The Rise of an American Institution: The Stock Market

by Brian Murphy

The New York Stock Exchange, 1885. (Gilder Lehrman Collection)

On nearly every workday in the United States, if you watch cable news or browse an Internet news site at 9:30 in the morning and 4:00 in the afternoon (Eastern Time), you'll probably see two utterly unremarkable events covered live. More mundane than car chases on the California freeway or cats stranded in Tulsa trees, the opening and closing bells of the New York Stock Exchange—from an economic standpoint—signify nothing. The bell rings, and trading begins. It rings again, and trading ends. Except it doesn't. There are other exchanges in other countries, other US cities, and even in New York itself. There are stock trades that happen before 9:30 a.m. and after 4 p.m. Across the globe, billions of things other than stocks have been bought and sold all day and night for several thousands of years.

So why do news channels show us live video each morning of a smiling and waving group of invited guests, standing on a marble balcony, pushing a button and setting loose a frenzy of adrenaline, shouting, hand signals, and confetti? What's all the fuss about?

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It wasn't always this way. In contrast to its imposing flag-draped, columned facade, and the nest of police barricades, bomb-sniffing dogs, and metal detectors that have been in place since 9/11, the New York Stock Exchange has far more humble origins. In fact, the Exchange didn't have its own building until the 1860s. The reason? The traders simply didn't need one.

When the Exchange was formally founded in 1792 by twenty-four brokers, New York City wasn't the center of finance in North America. That distinction belonged to Philadelphia, where the action was along Chestnut Street. Ships landed at the city's port where merchants had goods delivered to nearby warehouses or stores, or made arrangements to transport and sell them within Pennsylvania or neighboring states. Before the Revolution, British laws governing trade were strict yet were broken frequently and flagrantly. Colonists were not allowed to start their own banks, so urban and rural merchants conducted business face-to-face or through intermediaries, paying each other with bills of exchange and IOUs rather than gold or silver coins. Chestnut Street, located close to the port, was the hub of this activity in Philadelphia, where bills could be paid or traded, and cargo could be ordered, insured, and shipped.

New York City had its own version of Chestnut Street, but it was a far less busy place for most of the eighteenth century. Wall Street, a brisk walk from Manhattan's southernmost piers, was named for the nearly 1,400-foot-long defensive wall built there in the 1630s, when the city was still a Dutch colony. By the time of the American Revolution, the street was home to the city's merchants and markets, city hall, and slave pens. Agents, brokers, and auctioneers sold land, livestock, and even lottery tickets here, crowding into the Merchants' Coffee-House for twice-daily trading sessions and ongoing bartering.

Though the new nation was overwhelmingly agricultural and rural, America in the 1780s was swept up in land and currency speculation. Americans who lived hundreds of miles and a weeks' travel from coffeehouses hired agents in cities to buy lands even farther away in the hopes of turning profit. Revolutionary War veterans, paid in nearly worthless "Continental" dollars, traded in their paper to more wealthy speculators who hoped the government would eventually honor the wartime money at face value.

Both of these forms of investment got a boost from the national government created by the Constitutional Convention of 1787. The Washington administration and its treasury secretary, Alexander Hamilton, were eager to raise money by selling empty land in the West, hoping to pool enough money to repay hefty war debts to France and the Netherlands. Hamilton's controversial national finance plan called for the creation of a national bank that would have branches in major American cities—including New York—and offered to buy back Continental dollars at full-face value. War veterans who sold their Continentals in tough times were outraged; Thomas Jefferson supported the bank only in exchange for Hamilton's agreement to move the nation's capital from New York to northern Virginia, briefly stopping in Philadelphia while the capitol and president's house were under construction.

Though New York lost out on being the nation's capital, Hamilton's plan strengthened the hands of the city's stockbrokers. Continental dollars were converted into US bonds, and the state of New York chartered the Bank of New York in response to the opening of the Bank of the United States. Long frustrated with being dominated by the city's officially licensed auctioneers, New York's brokers saw an opportunity to seize the trade in US bonds and bank stocks.

Tired of operating out of the busy Merchants' Coffee-House, the brokers formed the Tontine Association in 1790 to build a new coffeehouse for themselves. Gathering 203 members who paid $200 for a share of ownership (and profits), they began construction on a building in 1792 at the corner of Wall and Water Streets in lower Manhattan. The Tontine Coffee-House would become a place where people could not only drink coffee, but also buy, sell, and learn about the market prices for coffee, tea, spices, land, and other commodities, in addition to shares of the city's two banks and three types of US bonds. Of all the hundreds of things bought and sold at the Tontine in the 1790s, just five were securities.

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Yet before the Tontine Coffee-House was finished, the brokers took the even more important step of parting ways with the city's licensed auctioneers. Speculation had become so fiercely competitive in the 1780s and early 1790s that the brokers saw auctioneers as having an unfair advantage due to their official recognition by the city and their twice-daily sales in the morning and afternoon.

Meeting under a buttonwood tree on Wall Street, where they often were forced to do business when the coffeehouses became too packed, twenty-four of the city's most prominent brokers agreed to separate themselves from the rest of the pack. On May 17, 1792, they signed the Buttonwood Agreement, forming the core of the New York Stock and Exchange Board. "We the Subscribers, Brokers for the Purchase and Sale of the Public Stock, do hereby solemnly promise and pledge ourselves to each other, that we will not buy or sell from this day for any person whatsoever, any kind of Public Stock, at least than one quarter of one percent Commission on the Specie value and that we will give preference to each other in our Negotiations." They pledged to deal only with each other—cutting out auctioneers—and to set a minimum commission rate. The New York Stock Exchange, therefore, was born from a desire to set up a rival guild and to wring a profit from the quickly growing trade in stocks and bonds.

Before construction on the Tontine was finished, the Buttonwood brokers operated out of a rented room at 40 Wall Street, the future headquarters of the Bank of the Manhattan Company and just around the corner from the NYSE's present-day address. Yet the action remained on the streets, where members of the Exchange traded securities until they were prohibited from doing so in 1836.

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While there may have been only five securities traded in 1792, by the end of the decade hundreds of companies sought investors to back plans for roads, bridges, canals, mines, furnaces, and factories. Most of these early corporations went bust, but the demand for capital only grew. Once New York had its third bank, in 1799, it quickly got its fourth in 1803 and dozens more soon after. Hamilton's bonds traded alongside stocks for Hamilton's banks long after Aaron Burr shot Hamilton in their 1804 duel.

After the War of 1812, even more war debts were introduced to the nation's economy, and once the Erie Canal started carrying trade to New York City from the state capital in Albany and far-off cities in Ohio and the West, Manhattan eclipsed Philadelphia as the financial center of North America. With a deep-water port that didn't freeze in the winter and offered access to European banks and Asian goods, New York City was the place to raise and invest money. The Stock Exchange began holding more formal trading sessions in the mornings and afternoons, which started when the president would stand up and read the name of each security to be traded that day. In 1817 the Exchange adopted its own constitution. By the time the Erie Canal opened in 1825 (financed by the New York Stock and Exchange Board bonds), the Exchange had already hit an annual trading volume of more than 380,000 shares. With the western territories open to New Yorkers via the Erie Canal, Manhattan became ever more important in national finance. Trades on the exchange increased to 8,500 shares per day by 1835—fifty times what it had been in 1828.

The increased importance of the Exchange also meant that it could predict the first signs of trouble. When the Panic of 1837 struck, daily trades plunged from 7,400 per day to just over 1,500. In the Panic of 1857, one insurance company shed 15 percent of its value in a day. Technology that made it possible to gather and share information via the telegraph, ticker, and transatlantic cable also heightened the risks in the economy. And in response, the Exchange—formally renamed the New York Stock Exchange in 1863—began requiring companies to disclose financial information, operate with more transparency, associate with local bankers, and issue annual reports. In 1886, the Exchange saw its first day where more than a million shares were traded.

In 2010, that number tops 3.35 billion per day. More people than ever own stocks, and are affected by the rules and practices that began in 1792 under that buttonwood tree.

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