

April 3, 2009

There is nothing new under the sun. (Ecclesiastes 1:9)

Dear Friends,

Last night the two of us were watching a DVD depicting the annihilation of Native Americans in the 1800s by greedy whites. At the moment of great triumph by the white man the commentator mentioned the devastating effect of the "Panic of 73." So we went online to see what he was talking about.

We've shared in previous e-mails that our Lord is challenging the "gods" of **greed** and **religion** in this nation.

Each of us needs to anchor for ourselves that He will ALWAYS uphold His own word even if we don't: ***"Command those who are rich in this present world not to be arrogant nor to put their hope in wealth, which is so uncertain, but to put their hope in God, who richly provides us with everything for our enjoyment"*** (1 Timothy 6:17; see also 1 Timothy 6:9,10).

There is a fear among conservatives today that President Obama is going turn this nation in socialism. **Capitalism** or **socialism** are only words that depict the absence of a Christ-centered nation. As you read about the Panic of 73 below, you'll realize, as the writer of Ecclesiastes exclaimed: ***"There is nothing new under the sun."*** The god of greed takes his rule every few decades in this nation. He is supported by the god of religion, who enables so many who call themselves "Christian" to live so unempowered, with little or no effect on the morals of the United States. Like the Israelites who were finally banished from the land, we too never learn: ***"Of [us] the proverbs are true: 'A dog returns to its vomit,' and, 'A sow that is washed goes back to her wallowing in the mud'"*** (2 Peter 2:22).

The Bible clearly depicts that our God doesn't sit passively by watching us sin. Far from it! He uses economic depressions, famine, war and disease to lead us to repentance. Sadly this nation, and most of the G-20 world are failing to realize that our God confronts sin. And, as the Older Testament testifies, when He brings people to repentance, it isn't pleasant. As you read about the effects of the Panic of 73 below, you'll realize that all you need to change is a few characters and events and the article is writing about events of today.

The Panic of 73

The Panic of 1873 was the start of the Long Depression, a severe nationwide economic depression in the United States that lasted until 1879. It was precipitated by the bankruptcy of the Philadelphia banking firm Jay Cooke & Company on September 18, 1873, following the crash on May 9, 1873 of the Vienna Stock Exchange in Austria (the so-called Gründerkrach or "founders' crash"). It was one of a series of economic crises in the 19th and early 20th centuries.

United States

In September 1873, the American economy entered a crisis. This followed a period of

post Civil War economic overexpansion 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 the demonetization of silver in 1873.

The Black Friday panic was caused by the attempt of Jay Gould and Jim Fisk to corner the gold market in 1869. They were prevented from doing so by the decision of the administration of President Ulysses S. Grant to release government gold for sale. The collapse of gold premiums culminated in a day of panic when thousands of over-leveraged speculators were ruined - Friday, September 24, 1869, popularly called Black Friday. There was great indignation against the perpetrators.

Coming at the height of an extremely dry period, the Chicago fire of October 8-9, 1871, caused a loss of nearly \$200 million in property in a blaze that overran four square miles. Its effect was compounded by simultaneous fires at Holland, Michigan; Manistee, Michigan; and Peshtigo, Wisconsin. The lumbering industry boomed as Chicago rebuilt, but other sectors of the economy were disordered by the financial losses incurred in the series of fires.

The outbreak of equine influenza in 1872 had a pervasive effect on the economy. Called the "Great Epizootic", it had an effect on every aspect of American transportation. The whole street railway industry ground to a halt. Locomotives came to a halt as coal or wood could not be delivered to power them. Even the United States Army Cavalry was reduced to fighting the Western tribes on foot; their adversaries likewise found their mounts too sick to do battle. The outbreak forced men to pull wagons by hand, while trains and ships full of cargo sat unloaded, tram cars stood idle and deliveries of basic community essentials were no longer being made.

The Coinage Act of 1873 changed the United States policy with respect to silver. 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 the gold standard, which meant it would no longer buy silver at a statutory price or convert silver from the public into silver coins (and stopped minting silver dollars altogether.)

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 the Orient, and by the discovery of new silver deposits at Virginia City, Nevada, resulting in new investment in mining activity. But the coinage law also reduced the domestic money supply, which hurt farmers and anyone else who carried heavy debt loads. The resulting outcry raised serious questions about how long the new policy would last. 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.

At the end of the Civil War, there was a boom in railroad construction, with 35,000 miles (56,000 km) of new track laid across the country between 1866 and 1873. The railroad industry, at the time the nation's largest employer outside of agriculture, involved large amounts of money and risk. A large infusion of cash from speculators caused abnormal growth in the industry and overbuilding of docks, factories and ancillary facilities. At the same time, too much capital was involved in projects offering no immediate or early returns.

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, was 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 made matters worse. While businesses were expanding, the money they needed to finance that growth was becoming more scarce.

Cooke and other entrepreneurs had planned to build the nation's 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 February 15, 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 September 18, the firm declared bankruptcy. The Northern Pacific was not completed until 1883, and then by another financier: Henry Villard.

Europe

A similar process of overexpansion was going on in Germany and Austria, where the period from German unification in 1870-71 to the crash in 1873 came to be called the Gründerjahre or "founders' years". A liberalized incorporation law in Germany led to the founding of new enterprises, such as the Deutsche Bank, as well as the incorporation of established ones. Euphoria over the military victory against France in 1871, combined with the influx of capital from the payment by France of war reparations, encouraged stock market speculation in railways, factories, docks, steamships - in short, the same areas of overexpansion as in the United States.

On May 9, 1873, the Vienna Stock Exchange crashed, no longer able to sustain false expansion, insolvency, and dishonest manipulations. A series of Viennese bank failures resulted, causing a contraction of the money available for business lending. In Berlin, the railway empire of Bethel Henry Strousberg crashed, bursting the speculation bubble there. 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 founding of the German Empire, the panic became known as the Gründerkrach or "founders' crash".

Worldwide Effects

In Vienna and Berlin, Paris and London, St. Petersburg and New York, the business cycle had run its course. 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, more slowly in Chicago, Virginia City and San Francisco.

The New York Stock Exchange closed for ten days starting September 20. Of the country's 364 railroads, 89 went bankrupt. A total of 18,000 businesses failed between 1873 and 1875. Unemployment reached 14% by 1876, during a time which became known as the Long Depression. Construction work lagged, wages were cut, real estate

values fell and corporate profits vanished.

Recovery from the crash was much quicker in Europe than in America. Moreover, German businesses managed to avoid the sort of deep wage cuts that embittered American labor relations at the time. There was a racial component to the economic recovery in Germany and Austria as small investors irrationally blamed the Jews for their losses in the crash.

German Chancellor Otto von Bismarck gradually veered away from liberal economic policies in the 1870s, finally embracing a full conservative program, including trade protectionism, in 1879.

Wage cuts and poor working conditions among American railroad workers resulted in the Great Railroad Strike of 1877, preventing the trains from moving, especially in Pennsylvania and the great railway hub of Chicago. President Rutherford B. Hayes sent in federal troops in an attempt to stop the strikes. Fights between strikers and troops killed more than 100 and left many more injured. Further trouble came in July 1877 in the form of a crash in the market for lumber, resulting in the bankruptcy of several leading Michigan lumbering concerns. The effects of the resulting second business slump reached California by 1878.

The tension between workers and the leaders of banking and manufacturing interests lingered on well after the depression lifted in the spring of 1879, the end of the crisis coinciding with the beginning of the great wave of immigration into the United States which lasted until the early 1920s.

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 during the period made it difficult for the Grant Administration to develop a coherent policy regarding the Southern states. The North began to steer away from Reconstruction. As Southern states fell to the Democrats, African Americans found that they could no longer pursue activist policies of reform. Retrenchment was a common response of southern states to state debts during the depression. As funds were cut from state governments, education often suffered, despite being an integral part of blacks' hopes for social reform. Finally, the election of the Republican candidate, Rutherford B. Hayes, to the Presidency in the disputed election of 1876 led to the end of Reconstruction in March 1877.

When will we learn?

Mike & Sue