NBER WORKING PAPER SERIES

JACKSONIAN MONETARY POLICY, SPECIE FLOWS, AND THE PANIC OF 1837

Peter L. Rousseau

Working Paper 7528
http://www.nber.org/papers/w7528

NATIONAL BUREAU OF ECONOMIC RESEARCH
1050 Massachusetts Avenue
Cambridge, MA 02138
February 2000

The author thanks Jeremy Atack for helpful comments. The views expressed herein are those of the author and are not necessarily those of the National Bureau of Economic Research.

Jacksonian Monetary Policy, Specie Flows, and the Panic of 1837
Peter L. Rousseau
NBER Working Paper No. 7528
February 2000
JEL No.N11, N21

ABSTRACT

The Panic of 1837 stands among the most severe banking crises in U.S. history, marking the start of a business downturn from which the nation would not recover for six years. Given the serious consequences of the panic for the rapidly evolving commercial and industrial sectors, it is thus not surprising that a number of hypotheses have emerged to disentangle the "true" causes from a host of aggravating domestic and international shocks. To this day, however, the event remains not fully understood. In this paper, I organize previously unexploited information from the U.S. government documents and contemporary newspapers to take a fresh look at the panic. These sources point to a new explanation which places neither the official distribution of the federal surplus to the states in the Spring of 1837 nor an international shock at the heart of the crisis, although the latter may have served as a catalyst in the final weeks. Rather, a series of hitherto unremarked interbank transfers of government balances ordered in the year leading up to the crisis combined with a policy-induced increase in the demand for coin in the Western states to drain the largest New York City banks of their specie reserves and render the panic inevitable.

Peter L. Rousseau
Department of Economics
Vanderbilt University
Box 1819 Station B
Nashville, TN 37235
and NBER
peter.l.rousseau@vanderbilt.edu

I. Introduction

The financial panic that gripped the U.S. economy in the Spring of 1837 was among the most severe in this nation's history. Failures and loan losses reduced the book assets of the state chartered banks by 45 percent during the five years that followed, while 194 of the 729 banks with charters in 1837 were forced to close their doors.[1] The prices of banking, railroad and industrial securities in the early stock markets plummeted.[2] The effects on the real sector were also substantial. For example, the growth of real investment per capita fell from an annual average of 6.6 percent in the five years preceding the panic to -1.0 percent over the next five years.[3] Among 19th century U.S. financial crises, only that of 1893 posted a larger decline in investment. Similar calculations show the average annual growth of real per capita income falling by 1.4 percent in the decade surrounding 1837, effectively drawing one of the nation's early growth spurts to an abrupt close. This decline is comparable to that experienced in 1873 and considerably larger than those surrounding the crises of 1857 and 1893. Douglass North (1961) reports decreases of nearly 50 percent in real imports per head from their 1836 level in each year through 1843. Accounts of widespread unemployment abound in the contemporary press. Indeed, one must turn to the 20th century and the Great Depression, with respective decreases of 10.2 and 5.0 percent in the annual growth of per capita investment and output, to identify a more catastrophic financial shock to the U.S. economy.

---

[1] Total bank assets are from *Historical Statistics of the United States* (Bureau of the Census, 1975, series X581, p. 1020). Bank failures are from Martin (1871, p. 31). The number of state chartered banks in 1837 is from Fenstermaker (1965, p. 111).

[2] Smith and Cole (1935, p. 46) report that railroad stock prices fell by 62.6 percent between January of 1837 and 1843, and that banking and insurance stocks fell by 31.9 percent. Atack and Rousseau (1999, p. 175) report a decline of 23.2 percent in the value-weighted prices of industrial securities traded in the Boston stock market over this period.

[3] Data on real output, real investment and population for the 1832-43 and 1868-79 periods are from Berry (1988). Output and investment from 1888-1899 and 1924-35 are from Kendrick (1961), with population figures from Friedman and Schwartz (1982).

Given the serious consequences of the panic for the commercial and industrial sectors over the six years that followed, it is perhaps not surprising that a number of hypotheses have emerged to explain the event.[4] Each competing theory isolates a different domestic (Timberlake 1960; Scheiber 1963) or international (Temin 1969) shock as central among a set of aggravating disturbances that buffeted the nation in the months leading up to the suspension of specie payments by banks in May of 1837.[5] To this day, however, the panic remains imperfectly understood.

This paper organizes previously unexplored information from the U.S. government documents and various newspapers of the period to take a fresh look at the panic. These sources suggest that neither the distribution of the federal surplus revenues to the individual states in the Spring of 1837 -- Timberlake's explanation -- nor an international shock -- Temin's explanation -- was at the heart of the crisis, though the latter certainly aggravated the monetary pressure and may have served as a catalyst in the final weeks. Rather, the banking system sustained two even more severe disruptions in 1836 and early 1837. The first was a series of subtle and under-emphasized "supplemental" transfers of public balances ordered by the U.S. Treasury under the Deposit Act of June 23, 1836 in preparation for the "official" distribution of $28 million of the $34 million in surplus that had accumulated by that time. The second was a heightened demand for specie in the Western states that arose from the Jackson administration's "Specie Circular" of July 11, 1836, which ordered the use of specie in the purchase of public lands beginning August 15.

These two measures caused the specie reserves of the deposit banks in New York City (and

---

[4] George Heberton Evans (1948) reports declines of more than 80 percent in non-financial business incorporations from their 1836 level in each year of the downturn.

[5] The banks of Natchez, Mississippi suspended specie payments on May 4. The New York City banks suspended on May 10. Boston and New Orleans followed with suspensions on May 12 and May 13 respectively. The suspensions were the nation's first of a truly general nature, with only the State Bank of Missouri resisting.

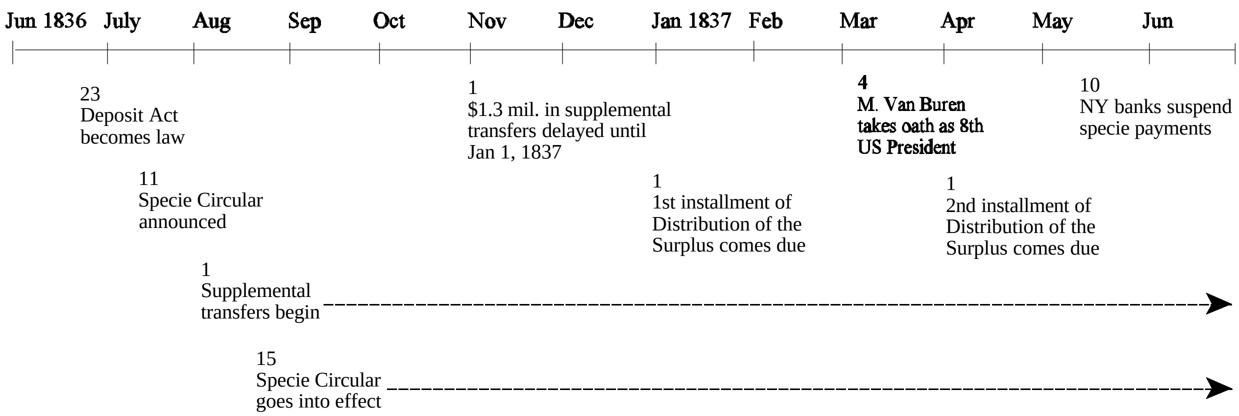

Fig. 1.– Timing of domestic events leading to the Panic of 1837.

especially the Bank of America, Manhattan and Mechanics' Banks) to fall from $7.2 million on September 1, 1836 to a mere $2.8 million by March 1, 1837 and $1.5 million by May 1. The drain left these banks unprepared to meet calls for specie from a faltering British economy that had become increasingly determined to settle its international balances. The prospect of a specie exports in April, 1837 then combined with President Van Buren's earlier refusal to repeal the Specie Circular to engender public distrust in the value of bank notes. As rumors of New York's dwindling specie reserves began to reach the newspapers, a sharp decline in land prices lowered the market value of bank loan portfolios in the key money centers and launched a frenetic demand for coin in early May.

Figure 1 shows the timing of key domestic events that occurred in the year leading up to the panic, including the continuous roles of the supplemental (i.e., "pre-distributional") transfers and Specie Circular. Indeed, as we will see, the balance sheets of the deposit banks between July of 1836 and August of 1837 readily show how these policies combined with a confluence of less important but unfortunately-timed events to set the panic into motion. Since the Jackson administration acquiesced to the Deposit Act and initiated the Specie Circular as an executive order, this interpretation also calls into question claims that the nation's seventh President was an innocent bystander and casts serious doubt on his financial wisdom.

Section II offers some background of the panic and summarizes earlier theories that have been advanced to explain it. Section III examines the interbank transfers that were ordered under the Deposit Act for execution in 1836 and early 1837, and relates their size and geographic pattern to changes in the specie reserves of the regional deposit banks. Section IV shows that the Specie Circular, while generating a substantial new demand for gold and silver coins in the West, had little effect in curbing public land sales through the Spring of 1837. Section V explains how the internal specie drain combined with external pressures to bring on the panic. Section VI takes a critical look at international explanations of the crisis in an attempt to place overseas events which preceded the suspension into an appropriate perspective. Section VII concludes.

II. Background

The Panic of 1837 was a watershed event for the U.S. economy. Contemporary "hard money" advocates viewed the panic as a result of rapid expansions of capital and paper money issues in an inadequately regulated banking sector bloated by the government deposits removed from the Second Bank of the United States.[6] Despite the resonance of such rhetoric, traditional accounts (i.e., McGrane 1924; Studenski and Krooss 1952; Hammond 1953) point to the Specie Circular, which directed federal receivers to accept only specie for the purchase of public lands after August 15, 1836, as the

---

[6] This sentiment is aptly expressed in an editorial that appeared in the *New York Herald* on September 25, 1836: "Fifty thousand dollars in the currency of a good bank, and ten thousand dollars in specie, will set going a dozen of these remote Western banks. After one has used it, it goes beyond the next hill or across the next river, the cashier swimming the stream on horseback, to start another bank. Their notes are signed, packed up in bundles of $10,000 each, and sent into New York, to be circulated among the work people and the mechanics."

primary cause.[7] This blunt monetary policy initiative was intended to reduce the note issues of remote banks and erect a barrier for speculators, who were expected to have more trouble raising specie for land purchases than the "certificates of bank deposit" (popularly known as "land office money" and often fraudulently obtained) that they had been using.

Public reaction to the Specie Circular can be characterized by initial confusion followed by deep concern about its possible effects on the money market.[8] It was widely believed that the Circular would drain specie from banks in New York, Philadelphia, and New Orleans to points in the Midwest and cause reserve shortages and loan curtailments in those cities. There was also a (not entirely unfounded -- see Section IV below) belief that the Government by accepting specie for land would effectively "lock it up" (i.e., remove it from circulation). The initial drain of specie aggravated existing monetary pressures in the Summer of 1836, and by early September rates on short-term business paper in New York had risen to 24 percent from only 12 percent in early June. Figure 2 depicts the rising pressure in New York City as reflected by the average monthly "street rates" on first-class commercial bills. Figure 3 shows that the purchase of public lands continued briskly for the remainder of 1836 and remained strong at $3.48 million in the first quarter of 1837, despite the apparent aims of the Specie Circular.[9] The traditional account suggests that the flow of specie to the West was inadequate to support the pace of public land purchases, and that a break in land prices ushered in the panic.

---

[7] The Specie Circular offered an extension until December 15 only for tracts of 320 acres or less that were sold to "actual" settlers and "bona fide" state residents.

[8] "The general impression is fast settling down to the belief that the Treasury Circular and the Distribution Law will so disturb the currency, exchanges, and the business of the country, as to cause an extensive pressure in a few months. The commercial interests of the American cities suffer every way. The land speculators monopolize the surplus, and don't pay their eastern debts. Western merchants are all up to the eyes in land speculations" (*New York Herald,* July 16, 1836).

[9] Even the most casual examination of Figure 3 sheds much light on what could, in retrospect, be the best single explanatory variable for predicting financial crises in the antebellum U.S.

Fig. 2.– "Street rates" on first class commercial bills in New York, monthly averages 11/35-12/38. Source: Smith and Cole (1935), Table 74.

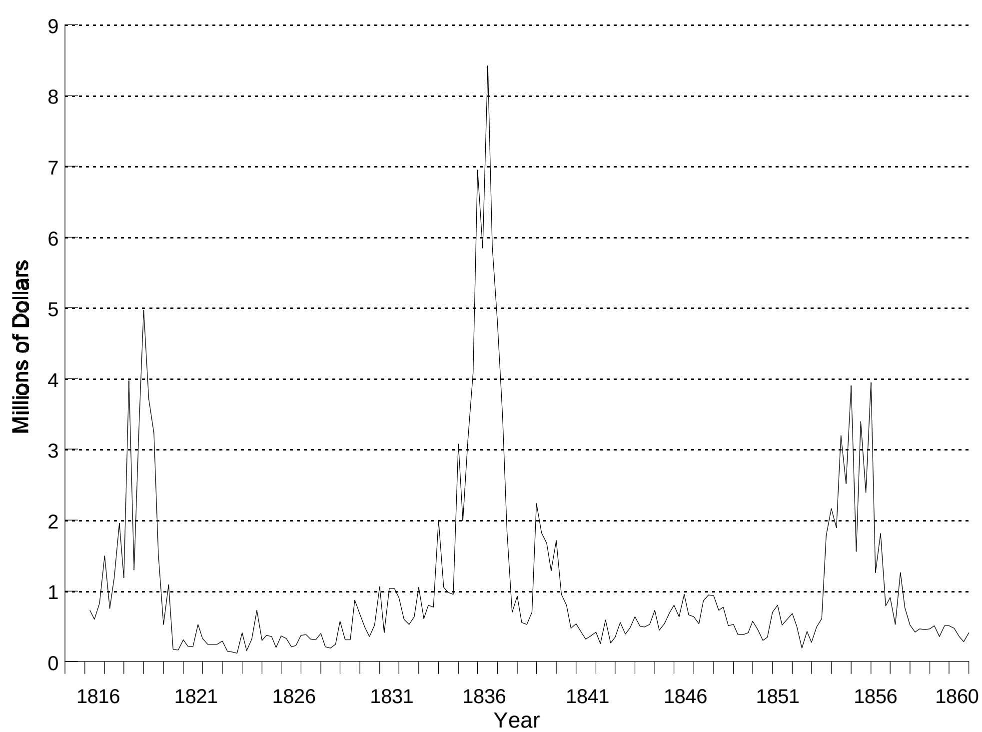

Fig. 3.– Receipts from sales of public lands, quarterly 1816-1860. Source: Smith and Cole (1935), Table 72.

Richard H. Timberlake, in a 1960 article in the *Journal of Political Economy*, asserts that the Specie Circular had negligible effects. He reasons that since public land sales were about $25 million in 1836 and gross national product about $1 billion, the fall in land sales in early 1837 was not large enough to lower aggregate demand, and that the diversion of funds from land purchases could have even increased demand. This, of course, is not an appropriate comparison. If specie from New York was needed for Western land purchases it would require only a few million in sales to cut deeply into the reserves of that city, which had become the focal point of the nation's financial structure. After dismissing the Specie Circular as a proximate cause, Timberlake focuses on the "official" distribution of the surplus, which provided for the transfer of government balances in excess of $5 million to the states according to their relative populations in four equal quarterly installments starting on January 1, 1837. Some $28 million were transferred under the Act in the three installments that were realized. Most did not cross state lines. Some, however, did and especially out of New York. Using records of the distribution, Timberlake shows that deposit banks in New York transferred $1.3 million across state lines in January and April of 1837, a sizeable portion of which was probably drawn in specie. He then states that this movement of funds was the "jeweled-pivot" (i.e., frictionless) upon which the crisis turned. How such a small quantity of interstate transfers could have generated the panic was a question left unanswered, and has since motivated economic historians to seek alternative explanations.

Temin (1969), reluctant to accept the traditional account due to a shortage of convincing evidence that an economically important amount of specie actually flowed to the West, offers such an alternative. According to Temin, two increases in the Bank of England's discount rate in the Summer of 1836 and their instructions for the Liverpool branch to reject bills of exchange drawn on houses associated with American commerce in late August were the start of a deliberate and sustained effort to "recover" specie that had been presumed lost to the U.S. These actions combined to reduce demand for the U.S. cotton crop of 1836-37 and force a drop in its price by the following Spring. This in turn depressed the market values of cotton-backed bills in the U.S. and produced defaults among cotton factors, a deterioration of bank assets, and finally panic. The argument hinges upon a lag of at least eight months between the Bank's initial actions and the panic, as well as large real effects of a fall in the price of cotton that occurred late in the annual export cycle. Such fluctuations in cotton prices, however, were routine by historical standards. There is also evidence that the rejection of the American bills was an embarrassing blunder by the Bank of England, and that public alarm had led to a reversal of this policy within days. In the Spring of 1837, the Bank even took extraordinary measures to support houses involved in the American trade. Nevertheless, Temin's revisionist position has received some degree of acceptance since its introduction three decades ago.

All of the above narratives either neglect or readily dismiss the effects of the "supplemental" Treasury operations. Even Harry N. Scheiber (1963), in the course of making a descriptive case that these discretionary transfers disrupted the banking system in the Fall of 1836, does not quantify their possible effects with the available bank-level, state-level, and regional data. Interestingly, these data seem to hold the key to understanding how these transfers disrupted the financial system by contributing to both a drain of specie reserves from New York and a subsequent loss of public confidence in the banking system.

III. The Supplemental Treasury Operations

A. Size and Aggregate Implications of the Transfers

The aspect of the Deposit Act of June 23, 1836 (also known as the "Distribution Act") that raised the most concern among its opponents was the return of the federal surplus to the states. Less controversial were provisions that prohibited government deposits from exceeding three-fourths of a bank's paid-in capital and required the establishment of at least one bank as a government depository (i.e., "pet") in each state that chartered banks. To comply with the latter provision, then Secretary of the Treasury Levi Woodbury quickly selected 45 new deposit banks, increasing their number from 36 in June of 1836 to 81 by December. Woodbury also asked Congress to clarify his authority to prepare for the official distribution of the surplus that was to begin on January 1 while also reallocating balances to meet the new deposit limits. Congress responded by amending the Deposit Act on July 4 to affirm Woodbury's discretion to achieve an "equitable" balance among the states. The Secretary then ordered more than $38 million in "supplemental" interbank transfers over the next six months, with nearly two-thirds involving interstate transactions. Of this total, $26.4 million were completed by the end of 1836, with 57 percent crossing state lines.[10] Most of the remaining orders were completed in the first quarter of 1837, with 79 percent requiring interstate movement. These supplemental transfers stand apart from the $28 million transferred in the official distribution, of which only 22 percent crossed state lines.

Despite the Secretary's efforts, an increase in the level of government balances from $34 million in June of 1836 to nearly $43 million by December limited his ability to achieve the distribution among the states that soon would be required. Collections over this period were twice as large as payouts, and more than half of the $22 million in new revenues required movement from their point of receipt. Woodbury recognized that the continued inflows would dramatically increase the amounts that would need to be removed from New York City, where the federal deposits had already accumulated far beyond the state's proportion of the national population. He therefore focused the supplemental

---

[10] With regard to the dual purpose of "regulating the banks" and preparing for the distribution, Woodbury reported that "in several cases, both objects or purposes, when convenient, were seasonably united, and with a mitigated and more beneficial effect, it is believed, on the whole administration of the law, and the condition of the money market generally, than if all the transfers to all the different states had been delayed till next year, and at that time ordered in much larger sums" (Senate Document No. 29, 24th Congress, 2d Session, December 20, 1836, p. 3).

transfers in the Summer and early Fall of 1836 on gradually moving large sums from New York. The secret nature of these transfers first led contemporary observers to misunderstand the causes of the rising monetary pressure in August, but as the extent of the pre-distributional transfers became known, they were criticized,[11] along with the Specie Circular, and held responsible for the pressure that had risen to a fever pitch by October.[12]

Woodbury, who had underestimated the strain that the supplemental operations would place on the New York banks, responded by delaying until January more than $1.3 million in interstate transfers that were originally scheduled to take place in November and December of 1836. As the Specie Circular began to drain Eastern banks of their specie reserves, he also attempted to bring coin back to the East in the Fall and early Winter months with a new set of transfers from the Michigan and Ohio banks. These measures brought some relief to the money market through January as is apparent in Figure 2, but the pressure soon re-intensified as the delayed transfers, most of them interstate, came due along with those of the official distribution.

Responding to growing pressure from legislators to quantify the impact of the supplemental

---

[11] The *New York Herald* reports on September 2 that "the financial movements of the government are leaking out.–It appears that some secret operations are going on for the purpose of draining the east of specie and carrying it to the west.–This may be done with a double purpose, of creating a pressure in the Atlantic cities, attributing it to the U.S. Bank, and then stopping the sales of the public lands except on their own cash terms." Had details of the transfer orders been available at this point, it would have been clear that the Treasury operations in the Summer and early Fall of 1836 were meant to transfer funds from North to South along the Atlantic seaboard.

[12] The *Herald* reports on September 8 that "another cause of the decline of the markets (in addition to concern about the upcoming Presidential election) is in the heavy surplus revenue that is to be collected and gathered up for payment to the states on the 1st of January – probably 36 millions of dollars. The transfer of moneys from one point to another, in preparation for the great payment, necessarily creates a curtailment of discounts, and a consequent pressure in the money market.

All these causes unite at this moment to bring on a panic. The government adds to it. Specie is bought at 2 percent premium on Wall Street to go west in payment of public lands. The western banks are also curtailing in consequence of the late Treasury circular, and certain private instructions."

TABLE 1
Transfers Ordered by the U.S. Treasury, 1836-1837

	Supplemental			Distribution of the Surplus		
	Intrastate	Interstate	% Inter	Intrastate	Interstate	% Inter
Jul 1836	$1750.0	$819.0	31.9%	$0	$0	...
Aug 1836	2305.0	2642.0	53.4	0	0	...
Sep 1836	2681.1	3134.5	53.9	0	0	...
Oct 1836	1874.0	3690.0	66.3	0	0	...
Nov 1836	1353.8	2410.0	64.0	0	0	...
Dec 1836	1485.0	2300.0	60.8	0	0	...
Jan 1837	605.0	3470.0	85.2	8104.4	1211.8	35.0%
Feb 1837	680.0	1935.0	74.0	0	0	...
Mar 1837	565.0	1600.0	74.0	0	0	...
Apr 1837	525.0	860.0	62.1	7924.9	1348.8	14.5
May 1837	175.0	460.0	72.4	0	0	...
Jun 1837	0	600.0	100.0	0	0	...
Jul 1837	0	20.0	100.0	6952.8	2484.3	26.3
Jul-Dec 1836	11448.9	14995.5	56.7	0	0	...
Total	13998.9	23940.5	63.1	22982.1	5044.9	18.0

Sources: Supplemental transfers from *Senate Document No. 29*, 24th Congress, 2d Session (December 20, 1836, pp. 8-20); details of distribution of the surplus from *House Executive Document No. 30*, 25th Congress, 1st Session (September 26, 1837, pp. 10-20, 72-81).

Notes: Amounts are in thousands of dollars. Transfers are recorded in the month on which each became effective. This delays until April the recording of $45,584 in transfers that were for accounting purposes officially associated with the 1st installment of the distribution, and delays until July $100,000 in transfers that were associated with the 1st and 2nd installments.

operations on the tightening money market, Woodbury's annual report to the Senate on December 20, 1836 specified the individual orders by date, sending and receiving bank, and the date on which each transfer became effective or would be completed in early 1837. Table 1 summarizes the gross amount of Treasury orders completed in each month from July, 1836 through July, 1837. The left panel shows the supplemental transfers while the right panel provides similar figures for the official distribution. The supplemental transfers were more than 35 percent larger than the official ones and involved nearly five times as many interstate orders. Further, the supplemental orders that were carried out between

June, 1836 and April, 1837 were more than double those ordered by the Treasury in the course of normal payment operations from June, 1835 to April, 1836. And though the details of the previous year's orders are not available, the 1836-37 transfers, by virtue of the provisions of the Deposit Act, would surely have involved more interstate movements. The $7 million in interstate supplemental transfers that were completed in the first quarter of 1837 were especially disruptive, and came just as the $18 million ($2.5 million interstate) involved in the first and second installments of the official distribution also came due.

Timberlake (1960) does not mention the supplemental transfers. Temin (1969) suggests that they were perhaps even routine. Nonetheless, both acknowledge that a large proportion of the interstate transfers and nearly all interregional transfers associated with the official distribution of the surplus would have involved specie. To the extent that this is true, the interstate transfers associated with the supplemental operations would also have been drawn largely in specie. Since Temin (1969, p. 71) reports the total specie in the United States at only about $73 million at the end of 1836, specie movements such as those suggested by the interstate transfers in Table 1 would have represented a significant portion of the nation's stock. Given the direct evidence of specie movements offered in the remaining sections, it becomes evident that ignoring the supplemental operations omits a sizeable shock from any analysis of the U.S. economy in the months leading up to the panic.

B. Interregional Transfers and Specie Reserves

Granted that the supplemental transfers were large, it is appropriate to ask next if they diverted specie to the Western states. An analysis of the individual Treasury orders, however, shows that they primarily directed funds from North to South and from West to East. Nevertheless, when viewed beside the balance sheet items of the deposit banks at a regional level, the timing and size of both the supplemental and official net transfers shed light on the paths through which specie moved about the

TABLE 2
Selected Balance Sheet Items of the Deposit Banks and Interregional Transfers Ordered by the U.S. Treasury, August 1836 - August 1837

	No. Banks	Specie	Loans	Government Deposits	Circulation	Supplemental Transfers	Distribution of Surplus
New York City							
Aug 1, 1836	14	$5877.3	$38150.8	$14457.1	$5138.3	$-1932.0	0
Sep 1, 1836	14	7191.9	37089.3	13756.2	4849.1	-1843.5	0
Oct 1, 1836	14	5142.4	36633.7	12549.2	5825.1	-1845.0	0
Nov 1, 1836	14	3804.3	34563.8	11279.5	4590.8	-430.0	0
Dec 1, 1836	14	3810.5	34637.0	11705.0	7121.5	-1455.0	-496.9
Mar 1, 1837	14	2780.5	32537.3	9153.7	5008.7	-770.0	-577.9
May 1, 1837	14	1473.1	29659.9	4909.8	3745.5	0	0
Jul 1, 1837	14	1768.4	26307.1	3870.1	3665.1	0	-1098.2
Illinois, Indiana, Ohio, Michigan							
Aug 1, 1836	10	$2468.9	$12955.3	$10374.5	$5957.9	$-350.0	$0
Sep 1, 1836	11	2394.7	13689.0	10079.4	5805.7	-760.0	0
Oct 1, 1836	13	2078.0	13864.5	9460.4	5635.5	-950.0	0
Nov 1, 1836	15	2780.6	14418.7	9085.9	5772.9	-930.0	0
Dec 1, 1836	14	2953.2	14224.6	9142.5	5833.4	-2910.0	0
Mar 1, 1837	14	3392.2	15876.1	7026.3	7015.4	-400.0	-37.5
May 1, 1837	14	3418.4	9770.4	5747.1	6767.6	-100.0	0
Jul 1, 1837	13	2980.9	9616.8	4523.0	5681.7	0	-150.0
Alabama, Kentucky, Louisiana, Mississippi, Tennessee							
Aug 1, 1836	9	$2177.4	$44870.9	$8649.5	$12120.8	$380.0	$0
Sep 1, 1836	13	2559.2	48971.8	9171.1	13055.2	757.5	0
Oct 1, 1836	14	3018.3	54089.1	9674.7	13920.1	515.0	0
Nov 1, 1836	14	2983.0	54871.8	10183.7	13509.1	100.0	0
Dec 1, 1836	14	3328.2	55237.4	10681.0	13676.6	150.0	0
Mar 1, 1837	14	3498.2	56572.0	10685.8	15483.5	150.0	0
May 1, 1837	14	2934.6	27419.6	8613.9	12957.2	200.0	0
Jul 1, 1837	14	2373.4	32470.7	7170.9	10490.4	0	0
Georgia, N. Carolina, S. Carolina, Virginia							
Aug 1, 1836	5	$1955.1	$17546.1	$2031.9	$8392.4	$800.0	$0
Sep 1, 1836	5	2045.1	17360.3	2230.1	8751.7	1000.5	0
Oct 1, 1836	7	2982.1	19615.6	2731.2	10489.4	1350.0	0
Nov 1, 1836	7	2957.5	23068.1	3882.9	10636.8	0	0
Dec 1, 1836	8	2971.5	24736.2	3681.4	11312.6	1610.0	0
Mar 1, 1837	8	3006.2	26089.0	2910.0	11645.2	550.0	0
May 1, 1837	9	2730.0	16532.6	1679.6	9022.4	0	0
Jul 1, 1837	9	2320.7	16372.3	1810.9	7287.1	0	0

TABLE 2
Selected Balance Sheet Items of the Deposit Banks and Interregional Transfers Ordered by the U.S. Treasury, August 1836 - August 1837

	No. Banks	Specie	Loans	Government Deposits	Circulation	Supplemental Transfers	Distribution of Surplus
Delaware, Maryland, New Jersey, Pennsylvania							
Aug 1, 1836	8	$1136.5	$16656.4	$4001.2	$2660.1	$352.0	$0
Sep 1, 1836	8	1329.7	17226.0	4467.9	2509.0	246.0	0
Oct 1, 1836	9	1324.6	17370.0	4853.9	2801.2	55.0	0
Nov 1, 1836	10	1114.1	18156.7	5138.6	2894.4	-515.0	0
Dec 1, 1836	10	1264.5	18146.7	4760.4	2761.3	1860.0	-84.9
Mar 1, 1837	10	1322.0	18559.4	4757.3	2630.6	1200.0	-84.9
May 1, 1837	10	776.5	14454.4	3241.3	2272.2	700.0	0
Jul 1, 1837	9	680.6	13559.4	1720.9	1951.7	0	-192.4
New England							
Aug 1, 1836	10	$716.5	$7168.2	$2741.9	$1150.0	$380.0	$0
Sep 1, 1836	17	823.1	10075.5	3183.6	1714.4	757.5	0
Oct 1, 1836	24	919.6	12977.1	4063.6	2469.7	515.0	0
Nov 1, 1836	24	953.8	13419.0	4671.0	2462.9	100.0	0
Dec 1, 1836	24	884.6	13282.0	4519.8	2149.7	150.0	0
Mar 1, 1837	25	988.3	13203.6	3863.2	2043.3	150.0	0
May 1, 1837	25	817.5	9498.2	2204.8	2211.4	200.0	0
Jul 1, 1837	24	604.0	8665.3	783.4	1754.3	0	0

Sources: Balance sheet items on or around the 1st of March, May, and July of 1837, and details of the distribution of the surplus from *House Executive Document No. 30*, 25th Congress, 1st Session (September 26, 1837, pp. 101-45). Items on or around the 1st of August through December of 1836 from *Senate Document No. 21*, 24th Congress, 2d Session (December 26, 1836, pp. 2-27. Supplemental transfers from *Senate Document No. 29*, 24th Congress, 2d Session (December 20, 1836, pp. 8-20).

Notes: Amounts are in thousands of dollars. "Interregional" transfers are defined as those made from within one of the geographic groupings outlined above to a state outside of the group.

country and on the strains that these transfers caused, especially in the Spring of 1837.

Table 2, which presents previously unorganized information from various congressional documents (see note to table), partitions the deposit banks into five groups covering New York City, the Western states (Ohio, Indiana, Illinois and Michigan), the Southwestern states (Alabama, Kentucky, Louisiana, Mississippi, and Tennessee), the Southeastern states (Georgia, North Carolina, South Carolina and Virginia), the mid-Atlantic States (Delaware, Maryland, New Jersey and Pennsylvania), and the six New England states. The upper panel shows the large interregional transfers made by the deposit banks of New York City, which lost 37 percent ($5.3 million) of their government deposits between August 1, 1836 and March 1, 1837 in the course of completing more than $8 million in such Treasury-ordered transfers. A loss of 61 percent ($4.4 million) of their specie coincided with the transfers, yet loans fell by only 14.7 percent ($5.6 million). The New York City banks lost a good deal of specie and did not contract their loans commensurately.

The West was the only other region that was consistently called upon for large interstate transfers. The second panel of Table 2 shows that the deposit banks in Ohio, Indiana, Illinois and Michigan transferred more than $5.8 million out of the Western region between August 1 and March 1, yet their government deposits fell by only $3.3 million. In fact, the specie reserves of the Western deposit banks rose by nearly 63 percent (more than $1.3 million) between October 1 and March 1.[13] It would thus appear that there was an important source of both specie and government deposits emanating from the region whose pace exceeded that of the government's attempts at redirection. One sensible explanation would attribute these deposits to a rapid rise in the purchase of public lands with specie. I address this possibility with evidence in Section IV below.

The Southwestern states were net recipients of the supplemental transfers in the Fall of 1836, but these balances were drawn down by later Treasury orders, many of which had been delayed by Woodbury from January 1, 1837 until later in the Spring to ease the growing monetary pressure in New Orleans. Interestingly, loans of the Southwestern banks also rose by 15.5 percent ($7.6 million) between September 1 and March 1, only to precipitously fall by 51.5 percent ($29.2 million) over the next two months. The Southwestern banks contracted loans sharply as their government deposits

---

[13] Changes in specie and loans in this region are examined from October, 1836 through March, 1837 due to an increase in the number of deposit banks that occurred earlier in the Fall.

dwindled and panic conditions intensified.

The remaining panels of Table 2 indicate that the Southeastern, mid-Atlantic and New England states were consistently net recipients of the interregional transfers. Though many of these transfers were likely to have been made in specie, only the Southeast saw its specie totals grow significantly between September 1 and March 1. Loans by the Southeastern deposit banks also rose by 51 percent ($8.7 million).

Table 3 presents more precise transfer data on a monthly basis between July of 1836 and June of 1837 for those states whose government balances were drawn upon most heavily. These states included New York and those where deposits from public land sales were the largest, namely Michigan, Ohio, Mississippi, and Louisiana.[14] The table shows that the majority of New York's transfers in the Fall were directed to the Southeast, and by January 1 more than $4.6 million had been sent there. There is direct evidence that at least some of the transfers completed in the Fall were drawn in specie.[15] The table also provides details of the Treasury's attempts to return funds from the Western banks to points of financial stress, and particularly to Eastern cities. Michigan sent nearly $0.9 million to Pennsylvania alone between October 1, 1836 and May 1, 1837, and $0.7 million each to New York and the New England states in the Fall of 1836. Ohio was called upon to replenish the Eastern and Southwestern money centers, with transfers of $0.7 million to Philadelphia and $0.8 million each to

[14] Most of the proceeds from the large public land sales in Missouri and Illinois eventually found their way to Ohio banks.

[15] For example, The *New York Herald* reported on October 14, 1836 that "in aggravation of this state of things (in the money market) the government is drawing on the banks for specie, in favor of the south and west. The Manhattan Bank was called upon for $150,000 on Tuesday." The bank which made this particular draw is not clear from the transfer records, but over $0.4 million came due from the Manhattan Bank to banks in Georgia, North Carolina, South Carolina and Virginia in this week alone. The *Herald* reported on September 29 that "it is surmised that heavy demands for specie have come upon the city from the west and south. It is also said that some cool feelings, and reciprocal too, exist between the Secretary of the Treasury and certain large deposit banks on Wall Street."

TABLE 3
Interstate Transfer Orders Drawn on Deposit Banks of Selected States, July 1836 - July 1837

	Supplemental Transfers												Official Installments			
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	1st	2nd	3rd	Totals
From New York to																
New England	55	380	453	51			150						173	248		1510
Delaware	30	140											46	46	37	299
Pennsylvania							100									1000
New Jersey	44	222	206	50			50						130	110	90	902
Washington, DC	200	400	150	340	230	100		25	170	50						1665
Georgia			200	300			350		200						150	1200
North Carolina		100	400	100			50		200	50			163	163	163	1389
South Carolina		300	200	100			280								100	980
Virginia		400	100	850			900	100	100					175	200	2825
Mississippi				200												200
Tennessee														50		0
U.S. Mint		200			200											50
NY Totals	299	2002	1849	2455	430	100	1880	125	670	100	0	0	512	792	740	11520
From Michigan to																
New York				400		270										670
New England			460	150	100											710
Pennsylvania				100	200	200	80	80	100	100						860
Washington, DC	20															20
Ohio				100	100	60	70	50								380
MI Totals	20	0	460	750	400	530	150	130	100	100	0	0	0	0	0	2640
From Ohio to																
Pennsylvania		100				500	100								150	850
Arkansas													17	16		33
Kentucky		100	100				190	390								780
Louisiana				200	400	200										800
Tennessee							300				100			38		438
Illinois													80	80		160
OH Totals	0	200	100	200	400	700	590	390	0	0	100	0	97	135	150	3061

TABLE 3
Interstate Transfer Orders Drawn on Deposit Banks of Selected States, July 1836 - July 1837

	Supplemental Transfers												Official Installments			
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	1st	2nd	3rd	Totals
From Mississippi to																
New York							100									100
Delaware									100	100						200
New Jersey									100	100						200
Arkansas															187	187
Tennessee					100	100	150	400					125			875
MS Totals	0	0	0	0	100	100	250	400	200	200	0	0	125	0	187	1562
From Louisiana to																
New York				100		100	200									400
Massachusetts									150			200				350
Maryland								300	100	150	150	200				900
Pennsylvania						100	100	300	200	150	150	200				1200
Arkansas															34[a]	34
LA Totals	0	0	0	100	0	200	300	600	450	300	300	600	0	0	34	2884

Sources: Supplemental transfers from *Senate Document No. 29*, 24th Congress, 2d Session (December 20, 1836, pp. 8-20); details on individual installments of the distribution of the surplus from *House Executive Document No. 30*, 25th Congress, 1st Session (September 26, 1837, pp. 72-81, 101-145).

Notes: Amounts are in thousands of dollars. The table shows the destination of all interstate transfers ordered for banks in New York, Michigan, Ohio, Mississippi, and Louisiana.
a - this payment was recorded by the Treasury as a blending of the first and second installments for accounting purposes, but was not ordered until June 7, which would chronologically place it with the third installment.

banks in New Orleans and Louisville. The Mississippi banks had transferred $0.75 million to Nashville by February, and $0.4 million to the mid-Atlantic states. Specie continued to accumulate in the Western banks (see Table 2) despite the Treasury's efforts to remove it.

This evidence suggests a geographical pattern in the transfer orders that exploited the existing transportation network to facilitate the movement of specie. The New York banks made transfers to cities along the coastal waterway because this route was convenient for shipping bulkier silver coins. The Cincinnati banks sent silver downstream along the Ohio and Mississippi rivers to states in the mid-South and New Orleans, and shipped a more limited amount by river, rail and canal to the nearest tidewater near Philadelphia. Mississippi and Louisiana were called upon for limited and more risky upstream transfers to the neighboring states of Tennessee and Arkansas, but most of their transfers involved the coastal route to points in the Northeast. Michigan presented a unique problem as gold from the Northeast began to accumulate. The Secretary's orders recognized the relative isolation of this state from points South, and thus called upon Michigan to replenish the specie of the Northeastern states via the Erie Canal.

The transfers from New York to the Southern coastal states and from Ohio to the Southern interior were in preparation for the upcoming distribution, as the Southern states held government deposits that were far smaller than those for which they would become entitled. It is likely that these transfers supported the rapid expansion of banking capital in the Southeast and public land purchases in Alabama and Mississippi. Transfers from Michigan and Indiana moved excess government revenues to convenient money centers where they would be later required (i.e., New England) or redirected yet again (i.e., New York and Pennsylvania). If Woodbury had expected these interstate transfers to involve primarily bookkeeping or paper transactions among the deposit banks, adherence to paths of most convenient transport for a heavy and valuable item would have been less critical, and it is less likely that such a clear geographic pattern would have emerged.

Under pressure from legislators, Woodbury included a table in his report to the Senate on December 20, 1836 that summarized the extent of the supplemental operations. It was misleading, and perhaps deliberately so. The table indicates that New York and Michigan were the only states to suffer net losses of government deposits in excess of $250,000 between June 20 and December 19, 1836, and that these losses were only $570,000 and $430,000 respectively. Temin (1969, pp. 135-136), using these figures, reasons that the hardship must have been small since they represented only 5% of New York's government deposits in June. The net changes in government deposits, however, ignore the $22 million in new revenues that had accumulated between these dates, mostly in New York and the Western states. Seen in this light, the failure of government balances to fall more sharply in New York in the second half of 1836 is much less striking. Further, moving the first snapshot date from June 20 to August 1, which is closer to when the first supplemental transfers became effective, shows government deposits in New York falling by $2.75 million, or nearly 19 percent, by December 1 as the pet banks sustained a net loss of more than $6 million in interstate transfers (see Table 3). The supplemental operations alone account for an additional $1.4 million in interstate transfers for New York between December 1 and March 1, 1837, while government deposits fell by an additional $2.7 million. These losses are not reflected in the Treasury's table. The drain of funds from New York was larger and would come to be much larger than the amounts that Woodbury chose to convey in December.

Similarly, Michigan suffered a net loss of $1.7 million in government deposits between August and December. This is significant not because Michigan banks were forced to contract discounts, but because their specie reserves continued to rise despite the $1.4 million in funds that were transferred to the East (see Table 3), most likely in specie. Rather than illustrate Michigan's insignificant role in the crisis, these figures further support the belief that specie accumulated rapidly there as public land sales maintained a brisk pace.

The main difficulty in assigning a key role to the Specie Circular in bringing on the panic had always been a lack of convincing evidence that large amounts of specie actually left the Eastern money centers to points in the South and West. The above evidence suggests that specie did indeed leave New York, while the transfer orders suggest that at least some of it moved South. The accumulation of specie in Michigan and Indiana and the limitations imposed by the simple transportation network also point to New York as the source of the Western increases.[16] This story of internal specie movement is reinforced by the fact that net international specie movements for the U.S. were small between the Summer of 1836 and mid-Spring of 1837.[17] The total specie holdings of the nation's deposit banks were also relatively steady over this period, rising from $14.6 million on August 1 to only $15.3 million on March 1. Since neither the quantity of specie in the nation nor the amount held in the deposit banks changed dramatically, the clear decline in New York and increases in the West and South suggest that specie did indeed move actively about the country.

IV. More Evidence of a Westward Specie Drain

This section analyzes the timing, size, composition, and destination of individual deposits made in the pet banks by each federal receiver who operated in the West and Southwest from the date of the Specie Circular's enactment through September of 1837. Woodbury prepared these records to comply

---

[16] Scheiber (1963, p. 206), in an examination of some of the surviving correspondence between directors of Western banks and Secretary Woodbury, finds that the Bank of Michigan removed $0.5 million in specie from New York in October, 1836 to meet the demand generated by land sales. The Commercial Bank at Cincinnati is also known to have brought $0.3 million in specie from the coast between June and October.

[17] The fiscal year ending in September of 1837 saw a net import of about $4.5 million in specie (*Senate Document No. 17*, 25th Congress, 2d Session, September 19, 1837), much of which arrived in the form of Mexican silver (Temin, 1968, p. 268). Further, a large portion of this inflow occurred after the suspensions.

with a September 30, 1837 resolution by the House of Representatives, whose members hoped to analyze the causes of the May panic. The report (*House Executive Document No. 18*, 25th Congress, 2d Session, December 11, 1837) provides a breakdown of deposits into gold, silver, bank note, and "unspecified" components. The report also includes a summary table with the total amount and composition of receipts by state as compiled by the Commissioner of the General Land Office. The records show unequivocally that the Specie Circular created a new and sizeable demand for specie in the West and Southwest almost immediately after its enactment on August 15, 1836 and that demand intensified as exceptions for "actual settlers" expired in December.

Table 4 summarizes the breakdown of deposits, usually on a bimonthly basis. This relatively low frequency is necessary because many receivers placed proceeds in the deposit banks only sporadically, with an individual receiver making on average about one deposit every seven weeks between August 1, 1836 and May 15, 1837. These delays, as well as occasional defalcations by land officers (see Rohrbough 1968, esp. Ch. 13), produce an excessively lumpy month-to-month view of land office activity.

August 1836 appears separately because public land sales and deposits were large in this month, perhaps in anticipation of the enforcement of the Specie Circular. The data also offer the only available insights about what the composition of funds used to purchase public lands might have been prior to the Circular's enactment. Among those August deposits for which the composition was specified (nearly 60 percent nationally), only 6 percent were in specie, and gold deposits were a mere 2 percent of the specie total. Since some deposits were made after August 15 and should have involved purchases for which specie was required, it is reasonable to presume that specie was seldom if ever used in public land purchases prior to the Circular's enforcement. The rising use of specie that appears in the records for September and October suggests that circumvention of the specie requirement may

TABLE 4
Deposits by Land Office Receivers, August 1836 - May 1837

	Aug 1836				Sep-Oct 1836				Nov-Dec 1836			
	Deposits ($)	Specified (%)	Specie (%)	Gold (%)	Deposits ($)	Specified (%)	Specie (%)	Gold (%)	Deposits ($)	Specified (%)	Specie (%)	Gold (%)
Indiana	$712.3	36.0	16.3	2.6	$488.8	100.0	39.7	10.5	$637.7	41.4	48.3	13.9
Michigan	753.3	73.4	0.5	0	384.8	94.8	56.0	40.7	588.0	100.0	51.0	28.8
Ohio	504.4	75.4	10.3	1.7	1150.5	72.2	38.3	5.0	849.7	92.1	41.5	12.4
Alabama	51.7	55.1	0	0	455.8	95.5	7.3	0.6	439.0	100.0	8.6	2.3
Louisiana	184.0	78.4	0	0	94.9	71.0	42.3	25.6	112.5	68.0	69.9	31.5
Mississippi	142.3	30.8	2.5	0	183.9	72.0	23.0	3.0	146.5	100.0	32.7	2.7
Kentucky	0	...	...	...	35.3	56.3	76.3	0	140.1	84.4	51.6	1.3
Tennessee	36.4	0	...	...	47.9	100.0	2.7	0	0	...	...	...
Total U.S.	2384.3	59.1	6.0	2.0	2841.9	84.0	34.5	15.5	2913.7	82.9	39.4	17.3
	Jan-Feb 1837				Mar-Apr 1837				May 1837			
Indiana	$309.0	73.8	92.3	9.5	$343.6	80.8	100.0	19.4	166.0	100.0	100.0	23.0
Michigan	658.7	100.0	84.8	31.3	293.5	100.0	100.0	27.7	271.3	85.3	100.0	37.4
Ohio	413.7	80.6	53.6	17.6	741.2	97.4	95.6	7.1	186.3	99.3	100.0	5.2
Alabama	282.1	73.3	71.2	1.5	129.9	88.3	65.1	2.1	68.6	100.0	100.0	2.3
Louisiana	83.7	34.8	63.7	8.0	271.5	91.4	94.7	40.5	11.9	0	...	...
Mississippi	257.5	77.5	68.1	1.0	121.4	55.0	100.0	2.3	8.1	100.0	100.0	0
Kentucky	0	...	...	...	146.2	53.4	100.0	2.8	21.6	100.0	92.0	4.1
Tennessee	0	...	...	...	24.7	100.0	100.0	5.0	0	...	...	...
Total U.S.	2004.6	82.6	75.5	18.5	2072.0	88.1	95.3	16.4	733.7	92.8	99.7	20.2

Source: Monthly returns from *House Executive Document No. 18*, 25th Congress, 2d Session (December 11, 1837, pp. 11-31).

Notes: The column labeled "Deposits" contains the dollar amount (in thousands) that was placed for the U.S. Treasury in the deposit banks of the state listed in the left column. The column labeled "Specified" includes the percentage of the deposited amount for which the type of money (gold, silver, or bank paper) was recorded. Among the specified deposits, the percentage made in specie is given in the third column, and among the specie deposits, the percentage made in gold is presented in the fourth column. Deposits fell sharply after May of 1837, with only $47,851 for the entire nation in June, $106,866 in July, $18,418 in August.

have been more difficult than earlier accounts have assumed, especially in the Northwest. Since the more sparsely populated Michigan probably had fewer land purchases by "actual settlers" and state residents than the Southern states, its percentage of specified deposits in specie rose most dramatically to more than 55 percent. Silver was the metal of choice for public land purchases in the nation as a whole, but gold was used for a large proportion of purchases in Michigan. This is consistent with a drain of gold from the East, since the canal, lake and overland transport involved in moving specie to Michigan was costly, and gold was a less costly medium than silver. Further, the monthly data (not shown in Table 4) indicate that deposits by Michigan's receivers, who were generally the most frequent depositors, fell from $0.75 million in August to $0.09 million in September and then rose to $0.29 million in October. This pattern of deposits is not apparent in other states, and is consistent with a role for the specie requirement in slowing sales of Michigan lands in September until arrangements could be made to transport specie from the East.

There are three alternatives to this interpretation. The first would require Michigan residents to have hoarded the gold which appeared for land purchases in the Fall, the second would require the Michigan banks to have had large sums of gold in their vaults prior to the enactment of the Circular, and the third would have required gold to reach Michigan from sources other than the Eastern cities. Since state residents did not need to use specie to purchase land until December 15, it is unlikely that the gold used in October had been hoarded by individuals. As the specie reserves of all state chartered banks in Michigan rose from a mere $137,510 in 1835 to $554,292 in 1836 (Van Fenstermaker, 1965, Table B-15, p. 209), it is also unlikely that the gold used for land purchases came from reserves that had been pent up in the banks. As stated earlier, the transport of silver (of possibly Mexican origin) or gold upstream from Louisiana, where specie was also accumulating, along the Mississippi and Ohio Rivers and then overland to points in Michigan was much more costly than the lake route and certainly would not have been attempted with any frequency. Given the alternatives, it is thus likely that the gold (and silver) used for land purchases in Michigan came from New York, the center of the international trade for which gold was the standard medium for settlements.

By March of 1837, nearly all specified deposits by public receivers were reportedly made in specie. Perhaps surprisingly, land sales, though never again reaching the levels of August 1836, also remained very strong. The Specie Circular could only reduce but not eliminate the demand for public lands. Rather, land speculation was so intense that it created an extraordinary and somewhat unexpected demand for specie in the West and Southwest. In fact, at least \$7.3 million in specie was used in U.S. land purchases between July of 1836 and September of 1837, with \$1.8 million used in Indiana, \$1.4 million in Michigan, and \$1.1 million in Illinois (*House Executive Document No. 18*, 25th Congress, 2d Session, p. 8). These figures do not consider those deposits of "unspecified" composition, which totaled \$1.9 million in Mississippi and smaller but considerable levels elsewhere. Using the data in Table 4 and the assumption that unspecified deposits had the same composition for each state as the specified ones, I estimate the amount of public land purchases in specie to be closer to \$8.4 million between July of 1836 and May of 1837.

Any turnover of specie in land purchases would have reduced the need for infusions from the East. Given the frequency with which receivers made deposits, if specie turned over four times between August 1, 1836 and May 15, 1837, about \$2.1 million would still have been required. There are several factors, however, which suggest that the velocity of specie for land purchases was considerably lower. First, the demand for specie rose through time, with about \$1 million needed for September and October but closer to \$2 million needed for March and April. This rising demand should have generated steady calls on the Eastern banks. In addition, much of the \$2.6 million which Michigan alone returned to the East would have been drawn in specie. Since Michigan transferred these funds primarily to Pennsylvania and New England, especially after October of 1836 (see Table 3), the accelerating pace of land purchases would have required even larger transfers of specie from New York in the Winter and early Spring, contributing further to the monetary strain in that city.

Viewed from this perspective, the Specie Circular was hardly an innocuous measure.

V. Domestic Triggers of the Panic

Barely evading financial collapse in November of 1836, the U.S. economy entered 1837 with optimistic sentiments among policymakers and business interests alike that the marketing of the 1836-37 cotton crop, which had proceeded as expected for the first half of the selling season, would provide the foreign credits needed to ease the monetary pressure. Nevertheless, when the next set of supplemental interstate transfers, many of which had been delayed from November and December, came due in January along with the first installment of the official distribution, the pressure immediately resumed. New York met its largest interstate orders in January -- $2.3 million in total (see Table 3) -- most of which were again directed to the Southeast, and then braced to make the additional $1.7 million in interstate transfers ordered for February, March, and April.

The Treasury also appears to have abandoned its interest in retrieving specie from the West in early 1837. It instead called upon banks in Louisiana and Mississippi to restore primarily mid-Atlantic balances. For example, the New Orleans banks sent $1.65 million to the Northeast between January and April, while the Natchez banks sent $0.5 million to the Northeast and an additional $0.55 million to Nashville. Timberlake (1978, p. 59) downplays the role of interstate transfers in the pressure that came to bear upon Natchez in the Spring, citing a successful attempt by the Agricultural Bank to divert a specie call by the State of Tennessee (part of the second installment) to banks in Kentucky, Ohio and New York. But supplemental transfers from the Agricultural Bank to the Tennessee deposit banks in January and February had already created pressure, and given the specie call in April and the

Treasury's unusual forbearance, it is likely that the earlier calls had also been for specie.

Both Louisiana and Mississippi were states in which land purchases remained active through early 1837. Indeed, accounts abound which suggest that the profitability of the cotton trade had driven purchases of both public and private lands to unprecedented levels,[18] which continued to divert specie from commercial channels.[19] It also appears that specie was accumulating in the land offices of Arkansas, where receivers delayed deposits in the Southwestern pet banks for an average of three months between October, 1836 and May, 1837. On April 1, for example, about $130,000 was "locked up" there.[20]

As pressure mounted in the South, the New York newspapers offered increasing attention in February and March to the city's loss of specie. On February 6, Philadelphia called upon New York for

---

[18] The February 23 edition of the New Orleans *Daily Picayune* states that "The New Yorkers know something, it seems, about the rage for speculation which is going on in this city and thereabouts in town lots, &c. &c. The Transcript of the above city says that 'The sale of lots in the projected town marshes and malaria, near New Orleans, came off on the 17th inst. and resulted in producing from $100 to $200 per lot, of 50 feet front. There are speculations going on in the marshy lands of contemplated towns in the same neighborhood, which may, or may not be ultimately settled. The *maps* are said to be as beautiful as alternate light and shade can make them, but the lands represented are as ugly as swamps, water, and vermin can make them. Anything however to keep the speculation going on.'"

[19] The cashier of the Agricultural Bank aptly describes the situation in Natchez in an April 5 letter to Woodbury which states that "the demand (for specie) during the last two or three months so far exceeds all experience as to induce the banks to part with it very reluctantly upon any terms. Nearly every dollar received for produce is immediately demanded in coin; bank balances for collections made of our merchants have to be paid in specie, and the demand for it, for purchase of lands, still continues to a burdensome extent. This has made it inexpedient for the banks to make new discounts (*House Executive Document 30* , 25th Congress, 2d Session, September 26, 1837, p. 58)." It is interesting that this letter, written only a month before the suspensions, contains no mention of cotton prices.

[20] I compiled this figure from deposit records in *House Executive Document No. 18.*, 25th Congress, 2d Session (December 11, 1837, pp. 30-31). The cashier of the Agricultural Bank of Natchez wrote to Woodbury on April 26 that "the Treasurer of Arkansas informs me that large amounts of specie are now at the several land offices of that state, and if the receivers were directed to deposit the above amount, $100,000, with him, it would be a convenience to all parties. This bank would be greatly accommodated by such an arrangement" (*House Executive Document No. 30*, p. 60).

$500,000 in specie, which was attributed to the Treasury operations of January.[21] A sharp expansion of bank capital in the Southeast over the Winter also suggests that many of the January calls on New York from this region (see Table 3) were for specie.[22] Both the data and contemporary accounts agree that the specie reserves of the New York City banks had fallen to crisis levels.[23]

It was widely believed that repeal of the Specie Circular would return much of the diverted coin to the East, and by the end of February both Houses of Congress had passed a measure that would make the notes of specie-paying banks again acceptable for public land purchases.[24] President Jackson

---

[21] On February 20, the *New York Herald* reported that "another cause (of the monetary disturbances) is unquestionably the distribution of the surplus revenue. The states generally are demanding their shares in specie, probably in order to build up their own banking systems. Today it is expected that several drafts will be presented to our banks, from the south, for specie. By the documents of the Treasury department, it is known that there were several outstanding drafts of New Orleans on Philadelphia, which may have caused part of the recent call of Philadelphia on New York."

[22] The March 3 edition of the *Herald* reports that "the recent pressure in the market–the agitation in the exchanges– and specie operations and curtailments of the banks, have been partly occasioned by the recent movements of the southern and western states, in relation to an augmentation of bank capital. During the expiring winter the southern and southwestern states have added to their bank capital probably *forty* millions of dollars: South Carolina 12 millions; Mississippi 15 millions; Missouri 5 millions; Georgia and the others the balance of 8 millions. To put this bank capital into action, specie is required. In South Carolina and Georgia the first operations began.

Accordingly, to set these banks in operation in the South, drafts for specie are made on New York. Since the 1st of January, it is supposed that $500,000 in specie has gone south from this city, and probably as much from Philadelphia. A general and combined movement has been made in the south to carry the specie there."

[23] On March 4, the *New York Herald* reported that "our stock of specie now on hand is extremely low– probably not over $2,500,000 for the whole city. We anticipate much agitation in exchange and specie operations in a few weeks. Virginia, in addition to the other states, has just determined to increase her banking capital by $5,000,000. This also will require specie."

[24] The *Herald* reported on February 2 that "as soon as the Circular is withdrawn, and the public land system settled in some way, immense quantities of money will come along the lakes and down the canals to New York. Specie is not wanted there (i.e., in the Western states). This emporium is the great point for specie to circulate around." Even William M. Gouge, who was Jackson's most eloquent advocate of hard money, wrote to Van Buren on March 18, 1837 that "a repeal of the circular would relieve the pressure at particular points, particularly at New York and New Orleans, but this relief would be effected by drawing specie from the Western states" (*Martin Van Buren Papers,* Series I: January-March 1837).

refused to act on the legislation during his final days in office, however, finally writing on March 3 that the Attorney General had found the language with respect to the use of bank notes so diffuse as to become "a subject of much perplexity and doubt" (*Niles' Weekly Register*, March 11, 1837, p. 26).

The next day, attention turned to the new President, whose earlier positions offered hope that he might reverse some of the more controversial monetary policies of his predecessor.[25] Van Buren's expected signing of the repeal may have even delayed the panic despite reports that Western land sales were slowing and rumors that the resale values of both public and private lands had begun to fall. To many observers, a repeal meant yet another expansion of circulation among interior banks, a resumption of active speculation in the public lands, and the maintenance of high land values.[26] By mid-March, however, it became clear that Van Buren was hesitant to sign and land values began to fall.[27] No repeal of the Specie Circular meant that the monetary pressure in New York City would not

---

[25] For example, it was believed that Van Buren had been originally opposed to the removal of the government deposits from the Second Bank of the United States in 1833. Further, a few weeks after the Specie Circular was issued, then candidate Van Buren wrote a position statement to Rep. Sherrod Williams on land and banking policy that was printed in the August 8, 1836 edition of the *Albany Argus*. It stated that "the accumulation of large tracts in few hands should be discountenanced, and liberal facilities afforded to the acquisition of small portions by such of our citizens, wherever residing, as are in good faith desirous of possessing them as homes for themselves and families. The particular measures by which these results are to be secured is a matter of detail to be settled by *Congress*, in the exercise of a sound discretion, aided by the lights of experience and having reference to the general interests of the country (*Martin Van Buren Papers* Series I, June-December 1836).

[26] Gouge's March 18 letter to Van Buren states that a repeal would "greatly increase the sale of the public lands" and "vitiate the currency by adding to the amount of notes in circulation." He later asserts that "the desire of the eastern speculators to raise prices by increasing the currency so that they may sell the lands they have already entered at a profit is as strong as that of the western speculators" (*Martin Van Buren Papers* Series I, January-March 1837).

[27] For example, the *New York Herald* reported on March 14 that "the continued delay of the action of the government in relation to the Treasury Circular is another cause of the heaviness of the markets. The speculations in public lands, which that order was calculated to cut up, have been entirely suspended.–Even the holders of these lands begin to find that they have more on hand than they know what to do with. Government lands in speculator's hands are now selling at nearly the original price, $1.50 to $2.00. Lands in Illinois and Indiana that were cracked up to $10 an acre last year, are now to be got at $3, and even less. The reaction has begun, and nothing can stop it."

soon be relieved by a flow of specie to the East.[28]

Van Buren's inaction marks the start of the tailspin that ended in the general suspension of specie payments. The banking and merchant communities, as well as the press, continued to call for repeal, and a group of New York merchants even traveled to Washington in late April in an ineffective attempt to "ruminate" with the President. Of course, it was already too late. The "shaving" of country bank notes by speculators in New York became increasingly common and lowered public confidence in paper currency. The city's merchants would not accept bills issued by Southern and Western banks as the demand generated by land purchases limited the specie on hand to send as remittances. Internal balances were not paid, and merchants, farmers, and bankers alike all called upon each other for specie in settling debts.[29]

In the midst of the decline in land values and a shortage of specie in the money centers, news of a fall in the British price for U.S. cotton appeared in the New Orleans newspapers on March 22. This confirmed earlier rumors of reductions in foreign demand.[30] The 17 percent drop in price which ensued between then and the end of April, or from 13.8 cents to 11.5 cents per pound (Gray 1933, p.

---

[28] Van Buren appears to have decided against a repeal after formally asking his cabinet for advice on March 24 (*Martin Van Buren Papers* Series I, January-March 1837).

[29] An anonymous letter that appeared in the *Albany Argus* summarizes the situation in New York: "Not a little feeling has been evinced in regard to the 'specie circular.' A strong memorial was sent some days since, asking for a repeal or modification of the order to allow southern and western banks to recommence their commercial facilities. As yet no reply has been received. A change in that system, even to a moderate extent, would help us here amazingly.–It would *go very far towards restoring confidence in domestic collections*, and would, consequently, enable the merchants to effect negotiations of their exchange paper" (*Niles' Weekly Register*, April 8, 1837, p. 82).

[30] *Chapman's Commercial Price Current* of February 25 reports cotton prices as "tending upward" at 11 3/4 to 13 1/4 cents per pound for middling Liverpool grade. It also reports that "business, especially for the last two or three days, has been animated, and transactions extensive, and sales have transpired to the amount of about 20,000 bales in the past week." By March 4, the price had advanced at 13 ½ to 14 per pound. On March 8, however, *Chapman's* reports that "transactions have been rather limited in consequence of a slight decline in demand for foreign markets and the current unfavorable weather." It is not until March 22 that *Chapman's* first reports a fall of ½ to 1 ½ cents per pound. Declines of twice this magnitude were reported at this time in Tennessee and Alabama.

1027), appears to have been a result of overproduction in the U.S. and heightened competition in the British market from India, whose cotton exports underwent a rapid expansion at precisely this time.[31] Southern merchants and bankers (as well as their Northeastern correspondents) had grown accustomed to making time bargains on cotton crops, often purchasing as much as two seasons ahead, and the fall in price raised doubts about the ability of cotton factors to meet their current obligations.

The stoppage of payments by one New Orleans cotton factor in particular, Herman, Briggs, and Co., generated considerable excitement in early March. Since the house of J. L. & S. Joseph of New York was under acceptances from Herman-Briggs for several millions, the pressure was transmitted to that city as well. It turns out, however, that the suspension of the Josephs on March 21, more than six weeks before the bank runs and general suspension, was due as much to the declining value of their other assets, which included Eastern real estate and large share holdings in the Lafayette Bank, as to cotton prices.[32]

Though the fall in the price of cotton contributed to the existing financial strain in the Spring of 1837, it was not the fundamental cause of the May panic. Most telling is that the decline came at the end of the annual selling cycle, lowering the total value of real cotton exports in 1836-37 by only $8

[31] The 1836-37 U.S. cotton crop of 1.128 million bales (Gray 1933, p. 1026) had been the largest to date. *Niles' Weekly Register*, however, reported on April 1, 1837 that "the same inducement which has operated in stimulating the production of cotton in America has been actively at work in other countries, and an increase may be expected in every country in which cotton is grown. In the East Indies especially, we know that the increase in production has been great. This must have a very marked effect on the demand for American cotton, and will add greatly to the excess of supply over demand." A report on British cotton trade for 1834-36 which appears in the January 3, 1837 edition of *The London Times* indicates that imports of East Indian cotton had risen from 88,000 bales in 1834 to 118,000 bales in 1835, and 219,000 bales in 1836. These figures respectively represent 9.6 percent, 10.8 percent, and 18.3 percent of British cotton imports in these years. Imports of U.S. cotton remained steady at about 750,000 bales in all three calendar years.

[32] *Niles' Weekly Register*, March 25, 1837, and *New York Herald*, March 22-23, 1837.

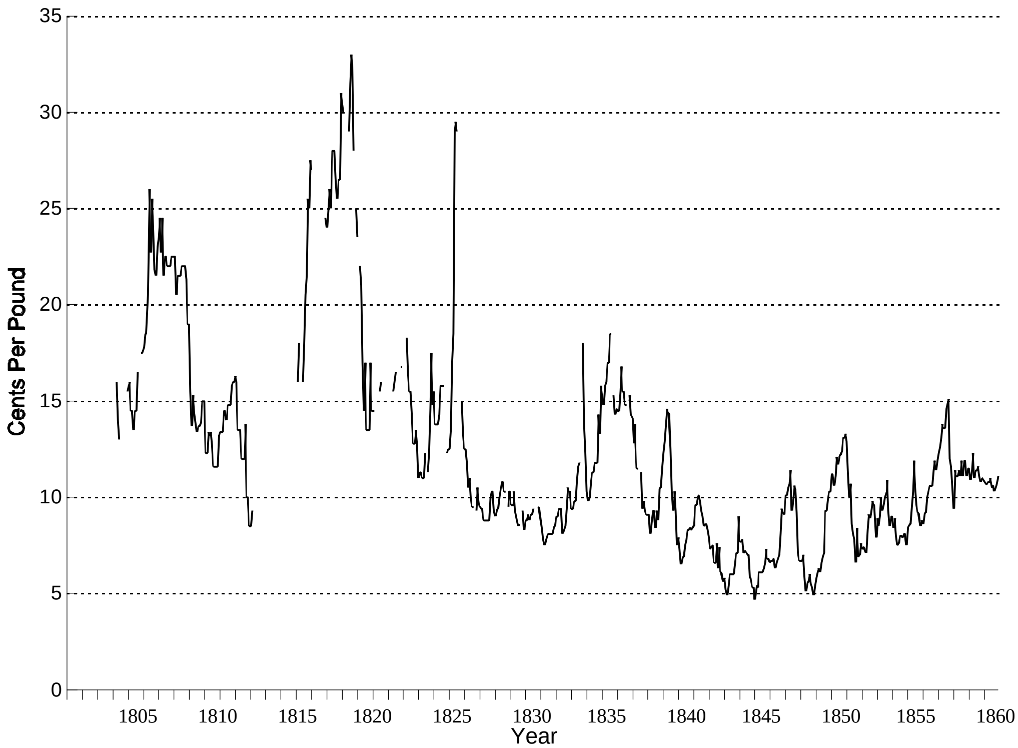

Fig. 4.– Monthly prices of short staple cotton at New Orleans, 1803-1860. Source: Gray (1933, p. 1027).

million from the $71 million that had been received from an 1835-36 crop of roughly the same size.[33] It is possible that the fall in price changed expectations of the future profitability of the cotton trade, but the historical course of cotton prices in the antebellum United States (Figure 4) indicates that declines of this magnitude were hardly uncommon. Although it is not possible to separate completely the fall in the value of Southern lands from the condition of the cotton market, speculators in the public lands usually did not intend to cultivate in the near future, and contemporary observers had little reason to believe that the decline in cotton was anything other than temporary. Unless Southwestern farmers and speculators maintained implausibly high time discounts, the fall in price of cotton could not have

[33] The nominal comparison is reasonable since consumer prices rose by only 2.7 percent (David and Solar, 1977, p. 16) between 1836 and 1837, while wholesale prices rose by only 0.8 percent (Warren and Pearson, 1932, pp. 8-9).

caused the suspensions.

The domestic tensions in the U.S. economy raised concern in England that the American propensity to import would combine with the decline in cotton prices to leave the value of U.S. exports insufficient for settling foreign balances. News of the drain of specie to the West also raised suspicions in England that the U.S. merchants might be hard-pressed to settle their accounts in specie and lowered confidence in the quality of American bills of exchange. When the prospect of a specie call became clear in early April, several New York City bankers, with specie reserves in the deposit banks of that city already less than $2 million, traveled to Philadelphia to confer with Nicholas Biddle, President of the by then state-chartered Pennsylvania Second Bank of the United States. Biddle's bank had removed more than $1 million in specie from the New York banks in March (*New York Herald*, April 1, 1837), yet the delegation knew that Biddle was one of few U.S. bankers in whom the British had confidence.

Niles' Weekly Register, in a preliminary report of the meeting which appeared in the April 1 edition, indicated that Biddle's solution would involve the export of $2 million in specie -- $1 million each from the Second Bank and the New York City banks. This was clearly implausible given the level of reserves in New York. In fact, the next issue of *Niles' Weekly Register* (April 8), which details the plan more precisely, does not even mention a specie export from New York. In the end, even the specie export from Biddle's bank was abandoned in favor of issuing paper payable in London with a face value of $5 million. The *New York Herald*, in documenting the road to agreement on a daily basis, never mentions a specie shipment from New York. Nevertheless, Temin (1969, p. 133) interprets the ability of New York banks to contemplate such a shipment as key evidence that they were not short of specie. The evidence in Table 2, however, shows clearly that the New York banks *could not* seriously plan a $1 million dollar shipment of specie to England in April. Rather, Biddle's threat placed the New York banks in a position to support his bond proposal more readily.

On May 4, 1836, suspension of specie payments by the Natchez banks, which had been considered inevitable for weeks, became a reality. Contemporary accounts imply that the drain of specie for land purchases in Mississippi had prompted the banks to suspend payments in order to preserve their dwindling but still adequate specie reserves.[34] The Agricultural Bank, which was the first to suspend, began the next day to issue two and three dollar notes -- the first of this kind issued by any bank in that state (*New York Herald*, May 13, 1837).

The turning point in the crisis, however, occurred in New York. On the morning of May 4, 1836, and amidst rumors of mismanagement at the Mechanics' Bank, the death of the bank's president by cardiac arrest triggered a well-publicized run by note holders and smaller depositors (i.e., those with the least information and sophistication). Though the Mechanics' Bank was able to meet all requests in specie, the run represented a ominous loss of public confidence in banks generally. Runs on the Dry Dock Bank on May 8 and 9 reduced its specie reserves to a mere $15,000. In total, more than $600,000 in specie was removed from the city's banks on May 8, and an additional $700,000 on May 9 (Martin, 1871, p. 30). Since Table 2 shows the city's pet banks with only $1.5 million in specie on May 1, Martin's figures indicate that the system could not withstand another day of runs. Most of the city's banks suspended on the evening of May 9, and the remainder on the morning of May 10.

The New Orleans banks suspended specie payments on the morning of May 13 after a Friday night meeting of the city's bank directors. News of the New York suspensions had not yet reached

---

[34] In reference to the suspension of the Agricultural Bank of Natchez, the *New Orleans Picayune* reports on May 13 that "the bankers say that the best interests not only of themselves, but the community, absolutely require suspension, notwithstanding that they have perhaps half of their circulation in their vaults. Surmises are afloat that they have resorted to this measure in anticipation of heavy drafts shortly expected from the land offices in the pine woods in the back part of the state. Some say that many of the securities of this bank consist in lands in the vicinity which have risen within the last few years to an unreal value. This land has now fallen by 50 percent and the bank, by the failure of many of its debtors, who have mortgaged this property to the institution, is a principal sufferer."

New Orleans, but news of the May 4 run on the Mechanics' bank had arrived on May 12 and probably prompted the evening meeting.[35] The nature of the Mechanics' run, which symbolized the transmission of the panic to the working classes, was all the motivation that the wavering New Orleans bankers needed to take action.

VI. International Aspects of the Panic

Disturbances from across the Atlantic in April of 1837 aggravated the monetary pressure in the Eastern cities and hastened the coming of the panic. Most serious was a renewed series of commercial bill rejections in England, though on this occasion the Bank of England took decisive action to support many houses involved in the American trade. News of the intervention, which reached New York in the first days of May, eased some of the tension in that city by making merchants and bankers more confident that specie exports would not become immediately necessary.[36] By this time, however, the increasingly apparent effects of domestic monetary policies had already sown the seeds of panic among the working classes, and a crises could no longer be averted. International events thus played a contributing but secondary role in the panic.

Interestingly, another view of the panic emphasizes two increases in the Bank of England's

---

[35] It generally took seven days for the express mail from New York to reach New Orleans in the Spring of 1837, arriving by steamship around noon of each day (the May 10, 1837 edition of the *New Orleans Daily Picayune*, among others, contains the mail arrangement). The May 13 edition of the *Picayune*, which was a morning paper, discussed the Mechanics' run based upon an article in the May 5 edition of the *New York Herald*. This implies that news of the run had reached New Orleans around noon on May 12. The *Picayune* had already reported the death of the Mechanics' president, which had occurred early on the morning of the 4th, in its May 12 issue, so it is even possible that the earliest news of the May 4 run had reached New Orleans the day before.

[36] For example, the May 6, 1837 edition of *Niles' Weekly Register*, in recounting the events of the previous week, reports that "on the all absorbing question of the money market and the great houses connected with the American trade, the news is favorable and decisive.– There is no longer any doubt we think that those houses will be sustained at all events. It also appears that the credit opened by the Bank of England to the United States Bank would not require, as has been said and repeated here, any present or immediate export of specie from this side."

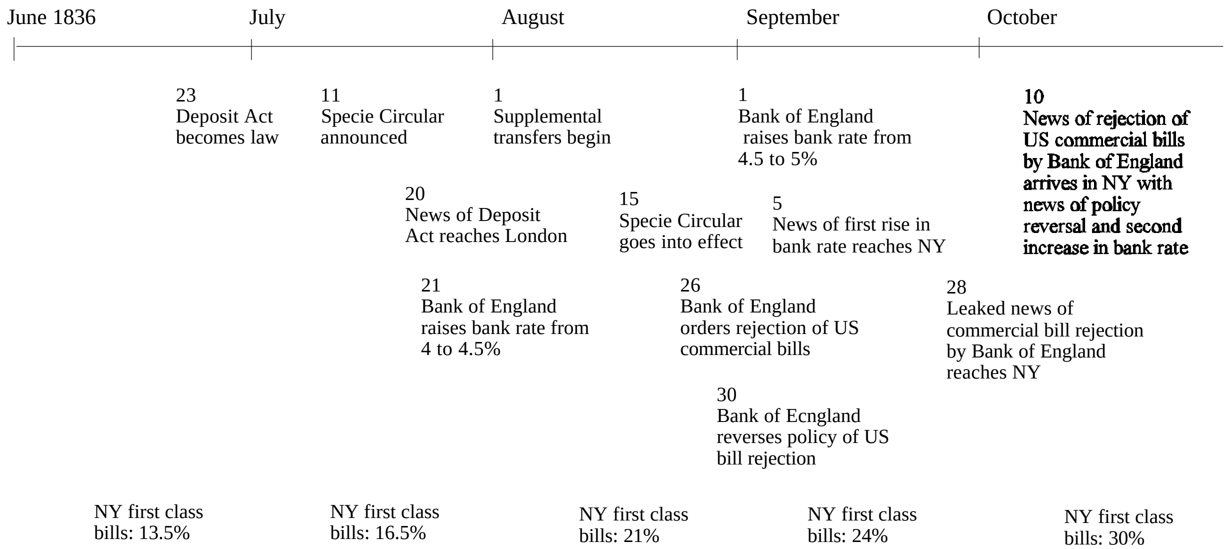

Fig. 5.– Events surrounding the monetary pressure in 1836.

discount rate in the Summer of 1836 and the accompanying restrictions imposed upon merchant houses involved in the Anglo-American trade in late August as responsible for the rising monetary pressure in the United States. Specifically, Temin (1969, p. 146) states that "the crisis lasted as long as it did because the price of cotton reacted only with a lag to the restrictions on credit imposed by the Bank of England. In this section, I examine available evidence that is relevant to this hypothesis. Figure 5 presents a timeline of the key events.

Contemporary accounts suggest that the Bank's first increase in its rate of commercial discount in fifteen years from 4 to 4 ½ % on July 21, 1836 was expected (the Bank had raised the rate on temporary loans from 3 ½ to 4% only a few months earlier) and raised little concern in the British money market.[37] Merchant bankers even came to accept the higher rate, often exceeding their credit

[37] By July 25, the *London Times* was able to report that "The effects on the money market of the advance of the rate of interest are beginning partially to wear off. This arises from an understanding which has been allowed to get abroad today, that the private bankers of discount will be enabled to do business at a lower rate than that fixed by the Bank, so as to keep the general value of money nearly at

limits with the Bank in mid- to late August in anticipation of yet another increase.[38] Reactions in the American press to this increase in the Bank rate or to a second advance to 5 percent for all accommodations on September 1 are scarce. *Niles' Weekly Register* does not mention either increase. The *New York Herald* reports on September 6 -- one day after the packet ship with information of the first increase entered port -- that "the advance created some pressure across the water that may reach this country through the exchanges."[39] It does not mention this change again. More importantly, the timing (see Figure 5) suggests that actions by the Bank of England could not have caused the monetary pressure that had existed in New York for months.

On August 26, 1836, the Bank of England ordered a rejection of bills submitted for discount by several first-rate Anglo-American mercantile houses at both its London office and Liverpool branches. Hidy (1949) views these rejections as part of a heightened offensive against the U.S. trade. The historical record, however, describes a brief incident with limited long-term impact. Indeed, the Bank had imposed such restrictions once before in late 1834 with no effect on the course of trade or the condition of the U.S. money market. Further, criticism of the policy in the *London Times* by merchant bankers and the financial community was universal and intense. When it became known to directors of the Bank of Liverpool that a campaign had been launched by the Bank, they sent a deputation to meet

---

the same point as before the notice was issued, while the object of the Bank would be in some part answered, in preventing any increase of their issues through the medium of discounts."

[38] "The belief inclines on the whole that no great time will elapse before the rate will be raised to 5 per cent for all loans, regardless of their description, made by the Bank. In fact, it is said that the leading discount brokers, if a little more time is allowed them to prepare for the change, will not object to this course, but will lend their assistance to the maintenance of that as the current rate. The applications at the Bank for discount are said to have been considerable this week past, and some houses of the first order of credit have met with refusals, not from any suspicion of their credit, but for having exceeded the limits assigned to them (*London Times*, August 26, 1836).

[39] A list of departure and arrival dates for all packet ships on the London line between Portsmouth and New York for the year ending in October, 1836 appears in the January 7, 1837 edition of the *London Times*.

with the Bank's directors in London on August 30 and ask how a reversal of the specie flow could possibly be accomplished by discouraging exports and the American houses engaged in their arrangement.[40] Apparently recognizing their blunder and under increasing pressure in the press, the Bank directors agreed to reverse their policy,[41] but the indignation of merchant bankers persisted.[42] A meeting between the directors and representatives of the American houses on October 18 had a calming influence on the money market.[43]

---

[40] "The fact is, that they (the deputation) had received an impression that the Bank Directors intended to place under an absolute stigma, as to credit, seven of the most eminent houses in London, no possible motive for which could at the same time present itself to their minds. It arose in this way: – The Bank Directors, on the day when they created such general consternation in the commercial world by throwing out the bills of the houses in question, naturally reflected that they had branches in Liverpool and in Manchester, where the same bills might be presented, and if they were, that they would certainly be discounted. Letters were, therefore, dispatched to the managers of those branches, with instructions not to discount any bills on which the names of any of those firms appeared which they had already placed under an interdict in London. How the secret oozed out it is difficult to say." (*London Times*, September 5, 1836).

[41] "With regard to the Liverpool and Manchester bills, founded on the export trade to the United States, which were so recklessly thrown out last week, to the astonishment of the whole trading interest, who knew the perfect solidity of them, a sort of compromise appears to have been come to. After a full discussion (with the Bank Directors) of all the points at issue, they (the members of the deputation) were given to understand that no obstacle would be thrown in the way of discounting American bills arising out of fair business transactions, though a wish was expressed on the part of the Bank to check such foreign stock transactions as would have a tendency to drain the country of specie. Between these and the legitimate transactions of commerce the Bank Directors, if they understood their business, should always be able to distinguish; and such a declaration was therefore quite superfluous" (*London Times*, September 2, 1836).

[42] "The remark is fairly made that the public does not know all that the Bank Directors know, which is very true; but still the feeling will and must prevail, that the currency of the country is a great deal too much under the control of a particular set of individuals. Out of this feeling grows the impression, that sooner or later some power must be brought forward, or will by circumstances be forced forward, capable of rendering the commercial community less dependent on the Bank of England than it now is." (*London Times*, September 10, 1836)

[43] "A more liberal policy has been adopted there, with respect to discounts...The policy will soon have its proper influence on the manufacturing interests, and by encouraging exportation soon turn the balance of trade in our favour, which is the surest of all expedients for bringing in a supply of bullion" (*London Times*, November 4, 1836).

The rejections of commercial bills of the American houses in August of 1836 may have generated brief uncertainty in the U.S. money market in early October, but only because a director of the Bank secretly warned one of the affected houses (Wiggins & Co.) of the intended policy in early August -- three weeks in advance of the rejections. The leak finally reached the United States and appeared in the *New York Herald* on September 28. It took until October 10 for a packet ship with news of the actual rejections and the subsequent policy reversal to arrive. News of the second increase in the Bank rate arrived at the same time. Interestingly, little concern was raised in New York by the events.[44] Indeed, the rise in the Bank rate was dismissed as a signal of England's own excesses in stock and land speculations. The lack of concern is understandable. The troubles of the U.S. money market in late 1836 were due to distortions of *domestic* origin, and *not* actions by the directors of the Bank of England that had commenced in the Summer.

VII. Conclusion

The Panic of 1837 was the culmination of a series of policy shifts and unanticipated disturbances that shook the young U.S. economy at the core of its financial structure -- the banks of New York City. Over the nine months leading up to the crisis, the specie reserves of these banks came under increasing strain as they reacted to legislation designed to achieve a "political" distribution of the surplus balances among the states and an executive order allegedly aimed at ending speculation in the public lands. With much of the nation's specie diverted from its commercial center, the prospect of

[44] The reaction in the *New York Express* is a notable exception in that on it reported on October 11 that "the advices by the arrivals from England will have a most important bearing upon the money market in this country, and upon our internal improvements. The Bank of England, it seems, is making war upon the American merchants." The *New York Herald* disagrees, reporting that "the *Express* has a long ridiculous story about a new war declared by England. All nonsense. If the capitalists of England find a higher interest for their money here, not all the banks in existence can prevent them from sending it out. . . The great progress of this country calls for more capital, and of course creates a demand – but in England speculation is equally rife in banks – in Railroads – in everything – hence the restrictive measures of the Bank of England."

shifts in specie demand both domestically and from abroad combined with a break in land prices to render the panic inevitable.

This description reaffirms one important aspect of the traditional view, namely that the Specie Circular was pivotal. Had the Circular not been enacted, the original set of transfers ordered by the Treasury, both official and supplemental, could have been executed as planned. And though this account argues that the orders were far more disruptive than earlier explanations of the panic have presumed, the New York banks had time to prepare for them. It was the Specie Circular that exacerbated the drain of specie from New York to fuel the continued sales of public lands, and even forced a frantic attempt by the Treasury to alter the orders to redirect specie from West to East late in the Fall of 1836. When the noose tightened around the New York money market just as the huge transfers scheduled for early 1837 came due, the only remedy that remained was repeal of the Specie Circular. President Van Buren's refusal to reverse his predecessor's policy upon inauguration in March of 1837, despite the passage of legislation by both Houses of Congress, effectively sealed the nation's fate. International factors added pressure to an already volatile situation by late April and early May, but any demands for specie from abroad would have been absorbed by a New York money market that had not been subjected to such a severe internal drain.

The Jackson presidency was among the most influential in U.S. history. Many beliefs about the optimal size and scope of government and banking that hold sway in popular culture to this day have their roots in the Jacksonian era. Perhaps, however, the hero of the Battle of New Orleans inadvertently taught the nation another important lesson early in its history that economists and policymakers alike have come to recognize and accept -- that when faced with a limited set of monetary instruments for achieving specific objectives, the possibility of unexpectedly severe general equilibrium effects from any given choice makes some degree of flexibility critical in averting the types of crises that can arrest economic growth.

References

Atack, Jeremy, and Rousseau, Peter L., "Business Activity and the Boston Stock Market, 1835-1869." *Explorations in Economic History* 36 (April 1999): 144-179.

Berry, Thomas Senior, "Production and Population Since 1789: Revised GNP Series in Constant Dollars." Bostwick Paper No. 6. Richmond, VA: The Bostwick Press, 1988.

Bourne, Edward G. *The History of the Surplus Revenue of 1837*. New York: The Knickerbocker Press, 1885.

David, Paul A., and Solar, Peter. "A Bicentenary Contribution to the History of the Cost of Living in America." *Research in Economic History* 2 (1977): 1-80.

Evans, George Heberton Jr., *Business Incorporations in the United States, 1800-1943*. New York: National Bureau of Economic Research, 1948.

Fenstermaker, J. Van. *The Development of American Commercial Banking, 1782-1837*. Kent, OH: Kent State University Bureau of Economic and Business Research, 1965.

Friedman, Milton, and Schwartz, Anna J. *Monetary Trends in the United States and the United Kingdom*. Chicago: University of Chicago Press, 1982.

Gray, Lewis C. *History of Agriculture in the Southern United States to 1860*. Clifton, NJ: Augustus M. Kelley Publishers, 1933.

Hammond, Bray. *Banks and Politics in America: From the Revolution to the Civil War*. Princeton, NJ: Princeton University Press, 1957.

Hidy, Ralph W. *The House of Baring in American Trade and Finance: English Merchant Bankers at Work, 1763-1861*. Cambridge, MA: Harvard University Press, 1949.

Kendrick, John. *Productivity Trends in the United States*. Princeton, NJ: Princeton University Press, 1961.

Library of Congress, Manuscript Division. *Martin Van Buren Papers*. Washington, DC: Library of Congress, 1960.

Martin, Joseph G. *Seventy-Three Years History of the Boston Stock Market*. Boston: published by the author, 1871.

McGrane, Reginald C. *The Panic of 1837: Some Financial Problems of the Jacksonian Era*. Chicago: University of Chicago Press, 1924.

North, Douglass C., *The Economic Growth of the United States, 1790-1860*. Englewood Cliffs, NJ: Prentice Hall, 1961.

Rohrbough, Malcolm J. *The Land Office Business: The Settlement and Administration of American Public Land, 1789-1837*. Cambridge: Oxford University Press, 1968.

Scheiber, Harry N., “The Pet Banks in Jacksonian Politics and Finance, 1833-1841.” *Journal of Economic History* 23 (June 1963): 196-214.

Smith, Walter B. *Economic Aspects of the Second Bank of the United States*. Cambridge, MA: Harvard University Press, 1953.

Smith, Walter B., and Cole, Arthur H. *Fluctuations in American Business, 1790-1860*. Cambridge, MA: Harvard University Press, 1935.

Studenski, Paul, and Krooss, Herman E. *Financial History of the United States*. New York: McGraw Hill, 1952.

Temin, Peter. “The Economic Consequences of the Bank War.” *Journal of Political Economy* 76 (March - April 1968): 257-274.

Temin, Peter. *The Jacksonian Economy*. New York: W. W. Norton and Company, 1969.

Timberlake, Richard H., Jr. *The Origins of Central Banking in the United States*. Cambridge, MA: Harvard University Press, 1978.

Timberlake, Richard H., Jr. “The Specie Circular and the Distribution of the Surplus.” *Journal of Political Economy* 68 (April 1960): 109-117.

Warren, G. F., and Pearson, F. A. *Wholesale Prices for 213 Years, 1720-1932*. Ithica, NY: Cornell University Press, 1932.

The Albany Argus, various issues.

Chapman’s Commercial Price Current, various issues.

The London Times, various issues.

The New Orleans Daily Picayune, various issues.

The New York Express, various issues.

The New York Herald, various issues.

Niles’ Weekly Register, various issues.