INTRODUCTION

The Many Panics of 1837

On the morning of May 2, 1837, Théodore Nicolet, Swiss consul, founder of New Orleans's first Francophone Evangelical Church, and international financier, woke up in his mahogany bed.[1] He was probably alone. He was a bachelor in his mid-forties who owned two slaves in their twenties, a cook named Nancy and a servant named Billy.

We can guess that while Nancy prepared his breakfast, Billy helped him perform his morning ablutions. Nicolet washed his face in the bowl of his mahogany washstand and dried it on his towel that hung on his mahogany towel stand. He picked out his clothes from his mahogany armoire and sat on his mahogany sofa or his mahogany armchair. Perhaps he stole a glance at himself in one of his bedroom's two mahogany-framed looking glasses. He got dressed in a crisp linen shirt, a wool suit, and a flannel waistcoat. He picked out one of his more than forty pocket-handkerchiefs and tied a cravat or perhaps a silk foulard around his neck. He put on his shoes and, after his morning meal eaten at his mahogany table, he walked out of his home on Bourbon Street and to his counting house on Royal Street.[2]

And there he worked through the day and the night of May 2. At some point, he sat on a mahogany armchair and scribbled a note in pencil to an old friend. He left it on his mahogany bureau for his clerk. In the early morning of May 3, still dressed from the day before, he walked to a friend's property below the city limits. Shortly after noon, as a French letter recounted, Nicolet "*s'est brulé la cervelle*," or as a newspaper reported later that day, "he committed suicide by blowing his brains out with a pistol."[3]

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Why did Théodore Nicolet kill himself? Or perhaps more to the point, what caused his death? The newspapers would editorialize on the morality of Nicolet's actions. Their columns and the letters of New Orleanians reporting on the death of this leading merchant banker all blamed the same cause: "*le dérangement des affaires commerciales*."[4] His mind may not have been stable, but neither were the times. They were deranged, crazy, a whirlwind, an earthquake, a tempest. Nicolet was one among many casualties of one of America's first worst financial crises.

This all seems to make sense. It sounds like a familiar story: wealthy financier takes his life when the ravages of a financial crisis take his fortune. But the story has a problem: the timing is off. The Panic of 1837, according to many history books, started on May 10, 1837. Why would the panicked merchant kill himself before the crisis began? To solve this question, I traveled to more than a dozen manuscript archives on two continents, piecing together the path of information that spread panic in 1837. I discovered that Nicolet killed himself during what I call the panic in 1837: the period between approximately March 4, 1837, and approximately May 10, 1837, when people experienced acute financial uncertainty and, yes, panicked. Historians had gotten the chronology wrong. I thought I had solved the mystery.

Then something happened. As I began writing this book, investment banks crumbled and the financial system wobbled on its subprime foundation. I faced a historical conundrum. How could I write a history book about a similar but not identical moment nearly two centuries earlier without imposing the interpretive frameworks of my own time on my subjects? How could I avoid turning the panic in 1837 into the panic of 2007?

I realized there was a second problem with my story of the mahogany lover's suicide: I did not really know why Nicolet killed himself. I had assumed that I knew what it meant to panic in 1837, but what if people thought about the economy differently? After all, they had no unemployment benefits; no national bankruptcy laws; and most importantly no conceptualization of the business cycle, capitalism, or "the economy."[5] To avoid anachronism, I would have to figure out the economic frameworks of my subjects. To do so, I stopped reading the morning's newspaper and started reading the newspapers of 1837. I read novels, phrenology textbooks, political economy treatises, domestic economy manuals, songs, plays, sermons, and even jokes. I read more than two thousand sources printed in 1837 to try to imagine how troubling financial information might have been interpreted in that particular context.

These sources suggested that I had not solved the real mystery of 1837: why did historians get the chronology wrong? The print sources taught me that during the panic in 1837, people experienced not only uncertainty about their solvency (financial uncertainty) but also uncertainty about the causes of failure (economic uncertainty). By May, people calmed their troubled minds by blaming the crisis on systems larger than any individual. Ironically, these new ideas caused the actual period of panic to be forgotten. The change in economic thinking caused historians and economists to tell stories of a panic-less Panic of 1837.

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We can hear this powerful economic uncertainty in the language used to describe events in the spring of 1837. "In one word, excitement, anxiety, terror, panic, pervades all classes and ranks," a correspondent from New Orleans wrote to a New York newspaper in April 1837 in an article that would be reprinted in papers throughout the United States.[6] With these four words, the author attempted to describe for distant readers his experience of a financial crisis. Such efforts at communication enabled the long-distance exchange of goods in a time before telegraphs, telephones, text messages, or tweets. Economic survival depended on the successful interpretation of such information; thus, writing the right word mattered. Despite his best intentions, this author could not choose just "one word" to explain the financial uncertainty caused by enormous business failures and contracting credit markets. He was not alone.

The substitution of four words for one reflected a broader trend during the panic in 1837. Between the first failures in March and the suspension of payment in specie (gold and silver coin) by banks throughout the United States in mid-May, American authors suffered from linguistic imprecision. No single term had come to define the event unfolding before their eyes. In fact, no single event could yet be identified as occurring within New Orleans or the other hardest hit cities, New York and London, let alone across the municipal, state, and national boundaries that separated these interrelated markets.[7] As the list of failures lengthened, Americans who had prided themselves on their self-made success began to doubt their faith in individual economic agency. This economic uncertainty mingled with financial uncertainty until the banks suspended specie payments. At nearly the same moment, American writers of newspaper columns, letters, novels, songs, poems, and diary entries began to describe a single event defined by a single term: panic.

The meaning of the word "panic" had been evolving for a decade. In 1828, Noah Webster defined panic as "A sudden fright; particularly, a sudden fright without real cause, or terror inspired by a trifling cause or misapprehension of danger."[8] Webster's definition emphasized sudden and causeless fear. But the word had also developed an additional meaning. As President Andrew Jackson and the Second Bank of the United States (BUS) waged war during the 1830s, Americans expanded the definition of panic to refer to a financial crisis with an illegitimate, politically inspired cause. In 1833, this new meaning gained prominence when the twenty-third session of Congress met on the heels of a financial crisis and became known as "The Panic Session."[9] Panic remained sudden but was no longer generally causeless. If panic had political causes, it implied individual innocence. By turning to the term panic in May 1837, rather than revulsion, crash, or the times, American authors blamed their troubles on collective forces beyond the control of all but political elites. Whigs and Democrats blamed their opponents within the political system.

While Americans turned to the word panic, a different word described events across the Atlantic. To British writers, events in the spring of 1837 were a "crisis." According to Webster's 1828 dictionary, this word signaled a "decisive state of things, or the point of time when an affair is arrived to its highth, and must soon terminate or suffer a material change."[10] Armed with a more generic term, British writers blamed a different system: the financial system.[11] In May 1837, writers on both sides of the Atlantic reduced their "excitement, anxiety, [and] terror" to single terms that implied systemic causes.[12]

The language choices made by people during the panic in 1837 mattered. The single terms employed by both American and British writers suggested single events; these linguistic choices undermined the plurality of personal and local experiences in the spring of 1837. Moreover, the two different terms suggested two different events with two different causes: a panic caused by the political system in America and a crisis caused by the financial system in Britain. These two explanations have influenced both historical accounts of 1837 and economic theories about financial crises.

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We can see the results of the linguistic choices made during the panic in 1837 by turning to two American history textbooks that appeared a few years before I began studying the panic. Published in 1999, the brief fifth edition of *A People and A Nation* explained the panic by writing, "Van

Buren took office just weeks before the American credit system collapsed. In response to the impact of the Specie Circular, New York banks stopped redeeming paper currency with gold in mid-1837 Hard times persisted until 1843." By mentioning President Van Buren and the "Specie Circular," an economic policy instituted by Van Buren's predecessor, these sentences suggest a political cause. They also provide a chronology of the panic, which began "just weeks" after President Van Buren took office in "mid-1837" and ended years later in 1843. The textbook confirms the chronology of the panic on the next page where, in a list of sources of Anglo-American tension, the authors reference "the default of state governments," which occurred beginning in 1839, as happening "during the Panic of 1837."[13] So from this textbook, we learn that the Panic of 1837 started in New York City, was caused by national politics, and spanned roughly seven years from mid-1837 until 1843.

The second textbook provides an entirely different account of the Panic of 1837. According to the first edition of *The American Journey*, which was published in 1998, the panic began "in late 1836" in London when "the Bank of England tightened its credit policies." This textbook reports, "The shock waves hit New Orleans in March 1837 and spread to the major New York banks by May." It divides the events between 1836 and 1843 into two "round[s] of credit contraction" and "a depression."[14] So according to this textbook, we learn that the Panic of 1837 reached New York City after London and New Orleans, was produced by international financial causes, and lasted from late 1836 through mid-1837.

How could the same event be the product of two different causes, start in two different places, and vary in length by six years? Furthermore, where is the experience of panic in either of these accounts? To answer these questions, we need to think about the sources employed by these textbook authors.[15]

The first explanation was derived from the work of political historians who saw the Panic of 1837 as a national event caused by federal policy that resulted in a turning point in the contest between Democrats and Whigs. Historians relied on politicized sources emphasizing events that happened long after people stopped describing themselves and their neighbors as panicked. As a result, many history books replaced the actual experience of panic with a longer and later Panic of 1837, one that began with the suspension of specie payments in May and ended sometime in the 1840s.[16] The redefined Panic of 1837 became a tool for presentist agendas. To *laissez-faire* advocates, proponents of regulation, central bank supporters, and monetarists, the story of partisanship and policy making was more useful than the history of people actually panicking.

The second textbook explanation was the product of economic historians who saw America's Panic of 1837 as part of an international crisis based not on politics but on global monetary flows. These accounts were based on both banking records from 1837 and later economic theories that had, in part, been inspired by events occurring during 1837. British pamphlets published early in 1837 contributed to a slowly growing interest in cycles of crises among writers of political economy treatises. Later, economists would claim these texts as the first theories of the business cycle. Eventually, business cycle theorists promoted their work as providing policy makers with the ability to cure the economy of financial crises. This vision of a panic-free future, at first a motivating force behind economic research, ultimately made the study of crises seem unnecessary. As economists' thinking about panics and crises changed, accounts of the Panic of 1837 lost sight of the panic in 1837.

No student could be expected to provide a standard definition of the event when the textbooks can offer such little consensus. Nevertheless, as this book seeks to illustrate, this lack of consensus may not be the fault of textbook authors, historians, or economists, who trusted their sources. The divergent accounts of the Panic of 1837 were, in great part, the product of cultural constructions that occurred during the panic in 1837. When we peel back the prior generations of scholarship and broaden the source base, the various experiences of panic explain the disagreement between the textbooks' accounts of chronology, geography, and causation. We can find a new consensus by recognizing panic's plurality.

As the following chapters illustrate, panic was more complicated than past explanations have conveyed. Individuals, communities, and even nations experienced different versions of the panic in 1837 colored by cultural, political, and economic contexts. There were many panics in 1837 as individuals channeled their uncertainty into action that spring. With transatlantic news stranded at sea, the business communities of New York, New Orleans, and London faced parallel crises that forced each city to reevaluate its local and national structures of political economy.

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This book makes arguments about the origin, progress, and resolution of these many panics and parallel crises. These arguments challenge our conceptions of the national boundaries of history, the role of information in the economy, the personal and local nature of national and international events, the origins and dissemination of economic ideas, and most importantly what actually happened in 1837. The seven chapters that follow demonstrate how the parallel crises and many panics in 1837 led to the invention of a single, national event that would become known as the Panic of 1837. The epilogue traces the evolution of this event into competing versions of the Panic of 1837 that all lost sight of the experience of panic. But this tale of panic's disappearance is the end and not the beginning of our subject. The process of restoring the panic in 1837 to the history of 1837 begins with a survey of the early to mid-1830s, when transatlantic bank wars raged and individuals constructed a financial system held together through confidence in a prosperous future.

CHAPTER 1

A Very "Gamblous" Affair

Strivers in the 1830s coined a new phrase to describe their boom-time decisions: "to go ahead."[1] Going ahead was no joke; it produced calculable economic change. Economists estimate that the U.S. gross domestic product (GDP) increased by as much as 38 percent between 1820 and 1829 and by approximately 36 percent more between 1830 and 1836.[2] Although these statistics demonstrate remarkable growth between the Panic of 1819 and the Panic of 1837, they hide the real story of economic change: a nearly infinite number of individual choices.[3]

Going ahead required difficult calculations. In "The Dollars," a comic song of the time, thirty-six lines describing bad gambles caused enough chuckles to sustain two long encores. Performers lampooned wives who tried to buy status through expensive imports: "French clocks, French lamps, and French quelque chose / Each day her taste more costly grows / And that's the way the money goes." Dilettantes choosing to risk their fortunes against professional gamblers shared in the ridicule. The song assured, "All lottery tickets turn up blanks / And those who play at pharo banks / At poko, brag, or loo, or bluff / Must all be sure to lose enough."[4] The song's humor depended on the hazy moral line between illegitimate gambles and legitimate investments such as city real estate, bank bonds, and stock shares. Buying slaves and farming the lands of dispossessed indigenous peoples could easily have been added to the song's list of dubious dealings that contributed to the economic prosperity of the times.[5] Slavery and Indian removal, however, provoked serious debate. Religious revivals, which preached that the nation's future depended on the morality of individuals, burned through the United States.[6] The same individualism that motivated Americans to reform what they saw as their sinful behavior encouraged them to go ahead, to make the financial choices that revolutionized their lives one market transaction at a time.

Despite the fast pace of economic growth, America was still a nation of farmers in the 1830s.[7] Warnings about shavers, speculators, gamblers, and monopolists taught readers to distinguish the "keen sharp features, rapid eye, and general attitude of the gamester intent upon his play" from the necessary work of auctioneers, bankers, bookkeepers, brokers, cashiers, clerks, dealers, directors, factors, jobbers, merchants, and tradesmen.[8] As one scholar has noted, in the 1830s, the ambition that drove sons and daughters from the countryside to cities became "more feasible and less threatening."[9] Nevertheless, new dangers lurked inside the brains of the driven. "Over stimulated Acquisitiveness," phrenologists explained, was a "cerebral disease" that proved widespread "particularly in a mercantile country like our own, where every one is pressing hard on the heels of another in the pursuit of gain, where changes of fortune are not less sudden in occurrence than extreme in amount, and where, consequently, those who are remarkable for devotedness to selfish objects, live in a state of continual anxiety."[10]

Anxiety was not an exclusively American emotion. After fifty years of political independence, Americans remained dependent on English credit. To English capitalists, even America's most respected financiers looked like speculators gambling with insufficient resources. Foreign capitalists, especially in England, sought the highest available interest rates, and many invested in the high-yielding bonds, stocks, and other paper promises offered by cash-poor Americans. The decision to invest depended on trust in distant trade partners, what contemporaries called "confidence." Historian John Larson has described confidence as "that mysterious, invisible energy that keeps all financial bodies snug in their proper orbits."[11] Confidence had the power to transform economic backwaters into bustling cities because it generated credit – the ability to use money before earning it. Those who sought credit believed in a bright future. By cultivating confidence through correspondence, would-be debtors convinced their creditors to share this view. Individual Americans were not trying to increase the GDP or make the United States a more powerful nation; they wanted British credit to build their businesses.

National economic development was an illusion. The boom of the 1830s was actually the product of individuals forging local ties to transnational finance for personal profit. The development of cities and their hinterlands depended on bankers and merchants who established personal relationships with other mercantile men in distant places for their own profits. The particular urban geographies of three of the most important cities in the trade of the 1830s – New Orleans, New York, and London – shaped the possibilities of their residents. These communities, however, were divided politically into nations, and, in the 1830s, the national governments of both the United States and Great Britain engaged in sweeping reforms.[12] On both sides of the Atlantic, politicians saw policies of decentralizing and democratizing banking as good for their entrepreneurial constituents who needed credit for farms, factories, trade, and infrastructure, commonly called "internal improvements." Their opponents represented not only the already successful elites who benefited from limited competition and the stability of centralized control but also the financial Luddites who dreamed of eliminating credit entirely.[13] Public figures waged what Americans called a "bank war." This term, however, should be applied to the policy making that reshaped both nations' financial systems. Although the outcomes of these "bank wars" would be different in England and in the United States, the "flush times" of the early 1830s depended on institutions, politics, correspondence, confidence, and the choices of individuals.[14]

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Without indicators such as the GDP, how did individuals weigh the risks of going ahead? Earlier generations of merchants developed intricate thumb scales for literally balancing payments on the road. Gold and silver coins replaced pure barter before the rise of the Roman Republic.[15] By the 1830s, cumbersome and valuable metal coins, the specie that served as official currency in every nation, traveled mostly between bank vaults, if at all. Financiers tried to avoid the risks and costs of transporting precious metals by expanding the use of millennia-old technology: paper and ink.

A merchant, banker, or broker's office was a menagerie of ruled and unruly paper. In a list of the "Vocabulary of Terms used in Book-Keeping," an 1830 self-help book taught future clerks to distinguish between the operation of a day book, ledger, journal, cash-book, invoice-book, sales-book, commission sales-book, account-sales-book, letter-book, account-current book, bill-book, receipt-book, check-book, waste-book, book of expenses, bill of exchange, bill of lading, draft, order, acceptance, advice, protest, debenture, bond, inventory, balance-sheet, and cash.[16] All of this paper allowed the exchange of large sums of money to occur symbolically – through math rather than metal.

To be able to depend on paper, however, people had to travel. In 1830, a New Orleanian *négociant* or merchant named Edmond Jean Forstall left