



SECOND  
EDITION

THE PANIC OF  
**1907**

Heralding a New Era of  
Finance, Capitalism, and Democracy



ROBERT F. BRUNER | SEAN D. CARR



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**ROBERT F. BRUNER**  
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**WILEY**

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*RFB:*

*For Bobbie*

*“Treasure is in knowing that you are loved and that you love because you are loved, and that knowledge of self and relationship and purpose is what treasure is all about.”*

*—Peter J. Gomes*

*SDC:*

*For Ladi*

*“The salvation of this human world lies nowhere else than in the human heart, in the human power to reflect, in human meekness and human responsibility.”*

*—Václav Havel*





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# Foreword

**W**hat causes perfect storms in financial markets, whether the Panic of 1907 or the Global Financial Crisis that began in 2007? Bruner and Carr’s magisterial treatment of the former episode paints a lucid picture that gets to the heart of the matter.

Start with modern “fractional reserve banking,” which first saw the light of day in the early seventeenth century when East India merchants arrived in London with hauls of gold and silver and no place to safely stash them. In 1650, England was a tiny, institutionally backward nation of just 5 million souls—about half the population of Italy and a third that of France— and actually less than its own population on the eve of the arrival of the Black Death in 1348–1349. The majestic, free-trading empire that straddled the globe lay yet two centuries in the future; mid-seventeenth-century Britain was a weak, backward nation, embroiled in the process of throwing off its corrupt ancient regime; its presence on the high seas emphasized raiding as much as trading.

It had no banking system, but London was home to a large number of goldsmiths, whose livelihoods demanded the safe storage of valuables. Merchants began to deposit their loot with the goldsmiths, who in exchange issued certificates, which then began to circulate as money.

Soon enough, the goldsmiths tumbled to the happy realization that they could issue the certificates in excess of the amount of precious metal they held.

In other words, they could print money.

Since the prevailing interest rate was well over 10 percent year, the goldsmiths made a good living loaning out the certificates, a process that held up only as long as a large number of certificate holders didn't redeem them all at once. If the goldsmith's safe held £10,000 of silver, and he had issued £30,000 worth of certificates—one third issued to the specie's owners and two thirds to borrowers—and the bearers of £10,001 of the certificates demanded payment in silver, the goldsmith was bankrupt. In fact, if the certificate holders even *suspected* that the goldsmith was in trouble, they could precipitate a disastrous run. As banking systems grew ever more complex and interlinked, the contagion would spread through a process that social psychologists and financial economists call *herding* (which works just as well on the way up as down).

Just why, then, do financial participants herd? Because they are human. About 50,000–100,000 years ago, modern humans “escaped” from northern Africa to inhabit all of the continents except Antarctica. Even more remarkably, tribes spread over the entire New World, from the Arctic Ocean to Tierra del Fuego, over a period of just several thousand years.

Along the way, humans had to learn how make kayaks in the arctic, hunt buffalo on the Great Plains, and make poison blowguns in the Amazon. It seems highly unlikely that human evolution occurred rapidly enough to acquire these varied skills innately in the same way that, for example, birds build nests or termites build hills.

Rather than hardwire into our genes a distinct ability for making kayaks, hunting buffalos, or fashioning poison blowguns, evolution instead encoded the general-purpose skill of imitation. Given a large enough population and enough trial and error, someone will eventually figure out how to build, for example, a serviceable kayak, and the rest can accurately imitate the process.

We imitate more than almost all other animal species; as soon as someone creates a useful innovation, others quickly adopt it. Yet our propensity to imitate also serves to amplify maladaptive behaviors,

primary among which is mass delusions of all types, particularly the propensity of modern societies to participate in financial panics.

We are also the ape that tells stories. When our remote ancestors needed to communicate with each other to survive, they certainly did not do so with the kinds of mathematical tools used by the competent investor. The primary mode of that communication was, and still is, narration: “You go right, I’ll go left, and we’ll spear the mastodon from both sides.”

We are narrative animals, and a compelling tale, no matter how misleading, will more often than not trump facts and data. Not only do people respond more to narratives than to facts and data, but preliminary studies also demonstrate that the more compelling the story, the more it erodes our critical thinking skills. (This research suggests, in addition, an inherent conflict of interest between the suppliers and consumers of opinion: the former—think your stockbroker or the talking head on CNBC—wishes to convince and will devise the most compelling narratives possible, whereas the investor should intentionally avoid those narratives and rely only on data, facts, and analytical discipline.)

Toss together an unstable fractional reserve system and an army of herding participants—thousands in 1907, and millions in 2007—and you have a recipe for a panic so well described by Bruner and Carr between these covers.

Over the past two centuries, Europeans and Americans have slowly realized the need for regulatory circuit breakers in the system to throttle the booms and inject liquidity during the busts. The problem, as the authors point out, is that as the world grows wealthier and our financial system grows ever more complex, it outgrows the regulatory apparatus, which, rather than adapting to rapidly changing circumstances, becomes ever more hidebound.

In 1907, the regulatory apparatus was the clearing house system of the so-called “national banks,” a relatively informal private network that provided temporary capital, when needed, to its well-behaved members. Trouble arose when a parallel system of trust banks, unconstrained by the reserve rules of the national system, began lending to increasingly speculative ventures. In that era, “American exceptionalism” expressed itself in the nation as being alone among its developed peers in its lack of a central bank that would obey Bagehot’s famous

rule for such institutions: act as a lender of last resort to solvent firms against good collateral at a high “penalty rate.”

In 2007–2008, a nearly identical series of events played out as another parallel banking system, this time consisting of unregulated financial services companies, blew the largest credit bubble in the history of mankind—a bubble that the nation’s nearly century-old central bank contributed to in no small part. To paraphrase Harry Truman, the only thing that’s new in finance is the history we haven’t read. And that is why reading Robert Bruner and Sean Carr’s explanations of both “07s” is a must.

Floyd Norris, chief financial correspondent for the *New York Times*, appears to have meandered upon a copy of this book’s first edition. He picked it up, put it down, and then apparently picked it up again (always the sign of a good book) as the next “07” started to play out. Upon later reflection, he hailed *The Panic of 1907* as “one of the most insightful books” he had ever read. “When I read it last year,” noted Norris in a *Times* blog comment on February 22, 2008, “I thought it had lessons for today, but I did not realize just how quickly those lessons would become crucial.” I couldn’t agree more. Robert Bruner and Sean Carr have refreshed a great book and drawn further insights about the seven critical factors that created the second “07” drama that is now still playing center stage on Wall Street and Main Street and in Washington. The parallels they see, the wisdom they share into the precise nature and causes of financial crises, and their alternative views to simple “silver bullet” explanations should be studied and reread closely by those now embroiled in the financial crises that played out in 2007–2009 in the United States and in Europe in the years that followed, and appear to be playing out in the cryptocurrency markets as I type these words. Sit back, relax, and enjoy their ideas as Bruner and Carr take you back to the future.

William J. Bernstein

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Any inadvertent errors or omissions that may remain are ours alone.

RFB AND SDC  
Charlottesville, Virginia, and Bellevue, Washington  
August 2022



# Prologue

*These are troublous times.*

—Charles T. Barney  
Knickerbocker Trust Company  
October 21, 1907

**A**round 10 A.M. on November 14, 1907, Lily Barney and a friend were chatting in the Barneys' second-story bedroom overlooking Park Avenue when they heard the crack of a gunshot echo through the house. The women bolted toward the other bedroom across the hall. Stepping inside, they saw Lily's husband, Charles, lying on the floor near his bed in his pajamas. Beside him was a revolver containing three loaded cartridges and one empty shell. The Barneys had kept pistols on every floor of the house for protection, and this one clearly belonged to Charles.<sup>1</sup>

As Lily Barney came near, her husband raised himself slightly but slumped in pain to the floor. She knelt beside him, cradled his head in her lap, and attempted to ease his discomfort. Ashbel Barney, one of the Barneys' two sons, had been downstairs and had also heard the shot. Running to the bedroom and seeing his mother and her friend bending

over his wounded father, he raced to telephone George Dixon, the Barneys' family physician. Then, with the help of his mother and servants the 20-year-old Ashbel lifted his father to his large, brass, canopy-covered bed. Charles T. Barney remained conscious, but silent.

Dr. Dixon reached the Barney house in Manhattan's fashionable Murray Hill neighborhood 10 minutes after receiving the call. After administering an anesthetic, he began an operation in which he discovered that a .38-caliber bullet had entered the upper left quadrant of Barney's abdomen; it had taken an upward course, torn through the intestines, traveled lengthwise through the left lung, and embedded in the left shoulder just behind the collarbone. Despite their ministrations, around 2:30 in the afternoon Charles Barney was pronounced dead from shock and severe hemorrhaging. Within hours newsboys were bellying "extra" about the incident all along Park Avenue.

Over the coming days, rumors and innuendoes about Barney's death reverberated throughout the city. Stories appeared about previous suicide attempts (although none could be confirmed)<sup>2</sup> and there were indications, later denied by Lily Barney, that she and her husband had become acutely estranged in recent months and that she had initiated a divorce.<sup>3</sup> One leading newspaper even reported that the letters of "two women, one a Parisian, long a favorite of a French prince," had been found among Charles Barney's papers.<sup>4</sup> Close associates called the man's morals into question. "Mr. Barney was not a God-fearing man," said A. Foster Higgins. "He could not live happily because his life was not moral. He lived a lie to his wife and children."<sup>5</sup>

Whatever his personal faults, though, the death of Charles T. Barney aroused extreme public interest and suspicion for one reason only: Barney had presided over New York's famed Knickerbocker Trust Company when its dramatic failure in October 1907 became the tipping point for a financial crisis of monumental proportions.

Charles Tracy Barney was truly a man of the Gilded Age. The son of a prosperous Cleveland merchant, he had married into the prominent Whitney family when he wed Lily Whitney, the sister of the financier and former U.S. Secretary of the Navy William C. Whitney. Barney pursued a career in banking, and his Whitney connections ensured him lucrative business opportunities in New York real estate development and speculation. By 1907 Barney had become a director of at least 33

corporations, and he was among the founding investors of New York City's new subway system.

Barney's ascent to New York's financial firmament coincided with his association with the Knickerbocker Trust Company. By the 1890s, he had become its vice president, and in 1897 he was elected to the firm's top office. The handsome but high-strung Barney emerged as one of the leading figures in New York's financial community, and he had developed a reputation as "one of the most imperious of Wall Street's bankers, who ruled every undertaking that he had anything to do with."<sup>6</sup>

Such a man, at the height of his wealth and power, could scarcely have foreseen how swiftly and ignominiously his downfall would come. In early October 1907, two speculators, F. Augustus Heinze and Charles W. Morse, had contrived an elaborate scheme to corner the market in the stock of a copper mining company. The attempt failed miserably. Such a scheme would hardly have bothered the members of New York's financial elite, such as Charles Barney, but Heinze and Morse had convinced a New York financial institution to fund their venture.<sup>7</sup>

Although the Knickerbocker was not a creditor of the failed speculation, rumors spread that the Knickerbocker—and perhaps even Charles Barney himself—was embroiled in the Heinze-Morse scheme. The 18,000 depositors of the trust company panicked. Simply an association with the speculators was more than most depositors could bear. On Friday, October 17, a "run" on the Knickerbocker was under way, and dozens of depositors clamored at the trust company's doors to claim their funds.

Given the close financial relationships among all the banks and trust companies in New York City, panic gripped investors and depositors alike. In an attempt to quell this spiraling hysteria, on October 21 the directors of the Knickerbocker Trust convinced Charles Barney to tender his resignation. In a statement issued later that night, Barney said humbly, "I resigned to give my associates in the company a free hand in the management." But when he was asked about the financial condition of the Knickerbocker, Barney laughed at any suggestion that the institution might be in trouble. "Nothing could be more absurd," he said. "The company was never in a stronger position. It remains the next to the largest in the city and as sound as any. There is not the slightest question of its entire solvency."<sup>8</sup>

A few days after his resignation from the Knickerbocker Trust Company, Barney drafted a statement in which he boasted of his role at the bank. "I built the Knickerbocker up from a company with eleven million dollars in deposits to one with over sixty-five million dollars," he said. "I am willing to take responsibility for anything pertaining to the condition of the company." Nonetheless, he steadfastly refused to accept that he should be culpable for the trust company's failure. "So far as the suspension is concerned," he said, "if there is any institution in New York that could without aid have withstood the run that the Knickerbocker experienced last Tuesday [October 22], I do not know it."<sup>9</sup> Less than a month later, Charles Barney would be dead.

Many surmised that Charles Barney's death was caused by his fears of personal financial failure, but reports indicate he was nowhere near insolvency. In October 1907, Barney's assets exceeded his liabilities by more than \$2.5 million, mostly represented by equities in real estate.<sup>10</sup> Moreover, most of Barney's creditors were bank and trust companies, including the Knickerbocker itself. Just a week before his death, Barney's attorneys had worked out an arrangement that would have enabled him to stay afloat. "There was every reason why Mr. Barney should have been feeling encouraged," Barney's physician, Dr. Dixon, said. "Daylight had begun to break ahead financially. He had begun to see his way clear. If he was [sic] going to commit suicide, two weeks ago would have been the most likely time. But now, when things had begun to look up, was a time when he should have been feeling in better spirits than for two weeks."<sup>11</sup>

Friends of Charles T. Barney believed that neither financial crisis nor a professional reversal was his downfall. It was the loss of confidence that hurt him most. "Mr. Barney's heart was broken by the cruel treatment of his associates; that is the cause of his death," said Charles Morse, the man whose association most likely led to Barney's undoing. "It is absurd to talk of financial ruin as a cause of his act, for though he had lost money, he was by no means ruined. Mr. Barney was always an honorable man of business, and it was grief at being abused in the newspapers and suspected by his business associates that caused his death."<sup>12</sup> Another family friend said, "Had there been a little leniency on the part of those who were forcing him to the wall, Charles T. Barney would be alive today and in a position to revive his business standing."<sup>13</sup>

The failure of the Knickerbocker Trust Company was a turning point in a panic that would engulf a turbulent and rapidly growing nation as it entered the twentieth century. The run on other banks and trust companies, some of which were associated with the Heinze-and-Morse scheme, continued unabated even after the Knickerbocker closed its doors. Lines in front of banks in New York and elsewhere extended for blocks, and Wall Street was gripped by a paroxysm of fear. In the coming days, money would become scarce, banks would fail, the stock market would plummet, and the city of New York itself would reach the precipice of bankruptcy. Only a small cadre of astute and cool-headed financiers and government officials could steer a course through the oncoming gale. Like Charles Barney, the nation had lost its confidence. It would take leadership and courage to bring it back.



# Introduction

*The past is never dead. It's not even past.*

—William Faulkner<sup>1</sup>

The Panic of 1907 stands out among history's financial and economic disturbances. Over a century later, this crisis seems so small—its epicenter was short and intense—but it rippled nationally and internationally for years. The economic damage of the Panic was “extremely severe,” according to economists Milton Friedman and Anna Schwartz.<sup>2</sup> It strained the fabric of societies, producing distress, dislocation, and even revolution. Its political impact was *massive*, triggering and accelerating the final push to establish the U.S. Federal Reserve System, after years of ineffectual debate. It fundamentally changed public attitudes about government intervention into markets and economic affairs. It highlighted the role of human agency in the turn of events. The wrangling of powerful personalities such as J. Pierpont Morgan, Elbert Gary, Henry Frick, Theodore Roosevelt, Woodrow Wilson, and William Jennings Bryan exposed the diversity of ideologies and motivations that would roil the U.S. political economy throughout the twentieth century. Ranked among pivotal events of the age, the Panic of 1907 ushered out

an old guard and its orthodoxy, to be replaced by a new generation of leaders who held new notions.

However, memories are short. Eclipsed by two world wars, the Great Depression, the halting emergence of a new global economic order, and a string of crises in the early twenty-first century, the events of 1907–1913 have faded from mind. Also, each rising generation tends to believe that its own crises are without precedent and that harnessing lessons from further past is pointless.

The aim of this book is to counterargue: forgetting the past is dangerous; it contains valuable lessons for the present and future. While a deep dive into one important crisis will not foretell the future, it will expose insights into crisis dynamics that can forearm the reader. To study past crises is to learn the paths that adversaries of human welfare—panic and market breakdown—might take.

The onset of the Panic of 1907 and the efforts to quell it form a valuable lens through which to examine the fragility of economic and financial systems, the contagion of fear, the challenges of mobilizing collective action, and the relevance of human agency in the context of powerful forces. Modern theories—and public policies—about financial crises must start from some concept of what a crisis is. The Panic of 1907 is an excellent point of reference.

## The Progression of Financial Crisis

A financial crisis is a breakdown of normal financial market activities to such an extent that capital flees, resources are misallocated, institutions are destabilized, and disorder spills into the real economy, causing job loss, bankruptcies, recession, and social distress and political ferment.

Scholars have tended to view crises narrowly. For instance, economists Hyman Minsky and Charles Kindleberger viewed a crisis as the *moment* when market euphoria turns to revulsion. Unfortunately, this narrow view tends to disregard important events and forces that stage and summon the crisis, as well as the shocks and spillovers that ensue. We argue that to understand financial crises, one must follow the entire *progression of crisis*, from early benign conditions that sowed the crisis,



through to the ultimate recovery in the economy, polity, and society that frames a new orthodoxy in thinking. The word “progression” implies that each new phase acts upon the preceding one and sets the stage for the next one for instance, boom → shock → climax → collapse → reaction → recovery. Thus, the idea of progression requires you to take a longer view.

In the account of the Panic of 1907 that follows, the narrative spans 1897 to 1913. The progression of crisis occurred in four acts. First, an economic recovery of the U.S. economy gathered momentum into one of the largest growth spurts in the country’s history: business optimism rose, as did leverage and strains on the financial system. The good times peaked in early 1906, when it seemed that nothing could go wrong.

Second, shocks battered the system. As in Greek tragedies, nemesis follows hubris. To destabilize a financial system, a shock must be real (not cosmetic), large and costly, unambiguous, and surprising—the San Francisco earthquake of April 1906 surely qualifies. To that event we add discussion of some other surprises that shocked the system.

Third, trouble broke out among the less prepared and more vulnerable financial institutions, what in modern parlance would be the “shadow financial system.” A system is only as strong as its most vulnerable link. Financial institutions on the periphery (out of sight and out of mind to the rest of the industry) have tended to be the vulnerable links. Then trouble traveled to other parts of the system through relations among institutions and markets. The initial responses to the crisis were halting because financial systems are complex and opaque, and it was difficult for people to know what was going on. This bred fear. Contagion spread, at first locally, then nationally, and was reflected in declining security prices and the hoarding of financial assets. Then the crisis, initially confined to the financial sector of the economy, reverberated through the real economy, causing widespread distress and dislocation.

Fourth, the crisis began to ebb as confidence recovered—but the ripple effects of the crisis set the stage for the establishment of a “new order” of public sentiment, political power, and regulation. The institutional changes that ensued from the Panic of 1907 were as much a part of the entire progression of crisis as the shocks, instability, and spillovers.

## Causes and Dynamics

As the following chapters show, the speed and fury of day-to-day events left little time for reflection and understanding. Yet any plan of action must proceed from some theory about the origin and progress of crises. With what theory could J.P. Morgan or anyone else have seen the Panic coming?

One line of thought attributes crises to a hodgepodge of period-specific factors. For instance, the contemporary Wall Street observer Henry Clews cited nine causes for the panic of 1907.<sup>3</sup> Charles Kindleberger ascribed 13 origins to the Panic of 1873.<sup>4</sup> With enough detail (and imagination) an analyst could summon a long list of possible causes for financial crises. The problem with that approach is its idiosyncrasy: If there is a different explanation for each crisis, then what can we say about crises in general?

Other approaches rest on one big idea: a sole cause large enough to cover a multitude of sins. A favorite big idea among some economists, for example, is that financial crises are caused by a lack of liquidity in the financial system. The economist Milton Friedman blamed the government's failure to manage well the money supply as a leading contributor to such events. Likewise, Roger Lowenstein, writing about the stock market bubble and collapse of 1997 to 2001, blamed the credo of shareholder value.<sup>5</sup> A related "silver bullet" explanation is greed. Radical and progressive critics blamed financial crises on the wealthy, the profit motive, and class exploitation. Unfortunately, the silver bullet explanation produces generic remedies that poorly treat the disease. One wants a Goldilocks explanation for crises that is neither too much nor too little, neither too idiosyncratic nor too simplistic.

By drawing on a detailed history of the Panic of 1907 and on research about financial crises in general, we offer an alternative view: crises are cascades of shocks and information problems to which bank runs, market crashes, rumors, hoarding, fear, and panic are predictable responses. Scholars such as Charles Calomiris, Gary Gorton, and others have documented the informational aspects of crises. To our knowledge, this is the first book-length study of a single financial crisis to apply this view. And we extend this view to consider *institutional changes* that ensue.

Information problems are central to an understanding of financial crises. Over time, innovation in financial institutions, markets, instruments, and processes breed growing complexity in the financial system. Complexity makes it difficult for decision makers to know what is going on. The resulting information asymmetries spawn problematic behavior, arising from adverse selection\* and moral hazard.† Information problems contribute to the overoptimism associated with buoyant business expansion and the tendency of debtors to overlever and of lenders to ignore prudent credit standards.

The architecture of a financial system links institutions to one another in a way that enables contagion of the crisis to spread. Trouble can travel. Safety buffers (such as cash reserves and capital) may prove inadequate to meet the coming crisis. Then, one or more shocks hit the economy and financial system, causing a sudden reversal in the outlook of investors and depositors. Confusion reigns. Public sentiment changes from optimism to pessimism that creates a self-reinforcing downward spiral. In the vicious cycle, bad news prompts behavior that generates more bad news. Collective action proves extraordinarily difficult to muster until the severity of the crisis and the insight and information held by a few actors prompts mutual response.

Information matters, as our narrative of the Panic of 1907 shows. Key figures relied on information networks to assess conditions, identify trouble spots, set priorities, allocate rescue funds, and make other changes to restore the confidence of depositors and investors. The intense round of meetings, dinners, breakfasts, telegrams, and phone calls essentially aimed to resolve information asymmetries in order to make better decisions.

\* Adverse selection arises if a better-informed party in a transaction can exploit information to the disadvantage of the less well-informed party. Think of buying a used car (the seller knows more about the condition of the car, possibly a “lemon”) or selling health insurance (the buyer knows more about his or her health outlook). Concern about adverse selection may drive parties out of the market, thus diminishing liquidity and the ability of the market to clear. Also, adverse selection might drive quality goods out of the market because sellers of high-quality goods cannot obtain the prices they deserve. In finance, “Gresham’s Law” (i.e., bad money drives out good money) is an example of adverse selection.

† In the case of moral hazard, a party to an agreement fails to act in good faith and shifts risk onto counterparties. For instance, debtors who believe that the government will always bail them out in a crisis may simply borrow more, ultimately shifting risk onto taxpayers.

## A Question of Leadership

Do times make the leaders? Or do leaders make the times? Modern historians have dismissed Thomas Carlyle's "great person theory" in which brilliant and talented individuals bend the arc of history. Instead, a modern vogue inclines some historians toward determinist theories in which the clash of large forces changes history and incidentally renders some individuals rich, powerful, and famous and others out of luck. The events surrounding the Panic of 1907 afford an interesting debate between the two theories.

Technological change (the *Second Industrial Revolution*), demographic change (waves of immigration), social change (urbanization), political change (progressivism, populism, socialism), and economic change (industrialization, growth and growing inequality) loomed over the first decade of the twentieth century. Against such powerful tides, it is easy to view the strivings of individuals as incidental to larger events.

Yet it is also true that the central figures of the episode brought to bear unusual attributes of character, intelligence, and talent. Theodore Roosevelt arguably changed politics and the presidency more than they changed him. And by virtue of his reputation, intelligence, resources, and social network, J. Pierpont Morgan mobilized a fractious financial community into collective action. One of Morgan's strengths was an ability to size up people and their problems quickly—maybe hastily. These and other big personalities brought unique attributes to the Panic as it brewed, erupted, and subsided. Perhaps their good (or bad) luck figured in their role in the unfolding events. Certainly, the choices they made reveal underlying attributes of character that also affected the course of events. Thus, this narrative commences with a sketch of the times and the financial leaders who shaped it.

## What's New Here?

More breadth and depth. The first edition of this book was published in 2007, on the verge of the most serious financial crisis since the Great Depression. The Global Financial Crisis of 2007–2009 and the global financial and economic crisis associated with the COVID-19 pandemic tested conventional theories and policies. These eruptions arrested the attention of policy-makers and researchers; and they sparked new

interest in their ancestor of a century earlier. Researchers in the academy, government, and business turned to the Panic of 1907 as a laboratory in which to test ideas. This version of the book adds the findings from more than four dozen relevant research papers and books published since the original edition in addition to other older sources that came to our attention. Throughout this edition, we provide more graphs and visual figures to help the reader grasp the significance of economic developments.

This new edition extends coverage of the crisis to communities across the United States and addresses international spillovers. And it illuminates the buoyant economic expansion over the decade before the crisis, along with the growth of debt financing in the economy.

Furthermore, this edition treats the civic reaction of 1908–1913 in more detail to illuminate the deep institutional changes that occurred. We examined contemporary analyses, newspaper accounts, and government archives about the civic reaction. The hearings of the Stanley Committee (1911–1912) and Pujo Committee (1912–1913), reports of Treasury Secretary Cortelyou as well as memoirs of Paul Warburg, Carter Glass, and Robert Owen yield insights into the motives of individuals who sought to shape the new regime of state intervention into financial markets and institutions.

Finally, in selected chapters we have added original findings that enrich or challenge the interpretations of researchers. In Chapter 2 we test the statistical significance of the plunge in the Bank of England's gold reserves to explain the motive behind the BoE's sharply restrictive monetary policy in October 1907. Our analysis of call loan interest rates in Chapter 14 affirms that the spike in volatility vastly exceeded the historical "noise level" and persisted much longer than implied in other accounts. In Chapter 16, we depict the declines in trust company deposits by firm size that shows the asymmetry in experience among firms. Chapter 19 gives evidence of hysteresis, a lingering slowdown in economic growth following the Panic. In Chapter 21, we analyze the panel of witnesses called to testify at the Pujo Committee hearings to illustrate the focus of the investigation. Our statistical analysis of the runs on trust companies in the technical appendix (after Chapter 24) illuminates the diversity among those firms, associated with variations in business model and the extent of affiliation with notorious figures. And various chapters show that the extensive impact of the Panic lasted well beyond the October–November 1907 period that figure in conventional discussions.

## Plan of the Book

The next five chapters set the stage, with a profile of the buoyant lead-up to the Panic of 1907. Chapters 6 through 18 describe the epicenter of the Panic from mid-October to early November. What began as a failed attempt to corner the market in a stock traded “on the curb” led to runs on local trust companies, and then financial institutions throughout the nation. The New York Stock Exchange nearly closed for want of liquidity. At the center of this phase of the narrative is a close look at the difficulties of mobilizing collective action among key players in the financial community, and the success of J.P. Morgan in doing so. Chapter 19 recounts the contagion of crisis to other regions of country and world, and spillovers into the real economy.

Chapters 20–22 recount the political and civic reactions over the years 1908 to 1913, culminating in the founding of the Fed. This segment surveys the competitive jockeying for dominance of a preferred model for state intervention into the U.S. financial system. Chapter 23 affords an epilogue for the political movement and lives that figured so largely in the Panic of 1907. And the final chapter, 24, offers summary reflections on the entire narrative.

As a useful reference to the sequence of events, we offer Exhibit I.1, which lists key dates and notes their significance.

## Motivating One’s Attention to History

As William Faulkner argued, the past is not dead; it is always with us. Just as victims of crime and veterans of combat must endure the indelible imprint of their experience, so societies must deal with the lingering effects of financial crises. To learn from the experience of a financial crisis requires one to process events and their causes, assess consequences, acknowledge agency, and derive meaning. There are no shortcuts to insights: begin at the beginning and trace events to the end. In this volume, we offer the long view. It is insufficient to study only the climax of a panic; one must also study the precursors and the long consequences to frame a deep understanding of these events. Therefore, our narrative begins in the buoyant decade, 1897 to 1906.