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## The Indiana “Bonds” Fraud, 1861–1862

*Ray Shortridge\**

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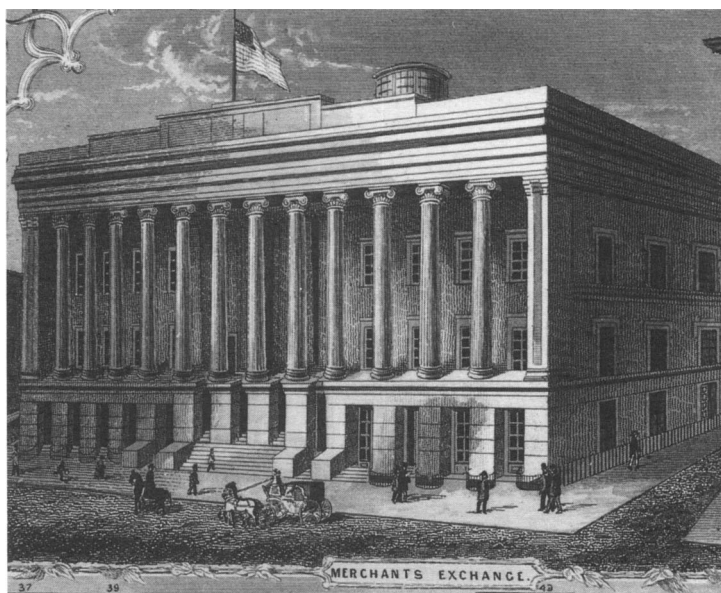
In the last week of May 1862, Indiana newspapers broke the Indiana state “Bonds Fraud” story to shocked Hoosiers. The newspapers had one part of it wrong—the financial securities in question were Indiana 5 percent stock, not bonds. However, the press was right about the fraud: two miscreants, using as collateral some \$2,538,000 in fraudulent securities, had parlayed them into a fortune in the New York Stock Exchange worth an estimated \$20 million (the equivalent of roughly \$360 million in today’s dollars).

Since the New York financial markets were essential to Indiana’s mobilization for the Civil War and since the leaders of the state’s political parties fought one another fiercely in the newspapers during the war, from late May to late June 1862 only the news from the combat fronts garnered more ink than the financial scandal. Although the fraud had been carried out in the course of the preceding year and a half, newspaper editors and the public treated the scandal as a one-month wonder. After June 25, 1862, when a New York grand jury indicted former Indiana state agent, Daniel C. Stover, from Ladoga, Indiana, and a Wall Street financier, Samuel Hallett, for forgery in the third degree, the matter vanished from public view.

These events are interesting for several reasons. For one, they remind us that persons with access to wealth and power have threatened the stability of the economy in the past, as corporate malfeasance at Enron and accounting firms has done recently. Second, exploring the fraud increases our understanding of the administration of Governor Oliver P. Morton as its members worked tirelessly to manage both the financial crisis created by the stock fraud and the political fallout. They exploited new technologies of the era, particularly the steam-driven printing press (which produced penny newspapers in large quantities), the telegraph, and the railroad network, to publicize their story and to coordinate activities that ranged from northern Mississippi to New York via Indianapolis. The fraud also highlights how closely Indiana’s war effort was tied to the national financial markets. And the disposition of the case against the malefactors by

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MERCHANTS EXCHANGE BUILDING ON MAIDEN LANE IN  
NEW YORK CITY, THE SITE OF THE NEW YORK STOCK  
EXCHANGE FROM 1842 TO 1865

Courtesy Museum of the City of New York

the New York authorities both reveals the workings of the Tammany Hall machine of the Tweed era in New York City and presages the excesses of the Gilded Age.<sup>1</sup>

As was true of all northern states, industrialization had transformed Indiana's economy in the 1850s. The use of interchangeable parts to make machines as diverse as sewing machines and steam locomotives greatly reduced their costs while increasing the volume of production. In order to deliver the mass-produced items to markets, thousands of miles of railroads were built, over 9,000 miles in the Midwest alone in the 1850s, linking the prairies along the Mississippi River to the ports on the east coast. By 1853 seven railroads converged on Indianapolis. What had been a small town of about 7,000 in 1847, before the arrival of the Madison & Indianapolis, the state's first railroad, turned into a booming railroad hub of more than 18,000 by 1860. Farmers quickly adopted new machinery that enabled them to work larger farms with less labor and benefitted from higher prices

<sup>1</sup>The so-called "Gilded Age," a term coined by Mark Twain in his novel of the same name (coauthored by Charles Dudley Warner), typically refers to the decades following the Civil War. However, some historians believe the rampant political corruption began earlier. See Milton Rugoff, *America's Gilded Age: Intimate Portraits from an Era of Extravagance and Change, 1850-1890* (New York, 1989).

as their commodities were shipped by railroad to eastern and foreign markets. All this meant that Indiana was tied to financial markets, notably in New York, that attracted funds from American and European investors to provide the vast amounts of capital necessary for the northern economy.

The fraud that is the subject of this essay involved Indiana 5 percent stocks that were traded in the New York market after 1847. They were issued because Indiana had defaulted in 1846 on the interest due on bonds floated in the 1830s to pay for an ambitious internal improvements system. As part of the settlement of the default, Indiana offered \$4 million of state stock to be exchanged with the bondholders for their defunct bonds. This stock paid a dividend of 5 percent, so the financial market tagged the securities the "Indiana 5% Stocks."<sup>2</sup>

In the 1846 financial debacle, the state had sustained significant losses by honoring fraudulent bonds that were made payable to the bearer. To tighten controls on the new securities, the 1847 Butler Act creating the Indiana 5 percent stocks stipulated that each stock certificate had to bear the name of the owner, and the act prohibited issuing stock certificates made payable to "the bearer." Under this law, when an owner of Indiana 5 percent stock wished to sell it, the seller surrendered the stock certificate to the Indiana state agent, who cancelled it and then issued a new stock certificate to the buyer with the buyer's name written on it. Indiana established an agency in New York to offer better service to the nation's premier financial market, and these transactions were recorded in books maintained at the New York office.

This arrangement created a logistical problem because the stock certificate had to be signed by both the state auditor and the state treasurer. Before Indianapolis acquired direct railroad service to New York in the late 1850s, a prospective buyer might wait weeks before the new stock certificate arrived from Indiana, which put the Indiana stocks at a competitive disadvantage to other securities. To correct this problem, the Butler Act authorized the auditor and treasurer to sign blank stock certificates that were then stored at the New York

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<sup>2</sup>New York Stock Exchange, *Report on the Indiana State Stock Frauds Made by the Committee of the New York Stock Exchange, 28th June, 1862* (New York, 1862), hereafter cited as NYSE, *Indiana State Stock Frauds*.

The NYSE appointed a committee of three financiers (H. G. Steffins, A. Campbell, and W. A. Smith) to investigate the fraud. During June 1862, the committee interviewed the Indiana officials directly involved in the matter as well as J. F. D. Lanier. The committee drafted a narrative of the events based upon those interviews and the reports in the New York press. The report includes three letters: the one from Governor Morton explains the state's position; the district attorney's explains that he and not Governor Morton delayed prosecution; and the one from a principal in L. W. Jerome & Company reveals how the scheme worked. The NYSE released the report following the indictments of the two miscreants. The report concluded that Indiana was lax in its procedures and controls and censured the state and Lanier for not making the fraud public as soon as they learned of it.

office. When the state agent needed to issue a new stock certificate, he took one of the signed certificates from the files and filled in the name of the new owner, the date of the transaction, and the dollar amount of the stock. After counter-signing the certificate, the state agent recorded the transaction and handed it to the new owner.

In March 1859, the legislature, perhaps responding both to the recent availability of direct rail connections and to a concern to reduce the opportunity for fraud, changed the procedure by mandating that the auditor and treasurer no longer sign stock certificates in advance of sale. Instead, the law directed the state agent in New York to issue two receipts—one to the seller for the submitted stock certificate and one to the buyer for the newly purchased stock. Then the agent forwarded the old stock certificate along with copies of the receipts to the state auditor in Indianapolis. In Indianapolis, the auditor canceled the old stock certificate, issued a new one signed by the two state officials to the buyer, and then sent the new stock certificate to the state agent in New York. He, in turn, passed the new stock certificate along to the buyer. The state published a legal notice that stock certificates not issued through this process were fraudulent and that the state was not obliged to honor them. The law also required that the state agent destroy the already-signed stock certificates being stored in the New York office.

When the legislature revised the procedures in March 1859, the state agent was Democrat James A. Cravens from Washington County, who had been appointed in February by the Democratic-controlled legislature. Cravens resigned in November 1859 (and returned to Indiana where he successfully ran for Congress in 1860), and Governor Ashbel P. Willard replaced him with Daniel C. Stover, Cravens's clerk in the New York office. Stover, a lawyer and businessman from Ladoga, was a Democrat who had been elected to the legislature from Montgomery County in 1851. Stover remained state agent until February 1861, when the Republican-controlled legislature that was elected the previous October replaced him with a Republican, Robert N. Hudson of Terre Haute.<sup>3</sup>

Hudson, who had practiced law in Terre Haute and was elected to the legislature in 1851, was one of only three Know Nothing newspaper editors who had changed his politics to the Republican party in 1856, a presidential election year. The new party was a fusion of ex-Whigs, ex-Know Nothings, Democrats against the expansion of slavery, and previous nonvoters, who united behind the theme of preventing the expansion of slavery into the western territories, and they controlled the legislature after the 1860 election. Hudson assumed

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<sup>3</sup>Rebecca A. Shepherd *et al.*, comps. and eds., *A Biographical Directory of the Indiana General Assembly* (2 vols., Indianapolis, 1980–1984), I, 195–96; Crystal Pauline Randel Walters, *History of Clark Township, Ladoga and Part of Scott Township Montgomery Co., Indiana, 1828 to 1971* (Fort Wayne, Ind., 1971), 23, 51.

a major role in the state's new party apparatus; in 1860, he was a member of the state central committee and was a delegate to the Republican national convention in Chicago that nominated Abraham Lincoln for president.<sup>4</sup>

Soon after Hudson arrived in New York in February 1861, he uncovered disturbing signs of irregularity in the agency's affairs. He found three volumes of illegal already-signed Indiana 5 percent stock certificates in the office files, contravening the legislature's three-year-old mandate that they be destroyed. Hudson destroyed the stock certificates by punching holes through the signatures of the state treasurer, W. R. Nofsinger, and the state auditor, H. E. Talbot, who had held those offices between 1855 and 1857. Subsequently, Hudson discovered that before his arrival some of the agency's inventory of illegal certificates had been fraudulently issued. When financiers came by the agency office at 52 Wall Street, between Hanover and William streets, to verify that stock certificates were genuine, Hudson found that some of them were not recorded in the agency books. Each unrecorded certificate had New York financier Samuel Hallett's name written in as owner and was countersigned by Stover, the previous Indiana state agent.<sup>5</sup>

Hudson said he immediately confronted Stover, who admitted that he had issued some stock certificates without receiving a genuine stock certificate in return. Stover claimed that the value of fraudulent certificates did not exceed \$250,000 and he asked Hudson to keep silent, in return for which he would return at least \$25,000 worth of fraudulent stock certificates every week until all had been recovered. Hudson said he also met with Hallett, who agreed to cooperate with Stover in retrieving the fraudulent stock certificates.<sup>6</sup>

Hudson said he agreed not to expose Stover and Hallett during the two or three months that they said it would take to recover the fraudulent certificates because he believed that the men would abide by their agreement: exposure, he believed, would ruin both of them. Moreover, all three men knew that prosecuting the fraud might shatter Indiana's fragile credit standing. During the spring and

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<sup>4</sup>Membership in the nativist American Party was supposedly a secret. When asked about the party, members reportedly replied: "I know nothing," giving rise to its popular name, the Know Nothing party. Ray M. Shortridge, "Voting for Minor Parties in the Antebellum Midwest," *Indiana Magazine of History*, LXXIV (June 1978), 117–34. Shepherd *et al.*, *Biographical Directory*, I, 375; Charles Zimmerman, "The Origin and Rise of the Republican Party in Indiana from 1854 to 1860," *Indiana Magazine of History*, XIII (September/December 1917), 258, 382, 383; Carl Fremont Brand, "The History of the Know Nothing Party in Indiana," *ibid.*, XVIII (March/September 1922), 77, 273, 278–79.

<sup>5</sup>John W. Dodd, who was state auditor in 1859, claimed to have written Stover demanding the return of the stock certificates when the legislature changed the procedure. However, Dodd said he thought that the legislation did not empower him to compel Stover to return them, so he dropped the matter. *Indianapolis Daily Journal*, July 4, 1862.

<sup>6</sup>*Indianapolis Sentinel*, May 26, 29, 1862; NYSE, *Indiana State Stock Frauds*.

summer, from time to time, Hallett and Stover returned some fraudulent stock certificates, but not at the \$25,000-per-week rate that they had pledged. Evidently, they felt that they had the state over a barrel: if public disclosure of the fraud would discredit the state, then they believed the state agent had no alternative but to keep the fraud secret. By the late fall, Hudson realized that the miscreants had no intention of fulfilling their end of the bargain.<sup>7</sup>

Hudson also learned that Stover and Hallett had lied when they claimed that they had circulated forged stock certificates worth about \$250,000. By the late fall of 1861, they turned over almost that amount to Hudson for destruction. But the state agent had meanwhile discovered during the normal course of business that several financial houses were holding yet more of the phony certificates as collateral for loans they had made to Hallett. The two confidence men had bamboozled him.

The urgent need to finance its war effort left the Union more dependent than ever upon the sophisticated financial infrastructure of the New York markets. In order to raise money the Lincoln administration levied higher customs duties, passed "sin" and luxury taxes on consumer goods, modernized banking practices inherited from the Jacksonian era, and introduced the greenback paper dollar. In the spring of 1862, the United States was able to sell \$500 million of 6 percent bonds at par because investors were confident that the federal government's tax revenue could easily meet the interest payments. Similarly, in Indiana, a month after Fort Sumter was fired upon, the legislature authorized Governor Morton to obtain \$2 million in loans to finance arming, clothing, and maintaining Indiana troops before they were mustered into federal service. To pay for the bonds, the legislature passed a property tax to be used expressly for servicing this debt.<sup>8</sup>

From the beginning of the Civil War, the mobilization of both the federal government and Indiana was directly tied to the New York financial markets. After the General Assembly authorized the sale of war bonds in December 1861, the war bond commissioners immediately entrained for New York to negotiate the terms for their sale. Of course, other northern states were also introducing bonds into the market, so that Indiana faced competition from sister northern states as well as from the federal government in selling its bonds. Morton administration officials were acutely aware that they needed

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<sup>7</sup>The state's financial reputation was still under the cloud of the 1846 default. More recent events added to New York's view that Indiana state securities were not the safest in the market. In 1857, partisan gridlock in the legislature had prevented its passing an appropriations bill. Governor Ashbel P. Willard borrowed money from Winslow, Lanier & Company to pay that year's interest on the Indiana 5 percent stock. *Indianapolis Daily Journal*, January 23, 1861.

<sup>8</sup>James M. McPherson, *Battle Cry of Freedom: The Civil War Era* (New York, 1988), 442-50; Indiana, *Laws* (1861), 16.

to persuade traders in New York that Indiana war bonds were a secure investment. If investors lost that confidence, then the bonds would sell at a steep discount and fail to raise money sufficient to arm, clothe, and feed Indiana's volunteers.

Once Hudson knew that James M. Ray and Jesse Brown, two of the state's three war loan commissioners, were on their way to New York to confer with financier James F. D. Lanier, a principal in Winslow, Lanier & Company, to devise a strategy for placing a second round of Indiana war loans in the financial market, Hudson finally realized that the fraud affair was beyond his control and turned to the loan commissioners for advice.<sup>9</sup>

Hudson asked Ray and Brown to meet with him at the Indiana state agency. After listening to his story, the commissioners invited Lanier to step over to the meeting from his office, also located at 52 Wall Street. Lanier was not only experienced in the ways of the financial markets, he also had a vested interest in maintaining Indiana's credit rating; through his firm and personally, Lanier controlled the largest block of both Indiana 5 percent stock and the 6 percent coupon bonds issued by the war loans commission. Lanier, Ray, and Brown agreed that Hudson had taken the right course to recover the forged stock quickly and quietly. They also concurred with Hudson's current assessment that Stover and Hallett were dealing in bad faith with the state. Accordingly, the group decided to notify Morton about the fraud and to recommend that the state put the matter into the hands of the New York prosecutors.<sup>10</sup>

While the commissioners and the state agent reported these tidings to Morton, Lanier used what he had learned to protect his

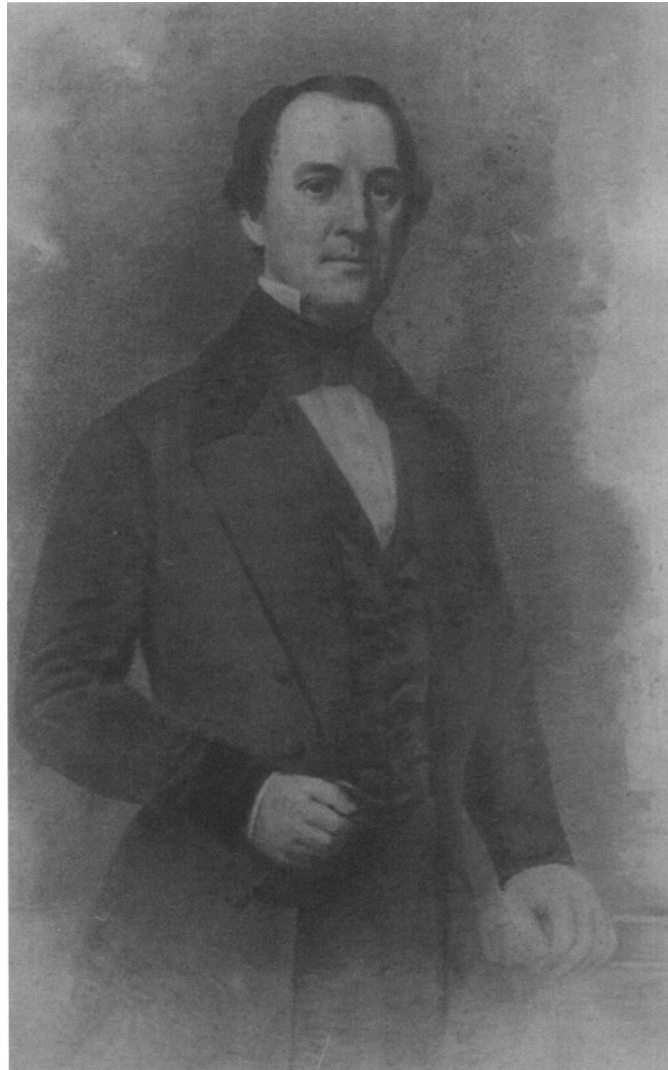
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<sup>9</sup>Jesse Brown was a New Albany businessman who later organized the First National Bank and served as its president until 1884. He was a major investor in the New Albany waterworks and the Kentucky & Indiana Bridge Company. *History of the Ohio Falls Cities and their Counties*, (2 vols., Cleveland, Ohio, 1882), II, 98, 176, 200, 297; D. P. Robbins, *New Albany, Indiana: Its Advantages and Surroundings* (n.p., 1892), 22, 42, 71, 93.

James M. Ray, an Indianapolis businessman, headed the commission that built and started a state school for the blind and was also a trustee of the Indianapolis schools. Ray was the cashier for the State Bank of Indiana and later a director of the Indianapolis & Cincinnati Railroad. *Encyclopedia of Indianapolis*, see under "Ray, James M."

J. F. D. Lanier, while serving as the president of the Madison branch of the State Bank of Indiana, developed connections with the New York and European financial markets. In 1847, he personally substituted the Indiana 5 percent stock for the defunct bonds to investors in New York and Europe. Lanier was a primary figure in privatizing the Madison & Indianapolis Railroad, Indiana's first railroad, which the state had partially completed before defaulting on its loans. Lanier and other Madison businessmen bought the railroad's assets for about one-third of the amount the state had invested in it. In 1849, he became a partner in Winslow, Lanier & Company in New York, the first banking firm to specialize in financing midwestern railroads. J. F. D. (James Franklin Doughty) Lanier, *Sketch of the life of J. F. D. Lanier* (New York, 1877); Bill Bruggen and R. David Cart, *J. F. D. Lanier: America's Forgotten Patriot and Financier* (Carmel, Ind., 2000).

<sup>10</sup>Indiana, *Documentary Journal* (1863), pp. 59, 68-99.



FORMER MADISON BANKER JAMES F. D. LANIER, A  
NEW YORK FINANCIER WITH HEAVY INVESTMENTS IN  
INDIANA SECURITIES, ADVISED THE MORTON  
ADMINISTRATION DURING THE SCANDAL.

Courtesy Indiana State Museum

own business interests. Winslow, Lanier & Company was one of several financial houses on Wall Street that had loaned money to firms that had used the phony stock as collateral. Obviously, a loan based on worthless stock was insufficiently underwritten, so Lanier called in all of the loans that Winslow & Lanier had made in which the Indiana certificates had been used as collateral. Lanier also



privately warned Jerome & Company (and perhaps a few other friends who held the forged stock as collateral) that he doubted their authenticity.<sup>11</sup>

The interactions among Hallett, Jerome & Company, and Lanier shed light on the magnitude of the fraud and the threat that it posed to the New York financial market. Hallett had used the illegal certificates as collateral for loans, and in turn his creditors would use the stock they received from Hallett as collateral on yet another loan from a third financial institution. There probably were further links in the chain as the financial institutions shifted assets to meet their changing business needs. If the financier at the end of the chain holding the stock as collateral called the loan that had been made to the next link in the chain, this could precipitate a succession of loan calls as each financial house in the chain in turn collected the cash needed to cover its own obligations. If the amount of money represented by the fraudulent stock had been insignificant, then a sequence of loan calls would scarcely have caused a ripple in the New York financial market; but the amount of money in forged Indiana 5 percent stock was large.

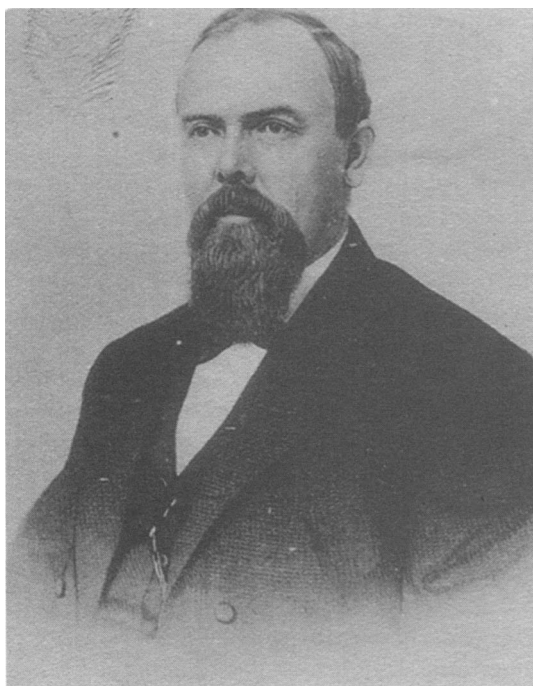
It certainly exceeded by far the \$250,000 admitted to by Stover. Evidently, Stover and Hallett had already floated far more than that sum when Hudson had first confronted them in March, and throughout the year they used the time gained by stalling Hudson to forge yet more certificates and introduce them into the market. And Hallett and Stover had greatly compounded the potential problem by leveraging the stock in two ways. First, they used some of it as capital for a wildcat bank they established in New Jersey, in which Hallett installed Stover as the president. They then issued bank notes secured by the purported value of the Indiana stock. A wildcat bank typically would issue notes several times the value of the capital invested in it, and Hallett used the notes from their own bank to purchase railroad securities.<sup>12</sup>

Second, Hallett also bought railroad shares with the cash obtained from loans secured by the fraudulent certificates. He bought the railroad stock on a 10 percent margin, which meant he paid only 10 percent of the cost of the stock with the borrowed cash. The market value of the railroad stock itself covered the remaining 90 percent. Hallett then used the railroad stock as collateral for more loans. By these means, the miscreants leveraged the \$2,538,000 in forged securities into a stock portfolio that perhaps totaled more than \$20 million. Calling the loans based on this stock threatened the base of a \$20 million paper pyramid. The results were likely to trigger a

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<sup>11</sup>NYSE, *Indiana State Stock Frauds*.

<sup>12</sup>*Ibid.* For a discussion of wildcat banking see Bray Hammond, *Banks and Politics in America, from the Revolution to the Civil War* (Princeton, N.J., 1957), 600–601.



GOVERNOR OLIVER P. MORTON  
DISCOVERED IN 1861 THAT FRAUDULENT  
INDIANA STOCK CERTIFICATES HAD BEEN  
INTRODUCED INTO THE NEW YORK  
MARKETS, THREATENING THE STATE'S  
ABILITY TO RAISE FUNDS TO PROVISION  
ITS TROOPS.

*Courtesy Indiana Historical Society*

financial panic in New York, and some financial houses without sufficient cash reserves might fail. Through the machinations of Hallett and Stover, the fraud threatened not only to compromise the credit of the state of Indiana and its ability to finance its war effort but to precipitate a market crash that could threaten the Union's ability to finance the Civil War.

Although they did not yet realize the full magnitude of the fraud, this was the crisis Morton and John P. Usher, the Indiana attorney general, faced when they arrived in New York in February 1862. The governor and attorney general met with Brown, Ray, Hudson, and, undoubtedly, with Lanier to discuss the state's options. Usher researched the legal issues and informed the group that the state was under no obligation either to redeem the false stock certificates or to pay interest on them. Moreover, in the attorney general's opinion, the fraudulent use of the stock certificates did not violate Indiana law! After conferring with a New York lawyer, Usher told Morton



A. OAKEY HALL, DISTRICT ATTORNEY FOR NEW YORK COUNTY IN 1862, WAS AN ASSOCIATE OF "BOSS" TWEED.

Courtesy Museum of the City of New York

that the stock certificate forgeries apparently did violate New York State law.<sup>13</sup>

Morton immediately met with the district attorney for the county of New York, Abraham Oakey Hall. The prosecutor advised the governor that the stock swindle was now a matter for his office to deal with, and he indicated that revealing it to the public might jeopardize the successful prosecution of the forgers. Morton agreed to respect Hall's request to maintain silence about the crime. The governor must have been quite relieved that the embarrassing matter was officially out of his hands when he boarded the train back to Indianapolis.

The district attorney, however, did not prosecute until late May 1862. Hall never explained why he delayed several months in

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<sup>13</sup>Indianapolis *Sentinel*, May 30, 1862.

prosecuting Hallett and Stover. Instead, he wrapped himself in the dignity of his office: "I cannot publish an explanatory card because my rule (whilst in office) is under no provocation to adopt that course, believing that time strikes the proper balances for or against any one in public life." Hall archly claimed that "at the proper time, every disinterested person who becomes acquainted with the reasons and the facts, will justify and applaud my action."<sup>14</sup>

Hall had charge of the fraud case during the early months of 1862, a difficult season for friends of the Union. In the East, the Confederates had the Army of the Potomac pinned near the massive defense works around the District of Columbia. In the West, Henry Halleck's forces were off in the Missouri backwoods quelling guerrillas or stolidly camping in the mud along the Ohio River. And, in Kentucky, Gen. Don Carlos Buell's army seemed to have settled in for the winter to enjoy the hospitality of the bluegrass country. A gloomy mood among Unionists was reflected in the depressed financial markets. After the fraud became public knowledge, some observers speculated that patriotic motives led Hall to let the Indiana fraud case collect dust on his desk. They contended that publicizing that Hallett and Stover had used \$2 million of fraudulent Indiana 5 percent stock to build an unsecured portfolio of perhaps \$20 million would have started a panic on Wall Street. According to their theory, Hall kept the matter a secret until victories could buoy Union spirits and the markets.<sup>15</sup>

About six weeks after Hall took charge of the case, the Union armies east and west began to advance, providing a period of positive news within which to begin prosecution. In the first week of April, Gen. Ulysses S. Grant won the bloody battle at Shiloh, and the Union army was marching into northern Mississippi. In the East, Gen. George C. McClellan successfully transported the Army of the Potomac to the peninsula between the York and James rivers and was inching toward Richmond. Despite this rise in Union fortunes, Hall still did not prosecute, which suggests that considerations other than patriotism motivated him to delay.

Eventually Hall was forced to initiate proceedings against Hallett and Stover in May, when Hallett attempted to obtain a loan from the Park Bank in New York, using as part of the collateral an Indiana 5 percent stock certificate with a face amount of \$10,000. Two officers of the bank, James Porter and John Hayles, witnessed Hallett's attempt to secure a loan on the stock. Word of the fraud had been quietly circulating on Wall Street for months, since Lanier had called all of the loans that he had advanced on the stock certificates showing Hallett as the owner and had warned some bankers about them. The Park Bank men took the stock certificate to the state agent, who informed

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<sup>14</sup>*Indianapolis Daily Journal*, June 10, 1862.

<sup>15</sup>*Ibid.*, June 24, 1862.

them that the stock was forged. Unlike Lanier and his associates, Porter and Hayles did not take the news quietly, and the newspapers soon reported the fraud, which forced the prosecutor to act.<sup>16</sup>

Meanwhile, during the spring of 1862, while waiting for Hall to prosecute, Hudson quietly persevered in recovering phony stock certificates from Hallett and Stover. By late May 1862, he had obtained and destroyed about \$700,000 of them. But the Indiana officials in New York began to realize that even this vast sum was far less than Hallett and Stover had put into circulation. The officials now estimated that there might be an additional \$500,000 in illegal certificates circulating in the financial market.<sup>17</sup>

On Wednesday, May 21, a few days before the news of the stock scandal broke in New York, Brown telegraphed the governor's office in Indianapolis that "the fraud increases in amount. I will be in Indianapolis Friday. Don't be absent." The governor's private secretary and brother-in-law, Col. W. Robert Holloway, immediately wired Morton, who was visiting Indiana troops south of the Shiloh battlefield near Corinth, Mississippi, that a "telegram from Brown says fraud increases. He will arrive here [Indianapolis] on Friday to see you." Morton was still in Mississippi with the western armies when Brown arrived in Indianapolis on Friday, May 23. Holloway, shocked by Brown's first-hand report that more than a million dollars was involved, wired the governor: "I think you had better come here at once. Matter of importance, I cannot telegraph, in connection with New York matter."<sup>18</sup>

The Morton administration heard from Brown that he now believed that Hallett and Stover had circulated about \$1.2 million of forged stock, about five times the amount Hudson originally was told about in March of 1861. However, even Brown's estimate in late May, shocking as it was, underestimated by half what Stover and Hallett had actually issued.

While Brown was in Indianapolis revealing the increasing scale of the fraud, the New York newspapers were getting wind of the affair. On May 23, Lanier wired the governor's office, "An expose of the Rascals will be in the papers of tomorrow."<sup>19</sup>

At the same time, the Morton administration moved quickly to arrest Stover. Because Stover was visiting his home in Ladoga, officials had the opportunity to arrest him, but they needed authorization from New York. Holloway wired J. K. Gapen in the state agent's office in New York and instructed him to ask District Attorney Hall to initiate a request from the state of New York to have Indiana

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<sup>16</sup>*The People v. Samuel Hallett*, New York County District Attorney, Indictment Records, Court Records 1684–1966 (New York City Municipal Archives Collection).

<sup>17</sup>*Indianapolis Daily Journal*, May 26, 1862.

<sup>18</sup>Robert Holloway to Oliver P. Morton, May 21, 1862, 03:265, 03:264, Gov. Oliver P. Morton Telegraph Books (Indiana State Archives, Indianapolis), hereafter cited as Morton Telegraph Books.

<sup>19</sup>J. F. D. Lanier to Morton, May 23, 1862, 03:269, *ibid.*

officials arrest Stover. Holloway urgently ordered Gapen: "Don't lose a moment or he may abscond."<sup>20</sup>

The fear that Stover would run for it, perhaps with a carpetbag filled with cash, was well-founded. In a scandal widely publicized across the nation in 1854, Robert Schuyler, a prominent New York businessman, printed thousands of fraudulent New Haven Railroad shares and cheated investors out of \$2 million before decamping to Canada. Coincidental with the exposure of the 5 percent stock fraud in late May 1862, Treasurer Michael Batzner of Franklin County left Franklin with \$30,000 in county funds. Ostensibly, he was headed for Indianapolis to deposit the money in the Indiana state treasury. Instead, Batzner left \$500 for his wife in a bureau drawer and fled to parts unknown with the remaining cash.<sup>21</sup>

But Stover's lawyer, Joseph K. McDonald, who had served as attorney general in the administration of Democratic Governor Willard, met with the new Indiana attorney general, John F. Kibbey, in Ladoga and subsequently advised his client to go with Kibbey to Indianapolis, which he did.<sup>22</sup>

On Tuesday morning, May 27, Morton telegraphed Hall that they had Stover in custody. He urged Hall again to request immediately that Indiana send Stover to New York, and Hall complied. Morton was determined to protect his administration from criticism and to get his version of events out first. While Kibbey and Stover, along with two police officers, were en route, Morton had wired Hall imploring him, "Don't let Stover see anyone. Make no exceptions in favor of any State Officer." Morton repeated this request to Brown before taking the train to New York: "Please do not allow anyone to communicate with Stover. Make no exceptions. I have sufficient reasons for this." Kibbey, with Stover in custody, arrived in New York on Thursday, May 29, and held Stover incommunicado in a hotel over the weekend, because Hall was out of town, before turning him over to the New York authorities.<sup>23</sup>

High finance in New York City was a murky area for Indiana newspaper editors, so when the news of the fraud broke on May 24, they reprinted pieces from the more knowledgeable New York press. But Indiana editors understood viscerally the political opportunities and dangers stemming from the scandal. A virulent spirit of partisanship prevailed in Indiana politics during the Civil War. The Republican press increasingly accused Democrats of treason when they opposed

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<sup>20</sup>Jesse J. Brown to Morton, May 21, 1862, 03:265, *ibid.*; W. P. Holloway to J. K. Gapen, May 23, 1862, 03:268, *ibid.*

<sup>21</sup>Indianapolis *Daily Journal*, May 26, 1862.

<sup>22</sup>Holloway to Col. R. N. Hudson, May 26, 1862, 03:276, Morton Telegraph Books; John F. Kibbey to Holloway, May 26, 1862, 03:278, *ibid.*

<sup>23</sup>Morton to A. Oakey Hall, May 27, 1862, 03:280, *ibid.*; Hall to Morton, May 28, 1862, 03:281, *ibid.*; Morton to Hall, May 28, 1862, 03:284, *ibid.*; Morton to Brown, May 29, 1862, 03:286, *ibid.*

the Lincoln administration's policies. The Democratic press charged the Black Republicans with waging a costly, pointless war, destroying civil liberties in order to benefit their war-profiteering friends and to bring about a racially mixed society. Predictably, Democratic papers tarred Morton with covering up the fraud, while the Republican press lauded his handling of the matter and blamed Democrats for it.<sup>24</sup>

As soon as the New York newspapers broke the story, the Morton administration decided to address publicly two questions pertaining to the fraud: was the state obliged to honor the fraudulently issued stock, and had the administration engaged in a criminal act by keeping the fraud secret for almost a year and a half?

While some New York newspapers were contending that Indiana should honor the forged certificates, honoring hundreds of thousands of dollars' worth of this phony stock would have exceeded the capacity of the state to pay the interest on the authentic Indiana 5 percent stock and on the war loans. If the value of Indiana's securities had collapsed in the market, the commissioners would have been unlikely to place the additional war loans, and Indiana would have been unable to mobilize troops for the Civil War. Consequently the Morton administration immediately announced that Indiana was not legally obligated to honor the fraudulent certificates.

On Friday, May 30, former Attorney General Usher released a public letter stating that an "examination of the law authorizing and governing this class of securities will dispel all fear of liability of the State for the payment of those false certificates." Usher claimed that Indiana law was explicit that a state agent could issue a new certificate only to bondholders who surrendered their old defunct state bonds or to subsequent buyers of the stock when sold by its owner. Moreover, only transfers that were duly recorded on the books of the state agency in New York could be valid. Because the certificates issued by Stover violated these provisions of the law, Usher assured Hoosiers and the New York financial market that "there was no liability on the part of the State for their redemption."<sup>25</sup>

Morton also addressed the issue in a letter to the committee formed by the New York Stock Exchange to investigate the fraud. Shortly after arriving in New York following Stover's arrest, Morton, a lawyer, began preparing his brief. On June 2, he wired Holloway: "Send to me by Express immediately all laws in reference to issue and transfer of our state stocks. Be sure to get all." In his letter to the stock exchange committee, Morton reviewed the procedure stipulated in the legislation for issuing an Indiana 5 percent stock certificate. He, like Usher, concluded that certificates not issued through this

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<sup>24</sup>For Indiana politics see Emma Lou Thornbrough, *Indiana in the Civil War Era, 1850–1880* (Indianapolis, 1965), 180–224; Kenneth M. Stampp, *Indiana Politics during the Civil War* (Indianapolis, 1949).

<sup>25</sup>Indianapolis *Sentinel*, May 30, 1862.

process were fraudulent, and, consequently, the state did not have to pay interest on them. These responses seem to have silenced claims that Indiana must honor the fraudulently issued certificates.<sup>26</sup>

However, questions about the propriety and legality of the Morton administration's failure to report the crime continued through June. The administration's need to preserve the state's credit had provided strong motivation for officials to cover up the fraud. On Friday, May 23, the trading day before the fraud was publicly disclosed, the price of one share of Indiana 5 percent stock was \$81.50. On Monday, May 26, the first trading day after the news accounts, the price declined by 8 percent. Critics claimed that Indiana officials delayed publicizing the fraud as long as possible in order to sell the war bonds before the state's credit rating collapsed.<sup>27</sup>

The New York financial community was outraged because the coverup had provided Hallett and Stover with an additional fifteen months to flood the market with more than \$2 million of fraudulent securities. The loans extended to Hallett were under-collateralized by that additional amount. Wall Street spokesmen complained that the pair had engaged in "the most extraordinary speculative transactions of which the Stock Exchange has any record." The value of railroad stocks purchased by Hallett on margin declined 5 to 10 percent when word of the hoax reached the market. In the view of the New York Stock Exchange, "Colonel Hudson perpetuated the fraud for nearly a year and a half by concealing it and exposed the Stock Exchange and the community to its dangerous influences." The stock exchange committee charged that, by failing to ensure that the previously-signed certificates were destroyed as mandated by the legislature in March 1859, "the State of Indiana was lax."<sup>28</sup>

Opposition newspapers seized upon the fraud as a weapon with which to attack the Republican war governor, while the Morton administration worked hard to present its version of the affair to the public as soon as possible. The weekend that the New York newspapers broke the story, the administration collaborated with the editor of the Republican Indianapolis newspaper, the *Daily Journal*, on a report of the fraud that was published in the Monday, May 26, edition. The administration also recognized the need to promote their story in the New York press. Democratic New York newspapers, principally James Gordon Bennett's *Herald*, attacked Morton, Hudson, the war loan commissioners, and Lanier for covering up the fraud. Morton responded by telegraphing Brown, who was in New York, "You will see the statement in the Times, Tribune and Herald. I want you to publish there all the facts."<sup>29</sup>

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<sup>26</sup>Morton to Holloway, June 2, 1862, 03:295, Morton Telegraph Books; NYSE, *Indiana State Stock Frauds*.

<sup>27</sup>Indianapolis *Daily Sentinel*, May 28, 1862.

<sup>28</sup>NYSE, *Indiana State Stock Frauds*; Indianapolis *Daily Journal*, May 29, 1862.

<sup>29</sup>Morton to Brown, May 29, 1862, 03:286, Morton Telegraph Books.



The administration's initial report omitted the dates when important events occurred. So, while officials lauded Hudson's work in uncovering the fraud, they neglected to mention that he had confronted Stover and Hallett in March of 1861 but failed to tell other state officials until December. According to them, the New York officials were solely responsible for the decision to keep the fraud secret:

[I]t was deemed best by the New York authorities to make no exposure of the affair till the effort to recover the bonds had failed. They thought that if the fraud were exposed, the depreciation of our securities would be greater than the whole amount of the over issue, and would moreover affect the whole stock market.<sup>30</sup>

The Morton administration's story also failed to mention that the New York prosecutor was not informed about the fraud until February 1862, a year after Hudson first uncovered it. Instead, this version portrayed Morton as heroically trying to bring the matter before the public, only to be thwarted by the New York authorities.

Gov. Morton, whose frequent visits to the East have been made chiefly to prosecute the work of recovering these illegal securities, at first strongly insisted on an immediate exposure of the whole fraud, but yielded to the suggestions of the District Attorney, A. Oakey Hall, and the Attorney General of New York, Daniel S. Dickinson.<sup>31</sup>

The Democratic press viewed the matter differently. The Indianapolis *Sentinel* accused the Morton administration of trying to perpetuate the secrecy surrounding the fraud.

The [New York] *Herald* says that "the State agent, Governor, Loan Commissioners and financial advisers of the State [Lanier]" agreed with Mr. Stover that if he would retire \$25,000 or more of the 'irregular issue' weekly, that he should not be exposed. In other words, that this gross and dangerous violation of public trust should be winked at by the high authorities of the State, if Mr. Stover returned to the Agent of [the] State the 'irregular issues'. . . .<sup>32</sup>

By not citing dates, the Democratic editor portrays Morton, the loan commissioners, and Lanier as parties to the understanding that Hudson alone had reached with Stover and Hallett in March 1861; the others had not heard about it from Hudson until almost a year later.

The Democrats alleged that the governor and other high officials were willing to obstruct justice in order to recover the fraudulent securities. During the spring of 1862, after the matter was turned over to the New York district attorney, Stover and Hallett returned several hundred thousand dollars' worth of the stock, and the fraud was not publicized. To the opposition press, this appeared to confirm that the Morton administration had struck a deal with Stover and Hallett.

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<sup>30</sup>Indianapolis *Daily Journal*, May 26, 1862.

<sup>31</sup>*Ibid.*

<sup>32</sup>Indianapolis *Sentinel*, May 28, 1862.

Morton took this charge seriously and arranged for Hall to refute it. On May 30, Holloway wired Morton, who was in Alliance, Ohio, on his way to New York, "Oakey Hall writes that he will publish a letter taking the responsibility of delaying prosecution if you desire." Evidently, Morton did desire this, since Hall wrote a letter to Morton for publication, dating it June 3, 1862. A few days later, from Indianapolis, Holloway telegraphed Morton that "I put Hall's letter in *Sentinel and Journal*," the Democratic and Republican newspapers in Indianapolis. In the letter, Hall took full responsibility for keeping the affair secret after the February 1862 meeting with the governor.<sup>33</sup>

In view of the criticisms in not well informed circles, disparaging our relation to the Indiana stock frauds, I take pleasure in being able to assure your [Morton's] friends that no blame whatever should justly attach itself to you [Morton] for any delays of prosecutions since the frauds were first brought to your knowledge. That blame, if any, must fall entirely and solely upon me . . .

Hall also addressed the fact that Stover and Hallett returned fraudulent stock during the spring of 1862 while prosecution was pending.

I may, however, add that any statements that the postponements were for the purpose of enabling the fraudulent issues to be retired are entirely untrue.

Hall also denied that justice had been obstructed, claiming that efforts to retire the fraudulent stock "certainly have not obstructed, but rather benefitted, my prosecution."<sup>34</sup>

In response the Democrats published a letter from Daniel S. Dickinson, the attorney general of New York, who wrote, "I received a note from Governor Morton saying it was desirable the whole matter should remain a State secret for the present." Clearly, Dickinson, a Democrat, was not disposed to assist the Republican governor in evading responsibility for the secrecy strategy. And the *Sentinel* continued to accuse Morton of covering up the crime:

The Loan Commissioners . . . had disposed of the war loan without prejudice, and they no longer had an object in keeping the secret from the public. Governor Morton's only apology is, that he placed the matter in the hands of the District Attorney of New York, and acted subsequently under his advice. This is no justification. . . . He knew a grave crime had been committed. He knew that the parties to the crime had the means in their hands to augment the fraud. He knew innocent parties might be imposed upon if a knowledge of the crime was concealed. Yet for months he kept the secret.<sup>35</sup>

It was certainly true that Morton was informed about the crime in February 1862 and did not speak publicly about the fraud until after the New York press broke the news in the last week of May. While they were unable to deny this, administration officials repeatedly

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<sup>33</sup>Holloway to Morton, May 30, 1862, 03:290, June 9, 1862, 03:312, Morton Telegraph Books.

<sup>34</sup>Indianapolis *Daily Journal*, June 10, 1862.

<sup>35</sup>Indianapolis *Sentinel*, June 9, 1862.

cited the Hall letter and claimed that it was the prerogative of the prosecutor to publicize the matter.

Interestingly, Stover's lawyer, Joseph K. McDonald, defended Morton. In a letter published in the Indianapolis *Daily Journal*, McDonald wrote "that so far as I am informed, no just censure can attach to Gov. Morton for any delay that may have existed in bringing to light the fraud or in prosecuting the offending parties. . . . All the delay has been the act of the authorities of the State of New York, and against the urgent demand of Gov. Morton."<sup>36</sup>

The Morton administration did not merely defend its actions; it also attacked the Democrats. The Indianapolis *Daily Journal* asked,

Who does Mr. Sentinel [the editor of the Democratic newspaper, *Sentinel*] want in power? The men of his own party who perpetrated the fraud, and the men who were guilty of looseness in issuing the bonds which led to the fraud . . . . [I]ts political bedfellows were Mr. Stover, and all the other State officials when the frauds and forgeries were committed. Every Department of State, at that time, and for two years thereafter, was filled, and filled only by the *Sentinel's* own political associates—officers of its own making.<sup>37</sup>

Both political parties were on the attack throughout June. The *Sentinel* claimed that Morton urged his war loan commissioners to provide Hallett with favorable terms on war bonds if he would turn over the fraudulent securities. Immediately, the *Daily Journal* printed a denial by Commissioner Brown. Repeatedly, the charges that Morton abetted a coverup were rebutted by claims that the New York prosecutor was responsible for the delay.<sup>38</sup>

The electrifying reports in the New York newspapers about the fraud and the frantic exertions of the Morton administration to arrest Stover forced Hall to prosecute in late May. Hall presented separate cases to the grand jury against Hallett and Stover, both for forgery in the third degree. The Morton administration kept a close eye on the grand jury proceedings. Brown cabled Morton updates about how many witnesses appeared before the grand jury as it sat from time to time to hear testimony, and he complained that the grand jury was not proceeding very rapidly. Both Brown and Hudson testified in the case. At last, Morton received advance word that the grand jury was indicting the forgers.<sup>39</sup>

On June 25, 1862, the grand jury returned true bills that indicted both Hallett and Stover. Four months after Morton first notified him of the fraud, Hall succeeded in indicting both Hallett and Stover for

<sup>36</sup>Indianapolis *Daily Journal*, June 21, 1862.

<sup>37</sup>*Ibid.*, June 10, 1862.

<sup>38</sup>*Ibid.*, June 21, 1862.

<sup>39</sup>Hall to Morton, May 28, 1862, 03:281, Morton Telegraph Books; J. E. McDonald to Morton, June 14, 1862, 04:15, *ibid.*; Brown to Morton, June 12, 04:09, June 13, 04:14, June 16, 1862, 04:25, *ibid.*; Brown to D. E. Stebbins, June 20, 1862, 04:30, *ibid.*; Morton to Hall, June 20, 1862, 04:30, *ibid.*; Morton to Brown, June 21, 04:32, June 23, 1862, 04:34, *ibid.*

criminal acts "against the peace of the People of the State of New York and their dignity."<sup>40</sup>

After this their cases disappeared into the catacombs of the New York judicial system. Lacking new information and allegations, the newspapers turned their attention to the summer military campaigns and filled their pages with reports from the battlefronts.

In Hall's tenure as prosecutor, delayed prosecution was not unique to the Hallett and Stover cases. Elected district attorney of New York County in 1862, Hall remained the prosecutor until 1868. During those six years, Hall chose not to prosecute more than 10,000 of the approximately 22,000 people that he indicted. Hall's ties with the corrupt Tweed Ring probably explain this record.<sup>41</sup>

After his election in 1861, Hall had allied himself with the sachems of Tammany Hall, the center of the Democratic party's organization in New York City, and Hall eventually acknowledged his allegiance publicly when he formally joined Tammany Hall, in 1864. William Marcy Tweed emerged as Tammany's boss shortly after Hall's election. Tweed's corrupt clique, the Tweed Ring, controlled New York City government until his downfall in 1871. Hall collaborated with the political machine while serving as district attorney, and Tweed rewarded him by ensuring Hall's election as mayor of New York in 1868. The members of the Tweed organization aggressively and systematically used their political power to enrich themselves and to solidify their electoral base. Extracting payments from indicted felons who wished to keep their cases from coming to trial is typical of the Tweed Ring's graft. Hall produced a lucrative flow of cash and favors-owed-to-Tweed when he chose not to prosecute.<sup>42</sup>

Hallett was undoubtedly aware that he could deal with the Tweed Ring to delay prosecution. Inevitably, word of the fraud would reach the financial market, and Hallett's creditors would compel him to replace the fraudulent Indiana 5 percent stock with valid collateral. However, a deal with Tammany Hall would keep the authorities from exposing the secret until the matter otherwise became public knowledge and, thereby, increase Hallett's opportunities to squeeze profit from the forged stock. District Attorney Hall remained silent about the securities fraud for almost four months and only commenced prosecution after the affair became a public scandal. His ties with Tammany Hall were a more credible reason for Hall's silence during this period than was a patriotic impulse to shore up the Union's fortunes.

The way in which Hall disposed of the Hallett and Stover indictments also suggests that Hallett had struck a deal with the Tweed Ring. Normally criminal cases were assigned to the county

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<sup>40</sup>*People v. Samuel Hallett*.

<sup>41</sup>*Dictionary of American Biography*, see under "Abraham Oakey Hall."

<sup>42</sup>Jerome Mushkat, *Tammany, The Evolution of a Political Machine, 1789-1865* (Syracuse, N.Y., 1971).

court, but the attorney general ordered that the Hallett case be assigned to the oyer and terminer court, where the case would be heard by Judge George Barnard of the New York State Supreme Court. Barnard also was Tweed's tool. Tammany Hall had ensured his election to the New York State Supreme Court in 1860, and Barnard served the interests of the Tweed Ring for the next decade. If "one of Tweed's strong-arm men ran afoul of the law and he was tried before Barnard, Tweed's intercession was equivalent to a dismissal of the case."<sup>43</sup>

The court scheduled Hallett's case for the first Monday of October 1862. Hallett's lawyer, John Burrill, notified the district attorney that he would enter a motion to quash the indictment, and Barnard heard the motion to quash on October 7, 1862.<sup>44</sup>

On October 10, Barnard issued his judgment quashing the Hallett indictment. The forgery charge against Hallett was defined in the section of the New York State code as applying to "every person . . . who shall forge . . . an instrument being, or purporting to be, the act of another . . . ." Barnard wrote that "it was conceded, on the argument to quash, that the word 'another' meant another person, and not a State or Corporation." The district attorney countered that the legislature later defined the word "person" to apply in certain circumstances to the State of New York, sister states in the Union, foreign states and governments, and all private and public corporations. The prosecutor claimed that this broader definition of person applied to the Indiana 5 percent stock certificates. Barnard thought not, concluding in an opinion rife with pettifoggery that these "indictments, then, fail to show that the defendant has been guilty of the crime with which he has been charged." Hallett was acquitted.<sup>45</sup>

In June 1863, Stover's new lawyer, A. D. Rupell, pointed to the Hallett decision and petitioned Hall to return Stover's \$15,000 bail money and quash his client's forgery indictment. On June 19, Stover's bail was discharged, and on June 27, a year and two days after the grand jury indicted Stover, the court quashed his indictment. Stover, too, "walked."<sup>46</sup>

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<sup>43</sup>Denis Tilden Lynch, *"Boss" Tweed: The Story of a Grim Generation* (New York, 1927), 220; Jerome Mushkat, *The Reconstruction of the New York Democracy* (Rutherford, N.J., 1981), 140. Barnard provided services beyond routine acquittals. As an example, the judge presided over a "naturalization mill" a few years following the Hallett case. In 1868, Barnard processed 37,000 immigrant aliens into American citizens in three weeks, as compared with the normal rate of about 6,000 per year. Perhaps, the grateful new citizens paid for the service and thereafter loyally voted for the Tammany Hall ticket.

<sup>44</sup>Microfilm reel number 28, June 25, 1862, Minutes of the 1862 Sessions, *The People v. Samuel Hallett*, New York County Court of General Sessions, Court Records 1684–1966; *New York Times*, October 7, 1862.

<sup>45</sup>*New York Times*, October 10, 1862.

<sup>46</sup>Microfilm reel number 111, June 23, 1863, MN5411, *The People v. Daniel Stover*, New York County District Attorney, Indictment Records.

Stover evidently benefitted financially from the fraud. Before serving as the state agent in New York, his sources of income were modest and irregular—fees earned as a country lawyer, salaries from the few public offices that he held from time to time over fifteen years, uncertain profits from dealing in livestock, and the return from an investment in a warehouse in Ladoga near the New Albany & Salem Railroad tracks. However, after the fraud, in 1863, Stover had the capital in hand to acquire the Peter Morris woolen carding mill in Ladoga, to purchase new equipment that transformed the factory into an integrated weaving mill, and to operate the business.<sup>47</sup>

Hallett emerged from the fraud affair as the big winner. He leveraged the \$2,438,000 of the stock certificates that were made payable to him into a portfolio of stocks amounting to about \$20 million. The New York Stock Exchange members, knowing that a sudden liquidation of Hallett's holdings would pressure the market downward, sullenly allowed Hallett to sell the stock gradually. Enriched with these proceeds, Hallett turned to other schemes. In November 1863, Morton received an urgent telegram from Jefferson City, Missouri: "Samuel Hallett of New York is here attempting to control railroad legislation. Please send by return mail pamphlet on Indiana Bond frauds." Undoubtedly, Morton mailed the pamphlet.<sup>48</sup>

Stover issued fraudulent stock to only one person besides Hallett. The committee that investigated the affair for the New York Stock Exchange listed a \$100,000 stock certificate "payable to a woman, Deschaux." Stover served Indiana in New York for two years and, during that time, encountered only two people that he chose to enrich through his nefarious scheme, Hallett and Deschaux. The record is silent on the woman's relationship with Stover, who was married to his law partner's sister until she died in 1862. Stover later married his dead wife's sister. Evidently, the "woman Deschaux" chose not to settle in Ladoga with her gleanings from the fraud.<sup>49</sup>

The fraud bears all of the hallmarks of the Gilded Age. An Indiana state officer, Stover, willfully and knowingly disregarded state law by not destroying the presigned 5 percent stock certificates and colluded with others to use the fraudulent certificates as collateral for loans. A Wall Street financier, Hallett, probably devised the scheme and certainly actively implemented it. In so doing, he put his associates in the financial market at risk by circulating forged securities and threatened the stability of the market and the Union cause. As a financial advisor to the state and a major investor in

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<sup>47</sup>Theodore Gregory Gronert, *Sugar Creek Saga* (Crawfordsville, Ind., 1958), 46.

<sup>48</sup>William R. Strachan to Morton, November 28, 1863, 12:215, Morton Telegraph Books.

<sup>49</sup>NYSE, *Indiana State Stock Fraud*; Shepherd *et al.*, *Biographical Directory*, I, 195-96.

Indiana securities, Lanier was privy to information from state officials about the fraud and used that insider information to protect his personal business interests. He called in loans that were based on the fake securities and warned his closest Wall Street friends, albeit in veiled terms. Lanier was under no legal obligation to notify the stock exchange and thereby alert the entire market to the fraud, and it is instructive about business practices of the age that he felt no ethical mandate to do so. The magnitude of the scheme, pledging \$2,538,000 in fraudulent Indiana 5 percent stock and building the proceeds into an estimated \$20,000,000 paper empire, anticipates the scale of Gilded Age speculations and malfeasances.

The Morton administration successfully managed the fiscal crisis and its political fallout. The first state agent kept the matter secret for nine months, expecting to recover the fraudulent securities without publicly revealing lax fiscal administration on the part of the state. However, once informed of the fraud, higher state officials discharged their legal obligation by informing the governor, who then turned the matter over to the New York prosecutor. When the press broke the story, the governor and his closest associates assigned political damage control the highest priority and coordinated their efforts by riding the rails and burning the telegraph wires. They also used the mass media of the day, the newspapers, to get their story out early and keep their version constantly before the public. Morton and his top officials understood that the machinations of "Boss" Tweed's politicians, including the prosecutor, would control how the fraud case would be handled. After the indictments, the Indiana officials let the matter die quietly in the corrupt corridors of the New York City courthouse. There were no naive cries from Indianapolis about justice denied in New York.

By managing the crisis successfully, the Morton administration maintained the confidence of the financial markets, and Indiana floated its war loans at acceptable terms. Indiana mobilized a disproportionately greater number of troops into the Union army than any other state, and, with the proceeds from the war loans, the state effectively armed the 196,363 men who stepped forward.