

The Panic of 1837



ECONOMICS FOCUS The U.S. economy is characterized by alternating periods of expansion and recession, known as the business cycle.



As you read, think of other instances in U.S. history when a period of prosperity preceded an economic decline.

Upon his election to the presidency in 1828, Andrew Jackson readily demonstrated his hostility to the Second Bank of the United States. Believing the institution to be a dangerous monopoly, Jackson's first aggressive action was the withdrawal of federal funds from the bank, which he in turn placed on deposit in various state-chartered financial institutions. Despite signs of uneasiness from merchants and industrialists, Jackson remained steadfast in his crusade against the bank. In 1832 he vetoed the bill that would have renewed the bank's charter upon its expiration in 1836.

Jackson's policies varied in their overall impact on the economic health of the nation. Take for example the increase in the number of state-chartered banks. In 1820, nine years before Jackson took office, there existed 307 such banks. By December of 1833 the number had increased to 506. Enriched by funds Jackson had removed from the national bank, and lacking guidelines from a centralized authority, these state banks tended to provide loans beyond their means. In fact, the dollar value of monies loaned increased from \$86 million in 1820 to \$324 million by 1833. The ease with which funds could be obtained spurred a buying spree of federal lands.

Federal coffers soon began to fill with paper notes of questionable value, however. In 1836 the treasury department mandated that future payments for federal lands be made in gold and silver. Banks began refusing to issue new loans, and called in existing ones for payment. Sparking what would become known as the Panic of 1837, lands sold were seized for lack of payment, businesses closed in high numbers, and prices in general declined.

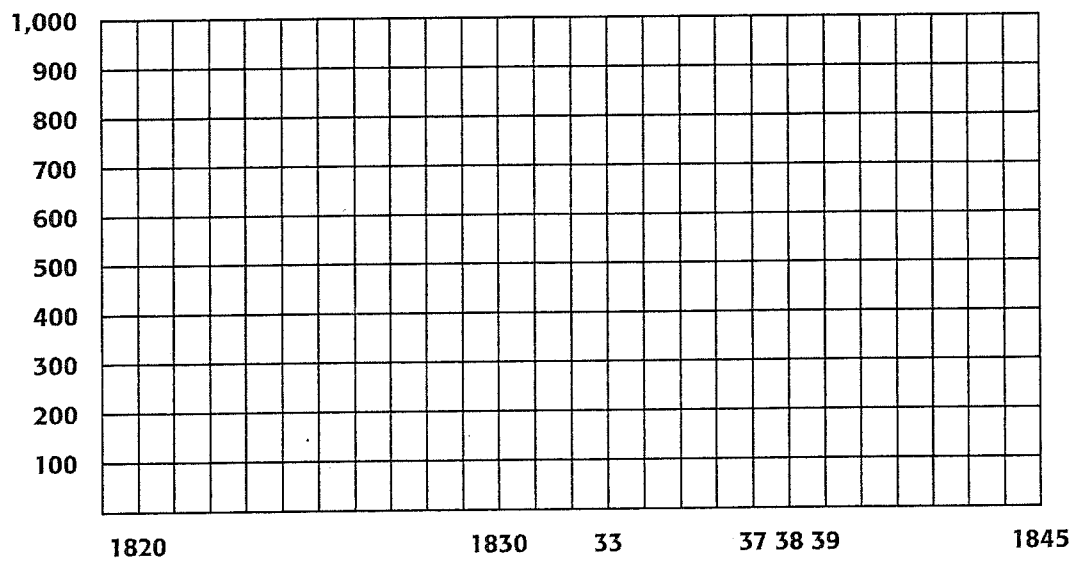
	1820	1830	1833	1837	1838	1839	1845
# of Banks	307	330	506	788	829	840	691
Loans (millions)	\$86	\$201	\$324	\$525	\$486	\$492	\$255

The Panic of 1837, *continued*

Economics and History

Use the data in the table on the previous page to create a line graph in the grid provided. Using pens or pencils of two different colors, graph the number of banks on one line, and the dollar value of loans on the other. Then answer the questions that follow.

WHAT DID YOU LEARN?



1. Between 1820 and 1839, what happened to both the number of banks and the amount of money out on loan?

2. Between 1839 and 1845, what happened to both the number of banks and the amount of money out on loan?

3. **Critical Thinking: Synthesis** Is it safe to assume that simply because the number of banks increases, that the amount of available money must increase also?
