Marathon TAH

Spring 2012

Fear the Panic: What We Can Learn (and Teach) from the Panic of 1837

<intro to Jacksonian Democracy—Democrats and Whigs—origins are really in the Bank War; on Monday we'll talk about the bust>

Jackson is elected in 1828—decides to use the bank as a target for his idea of the "common man"

Jackson hated the bank for all the reasons common among southerners and westerners. He hated its power to control credit throughout the nation. He hated the process that had brought it into existence, especially the $1.5 million paid to the government for granting the charter. He hated its protected status, especially after the Marshall Court ruled that states could not tax the bank's branches. He hated that most of private bank stock was held by wealthy old families in the East, and the rest by foreign investors. In short, for Jackson, as for Jefferson, the national bank embodied all that was corrupt and corrupting about a federal government subordinated to the interests of a single class of its citizens.

But Jackson also nurtured some personal and idiosyncratic reasons for hating the Bank--with which many of which his fellow westerners and southerners would have disagreed. Jackson had come to adulthood in the eighteenth century, and he shared much of Jefferson and Madison's general distrust of debt and paper money. In 1795, Jackson had accepted promissory notes in payment for land, notes he had subsequently spent. When the man who signed the notes went bankrupt, Jackson himself was held accountable for their full value. The complications of the transaction dragged on for years, more than once threatening Jackson with complete financial ruin. For the remainder of his life, Jackson adamantly opposed to paper currency and to the banks he associated with that currency. "I do not dislike your bank more than all banks," Jackson once commented to the President of the Second Bank. The truth was, he hated all banks. Few of his land-, money-, and credit-hungry fellow-Westerners or Southerners would have gone so far. But, as we've mentioned, it was a confusing system—for example, *Nicholas' Bank Note Reporter* listed over 5,400 counterfeits, and discounts ranged from 1 to 2 percent to 50% or more.

Jackson nursed a personal grudge against this Bank. He had heard rumors that the Second Bank of the United States had used its power to buy votes for Adams in 1828. Whether the rumors were true or not, they were sufficient to convince Jackson that the bank was the very essence of all that was corrupt and antidemocratic in the nation. Soon after his first inauguration, Jackson confided to a friend that he had heard "of the injurious effect of the directors of the Bank . . . in our late election." He vowed that a recharter of the bank must be blocked at all cost "as the only thing that can protect the purity of the right of suffrage."

Jackson's wrath notwithstanding, the Bank remained fairly popular among many Americans--a circumstance that restrained Jackson's public stance through much of his first administration and emboldened Nichols Biddle, the brilliant but impolitic president of the bank, to a false sense of security. "All this stir about monopolies will blow off like the vapor from a Steam Boat as soon as the question gets fairly under way," he insisted. <reaffirm Biddle's plan to stabilize the economy> Just to be certain, Biddle decided to raise the question of the rechartering of the Bank early, in order to take advantage of the 1832 election. After the election, Biddle reasoned, Democrats might let the Bank go in the name of party solidarity. But by forcing them to go on the record before the election, he could pressure them to take a more popular stance in favor of rechartering. Although the bank's authorization would not run out until 1836, on January 6, 1832, Biddle requested Congress to begin considering renewal of the charter.

Jackson took Biddle's pressure as a personal challenge. The bills for rechartering passed the Senate in June and the House in July, with broad support in all regions but the South. Nevertheless, on July 10, 1832, Jackson vetoed the act to recharter the second Bank of the United States. He was compelled to do so, he explained, in order "to preserve the republic from its thralldom and corrupting influence."

The Democrats carried the bank veto proudly into the 1832 election. It was, they insisted, a contest of "the Democracy and the people, against a corrupt and abandoned aristocracy." The National Republicans responded with their old accusations that Jackson was a despot, as evidenced by his bank veto. The Supreme Court had ruled the national bank constitutional, they pointed out, and the Congress had voted to recharter it. Jackson, the would-be "dictator," had trammeled the authority of both of the other branches of government, taking upon himself the sole right to determine the future of the bank.

Jackson's reelection in 1832 (although by a smaller majority than in 1828) gave him the confidence to move ahead on fiscal policy, on two fronts: disestablishing the Bank and nudging the nation's economy away from its dependence on paper currency. He asked Secretary of the Treasury Louis McLane, to begin to select other banks into which the federal government could move its deposits. Lane balked, worried that the selection process would be compromised by politics and concerned that the state banks would lose all fiscal restraint in view of such windfall deposits. Impatient, Jackson replaced Lane with William J. Duane--and then, when Duane demurred, replaced him with political crony Amos Kendall. On October 1, 1833, the federal government began to remove its deposits from the Second Bank of the United States to the 22 state banks Kendall had selected, called Jackson's "pet banks," by his critics. By the close of the year, the government deposits had been largely removed. The Democratic *Boston Post* wrote the BUS's epitaph in 1833: "Biddled, Diddled, and Undone."

The deposits in question did not exist as cash on hand, but rather in the form of loans made to individuals and corporations around the country. In order to make them available, the Second Bank set furiously about calling in its loans and foreclosing on debts--requiring payment from state banks in specie. In effect, Biddle was repeating the process that triggered the Panic of 1819. In the first 2 months he took over $5 million of credit out of the economy; in 6 months he took more than $15 million.

As recession gripped the nation, the Senate (led by Clay) was able to pass a resolution of censure against the President, condemning him of overreaching the powers of the presidency. Jackson's response was utterly unrepentant, but also indicative of the new "democratic" politics of the times. "The President"--and no other branch of government--"is the direct representative of the American people," Jackson declared. Certainly, earlier presidents had claimed to represent the interests of the American people as a whole. But the nature of representation in the federal government had been assumed by most politicians to be indirect, certain filters having been purposely put in place to sift out the greatest excesses of "the people." But Jackson's claim to directly represent the interests of the people made him susceptible to the criticism that he was acting as if he were royalty. <show image of "King Andrew" and the idea that the opposition now called themselves "Whigs">

As soon as the recession began to subside, Jackson moved ahead with his plans to eviscerate the national Bank and encourage a return to hard money policy. Late in 1833 he announced that the federal government would no longer accept drafts on the Second Bank in payment of taxes, a move that quickly undercut both the influence of that bank and the value of its paper currency. In 1834, Jackson attacked paper currency more generally, declaring that the banks now receiving federal deposits could not issue money for amounts under $5 (a threshold later raised to $20).

In June of 1836, Jackson's plans were partially coopted by a revived opposition. Deciding that if they were not to have the benefits of a single national bank, then the benefits of government revenues should be spread more widely, both Democrats and anti-Jacksonians passed the Deposit Act. With dangerously little provision for oversight, the Deposit Act greatly expanded the number of "pet banks" to nearly 100. It also provided for the distribution of a federal surplus in excess of $5 million dollars to the states in a formula proportional to their representation in Congress in four installments through the year 1837. This came on top of over $22,000,000 already deposited in the state banks as a result of funds shifted from the second Bank of the United States. Although Jackson foresaw that spreading so much largesse so widely would encourage a glut of credit, the measure was consistent with his anti-monopoly stance and was popular among Democrats (all of whom had state banks that wanted in on the action). The best Jackson could do under the circumstances was insist on a stipulation that government depository banks would redeem all paper money in specie on demand, a provision he hoped would restrain speculation and inflation, and continue the policy of restricting deposit banks' issuance of small notes. He followed up with the Specie Circular of 1836, which required that public lands be purchased with specie. <pushes specie out west, where it hadn't been before>

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By increasing the credit available from local and state banks, the bank war fed economic expansion. By the end of 1836, the number of banks in the United States had more than doubled since 1830 (reaching 788). Total bank loans rose from just over $200 million to $525 million, and the amount of money in circulation (the notes printed by banks) jumped from $61 million to almost $150 million. The vast increase in credit underwrote a huge increase in land sales (the revenues from which jumped from $5 million in 1834 to $25 million in 1836).

<march up in prices in the mid-1830s with price inflation>

Election of 1836 Election of 1836—Whigs send three candidates against Van Buren <Daniel Webster, Hugh Lawson White, William Henry Harrison> hoping to throw the election to the House. <election results>

At last, deteriorating conditions of labor galvanized protest even in that industrial paradise, Lowell. After a decade of rapid expansion in which the owners had grown accustomed to dividends of up to 25%, the market stalled in 1834. In response to falling prices, the owners cut wages by 12 1/2%. Unaccustomed to viewing themselves as pawns of their bosses, some 800 women turned out. The protest failed (the owners were able to take advantage of the break in production to use up their inventories), but two years later, when the owners tried to enforce an increase in company housing, the operatives were ready. Two thousand went out on strike, forcing the owners to rescind the increases. The 1836 victory was fleeting, however. Business was booming and the owners had a vested interest in keeping the mills open. The ability of the operatives to assert their own interests against those of the owners would not last.

In an effort to improve their position, in the mid-1830s workers also attempted to form regional and national associations. Carpenters, weavers, and cordwainers, among other trades, tried in 1835-1836 to form national trade associations, by these efforts failed. The most successful national association of the period was the National Trades' Union, formed in August of 1834, when the New York City-wide association (the New York General Trades Union) convened a conference for organizations from other cities. The National was thinkable because transportation improvements had brought workers and markets closer together—and it drew 25,000 workers to its initial convention. Still, labor markets remained local and cross-city solidarity had little effect on a strike. Much of the energy of the National went into lobbying for currency reform, worker access to education, free land for workers, and the ten-hour day.

The sources of the expansion were not all internal. Over the early 1830s the United States enjoyed a growing glut of credit from England, happy to provide consumer goods and investment capital for the growing American economy. At the same time, an influx of specie--gold from france paying off old claims by American citizens and silver as a commodity export from Mexico--added to the seemingly endless bank reserves.

Inflation was the result. In February of 1837, for example, wholesale prices in general were 36.8 percent higher than they had been in 1834. When coupled with a slow in the growth of real wages that had begun in the mid-1830s, this inflation quickly cut into the budgets of nearly all Philadelphians. The price of a bushel of wheat made a particularly dramatic leap, from $1.32 in January of 1836 to $2.25 a year later—a jump of over 70 percent. A barrel of flour's price nearly doubled from $6.62 to $11.13 over that same time period

Big problems, though, with the economy. The flood of credit and money also drove up inflation, raising prices for those who depended heavily on purchased goods, and especially creating hardship for small commercial farmers and for workers. More seriously in the long run, the loans and printed money on which the expansion was based far exceeded the assets of the state deposit banks. When the bubble burst in 1837, the nation was thrown into the worst financial disaster so far in its young history.

Even before the collapse of the American financial system during the Panic of 1837, things were getting tough for urban consumers. The wholesale price of wheat had nearly doubled in less than one year by February 1837, and New York's radical Loco Focos announced a public meeting in City Hall Park to address the issue with broadsides screaming: "BREAD, MEAT, RENT, AND FUEL! Their prices must come down!" On the late afternoon of February 13, a crowd of thousands greeted the speakers. Charged by the slogan, "As the currency expands, the loaf contracts," the crowd turned their animosity from the Loco Foco's intended foil, the "monstrous banking system," to a more immediate target, Eli Hart and Company's store on Washington Street. About a thousand angry New Yorkers broke into the store, destroying an estimated five hundred barrels of flour and one thousand bushels of wheat. Shocked editorialists denounced the actions of these "Jackson-jacobins," as the story of the duly named "Flour Riots" spread across the Northeast. "The worst of it is that it will probably get worse before it is better," Philadelphia diarist Sidney George Fisher recorded. "A wild, radical, agrarian spirit is abroad, which is constantly fanned and excited by incendiary presses, & designing demagogues for their own purposes."

But Jackson didn't have to worry about that, because in March of 1837 his vice-president, Martin Van Buren of New York, was inaugurated as president. By April, bad cotton debts had caused the failure of 93 New York firms with $60 million in capital. On May 9, 1837, there was a run on specie in Manhattan, and $652,000 in coin disappeared from the vaults. Businesses were failing everywhere. Locofocos held rallies in the street in which they denounced paper money and Van Buren became known as "Van Ruin."

Van Buren and the Democrats couldn't recharter another national bank, but they could take action to keep the "pet banks" in check. In 1840, they passed the Independent Treasury Act, which made the federal government basically operate on a cash-and-carry basis. <explain more if needed>

But the Independent Treasury was not enough to save Van Buren. Harrison actually remained silent about his support of a new national bank—Democrats labeled him "General Mum" because of his reluctance to speak on the issue, other than to say that he favored "a properly devised banking system," and reform.

Why should you care?

1. Independent treasury remains law of the land for 75 years—it is disobeyed and the Secretary of the Treasury often works with banks to avoid massive cash payments. But there is no real national banking system until the Federal Reserve is passed in the Wilson Administration. By 1860 there are more than 1,500 state banks issuing 9,000 different notes.

2. The "Bank War" is the most enduring issue of Jackson's presidency—it carries over into Van Buren's Administration, and ultimately it allows the Whigs to get both their name and their first presidential candidate. The 1840 election saw 4 of 5 eligible voters go the polls, and 1 in 3 was casting their first presidential ballot.

3. The Bank War was perhaps the most ideological of Jackson's struggles while in office. Since he took many issues personally, we can't say that the Bank War didn't have a healthy does of Jackson's personality stamped upon it, but it at least seems consistent with the Democrats' ideas of governance. This is not necessarily the case with Indian Removal
4. Suspicion of banks and corporations would remain a hallmark of American politics, even as American corporations were becoming the largest in the world.

Van Buren running for re-election in 1840. There was a partial recovery in 1838, but in1839 another contraction occurred and Americans began to doubt that Van Buren and the Democrats had any answers. The Whigs jumped all over this and devised campaign songs that made the "Little Magician" seem downright evil:

> Who rules us with an iron rod,
>
> Who moves at Satan's beck and not,
>
> Who heeds not man, who heeds not God?