ratified the deal and declared the state's subscription binding but rated the bonds at $120.[27]

Apparently the two companies had no better luck than the state in disposing of the bonds, which prompted the enactment of an 1838 statute that got the state in even deeper. Under that act, in return for a release of the state by the companies from the contracts for the sale and purchase of the bonds issued under Acts of 1835, chapter 395, and the surrender of such bonds, the state agreed to deliver to the companies fifty–year sterling bonds at 5 percent redeemable in London in the amount of $3,200 for each $3,000 of old bonds surrendered. The companies had to give the state a lien to secure the payment of three years' interest, with this provision replacing the 20 percent premium on the old bonds from which the three years' interest was to be paid.[28]

The legislature's infatuation with these ventures has been described by James S. Van Ness as follows:

> Ironically, the two sleeping giants secured state financial support by employing almost opposite appeals. Time after time, the C & O Company pleaded an insufficiency of capital to keep construction going, noting that until at least Georgetown and Cumberland could be connected, no revenues worth mentioning would accrue. In contrast, less than two years after construction began on the railroad, trains were running between the city [of Baltimore] and Ellicott Mills, generating a modest income. By the spring of 1832, the railroad had reached the Potomac River at Point of Rocks. Systematic expansion of the line promised continually increasing financial returns and more importantly, vigorous economic activity in the vicinity of the roadbed. Both arguments struck responsive chords in Annapolis. Once the legislature invested funds in the C & O Canal Company it was loath to see the project abandoned with the consequent loss of state investments. With promising results by the B & O Railroad Company, possibly increased state support would reap hoped–for rewards more quickly if additional funds went to that institution. Between 1826 and 1840 the state borrowed over ten million dollars to support the two projects. In addition it borrowed another four and one–half million dollars to support the Baltimore and Washington Branch Railroad (later taken over by the B & O), Baltimore and Susquehanna Rail Road, Tidewater Canal, Annapolis and Elkridge Rail Road, and the Eastern Shore Rail Road.[29]

The effect of this massive borrowing was to ruin the state's credit and, ultimately, to render the state insolvent. Even small issues of state bonds sold at a 35 percent discount. By 1840 the annual interest on the state's $15 million debt amounted to over $585,000, for which adequate sinking funds had not been provided. Nor were the revenues from the various improvement projects adequate to defray that cost.

As early as 1839 it had become clear that unless new taxes were levied the state would inevitably default on its debt service obligations. Neither political party, how-

27. Acts of 1837, res. 26.
28. Acts of 1838, ch. 386.
29. Van Ness, "Economic Development," p. 195. Hanna, *Financial History of Maryland*, p. 94, tallies the state's investments in these various projects as follows:

	Amount of State Bonds Issued	Form of Investment: Common Stock	Bonds	Preferred Stock
Chesapeake and Ohio Canal	$ 7,194,667	$ 625,000	$2,000,000	$4,375,000
Baltimore and Ohio Railroad	3,697,000	500,000		3,000,000
Baltimore and Washington Branch	500,000	550,000		
Baltimore and Susquehanna Railroad	2,232,045	100,000	1,879,000	
Tidewater Canal	1,000,000		1,000,000	
Annapolis and Elkridge Railroad	219,378			299,378
Eastern Shore Railroad	151,744			86,862
Chesapeake and Delaware Canal		50,000		
Totals	$14,994,834	$1,825,000	$4,879,000	$7,761,240