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Jacksonian Monetary Policy, Specie Flows, and the Panic of 1837

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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 true¹ 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.

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