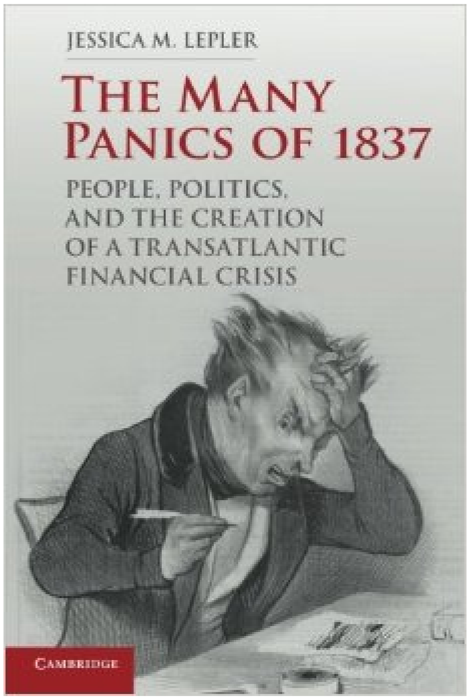
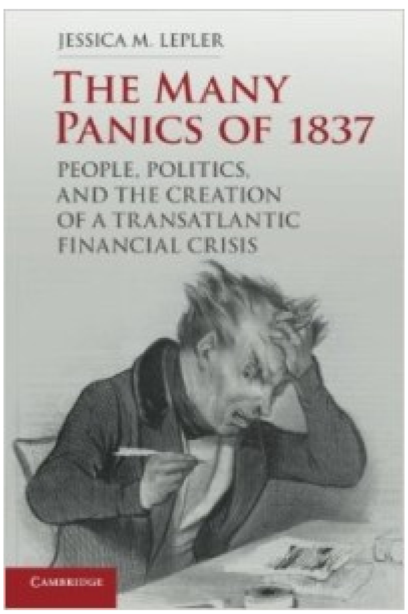
A Panic Worth Unpacking





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A decade ago, the Panic of 1837 lurked only on the margins of popular memory. Aside from either assigning or absolving blame on President Andrew Jackson's Bank War for the economic crisis, the writers of popular history paid little attention. And once safely past their PhD qualification exams, academic historians rarely revisited 1837. Sure, the most ardent students of the American economy used their weathered copy of Peter Temin's The Jacksonian Economy (1969) to cite the silver strikes in Mexico, opium addiction in China, and spendthrift cotton agents in the United States that helped usher in the

Panic of 1837 to cite the episode as one of the first global economic events. But for most, the panic was an “inside baseball” event in U.S. history; who other than specialists in this era should care? After all, a financial downturn followed by a few years of a depressed economy seemed all too typical of a seesaw American capitalism system. As such, 1837 took its dutiful place among other financial panics in 1819, 1857, and 1873 as signifiers that economic growth during the nineteenth century came in fits and spurts.

Our recent financial crisis of 2008 changed all that. The Panic of 1837 moved from the sleepy backwater of the early American republic into the spotlight. With breathless titles like *America’s First Great Depression: Economic Crisis* and *Political Disorder After the Panic of 1837*, new books on this event attempted to draw parallels between cotton prices and canal stocks in the nineteenth century with collateralized debt obligations and credit default swaps of our own. Apparently, the roller coaster that was the nineteenth century had reemerged with the destruction of the New Deal regulatory order and American capitalism was returning to its wild and wooly roots. Rather than draw the inevitable comparisons with the Great Depression of the 1930s, savvy historians argued that the twenty-first-century collapse of American financial institutions seemed more like the 1830s: overvalued commodities—albeit in our case houses, not cotton—filled the portfolios of greedy bankers and when the crash inevitably arrived, we all suffered for the hubris of our financial sector.

It is tempting, therefore, to view Jessica Lepler’s *The Many Panics of 1837* as yet another in a growing field of “not that historical depression, but this one” arguments the blossomed in the wake of 2008. This is simply not the case. The genius of Lepler’s book is that it does offer timeless insights into some of the bedrock characteristics of American capitalism—faith, confidence, and timing—and at the same time is grounded squarely in the 1830s and 1840s. In its careful reconstruction of the day-by-day unfolding of small, localized crises, this book provides a fascinating account of this complex series of small-scale events that eventually became known as the Panic of 1837. The lesson learned is not a breezy or casual one suited for punditry or a sound byte. As Lepler demonstrates, 1837 offers more than a simple historical first or a lesson for modern policymakers; it provides us instead with a convincing case for “the power of communication as a causative force in economic history” (95).

The Many Panics of 1837 begins, quite fittingly, with a financier’s suicide in New Orleans. Lepler then introduces us to the arcane world of nineteenth-century finance, in which bills of exchange, reputation, and sheer gumption seemed to matter more than actual account balances and cash reserves. The book really focuses on three locations—New Orleans, New York, and London—and the vast distance separating these three commercial centers is no coincidence. In fact, time and distance play a starring role in *The Many Panics of 1837*. In simple yet compelling prose, Lepler reconstructs a financial world in which steamboats and sail ships provided a network of delayed and incomplete information. Imagine the uncomfortable feeling of a three-day check float in modern times. Did your payday deposit go through in enough time to cover the check you just wrote? Now take that sinking feeling and multiply it in both intensity and frequency. That was the everyday routine of an economy based on promises to pay and credits against future gain—a world in which unexpected dips in the price of cotton or the toll revenues on canals could trigger a cascade of defaulting loans. Since practically every participant in these networks was in debt to someone, everyone had something to fear. Lepler portrays nineteenth-century merchants and bankers as an anxious lot, and they had good reason to be. They worked in a world with excruciatingly long periods of incomplete or false information. Gossip, rumor, and subterfuge could be as powerful as any official statement, even if it came from such a stalwart source as the Bank of England. We have, for example, the story of Thomas Fidoe Ormes, a junior clerk at that institution, who took an ill-timed trip to the bathroom in the winter of 1836. Along the way, he confided to a loose-lipped broker about the failure of a firm. In subsequent weeks, this leak proved fatal not only for Ormes' career with the BOE, but also fueled the sense that a downturn was on the horizon.

Over the course of a few months, then, individual occurrences like this combined to create a number of "panics," in which anxious investors sought safety. Lepler stresses that many of these local events—the failure of a brokerage, a series of bad debts, overconfidence in cotton prices—did not in and of themselves cause an international economic crisis. Rather, their combined effect, further amplified by imperfect communication networks, started the ball rolling. A system based on confidence is only as good as its flow of information, and once the news of financial trouble spread from London to New York and then to New Orleans, policymakers in the United Kingdom and United States scrambled to respond to them. Lepler traces the ways in which the growing financial crisis ushered in a wider economic depression in the United States, leading to a period of "hard times" for Americans, most of whom had never speculated in cotton or finance. Those folks demanded action, but as President Martin Van Buren and other policymakers discovered, the power of "hard times" defied an easy solution. "The politicization and nationalization of the many panics in 1837," Lepler asserts, "resulted in the invention of the Panic of 1837" (155). This panic was not mysterious, therefore, but it was quite complicated and the feedback loop between London, New York, and New Orleans exposed its residents to a vulnerability to economic forces that they had never experienced before. In the end the realization that individual virtue or thrift offered little protection against volatile market forces is one of the most significant legacies of the Panic of 1837 and a major reason that it merits close attention.

Lepler's intricate reconstruction of the snowball effect of what English and American financial actors saw as reasonable attempts to weather the crisis—and the further catastrophic consequences of those actions—is the major selling point of *The Many Panics of 1837*. She weaves local stories into a network of international significance. This might frustrate some readers looking for a simple explanation or a new silver bullet that can hold off such "panics" in the future. Certainly there are pundits out there who will offer that kind of simplistic perspective. In the end though, Lepler's rigorous approach to the Panic of 1837 and her focus on the importance of communication makes a much more significant statement about the value of studying the past in order to shed light on the present. It is a complex story, to be sure, but one that's well worth taking the time to understand.

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