

INTRODUCTION

Bank panics and financial crises have been a staple of the United States economy for much of the nation's history. However, for many Americans at the beginning of the twenty-first century such economic crises are known only from history classes or from stories dredged out of the fading memories of parents and grandparents. Yet, within the last decade, events in Asia have demonstrated that the world is not free of the spectre of economic crisis stemming from problems originating in the financial sector. In addition, the near collapse of Long-Term Capital Management in 1998 brought the possibility of financial turmoil much closer than was comfortable for government officials, the financial community, and many American investors. Finally, the bursting of the stock market bubble in the late 1990s, the run-up of asset prices in the mid-2000s, particularly in housing markets, and growing concerns with unsustainable levels of debt continue to erode confidence in the economy. The nineteenth century, with its seemingly endless series of periodic financial panics and resulting economic distress, led Walter Bagehot, the English journalist and economist, to observe, 'Much has been written about panics and manias ... but one thing is certain, that at particular times a great deal of stupid people have a great deal of stupid money'. This money, he further suggested, is at intervals 'particularly large and carving; it seeks for someone to devour it, and there is a "plethora"; it finds someone, and there is "speculation"; it is devoured, and there is "panic"'.¹

A great deal has been written about 'speculations' and 'panics' as forerunners of economic crises in the United States, particularly the many downturns of the post-Civil War nineteenth century and the Great Depression of the nineteen-thirties.² However, relatively little attention has been paid to what is arguably this country's first modern business cycle – the depression following the Panic of 1819. As historian Cathy Matson indicates, 'The Panic of 1819 was the first truly national depression American experienced, the first long-term financial crisis to prompt Americans to examine deeply their ideological moorings and reassess their still-fragile economic institution'.³

The purpose of this work is threefold. The first objective is to bring the Panic of 1819 and subsequent depression to the fore by undertaking an analysis of

this important and underappreciated economic crisis from the perspective of one state, Virginia. The second purpose is to provide a thorough analysis of the Virginia economy of the period. Although much attention has been paid to the political history of Virginia in the period following the War of 1812, relatively little analysis has focused on the Commonwealth's economy of the period.⁴ Thus, a study of Virginia's economy in this time period is long overdue. The final goal is to analyze the economic, social and political impacts of the Panic both for Virginia and for the nation.

Any analysis of the Panic and the Virginia economy will require reviewing and evaluating existing analysis of the Panic as well as searching out whatever information and data exists for the period. More importantly, it will require creating new data sets that will enable a more detailed and comprehensive analysis of the Panic and ensuing depression. This task will be accomplished in two stages. The first will use existing studies and data sources to provide an overview of the period and to compare the economic upheaval of the Panic and the following depression with other economic crises the United States has faced from the antebellum period through the 1930s. The second, and more important, stage will view the Panic of 1819 from the perspective of Virginia. Such an analysis will enable the construction of new data sets, particularly with regard to the Commonwealth's merchants, commodity prices, land values and poor relief system, and these data sets will yield unique and heretofore unavailable insights into the impact of the economic hard times in the wake of the Panic of 1819. It will also enable a comparison of Virginia during the Panic and the ensuing depression with what is known of events in other states and regions to determine in what ways the Commonwealth's experience was similar to or different from theirs.

The lack of attention to the Panic of 1819 to date is the result, in part, of the paucity of micro and macro data available for the time period. As one pair of authors suggest, 'data limitations prevent a detailed empirical analysis of the earliest panics.'⁵ The lack of data has been a long standing rationale for ignoring early-nineteenth-century business cycles. Arthur F. Burns and Wesley C. Mitchell, in their groundbreaking studies of business cycles, occasionally refer to the cycles of the 1830s and use some data series that begin in the 1850s to establish cyclical turning points. However, most of their analysis is restricted to the period after 1878, a time for which data for the most important time series are available.⁶ This has begun to change lately, and Chapter 2 will discuss recent works in detail. However, with one exception, these studies continue to ignore early cycles, including the Panic of 1819.

The tendency to ignore the Panic of 1819 is also, I believe, in part the result of the ease with which historians and economists have been able to point their pens at the role of the newly chartered Second Bank of the United States and thereby ignore or underemphasize the complexities of a post-Napoleonic War Atlantic economy.⁷ For example, Charles Sellers suggests that the sharp contrac-

tion of credit begun by the Second Bank in the summer and fall of 1818 ‘saved the national Bank by sacrificing not only its debtors but the state banks and their hordes of debtors as well, which is to say, most of the market economy.’⁸ Echoing this sentiment, Murray Rothbard in his study of the Panic indicates ‘the Bank precipitated the Panic of 1819 by a series of deflationary moves.’⁹ And, Samuel Reznick’s study of the depression of 1819–22 sees trouble ‘precipitated by a sharp crisis in the affairs of the Second Bank’ but that ‘the collapse of the financial façade was the signal for, rather than the entire cause of, the rapid spread of distress and the mental attitudes characteristic of depression.’¹⁰

Economic theory has a critical role here, particularly in more recent analysis of the Panic. Commencing with the classic study of United States monetary history by Milton Friedman and Anna Jacobson Schwartz, monetarists stressing the role of the money supply have focused on banking panics ‘because they view them as a major source of contractions in the money supply which, in turn, had led to severe contractions in aggregate economic activity in the United States.’¹¹ While broadening the scope of the monetarists, asymmetric information theory has continued to keep banks and their role in financial crises in the forefront. By emphasizing the ‘differences in information available to different parties in a financial contract’, the theory focuses on the impacts of adverse selection [the difficulty of distinguishing between good and bad borrowers, leading to credit rationing] and the agency problem [the moral hazard of borrowers engaging in ‘activities that may be personally beneficial but will increase the probability of default’] and the way in which these two factors affect the ability of banks to perform their financial intermediary role.¹² Thus, banking panics not only affect economic activity through the drop in the money supply, but also by ‘reducing the quality of certain financial services, primarily credit intermediation.’¹³

The Panic of 1819

This work will argue that the Panic of 1819 was America’s first experience with a modern boom-bust cycle, and most importantly, that it was much more than a banking panic resulting from the mismanagement of the newly created Second Bank of the United States and a number of state-chartered banks. It was a complicated modern economic event involving the financial sector, international economic and political circumstances, and policy of the federal government. As Gary Browne, writing about the city of Baltimore, suggests, ‘the events surrounding the panic of 1819 symbolized the end of one age and the beginning of another.’¹⁴ The role of the Panic of 1819 as a fulcrum in the economic, political and social transformation of the new republic, particularly as seen through the lens of one state, Virginia, is the focus of this work.

Economic crises in the 1780s and 1790s and stagnant years following the Embargo had brought hard times to the new nation. However, the decade following 1815, including economic recovery after the War of 1812 and depression in the wake of the Panic of 1819, was very different from these earlier periods of economic distress.¹⁵ The earlier downturns each could be traced to a particular event or events, and were more limited in the scope of their impacts on the early national economy. For example, Douglass North suggests that the 'unparalleled prosperity' of the years 1793–1808 was interrupted in 1797–8 and again in 1801–3 'by the external forces which had created it' – international trade and shipping.¹⁶ Further, during the downturn of 1797–8 while prices fell 7 per cent and exports fell 8 per cent, imports rose 20 per cent for the period. These are quite mild when compared with changes in 1819–21. (See Table 2.3 below for data and sources.)

As will be demonstrated, the depression associated with the Panic of 1819 was very different from these earlier downturns. It will be argued that the depression of 1819–21 was the result of a complex set of economic and political circumstances involving changes in financial institutions and the operation of financial markets, foreign sector changes including the markets for American commodity exports and the carrying trade, and the beginnings of structural changes in the production and distribution of goods. These factors combined, in an economy very different from those earlier periods, to create a deflationary downturn which was much more severe, more pervasive and had greater social impacts than any of the earlier periods of economic distress.

Events surrounding 1819 were further complicated by a wave of intensified American nationalism and optimism following reports of Andrew Jackson's victory at New Orleans and news of peace from Ghent.¹⁷ As a result, financial panic and depression coming on the heels of an expansion fuelled by optimism and foreign demands for American staples served to concentrate the new republic's attention on the economy. The energies the Revolutionary generation had directed to political theory and to problems of governance were now to be directed, with the help of an emerging new generation of political leaders, to questions regarding the nature of economic institutions. This focus on the economy was further intensified because increasing segments of society were being subjected to seemingly impersonal market forces. In addition, a liberal free trade ideology was emerging triumphant in the Northeast and South, clashing with protectionist sentiments among workers and industrialists, particularly in the Mid-Atlantic region.¹⁸

The goal here is to understand the origins, events and impacts of the Panic of 1819 nationally and in Virginia. From a national perspective, there is no recent overview of the Panic that provides a comprehensive compilation of available data, analyzes the complex factors involved in the Panic and the depression of 1818–21 and integrates the international perspective.¹⁹ This work helps to rec-

tify the situation by building upon and adding to previous works and by not only looking at the panic from a national perspective, but also considering the experience of one state, Virginia, in significant detail. As suggested earlier, the focus on a particular state will enable the development of new data sets needed to provide critical analysis of specific aspects of the economic crisis and to compare the depression following the Panic of 1819 with economic crises of other time periods and places. Virginia is chosen for two reasons. Because of the lack of data with which to analyze this period, constructing an adequate data base has to begin somewhere, and the state level appears to be the appropriate place to begin. Further, to the extent there are studies of the Panic, most either have focused on Philadelphia, New York and New England, or have relied heavily on contemporary reports from these areas. As a result, little is known about the economic, political and social impacts of this early economic crisis outside of these more economically developed areas. In particular, Virginia and the South have been largely ignored as studies of the state and region have concentrated on the critical periods closer to the Civil War.²⁰

Plan of Study

The work is divided into three parts. The first provides an overview of the Panic of 1819 from a national perspective and compares the depression following the Panic with other depressions in the United States. Chapter 1 analyzes the years leading up to the Panic and how they set the stage for the downturn while Chapter 2 gives an economic overview of the Panic of 1819. The second part of this work examines various aspects of economic events in Virginia during the years of economic crisis. These include banking and government finance in Chapter 3 and agriculture, exports and land in Chapter 4. Chapters 5 and 6 consider the impacts of the Panic of 1819 in Virginia including changes in the business community, Chapter 5, and changes in the Commonwealth's system of poor relief, Chapter 6. In the final part, Chapter 7 analyzes the aftermath of the Panic in the Commonwealth and the nation economically, politically and socially, and provides a summary and conclusions.