Theme: Booms, Busts, and the Gilded Age

Introduction: Reflecting on History when Markets Tumble

The authors of the works-in-progress in this issue all began their research before the 2007–08 crisis. Like all historians, we struggle with imaginatively reconstructing the lived experience of the dead. As readers will see, we use the familiar objects of historians: dispatches, letters, published speeches, novels, voting counts, census returns, and cartoons. However, as the recent crisis hit its crescendo, our narrations about speculative bubbles, financial panic, business failure, depression, and tramping became sharper. These stories became more familiar. Our revisions of these works have rendered certain conflicts more apparent and unsettling.

I could see that immediacy in the classroom. In my Gilded Age class in 2009, I found that a half-dozen economics and business students had joined the section to learn about how bank panics worked, what was wrong with the gold standard, and how people had navigated a world where unemployment approached 20 percent. It is a melancholy victory to see students perk up when you talk about Gilded Age monetary reform, deflation, and the resumption of specie payments. In the 1990s I had resorted to plucking out students to represent a borrower and a lender in a deflation scenario. In 2009 they were asking questions I could barely answer about dollar pegs, liquidity preferences, and balance-of-payments problems. I witnessed the sudden financial sophistication of the terrified, graduating seniors. The crashes of the Gilded Age had become headline news.

Nicolas Barreyre proposes a new interpretation of the politics of the 1873 panic. In the classroom many of us use the 1873 panic as a causative force in explaining later events: the rush for gold in the Black Hills of the Dakota Territory, the Compromise of 1877, the 1877 strike, the beginning of a "search for order," the source of the "incorporation of America." As Barreyre points out, however, the immediate aftermath of the panic led to congressional combat over the money supply, an issue that threatened to sunder the wartime compromises that had built the Republican Party. Barreyre recounts how

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Republicans became absorbed by the "money question," seeking to solve the panic with a mildly inflationary intervention in the money supply. President Ulysses S. Grant's 1874 veto seemed to suggest the party's inability to do anything concrete and led to the Republican "Waterloo" of 1874. With the rout, Barreyre tells us, the experiment of Congressional Reconstruction was finished. Whereas many of us have taught that the Panic of 1873 had something to do with the end of Reconstruction, Barreyre offers a more concrete story about the Republican message, party discipline, and the fatal power of a veto.

This story of a befuddled Congress sounds suddenly very familiar. Also familiar is the story of a party in power that loses its grip when it appears to have no answer to the panic. The present Congress—and indeed the leaders of the recently expired one—might consult the history of the Gilded Age. The Republican rout of 1874 came close to matching the so-called Avalanche of 1894. In that election Democratic dissension over what to do about the 1893 panic led to the largest midterm congressional change in American history. In 1894 the Republicans took Congress back. Alas, there are teachable moments everywhere.

That ironic sense of reading the newspapers and seeing the Gilded Age is also central to Jonathan Levy's story. Levy follows a phrase that peaked in the late nineteenth century: "freaks of fortune." From the 1850s to the 1890s the term was sometimes used to describe the nineteenth-century Steve Eismans of the world.[1] The term "freaks of fortune" was also used to describe the AIGs of the nineteenth century, those whose fortunes dropped precipitously. The central mover in the story of this phrase, as Levy suggests, was the rather sudden shift away from land to paper as the repository of wealth. In antebellum America, land amounted to a built-in hedge against plunging fortunes. In postbellum America, paper wealth, a much bigger part of American fortunes, could disappear in a single day. When that happened people blamed the freaks of fortune. Only by the end of the nineteenth century did Americans have a conceptual vocabulary to understand sudden booms and busts: the science of probability. Vertiginous decline had a curve that could be plotted. Once plotted one could understand how to hedge. (For all future advice about hedging retirement funds, please consult this issue of the *Journal of the Gilded Age and Progressive Era*, but at your own risk.)

My article, an extension of an essay I wrote for the *Chronicle of Higher Education* and published online on September 1, 2008, explores the jarring

[1]Eisman bet that the housing bubble would collapse and made over a billion. Michael Lewis, *The Big Short: Inside the Doomsday Machine* (New York, 2010).

similarities between 1873 and the 2007–08 crisis. In the original version, I pointed out how a financial crisis that begins with mutual suspicion among banks and then proceeds to the stock market (1873) has a different shape than one that begins with the stock market and then spreads to banks (1929–34). I was first excited, then horrified, to find the article translated into front-page headlines in a dozen languages throughout September and October 2008, just as the stock market crashed.[2] I was even more confused to discover that stock operators could bet on my predictions and make many millions of dollars even as the stock market was declining. This was because I had argued that cash on hand might benefit firms in 2008 the way that it had benefited Carnegie, Rockefeller, and McCormick after 1873. I did not realize that an investor could calculate a cash-on-hand ratio for every stock that traded on the New York Stock Exchange.[3]

[2]Karen Winkler at the *Chronicle of Higher Education* showed me how to track the hundreds of places the article reappeared around the world in 2008 using news.google.com. The article appeared in Peru (*La Republica*, Oct. 2), Spain (*Cotizalia*, Oct. 7), Montreal (*Le Devoir*, Oct. 8), South Korea (*Hankyoreh*, Oct. 10), Italy (*Il Foglio*, Oct. 15), Switzerland (*Weltwoche*, Oct. 15), Hungary (*Portfolio*, Oct. 13), and Greece (*Elefthrotypia*, Oct. 26). It appeared on "Underreported" by Leonard Lopate (WNYC, Oct. 16, 2008), along with radio shows in Ireland and New Zealand (Checkpoint Choice, Oct. 7). Sir Ronald Cohen of the newly formed European Private Equity and Venture Capital Association laid out my case in the inaugural meeting of that organization. See James Mawson, "Victorian Financial Crisis Provides Object Lesson on Current Turmoil," *Private Equity News*, Oct. 27, 2008. A student organization called FHJ Factcheck pointed out that a front-page story in the Dutch business newspaper, *Het Financieele Dagblad*, "Huidige crisis lijkt verdacht veel op begin van Lange Depressie van 1873," Oct. 24, 2008, plagiarized my article almost sentence-for-sentence, including the story that started with my grandmother: http://fhjfactcheck.wordpress.com/2008/11/03/pronkt-fd-journalist-met-andermans-veren/ (accessed February 3, 2011).

[3]Fred Wilson of Union Square Ventures took "market cap less cash and divided by 'operating cash flow' from google finance" to predict that firms like Chrysler would do poorly whereas Google and Apple would hold value. See the widely commented "What to Look For Next" at http://www.avc.com/a_vc/2008/10/what-to-look-fo.html (accessed February 3, 2011). One of his investor-friends, Dror Gill, then wrote a song about it with the lines

> Microsoft should buy more of its stock
> Google as well, should get out of its shock
> And if you're looking for more stocks to buy fast
> Try Apple, Starbucks, Wallmart and Comcast.
>
> There are many similarities that we can see
> To the great panic in 1873
> Which happened as America spread out to the world
> And was won by big companies after the markets twirled.

See http://blog2song.blogspot.com/2008/10/what-to-look-for-next.html (accessed February 3, 2011). I still do not know what to make of all this. In the interest of full disclosure, I should point out that I do not and have not ever invested in the stock market. In August of 2007, however, I did move my family's retirement fund out of stocks and into bonds after I read that the European Central Bank was injecting 95 billion euros into the banks to get them to lend to each other. That reminded me of the Panic of 1873.

The article here extends that *Chronicle* essay and considers the transatlantic nature of the 1873 panic. It also includes footnotes, which I could not put in the *Chronicle* article. Although most American historians recognize that 1873 was a worldwide event, they assume wrongly that it started with Jay Cooke's failure and then traveled across to Europe. Most European historians meanwhile have never heard of Jay Cooke. I argue here that the panic went from Vienna to New York over the space of six months, transmitted by changes in interbank lending rates. The article then seeks to reassert an old argument: that the Europe-wide effects of the Panic of 1873 were important in understanding the rise of nationalism, tariffs, anti-Semitism, and the threat of world war. Rosa Luxemburg first made the argument in her dissertation of the 1890s. The argument was shot down by European historians in the 1980s and largely (and I think wrongly) disappeared from contemporary scholarship on nineteenth-century European history. In the nineteenth century and the twenty-first, crises were transnational.

Andrew Zimmerman's article breaks into the question of where transnational booms and busts come from. If the investors Levy discusses were increasingly hoarding abstract financial instruments like railway bonds or cotton futures, Zimmerman recalls that those financial instruments ultimately represented international exchanges of commodities like cotton. Moreover, those commodities ultimately represented relationships between workers, managers, cotton factors, buyers, and weavers. Karl Marx puzzled over the complex relationships he observed between buyers and sellers, workers and managers, in his *Grundrisse*. In their deepest sense, the postwar bonds that floated around commodities like cotton represented the fruits of a post-Civil War labor relationship that we call sharecropping. Booms came when a particular relationship proved effective. Busts came when the relationship fell apart. Zimmerman argues that the international post-Civil War boom in cotton had everything to do with the export of America's coercive sharecropping system to places like Togo. Busts presumably came when the product of cotton workers in Togo came into competition with the product of workers in India, Texas, and Alabama. We historians should strive to keep within view this mix of high and low, abstract and concrete, Wall Street and Main Street (even Togo's Main Street). Just as the high-flying collateralized debt obligations of the 2000s represented real homes borrowed by families in Nevada, California, and Florida whose incomes never rose quickly enough to match the adjustable rate mortgages that they signed, so cotton prices could never rise quickly enough to ensure the fortunes of Togolese landowners and the sharecroppers they sought to control.

As Sarah Stein remarks in her comments, booms and busts are transnational phenomena that are also intensely local. Explanations need to be intensely local just as they look at international transformations. Here at last is the final reason to reflect on history when markets tumble. In the 2000s and surely for decades before that, Wall Street ignored the fatal connection between people on the ground and the increasingly abstract financial objects (derivatives, CDOs, credit-default swaps, and repos) that represented those relationships. In the final analysis financial instruments were bets about the future direction of complex relationships—and bets cannot always be hedged. Perhaps the long-dead voices of the Gilded Age have that final lesson for everyone.

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