came asking for their money [and the police] were asked to send some men to keep order " . Two van loads of notes were quickly unloaded , yet even this failed to calm the panic stricken depositors . Directors and other officials of the Trust forced their way through the crowd , assuring them that everyone would be paid . In less than three hours , $ 8 million was withdrawn from the Knickerbocker . Shortly after noon it was forced to suspend operations .

As news spread , other banks and trust companies were reluctant to lend any money . The interest rates on loans to brokers at the stock exchange soared to 70 % and , with brokers unable to get money , stock prices fell to a low not seen since December 1900 . The panic quickly spread to two other large trusts , Trust Company of America and Lincoln Trust Company . By Thursday , October 24 , a chain of failures littered the street : Twelfth Ward Bank , Empire City Savings Bank , Hamilton Bank of New York , First National Bank of Brooklyn , International Trust Company of New York , Williamsburg Trust Company of Brooklyn , Borough Bank of Brooklyn , Jenkins Trust Company of Brooklyn and the Union Trust Company of Providence .

= = = J.P. Morgan = = =

When the chaos began to shake the confidence of New York 's banks , the city 's most famous banker was out of town . J.P. Morgan , the eponymous president of J.P. Morgan & Co . , was attending a church convention in Richmond , Virginia . Morgan was not only the city 's wealthiest and most well @-@ connected banker , but he had experience with other similar financial crises ? he had helped rescue the U.S. Treasury during the Panic of 1893 . As news of the crisis gathered , Morgan returned to Wall Street from his convention late on the night of Saturday , October 19 . The following morning , the library of Morgan 's brownstone at Madison Avenue and 36th St. had become a revolving door of New York City bank and trust company presidents arriving to share information about (and seek help surviving) the impending crisis .

Morgan and his associates examined the books of the Knickerbocker Trust , and decided it was insolvent so did not intervene to stop the run . Its failure , however , triggered runs on even healthy trusts , prompting Morgan to take charge of the rescue operation . On the afternoon of Tuesday , October 22 , the president of the Trust Company of America asked Morgan for assistance . That evening Morgan conferred with George F. Baker , the president of First National Bank , James Stillman of the National City Bank of New York (the ancestor of Citibank) , and the United States Secretary of the Treasury , George B. Cortelyou . Cortelyou said that he was ready to deposit government money in the banks to help shore up their deposits . After an overnight audit of the Trust Company of America showed the institution to be sound , on Wednesday afternoon Morgan declared , " This is the place to stop the trouble , then . "

As a run began on the Trust Company of America , Morgan worked with Stillman and Baker to liquidate the company 's assets to allow the bank to pay depositors . The bank survived to the close of business , but Morgan knew that additional money would be needed to keep it solvent through the following day . That night he assembled the presidents of the other trust companies and held them in a meeting until midnight when they agreed to provide loans of $ 8 @.@ 25 million to allow the Trust Company of America to stay open the next day . On Thursday morning Cortelyou deposited around $ 25 million into a number of New York banks . John D. Rockefeller , the wealthiest man in America , deposited a further $ 10 million in Stillman 's National City Bank . Rockefeller 's massive deposit left the National City Bank with the deepest reserves of any bank in the city . To instill public confidence , Rockefeller phoned Melville Stone , the manager of the Associated Press , and told him that he would pledge half of his wealth to maintain America 's credit .

= = = Stock exchange nears collapse = = =

Despite the infusion of cash , the banks of New York were reluctant to make the short @-@ term loans they typically provided to facilitate daily stock trades . Prices on the exchange began to crash , owing to the lack of funds to finance purchases . At 1 : 30 p.m. Thursday , October 24 , Ransom Thomas , the president of the New York Stock Exchange , rushed to Morgan 's offices to tell him that he would have to close the exchange early . Morgan was emphatic that an early close of the exchange would be catastrophic .

Morgan summoned the presidents of the city 's banks to his office . They started to arrive at 2 p.m. ; Morgan informed them that as many as 50 stock exchange houses would fail unless $ 25 million was raised in 10 minutes . By 2 : 16 p.m. , 14 bank presidents had pledged $ 23 @.@ 6 million to keep the stock exchange afloat . The money reached the market at 2 : 30 p.m. , in time to finish the day 's trading , and by the 3 o 'clock market close , $ 19 million had been loaned out . Disaster was averted . Morgan usually eschewed the press , but as he left his offices that night he made a statement to reporters : " If people will keep their money in the banks , everything will be all right " .

Friday , however , saw more panic on the exchange . Morgan again approached the bank presidents , but this time was only able to convince them to pledge $ 9 @.@ 7 million . In order for this money to keep the exchange open , Morgan decided the money could not be used for margin sales . The volume of trading on Friday was 2 / 3 that of Thursday . The markets again narrowly made it to the closing bell .

= = = Crisis of confidence = = =

Morgan , Stillman , Baker and the other city bankers were unable to pool money indefinitely . Even the U.S. Treasury was low on funds . Public confidence needed to be restored , and on Friday evening the bankers formed two committees ? one to persuade the clergy to calm their congregations on Sunday , and second to explain to the press the various aspects of the financial rescue package . Europe 's most famous banker , Lord Rothschild , sent word of his " admiration and respect " for Morgan . In an attempt to gather confidence , the Treasury Secretary Cortelyou agreed that if he returned to Washington it would send a signal to Wall Street that the worst had passed .

To ensure a free flow of funds on Monday , the New York Clearing House issued $ 100 million in loan certificates to be traded between banks to settle balances , allowing them to retain cash reserves for depositors . Reassured both by the clergy and the newspapers , and with bank balance sheets flush with cash , a sense of order returned to New York that Monday .

Unbeknownst to Wall Street , a new crisis was being averted in the background . On Sunday , Morgan 's associate , George Perkins , was informed that the City of New York required at least $ 20 million by November 1 or it would go bankrupt . The city tried to raise money through a standard bond issue , but failed to gather enough financing . On Monday and again on Tuesday , New York Mayor George McClellan approached Morgan for assistance . In an effort to avoid the disastrous signal that a New York City bankruptcy would send , Morgan contracted to purchase $ 30 million worth of city bonds .

= = = Drama at the library = = =

Although calm was largely restored in New York by Saturday , November 2 , yet another crisis loomed . One of the exchange 's largest brokerage firms , Moore & Schley , was heavily in debt and in danger of collapse . The firm had borrowed heavily , using shares of the Tennessee Coal , Iron and Railroad Company (TC & I) as collateral . With the value of the thinly traded stock under pressure , many banks would likely call the loans of Moore & Schley on Monday and force an en masse liquidation of the firm 's stock . If that occurred it would send TC & I shares plummeting , devastating Moore and Schley and triggering further panic in the market .

To avert the collapse of Moore & Schley , Morgan called an emergency conference at his library Saturday morning . A proposal was made that the U.S. Steel Corporation , a company Morgan had helped form through the merger of the steel companies of Andrew Carnegie and Elbert Gary , would acquire TC & I. This would effectively save Moore & Schley and avert the crisis . The executives and board of U.S. Steel studied the situation and offered to either loan Moore & Schley $ 5 million , or buy TC & I for $ 90 a share . By 7 p.m. an agreement had not been reached and the meeting adjourned .

By then , John Pierpont Morgan was drawn into another situation . There was deep concern that the Trust Company of America and the Lincoln Trust might fail to open on Monday due to continuing runs by depositors . On Saturday evening 40 ? 50 bankers had gathered at the library to discuss the crisis , with the clearing @-@ house bank presidents in the East room and the trust company executives in the West room . Morgan and those dealing with the Moore & Schley situation had moved to the librarian ? s office . There Morgan told his counselors that he would agree to help shore up Moore & Schley only if the trust companies would work together to bail out their weakest brethren . The discussion among the bankers continued late into Saturday night but without much progress . Around midnight , J.P. Morgan informed a leader of the trust company presidents that keeping Moore & Schley afloat would require $ 25 million , and he would not commit those funds unless the problems with the trust companies could also be resolved . The trust company executives understood they would not receive further help from Morgan ; they would have to finance any bailout of the two struggling trust companies .

At 3 a.m. about 120 bank and trust company officials assembled to hear a full report on the status of the failing trust companies . While the Trust Company of America was barely solvent , the Lincoln Trust Company was probably $ 1 million short of what it needed to cover depositor accounts . As discussion ensued , the bankers realized that Morgan had locked them in the library and pocketed the key to force a solution , the sort of strong @-@ arm tactic he had been known to use in the past . Morgan then entered the talks and advised the trust companies they must provide a loan of $ 25 million to save the weaker institutions . The trust presidents were still reluctant to act , but Morgan informed them that if they did not it would lead to a complete collapse of the banking system . Through his considerable influence , at about 4 : 45 a.m. he persuaded the unofficial leader of the trust companies to sign the agreement , and the remainder of the bankers followed . Having received these commitments , Morgan allowed the bankers to go home .

On Sunday afternoon and into the evening , Morgan , Perkins , Baker and Stillman , along with U.S. Steel 's Gary and Henry Clay Frick , worked at the library to finalize the deal for U.S. Steel to buy TC & I and by Sunday night had a plan for acquisition . But one obstacle remained : the anti @-@ trust crusading President Theodore Roosevelt , who had made breaking up monopolies a focus of his presidency .
Frick and Gary traveled overnight by train to the White House to implore Roosevelt to set aside the application of the Sherman Antitrust Act and allow ? before the market opened ? a company that already held a 60 % share of the steel market to make a large acquisition . Roosevelt 's secretary refused to see them , but Frick and Gary convinced James Rudolph Garfield , the Secretary of the Interior , to bypass the secretary and arrange a meeting with the president . With less than an hour before the Stock Exchange opened , Roosevelt and Secretary of State Elihu Root began to review the proposed takeover and appreciate the crash likely to ensue if the merger was not approved . Roosevelt relented ; he later recalled of the meeting , " It was necessary for me to decide on the instant before the Stock Exchange opened , for the situation in New York was such that any hour might be vital . I do not believe that anyone could justly criticize me for saying that I would not feel like objecting to the purchase under those circumstances " . When news reached New York , confidence soared . The Commercial & Financial Chronicle reported that " the relief furnished by this transaction was instant and far @-@ reaching " . The final crisis of the panic had been averted .

= = Aftermath = =

The panic of 1907 occurred during a lengthy economic contraction ? measured by the National Bureau of Economic Research as occurring between May 1907 and June 1908 . The interrelated contraction , bank panic and falling stock market resulted in significant economic disruption . Industrial production dropped further than after any previous bank run , while 1907 saw the second @-@ highest volume of bankruptcies to that date . Production fell by 11 % , imports by 26 % , while unemployment rose to 8 % from under 3 % . Immigration dropped to 750 @,@ 000 people in 1909 , from 1 @.@ 2 million two years earlier .
Since the end of the Civil War , the United States had experienced panics of varying severity . Economists Charles Calomiris and Gary Gorton rate the worst panics as those leading to widespread bank suspensions ? the panics of 1873 , 1893 , and 1907 , and a suspension in 1914 . Widespread suspensions were forestalled through coordinated actions during both the 1884 and the 1890 panics . A bank crisis in 1896 , in which there was a perceived need for coordination , is also sometimes classified as a panic .
The frequency of crises and the severity of the 1907 panic added to concern about the outsized role of J.P. Morgan which led to renewed impetus toward a national debate on reform . In May 1908 , Congress passed the Aldrich ? Vreeland Act that established the National Monetary Commission to investigate the panic and to propose legislation to regulate banking . Senator Nelson Aldrich (R ? RI) , the chairman of the National Monetary Commission , went to Europe for almost two years to study that continent 's banking systems .

= = = Central bank = = =

A significant difference between the European and U.S. banking systems was the absence of a central bank in the United States . European states were able to extend the supply of money during periods of low cash reserves . The belief that the U.S. economy was vulnerable without a central bank was not new . Early in 1907 , banker Jacob Schiff of Kuhn , Loeb & Co. warned in a speech to the New York Chamber of Commerce that " unless we have a central bank with adequate control of credit resources , this country is going to undergo the most severe and far reaching money panic in its history " .
Aldrich convened a secret conference with a number of the nation 's leading financiers at the Jekyll Island Club , off the coast of Georgia , to discuss monetary policy and the banking system in November 1910 . Aldrich and A. P. Andrew (Assistant Secretary of the Treasury Department) ,

Paul Warburg (representing Kuhn , Loeb & Co .) , Frank A. Vanderlip (James Stillman 's successor as president of the National City Bank of New York) , Henry P. Davison (senior partner of J. P. Morgan Company) , Charles D. Norton (president of the Morgan @-@ dominated First National Bank of New York) , and Benjamin Strong (representing J. P. Morgan) , produced a design for a " National Reserve Bank " .

The final report of the National Monetary Commission was published on January 11 , 1911 . For nearly two years legislators debated the proposal and it was not until December 23 , 1913 , that Congress passed the Federal Reserve Act . President Woodrow Wilson signed the legislation immediately and the legislation was enacted on the same day , December 23 , 1913 , creating the Federal Reserve System . Charles Hamlin became the Fed 's first chairman , and none other than Morgan 's deputy Benjamin Strong became president of the Federal Reserve Bank of New York , the most important regional bank with a permanent seat on the Federal Open Market Committee .

= = = Pujo Committee = = =

Although Morgan was briefly seen as a hero , widespread fears concerning plutocracy and concentrated wealth soon eroded this view . Morgan 's bank had survived , but the trust companies that were a growing rival to traditional banks were badly damaged . Some analysts believed that the panic had been engineered to damage confidence in trust companies so that banks would benefit . Others believed Morgan took advantage of the panic to allow his U.S. Steel company to acquire TC & I. Although Morgan lost $ 21 million in the panic , and the significance of the role he played in staving off worse disaster is undisputed , he also became the focus of intense scrutiny and criticism .

The chair of the House Committee on Banking and Currency , Representative Arsène Pujo , (D ? La . 7th) convened a special committee to investigate a " money trust " , the de facto monopoly of Morgan and New York 's other most powerful bankers . The committee issued a scathing report on the banking trade , and found that the officers of J. P. Morgan & Co. also sat on the boards of directors of 112 corporations with a market capitalization of $ 22 @.@ 5 billion (the total capitalization of the New York Stock Exchange was then estimated at $ 26 @.@ 5 billion) .

Although suffering ill health , J. P. Morgan testified before the Pujo Committee and faced several days of questioning from Samuel Untermyer . Untermyer and Morgan 's famous exchange on the fundamentally psychological nature of banking ? that it is an industry built on trust ? is often quoted in business articles :

Associates of Morgan blamed his continued physical decline on the hearings . In February he became very ill and died on March 31 , 1913 ? nine months before the " money trust " would be officially replaced as lender of last resort by the Federal Reserve .

= = Timeline = =