

[EH.net Home](#)
[EHA Home](#)
[Book Reviews](#)
[Editors](#)
[Previous Newsletter Issues](#)
[Reviewers](#)
[Browse Library](#)
[Copyright](#)
[Course Syllabi](#)
[Conferences](#)
[Databases](#)
[Directory](#)
[Encyclopedia](#)
[MeasuringWorth](#)
[In Memoriam](#)
[Mailing Lists](#)
[Related Sites](#)

Sponsors

[Economic History Association](#)
[Economic History Society](#)
[Business History Conference](#)
[The Cliometric Society](#)
[Economic and Business
History Society](#)

Please read our
Copyright Information
page for important copyright
information.

Comments? Questions? Send
email to admin@eh.net

Newsletters

To join the newsletters or
submit a posting go to click
here.

The Depression of 1893

David O. Whitten, Auburn University

The Depression of 1893 was one of the worst in American history with the unemployment rate exceeding ten percent for half a decade. This article describes economic developments in the decades leading up to the depression; the performance of the economy during the 1890s; domestic and international causes of the depression; and political and social responses to the depression.

The Depression of 1893 can be seen as a watershed event in American history. It was accompanied by violent strikes, the climax of the Populist and free silver political crusades, the creation of a new political balance, the continuing transformation of the country's economy, major changes in national policy, and far-reaching social and intellectual developments. Business contraction shaped the decade that ushered out the nineteenth century.

Unemployment Estimates

One way to measure the severity of the depression is to examine the unemployment rate. Table 1 provides estimates of unemployment, which are derived from data on output — annual unemployment was not directly measured until 1929, so there is no consensus on the precise magnitude of the unemployment rate of the 1890s. Despite the differences in the two series, however, it is obvious that the Depression of 1893 was an important event. The unemployment rate exceeded ten percent for five or six consecutive years. The only other time this occurred in the history of the US economy was during the Great Depression of the 1930s.

Timing and Depth of the Depression

The National Bureau of Economic Research estimates that the economic contraction began in January 1893 and continued until June 1894. The economy then grew until December 1895, but it was then hit by a second recession that lasted until June 1897. Estimates of annual real gross national product (which adjust for this period's deflation) are fairly crude, but they generally suggest that real GNP fell about 4% from 1892 to 1893 and another 6% from 1893 to 1894. By 1895 the economy had grown past its earlier peak, but GDP fell about 2.5% from 1895 to 1896. During this period population grew at about 2% per year, so real GNP per person didn't surpass its 1892 level until 1899. Immigration, which had averaged over 500,000 people per year in the 1880s and which would surpass one million people per year in the first decade of the 1900s, averaged only 270,000 from 1894 to 1898.

Table 1
Estimates of Unemployment during the 1890s

Year	Lebergott	Romer
1890	4.0%	4.0%
1891	5.4	4.8
1892	3.0	3.7
1893	11.7	8.1
1894	18.4	12.3
1895	13.7	11.1
1896	14.5	12.0
1897	14.5	12.4
1898	12.4	11.6
1899	6.5	8.7
1900	5.0	5.0

Source: Romer, 1984

The depression struck an economy that was more like the economy of 1993 than that of 1793. By 1890, the US economy generated one of the highest levels of output per person in the world — below that in Britain, but higher than the rest of Europe. Agriculture no longer dominated the economy, producing only about 19 percent of GNP, well below the 30 percent produced in manufacturing and mining. Agriculture's share of the labor force, which had been about 74% in 1800, and 60% in 1860, had fallen to roughly 40% in 1890. As Table 2 shows, only the South remained a predominantly agricultural region. Throughout the country few families were self-sufficient, most relied on selling their output or labor in the market — unlike those living in the country one hundred years earlier.

Table 2

Agriculture's Share of the Labor Force by Region, 1890

Northeast	15%
Middle Atlantic	17%
Midwest	43%
South Atlantic	63%
South Central	67%
West	29%

Economic Trends Preceding the 1890s

Between 1870 and 1890 the number of farms in the United States rose by nearly 80 percent, to 4.5 million, and increased by another 25 percent by the end of the century. Farm property value grew by 75 percent, to \$16.5 billion, and by 1900 had increased by another 25 percent. The advancing checkerboard of tilled fields in the nation's heartland represented a vast indebtedness. Nationwide about 29% of farmers were encumbered by mortgages. One contemporary observer estimated 2.3 million farm mortgages nationwide in 1890 worth over \$2.2 billion. But farmers in the plains were much more likely to be in debt. Kansas croplands were mortgaged to 45 percent of their true value, those in South Dakota to 46 percent, in Minnesota to 44, in Montana 41, and in Colorado 34 percent. Debt covered a comparable proportion of all farmlands in those states. Under favorable conditions the millions of dollars of annual charges on farm mortgages could be borne, but a declining economy brought foreclosures and tax sales.

Railroads opened new areas to agriculture, linking these to rapidly changing national and international markets. Mechanization, the development of improved crops, and the introduction of new techniques increased productivity and fueled a rapid expansion of farming operations. The output of staples skyrocketed. Yields of wheat, corn, and cotton doubled between 1870 and 1890 though the nation's population rose by only two-thirds. Grain and fiber flooded the domestic market. Moreover, competition in world markets was fierce: Egypt and India emerged as rival sources of cotton; other areas poured out a growing stream of cereals. Farmers in the United States read the disappointing results in falling prices. Over 1870-73, corn and wheat averaged \$0.463 and \$1.174 per bushel and cotton \$0.152 per pound; twenty years later they brought but \$0.412 and \$0.707 a bushel and \$0.078 a pound. In 1889 corn fell to ten cents in Kansas, about half the estimated cost of production. Some farmers in need of cash to meet debts tried to increase income by increasing output of crops whose overproduction had already demoralized prices and cut farm receipts.

Railroad construction was an important spur to economic growth. Expansion peaked between 1879 and 1883, when eight thousand miles a year, on average, were built including the Southern Pacific, Northern Pacific and Santa Fe. An even higher peak was reached in the late 1880s, and the roads provided important markets for lumber, coal, iron, steel, and rolling stock.

The post-Civil War generation saw an enormous growth of manufacturing. Industrial output rose by some 296 percent, reaching in 1890 a value of almost \$9.4 billion. In that year the nation's 350,000 industrial firms employed nearly 4,750,000 workers. Iron and steel paced the progress of manufacturing. Farm and forest continued to provide raw materials for such established enterprises as cotton textiles, food, and lumber production. Heralding the machine age, however, was the growing importance of extractives — raw materials for a lengthening list of consumer goods and for producing and fueling locomotives, railroad cars, industrial machinery and equipment, farm implements, and electrical equipment for commerce and industry. The swift expansion and diversification of manufacturing allowed a growing independence from European imports and was reflected in the prominence of new goods among US exports. Already the value of American manufactures was more than half the value of European manufactures and twice that of Britain.

Onset and Causes of the Depression

The depression, which was signaled by a financial panic in 1893, has been blamed on the deflation dating back to the Civil War, the gold standard and monetary policy, underconsumption (the economy was producing goods and services at a higher rate than society was consuming and the resulting inventory accumulation led firms to reduce employment and cut back production), a general economic unsoundness (a reference less to tangible economic difficulties and more to a feeling that the economy was not running properly), and government extravagance .

Economic indicators signaling an 1893 business recession in the United States were largely obscured. The economy had improved during the previous year. Business failures had declined, and the average liabilities of failed firms had fallen by 40 percent. The country's position in international commerce was improved. During the late nineteenth century, the United States had a negative net balance of payments. Passenger and cargo fares paid to foreign ships that carried most American overseas commerce, insurance charges, tourists' expenditures abroad, and returns to foreign investors ordinarily more than offset the effect of a positive merchandise balance. In 1892, however, improved agricultural exports had reduced the previous year's net negative balance from \$89 million to \$20 million. Moreover, output of non-agricultural consumer goods had risen by more than 5 percent, and business firms were believed to have an ample backlog of unfilled orders as 1893 opened. The number checks cleared between banks in the nation at large and outside New York, factory employment, wholesale prices, and railroad freight ton mileage advanced through the early

months of the new year.

Yet several monthly series of indicators showed that business was falling off. Building construction had peaked in April 1892, later moving irregularly downward, probably in reaction to over building. The decline continued until the turn of the century, when construction volume finally turned up again. Weakness in building was transmitted to the rest of the economy, dampening general activity through restricted investment opportunities and curtailed demand for construction materials. Meanwhile, a similar uneven downward drift in business activity after spring 1892 was evident from a composite index of cotton takings (cotton turned into yarn, cloth, etc.) and raw silk consumption, rubber imports, tin and tin plate imports, pig iron manufactures, bituminous and anthracite coal production, crude oil output, railroad freight ton mileage, and foreign trade volume. Pig iron production had crested in February, followed by stock prices and business incorporations six months later.

The economy exhibited other weaknesses as the March 1893 date for Grover Cleveland's inauguration to the presidency drew near. One of the most serious was in agriculture. Storm, drought, and overproduction during the preceding half-dozen years had reversed the remarkable agricultural prosperity and expansion of the early 1880s in the wheat, corn, and cotton belts. Wheat prices tumbled twenty cents per bushel in 1892. Corn held steady, but at a low figure and on a fall of one-eighth in output. Twice as great a decline in production dealt a severe blow to the hopes of cotton growers: the season's short crop canceled gains anticipated from a recovery of one cent in prices to 8.3 cents per pound, close to the average level of recent years. Midwestern and Southern farming regions seethed with discontent as growers watched staple prices fall by as much as two-thirds after 1870 and all farm prices by two-fifths; meanwhile, the general wholesale index fell by one-fourth. The situation was grave for many. Farmers' terms of trade had worsened, and dollar debts willingly incurred in good times to permit agricultural expansion were becoming unbearable burdens. Debt payments and low prices restricted agrarian purchasing power and demand for goods and services. Significantly, both output and consumption of farm equipment began to fall as early as 1891, marking a decline in agricultural investment. Moreover, foreclosure of farm mortgages reduced the ability of mortgage companies, banks, and other lenders to convert their earning assets into cash because the willingness of investors to buy mortgage paper was reduced by the declining expectation that they would yield a positive return.

Slowing investment in railroads was an additional deflationary influence. Railroad expansion had long been a potent engine of economic growth, ranging from 15 to 20 percent of total national investment in the 1870s and 1880s. Construction was a rough index of railroad investment. The amount of new track laid yearly peaked at 12,984 miles in 1887, after which it fell off steeply. Capital outlays rose through 1891 to provide needed additions to plant and equipment, but the rate of growth could not be sustained. Unsatisfactory earnings and a low return for investors indicated the system was over built and overcapitalized, and reports of mismanagement were common. In 1892, only 44 percent of rail shares outstanding returned dividends, although twice that proportion of bonds paid interest. In the meantime, the completion of trunk lines dried up local capital sources. Political antagonism toward railroads, spurred by the roads' immense size and power and by real and imagined discrimination against small shippers, made the industry less attractive to investors. Declining growth reduced investment opportunity even as rail securities became less appealing. Capital outlays fell in 1892 despite easy credit during much of the year. The markets for ancillary industries, like iron and steel, felt the impact of falling railroad investment as well; at times in the 1880s rails had accounted for 90 percent of the country's rolled steel output. In an industry whose expansion had long played a vital role in creating new markets for suppliers, lagging capital expenditures loomed large in the onset of depression.

European Influences

European depression was a further source of weakness as 1893 began. Recession struck France in 1889, and business slackened in Germany and England the following year. Contemporaries dated the English downturn from a financial panic in November. Monetary stringency was a base cause of economic hard times. Because specie — gold and silver — was regarded as the only real money, and paper money was available in multiples of the specie supply, when people viewed the future with doubt they stockpiled specie and rejected paper. The availability of specie was limited, so the longer hard times prevailed the more difficult it was for anyone to secure hard money. In addition to monetary stringency, the collapse of extensive speculations in Australian, South African, and Argentine properties; and a sharp break in securities prices marked the advent of severe contraction. The great banking house of Baring and Brothers, caught with excessive holdings of Argentine securities in a falling market, shocked the financial world by suspending business on November 20, 1890. Within a year of the crisis, commercial stagnation had settled over most of Europe. The contraction was severe and long-lived. In England many indices fell to 80 percent of capacity; wholesale prices overall declined nearly 6 percent in two years and had declined 15 percent by 1894. An index of the prices of principal industrial products declined by almost as much. In Germany, contraction lasted three times as long as the average for the period 1879-1902. Not until mid-1895 did Europe begin to revive. Full prosperity returned a year or more later.

Panic in the United Kingdom and falling trade in Europe brought serious repercussions in the United States. The immediate result was near panic in New York City, the nation's financial center, as British investors sold their American stocks to obtain funds. Uneasiness spread through the country, fostered by falling stock prices, monetary stringency, and an increase in business failures. Liabilities of failed firms during the last quarter of 1890 were \$90 million — twice those in the preceding quarter. Only the normal year's end grain exports, destined largely for England, averted a gold outflow.

Circumstances moderated during the early months of 1891, although gold flowed to Europe, and business failures remained high. Credit eased, if slowly: in response to pleas for relief, the federal treasury began the premature redemption of government bonds to put additional money into circulation, and the end of the harvest trade reduced demand for credit. Commerce quickened in the spring. Perhaps anticipation of brisk trade during the harvest season stimulated the revival of investment and business; in any event, the harvest of 1891 buoyed the economy. A bumper American wheat crop coincided with poor yields in Europe increase exports and the inflow of specie: US exports in fiscal 1892 were \$150 million greater than in the preceding year, a full 1 percent of gross national product. The improved market for American crops was primarily responsible for a brief cycle of prosperity in the United States that Europe did not share. Business thrived until signs of recession began to appear in late 1892 and early 1893.

The business revival of 1891-92 only delayed an inevitable reckoning. While domestic factors led in precipitating a major downturn in the United States, the European contraction operated as a powerful depressant. Commercial stagnation in Europe decisively affected the flow of foreign investment funds to the United States. Although foreign investment in this country and American investment abroad rose overall during the 1890s, changing business conditions forced American funds going abroad and foreign funds flowing into the United States to reverse as Americans sold off foreign holdings and foreigners sold off their holdings of American assets. Initially, contraction abroad forced European investors to sell substantial holdings of American securities, then the rate of new foreign investment fell off. The repatriation of American securities prompted gold exports, deflating the money stock and depressing prices. A reduced inflow of foreign capital slowed expansion and may have exacerbated the declining growth of the railroads; undoubtedly, it dampened aggregate demand.

As foreign investors sold their holdings of American stocks for hard money, specie left the United States. Funds secured through foreign investment in domestic enterprise were important in helping the country meet its usual balance of payments deficit. Fewer funds invested during the 1890s was one of the factors that, with a continued negative balance of payments, forced the United States to export gold almost continuously from 1892 to 1896. The impact of depression abroad on the flow of capital to this country can be inferred from the history of new capital issues in Britain, the source of perhaps 75 percent of overseas investment in the United States. British issues varied as shown in Table 3.

Table 3
British New Capital Issues, 1890-1898 (millions of pounds, sterling)

1890	142.6
1891	104.6
1892	81.1
1893	49.1
1894	91.8
1895	104.7
1896	152.8
1897	157.3
1898	150.2

Source: Hoffmann, p. 193

Simultaneously, the share of new British investment sent abroad fell from one-fourth in 1891 to one-fifth two years later. Over that same period, British net capital flows abroad declined by about 60 percent; not until 1896 and 1897 did they resume earlier levels.

Thus, the recession that began in 1893 had deep roots. The slowdown in railroad expansion, decline in building construction, and foreign depression had reduced investment opportunities, and, following the brief upturn effected by the bumper wheat crop of 1891, agricultural prices fell as did exports and commerce in general. By the end of 1893, business failures numbering 15,242 averaging \$22,751 in liabilities, had been reported. Plagued by successive contractions of credit, many essentially sound firms failed which would have survived under ordinary circumstances. Liabilities totaled a staggering \$357 million. This was the crisis of 1893.

Response to the Depression

The financial crises of 1893 accelerated the recession that was evident early in the year into a major contraction that spread throughout the economy. Investment, commerce, prices, employment, and wages remained depressed for several years. Changing circumstances and expectations, and a persistent federal deficit, subjected the treasury gold reserve to intense pressure and generated sharp counterflows of gold. The treasury was driven four times between 1894 and 1896 to resort to bond issues totaling \$260 million to obtain specie to augment the reserve. Meanwhile, restricted investment, income, and profits spelled low consumption, widespread suffering, and occasionally explosive labor and political struggles. An extensive but incomplete revival occurred in 1895. The Democratic nomination of William Jennings Bryan for the presidency on a free silver platform the following year amid an upsurge of silverite support contributed to a second downturn peculiar to the United States. Europe, just beginning to emerge from depression, was unaffected. Only in mid-1897 did recovery begin in this country; full prosperity returned gradually over the ensuing year and more.

The economy that emerged from the depression differed profoundly from that of 1893. Consolidation and the influence of investment bankers were more advanced. The nation's international trade position was more advantageous: huge merchandise exports assured a positive net balance of payments despite large tourist expenditures abroad, foreign investments in the United States, and a continued reliance on foreign shipping to carry most of America's overseas commerce. Moreover, new industries were rapidly moving to ascendancy, and manufactures were coming to replace farm produce as the staple products and exports of the country. The era revealed the outlines of an emerging industrial-urban economic order that portended great changes for the United States.

Hard times intensified social sensitivity to a wide range of problems accompanying industrialization, by making them more severe. Those whom depression struck hardest as well as much of the general public and major Protestant churches, shored up their civic consciousness about currency and banking reform, regulation of business in the public interest, and labor relations. Although nineteenth century liberalism and the tradition of administrative nihilism that it favored remained viable, public opinion began to slowly swing toward governmental activism and interventionism associated with modern, industrial societies, erecting in the process the intellectual foundation for the reform impulse that was to be called Progressivism in twentieth century America. Most important of all, these opposed tendencies in thought set the boundaries within which Americans for the next century debated the most vital questions of their shared experience. The depression was a reminder of business slumps, commonweal above avarice, and principle above principal.

Government responses to depression during the 1890s exhibited elements of complexity, confusion, and contradiction. Yet they also showed a pattern that confirmed the transitional character of the era and clarified the role of the business crisis in the emergence of modern America. Hard times, intimately related to developments issuing in an industrial economy characterized by increasingly vast business units and concentrations of financial and productive power, were a major influence on society, thought, politics, and thus, unavoidably, government. Awareness of, and proposals of means for adapting to, deep-rooted changes attending industrialization, urbanization, and other dimensions of the current transformation of the United States long antedated the economic contraction of the nineties.

Selected Bibliography

*I would like to thank Douglas Steeples, retired dean of the College of Liberal Arts and professor of history, emeritus, Mercer University. Much of this article has been taken from *Democracy in Desperation: The Depression of 1893* by Douglas Steeples and David O. Whitten, which was declared an Exceptional Academic Title by Choice. *Democracy in Desperation* includes the most recent and extensive bibliography for the depression of 1893.

Clanton, Gene. *Populism: The Humane Preference in America, 1890-1900*. Boston: Twayne, 1991.

Friedman, Milton, and Anna Jacobson Schwartz. *A Monetary History of the United States, 1867-1960*. Princeton: Princeton University Press, 1963.

Goodwyn, Lawrence. *Democratic Promise: The Populist Movement in America*. New York: Oxford University Press, 1976.

Grant, H. Roger. *Self Help in the 1890s Depression*. Ames: Iowa State University Press, 1983.

Higgs, Robert. *The Transformation of the American Economy, 1865-1914*. New York: Wiley, 1971.

Himmelberg, Robert F. *The Rise of Big Business and the Beginnings of Antitrust and Railroad Regulation, 1870-1900*. New York: Garland, 1994.

Hoffmann, Charles. *The Depression of the Nineties: An Economic History*. Westport, CT: Greenwood Publishing, 1970.

Jones, Stanley L. *The Presidential Election of 1896*. Madison: University of Wisconsin Press, 1964.

Kindleberger, Charles Poor. *Manias, Panics, and Crashes: A History of Financial Crises*. Revised Edition. New York: Basic Books, 1989.

Kolko, Gabriel. *Railroads and Regulation, 1877-1916*. Princeton: Princeton University Press, 1965.

Lamoreaux, Naomi R. *The Great Merger Movement in American Business, 1895-1904*. New York: Cambridge University Press, 1985.

Rees, Albert. *Real Wages in Manufacturing, 1890-1914*. Princeton, NJ: Princeton University Press, 1961.

Ritter, Gretchen. *Goldbugs and Greenbacks: The Antimonopoly Tradition and the Politics of Finance in America*. New York: Cambridge University Press, 1997.

Romer, Christina. "Spurious Volatility in Historical Unemployment Data." *Journal of Political Economy* 94, no. 1. (1986): 1-37.

Schwantes, Carlos A. *Coxey's Army: An American Odyssey*. Lincoln: University of Nebraska Press, 1985.

Steeple, Douglas, and David Whitten. *Democracy in Desperation: The Depression of 1893*. Westport, CT: Greenwood Press, 1998.

Timberlake, Richard. "Panic of 1893." In *Business Cycles and Depressions: An Encyclopedia*, edited by David Glasner. New York: Garland, 1997.

White, Gerald Taylor. *Years of Transition: The United States and the Problems of Recovery after 1893*. University, AL: University of Alabama Press, 1982.

Citation: Whitten, David. "Depression of 1893". EH.Net Encyclopedia, edited by Robert Whaples. August 14, 2001.
URL <http://eh.net/encyclopedia/the-depression-of-1893/>