On Independence Day, 1828, President John Quincy Adams rose early and made the short trip from Washington to Georgetown. There, at the Union Hotel, he met with the President and the Board of Directors of the Chesapeake and Ohio Canal Company, officials of the incorporated cities of the federal district, cabinet members, and foreign dignitaries. At 8:00 a.m., led by a band, the group proceeded to a wharf and boarded the steamboat Surprise, which carried them to the entrance of the Potomac Canal. The President and his party then traveled on canal boats to a location “just within the bounds of the State of Maryland.” Here “was the spot selected for breaking the ground” for the Chesapeake and Ohio Canal. The company’s president made brief remarks and then handed President Adams a spade with which to remove the first shovel of earth. Adams spoke to a crowd of about 2000, then struck the spade at the earth. It met resistance. He struck three or four more times, but a segment of tree stump prevented success. Adams removed his coat for greater freedom of movement and struck the earth again. This time he removed a spade of dirt, and the crowd roared. After addressing the gathering for another fifteen minutes, he returned to the Executive Mansion, exhausted by the morning’s activities.1

For President Adams, participation in the groundbreaking event was more than ceremonial and symbolic. He had, it is true, closely identified his administration with “the internal improvement of our country.”2 His Secretary of State, Henry Clay, championed infrastructure development as part of his so-called American system, and Adams himself hoped, among other ambitious national plans, to bind all regions together with a great network of roads and canals. But in the case of the Chesapeake and
Ohio more was at stake than administration policy. The government of the United States was itself a stockholder in the venture and would soon own 10,000 shares at a cost to taxpayers of nearly $1,000,000.³

While the investment in the Chesapeake and Ohio Canal Company was the most costly, it was not the first federal investment in private canal company stock.⁴ In fact, four enterprises, including the Chesapeake and Ohio, enjoyed federal subscription.⁵ The first was the Chesapeake and Delaware Canal Company, which planned to cut from Chesapeake City, Maryland, to a site south of Delaware City, Delaware. Success would link the upper Chesapeake Bay and the Delaware River. Legislation by Congress, May 2, 1825, and signed by President James Monroe on May 3, his last full day in office, authorized Treasury to buy 1,500 shares, using dividend income from the government’s holdings in the second Bank of the United States for payment.⁶ As it worked out, Treasury purchased 962.5 shares in 1825 at $200 per share and the remaining 537.5 the following year at the same price. The total cost to taxpayers was $300,000. Four years later the government deepened its commitment to the Chesapeake and Delaware. Legislation in 1829 authorized purchase of 750 additional shares. This measure added another $150,000 to the federal stake in the company.⁷

The Louisville and Portland Canal Company was also the object of federal investment. This firm was established to cut a canal from Louisville to Portland in Kentucky and thereby bypass rough water on the Ohio River.⁸ Begun in 1826, it was completed in 1830, “smoothing the flow of traffic,” as Richard C. Wade has observed, “to the Mississippi.”⁹ Congressional legislation of May 13, 1826, authorized a federal stock purchase “not exceeding” 1,000 shares “for a sum not exceeding one hundred
dollars per share. Treasury invested over time, however, buying 200 shares promptly and another 100 shares during the final quarter of the year. It purchased 300 additional shares in 1827 and the same again in 1828, for a total of 900 shares at a cost of $90,000. It remained authorized to procure another hundred shares. On March 2, 1829, however, Congress further increased government interest in the company. The corporation had apparently confronted a number of defaults, and, to rescue the operation, new legislation permitted Treasury to buy "any stock which may have been forfeited to the company, and which [may] be undisposed of on the fourth day of March next, not exceeding thirteen hundred and fifty shares" and "not exceeding one hundred dollars each." Treasury exercised its option during the course of the year. Between March 4 and September 30 it bought 1201.5 shares and, in the final quarter, the remaining 233.5 shares. By the end of 1829 the government's stake in Louisville and Portland amounted to $233,500.

Another company whose stock attracted federal funds was the Dismal Swamp Canal Company. This enterprise was an outgrowth of the old Dismal Swamp Company which had, as Charles Royster has recently and brilliantly argued, a "fabulous history." The canal aimed to connect the lower Chesapeake near Suffolk, Virginia, and Albermarle Sound near Elizabeth City, North Carolina. In fact, the first attempt at securing federal subscription to Dismal Swamp stock was introduced as an amendment to the 1825 bill authorizing the investment in the Chesapeake and Delaware Canal Company. The amendment was defeated in the Senate on February 24, 1825, and the Chesapeake-Delaware bill passed unencumbered.

Interest in the Dismal Swamp Canal did not evaporate, however. The following year legislation authorized the purchase of 600 shares for $150,000, provided that "the United States Board of Engineers . . . examine" the canal and "report . . . to the Secretary
of War "that "the plan" for the canal "will answer ... as a part of the chain of canals contemplated along the Atlantic Coast, and that ... the sum hereby authorized ... will be sufficient to finish the said canal." Hence, the authorization was conditional, but these conditions were satisfied.16 By September 30, 1826, Treasury pumped $150,000 into the company and secured its 600 shares.17

This was not surprising. By the time congress enacted the 1826 law, the Dismal Swamp Canal was operational. Twenty-two and a quarter miles long, thirty-eight feet wide, and five and a half feet deep, it was almost finished but already collecting tolls. The subscription Congress approved was actually to finance an extension, "connecting the ... canal with the Northwest River, at any point where" the company "might select."18 The government bought into an up-and-running enterprise. Indeed, prospects for the Dismal Swamp operation must have seemed promising. Three years later new legislation authorized, without condition, the purchase of 200 additional shares, increasing the government's stake in the company to $200,000.19

These investments prepared the federal government for its greatest canal investment: 10,000 shares in the Chesapeake and Ohio Canal Company. This enterprise emerged from the former Potomac Company and was incorporated under the laws of both Virginia and Maryland. The new company planned to build a canal from Georgetown to Cumberland, Maryland, running parallel to the rough waters of the Potomac, and then from Cumberland to the Ohio River. Completion would link the latter with Chesapeake Bay, a union with significant commercial and military implications. In March, 1825, congress confirmed Virginia's incorporation of the company and three years later did the same for Maryland's.20
On May 24, 1828, Congress enacted legislation for the purchase of 10,000 shares of Chesapeake and Ohio stock. The law directed Treasury not to buy more than one-fifth in any one year and to use dividends from the government's stock in the second Bank of the United States to make the payments. Treasury acted that year, buying 750 ¾ shares at $99.90 per share. Over the next several years the government increased its stake in accordance with the 1828 law. By the end of 1833 it owned 10,000 shares at a cost to taxpayers of $999,000.

These investments were controversial. The principal forum for debate was, of course, the Congress of the United States, whose legislative authority was required for the government to secure the stock. Within both the House of Representatives and the Senate were supporters and opponents of the acquisitions. The first occasion for debate arose in January, 1825, when Representative Joseph Hemphill of Pennsylvania, Chair of the Committee on Roads and Canals, introduced the bill for the subscription to the stock of the Chesapeake and Delaware Canal Company. His remarks in favor of the bill as well as their rebuttal by Representative James Hamilton Jr. of South Carolina are important not because they were great and insightful speeches, but because they laid out the major themes that were repeated over and over again, with variations, by advocates and opponents of federal canal investment during the ensuing years.

According to Hemphill, interest in a canal linking the Chesapeake Bay and the Delaware River enjoyed a long history. Not only did it antedate the American Revolution, but since independence multiple surveys of possible routes had actually been made. Maryland had acted first, incorporating the company in 1799. Subsequently, Pennsylvania and Delaware enacted legislation to cooperate with both Maryland and the
company. All parties, the Pennsylvania representative maintained, anticipated federal investment in the project. Delay after delay followed. Finally, however, with only $700,000 with which to work, the company began construction on April 15, 1824. Since then about thirty-seven miles had been cut, but additional funds were needed for completion. Much rested, Hemphill believed, on the outcome. Failure or "any unfortunate delay . . . in the prosecution of the work . . . would dishearten spirited individuals, and produce an unhappy effect on the contemplated improvements of the country." In short, investor confidence would collapse if the company, pursuing a long sought objective, could not secure assistance in bringing the project to a successful conclusion. The federal government itself would induce an economic slump. "Nothing is now wanting to insure success," Hemphill said, "but a participation on the part of the General Government, which will create an entire confidence, that the undertaking will be accomplished in a reasonable time." 23

Completion of the canal entailed more than sustaining confidence and prosperity. To Hemphill, the canal represented a significant national defense asset. He believed that its "great importance to the nation, in a time of war" was obvious. "As a military work, it will be equal to any fortification that has been erected, and on which so much money has been expended." The canal would permit moving men and equipment from the Chesapeake to the Delaware along an interior waterway without exposing them to the hazards of the open sea, no small advantage, Hemphill thought, if the enemy were a strong naval power. Recalling the sorry events of 1814, the Pennsylvanian argued that the canal would also help defend the national capital. 24

The Chesapeake and Delaware Canal would do more, Hemphill asserted, than provide for the common defense. It also offered peacetime benefits which, he said, were
“impossible . . . to estimate.” For example, together with the Dismal Swamp Canal, the Chesapeake and Delaware would “form a base of water communication” stretching from Trenton, New Jersey, all the way to North Carolina. Moreover, the numerous rivers flowing into that “base of water communication” from Virginia and Maryland would encourage and facilitate trade with the west as well as along a north-south axis. In short, the canal would promote interstate commerce and bind the union more closely together.

Having made the case for the national importance for the canal, Hemphill addressed the implications of the proposed federal stock subscription. “I will not pretend to give any estimate of the probable profits to the stockholders,” he said, “but, comparing it with other canals, which in their infancy yield handsome profits, . . . it is not extravagant to put down the profits of the canal at a sum exceeding the legal rate of interest.” As a stockholder, the government “will lose nothing, but, in a national point of you, will reap many and important advantages.” Among the advantages, of course, were stock dividends as well as capital gains from possible future sales.

Hemphill had no question concerning the constitutionality of the proposed legislation. “There is nothing that can leave a doubt as to the powers of Congress to act on this occasion.” Nor was he concerned about the propriety of a federal stock subscription. “And,” he declared, “as to the expediency of a Government becoming a stockholder in a corporation, experience has shown that it is highly beneficial, and attended with no inconvenience. The practice of the states is full proof of this. In many instances, they encourage spirited individuals, by creating corporations, and subscribing as stockholders.” If the states could invest in corporate stock with positive results, so too could the national authority.
The representative from Pennsylvania had made a powerful case for federal assistance to the Chesapeake and Delaware Canal Company. But when the vote was taken to engross the bill and prepare it for a third reading, the measure carried by a very slender margin: 86 to 83. The closeness of the vote suggested a strong opposition.

The bill underwent its third reading on January 19, and the next day Representative James Hamilton Jr. of South Carolina addressed the House as spokesperson for the opposition. He announced his intention to vote against the measure but wanted “to assign the reasons which induced” him to do so. While he did not deny congress’s authority to declare war, regulate interstate commerce, and promote the general welfare, he nevertheless believed that federal authority could not apply to or justify specific projects of internal improvement because they “could be stretched . . . to as many objects as there are subjects of barter and commerce.” For that reason he was not “disposed to vote for any work, until, by an act of specific legislation, it could be made apparent what was the outline of the scheme of internal improvements.” In effect, Hamilton objected that there was no approved strategic plan for the internal improvement of the nation, not even an agreed upon order of priorities. To him, the Chesapeake and Delaware Canal bill represented an ad hoc approach to an issue of extraordinary national importance. He feared that this approach would cause states or regions of states with small congressional representation to have their developmental needs go unattended. Legislation was necessary to provide “some certain stipulation that those portions of the country most speedily requiring . . . improvements, and least able to accomplish them, should claim our first attention.” If legislation “detailing the works in their order of progression, in reference to their relative utility, could not be obtained,” then “four or five large states might confederate and keep the benefit of the system to themselves, under that ‘solemn
plausibility’ of the public good, which self interest so freely supplies whenever the pretext is at all necessary.” Suspicion, if not cynicism, permeated Hamilton’s remarks. For him, regional and not national interest stood behind the bill. If the question before the House were, he asked, “Where ought we to begin?” with internal improvements, then the answer, he believed, would not be in linking the Chesapeake and the Delaware. Only “certain portions of our Union,” he asserted, would benefit from passage of the measure. He concluded this segment of his speech, declaring: “It is perfectly obvious that the Chesapeake and Delaware canal is . . . one of those works which must and will be accomplished without the aid of Government, by the natural progress of wealth and population, and the probable profit which will be afforded to the investment of capital under the guidance of those who can best direct it—its owners.” In other words, since the canal was going to be completed one way or another, there was no need for government assistance; and, in the absence of a master plan, there was no justification either.

Hamilton was not finished. He doubted the military benefits the canal allegedly would confer. Although he did not identify specific locations, he argued that there were other places in the country “infinitely more vulnerable” to an enemy operation than the areas served by the Chesapeake and Delaware canal. Subscribing to the company’s stock to meet defense needs was “beginning in the wrong place.” The military benefits of the canal, he thought, were “greatly overrated.” It would be easier and faster to march 25,000 men and their equipment overland than to try to squeeze them by boat through a canal as narrow as the one under construction.

After dismissing the defense argument in favor of the stock subscription, Congressman Hamilton raised another concern. He worried that, if the bill passed, every
canal and turnpike company in the country would seek legislation to secure the same "liberality" that the Chesapeake and Delaware had acquired and for precisely the very same reasons: development, commerce, and defense. Of course, such appeals could be denied, but never on their merits. Inability to rally the necessary political muscle in congress would alone explain denial.32 Justice, in other words, would require supporting all, but politics would justify supporting only one or a few. Hamilton assured his colleagues that he did not oppose internal improvements for national purposes. He did oppose a piecemeal approach, however, because special interests rather than the nation stood to gain. He hoped that a strategic plan for national improvements would be developed, debated, and adopted before public funds were invested in specific projects.33

The Hemphill-Hamilton debate of 1825 spelled out the issues which divided proponents and opponents of federal investment in canal companies: What was local and what was national? Was there need for a strategic plan? Was the common defense promoted? Was interstate commerce encouraged? Were special interests or the national welfare served? Was prosperity at stake? All these questions resurfaced in one form or another during subsequent debates over federal stock subscriptions in canal companies. Yet, despite all the points of disagreement, there were at least two matters upon which both sides concurred. Representative Hamilton alluded to one in his concluding remarks. He reminded the House that "in the course of a very few years, the public debt would be extinguished" and, when that happened, "some portion of our great resources" would be directed "to the accomplishment of those works which form some of the finest memorials of the advancement of a people, in that most valuable of all national sciences, the knowledge of taking care of posterity as well as of themselves."34
Representative Hamilton’s reference to the anticipated extinction of the national debt is particularly significant. Annual revenue surpluses had become frequent since 1816, allowing for remarkable reduction in the public debt by 1825.\textsuperscript{35} In fact, less than a month before the Hemphill-Hamilton debate, Secretary of Treasury William H. Crawford had, in his annual report on the nation’s finances, called attention to the debt “reduction that has been effected, during the last eight years.” He predicted, correctly as it turned out, that “the whole of the public debt of the United States will be extinguished by the end of the year 1835.”\textsuperscript{36} Clearly the United States could afford investing $192,500 in the Chesapeake and Delaware Canal Company. Money was not an issue, and both advocates and opponents of the stock purchase were aware of this. The government’s enviable annual budget situation, combined with imminent national debt freedom, constituted the financial environment within which the Chesapeake and Delaware debate, as well as subsequent debates over public investment in canal companies, took place.

Furthermore, both advocates and opponents of the stock subscriptions agreed on another matter of particular importance. Proponents like Joseph Hemphill simply assumed the propriety of investing public funds in corporate stock. Many state governments had and still were doing it, and, of course, the federal investments in both Banks of the United States were themselves valuable and unchallenged precedents. Opponents like James Hamilton Jr. apparently agreed. His lengthy and often caustic critique of the Chesapeake and Delaware Canal bill never questioned the legitimacy or propriety of the government’s investing taxpayers’ dollars in corporate stock. Nor did this matter emerge as an issue in later debates. Given today’s conception of government-business relationships, in retrospect this seems a striking omission.
What, then, were the federal government’s investments in canal stocks? What did its portfolio look like? Table I summarizes the dollar investment by company and by year. By the end of 1833 the federal stake in canal companies amounted to $1,882,500.

Table I: Federal Investments in Canal Companies, 1825-1833

<table>
<thead>
<tr>
<th>Company</th>
<th>1825</th>
<th>1826</th>
<th>1827</th>
<th>1828</th>
<th>1829</th>
<th>1830</th>
<th>1831</th>
<th>1832</th>
<th>1833</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chesapeake and Delaware</td>
<td>$192,500</td>
<td>107,500</td>
<td></td>
<td></td>
<td>150,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>450,000</td>
</tr>
<tr>
<td>Louisville and Portland</td>
<td></td>
<td>30,000</td>
<td>30,000</td>
<td>30,000</td>
<td>143,500</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>233,500</td>
</tr>
<tr>
<td>Dismal Swamp</td>
<td></td>
<td>150,000</td>
<td></td>
<td></td>
<td>50,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>200,000</td>
</tr>
<tr>
<td>Chesapeake and Ohio</td>
<td></td>
<td></td>
<td>75,000</td>
<td>125,000</td>
<td>275,000</td>
<td>75,000</td>
<td>150,000</td>
<td>299,000</td>
<td></td>
<td>999,000</td>
</tr>
<tr>
<td>Total</td>
<td>192,500</td>
<td>287,500</td>
<td>30,000</td>
<td>105,000</td>
<td>468,500</td>
<td>275,000</td>
<td>75,000</td>
<td>150,000</td>
<td>299,000</td>
<td>1,882,500</td>
</tr>
</tbody>
</table>


What did this commitment of funds mean to the American people in whose behalf, as their agent, the federal government acted? Table II measures the cost of investment as a percentage of annual Treasury receipts. For six of the nine years during which canal stocks were purchased, the expenditures constituted less than 1.0% of revenues. In 1826, 1829, and 1830, costs rose above 1.0% but never reached as much as 2.0%. Over the nine years the total investment amounted to 0.78% of receipts, or an average of less than 0.001.% per year. Table II, in effect, reflects the era’s conventional wisdom that the government of the United States could afford these risks.
Table II: Canal Investments as % of Treasury Receipts, 1825-1833

<table>
<thead>
<tr>
<th>Year</th>
<th>Treasury Receipt</th>
<th>Canal Investment</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1825</td>
<td>21,841,000</td>
<td>192,500</td>
<td>0.88</td>
</tr>
<tr>
<td>1826</td>
<td>25,260,000</td>
<td>287,500</td>
<td>1.14</td>
</tr>
<tr>
<td>1827</td>
<td>22,966,000</td>
<td>30,000</td>
<td>0.13</td>
</tr>
<tr>
<td>1828</td>
<td>24,764,000</td>
<td>105,000</td>
<td>0.42</td>
</tr>
<tr>
<td>1829</td>
<td>24,828,000</td>
<td>468,500</td>
<td>1.88</td>
</tr>
<tr>
<td>1830</td>
<td>24,844,000</td>
<td>275,000</td>
<td>1.10</td>
</tr>
<tr>
<td>1831</td>
<td>28,527,000</td>
<td>75,000</td>
<td>0.26</td>
</tr>
<tr>
<td>1832</td>
<td>31,866,000</td>
<td>150,000</td>
<td>0.47</td>
</tr>
<tr>
<td>1833</td>
<td>33,948,000</td>
<td>299,000</td>
<td>0.88</td>
</tr>
<tr>
<td>Totals</td>
<td>238,844,000</td>
<td>1,882,500</td>
<td>0.79</td>
</tr>
</tbody>
</table>


The investments, of course, were accounted on the debit side, constituting, as they were, federal expenses. What was the relationship between the canal investments and annual federal expenditures? Table III answers this question. Interestingly, in five of the nine years during which canal investments were made, the cost of the stock exceeded 1.0% of total expenditures. Indeed, in 1829 canal investments represented slightly more than 3.0% of all federal expenditures. However, for the period 1825-1833 they amounted...
to only 1.24/o/o of all national outlays. Whether counted as a percentage of revenues or of expenditures, the canal investments were hardly breaking the federal treasury.

Perhaps a more meaningful indicator of the significance of the canal investments to Americans concerns their relationship to annual surpluses. After all, the investments diverted surplus funds from other purposes such as more accelerated debt reduction. Table IV assesses the canal investments as a percentage of annual surplus revenues. It reveals that the investments never consumed a large chunk of surplus, although percentages fluctuated between a low of 0.4/o/o in 1827 and a high of almost 5.0/o/o in 1829. Over the entire nine years federal stock purchases in canal companies amounted to 2.15/o/o of the surplus revenues. These data underscore the notion that the investments were easily affordable.

Table IV. Canal Investments as % of Surplus Revenues, 1825-1833

<table>
<thead>
<tr>
<th>Year</th>
<th>Surplus</th>
<th>Canal Investment</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1825</td>
<td>5,984,000</td>
<td>192,500</td>
<td>3.21</td>
</tr>
<tr>
<td>1826</td>
<td>8,225,000</td>
<td>287,500</td>
<td>3.49</td>
</tr>
<tr>
<td>1827</td>
<td>6,827,000</td>
<td>30,000</td>
<td>0.43</td>
</tr>
<tr>
<td>1828</td>
<td>8,369,000</td>
<td>105,000</td>
<td>1.25</td>
</tr>
<tr>
<td>1829</td>
<td>9,624,000</td>
<td>468,500</td>
<td>4.86</td>
</tr>
<tr>
<td>1830</td>
<td>9,701,000</td>
<td>275,000</td>
<td>2.83</td>
</tr>
<tr>
<td>1831</td>
<td>13,279,000</td>
<td>75,000</td>
<td>0.56</td>
</tr>
<tr>
<td>1832</td>
<td>14,577,000</td>
<td>150,000</td>
<td>1.03</td>
</tr>
<tr>
<td>1833</td>
<td>10,931,000</td>
<td>299,000</td>
<td>2.73</td>
</tr>
<tr>
<td>Totals</td>
<td>87,517,000</td>
<td>1,882,500</td>
<td>2.15</td>
</tr>
</tbody>
</table>

Source: Historical Statistics, 711.

One final observation on affordability is worth making. The average annual federal canal stock investment was $209,167.37. In 1830 the total population of the United States was 12,901,000. Accordingly, in 1830 the cost to every man, woman, and child in the country was $0.016. It was probably less than $0.15 over the entire nine years.
By any measure the federal investments in canal companies were not burdensome. Yet this fact should not obscure the bottom line: As sources of revenue these investments were losers. Throughout the entire period of active government investment, not one of the companies returned a dividend. Nor did the government sell any of its stock to earn capital gains or to cut losses. Instead, it sat on its holdings.

In the years after 1835 only the Louisville and Portland Canal Company showed any sign of financial vitality. During the first three-quarters of 1836 the government received $11,608.00 in dividends, and Secretary of Treasury Levi Woodbury informed congress that his department anticipated revenues from Louisville and Portland in 1837. But Woodbury’s optimism was ill-founded. No dividend materialized. The next and last time that the government received dividend income from Louisville and Portland was in 1841. That year Treasury reported $22,000. Total dividends from Louisville and Portland therefore amounted to $33,608. Since the government’s investment in that company had totaled $233,500, its loss equaled $199,892. The overall loss in canal company stocks amounted to $1,848,892, a staggering 98.2%. That, at least, was the loss on paper. Neither the amount nor the percentage accounts for savings in interest which might have been earned had the canal stock appropriations been applied to debt reduction instead. The real loss, in other words, was probably greater than the accounted loss.

When it subscribed to canal company stocks, the government had profit as well as infrastructure development as an objective. It had, after all, earned a handsome profit from its investment in the first Bank of the United States, and, as it launched its canal investment program, it was realizing healthy returns—about one half million per year—from its investment in the second Bank of the United States. These experiences, in the context of recurring surpluses and the imminent extinction of the public debt, encouraged
the commitment of public funds to corporate stock for profit. Moreover, advances in engineering encouraged diversification of holdings. Canals, it seemed in the late 1820's, were the very future of the transportation industry.

Yet more was involved than successful investments in the past and healthy finances in the future. Affordability induced a profound shift in the rationale justifying federal investment in corporate securities. The investments in the first and second Banks of the United States had several purposes, but common to both was the generation of profits with which to pay down debt. In the case of the first bank, it did not work out that way, but Alexander Hamilton had planned that dividend income would be applied to debt reduction.\textsuperscript{42} Since 1816, when the federal government invested $7,000,000 in the second bank, dividends were feeding the treasury every year and alleviating the country's debt burden.\textsuperscript{43} But the canal investments were different in this respect. Those investments were not made to promote debt reduction. Instead, they were made in part because debt reduction was advancing toward extinction. Put succinctly, the national debt justified investment in the banks; elimination of the debt justified investment in the canals.

This ideological flip passed virtually unnoticed until the Jacksonians came to power. The Maysville Road bill, which Congress passed in 1830, constituted, in a sense, a government effort to diversify its stock portfolio. The measure provided for the federal purchase of 10,000 shares in the Maysville Road Company, which was developing a highway, not a canal, to connect Maysville, a Kentucky town on the Ohio River, and the city of Lexington in the interior of the state. Andrew Jackson, in one of his more controversial messages, vetoed the bill on the grounds that the road was a state and not a national artery and that a constitutional amendment was required to allow federal support.
By 1830 both sides of the internal improvements debate were familiar with these criticisms. But President Jackson went beyond the routine commentary. He challenged the affordability concept that both advocates and opponents of federal support for infrastructure development shared. He reminded congress that “if no adverse . . . contingency happens in our foreign relations and no unusual diversion be made of the funds set apart for the payment of the national debt,” then “we may [expect] its entire extinction in the short period of four years.” However, “appropriations for internal improvement are increasing beyond the available means of the Treasury” while duties on coffee and other imports were being reduced. Indeed, pending appropriations bills were so large compared to revenue that, according to Jackson, a problem existed: “Without a well regulated system of internal improvement this exhausting mode of appropriation” will compel “either a continuance of the national debt or a resort to additional taxes.”

By rejecting affordability Jackson implicitly espoused the more traditional rationale that debt justified investment and not the reverse. The Maysville Road veto is also important for what it omitted as well as for what it affirmed and implied: Jackson did not question the legitimacy or the propriety of investing taxpayers’ money in corporate stock per se, only the objects to which profits would be applied.

Jackson was far from ideological consistency, however. As Table I shows, $1,267,500 of the $1,882,500 (or 67.33%) of the public funds invested in canal companies were invested during the Jackson presidency. Furthermore, the Louisville and Portland Canal, like the proposed Maysville Road, was constructed solely within the state of Kentucky. Yet the Jackson administration made no attempt to repeal existing canal legislation, to cut off further funding, or to divest the government of its holdings. While the Maysville Road veto connected the administration’s policy with an earlier ideological
tradition, inaction against the canal legislation raises doubt about how seriously committed to that tradition the Jacksonians really were. Jackson era partisanship, it seems, and not ideology, explains the Maysville Road veto.\textsuperscript{45}

Why, then, did the canal investments fail? There are two basic reasons. First, lawmakers in congress together with Presidents Monroe, Adams, and Jackson did not and could not foresee the panic of 1837 and the ensuing depression. The economic crisis hurt all canal companies in the United States as user demand declined. Second, neither legislators nor executives foresaw the railroad revolution which was about to transform not only the American transportation industry but also the entire American economy. In retrospect it is easier to see than it was in the Adams or Jackson periods that the day of canal transport was setting as it dawned. The federal government, like other investors then and now, could not peer into the future. From these perspectives no political party or presidential administration bears blame for losing taxpayer dollars in corporate stocks. At the same time it is difficult to avoid the suspicion that the canal experience soured taxpayers and their elected leaders against investing public money in private securities. Succeeding generations espoused other methods to promote the nation's infrastructure.\textsuperscript{46} That negative disposition survives into our own day, although its origin in American historical experience has largely been forgotten.
NOTES

1Allan Nevins, ed., The Diary of John Quincy Adams, 1794-1845 (New York, 1951), 381-82.


3Statutes at Large of the United States of America, 1789-1873, 17 vols. (Boston, 1850-1873), 20th Congress, 1st Session, IV, 293-94.


6Statutes at Large, 18 Congress, 2nd Session, IV, 124. A proposal to assist the Chesapeake and Delaware Company had been before congress as early as 1805 but had been unable to muster support. See Goodrich, Government Promotion, 26.

7Statutes at Large, 20th Congress, 2nd Session, IV, 350.

8Richard C. Wade, The Urban Frontier (Chicago and London, 1971), 199-200. The Louisville and Portland Company had sought federal support two decades earlier but, like the Chesapeake and Delaware, had failed to gain assistance. Goodrich, Government Promotion, 26-27.

9Wade, Urban Frontier, 192.

10Statutes at Large, 19th Congress, 1st Session, IV, 162.

Statutes at Large, 20th Congress, 2nd Session, IV, 353.


Statutes at Large, 19th Congress, 1st Session, IV, 169.


Statutes at Large, 20th Congress, 2nd Session, IV, 350.

Ibid., 18th Congress, 2nd Session, IV, 101 and 20th Congress, 1st Session, IV, 292.

Ibid., 20th Congress, 1st Session, IV, 293-94.


Joseph Hemphill to the House of Representatives, 18th Congress, 2nd Session, January 14, 1825, Register of Debates, I, 219.

Ibid., I, 220.

Ibid., I, 220.

Ibid., I, 221.

Ibid., I, 221-22.

Ibid., I, 223-24.


37. Total investment of $1,882,500 divided by nine.


41. Lane, "For 'A Positive Profit,' " For dividend income from the second Bank of the United States, see the Annual Reports on the State of the Finances, 1816-1836, *NASP:PF, General Reports*, vols. 3-6.

42. Lane, "For 'A Positive Profit,' " 603.


The Maysville Road proposal was a pet project of Jackson’s bitter political adversary, Henry Clay.

In later years the federal government relied on other methods, such as subsidies to railroads, to promote infrastructure development but never again on stock subscriptions.