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Another Peril of Progress: Indiana Canals and Economic Collapse in Mid-19th Century”

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Abstract

In July 1841, the State of Indiana declared bankruptcy. After years of crushing debt incurred from loans associated with the 1836 Mammoth Internal Improvements Act, the state finally defaulted on their payments to investors, and continued to do so for the next half decade. Hoosiers—because of their insolvency—were attacked from all angles by angry investors and newspapers from as far away as London, denouncing the "plundering vagabonds," saying that "Indiana mocks all the obligations of good faith and common honesty" and is "the land of promise for all the knavery and thievery of the known world."1 In response to attacks on their moral character, Hoosiers could do little to assuage the guilt mongers other than promise to pay their debts later.

Disciplines

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Comments

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"Another Peril of Progress: Indiana Canals and Economic Collapse in Mid-19th Century"

In July 1841, the State of Indiana declared bankruptcy. After years of crushing debt incurred from loans associated with the 1836 Mammoth Internal Improvements Act, the state finally defaulted on their payments to investors, and continued to do so for the next half decade. Hoosiers—because of their insolvency—were attacked from all angles by angry investors and newspapers from as far away as London, denouncing the "plundering vagabonds," saying that "Indiana mocks all the obligations of good faith and common honesty" and is "the land of promise for all the knavery and thievery of the known world."[1] In response to attacks on their moral character, Hoosiers could do little to assuage the guilt mongers other than promise to pay their debts later.

Obviously, residents of Indiana never fit the mold their detractors cast for them. In reality, they—as most people do—sought to pay back their debt as quickly as possible. Hoosiers were not ignorant. They saw the success of other internal improvements projects—most notably the Erie Canal—and realized that the success of internal improvements projects in other parts of the nation allowed for increased commercial activity in agriculture and manufacturing. Governor Noah Noble, in his 1834 Governor's Message to the State Legislature, noted that he saw "no good reason…why we [Hoosiers] should longer hesitate to follow the successful examples of other states."[2] In order to avoid dependence on imports, Noble wanted to "borrow money at a fair rate of interest, and expend it on some well selected projects of paramount public

[1] *Indiana Sentinel*, April 19, 1842.
[2] Dorothy Luis Riker, *Messages and Papers Relating to the Administration of Noah Noble, Governor of Indiana, 1831-1837*, (Indianapolis: Indiana Historical Bureau, 1958), p. 319.

utility."[3] They would repay their debts from two sources: first, with the additional tax money from increased commercial activity, and second, with sales of land near the projects that would appreciate in value as improvements were made. But, the failure of internal improvements in Indiana represents another peril of progress in the United States. An overly optimistic economic analysis, lack of political cohesion, and the Panic of 1837 conspired to bring Indiana to financial ruin. Hoosiers—like so many others in the 1820s and 1830s—caught a bad case of "Canal Fever."[4]

Indiana sought an internal improvements system for good reason. The state's main exports were agricultural products and they were competing with fertile Ohio farms that produced the same corn, pork and dairy that they hoped to sell to the nation. In order to improve their state economy, Indiana residents realized they needed efficient and effective transportation networks to send their crops to market as quickly as their Buckeye counterparts to remain competitive. Ultimately, Hoosiers focused on improving waterways including the Wabash, Whitewater and White Rivers to improve their export potential. Like the rest of American society, they viewed these rivers as lifelines of economic growth to manipulate for commercial gain. In fact, the site of the new state capital at Indianapolis was chosen for its location at the confluence of the west fork of the White River and Fall Creek. State leaders felt it would provide the capital with easy access to the Ohio River and make the city a target of eastern investments thus providing extra economic support. Solid transportation networks were also

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[3]Riker, *Messages and Papers*, 320.

[4] The historiography dealing with canals, the Canal Era, and Canal Fever is voluminous and is far too extensive to provide even the most cursory overview. The old standard is George Rogers Taylor, *The Transportation Revolution, 1815-1860*. New York: Holt, Rinehart and Winston, 1951. More recent are Ronald Shaw, *Canals for a Nation: The Canal Era in the United States, 1790-1860*. Lexington: University of Kentucky Press, 1990; and Lynn Metzger and Peg Bobel, *Canal Fever: The Ohio & Erie Canal from Waterway to Canalway*. Kent, OH: Kent State University Press, 2009. Indiana Canals are discussed in Paul Fatout: *Indiana Canals*, West Lafayette: Purdue University Press, 1985.

desirable for more quotidian ends. As late as 1828, the *Indiana Journal* was prevented from publishing their weekly issue because bad roads prevented delivery of paper to the city.[5] But the failure of the river to handle anything but the lightest river traffic stunted the local economy, at least until Hoosier set their sights on internal improvements. However, the push to develop state transportation networks laid the groundwork for a disastrous collapse by the end of the 1830s and caused Hoosiers great financial hardship.

The first dynamic that led to Indiana's financial ruin was an urge to catch up with more economically developed states coupled with local optimism that the economy of the region could *only* get better. By the 1820s, newspapers were excitedly reporting the success of canal projects in New York, Maryland and Ohio and pushing for local improvements. One news article in the *Indiana Journal* reprinted from the *Buffalo Journal* described the advantages of a canal for commerce, noting that the two hundred tons of merchandise that passed through their port would find easy market access on one of the 34 ships headed to New York each week. It concluded that "such is among the consequences of the Erie canal, the enlivening influences of which are still extending west, and are already felt even on the shores of the Mississippi."[6] Another article from the same issue of the *Indiana Journal* noted that the Ohio Canal took out its final loan and that "The Ohio canal is a work of great magnitude, and well worth the enterprise of this young, though Herculean state. The above is the last loan necessary to complete the canal, which will open a market for the vast and increasing products of valuable farms, that have been heretofore suffered to perish in the garners, or found markets in which profit was consumed by expensive

[5] *Indiana Journal*, February 14,1828.
[6] "Canal Commerce," *Indiana Journal*, November 6, 1828.

transportations."[7] Supporters of internal improvements frequently offered these dual advantages when promoting internal improvements. The State of Indiana would benefit from trade associated with the commercial traffic from Lake Erie to the Ohio River. Additionally, these projects would bolster the family economy by offering cheaper transportation to markets, thus allowing farmers to produce a larger profit.

Yet, even with newspapers pushing for internal improvements, Hoosiers took a gradual approach toward internal improvements as late as 1833 to avoid state debt. Their initial attempts to develop the state focused on improving the Wabash River Valley which connected Lake Erie and the Ohio River through fertile Northern part of Indiana. An 1832 bill provided for the initial construction steps on the Wabash and Erie Canal but specified that Canal Commissioners were not to sign contracts that would exceed available state funds. After one year of construction, only five miles were completed but few complaints emanated from the state legislature. Sensing the liberality of the state government, the Canal Commissioners revised their budgets for the next year upward and recommended that canal loans be divorced from available state funds which the legislature accepted.[8]

After the restrictions on loans were lifted, bills for internal improvement projects emerged from all parts of the state. Building on their faith that the economy would continue to provide credit and that improved transportation networks would raise land prices, Hoosiers turned to a system of "general improvement" that would undertake all forms of internal improvements at once. In 1834, citizens from Terre Haute proposed that the Wabash and Erie Canal be expanded and extended through Mt. Vernon. Legislators also heard the first requests to

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[7] "Ohio Canal Loan," *Indiana Journal*, November 6, 1828. Advertisements like this permeate local newspapers up to the Panic of 1837. The use of two articles from the same issue demonstrates the ubiquity of pro-internal improvement arguments from multiple perspectives at the local level.

[8] Paul Fatout, *Indiana Canals*. (West Lafayette, IN: Purdue University Press, 1972), p. 59.

build a canal from the Wabash River through the state capital along the White River down to the Ohio. Other constituents pushed for the creation of the Whitewater Canal along the eastern border of the state to connect the National Road to the Ohio River. Finally, systems of canals were promoted in the northernmost part of the state to connect the Wabash and Erie with the Great Lakes. These internal improvement projects aimed to provide a market outlet for Indiana's extensive agricultural output. Only a fraction of Hoosiers recognized the difficulty of undertaking all projects at once. Calvin Fletcher, a prominent Indianapolis lawyer and banker, noted that "if the various projects contemplated by the surveys should be attempted the present state of the country does not demand it nor will its resources warrant the undertaking."[9] Clearly, internal improvements would have improved Indiana's economy, but few recognized that a "general system" of improvements was too much for the young state to bear.

The second, and concurrent, cause of bankruptcy was a lack of political cohesion. In no part of the state were Hoosiers willing to concede their interest in internal improvements. Calvin Fletcher's diary from June 1835 shows that he and Governor Noble were worried that "unless all [projects] can be undertaken none will be accomplished" and noted that the governor's "next message on the subject should be penned with care."[10] By 1835, Canal Fever gripped Indiana and caused rollicking battles over the location of internal improvement projects. Every town on the Ohio River put in an application to be the terminus of a railroad to Indianapolis. Newspapers across the state promoted the benefit of having a canal run through their area and printed economic "estimates" supporting their location. Hoosier's across the state bitterly complained that their interests were being sacrificed for those in other areas. Politicians promised to

[9] Gayle Thornbrough, *Diary of Calvin Fletcher*, Vol. 1., (Indianapolis: Indianapolis Historical Society, 1971), p. 271.
[10] Gayle Thornbrough, *Diary of Calvin Fletcher*, Vol. 1., (Indianapolis: Indianapolis Historical Society, 1971), p. 272.

"support any and all objects of Internal improvements which will promote the best interests of the citizens, and not bring ruin on the state."[11]

The unwillingness of any section of the state to support internal improvements in another region coupled with Hoosiers' unwillingness to turn a critical eye to canal profit estimates led directly to the assumption of massive state debt. In 1836, the governor signed the Mammoth Internal Improvements Bill which authorized a loan of $10 million for 25 years at 5% interest. The commissioners in charge of the system "were directed to begin work at once and to speed construction on all lines simultaneously."[12] As a result, the state was heavily leveraged in debt by the time the first rumblings of economic distress rippled through the northeast.

The Panic of 1837, caused, in part, by land speculation and foreign economic policy, was the final nail in the coffin. Indiana may have survived their eagerness and selfishness had credit continued until the completion of their projects. They rightly assumed that finished canals and roads would raise land prices. However, the unforgiving laws of economic reality finally came to bear on a state that had lied to itself so convincingly that they entrusted their future to a reality attainable only through the most fortuitous circumstances. The panic induced fear into creditors and debtors alike. Fletcher, who himself had taken on debt to speculate in farm land and was an important part of the state's banking system, described the steps to avoid hardship in Indianapolis' merchant community. He noted that the local merchants "have privately resolved not to do any injustice to any of their Eastern creditors but to pay them all an equal portion as it becomes due." However, they also agreed to "resist bills drawn on them by Eastern merchants

[11]*Indiana Journal*, July 10, 1835.
[12]Fatout, *Indiana Canals*, 73.

without a previous agreement to do so."[13] Hoosiers would repay their debts, but not at the expense of local businesses.

As the panic worsened, the interest payments on debts accumulated under the Mammoth Internal Improvements Act continued to mature. In 1839, the state debt was a shade over $10 million dollars with and interest payment of $479,000 due in January.[14] The legislature borrowed specie from the State Bank of Indiana as a last ditch effort to avoid insolvency, but the damage was done. Hoosiers had drifted too far into debt to recover even after stopping construction on most internal improvement projects. Even the sale of state assets was not enough to right the economic ship. The 1841 interest payment was the end of the line for the young state's clean credit history. It was all over but the finger-pointing.

More importantly, the Panic of 1837 caused hardship for the average citizen in Indiana. In the 1836 estate sale of Samuel Chapin, the sale price was not necessarily an indicator of the appraised value of an item. His horse, appraised at $55 sold for $55. His wagon and harness were appraised at $25, and sold at a loss for $20.50, and his rifle, appraised at $12, sold for a profit at $13. His estate sale, and others like it, shows that Hoosiers were willing to pay more than the appraised value for goods because they were optimistic that they were getting a good deal. The 1837 depression, however, reduced prices of goods and stripped the optimism from local communities. For instance, William Holmes' bay mare was appraised at $100 in September 1837, but only sold for $86 a month later and his side saddle, appraised at $8, only sold for $7. His entire estate was appraised at $308, and sold for a meager $123. Anthony Wilson's hogs were appraised at $12 in 1837 and sold for $10 at his estate sale while his bed was

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[13]Gayle Thornbrough, Diary of Calvin Fletcher, Vol. 1., (Indianapolis: Indianapolis Historical Society, 1971), p. 427.
[14]Fatout, *Indiana Canals*, 97.

appraised at $12 and sold for just over $8.[15] These records show that Hoosiers at the local level were heavily affected by larger national trends. Far from being the unconnected backwater that previous historians have suggested, Indiana farmers were active agents in the wider market whether they like it, or not.

In sum, the story of the Central Canal in Indiana provides another historical example of potential consequences of speculation. In a copycat world, Hoosiers attempted to achieve the same success that occurred in upstate New York along the Erie Canal. Ignoring the outcomes of failed canal projects from England to Ohio, they hoped that their own system of internal improvements would foster the same level of economic growth seen in the Empire State and free them from the tyrannical grasp of import economics. They believed that a system of internal improvements would allow them to market their products to the rest of the world and provide enough profit to begin investing in manufacturing and commerce. However, they did not consider that the credit valve would dry up. Nor did politicians cooperate for the good of the state. Finally, they did not think through their overstated calculations for profit which directly led to the failure of the state economy by 1841 and the hardship of average people across the state, a pattern we have seen repeated—big and small—time and again in our history.

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[15], Marion County, Indiana, Probate Complete Record Book 1-2, Jan. 1830-Aug. 1843, Box 26, Indiana State Library, Indianapolis, IN.