"'A Disposition to Seize and Divide': A Transatlantic Financial Panic over United States State Debt Default in the 1840s"

David K. Thomson
Associate Professor of History
Sacred Heart University (USA)

While bonds may not strike a twenty-first century mind as the greatest financial risk, debt at the federal and state level came with many dangers in the 19th century. As United States debt of all varieties (federal and state) became more prominent in the 19th century, there came a realization that debt and potential debt default impacted larger swaths of the populace than ever before. In antebellum America, northern and southern states leveraged the increasing importance of canals, railroads, and cotton as a commodity to pursue economic growth. What resulted was an explosion in financial entities underwriting debt in a variety of forms. Among the most notable of these financial securities was state debt underwritten by state banks. Various state legislatures chartered these banks to underwrite the debt and in doing so led to a drastic expansion in debt. By 1840, said debt reached more than $170 million. But then it came crashing down. Eight states and one territory (Florida) all defaulted for varying degrees of time in the 1840s. The state of Mississippi even fully repudiated their debt. Such actions had tremendous implications not only for states, but likewise for the federal government. After failing to successfully have the federal government intervene, European banking houses- led by the London based Baring Brothers & Co., hired agents stateside to force states to "come right." This paper demonstrates that through the use of these agents and the power of the press and pulpit, European financial institutions forced the hand of a number of state legislatures. The case study of this transatlantic financial panic provides an example of merging quantitative methods with subjective analysis of the historical actors who experienced these events. These episodes of debt default and repudiation offer a fascinating window into the nation's latent financial power during a period of great financial turmoil. Likewise, it goes a long way towards explaining the reorientation and refashioning of United States finance in the nineteenth century along national lines—but with lingering transnational consequences.