



# The Panic of 1819

## America's First Great Depression

By Clyde A. Haulman

WRITING FROM RICHMOND in May 1819, Benjamin Brand told George Caskaden, a former retail merchant from the city who had moved to Alabama, “you have been lucky in removing from this place.” Caskaden’s good fortune was to avoid the devastating impact of the Panic of 1819 on merchants in Virginia’s capital. Between 1818 and 1819 the number of merchant licenses issued in the city dropped almost 40 percent, and it took until 1829 for the number of merchant licenses issued to reach their pre-panic peak. Describing business conditions Brand wrote, “We have gloomy times here—many protests [failures] have taken place since I last saw you, and many more soon expected... Many have backed out of business.” The financial crisis meant that “(a)t this time there is very little

credit business done. Confidence in each other’s ability to pay is very slight. [On Saturday it is said there were 12 notes laid over for protest.]” The decline in business activity left “(m)any store houses... shut up and written on ‘For Rent’” and took the bottom out of what had been a speculative boom in property. John Marshall, putting it more concisely in a letter two months earlier, said, “We are in great distress here for money. Many of our merchants stop—a thing which was long unknown and was totally unexpected in Richmond.”<sup>1</sup>

Virginia was not alone in its misery as contemporary observers across the country indicated that the Panic of 1819 was a traumatic experience for the new republic. For example, John C. Calhoun, discussing the situation with John Quincy Adams in 1820, said, “There has been within these two years an immense revolution of fortunes in every part of the Union: enormous numbers of persons utterly

ruined; multitudes in deep distress; and a general mass disaffection to the government...” In Boston, the newspapers reported that “complaints of hard times appear universal” and that what was once a thriving town “presents a dull and uncheery spectacle—silence reigns in the streets...” Hezekiel Niles in his *Register* reported that a Philadelphia committee found that employment in 30 industries studied declined “from 9,672 in 1816 to 2,137 in 1819; weekly wages were down from \$58,000 to \$12,000,” and Niles himself estimated that in New York, Philadelphia and Baltimore some 50,000 were “either unemployed or irregularly employed.” Niles also reported that in Philadelphia “houses which rented for \$1,200, now rent for \$450, fuel which costs \$12, now costs \$4½; beef 25¢ now 8¢; other things in proportion...” From Pittsburgh a citizen’s committee “stated that certain manufacturing and mechanical trades in their city and its vicinity,

*Above: Second Bank of the United States building in Philadelphia.*

which employed 1,960 persons in 1815, employed only 672 in 1819.”<sup>2</sup>

With a monetary contraction underway, the continued retirement of federal debt, much of it to foreigners, and declines in the overseas markets for American staples, the United States economy was headed for disaster. The most dramatic aspect of the disaster was a rapid deflation as prices fell 30.6 percent between 1818 and 1821. Stagnation of real output that for some parts of the country lasted well into the 1820s. Real GNP fell in 1819 and was flat over the period 1818–1821.

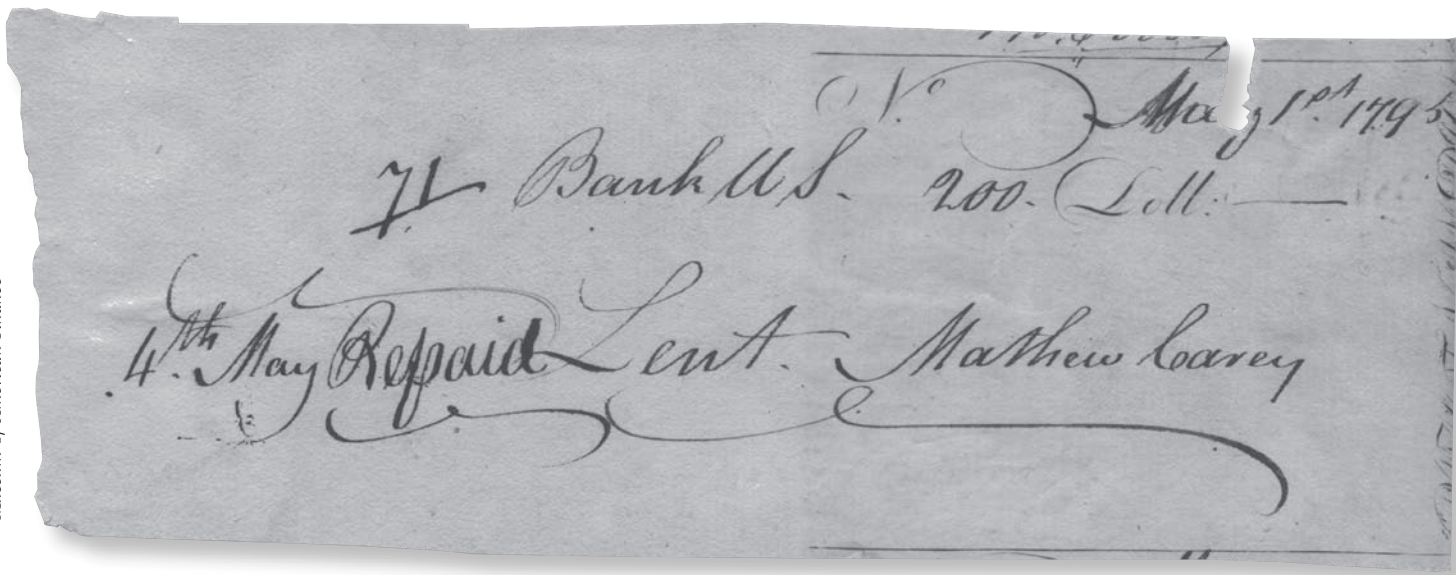
The young republic’s rude introduction to boom-and-bust capitalism reported by these sources was a complex combination of financial market volatility, swings in international market demand, and federal government financial activity. The actions of the second Bank of the United States, along with those of state-chartered banks, have received much attention. And, the monetary tightening of 1818–1819 sounded the alarm for an economy rife with speculation and brought the economic optimism that had fueled the speculation to an end. Although changes in money and credit were an important component in generating panic across the nation, ultimately it was the collapse of the strong

foreign markets for commodities that had fueled the American economy in the years following the War of 1812 and the rapid repayment of federal debt, much of it to foreign bondholders, that created the country’s first modern business cycle.

In the events leading up to the Panic of 1819, the banking system played a critical role. With the end of the War of 1812, public land sales jumped dramatically. The Treasury Department grew concerned with the losses they were taking because the revenue from those sales was mostly in the form of bank notes from the West and Southwest that were depreciated, or not circulating at their face value, while much federal spending occurred in the East where bank notes were circulating at or close to their face value. That situation, combined with a growing federal surplus from both land sales and customs revenue, the prospect of a number of federal bond issues maturing in the next few years, and the false belief that the absence of a national bank had made it difficult to raise funds for the war, led Congress to create the Second Bank of the United States in 1816. The first order of business for the new Second Bank was to make all the nation’s currency, consisting mainly of bank notes issued by state-chartered

banks, sound by requiring state banks to resume redeeming their notes in specie on demand. Facing some reluctance by state banks, the Second Bank negotiated an agreement whereby it would expand loans by \$6 million in exchange for the resumption of specie convertibility. Although the process was not completely successful, the discipline of convertibility led state banks to restrict their notes and deposits from a total of \$67.6 million at the end of 1816 to \$60.4 million a year later. However, this was more than made up for by the \$20.6 million expansion of the Second Bank’s notes and deposits leading to a total expansion of the banking system’s money supply of almost 20 percent for the year 1817. Attempts by European countries to return to a specie standard in the years after 1815 further exacerbated the monetary problems in the U.S. These efforts meant nations were all trying to build up gold and silver reserves at the same time, thus placing intense pressure on the world’s specie supply.

Following this initial action, the Second Bank went even further by expanding credit until loans stood at more than \$41 million by mid-1818. This expansion combined with the dramatic increase in land sales in the West meant that notes of western

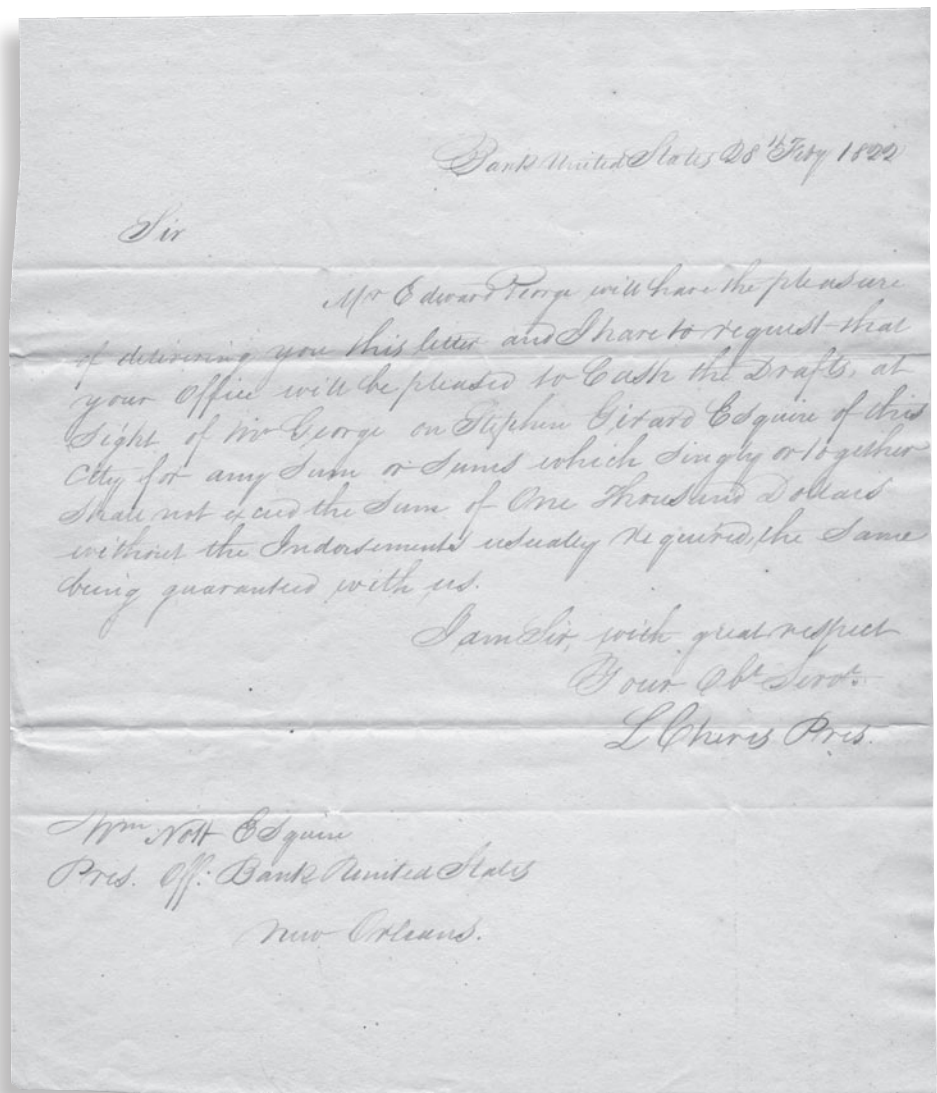


Bank of the U.S. check for \$200 lent to Matthew Carey on May 1, 1795 and repaid three days later.

and southern branches of the Second Bank, which it had decided to redeem at any office as a means of developing a uniform national currency, began to flood eastward, particularly to New York and Boston. Despite large imports of specie, the bank could not continue to meet the demand for note redemption. Thus, in July 1818, the directors ordered loans reduced at Philadelphia (\$2 million), Baltimore (\$2 million), Richmond (\$700,000) and Norfolk (\$300,000).

The retirement of 1803's Louisiana bonds, scheduled to begin in 1818 and to continue through 1821, further complicated the picture. Such action on top of the greater-than \$20 million in federal debt retired during 1817 meant that substantial government revenues did not reenter the economy directly, thus creating a smaller effect than if those revenues had been spent directly by the government. Most importantly given the Second Bank's contraction in the last half of 1818, about \$3.5 million of the roughly \$4.5 million in Louisiana bonds retired in October 1818 went as payments to foreigners. Of the total \$11 million retired of the entire issue, some \$6 million went to foreigners. This flow of funds out of the domestic economy meant that potential domestic spending was lost at a critical time, and it placed additional strains on the Second Bank. Treasury deposits at the bank dropped approximately \$6 million between October 1818 and January 1819 to an ending balance of slightly less than \$3 million—a two-thirds decline in just three months.

The contraction story's final element was also international. As Europe prepared for the resumption of specie convertibility in 1819, the resulting economic slowdowns across Europe from scarce specie combined with the return of good harvests on the Continent and in Britain meant that markets for American staples began to fall sharply. Europe accounted for more than 70 percent of American exports



Letter from Langdon Cheves to the head of the Bank of the U.S. in New Orleans directing him to cash drafts on Stephen Girard, dated February 28, 1822.

during this period with Great Britain making up about half of that total. Between 1818 and 1819 in America's most important foreign market, Great Britain, the index of business activity fell 12.4 percent, and the value of total imports declined 16.5 percent with the importation of American grain declining 74.6 percent.

The importance of the Panic of 1819 and the hard times that followed in its wake is found in the long-term impacts the depression had on public policy and institutions. One institution affected was the Second Bank. Early mismanagement and overexpansion, combined with a strong tightening of credit begun in 1819 under new

president Langdon Cheves and continued long past the end of the financial crisis, subjected the bank to harsh criticism. It was not until after 1823 and the naming of Nicholas Biddle as president that the bank began to regain public confidence and establish control over the nation's monetary affairs. However, much damage had been done. The Bank War of the early 1830s between Biddle and President Andrew Jackson over re-chartering the bank would lead to its demise.

Other national effects include changes in public policy regarding debt and debt relief, poor relief, internal improvements and tariff protection. With the depression worsen-



*Nicholas Biddle, president of the Second Bank of the United States.*

ing, those in debt were increasingly pressed by creditors. As land prices fell and the number of legal judgments requiring repayment of debts grew, debtors began to seek relief. One important group of debtors included those who had acquired federal land through what was a very liberal purchasing system. The boom in western land following the end of the War of 1812 took advantage of the easy terms of the times. But as the economic crisis worsened, land prices plummeted and many land owners found themselves unable to keep title. In spite of postponement acts by Congress in 1818, 1819 and 1820 that extended forfeiture in each case for an additional year, the problem deepened, and pres-

sure on Congress to resolve the issue intensified.

Following much debate, the final relief legislation for federal land purchasers passed Congress early in 1821. The act allowed debtors to give back the proportion of the land yet to be paid for in exchange for a clear title to what remained and forgave back interest. For those wanting to keep all their land, the act extended payment of the full debt to eight annual installments, without interest charges, and gave a large discount to those who would pay promptly. While Congress had enacted postponement laws frequently in the decade following 1810, this level of federal government involvement into debtor-creditor rela-

tions was unusual for a time when state laws governed such relationships. However, a repeat of the boom-bust cycle in land would reappear in the 1830s, and the severe downturn at the end of that decade would lead to a national federal bankruptcy act in 1841.

Other debtors facing demands from creditors and cut off from further accommodation by banks turned to their state legislatures for relief. Debtors typically asked states to intervene in contracts through stay laws that postponed the seizure and sale of property when the debtor signed a pledge to make payment at a certain future date and/or minimum appraisal laws that provided property could not be sold below a certain minimum price. That minimum was typically set by a group of neighbors. While the push for such relief legislation was felt most in the heavily indebted agricultural states of the West, some form of relief was passed in 11 states, including four eastern states, and passage was close in four additional states, all in the East.

The national focus on debtors and debt relief that began with the Panic of 1819 meant that some states stopped putting debtors in prison. Many states also expanded the types of property that were subject to seizure and sale for debt, including debtors' tools and dwellings including 40 or 50 acres of surrounding land.

In addition to concentrating attention on the issue of debt relief, the wake of the Panic of 1819 also brought the issue of poor relief to the forefront of public awareness and marked the beginning of a shift in the way Americans viewed the poor and public responses to poverty. With the experience of the Panic of 1819 fresh in their minds, particularly its dramatic increase in the number of poor seeking relief and the resulting rise in the cost of providing poor relief, and with the continuing debates over poor relief in Britain as a constant

reminder, a number of state and city governments began to search for ways to reform their approach.

One of the guiding principles of these reform efforts was the concept of “less-eligibility.” This meant that someone on relief should not be better off than someone living on the wages he earned working. To achieve this required that the poor be categorized by the source of their condition—those who were poor through no fault of their own and those who could only blame themselves for their condition, temporary versus longer-term, able-bodied versus disabled, etc. Once they had been categorized, control of the poor became an important goal. This, in turn, led to efforts focused on limiting access to relief provided individuals in their homes and to move towards providing relief in almshouses or workhouses that would oversee the poor, ensure their good behavior and reform the deviant.

As the United States moved into the 1830s and beyond, increasingly upper- and middle-class Americans saw urban poverty as entrenched rather than a problem that could be solved. This recognition of the evolving market revolution and changing mode of production also meant that many cities decreased relief programs as a percentage of their budgets, while funding for new police departments rose dramatically. Finally, as more and more citizens began to see education as a solution to poverty, many states established publicly-funded, compulsory, non-sectarian schools.

Nationally, many state efforts directed towards internal improvements such as canals and turnpikes were temporarily derailed by the Panic of 1819, and it created sufficient concern at the federal level that by the late 1820s much of the national effort had been abandoned. While many state programs were restarted with the return of better economic times, widespread failures among these programs following the Panic of 1837 doomed

these public efforts and allowed private capital markets to establish a claim to superiority over public enterprise.

With the onset of the depression following the Panic of 1819, the protectionist tariff movement was given a tremendous boost. Despite the founding of the American Society for the Promotion of American Industry in 1816 and its subsequent extension into state and local affiliated societies, by 1818 the postwar boom had reduced the movement to being almost dormant. However, the hard times following the panic led Mathew Carey of Philadelphia to hold a well-attended Convention of the Friends of National Industry in New York City late in 1819. This and a host of similar meetings, particularly in New England and the Mid-Atlantic states, renewed the vigor of the protectionist movement and created numerous appeals to Congress. As a result, in 1820, Congressman Baldwin of Pennsylvania introduced a strongly protectionist tariff bill. With solid support across much of the nation, the bill easily passed the House but fell short in the Senate by one vote.

Although failing to secure the protective tariff they sought in 1820, the forces of protectionism were invigorated. Led by Carey, Hezekiah Niles, editor of the influential *Weekly Register*, Daniel Raymond, author of the first American book on economics, and a number of others, the protectionists gained a substantial following among the farmers in the middle Atlantic and western regions and New England manufacturers. By 1824, times were ripe for the protective legislation that had failed earlier. The tariff of 1824 increased duties on many items as the protectionists rejected ideas of individual self-interest and free markets, concepts battered by the experience of the Panic of 1819. With the election of John Quincy Adams in 1824 protectionists were further emboldened, and in 1828 succeeded in enacting the highest tariff in American

history, the so-called “Tariff of Abominations.” Rising sectional tensions and the election of Andrew Jackson began to turn the tide of protection and in 1832 a new tariff, designed to deal with rising southern discontent, cut the average duties of the 1828 tariff in half. Not satisfied by this action, southerners revolted with South Carolina in the lead. The resulting Nullification Crisis tested the American political system and created a critical precedent for democratic action. With tariff acts in 1842 and 1846 the general trend was to further reduce rates, and while tariffs remained an important political issue during the antebellum period, they no longer played the central role they did in the decade following the Panic of 1819. **FH**

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#### Sources

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#### Notes

- 1 Benjamin Brand Papers (Mss B7332a 18–19), Virginia Historical Society. Letter dated March 27, 1819, Marshall Papers, College of William and Mary.
- 2 Rezneck, “Depression of 1819–1822,” p. 29 quoting C.F. Adams, *Memories of John Quincy Adams* (1875), 5, p. 128 and p. 31; *Columbia Centinal*, June 26, 1819 and “Commercial Confidence,” *Boston Patriot*, Sept. 6, 1819; *Niles’ Register*, Vol. 18, p. 387; William M. Gouge, *A Short History of Paper Money and Banking in the United States* (Philadelphia: 1833), Part II, p. 111.