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The Panic of 1819: Reactions and Policies

door Murray N. Rothbard

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8 Highlights

Highlight (Geel) | Locatie 2435

In sum, the most spectacular expansionist measures were the establishment in several western states—Tennessee, Kentucky, Illinois, and Missouri—of new state-owned banks to issue inconvertible currency. In each of these states, all the banks had suspended specie payment during the depression. After controversy, they had been allowed to continue in operation, but their notes depreciated rapidly. The legislatures then turned, despite heavy opposition, to establishing the new state-owned banks. All of these monetary ventures began in high hopes to issue large quantities of notes. But all came quickly to grief, despite such aid by the states as legal tender provisions and penalties against depreciation. The notes depreciated rapidly almost as soon as operations began, until the public began to refuse acceptance. In Missouri and Tennessee, the depreciation was spurred by court decisions adverse to the constitutionality of the notes or the accompanying stay laws. Opinion in each of the states swung sharply against the new paper, and where the notes did not disappear from circulation, steps were taken to halt and eventually to liquidate the projects.

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Against the protectionist emphasis on higher tariffs as a cure for the depression, the inflationists argued that manufacturing was depressed, not from lack of markets but from lack of money. It was lack of money that prevented the manufacturer from buying raw materials, hiring workers and constructing plants. In a sense, this clash of emphasis was a forerunner of the “Austrian” vs. the underconsumptionist theory of the crisis, both of which were to come to the fore in the depression of the 1930s. For the underconsumptionists stressed the cause of the crisis to be lack of consumer markets for products, while the Mises-Hayek theory blamed the crisis on a shortage of saved capital. In the panic of 1819, the protectionists stressed the lack of consumer markets abroad and the necessity for building up a market at home. The inflationists, on the other hand, stressed the shortage of money capital available to manufacturers as a cause of the crisis. Curiously, the policy prescriptions of the two groups were diametrically opposed rather than parallel. For the underconsumptionist of 1819 believed that consumption would be stimulated by tariffs, while the underconsumptionist of a later day urged monetary expansion as the remedy. On the other hand, the remedy proposed for the shortage of money capital was monetary inflation in 1819, encouragement of savings and thrift in the 1930s. The crucial difference seems to be that the inflationists of the early period saw monetary expansion primarily as a way of providing capital, whereas the inflationists of the twentieth century saw it as a means of stimulating consumption, increased investment following as a consequence. The hard money forces denied that a scarcity of money existed. After all, money could always be purchased on the market. And if a scarcity of money did exist, it was a scarcity of genuine money—of specie—and this scarcity would continue until specie payments were fully restored.

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With the economic argument conducted so often on so high a level, one might wonder why there were virtually no proposals for devaluating the dollar to account for the higher price levels in relation to specie. It must be remembered, however, that there were scarcely any advocates of such a course in Great Britain at this time—or even a hundred years later. The debates over proposals for nationwide monetary expansion strengthen our previous conclusions on the absence of rigid geographical or class lines in the inflation controversies. Certainly the leading inflationist, Thomas Law, one of the most influential citizens of Washington, was the opposite of a poor agrarian.

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Thus, the depression rejuvenated a protectionist movement that had arisen after the war and become dominant. The postwar movement resulting in the Tariff of 1816, however, had been a general patriotic expression connected with the war and its aftermath, and meant to provide temporary relief to the industry spawned by war. Adherents comprised most Americans, including such later vigorous free traders as Thomas Jefferson and John Calhoun. With the passing of the war, the tariff issue had more or less disappeared. The character of the new depression-born movement would become more familiar to later generations. The movement was led by the new manufacturers, most of whom had begun during the war of 1812 when foreign trade was virtually suspended. Cotton textiles led the clamor for greater protection from imports, followed closely by woolen, iron, glass, and paper manufacturers. The battle over an increased tariff, which reached its peak in 1820 over the Baldwin Bill, was far more of a sectional controversy than the monetary issues. Protectionist sentiment flourished in the

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states where the manufactures were located—especially in the Middle Atlantic states, and adjacent states such as Ohio. The South, on the other hand, dependent on the export of its staples, almost solidly opposed the higher tariff, while the West and commercial New England split on the issue.

Highlight (Geel) | Locatie 4413

Many citizens objected to all these legislative remedies on the grounds of laissez-faire principle. Their arguments had two facets: (1) the government could not remedy the situation, and (2) a remedy could only come from the market processes themselves: via liquidation of unsound conditions and a return to the fundamental virtues of “industry and economy.” Even many of those with other proposals to offer felt that they must pay lip service to the pervasive belief in the importance of these twin virtues. Stress on the moral virtues often took the form of attack on luxurious consumption and other extravagances of the day. Embryonic Veblenians called upon the rich to set an example in thrifty living to the lower classes, who tended to imitate the former.¹

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The struggles over remedial proposals took their place in the context of nineteenth century struggles over monetary and debt relief proposals. Many historians orient their discussion of such struggles in America along class or sectional lines. The image is often conjured up of poor western farmer-debtors favoring inflation,

battling rich eastern merchant-creditors favoring sound money. The results of this study cast strong doubt on this common idealtype.² In the widespread monetary struggles during the depression of 1819–21, at least, the battle of inflation vs. hard money cut sharply across regional, geographic, wealth, and occupational boundaries. The fact that two wealthy cotton planters from Nashville were the leaders of the opposing sides of the raging controversies typified the monetary and debtors' relief debates. Furthermore, several western governors and inflationist leaders completely changed their position after viewing the results of the inconvertible paper schemes. These shifts could scarcely have occurred so swiftly if their opinions had been determined by their class, occupation, or region. Caution should be exercised in employing the much used term "agrarian," for often an agrarian turns out to be a wealthy land speculator rather than an impoverished settler. Sectional and occupational differences were far more clear cut in the tariff controversy, however, with manufacturers in the Middle Atlantic states ranged against southern farmers and planters and New England merchants.

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The protective movement, denied its victory at the time, triumphed in 1824. Inflation of inconvertible notes by states was generally discredited as an anti-depression weapon by the rapid depreciation of the notes. Many of the anti-bank, ultra hard money leaders of the Jackson-Van Buren period first came to a hard money position during this depression. Andrew Jackson himself foreshadowed his later opposition to banking by making himself the fervent leader of the opposition to inconvertible paper in Tennessee. Thomas Hart ("Old Bullion") Benton, later Jackson's hard money arm in the Senate, was converted to hard money by his experience with banking in Missouri during the panic. Future President James K. Polk of Tennessee, who was to be Jackson's leader in the House and later to establish the ultra hard money Independent Treasury system, began his political career in Tennessee in this period by urging return to specie payment. Amos Kendall, later Jackson's top adviser and confidant in the bank war, became an implacable enemy of banks during this period. Condé Raguette, though not a Jacksonian politically, did favor the Independent Treasury plan. He was converted to hard money during the Panic of 1819, after having been a leading inflationist since the end of the War. (The depression also converted Raguette from a protectionist to one of the leading champions of free trade.) Raguette's depression-born search for stricter controls over bank credit expansion led him to be one of the leaders in the free banking movement of the late 1820s.
