State Taxes, Wealth, and Public Debt after the American Revolution, 1783-1815[1]

Montesquieu wrote that "the laws must put a certain order in the manner of levying taxes so that the manner is not heavier than the burdens themselves."[2] In the years following the American Revolution, state governments pursued a number of tax strategies in an effort to pay down the debts incurred during the war. Several states including Virginia embraced Montesquieu's advice and made significant changes to their tax laws, limiting the tax burden on small farmers in favor of raising taxes on luxury goods and slaves. Other states relied initially on high poll taxes, which bore most heavily on poor landowners, in an attempt to pay the debts down quickly. Opposed to standing public debt, many states were accustomed to raising taxes considerably for short periods of time to avoid longstanding obligations. Such policies had been employed successfully after the French and Indian War, when the colonists repaid their debts within a few years of the conclusion of hostilities. The debts incurred during the Revolutionary War exceeded those of any previous colonial conflict, however, and by some estimates amounted to more than twenty times the cost of the French and Indian War.

This dissertation examines the ways in which state governments dealt with the vast debts incurred during the Revolution, and analyzes these policies' contrasting implications for economic growth by tracing changes in wealth levels and wealth distribution over the course of the Early Republic. In the absence of strong taxing authority under the Articles of Confederation, the burden rested entirely on the newly-formed state governments. Dealing with the debt proved especially challenging in the decade following the Revolution, as consistent deflation magnified the states' obligations. State governments pursued a variety of policy strategies to address their

[1] The author would like to thank the History Project and the Institute of New Economic Thinking (INET) for providing support for this project.
[2] Montesquieu, *The Spirit of the Laws* translated and edited by Anne M. Cohler, Basia C. Miller and Harold S. Stone, Cambridge Texts in the History of Political Thought (1748; rpt. Cambridge: Cambridge University Press, 2005), 56.

fiscal crises, with mixed results. While some states found ways to mitigate the effects of the tax burden on the populace, other states encountered violent resistance to tax collection and widespread insolvency as a result of their tax policies. Through implementing changes in their tax laws, seven states succeeded in eliminating their war debts completely by 1790. In the years that followed, additional states modified their tax collection practices, and increased revenues by shifting the tax burden from poor farmers to wealthy consumers. Using property tax records, I have examined state-level fiscal policy through the prism of insolvency, wealth accumulation, and economic mobility in the Early Republic.

As Cathy Matson has observed, "in the face of mounting evidence that standards of living rose during the colonial era, we still do not know much about who enjoyed the benefits of economic maturation or how the rates of growth compared from place to place."[3] Wealth levels and distribution reveal the consequences of economic growth, the benefits of productivity, and are a reflection of income. Compared to many other periods of American history, our understanding of wealth levels and inequality in the Early Republic is incomplete. Two of the most important studies of wealth distribution include Alice Hanson Jones's work on probate inventories for 1774 and Lee Soltow's investigation of the 1798 Direct Tax. Both projects took more than a decade to complete using punch cards and tabulating the data painstakingly by hand.[4] Recently, Peter Lindert and Jeffrey Williamson have attempted to reconcile these two interpretations by arguing that American wealth levels fell between 1774 and 1798, and suggesting, in an earlier version of the paper, that inter-regional inequality "demands further

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[3] Cathy Matson, "A House of Many Mansions: Some Thoughts on the Field of Economic History" in Cathy Matson ed. *The Economy of Early America: Historical Perspectives & New Directions* (University Park, PA: Pennsylvania State University Press, 2006), 19.

[4] Alice Hanson Jones, *Wealth of a Nation to Be: The American Colonies on the Eve of the Revolution* (New York: Colombia University Press, 1980); Lee Soltow, *Distribution of Wealth and Income in the United States in 1798* (Pittsburgh: University of Pittsburgh Press, 1989)

scrutiny."[5] While Lindert and Williamson compared existing data on wealth inequality to identify opportunities for future research, my project constructs a new, larger, and more-representative dataset that facilitates comparisons of wealth levels and inequality across time and region in the Early Republic.

To complete this research I have sampled the taxable wealth of more than 100,000 taxpayers from the ten most populous states between 1785 and 1815.[6] I have modeled my sampling technique on Alice Hanson Jones' method, and designed the sample to produces results that are significant at the 95% confidence level with a 5% confidence interval. Sampling the tax records at ten-year intervals facilitates the study of change over time and follows American wealth ownership at a critical period in American history. The Early American Republic marked both the emergence of a national economy and the development of distinct regional production networks. Over the course of fifty years, the American economy transformed from a loose collection of colonies to a unified nation capable of financing a second war with Great Britain. The period was also characterized by intense western migration and witnessed the beginnings of industrialism. The analysis of this data makes clear the importance of policymakers and local conditions in shaping economic outcomes. Preliminary results support Lindert and Williamson's conclusion that national real wealth fell between 1774 and 1800, but suggest that wealth levels rose significantly between 1800 and 1815. The data indicate that the distribution of wealth grew more unequal with each successive decade, and that the level of inequality exhibited substantial regional and local variation.

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[5] Peter H. Lindert and Jeffrey G. Williamson, "American Incomes Before and After the Revolution" *Journal of Economic History* 73, no. 3 (September 2013), 725-765; Lindert and Williamson, "American Incomes Before and After the Revolution." NBER Working Paper 17211 (July 2011), 30.

[6] The ten most populous states and territories in 1815 were, in order of population, New York, Pennsylvania, Virginia, Massachusetts, North Carolina, Kentucky, Ohio, Connecticut, Maryland, and Maine.

Funding from the History Project allowed me to complete my dissertation research in four states. I spent five weeks travelling to Hartford (CT), Boston (MA), Albany (NY), and Columbus (OH). To complete the research, I examined collections at the Connecticut State Library, Connecticut Historical Society, State Library of Massachusetts, New York State Archives, and the Ohio Historical Society. Each library holds a comprehensive collection of early county records, including tax lists and the papers of state treasurers and auditors. In Connecticut, I also studied the papers of Oliver Wolcott Jr., who served as Secretary of the Treasury after Alexander Hamilton and was instrumental in organizing the first federal direct tax in 1798. After gathering the tax records for the sample, I hired part-time research assistants to help transcribe the voluminous tax records. I have finished sampling the tax records from the ten most populous states, and I have recently begun to analyze the results. I will continue writing over the course of the next year.