The Panic of 1873 was a financial crisis that triggered a depression in Europe and North America that lasted from 1873 until 1879, and even longer in some countries. In Britain, for example, it started two decades of stagnation known as the "Long Depression" that weakened the country’s economic leadership.[1] The Panic was known as the “Great Depression” until the events in the early 1930s took precedence.[2]

The Panic of 1873 and the subsequent depression had several underlying causes, of which economic historians debate the relative importance. Post-war inflation, rampant speculative investments (overwhelmingly in railroads), a large trade deficit, ripples from economic dislocation in Europe resulting from the Franco-Prussian War (1870-1871), property losses in the Chicago (1871) and Boston (1872) fires, and other factors put a massive strain on bank reserves, which plummeted in New York City during September and October 1873 from $50 million to $17 million.

The first symptoms of the crisis were financial failures in the Austro-Hungarian capital, Vienna, which spread to most of Europe and North America by 1873.

1 Factors in the United States

The American Civil War was followed by a boom in railroad construction. 33,000 miles (53,000 km) of new track were laid across the country between 1868 and 1873.[3] Much of the craze in railroad investment was driven by government land grants and subsidies to the railroads.[4] At that time, the railroad industry was the nation’s largest employer outside of agriculture, and it involved large amounts of money and risk. A large infusion of cash from speculators caused abnormal growth in the industry as well as overbuilding of docks, factories and ancillary facilities. At the same time, too much capital was involved in projects offering no immediate or early returns.[5]

1.1 Coinage Act of 1873

The decision of the German Empire to cease minting silver thaler coins in 1871 caused a drop in demand and downward pressure on the value of silver; this had a knock-on effect in the USA, where much of the supply was then mined. As a result, the Coinage Act of 1873 was introduced and this changed the United States silver policy. Before the Act, the United States had backed its currency with both gold and silver, and it minted both types of coins. The Act moved the United States to a ‘de facto’ gold standard, which meant it would no longer buy silver at a statutory price or convert silver from the public into silver coins (though it would still mint silver dollars for export in the form of trade dollars).[6]

The Act had the immediate effect of depressing silver prices. This hurt Western mining interests, who labeled the Act “The Crime of ’73.” Its effect was offset somewhat by the introduction of a silver trade dollar for use in Asia, and by the discovery of new silver deposits at Virginia City, Nevada, resulting in new investment in mining activity.[7] But the coinage law also reduced the domestic money supply, which raised interest rates, thereby hurting farmers and anyone else who normally carried heavy debt loads. The resulting outcry raised serious questions about how long the new policy would last.[8]

This perception of instability in United States monetary policy caused investors to shy away from long-term obligations, particularly long-term bonds. The problem was compounded by the railroad boom, which was in its later stages at the time.

In September 1873, the US economy entered a crisis.
This followed a period of post-Civil War economic over-expansion that arose from the Northern railroad boom. It came at the end of a series of economic setbacks: the Black Friday panic of 1869, the Chicago fire of 1871, the outbreak of equine influenza in 1872, and demonetization of silver in 1873.

1.1.1 Jay Cooke & Company fails

In September 1873, Jay Cooke & Company, a major component of the United States banking establishment, found itself unable to market several million dollars in Northern Pacific Railway bonds. Cooke’s firm, like many others, had invested heavily in the railroads. At a time when investment banks were anxious for more capital for their enterprises, President Ulysses S. Grant’s monetary policy of contracting the money supply (again, also thereby raising interest rates) made matters worse for those in debt. While businesses were expanding, the money they needed to finance that growth was becoming scarcer.

Cooke and other entrepreneurs had planned to build the second transcontinental railroad, called the Northern Pacific Railway. Cooke’s firm provided the financing, and ground was broken near Duluth, Minnesota, for the line on 15 February 1870. But just as Cooke was about to swing a $300 million government loan in September 1873, reports circulated that his firm’s credit had become nearly worthless. On 18 September, the firm declared bankruptcy.\[^9\]

2 Effects on the U.S.

The failure of the Jay Cooke bank, followed quickly by that of Henry Clews, set off a chain reaction of bank failures and temporarily closed the New York stock market. Factories began to lay off workers as the United States slipped into depression. The effects of the panic were quickly felt in New York, and more slowly in Chicago, Virginia City, Nevada, and San Francisco.\[^10\][^11\]

The New York Stock Exchange closed for ten days starting 20 September.\[^12\] By November 1873 some 55 of the nation’s railroads had failed, and another 60 went bankrupt by the first anniversary of the crisis.\[^13\] Construction of new rail lines, formerly one of the backbones of the economy, plummeted from 7500 miles of track in 1872 to just 1600 miles in 1875.\[^13\] 18,000 businesses failed between 1873 and 1875. Unemployment peaked in 1878 at 8.25%.\[^14\] Building construction was halted, wages were cut, real estate values fell and corporate profits vanished.\[^15\]

2.1 Railroad strike

In 1877, steep wage cuts led American railroad workers to launch the Great Railroad Strike. This stopped trains all across the country. President Rutherford B. Hayes sent in federal troops to try to stop this. In July 1877, the market for lumber crashed, sending several leading Michigan lumbering concerns into bankruptcy.\[^16\] Within a year, the effects of this second business slump reached all the way to California.\[^17\]

The depression lifted in the spring of 1879, but tension between workers and the leaders of banking and manufacturing interests lingered on. Poor economic conditions caused voters to turn against the Republican Party. In the 1874 congressional elections, the Democrats assumed control of the House. Public opinion made it difficult for the Grant Administration to develop a coherent policy regarding the Southern states. The North began to steer away from Reconstruction. With the depression, ambitious railroad building programs crashed across the South, leaving most states deep in debt and burdened with heavy taxes. Retrenchment was a common response of southern states to state debts during the depression. One by one, each Southern state fell to the Democrats, and the Republicans lost power.

The end of the crisis coincided with the beginning of the great wave of immigration into the United States which lasted until the early 1920s.

3 Europe

The panic and depression hit all industrial nations.

3.1 Germany and Austria-Hungary

A similar process of over-expansion had taken place in Germany and Austria, where the period from German unification in 1870/71 to the crash in 1873 came to be called the Gründerjahre (“founders’ years”). A liberalized incorporation law in Germany gave impetus to the foundation of new enterprises, such as the Deutsche Bank, and
the incorporation of already established ones. Euphoria over the military victory against France in 1871 and the influx of capital from the payment by France of war reparations fueled stock market speculation in railways, factories, docks, steamships – the same industrial branches that expanded unsustainably in the United States.[18] It was in the immediate aftermath of Otto von Bismarck’s victory against France that he began the process of silver demonetization. The process began on 23 November 1871 and culminated in the introduction of the gold mark on 9 July 1873 as the currency for the new united Reich, replacing the silver coins of all constituent lands. Germany was now on the gold standard.[19] Demonetization of silver was thus a common element in the crises on both sides of the Atlantic Ocean.

On 9 May 1873, the Vienna Stock Exchange crashed, unable to sustain the bubble of false expansion, insolvencies, and dishonest manipulations. A series of Viennese bank failures ensued, causing a contraction of the money available for business lending. One of the more famous private individuals who went bankrupt in 1873 was Stephan Keglevich of Vienna. He was a relative of Gábor Keglevich, who had been the main royal treasurer of Hungary (1842–1848), and who in 1845 had founded, with some others, a financing association to fund the expansion of Hungarian industry and to protect the loan repayments, similar to the Kreditschutzverband of 1870 (Austria’s association for the protection of creditors and for the protection of the interests of its members in cases of bankruptcy). That made it possible for a number of new Austrian banks to be established in 1873 after the Vienna Stock Exchange crash.[20] In contrast to Berlin, where the railway empire of Bethel Henry Strousberg crashed after a ruinous settlement with the Romanian government, bursting the speculation bubble in Germany. The contraction of the German economy was exacerbated by the conclusion of war reparations payments to Germany by France in September 1873. Coming two years after the foundation of the German Empire, the panic became known as the Gründerkrach or “founders’ crash.”[21][22][23] Keglevich and Strousberg had come in the year 1865 in direct competition in a project in today’s Slovakia, whereupon, in 1870, the Government of Hungary and finally in 1872 the Emperor-King Franz Joseph I of Austria resolved the question of these competing projects.[24][25]

Although the collapse of the foreign loan financing had been foreshadowed, the anticipatory events of that year were in themselves comparatively unimportant. Buda the old capital of Hungary and Óbuda were officially united with Pest,[26] thus creating the new metropolis of Budapest in 1873. The difference in stability between Vienna and Berlin had the effect that the French indemnity to Germany overflowed thence to Austria and Russia, but these indemnity payments aggravated the crisis in Austria, which had been benefited by the accumulation of capital not only in Germany, but also in England, the Netherlands, Belgium, France and Russia.[27]

Recovery from the crash occurred much more quickly in Europe than in the United States.[28][29] Moreover, German businesses managed to avoid the sort of deep wage cuts that embittered American labor relations at the time.[29] There was an anti-Semitic component to the economic recovery in Germany and Austria as small investors blamed the Jews for their losses in the crash.[30][31] Soon more luxury hotels and villas were built in Opatija and a new railway line was extended in 1873 from the Vienna-Trieste line to Rijeka, from where it was possible to go by tram to Opatija. The strong increase of port traffic generate a permanent request for expansion.[32] The Suez Canal was opened in 1869. 1875–1890 became “the golden years” of Giovanni de Ciotta in Fiume (Rijeka).

### 3.2 Britain

The construction of the Suez Canal, which opened in 1869, was one of the causes of the Panic of 1873, because goods from the Far East had been carried in sailing vessels around the Cape of Good Hope and were stored in British warehouses. As sailing vessels were not adaptable for use through the Suez Canal because the prevailing winds of the Mediterranean Sea blow from west to east, British entrepôt trade suffered.[33]

In Britain the long depression resulted in bankruptcies, escalating unemployment, a halt in public works, and a major trade slump that lasted until 1897.[34]

#### 3.2.1 Compared with Germany

During the depression of 1873–96, most European countries experienced a drastic fall in prices. Still, many corporations were able to reduce production costs and achieve better productivity rates, and, as a result, industrial production increased by 40% in Britain and by over 100% in Germany. A comparison of capital formation rates in the two countries helps to account for the different industrial growth rates. During the depression the British ratio of net national capital formation to net national product fell from 11.5% to 6.0% while Germany’s rose from 10.6% to 15.9%. In essence, during the course
of the depression, Britain took the course of static supply adjustment while Germany stimulated effective demand and expanded industrial supply capacity by increasing and adjusting capital formation. For example, Germany dramatically increased investment with regard to social overhead capital, such as in the management of electric power transmission lines, roads, and railroads, while this input stagnated or decreased in Britain and the investment helped to stimulate industrial demand in Germany. The resulting difference in capital formation accounts for the divergent levels of industrial production in the two countries and the different growth rates during and after the depression.[35]

3.3 Ottoman Empire

In the periphery, the Ottoman Empire’s economy also suffered. Rates of growth of foreign trade dropped, external terms of trade deteriorated, declining wheat prices affected peasant producers, and the establishment of European control over Ottoman finances led to large debt payments abroad. The growth rates of agricultural and aggregate production were also lower during the “Great Depression” as compared to the later period.[36]

3.4 Latin Monetary Union

The general demonetisation and cheapening of silver caused the Latin Monetary Union in 1873 to suspend the conversion of silver to coins.

4 Global protectionism

After the 1873 depression, agricultural and industrial groups lobbied for protective tariffs. The 1879 tariffs protected these interests, stimulated economic revival through state intervention and refurbished political support for the conservative politicians Bismarck and John A. Macdonald (the Canadian prime minister). Chancellor Bismarck gradually veered away from classical liberal economic policies in the 1870s, embracing many conservative and progressive policies, including high tariffs, nationalization of railroads, and compulsory social insurance.[37][38][39] This political and economic nationalism also reduced the fortunes of the German and Canadian classical liberal parties. France, like Britain, also entered into a prolonged stagnation that extended to 1897. The French also attempted to deal with their economic problems through the implementation of tariffs. New French laws in 1880 and in 1892 imposed stiff tariffs on many agricultural and industrial imports, an attempt at protectionism.[40] The U.S., still in the period after the Civil War, continued to be very protectionist.[41][42]

5 See also

- Panic of 1857
- Panic of 1893

6 Notes


[6] Unger (1964) ch 8


[8] Silver coinage was resumed under the Bland–Allison Act of 1878.


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