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- [Civil War Encyclopedia](#)
- [Blue and Gray Trail](#)
- [Civil War in Georgia](#)
- [On the Blue and Gray Trail](#)
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- [Today in the Civil War](#)
- [Battles](#)
- [Images](#)
- [Places](#)
- [Feature Stories](#)
- [Links](#)
- [Search](#)
- [Who we are](#)

Panic of 1819

- [January 8, 1818](#) Yearly increase in manufacturing drops nearly 80% in 1817 over 1816.
- [February 28, 1818](#) New York passes a bill requiring state banks to pay debt in United States notes or specie (hard currency). [New York](#)
- [July 1, 1818](#) Second Bank of the United States switches from expansionary to deflationary by requiring payment from state banks in gold.
- [November 20, 1818](#) Bank of Kentucky suspends all payments. [Kentucky](#)

Panic of 1819

There were three key causes of the Panic of 1819, inflation, public debt from the [War of 1812](#) and the [Louisiana Purchase](#). The Panic had a lasting affect on the American banking system and directed attention to the crucial 1819-1821 session of Congress. Many of the changes and attempted changes to American financial policies during this economic crises would feed Southern sectionalism that lead to the American Civil War.

Prices throughout the United States had been rising dramatically since shortly after the end of the [War of 1812](#), mostly caused by the United States government's attempt to pay off the war debt. Since the war debt was mostly held by Americans, payment in currency, now deflated in value, was legal. In 1816 the Second Bank of the United States was formed, but it continued to feed the expansion by having significantly more money in circulation than it did gold reserves.

Beginning in 1818, the bank moved from an expansionary stance to a deflationary stance to combat the rampant inflation and to pay off the nearly 4 million dollar debt associated with the Louisiana Purchase. Since this debt was mostly held by people outside the United States it could not be paid by inflated currency. It had to be paid out of the species reserves, which were very low in relationship to the currency outstanding. To increase its specie reserves the bank switched from what is generally characterized as a pro-inflation stance to a pro-deflation mode in [July, 1818](#), although the managers did not foresee the massive contraction their movement from paper currency to hard currency would create. By curtailing the outflow of hard currency in 1818, the Second Bank of the United States significantly reduced the ability of the state banks to stay solvent.

In essence this movement curtailed expansion over the next year and put pressure on the state banks. First in the system to have problems was the state bank of [Kentucky](#), probably the weakest bank in the system. Other banks, mostly in the West and South also had problems. Anti-bank sentiment rose throughout the United States. Future president William Henry Harrison, then a [Ohio](#) state congressman, declare "I hate all banks..."



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Jérôme Marchand, 26 ans, Employé

Dans l'attente que l'on m'accorde une augmentation de salaire, j'ai décidé de me créer un revenu supplémentaire chaque mois. Je le méritais!!"

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One of the ways the United States raised money before [The Civil War](#) was the sale of public land, making voters debtors. There were so many of these debtors that they could influence politicians, who in turn proposed debtor relief bills in Congress. In his [1820](#) address to Congress, President Monroe got on the bandwagon, endorsing the third, and most substantial debt relief package. A month later, Secretary of the Treasury William Crawford laid out the details for relief of the debtors. Two months later the bills were passed and signed by the President. The result was chaos.

Suddenly debtors realized their political power and set about on a state level to relieve more of their debt. One of the problems, though, was who got the relief. In many cases the original land owner had sold all or a portion of the land without paying off the original debt. Should the debt relief be paid to the original owner or current owner? In general, states in the South and West passed debt relief measures while Northern states held back some or all of these laws. In the end the non-speculative public was forced to foot the bill for the debt-laden speculators.

As land was sold to pay debts the price began to fall, precipitating a drop in general prices. The South, a one-crop economy, was devastated as cotton prices were cut in half in two years (1818-1820). Western expansion was curtailed when the U. S. government halted work on the National Road.

With the price of land depressed and the United States in need of cash, it sought more land to sell. One of the ways to get this land was through the annexation of states. When a territory became a state it would normally turn over an agreed on number of acres to the United States, who in turn would sell the land to raise cash. In 1820 the U. S. annexed [Missouri](#) and [Maine](#) under the [Missouri Compromise](#).

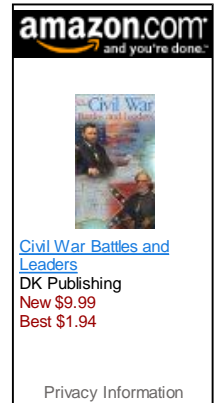
For two years the economy was in a recession. In 1821 it began to grow again, although it would be until 1823 before this growth could be considered healthy.

Links appearing on this page:

[1818](#)
[Kentucky](#)
[Louisiana Purchase](#)
[Maine](#)
[Missouri](#)
[Missouri Compromise](#)
[Ohio](#)
[The Civil War](#)
[War of 1812](#)

Panic of 1819 was last changed on - May 24, 2007

Panic of 1819 was added in 2005



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