

The Great Canal Scrip Fraud

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In the first half of the 19th century a major problem in the young state of Illinois was a workable paper money system to supplement the constant shortage of specie, or gold and silver coins. There was no National paper money at the time, so state banks were started up whenever there appeared to be a good chance for rapid economic expansion.

In the 1830s, when the State launched an expensive program of internal improvements, it was only

natural that it should also create a State Bank system to help finance the canal, railroad and river improvement projects. The construction program was beyond the means of the State, and the State Bank system was never really capitalized by the State. The internal improvement scheme would be in a state of collapse by 1839, and the State Bank would struggle on until 1842 when it, too, went under. Of all the programs for internal

improvement launched in the 1830s, the only one to be brought to a successful conclusion was the Illinois and Michigan Canal. This artificial waterway had been advocated since 1673 to provide a water link between Lake Michigan and the Illinois River.

The project was an eminently practical one. When it was completed in 1848 it would provide northern Illinois with a transportation system that would be of primary importance in the



Marquette and Joliet made first known proposal for canal's construction.



Indian Treaty of 1816 gave U.S. land along Des Plaines and Illinois.



Before the Canal, farmers had to drive livestock in on foot to Chicago markets.



Immigration reached new heights with the need for workers on the Canal.

development of the state. The canal was financed by loans negotiated by the Canal Commission, who were a state body separate from the Internal Improvements Commission and were more successful in obtaining loans in the East. Their success was due to the obvious fact that it was a practical project, not a political boondoggle as were most of the other internal improvement projects, and also because the Canal Commission had a large tract of land that could be offered as collateral. Fortunately, the capital thus obtained could only be used for construction of the canal and could not be diverted to other internal improvement schemes.

As the 1830s advanced, the internal improvement program wandered deeper and deeper into financial difficulties. The State Bank system was hardly better off. In 1837 the State Bank had to suspend specie payment on its notes. In order not to tie up the large amount of Canal funds in the branch State Bank at Chicago by a bankruptcy, a special session of the legislature allowed the State Bank to indefinitely suspend specie payment.

By 1839 work had slowed even on the Canal, for this depression had hit not only Illinois, but all of the western world. As a result, a major problem facing the Canal Commissioners was in paying the contractors and the laborers.¹ In 1839 a loan was negotiated in the East by the State for the canal, but it would be paid only in monthly installments of \$100,000.² That was insufficient to pay the contractors, so it was decided to pay with scrip redeemable in 90

days issued through the Branch State Bank at Chicago. The scrip was issued in \$1, \$2, \$5, \$10, \$50 and \$100 denominations in May and August of that year. This was the first canal scrip that was issued, and these notes would resurface in the 1850s as part of the Great Canal Scrip Fraud. Most of it had been redeemed by 1840.

In 1840 the legislature, angered that some officers in the State Branch Bank at Chicago had been using bank funds to speculate in pork, decided to move the bank out of the sinful city to Lockport.³ The bank was established at the Canal Office building in Lockport. The Canal Commission, through the State Bank, now issued the second set of canal scrip. These were issued in a variety of denominations from \$1 to \$150. Most of the money was engraved and printed by Rawden, Wright and Holcomb of New York, who printed notes for a number of canals and other types of commercial enterprises that used paper money. The intent of the Canal Commissioners was that this scrip would be used for money throughout northern Illinois. If this scrip was accepted, then the problem of short-term financing would be solved.

At an auction of canal lands in 1840 most of the land was paid for with this 1840 scrip, which was honored at par. In fact, many contractors were paying their workers with this 1840 canal scrip. The Irish canal workers found to their sorrow that about the only thing they could buy with the scrip was canal land. As a result many bought farm land and

town lots and settled down to become farmers, merchants and residents in northern Illinois.

The businessmen of Chicago were not, however, enthusiastic about notes issued by the State Banks even if backed by the Illinois and Michigan Canal fund. They preferred paper from Buffalo banks, which were secured by something more tangible than the promises of the notoriously underfinanced Illinois State Bank System.

Not only was the issuance of 1840 a flop in creating a usable currency for Illinois, the Canal was finding it increasingly more difficult to raise funds from out-of-state bankers for the construction of the canal. The state was by now deeply in debt, and had little means of paying off its debt. Some politicians openly talked of repudiating all or part of the state debt. The branch State Bank was moved back to Chicago in 1841, and in 1842 the system went into bankruptcy.

In an effort to keep the work going along the line of the canal, the Canal Commissioners in 1842 issued the third scrip issue. This was in the form of certificates of canal indebtedness, which, in a show of tightfistedness, were printed on the back of the fancy 1840 notes, which had to be cut down for that purpose. These were issued between 1842 and 1844, but were never really accepted. As a result, canal construction gradually slowed to a halt. There was no more canal scrip issued.

In 1845 the troubles over canal financing came to an end when the canal was taken out from under



ORIGINAL SCRIP, drawn in 1839 on the Branch State Bank of Chicago.

the exclusive control of the state. State creditors in New York, Boston, and London insisted that if they were to lend sufficient money to finance the canal's completion, about \$4 million, the canal would have to be placed under the control of three trustees, two chosen by the out-of-state creditors and one chosen by the governor. Also, the state had to promise to levy a property tax to retire its debt. The canal remained under the trusteeship until 1871. Now the canal had access to money directly from New York, and it could pay the contractors without going through any state institution.

By 1848 the canal was finished and open for business. In 1871 it had paid off the debt and the interest, and for some years after that continued to pay a profit to the state over and above its expenses. It was one of the few canals in America to pay its own way.

Returning to that first issue of canal scrip in 1839, it is now necessary to trace its various

travels, which started in 1840. In that year all but about \$300 of this scrip had been redeemed. The Canal Commission treasurer, Col. Jacob Fry, and the secretary of the Canal sealed most of the redeemed notes in a wooden box; many of these were of the \$50 and \$100 denomination and most had not been hammer canceled.⁴ In addition to this well-sealed box, the remainder of the scrip was put into an old candle box. These two boxes were taken to the Branch State Bank at Chicago. In 1848 the State Trustee of the Canal ordered these two boxes to be taken from the old state bank building to the canal offices in Chicago. There they remained, still sealed, but much battered about evidently, until 1853. In that year the newly appointed State Trustee, Josiah McRoberts, asked newly-elected Governor Joel Matteson⁵ to take them to Springfield so that they could be deposited with the State Treasurer.

McRoberts had to re-pack the scrip that was in the old candle box, which was falling apart. This

scrip he unwisely put into a shoebox.⁶ If only McRoberts had known that shoe boxes bring out the worst, the most illegal avariciousness, in the make-up of Illinois politicians! How many otherwise ordinary Illinois statesmen would have gone down in the great book of Illinois politics for their probity but for a strange desire to put state funds in the proximity of shoe boxes?

It appears that the obscure McRoberts was the first to put together these two seemingly innocent things to produce the state's first financial scandal. The shoebox and the sealed wooden boxes were placed together in a trunk by McRoberts one early January day in 1853. McRoberts met the new governor, Joel Matteson, in Joliet, and rode with him to LaSalle. There he helped the governor transfer the trunk to the Illinois Central station for the trip to Springfield. McRoberts returned to Chicago, and no more was heard of the trunk with its scrip for some years.

In 1858 it became known that

a large amount of this scrip was being redeemed. This had been going on since 1856, and the person redeeming it was none other than Governor Matteson. As soon as this was discovered, the cry of fraud was heard in the land.

Matteson, who had garnered over \$200,000, was quick to declare his innocence having, he said, purchased the scrip from a number of speculators. He said he had not seen the trunk since he had deposited it in the basement of the Statehouse. Indeed the trunk was found in a dusty corner of the Statehouse basement, but not as it had been given to the Governor in 1853. First of all, the shoebox was gone, along with its contents. The sealed box had evidently been broken into and an attempt had been made to reseal it. The elusive shoebox was never found, not even after Matteson's death. So, in the continuing Saga of the Shoe Box in Springfield, sometimes they are

found, sometimes they disappear forever.

Naturally, an investigation was in order. The legislative inquiry got as far as calling Matteson to be a witness. He, to forestall that, paid back to the state \$224,182.66, which he raised by selling his Springfield mansion and a house in Quincy.⁷ As soon as the money was paid, the legislative investigation was closed.

Next, a grand jury was convened at Springfield in April 1859. It gathered a lot of testimony about how the scrip was packed, how it was handed over to the Governor in Joliet, what had been canceled, and what hadn't; however, Matteson was not called upon to testify, nor were any of the individuals from whom he said he had purchased the scrip.

The grand jury moved to indict, 16 – 7; the next day it voted to reconsider, but again the vote, by

a narrow margin, was for indictment. The next day there was another vote to reconsider, but this time the vote was 12 – 10 *not* to indict. There was much grumbling over this, and it was pointed out that when the jury was chosen, many of its members were taken not from the voting lists but from hangers-on about the court house, a select group of individuals very favorable to the former governor.⁸ The grand jury ordered its transcripts printed and the case was closed.

Thus ended the Great Canal Scrip Fraud, a product of the voracious Illinois shoebox. As in subsequent shoebox cases, the principal got off practically scot-free. In 1873 Governor Matteson died, somewhat besmirched to be sure, but still well thought of, and rather wealthy.

References, on next page.

References:

1. Putnam, William J.: *The Illinois and Michigan Canal*, A Study in Economic History, University of Chicago Press, Chicago, 1918, p. 45.
2. Ibid, p. 48.
3. Dowroe, George W: *The Development of Banking in Illinois 1817-1863*, University of Illinois Studies in Social Science, Vol., II, No. 4, Dec. 1913, Champaign, Ill., p. 95
4. *The Great Canal Scrip Fraud*: Minutes of proceedings and Report of Evidence in the Investigation of the Case, by the Grand Jury of Sangamon County, Illinois, at the April Term of said County, 1859. Ordered to be published by a Vote of the Grand Jury. *Daily Journal Steam Press*, Springfield, Ill. 1859, p. 19
5. Joel Matteson was born in 1808 in New York and came to Illinois in 1833, making a name for himself as a businessman in Joliet. He started building his fortune by buying up with state scrip (accepted at par) railroad iron imported but never used in building the state's defunct railroad. He then sold the same at a handsome profit to eastern railroad builders. Elected Governor in 1853 as a Democrat, he died in 1873 and is buried in Chicago.
6. Davidson, Alexander and Stuve, Gernard: *A Complete History of Illinois from 1673-1884*: Springfield, Ill. 1884, p. 669
7. Ibid, p. 668.
8. Op. cit., *The Great Canal Scrip Fraud*, p. 27.