The Crash

by Lynne Belluscio

The financial panic struck on May 10 in New York City. Banks closed. It was the beginning of a seven-year depression. Within a year across the nation, 618 banks failed. Foreign investors withdrew their money from American business. The cause of the depression became a political football. Truthfully, there was no single event or person who caused the situation, but everyone wanted to pin the blame on someone else. The president certainly didn't help the situation and the greedy bankers were pretty good at diverting profits into their own pockets instead of the stockholders. And the year? 1837.

At the bottom of the pile were the banks. In 1774, Alexander Hamilton gathered together a group of New York City merchants - including Herman LeRoy - and they established the Bank of New York. It was the second commercial bank in the nation, but Hamilton envisioned a national bank so under his leadership, the First Bank of the United States was chartered in 1791 in Philadelphia.

At this time, there was no standardized currency and each bank issued bank notes – paper money. But it was still easier and safer to use bank notes than to carry around gold and silver. The First Bank of the United States was formed to regulate the states' currencies but its charter expired in 1811. President Jefferson who did not buy into Hamilton's plans for a national bank refused to charter a new national bank, but the expenses of the war in Tripoli were mounting, followed by the economic upheaval of the War of 1812.

Eventually Congress acknowledged the need for a national bank and the Second Bank of the United States was chartered in 1816. The American economy needed an infusion of investment money. The Erie Canal began in 1817. In the meantime the agrarian society was changing rapidly to an industrial nation. European investors, primarily from England saw a great opportunity to make money.

In New York, in an attempt to prevent the possibility of bank failures, a deposit insurance scheme was devised and the "Safety Fund" was established. Banks paid special taxes to "insure" banknote holders and depositors in case the banks failed. (It didn't work.) The economy was booming. Inflation was rampant. Land speculation was out of control. Westward expansion and the sale of government lands in the West required the transfer of large sums of money. The government was spending huge sums on expansion and improvements - - all on credit.

Yet in July 1832, President Andrew Jackson vetoed a congressional bill that would have renewed the charter of the Second Bank of the United States. After reelection in November, Jackson began to remove federal deposits from the Second Bank and placed the funds in state chartered banks.

In 1836, Congress approved a bill that prohibited the purchase of government lands with banknotes. Only gold or silver (specie) would be accepted as payment. In a short time, the Eastern banks were depleted and the stage was set for a crash. The sale of government land fell from $24,000,000 a year to less than $1,000,000.

Financiers, Bankers and Stockbrokers

In 1837, Martin Van Buren, succeeded Jackson as President, having defeated William Henry Harrison, Daniel Webster and Hugh White in a four-way election. Considered to be Jackson's successor, Van Buren inherited the financial disaster. He would not survive and would be voted out of office four years later. Through his entire term the depression would continue.

In 1838, New York State passed the Free Banking Act which allowed commercial banks to enter into business without legislative interference. All banks were required to have a capital of $100,000 and their notes had to be secured with bonds. Each bank had to report to the state comptroller annually. It was a signal to businessmen all across the state to organize banks in their communities.

In 1835 New York State had 35 banks. By 1846 there were 152. One year after the financial crash, LeRoy had its first bank. *(to be continued)*