BAS 182 Panic of 1907 Welcome to Butte, America’s Story. I’m your host, Dick Gibson.

Butte’s riches and people have had some far-reaching impacts.

Brooklyn-born F. Augustus Heinze arrived in Butte in 1889, and with help from a $50,000 inheritance, soon established the Montana Ore Purchasing (M.O.P.) Company and by 1894 had opened a huge new mill-smelter complex just south of Meaderville on the east side of the hill. The MOP bought ore from smaller companies to process until Heinze had his own mines, including the Rarus.

It’s well known that Heinze went on to exploit the rule of the apex to allege that veins reached the surface within his claim boundaries, winning huge riches in the courts to add to his other mining ventures. In 1902, Heinze combined all his interests in the United Copper Company, which had a production capacity of about a third of that of the Amalgamated (Anaconda) Company.

By the end of 1906, the War of the Copper Kings was largely over, and Heinze had something like $25 million cash on hand. With his brothers Otto and Arthur in New York, he began to operate mostly as an investor, speculator, and banker. In October 1907 Otto devised a scheme to corner the ownership of United Copper stock by forcing the price of the stock up, squeezing the many short-selling stockholders (who had essentially borrowed stock and bet its price would go down) to sell to the Heinzes. But the plan backfired, and other non-margin stockholders were able to purchase and cover the short sellers.

United Copper’s price had risen sharply to $52, but two days later the price was down to $10 a share, and Otto Heinze was ruined; Augustus wasn’t much better off. Investors panicked and began pulling their money from the more than a dozen banks, trusts, and other investment firms that the Heinzes were connected with. As the stock market crashed, runs on banks spread across the country.

The Panic of 1907 effectively ended when financiers J.P. Morgan and John D. Rockefeller backed failing banks and prevented the city of New York from going bankrupt. Also in response to the panic, a new national organization was established in 1913 with rules and protections to prevent similar bank crises. That organization is the Federal Reserve System today, in large part a direct response to poor, illegal management of riches won by Heinze originally in Butte.

Augustus Heinze was actually found not guilty of breaking banking laws, although his partner in many of his New York ventures, Charles Morse, was convicted. But even though Heinze lost his interests in United Copper and was effectively impoverished, he returned to Butte to a hero’s welcome. He died in Saratoga, New York, in 1914 of cirrhosis of the liver at age 44.

As writer Edwin Dobb has said, "Like Concord, Gettysburg, and Wounded Knee, Butte is one of the places America came from." Join us next time for more of Butte, America’s Story.