DOI: 10.1007/s10272-010-0337-4

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"An Ungovernable Anarchy": The United States' Response to Depression and Default, 1837-1848

American commentators have criticized European leaders for failing to deal firmly and swiftly with the eurozone's sovereign debt crisis. These commentators forget the lessons of American history. The United States experienced a similar crisis following the financial panic of 1837. Eight states defaulted and political turmoil intensified, undermining stability in several states and the federal system itself. The restoration of economic and political order was a prolonged and painful process, as enraged voters confronted the costs of inaction and accepted new constraints on democratic processes. Will the European crisis play out similarly?

The European Union has just gone through one of the most difficult periods in its history. In October 2009, Prime Minister George Papandreou publicly acknowledged that the Greek government's budget deficit was almost 13% of GDP, twice what had been previously reported and well in excess of the 3% limit set for eurozone countries in the 1992 Maastricht Treaty. The news stunned international financial markets. Rating agencies quickly lowered their assessment of the reliability of Greek debt. Greece's cost of borrowing jumped sharply as investors worried about the prospect of a default.

Over the next six months, the Greek crisis metastasized. Attempts by the Greek government to reduce public spending triggered strikes and riots. Borrowing costs for other countries – notably Portugal, Spain and Ireland – rose because of concerns that they, too, might default. Even healthier European economies appeared at risk because their major financial institutions held unknown amounts of debt issued from at-risk countries. By February 2010, the value of the euro had begun to plunge sharply. However, European leaders appeared unable to devise an appropriate response to the crisis. Politicians and voters from Europe's north were especially resistant to proposals that the EU should provide aid to the less-disciplined economies of the south.

Finally, in early May 2010, European leaders announced a package of policies that seemed to check the contagion. The European Union would create a new "stabilization mechanism" to provide financial assistance to distressed eurozone countries. It would also overhaul its procedures for monitoring national budgets and preserving fiscal discipline among eurozone countries. At the same time, the European Central Bank announced that it would begin buying government-issued debt to stabilize borrowing costs and implement other measures to help troubled financial institutions.

Two Crises

The United States' policymaking elite had little sympathy for their European counterparts throughout these six months. The prospect of default by Greece, and potentially by other countries as well, was taken as the predictable result of years of fiscal laxity. For some US commentators, this was a moral failing, evidence of national leaders' myopia and unwillingness to make hard choices about taxing and spending. The budget problems of eurozone countries also seemed to demonstrate the fragility of European Union institutions. The Maastricht Treaty rules clearly had not achieved the goal of assuring fiscal discipline.

Europe's policymakers, it was alleged, lacked the fortitude to enforce the Maastricht rules or respond decisively to the crisis. David Ignatius, writing in the Washington Post, called Europe "a riderless horse... an economic never-never land," whose leaders were "trying desperately to avoid the political day of reckoning."[1] The "concise explanation... for such an abject failure," the Wall Street Journal said, "is that talking is easy, doing is much harder."[2] The Boston Globe suggested that it might be time to acknowledge that the eurozone was "a well intentioned but failed experiment," doomed by the immaturity of its institutions

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1 David Ignatius: A Tea Party for Europe, in: Washington Post, 11 February 2010, A25.

2 A Crisis of Sovereignty as Well, in: Wall Street Journal, 8 February 2010.

and leaders.[3] Barely contained within these criticisms was self-satisfaction with US federal arrangements, which seemed to do a better job of avoiding overspending by state governments and providing a coherent response to internal economic crises.

However, US commentators forgot one important fact: the United States went through a similar crisis early in its own history which was also typified by confusion, delay and discord about the appropriate role of central institutions. This was the crisis of 1837-1848: a series of events that began with the bursting of an asset bubble, followed by a banking collapse, followed next by a depression and defaults by eight of the country's twenty-six state governments. It was only as a result of this crisis that the United States acquired institutional and political features which make it easier to avoid the difficulties that confront the European Union today.

During this crisis, the United States was thrown into political turmoil so deep that some observers wondered whether the federation would survive. Economic decline threatened civil order and national unity because governments had relied so heavily on economic expansion to paper over fundamental differences between classes and regions about the fair distribution of wealth. Within the states, newly enfranchised voters were reluctant to accept the sacrifices necessary to regain the trust of foreign lenders. In Washington, policymakers were stymied by profound disagreement about the role of federal institutions in fiscal and monetary policy. Stagnation also compromised the ability of central authorities to aid distressed state governments.

There are strong commonalities between the American predicament in 1837-1848 and the European Union's predicament today. In both cases we see relatively young federations struggling to develop institutional arrangements that will produce economic and political stability. In neither case is reform easy, because it demands more than institutional change. It also requires the crafting of a new political settlement under which voters and policymakers are reconciled to the constraints necessary for survival of a federalized and open economy. In the United States, this process was characterized by interminable debate, delay, missteps and reversals. So too, perhaps, in Europe today.

Boom and Collapse

In 1837, the United States had a very open economy that was at the peak of a speculative boom. Growth hinged on the export of a single commodity, cotton, sold primarily to Britain's rapidly expanding textile industry. American cotton was grown on the vast plantations of the slaveholding South. Other regions depended on the health of the South's plantation economy. The major cities of the Northeast served as trade and financial centers, managing the flow of goods and capital between Europe and the South. The South also provided a market for the Northeast's nascent manufacturing sector. In addition, southern plantations provided a market for agricultural products – mainly wheat, corn and livestock – that were grown in Western states and shipped south down the rivers of the Mississippi basin.

By its nature, the plantation economy was prone to long cycles of boom and bust. As demand for cotton began to match production capacity, prices spiked, encouraging the expansion of the plantation system. However, development of new plantations was a long and capital-intensive process. In boom years, plantation owners could not see how all of their independent expansion decisions would affect overall capacity and prices. The eventual result was such a large addition of capacity that prices would eventually plummet once again.

In the mid-1830s, however, the plantation economy was booming. Cotton growers and their slaves were flooding into the new states of the Southwest – Alabama, Arkansas, Louisiana, Mississippi – as well as Florida Territory. As plantations grew, so did demand for the harvest of Western states such as Ohio, Illinois, Indiana, Michigan, Iowa, Wisconsin and Missouri.

A combination of other factors also encouraged a rush for the purchase of land in the West and Southwest. This was government-owned territory, mainly acquired by treaty, and its disposition was one of the biggest exercises in privatization ever undertaken. Politics compelled the federal government to sell vast amounts of land quickly. Credit was easily available because federal and state governments refused to impose strict requirements on banks, and also because of the rapid inflow of capital from the United Kingdom. (The USA's aggregate foreign indebtedness tripled between 1830 and 1837.) The result was rampant speculation. It is estimated that in just six years – from 1830 to 1836 – the value of real estate throughout the United States rose by 150%.

The bubble collapsed in May 1837. Many Americans believed that the US government caused the collapse when it issued a direction in July 1836 that land purchases should be completed in gold or silver – a measure that seemed to deplete the capital of private banks and therefore restrict access to credit generally. But the more powerful causes lay overseas. The Bank of England, alarmed by the de-

3 Greece's Troubles Reveal Fatal Flaws in the Euro, in: Boston Globe, 6 May 2010.

cline in its own reserve of gold and silver, tightened credit by restricting the terms on which it was prepared to exchange specie for commercial paper. At the same time, a poor harvest in the United Kingdom caused an increase in wheat prices and a decline in real income and demand for cotton goods among British consumers. As a result, the price paid for American cotton dropped sharply.

Together, the tightening of credit and softening in the price of cotton had a devastating effect on American commerce. Merchants and bankers who held debts secured by cotton found that these assets were no longer marketable. By the spring of 1837, many commercial and financial institutions had defaulted on their liabilities. Distrust pervaded the marketplace. A leading financier said the country was struck with a "paralysis of private credit".[4]

The US economy appeared to recover in 1838 as the Bank of England loosened its monetary policy and cotton prices increased modestly. But the relief was temporary. In 1839 the Bank of England was compelled to reverse course sharply. A series of poor wheat harvests in the UK, combined with bumper cotton harvests in the USA, put intense pressure on the price of cotton, so that by 1842, it was half what it had been in 1836. The United States plunged into a deep depression. By 1843, one quarter of US banks were shut down, overall prices had fallen by more than 40%, and investment in infrastructure such as canals and railroads had ground to almost a complete halt. "In the wake of speculation," one historian wrote, "had come desolation, chaos, and ruin."[5]

State Defaults

Economic stagnation posed a particular threat to the finances of state governments because of their heavy involvement in economic development. The modern perception that American governments have played a limited role in promoting growth must be put aside. This was not true in 1837. State governments were activists in two ways.

First, they provided financial support to banks to encourage expansion, particularly in the South, and often with the enthusiastic support of overseas investors. A common technique was to purchase shares in newly-chartered banks, paying for them with government-issued bonds which were then sold by the banks, which used the proceeds to make loans to landowners. For example, Louisiana's Union Bank received seven million dollars in state bonds in 1832 and sold the entire issue to Barings, the British investment house. In 1838, during the lull between the panic of 1837 and the eventual collapse of 1839, the state of Mississippi chartered the Mississippi Union Bank and pledged to invest fifteen million dollars in state bonds. The bank resold five million dollars in state bonds in Europe before it became insolvent in 1840. Southern states may have issued as much as fifty million dollars to support their "plantation banks" in the decade before the crisis.

Even more state debt was issued for new infrastructure. The Erie Canal, completed in 1825, was a financial as well as an engineering accomplishment, because it showed states how public works could be funded through the use of sovereign debt that was repaid with toll revenue, rather than by politically awkward tax increases. At the height of the boom – 1835-1837 – states issued over sixty million dollars in debt for infrastructure. Indiana legislators, for example, adopted a "Mammoth Internal Improvement" bill in 1836, which authorized the borrowing of ten million dollars to traverse the state with a network of canals, turnpikes and railroads. Maryland borrowed fifteen million dollars for canals and railroads, and Pennsylvania twenty-seven million. Foreign investors became eager purchasers of this debt as well: "The whole country looked to England for capital to carry out its system of internal improvements."[6]

Economic collapse undermined the ability of state governments to service their debts. The first to default was Michigan in July 1841. It refused to honor five million dollars in state bonds sold by investment banks that had failed without giving the state the proceeds from the sale. By the end of 1841, three other states – Indiana, Maryland and Arkansas – also defaulted. The following February, Florida Territory and Mississippi entirely repudiated their debts. In August 1842, Pennsylvania also defaulted. For almost two years it had borrowed to service its existing debt, but by 1842 it was unable to sell any bonds at all. Louisiana became the last state to default, in December 1842.

These defaults had a devastating effect on the credibility of state governments in the eyes of European investors. Moreover, investors refused to distinguish between defaulting states and those which still honored their debts – all were frozen out of the overseas capital markets. London's Barings Bank warned its American agent in 1842 that "no new loan shall be introduced here while there is any one of the states as a defaulter."[7] To some degree, in-

4 Peter Temin: The Jacksonian Economy, New York 1969, Norton, p. 142.

5 Roy M. Robbins: Our Landed Heritage: The Public Domain, 1776-1936, Princeton, NJ 1942, Princeton University Press, p. 71.

6 G.S. Callender: The Early Transportation and Banking Enterprises of the States in Relation to the Growth of Corporations, in: Quarterly Journal of Economics, Vol. 17, No. 1, 1902, pp. 111-162, here p. 146.

7 Jay Sexton: Debtor Diplomacy: Finance and American Foreign Relations in the Civil War Era, 1837-1873, Oxford, United Kingdom, 2005, Clarendon, p. 39.

vestors were asserting a doctrine of collective guilt. "It is quite in vain," the Times of London said, "for the honest portion of the United States to assert that because they have had no direct share in the guilt and turpitude of the repudiating states, therefore they are to stand clear. ... [T]hey are citizens of a country in which such acts are committed with impunity."[8]

Even the federal government – with an impeccable record of honoring its debt – was tainted. Its own attempt to borrow in London and Amsterdam in 1842 met with failure. "You may tell your government," the financier James de Rothschild told US agents, "that you have seen the man who is at the head of finances of Europe, and that he has told you that they cannot borrow a dollar, not a dollar."[9]

Investor anger was stoked by the lack of legal remedies against defaulting governments. Most state courts were barred from hearing lawsuits against state governments, and the federal constitution explicitly barred suits by foreigners in federal courts against any of the states. More aggravating was the fact that several of the defaulting jurisdictions had the fiscal capacity to support their debts but simply refused to levy additional taxes. Some state governments – particularly in the South and West – feared that higher taxes would simply push settlers to other jurisdictions. (Two defaulting states – Arkansas and Indiana – actually lowered taxes as they defaulted.) All state governments were reluctant to confront public opposition to increased taxes.

Changes in voting rights and anger stoked by the economic downturn made state legislators particularly sensitive to public opinion. In the preceding twenty years, most states had expanded the electorate by eliminating property requirements for voting. However, it was the economic crisis that stirred this newly-expanded electorate: the proportion of eligible voters who actually cast a ballot jumped from 54% in 1836 to 78% in 1840. The electorate was enraged against financiers and incumbent politicians alike. The sitting president, Martin Van Buren, was defeated in 1840. His Democratic Party lost control over both houses of Congress the next year but regained control of the House of Representatives the year after. State politics was equally volatile, with power shifting frequently between increasingly factionalized Democratic and Whig parties. In such a climate, few politicians had the stomach to propose increased taxes.

8 American Credit, in: Times of London, 6 September 1847, p. 4.
9 Jay Sexton, op. cit., pp. 39-40.

Confusion at the Center

It was inevitable that some state governments should turn to the national government for help with their predicament. But help did not come. There were deep disagreements among Americans about the appropriate role of the federal government. Many in the slaveholding South were deeply resistant to policies that might set a precedent for federal intrusion into state affairs. Before the crisis, politicians of the North and South had reached an uneasy compromise about the federal role. The main effect of the crisis was to upset this compromise and rekindle old disputes about federal power.

As early as 1839, American and British financiers floated the idea of having the federal government help states by guaranteeing or assuming state debts. The idea came initially from the struggling Second Bank of the United States, which hoped that a federal guarantee would maintain the market for its own portfolio of state securities. The Bank failed soon thereafter, but London's Barings Bank took up the notion, publicly urging the US Congress to issue a "national pledge" to guarantee state debts. Whig politicians were prepared to support the proposal, but it quickly became entangled in the politics of the 1840 presidential campaign. Democrats persuaded voters that Barings' plan was simply a plot by foreign capitalists to protect themselves against losses. Many Democrats were also opposed philosophically to federal action, particularly if the result would be to justify the continuation of tariffs on imported manufactures that favored the industrializing North over the agrarian South.

In the absence of a guarantee or assumption of debt, some states hoped that the federal government would provide them with direct financial aid. There was reason to believe that the federal government would do this. Before the crisis, privatization of public lands produced a windfall for the federal treasury; in 1836, profits from land sales were the biggest single source of federal revenue. A Democratic president, Andrew Jackson, had agreed to distribute land profits to the states, largely as a way of avoiding an expansion of federal functions. However, federal revenues plunged after the onset of the crisis, and distribution was quickly suspended. However, prominent Whig politicians revived the idea. They recognized that a commitment of financial aid to states would drain federal coffers and compel the continuation of tariffs to fund federal operations. Here was an opportunity to forge an alliance between distressed Western states and the manufacturing states of the North.

This proposal revived one of the most bitterly contested questions in American politics. Tariff legislation adopted in 1828 produced a constitutional crisis when South Carolina asserted its right to ignore federal law and the US Congress authorized the use of military force against the state. In 1833, Congress passed compromise legislation that promised a gradual reduction of tariffs until they returned to their pre-1828 levels by 1842. Leading Whigs now proposed to renege on the deal with legislation that combined aid to states with continued high tariffs.

The new tariff legislation triggered violent protests in South Carolina, but federal authorities really had little choice but to adopt it. Even without the commitment of aid to states, the central government was confronting its own fiscal troubles. Customs revenue declined by 40% between 1836 and 1841. The federal government was running recurrent deficits and could not borrow in Europe. High tariffs had to be preserved.

As the tariff debate showed, the economic crisis was threatening the delicate compact that held the union together. There was also renewed controversy over the need for a central bank. The Second Bank of the United States, chartered by Congress in 1816, performed, in a very rough way, the twin functions of managing currency and maintaining the stability of the financial system. However, the Bank was a flawed institution whose power was resented by many, especially in the South and West, and President Jackson vetoed an extension of its charter in 1832. The Bank limped on under a state charter and finally collapsed in 1840.

The crisis intensified debate in Washington about the federal role in currency and banking. The argument produced no results except the fracturing of both the Democratic and Whig parties. The nadir came in 1841, when the new Whig-dominated Congress approved legislation to re-establish a national bank. The Whig President, John Tyler, vetoed the law, and vetoed a second bank bill one month later. Congress subsequently refused to act on Tyler's own reform plan. The relationship between the executive and legislative branches was poisoned for the remainder of Tyler's presidency.

One topic on which many Americans agreed was on the overarching goal of territorial and commercial expansion. Even here, however, the economic crisis complicated national policy. Fiscal distress compelled the federal government to reduce investment in the army and navy, limiting its ability to back expansionist policies with a show of force. There was an additional complication: the country's main rival for land and markets – the United Kingdom – was also its major source of capital and at the moment an aggrieved creditor. The main response to this predicament was to suppress popular demands for aggressive positions in conflicts with the British and to arbitrate these disputes instead. Finance and foreign policy were intertwined: the main British negotiator, Lord Ashburton, was a former head of Barings Bank who owned a million acres of US land.

Ashburton had strong ties to the United States, but he was still an alien to its politics. In 1842, he wrote to the British Foreign Secretary, Lord Aberdeen, that the country was an "ungovernable and unmanageable anarchy" whose public institutions were manned by a "lower description" of people than anywhere else in the world. And yet, he said, this "strange and confused state of Government moves on".[10]

Other Britons were less sanguine about the US's ability to manage its troubles. "It remains to be seen with what patience and judgment the democracy of America will endure and remedy these self-inflicted evils," The Times of London editorialized in May 1842. "Institutions like those which the American people have adopted are especially ill-fitted for a country where the plainest truths of public economy are disdainfully denied by the Legislature, and where the most obvious interests of the community are sacrificed to the passions or prejudices of the people."[11] "Let us get rid of that blasted country," Anthony de Rothschild wrote to his partners in July 1842. "It is the most blasted & the most stinking country in the world."[12]

Civil Unrest

The effects of the economic crisis were profound and sometimes unexpected. Hard times had the effect of reviving and sharpening old disputes, sometimes so virulently that it raised questions about the capacity to preserve civil order. Elections became especially violent. A prominent Whig politician, Philip Hone, reported that there was practically "civil war" in Pennsylvania during the 1838 election.[13] Two years later, Hone wrote that voting in New York was accompanied by "riot and violence... The police seem to be afraid to oppose the majesty of Democracy."[14]

In Rhode Island, the depression revived complaints about the state government's failure to reform voting rights. Rhode Island still imposed property requirements for voting, and a growing number of urban workers had no right to participate in state or federal politics. Until 1840, the issue was debated by a small group of activists. By 1842,

10 Howard Jones, Donald A. Rakestraw: Prologue to Manifest Destiny: Anglo-American Relations in the 1840s, Wilmington, DL 1997, SR Books, p. 114.

11 Finances and Foreign Policy of the United States, in: Times of London, 11 May 1842.

12 Niall Ferguson: The House of Rothschild: Money's Prophets, 1798-1848, New York 1998, Viking, I:375.

13 Philip Hone: The Diary of Philip Hone, New York 1889, Dodd Mead, I:339.

14 Ibid., II:48-49.

however, it was a mass movement. Disenfranchised workers organized informal elections to choose their own governor, legislature and supreme court. Elements of the state militia promised support to this new government.

The sitting legislature authorized the arrest of the movement's leaders for treason, while the sitting governor appealed to President Tyler for military aid. Rhode Island, he said, was "agitated by revolutionary movements, and threatened with domestic violence". Rumors spread that the rebel leaders were gathering men and weapons to challenge the existing state government. Tyler finally moved federal troops to Rhode Island and promised help in suppressing the insurrection. The rebellion was crushed by autumn 1842, and a new Law and Order Party tightened its control over state government.

The crisis also aggravated a longstanding dispute about property rights across a broad swath of New York State, where ten thousand families lived on 1.8 million acres of land as tenants of a few affluent households in a semi-feudal arrangement, a legacy of the Dutch colonial era. The depression undermined the ability of farming families to pay rents while sharpening the pressure on landlords to collect them. The legislature and state courts were incapable of finding ways to reform the archaic arrangements, and the tenant protests finally burst into violence in late 1844. Former President Martin Van Buren, a New Yorker, feared the state was "on the eve of a bloody insurrection".[15] As in Rhode Island, the uprising was dealt with firmly. The state government adopted repressive legislation, arrested tenant leaders, and sent the militia to restore order.

Major American cities also witnessed spikes in violence. Emigration to the west – widely regarded as a "safety valve" that drained the pool of unskilled labor from Eastern cities – plummeted. At the same time, employment opportunities within the cities declined. And in the later stages of the crisis, immigration from Ireland increased sharply. The result was more intense and often violent competition for economic resources, often playing on racial or anti-immigrant rhetoric. In 1844, riots convulsed Philadelphia, a major manufacturing center, until the city was put under martial law. "Order must be restored," Pennsylvania's governor instructed the milita commander. "The disorderly must be curbed and taught to understand and respect the supremacy of the law."[16]

Restoring Order

By 1843, the United States was at its lowest point, fraught not only by economic distress but also by political disorder. Five years later, the country had recovered economically, and internal political tensions had moderated. It was once again a leading exporter of commodities and importer of capital. However, the American public had to make hard choices before the recovery was possible.

Some of the defaulting state governments eventually agreed to honor their debts. This was not easily done. It took three years of political struggle before the legislatures of Pennsylvania and Maryland – the two states best positioned to resume payments – agreed to make good on their obligations. Major European investment banks financed an expansive public relations campaign in these two states and made generous contributions to friendly legislators to counter deep-seated resistance against the new taxes that would have to be levied to service state debts. Many voters resented measures that rewarded foreign and domestic bankers who had played such a large role in triggering the crisis.

In fact, the crisis prompted a broad shift in the taxation policies of many state governments. Before the crisis, states largely resisted imposing politically unpopular property taxes. They could do this because revenues from canals, railroads and bank investments were substantial. The crisis dried up these revenues and finally broke public resistance to broadly based property taxes. Again, this was not an easy shift. In Maryland, for example, legal requirements for the payment of new property taxes were widely ignored. The state government struggled for years to find effective ways of enforcing the law. Nonetheless, a shift eventually occurred: John Wallis calculates that the share of state revenues drawn from property taxes roughly doubled between 1835-41 and 1842-1848.[17]

States also experienced an important shift in attitudes about the role of government in economic development. It was in this period that modern ideas about the limits of state action were more firmly entrenched. The immediate cause of the states' distress had been their involvement in canal, railroad and banking schemes. Voters now looked at these plans more skeptically and increasingly viewed them as instruments by which corrupt legislators could advantage their friends. The more cautious attitude toward development was exemplified by New York State's "Stop and

15 Charles W. McCurdy: The Anti-Rent Era in New York Law and Politics, 1839-1865, Chapel Hill, NC 2001, University of North Carolina Press, p. 169.

16 Michael Feldberg: The Philadelphia Riots of 1844: A Study of Ethnic Conflict, Contributions in American History, Westport, CT 1975, Greenwood Press, p. 115.

17 John J. Wallis: State Constitutional Reform and the Structure of Government Finance in the Nineteenth Century, in: Jac C. Heckelman, John C. Moorhouse, Robert M. Whaples (eds.): Public Choice Interpretations of American Economic History, Boston, MA 2000, Kluwer Academic Publishers, pp. 33-52, here p. 40.

Tax" law, which combined a new property tax with a ban on further canal construction. Michigan's legislators also forbade new construction projects.

The emerging commitment to a limited state role was reinforced by new constitutional restrictions on government borrowing. In 1842, Rhode Island adopted a constitutional limitation on borrowing and state guarantees of private borrowing, unless approved in a referendum. In 1846, New York amended its state constitution to prohibit guarantees as well as direct borrowing unless it was limited in purpose and duration, combined with a dedicated tax and approved by referendum. Over the next five years, nine other states approved similar constraints.

The transformation in American politics was not limited to economic affairs. State and city governments also took steps that improved their ability to maintain civil order. New York City established its professional police force in 1845 – a "civic army" to deal with threats to order created by the depression.[18] Within a decade, all of the North's major cities also created professionalized police forces.

Other events, far beyond the control of American policymakers, contributed to the end of the crisis. The British Parliament's decision to repeal grain tariffs in 1846 led to a surge in demand for US wheat, providing a stimulus to Western states. The political chaos that seized the European continent in 1848 caused a crash in the value of European bonds and led investors to reconsider the US market.

The US war with Mexico also contributed to the end of the crisis. The American public was divided over the annexation of Texas in 1845, but the war that it triggered unified the country. Military recruitment, drawn disproportionately from immigrants, relieved pressure in major cities. The United States' reputation among European financiers was rehabilitated by the successful marketing of war debt in 1848. The acquisition of California, a result of the war, was followed immediately by the discovery of gold in that territory, which provided even more stimulus to the economy.

Too Soon to Tell

A decade passed between the first signs of crisis in the United States in 1837 and its definite end with the Mexican-American War. It began as a problem within the financial sector but quickly proved to have broader implications – undermining the solvency of state and federal authorities, causing unprecedented levels of political mobilization and civil unrest, upsetting many aspects of domestic and foreign policy, and ultimately threatening the delicate compact that held the federation together.

To manage this crisis, Americans were required to make difficult decisions about the organization of government. Some of these choices went to the core of American political identity. The country was founded on the ideals of liberty and popular sovereignty. The crisis challenged both of these ideals. Liberty was required to give way to consolidated police powers. Restrictions had to be imposed on the authority of popularly elected governments. These constraints were considered necessary if the federation was to be made workable and the country reintegrated into the international economy.

The process by which the American polity crafted a response to the crisis was slow and painful. Well-established understandings about the role of government had to be challenged and reversed. Sometimes the cost of inaction had to be fully realized. Many US politicians understood the predicament at the time. In 1844, a Boston lawyer commissioned by Barings Bank to make the case for honoring debts wrote: "Both parties have found, when in power, what, indeed, any party must always find, that there are always great obstacles in the way of a large and sudden increase of taxes. No people will submit to it willingly. It requires time to convince them of its necessity and policy... But the emergency leaves no time."[19]

This, of course, is the eurozone's predicament today. Like the United States in 1837, the European Union is a young federation. It rests on delicate compromises between states with diverse political and economic characteristics. The financial crisis and the ensuing sovereign debt crisis have made clear that existing EU institutions are flawed and need adjustment. But as the American precedent shows, the process of adjustment may not be quick or easy. The current crisis may have social and political consequences that cannot be easily anticipated or managed, and it may take years before European electorates are reconciled to the necessary reforms. For these reasons, it is also premature to dismiss the eurozone as a "failed experiment" – just as it would have been an error to write off the United States, "that blasted country," as Anthony de Rothschild called it – as a failed experiment in 1842. It is simply too soon to tell.

18 Edwin G. Burrows, Mike Wallace: Gotham: A History of New York City to 1898, New York 1999, Oxford University Press, pp. 636-637.

19 Benjamin Curtis: Debts of the States, in: North American Review, No. 58, 1844, pp. 109-157, here p. 155.