Notes and Documents

Alexander Hamilton's Fiscal Reform: Transforming the Structure of Taxation in the Early Republic

Max M. Edling and Mark D. Kaplanoff

THE catalyst of the American Revolution was Parliament's attempt to impose new taxes in the colonies, and taxes and tax resistance therefore form part of the very origin of the United States. But neither taxes nor tax resistance disappeared with Independence. Compared to many other revolutions—the English in 1641 and the French in 1789 foremost among them—the Revolutionary settlement in America must be considered relatively peaceful. In the fifteen years following the Treaty of Peace and Independence, the national government used military force against its own people only twice. But in both these cases—the coercion of the Whiskey Rebellion in 1794 and of Fries's Rebellion in 1798—the government resorted to arms to subdue tax revolts. A few decades into the nineteenth century, conflict over the tariff played a role in the development of a principled defense of the right

Max M. Edling is a research fellow and lecturer in the History Department at the University of Uppsala. Mark D. Kaplanoff was a fellow of Pembroke College and lecturer at Cambridge University. This article has its origin in a short conference paper titled "The Hamiltonian Moment," which Mark Kaplanoff presented at the annual meeting of the Society for Historians of the Early American Republic at Harpers Ferry in July 1998. When Mark died in March 2001, I intended to prepare his paper for posthumous publication. The paper had no footnotes, but Mark had left copious notes, and I had hoped to use these references to publish the paper in its original form. When this plan did not prove possible, I decided to write an altogether new work. The article presented here is therefore entirely the result of my own research and writing, although it draws on the work of Mark. Hence, although I accept full responsibility for every error in this work, any credit should go to Mark. Richard Bensel, Roger H. Brown, Richard Buel, Woody Holton, John P. Kaminski, Peter Onuf, Susanna Rabow-Edling, Richard Sylla, and Robert E. Wright have read drafts of this article, and I gratefully acknowledge their many suggestions, criticisms, and corrections. The research for this article was funded by the Bank of Sweden Tercentenary Foundation.

Certain results from Mark's paper were incorporated in my *Revolution in Favor of Government: Origins of the U.S. Constitution and the Making of the American State* (New York, 2003), but it was not possible to develop the argument in that publication.

William and Mary Quarterly, 3d Series, Volume LXI, Number 4, October 2004

to secede from the union. Without question, taxes and tax resistance have an important place in the history of the early American Republic.

Perhaps at no point in this history were taxes more controversial than in the period between the peace treaty of 1783 and the meeting of the Philadelphia Convention in 1787. Having rebelled against crown and Parliament in opposition to impositions from a distant government, the citizens of the newly independent states were now asked to pay taxes several times higher than those levied before the Revolution. Congress and the states soon found that many citizens could not, or would not, pay these taxes. When the state governments increased the pressure on the taxpayers, the people protested. They petitioned for relief, they voted governments from office, and they obstructed the administration of taxation in numerous ways. When nothing else worked, they turned to violence. Although Shays's Rebellion in Massachusetts is by far the best-known case, strong and sometimes violent protests against taxation occurred in the majority of the states in the 1780s.[1]

Within less than a decade, this situation had changed completely. Late in 1796, Secretary of the Treasury Oliver Wolcott could remark that it "is known that the State taxes have generally been very inconsiderable." The previous year, the president had told Congress that the tax burden on the citizens was now "so light as scarcely to be perceived." The administration was well aware that this situation contrasted sharply with that before the adoption of the Constitution in 1787–1788. In 1795, Alexander Hamilton, Wolcott's predecessor, had written that state taxation in the 1780s had "embraced every object and was carried as far [as] it could be done without absolutely oppressing individuals." Although Hamilton was referring to conditions in Connecticut, his description held true also for other states. Indeed, in some of them things had been even worse. Thus, in Massachusetts taxation "was carried still farther even to a degree too burthernsome *[sic]* for the comfortable condition of the Citizens." Partly, this oppressive tax burden was caused by administrative mistakes—"that unskilfulness which was the common attribute of the State administration of Finance"—yet it was "still more owing to the

[1] Robert A. Becker, *Revolution, Reform, and the Politics of American Taxation, 1763–1783* (Baton Rouge, La., 1980), 219–229; Becker, "Salus Populi Suprema Lex: Public Peace and South Carolina Debtor Relief Laws, 1783–1788," *South Carolina Historical Magazine,* LXXX (1979), 65–75; Roger H. Brown, *Redeeming the Republic: Federalists, Taxation, and the Origins of the Constitution* (Baltimore, 1993), 32–138; Richard Buel, Jr., *Dear Liberty: Connecticut's Mobilization for the Revolutionary War* (Middletown, Conn., 1980), 326–327, 330; John P. Kaminski, "Democracy Run Rampant: Rhode Island in the Confederation," in James Kirby Martin, ed., *The Human Dimensions of Nation Making: Essays on Colonial and Revolutionary America* (Madison, Wis., 1976), 243–269; Edwin J. Perkins, *American Public Finance and Financial Services, 1700–1815* (Columbus, Ohio, 1994), 137–196.

real weight of the Taxes." Like so many of his contemporaries, Hamilton believed that Shays's Rebellion "was in great degree the offspring of this pressure."[2]

Hamilton had no difficulty explaining how state taxes could change from "oppressive" to "inconsiderable" in less than a decade. The federal assumption of state debts, which he had engineered in 1790, was the cause. "It is a curious fact which has not made its due impression," Hamilton wrote, "that in every state the people have found relief from assumption while an incomparably better provision than before existed has been made for the state debts." If Hamilton's contemporaries were slow to grasp his achievement, historians have not been much more successful. In *Power of the Purse,* which after forty years remains the standard account of the Federalists' funding and assumption programs, E. James Ferguson made only passing reference to tax reductions in Connecticut, Massachusetts, New York, Pennsylvania, and Maryland and said nothing about the scope of these reductions. Stanley Elkins and Eric McKitrick's seminal *Age of Federalism,* on the other hand, does not mention Hamilton's alleged tax reform at all. Equally silent are the many biographies of Hamilton, most of which cast his term as secretary of the treasury in sympathetic light.[3]

Modern studies of taxation in the early Republic are also curiously silent on the matter of Hamilton's tax reform. Robert A. Becker's study of the politics of taxation focuses on how demands for a more equitable tax system voiced during the Revolution led to tax reform in many of the states. But it ends with American Independence in 1783. Roger H.

[2] Oliver Wolcott, "Direct Taxes," *American State Papers: Documents, Legislative and Executive, of the Congress of the United States; Selected and Edited under the Authority of Congress,* 38 vols. (Washington, D.C., 1832–1861), V, 437; George Washington, "Seventh Annual Address," in James D. Robinson, comp., *A Compilation of the Messages and Papers of the Presidents, 1789–1908,* 11 vols. (Washington, D.C., 1909), I, 184; Alexander Hamilton, "The Defence of the Funding System," in Harold C. Syrett, ed., *The Papers of Alexander Hamilton,* 27 vols. (New York, 1961–1987), XIX, 17–18. For contemporary reactions to Shays's Rebellion, see Forrest McDonald and Ellen Shapiro McDonald, *Requiem: Variations on Eighteenth-Century Themes* (Lawrence, Kans., 1988), 72–76.

[3] Hamilton, "Defence of the Funding System," in Syrett, ed., *Papers of Hamilton,* XIX, 35; E. James Ferguson, *The Power of the Purse: A History of American Public Finance, 1776–1790* (Chapel Hill, N.C., 1961), 332. The funding and assumption plans are treated in Stanley Elkins and Eric McKitrick, *The Age of Federalism* (New York, 1993), 114–123. Hamilton's major biographers are Henry Cabot Lodge, *Alexander Hamilton* (Boston, 1882); Nathan Schachner, *Alexander Hamilton* (New York, 1946); John C. Miller, *Alexander Hamilton: Portrait in Paradox* (New York, 1959); Broadus Mitchell, *Alexander Hamilton: The National Adventure, 1784–1804* (New York, 1962); Forrest McDonald, *Alexander Hamilton: A Biography* (New York, 1979); Jacob Ernest Cooke, *Alexander Hamilton* (New York, 1982). His most recent ones are Richard Brookhiser, *Alexander Hamilton: American* (New York, 1999); and Willard Sterne Randall, *Alexander Hamilton: A Life* (New York, 2003).

Brown's work argues that the national government's difficulties in raising a sufficient income led to the drafting and adoption of the Constitution. Similarly, Woody Holton has recently investigated the role of taxation and the controversy over public securities in generating support for the Constitution in New England. Although these works are the most useful studies to date of state taxes in the mid-1780s, they have little to say about the period after the Constitution was adopted and the new federal government began its operations. Frederick Dalzell is excellent on the theory and practice of the federal revenue administration under Hamilton, but he does not study state taxes. Robin L. Einhorn rightly stresses the limitations placed on the federal revenue system by the existence of chattel slavery in the South, but, like Dalzell, she does not look at fiscal policies in the states. The historian who has come closest to investigating state taxes before and after Hamilton's assumption program is H. James Henderson. Yet he was concerned with the development of local taxation in Massachusetts and Virginia, and the development of state and federal taxation was only of secondary importance to him.[4]

We therefore do not know if Hamilton was correct in claiming to have reduced the burden of taxation during his tenure as treasury secretary. And, if he was, we do not know anything about the scale of his tax reform. The analysis of state and federal taxes undertaken in this article shows that state property and poll taxes fell sharply between the mid-

[4] Becker, *Revolution;* Brown, *Redeeming the Republic;* Woody Holton, "'From the Labours of Others': The War Bonds Controversy and the Origins of the Constitution in New England," *William and Mary Quarterly,* 3d Ser., LXI (2004), 271–316; Frederick Dalzell, "Prudence and the Golden Egg: Establishing the Federal Government in Providence, Rhode Island," *New England Quarterly,* LXV (1992), 355–388; Dalzell, "Taxation with Representation: Federal Revenue in the Early Republic" (Ph.D. diss., Harvard University, 1993); Robin L. Einhorn, "Slavery and the Politics of Taxation in the Early United States," *Studies in American Political Development,* XIV (2000), 156–183; Einhorn, "Patrick Henry's Case against the Constitution: The Structural Problem of Slavery," *Journal of the Early Republic,* XXII (2002), 549–573; H. James Henderson, "Taxation and Political Culture: Massachusetts and Virginia, 1760–1800," *WMQ,* 3d Ser., XLVII (1990), 90–114.

Other notable works on taxation in the early Republic include William D. Barber, "'Among the Most Techy Articles of Civil Police': Federal Taxation and the Adoption of the Whiskey Excise," *WMQ,* 3d Ser., XXV (1968), 58–84; Becker, "Salus Populi Suprema Lex," *South Carolina Historical Magazine,* LXXX (1979), 65–75; Dall W. Forsythe, *Taxation and Political Change in the Young Nation, 1781–1833* (New York, 1977); Kaminski, "Democracy Run Rampant," in Martin, ed., *Human Dimensions of Nation Making,* 243–269; Edward C. Papenfuse, "The Legislative Response to a Costly War: Fiscal Policy and Factional Politics in Maryland, 1777–1789," in Ronald Hoffman and Peter J. Albert, eds., *Sovereign States in an Age of Uncertainty* (Charlottesville, Va., 1981), 134–156; Richard Sylla, "Experimental Federalism: The Economics of American Government, 1789–1914," in Stanley L. Engerman and Robert E. Gallman, eds., *The Cambridge Economic History of the United States,* 3 vols. (Cambridge, 2000), II, 483–541.

1780s and the mid-1790s, while, at the same time, the new federal government imposed only very limited internal taxes. It would be an exaggeration to say that this development is altogether unknown. The broad outline is doubtless known to most historians working in the period, and the handful of specialists on fiscal and financial history are familiar also with the details.[5] Nevertheless, it is no exaggeration to say that the tax reduction that followed from Hamilton's funding and assumption plans remains a neglected aspect of Federalist policies and one that has not been systematically studied.

Rather than his fiscal reform, Hamilton's decision to fund federal securities at face value and his refusal to discriminate between original and secondary holders of securities have dominated interpretations of Federalist policies. Such a focus is both understandable and to some extent justifiable, since these issues generated considerable controversy in their day. But it has been all too common to interpret Federalist policy as no more than a means to provide public creditors with, in John M. Murrin's words, "some of the grosser windfall profits in American history." Even John R. Nelson Jr.'s more sophisticated attempt to analyze Hamiltonian finance is concerned exclusively with the Federalists' alleged intention to buy the support of the social elite by manipulating the price of securities. According to Nelson, Hamilton's policies "aimed at a relatively small group of rich and powerful men." "By 1790 only 2 percent of the adult white population held securities. Less than 0.5 percent held a fourth of all the nation's stock. Yet, this handful of merchant-creditors constituted enough political and economic might to insure success to a new government."[6]

Federalist policies had consequences other than securities appreciation, however; these consequences had equally great, if not greater, significance for both the citizens and the state governments in the early

[5] For the former, see, for instance, Van Beck Hall, *Politics without Parties: Massachusetts, 1780–1791* (Pittsburgh, 1972), 295–297; Henderson, "Taxation and Political Culture," *WMQ*, 3d Ser., XLVII (1990), 111–113. For the latter, see, in particular, Perkins, *American Public Finance*, 217–219; and Richard Sylla, "Shaping the U.S. Financial System, 1690–1913: The Dominant Role of Public Finance," in Sylla, Richard Tilly, and Gabriell Tortella, eds., *The State, the Financial System, and Economic Modernization* (Cambridge, 1999), 263.

[6] John M. Murrin, "The Great Inversion, or Court versus Country: A Comparison of the Revolutionary Settlements in England (1688–1721) and America (1776–1816)," in J. G. A. Pocock, ed., *Three British Revolutions: 1641, 1688, 1776* (Princeton, N.J., 1980), 407; John R. Nelson, Jr., *Liberty and Property: Political Economy and Policymaking in the New Nation, 1789–1812* (Baltimore, 1987), 30–31. Although Murrin and Nelson take a rather one-sided view on how to restore public credit—a question that to contemporaries was as crucial as it was difficult—this is not the place to attempt to refute their argument. Edwin J. Perkins provides a more balanced view of the appreciation of securities in *American Public Finance*, 227–231.

Republic. Investigating the development of taxation at the state and federal levels between 1785 and 1795 reveals considerable changes in the tax burden imposed on the citizens. This analysis also demonstrates that the Federalists' financial reforms had effects not only on the overall level of taxation but also on the relative importance of different types of taxes. In addition, these reforms had consequences for the relative significance of the states and the federal government in the fiscal sphere.[7]

This study has a number of limitations that need to be clearly stated. First, this work says nothing about local taxation. Such as they were, many of the services provided by American governments in the eighteenth century were provided by local governments. The repair and maintenance of roads, bridges, and public buildings, the support of religious establishments, and the administration of justice and of poor relief were all local concerns. Both before and after the period studied here, local taxes far exceeded provincial and state taxes.[8] Second, the focus of the article is on politics rather than on economics. No attempt has been made to calculate the level of taxation in relation to per capita income or gross domestic product, nor to speculate about the possible effects Federalist reforms might have had on economic growth. Third, this article does not address the question of the fairness of the tax system, nor does it try to measure the hardship of taxation in terms of how much income or property the government expropriated as taxes. In the eighteenth century, it was a recognized principle that the tax burden ought to be distributed equitably. Thus, in *The Wealth of Nations,* Adam Smith wrote that "the subjects of every state ought to contribute towards the support of the government, as nearly as possible, in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state." But this principle provided very little guidance on how to formulate actual tax policies. Becker has shown not only that the American colonies and states created very different fiscal systems but also that these systems often were accused of being inequitable. Nor did such criticism disappear with the conclusion of the peace with Britain, but it persisted throughout the 1780s.[9] Finally, a further limitation to this

[7] It should be noted that this is an exploratory work, which does not aim to offer the final say about the Federalists' fiscal reform. Many of the figures presented here will have to be modified by future research. Nevertheless, this article was written in the belief that such corrections will not alter the general picture presented here.

[8] For local taxation, see Henderson, "Taxation and Political Culture," *WMQ,* 3d Ser., XLVII (1990), 90–114; Edwin J. Perkins, *The Economy of Colonial America* (New York, 1980), 125; Sylla, "Experimental Federalism," in Engerman and Gallman, eds., *Cambridge Economic History of the United States,* 504–507.

[9] Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations,* ed. R. H. Campbell, A. S. Skinner, and W. B. Todd, 2 vols. (Oxford, 1976), II, 825; Becker, *Revolution.* See also Buel, *Dear Liberty,* 289–290.

study is set by the method employed. This is an investigation of tax laws, not tax collections. It is well known that state governments had difficulty collecting the taxes they levied. Nevertheless, it will be argued here that tax levies are a useful measure of the tax burden, even if they are an imperfect guide to tax collections.

Taxation was not the only means by which American governments raised money. In some periods, in some of the colonies and states, it was not even the most important way. State governments also raised revenue from incomes on investments, from interest on loans issued through their Loan Offices, and from the sale of public lands and confiscated loyalist property. Many states also printed bills of credit, or paper money.[10] But, in the 1780s, when the states tried to pay the large public debt run up during the war against Britain, these sources proved insufficient, and it was necessary to resort to taxation. Table I shows that New York, Pennsylvania, and Virginia expected nontax income to yield less than 10 percent of total revenue in the years before the adoption of the Constitution. In contrast, South Carolina's Committee of Ways and Means estimated that more than 10 percent of government revenue in 1785 would come from the sale of land in Charleston and confiscated estates. But such assets would soon be exhausted. North Carolina apparently expected nothing at all from sources other than taxes, and, in the same period, Maryland's Committee of Claims reported only negligible sums from nontax incomes.[11] With the important exception of bills of credit, which were issued by seven of the states in the 1780s, it appears that nontax revenues were only marginally important to the states in the years between 1785 and 1787.

State governments implemented three basic types of taxes in the 1780s. In the majority of the states, the most important type was direct

[10] Becker, *Revolution,* 48, 70, 79–80; Paul B. Trescott, "Federal-State Financial Relations, 1790–1860," *Journal of Economic History,* XV (1955), 227, 232 (investments and loans); Don C. Sowers, *The Financial History of New York State from 1789 to 1912* (New York, 1914), appendix 2, "Classified Receipts," 324–325 (land); Perkins, *American Public Finance,* 138 (loyalist property). There are many accounts of paper-money issues. See, for instance, E. James Ferguson, "Currency Finance: An Interpretation of Colonial Monetary Practices," *WMQ,* 3d Ser., X (1953), 153–180; Merrill Jensen, *The New Nation: A History of the United States during the Confederacy, 1781–1789* (Boston, 1981), 313–326; Forrest McDonald, *E Pluribus Unum: The Formation of the American Republic, 1776–1790,* 2d ed. (Indianapolis, Ind., 1979), 80, 97–99, 111–113, 146–148, 179–181; Perkins, *American Public Finance,* 137–172.

[11] *Votes and Proceedings of the House of Delegates of the State of Maryland, November Session, 1785* (Nov. 14, 1785–Mar. 12, 1786) (Annapolis, Md., 1786), 12–18; *Votes and Proceedings of the House of Delegates of the State of Maryland, November Session, 1786* (Annapolis, Md., 1787), 39–40; *Votes and Proceedings of the House of Delegates of the State of Maryland, November Session, 1787* (Annapolis, Md., 1788), 26–27.

TABLE I
THE STRUCTURE OF GOVERNMENT REVENUE, 1785–1787

Income	*New York*	*Pennsylvania*	*Virginia*	*North Carolina*	*South Carolina*
Direct tax	$83,000 (32%)	$205,000 (42%)	$828,000 (70%)	$131,000 (77%)	$324,000 (62%)
Customs	143,000 (55%)	162,000 (33%)	282,000 (24%)	30,000 (18%)	111,000 (21%)
Excises and fees	9,000 (4%)	80,000 (16%)	33,000 (3%)	10,000 (6%)	28,000 (5%)
Other	21,000 (8%)	47,000 (9%)	30,000 (3%)		56,000 (11%)
Total	$257,000	$494,000	$1,173,000	$171,000	$519,000

Note: Figures for direct taxes in New York and Pennsylvania are taxes levied, not taxes collected. Figures for Virginia are based on Treasury receipts. North and South Carolina figures are estimates by legislative committees. Arrearages for duties, fees, and so forth from years before 1785 are not included for any state. For New York and Pennsylvania, figures are yearly averages for the period 1785–1787, although in the former state the first year covers Sept. 21, 1784, to Dec. 31, 1785. Figures for Virginia are yearly averages for the period 1785/1786–1787/1788, except "Excises and fees" and "Other," which are yearly averages for 1786/1787–1787/1788. In North and South Carolina, the figures are contemporary estimates for 1788 and 1785, respectively. Throughout this article, all conversions from local currency to dollars are based on John J. McCusker, *How Much Is That in Real Money? A Historical Commodity Price Index for Use as a Deflator of Money Values in the Economy of the United States,* 2d ed. (Worcester, Mass., 2001), table 1, 34; and Philo Copernicus [pseud.], *Folsom's New Pocket Almanac, for the Year of Our Lord 1789* (Boston, 1789), 35. Figures may not add up owing to rounding.

Sources: New York: [New York, Session Laws (New York)], Apr. 29, 1786, Apr. 11, 1787; *Journal of the Assembly of the State of New-York* (Jan. 9–Mar. 22, 1788) (Poughkeepsie, N.Y., 1788), 19, 21, 23. For direct taxes, see sources listed in Table II. Pennsylvania: *State of the Accounts of David Rittenhouse, Esq., Treasurer of Pennsylvania; from January, 1785, till January 1786* (Philadelphia, 1790), 8–19; *State of the Account of David Rittenhouse, Esq., Treasurer of the Commonwealth of Pennsylvania; from January, 1786, till January, 1787* (Philadelphia, 1790), 3–35; *State of the Accounts of David Rittenhouse, Esq., Treasurer of Pennsylvania; from 1st January till 1st November 1787; Including His Continental and State Money Accounts for the Year 1786* (Philadelphia, 1790), 6–39; *State of the Accounts of David Rittenhouse, Esq., Treasurer of Pennsylvania; for the Year 1788* (Philadelphia, 1791), 3–29. For direct taxes, see sources listed in Table II. Virginia: W. F. Dodd, "The Effect of the Adoption of the Constitution upon the Finances of Virginia," *Virginia Magazine of History and Biography,* X (1903), 366. North Carolina: Senate Journal, Dec. 11, 1787, in William L. Saunders and Walter Clark, eds., *State Records of North Carolina,* 26 vols. (Goldsboro, N.C., 1886–1907), XX, 396, 398. South Carolina: South Carolina, General Assembly, Committee of Ways and Means, *Second Report of Ways and Means* (Charleston, S.C., 1785).

taxes on property and persons. In the middle and northern states, tax laws stipulated the total sum to be raised in the state, and the individual tax rate was set according to the size and the wealth of the household. In the South, legislatures voted on tax rates rather than a total sum. In terms of government revenue, the most important taxes in the South were the land tax and the slave tax, with the exception of North Carolina, where the poll tax was the most important one. North Carolina was also unique in taxing land by acre, whereas the other states tried to assess land value by classing land rather crudely according to quality. Slaves within a certain age span were taxed at a flat rate.[12]

The second most important type of tax—in some states the most important one—was duties on exports and imports. Although imported goods were consumed throughout the union, collections were made by the state in possession of the port of entry. This arrangement obviously benefited states possessing busy ports, such as Pennsylvania and New York, at the expense of those that did not. The third and final type of tax was fees and duties on the retail sale and sometimes production of consumer articles, so-called excises. Among the former, the most common were marriage and tavern licenses, court fees, and fees on the exercise of certain professions, such as law and medicine. Pennsylvania fined its many conscientious objectors who refused to do militia service. Other states imposed duties on billiard tables, playing cards, and dice, on carriages, sales at auction, and on alcohol, whether imported brandy, wine, or locally produced whiskey and rum. Before the Revolution, excises on spirituous liquors, which under federal auspices would later become so controversial, were in effect in New Hampshire, New York, Pennsylvania, Maryland, Virginia, and North Carolina.[13]

The income from excises and fees was relatively modest compared to the money raised through direct taxes and customs duties. Table I shows that the ratio of fees and excises to direct taxes range from a high of 1:3 in Pennsylvania to a low of 1:25 in Virginia. The corresponding figures for New York, North Carolina, and South Carolina are, respectively, 1:9, 1:13, and 1:12. The aggregate figure for the five states is 1:10. The share of total revenue raised from fees and excises varies from 3 percent in Virginia to 16 percent in Pennsylvania. The aggregate figure for the five states is 6 percent. In contrast to many European states at the time,

[12] See sources cited in Tables II and IV. For secondary accounts of taxation in the period, see Becker, *Revolution;* and Perkins, *Economy of Colonial America,* 123–144.

[13] A reading of the session laws of the period shows that most states experimented with a wide range of fees as well as excise and impost duties. See also Becker, *Revolution,* 46; Perkins, *Economy of Colonial America,* table 7.1.

therefore, excises and fees generated only minor incomes for American governments in the mid-1780s.[14]

Export and import duties were much more important than excises and fees in producing revenue in the pre-Constitution years. New York was exceptional in raising 55 percent of its income from customs duties. But customs duties were an important source of revenue in other states, too. Table I shows that Pennsylvania received 33 percent of its total income from customs duties. In the remaining three states, they contributed between a fifth and a fourth of total income. These figures underestimate the importance of customs duties to state finances, however. Whereas a large share of direct taxes could be paid in bills of credit, securities, or interest certificates, customs duties were often the state governments' major source of specie income. Thus, in Massachusetts the government earmarked the income from the impost and excise fund for interest payments on the public debt in order to keep up the value of the public securities and placate the mood of its powerful public creditors.[15] The significance of customs duties to the states is reflected in the refusal of Rhode Island and New York to accept the impost proposals of 1781 and 1783. It is also reflected in the concern that states would be unable to meet their revenue needs without the impost, which was often expressed in the debate over the ratification of the Constitution. This concern remained for a few years after the Constitution's adoption, before the consequences of Hamilton's funding and assumption plan were fully realized. Hence, although customs duties accounted for only about 20 percent of the revenue in the budget of South Carolina, the governor remarked in 1789 that "since the Duties on Tonnage and Impost have been received for the use of the United States—our public Funds have been in the most impoverished condition."[16]

With a few exceptions, state governments relied far more on direct taxes than on customs duties, excises, and fees. This was probably the least efficient branch of the fiscal administration. Direct taxes were often paid several years after the tax had become due. Thus, in the 1760s,

[14] See Patrick K. O'Brien, "The Political Economy of British Taxation, 1660–1815," *Economic History Review,* 2d Ser., XLI (1988), 1–32, for the structure of the British tax revenue.

[15] Brown, *Redeeming the Republic,* 98, 118; Richard Buel, Jr., "The Public Creditor Interest in Massachusetts Politics, 1780–86," in Robert A. Gross, ed., *In Debt to Shays: The Bicentennial of an Agrarian Rebellion* (Charlottesville, Va., 1993), 50.

[16] Max M. Edling, *A Revolution in Favor of Government: Origins of the U.S. Constitution and the Making of the American State* (Oxford, 2003), 180–183; Jackson Turner Main, *The Antifederalists: Critics of the Constitution, 1781–1788* (Chapel Hill, N.C., 1961), 143–146; "South Carolina House Journal, 7 January 1790," in Michael E. Stevens, ed., *The State Records of South Carolina: Journals of the House of Representatives, 1789–1790* (Columbia, S.C., 1984), 302.

Connecticut taxpayers were still making payments on taxes levied in the 1740s, and, in 1767, a Massachusetts collector petitioned the General Court to be relieved from collecting taxes from the 1730s.[17] For this reason, there was a substantial difference between the amount of money levied by the state legislatures and the amount of money collected by the taxmen. Had this study investigated treasury receipts rather than tax levies, direct taxes would have accounted for a smaller share than they do in Table I. Indeed, considering how difficult direct taxes were to collect, it is an indication of the desperate state of public finances in the 1780s that the state legislatures made such extensive use of them.

Reliance on direct taxes varied from state to state. In New York, direct taxes accounted for no more than about a third of total revenue, and in Pennsylvania the figure was only slightly higher. In contrast, direct taxes accounted for 62 percent of the revenue in South Carolina, 70 percent in Virginia, and 77 percent in North Carolina. Forrest McDonald and Ellen Shapiro McDonald estimate the figure to have been about 90 percent for Massachusetts.[18] New York and Pennsylvania differed from the other states, and it is not difficult to see why. Their busy ports ensured substantial incomes from customs duties. With the possible exception of Maryland, the other states were probably more similar to Massachusetts, Virginia, and North and South Carolina than they were to New York and Pennsylvania.

On the basis of Table I and the forgoing discussion, it is possible to offer a crude generalization about the structure of taxation in the state governments in the 1780s. First, with the exception of currency emissions, revenue from sources other than taxation was only marginally important. Second, direct taxes were by far the most important type of tax in the majority of the states. On average, state governments expected to receive somewhere in the order of two-thirds of their tax income from taxes on polls and property, about a quarter from duties on imports and exports, and the remainder of their tax income from excises and fees.

It is well known that tax administration in eighteenth-century America was grossly inefficient. As Robert A. Becker has shown, tax arrears were the norm in most colonies before the Revolution, and matters did not improve when taxes rose after Independence. Roger H. Brown has presented figures for South Carolina and Massachusetts that show the scale of tax arrears in the years preceding the adoption of the Constitution.

[17] Becker, *Revolution,* 38.
[18] McDonald and McDonald, *Requiem,* 70.

By February 1787, the former state had collected no more than 41 percent of its 1785 tax; by October the same year, Massachusetts had collected no more than 16 percent of its 1786 tax. However, it would be a mistake to interpret administrative inefficiency as tax relief. South Carolina and Massachusetts did not remit, respectively, 59 and 84 percent of the taxes for 1785 and 1786 simply because they were not paid on time. Instead, unpaid taxes became tax debts. It did happen that taxes were reduced or abolished with retrospective effect, but it was not common practice. As a rule, once passed a tax law was not rescinded. The money that went uncollected when the tax was due the taxman came back to claim later.[19]

Nonpayment of taxes in fact incurred stiff penalties. Tax laws stipulated that delinquent taxpayers could be jailed and that their property and land could be foreclosed and sold at public auction. Nor were these threats an empty letter. Brown has argued that the state governments applied considerable pressure on the taxpayers in the postwar period and thereby caused many citizens considerable hardship. Terry Bouton even speaks of "a statewide epidemic of foreclosures" in his study of rural Pennsylvania in this period, although many—if not most—cases were due to private debts.[20] Far from reducing these hardships, the accumulation of tax arrears increased them. In 1786, Massachusetts levied a very heavy tax of more than $1 million. At this time, back taxes amounted to $1.4 million. In order to pay both back taxes and the 1786 tax, the inhabitants of Massachusetts would have had to contribute about $5.50 each. Even compared to British taxes at the time, this was a considerable amount. The British government made annual impositions of about twice as much, but only a fifth—or roughly $2 per capita—were raised from direct taxes.[21]

[19] Becker, *Revolution,* 38–39, 72–74, 109–110; Brown, *Redeeming the Republic,* tables 7, 11.

[20] For two examples of tax laws, see [Delaware, Session Laws (Wilmington, Del.)], June 4, 1785; [New Jersey, Session Laws (Trenton, N.J.)], Dec. 20, 1783; Brown, *Redeeming the Republic,* 53–138; Terry Bouton, "A Road Closed: Rural Insurgency in Post-Independence Pennsylvania," *Journal of American History,* LXXXVII (2000), 859. See also Buel, *Dear Liberty,* 320, 322–324.

[21] Perkins, *American Public Finance,* 183. For Shays's Rebellion, see Brown, *Redeeming the Republic,* 97–121; Buel, "Public Creditor Interest," in Gross, ed., *In Debt to Shays,* 47–56; McDonald and McDonald, *Requiem,* 59–83; Perkins, *American Public Finance,* 173–186. For British taxes and population, see O'Brien, "Political Economy," *Economic History Review,* 2d Ser., XLI (1988), table 2; and E. A. Wrigley and R. S. Schofield, *The Population History of England, 1541–1871* (London, 1981), table 7.8. Conversion of Massachusetts and sterling pounds to dollar values is based on John J. McCusker, *How Much Is That in Real Money? A Historical Commodity Price Index for Use as a Deflator of Money Values in the Economy of the United States,* 2d ed. (Worcester, Mass., 2001), table 1, 34. According to McDonald and McDonald, *Requiem,* 69, current and overdue taxes amounted to thirty-three dollars per adult male in the three western counties that took part in the rebellion.

Despite arrears, the major part of a tax levy was usually paid in the end. Thus, although Brown shows that South Carolinians had paid only 41 percent of the 1785 tax by February 1787, he also shows that they had by then paid 70 percent of the 1784 tax and 62 percent of the 1783 tax. In the same way, Massachusetts had collected only 16 percent of the 1786 tax by October 1787. But the government had by then collected 65 percent of the 1784 tax, 78 percent of the 1783 tax, and 67 percent of the two taxes levied in 1782. The citizens of Massachusetts paid even more of their back taxes after the adoption of the Constitution, when they reduced back taxes from £494,474 to £33,847 in a few years. Brown's observations hold true for other states as well. In the late 1780s, Pennsylvania levied an annual tax of £76,946. In 1787, the taxpayers paid only £8,499 of the 1787 tax, but they paid a full £37,804 on the 1786 tax. In 1788, North Carolina's subcommittee on public revenue reported that the state had received £35,863 in taxes and £54,132 in back taxes. In 1783, Maryland's treasury stated that the total of unpaid taxes amounted to £66,933. By 1790, Marylanders had paid £38,935 of this sum, bringing their back taxes down to £27,998. In 1797, Virginians were still making payments on the revenue tax of 1783. Indeed, in that year the treasurer recorded payments on the annual revenue tax for every single year between 1783 and 1796.[22] In short, administrative inefficiency did not allow the citizens to ignore the tax laws.

An attempt to determine the burden of taxation in the Confederation period must consider that the main share of the taxes levied by the states was not paid in gold and silver coin but in different kinds of depreciated paper instruments. Neither Congress nor the states struck their own coin in the late eighteenth century, nor was British coin used either before or after Independence. Instead, the American money stock was made up of a vast array of foreign gold and silver coin in addition to bills of credit issued by the state governments. Because the states often lacked cash, they also made frequent use of treasury notes—a receipt that could be cashed at the treasury—to pay salaries and services. In the 1780s, another paper medium of exchange was made up of the public securities issued by the states and Congress during and after the War of

[22] Brown, *Redeeming the Republic,* tables 7, 11, and 236; *State of the Accounts of David Rittenhouse, Esq., Treasurer of Pennsylvania; from 1st January till 1st November 1787; Including His Continental and State Money Accounts for the Year 1786* (Philadelphia, 1790), 6–40; North Carolina House Journal, Dec. 2, 1788, in William L. Saunders and Walter Clark, eds., *State Records of North Carolina,* 26 vols. (Goldsboro, N.C., 1886–1907), XXI, 142; *Proceedings of the House of Delegates of the State of Maryland, November Session, 1790* (Annapolis, Md., 1791), 78–79; *Journal of the House of Delegates of the Commonwealth of Virginia* (Dec. 4, 1797–Jan. 19, 1798) (Richmond, Va., 1798), 53.

Independence and of the "indents," or interest certificates, these securities earned. According to the *Pennsylvania Gazette* of August 4, 1784, "treasury notes, state money, and public securities of all kinds, pass daily in stores and shops, in town and in the country at their *real* value," thereby adding "a great deal to the quantity of circulating cash." In addition to being used in stores and shops, these kinds of money could also be used to pay taxes. As the mention of "real value" indicates, by the mid-1780s these bills of credit and securities were in different states of depreciation relative to gold and silver. The important question to address here is how much this depreciation affected the real burden of taxation.[23]

The major part of the taxes levied in the 1780s was intended to raise money for payments on the state and federal debts. Part of the public debt was held abroad, but the main share was owned by Americans. Some of them had loaned money to Congress and the state governments, but most of them had received securities as compensation for services and goods rendered during the war against Britain. These people were offered payment in securities rather than specie for the simple reason that neither the states nor Congress had the means to pay cash. Nor could the federal or state governments pay interest to more than a handful of creditors in gold or silver. Most creditors instead received interest in bills of credit issued by the states or in federal or state indents. Both paper money and indents were acceptable for tax payments at face value, at least in part, in most of the states.[24]

A market existed in securities, indents, and bills of credit, and, thus, not only public creditors had the option of paying taxes in paper. In 1786, a broker in Philadelphia offered the following list of securities for sale:

> Militia certificates, of Pennsylvania, Depreciation funded on the excise, Ditto unfunded, but purchase land, Stelle's and Story's certificates, Loan-Office ditto of Pennsylvania, Nicholson's, or new loan, Dollar money, Shilling money, Indents or Facilities, Continental securities, Land-office papers, of Pennsylvania, Jersey finals that draw interest, Thompson's, Virginia depreciation, finals, treasury land warrants, Maryland finals, Depreciation, Delaware finals, depreciation, Continental

[23] Ferguson, *Power of the Purse;* McCusker, *How Much Is That in Real Money?* 61–88; Robert E. Wright, *Hamilton Unbound: Finance and the Creation of the American Republic* (Westport, Conn., 2002), 9–57; Robert E. Wright and Ronald Michener, "Conceptual Confusion over Colonial 'Currency' and the Transition to the U.S. Dollar" (quoted with the authors' permission).

[24] Ferguson, *Power of the Purse,* 220–250; Brown, *Redeeming the Republic,* 53–138.

money, New York finals that purchase land, Nourse's certificates of Pennsylvania, Nourse's, not adopted by any state.

Dealing with such a variety of instruments is a challenge to the historian who tries to determine the burden of taxation. It was a challenge to contemporaries, too. Even the brokers themselves found it difficult to keep track of the many securities and their fluctuating value. One of them gave up his attempt to write an account of the public debts of the union and the states with the laconic explanation that "he was not so fully aware that the field into which he was entering had been so extensive, or that the subject would have required so much attention."[25]

At present not much is known about this early securities market. No price series for securities have been collected, and there have been no attempts to measure the volume traded. Clearly, however, the securities were never dead paper. Scattered information indicates that there were considerable fluctuations in value over time as well as significant variations in value between different localities. As far as bills of credit and indents are concerned, their value depended to a large extent on the willingness of state legislatures to levy taxes payable in these mediums.[26]

Much of the tax programs adopted by the states in the 1780s was part of their debt management. For this reason, only part of the total taxes they levied was levied in specie; the remainder could be paid in bills of credit or indents. Congress began paying interest in indents in 1784. To create a demand for federal indents, Congress expected the states to tax in the indents at the same pace that they were paid out. In this way, it would be possible for the recipients of indents to sell their surplus to taxpayers who were not federal creditors but who had to pay taxes in federal indents. The scheme soon broke down, however, and the supply of indents came to exceed demand. Depreciation followed. In the wave of state assumption of the federal debt in the mid-1780s, several states exchanged federal for state securities. Among the northern states,

[25] Robert E. Wright, *The Wealth of Nations Rediscovered: Integration and Expansion in American Financial Markets, 1780–1850* (New York, 2002), 64; Matthew M'Connell, *An Essay on the Domestic Debts of the United States of America* (Philadelphia, 1787), quoted ibid., 65.

[26] As economic historians explore the role of the financial sector in economic growth and especially in the coming of the industrial revolution, we are likely to learn more about the securities market in the 1780s, but at present this is unmapped territory. See Richard Sylla, "Shaping the U.S. Financial System," in Sylla, Tilly, and Tortella, eds., *The State,* 249–270; Wright, *The Wealth of Nations Rediscovered.* The state and federal public debt are discussed, and a number of securities and indents are illustrated, in William G. Anderson, *The Price of Liberty: The Public Debt of the American Revolution* (Charlottesville, Va., 1983).

Pennsylvania and New York did so, whereas New Jersey assumed responsibility for interest payments on federal securities held by its citizens. These states paid interest on the federal debt in bills of credit and, in the case of New Jersey, in "revenue money," which was a form of state indent. For this reason, none of them levied taxes in federal indents. Among the northern states, federal indent taxes were levied by New Hampshire, Massachusetts, and Delaware. Based on contemporary price quotations, Woody Holton has estimated that federal indents could be bought and sold for a third of their face value in the mid-1780s. Other than bills of credit and federal indents, Massachusetts also levied taxes in army notes, and New Hampshire, in state indents. According to Holton, the former traded at a third, and the latter traded at four-fifths of face value.[27]

In the northern states, bills of credit were issued by Rhode Island, New York, New Jersey, and Pennsylvania. In New York, there was very little depreciation, and, in New Jersey and Pennsylvania, the bills sold at a discount of 25 to 30 percent at most. As mentioned, the former state also issued state certificates of interest. Since the entire issue was taxed in the same year it was paid out, however, and since the holders had the right to exchange the certificates for specie with the treasurer or any tax collector, it seems unlikely that the New Jersey indents depreciated more than 50 percent. In Rhode Island, the state bills of credit depreciated rapidly. Emitted in 1786, they had lost a quarter of their value the following year and 90 percent the year after that.[28]

In the South, the Carolinas and Georgia emitted bills of credit in the 1780s. In South Carolina, the state currency traded at par, but in the other states the depreciation was significant, and the bills of credit fell in value by 50 and 75 percent, respectively. As in the North, currency was accepted for tax payments in all states that issued them. South Carolina had assumed the federal debt held by its citizens and made payments on the debt in "special indents." Since these special indents were taxed in the same year they were paid out, it seems unlikely that they would have depreciated by more than 50 percent. In the other states, taxes could be paid in part in federal or state indents. In the absence of price quota-

[27] Holton, "'From the Labours of Others,'" *WMQ*, 3d Ser., LXI (2004), tables I, II; Ferguson, *Power of the Purse*, 220–250; Perkins, *American Public Finance*, 137–172.

[28] The emissions of the 1780s are treated in Perkins, *American Public Finance*, 142–165. The emission of Rhode Island is treated in Ferguson, *Power of the Purse*, 243–244; Brown, *Redeeming the Republic*, 83–96; Kaminski, "Democracy Run Rampant," in Martin, ed., *Human Dimensions of Nation Making*, 243–269; John P. Kaminski, *George Clinton: Yeoman Politician of the New Republic* (Madison, Wis., 1993), 98–104.

tions, I have assumed that these indents could be bought and sold for a third of their nominal value.[29]

Table II lists the direct taxes levied in the northern and middle states between 1785 and 1795. These taxes may be compared to those levied in the period before the War of Independence. Colonial taxes had been very low compared to what British subjects in the mother country were paying at the same time. According to one estimate, the American tax rate was approximately 20 percent of the British rate. According to another estimate, the American rate was no more than a quarter of the British rate, even in years of extreme taxation. Taxes increased in many of the colonies after the Seven Years' War, but they had returned to their normal levels by the early 1770s. Compared to this period, the second half of the 1780s constitutes a sharp break. In the years before the Revolution, Massachusetts levied no direct tax at all in 1770 and 1771, and between 1772 and 1775 taxes amounted to $391,880. In contrast, total direct taxes between 1785 and 1788 amounted to $1,297,534. This is equivalent to a tax rise of 330 percent, even though Massachusetts had discontinued its ambitious fiscal program in the aftermath of Shays's Rebellion. Had the tax level of 1786 been maintained in the following years, the tax rise would have been almost twice as great. Rhode Island direct taxes amounted to £4,000 annually in 1773 and 1774. Between 1785 and 1788, the average annual direct tax was £27,500. Even if the depreciation of the paper currency is taken into account, this figure still represents an increase of almost 300 percent. New Jersey levied a property tax of approximately $40,000 per year before the Revolution. The average annual tax between 1785 and 1788 was three times as great, or about $120,000. New York levied no direct tax at all after 1767, and in Delaware direct taxes were infrequent and insubstantial. In contrast, between 1785 and 1788, New York levied $310,000, and Delaware levied close to $120,000.[30]

As Table II shows, taxes had returned to their prewar level by the mid-1790s. In Massachusetts, aggregate direct taxes were $411,377 in 1792–1795. This sum was almost the same as that levied between 1772 and 1775. The same development took place in other states, too. In Rhode Island, the annual tax for 1792–1795 was £3,000, and New Jersey

[29] For bills of credit, see Perkins, *American Public Finance,* 142–165; Brown, *Redeeming the Republic,* 69–82, 123–131, 137–138; W. Robert Higgins, "A Financial History of the American Revolution in South Carolina" (Ph.D. diss., Duke University, 1969), 243–267.

[30] Comparisons between colonial and British tax rates are found in Perkins, *Economy of Colonial America,* 125; Henderson, "Taxation and Political Culture," *WMQ,* 3d Ser., XLVII (1990), 94 n. 4. Massachusetts taxes are from Joseph B. Felt, "Statistics of Taxation in Massachusetts, Including Valuation and Population," American Statistical Association, *Collections,* I, no. 3 (1847), 410. All other figures are from Becker, *Revolution,* 34, 70–72.

TABLE II
DIRECT TAX LEVIES IN THE NORTHERN AND MIDDLE STATES, 1785–1795

Year	*Mass.*	*N.H.*	*R.I.*	*Conn.*	*N.Y.*	*N.J.*	*Pa.*	*Del.*	*Total*
1785		$ 73,000	$ 67,000	$161,000		$110,000	$205,000	$28,000	$ 644,000
1786	$1,036,000	271,000	67,000	172,000	$125,000	94,000	205,000	63,000	2,033,000
1787		67,000	166,000	172,000	125,000	155,000	205,000	28,000	918,000
1788	261,000	154,000	100,000	206,000	60,000	117,000	205,000		1,102,000
1789	125,000	74,000	67,000	137,000		143,000	205,000	34,000	784,000
1790	98,000	10,000		23,000		80,000		14,000	225,000
1791	98,000		20,000	34,000		40,000			192,000
1792				23,000		40,000			63,000
1793	111,000		20,000	23,000					153,000
1794	150,000		20,000	46,000		80,000		14,000	310,000
1795	150,000	27,000		23,000		40,000		10,000	250,000

Note: All figures are in dollar values and have been rounded to the closest thousand. Tax levies have been credited to the year the tax law was passed even though taxes were often scheduled for collection the following year. Connecticut taxes have been estimated on the basis of valuations for 1785 and 1796. A blank space indicates that no direct tax was levied for the year.

Sources: Massachusetts: Joseph B. Felt, "Statistics of Taxation in Massachusetts, Including Valuation and Population," American Statistical Association, *Collections,* I, no. 3 (1847), 474, 543. New Hampshire: [New Hampshire, Session Laws (Exeter and Portsmouth, N.H.)], Feb. 23, 1785, Feb. 28, Mar. 4, Sept. 14, Dec. 30, 1786, Jan. 18, Sept. 28, 1787, Feb. 9, 1788, Feb. 7, 1789, Jan. 22, 1790, Jan. 9, 1795. Rhode Island: [Rhode Island, General Assembly, Schedules (Providence and Warren, R.I.)], August 1785, June 1786, March, September 1787, June 1788, March 1789, June 1791, June 1793, October 1794. Connecticut: *The Public Records of the State of Connecticut* (Hartford, Conn., 1894–), V, 40–42, 122, VI, 36, 173, 297, 414, 504, 505, VII, 16, 121, 126, 260, 263, 497, VIII, 17, 143, 241; Henry F. Walradt, "The Financial History of Connecticut from 1789 to 1861," Connecticut Academy of Arts and Sciences, *Transactions,* XVII (March 1912), 27. New York: [New York, Session Laws (New York)], Apr. 29, 1786, Apr. 11, 1787, Mar. 19, 1788. New Jersey: [New Jersey, Session Laws (Trenton, New Brunswick, and Burlington, N.J.)], Dec. 20, 1783, Nov. 26, 1785, Nov. 21, 1786, June 7, Nov. 6, 28, 1787, Dec. 1, 1789, June 12, Nov. 18, 25, 1790, Nov. 22, 1791, Nov. 20, 1792, Feb. 17, 1793, Dec. 1, 1794, Nov. 11, 1795. Pennsylvania: [Pennsylvania, Session Laws (Philadelphia)], Mar. 16, 1785, Dec. 8, 1789, Apr. 6, 9, 1791. Delaware: [Delaware, Session Laws (Wilmington, Del.)], June 4, 1785, June 24, 1786, Feb. 6, 1787, June 4, 1789, Oct. 26, 1790, Feb. 7, 1794, Feb. 3, 1795.

levied an annual tax of $40,050. In a return to pre-Revolution practice, New York stopped levying direct taxes altogether. Delaware levied direct taxes of $14,000 and $10,500 in 1794 and 1795, respectively, but the state levied no direct tax at all from 1791 to 1793. Significantly, tax levels fell sometime between 1789 and 1791 in all states but one. The exception was Massachusetts, where the tax level fell after Shays's Rebellion. From 1787, the annual tax in Massachusetts fluctuated between roughly $100,000 and $150,000, in other words fairly close to prewar levels. It remained at this level until the 1820s, when the annual tax was reduced to $75,000.[31]

[31] Felt, "Statistics of Taxation," American Statistical Association, *Colls.,* 543.

The scale as well as the timing of the tax reduction is seen more clearly in Table III, where the tax levies are presented in annual per capita figures for the four-year periods 1785–1788 and 1792–1795. The change is greatest in New York and Pennsylvania, where direct taxation was discontinued altogether. In Massachusetts, New Jersey, and Delaware, the tax reduction amounts to between 70 and 80 percent. In Connecticut, Rhode Island, and New Hampshire, direct taxes were reduced by around 90 to 95 percent. If the eight states are treated as a whole, the reduction is roughly 85 percent.

The figures in Table III are calculated on the basis of the sums mentioned in the tax laws. Part of these taxes could be paid in bills of credit and indents, which often traded at prices far below their nominal values. The option to pay at least part of their taxes in depreciated paper amounted to a substantial tax discount for the taxpayers. The figures in parentheses represent an attempt to calculate the real, or specie, value of the taxes levied by assuming that the taxes were paid in paper money or securities to the full extent permitted by the tax laws. Because of the lack of price series for state and federal interest certificates, these figures cannot be treated as more than a rough indication of the real burden of taxation. They suggest that in real terms the tax reduction in Connecticut, Rhode Island, Massachusetts, and New Jersey was approximately 75, 70, 50, and 45 percent, respectively. The latter two states allowed for a relatively large share of their taxes to be paid in securities, and Rhode Island accepted its heavily depreciated paper money for tax payments. In the other states, the difference is more modest. In the case of New York and Pennsylvania, taxes could be paid in paper money, but the currency depreciated hardly at all in the former state and not heavily in the latter state.[32] Delaware levied the bulk of its taxes in this period in "lawful money" and did not emit bills of credit. In New Hampshire, the tax cut remains substantial because taxes were almost nonexistent in the 1790s. Taken together, the tax reduction in the eight states was 77 percent.

Turning next to the South, Table IV compares the tax rates for the three most important direct taxes in the periods 1785–1788 and 1792–1795. As this study is concerned with the tax burden, no attempt has been made to estimate the total yield of these taxes, even though scattered figures in the state records would make this possible. As the table makes clear, there was significant fiscal change in the South. In the 1790s, the poll tax for whites had been abolished in all states except North Carolina, although South Carolina and Georgia retained it for free blacks. But in North Carolina, where the poll tax had traditionally been the most important tax, it fell by almost 90 percent. The slave tax

[32] Nor did the Pennsylvania bills of credit circulate widely. Wright and Michener argue that because of depreciation the bills became an object of speculative investment rather than a circulating medium; see "Conceptual Confusion," 22–23.

TABLE III
AVERAGE ANNUAL PER CAPITA DIRECT TAX LEVIES IN THE NORTHERN AND MIDDLE STATES

State	*1785–1788*	*1792–1795*
Massachusetts	$0.73 (0.38)	$0.20
New Hampshire	1.09 (0.56)	0.04
Rhode Island	1.45 (0.57)	0.14
Connecticut	0.76 (0.40)	0.12
New York	0.27 (0.27)	0
New Jersey	0.68 (0.39)	0.21
Pennsylvania	0.53 (0.45)	0
Delaware	0.52 (0.38)	0.10
Total	$0.66 (0.39)	$0.09

Note: All figures are in dollar values. Population is calculated on the basis of census data for 1790 and 1800. I have assumed a linear growth in population between 1785 and 1800 with the exception of New York. New York experienced a population boom far greater than any other state in the 1790s, and I have therefore used an estimate for 1780 together with the census from 1790 to calculate its population in 1785–1788. Figures in parentheses represent an attempt to calculate the specie value of tax levies, taking into consideration the possibility provided by the legislatures to pay taxes in depreciated certificates and bills of credit.

Sources: On taxation, see sources quoted in Table II. On population, see United States, Bureau of the Census, *Historical Statistics of the United States: Colonial Times to 1970,* Bicentennial ed., 2 vols. (Washington, D.C., 1975), I, series A 195, II, series Z 9.

fell by close to 90 percent in Virginia, by about 55 percent in Georgia, and by a little more than 60 percent in South Carolina. The land tax followed a similar pattern. Maryland abolished its general property tax completely, and Virginia and North Carolina reduced the land tax by about 85 to 90 percent. In South Carolina and Georgia, the reduction was somewhat smaller, 50 and 70 percent, respectively.

As in Table III, these figures do not reflect that part of the taxes could be paid in currency and indents. Yet, even if the taxpayers paid this share in full in depreciated paper, there would still be a substantial tax cut in Maryland, Virginia, and North Carolina. Maryland did not emit bills of credit in the 1780s, but a quarter of the annual levy of 2s. 6d. per £100 of property could be paid in federal indents. The larger levy for 1786 could be paid in certificates received for provisions or for vessels rented or impressed or by offsetting the interest and principal of state securities against the tax. The reduction of Virginia's land and slave tax would amount to approximately 75 percent if paid in securities rather than specie. Similarly, in North Carolina, both the reduction of the land

TABLE IV
AVERAGE ANNUAL TAX RATES IN THE SOUTHERN STATES

	1785–1788			*1792–1795*		
State	*Property*	*Slave*	*Poll*	*Property*	*Slave*	*Poll*
Maryland	0.32% of value		$0.50			
Virginia	1.90% of value	$2.36	1.67	0.25% of value	$0.28	
North Carolina	$0.78/100 acres		2.30	$0.08/100 acres		$0.25
South Carolina	1.00% of value	2.00	2.00	0.50% of value	0.75	2.00
Georgia	1.25% of value	1.07	1.07	0.37% of value	0.47	0.47

Note: The table lists average rates for laws passed in the two periods. The legislative record for Georgia is incomplete; figures are based on tax laws of 1787, 1792, 1793, and 1794. In 1791, Georgia altered the evaluation of land for purposes of taxation by reducing land values by half. I have therefore doubled the land tax for 1787. A blank space indicates that no tax was levied.

Sources: Maryland: [Maryland, Session Laws (Annapolis, Md.)], November 1784, November 1785. Virginia: William Waller Henning, *The Statutes at Large: Being a Collection of All the Laws of Virginia, from the First Session of the Legislature in the Year 1619* (1819–1823), 13 vols. (Charlottesville, Va., 1969), XI, October 1782, chap. 8, May 1784, chap. 39, XII, October 1786, chaps. 26, 28, October 1787, chap. 1, October 1788, chap. 12, XIII, October 1789, chap. 21, October 1790, chaps. 1, 3, 4, October 1791, chap. 1, October 1792, chap. 2, October 1793, chap. 4, November 1794, chap. 1, November 1795, chap. 6. North Carolina: [North Carolina, Session Laws (Newbern, Fayetteville, Edenton, and Halifax, N.C.)], Dec. 29, 1786, Jan. 6, 1787, November, Dec. 22, 1788, November 1792, December 1793, December 1794, November 1795. South Carolina: [South Carolina, Session Laws (Charleston, S.C.)], Mar. 20, 1785, Mar. 22, 1786, Mar. 28, 1787, February 1788, Dec. 1, 1792, Dec. 20, 1793, Dec. 20, 1794, Dec. 19, 1795. Georgia: [Georgia, Session Laws (Augusta, Ga.)], Feb. 10, 1787, Dec. 22, 1791, Dec. 20, 1792, Dec. 19, 1793, Dec. 29, 1794.

tax and of the poll tax would be about 75 percent if paid in currency and securities. If South Carolina's special indents traded at half their nominal value, there was no difference in the real burden of taxation between the 1780s and the 1790s. The state debt remained fairly substantial well into the 1790s, however, and taxes could be paid in paper medium throughout the decade. By 1799, the tax rate had also been further reduced. The land tax was down to $.25 for every $100 worth of land, and the slave tax decreased to $.50 per slave. The poll tax for free blacks, on the other hand, had not been reduced but remained at $2.

Whereas the reduction in tax rates took place between 1789 and 1791 in North and South Carolina and in Georgia, this is not the case in Maryland and Virginia. Maryland's property tax fell from 10s. to 2s. 6d. per £100 of property already in 1786. In Virginia, the land tax had been reduced from a very high 2.5 percent in 1785 to a more reasonable .75 percent by 1789. The tax on town lots and slaves followed a similar pattern, and the poll tax was abolished in 1787. Virginia's tax reductions apparently owed little to the adoption of the Constitution, and this could have been one reason for the state's tortured relationship with the federal government in the 1790s.

Tables II, III, and IV show that, within merely a few years after the adoption of the Constitution, state direct taxation had fallen significantly. Because taxes could be paid in part in depreciated securities and bills of credit, the sums stated in the tax laws are an imprecise guide to the actual tax burden imposed on the taxpayers. Nevertheless, it appears that direct taxes were reduced by at least 75 percent in most states and were altogether abolished in three states. By the early 1790s, after a decade of heavy and unpopular taxation, state taxes had returned to the low level of the colonial period.

With the adoption of Hamilton's funding and assumption proposals, states that had assumed federal debt became creditors to the federal government. When Congress began to pay interest on the public debt in specie, these states received considerable incomes from this source. When federal securities appreciated after Hamilton's proposals had been accepted by Congress, state governments that held federal securities benefited. New York, for instance, received about a third of its total income from proceeds from state funds in the period 1792–1795, amounting to almost twice as much money as the state had levied in direct taxes in the period before the adoption of the Constitution.[33] Yet New York was not typical. The most important explanation for the reduction of taxation in the states is, not new sources of revenue, but reduced expenditures. Table V shows that debt charges and Congress's requisitions made up the bulk of expenditures in New York, Pennsylvania, and South Carolina from 1785 to 1787. Next to nothing was spent on internal improvements or, with the exception of New York, on pensions. The figure for the civil list is unusually high in the case of New York because it includes compensation to the New York Line for services in the War of Independence. Between 10 and 15 percent of expenditures appears to have been the norm in most states. Internal improvements, pensions, and contingent expenses account for another 5 to 10 percent of government outlays. On the basis of these budgets, it would seem that 75 to 80 percent of government costs were related to debt charges and requisitions. Scattered evidence from other states confirms this observation.[34]

[33] Sowers, *Financial History of New York,* appendix 2, "Classified Receipts," 324–325; Kaminski, *George Clinton,* 198; Ferguson, *Power of the Purse,* 229–234, 330–332. State holdings of federal securities are listed in Trescott, "Federal-State Financial Relations," *Journal of Economic History,* XV (1955), table 3, 233.

[34] New Jersey raised £10,000 annually to finance the running costs of the government and £43,750 to pay debt charges. In other words, about 80 percent of total

TABLE V
STRUCTURE OF STATE GOVERNMENT EXPENSES, 1785–1787

	New York	*Pennsylvania*	*South Carolina*
Debt charges and Congress	$169,000 (56%)	$423,000 (77%)	$357,000 (80%)
Civil list and assembly	91,000 (30%)	65,000 (12%)	65,000 (15%)
Pensions	26,000 (9%)	9,000 (2%)	
Internal improvements	3,000 (1%)	12,000 (2%)	6,000 (1%)
Other	10,000 (4%)	38,000 (7%)	17,000 (4%)
Total	$299,000	$547,000	$445,000

Note: All figures are in dollar values. Figures are yearly averages for the period 1785–1787, but for New York the first year covers Sept. 21, 1784, to Dec. 31, 1785, and for Pennsylvania 1787 covers only Jan. 1 to Oct. 31. The first category includes various compensations paid for goods and services rendered during the War of Independence. The table gives only a rough indication of spending patterns, since the categories have been imposed on the record. State governments kept their books differently, and often specific items can fit more than one category. Army pay for service during the war has been included in the second category. In both New York and Pennsylvania, emissions of paper money have been omitted.

Sources: New York: *Journal of the Assembly of the State of New-York* (Jan. 9–Mar. 22, 1788) (Poughkeepsie, N.Y., 1788), 18, 20, 22. Pennsylvania: *State of the Accounts of David Rittenhouse, Esq., Treasurer of Pennsylvania; From January, 1785, till January 1786* (Philadelphia, 1790), 22–52; *State of the Account of David Rittenhouse, Esq., Treasurer of the Commonwealth of Pennsylvania; from January, 1786, till January, 1787* (Philadelphia, 1790), 36–63; *State of the Accounts of David Rittenhouse, Esq., Treasurer of Pennsylvania; from 1st January till 1st November 1787; Including His Continental and State Money Accounts for the Year 1786* (Philadelphia, 1790), 40–70. South Carolina: [South Carolina, Session Laws (Charleston, S.C.)], An Act for Raising Supplies for the Year 1785, 12, An Act for Raising Supplies for the Year 1786, 13–14, An Act for Raising Supplies for the Year 1787, 13.

taxes was intended for debt payments. In 1784, it was estimated that payments on the public debt in Virginia also amounted to about 80 percent of total expenses. Expenses in Massachusetts were $352,400 in 1786. Of this sum, interest payments accounted for $278,700, or 79 percent of the total. New Jersey sources are listed in Table II. See Jensen, *New Nation,* 304; Paul Studenski and Herman E. Kroos, *Financial History of the United States: Fiscal, Monetary, Banking, and Tariff, Including Financial Administration and State and Local Finance,* 2d ed. (New York, 1963), 58 n. 19; B. U. Ratchford, *American State Debts* (Durham, N.C., 1941), 46. Jensen also notes that, in the early 1780s, 50 to 90 percent of state expenditures went to interest

Despite making debt payments their top priority, the state governments had not managed to sink more than part of their debts when Hamilton presented his assumption plan. Edwin J. Perkins estimates that the state governments had collectively recognized a debt of somewhere between $35 and $50 million after the War of Independence. Since the federal government assumed $18 million in state debts in 1790 and estimated the remaining state debts to total around $8 million, the states had sunk between $9 and $24 million, or 25 to 50 percent, of their debts by this time. However, accumulated interest had increased the federal debt by $13 million in the same period. The combined debt of the state governments and the union had therefore been reduced only marginally, if at all. To pay this debt would require years, if not decades, of continued heavy taxation.[35]

In most of the states, however, such plans had been put on hold well before the Philadelphia convention met in May 1787. Perkins is surely right to argue that Hamilton's policy of gradual and slow debt redemption merely continued a development begun in the states. The outline of his financial program is well known. The federal government assumed about 70 percent of the state debts and consolidated them with the federal debt. The consolidated debt was funded in the British manner, that is, turned into long-term securities on which the government pledged to pay interest from the proceeds of earmarked taxes. Because the government paid only interest and made no payments on the principal and because the interest rate was cut, the cost of debt charges was considerably reduced.[36] Another aspect of Hamilton's program is less often mentioned in the historical literature. Because the federal government assumed responsibility for the debt of both the union and the states, state governments were relieved of both payments on Congress's requisitions and on their own debts. Freed from these expenses, the state governments could reduce direct taxation by as much as 75 to 90 percent.

Even though the cost of the public debt was reduced, it was still a substantial expense to the new federal government, averaging $3.2 million annually in the 1790s. The revenue needs of the federal government even exceeded those of the states in the 1780s. If assessments of tax yields in Virginia, North Carolina, and South Carolina are added to the taxes listed in Table II, total direct taxes levied by these eleven states

payments on the state debts, whereas Ratchford gives the same figures for the later half of the 1780s.

[35] Perkins, *American Public Finance,* 142–143, 213.

[36] Ferguson, *Power of the Purse,* 289–343; McDonald, *Hamilton,* 143–188; Perkins, *American Public Finance,* 199–234.

between 1785 and 1788 amounted to $9.7 million. Assuming the same per capita tax rate in the remaining two states, that is, Maryland and Georgia, total state direct taxes would rise to $10.9 million. If direct taxes accounted for about two-thirds of total taxes levied, the total tax levy in the thirteen states would have been around $16 million between 1785 and 1788. This estimate is probably high, and it seems reasonable to assume that no more than two-thirds of this sum was collected in this period. In addition, a large share of these collections were made in depreciated paper. In contrast, the federal government alone raised $19.2 million in specie between 1792 and 1795. On top of this sum, the state governments probably raised between $1 and $2 million. Thus, in the early 1790s, the state and federal governments managed to raise twice as much revenue as the states did in the late 1780s. Whereas state taxes remained fairly constant, federal revenue grew rapidly in the 1790s and the early 1800s. By 1808, it was almost three times greater than it had been in 1792.[37]

Historians have often portrayed Federalists as hard-liners who believed in the strict enforcement of tax laws, if necessary through coercion. Merrill Jensen has written that the Federalists believed "in the rigorous collection of taxes" and "in strict payment of public and private debts." To realize their ideals, they thought it necessary to create "a central government with coercive authority." A similar interpretation lies at the heart of Roger H. Brown's interpretation. The failure of the states to raise sufficient tax revenue in the early to mid-1780s, Brown says, "created an impression that the state governments did not have the requisite force and firmness to compel an unvirtuous people to pay taxes in sound money." To rectify this situation, the Federalists created a government possessing coercive power, which allowed it to compel an unwilling people to pay their just dues. "Removed from the realities of a slumping rural economy," Brown writes, the Federalists "did not understand the burden that heavy state taxes and systemic adversity imposed on the nation's small farmers." Instead, "they believed that popular indolence and extravagance had caused taxation to break down." "In their view, the state governments were too weak and changeable to command

[37] W. F. Dodd, "The Effect of the Adoption of the Constitution upon the Finances of Virginia," *Virginia Magazine of History and Biography,* X (1902), 366; Senate Journal, Dec. 11, 1787, in Saunders and Clark, eds., *State Records of North Carolina,* II, 396, 398; South Carolina, General Assembly, Committee of Ways and Means, *Second Report of Ways and Means* (Charleston, S.C., 1785). For North and South Carolina, contemporary estimates for 1788 and 1785, respectively, have been multiplied by four. Population figures are from United States, Bureau of the Census, *Historical Statistics of the United States: Colonial Times to 1970,* Bicentennial ed., 2 vols. (Washington, D.C., 1975), I, series A 7. The calculation is based on the population figures for 1790; federal taxes are listed ibid., II, series Y 352.

respect and collect taxes, they espoused a stronger, more stable central government that could require obedience to the law."[38]

Terry Bouton goes further than Jensen and Brown, writing that, with the adoption of the Constitution, "federally appointed revenue agents, prosecutors, and judges (responsive to the national leaders who appointed them) oversaw the collection of new federal taxes." "If rural communities opposed the new tax measures, the Constitution allowed the president to command the militia units from any state to put down resistance in another. In sum, the federal Constitution provided what men such as Robert Morris had long desired: money, power, and the authority needed to 'open the Purses of the People.'" By describing Fries's Rebellion as "the culmination of more than a decade of economic hardship generated by government policies," prominent among them heavy and unfair taxes, Bouton implies that Morris's desire also guided Federalist policy in the 1790s. But this claim seems exaggerated. Jensen, in contrast, is well aware that the federal government used its fiscal power only sparingly after the adoption of the Constitution. And, despite the general drift of his argument, Brown reaches the conclusion that "the Constitution brought tax relief to rural America."[39]

But, if the federal government raised more tax revenue than the states, how did the Federalists bring tax relief to rural America? The solution to this puzzle lies in the change in the structure of American taxation made by the Federalists. Of the $19.2 million raised by the federal government in 1792–1795, customs duties accounted for $18.1 million—or 94 percent. As Table I shows, customs duties accounted for no more than a minor part of the states' revenue in the 1780s. In Table VI, a comparison is made of customs collections in four major ports before and after the adoption of the Constitution. It shows that the income from customs duties increased dramatically after the federal government had taken over the customs service. The total increase in the four ports was 600 percent between 1785–1788 and 1792–1795. There are significant variations between the ports, however. Collections at Charleston increased by a comparatively modest 260 percent, whereas collections at Baltimore increased by 530 percent, at Philadelphia by 690 percent, and at New York by 770 percent. In 1785, the combined impost and excise fund of Massachusetts, which included not only income from excises but also customs collections from all the state's ports, generated some $190,000. On average, the annual cus-

[38] Jensen, *New Nation,* 348, 425; Brown, *Redeeming the Republic,* 3, 242.

[39] Bouton, "A Road Closed," *JAH,* LXXXVII (2000), 877; Terry Bouton, "'No Wonder the Times Were Troublesome': The Origins of Fries Rebellion, 1783–1799," *Pennsylvania History,* LXVII (Winter 2000), 37; Merrill Jensen, *The Making of the American Constitution* (Princeton, N.J., 1964), 81; Brown, *Redeeming the Republic,* 236.

TABLE VI
CUSTOMS RECEIPTS IN FOUR MAJOR PORTS

State	*1785–1788*	*1792–1795*
New York	$ 603,000	$ 4,653,000
Philadelphia	622,000	4,299,000
Baltimore	346,000	1,829,000
Charleston	404,000	1,064,000
Total	$1,975,000	$11,845,000

Note: All figures are in dollar values and have been rounded to the nearest thousand.

Sources: 1785–1788: New York: *Journal of the Assembly of the State of New-York* (Jan. 9–Mar. 22, 1788) (Poughkeepsie, N.Y., 1788), 19, 21, 23; *Journal of the Assembly of the State of New-York* (July 6–16, 1789) (New York, 1789), 56. Philadelphia: *State of the Accounts of David Rittenhouse, Esq., Treasurer of Pennsylvania; from January, 1785, till January 1786* (Philadelphia, 1790), 19; *State of the Account of David Rittenhouse, Esq., Treasurer of the Commonwealth of Pennsylvania; from January, 1786, till January, 1787* (Philadelphia, 1790), 23–24, 35; *State of the Accounts of David Rittenhouse, Esq., Treasurer of Pennsylvania; from 1st January till 1st November 1787; Including His Continental and State Money Accounts for the Year 1786* (Philadelphia, 1790), 29, 39; *State of the Accounts of David Rittenhouse, Esq., Treasurer of Pennsylvania; for the Year 1788* (Philadelphia, 1791), 27–28; *State of the Accounts of David Rittenhouse, Esq., Treasurer of Pennsylvania; from September 1788, till September 1st, 1789, Including His Continental and State Money Accounts for 1788* (Philadelphia, 1791). Baltimore: *Votes and Proceedings of the House of Delegates of the State of Maryland, November Session, 1785* (Nov. 14, 1785–Mar. 12, 1786) (Annapolis, Md., 1786), 12, 14; *Votes and Proceedings of the House of Delegates of the State of Maryland, November Session, 1786* (Annapolis, Md., 1787), 40; *Votes and Proceedings of the House of Delegates of the State of Maryland, November Session, 1787* (Annapolis, Md., 1788), 27; *Votes and Proceedings of the House of Delegates of the State of Maryland, November Session, 1788* (Annapolis, Md., 1789), 56–57. Charleston: R. Nicholas Olsberg and Helen Craig Carson, *Duties on Trade at Charleston, 1784–1789 . . .* (Columbia, S.C., 1970). 1792–1795: "Statement of Receipts at the Treasury, from the Collectors of the Customs, from the Commencement of the Present Government to the Close of the Year 1799," *American State Papers: Documents, Legislative and Executive, of the Congress of the United States; Selected and Edited under the Authority of Congress*, 38 vols. (Washington, D.C., 1832–1861), V, 666–667.

toms revenue collected in the port of Boston alone between 1792 and 1795 was about two and a half times as much.[40]

[40] United States, Bureau of the Census, *Historical Statistics*, II, series Y 352–353; Felt, "Statistics of Taxation," American Statistical Association, *Colls.*, I, no. 3 (1847), 438; "Statement of Receipts at the Treasury from the Collectors of the Customs, from the Commencement of the Present Government to the Close of the Year 1799," *American State Papers*, V, 666.

The rapid increase in the yield from customs duties coincides in time with an upswing in the American economy. The War of Independence had serious economic consequences. In per capita terms, it has been estimated that the war set the level of the gross domestic product back by as much as fifty years. After a brief recovery in 1781 to 1782, growth was slow and perhaps even negative. The adoption of the Constitution had a positive effect on the business climate, and from 1789 the economy began to grow rapidly. With the outbreak of the War of the French Revolution in 1793, the pace of growth increased further, as American merchants engrossed more and more of the Atlantic trade. The European war heralded a period of steady and high growth rates. In the words of Douglass North, "There can be no doubt that the years 1793 through 1807 were extraordinarily prosperous for the American economy."[41]

Despite the economic recovery, the yield from customs duties grew faster than the value of imports. The most important explanation for the rising productivity of the impost, therefore, was, not the rise in trade, but increases in the tariff rates and in the efficiency of the customs service. To increase rates and efficiency, the government had to gain the support of the merchants. As a group, the merchants certainly stood to gain from the creation of an energetic federal government, yet the long tradition of smuggling meant that respect for the revenue laws was not guaranteed. In securing the compliance of the merchants, the Federalists relied on negotiation rather than coercion. By such means, they reached an accommodation with the merchant class, and the administration of the impost proceeded without serious disruptions.[42]

To the government, it was an obvious advantage to tax trade rather than property and persons. In contrast to farmers and planters who had their assets tied up in land and slaves, merchants had ready access to specie. Customs duties had the further advantage of restricting the pres-

[41] John J. McCusker, "Estimating Early American Gross Domestic Product," *Historical Methods,* XXXIII, no. 3 (2000), 155–162 (quotation on 159); Brown, *Redeeming the Republic,* 235–236.

[42] United States, Bureau of the Census, *Historical Statistics,* II, series U 9. Because most of the states imposed duties according to weight and measure and the federal government did so according to value, it is necessary to know the value of goods—for instance a pound of tea or a gallon of madeira—in order to compare customs duties. A comparison between federal legislation of 1789 and ad valorem rates on some items in New York legislation from 1784 and 1787 suggests that customs rates were doubled. See An Act for Laying a Duty on Goods, Wares, and Merchandises Imported into the United States, July 4, 1789, *U.S. Statutes at Large,* I, 24–27; William F. Zornow, "New York Tariff Policies, 1775–1789," *New York History,* XXXVII (1956), 44–47. For the Federalists, the Customs Service, and the merchants, see Dalzell, "Prudence and the Golden Egg," *NEQ,* LXV (1992), 355–388; Dalzell, "Taxation with Representation"; Carl E. Prince and Mollie Keller, *The U.S. Customs Service: A Bicentennial History* (Washington, D.C., 1989), 35–67.

ence of the federal revenue service to the ports. In this way, the vast majority of the population of the United States would never have to confront a federal tax collector. From the perspective of the taxpayer, however, customs duties are not necessarily easier to bear than direct taxes. The common understanding in the eighteenth century, nevertheless, was that the impost fell on "luxuries" rather than "necessaries," that is, things such as fuel, basic foodstuffs, and clothing. As long as the fiscal legislation respected this distinction, customs duties could therefore be regarded as a voluntary tax. As the Philadelphia merchant and political economist Pelatiah Webster wrote, no person was "compelled to pay any of the taxes, unless he chooses to be concerned in the articles taxed." It was also pointed out that all duties on consumption were paid in small increments whenever a person bought an article on which the government imposed a duty, whereas direct taxes had to be paid in full when the taxman came to make his collection. Finally, it was claimed that buyers were often not aware of paying a tax when buying taxed articles. In contemporary terms, the customer "confounded" the tax with the price.[43]

In practice, the federal government imposed duties on enumerated goods and an ad valorem duty on all other imports. But, even if customs duties fell in part on necessaries, they were still preferable to direct taxation. Duties on articles of consumption might affect the patterns of consumption of planters, farmers, and artisans, but they did not touch their property or persons. As Webster put it, when revenue is raised from indirect taxation, "lands, labor, and farmer's stock are not called on." There could be neither tax debts nor foreclosures if the government raised revenue from the impost. Nor was it likely that consumption would be much affected by customs duties, since they had an inherent protection against excessive rates. "Imposts, excises and in general all duties upon articles of consumption may be compared to a fluid," Hamilton wrote in *The Federalist,* "which will in time find its level with the means of paying them." To raise money from the impost,

[43] Pelatiah Webster, "Strictures on the Net Produce of the Taxes of Great-Britain," *Political Essays on the Nature and Operation of Money, Public Finances, and Other Subjects* (Philadelphia, 1791), 468. An interpretation of Federalist fiscal principles can be found in Edling, *Revolution,* 191–205, 219–229. For the views of some of the leading political theorists and economists of the time, see William Blackstone, *Commentaries on the Laws of England,* 4 vols. (Oxford, 1765–1769), I, 316–371; David Hume, "Of Taxes," in Knud Haakonssen, ed., *Political Essays* (Cambridge, 1994), 162–163; Charles de Secondat, baron de Montesquieu, *The Spirit of the Laws,* ed. and trans. Anne M. Cohler, Basia Carolyn Miller, and Harold Samuel Stone (Cambridge, 1989), 217; Smith, *Wealth of Nations,* ed. Campbell, Skinner, and Todd, II, 826, 895.

the government had to calibrate the duties so that the price on imported articles did not become prohibitive. For, when the price became too high, consumption would decrease and smuggling would increase, thereby bringing the revenue down.[44]

The Federalists' fiscal reform, in combination with the simultaneous return of prosperity, made protests over state taxation disappear. Norman Risjord's study of the Chesapeake shows that "economic issues appeared on the legislative agenda with less and less frequency during the 1790s." "And when they did appear," he writes, "they were less likely to generate public roll calls." Massachusetts saw the same development. According to Van Beck Hall, soon after the adoption of the Constitution, "the twin problems of personal debts and state taxes began to disappear as political issues." In the 1790s, Brown notes, the taxpayers not only contributed to the federal treasury, they also rapidly reduced the back taxes they owed to the state governments.[45] This was no minor feat, for taxation—together with the closely intertwined questions of the public debt and paper money—had been one of the most divisive issues in state politics in the 1780s.

At the level of national politics, taxation and public finance continued to generate conflict. Although the impost was not controversial—the tariff would not become a major issue in American politics before the 1830s—other elements of Federalist public finance caused contention. Hamilton's policies attempted to emulate certain institutions and practices that had been part of Britain's financial arrangements at least since the Glorious Revolution. The Bank of the United States and the funded federal debt had their British counterparts, and there existed a strong Anglo-American tradition arguing that such institutions bred corruption that would eventually lead to the downfall of the free institutions that were the pride and birthright of Britons on both sides of the Atlantic. Both institutions were fiercely resisted by the political opposition. Protests over federal taxation flared up, too, although on no occasion was the impost the object of discontent. The

[44] The relevant revenue acts are An Act for Laying a Duty on Goods, Wares, and Merchandises Imported into the United States, July 4, 1789, and An Act Imposing Duties on Tonnage, July 20, 1789, *U.S. Statutes at Large,* I, 24–27, 27–28. These rates were increased by subsequent legislation. See Webster, "Strictures on the Taxes of Great-Britain," *Political Essays,* 468; *The Federalist,* No. 21, in Merrill Jensen, John P. Kaminski, and Gaspare J. Saladino, eds., *The Documentary History of the Ratification of the Constitution,* 19 vols. to date (Madison, Wis., 1976–), XIV, 417.

[45] Norman K. Risjord, *Chesapeake Politics, 1781–1800* (New York, 1978), 472; Hall, *Politics without Parties,* 296–297; Brown, *Redeeming the Republic,* 236.

Whiskey Rebellion was a protest against the excise on alcohol introduced by Congress in 1791. Fries's Rebellion was a protest against a program of direct taxation that aimed to finance the military buildup during the Quasi War. Both protests were put down by force.[46]

Historians have sometimes taken the Whiskey Rebellion and Fries's Rebellion as indications that federal taxes in the 1790s were just as oppressive as state taxes in the 1780s. But such a view fails to recognize that these protests were isolated occurrences and, above all, that the taxes that provoked them made up only a small part of the Federalists' fiscal regime. Whatever we may think of these protests and of the way the government handled them, they hardly justify the conclusion that the federal tax burden was heavy or that the federal fiscal administration rested on force. Considering the aversion to taxation evinced by the American public ever since the Revolution, what seems distinctive about the Federalists' fiscal regime is the way it managed to raise so much revenue with so little protest.

In the ratification struggle, Antifederalists had argued that the Constitution would introduce oppressive taxes, eclipse the states, and create a powerful centralized, or "consolidated," nation-state. If they were wrong on the first two counts, they were at least partly right on the last one. It is no coincidence that, whereas Shays's Rebellion was directed against the government of Massachusetts, the two tax rebellions of the 1790s were directed against the policies of the federal government. The federal government now controlled considerable financial resources, and its policies occasionally touched the lives of the citizens. In the fiscal and financial sphere, the operations of the federal government were far more extensive than those of the state governments taken together. The report on state taxation that Oliver Wolcott presented to Congress in 1796 showed that total annual expenditures in the states in the early 1790s were a little more than $1 million. In comparison, federal expenditures in 1795 were $7.5 million. The total tax revenue arising from direct taxation, still the states' major source of tax revenue, was a little more than $500,000. The total tax revenue of the federal government was a little more than $6 million. Finally, the combined public debt of the states amounted to less than $4 million. The federal government's debt was more than $80 million. Although it had still to win the affection of the citizens, in the fiscal sphere the federal govern-

[46] For the Jeffersonian opposition, see Lance Banning, *The Jeffersonian Persuasion: Evolution of a Party Ideology* (Ithaca, N.Y., 1978). For the Whiskey and Fries's Rebellions, see Thomas P. Slaughter, *The Whiskey Rebellion: Frontier Epilogue to the American Revolution* (New York, 1986); and the articles on Fries's Rebellion in *Pennsylvania History,* LXVII (2000).

ment was now far stronger than the states. And so it would remain throughout most of the history of the United States. In this respect, at least, Hamilton left a permanent legacy to American federalism.[47]

[47] Edling, *Revolution,* 180–183; Wolcott, "Direct Taxes," *American State Papers,* V, 418–436.