

Panic of 1893

Estimates of Unemployment during the 1890s (Source: Romer, 1984)

Year	Lebergott	Romer
1890	4.0	4.0
1891	5.4	4.8
1892	3.0	3.7
1893	11.7	8.1
1894	18.4	12.3
1895	13.7	11.1
1896	14.5	12.0
1897	14.5	12.4
1898	12.4	11.6
1899	6.5	8.7
1900	5.0	5.0

The **Panic of 1893** was a serious economic depression in the United States that began in that year.^[1] Similar to the Panic of 1873, this panic was marked by the collapse of railroad overbuilding and shaky railroad financing which set off a series of bank failures. Compounding market overbuilding and the railroad bubble, was a run on the gold supply (relative to silver), because of the long-established American policy of bimetallism, which used both silver and gold metals at a fixed 16:1 rate for pegging the value of the US Dollar. Until the Great Depression, the Panic of '93 was considered the worst depression the United States had ever experienced.

Causes

The 1880s were a period of remarkable economic expansion in the United States, an expansion that eventually became driven by railroad speculation. Railroads were over-built, and many companies continued growth by taking over competitors, endangering their own stability. In addition, many mines were opened (frequently with rail connections), and their products, especially silver, began to flood the market. Farmers, particularly in the Midwest, suffered a series of droughts which left them short of cash to pay their debts, which drove down the value of their land. The Free Silver movement arose, gaining support from farmers (who sought to invigorate the economy and cause inflation, thus allowing them to repay their debt with cheaper dollars) and mining interests (who sought the right to turn silver directly into money). The Sherman Silver Purchase Act of 1890, while falling short of the Free Silver movement's goals, required the U.S. government to buy millions of ounces of silver (driving up the price of the metal and pleasing silver miners) for coining money (pleasing farmers and others).

One of the first signs of trouble was the bankruptcy of the Philadelphia and Reading Railroad, which had greatly over-extended itself, on February 23, 1893,^[2] ten days before Grover Cleveland's second inauguration.^[3] Upon becoming President, Cleveland dealt directly with the Treasury crisis,^[4] and successfully convinced Congress to repeal the Sherman Silver Purchase Act, which he felt was mainly responsible for the economic crisis.^[5]

As concern of the state of the economy worsened, people rushed to withdraw their money from banks and caused bank runs. The credit crunch rippled through the economy. A financial panic in the United Kingdom and a drop in trade in Europe caused foreign investors to sell American stocks to obtain American funds backed by gold.^[6] People attempted to redeem silver notes for gold; ultimately the statutory limit for the minimum amount of gold in federal

reserves was reached and US notes could no longer be successfully redeemed for gold.^[6] Investments during the time of the Panic were heavily financed through bond issues with high interest payments. The National Cordage Company (the most actively traded stock at the time) went into receivership as a result of its bankers calling their loans in response to rumors regarding the NCC's financial distress. The company, a rope manufacturer, had tried to corner the market for imported hemp. As the demand for silver and silver notes fell the price and value of silver dropped. Holders worried about a loss of face value of bonds and many became worthless.

A series of bank failures followed, and the Northern Pacific Railway, the Union Pacific Railroad and the Atchison, Topeka & Santa Fe Railroad failed. This was followed by the bankruptcy of many other companies; in total over 15,000 companies and 500 banks failed (many in the west). According to high estimates, about 17%-19% of the workforce was unemployed at the Panic's peak. The huge spike in unemployment, combined with the loss of life savings kept in failed banks, meant that a once-secure middle-class could not meet their mortgage obligations. Many walked away from recently built homes as a result.^[7]

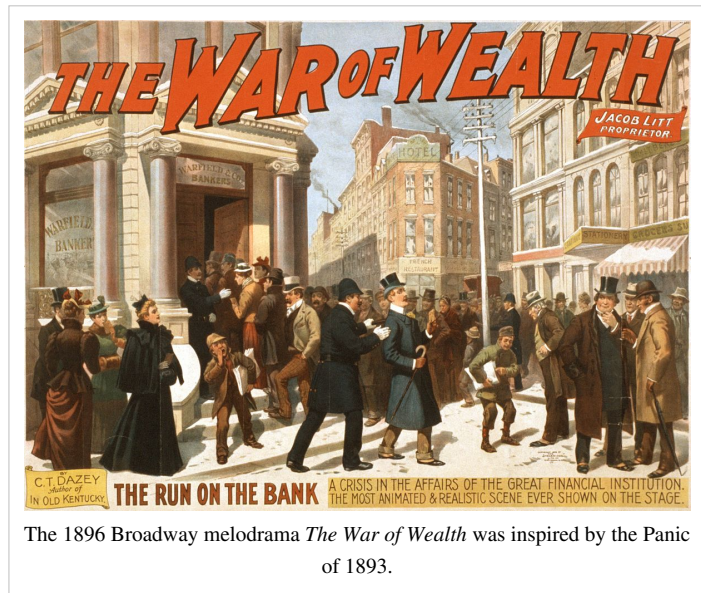
Effects

The severity was great in all industrial cities and mill towns. Farm distress was great because of the falling prices for export crops such as wheat and cotton. "Coxey's Army", the first populist "march on Washington", was a highly publicized march of unemployed laborers from Ohio, Pennsylvania, and several Western states to demand relief in the form of a jobs program. A severe wave of strikes took place in 1894, most notably the bituminous coal miners' strike of the spring, which led to violence in Pennsylvania, Ohio, and Illinois. Even more serious was the Pullman Strike which shut down much of the nation's transportation system in July, 1894.

The Sherman Silver Purchase Act of 1890, perhaps along with the protectionist McKinley Tariff of 1890, has been partially blamed for the panic. Passed in response to a large overproduction of silver by western mines, the Sherman Act required the U.S. Treasury to purchase silver using notes backed by either silver or gold. The Democrats and President Cleveland were blamed for the depression. The decline of the gold reserves stored in the U.S. Treasury fell to a dangerously low level, forcing President Cleveland to borrow \$65 million in gold from Wall-Street banker JP Morgan in order to support the gold standard;^[8] The Democrats and Populists lost heavily in the 1894 elections, which marked the largest Republican gains in history.

Many of the western silver mines closed and a large number were never re-opened. A significant number of western mountain narrow-gauge railroads, which had been built to serve the mines, also went out of business. The Denver and Rio Grande Railroad stopped its ambitious plan, then under way, to convert its system from narrow gauge to standard gauge.

The depression was a major issue in the debates over Bimetallism. The Republicans blamed the Democrats for the depression and scored a landslide victory in the 1894 state and Congressional elections. The Populists lost most of their strength and had to support the Democrats in 1896. The presidential election of 1896 was fought on economic issues and was marked by a decisive victory of the pro-gold, high-tariff Republicans led by William McKinley over pro-silver William Jennings Bryan.



Many people abandoned their homes and came west. The growing railway towns in the west of Seattle, Portland, Salt Lake City, Denver, San Francisco and Los Angeles took in the populations, as did many smaller centers. In particular, Denver fell in a deep depression as the city had been very dependent on the mining industry in the nearby mountains.

The U.S. economy began to recover in 1897. After the election of Republican McKinley, confidence was restored with the Klondike Gold Rush and the economy began 10 years of rapid growth, until the Panic of 1907.

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- [5] <http://millercenter.org/academic/americanpresident/cleveland/essays/biography/4>
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Further reading

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