

Exploring the Past

Reading, Thinking, and Blogging about History

President Ulysses S. Grant and The Panic of 1873

By Nick Sacco on September 17, 2014

Historical interpretations and popular memories of Ulysses S. Grant's tenure as President of the United States (1869-1877) devote a considerable amount of time analyzing cases of corruption—whether real or imagined—within the Grant administration. History textbooks throughout the twentieth century told tales of Grant's personal integrity but also his naivety when it came to trusting questionable subordinates. The White House's biography of Grant (<http://www.whitehouse.gov/about/presidents/ulyssessgrant>)-which curiously focuses more on Grant during the Civil War than his presidency—goes so far as to question Grant's motives for accepting lavish gifts from Wall Street speculators Jay Gould and James Fisk, even though such transactions dated back to Andrew Jackson's establishment of a complex political patronage system in the 1830s. This patronage system entailed gift-giving in exchange for political offices and favorable legislation, and was standard practice at the time.

There was indeed political corruption during Grant's presidency, and few scholars would deny that fact. But by shaping Grant's presidency almost solely around the corruption questions, introductory biographies and general histories of the era overlook other important facets of Grant's presidency that provide insights into the complex challenges he faced during the post-Civil War era. One such challenge centered around the need to restore the country's financial equilibrium following the American Civil War.

During the American Civil War, President Abraham Lincoln and the Republican majority in Congress sought ways to fund the government's deployment of the U.S. military into the Confederacy. Congress passed the nation's first income tax (3% of all incomes over \$800) through the Revenue Act of 1861 at the beginning of the war, but another significant act was the decision to print paper money without specie (gold or silver) backing. According to economic historian David Blanke (<http://teachinghistory.org/history-content/beyond-the-textbook/24579>), roughly \$356 million in paper "greenbacks" were printed throughout the duration of the Civil War to fund soldier salaries, military supplies, and the creation of what would eventually be the Transcontinental Railroad (which was completed after the war in 1869). These greenbacks soaked the market place and provided easy capital to investors, some of which greatly profited from the war. Since the greenbacks were not backed by specie, however, they were essentially IOU promissory notes whose value was largely based on the confidence of wealthy investment bankers.

President Grant sought a return to specie-backed money upon taking office in 1869 (he also later abolished the income tax in 1872). In his First Inaugural Address (<http://www.bartleby.com/124/pres33.html>), Grant argued that the return to “sound money” was an essential step on the road towards national reconciliation:

A great debt has been contracted in securing to us and our posterity the Union. The payment of this, principal and interest, as well as the return to a specie basis as soon as it can be accomplished without material detriment to the debtor class or to the country at large, must be provided for. To protect the national honor, every dollar of Government indebtedness should be paid in gold, unless otherwise expressly stipulated in the contract. Let it be understood that no repudiator of one farthing of our public debt will be trusted in public place, and it will go far toward strengthening a credit which ought to be the best in the world, and will ultimately enable us to replace the debt with bonds bearing less interest than we now pay.

Although Grant requested that the government pay its debts in gold, both gold and silver were still legal specie at this time. The days of using silver, however, were numbered. The newly-unified country of Germany ended its use of silver as a form of specie in 1871, and the implications of this move reverberated in the United States. By no longer using silver as currency, Germany placed more silver on the open marketplace, driving down its value in countries that still accepted it as legal specie. Congress followed suit with the Coinage Act of 1873 (http://en.wikipedia.org/wiki/Coinage_Act_of_1873), which outlawed silver as a form of legal specie and put the United States on a path towards the gold standard. While President Grant and Congress believed the Coinage Act would provide future financial stability for the country, the combination of industrial overexpansion (especially railroads) and the decreasing amount of available capital for investors bred the recipe for a potential economic disaster. That disaster came in September 1873 when Wall Street financial institutions like the New York Warehouse & Security Co. and Jay Cooke & Co. “began to fall like dominoes,” according to Jean Edward Smith (http://www.amazon.com/Grant-Jean-Edward-Smith/dp/0684849275/ref=sr_1_1?s=books&ie=UTF8&qid=1410969670&sr=1-1&keywords=jean+edward+smith+grant) (575). Railroad companies shut their doors, investors went bankrupt, and laborers lost jobs. These events marked the beginning of the Panic of 1873.

Debates emerged regarding the best strategy for addressing what soon became a full-blown depression, the worst of its kind in the U.S. at that point. Congress eventually pushed through Senate Bill 617 in March 1874, which called for the infusion of \$400 million Greenbacks into circulation and the addition of \$100 million into the nation’s money supply. The bill went to President Grant for approval on April 14, 1874.

Grant deliberated on the measure and initially wrote a message to Congress supportive of S.B. 617. The more he thought about it, however, the more he came to view the bill as an inflationary threat to the nation’s long-term credit. Grant vetoed the bill on April 22. In his veto message, Grant feared that passage of the bill would lead to future efforts to print even more inflationary greenbacks. S.B. 617, according to Grant, “is a departure from the principles of finance, national interest, the nation’s obligations to creditors, Congressional promises, party pledges (on the part of both political parties), and of personal views and promises made by me in every annual message sent to Congress and in each inaugural address.” The nation would ride the course and stay on the gold standard.

What were the effects of the Panic of 1873 for Grant's presidency and the country's future?

Scholars have taken different perspectives towards Grant's economic policies, and these questions remain open for debate today. The Panic led to a prolonged depression that lasted until 1879, but the nation's taxes and national debt were reduced by \$300 million and \$435 million, respectively, during Grant's tenure in office. Annual interest rates were reduced by \$30 million and one-fifth of the nation's debt was eliminated. The resumption of specie-based payments led to substantial economic growth and greatly increased business activity in Gilded Age America during the 1880s. [Frank Scaturro](http://www.amazon.com/President-Grant-Reconsidered-Frank-Scaturro/dp/1568331320/ref=sr_1_1?s=books&ie=UTF8&qid=1410970905&sr=1-1&keywords=Frank+Scaturro) (http://www.amazon.com/President-Grant-Reconsidered-Frank-Scaturro/dp/1568331320/ref=sr_1_1?s=books&ie=UTF8&qid=1410970905&sr=1-1&keywords=Frank+Scaturro) deems Grant's economic policy as one that "was singularly successful in the aftermath of the most serious fiscal problems the nation had ever faced" (49).

There were also negative consequences of these policies, however. Reconstruction policies aimed at enforcing the fifteenth amendment and protecting Southern blacks at the voting booth lost support from Northerners more concerned about their own financial difficulties than protecting black rights. Southern whites also expressed outrage when federal funding for infrastructure projects in the former Confederate states dried up. The expense of keeping the military in the South to enforce federal law was seen as excessive in the eyes of many Northerners, although it is important to point out that these same Northerners had no qualms about deploying the military to quell labor strikes in the North such as the [Great Railroad Strike of 1877](http://en.wikipedia.org/wiki/Great_Railroad_Strike_of_1877) (http://en.wikipedia.org/wiki/Great_Railroad_Strike_of_1877). Blanke takes a more critical perspective than Scaturro towards Grant's economic policies, arguing that "the long downturn further concentrated capital in the hands of fewer and fewer suppliers," leading to a concentration of wealth in the hands of the few. By 1890, 71 percent of the nation's wealth was in the hands of 9 percent of its citizens, "an unhealthy and lopsided disparity of wealth distribution that has only been equaled, in this country, in the past 20 years."

The challenges Ulysses S. Grant faced during his presidency alert us to the difficulties that emerge when economies take unexpected downturns. Should the government print and infuse more cash to alleviate unemployment and bankruptcy, or is it wiser to move towards "sound money" and the payment of past debts? Our own economic difficulties, spawned from the Great Recession of 2008, show that we still continue to debate these questions today.

Cheers

Posted in: Civil War Era History | Tagged: Economics, Advertisements History, Panic of 1873, Ulysses S. Grant, United States

4 responses

Bob Pollock September 18, 2014 at 8:11 am | **Reply**
Nicely done, Nick.

Nick Sacco September 18, 2014 at 9:55 am | **Reply**

Thanks, Bob. Couldn't have done it without all of your help in discussing this topic.

RRG November 14, 2016 at 7:55 pm | **Reply**

Regards you have credibility references for the panic story of 1873.

It's that I'm doing an academic research and it's almost impossible to get credibility reference.

Nick Sacco November 15, 2016 at 7:41 am | **Reply**

Hi RRG,

In addition to the hyperlinked sources I mention in this essay, you would gain many insights from reading Nicolas Barreyre (2011), "The Politics of Economic Crises: The Panic of 1873, the End of Reconstruction, and the Realignment of American Politics". Journal of the Gilded Age and Progressive Era. 10 (4): 403–423.

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