
The American System

The Illinois & Michigan Canal story

by Anthony K. Wikrent

This is the story of a great transportation project, the Illinois & Michigan Canal, which created the city of Chicago a century and a half ago. The revival of these "American System" principles of economic development is just what is needed now, to draw the world out of the economic depression which is deepening day by day.

Poland's Lech Walesa and the Pope have both correctly condemned the economic systems of communism and modern free-market "capitalism." But, what alternative is there? Physical economist Lyndon LaRouche has proposed "a third way," by reviving American System economics, which focuses on building up the physical capacities of the economy—roads, canals, production facilities. In Central Europe, LaRouche has proposed developing a high-speed rail system to create the most dense area of physical goods production in the world. "Look at this area from the point of view of population density and labor force, from the point of view of energy density per capita and per square kilometer," LaRouche said on Jan. 6. "Look at it also from the point of view of the density of infrastructure: Think of the railroad network, of the network of canals and and barge traffic, the carrying capacity of the rivers and canals. . . . Think of this as a kind of corridor, a band across the map, which stretches for 10-20-50 kilometers on either side of the actual tracks."

These principles can be vividly demonstrated by the case of the Illinois & Michigan Canal.

After independence was achieved, the major problem facing the United States was communicating with the interior, especially with the strategically crucial Mississippi valley, where three imperial powers—Britain, France, and Spain—were arrayed in a naked attempt to prohibit the continental expansion of the new republic. In the Second War of Independence (1812-15), most of the fighting was attendant to the struggle for control of the Great Lakes.

Of all the portages between the lakes and the various tributaries flowing into the Mississippi River, there were none that offered a more advantageous combination of short distance, absence of geographic obstacles, and large amounts of water, than the Des Plaines-Chekawgoe portage used by Louis Joliet and Fr. Jacques Marquette in 1673. Reportedly, when once perusing a new map of the nation's interior with Wayne Anthony, George Washington pointed to the portage

as the future site of a major city.

In 1810, New York Congressman Peter B. Porter, founder of Buffalo and later Secretary of War under John Quincy Adams, urged the building of a system of waterways from the Hudson to the Gulf of Mexico, and noted that the easiest portion to build would be the Chicago portage. The second war with England created even more interest in Porter's proposal. The bill admitting Illinois into the Union was amended to move the northern boundary of the new state 40 miles north, so that the future route of a canal across the Chicago portage would lie entirely within one political jurisdiction.

After settling the problems incident to the establishment of a new government, the General Assembly directed the state's representatives in Congress to secure legislation granting authority to construct a canal through the public lands, and providing federal support.

In January 1825, the General Assembly passed an act incorporating the Illinois & Michigan Canal Company. The list of incorporators was notable: Shadrack Bond, first governor of the state and early proponent of the canal, named after his uncle, who had accompanied George Rogers Clark in the 1779 raid on the British outpost at Vincennes that secured the Mississippi valley for the Americans; Gov. Edward Coles, close friend of Second Bank of the United States president Nicholas Biddle; Justus Post; Erasmus Brown; John Warnock; Joseph Duncan, hero of the 1812 War, soon to be elected to Congress, and later governor of Illinois; and U. S. Surveyor for Illinois and aide de camp to Governor Coles, William S. Hamilton, the fifth son of Alexander Hamilton.

But the attempts of the company to raise monies by selling its stock locally met with failure.

Finally, under the pro-development administration of President John Quincy Adams, in March 1827 the Congress granted to Illinois alternate sections of land five miles on either side of the canal route. The state was to sell the land, and use the proceeds to construct the canal, but sales at first were disappointing. News of the rapid settlement of upper New York state following completion of the Erie Canal spurred desire for the Chicago canal. In the election of 1834, men were elected to the General Assembly entirely on the basis of their attitude toward the canal. Down in William S. Hamilton's Sangamon County, the protégé of Illinois Whig leader John Todd Stuart was elected. His name was Abraham Lincoln.

Rapidly emerging as the Whig floor leader, Lincoln led the legislative efforts that finally secured financing for construction of the canal. Work began on the canal with a formal ceremony on July 4, 1836.

The critical issue of financing

The cost was first estimated at \$8.6 million, but another study by the state House Committee on Internal Improve-

ments pegged the cost at \$13,253,875. By the end of 1836, almost \$1.4 million had been raised through sales of land. Soon, however, the project was threatened by the financial panic of 1837, which forced the State Bank of Illinois to suspend specie payments, crippling the ability of the contractors to pay for supplies and labor.

In February 1839, the General Assembly authorized the borrowing of \$4 million, at 6% interest. The first loan, for \$300,000, was given by John Delafield, president of the Phoenix Bank of New York, close friend of Washington Irving, and whose father was one of the original directors, with Alexander Hamilton, of the Mutual Assurance Company of New York. A second loan, for \$1 million, was placed with Thomas Dunlap, president of the United States Bank of Philadelphia, the institution established by Nicholas Biddle to replace the Second Bank of the United States. These loans demonstrate the importance of having a national banking system which can extend credit to domestic projects, freeing them from reliance on foreign investors.

The United States Bank loan was paid out in installments of \$100,000 a month, but by May 1840, monthly expenditures were exceeding \$150,000. The General Assembly authorized the local sale of \$500,000 of state bonds, but only \$100,000 could be sold. An attempt to sell \$1 million in state bonds in London failed to attract any bidders.

By March, contractors were being paid with checks bearing 6% interest, payable when the funds were available. Land sales in July netted only \$7,387. The contractors met, and offered to accept \$1 million in bonds at par value, and bear the discount, which turned out to be an outrageous 15% when the bonds were resold in London. After the State Bank of Illinois failed in February 1842, almost all work on the canal ceased.

Lincoln proposed that the federal government sell Illinois public land at 25 cents an acre, which Illinois could then sell at the regular price of \$1.50 an acre, generating a large cash surplus to finish work on the canal—clearly the key to rescuing the state's finances. Completion of the canal, Lincoln knew, would spark the long-awaited boom in settlement and commercial activity. After Congress defeated Lincoln's proposal, the General Assembly authorized another loan of \$1.5 million in February 1843. New York bankers were amenable, but were in dire financial condition themselves, and could offer little aid. London bankers insisted that an independent assessment be made of the value of the canal and its properties. After the assessment was made (which showed a net worth of \$14.2 million) the London financiers demanded that the state restore a special tax dedicated to funding interest payments. After this was done in March 1845, the needed monies were forthcoming, and the canal was soon completed, and opened to navigation in April 1848. The entire debt incurred in the building of the canal was liquidated by April 1871.

The completion of the canal created a geometry from which emerged a new industrial giant, the city of Chicago,

originally planned in 1829 by the canal commissioners as the Lake Michigan terminus of the Illinois & Michigan Canal. When Chicago was first incorporated in 1835—by city attorney Norman Judd, 25 years later a key Lincoln partisan on the Republican National Committee—there were 150 inhabitants, whose main livelihood was trading with the Indians. In that year, 70 bushels of wheat were shipped out of the struggling little town.

The growth of Chicago

The entire population of Illinois from Peoria north to Wisconsin and east to Indiana was only 1,310 souls in 1830. The completion of the canal sparked the economic development of the country tributary to the city, initiating a self-developing process of rapid industrial growth. By 1850, two years after the canal had been opened for traffic, Chicago had become the 18th largest city in the Union, with 28,269 people. The population of the four counties along the canal increased from a few hundred in 1830, to 80,926 in 1850, and more than doubled in the next five years, reaching 171,012 in 1855.

The population along the waterway, from Lake Michigan to the mouth of the Sangamon River, increased from 70,252 in 1840 to 299,474 in 1855. But the growth of population was not confined to the counties immediately touching the canal and the upper course of the Illinois River. Settlements continually spread back into more remote areas. By 1855, more than half the population of Illinois was to be found north of the Sangamon River, with the most densely populated counties along the waterway.

In its first year of operation, the canal carried 454,111 bushels of wheat; 516,230 bushels of corn; 3,219,122 pounds of sugar; 4,948,000 pounds of general merchandise; and 15,425,357 board feet of lumber. Within five years, most of those figures had almost quadrupled. By 1860, Chicago had nearly 110,000 residents, who each day handled more barges, ships, flatboats, and railroad cars than the people of New Orleans, Cincinnati, Boston, and New York combined. In 1885, a canal commissioner reported that for an original investment of \$6,507,681, the people of Illinois had saved \$180 million over 37 years, in freight charges alone.

Chicago rapidly emerged as the new industrial center of the continent, producing heavy agricultural implements, railroad equipment, printing equipment, machine tools, and other equipment. From 2,081 operatives working with an invested capital worth \$1,086,025 to produce goods valued at \$3,562,583 in 1850, Chicago had 10,753 operatives working with invested capital of \$7,759,400 producing \$15,513,063 worth of goods in 1856.

Up until the 1970s, when the anti-industrial "British System" economics achieved total hegemony in the United States, fully one-third of U.S. exports originated from an area described by a 300-mile radius from Chicago and the Illinois & Michigan Canal.