The 13 Worst Recessions, Depressions, and Panics In American History

"Recessions, Depressions, and Panics do happen and can impact your portfolio. Retirees have to pay attention!"

A recession is generally defined as two quarters of GDP contraction as noted by the Business Cycle Dating Committee of the National Bureau of Economic Research. The GDP contraction definition is narrow and cannot be used to define the recessions and depressions that occurred in the first 150 years after The United States was founded.

A broader definition which would apply to a greater number of recession-like events would include sharp rises in unemployment, disruption of the banking and financial system, steep fall-offs in business and consumer spending, rising bankruptcies, and an increase in the number of companies which have to weather periods of financial distress.

One of the features in recessions since the Great Depression, which is not common with those that came before, is government protection of bank deposits. Banks would become insolvent along with their depositors in many cases during "runs on the banks". The creation of the FDIC shifted the burden of insolvent financial firms from depositors to member banks, with the federal treasury as the last backstop. The pattern was extended further by the creation of TARP during the current recession. It placed almost the entire burden of the rescue on the American financial system with those who pay taxes.

Most economists believe that recessions are started by discreet events. These are very often based on asset bubbles. Rapidly rising values of gold, land, real estate, or equities draw an increasing number of investors into whichever market is experiencing a boom. Those investors call on banks and other institutions for credit to increase both their ability to invest and the scope of their investment. That draws both investors and banks into assets or commodities which are rapidly rising in value. More often than not, the late-comers find that they have borrowed to buy at the peak of a boom, after the value of whatever created the boom has begun to fall. Too much money has chased too little opportunity. Investors and banks suffer as the once-promising market deflates, or "deleverages" as economists have enjoyed saying recently.

Most of the early US recessions – those in the late 1700s and early in the 19th Century – were based on speculation in land or commodities such as cotton. Land speculation was due in large part to assumptions about which areas of the country would be the most productive for products that ranged from crops to timber. These assumptions, in turn, were based on the location of land relative to transportation, whether by water, road or rail. Other land speculation was based more simply on where a commodity or metal could be found. Gold was discovered in California in 1848, initiating the

California Gold Rush. The land which held the gold was extremely valuable for a time. That did not last – not even for a decade.

Oddly enough, the latest recession also came about as a result of unchecked land speculation. In this case, however, that land was residential real estate – already under homes and not valuable for crops or mining. Real estate values skyrocketed from early in the decade, and peaked in 2006. Bank lending for real estate purchases rose into the hundreds of billions of dollars. The market became so lucrative and liquid that institutions created instruments to enable investors to bet on the direction of the housing market and the mortgages that had created its expansion. Both the real estate values and the value of the instruments collapsed and the effects may not end for many years.

What follows is the 24/7 Wall St. analysis of the 13 worst recessions since The United States was founded:

Panic of 1797

The United States' first major economic emergency struck in 1797 as a result of a land speculation bubble bursting. This, combined with the Bank of England withholding payments and the closing of American ports due to a yellow fever epidemic, left economic activity stagnant in the North and caused deflationary effects nationwide through the end of the century. The crisis also initiated the turn of the American economy from an export economy to a domestic-based one.

Depression of 1807

The Depression of 1807, which lasted about three years, was the result of English trade restrictions combined with the Embargo Act of 1807, which was passed under Thomas Jefferson as a means of preserving neutrality as tensions mounted between England and France. By restricting foreign trade, however, the United States paralyzed its coastal economy and destroyed businesses within the shipping industry. Furthermore, the embargo's primary aim failed as the country eventually was pulled into the War of 1812.

1815-1821 Depression

The U.S. government had racked up heavy debts during The War of 1812, which cut severely into state banks' supply of capital. The country was in the midst of a land speculation bubble, and as the banks called in their loans many defaulted, and a number of banks failed. Extreme fluctuations in the value and supply of wheat and cotton crops fueled several consecutive years of high unemployment and a stagnant economy.

Panic of 1837

As the United States continued to push westward and "acquire" Native land, investors saw an opportunity for what seemed to be an infinite supply of cheap real estate to invest in. The bubble burst again and banks called in their loans. A major real estate panic resulted and a crash occurred, which caused more than 40% of America's banks to fail. While then-president Martin Van Buren was widely blamed at the time, many argue it was Andrew Jackson, who had earlier removed most of the authority and power from the U.S. central bank and gave smaller banks the freedom to engineer their own demise.

Panic Of 1857

Due in part to the inflation caused by the discovery of gold in California, the recession in 1857 quickly devolved into a panic after the failure of the New York branch of the Ohio Life Insurance and Trust Co. Consumer confidence was shaken, resulting in a run on the banks and a long-term distrust in the American government and its ability to back paper currency. More than 5,000 banks failed in a little over a year, although most of the trouble took place in the North, as the South stayed afloat thanks to the stability of the cotton market.

Panic of 1873

A series of disasters in the few years before the crash of 1873 weighed heavily on American growth. These included The Great Chicago Fire and the Equine flu epidemic–which demobilized or killed nearly every horse in America, and ground all transportation and industry to a complete halt. A boom in the railroad industry eventually led to a bust, and when banks were left holding thousands of dollars of railroad bonds, a panic occurred. When the bank Jay Cooke & Company failed for this reason, the markets crashed so severely that New York Stock Exchange ceased trading for ten days. 18,000 businesses failed over the course of two years. Unemployment exceeded 14%.

Panic of 1893

1893 saw the results of years of over-extension of railroads and the slowing of general economic expansion across the country. Finally set off by the bankruptcy of the Philadelphia and Reading Railroad, there was a run on the banks and economic panic ensued. More than 15,000 businesses failed, 500 banks closed, and unemployment remained over 10% for five years, making this the worst U.S. depression up until the Great Depression.

Panic of 1907

Since the Jackson era, the American banking system had been decentralized. Consequently, during periods of boom, banks were able to lend unchecked. The economy was in a period of rapid growth leading up to the recession, due largely to the increased influence of railroad, steel, banking, and oil trusts. After an investor made a failed attempt to corner the copper market, the Knickerbocker Trust Company–one of the largest trusts in the country– failed, fueling a series of bank and trust bankruptcies. The stock market crashed, reaching a low of nearly half of its value from the previous year.

Depression of 1920-21

Although relatively short compared to many other U.S. recessionary periods, the Depression of 1920-21 was extremely severe. Following World War I, the United States underwent many changes as it adapted from its wartime state. This included experiencing the greatest levels of deflation in the country's history, with, according to a Department of Commerce estimate, levels of 18% through 1920. With a tremendous influx of returning troops, unemployment spiked, with 1.6 million people joining the previously steady labor market.

The Great Depression

A period of rampant speculation in the 20's led to a market crash of epic proportions. Over the course of two days, beginning with the infamous "Black Tuesday," the stock market lost more than a quarter of its value. Widely regarded as the worst recession in U.S. History, the Great Depression lasted 11 years, 8 months and saw unemployment rates of nearly 25%. U.S. economic production dropped by 50%, and nearly every developed country in the world was severely affected.

1973-75 Recession

This period stood apart from many other U.S. recessions as it was marked distinctly by stagflation – the combination of high unemployment and high inflation. The United States faced a surge in oil prices due to OAPEC's (Organization of Arab Petroleum Exporting Countries) oil embargo, combined with increased spending due to the Vietnam War and a stock market crash after the collapse of the Bretton Woods monetary relation system, officially putting an end to the economic boom which followed WWII. Unemployment peaked at 9% and, although the recession is recognized as having ended in 1975, the country experienced low economic growth for years afterwards.

Early 1980's Recession

In the late 1970's, inflation was on the rise in the United States, in part left over from the 1973 recession. As a result, the Federal Reserve tightened monetary policy considerably, in turn causing investment purchases to drop as capital became less available. By winter of 1982, however, inflation continued to drop and unemployment rose for several years.

Current Recession

It is difficult to say whether this current recession will be regarded as one of the worst in American history, but it is certainly shaping up that way. The result of an economy built on overextended consumer credit and risky mortgages, the crisis began in March, 2008 as investment bank Bear Stearns became the first of dozens of major American institutions to fail or be bailed out by the Fed. Bear Stearns would soon be joined by AIG, Lehman Brothers, GM, and Countrywide, to name a few. Unemployment has hovered just below 10% for nearly two years. It remains to be seen whether we are in the midst of a recovery or if this is just the eye of the storm.

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