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ARTICLE

'Mingled in an almost inextricable confusion': the panics of 1873 and the experience of globalization

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Abstract

This article analyses the transatlantic financial crises of 1873 from the vantage point of the three countries that were most affected by it, Austria, Germany, and the United States, focusing on the experience of economic globalization and disintegration for actors on both sides of the Atlantic. It compares the perception of financial commentators and financiers of the panics in 1873, when the experience of integration was asymmetrical, and more pronounced in Germany and Austria than in the United States. It further argues that this asymmetrical experience of contagion shaped the monetary debates of the 1870s in all three countries. Focusing on the interrelationship and coexistence of experiences of integration and isolation, the article maintains that, despite the panics' near-synchronicity, financial globalization remained difficult to see.

Keywords: financial crisis; globalization; gold standard; panic of 1873; stock exchange

The year 1873 was a year of financial crises. In May, the stock market in Vienna was the first to succumb to a frenzy of panicked selling; in September, the failure of the American bank Jay Cooke & Co. triggered a wave of suspensions and widespread economic calamity in New York City and beyond; by early October, German stock exchanges were seeing similar large-scale liquidations.[1] This transatlantic financial calamity soon affected commerce and industry, ushering in a period of deflation and relative decline. In 1875, the banker Baron Meyer Carl von Rothschild observed that all European economies were similarly depressed and, in a metonymical leap entirely typical of his age, concluded: 'The whole world has become a city.'[2] Rothschild's aperçu has been cited in the literature to illustrate the ostensible newness of the global reach of the panics of 1873. But, as this article shows, that year's financial crises shaped the contemporary discourse on globalization in different ways than has been assumed.

While many historical studies have examined the economic, social, and political consequences of falling prices and unemployment,[3] the financial crises that initially triggered these developments have been dealt short shrift. In this article, I will therefore focus not on the deflation period

[1]London and Great Britain, by contrast, were less affected. See P. L. Cottrell, 'Domestic finance', 1860–1914, in Roderick Floud and Paul Johnson, eds., *The Cambridge economic history of modern Britain*, Cambridge: Cambridge University Press, 2004, vol. 2, p. 277; S. B. Saul, *The myth of the Great Depression, 1873–1896*, 2nd edn, Basingstoke: Macmillan, 1985.

[2]Fritz Stern, *Gold and iron: Bismarck, Bleichröder, and the building of the German empire*, New York: Alfred A. Knopf, 1977, p. 189.

[3]Works on the economic depression include Hans Rosenberg, *Große Depression und Bismarckzeit: Wirtschaftsablauf, Gesellschaft und Politik in Mitteleuropa*, Berlin: de Gruyter, 1967; Margrit Grabas, 'Die Gründerkrise von 1873/79 – Fiktion oder Realität? Einige Überlegungen im Kontext der Weltfinanz- und Wirtschaftskrise 2008/2009', *Jahrbuch für Wirtschaftsgeschichte*, 1, 2011, pp. 69–96; Samuel Rezneck, 'Distress, relief, and discontent in the United States during the depression of 1873–78', *Journal of Political Economy*, 58, 6, 1950, pp. 494–512; Nicolas Barreyre, 'The politics of economic crisis: the panic of 1873, the end of reconstruction and the realignment of American politics', *Journal of the Gilded Age and*

and its consequences, but more specifically on the crises in *financial* markets. Unlike most studies on the subject which, implicitly or explicitly, analyse these crises in terms of economic models or theories,[4] I interpret the financial panics of 1873 in terms of contemporary notions and experiences of economic interconnectedness, and, more specifically, of how experiences of integration and isolation existed side by side, even before, during, and after an event we today tend to consider an epitome of economic and financial globalization.

In my book, I have analysed the interplay between national and global frameworks in contemporary experiences of, and responses to, the speculative bubble and the subsequent crises.[5] My aim here, by contrast, is to focus more specifically on the experience of global (dis)integration by exploring how actors and commentators used semantics of interconnectedness and the global in describing, conceptualizing, and responding to these momentous events on financial markets. In referring to the 'panics', rather than 'the Panic' of 1873, I wish to highlight the fact – following the lead of Jessica Lepler – that they did not, in the minds of contemporaries, constitute a single event but were heavily shaped by national contexts, even where people considered their transnational reach.[6]

This article thereby contributes to the historiography both of financial panics and of globalization. The latter has in the past often focused on the quantitative dimension of nineteenth-century economic integration, highlighting indicators such as transatlantic wage convergence, the volume of international trade, and capital flows.[7] In contrast, the emphasis here will be on what one might call the subjective dimension: that is, on the ways in which contemporaries experienced and interpreted transnational economic integration and disintegration. I argue that,

Progressive Era, 10, 4, 2011, pp. 403–24; Scott Reynolds Nelson, *A nation of deadbeats: an uncommon history of America's financial disasters*, New York: Alfred A. Knopf, 2012, pp. 158–68.

[4]Oliver M. W. Sprague, *History of crises under the national banking system*, Washington, DC, 1910; Joseph A. Schumpeter, *Business cycles: a theoretical, historical, and statistical analysis of the capitalist process*, 2 vols., New York: McGraw-Hill, 1939, vol. 1; Rendigs Fels, *American business cycles: 1865–1897*, Chapel Hill, NC: University of North Carolina Press, 1959, pp. 84–106; Elmus Wicker, *Banking panics of the gilded age*, Cambridge: Cambridge University Press, 2000. Charles P. Kindleberger combined narrative and theoretical elements in his work on financial crises, see Charles P. Kindleberger, *Historical economics: art or science?*, New York: Harvester Wheatsheaf, 1990; and Charles P. Kindleberger, *Manias, panics, and crashes: a history of financial crises*, London: Macmillan, 1978. For a critique of Kindleberger from a historian's point of view, see Youssef Cassis, 'Economic and financial crises', in Jürgen Kocka and Marcel van der Linden, eds., *Capitalism: the reemergence of a historical concept*, London: Bloomsbury, 2016, p. 22. For an approach combining economic theory and cultural-historical explanations, see Christoph Nitschke, 'Theory and history of financial crises: explaining the panic of 1873', *Journal of the Gilded Age and Progressive Era*, 17, 2, 2018, pp. 221–40. Two recent accounts employ a comparative framework in which lessons from earlier crises are applied to the present: see Nouriel Roubini and Stephen Mihm, *Crisis economics: a crash course in the future of finance*, New York: Penguin Press, 2010; Barry Eichengreen, *Hall of mirrors: the Great Depression, the Great Recession, and the use – and misuses – of history*, Oxford: Oxford University Press, 2015. On political versus economic events from the historian's point of view, see William H. Sewell, 'Economic crises and the shape of modern history', *Public Culture*, 24, 2, 2012, p. 317.

[5]Hannah Catherine Davies, *Transatlantic speculations: globalization and the panics of 1873*, New York: Columbia University Press, 2018.

[6]Jessica Lepler, *The many panics of 1837: people, politics, and the creation of a transatlantic financial crisis*, Cambridge: Cambridge University Press, 2013, p. 6.

[7]See, for example, Kevin H. O'Rourke and Jeffrey G. Williamson, *Globalization and history: the evolution of a nineteenth-century Atlantic economy*, Cambridge, MA, 1999; Wolfram Fischer, *Expansion – Integration – Globalisierung: Studien zur Geschichte der Weltwirtschaft*, Göttingen: Vandenhoeck & Ruprecht, 1998; Michael D. Bordo, Alan M. Taylor, and Jeffrey G. Williamson, eds., *Globalization in historical perspective*, Chicago, IL: University of Chicago Press, 2003. For a succinct summary of nineteenth-century globalization, see also Jürgen Osterhammel and Niels P. Petersson, *Globalization: a short history*, Princeton, NJ: Princeton University Press, 2005, pp. 57–90. For a critique similar to mine, see Christof Dejung and Niels P. Petersson, 'Introduction: power, institutions, and global markets – actors, mechanisms, and foundations of worldwide economic integration, 1850–1930', in Christof Dejung and Niels P. Petersson, eds., *The foundations of worldwide economic integration: power, institutions, and global markets, 1850–1930*, Cambridge: Cambridge University Press, 2013, pp. 1–17; more generally on the historicity of economic concepts and theories, see Christof Dejung, Monika Dommann, and Daniel Speich-Chassé, 'Einleitung', in Christof Dejung, Monika Dommann, and Daniel Speich-Chassé, eds., *Auf der Suche nach der Ökonomie*, Tübingen: Mohr Siebeck, 2014, pp. 1–16.

despite a process of rapidly accelerating international economic integration in the shape of cross-country flows of capital and goods in the years leading up to the panic, financiers and financial commentators, during my period of investigation (*c.*1870–78), often barely saw this unfolding globalization. Instead, their writings suggest that they perceived integration generally at most in partial terms of bilateral financial and economic relations.

What is more, the Atlantic was considered not simply a stage of economic exchange, but just as much a barrier to the free flow of information. When panic struck in 1873, the experience of interconnectedness was asymmetrical: acute only on the German and Austrian side, and barely existent on the American one. Following the panics, the asymmetry that had characterized the experience of contemporaries in the last months of 1873 reproduced itself in debates on currency issues. While German and Austrian theorists suggested that their national panic had been brought on by monetary isolation, to which the introduction of a gold-backed currency would provide an antidote, Americans did not speak of similar isolation. Because integration had not been part of the experience of the 1873 panic, its opposite, isolation, could not enter the American debate; instead, nationalism dominated. Somewhat surprisingly, then, the panics of 1873 did not significantly change the semantics of globalization on either side of the Atlantic.

When examining these issues, financial panics present a promising topic because they showcase the coexistence of interconnectedness and isolation, challenging historical actors to interpret and explain it.[8] Of course, when seeking to retrieve the experiential and subjective dimension of globalization and interconnectedness, the result can of necessity only be a partial reconstruction.[9] But what even such a partial reconstruction reveals is that the panics of 1873 do not neatly fit into a narrative of ever-growing interconnectedness. Historians have repeatedly observed that globalization does not give rise to greater homogeneity but also reinforces, even produces, difference.[10] As this article shows, this applies not only with respect to material and institutional aspects such as immigration law and tariffs but also to the subjective experience of globalization.

Although the panics of 1873 were certainly not the first ones with an international scope, they nevertheless make for a particularly interesting case study. First, while the earlier panics of 1825–26, 1837, and 1857 spanned more than one country, they did not affect the European continent to the same degree.[11] Secondly, and more importantly, the panics of 1873 happened at a time when globalization compared to earlier decades was rapidly gaining in speed and visibility. Not only was it the first crisis to occur after the laying of the transatlantic cable in 1866, it also followed a period (1830–70) during which world trade grew at a peak rate of 53% per decade,

[8]For an analogous argument with regard to literary texts, see David A. Zimmerman, *Panic! Markets, crises, and crowds in American fiction*, Chapel Hill, NC: University of North Carolina Press, 2006.

[9]Paul A. Cohen, *History in three keys: the Boxers as event, experience, and myth*, New York: Columbia University Press, 1997. For a micro-historical transnational reconstruction of the panics of 1837, see Lepler, *Many panics*. Two recent US-centric accounts that examine the American panic of 1873 from the perspective of bankers, investors, and financiers are Jonathan Levy, *Freaks of fortune: the emerging world of capitalism and risk in America*, Cambridge, MA: Harvard University Press, 2012, ch. 4, and Richard White, *Railroaded: the Transcontinentals and the making of modern America*, New York: Norton, 2011, pp. 64–84. On the bubble in submarine technology companies from a media history perspective, see Dwayne Winseck, 'Double-edged swords: communications media and the global financial crisis of 1873', in Peter Putnis, Chandrika Kaul, and Jürgen Wilke, eds., *International communication and global news networks: historical perspectives*, New York: Hampton Press, 2011, pp. 55–81.

[10]See, for example, Christopher A. Bayly, *The birth of the modern world*, 1780–1914, Malden, MA: Blackwell, 2004, p. 1; Adam McKeown, 'Periodizing globalization', *History Workshop Journal*, 63, 1, 2007, p. 220; Frederick Cooper, *Colonialism in question: theory, knowledge, history*, Berkeley, CA: University of California Press, 2005, pp. 95, 11. 'Interchange: globalization and its limits between the American Revolution and the Civil War', *Journal of American History*, 103, 2, 2016, *passim*. For a detailed account of competing visions of American economic globalization that could include protectionism, see Marc-William Palen, *The 'conspiracy' of free trade: the Anglo-American struggle over empire and economic globalization, 1846–1896*, Cambridge: Cambridge University Press, 2016.

[11]On German cities during the 1857 crisis, see Hans Rosenberg, *Die Weltwirtschaftskrise von 1857–1859: mit einem Vorbericht*, 2nd edn, Göttingen: Vandenhoeck & Ruprecht, 1974, pp. 128–30.

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a development that was not least due to falling tariff barriers. During this time, according to two economic historians, 'the world came close to attaining the ideal trading conditions postulated by classical economic theory'.[12] The panics of 1873, then, coincided with a period during which economic interconnectedness was more visible and more intense than ever before.

Economic growth and tropes of global interconnectedness

For Germany, Austria, and the United States, the late 1860s and the early 1870s were a period of rapid economic growth. A series of reforms in the late 1860s had spurred the movement of goods and people within the German lands, and an overhaul of German corporation law in 1870 meant that promoters no longer needed a government licence to establish joint stock companies, which quickly began proliferating on a hitherto unforeseen scale. Their shares were snapped up by eager investors, and capital markets, already flush with money, received a further boost with the payment of the French war indemnity. Having been imposed by the victorious German side in the Versailles peace treaty following the Franco-Prussian War of 1870–71, the indemnity's final instalment was completed in September 1873. The payments were channelled through London with the help of British financial intermediaries. The British capital was, at the time, Europe's foremost financial hub, and the only one sufficiently large to engineer such a significant operation.[13]

Though Austria had been defeated in the 1866 war, there, too, the military effort had spurred economic growth. Having suspended specie payments and issued paper money in order to defray the costs of war, Austrians quickly experienced the beneficial side effects of an expanded money supply, as investment, trade, and production – aided by a series of 'wonder harvests' from 1867 onwards – began growing at a rapid pace. The ensuing speculative frenzy received a first blow with the stock market crash of 1869 but stock prices quickly resumed their upward movement.[14] In the United States, specie payments had similarly been suspended and the money supply expanded as part of the Civil War effort, and the years following the war's end were a period of sustained economic growth.[15]

In all three countries, the railway network rapidly expanded during these years, stimulating other sectors, most notably the iron and mining industries. The sheer size and scope of these enterprises compelled their promoters to raise the necessary capital through incorporation, selling shares and bonds to a large number of investors who were promised high rates of return.[16] Commenting on these developments, the Berlin Board of Trade wrote: 'Railway construction has never been as dynamic as in these years: in Germany, Austria-Hungary, in Russia, North America, in far-away India and even in Japan; the telegraphic connection has moved the farthest countries closer to each other and regular steamship lines have multiplied.'[17]

The theme of interconnectedness appeared with some frequency in popular economic discourse in these years. As early as the 1860s, German observers of the international economy

[12] A. G. Kenwood and A. L. Lougheed, *The growth of the international economy: an introductory text*, 3rd edn, London: Routledge, 1992, p. 61.

[13] Markus Baltzer, *Der Berliner Kapitalmarkt nach der Reichsgründung 1871: Gründerzeit, internationale Finanzmarktintegration und der Einfluss der Makroökonomie*, Berlin: Lit, 2007, pp. 5–8; Arthur E. Monroe, 'The French indemnity of 1871 and its effects', *Review of Economics and Statistics*, 1, 1919, pp. 269–81.

[14] Herbert Matis, *Österreichs Wirtschaft, 1848–1913: konjunkturelle Dynamik und gesellschaftlicher Wandel im Zeitalter Franz Josephs I*, Berlin: Duncker & Humblot, 1972, pp. 155–8.

[15] Robert E. Gallman, 'Growth and change in the long nineteenth century', in Stanley L. Engerman and Robert E. Gallman, eds., *Cambridge economic history of the United States, volume 2: the long nineteenth century*, Cambridge: Cambridge University Press, 2000, p. 25.

[16] Baltzer, *Berliner Kapitalmarkt*, pp. 17–27; Matis, *Österreichs Wirtschaft*, pp. 185–93; E. Ray McCartney, 'Crisis of 1873', PhD thesis, University of Nebraska, 1932, p. 15.

[17] *Bericht über den Handel und die Industrie von Berlin im Jahre 1872, nebst einer Uebersicht über die Wirksamkeit des Aeltesten-Collegiums vom Mai 1872 bis Mai 1873 erstattet von den Aeltesten der Kaufmannschaft von Berlin*, Berlin, 1873.

had coined the term 'world economy' (*Weltwirtschaft*) to denote what they believed to be a novel development in which different nations assumed different functions as part of an organic global whole.[18] David M. Wells wrote in a similar vein in 1871, 'the extension and use of railroads, steamships, and the telegraph have broken down the barriers of nationalities, and, by bringing people geographically remote into close commercial correspondence and connection, have made, as it were, the whole world one'.[19] A German observer commented that 'Just as we nowadays combine at the table tropical spices, wines from Spain and France, caviar from Russia with the bread and meat of our fatherland, so does the casket [*Chatoulle*] of a capitalist easily combine the bonds of Italian railways with the government bonds and premium bonds of his home country.'[20]

These utterances at first glance suggest that contemporaries did indeed see growing global interconnectedness, and described it in terms that were not very different from those employed by economists and economic historians working today. But a more careful look at contemporary discourse on financial markets, whose quality and workings appeared less visible and 'real', as it were, than the very material connections established by railway lines and even telegraphic cables, reveals that globalization in financial markets was more difficult to see, and presented contemporaries with considerable interpretative challenges. In this respect, the above-quoted comparison between the globalization in food and wine on the one hand, and the globalization of financial instruments on the other, was atypical, for it posited a likeness between flows and connections of very different qualities that few contemporaries shared. More common, especially in times of crisis, as I will argue, was a view of financial entanglement that defied easy description. This view is neatly captured in another contemporary comment on the New York Stock Exchange, where, according to one writer, in recent years 'foreign and domestic influences, local and national interests, have mingled in an almost inextricable confusion'.[21] This 'confusion', as the following sections will show, occupied the minds of investors and financial writers in the early 1870s.

Transatlantic financial flows and obstacles

From an economist's perspective, the very existence of international capital flows during this period is evidence of integrating markets in which national borders mattered less and less.[22] From the perspective of the contemporary investor, however, the matter was much less straightforward. To him (and, more rarely, her), the transatlantic capital market was not an abstract institution of anonymous monetary relations but a space in which physical distance still loomed large. For the investors and financial intermediaries who made the speculative bubble of the early 1870s, physical distance was at least as much a barrier to, as it was an empty container for, the free flow of capital and information.

The 1860s had seen a new entry to transatlantic capital markets in the shape of securities of railways that traversed the American West. Unlike earlier American railroads, which had been constructed to serve already existing centres of commerce, western railroads were built through vast spaces in anticipation of new settlements which would one day supply them with traffic. While promoters of earlier railroads had often relied on investors from towns through which these would pass, western and transcontinental railroads were built with capital from investors who never set eyes on the object of their investment. For this reason, American investors were sceptical

[18]Hans Pohl, *Aufbruch der Weltwirtschaft: Geschichte der Weltwirtschaft von der Mitte des 19. Jahrhunderts bis zum Ersten Weltkrieg*, Stuttgart: Franz Steiner Verlag, 1989.

[19]'*Financial relations of the United States Bankers' Magazine*, June 1871, p. 902.

[20]Gustav Cohn, *Die Börse und die Spekulation*, Berlin: Lüderitz, 1868, pp. 7–8.

[21]'The end of an era of speculation', *The Nation*, 30 June 1870, pp. 415–16.

[22]See, for example, Lance E. Davis and Robert J. Cull, 'International capital movements, domestic capital markets, and American economic growth, 1820–1914', in Engerman and Gallman, *Cambridge economic history*, pp. 733–812; Christopher Hoag, 'The Atlantic telegraph cable and capital market information flows', *Journal of Economic History*, 66, 2, 2006, pp. 342–53.

of the bonds of western railroads, which, though secured by a mortgage lien designed to guarantee the investment in case of default, were traded at high rates of interest.[23] Because the American market was not large enough to absorb the rapidly growing supply of railway bonds during these years, American promoters, as in previous decades, looked to Europe.[24]

One class of financial intermediaries, namely journalists, was particularly preoccupied with the issue of physical distance between the investor and the object of his or her investment.[25] Thanks to banks, railways, and steamships, financial securities and bills of exchange seemingly flowed freely between the two continents; information, however, did not. German journalists writing about American railroads had practically no access to first-hand information, and instead had to rely on the reports of bankers, who often held a vested interest in the securities they promoted, as well as on reports by American papers. While some German papers paid for the services of American correspondents, these lived in New York, and were similarly dependent on what they were told by members of the local financial community. A privileged source of information was the *New Yorker Handelszeitung*, a German-language paper focusing on German–American trade whose articles were often reprinted in German financial publications. The German consul Johannes Roesing suggested that the *Handelszeitung*'s articles were biased and promoted the interests of New York bankers rather than those of the public.[26] But, whether for practical linguistic reasons or because articles written by Germans were deemed inherently more trustworthy, its articles were in great demand in Berlin and Frankfurt.

Journalists frequently voiced their concerns over the reliability of the information they printed. 'Assessing the value or lack thereof of American railroad securities is very difficult', one writer noted in a recently established magazine aimed a non-specialist wealthy investors, 'since one depends on the communications of American papers which may be very coloured ... German heavy railroad securities offer a similarly good opportunity for placing capital at a high rate of interest' – which, unlike American railroad bonds, would retain their value even in a crisis.[27] According to this journalist, where German securities were concerned, the issue of physical distance was much less pressing, and, like most of his peers, he did not suggest that German newspapers were as unreliable as their American counterparts.[28] Here, then, was one reason for the confusion engendered by transnational capital flows: the object of investment was situated on the other side of the Atlantic, and flows of information lacked transparency. What is evident here, too, is that German investors 'saw' globalization very differently from national market integration. Whereas the former appeared confusing and incomplete, the latter seemed, though perhaps not fully integrated, at least sufficiently so to render distance largely irrelevant.

[23]White, *Railroaded*, pp. 20–1, 34–8; Jonathan Barron Baskin, 'The development of corporate financial markets in Britain and the United States, 1600–1914: overcoming asymmetric information', *Business History Review*, 62, 2, 1988, p. 215.

[24]Mira Wilkins, *The history of foreign investment in the United States to 1914*, Cambridge, MA: Harvard University Press, 1989, pp. 109–21.

[25]On nineteenth-century financial journalism, see Wayne Parsons, *The power of the financial press: journalism and economic opinion in Britain and America*, Aldershot: Edward Elgar, 1989; Mary Poovey, *Genres of the credit economy: mediating value in eighteenth- and nineteenth-century Britain*, Chicago, IL: University of Chicago Press, 2008, pp. 243–75; Alfred D. Chandler, *Henry V. Poor: business editor, analyst, and reformer*, Cambridge, MA: Harvard University Press, 1956; David P. Forsyth, *The business press in America, 1750–1865*, Philadelphia, PA: Chilton Books, 1964; Douglas Steeples, *Advocate for American enterprise: William Buck Dana and the Commercial and Financial Chronicle*, Westport, CT: Greenwood Press, 2002; Eli Cook, *The pricing of progress: economic indicators and the capitalization of American life*, Cambridge, MA: Harvard University Press, 2017, pp. 140–56; Robert Radu, *Auguren des Geldes: eine Kulturgeschichte des Finanzjournalismus in Deutschland 1850–1914*, Göttingen: Vandenhoeck & Ruprecht, 2017.

[26]Geheimes Staatsarchiv Preußischer Kulturbesitz, Berlin, I. HA Rep. 120 Ministerium für Handel und Gewerbe, C IX 1 Nr. 28, vol. 1, pp. 40–2, 7 May 1870.

[27]'Transatlantisches', *Zeitschrift für Kapital und Rente*, 5, 1869, p. 303.

[28]For similar expressions of scepticism regarding American papers and American railroad bonds, see, for example, 'Amerikanische Post', *Aktionär*, 26 February 1871, p. 120; 'Frankfurter Börse', *Aktionär*, 1 October 1871, p. 692; 'Die Gefährdung des Aktienbesitzes', *Zeitschrift für Kapital und Rente*, 9, 1873, p. 145.

Throughout 1872, the number of newly incorporated companies was rising rapidly in both Austria and Germany,[29] while, in the United States, 'the pressing demand for money on behalf of the numerous and heavy railroad undertakings in the West' became the 'most engrossing topic on Wall Street'.[30] Advertisements for new stocks and bonds proliferated in newspapers on both sides of the Atlantic. In this atmosphere, more and more investors and observers began wondering whether the feverish activity could be sustained much longer. By the last third of the century, many theorists and financial commentators had come to assume that panicked disruptions to financial activity had become a recurrent phenomenon.[31] What if a crisis like the one last seen in 1857 or (in a milder version) 1866 were to engulf the financial and commercial world?[32] Journalistic and statistical-theoretical accounts of past crises emphasized their interconnected, transatlantic nature.[33] But, although past crises provided a frame of reference, amid a plethora of proliferating signs and information, predictions were fraught with uncertainty, and in 1872 and early 1873, most contemporaries did not expect a transatlantic, much less a global, crisis. Relying on economic maps that provided them with a measure of orientation, observers analysed their own country's affairs not with reference to a global economy, but in much narrower geographical terms.

When American financial writers cast their glance abroad, they focused on the London money market, where banks, merchants, and sovereigns from all over the world kept funds.[34] Between 1871 and 1873, moreover, the City's financial institutions played a crucial role in transferring the French indemnity from Paris to Berlin (see above). Throughout this period, the Bank of England kept a close eye on the City's money market, displaying a 'restless caution' in intervening at an accelerating pace to adjust the rate of discount and channel the flow of gold.[35] As early as December 1871, the *New York Times*, looking to London, had warned of a coming 'financial storm' which, the correspondent argued, would inevitably spread to the United States: 'we have no right ... to look for an exemption from the consequences of a monetary panic in Europe'.[36]

Most American observers, in contrast, either ignored or downplayed the possibility of an international or transatlantic crisis. Thus the *Commercial and Financial Chronicle* sharply criticized unnamed 'financial prophets' (presumably referring to the *Times*, among others). According to these doomsayers, the article noted, the next 'monetary crisis' would be international, not local in nature, for the financial systems of Europe and the United States were 'more closely interlaced and united ... like gigantic trees whose roots and branches are twined and firmly compacted'. But William Buck Dana, the *Chronicle*'s editor and thus one of the most widely read voices on investment matters, argued that the German speculative fever had already been checked and that the Bank of England's reserves would soon be replenished.[37] Dana did not gainsay the significance of transatlantic connections, but he did not consider European developments particularly alarming from an American perspective. Similarly, *Bankers' Magazine* barely as much as acknowledged the

[29]Eduard März, *Österreichische Industrie- und Bankpolitik in der Zeit Franz Josephs I. Am Beispiel der k. k. priv. Österreichischen Credit-Anstalt für Handel und Gewerbe*, Vienna: Europa-Verlag, 1968, p. 145; Baltzer, *Berliner Kapitalmarkt*, p. 27.

[30]'Notes on the money market', *Bankers' Magazine*, July 1872, p. 76.

[31]Paul Barnett, *Business-cycle theory in the United States: 1860–1900*, Chicago, IL: University of Chicago Press, 1941, pp. 30–1; Jürgen Kromphardt, 'Konjunktur- und Krisentheorie in der 2. Hälfte des 19. Jahrhunderts', in Bertram Schefold, ed., *Studien zur Entwicklung der ökonomischen Theorie VII*, Berlin: Duncker & Humblot, 1989, p. 13.

[32]'Einige Betrachtungen über das Finanzwesen der Gegenwart', *Zeitschrift für Kapital und Rente*, 8, 1872, 13; 'Die Folgen des Gründungsschwindels und der Überspekulation', *Berliner Tageblatt*, 23 January 1872.

[33]Max Wirth, *Geschichte der Handelskrisen*, Frankfurt am Main: J. D. Sauerländer, 1858, p. 151; Clément Juglar, *Des crises commerciales et de leur retour périodique en France, en Angleterre et aux États-Unis*, Paris: Guillaume & Cie., 1862, p. 13.

[34]Ranald C. Michie, *The City of London: continuity and change, 1850–1990*, Basingstoke: Palgrave, 1992, pp. 72–8.

[35]John Clapham, *The Bank of England: a history*, 2 vols., Cambridge: Cambridge University Press, 1970 (first published 1944), vol. 2, pp. 291–2.

[36]'The impending financial storm', *New York Times*, 16 December 1871, p. 4.

[37]'Our financial prophets and their vagaries', *Commercial and Financial Chronicle*, 25 May 1872, p. 679.

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French indemnity in 1872, while the *Chicago Daily Tribune* noted a few times that the French loan would sooner or later drain gold from the Bank of England's vaults but did not consider possible consequences for American businesses.[38]

Another reason why London loomed large on Americans' economic map was political in nature. Throughout the first half of 1872, investors and journalists on both sides of the Atlantic anxiously followed the dispute between the American and British governments over compensation demanded by the former for costs incurred through the actions of British-built Confederate raiders during the Civil War. When negotiations between the two countries threatened to fall apart on several occasions, financial markets plummeted. The *Bankers' Magazine* noted in June that 'Such are the intimate business relations between the people of both countries that any serious questions that can possibly disturb the friendly feeling among the merchants and capitalists of the two countries will ... prevent the free interchange of orders.'[39] When the Alabama question was finally resolved in July, investors greeted the news with relief.[40]

The European continent, in contrast, did not occupy a major position on Americans' economic map. Beginning in mid 1872, the German demand for American railroad bonds declined precipitously. During the previous year, three American railroads had defaulted on their payments; by the end of 1872, that number would climb to a total of twelve.[41] In November, one observer noted that the German market 'for American Railway bonds or securities of any kind' had practically ceased to exist.[42] But the sudden European distaste for American railroad bonds elicited relatively little alarm among financial writers.[43]

Compared to developments on the other side of the Atlantic, domestic concerns appeared more pressing. As in previous years, the beginning of the harvest season had caused tightness in the New York money market, as country banks called in deposits from New York institutions. In addition, the treasury had retired greenbacks from circulation in July. In response to the resulting acute currency shortage, speculators in New York had attempted to corner the market for greenbacks, and a panic was only narrowly averted when the Assistant Secretary of the Treasury, William Richardson, began buying bonds, thus re-releasing greenbacks into the system.[44] But still money remained tight well into the following year; unlike in previous years, the end of the harvest season failed to bring relief. The banker J. P. Morgan informed his father in April 1873,

> I do not think that the stringency in money can continue many days and as soon as the April settlements are over, the large amounts which have been drawn from N. Y. into the country will come back ... although I do not look for the usual summer money market, such as we have been accustomed to have for the last few years.[45]

In sum, then, compared to their continental European counterparts, American observers were much more likely to either ignore or downplay transnational financial connections. Where European affairs did enter their view, it was often only to the extent that it affected London,

[38]'New York', *Chicago Tribune*, 4 May 1872, p. 6; 'Money and commerce', *Chicago Tribune*, 30 October 1872, p. 6; 'Money and commerce', *Chicago Tribune*, 3 December 1872, p. 6.

[39]'Notes on the money market', *Bankers' Magazine*, June 1872, p. 988.

[40]Jay Sexton, *Debtor diplomacy: finance and American foreign relations in the Civil War era 1837–1873*, Oxford: Oxford University Press, 2005, pp. 190–228.

[41]Matthew Simon, *Cyclical fluctuations and the international capital movements of the United States 1865–1897*, New York: Arno Press, 1978, p. 162.

[42]National Archives, College Park, MD, RG 84, Records of Foreign Service Posts, Consular Posts, Berlin, Germany, vol. 014, H. Kreisman to S. McLean & Co., 8 November 1872.

[43]'German capital and our money market', *Commercial and Financial Chronicle*, 11 January 1873, p. 37; see also 'Notes on the money market', *Bankers' Magazine*, December 1872, pp. 491–6.

[44]McCartney, 'Crisis of 1873', p. 46.

[45]Morgan Library, New York, Pierpont Morgan papers, ARC 120, letterpress copybook 1873–80, J. P. Morgan Jr to Pierpont Morgan, 3 April 1873.

the international financial centre. Paramount, in contrast, was the preoccupation with internal American money flows. This sense of isolation would remain in place throughout the following years.

In Germany, meanwhile, during the second half of 1872, investors and observers in the country's leading financial publications, such as the specialist investor weekly *Aktionär* or the liberal daily *Börsen-Zeitung* (a pioneer of financial journalism that also covered politics), displayed an awareness of the possibility of an imminent crisis, though few went as far as to predict a full-blown crash in stock markets.[46] German market observers were more likely than Americans to consider their country's transnational financial relations a source of instability. The foreign bourse that loomed largest on the German economic map was Vienna, a major recipient of outgoing German capital and, many believed, a hotbed of speculation, more excessive even than Berlin.[47] The most conspicuous manifestation of what was termed the 'solidarity' of the two bourses were three highly speculative Austrian stocks which were cross-listed in Berlin.[48] When, in November 1872, prices on the Berlin stock exchange entered into a phase of protracted decline,[49] this only heightened German investors' attention to events in Vienna, which, as the *Berliner Tageblatt* noted in January 1873, had become somewhat 'distressing'.[50] During much of January, the mood on the Berlin stock exchange remained subdued, and the city's leading financial daily noted repeatedly that this was widely believed to be a response to developments in Vienna, where a crisis seemed imminent.[51] When prices ticked upwards towards the end of the month, confidence grew, and Vienna temporarily dropped off the radar.[52]

The French indemnity and its effects on German markets were also widely discussed in late 1872 and early 1873. To most observers, it seemed less dangerous than a possible panic in Vienna. While some believed that past instalments had contributed to the present speculative bubble, others preferred to emphasize that the expectation of future payments would prevent a major crisis – at least for the time being.[53] In a letter to N. M. Rothschild in London, the German banker Gerson von Bleichröder noted that a 'great speculation' had thrust itself onto the Berlin exchange from France and Austria, nourished by the imperial government, which had used the French indemnity to retire its war debt, thus flooding markets with money. Bleichröder explicitly noted that he did not expect a crisis, a prediction he confidently repeated in April, just as the German bear market was entering its fifth month.[54]

In May, the question of German financial markets' susceptibility to Austrian influences was put to a first major test. After registering an all-time high at the end of March, the prices of securities listed on the Viennese stock exchange began to decline, and ominous warning signs multiplied.

[46]'Berlin, den 2. October 1872', *Berliner Börsen-Zeitung*, 2 October 1872, evening edn, p. 12; 'Frankfurter Börse', *Aktionär*, 6 October 1872, p. 848; 'Frankfurter Börse', *Aktionär*, 22 December 1872, p. 1069.

[47]'Oestreichische Briefe', *Aktionär*, 17 November 1872, p. 986; 'Berlin, den 8. October 1872', *Berliner Börsen-Zeitung*, 8 October 1872, evening edn, p. 10.

[48]Markus Baltzer, 'Cross-listed stocks as an information vehicle of speculation: evidence from European cross-listings in the early 1870s', *European Review of Economic History*, 10, 3, 2006, pp. 301–27.

[49]Ulrich Ronge, *Die langfristige Rendite deutscher Standardaktien: Konstruktion eines historischen Aktienindex ab Ultimo 1870 bis Ultimo 1959*, Frankfurt am Main: Lang, 2002, p. 212; Anja Weigt, *Der deutsche Kapitalmarkt vor dem Ersten Weltkrieg: Gründerboom, Gründerkrise und Effizienz des deutschen Aktienmarktes bis 1914*, Frankfurt am Main: Knapp, 2005, p. 83.

[50]'Berliner Cours-Bericht', *Berliner Tageblatt*, 8 January 1873.

[51]'Berlin, den 8. Januar 1873', *Berliner Börsen-Zeitung*, evening edn, 8 January 1873, p. 10; see also the stock market reports in *Berliner Börsen-Zeitung*, 9, 10, 14, and 15 January 1873, evening edn, p. 10.

[52]'Berlin, den 17. Januar 1873', *Berliner Börsen-Zeitung*, evening edn, 17 January 1873, p. 10; see also the stock market reports in *Berliner Börsen-Zeitung*, 21, 23, and 29 January 1873, p. 10.

[53]'Frankfurter Börse', *Aktionär*, 17 November 1872, pp. 964–5; 'Berlin, den 3. Januar 1873', *Berliner Börsen-Zeitung*, 3 January 1873, evening edn, p. 9.

[54]Rothschild Archive, London (henceforth RAL), XI/64/0: 1872, Gerson von Bleichröder to N. M. Rothschild and Sons, 21 November 1872; XI/64/0: 1873, Gerson von Bleichröder to N. M. Rothschild and Sons, 19 April 1873.

Some of Austria's large banks announced unexpectedly meagre dividends, and those who at first seemed to show greater largesse were soon revealed to have cooked their books. For a while, investors pinned their hopes on the opening of the world exhibition in May. When visitors appeared in much lower numbers than anticipated, however, share prices were sent tumbling, a full-blown crash ensued, and brokers and speculators went down en masse.[55]

In Germany, observers spent the following days and weeks assessing the possible effects of the Viennese crash on their home markets, and concluded that German bourses, though depressed, displayed no signs of a similar full-blown panic. Although the mood remained gloomy, it seemed that German bourses were proving resilient to Austrian shocks.[56] In June, a correspondent in Frankfurt noted that local investors had resisted the impulse to follow the example of Viennese investors.[57] In a private letter, the entrepreneur Werner Siemens, by contrast, claimed that a gradual decline in prices in Berlin was more likely than a full-blown crash, though probably no less worrying.[58] By August, however, the *Aktionär* could confidently claim that 'no sound person familiar with the stock markets still expects a sudden crash', and that a disaster at the Berlin bourse was practically impossible.[59] Three weeks later, Bleichröder reported to London that conditions in Berlin and Vienna were improving daily, and that there was reason to hope that a 'regular bull market' would begin in the autumn.[60] Amid this general mood of cautious optimism, only the *Deutsch-Amerikanische Oekonomist* believed that a worldwide crisis was on the horizon: 'one cannot deny the many precursors of a crisis, and the world is at the moment too strongly interlaced for a crisis to play out in one country without touching all others to a greater or lesser degree'.[61]

In the United States, commentators were unsure at first whether or not American markets would be affected. Unlike their German counterparts, American commentators during the previous months had been paying little attention to Austrian developments, and lacked a preconceived framework of what a crisis there might entail. 'The news from the Continent is not reassuring', the *Tribune* noted at first, 'and though affairs abroad should not in the natural order of things be provocative of so much distrust ... its effects are certainly disquieting.'[62] Manifest here once again was a view of the United States as a largely isolated entity: this was the 'natural order', and any outside influence was thus a rare exception. The *Independent*'s report on the American money market took a different tack: 'It is always possible to make something like a trustworthy forecast when we base our calculations on the financial condition of our own country, but, since we are so intimately connected with all other commercial countries, it is difficult to make any calculations as to the future of money.' At the same time, the correspondent claimed that the 'trouble in Vienna' was 'wholly unlooked-for', suggesting that this awareness of America's interconnectedness was a new one.[63]

Even this correspondent did not assume a direct mechanism of transmission: although American bankers had no direct links to the Austrian markets, they might still feel the effects if Berlin and London experienced trouble; the Bank of England, indeed, had already advanced

[55]Joseph Neuwirth, *Die Speculationskrisis von 1873*, Leipzig: Duncker & Humblot, 1874, pp. 74–7, 82–92.

[56]'Börsen- und Geldverhältnisse in Wien', *Berliner Börsen-Zeitung*, 9 May 1873, evening edn, p. 1; 'Misstrauen', *Berliner Börsen-Zeitung*, 15 May 1873, evening edn, p. 3. A recent study confirms this contemporary view: see Baltzer, *Berliner Kapitalmarkt*, p. 102.

[57]'Frankfurter Börse', *Aktionär*, 15 June 1873, p. 545.

[58]Werner Siemens to Wilhelm Siemens, 17 May 1873, in Werner Siemens, *Ein kurzgefaßtes Lebensbild nebst einer Auswahl seiner Briefe: aus Anlass der 100. Wiederkehr seines Geburtstages*, ed. Conrad Mayschoß, vol. 2, Berlin: Julius Springer, 1916.

[59]'Berliner Börse', *Aktionär*, 3 August 1873, p. 658.

[60]RAL, XI/64/0: 1873, Gerson von Bleichröder to N. M. Rothschild and Sons, 26 August 1873.

[61]'Volkswirthschaftliche Revue. Die Chancen des Welthandels. (Aus dem "Deutsch-Amerikanischen Oeconomist")', *Oesterreichischer Oeconomist*, 28 June 1873.

[62]'The money market', *New York Tribune*, 17 May 1873, p. 9.

[63]'Financial. Money market', *Independent*, 22 May 1873, p. 10; Clapham, *Bank of England*, p. 293.

its rate of discount. (It would increase the rate six times between 7 May and 6 June, before reversing course.[64]) As in previous months, Americans employed an economic map that was centred on London. New York banker August Belmont, the Rothschild's American agent, noted on 13 and 15 May that markets were 'unsettled' and interpreted this state as a reaction to the 'unfavorable financial advices from Vienna + the other German markets'.[65] On 16 May, however, he concluded that, while apprehensions were 'not allayed, our markets are not further affected by the troubles on the continent, excepting the exchanges which are steadily moving upwards'.[66] American markets, it now seemed, had successfully withstood an external shock. By the end of June, things were looking brighter to Americans than at any point during the past months. Money was abundant, gold exports were lower, and there were even signs that sales of US securities in Europe were beginning to pick up.[67]

Comparing the German and American experience of the Vienna panic, it becomes clear that financiers and financial commentators employed different frameworks: Germans had been anxiously watching Vienna for many months, expecting any disruption to spill over to their home market. They were, then, attuned to their country's interconnectedness. Americans, by contrast, were surprised by the Vienna troubles, more inclined to consider their country immune from developments on the European continent.

On Thursday, 18 September 1873, Jay Cooke & Co. announced the suspension of payments. Cooke, the financier of the Northern Pacific Railroad, had – despite a widely publicized campaign – failed to place sufficient amounts of bonds with American and European investors, and in order to cover the shortfall had advanced funds to the railroads which he took from the bank's deposits. When depositors began withdrawing funds to defray the costs of the autumn harvest, Cooke was forced to suspend payments.[68]

The failure of such a large and reputable bank immediately sent shock waves through the city's financial community. As in the previous year, William Richardson began buying bonds to relieve some of the monetary pressure, while the New York Stock Exchange temporarily closed its doors to avert further panicked selling. New York banks, in the shape of the Clearing House Association, pooled their members' resources and issued certificates allowing institutions to temporarily settle inter-bank accounts, thus further increasing liquidity. At the same time, they continued to advance funds to banks outside New York. Despite these emergency measures, however, banks in other parts of the country did not escape the panic's effects, and bank runs, suspensions of cash payments, and failures were soon being reported from the Midwest, as well as down the eastern seaboard, in Philadelphia, Washington, DC, Virginia, Georgia, and South Carolina.[69]

Cooke's failure reverberated on the other side of the Atlantic, too. For several days, German observers insisted that, as long as no major failures occurred in London, the continent, too, was safe.[70] Since Germans had mostly shunned bonds of the Northern Pacific Railroad, they did not stand to lose much.[71] In the British capital, the news of Cooke's failure had been greeted with alarm. Because New Yorkers were selling bills of exchange in their scramble for cash, and exchange dealers, suffering a panic-induced crisis of confidence, could not absorb the sudden glut,

[64]The reasoning behind the rate rise is not recorded in the Bank of England Archive, Committee of the Treasury Minute Book, vol. 35.

[65]RAL, XI/62/23B, August Belmont to N. M. Rothschild and Sons, 13 and 15 May 1873.

[66]RAL, XI/62/23B, August Belmont to N. M. Rothschild and Sons, 16 May 1873.

[67]Sprague, *History of crises*, pp. 32–3. For a differing, but unconvincing account, see Nelson, *Nation of deadbeats*, p. 164.

[68]Ellis P. Oberholtzer, *Jay Cooke: financier of the Civil War*, vol. 2, Philadelphia, PA: George W. Jacobs & Co., 1907, pp. 183–222, 232–9; Henrietta M. Larson, *Jay Cooke: private banker*, Cambridge, MA: Harvard University Press, 1936, pp. 298–307, 339–62, 392–3.

[69]Wicker, *Banking panics*, pp. 22–6.

[70]'Max Wirth über die amerikanische Krisis', *Teplitz-Schönauer Anzeiger*, 4 October 1873, p. 737; 'Berlin, den 20. September 1873', *Berliner Börsen-Zeitung*, 20 September 1873, evening edn, p. 10.

[71]'Der amerikanische Krach', *Aktionär*, 28 September 1873, p. 761.

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the foreign exchange market experienced a brief period of disruption. On 25 September, a large amount of gold left the Bank of England's vaults for export to the United States, thus restoring calm to the foreign exchange.[72] The flow of gold continued throughout October, to which the Bank of England reacted by raising its rate several times in quick succession.[73] Several large London banks, meanwhile, pledged to provide each other and their smaller peers with liquidity in the event of a sudden squeeze. Although some remained fearful through October, the world's largest financial centre managed to avert a major crisis.[74]

But despite the relative calm in London, Germany and Austria were not to be spared. By the first week of October, rumours were swirling that several Berlin companies were in severe distress. On 11 October, the Quistorp'sche Vereinsbank suspended payments.[75] By then, failures were being announced all over the country.[76] In Vienna, too, Cooke's failure sent investors panicking and prices sliding. 'For there, across the great ocean,' one observer mused in early October in the city's leading liberal daily, 'lies that clew from which everything that is still moving us in Europe has been unravelling, and it will probably be moving us for some time to come.'[77] In a similar vein, the *Morgen-Post* had noted in late September that the 'solidarity of all money markets' was exacerbating Austria's economic woes, and that the Vienna bourse could no longer hope to rely on foreign markets for its recovery.[78] To some it seemed that what was unravelling was a crisis of worldwide proportions:

> The solidarity of the money markets of the world has recently been emerging most distinctively. Of course, the symptoms in Europe are of another kind from those in America or Asia or wherever modern speculation sediments, and in the wealthy west and wealthy central Europe the manifestations will have a different colour than in the east, north or south. . . . Through all these undeniable differences shines a very specific solidarity, and this commonality is displayed on the stock markets.[79]

If in Germany and Austria, some observers were beginning to conceive of the crisis as international in scope, the same was not true of America. There, these distant reverberations mostly failed to register on the public's mind, and the crisis was considered above all an American one. In early October, newspapers published cables announcing 'financial troubles' in Germany.[80] On 4 October, the *New York Journal of Commerce*, a prominent voice of the city's business community, noted that German bourses were experiencing uneasiness and suggested that this was due to the large number of American bonds held by Germans.[81] At the end of the month, August Belmont reported to London that the 'advices from your side of a probable further advance in the Bank rate, troubles in Vienna + unsettled state of things in other continental financial markets . . . tend to retard a restoration to confidence'.[82] But, while news of financial troubles in continental Europe continued to arrive throughout October, even those correspondents who wrote about them in detail by and large did not consider them an effect of the American panic, at most noting

72 Sprague, *History of crises*, pp. 58–9.

73 Clapham, *Bank of England*, p. 293.

74 Edwin J. Perkins, 'In the eyes of the storm: Isaac Seligman and the panic of 1873', *Business History*, 56, 7, 2014, pp. 1133, 1138.

75 'Quistorp'sche Institute', *Berliner Börsen-Zeitung*, 30 September 1873, evening edn, p. 2; 'Handels- und Verkehrsnachrichten', *Vossische Zeitung*, 11 October 1873; 'Banken', *Vossische Zeitung*, 15 October 1873.

76 'Industrie und Handel', *Berliner Tageblatt*, 4 October 1873; 'Falliments in Süddeutschland', *Berliner Tageblatt*, 8 October 1873; Max Wirth, *Geschichte der Handelskrisen*, 2nd edn, Frankfurt am Main: J. D. Sauerländer, 1874, p. 658.

77 'Die amerikanische Krise', *Neue Freie Presse*, 2 October 1873, morning edn, p. 8.

78 'Der Nach-"Krach"', *Morgen-Post*, 27 September 1873, p. 1.

79 'Zur Situation', *Aktionär*, 19 October 1873, p. 1.

80 'Abroad', *Chicago Tribune*, 1 October 1873, p. 5.

81 *New York Journal of Commerce*, 4 October 1873.

82 RAL, XI/62/23D, August Belmont to N. M. Rothschild and Sons, 30 October 1873.

similarities and analogies without suggesting a causal relationship between them.[83] 'It does not appear that the financial crash in America seriously affected the Berlin market', the *Chicago Tribune* reported, the correspondent maintaining that the German speculative bubble had been caused by the French indemnity, and that the German crisis was as unlike the American one 'as a slow fever is unlike a stroke of apoplexy'.[84]

Thus the experience in 1873 of globalization was asymmetrical and uneven. The asymmetry was already on display in the early months, when German observers were watching the Austrian stock exchange carefully, fully expecting an Austrian crisis to affect their home markets. Americans, by contrast, were focused above all on intra-American money flows, worried that monetary tightness in New York City might cause a panic. Financial news did feature developments in London, but the Vienna panic took American observers thoroughly by surprise. The improved conditions in the early summer likely only reinforced their sense of isolation from European affairs. This American 'nationalism', as it were, remained in place during the financial disturbances in the autumn, when the rapid spread of bank runs and monetary stringency throughout the country served to illustrate the internal interconnectedness of the American market, at the expense, perhaps, of recognizing external relations. While Germans and Austrians interpreted their troubles as causally related to American events, these distant reverberations largely failed to register on American minds. At most, they saw analogies. Unlike their European counterparts, they did not see a transatlantic or worldwide crisis.

Crises, currency, and world markets

In the aftermath of the crisis, as this section will show, the idea of an interconnected worldwide economy, and especially of a harmonious world market for currency, informed debates about the panics' causes, about the relationship between world markets and crises, and about transnational economic relations and speculative bubbles. Debates about the panics' causes did not, of course, confine themselves to international issues. In Germany and, to a lesser extent, Austria, Jewish financiers became a popular target in the aftermath of the crisis, and saw themselves accused of profiting from the plight of small investors. But unlike in later decades, this conspiratorial thinking never took a global turn, the alleged conspiracy remaining a national affair. Likewise, reforms to national institutions such as stock exchanges and corporation law became prominent topics of debate in which allusions to worldwide economic competition were conspicuous by their absence (unlike the case in debates on tariff policy and currencies).[85] The following analysis should therefore not suggest that questions of economic interconnectedness were debated at the expense of national issues. What it shows, however, is that the experience of financial panic in 1873, uneven in its reach, shaped the nature of the debate on monetary integration on both sides of the Atlantic, albeit in divergent ways. In all three countries, many economic theorists believed that the introduction of a gold-backed currency would constitute an antidote to future panics. A closer look, however, reveals that, whereas Austrians and Germans frequently alluded to a world market for gold, and suggested that their panics had been the result of a *national* glut of money, Americans were much less likely to consider their country as dependent on international flows of money, and to explain their most recent panic in these terms.

The question of the underlying causes of financial and economic crises had been a matter of debate for several decades prior to 1873. According to one theory, the expansion of trade on a global scale was causally connected to the recurrence of crises during the nineteenth century. For, the more producers aimed to sell goods to consumers in other countries and continents, the more likely they were to overestimate the demand; the resulting overproduction would

[83]'A great failure in Berlin', *Daily Evening Bulletin* (San Francisco), 19 November 1873, p. 2.
[84]'Abroad', *Chicago Tribune*, 29 September 1873, p. 2.
[85]Davies, *Transatlantic speculations*, pp. 123, 127–44.

eventually trigger a crisis. The American economist Henry Carey had argued in the wake of the panics of 1857–58 that 'the tendency towards such crises was always in the direct ratio of the distance of consumers from producers'.[86] If the world market for commodities according to this view was responsible for crises of overproduction, the corollary was that smaller markets, and less international trade, would prevent similar crises in future. 'The larger the dimensions of commercial trade, the bigger the space through which commercial relations expand, the more difficult it becomes to determine with approximate certainty … the markets' solidity', the German protectionist campaigner Franz Stöpel argued in 1875. 'For this reason, that which we call the world market is an unpredictable thing.'[87]

More prominent was the theory that financial crises were caused by monetary factors. In all three countries, many believed that the early 1870s had been unusual in this respect, with governments having expanded the money supply to a considerable degree (see above). The monetary system thus became the subject of an intense political debate which erupted with renewed force in the aftermath of the panics of 1873.[88] The two sides in this debate pitted those who believed that the panic had been caused by monetary scarcity against those who believed it had been caused by an excess of (paper) money. Implicitly or explicitly, these arguments were informed not only by economic interests, and by visions of morality and order, as historians have shown, but also by theories regarding the relationship between the size of a currency area and its efficiency. Those who believed that the money supply should be expanded tended to argue in favour of a national currency, to be established and administered by national institutions that could not be manipulated by foreign economic powers.[89]

Hard money advocates, by contrast, believed that a gold-backed currency would curb speculation and inflation by virtue of its physical qualities, which they claimed constituted intrinsic value. They also emphasized gold's international, even potentially global, character. According to this argument, gold was a natural medium of exchange, and universally recognized as such, and thus ideally suited as a lubricant of international trade. If all nations participating in international commerce adopted gold as their medium of exchange, transactions across national borders would become easier, and the risks of fluctuating exchange rates would disappear.[90]

Even more importantly, gold advocates argued that the global nature of gold would endow it with the advantages of an elastic currency whose volume would rise and fall in accordance with the commercial needs of individual countries at a given time. This, too, was an old argument, but one that assumed renewed force in the aftermath of the panics of 1873. A mere nine days after the failure of Jay Cooke, the *Economist* (whose editor, Walter Bagehot, was an advocate of a gold-backed currency) claimed that, under a 'metallic currency', a country's reserve of money in times of scarcity could be 'replenished from the store of the precious metals in the whole world. But under a system of inconvertible paper of limited amount there is no such comprehensive field

[86]Henry Carey, *Financial crises: their causes and effects*, Philadelphia, PA: Baird, 1860, p. 5. See also Juglar, *Crises commerciales*, p. 5; H. v. Marschall, 'Bedürfnisse, Wohlthaten und Gefahren, heutige Lage und Aussichten des Welthandels', *Welthandel*, 2, 1869, pp. 57–67.

[87]Franz Stöpel, *Die Handelskrisis in Deutschland*, Frankfurt am Main: Expedition des 'Merkur', 1875, p. 7.

[88]Matis, *Österreichs Wirtschaft*, pp. 155–8; Reinhard Kamitz, 'Die österreichische Geld- und Währungspolitik von 1848 bis 1948', in Hans Mayer, ed., *Hundert Jahre österreichischer Wirtschaftsentwicklung*, Vienna: Springer, 1949, p. 143; Barreyre, 'Politics of economic crisis'; Walter T. K. Nugent, *Money and American society, 1865–1880*, New York: Collier & Macmillan, 1968, pp. 175–295; Irwin Unger, *The greenback era: a social and political history of American finance, 1865–1879*, Princeton, NJ: Princeton University Press, 1964, pp. 213–407; Baltzer, *Berliner Kapitalmarkt*, p. 5; Karl Helfferich, *Die Reform des deutschen Geldwesens nach der Gründung des Reiches*, 2 vols., Leipzig: Duncker & Humblot, 1898, vol. 1, p. 312.

[89]Gretchen Ritter, *Goldbugs and greenbacks: the antimonopoly tradition and the politics of finance in America*, Cambridge: Cambridge University Press, 1997, p. 96.

[90]Jacques Mertens, *La naissance et le développement de l'étalon d'or, 1696–1922*, Louvain: Presses Universitaires de France, 1944, p. 157; Nugent, *Money and American society*, pp. 35–7 and *passim*; Ritter, *Goldbugs and greenbacks*, p. 76; Helfferich, *Reform des deutschen Geldwesens*, pp. 123–6.

in which to seek the sources of replenishment.'[91] The same argument was made by two leading German and Austrian financial papers just a few days later in describing the cause of the American crisis. Gold, one correspondent noted, was a 'commodity which is scattered over the entire surface of the earth in uncounted quantities, a commodity which the buyer never lacks. … Whereas the sum of American state notes is limited to 365 million dollars and cannot be replenished through purchase from outside even in times of greatest need.'[92]

The model underlying these arguments was that of the price-specie flow mechanism, whose classic formulation went back to David Hume. According to this model, a shared gold currency would guarantee a price equilibrium across regions and countries. Since any increase in the supply of money in a given country or region would lead to inflation, this in turn would give rise to an outflow of money to where goods were cheaper, thus causing a decrease in exports and an increase in imports, and a concomitant adjustment in the price level.[93] In the currency debates of the 1860s and 1870s, advocates of a metallic currency seized on Hume's model to argue that it ensured financial stability, since it precluded both monetary excess and scarcity, acting as an effective protection against over-speculation. (Hume had developed his model not to explain the causes of financial crises – still a rarity during his lifetime – but to counter mercantilist arguments in favour of a positive balance of trade.[94]) The American Treasury secretary Hugh McCulloch had noted in 1866 that 'Coin, being the circulating medium of the world, flows from one country to another in obedience to the law of trade, which prevents it from becoming anywhere, for any considerable period, excessive in amount.'[95] In this model, a prolonged period of rising prices brought about by an excess of money was impossible, since any excess would flow outwards to where it could be put to productive rather than speculative use. In a similar vein, the currency theorist Joseph Ropes argued that only a currency based on specie was a truly elastic currency, since the law of supply and demand would ensure 'its being taken to the spot where it is most wanted, and remaining there till it is more wanted elsewhere'.[96]

Thus by the 1870s the size of the space in which precious metals flowed had come to assume crucial importance. Advocates of a metallic currency saw the worldwide (rather than national) flow of specie as a feature without which it could not perform its healing powers. The fact that specie did not merely circulate within national borders but was distributed across the entire globe was seized on by advocates of a metallic currency to prove its elasticity. This argument relied on a conflation of volume, distribution, and space: although the volume of money was to remain constant, its distribution across a large space would nevertheless guarantee elasticity.

In the post-1873 currency debates, then, gold advocates frequently and explicitly evoked the idea of a worldwide monetary equilibrium. It is important to note, however, that currency theorists conceived of this world as one consisting exclusively of Western states whose economic development was seen as sufficiently advanced. Poorer, less developed countries such as India and China, by contrast, were excluded from this monetary mechanism; only once they had reached Western levels of commerce and civilization would they partake in the advantages of

[91]'The lessons of the American monetary crisis', *Economist*, 27 September 1873, p. 1169. The *Nation*, a journal strongly in favour of resumption, quoted this passage affirmatively ('The week', 9 October 1873, p. iii). *Littell's Living Age* reprinted the entire article in October 1873.

[92]'Die amerikanische Krise', *Neue Freie Presse*, 2 October 1873, morning edn, p. 8; see also 'Amerikanische Geldkrisis', *Berliner Börsen-Zeitung*, 30 September 1873, evening edn, p. 3.

[93]For an examination of the actual operation of the gold standard, which was not automatic but instead often relied on interventions by central banks, see Barry Eichengreen, *Globalizing capital: a history of the international monetary system*, Princeton, NJ: Princeton University Press, 1996, pp. 25–44.

[94]Michael D. Bordo, 'The gold standard: the traditional approach', in Michael D. Bordo and Anna J. Schwartz, eds., *A retrospective on the classical gold standard, 1821–1931*, Chicago, IL: Chicago University Press, 1984, p. 34.

[95]Hugh McCulloch, in House Executive Documents 2, 2nd session of the forty-second Congress, pp. ix, xliii, quoted in Nugent, *Money and American society*, p. 36.

[96]Joseph Ropes, 'Restoration and reform of the currency', *Journal of Social Science*, 1 January 1873, p. 53; Ritter, *Goldbugs and greenbacks*, p. 89.

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a gold currency. This exclusion was based on both practical and ideological grounds. First, because less developed countries only engaged in commerce on a small scale, even very small gold coins would exceed their value. Less valuable silver coins would therefore be more suitable for their purposes. Second, however, it was believed that non-Western countries, especially India, were prone to hoarding precious metals, and would therefore interfere with the smooth functioning of the gold standard, conveniently ignoring the fact that hoarding was a common phenomenon in Western states, too – especially in times of panic.[97]

If currency theorists on both sides of the Atlantic believed in the idea of the gold standard as ensuring a worldwide monetary equilibrium, we can nevertheless observe an important difference between the German and Austrian debate on the one hand and the American one on the other. The idea that the monetary disequilibrium in 1873 was the result of monetary isolation (which was an easy argument to make based on the global price-specie flow mechanism) was prominently expounded by German and Austrian theorists, but did not feature in the American debate. Thus the Austrian journalist and parliamentarian Josef Neuwirth in his widely read account of Austria's 'speculation crisis' described Austria's relationship with international markets as one-sided and incomplete. While acknowledging that Austria was vulnerable to shocks on the 'international money and securities markets', he observed that disruptions on Austrian markets never affected international markets to the same degree. The reason for this one-sided dependency, Neuwirth argued, was Austria's currency: 'We are isolated, cut off from abroad, and the wall enclosing us is our paper money, our devalued currency.' He claimed that international flows of specie accounted for 'the mystery of the interconnectedness of the international markets of the big international economic sphere. From this healing process, without which the occurrence of crises in general, more specifically those of a localized character, would be much more common . . . we in Austria-Hungary are completely excluded.'[98]

In Germany, the economist Erwin Nasse explicitly linked the panics in Austria, Germany, and the United States, all of which, he suggested, could ultimately be explained by 'abnormal' monetary conditions and the isolation they entailed. He noted that the 'barrier to excessive inflation' had been eliminated in all leading countries. Had the French reparations not poured into Germany well into 1873, the speculative exuberance of those years would have received a more timely check. 'But', he argued, rendering the specie-flow model in the physiological discourse so characteristic of his age, 'Germany resembled a sick person to whom a proper transpiration would bring a healing crisis but whose pores had been anointed and closed with oil. . . . The circulating medium could not flow outwards, and the natural healing power could not assert itself.'[99] Other economists concurred with this assessment. According to Adolf Soetbeer, the French reparations had created an 'exceptional state of affairs' in Germany, where the regular mechanism of 'international exchange' (*Verkehr*) no longer applied; while they had not been the sole cause of the German speculative bubble, they had certainly played a crucial role. Finally, some argued that

[97]Ted Wilson, *Battles for the standard: bimetallism and the spread of the gold standard in the nineteenth century*, Aldershot: Ashgate, 2000, pp. 147–50; 'The low value of silver and its effects on India', *Littell's Living Age*, 4 March 1876; John Eadie, *Panics in the money market and recovery from their effect: being an inquiry into the practical working of the monetary systems of America and Europe, past and present, and the phenomena of speculations, revulsions and panics*, New York, 1873, p. 41. For an assessment of the role of non-Western countries within the currency system around the turn of the century, see G. Balachandran, 'Power and markets in global finance: the gold standard, 1890–1926', *Journal of Global History*, 3, 3, 2008, pp. 313–35.

[98]Neuwirth, *Speculationskrisis von 1873*, p. 372. See also Bruno Weber, *Einige Ursachen der Wiener Krisis vom Jahre 1873*, Leipzig: Veit, 1874, p. 26; Moritz Linder, *Die Asche der Millionen: vor, während und nach der Krise vom Jahre 1873*, Vienna: Frick, 1883, p. 103.

[99]Erwin Nasse, 'Ueber die Verhütung der Produktionskrisen durch staatliche Fürsorge', *Jahrbuch für Gesetzgebung, Verwaltung und Volkswirtschaft im Deutschen Reich*, 3, 1879, p. 186.

the monetary expansion during the speculative bubble was not just the result of the reparations but also of a growing number of irredeemable banknotes.[100]

In the United States, by contrast, the idea that monetary isolation had caused the panic was much less prominent. While hard money advocates considered the international flow of coins one of the main advantages of a metallic currency, they did not explicitly argue that the speculative bubble could be attributed to the lack of an external outlet for irredeemable notes.[101] Monetary isolation – that is, the lack of integration into international currency flows – was not widely believed to have caused the American panic. Instead, theorists stressed that the Civil War and the concomitant issue of greenbacks had fostered an atmosphere of exuberance, fraud, and corruption. Thus, in an 1877 article by several authors about the desirability of a resumption of specie payments, none mentioned monetary isolation as a cause of the panic.[102] One commentator in an American periodical did address his country's monetary isolation in the context of the panic, noting that 'when a demand for more money occurs within a country whose currency is based upon specie, the whole commercial world responds. A panic is then no mere local affair, but a matter of world-wide concern.'[103] In an apt characterization of American 'economic nationalism', as it were, he chastised American conventional wisdom, namely the 'error, that, as a nation, we are so absolute in our independence and so peculiar in our situation, that the laws of political economy are silent and inoperative'. This critical perspective on America's nationalism was the exception rather than the rule, and stood in marked contrast to the German and Austrian debate, where the monetary isolation before and during the panic of 1873 was acutely and negatively felt.

From a gold advocate's perspective, then, a global specie standard diluted a panic's effects. The corollary, of course, was that it also helped transmit financial disruptions between countries, a mechanism confirmed by modern econometric analysis.[104] But in all three countries, this was rarely acknowledged. The *Commercial and Financial Chronicle*, a publication that favoured a gradual return to specie payments, in a rare exception admitted that paper money was advantageous: in contrast to earlier periods, American banks could now export gold to quell a panic in England without triggering similar disruptions at home. But, the author concluded, oblivious to the manifest contradiction, American bankers would surely find a way to preserve this advantage even under a specie standard.[105] The fact that the problem of contagion under the gold standard was not raised again suggests that financial globalization remained difficult to see and to imagine.

Conclusion

This article has charted the ways in which economic interconnectedness was experienced and conceived before, during, and after the transatlantic panics of 1873. At first glance, the near-synchronicity of the panics might suggest that, for the people of the time, they both highlighted and reinforced a consciousness of the accelerating process of globalization in the second half of the nineteenth century. But, as I have shown, before, during, and after the crises people were often

[100] A. Soetbeer, *Die 5 Milliarden: Betrachtungen über die Folgen der großen Kriegsentschädigung für die Wirthschaftsverhältnisse Frankreichs und Deutschlands*, Berlin: Habel, 1874, pp. 49, 51; Adolf Berliner, *Die wirthschaftliche Krisis, ihre Ursachen und ihre Entwicklung*, Hanover: C. Meyer, 1878, pp. 39, 46; Wilhelm Oechelhaeuser, *Die wirthschaftliche Krisis*, Berlin: Springer, 1876, pp. 10–12.

[101] See the quotations by McCulloch and Ropes above (nn. 95 and 96); see also Eadie, *Panics in the money market*, p. 8; William G. Sumner, *A history of American currency*, New York: Holt, 1875, p. 250 and *passim*.

[102] Joseph Ropes, Hugh McCulloch, William D. Kelley, David A. Wells, and Secretary Sherman, 'The resumption of specie payments', *North American Review*, 1 November 1877. Nor did James A. Garfield in 'The currency conflict', *Atlantic Monthly*, 37, February 1876, pp. 219–37.

[103] 'The currency and the panic', *Bankers' Magazine*, 1 February 1875, p. 576.

[104] Walter E. Huffman and James R. Lothian, 'The gold standard and the transmission of business cycles, 1833–1932', in Bordo and Schwartz, *Retrospective on the classical gold standard*, pp. 455–507.

[105] 'The failures in England and their influence here', *Commercial and Financial Chronicle*, 19 June 1875, p. 579.

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barely able to see the globalization that was happening under their eyes, with experiences of integration and isolation coexisting. Prior to the panic, allusions to growing worldwide economic interconnectedness were frequent but, in practice, the gaze of financiers and financial commentators was much narrower. Although German investors sent capital across the Atlantic, financing American railways, financial journalists considered the vast geographical distance a very real and physical barrier to the free flow of information that transparent capital markets nominally required. While several observers expected a crisis to materialize, they only rarely conceived of it as a transatlantic, much less a global, one. Americans, for their part, rarely considered developments on the European continent, focusing instead on London and on intra-American money flows. It seems that globalization in financial markets, perhaps more so than in markets for goods, was difficult to see.

When financial panic finally struck, first in May in Vienna, then in September in New York, the experience of interconnectedness was not a shared one. Whereas Germans and, especially, Austrians perceived themselves as powerless victims of a transatlantic storm, Americans were largely oblivious of these distant reverberations. This American nationalism remained in place following the crisis, as the debates on currency reform show. While the experience of financial disorder and partial integration seemed to lend plausibility to a vision of worldwide monetary harmonization, the asymmetric experience of 1873 at the same time informed the debates on both sides of the Atlantic. German, American, and Austrian currency theorists argued that an international gold standard would guarantee a continuous and smooth flow of money across the globe; the *global* space, by virtue of its sheer size, was believed to be an antidote to speculation and excess.

At first glance, it may appear as though the panics of 1873 produced convergence, a shared conviction that a universal metallic currency would preclude over-speculation and panics; the issue of contagion under the gold standard, by contrast, was largely ignored. But a closer look reveals that here, too, perceptions differed markedly between the three countries. German and Austrian theorists argued that the lack of a universal standard had insulated their countries and prevented the timely outflow of money. In the American debate, this idea was much less prominent. This reflected the divergent experiences in 1873, when Americans had not seen the European crises as connected to their own. Americans barely saw globalization in 1873, and thus could not see its flip side – isolation – either. If awareness of globalization was significantly less pronounced in the United States, this might be explained by the 'specter of … domestic division' that still haunted the country at the time, focusing contemporaries' minds inwards, as well as by a sense of American exceptionalism that saw the country on a path that was very different from European developmental trajectories.[106] Finally, the 'world' evoked in the currency debates of the 1870s was a hierarchical one, in which poorer countries remained excluded from the benefits of the ostensibly most advanced and civilized medium of exchange. This notion was shared on both sides of the Atlantic.

The experience of crisis during the 1870s thus affirms the view that, even in the age of globalization, national institutions and cultures retained their importance and structured the experience of interconnectedness. Jessica Lepler has shown how in 1837 the parallel crises in New York and New Orleans were nationalized into a single encompassing 'Panic' by the New York financial community, while at the same time cropping the contemporaneous London panic out of the picture.[107] Almost four decades later, in an age of rapidly accelerating worldwide economic integration, what had occurred on a national level in 1837 did not replicate itself on the transnational level.

While this article has focused on the financial panics of 1873, it is worth highlighting, by way of conclusion, that crises of another kind – economic and debt crises – erupted in other parts of the

[106]Christopher L. Hill, *National history and the world of nations: capital, state, and the rhetoric of history in Japan, France, and the United States*, Durham, NC: Duke University Press, 2008, p. 24; Dorothy Ross, *The origins of American social science*, New York: Cambridge University Press, 2001, p. 26.

[107]Lepler, *Many panics*, pp. 183–7.

world in the following years. Thus several Latin American countries suffered from the reduction in trade between their countries and Europe that began in 1873, leading to a 'harvest of mercantile failures' and sharply reducing government income. As a result, a number of states were forced to default on external loans in the following years, leading to 'economic disaster'.[108] As in the transatlantic crises of 1873, news reports of Latin American events did not bring the desired clarity to actors on financial markets but probably aggravated market instability.[109] As a topic for future research into the experience of globalization, it would seem worthwhile to explore whether or not these crises – and more generally the relative economic stagnation of the 1870s – were discussed by the Latin American, North American, and European publics as emanating from the earlier European crises, or whether here, too, globalization remained difficult to see.

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[108]Carlos Marichal, *A century of debt crises in Latin America: from independence to the Great Depression, 1820–1930*, Princeton, NJ: Princeton University Press, 1989, pp. 99–119 (quotations pp. 99 and 112).
[109]Winseck, 'Double-edged swords', p. 57.

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