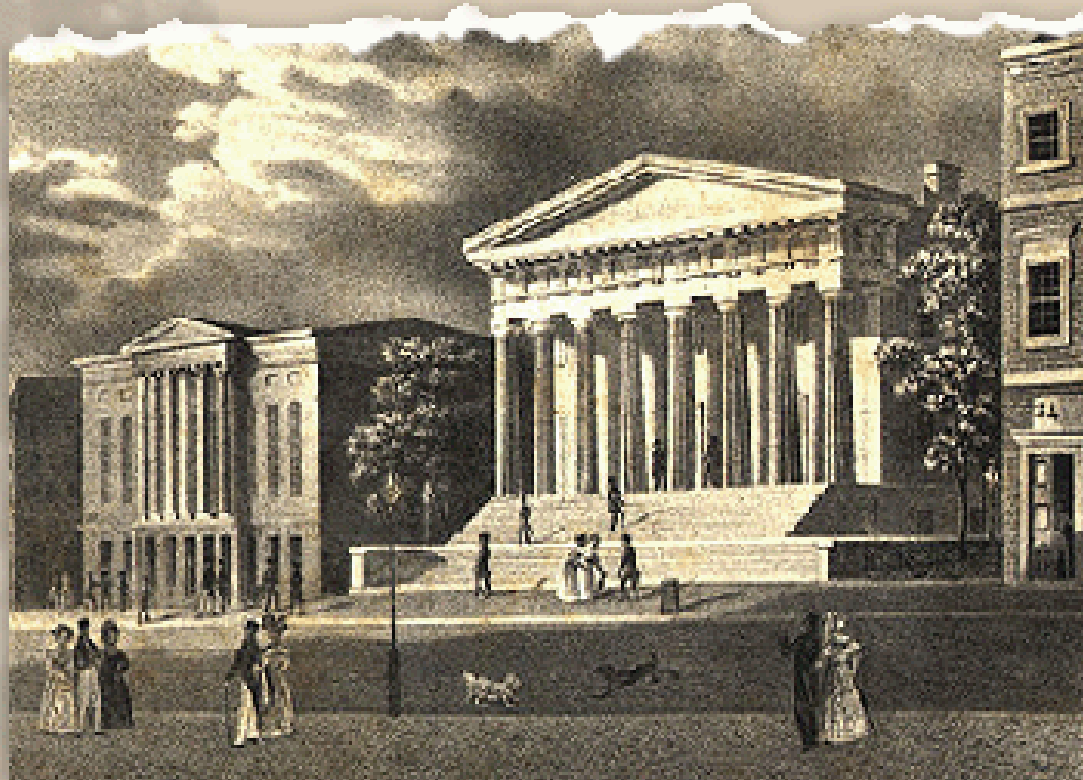


# THE PANIC OF 1819

REACTIONS AND POLICIES

by

Murray N. Rothbard



# I

## ***THE PANIC AND ITS GENESIS:***

### ***FLUCTUATIONS IN***

### ***AMERICAN BUSINESS 1815-21***

The War of 1812 and its aftermath brought many rapid dislocations to the young American economy. Before the war, America had been a large, thinly populated country of seven million, devoted almost exclusively to agriculture. Much cotton, wheat, and tobacco were exported abroad, while the remainder of the agricultural produce was largely consumed by self-sufficient rural households. Barter was extensive in the vast regions of the frontier. Commerce was largely devoted to the exporting of agricultural produce, which was generally grown close to river transportation. The proceeds were used to import desired manufactured products and other consumer goods from abroad. Major export products were cotton and tobacco from the South, and grain from the West.<sup>1</sup> The cities, which contained only 7 percent of the country's population, were chiefly trading depots channeling exports to and from abroad.<sup>2</sup> New York City was becoming the nation's great foreign trade center, with Philadelphia and Boston following closely behind.

The monetary system of the country was not highly developed. The banks, outside of New England at least, were confined almost exclusively to the cities. Their methods tended to be lax; government control was negligible; and the fact that most banks, like other corporations of the period, had to gain their status by special legislative charter, invited speculative abuses through pressure on the legislature. The result was a lack of uniformity in dealing with banks within and between states.<sup>3</sup> Until 1811, the existence of the First Bank of the United States

---

<sup>1</sup> For a general survey of the American economy of this period, see George Rogers Taylor, *The Transportation Revolution, 1815-60* (New York: Rinehart and Co., 1951).

<sup>2</sup> Total United States population was 7.2 million in 1810, 9.6 million in 1820. U.S. Department of Commerce, *Historical Statistics of the United States, 1789-1945* (Washington, D.C., 1949), p. 25.

<sup>3</sup> The banks were largely note-issue institutions. The big-city banks were already using deposits,

had influenced the banks toward uniformity. The currency of the United States was on a bimetallic standard, but at the legal ratio of fifteen-to-one gold was under-valued, and the bulk of the specie in circulation was silver. Silver coins were largely foreign, particularly Spanish, augmented by coins minted in Great Britain, Portugal, and France.<sup>4</sup>

Before the war, the American economy lacked large, or even moderate-scale, manufactures. "Manufacturing" consisted of small-scale, often one-man, operations. The manufacturers were artisans and craftsmen, men who combined the function of laborer and entrepreneur: blacksmiths, tailors, hatters, and cobblers. A very large amount of manufacturing, especially textiles, was done in the home and was consumed at home. Transportation, too, was in a primitive state. Most followed the time-honored course of the rivers and the ocean, while costly land transport generally moved over local dirt roads.

The War of 1812 and postwar developments forced the American economy to make many rapid and sudden adjustments. The Anglo-French Wars had long fostered the prosperity of American shipping and foreign trade. As the leading neutral we found our exports in great demand on both sides, and American ships took over trade denied to ships of belligerent nations. With the advent of the Embargo and the Non-Intercourse Acts, and then the war itself, however, our foreign trade was drastically curtailed. Foreign trade had reached a peak of \$138 million in imports and \$108 million in exports in 1807, and by 1814 had sunk to \$13 million imports and \$7 million exports.<sup>5</sup> On the other hand, war conditions spurred the growth of domestic manufactures. Cotton and woolen textiles, those bellwethers of the Industrial Revolution, were the leaders in this development. These goods were formerly supplied by Great Britain, but the government now required them for war purposes. Domestic manufactures grew rapidly to fill this demand as well as to meet consumer needs no longer met by imports. Households expanded their production of textiles. Of far more lasting significance was the growth of textile factories, especially in New England, New York, and Pennsylvania. Thus, while only four new cotton factories were established during 1807, forty-three were established during 1814, and fifteen in 1815.<sup>6</sup> Leading merchants, finding their capital idle in foreign trade, turned to invest in the newly profitable field of domestic manufactures. Some of these factories adopted the corporate form, hitherto largely confined to banks, insurance and bridge companies. The total number of new factories incorporated in the leading manufacturing states of Massachusetts, Connecticut, New York,

---

but there is little or no information about them.

<sup>4</sup> U.S. Congress, *American State Papers: Finance*, III, 559, January 26, 1819 (Washington, D.C., 1834), p. 398.

<sup>5</sup> U.S. Department of Commerce, *Historical Statistics*, p. 245.

<sup>6</sup> Clive Day, "The Early Development of the American Cotton Manufacture," *Quarterly Journal of Economics*, XXXIX (May, 1925), 452.

New Jersey, and Maryland, averaged sixty-five a year from 1812 to 1815, compared with eight per annum before the war.<sup>7</sup>

The war wrought great changes in the monetary system as well. It brought heavy pressure for federal government borrowing. New England, where the banks were more conservative, was opposed to the war and loaned only negligible amounts to the government, and the federal government came to rely on the mushrooming banks in the other states. These banks were primarily note-issuing institutions, generally run on loose principles.<sup>8</sup> Little specie was paid in as capital, and it was quite common for the stockholders to pay for their bank stock with their own promissory notes, using the stock itself as the only collateral. Usually, the officers and stockholders of the banks were the most favored borrowers in their own institutions. Contributing to the expansion of the note issue was the practice of printing notes in denominations as low as six cents. With the restraint of the Bank of the United States removed, and the needs of government finance heavy, the number of new banks and the quantity of note issue multiplied rapidly. The great expansion of bank notes outside of New England contrasted with the conservative policy of the New England banks, and led to a drain of specie from other states to New England. The relative conservatism of New England banks is revealed by the fact that Massachusetts bank notes outstanding increased but slowly—from \$2.4 million to \$2.7 million from 1811 to 1815. Furthermore, specie in the bank vaults increased from \$1.5 million to \$3.5 million in the same period.<sup>9</sup>

There was no uniform currency except specie that could be used in all areas of the country. Furthermore, the government, borrowing Middle Atlantic, Southern, and Western bank notes, had to make heavy expenditures in the New England area for imported supplies and for newly burgeoning textile goods manufactured in that region. The resulting specie drain and the continuing bank note expansion led inevitably to a suspension of specie payments outside the New England area in August, 1814. The government agreed to this suspension, and the banks continued in operation—the exchange rate of each bank's notes varying widely. The notes of the suspended banks depreciated at varying rates with respect to the New England bank notes and to specie. The suspension of the obligation to redeem greatly spurred the establishment of new banks and the expansion of

---

<sup>7</sup> U.S. Congress, "Digest of Manufactures, Supplement," *American State Papers: Finance*, IV, 691 (Washington, D.C., 1834), p. 397 ff. Also George Heberton Evans, *Business Incorporations in the United States, 1800-1943* (New York: National Bureau of Economic Research, 1948), pp. 12-21.

<sup>8</sup> Allan G. Gruchy, *Supervision and Control of Virginia State Banks* (New York: D. Appleton-Century and Co., 1937), pp. 14-18, 48-56; Davis R. Dewey, *State Banking Before the Civil War* (Washington, D.C.: Government Printing Office, 1910).

<sup>9</sup> U.S., *Annual Report of the Comptroller of the Currency*, 1876, p. xxxix ff.; Albert Gallatin, *Considerations on the Currency and Banking Systems of the United States* (Philadelphia: Carey and Lea, 1831); and *Boston New England Palladium*, July 27, 1819.

bank note issues. The number of banks in the United States rose from 88 in 1811 to 208 in 1815, while bank notes outstanding rose from \$2.3 million to \$4.6 million in the same period.<sup>10</sup> Expansion was particularly large in the Middle Atlantic states, notably Pennsylvania. The number of banks in the Middle Atlantic states increased from 25 to 111 in this period, while banks in the southern and western states increased from 16 to 34. Pennsylvania incorporated 41 banks in the month of March, 1814.<sup>11</sup>

The war also saw a great rise in prices. Prices of domestic goods rose under the impact of the rapid expansion of the money supply; prices of imported goods rose further as a result of the blocking of foreign trade. Domestic commodity prices rose by about 20-30 percent; cotton, the leading export staple, doubled in price. Imported commodity prices rose by about 70 percent.<sup>12</sup>

The first war of the new nation, therefore, wrought many unsettling changes in the American economy. Trade was blocked from its former channels, the monetary system became disordered, expansion of money and a shortage of imported goods drove prices upward, and domestic manufactures-particularly textiles-developed under the spur of government demand and the closing of foreign supply sources. The advent of peace brought its own set of problems. After the wartime shortages, the scramble *for* foreign trade was pursued in earnest. Americans were eager to buy foreign goods, particularly British textiles, and the British exporters were anxious to unload their accumulated stocks. Total imports rose from \$5.3 million in the last prewar year to \$113 million in 1815, and to \$147 million in 1816.<sup>13</sup> British exports to the United States alone totaled \$59 million in 1815, and \$43 million in 1816.<sup>14</sup> The renewal of the supply of

---

<sup>10</sup> Gallatin, *Considerations on the Currency*, p. 281; William M. Gouge, *A Short History of Paper Money and Banking* (New York: B. & S. Collins, 1835), pp. 61, 405 ff.; William H. Crawford, *Reports of the Secretary of the United States* (Washington, D.C., 1837), II, 481-525.

<sup>11</sup> See also Dewey, *State Banking*, pp. 63-68; John Jay Knox, *History of Banking in the United States* (New York: B. Rhodes and Co., 1900), p. 445; for an account of small denomination paper, see J. T. Scharf and T. Westcott, *History of Philadelphia, 1669-1884* (Philadelphia: L. H. Everts and Co., 1884), I, 581; for an account of West Virginia bank expansion, see Charles H. Ambler, *Thomas Ritchie, A Study in Virginia Politics* (Richmond: Bell Book and Stationery Co., 1913), pp. 66--67.

<sup>12</sup> Walter B. Smith and Arthur H. Cole, *Fluctuations in American Business, 1790-1860* (Cambridge: Harvard University Press, 1935), pp. 146, 185; Anne Bezanson *et al.*, *Wholesale Prices in Philadelphia, 1784-1861* (Philadelphia: University of Pennsylvania Press, 1936), II, 352-55, 409; Arthur H. Cole, *Wholesale Commodity Prices in the United States, 1700-1861* (Cambridge: Harvard University Press, 1938), I, 161.

<sup>13</sup> These are Treasury estimates for fiscal years ending September 30. U.S. Treasury Department, Bureau of Statistics, *Monthly Summary of Imports and Exports for the Fiscal Year 1896* (Washington, D.C., 1896), pp. 622-23. Official data on United States imports are not available before 1821.

<sup>14</sup> Timothy Pitkin, *Statistical View of the Commerce of the United States of America*, 3d ed. (New

imported goods drastically lowered the prices of imports in the United States and spurred American demand. Imported commodity prices at Philadelphia, for example, fell in one month (March, 1815) from an index of 231 to 178. Import prices continued to sag afterwards, reaching 125 by early 1817.<sup>15</sup>

The ability and eagerness to import was increased by the continued inflation and credit expansion of the banks, which still were not obliged to redeem in specie. Furthermore, the federal government aided imports by allowing several months to more than a year for payment of import duties. British and other foreign exporters were willing to grant short-term credits on a large scale to American importers, and these credits played a major role in meeting the large balance of trade deficit in the postwar years. A further spur to imports, again particularly in British textiles, was the emergence of a system of selling these goods at auction sales instead of through regular import channels. British manufacturers found that auction sales through agents yielded quicker returns; the lower prices were compensated by the lower costs of operation. The auction system flourished particularly in New York City. Total auction sales in the United States during 1818 were \$30 million. In New York City they totaled \$14 million, in contrast to \$5 million before the war. Half of these sales consisted of European dry goods, in contrast to a sale of \$1 million of American-made dry goods.<sup>16</sup>

The influx of imports spelled trouble for war-grown manufactures, especially textiles, which suddenly had to face the onrush of foreign competition. The manufacturers did not share in the general postwar prosperity. Bezanson's index of prices of industrial commodities at Philadelphia (including such products as dyes, chemicals, metals, textiles, sugar, soap, glass), which had increased from 141 to 214 during the war period, fell abruptly to 177 in March, 1815, and continued to fall, reaching 127 in March, 1817.<sup>17</sup> This drop indicates the difficulties confronting the fledgling manufacturers. The households which had increased textile manufacturing during the war could easily suspend their work as imports resumed, but the new factories had invested capital at stake. A few of the

---

York: Durne and Peck, 1835), p. 294; and Worthy P. Sterns, "The Beginning of American Financial Independence," *Journal of Political Economy*, VI (1897-98), 191.

<sup>15</sup> Smith and Cole, *Fluctuations*, p. 147; Bezanson, *Wholesale Prices*, I, 353.

<sup>16</sup> Ray B. Westerfield, "Early History of American Auctions: A Chapter in Commercial History," *Connecticut Academy of Arts, Sciences, Transactions*, XXIII (May, 1920), 164-70; "Observer," *Review of Trade and Commerce of New York, 1815 to Present* (New York, 1820); J. Leander Bishop, *A History of American Manufactures, 1608-1866* (Philadelphia: E. Young and Co., 1864), II, 256 ff.; New York State, *Assembly Documents*, 1843, No. 10 (Albany, 1843), p. 130 ff.; Victor S. Clark, *History of Manufactures in the United States, 1607-1860* (Washington, D.C.: Carnegie Institute, 1916), II, 241 ff.; Arthur H. Cole, *The American Wool Manufacture* (Cambridge: Harvard University Press, 1926), I, 156 ff., 217; Horace Secrist, "The Anti-Auction Movement and the New York Workingmen's Party of 1829," *Wisconsin Academy of Sciences, Arts, and Letters, Transactions*, Vol. XVII, Part 1 (1914), p. 166.

<sup>17</sup> Bezanson, *Wholesale Prices*, I, 355.

up-to-date factories, such as the famous cotton textile firm of Waltham, Massachusetts—a pioneer in American mass production, using the new power loom to make plain white sheeting for lower income customers—could easily withstand the competition, but most factories were hard-pressed.<sup>18</sup> The decline continued for several years; new factories incorporated in five leading manufacturing states averaged nine per annum from 1817-19, in contrast to sixty four per annum in the war years.<sup>19</sup>

American exports continued to expand greatly, however, although by far less than imports. Europe's hunger for agricultural staples was stimulated by poor postwar crops abroad, and the prices and values of American staples exported, notably cotton and tobacco, increased greatly. Such leading customers as Britain and France led the surge in European demand. In spite of this, exports never reached the peak prewar totals. Re-exports of foreign goods fared badly, never attaining more than one-third of their prewar level, when neutral ships of the United States had a virtual monopoly of the European carrying trade. Domestic exports totaled \$46 million in the fiscal year 1815, and \$65 million in 1816, compared to a prewar peak of \$49 million. Re-exports, on the other hand, totaled \$7 million in 1816, and \$17 million the next year, compared to the prewar peak of \$60 million.<sup>20</sup> The net balance of foreign trade, in sum, was a deficit of \$60 million for the fiscal year of 1815, and of \$65 million for the fiscal year 1816. Agricultural produce accounted for \$14 million of the \$19 million increase in domestic exports from 1815 to 1816. Agricultural produce exported rose from \$38 million in the fiscal year 1815 to \$52 million in 1816. Cotton furnished about half of the agricultural exports, and tobacco, wheat, and flour formed the bulk of the remainder. Of the exports in 1815, cotton was \$17.5 million, tobacco was \$8 million, and wheat and flour exports totaled \$7 million. In 1816, cotton increased to \$24 million, and tobacco to \$13 million.<sup>21</sup>

---

<sup>18</sup> For an account of the difficulties of the cotton and woolen industry after the war, see Caroline E. Ware, *The Early New England Cotton Manufacture* (Boston: Houghton Mifflin Co., 1931), pp. 66, 126 ff.; Bishop, *A History*, pp. 211 ff., 236; "Reports of House Committee on Commerce and Manufactures," U.S. Congress, *American State Papers: Finance*, III, 32-35, 82 ff., 103, 461; Cole, *American Wool Manufacture*, pp. 85, 144, 152 ff.; Report of House Committee on Domestic Manufactures," Pennsylvania Legislature, *Journal of the House*, 18.9-20 (January 28, 1820), p. 413; and J. T. Scharf, *History of Delaware* (Philadelphia: L. J. Richards and Co., 1888), II, 304 ff.

<sup>19</sup> Day, *Early Development*, p. 452; Norman S. Buck, *Development and Organization of Anglo-American Trade, 1800-1850* (New Haven: Yale University Press, 1925), pp. 134-47. See also Evans, *Business Incorporations*, pp. 12-30; Ware, *Early New England*, pp. 56 ff.

<sup>20</sup> Trade restrictions, however, had already reduced re-exports to \$16 million by 1811, the immediate prewar year. Pitkin, *Statistical View of Commerce*, p. 35; U.S. Treasury, *Monthly Summary*, and Emory R. Johnson, Thurman W. Van Metre, G. G. Heubner, and D. S. Hanchett, *History of Domestic and Foreign Commerce of the United States* (Washington, D.C.: Carnegie Institute, 1915), II, 31 ff. On exports from the principal cities, see Robert G. Albion, *The Rise of the New York Port* (New York: C. Scribners' Sons, 1939), p. 390.

<sup>21</sup> Pitkin, *Statistical View of Commerce*, pp. 95-144.

Prices of American exports increased as a result of increased European demand and monetary expansion at home. The boom in export values was largely a price not a physical production phenomenon. Cole's index of export prices at Charleston rose from 93 in March, 1815 to 138 in March, 1817, and cotton prices rose even more in the same period. The physical quantity of cotton produced and exported, on the other hand, increased slowly in these years.<sup>22</sup>

The rise in export values and the monetary and credit expansion led to a boom in urban and rural real estate prices, speculation in the purchase of public lands, and rapidly growing indebtedness by farmers for projected improvements. The prosperity of the farmers led to prosperity in the cities and towns-so largely devoted were they to import and export trade with the farm population.

The postwar monetary situation was generally considered intolerable. Banks continued to expand in number and note issue, without the obligation of redeeming in specie, and their notes continued to depreciate and fluctuate from bank to bank, and from place to place.<sup>23</sup> The number of banks increased from 208 to 246 during 1815 alone, while the estimated total of bank notes in circulation increased from \$46 million to \$68 million.<sup>24</sup> There was a great desire for nationwide uniformity in the currency, and the Treasury chafed under the necessity of receiving depreciated bank notes from its sale of public lands in the West, while it had to spend the bulk of its funds in the East in far less depreciated money. It was clear, however, that the inflated banks could not return immediately to specie convertibility without an enormous contraction of credit and deflation of the money supply. As an attempted solution, a Second Bank of the United States was authorized by Congress. It was required to redeem its notes in specie, and was expected to provide a sound and uniform currency. It began operations in January, 1817, but the state banks agreed to resume specie payments by February 20, under the proviso that the new Bank discount by that date a minimum of \$2 million in New York, \$2 million in Philadelphia, \$1.5 million in Baltimore, and \$500 thousand in Virginia - a minimum of \$6 million.<sup>25</sup> The banks also extracted a pledge of support in emergencies. The Bank, indeed, was not averse to a credit expansion of its own. Its main office and southern and western branches soon overfulfilled their promises. It was run as a strictly profit-making enterprise, under very liberal rules. Like many of the state banks, the Second Bank of the United States accepted its second and later installments of capital in the form of IOUs instead of specie. Eventually, such stock loans totaled

---

<sup>22</sup> Cole, *Wholesale Commodity Prices*, p. 161; Pitkin, *Statistical View of Commerce*, pp. 108-15.

<sup>23</sup> William M. Gouge, *Journal of Banking* (Philadelphia: J. Van Court, 1842), pp. 346, 355.

<sup>24</sup> New note issue series by banks reached a heavy peak in 1815 and 1816 in New York and Pennsylvania. D. C. Wismer, *Pennsylvania Descriptive List of Obsolete State Bank Notes, 1782-1866* (Fredericksburg, Md.: J. W. Stovell Printing Co., 1933); and *ibid.*, *New York Descriptive List of Obsolete Paper Money* (Fredericksburg, Md.: J. W. Stovell Printing Co., 1931).

<sup>25</sup> U.S. Congress, *American State Papers: Finance*, IV, 705 (March 22, 1824), 759.



\$10 million, and the loans were particularly heavy to the important Philadelphia and Baltimore officers and directors of the Bank.<sup>26</sup> Control over the branches of the Bank was negligible, and the southern and western branches greatly expanded their credits and note issues. The officers of the Baltimore branch, indeed, engaged in outright embezzlement. By the beginning of 1818, the Bank had loaned over \$41 million. Its note issue outstanding reached \$10 million, and its demand deposits \$13 million, for a total money issue of \$23 million, contrasted to a specie reserve of about \$2.5 million.<sup>27</sup>

The boom therefore continued in 1818, with the Bank of the United States acting as an expansionary, rather than as a limiting, force. The expansionist attitude of the Bank was encouraged by the Treasury, which wanted the Bank to accept and use the various state bank notes in which the Treasury received its revenue, particularly its receipts from public land sales.<sup>28</sup> The expansion of its note issue encouraged the state banks throughout the country, especially outside New England, to multiply and continue their credit expansion. The number of banks had increased from 246 in 1816 to 392 in 1818. Kentucky alone chartered 40 new banks in the 1817-18 session.<sup>29</sup> Bank expansion was spurred by the decision of the Bank of the United States and the Treasury to treat the notes of nominally resuming banks as actually equivalent to specie. The Bank thereby accumulated balances and notes against the private banks without presenting them for redemption. Many of these notes were original Treasury balances which had been deposited with the Bank but not claimed from the state banks. In New England, on the other hand, both the private banks and the branches of the Bank of the United States pursued a conservative policy. Indeed, they were forced to contract, as the New England branches of the Bank were continually forced to payout specie on the expanded note issue of the western and southern branches, since by prevailing Bank rule, all branches were liable for the notes of all other branches. As a result, the notes of the Massachusetts banks declined from a total of \$1 million in June, 1815 to \$850 thousand by June, 1818.<sup>30</sup>

---

<sup>26</sup> Dewey, *State Banking*, pp. 6-21.

<sup>27</sup> For data, see Walter B. Smith, *Economic Aspects of the Second Bank of the United States* (Cambridge: Harvard University Press, 1953), p. 49. Also U.S. Comptroller of the Currency, *Annual Report, 1876*, p. 261; R. C. H. Catterall, *The Second Bank of the United States* (Chicago: University of Chicago Press, 1903), p. 501. Other assets of the Bank were \$9.5 million in government bonds, \$2.7 million due from state banks. Capital totaled \$35 million.

<sup>28</sup> Folz, *Financial Crisis*, p. 164; Smith, *Economic Aspects*, pp. 105, 112; U.S. Congress, *American State Papers: Finance*, IV, 705 (March 22, 1824), 523.

<sup>29</sup> A contemporary estimated the number of banks in 1818 at 500. "Philotheus," *Baltimore Federal Republican*, July 9, 1819. Also Gouge, *Journal*, pp. 223-26; New York Legislature, *Senate Journal*, 1819 (January 26, 1819), pp. 66-70.

<sup>30</sup> N. S. B. Gras, *The Massachusetts First National Bank of Boston, 1784-1934* (Cambridge: Harvard University Press, 1937), pp. 710-11.

A generally uniform currency prevailed throughout the country, most bank notes circulating at par.<sup>31</sup> There were exceptions, however; during 1818, for example, notes of some banks in Pennsylvania were depreciated by as much as 30 percent, and in Virginia, Kentucky, and Tennessee by as much as 12 percent.<sup>32</sup>

Investment in real estate, turnpikes, and farm improvement projects spurred, and prices in these fields rose. Furthermore, the federal government facilitated large-scale speculation in public lands by opening up for sale large tracts in the Southwest and Northwest, and granting liberal credit terms to purchasers.<sup>33</sup> Public land sales, which had averaged \$2 million to \$4 million per annum in 1815 and 1816, rose to a peak of \$13.6 million in 1818.<sup>34</sup>

Speculation in urban and rural lands and real estate, using bank credit, was a common phenomenon which sharply raised property values.<sup>35</sup> Furthermore, this speculation increased Treasury balances in western banks, and added to the flow of the Bank's notes from west to east. Federal construction expenditures also helped to further the boom: they rose from \$700 thousand in 1816 to over \$14 million in 1818.<sup>36</sup> Beginning in 1816, there was a construction boom in turnpikes, especially in New York, Maryland, and western Pennsylvania.<sup>37</sup> Turnpikes were built by corporations, each of which received special charters from the states, and corporations in turnpike construction rivaled new banks in number. The share of

---

<sup>31</sup> Knox, *History of Banking*, pp. 485-86.

<sup>32</sup> Gouge, *Short History*, p. 166 ff.

<sup>33</sup> Purchasers were only required to pay one-fourth of the total within forty days of purchase, and the penalty of forfeiture for failure to complete payment in five years was repeatedly postponed by Congress. U.S. Congress, *The Public and General Statutes Passed by the Congress of the United States of America* (Boston: Wells and Lilly, 1827), II and III, *passim*.

<sup>34</sup> See the data compiled from the records of the General Land Office, in Smith and Cole, *Fluctuations*, p. 185; and in Arthur H. Cole, "Cyclical and Seasonal Variations in Sale of Public Lands, 1816-60," *Review of Economic Statistics*, IX (January, 1927), 42 ff. Also Thomas P. Abernethy, *The Formative Period in Alabama, 1815-28* (Montgomery, Ala.: The Brown Printing Co., 1922), p. 50 ff.; C. F. Emerick, *The Credit System and the Public Domain* (Vanderbilt, Tenn.: Southern History Society Publication No.3, 1898); U.S. Congress, *American State Papers: Finance*, III, 5, 10; *ibid.*, IV, 859-61.

<sup>35</sup> On a building boom in New York City, see the comment by an influential merchant of the day, John Pintard, *Letters to His Daughter, 1816-20* (New York: New York Historical Society, 1940) I, November 16, 1818, 154. Also New York *Gazette*, February 4, 1818. On a rental and property value boom in other states, U.S. Congress, *Annals of Congress of the United States*, 17th Congress, 1st Session (1821-22), March 12, 1822, pp. 1281-97; Washington (D.C.) *National Intelligencer*, July 24, 1819; Thomas Cushing (ed.), *History of Allegheny County, Pennsylvania* (Chicago: A. Warner and Co., 1889), p. 547; William E. Connelley and E. M. Coulter, *History of Kentucky* (Chicago: American Historical Society, 1922) II, 593; Waldo F. Mitchell, "Indiana's Growth, 1812-20," *Indiana Magazine of History*, X (December, 1914), 385; Hattie M. Anderson, "Frontier Economic Problems in Missouri, 1815-28," *Missouri Historical Review*, XXXIV (October, 1939), 48 ff.; Dorothy B. Dorsey, "The Panic of 1819 in Missouri," *ibid.*, XXIX (January, 1935), 79-80; Report of J. H. Brown at 1st Annual Meeting of Kentucky Bar Association, in William Graham Sumner, *History of Banking in the United States* (New York: Henry Holt and Co., 1896), p. 89; Charles H. Garnett, *State Banks of Issue in Illinois* (University of Illinois, 1898), p. 7; Pennsylvania Legislature, *Journal of the Senate, 1819-20*, February 14, 1820, pp. 311-37. On the rise in the price of slaves during the boom, John L. Conger, "South Carolina and Early Tariffs," *Mississippi Valley Historical Review*, V (March, 1919), 415-25.

<sup>36</sup> U.S. Department of Commerce, *Historical Statistics*, pp. 169 219-20.

<sup>37</sup> Taylor, *Transportation Revolution*, pp. 23, 336.

transportation in the boom is also demonstrated by high and rising freight rates on steamboats, which were just beginning operation.<sup>38</sup> Shipbuilders also shared in the boom prosperity.<sup>39</sup>

It does not seem accidental that the boom period saw the establishment of the first formal indoor stock exchange in the country: the New York Stock Exchange opened in March, 1817. Traders had been buying and selling stocks on the curbs in Wall Street since the eighteenth century, but now they found it necessary to form a definite association and rent indoor quarters. The period also marked the beginning of investment banking: commercial banks and individual bankers bought blocks of stock and sold them in small lots on the market or sold the stocks as agents of the issuer. Prominent in this new business were former merchants in foreign trade who had accumulated capital, such as Alexander Brown and Sons, and persons with fortunes amassed elsewhere, such as Astor and Son.<sup>40</sup>

As a result of the monetary and credit expansion, imports continued at a high rate, exceeding the rising exports, and financed by specie outflow and by credits from foreign merchants. After the rush for imports in 1815 and 1816, import values, though remaining at a relatively high level, declined in 1817. This temporary decline from peak levels was spurred by the uncertainties surrounding the return of the banking system to specie payment in 1817, and the consequent relative slackening in monetary expansion during that period. However, imports increased sharply again in 1818 to \$122 million. Imports of foreign goods into Cincinnati—the major western depot—doubled in 1817-18 over the 1815-16 totals.<sup>41</sup> In contrast, prices of imported goods, determined largely by conditions outside America, remained almost constant during these years.

Exports, helped by European prosperity and poor crops abroad, continued to rise in price and value. They rose to \$88 million in 1817 and reached a peak of \$93 million in 1818. Exports of domestic products also rose to a peak of \$74 million in that year. Even re-exports reached a postwar peak in 1818, although the increase over 1816 was negligible. Agricultural exports rose to \$57 million in 1817 and to a peak of \$63 million in 1818, advancing at a faster rate than domestic exports as a whole. Agricultural exports rose by \$5 million in 1817 and \$5.4 million in 1818, while aggregate domestic exports rose by \$3.5 million and \$5.6 million respectively. Cotton exports also reached a peak in the latter year.<sup>42</sup>

<sup>38</sup> Thomas S. Berry, *Western Prices Before 1861* (Cambridge: Harvard University Press, 1943), pp. 32, 45 ff. On the heavy increase in costs of transporting convicts, see Pennsylvania Legislature, *Journal of the Senate, 1820-21* (April 3, 1821), p. 816.

<sup>39</sup> U.S. Congress, House, *Annual Report of the Commissioner of Navigation, 1901*, 57th Congress, 1st Session, House Document No. 14, p. 585.

<sup>40</sup> Joseph E. Hedges, *Commercial Banking and the Stock Market Before 1863* (Baltimore: Johns Hopkins University Studies, 1938).

<sup>41</sup> U.S. Treasury, *Monthly Summary*; Cincinnati, *Cincinnati Directory, 1819* (Cincinnati, Ohio, 1819), p. 52.

<sup>42</sup> Pitkin, *Statistical View of Commerce*, pp. 95-144; Smith, *Economic Aspects*, p. 280.

Prices of export staples rose even more rapidly during this period. Cole's index of export staple prices at Charleston rose from 138 in March, 1817 to 169 in August, 1818. A similar rise occurred in Bezanson's cotton index.<sup>43</sup>

The net result in the balance of trade was a sharp drop in the trade deficit to \$11.6 million in 1817, and a later rise to \$28.5 million in 1818.<sup>44</sup> The large deficits of the postwar years are partly overstated, for some were offset by earnings of American shipping, which carried almost all American foreign trade—the earnings of which do not appear in the trade balance.<sup>45</sup>

Troubles and strains, however, began to pile up as the boom continued. The resumption of specie payments by the banks was increasingly more nominal than real. Obstacles and intimidation were the lot of those who attempted to press the banks for payment in specie.<sup>46</sup> As the Philadelphia economist, merchant, and State Senator Condé Raguet wrote to Ricardo:

You state in your letter that you find it difficult to comprehend, why persons who had a right to demand coin from the Banks in payment of their notes, so long forebore to exercise it. This no doubt appears paradoxical to one who resides in a country where an act of parliament was necessary to protect a bank, but the difficulty is easily solved. The whole of our population are either stockholders of banks or in debt to them. It is not the *interest* of the first to press the banks and the rest are *afraid*. This is the whole secret. An independent man, who was neither a stockholder or debtor, who would have ventured to compel the banks to do justice, would have been persecuted as an enemy of society. . . .<sup>47</sup>

The consequent loss of confidence in the banks was demonstrated by the emergence of a premium for specie on the market. The discount on bank notes made it more difficult for the banks maintaining specie payment to retain specie in their vaults, since people could redeem their notes for specie, and sell it for bank notes at a discount. Specie came to be at a premium in terms of Bank of United States notes, even though the Bank was required to pay in specie. This

---

<sup>43</sup> Cole, *Wholesale Prices*, p. 161; Bezanson, *Wholesale Prices*, II, 67-70. Also Smith, *Economic Aspects*, pp. 72-75; George R. Taylor, "Wholesale Commodity Prices at Charleston, South Carolina, 1796-1861," *Journal of Economic and Business History*, IV (August, 1932), 856-70.

<sup>44</sup> Taylor, *Transportation Revolution*, pp. 200-202.

<sup>45</sup> The order of magnitude of these earnings was approximately \$3 million. See Pitkin, *Statistical View of Commerce*, p. 166.

<sup>46</sup> On the general attitude of hostility by the public as well as the banks toward attempts to redeem notes in specie, see Crawford, *Report*; Dewey, *State Banks*, pp. 73-79 ff., 107 ff.; *Niles' Weekly Register*, XIII, (August 2, 1817), 357; *ibid.*, XIV (February 7, 1817), 32; *ibid.*, XIV (June 20, 1818), 281, 285; *ibid.*, XIV (May 30, 1818), 225; New York Legislature, "Report on Committee on Currency," *Journal of the Assembly*, 1818 (February 24), pp. 307-11; Knox, *History of Banking*, p. 576. On an agreement by the banks of Philadelphia not to redeem balances against each other without delay, see Harry E. Miller, *Banking Theories in the United States Before 1860* (Cambridge: Harvard University Press), p. 215.

<sup>47</sup> Condé Raguet to David Ricardo, April 18, 1821, in David Ricardo, *Minor Papers on the Currency Question, 1809-23*, Jacob Hollander, ed. (Baltimore: The Johns Hopkins Press, 1932), pp. 199-201.

reflected a lack of confidence in the Bank's ability to continue specie payments. A premium on Spanish silver dollars-the major coin circulating in the United States-appeared in March, 1818, and reached 4 percent by June and 6 percent by November.<sup>48</sup> The specie drain from the Bank vaults increased, adding to the heavy external drain for payment of imports. It became evident that the Bank could not long continue expanding its notes and paying out specie at such a rapid rate. Importations of specie from abroad by the Bank, totaling over \$7 million and purchased at a heavy price, proved only a temporary expedient. The problem was aggravated by the pressure resulting from rapid repayment of the Federal debt. The autumn of 1818 and early 1819 were the scheduled dates for the repayment of the "Louisiana debt," which had financed the Louisiana Purchase. Most of this debt-amounting to over \$4 million-was owed abroad, and it had to be repaid in specie. The responsibility for meeting the payments fell on the Bank of the United States, the repository for the Treasury's deposits.

Faced with these threatening circumstances, the Bank of the United States was forced to call a halt to its expansion and launch a painful process of contraction. Beginning in the summer of 1818, the Bank precipitated the Panic of 1819 by a series of deflationary moves. The branches of the Bank were ordered to call on the state banks to redeem heavy balances and notes held by the Bank. The requirement that each branch redeem the notes of every other branch was rescinded, thus ending the liability of the conservative eastern branches to redeem the notes of expansionist branches. The Boston branch began this move in March, and it was made general for all the Bank's offices by the end of August. The contractionist policy, begun hesitantly under the presidency of William Jones and continued more firmly under the direction of his successor Langdon Cheves, sharply limited and contracted the loans and note issues of the branches. As a result, total demand liabilities of the Bank, including notes, private and public deposits, declined precipitately from \$22 million in the fall of 1818 to \$12 million in January, 1819, and to \$10 million by January, 1820. Of this amount, notes outstanding of the Bank fell from a peak of \$10 million in early 1818, to \$8.5 million in the fall of 1818, less than \$5 million by the summer of 1819, and \$3.6 million by January, 1820. Particularly striking was the decline in the Bank's public deposits, consisting largely of bank debts accumulated from public land sales. They declined from \$9 million in the autumn of 1818 to less than \$3 million in January, 1819.<sup>49</sup>

Another result of contraction was a large rise in the Bank's specie reserve, which had been about \$2.5 million during 1818 and early 1819. As loans were recalled, and the specie drain reversed, specie flowed into the Bank and reached

---

<sup>48</sup> On the silver premium, see Raguet Report, pp. 223-31; Smith, *Economic Aspects*, pp. 106, 123-24, 283, 286; James Flint, *Letters from America* in Reuben G. Thwaites, ed., *Early Western Travels, 1748-1846* (Cleveland: A. H. Clark Co., 1904-07), IX, 136.

<sup>49</sup> Smith, *Economic Aspects*, p. 49.

\$3.4 million in January, 1820. Specie reserves spurted to \$8 million in the spring of 1821, at a time when total demand liabilities of the Bank were less than \$12 million.<sup>50</sup>

The contractionist policy forced the state banks, in debt to the Bank, to contract their loans and notes outstanding at a rapid pace. Total bank notes in circulation were estimated at \$45 million in January, 1820, as compared to \$68 million in 1816.<sup>51</sup> The severe monetary contraction, lasting through 1820, led to a wave of bankruptcies throughout the country, particularly outside New England. In many cases, banks attempted to continue in operation while refusing specie payment, but their notes depreciated greatly and no longer circulated outside the vicinity of issue. The notes of most of the inland banks depreciated and fluctuated in relation to each other. New England, in contrast, was the only area little touched by bank failures or runs; the banks outside of Rhode Island remained solvent.<sup>52</sup> The entire hastily built private credit structure was greatly shaken by the contraction and wave of defaults.<sup>53</sup> The financial panic led, as did later panics, to a great scramble for a cash position, and an eagerness to sell stocks of goods at even sacrifice rates.

The severe contraction of the money supply, added to an increased demand for liquidity, led to a rapid and very heavy drop in prices. Although detailed price information is available only for wholesale commodities, there is evidence that prices fell in many other fields, such as real estate values and rents. Most important for the American economy were the prices of the great export staples, and their fall was remarkably precipitate. The index of export staples fell from 169 in August, 1818, and 158 in November, 1818, to 77 in June, 1819. A similar movement occurred in the price of cotton and in the Smith and Cole index of domestic commodity prices. Evidence of falling prices can be seen in freight rates and in the prices of slaves.<sup>54</sup>

<sup>50</sup> *Ibid.*, pp. 40, 119, 286. Also see Catterall, *Second Bank*, p. 503.

<sup>51</sup> Gallatin, *Considerations*, pp. 45-51; Delaware General Assembly, *Journal of the House of Representatives, 1819* (January 28), pp. 104-6; New Hampshire *Gazette*, August 19, 1817; John J. Walsh, *Early Banks in the District of Columbia, 1792-1818* (Washington, D.C.: Catholic University of America Press, 1940), pp. 49, 80, 82, 123 ff., 168. Massachusetts banks, in contrast, were able to expand their note issues slightly from 1818-21; Gras, *Massachusetts First National Bank*, pp. 44-49. Also see Wismer, *New York Descriptive List* and *Pennsylvania Descriptive List*, *passim*.

<sup>52</sup> Folz, *Financial Crisis*, pp. 170-86; and Louis R. Harlan, "Public Career of William Berkeley Lewis," *Tennessee Historical Quarterly*, VII (March, 1948), 13; Sister M. Grace Madeleine, *Monetary and Banking Theories of Jacksonian Democracy* (Philadelphia: The Joblen Press, 1943), p. 14.

<sup>53</sup> On business failures and debt judgments, *Niles' Weekly Register*, XVI (May 8, June 7, 1819), 179-80, 258-62; *Richmond Enquirer*, April 23, May 25, June 4, September 3, 1819; Philadelphia *Poulson's American Daily Advertiser*, June 19, July 29, August 5, 1822. On the difficulties of domestic manufactures in the depression, Bishop, *A History*, II, 248-53, 256-63; Ware, *Early New England*, pp. 67-68; Cole, *Wholesale Prices*, I, 147 ff.; and Theodore G. Gronert, "Trade in the Blue-Grass Region, 1810-20," *Mississippi Valley Historical Review*, V (1918), 313-23. On the failure of lead mines in the crisis, Ruby J. Swartzlow, "The Early History of Lead Mining in Missouri," *Missouri Historical Review*, XXIX (January, 1935), 114.

<sup>54</sup> Cole, *Wholesale Prices*, p. 161; Smith and Cole, *Economic Fluctuations*, p. 146; and Berry, *Western Prices*,

The fall in export prices was aggravated by a fall in European demand for agricultural imports, occasioned by the abundant European crops after 1817 and the crisis and business contraction in Britain during the same period. Values of American exports declined sharply as well. Total exports fell from \$93 million in 1818 to \$70 million in 1819 and 1820. Re-exports did not contract, and the brunt was taken by domestic exports, which fell from \$74 million to \$51 million. Of this drop, \$20 million was accounted for by agricultural exports (\$10 million by cotton and \$7 million by wheat and flour). It was a pure price decline, since the physical volume of exports continued to increase steadily during this period.<sup>55</sup>

Imports fell even more in value than did exports, reflecting the decline in American incomes. Total imports fell drastically from \$122 million in 1818 to \$87 million in 1819 and \$74.5 million in 1820, thus practically ending the specie drain. Imports from Great Britain fell from \$42 million in 1818 to \$14 million in 1820, and cotton and woolen imports from Britain fell from over \$14 million each in 1818 to about \$5 million.<sup>56</sup>

During 1821, total exports and total imports are listed as almost identical, \$54.6 million for the former and \$54.5 million for the latter. Both were absolute low points, not only for the period of boom and depression but for America since 1815.<sup>57</sup> Import prices also fell with the advent of economic contraction abroad. They fell only slightly, however, and were a negligible factor in the reduction of import values, as compared to the decrease in money income at home. The index of import prices at Philadelphia fell from 126 to 112 from November, 1818 to July, 1819.<sup>58</sup>

The credit contraction also caused public land sales to drop sharply, falling from \$13.6 million in 1818, to \$1.7 million in 1820, and to \$1.3 million in 1821.<sup>59</sup> Added to a quickened general desire for a cash position, it also led to high interest rates and common complaint about the scarcity of loanable funds.

---

pp. 71-74, 81-83; Arthur H. Cole, *Wholesale Commodity Prices in the United States, 1700-1861* (Cambridge: Harvard University Press, 1938), *Supplement*, pp. 182-91; Thomas S. Berry, "Wholesale Commodity Prices in the Ohio Valley, 1816-60," *Review of Economic Statistics*, XVII (August, 1935), 92; Taylor, "Wholesale Commodity Prices at Charleston;" Walter B. Smith, "Wholesale Commodity Prices in the United States, 1795-1824," *Review of Economic Statistics*, IX (October, 1927), 181-83; Swartzlow, "Early History," p. 201; Frederick W. Moore, "Fluctuations in Agricultural Prices and Wages in the South," *The South in the Building of the Nation* (Richmond: Southern Historical Publishing Society, 1909), V, 426-34. For the fall in the price of and return on slaves, Francis Corbin to James Madison, October 10, 1819, *Massachusetts Historical Society, Proceedings*, XLIII (January, 1910), 261; Smith, *Economic Aspects*, pp. 78-79, 280. On the fall in rental and property values, see Clark, *History*, pp. 378-86; Richmond *Enquirer*, August 5, 1820; Connelley and Coulter, *History*, p. 599; Malcolm R. Eiselen, *The Rise of Pennsylvania Protectionism* (Philadelphia, 1932), pp. 44 ff.  
<sup>55</sup> *Historical Statistics*, pp. 245-48; Pitkin, *Statistical View of Commerce*, pp. 95-144; and James W. Livingood, *The Philadelphia-Baltimore Trade Rivalry, 1780-1860* (Harrisburg: Pennsylvania Historical Society, 1947), pp. 18-20, 89, 142.

<sup>56</sup> *Historical Statistics*, p. 248; Pitkin, *Statistical View of Commerce*, pp. 180-82.

<sup>57</sup> *Historical Statistics*, pp. 239-40, 245.

<sup>58</sup> Cole, *Wholesale Prices*, pp. 148, 165; Smith and Cole, *Economic Fluctuations*, p. 147; Bezanson, *Wholesale Prices*, p. 353.

<sup>59</sup> Smith and Cole, *Economic Fluctuations*, p. 185.

Economic distress was suffered by all groups in the community.<sup>60</sup> The great fall in prices heavily increased the burden of fixed money debts, and provided a great impetus toward debtor insolvency.<sup>61</sup> The distress of the farmers, occasioned by the fall in agricultural and real estate prices, was aggravated by the mass of private and bank debts that they had contracted during the boom period. Borrowing for long-term improvements, farmers had been served by the new and greatly expanded banks of the South and West, as well as by the western branches of the Bank of the United States. Bank stockholders who had borrowed on the basis of unpaid stock found themselves forced to meet their debts. Speculators and others who had bought public lands during the boom were now confronted with heavy debt burdens. Merchants suffered from the decline in prices and demand for their produce and from heavy debts. Their debts to the British as well as to domestic creditors were often canceled by the ruthless process of bankruptcy. Niles judged that no less than \$100 million of mercantile debts to Europe were eliminated by the bankruptcy during the depression. So low were prices and so scarce was the monetary medium in the frontier areas that there was a considerable return to barter conditions among farmers and other local inhabitants. Various areas returned to barter or the use of such goods as grain and whiskey as media of exchange.<sup>62</sup>

There was widespread resort to the bankruptcy courts and to judgments for debt payment. The plight of debtors in the West was well expressed by William Greene, secretary to Governor Ethan Allen Brown of Ohio, in a memorandum to the Governor, in April, 1820:

One thing seems to be universally conceded, that the greater part of our mercantile citizens are in a state of bankruptcy—that those of them who have the largest possessions of real and personal estate. . . find it almost impossible to raise sufficient funds to supply themselves with the necessaries of life—that the citizens of every class are uniformly delinquent in discharging even the most trifling of debts.<sup>63</sup>

---

<sup>60</sup> One indication of the general decline in business activity was the considerable decline in total letters carried by the U.S. Post Office, a decline the more remarkable for interrupting a period of rapid secular growth, and despite continuing increase in the number of post offices and miles of post roads. Letters carried declined from a peak of 9.6 million in 1819 to 8.5 million in 1821. Wesley E. Rich, *The History of the U.S. Post Office to the Year 1829* (Cambridge: Harvard University Press, 1924), p. 183.

<sup>61</sup> Smith, *Economic Aspects*, p. 124.

<sup>62</sup> On whiskey as a medium of exchange in the crisis, see Alfred E. Lee, *History of the City of Columbus* (New York: Numsell and Co., 1892), I, 368-69; on grain as a principal medium, see Greer, "Economic and Social Effects," p. 232. On barter, see Charles F. Goss, *Cincinnati, the Queen City, 1788-1912* (Chicago: S. J. Clarke Co., 1912), I, 140 ff.; Dorsey, "The Panic of 1819," p. 85; J. Ray Cable, *The Bank of the State of Missouri* (New York: Columbia University Press, 1923), p. 24; James A. Kehl, *Ill Feeling in an Era of Good Feeling* (Pittsburgh: University of Pittsburgh Press, 1956), p. 188.

<sup>63</sup> William Greene, "Thoughts on the Present Situation and Prospect of the Western Country, April 21, 1820," in "A New Englander's Impressions of Cincinnati in 1820-Letters by William Greene,"



Manufacturers suffered from the general decline in prices as well as from the contraction in credit, and the panic served to intensify their generally depressed condition since the end of the war. However, the progressive factory at Waltham was able to withstand the buffetings of the depression, to continue profitable operations, and even to expand throughout the depression period.<sup>64</sup>

Evidence is very scanty on the behavior of wage rates during this period. In Massachusetts, the wages of agricultural workers fluctuated sharply with the boom and contraction, averaging sixty cents per day in 1811, \$1.50 in 1818, and fifty-three cents in 1819. The wage rates of skilled labor, on the other hand, remained stable throughout at approximately \$1 per day.<sup>65</sup> In Pennsylvania, woodcutters who averaged a wage of thirty-three cents per cord in the first half of the nineteenth century were paid only ten cents per cord in 1821 and 1822. Unskilled turnpike workers paid seventy-five cents a day in early 1818 received only twelve cents a day in 1819.<sup>66</sup>

One of the most significant phenomena of the depression was the advent of a new problem casting a long shadow on future events: large-scale unemployment in the cities. Although America was still, an overwhelmingly rural country, the cities—the centers of manufacture and trade—were rapidly growing, and this depression witnessed the problem of unemployment for factory workers, artisans, mechanics, and other skilled craftsmen. These workers were often independent businessmen rather than employees, but their distress was not less acute. Concentrated in the cities, their plight was thereby dramatized, and they lacked the flexibility of farmers who could resort to barter or self-sufficiency production. In the fall of 1819, in thirty out of sixty branches of manufacturing (largely handicraft) in Philadelphia, employment in these fields totaled only 2,100, compared to 9,700 employed in 1815. There was a corresponding decline in total earnings—from \$3 million to less than \$700 thousand during the later year. Very drastic declines in employment took place in the cotton, woolen, and iron

Rosamund R. Wulsin, ed., *Bulletin of the Historical and Philosophical Society of Ohio*, VII (April, 1929), 116-22. Also *Annals of Cleveland, 1818-20* (Cleveland: WPA in Ohio, 1938), I, 398, 479, 539, 543, 569, 590, 629, 649; *New York American*, August 28, 1819; Harold E. Davis, "Economic Basis of Ohio Politics, 1820-40," *Ohio Archaeological and Historical Quarterly*, XLVII (October, 1938), 290, 309; Logan Esarey, *History of Indiana* (Indianapolis: B. F. Bowen and Co., 1918), I, 280 ff.

<sup>64</sup> See the above sources on manufactures, including Ware, *Early New England*, pp. 65-72; Bishop, *History*, II, 253; Cole, *American Wool Manufacture*, I, 147 ff.; U.S. Congress, *American State Papers: Finance*, IV, 28 ff.; 290 ff.; 357 ff.

<sup>65</sup> Massachusetts Department of Labor, "Historical Review of Wages and Prices, 1782-1860," *Sixteenth Annual Report* (Boston, 1885), Part III, pp. 317-28. Also see the index of wage rates based on these estimates, in Rufus S. Tucker, "Gold and the General Price Level," *Review of Economic Statistics*, XVI (February, 1934), 24; *ibid.*, "Real Wages Under Laissez-Faire," *Barron's*, Vol. XIII, No. 43 (October 23, 1933), p.7.

<sup>66</sup> William A. Sullivan, *The Industrial Worker in Pennsylvania* (Harrisburg: Pennsylvania Historical and Museum Commission, 1955), pp. 68,72.

industries.<sup>67</sup> Unemployment also swelled the ranks of the paupers during the depression.<sup>68</sup>

By 1821, the depression had begun to clear, and the economy was launched on a slow road to recovery. The painful process of debt liquidation was over, and the equally painful process of monetary contraction had subsided.<sup>69</sup> The surviving banks, their notes returned to par, successfully expanded credit. The Bank of the United States, saved from imminent failure, was at last in a sound position. Its branches were again able to redeem each others' notes, and were now more firmly under strong central control. The premium on Spanish silver dollars over Bank notes dropped in June, 1819 from 4 percent to less than 2 percent, and par was restored by April, 1820. In states such as Kentucky or Tennessee, however, there was no general return to par and redeemability for several more years.<sup>70</sup> Business in Britain and continental Europe was also past the trough of depression, and American exports began to recover both in prices and in total values. Prices, in general, which had continued sluggish after the steep decline in 1819, began a slow rise. Export staples at Charleston, reaching 77 in June, 1819, fell to a trough of 64 in April, 1821, then slowly rose from that point on. In the same month a trough was reached by cotton prices, domestic commodities at Philadelphia, agricultural commodities, and industrial commodities, and each rose very slowly thereafter. Import prices, however, continued to fall slightly or remain at a stable level.<sup>71</sup> Credit began to be available, and new securities to be heavily subscribed, both at home and in the British market. Business and manufacturing activity began to rise again.<sup>72</sup>

---

<sup>67</sup> See the report of a Committee of Citizens of Philadelphia, headed by Condy Raguet, in *Niles' Weekly Register*, XVII (October 23, 1819), 116; also U.S. Congress, *American State Papers: Finance*, III, 641; Matthew Carey, *Essays in Political Economy* (Philadelphia: Carey and Lea, 1822), pp. 319-20; *Niles' Weekly Register*, XVI (August 7, 1819), 385; *ibid.*, XXI (September 1, 1821), 1; Flint, *Letters*, pp. 236, 248; Rezneck, "The Depression," pp. 29-32; New York, *Minutes of the Common Council of the City of New York*, IX (December 10, 1819), 663.

<sup>68</sup> A report of the Female Hospitable Society of Philadelphia blamed the increase in pauperism during 1819-20 on unemployment there. Benjamin J. Klebaner, *Public Poor Relief in America, 1790-1860* (New York: Columbia University, microfilmed, 1952), pp. 9,20.

<sup>69</sup> See the message of Governor Joseph Hiester to the Pennsylvania Legislature, December 5, 1821, in Pennsylvania, *Pennsylvania Archives*, George E. Reed, ed., Fourth series, V (Harrisburg, 1900), 281.

<sup>70</sup> Smith, *Economic Effects*, pp. 271-72.

<sup>71</sup> See the aforementioned sources on prices.

<sup>72</sup> On the revival of manufacturing activity, see *Niles' Weekly Register*, XX (March 17, 1821), 34-35; Ware, *Early New England*, p. 88; Philadelphia *Union*, September 4, 1821; Bishop, *History*, pp. 270, 294, 297; Gronert, "Trade," p. 323; Folz, *Financial Crisis*, pp. 234-35. On revival of trade, see Hattie M. Anderson, "Frontier Economic Problems in Missouri, Part II," *Missouri Historical Review*, XXXIV (January, 1940), 189.

Is the crisis of 1819 together with the preceding boom to be considered a modern business cycle? Wesley C. Mitchell, in his *Business Cycles. . . The Problem and Its Setting*, declared that

until a large part of the population is living by getting and spending money incomes, producing wares on a considerable scale for a wide market, using credit devices, organizing in business enterprises with relatively few employers and many employees, the economic fluctuations which occur do not have the characteristics of business cycles.

...

in the modern sense.<sup>73</sup>

On the one hand, the boom, the crisis of 1818-19, and the depression until 1821 present many features akin to modern business cycles as interpreted by Mitchell. Although banking had previously been undeveloped, this period saw a rapid expansion of banks and bank money-unsound as much of the expansion may have been. The period also saw much of the typical characteristics of later financial panics: expansion of bank notes; followed by a specie drain from the banks both abroad and at home; and finally a crisis with a contraction of bank notes, runs on banks, and bank failures. A corollary to the contraction of loans and bank runs was the scramble for a cash position and rapid rise in interest rates during the panic. The diversity of bank notes and bank activity from section to section was hardly a modern characteristic, but there was an approach to uniformity in expansion and contraction because of the existence of the Bank of the United States. As in modern business cycles, the entire contraction and expansion cycle was fairly short-lived, totaling five or six years, and the period of crisis itself a short one. Furthermore, the sequence of phases was boom, crisis, depression, and revival as in the business cycle.<sup>74</sup>

Other modern characteristics were: the expansion of credit and of investment projects during the boom; the appearance of urban unemployment; and the marked expansion and contraction in prices.

On the other hand, there were many backward features of the economy that go counter to an interpretation of the period as a modern business cycle in the Mitchellian sense or the Panic of 1819 as a modern business crisis. Despite the growth of commerce, it was still true that the overwhelming preponderance of economic activity in that period was in agriculture. It has been estimated that 72 percent of the labor force in 1820 was engaged in agriculture.<sup>75</sup> Although statistics are not available, it seems from contemporary comments that urban construction increased in the boom and declined in the crisis. Physical agricultural production is not too responsive to cycles, however, and agricultural

---

<sup>73</sup> W. C. Mitchell, *Business Cycles, I, The Problem and Its Setting* (New York: National Bureau of Economic Research, 1927), p. 75.

<sup>74</sup> *Ibid.*, pp. 76-79.

<sup>75</sup> *Historical Statistics*, p. 63.

production represents overwhelmingly the greatest part of productive activity during this period.<sup>76</sup> Thus, physical production of cotton, rice, wheat, and flour continued to grow during the depression period.<sup>77</sup> Certainly farm employment is not a markedly cyclical phenomenon.<sup>78</sup> Furthermore, many farm households were self-sufficient, and carried on only local barter trade, or entered the monetary nexus occasionally. With such a prevalence of home sufficiency and barter conditions, the economy could hardly be classified as modern, or conditions the same as a modern business cycle.

Furthermore, the manufacturing and business enterprises that did exist were mainly small-scale. Modern business cycles are most characteristic in the sphere of large-scale business enterprises and large-scale manufacturing. Conditions in this period were quite the opposite. Small shops, small banks, small factories comprised the enterprises of the day. Rather than a sharp distinction existing between employers and numerous laboring employees, most workers, as we have indicated above, were craftsmen, who worked either in very small-scale firms or as independent businessmen, with not much marked differentiation. Such were the blacksmiths, shoemakers, tailors, printers, carpenters. More in the category of employees were sailors and unskilled road and canal workers.

One of the most vital points of difference between the economy of that period and of the modern day is the role of manufacturing. Not only was it small-scale, and even then largely (approximately two-thirds) in self-sufficient households,<sup>79</sup> but the conditions of the fledgling factories differed from the rest of the economy. The factories were depressed while the rest of the community was booming, due to the postwar import of manufactured goods; their depression was continued and intensified during the panic. A crisis occurring in the midst of a depressed period—as happened to much of manufacturing in 1819—is more a feature of early precyclical crisis as described by Mitchell.<sup>80</sup> Furthermore, in manufacturing fields other than textiles, there were not even glimmerings of large-scale factory production. The other leading branches of manufacture, such as pot and pearl ashes, iron, soap, whiskey, candles, leather, lumber products, flour, paper, were the product of household and small-scale neighborhood

---

<sup>76</sup> Arthur F. Burns and Wesley C. Mitchell, *Measuring Business Cycles* (New York: National Bureau of Economic Research, 1946), pp. 97n, 408n., 503-5.

<sup>77</sup> George K. Holmes, *Cotton Crop of the United States, 1790-1911* (U.S. Department of Agriculture, Bureau of Statistics) Circular No. 32, p. 6; *ibid.*, *Rice Crop of the United States, 1712--1911*, *ibid.*, Circular No. 34, pp. 7-8; Smith, *Economic Aspects*, pp. 24, 306.

<sup>78</sup> The urban commerce engaged in handling farm products was bolstered by the high physical production.

<sup>79</sup> Although the flow of manufactured imports after the war dealt a heavy blow to household manufactures, particularly in New England and the eastern urban areas, household woolen manufactures in the West and even upstate New York continued to flourish and expand undisturbed. Cole, *American Wool Manufacture*, I, 182 ff.

<sup>80</sup> Mitchell, *Business Cycles*, p. 78.

manufactures. An exception was the larger flour mills, which expanded rapidly during 1815-16 to supply the booming European market. The great preponderance of flour mills, however, continued to be small, local affairs using local streams for power.<sup>81</sup>

Transportation, so vital in the vast and thinly-populated country, stood just on the threshold of advances that would take it far beyond its current rude and primitive level. Inland transportation traveled mainly on the very costly dirt roads and down flatboats on the big rivers such as the Mississippi. The great improvements in transportation were just on the horizon: the river steamboats, the regular transatlantic packets, the canal boom and the great trade opened up by the Erie Canal, and the turnpike boom. But as yet, none of these developments had progressed beyond the early, hesitant stages.

With production and transportation in a relatively backward state, with such a large proportion of production on the farms and in self-sufficient households, and with the budding factory production facing a different course of economic conditions from the rest of society it is apparent that the National Bureau of Economic Research, within its own definitions, was correct in beginning its reference dates for American business cycles with the 1834-38 cycle and not earlier.<sup>82</sup> On the other hand, as the greatest and last major crisis before 1836, the panic of 1819 holds considerable interest for the study of business cycles and for the present day. It was an economy in transition, as it were, to a state where business cycles as we know them would develop. Its new shaky, banking structure provided a surge of bank notes, while bringing in its wake many modern problems of money supply, bank soundness, and bank failure. Its new manufactures were the beginning of a great industrial development, and initiated national concern with foreign competition and the prosperity of industry. Extensive foreign trade brought the country in direct relationship to the fluctuations and developments in European economic conditions. Finally, urban unemployment, that modern specter, first became an object of concern with this panic.

Faced with the new and burgeoning phenomenon of the panic, those Americans opposed to any governmental interference in the existing economic structure could take one of two courses: either simply deny that any distress existed, or face the facts of depression and argue that only individual acts could bring about a cure. The former position was the official reaction of the Monroe Administration.<sup>83</sup> In his annual message of December 1818, for example,

---

<sup>81</sup> Kathleen Bruce, *Virginia Iron Manufactures in the Slave Era* (New York: The Century Co., 1931), p. 127.

<sup>82</sup> Burns and Mitchell, *Measuring Business Cycles* pp. 78-79.

<sup>83</sup> We shall see, however, that when a problem such as the land debt arose, which Monroe considered within the province of the federal government, the President was quick to take action.

President Monroe ignored the panic completely and hailed the abundant harvest and the flourishing of commerce.<sup>84</sup> In the following annual message, Monroe took brief notice of some currency derangement and depression of manufactures, but added that the evils were diminishing by being left to individual remedies.<sup>85</sup> By November, 1820, Monroe was actually rejoicing in the happy situation of the country; he admitted some pressure, but declared these of no importance. The best remedy for these slight pressures was simplicity and economy.<sup>86</sup> In his second Inaugural Address, on March 5, 1821, Monroe admitted at last to a general depression of prices, but only as a means of explaining the great decline in the federal revenue. Despite this, he asserted that the situation of America presented a “gratifying spectacle.”<sup>87</sup> A few newspapers echoed this theme. An anecdote in the *Detroit Gazette* inferred that unemployment was nothing to worry about, being simply a consequence of the laziness of the worker.<sup>88</sup>

Of those who recognized the severity of the depression, there were scattered expressions of laissez-faire doctrine in opposition to all proposals of government intervention. We shall see below that the laissez-faire advocates developed their views and elaborated their arguments in the process of opposing specific proposals of government intervention: largely debtors’ relief, monetary inflation, and a protective tariff.<sup>89</sup> Of general expressions of laissez-faire, not specifically related to proposals for intervention, one cogent exposition was that of Willard Phillips, young New England lawyer and leading Federalist. Phillips declared it outside the province of the legislature or of political economists to concern themselves with the state of trade or its profitability. For this “is a question which the merchants alone are acquainted with, and capable of deciding; and as the public interest coincides directly with theirs, there is no danger of its being neglected.”<sup>90</sup> The *New York Daily Advertiser* set forth the laissez-faire position at some length. It stressed repeatedly that the depression must be allowed to cure itself. How could Congress remedy matters? It could not stop the people from

---

<sup>84</sup> James D. Richardson, ed., *A Compilation of the Messages and Papers of the President* (New York: Bureau of National Literature, 1897), pp. 608-16.

<sup>85</sup> *Ibid.*, pp. 623-31. Monroe, however, vaguely hinted to Congress that domestic manufactures should in some way be supported.

<sup>86</sup> *Ibid.*, pp. 642-49.

<sup>87</sup> *Ibid.*, pp. 655-63.

<sup>88</sup> *Detroit Gazette*, December 17, 1819. For other attempts to minimize the depression, see the *New York Daily Advertiser*, June 14, 1819, June 25, 1819; *Philadelphia Union*, June 2, 1819; *New York Gazette*, December 9, 1818; *Washington (D.C.) Gazette*, reprinted in *Raleigh Star*, June 25, 1819.

<sup>89</sup> Some of the proponents of laissez-faire were in favor of measures to restrict bank credit expansion. While these measures hardly preserved the status quo, they were not considered programs of government intervention, but rather policies to prevent bank inflation-*itself* considered an interference with market processes.

<sup>90</sup> [Willard Phillips] “Seybert’s Statistical Annals,” *North American Review*, IX (September, 1819), 207-39.

exporting specie; it could not teach the people the necessary virtues of frugality and economy; it could not give credit to worthless banks or stop overtrading at home. The remedy must be slow and gradual, and stem from individuals, not governments. Any governmental interference would provide a shock to business enterprise.<sup>91</sup> As the New York *Evening Post* succinctly expressed it: “Time and the laws of trade will restore things to an equilibrium, if legislatures do not rashly interfere to the natural course of events.”<sup>92</sup> Of the expressions of laissez-faire sentiment in Congress, one of the most prominent was that of Representative Johnson of Virginia in the course of his attack against a proposed protective tariff. His theme was “let the people manage their own affairs. . . the people of this country understand their own interests and will pursue them to advantage.”<sup>93</sup>

Of the individual remedies proposed for the depression, the most popular were the twin virtues of “industry” and “economy.” Regardless of what specific legislative remedies any writers proposed, they were certain to add that a necessary condition for permanent recovery was an increase in, or a return to, these two moral precepts. The ideas behind these proposed remedies were generally implicit rather than explained: “economizing” and living within one’s income would prevent an aggravating debt burden from arising and reduce any existing one; “industry” meant harder work and hence increased production. Another cited advantage of economy was that most of the luxury items were purchased from abroad, so that an appeal to economy could ease the specie drain, and be urged by protectionists as a means of helping domestic manufactures. But generally these concepts were thought to need little analysis; they were moral imperatives.

The most extensive treatment of the economy and industry theme was a lengthy series of articles by Mordecai Manuel Noah, a leader in Tammany Hall and publisher of Tammany’s New York *National Advocate*. Noah’s theme was that the depression could only be remedied by individual economies in expenditure. He saw the cause of the depression in the indolence and lack of industry among the people and especially in the influence of the debilitating luxuries of high fashion. Noah had a Veblenian conception of the influence of the conspicuous consumption of the rich in encouraging extravagance by the poor.

---

<sup>91</sup> New York *Daily Advertiser*, March 6, 1819, August 21, 1819, June 10, 1819, May 20, 1819, June 17, 1819. The only exception the *Advertiser* was willing to make was sumptuary laws, to enforce frugality and limit extravagance, but it saw no chance of a free people adopting such legislation.

<sup>92</sup> New York *Evening Post*, June 15, 1819. For other expressions of laissez-faire views, see New York *Gazette*, December 9, 1818; Richmond Correspondent, in the Boston *New England Palladium*, May 28, 1819; the charge of Judge Ross to the grand jury, Montgomery County, Pa., *Niles’ Weekly Register*, XVIII (July 1, 1820); Peter Force, *National Calendar, 1820* (Washington, 1820), pp. 214 ff.; Churchill C. Cambreleng (“One of the People”), *An Examination of the New Tariff* (New York: Gould & Banks, 1821), pp. 19-21.

<sup>93</sup> Washington (D.C.) *National Intelligencer*, May 5, 1820.

He advocated a return to family manufacture of clothing and an end to high fashion.<sup>94</sup> In imitation of Noah, who had signed himself “Howard” in writing these articles, the editor of the Philadelphia *Union*, signing himself “Howard the Younger,” pointed out that it was the extravagant spenders who now complain of the “scarcity of money.”<sup>95</sup> A quasi-humorous circular-printed in the Philadelphia *American Daily Advertiser*-called for a nationwide society to induce ladies to economize. It was signed by the “spirit” of many Revolutionary War heroes.<sup>96</sup>

Some writers went further to say that the depression was really having a good effect on the nation, since it forced people to go back to the highly moral ways of yesteryear-specifically to industry and economy. Thus, the New York *Daily Advertiser* saw much good from the depression; people had become much more economical and had established such channels for saving as savings banks and manufacturing associations. The New York *American* was even more emphatic, asserting that waste and indulgence had now been replaced by sober calculation, and prudence and morality had been regenerated.<sup>97</sup>

Similar to the theme that individual moral resurgence through industry and economy would relieve the depression was the belief that renewed theological faith could provide the only sufficient cure. The theological view, however, had no economic rationale. Typical was the (Annapolis) *Maryland Gazette*, which declared that the only remedy for the depression was to turn from wicked ways to religious devotion.<sup>98</sup> A similar position was taken by the General Assembly of the Presbyterian Church, which found the only effectual remedy in a resurgence of religion and its corollary moral virtues.<sup>99</sup> If individuals are to economize, then governments should also. Drives for legislative retrenchment were generally

---

<sup>94</sup> See New York *National Advocate*, October 2, 16, November 7, 24, 1818; February 5, June 5, 18, 30, July 9, 16, 22, 31, August 6, September 3, October 2, 1819.

<sup>95</sup> Philadelphia *Union*, August 10, 13, 1819.

<sup>96</sup> See New York *Daily Advertiser*, June 15, 1819. For other expressions of the industry and economy theme, see address of Governor Franklin, North Carolina General Assembly, *Journal of the House*, 1821 (November 22), pp. 7-12; *Address of the Society of Tammany to Its Absent Members* (New York, 1819); “Homespun,” in New York *Commercial Advertiser*, October 15, 1819; Jackson Memorial, *Niles' Weekly Register*, XIX (September 2, 1820), 9; address of Governor James P. Preston, Virginia Legislature, *Journal of the House of Delegates*, 1819-20 (December 6, 1819), pp. 6-9; charge of Judge Ross to grand jury, *Niles' Weekly Register*, XVIII (July 1, 1820), 321; “Senex,” in New York *Columbian*, February 11, 1819; Baltimore *Federal Republican*, May 22, 1819; “Experience,” in Richmond *Enquirer*, October 1, 1819; Detroit *Gazette*, January 29, 1819; New York *American*, October 13, 1819.

<sup>97</sup> New York *Daily Advertiser*, August 21, 1819; New York *American*, July 1, 1820. Also see the New York *National Advocate*, June 8, 1819; “Z.,” in Philadelphia *Union*, February 17, 1819; and Pintard, *Letters*, p. 197.

<sup>98</sup> Annapolis *Maryland Gazette*, June 3, 1819.

<sup>99</sup> *Extracts from the Minutes of the General Assembly of the Presbyterian Church of the United States of America, 1819* (Philadelphia, 1819), pp. 171-72. The Convention opened on May 20 in Philadelphia, and consisted mainly of delegates from the Middle Atlantic states, particularly upstate New York.



based upon the decline of prices since the onset of the depression. Since the preceding boom and price rise had been used as justification for increasing governmental salaries, many lawmakers urged that these salaries now be cut proportionately in turn. The government, in short, was regarded as having an obligation to retrench along with its citizens.<sup>100</sup>

Many Americans, however, were not content with individual remedies and laissez-faire, and they pressed for the adoption of numerous proposals of government intervention and attempts at a remedy. One of the most striking problems generated by the panic was the plight of the debtors. Having borrowed heavily during the preceding boom, they were confronted now with calls for repayment and falling prices, increasing the burden of their debts. A discussion of the American search for remedies of the panic will deal first with proposals for debtors' relief.

---

<sup>100</sup> U.S. Congress, *American State Papers: Finance*, III, 589 (April 14, 1820), pp. 522-25. Actions to cut government salaries were put into effect by the Common Council of New York City, by a two-to-one majority of the Virginia House, and suggested by the House Finance Committee of the New Jersey legislature, and by Governor Joseph Hiester of Pennsylvania. Conservative papers urged retrenchment in national spending and the national debt, and Thomas Jefferson wrote letters to his friends denouncing the Federal deficit. Virginia General Assembly, *Journal of the House of Delegates*, 1821 (January 23), pp. 131 ff.; *ibid.* (December 11, 1820, January 11, 1821), pp. 30ff., 110ff.; New Jersey Legislature, *Proceedings of the General Assembly*, 1820 (November 1), p. 18; Pennsylvania Legislature, *Journal of the House*, 1820 (December 19), p. 246; *Minutes of the Common Council of New York City* (February 28, 1820), p. 756; *New York Daily Advertiser*, January 1, 1820; *New York American*, July 29, 1820; Thomas Jefferson to Thomas Ritchie, December 25, 1820; Jefferson to Judge Spencer Roane, March 9, 1821, in Thomas Jefferson, *Writings*, T. E. Bergh, ed. (Washington, D.C.: Thomas Jefferson Memorial Association of the United States, 1904), XV, 295,325.