The financial crisis that began in 2008 has enriched our vocabulary, even as it has impoverished the millions of people who were laid off in the last few years. Old terms were revived and new terms coined to describe the causes and consequences of the crisis, terms like asset bubble, financial innovation, sovereign debt crisis, and deregulation.

But the Great Recession was not the first of its kind in the United States, nor was its vocabulary novel. In a new book about the Panic of 1837, America’s most severe antebellum financial collapse, Alasdair Roberts, a professor at Suffolk Law School in Boston, shows the parallels between our current predicament and that of our ancestors 175 years ago. The old axiom, “those who cannot learn from history are doomed to repeat it,” has seldom been more apt.
The asset bubble that precipitated the 2008 downturn arose in the US housing market. In the 1830s, the asset bubble was land prices throughout the United States, but especially in the new states and territories west of the Appalachian Mountains. In the mid-1830s, land prices in rapidly growing locales such as Milwaukee, Chicago, St Louis, and New Orleans were rising at rates comparable to home prices in Tampa; Orange County, California; Phoenix; and Las Vegas in the early 2000s.

In 2008, the financial innovations that helped swell the bubble were synthetic mortgage-backed securities and credit default swaps. The financial innovation that helped inflate the 1830s land bubble was a spectacular expansion in the number of state-chartered commercial banks, with their minimally supervised issuance of banknotes. All US banks at that time, save the Second Bank of the United States (the nation’s second central bank; the Federal Reserve is the third), were state chartered. And nearly all of the banknotes in circulation were the obligations of those banks.

In 2008, a sovereign debt crisis began among members of the European Union, including Greece, Spain, and Portugal. Defaults of US cities, like Stockton, California, also occurred. The sovereign debt crisis of the late 1830s involved the default and, in most cases, the repudiation of debts incurred by the governments of states like Michigan, Louisiana, and many others. These states had been profligate in issuing bonds during the 1830s to finance such internal improvements as canals, railroads, and opera houses, projects that became unaffordable when prosperity turned to panic.

Finally, it is widely accepted that either deregulation or failure to vigorously regulate new activities like the derivatives business (including credit default swaps) played a key role in the recent crisis. In the 1830s, too, deregulation helped fuel the crisis. This deregulation came in the form of the Jackson Administration’s decision to oppose recharting the Second Bank of the United States. The Second Bank’s national network had acted as a brake on the uncontrolled banknote issuance of state-chartered banks. Deregulation was also reflected in the federal action of moving the Treasury’s funds out of the Bank of the United States and into a large number of so-called pet banks scattered around the nation.

The beauty of Roberts’ book is that the reader can see the entire arc of the 1837 crisis, from beginning to end, in a historical context—something that studies of the 2008 event will lack for many years to come.

The 1837 panic and the subsequent depression seem to have had some permanent effects on banking and national economic policy that stay with us today. Among these long-lasting consequences are most states’ closer supervision of banks and banknote issuance (state banknote issuance ended in the 1870s), states’ greater efforts to continually balance their budgets year-in and year-out, and the assumption (starting in the 1840s) of a greater federal role in shaping economic policy.

While it is true that all financial crises have certain elements in common, the parallels between pre-industrial America’s 1837 financial crisis and that of our own time are particularly strong. The beauty of Roberts’ book is that the reader can see the entire arc of the crisis, from beginning to end, in a historical context—something that studies of the 2008 event will lack for many years to come.

Roberts nicely combines narrative history with analysis. His book is accessible to both the expert and the novice in economic history. Highly recommended.