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Revenue, U.S. Government

Bert Chapman
Purdue University, chapmanb@purdue.edu

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During much of the early republic era, the U.S. Government found itself chronically short of revenue. Compounding that perennial dilemma was the staggering debt carried by both the federal government and individual states as a result of the American Revolutionary War (1775-1783). Suspicion of centralized governmental authority in the American Revolution's aftermath convinced many Revolutionary-era U.S. policy makers to create the Articles of Confederation, in which the preponderance of governmental executive and revenue-generating power was left to individual states instead of the weak national government. Under that system, the major source of federal government income came from requisitions from the states, calculated by Congress according to each state's size, wealth, and ability to pay. However, Congress lacked the ability to force the states to pay the requested amounts, and most states, suffering from economic problems of their own, paid less than the amounts requested by Congress. Funds could also be obtained by selling federal lands in the West, but such revenues remained small, given the dangers that prospective settlers faced from Native Americans who claimed the western territory as their own. Thus, Congress lacked the resources to meet even minimal needs, let alone servicing or paying down the national debt. This structure ultimately proved unsustainable and resulted in the establishment of a new national government under the U.S. Constitution of 1787. Under this new arrangement, which endures to the present day, the federal government was given much broader powers, including the ability to raise sufficient revenue to meet governmental needs by direct taxation and the capability to finance the national debt.

The newly created Department of the Treasury, headed by Secretary of the Treasury Alexander Hamilton, served as the government's key revenue-collecting agency. Hamilton's trenchant reports, such as the *First Report on the Public Credit* (1790), *Report on the National Bank* (1790), and *Report on Manufactures* (1791), sought to create an alliance between government and the wealthy to strengthen national union, bolster public credit, service the national debt, provide increased capital funds from domestic and foreign sources to enhance domestic economic development, and produce stable markets through which these funds could flow and in the process tie business leaders' success to the success of the national government, thereby ensuring their support.

Early government revenues under the new constitutional framework between 1789 and 1812 came primarily from tariffs on customs, internal revenue including excise taxes on alcoholic beverages, and public land sales that included land, slaves, and houses. Federal revenues went from approximately $4.419 million during 1789-1791 to $9.801 million in 1812, although this fell from a peak of $17.061 million in 1808 because of trade restrictions brought about by British naval policies and the imposition of the Embargo Act of1807, which all but shut off trade with Great Britain and Europe. During this time, the public debt declined from $77.228 million at the beginning of the George Washington administration in April 1789 to $55.963 million in 1812. At the same time, the annual federal budget went from a $150,000 surplus to a $10.480 million deficit, due mainly to the decrease in trade revenue.

International tensions seriously affected U.S. revenue generation, as evidenced by the 1798 passage of a $2 million direct tax in response to that year's crisis with France (the Quasi-War of 1798-1800), which precipitated the 1797-1798 XYZ Affair and the Alien and Sedition Acts (1798). Increasing tensions with Great Britain in 1811 caused Treasury Secretary Albert Gallatin to propose enacting excise taxes of $2 million and a direct tax of $3 million to fund military preparedness, although such taxes would not be approved until August 1813, more than a year into the War of 1812.

Customs revenues were certainly the most prominent income stream, rising from $4.399 million during 1789-1791, peaking at $16.364 million in 1808, and declining to $8.959 million in 1812. Public land sales went from $5,000 in 1796 to $710,000 in 1812 after reaching a peak of $1.040 million in 1811. Throughout the early decades of the young American republic, federal revenue generation was highly vulnerable to domestic and international political and economic fluctuations. In large measure, this impacted America's ability to mobilize, pay, train, and equip military forces. These limitations became self-evident during the War of 1812.

BERT CHAPMAN

See also

Alien and Sedition Acts of 1798; Articles of Confederation; Constitution, U.S.; Embargo Act of 1807; Excise Tax; *First Report on the Public Credit*; Gallatin, Albert; Hamilton, Alexander; Quasi-War; *Report on Manufactures*; Trade; Washington, George; XYZ Affair

Further Reading

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