Panic of 1819

The Panic of 1819 was the first major financial crisis in the United States, which occurred during the end of the Era of Good Feelings. The new nation faced a depression in the late 1780s (which led directly to the establishment of the dollar and, perhaps indirectly, to the calls for a Constitutional Convention), and another severe economic downturn in the late 1790s following the Panic of 1797. In those earlier crises, however, the primary cause of economic turmoil originated in the broader Atlantic economy. These crises and others that resulted from international conflicts such as the Embargo Act and War of 1812, caused widespread foreclosures, bank failures, unemployment, and a slump in agriculture and manufacturing. However, things would change for the US economy after the Second Bank of the United States was founded in 1816, in response to the spread of bank notes across United States from private banks, due to inflation brought on by the debt following the war. In contrast, the causes of the Panic of 1819 largely originated within the U.S. economy. The panic marked the end of the economic expansion that had followed the War of 1812 and ushered in new financial policies that would shape economic development.

Explanations

Different economic schools of thought have offered explanations for the Panic of 1819. Economists who adhere to Keynesian economic theory suggest that the Panic of 1819 was the early Republic's first experience with the boom-bust cycles common to all modern economies. Clyde Haulman, Professor of Economics at the College of William and Mary, suggests that the Panic was more complex than some would suggest. It was a failure of the banking system following the War of 1812 because it was not rechartered. Combined with the issue of the depression and overspeculation, it became the first failure of the market economy in America, the Panic of 1819 marked the beginning of a new phase of American economic history, where mature market institutions would continue to move cyclically from boom to bust. These explanations are not intended to discount the importance of war-time public finance as a cause of the Panic. They simply acknowledge that there were broader, institutionally based causes for the events of 1819 and the early 1820s.

Austrian school economists view the nationwide recession that resulted from the Panic of 1819 as the first failure of expansionary monetary policy. This explanation is based on the Austrian theory of the business cycle. Government borrowed heavily to finance the War of 1812, which caused tremendous strain on the banks’ reserves of specie, leading to a suspension of specie payments in 1814, and then again during the recession of 1819-1821, violating contractual rights of depositors. The suspension of the obligation to redeem greatly spurred the establishment of new banks and the expansion of bank note issues, and this inflation of money encouraged unsustainable investments to take place. It soon became clear the monetary situation was threatening, and the Second Bank of the United States was forced to call a halt to its expansion and launch a painful process of contraction. There was a wave of bankruptcies, bank failures, and bank runs; prices dropped and wide-scale urban unemployment began. By 1819, land measures in the U.S. had also reached 3500000 acres (14000 km²), and many Americans did not have enough money to pay off their loans.

The Panic was also partially due to international events. European demand for American foodstuffs was decreased because agriculture in Europe was recovering from the Napoleonic Wars, which had decimated European agriculture. War and revolution in the New World destroyed the supply line of precious metals from Mexico and Peru to Europe. Without the base of the international money supply, poor Europeans and governments hoarded all the available specie. This caused American bankers and businessmen to start issuing false banknotes and expand credit. American bankers, who had little experience with corporate charters, promissory notes, bills of exchange, or stocks and bonds, encouraged the speculation boom during the first years of the market revolution. By the end of 1819, the bank would call these loans.
Small, local ups and downs had occurred in the market since the 1790s, but never to this magnitude. Businesses went bankrupt when they could not meet their debts, and hundreds of thousands of wage workers lost their jobs. For example, unemployment reached 75 percent in Philadelphia, and 1,800 workers were imprisoned for debt. In Baltimore, the unemployed set up a city of tents on the outskirts of the city.

**Proposed remedies**

Proposed remedies included:

- increase of tariffs (largely proposed by Northern manufacturing interests).
- reduction of tariffs (largely proposed by Southerners, who believed free trade would stimulate the economy and increase demand).
- monetary expansion; i.e., restriction or suspension of specie payment.
- rigid enforcement of specie payment.
- restriction of bank credit.
- direct relief of debtors.
- public works proposals.
- stricter enforcement of anti-usury laws.

In the event, President Monroe, interpreting the economic crisis in the narrow monetary terms then current, limited governmental action to economizing and ensuring fiscal stability. He acquiesced in suspension of specie payments to bank depositors, setting a precedent for the Panics of 1837 & 1857. Although he agreed to the need for improved transportation facilities, he refused to approve appropriations for internal improvements without prior amendment of the Constitution. Monroe would aid the economy with laws like the Land Act of 1820 and the Relief Act of 1821. By 1823, the panic had ended.

**References**


[5] Clyde Haulman's Homepage (http://cahaul.people.wm.edu/)


**Further reading**


External links
