New York State and the "Specie Crisis" of 1837

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Against a backdrop of explicit and real political and economic issues, and located within the rhetorical constructs of good and evil, monster and savior, deranged and sound, the financial wars of the Jackson and Van Buren administrations were waged. The Specie Crisis of May 10, 1837 (that is to say the occurrence of the suspension of payments in specie by New York city banks and the eleven-month negotiation and preparation for the resumption of payments) is only one event of many economic occasions during the three tumultuous decades following the Panic of 1817. The debate over the rechartering of the Second Bank of the United States, the extinguishment of the national debt, the distribution of the surplus, the actions of the Bank of England toward American debts, and the Specie Circular are familiar facts of the American economic landscape, and their relationship to the 1837 crisis has been widely debated.

While historians for a long time pursued the question of which of these events "caused" the crisis, other avenues of approach would seem more useful and have been suggested to historians by economists. The first step, I would suggest, is to discard the label "specie crisis," and to examine the event not as the conclusion of a

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sequence but instead as a prelude to certain economic and financial changes in both the states and the nation. Certainly the work of both Peter Temin and Hugh Rockoff has forced historians of the Jacksonian period to look critically at older generalizations and to use different data and a different framework for considering inflation, deflation, and the stock of specie in the Jacksonian economy.

This paper attempts to put the Crisis into the context of the Jacksonian fiscal and economic goals and realities that surrounded it, and to look specifically at what happened to money and banking in New York city and New York state. It also begins to explore the role that one prominent individual -- Albert Gallatin -- former Secretary of the Treasury under Presidents Jefferson and Madison and now President of the National Bank in the City of New York, played both in mitigating the difficulties caused by the immediate event and achieving fundamental reforms in banking and monetary policy for the years immediately following.

The financial conditions of the late 1830's and early 1840's, which economists like Douglass C. North designate as one of the most severe depressions in our history [13, p. 190], but which others like Peter Temin characterize as a "deflation" rather than as a "decline in production" [18, p. 23], were not caused by Jackson's veto of the Bank recharter, by Biddle's contraction of loans, or by the speculative immorality of Americans. A more productive way of looking at the economy of this period is to ask what it was that Americans -- Jacksonians, Whigs, and Locofocos or Anti-Masons -- wanted from and for the economy. Most particularly, what was it that they wanted from their banks? I would suggest that what Americans of this period wanted was a magic combination of sound currency, sufficient credit, liquidity of assets, trustworthiness in bank officers, and general confidence in the system. Caught up in the web of politics, both at Washington D.C. and Albany, the New York banks in 1837 had ceased to be able to provide these things. While significant efforts, namely the Safety Fund Act of 1829, had previously been made to answer the needs, the legislation that followed the events of 1837-1838 built upon the lessons learned and came closer to fulfilling the requirements of the banking and business community. The history of New York state banking in the first four decades of the nineteenth century is the story of the attempt to meet these banking needs, and the suspension of specie payments of May 1837 was a catalyst for major changes in the system.

What was it that mattered to Jacksonian politicians and party followers on the national and the state levels? The intellectual efforts to unravel the puzzle have consumed the attention of some of the best minds of our profession.[1] Did Andrew Jackson and Martin Van Buren mean what they said and despise what they claimed to despise? Did Jacksonians and Whigs pursue similar goals of more credit, but disagree on how to achieve the goal, and at what cost? Did Jacksonians want more banks or fewer, some banks or none, governmental restrictions on banks or relatively unrestricted growth, regulation within state boundaries instead of national, stable currency based on a high level of specie reserve or an expansion of credit? John M. McFaul has argued of the Jacksonians, that in terms of rhetoric and moral righteousness, they functioned best out of office, when all the sins of politics and banking could be attributed to the opposition [11, p. 85]. They could rage against banks and bankers without having to supply an alternative.

It is not disparaging Schlesinger's presentation of the conflicts inherent in the period to point out that Bray Hammond, right from the moment of selecting his title, captured the essence of the issue: banks and politics in America [8]. The successive banking

[1]The historiography is wellknown, but still worth noting here. Edward Pessen's bibliographic essay [14] cites the major historical works that followed the publication in 1945 of Arthur M. Schlesinger's *The Age of Jackson.* Some more recent works by economists on the era and its monetary problems are Hugh Rockoff [15 and 16]. Recent interest in definitions of "money" and in the experiences during the free banking experiment have produced work that bears at least tangentially on Jacksonian historiography.

acts in New York were efforts to clarify this relationship between banks and regulation, between bankers and legislators. The needs and demands of banks were political to the core, just as the political and social measures of both national Congressmen and state legislators were never without economic bearing or interest. Certainly this was true in the colonial period on the state level, and it continued. In 1803, for example, when an application for a charter for the New York State Bank at Albany was filed, it was based upon the argument that the Bank of Albany belonged to the Federalists and discriminated against Republicans [1, p. 235]. Marvin Myers argued that it was precisely the dependent relationship between banker and legislator that was destructive of republican virtue and honesty. Whereas the planter and farmer did not need anything the legislator had to offer, the would-be banker or banking association was forced to look to the legislature for permission, in the form of a special charter, to incorporate [12, p. 24].

One of the principal issues in New York State politics of the 1820s and 30s was the question of chartering and regulating banks, and it was an issue that divided the state's Democratic party, as well as Jacksonians on the national level. Martin Van Buren, who later proposed an independent subtreasury scheme because the "history of the connection between banks and the fiscal affairs of the federal government was a most unsatisfactory and melancholy one," [17, p. 13] and the more radical wing looked with caution on the extension of banks and bank credit. But the more conservative wing of the party looked to promote business interests [2, p. 211]. And New York state itself was not a single economic unit. Jean Wilburn, in a study of state bank support for the rechartering of the Second Bank of the United States, was able to examine every state except New York as a single entity. But New York, both complex and politically important, divided into New York City, the far western counties, and the rest of the state. The city in the main supported the rechartering, and "at both the national and the New York state level the legislators of the West supported the Bank" [19, p. 30]. The rest of the state opposed it. The divisions reflected in the bank issue can be seen as carrying over into the differences in approach, the tensions, and the impact of the suspension of specie payments upon the city and the country banks.

New York state had made several efforts since the beginning of the nineteenth century to regulate banking. Early bank charters were meant to convey a monopoly, but the incorporation of additional banks like Aaron Burr's Manhattan Company, and the establishment of a branch of the Bank of the United States at New York, considerably undermined the original charter of the Bank of New York. The 1804 Restraining Act sought to counteract this direction by making it illegal to "become a proprietor of a bank or a member of a banking company" [7, p. 187]. In 1813 and 1818 these restraints on unincorporated banking by individuals or associations were strengthened, with the law of 1818 broadening the explicit definition of "banking" to include receipt of deposits [7, p. 188; 1, p. 236]. That law also forbade banks to deal in stocks, a prohibition that needed to be circumvented in 1837 when the arrangements to aid the banks involved their receiving state canal stock. As one might expect, the result of this legislation was to make the obtaining of specific charters even more sought after and therefore more subject to legislative bargaining and favor. The culmination of the state's legislative efforts to control the incidence of banks came in 1821; legislative efforts having failed to solve the problem, a provision was embodied in the new constitution requiring a 2/3 vote of each branch of the legislature for the approval, alteration, or renewal of corporate bodies.[2]

Neither constitutional reform, nor the earlier restraining laws, nor the General Banking Law of 1827 having solved the problem of banks as monopolies or the broader monetary problem of providing both a stable currency and a sure and sufficient supply of credit, one other piece of New York state legislation was intro-

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[2] [7, pp. 188-89]. The constitutionality of these provisions was at issue in the state Supreme Court and the Court for the Correction of Errors for the next two decades, and Hammond traces the series of court cases which dealt with the issues. [7, pp. 189-209].

duced. Conceived by lawyer Joshua Forman, adopted by newly elected governor Van Buren, and taken up by Governor William L. Marcy after Van Buren departed for Washington as Secretary of State, the Safety Fund Law was created to provide a common fund to extinguish the debts of failed banks, and it was to be protected by an underlying state fund. Cried Philip Hone, "This out-Herods Herod; taxing the people to support Mr. Van Buren's rotten bank system" [9, I, p. 120].

The Safety Fund attempt -- a kind of rudimentary banking insurance -- is important for our analysis of the 1837 specie crisis, both because it failed to succeed at what had been intended for it and because it exacerbated the tensions between city and country banks. The Safety Fund system obligated each bank, upon receiving or renewing its charter, to be liable for the obligations of its fellow banks and to contribute a percentage of capital up to a total of three percent to the common fund. In addition to the fund, the law also provided for a committee of three bank commissioners, two nominated by the banks and one by the governor, to visit and investigate the banks at least quarterly. Other stipulations of the act were that the issuance of notes be restricted to twice the amount of paid-up capital and that loans and discounts not exceed two and one-half times that same capital.[3] It seems to me that the law was designed to answer the major requirements that the Jacksonians had for their banking system. The naming of a commission of bank examiners would facilitate discovery of fraudulence in bank officers before note holders and depositors suffered losses from that fraudulence. The creation of a legal relationship between capital and note issuance, loans, and discounts would provide for a sound currency at the same time that it allowed for the extension of needed credit. The existence of an underlying insurance fund would inspire an overall confidence in the state's system of banks and money.

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[3]See [1, pp. 259-73] for a description of the major features of the law.

The Panic of 1837 itself had a significant effect upon New York state politics, as it swept the Democratic Regency from the control which it had so long exercised. And as an element in the banking history of New York it crystallized certain problems and led eventually to the adoption of a plan for free banking.

Turning to the "crisis" which occurred on 10 May, what efforts were made on the part of the citizens of New York to deal with the financial crisis that they had seen coming in the preceding months? It is perfectly correct to exhibit some skepticism, as Temin as done, in using the accounts of contemporary protagonists like Van Buren, Nicholas Biddle, and Gallatin to assess the causes, effects, and seriousness of the suspension of payments.[4] Gallatin's public pronouncements, first in his *Considerations on the Currency and Banking System of the United States* (1831) and then in *Suggestions on the Banks and Currency* (1841) have been used as sources for writing the history of the bank war and the specie crisis. Gallatin wrote the first at Biddle's request, but he insisted that the work advocated currency reform rather than the Second Bank of the United States as the only vehicle for achieving it. If we look at Gallatin's correspondence, however, we get a good sense of what was going on in the day-to-day attempts to deal

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[4]See Temin's observations that by modern standards Gallatin's understanding of the economy is flawed. [18, pp. 23- 25]. Certainly Gallatin's preoccupation with debt exerted a major influence on his restructuring of the finances of the state of Pennsylvania when he was a member of the legislature from 1790-1793, on his criticisms of Hamilton's plans for funding and assumption while a member of Congress, and on his vision of the national economy when he was Secretary of the Treasury. He did worry about the "baneful effects of a paper money currency, on the property and on the moral feeling of the community [4, p. 5], and the language that he used to talk about debts was always tinged with moral overtones. But I would argue that this did not fundamentally mar his ability to deal with economic problems in economic terms.

with suspension, andfind more emphasis on the economics rather than the morality of the situation.

It appears to me that the leading bankers and citizens took steps in the spring of 1837 in basically three directions: they worked privately among themselves to strengthen their weaker bretheren, they looked to the government of the state for more general and substantial relief, and they looked outward to the banks of other commercial cities for aid. Because of his personal prominence and because he was president of one of the most stable banks in the city, Gallatin was in the center of each of these efforts.

First appeals were to the state legislature. On April 13 a committee met to consider the propriety of making application to the legislature for relief.[5] The committee resolved to ask for the issue of six-percent state stock that would "afford essential relief, in their present distressed situation, to the commercial and through them to the landed and mechanic interests and generally to the productive industry of the community" [3, 42:283]. The immediate need was for specie to make payments to Europe. Concerned that their fellow citizens might apply the state's loan to the wrong purposes, they further resolved that the stock be sold exclusively to those who had specific current remittances to make or had remittances to make in Europe. This fear that some banks or firms which had no real, direct, or pressing need for specie would benefit from the state's intervention was often expressed. Gallatin was bothered by the morality or immorality of profit. He did fear the practical result of banks receiving specie and then hoarding it.

A committee of leading citizens (Gallatin, Cornelius W. Lawrence, James Roosevelt, George Newbold, Nathaniel Weed, and others) was established to accomplish this purpose, and the memorial that they drafted was presented personally to Governor

[5][3, 42:282]. References to Gallatin's correspondence on the microfilm are by reel and frame number.

Marcy. Just as in the formation of the committee and the formulation of its resolutions within the city itself, when it came to the negotiations between city and state, it was again Gallatin who played a major role in working out the details of how state stock could be issued to the New York banks. Within the city of New York he communicated with the officers of other banks, and between New York City and Albany he was the liason for the New York banks and state officials. On April 22, only a week after Azariah Flagg, Comptroller of the Currency (and influential Democrat and believer in the efficacy of good state regulation of banks), received Gallatin's request on behalf of the committee, he could answer that the Canal Fund Commissioners had taken under consideration the extreme needs of the New York commercial community. They determined to issue two millions of state stock, bearing an interest rate of five percent and reimbursable after twenty years. An additional $800,000 was reimbursable after 1850 [3, 42:288-90]. The letter was confidential until the banks could make the arrangements for receipt of the stock, and it was Gallatin who worked out the particular arrangements. Secrecy was required because of the confidence problem. If the banks and state could come up with a workable arrangement, a crisis in confidence in the banking system could be avoided.

There were legal details to be worked out for, as mentioned above, the law of 1818 prohibited banks from dealing in stocks. New legislation was needed, and on 8 May Flagg let Gallatin know that a law authorizing the banks to take and dispose of the state stock had passed the Assembly and gone to the Senate; the following day it passed the Senate and was signed by the Governor, to take effect immediately [3, 42:308, 311]. The new legislation made possible the drawing up of the final arrangements by which the New York banks thought they could solve their specie problems. Ironically, the next day Gallatin was compelled to write to Governor Marcy that the city banks had suspended payment in specie. Flagg and Gallatin continued to work together over the next several months to meet the objections that New York banks raised over having to accept the paper of country banks and to arrange for payment of canal debts as they came due [3, 42:339-40]. Gallatin's goal, which he was glad to see that Flagg shared, was "to sustain the credit of the State and to fulfil its engagements with fidelity" [3, 42:341].

From today's perspective, the city banks were fundamentally sound. And the commissioners, at least, reported that "the suspension was not the result of defects in the organization of the banks, but was an incident to their connection with the commercial interests of the country" [1, p. 300]. Gallatin's assessment was that it was the problems of a specific bank, the Mechanics Bank, which brought the low specie reserves and high cash demands to the forefront. On 4 May Gallatin wrote to Secretary of the Treasury Levi Woodbury about the bank's severe problems [3, 42:299-300]. He hoped to accomplish two things in the correspondence with Woodbury: first, he was noting for the record that they New York bankers were trying to take care of their own house; second, he was also asking for support from the federal government in helping to sustain those efforts. If the Treasury were to insist upon the payment of the draft for $100,000 on the Mechanics Bank, all the New York Committee's efforts to shore up the bank would be in vain. That committee (Newbold, Palmer, and Gallatin) had been established to investigate the health of the bank. Just as the New York State Bank Commissioners frequently found when they examined failing banks, the Committee discovered that the officers had made insufficiently secured loans of about a million and a half dollars, and had concealed their actions from the directors.

Still, Gallatin was able to report, the bank was fundamentally solvent; unless forced to sacrifice its securities in order to meet immediate demands, its capital could be kept pretty nearly whole. It would be extremely difficult, Gallatin reasoned, "at such time as this, to sustain the specie payments of the Bank; but of its solvency no doubt can be entertained" [3, 42:300]. Gallatin's ability to distinguish between immediate difficulties and fundamental soundness of the institution is a statement in miniature of his assessment of the wider situation. He did press for as early a resumption as possible and he did hope that banks would meet their obligations, but he did not believe that the system had failed beyond repair.

What the committee proposed was to allow the postponement of the payment of a million for at least six months, and to distribute equally among the other banks the burden of the postponed debts. The burden would be apportioned among all the banks in proportion to their respective capital. Making sure that Woodbury knew there was no selfish motive on the part of his own bank in this recommendation, Gallatin assured him that the Mechanics Bank "did not owe the National Bank one shilling; and we have nevertheless taken our share of that bad weight amounting to 45,000 dollars" [3, 42:300]. In this instance the New York City banks were in an unofficial way functioning among themselves as a kind of safety fund system.

Woodbury responded to Gallatin's request on 6 May, assuring him that he would do everything within the powers legally available to him to aid the New York community in meeting the specie problems of the Mechanics Bank. He also responded quickly to Gallatin's concern that it was not the failure of one bank but rather the potential loss of public confidence that was the problem. Both men recognized the precarious foundation upon which the reputation of all banks and the public confidence in the currency rested.

The Safety Fund Act of 1829 had established methods for dealing with a situation like this. Affairs of failed banks were to be handled by receivers appointed by the court of chancery. But interestingly, the committee did not want to proceed in this way. Although the legislation existed to deal with bank failures, it was preferable for the financial health of the city to prevent the bank from failing in the first place. Simply turning it over to the Chancellor, as provided for in the Safety Fund Act, would have "destroyed all confidence in the Banks generally and led to a catastrophe which would infallibly have extended to the whole country" [3, 42:299]. Gallatin recognized that the state would eventually have to supply some answers, but at this point he still hoped that payment in specie could be maintained and while the legislature worked toward "a gradual but efficient remedy."

Gallatin understood right away that regulation of the banks was crucial. While some Jacksonians may have wanted to separate banks and government, Gallatin's view was more complex. Believing that restrictions were both proper and necessary, even though some of the existing restrictions worked against his own bank, he conveyed no sense that government on the state level ought to stay out of the field. By their charters, the National Bank and some of the other city banks had only ten days after failing to redeem notes in specie; banks not under the Safety Fund were permitted ninety days. The state laws operated unevenly. Even so, Gallatin did not want these restrictions removed until universal and stringent ones replaced them. Fearing that without restraints the currency would depreciate farther, the banks would use the New York state canal stock for increasing dividends, loans and discounts would balloon, and notes would be put into circulation far exceeding the capital stock of the banks.

While Gallatin was forced to deal with the details of administering the suspension, he was always more eager to comment on the broader implications of justice, repudiation of legal obligations, and the effect of a depreciated currency on the stability of a community. It is his underlying inisistence on fairness, independence, and obligation that puts him squarely in the Jeffersonian-Jacksonian tradition, but it is also true that throughout the crisis his primary goal was the preservation of the value of the currency. It was, he wrote to Flagg, the duty of every bank, and above all of the city banks, to use "every endeavour to preserve the value of their currency as near that of gold & silver as practicable" [3, 42:341]. Gallatin's goal was the fastest possible return to a sound currency. The regulations he sought would make it in the best interests of the banks to resume payments quickly. He was shrewd enough to see that, if given the chance, some would profit from the depreciation in currency, which was already, by his calcuations, reaching five to ten percent.

To Gallatin's mind there was absolutely no flexibility for the banks to determine when they wished to resume payments. They were legally and morally bound to resume payments as soon as economic conditions on the local, national, and international level made it possible. By August he felt that the banks should have no discretionary right to decide "or even to discuss the question of when to resume" [3, 42:472]. He believed that the general and permanent interests of the community at large would be sacrificed to temporary expediency if suspension continued, and he offered proof that the foreign exchange rate had improved enough to prevent any immediate danger of specie drain. This meant that resumption had to occur. The only difficulty was that the banks of Baltimore, Philadelphia, and Boston did not agree with New York's assessment. Gallatin found himself unable to understand the other point of view, because it appeared to him that the New York banks had suffered proportionately more than the banks of any other city. The failures there were more numerous; their banks alone were subject to a run of domestic origin which drained the greater part of their specie. He hoped that economic events, public opinion, and patriotism would induce the Philadelphia and Baltimore banks to join New York, yet he could not get the Convention which he had organized for August either to set a firm date for resumption or to meet again before 12 April, 1838 [3, 42:476].

Gallatin has been cited as a proponent of free banking, and has received some attention recently as its champion. Certainly his experiences during the suspension of specie payments led him to believe that the present system did not work. Banking, he wrote, "with the single exception of issuing paper currency, should be left as free as any other species of dealing."[6] But his attitude was less than laissez-faire, because while he opposed regulating bank deposits and the discount business, he strongly defended restrictions on the issue of bank paper notes. The distinction that he drew came, I propose, from the experiences he had in the specie crisis. He represented a city bank, whose use of note issue was quite limited, and who tended to extend discounts instead. For him, the country banks who had overextended their issuance of notes were the severe problem in meeting the specie cri-

[6]See Gallatin's letter of 20 December, 1836 in [6, II, 514].

sis. Therefore, the attitude which he took on the regulation of banks came as much from his particular experience as it did from a general philosophy of regulating banks. Gallatin claimed that the practical knowledge that he had gained as a bank president strengthened his conviction that ordinary banking transactions should be permitted to any person, but that an inordinate paper currency would result from unrestricted note issuance. The Panic of 1837 confirmed his beliefs again, and although the period of free banking in New York state followed close upon its heels, that era still contained its own legislative restraints and continued to uphold the very principle of regulation in the context of what the Jacksonians desired from their banking system.

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