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16 Long-Term Trends in State and Local Finance: Sources and Uses of Funds in North Carolina, 1800–1977

Richard Sylla

Since "statistical" information in an etymological sense is information about "state" affairs, it is surprising that one of the yawning gaps in the quantitative record of United States history is detailed, year-by-year information on the finances of state and local governments. The gap is not a great one for the twentieth century. The bicentennial edition of *Historical Statistics of the United States* (United States Bureau of the Census 1975) contains 197 series under the heading "State and local government finances, 1902–1970." None of these is an annual time series covering the whole period, but the primary information to construct such series on a sound footing appears to be available, and indeed, scholars have used such information to explore quantitatively the changing roles of government activity and trends in government finance at all levels in the twentieth century. The NBER-sponsored studies of Simon Kuznets (1946, 1961), Solomon Fabricant (1952), M. Slade Kendrick (1955), John M. Firestone (1960), Morris A. Copeland (1961), and John W. Kendrick (1961), among others, come readily to mind. The emphasis of these studies was more on national totals and less on state and regional detail.

For the period of our history before the twentieth century, both existing comprehensive data and the sources from which better estimates might be derived are far less satisfactory. The 1890 and 1880

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censuses contain extensive and detailed information on receipts, expenditures, and debts for states, counties, and cities and towns above specified levels of population. The 1870 census contains taxation and debt information but nothing on expenditures or nontax receipts. The 1850 and 1860 censuses each have a page on taxation, but the data appear to be understated as well as incomplete in coverage. Before 1850 there is essentially no comprehensive information on state and local finance in the United States.

During the first three decades of this century there was considerable interest among scholars in state and local finance, and a number of state studies were published. (See Davis and Legler [1966] for a list of the studies.) These and related but unpublished studies vary considerably in periods covered, levels of analysis, and quantitative detail, but they offer much guidance and encouragement to anyone going at the subject today. In the 1940s and 1950s, several provocative studies of the role of particular state governments in antebellum economic development attracted much attention (e.g., Handlin and Handlin 1947; Hartz 1948; Heath 1954). These studies were interested in government as regulator and promoter, and—if anything—they contain less quantitative information than the state studies done earlier in the century.

A concern for comprehensive quantitative information on nineteenth-century public finance surfaced in the 1960s in two studies, one by Lance Davis and John Legler (1966) and the other by Charles Holt (1970). Davis and Legler presented annual per capita state receipt and expenditure data, and—implicitly—annual per capita local government receipts for nine regions of the United States for the period 1815–1900. For the state estimates by region, approximately 70% of the underlying individual state data were observations taken from published reports and 30% were estimates based on regression estimates and regional averages assigned to individual states. Annual local receipts by region were estimates derived from regressions of local tax receipts on state receipts and other variables drawn from the six census-year studies 1850 through 1902. Total local receipts were obtained by multiplying local tax receipts by a factor of 1.44, the average ratio of local receipts to local tax receipts in the 1902 census. The estimates of local receipts were not presented by Davis and Legler; rather, they were embedded in annual per capita estimates by region of federal, state, and local receipts. Because of the level of aggregation, the estimates presented by Davis and Legler cannot be compared with existing data for individual states at either the state or local levels of government.

Charles Holt's study, a Ph.D. dissertation directed by Lance Davis, deals only with state receipts and expenditures for the period 1820–1902. National and regional totals and totals per capita, in both current and constant dollars, are presented in the form annual averages for

overlapping decades. Holt also presents data on the composition of receipts and expenditures—sources and uses of funds—in a similar form. The underlying estimates are based on blowing up a sample containing 57% of the possible state-year observations by means of several formulas for deriving national and regional totals from partial information. The proportion of sample to total possible observations increased over time; the estimates for the earlier years of the period are based on a much smaller observational base than are those for the later years when the sample is much more complete.

The Davis-Legler and Holt studies make promising starts on the problem of developing comprehensive data on state and local finance for the nineteenth century. Their main weakness—as the writers freely acknowledge—is that they make only limited use of the information that is known to be, or likely will be found to be, available in both the published reports and the archives of state and local governments. They point to a large research agenda: the systematic construction, based on existing state and local records, of quantitative information on public finance from the earliest days of the nation. The historical and contemporary questions that such information would help us to answer are so numerous and obvious that an attempt to list them here would be tedious; indeed, they are the questions of the whole literature of public finance and of other literatures as well.

My purpose here is to make a start on the research agenda mentioned above by presenting a quantitative history of state and local finance in North Carolina. Most of the attention is focused on the period 1801–1930. Information of the kind I am seeking for years before 1801 is sparse indeed, and difficult to interpret because the handwritten accounts are given in several currencies. Information for the period after 1930 is abundant, readily available, and merits only summary treatment here. For the period of focus, I have virtually complete annual data on state receipts and disbursements, and fairly complete (though not annual) information on state debt. The state data are the basis for estimates in some detail of the sources and uses of funds.

In the local area, I have found data on the tax revenues of counties—by far the most important units of local government in North Carolina—from 1856 to 1930, and I have developed annual estimates of county tax revenues that I believe to be fairly accurate for determining levels and trends for the period 1801–55. Tables 16.A.1 and 16.A.2 present the state and county series and describe their construction as well as the underlying data sources. Cities, towns, and other minor civil divisions were not very important in North Carolina, a "rural" state, until late in the nineteenth century; I use the census data to establish this point and to provide details on municipal finance at census intervals from 1850 to 1930. Table 16.A.3 continues the state series to 1977 and

presents a local (county, municipal, and district) tax revenue series for the years 1930–77.

16.1 North Carolina Public Finance, 1790–1930: Levels and Trends

Our searches uncovered only scattered data on state and local finance during the 1790s. A printed report from the Committee on Finance to the state House of Commons, dated December 15, 1790, gave the total of money in the treasury on November 1, 1790, as £49,355 and the Civil List (salaries of state officials and other "incidental expenses of government of every kind") for the year 1791 as £20,740, of which the largest single items were £12,000 for the legislature and £3,200 for judges of superior courts. (The North Carolina pound was reckoned as $2.50 before 1800, and $2.00 after that date.) In the report, the budgetary subcommittee recommended as follows, indicating, incidentally, the nature of taxation in the state for much of the antebellum era: "From the large sums of money due the public, and from the present wealth of the treasury, the subcommittee are led to propose a poll tax of two shillings only, and a land tax of eight pence on every hundred acres, and a tax of two shillings on every hundred pounds value of town property in this state, which in their opinion, with the other established taxes in aid of the revenue, will be fully adequate to the expenses of the year 1791."

A report of the 4th United States Congress, 2d Session, dated December 14, 1796, discussed the tax systems of the several states and estimated, from tax base, tax rate, and land sales data, that the state's revenue would be about £18,417 and that expenses were £15,000–£20,000 (*American State Papers* 1832, pp. 418 ff.). The state debt, consisting mostly of paper bills of credit, was given as approximately £150,000, and the report added, "the amount of the county taxes is supposed to be nearly the same, on an average, as the annual state tax."

Finally, we have a detailed and complete printed list of expenditures for the fiscal year 1798 (November 1, 1797–October 30, 1798). The total came to £27,146. Two years later, according to a contemporary, Archibald Debow Murphey (see Appendix), state expenses were $48,419, or about £24,000 with the North Carolina pound reckoned as $2.00.

The annual estimates of state receipts and disbursements and county tax receipts begin with the year 1801. Figures 16.1–16.4 plot the annual data on receipts (in logarithmic transformation) in current and constant dollars. (State disbursements are not plotted in fig. 16.1 and 16.3; the comprehensive nature of the state receipt and disbursement concepts yields a near identity of the two series in semilog plots.) The decade totals for 1801–10 to 1921–30, aggregate and per capita, in current

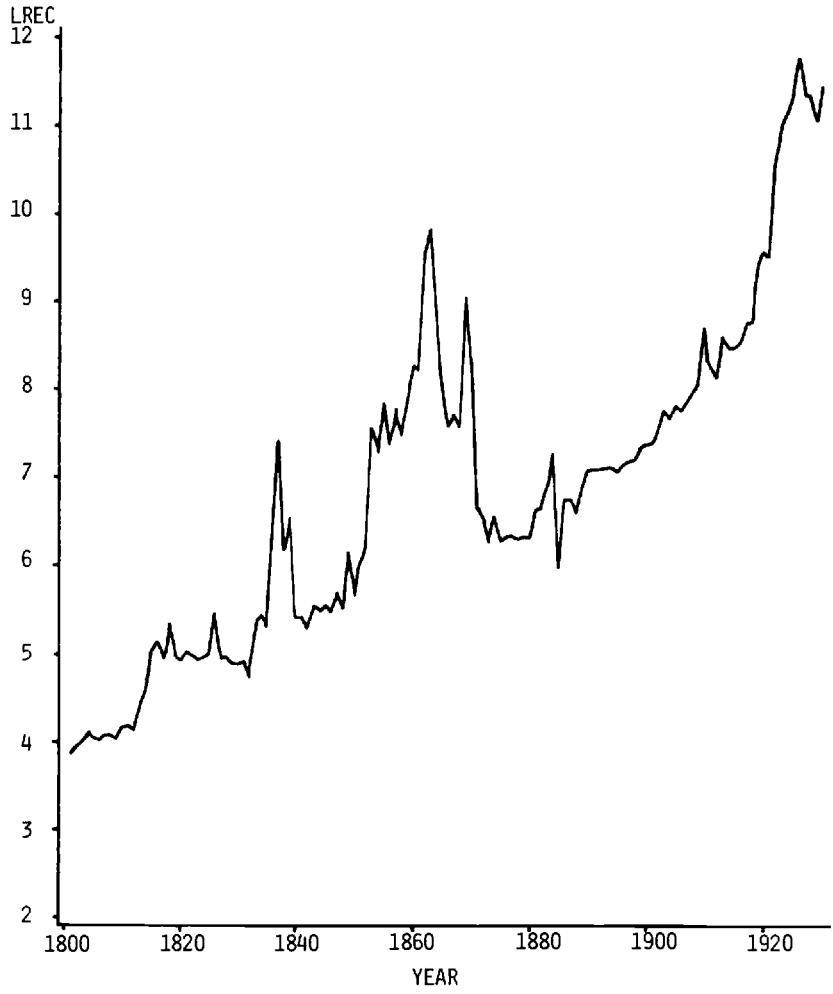

Fig. 16.1 State receipts in current dollars, 1801–1930. LREC is the natural logarithm of state receipts, as given in table 16.A.1.

dollars are presented in table 16.1, along with the state and county shares (cols. 9 and 10). Constant dollar estimates (1910–14 = 100) are in table 16.2. I should emphasize that these data are decade totals; the $1.30 of state spending per capita for 1801–10 in table 16.1, for example, implies that on average the state spent $0.13 per person per year in that decade.

The revenue share data in columns 9 and 10 of table 16.1 indicate that in most decades the counties surpassed the state in collections; since the county data are for tax revenues only whereas the state data

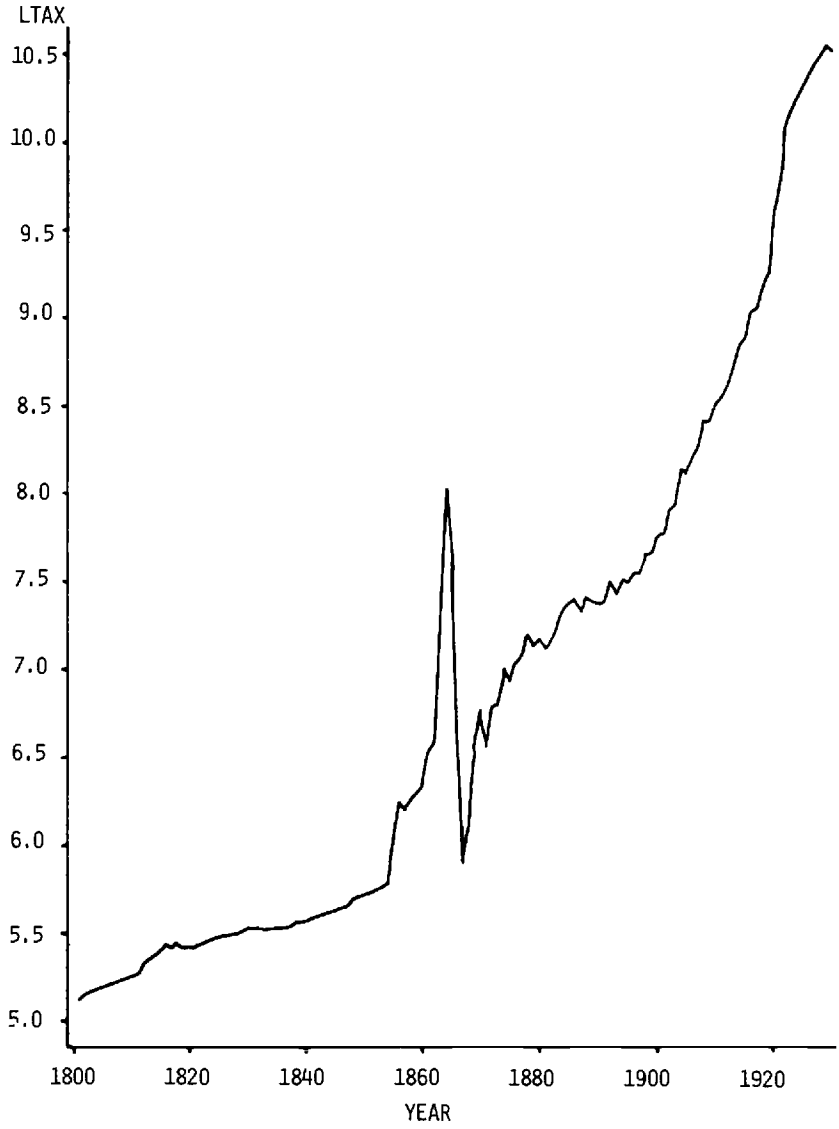

Fig. 16.2 County tax Revenue in current dollars, 1801–1930. LTAX is the natural logarithm of county tax revenue, as given in table 16.A.2.

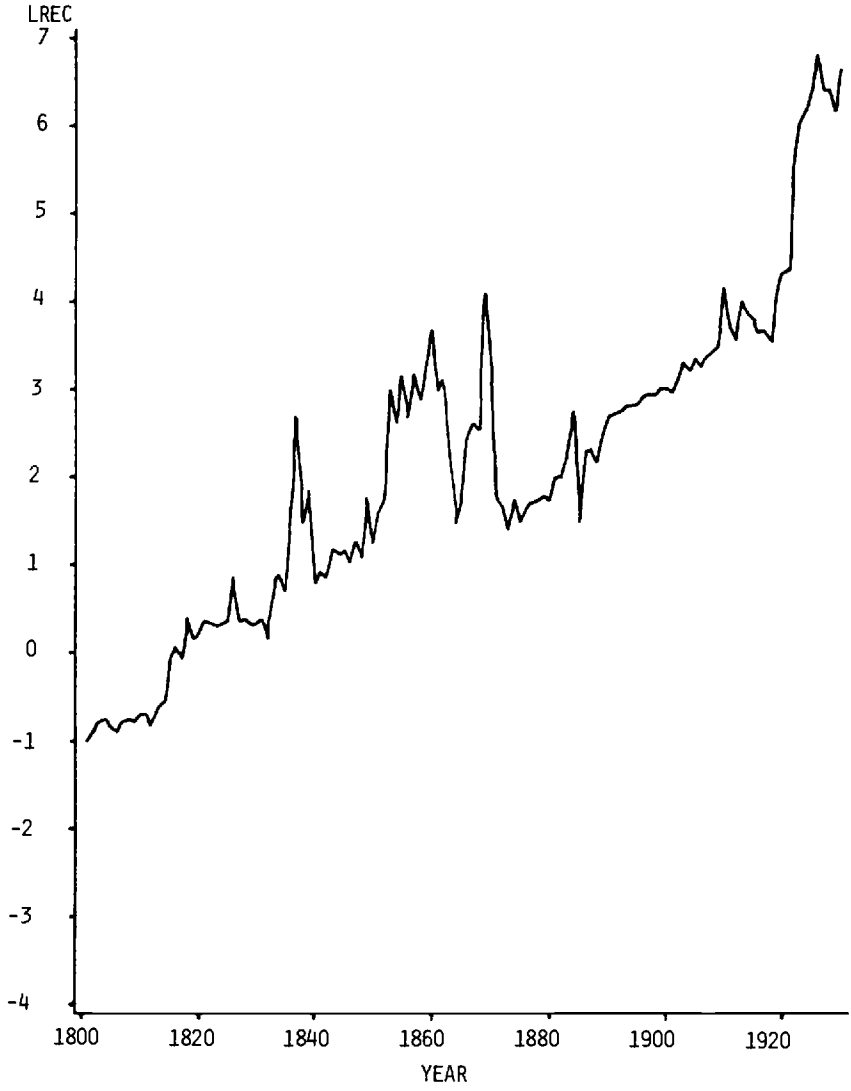

Fig. 16.3 State receipts in constant (1910–14 = 100) dollars, 1801–1930. LREC is the natural logarithm of state receipts deflated by the Warren-Pearson wholesale price index.

are for all revenues from whatever source, the greater relative importance of the counties in state and local finance in most decades seems firmly established. The exceptions are the 1830s when the federal government made a large transfer of surplus revenue to the state, the 1850s when the state was engaged in a large-scale program of railroad con-

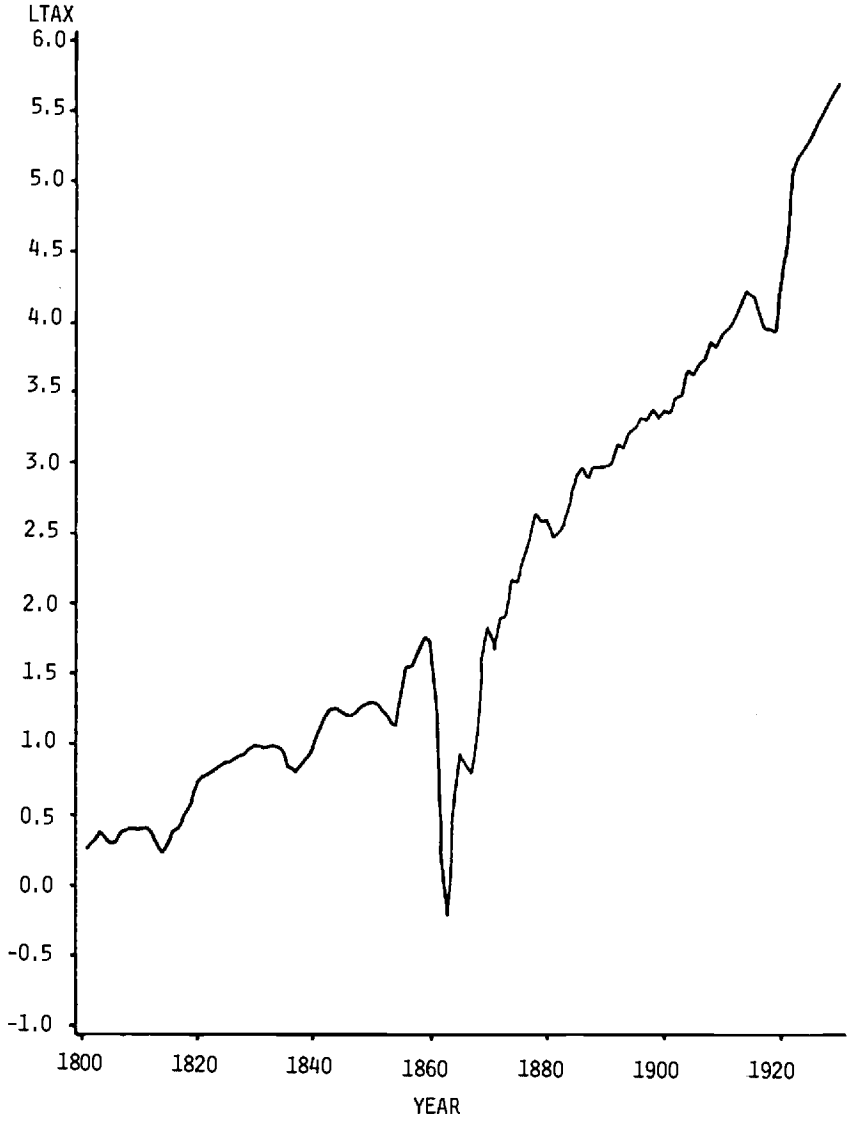

Fig. 16.4 County tax revenue in constant (1910–14 = 100) dollars, 1801–1930. LTAX is the natural logarithm of county tax receipts deflated by the Warren-Pearson wholesale price index.

struction, the 1860s when the state was at war, and the 1920s when North Carolina became "the good roads state" with a massive highway construction program under state auspices.

Real rates of growth of state and local government, total and per capita, may be seen in table 16.3. Given the comprehensive nature of

Table 16.1 **State Disbursements and Receipts and County Tax Receipts, Total and per Capita, by Decade, 1801–10 to 1921–30 (in Thousands of Current Dollars for Aggregates and in Dollars per Capita)**

Decade	State Disbursements (1)	State Receipts (2)	County Tax Receipts (3)	(2) + (3) (4)	(1) ÷ Pop. (5)	(2) ÷ Pop. (6)	(3) ÷ Pop. (7)	(4) ÷ Pop. (8)	(2) ÷ (4) (9)	(3) ÷ (4) (10)
1801–10	670	564	1,804	2,368	1.30	1.07	2.73	3.80	.24	.76
1811–20	1,168	1,265	2,185	3,450	1.96	2.12	2.52	4.64	.37	.63
1821–30	1,398	1,507	2,393	3,900	2.03	2.19	3.51	5.70	.39	.61
1831–40	4,565	4,550	2,542	7,092	6.11	6.09	3.34	9.43	.64	.36
1841–50	2,749	2,728	2,837	5,565	3.39	3.36	4.21	7.57	.49	.51
1851–60	18,267	19,134	4,327	23,461	20.01	20.55	4.74	25.29	.82	.18
1861–70	59,087[a]	61,978[a]	7,627[b]	69,605	57.26[a]	60.06[a]	2.09[b]	62.15	.91	.09
1871–80	6,164	6,064	10,849	16,913	4.99	4.91	7.70	12.61	.36	.64
1881–90	8,986	8,985	15,105	24,090	5.95	5.95	11.00	16.95	.37	.63
1891–1900	13,246	13,178	19,170	32,348	7.54	7.50	14.75	22.25	.31	.59
1901–10	28,334	28,092	36,391	64,483	13.82	13.70	19.51	33.21	.44	.56
1911–20	64,495	67,401	88,235	155,636	27.07	28.28	26.26	54.54	.43	.57
1921–30	722,241	729,824	305,821	1,035,645	252.09	251.25	75.17	326.42	.70	.30

Note: For per capita estimates, I used the arithmetic mean of the state's population at the beginning and end of each decade.

[a]Nine years; no data for 1865.

[b]Seven years; no data for 1864, 1865, and 1869, and incomplete data for 1867, 1868, and 1870 when many counties did not report.

Table 16.2 **State Disbursements and Receipts and County Tax Receipts, Total and per Capita, by Decade, 1801–10 to 1921–30 (in Thousands of Constant Dollars of 1910–14 for Aggregates, and in Dollars per Capita)**

Decade	State Disbursements (1)	State Receipts (2)	County Tax Receipts (3)	(2) + (3) (4)	(1) ÷ Pop. (5)	(2) ÷ Pop. (6)	(3) ÷ Pop. (7)	(4) ÷ Pop. (8)
1801–10	523	441	1,409	1,850	1.01	0.86	2.73	3.59
1811–20	806	872	1,507	2,379	1.35	1.46	2.52	3.98
1821–30	1,412	1,522	2,417	3,939	2.05	2.21	3.51	5.72
1831–40	4,475	4,461	2,492	6,953	6.00	5.98	3.34	9.32
1841–50	3,312	3,287	3,418	6,705	4.08	4.05	4.21	8.26
1851–60	19,007	19,524	4,415	23,939	20.42	20.97	4.74	25.71
1861–70	20,592	21,560	2,156	23,716	19.95	20.89	2.07	22.96
1871–80	5,407	5,319	9,517	14,836	4.38	4.30	7.70	12.00
1881–90	9,875	9,874	16,599	26,477	6.54	6.54	11.00	17.54
1891–1900	17,900	17,808	25,905	43,713	10.19	10.14	14.75	24.89
1901–10	31,136	30,870	39,990	70,860	15.19	15.06	19.51	34.57
1911–20	45,741	47,802	62,578	110,380	19.19	20.06	26.26	46.32
1921–30	508,620	513,961	215,367	729,328	177.53	179.39	75.17	254.56

Notes: See the notes to table 16.1. The price deflator, with one exception, is based on the Warren-Pearson wholesale price index. See Warren and Pearson 1932, pp. 11–14. The exception is the Civil War period 1861–65 when I substituted an index based on Lerner's general price index of the eastern section of the Confederacy; see Lerner 1955, table 2.

Table 16.3 **Real Growth Rates per Year of Receipts: Selected Periods, 1801–10 to 1921–30 (% per year)**

Decades	Real State Receipts	Real County Tax Receipts	Real State and County Receipts	Real State Receipts per Capita	Real County Tax Receipts per Capita	Real State and County Receipts per Capita
1801–10/1811–20	6.82	0.67	2.52	5.29	−0.80	1.03
1811–20/1821–30	5.57	4.72	5.04	4.15	3.31	3.63
1821–30/1831–40	10.75	0.31	5.68	9.95	−0.50	4.88
1831–40/1841–50	−3.05	3.16	−3.63	−3.90	2.32	−1.21
1841–50/1851–60	17.82	2.56	12.73	16.44	1.19	11.36
1851–60/1861–70	0.99	NMF[a]	−0.09	−0.04	NMF[a]	−1.13
1861–70/1871–80	−14.00	NMF[a]	−4.69	−15.81	NMF[a]	−6.49
1871–80/1881–90	6.19	5.56	5.79	4.19	3.57	3.80
1881–90/1891–1900	5.90	4.45	5.02	4.39	2.93	3.50
1891–1900/1901–10	5.50	4.34	4.83	3.96	2.80	3.29
1901–10/1911–20	4.37	4.48	4.43	2.87	2.97	2.93
1911–20/1921–30	23.75	12.36	18.88	21.91	10.52	17.04
1801–10/1841–50	5.02	2.22	3.22	3.87	1.08	2.08
1801–10/1851–60	7.58	2.28	5.12	6.39	1.10	3.94
1871–80/1910–20	5.49	4.71	5.02	3.85	3.07	3.38
1871–80/1921–30	9.14	6.24	7.79	7.46	4.56	6.11
1801–10/1871–80	3.56	2.73	2.97	2.30	1.48	1.72
1851–60/1921–30	4.67	5.55	4.88	3.06	3.95	3.28
1801–10/1891–1900	4.11	3.23	3.51	2.74	1.87	2.15
1801–10/1901–10	4.24	3.35	3.64	2.86	1.97	2.26
1801–10/1911–20	4.26	3.45	3.72	2.86	2.06	2.32
1801–10/1921–30	5.88	4.19	4.98	4.45	2.76	3.55
1851–60/1871–80[b]		3.84			2.43	

[a]The county data are so incomplete for the 1860s that no meaningful rates of growth can be calculated.

[b]The last row of the table gives the county rates of growth for 1851–60 to 1871–80.

the data on state disbursements and receipts, either series would yield approximately the same growth rates for any period, and so only the state receipts have been utilized in the table. If there is any bias in the growth rates, it would be in ones that involve the antebellum county data, which are my estimates rather than reported data. The bias, if there is one, is likely in the direction of overstating county tax revenues early in the nineteenth century. Such a bias would mean that growth rates based on these data are too low, and, indeed, the antebellum growth rates for the state exceed those for the counties by a good margin. There are historical reasons to account for such a pattern, however, and so I do not consider the bias to be self-evident. The counties did not get a massive gift from the federal government in the 1830s, and they did not engage in large internal improvement projects; moreover, the same relationship of state and county growth rates shows in the postbellum period when the data are reported, not estimated.

Because of the massive state-financed improvement projects of the 1850s (mainly railroads) and the 1920s (mainly highways), I consider the growth rates for 1801–10 to 1841–50 and 1871–80 to 1911–20 to be more representative of "average" antebellum and postbellum experience than the rates ending with the "improvement" decades. Similarly, the rates for 1801–10 to 1871–80, both decades in which governments were relatively inactive, probably reflect the long-term trend of state and local activity for the first three-fourths of the century more accurately than do the rates for any of the other periods.

What do the growth rates indicate? North Carolina is seldom described as a state known for its vigorous, dynamic government and economy in the nineteenth century. An opposite representation is indeed far more common. Yet North Carolina government, apart from some decadal fluctuations that have clear historical explanations, shows a steady if undramatic long-term expansion in real terms. The lowest per capita annual rate of growth of state and combined county revenues for any of the long-term (not decade-to-decade) periods shown in table 16.3 is 1.72% from the first to the eighth decades of the century. Since this rate is near or above most estimates of per capita real income growth for the United States in the period, and since North Carolina in most accounts apparently was not a high achiever in the economic growth sweepstakes, it seems evident that state and local government in North Carolina absorbed and disposed of an increasing share of their citizens' incomes as the century progressed. This trend continued and accelerated after the 1870s; per capita state and county revenues in real terms grew at 3.38% per year from 1871–80 to 1911–20, a rate that likely is well above the state's growth rate of per capita real income. Moreover, from all indications (see below), municipal government receipts and expenditures, which are not accounted for in the above

analysis, were relatively insignificant before the 1870s and grew rapidly thereafter. Therefore, one may surmise that, on a real per capita basis, state and local government in North Carolina grew somewhat more rapidly than income before the 1870s and considerably more rapidly than income after the 1870s. (The more precise dimensions of the shift will not be known until the municipal data become more refined.)

What may be said, based on the North Carolina data, about the nineteenth-century place of state and local government in the United States federal system? In table 16.4, I relate the sum of state expenditures and county tax receipts (a proxy for county expenditures) to North Carolina's "share" of federal expenditures, calculated by multiplying North Carolina's share of United States population by total federal expenditures, for decade years 1800–1930. In only two of the years, 1860 (a "railroad" year) and 1930 (a "highway" year), did state and local spending exceed the state's federal "share." In each of the other years save one (1910), state and local spending was less than half of the state's "share" of federal spending. Based on these data, we may say that there was no early golden age of state and local government relative to federal government, no age when the state's responsibilities to its citizens exceeded the federal government's responsibilities to its citizens—at least not in North Carolina. Parenthetically, I note that Holt, in his study of state government expenditures, 1820–

Table 16.4 **State and Local Expenditures in North Carolina in Relation to State's Share of Federal Expenditures**

Year	North Carolina "Share" of Federal Expenditures ($000)	North Carolina State and County Expenditures ($000)	(2) ÷ (1) (%)
1800	971	226[a]	23
1810	628	265	42
1820	1,205	348	29
1830	863	377	44
1840	1,069	415	39
1850	1,463	645	44
1860	1,957	4,429	226
1870	8,361	1,527[b]	18
1880	7,494	1,807	24
1890	8,269	2,670	32
1900	13,021	3,999	31
1910	16,646	11,530	69
1920	152,584	28,331	19
1930	86,325	135,813	157

Note: Federal expenditures from *Historical Statistics* (1975), ser. Y-336, p. 1104.
[a]North Carolina data for 1801.
[b]North Carolina data for 1871.

1902, found that only in the period 1830–44 were aggregate state expenditures for the United States more than half of federal expenditures, the maximum being 65% in the period 1830–39 (Holt 1970, p. 22).

16.2 Sources and Uses of Funds

16.2.1 State Government, 1801–1860

Tables 16.5 and 16.6 provide a fairly complete portrayal in terms of percentage distributions of the state's sources and uses of funds by decades from 1801 to 1860. Most of the underlying data are annual breakdowns of state revenues and expenditures taken from state records by Hershal L. Macon in his Ph.D. dissertation, "A Fiscal History of North Carolina, 1776–1860" (Macon 1932). Macon's data were supplemented when additional and more complete data were discovered in the course of this research. His annual data for total receipts and disbursements are not exactly the same as the ones reported here, but they are so close (indeed, the same for most years) that it seemed pointless to make separate estimates of categories of receipts and disbursements by repeating his laborious efforts with our more complete set of records.

Taxation—land and poll taxes for the most part—and land sales provided virtually all of the state's revenue in the first decade, 1801–10. In 1808, the state invested in and began to receive dividend income from banks. Investment income from banks was a significant source of state revenue for the remainder of the antebellum period; in the 1850s dividend income from the state's investment in railroad stocks became another significant source, but it exceeded bank dividends in only one year, 1859. One aspect of the investment in banks deserves comment: in 1814, 1816, and 1823, the state issued treasury notes (akin to currency) totaling $262,000 to buy the bank stock. These note issues were the only long-term debts incurred by the state between 1786 and 1835, years when receipts typically exceeded expenditures exclusive of the burning of currency the state had issued before 1787 (an incendiary activity that was often a major item of state "disbursements" between 1810 and 1830). In issuing the treasury notes, the state used its credit to increase the resources of banks, a developmental effort made all the more attractive by the flow of dividends from the bank stocks to the state treasury.

Other significant sources of funds before 1860 that are evident in table 16.5 are (1) the federal surplus distribution of 1837, which brought $1.434 million to North Carolina, an amount representing nearly two-fifths of all state receipts for the entire decade 1831–40, and (2) borrowing in the 1850s, mainly to aid railroads, which supplied more than

Table 16.5 **State Government: Sources of Funds by Decades, 1801–60 (%)**

	Decade					
Source	1801–10	1811–20	1821–30	1831–40	1841–50	1851–60
Taxation	86.8	65.1	55.6	21.7	40.4	20.8
Land sales	12.4	4.7	8.6	4.8	5.9	0.5
Dividends and other return on investments	0.8	27.0	25.5	15.0	38.4	10.9
Borrowing		3.2		11.0	15.3	67.8
Distribution of federal surplus				38.2		
Other			10.3[a]	9.2[b]		
Total	100.0	100.0	100.0	100.0	100.0	100.0

[a]Treasury note issue, restored defalcation, and federal payment for Cherokee Indian lands.

[b]Distribution of bank assets and restored defalcation.

Table 16.6 **State Government: Uses of Funds by Decades, 1801–60 (%)**

Use	Decade					
	1801–10	1811–20[a]	1821–30	1831–40	1841–50	1851–60
Current expenses	90[b]	46.6	63.8	22.4	76.8	30.3
General government				16.7	24.0	4.5
Education					30.8	8.8
Public welfare					0.9	2.0
Interest				1.2	13.8	13.3
Miscellaneous				4.4	7.4	1.6
Capital outlays	10[b]	30.7	22.3	68.5	18.8	46.6
Public buildings			5.0	11.5	1.9	1.0
Bank stock			12.9	17.7		
Navigation company stock			4.4		0.7	4.0
Railroad securities				18.9	13.3	37.0
Temporary loans				20.4	0.7	3.8
Road and turnpike company securities					2.2	0.8
Debt retirement		22.7	13.9	9.1	4.4	23.1
Total	100.0	100.0	100.0	100.0	100.0	100.0

[a]Breakdown is possible only for the 3 years 1818–20.

[b]Rough estimate; the state probably spent some money on buildings and, in 1808, began to invest in bank stocks.

two-thirds of all receipts in that decade. (Brown [1928] provides a good account of the North Carolina railroad movement.) Not evident in table 16.5 is the significant broadening of the tax base in the 1850s; to the traditional sources—taxes on land and polls—were added new taxes on inheritances, interest, dividends and profits, salaries and fees, pleasure carriages, watches, jewelry, plate, musical instruments, pistols, knives, dirks, canes, capital in trade, and liquor traffic. None of the new taxes was individually significant compared to the traditional levies, but together they brought in about one-fourth of tax revenue in the 1850s.

The data on uses of funds in table 16.6 are not very helpful before the 1820s; only in 1818 did the state comptroller begin to list disbursements by category, and we were unable to find any earlier comprehensive breakdowns of expenditures. Before 1831—1818 to 1830—the interesting items are the investments in banks and navigation companies, and debt retirement, mainly (as noted) in the form of burning the old pre-Constitutional state-issued paper currency. In the 1830s, the federal windfall led to further investments in banks and in the securities of the state's first railroads, which needed the state investments to stay solvent. These federally financed investments swelled the resources of the state's Literary Fund and became the basis for financing the first common schools starting in 1840. Public common schools became an important category of state spending in the last antebellum decades. Only the purchase of railroad securities and paying interest on the money borrowed to do so were larger items of state expenditure.

16.2.2 Antebellum County Government

Other than estimating total tax revenues (as we have done), it is very difficult if not impossible to assemble comprehensive data on county spending for the whole antebellum era. The flavor of what county government did in these years can be gleaned from the sample of information in table 16.7. The table is titled "Sources and Uses of Funds" because antebellum North Carolina counties levied taxes (always on land—including town property—and polls) for specific purposes. In the records of the county court—the so-called court of pleas and quarter sessions, the appointed county government in antebellum North Carolina—of Edgecombe County, we uncovered a run of annual data on total revenues for the 1840s. Edgecombe, in the coastal plain, was a commercially oriented agricultural county with a population about evenly divided between whites and blacks at the time. In the 1840s it did not appropriate money for common schools under the 1839 schooling law, and it consequently did not receive the matching (2 for 1) state funds provided for under that law. Its experience may therefore reflect the spending pattern of a typical eastern county before the era of com-

Table 16.7 Antebellum County Government: Sources and Uses of Funds (%)

Source and Use	Sample: Edgecomb County Revenue 1841–50	Edgecomb County, Tax Revenue 1857	81 Counties' Tax Revenue 1857–58
County purposes	55.9	45.3	46.0
Poor relief	32.4	38.1	20.2
Common schools		16.7	17.9
Jury			2.4
Railroad aid			5.6
Asylum for insane, deaf, and dumb			1.8
Public buildings			5.6
Patrol	8.0		0.4
Fines	3.7		
Total	100.0	100.1	99.9

mon schools. A little over half of the revenue was used for county purposes, mostly general governmental functions. The more interesting finding is the large proportion of county revenue gathered for poor relief, a pattern that, judging by our more extensive information on county tax levies (rates, not revenues), was fairly common throughout the antebellum era. In olden days North Carolina county government had few functions apart from providing *a* government, but it did look after the poor at public expense. What today would be termed "welfare" was a major item of county spending in North Carolina. Among the other items, the patrol function was a periodic one directed toward the slaves when the county fathers deemed it necessary to provide special surveillance, and it can be seen that fines were a small part of total revenue compared to taxes. Not accounted for in these financial data is the labor tax—days of road work required of able-bodied males—which remained a part of county activity until the end of the nineteenth century. The persistence of this tax, which possessed medieval, feudal roots, lends an element of incongruity to modern public finance. Little appears to be known about its relative importance in the aggregrate of resources commandeered by government.

By 1857 Edgecombe had adopted common schools and its distribution of spending and revenues at that date bears a resemblance to that of the large sample (81 of 85) of counties for which complete tax revenue data was published in the report of the state comptroller. Edgecombe in 1857–58 spent relatively more of its revenue than other counties on its poor. But even at that date, after the common schools were well established in North Carolina, the counties spent more of their revenues on poor relief than on education. This is not to deny

that in comparison with other southern states North Carolina was among the leaders in antebellum educational efforts—a point made by Albert Fishlow (1966)—but rather to put local spending priorities in perspective.

16.2.3 State Government, 1870s to 1920s

From the 1870s until the 1920s, the fiscal history of the state was relatively uneventful, apart from a large debt repudiation at the end of the 1870s (see below). Distributions of sources and uses of funds at 5-year intervals, 1872–1912, and for 1922 when the highway building program was underway, are reported in tables 16.8 and 16.9. Total receipts and disbursements for the indicated years are also given in the tables. After falling from 1872 to 1877, total receipts and disbursements grew steadily if unspectacularly to 1912, and then remarkably by 1922. The reader should keep in mind the totals when interpreting the percentage distributions; small decreases in the percentage for a particular category from one year to another may not have involved any decline in dollars received or spent. The same caveat applies to more substantial drops in the percentages for many categories between 1912 and 1922, when there was an approximate ten-fold increase in nominal receipts and disbursements of the state. Up to 1912 taxation provided most of the revenue, with a tendency for the general property and poll taxes (the latter were routinely turned over to the counties for education in this period) to decline and for taxes on business to increase as revenue sources. The main items of nontax revenue were the earnings of state institutions (mostly prisons) and investment earnings (mostly from the state's railroad holdings). The situation takes a dramatic turn in the 1920s; in 1922 fully two-thirds of state revenue was borrowed, mostly to construct highways. (Brown [1931] gives a good political account of the massive state highway program of the 1920s.)

Although tax structures are not a main concern of this research, it is worth noting at this point that in comparison with other southern states, political tensions over both tax structures and levels of taxation were relatively insignificant in postbellum North Carolina. One reason is that levels of state taxation and spending were low in the last three decades of the nineteenth century compared with previous years. The much higher levels of spending during the 1850s, the Civil War years, and the immediate postbellum years were financed to a great extent by debt, and the debt issues of those times were later repudiated entirely or in large part (see 16.4 below). In a sense, however, the same was true of other southern states, where tensions over taxation were nonetheless greater (see Wallenstein 1973; Thornton 1982). The lower tensions in North Carolina may be explained, I think, by antebellum differences between states in the relative importance of taxes on slaves and on land. In the antebellum years, North Carolina generally taxed

Table 16.8 State Government: Sources of Funds by Years, 1872–1922 (%)

Source	Year (Total Receipts in Thousands of Dollars)									
	1872 (700)		1877 (567)		1882 (769)		1887 (855)		1892 (1,225)	
Taxation	81.1		98.7		86.3		78.1		72.5	
General property and poll taxes		43.2		49.5		69.9		59.8		50.1
Specific business taxes		2.9		8.6		16.2		13.8		11.7
Excise taxes										
Income tax										
Special taxes		34.9		40.6		0.1		4.4		10.6
Nontax revenue	32.0		25.6		32.5		24.3		6.9	
Licenses and fees		0.2		0.7		2.9		7.4		2.4
Land sales				—[a]						
Penal and other institutional earnings		10.4		9.1		16.5		6.1		2.5
Investment earnings		17.7		11.4		9.9		7.9		1.8
Miscellaneous		0.6		2.0		1.0		2.6		0.2
Federal transfer		2.9				2.1				
Debt incurred			10.4						67.0	
	1897 (1,316)		1902 (1,924)		1907 (2,653)		1912 (3,414)		1922 (40,096)	
Taxation	67.9		64.0		67.3		75.5		26.1	
General property and poll taxes		41.8		36.2		34.1		39.8		5.0
Specific business taxes		18.2		18.9		22.9		28.2		4.6
Excise taxes										6.7
Income tax										5.5
Special taxes		7.8		8.7		10.2		7.3		4.3
Nontax revenue	32.0		25.6		32.5		24.3		6.9	
Licenses and fees		0.2		0.7		2.9		7.4		2.4
Land sales				—[a]						
Penal and other institutional earnings		10.4		9.1		16.5		6.1		2.5
Investment earnings		17.7		11.4		9.9		7.9		1.8
Miscellaneous		0.6		2.0		1.0		2.6		0.2
Federal transfer		2.9				2.1				
Debt incurred			10.4						67.0	

[a]Less than 0.1%; because of rounding, the figures do not always sum to 100.0%.

Table 16.9 **State Government: Uses of Funds by Years, 1872–1922 (%)**

Use	Year (Total Disbursements in Thousands of Dollars)									
	1872 (802)		1877 (638)		1882 (695)		1887 (892)		1892 (1,058)	
General government	51.5		57.2		34.1		36.6		34.0	
Administration		32.1		33.4		14.0		20.6		11.8
Regulation		0.6		0.7		0.6		0.5		1.7
Penal		18.4		22.7		19.0		12.6		18.8
Buildings		0.3		0.2		0.2		1.8		0.1
Defense		—[a]		0.1		0.2		1.0		1.5
Health and welfare	21.5		23.6		31.6		25.0		34.2	
Health		13.7		16.5		25.2		17.1		19.4
Welfare		7.7		7.0		6.3		7.8		14.7
Natural resources	0.9		0.8						1.3	
Social overhead	0.8		8.4		10.8		8.6		9.1	
Transportation		0.1		5.4		—[a]		—[a]		—[a]
Education		0.4		2.7		3.4		4.6		6.4
Agriculture		0.2		0.2		7.3		3.9		2.6
Miscellaneous		—[a]		—[a]				—[a]		—[a]
Financial investment										
Interest payments			9.7		23.3		29.5		21.0	
Debt paid	24.8									
Short-term		24.8								
Long-term										

(continued)

Table 16.9 (continued)

	1897 (1,364)		1902 (1,866)		1907 (2,818)		1912 (3,513)		1922 (35,123)	
General government	29.8		21.1		22.0		21.3		9.6	
Administration		17.0		8.2		10.6		10.8		2.3
Regulation		1.1		2.1		1.4		3.1		1.4
Penal		11.0		9.8		8.7		5.9		1.1
Buildings		0.1		0.3		0.5		0.3		4.6
Defense		0.5		0.6		0.7		1.2		0.2
Health and welfare	31.0		30.6		34.1		33.3		12.6	
Health		15.7		17.4		22.1		13.8		7.8
Welfare		15.2		13.1		11.9		19.5		4.8
Natural resources	0.8		0.2		2.9		0.8		0.2	
Social overhead	14.8		31.2		28.2		33.8		47.4	
Transportation				—[a]		0.3		—[a]		25.9
Education		10.6		26.9		23.7		27.2		20.2
Agriculture		4.3		3.7		4.1		6.5		1.0
Miscellaneous				0.5		—[a]		—[a]		0.3
Financial investment	—[a]		0.2				0.2		0.1	
Interest payments	23.3		16.3		12.3		10.6		2.5	
Debt paid									27.5	
Short-term										27.5
Long-term										

[a]Less than 0.1%; because of rounding, the figures do not always sum to 100.0%.

land at higher rates and slaves at lower rates than did the states of the lower South. As a result, North Carolina collected a considerably smaller portion of its revenue from taxes on slaves than did the others (Kruman 1983, p. 190; Thornton 1982). Hence, the end of slavery brought North Carolina fewer problems of tax structure adjustment in order to maintain a given revenue. Moreover, as tables 16.1 and 16.2 demonstrate, total state revenues, in both nominal and real terms, were lower in the 1870s, 1880s, and 1890s than in the 1850s and 1860s. For these reasons, there was less need in postbellum North Carolina to shift the burden of taxation from slaves to land than there was in other southern states.

State spending levels, although growing in both nominal and real terms, were not high before the 1920s; they ranged (see table 16.1) from an average of $0.50 per person per year in the 1870s to $1.38 in the 1900s and $2.71 in the 1910s. Within this rather constricted framework of state spending, health and welfare (a good portion of the latter being pensions for confederate veterans) and education (largely for colleges and universities) show rising shares.

16.2.4 County Sources and Uses, 1870s to 1920s

Property and poll taxes remained the overwhelming source of county tax revenues after the Civil War. In 1868 the state assigned its general poll tax to the counties for school purposes; although legally it was a state tax, de facto it was a county tax, and is so treated here. Table 16.10 indicates that financing schools became an increasingly important function of the counties from the inception of common schools in the 1840s until the early 1920s, when school taxes became more than half of all county tax revenues. The school tax share is modestly lower from 1901 to 1920 than it was in the 1890s because the counties were enacting special taxes for roads and bridges in these two decades. But, as table 16.1 indicates, real county tax revenues per capita were increasing at a rate of more than 3% per year from 1871–80 to 1911–20, so the small decline in the school tax share after the turn of the century

Table 16.10 **School Tax Share of Total County Tax Revenues, 1841–1923 (%)**

Period	School Tax Share	Period	School Tax Share
1841–50	14.6	1891–1900	43.5
1851–60	18.3	1901–10	37.6
1877–80	26.0	1911–20	40.0
1881–90	37.7	1921–23	52.3

Sources: School taxes, 1841–60, estimated as one-half of state expenditures for common schools since the state matched county school taxes $2 for $1. School tax revenues for 1877–1923 are given in the annual reports of the state auditor. Total county tax revenues are from appendix B.

is consistent with a steadily increasing educational effort throughout the postbellum decades. In the 1920s an educational spending boom at the county level, much of it for consolidated schools, went hand in glove with the highway spending boom at the state level. Improved roads facilitated transportation of students to the newer, larger schools that were opened in these years.

16.3 Municipal Finance

For most of the period on which this study is focused North Carolina was a predominantly rural state. As late as 1880 the United States Census classified only 3.9% of the state's population as urban. The census estimate rose to 9.9% in 1900 and 25.5% in 1930. The census urbanization estimates are far from perfect, but they point to two conclusions. The first is that public finance in North Carolina was virtually synonymous with state and county finance, the main subjects of this research, for most of the nineteenth century. The second is that the urban population began to grow quite rapidly toward the end of the century (in fact, using the census data, at 5.3% per year from 1880 to 1930), so that a thorough portrayal of state and local finance cannot ignore the municipalities from that time forward.

The revenue dimensions of municipal finance in North Carolina's state and local finance from 1860 to 1932 are indicated in table 16.11, which is based for the most part on census information. The data reported by the census are rough and not strictly comparable from one year to another. I believe, however, that in a broad sense they portray the trend of municipal revenues in North Carolina from the 1870s to the 1930s. The municipalities of the state accounted for about 10% of total state and local revenues in the 1870s and about 33% in the 1910s. If we add these factors to the estimates underlying the real growth rate calculations reported in table 16.3, the recomputed growth rate of total revenues (5.02% per year, 1871–80 to 1911–20, for the state plus the counties) becomes 5.49% per year for the state, counties, and municipalities combined. On a real per capita basis the growth rate rises from 3.38% to 3.85% of the same period. In North Carolina, a conservative southern state that prided itself—with the exception of occasional short bursts of active government activity—in limited government, the revenue measure of governmental growth yields a rate of almost 4% per capita per year from the 1870s to the 1910s. This rate very likely exceeded the state's growth rate of income per person, perhaps by a good margin. The economic, social, and political forces leading to the growth of governmental activity in these decades must have been strong indeed.

Table 16.11 Municipal Finance, 1860–1932: Selected Data

Year	Municipal Tax Revenue ($000) (1)	(1) as % of State and Local Tax Revenue (2)	Total Municipal Revenue Excluding Loans ($000) (3)	(3) as % of State and Local Revenue (4)
1860	2	0.2		
1870	228	6.1–9.7[a]		
1880	222	10.6–11.6[b]		
1890	315	9.8	409	12.7
1902			1,974	27.8
1912			4,473	30.3
1922			16,815	35.4
1932			37,333	30.2

Sources:
1860: *Statistics of U.S. Census, 1860*, p. 511.
1870: *Compendium of the Ninth Census.*
1880: 1880 Census, *Valuation, Taxation and Public Indebtedness.*
1890: 1890 Census, *Wealth, Debt, and Taxation*, pp. 409, 440. The municipal data are for units of 4,000 to 50,000 in population.
1902: 1900 *Census, Wealth, Debt, and Taxation*, p. 990.
1912: 1910 Census, *Wealth, Debt, and Taxation*, pp. 34, 81, 417. The revenue concept is "revenue receipts", excluding "nonrevenue receipts" (mainly borrowing). Municipalities are places with a population of 2,500 or more.
1922: 1920 Census, *Wealth, Public Debt, and Taxation. Taxes Collected*, p. 15. Municipalities include incorporated places and specified civil divisions.
1932: 1930 Census, *Financial Statistics of State and Local Governments*, p. 1260. The municipal data are for cities, towns, and villages, school districts (excluding county schools), and other civil divisions.
[a]The smaller percentage relates to total state revenue, the larger one to state tax revenue.
[b]The smaller percentage relates to my estimates of total revenue; the larger to the census estimate.

16.4 State and Local Debt

North Carolina's state debt in 1790 was some $713,000, of which about $400,000 was the unredeemed portion of $500,000 of state currency (bills of credit issued in pounds in 1783 and 1785) and the remainder consisted of certificates issued during the Revolution. The certificate debt was redeemed by 1810, and in the next 15 years most of the bills of credit were also redeemed (Ratchford 1932). The redemption of the pre-Constitutional state bills (further issues were prohibited by the Constitution) took place between 1810 and 1825, and was aided by the state's new money-issuing creatures, three corporate banks (New Bern, Cape Fear, and State Bank), which paid a part of their dividends owed to the state in the form of the old bills. The state then proceeded to burn the old bills, terming the operation a "disbursement" of public funds. It was one of the largest items of state expenditure in these years.

Burning old, pre-Constitutional money did little to reduce North Carolina's debt, however, because the state issued $262,000 of non-interest-bearing and non-legal-tender treasury notes in 1814, 1816, and 1823–in denominations of 5 to 75 cents to relieve the banks and others from a shortage of change. The notes were used to purchase additional shares of stock from the banks. Most of these treasury notes were redeemed by 1835, when the state incurred its first funded debt, $400,000 in 5% certificates, in order to buy stock in the new Bank of the State of North Carolina. This issue was redeemed (but held in the treasury) with $400,000 of the 1837 federal surplus distribution. Between 1838 and 1841, the state endorsed $1.1 million of the bonds of two railroads (the Raleigh and Gaston, and the Wilmington and Raleigh), and when the railroad companies defaulted in 1842, the bonds became in effect state debt (Ratchford 1932). Some were redeemed before 1850, and in that year the state debt stood as $1.055 million (see table 16.12).

In the 1850s a railroad mania swept over North Carolina. The state borrowed some $8 million to finance an east-west trunk route constructed by three separate companies with state aid. The Civil War brought railroad building to a standstill, but borrowing for war purposes greatly swelled the debt of the state. The war-related debt was entirely repudiated in the fall of 1865, forcing all of the banks in the state into liquidation. In 1868, the "carpetbagger" legislature issued bonds for a net nominal value of $13 million, ostensibly to continue the railroads, but these bonds sold for only some $4 million and only $1.9 million of this amount was spent on the projects, the other $2 million apparently disappearing into the pockets of legislators and railroad officers. Because the state was not paying interest, the debt including arrears expanded to nearly $45 million in the late 1870s. In 1879, the carpetbag debt was entirely repudiated and the remainder was "adjusted," at 15–40 cents on the dollar, down to $6.4 million (Ratchford 1932). At that time the net debts of the counties and other local governments were about $2.5 million, little changed from a decade earlier (see table 16.12).

The state debt changed very little during the three decades after 1880, but the municipal (1880s) and county (1890s) debts began to grow toward the end of the century, and to grow rapidly indeed after 1902. The state joined the counties and municipalities in the borrowing binge after 1912, and it led the way in the massive debt financing of highways and schools in the 1920s. Public debt per person in North Carolina, according to the census studies on which table 16.12 is in part based, ranged from 21% to 38% of the national average of state and local debt per person between 1880 and 1912. By 1922, it had jumped to 86%, and in 1932 it was 117% of the national average. State and local debt per person was rising everywhere between 1890 and 1932; the national average rose from $18.13 to $141.17 in these years. In North Carolina,

Table 16.12 Public Debt in North Carolina (Thousands of Dollars)

Year	State		County (Net) (3)	Other Local (Net) (4)	Total State and Local Debt (Net) (5)
	Total Gross Debt (Ratchford) (1)	Net Debt (Census) (2)			
1790	713				
1810	ca. 400				
1825	ca. 400				
1835	ca. 450				
1850	1,055				
1860	9,130				
1864	31,442				
1866	14,222				
1870	33,085	29,900	1,733	841	32,474
1878	44,732				
1880	6,385	5,707	1,525	963	8,195
1890	6,370	7,709[a]	1,514	1,900	11,123
1900	6,528				
1902		6,755	2,398	6,195	15,348
1912		8,059	7,049	19,236	34,344
1922		34,713	67,012	80,986	182,711
1931–32		164,534	158,859	209,354	532,747

Sources:
Col. 1: Ratchford 1932.
Col. 2: 1870, *Compendium of the Ninth Census,* p. 641.
1880, *Compendium of the Tenth Census,* p. 1583.
1890, 1902, 1912, 1922, *Wealth, Debt, and Public Taxation:* 1922, *Public Debt,* p. 15.
1932, *Financial Statistics of State and Local Governments,* p. 1260.

[a]The 1890 census appears to have counted some prerepudiation bonds that had been converted to lower postrepudiation bonds at their prerepudiation value.

the rise was from $6.87 to $164.84. In a sense, North Carolina's new deal arrived well before Roosevelt's.

16.5 Since 1930

The financial history of state and local government in North Carolina in most respects does not seem exceptional after 1930. Revenues and expenditures, after falling off in the Great Depression, rebounded by the late 1930s. State debt and local tax revenue, however, did not return to 1930 levels—even in current dollars—until the late 1940s. Table 16.A.3 presents the current dollar series for the period 1930–1977.

Real average annual growth rates of state receipts and local tax receipts, both total and per capita, for various subperiods of the years 1930–77, are presented in table 16.13. Two points suggested by these

Table 16.13 **Real Growth Rates per Year of Receipts in 1972 Dollars: Selected Periods 1921–30 to 1968–77 (%/Year)**

Decades	Real State Receipts	Real Local Tax Receipts	Real State Receipts per Capita	Real Local Tax Receipts per Capita
1921–30/1931–40	5.17	n.a.	3.55	n.a.
1931–40/1941–50	7.29	−1.15	6.04	−2.39
1941–50/1951–60	4.10	2.82	2.92	1.61
1951–60/1961–70	3.50	4.55	2.38	3.44
1951–60/1968–77	4.85	4.49	3.67	3.32
1961–70/1968–77	6.78	4.42	5.51	3.14
1921–30/1968–77	5.28	n.a.	3.99	n.a.
1931–40/1968–77	5.31	2.52	4.11	1.31

Note: Current dollar data from table 16.A.3 were deflated by the implicit price deflation for state and local government purchases of goods and services, available for 1929–77 (see *Economic Report of the President*, February 1984, table B-3, p. 225). Missing years in the 1930s were taken from the implicit price deflator, 1958 dollars, in *Historical Statistics of the United States* (1975), ser. F-70, p. 212, converted to 1972 dollars. For the 1920s, it was assumed that movements in implicit price deflator for state and local government services exhibited the same relative movements as the Warren-Pearson wholesale price index, so that the latter could be used to estimate the former years before 1929.

data are of some interest. The first is that growth rate of state receipts (and also of state expenditures—not shown here) is virtually the same from the 1920s to the 1970s as from the 1930s to the 1970s. The Great Depression and the New Deal had no noticeable effect on the long-term growth of state government fiscal activity in North Carolina. The second point is that local tax receipts grew much more slowly than total state receipts in these recent decades, and even grew negatively from the 1930s to the 1940s. The impact of the Depression and the New Deal, as Wallis (1984) has argued and the North Carolina data confirm, was not so much in the direction of increasing government's overall share in the American economy as in that of altering the shares of federal, state, and local governments. The federal share increased greatly, the state share increased somewhat, and the local share was greatly reduced. North Carolina follows this pattern. Wallis contends that the impetus for the shift in the relative importance of state and local governments came from the federal government. The New Deal agricultural and relief programs, for example, created incentives for state governments to grow, whereas local governments, if anything, were induced to cut back on their own financing of local governmental functions. It is my impression, based on the North Carolina evidence, that not all of the impetus for these changes emanated from Washington. In North Carolina, the state increased its reliance on income and sales taxes—taxes that are sensitive to trends in income and spending—while

local governments continued to rely for revenue primarily on the less sensitive property tax. The state also assumed—ahead of many other states—the obligation to finance elementary and secondary education, and it continued the emphasis begun in the 1920s on state-built and state-financed roads with state gasoline taxes. These changes resulted from initiatives within North Carolina; they were not merely responses to the incentives of New Deal programs.

Trends in sources and uses of funds—and in intergovernmental fiscal relationships—from 1942 to 1977 can be studied with the aid of table 16.14, based on materials from the census of governments. (The census data differ somewhat from the state and local data reported in table 16.A.3 because the census used a less comprehensive classification of revenue and expenditure than the receipts and disbursements data from state reports, and because of different treatments of debt and intergovernmental transactions.) A few observations based on the data contained in the table are warranted. The federal contribution to state and local revenues in North Carolina was negligible before 1930 (except for 1837); from 1942 to 1977, it rose from 7% to 27%. In 1930 and 1942, the state government raised and spent roughly twice as much as local (county and municipal government); by 1977, the state continued to raise substantially more revenue, but local governments ultimately received and spent much more than did the state. The federal largesse aided both state and local government, but primarily the latter: in 1977, local government financed 27% of total state and local government expenditures in North Carolina, but it spent 61% of the same total. The state financed 45% of the total, but spent only 39% of it. The remaining 28% of state and local financing of expenditures came from the federal government.

Looking at functional expenditures, the shares of education and health and welfare increased, those of highways and police, fire, and sanitation hardly changed, and that of interest payments fell. Part of the reason for the declining share of interest payments is that indebtedness grew much less rapidly than revenues and expenditures from 1942 to 1977, and also much less rapidly than it grew in the first three decades of this century when state and local governments in North Carolina borrowed a large part of their financial requirements.

16.5 Toward Interpretation

It may be a bit bold to generalize about the history of one's adopted state based on a study of its public finances. The purpose of this work is to reconstruct the long-term dimensions of the latter, as a prelude and perhaps a stimulus to further efforts along the same lines for other states, and—only then—serious comparison and interpretation. A sam-

Table 16.14 **State and Local Revenue, Expenditure and Indebtedness: Selected Years, 1942–77 (Millions of Dollars)**

Category	Years			
	1942	1957	1966–67	1976–77
General revenue	189	724	1,717	5,745
By type of revenue	14	118	312	1,558
From federal government	175	607	1,405	4,187
From own sources	159	503	1,129	3,275
Taxes	46	135	298	772
Property taxes	3	8	18	38
State	43	127	281	734
Local	114	368	831	2,503
Nonproperty taxes	110	361	823	2,347
State	16	208	439	1,129
Sales	23	98	287	986
Income	3	7	8	157
Local	15	103	276	912
Charges and miscellaneous				
By originating level				
Federal	14	118	312	1,558
State	117[a]	411	957	2,795
Local	57[a]	195	448	1,392
By final recipient				
State	125	321	739	2,459
Local	65	404	978	3,286
General expenditure	179	723	1,728	5,492
By function				
Education	45	295	805	2,405
Highways	14	151	278	499
Health and welfare	17	109	239	1,011
Police, fire, and sanitation	10	51	109	399
Interest	16	17	36	123
By expanding level				
State	114	408	696	2,136
Local	65	315	1,032	3,356
By financing level				
Federal	14	118	312	1,558
State	114[a]	374	914	2,472
Local	51[a]	231	502	1,462
Indebtedness	425	814	1,485	2,743
State	136	281	457	807
Local	296	533	1,028	1,935

Sources: 1942, "Revised Summary of State and Local Government Finances in 1942" Census State and Local Government Special Studies, no. 26 (June 1948); 1957, 1967, 1977, 1977 Census of Governments, *Historical Statistics on Governmental Finances and Employment*, p. 106.

[a]Estimate.

ple of one does not lend itself to compelling generalizations. Nonetheless, there are a few issues for which the findings here are pertinent.

In the 1940s and 1950s, a number of "state" studies, mostly by historians (e.g., Handlin and Handlin 1947; Hartz 1948; Heath 1954), argued that state governments played a decisive role in early nineteenth-century economic development, that laissez faire and the minimal state were ideas that had no real counterparts in United States history. One oft-cited review of this literature (Lively 1955, p. 81) said that the studies formed "a consistent report of economic endeavor in an almost unfamiliar land."

> There, the elected public official replaced the individual enterpriser as the key figure in the release of capitalist energy; the public treasury, rather than private saving, became the major source of venture capital; and community purpose outweighed personal ambition in the selection of large goals for local economies. "Mixed" enterprise was the customary organization for important innovations, and government everywhere undertook the role put on it by the people, that of planner, promoter, investor, and regulator.

In the 1960s and 1970s the pendulum of interpretation swung in the opposite direction as economists questioned the historians' conclusions and called for harder analysis:

> Was the social rate of return upon investments in certain areas higher than the private rate of return? . . . Did the government deliberately and purposefully invest in activities in which there was a significant difference between the private and social rate of return? . . . Was the magnitude of the social rate of return on government investment sufficiently large to make an appreciable contribution to the economy's rate of growth? (North 1966, pp. 100–101).

Doubts were raised about whether the affirmative answers given implicitly by the earlier studies of active state intervention would hold up under close scrutiny. Apart from a few successes (e.g., the Erie Canal), the states may actually have wasted a lot of the resources they directed into their improvement projects, and the debt problems of the 1840s—repudiation and so on—only transferred the burden of waste from taxpayers to bondholders (many of whom were foreigners).

North Carolina's experience lends some prespective to the issue debated by the historians and the economists. Before the 1850s, unlike the states of the "state" studies, its governmental activity, despite long-term growth, was quite modest, even when compared with a nearby state, Georgia, which also was an "original" state and had a similar land-based economy. Milton Heath's study of Georgia (Heath 1954, chap. 15), an "active" state, allows a comparison of per capita state spending levels with those of North Carolina. During the decades from

1801 to 1850, Georgia's spending levels per person were two to five times greater than North Carolina's. Did Georgia flourish under dynamic government while North Carolina languished? Or did North Carolina prosper with a minimal state government while Georgia wasted its citizens' resources?

Only suggestions toward answers can be made here, and the issues undoubtedly transcend public finance. Data do not exist to compare the pre-1840 income and product growth of Georgia and North Carolina, so other measures are needed. On the capitol grounds in Raleigh there is a statue of North Carolina's three native sons who became presidents of the Republic in its early history. They are Andrew Jackson, James K. Polk, and Andrew Johnson. Each left North Carolina in his youth to pursue his career and become president from another state, Tennessee. A more quantitative index of economic opportunity—perhaps—is population growth. In 1790, Georgia had 83 thousand people to North Carolina's 394 thousand. In 1850, Georgia had 906 thousand and North Carolina, 869 thousand. Richard Easterlin's estimates of per capita incomes by states in 1840 (Easterlin 1960) provide some additional evidence for that year; Georgia's was 88% of the United States average and North Carolina's, 78%.

Easterlin elsewhere (Easterlin 1975) shows agricultural income per worker by state and region for 1840. At United States prices, the North Carolina figure is 72% of the national average, the lowest of any state; the South Atlantic region as a whole came in at 81% and Georgia at 93% of the national average. One would be hard pressed, on the basis of such evidence, to make the case that limited government was associated with economic advancement in early United States history. Indeed, the verdict of North Carolina's historians (Lefler and Newsome 1973, p. 314) is quite the opposite: "During the first third of the nineteenth century North Carolina was so undeveloped, backward, and indifferent to its condition that it was often called the second Nazareth, the Ireland of America, and the Rip Van Winkle state." In looking only at "active" state governments, both historians and economists may have ignored a portion of the historical evidence pertinent to the issues they were debating from the 1940s to the 1970s—and continue to debate.

At the end of the 1840s, the common schools in North Carolina had been established for almost a decade and the state was ready to embark—belatedly—on its own internal improvement programs. The Civil War, reconstruction, and the return of quite limited government in the 1870s combined to undo much of the promise and progress of the 1850s. For example, when the state constitution's call for 4-month school terms conflicted with its limitation on combined state and county property and poll taxes, the state supreme court, in cases decided in 1870 and 1885, opted for low taxes and against education (Lefler and New-

some 1973, p. 537). Easterlin's estimates of personal income per capita by states (Easterlin 1957, table 4–1) show North Carolina at 37% of the national average in 1880 and 36% in 1900. The estimates imply economic growth because the nation itself was growing rapidly in these decades, but there was no decline in relative backwardness, which remained great as the new century dawned.

The twentieth century is a different story. Both the state and the local governments became more active promoters of economic development, and North Carolina's relative backwardness in the American economy declined considerably. The data of this paper document the former. The latter is apparent in trends of per capita income. Easterlin's per capita personal income estimates (Easterlin 1957, table 4–1) show a rise to 54% of the national average in 1919–21 and to 65% in 1949–51. The Commerce Department's estimates (United States Bureau of the Census 1963, p. 332; 1978, p. 449) show a rise from 48% in 1929 to 68% in 1950 to 85% in 1977. It is my impression, despite the finding that state and local governmental activity in real terms, both total and per capita, grew persistently throughout North Carolina's history, that for much of the nineteenth century it approached the political philosophers' concept of the "minimal state." In these decades—even in the antebellum prosperity that characterized many of the southern United States—North Carolina in relative economic development remained one of the most backward of all United States states. Early in the twentieth-century state and local governments assumed more active economic roles and enlarged fiscal responsibilities, and at the same time the state, from its relatively backward position, began to make impressive gains in economic growth and development relative to national averages.

Whether public finance and economic development are related to one another in any systematic way is, of course, still an open issue. And if they can be shown to be related, there is still the issue of the direction of causation. North Carolina's nineteenth- and twentieth-century experiences offer some food for thought on these matters. North Carolina's region, the South Atlantic (which contains the relatively "rich" states of Delaware and Maryland, as well as the District of Columbia) also gained on the national average per capita personal income in these years, with a rise from 66% in 1929 to 93% in 1977. These figures imply that North Carolina rose from 73% of its region's per capita income in 1929 to 91% in 1977. Evidence from North Carolina's history might thus allow one to advance the generalization that improved relative economic position and more active state and local governments went hand in hand. But comparable studies of other states will be needed, I think, before such discussions can advance beyond the initial stage of modest and tentative generalizations regarding gov-

ernment's role in economic development at the state and local levels in United States history.

Appendix
State Receipts and Disbursements, 1801–1930

The concepts of receipts and disbursements are comprehensive. Receipts include tax revenues, nontax revenues, and borrowing (including issues of near money). Disbursements include current and capital expenditures as well as repayments of debt (including the burning of money).

Basic sources of data were the annual reports of the state comptroller for the years 1815–67 (no report in 1865), and the state auditor for the years 1868–1930.

Before 1820, all receipts and disbursements of the state were from one fund. Beginning in 1820, one or more special funds with specially earmarked receipts or special expenditure purposes became part of the state's finances. The main fund was termed the Public Fund before 1906, when it was renamed the General Fund. In 1820 an Internal Improvement Fund was created; it lasted until 1847. The Literary Fund (for education) appeared in 1828. It became the Educational Fund in 1878, under which name it lasted well into the twentieth century even though by then it had become a small part of the state budget. An Agricultural Fund was in existence from 1828 to 1832. Today the General Fund and a Highway Fund are the two main components of state finance. The total receipt and disbursement data reported here combine the receipts and disbursements of these funds whenever more than one was in existence.

Receipts for the years 1801–14 are from Macon (1932, p. 70). Macon relied on reports of the Finance Committee in Senate Journals and reports of the Treasurer in House journals. Disbursements for 1801–14 are from Archibald Debow Murphey's (1819) "Memoir on the Internal Improvements Contemplated by the Legislature of North Carolina; and on the Resources and Finances of that State," as reprinted in Hoyt (1914, p. 173). Murphey was a state legislator and a leader of the early movement—largely frustrated—for a more active state government. His reported figures for 1815 and 1816 agree exactly with those of the auditor's reports for those years.

Fiscal years were November 1–October 31 prior to 1857. The 1857 fiscal year was November 1, 1856–September 30, 1857, 11 months. Fiscal years 1858 through 1882 were October 1–September 30. Fiscal year 1883 contained 14 months, October 1, 1882–November 30, 1883.

Fiscal years 1884–1920 were December 1–November 30. Fiscal year 1921 contained only 7 months, December 1, 1920–June 30, 1921. After 1921 fiscal years were July 1–June 30.

The state financial data located for this project convey an impression of great accuracy, being reported with a detail that included fractions of a cent, or, before 1816, fractions of a pence. But there are reasons to doubt that such accuracy in the small would carry over into the larger picture. The data for 1801–15 appear originally as pounds, shillings, and pence, the old North Carolina currency; these have been converted to dollars at the rate £1 = $2, the rate customarily reckoned at the time and fixed by law in 1812. But in the 1790s the rate was customarily £1 = $2.50, and some post-1800 transactions dealt with earlier moneys and debt instruments. Further, in the late 1820s when John Haywood, state treasurer from 1787 to 1827, died, a substantial shortage was discovered in his accounts; in the following years his estate paid back some but not all of this shortage. Finally, some of the North Carolina currency issues of the eighteenth century as well as some of the state's treasury note money issues of 1814, 1816, and 1823 were never presented for redemption or burning; these would show up in receipts in one period but would not be offset by disbursements in another. The remainder of these outstanding currency issues was declared to be null and void at the end of the 1840s.

To check on the accuracy of the pre-1860 data, I made use of an accounting identity involving reported receipts, disbursements, and cash balances. If the data are fully comprehensive and completely accurate, the receipts minus the change in cash balance (which could be plus or minus) would equal disbursements. The second column in the following table should be a column of zeros.

Decade (1)	Receipts − (Cash Balance) − Disbursements (dollars) (2)	Absolute Value of Col. 2 ÷ Disbursements (%) (3)
1801–10	$ −28,140	4.0
1811–20	−26,959	2.3
1821–30	160,693	11.5
1831–40	−109,035	2.6
1841–50	50,723	1.8
1851–60	18,337	0.1
	65,619	0.2

In general, the discrepancies as a percentage of total disbursements are small and decline over time. The striking departure from this trend is the 1820s when receipts less change in cash balance substantially

exceed reported disbursements. There was a large treasury note issue in 1823, and Treasurer Haywood's defalcation became known in 1827. The latter, at least, implied that some "disbursements" of earlier years were unrecorded, and that may account for the large discrepancy. Over the whole 6-decade period total receipts less change in cash balance exceeded total disbursements by some $65,000, a figure that is only 0.2% of total disbursements that were in excess of $29 million for the 6-decade period. One may conclude that, despite some unusual financial changes and events, the pre-1860 data on state finances are fairly consistent and accurate.

County Tax Revenues

Before the twentieth century, the county was far and away the dominant local governmental unit in a rural state such as North Carolina. The 1870 census reported city and town tax revenues of $228,351 for North Carolina, a year in which county tax revenues reported to the state were $868,478, a figure that does not include 15 nonreporting counties (some of which were large ones). At that date, then, county tax revenues were at least 4–5 times city/town revenues. Similar data for 1902 imply that county tax revenues were still about twice those of municipalities and other minor civil divisions. For most of the nineteenth century, local finance in North Carolina was essentially county finance.

Counties reported their tax collections to state authorities starting in 1856. The state comptroller's (and later the state auditor's) annual reports contain a page for each reporting county showing its state and county tax collections. The latter aggregated over all reporting counties are the county data reported here for years after 1855. They are incomplete, especially in the Civil War decade, because counties sometimes did not report at all, and sometimes reported only partial returns. The data are thus minimum estimates of county revenues; they are incomplete in some years, and they exclude revenues such as fees, fines, and so on. (Scattered data for a few counties before 1856 indicate that nontax revenues such as fines were not more than 2%–3% of total county revenues.)

The main challenge in reconstructing North Carolina's financial history was to estimate aggregate county revenues before 1856. The starting point was the discovery that the county tax base was identical to the major part of the pre–Civil War tax base of the state. All county tax revenues and most state tax revenues were derived from taxes on polls and land (rural land and town property). The same official, the county sheriff, was responsible for collecting the county's and the state's land and poll taxes, and for forwarding the state's share to the state treasurer in Raleigh.

Initially, I thought that the near identity of the county and the state tax base, and the availability of state tax revenue data from that base, would allow estimating county tax revenue by taking ratios of county tax rates to state tax rates and multiplying these ratios (year by year) by state tax revenues derived from that base. In principle, this seemed a promising solution. In practice, it proved difficult. North Carolina had more than 80 counties in the 1850s, and the tax-rate data had to be gleaned very laboriously from records of the county courts of pleas and quarter sessions. Not all of these records are available. Moreover, the counties did not levy just land and poll taxes; they levied these taxes for a variety of purposes: for general county purposes, for schools, for juries, for building specific buildings (courthouses, jails), for roads and bridges, for railroads, and for patrols to look after slaves. Not all counties levied taxes for all of these purposes, and few levied them year after year. Often they were special taxes to collect enough money, say, until the courthouse or jail was built, or until the slaves behaved themselves so that patrols could be disbanded. After some experiments with sample tax-rate data for several counties, I gave up on this procedure.

The alternative procedure employed here to estimate county tax revenues before 1856 is based on regression analysis. The procedure is akin to that employed by Davis and Legler (1966) who posited a relationship for the entire United States between local revenues and, as independent variables, state revenues, urbanization, and regional differences captured by dummy variables. Davis and Legler were not very confident about their estimates, which used census data for the entire United States at the end of the nineteenth century to estimate local revenues back to 1815. The method is intriguing, however, and one may well have more confidence in it when it is applied to data for an individual state in which the local (county) and state tax bases are virtually identical.

One of the earliest North Carolina comptroller's reports to give detailed county and state tax collections is that for 1858. Only three of 85 counties gave no returns, and a fourth was discarded because the returns were incomplete. For the remaining 81 counties there are reports of land, town property, and poll tax collections for both the county and the state. To allow per capita analysis, population for each county was estimated for 1857 by linear interpolation of 1850 and 1860 census population values (the taxes were levied for 1857 although not collected until 1858). Finally, the state was divided into four regions (Tidewater, Coastal Plain, Piedmont, and Mountains) to capture regional differences between the older and more commercially oriented East, and the later settled, less commercially oriented Piedmont and Mountain areas. The model estimated is

$$\begin{aligned}\text{county tax revenues} = {} & a_1 \\ & + a_2 \begin{pmatrix}\text{state land and poll tax} \\ \text{revenues per capita}\end{pmatrix} \\ & + a_3 \begin{pmatrix}\text{state town property tax} \\ \text{revenues per capita}\end{pmatrix} \\ & + a_4\,(\text{Tidewater dummy}) \\ & + a_5\,(\text{Coastal Plain dummy}) \\ & + a_6\,(\text{Mountain dummy}) \\ & + \text{error term}\end{aligned}$$

Specifying the town property tax as a separate variable was done, following the lead of Davis and Legler, to capture the effect of urbanization. It is a more refined variable than the census urbanization percentages by county or state, and it turned out to be highly significant. The constant term, a_1, is of course, essentially the Piedmont dummy, while a_4, a_5, and a_6 measure deviations of the other regions from the Piedmont.

The results of the 81-county cross-section estimation for 1857–58 are as shown in the unnumbered table below.

Coefficient	*t*-ratio	Significance Level (%)
$a_1 = 0.214$	2.17	3.30
$a_2 = 0.692$	1.85	6.77
$a_3 = 3.655$	7.02	0.01
$a_4 = 0.245$	4.20	0.01
$a_5 = 0.126$	2.47	1.60
$a_6 = 0.005$	−0.82	93.47
$R^2 = .62$	*F*-ratio = 24.45	Prob. $F = 0.001$

This cross-sectional relationship between county and state tax revenues for one of the earliest years when both types of data were reported was then used to estimate county tax revenues back to 1801. The transformed estimating equation for the whole state is:

$$\begin{aligned}\text{county tax revenues} = {} & .46\,(\text{Tidewater population}) \\ & + .34\,(\text{Coastal Plain population}) \\ & + .21\,(\text{Piedmont and Mountain population}) \\ & + .69\,(\text{state land and poll tax revenues}) \\ & + 3.66\,(\text{state town property tax revenues})\end{aligned}$$

The independent tax revenue variables in this equation are available from the state reports. The regional population variables are available for census years; annual intercensal estimates were derived from linear interpolation. Since the Mountain coefficient was insignificantly different from the Piedmont coefficient, the two were combined.

The results of the estimation indicate that urbanization was a highly significant determinant of county tax revenue; for every dollar the state collected from its tax on town property, the county collected about $3.66, ceteris paribus. The significance is statistical rather than historical, however; since North Carolina was a rural state, neither the state nor the counties collected very much revenue from the tax on town property. The land and poll taxes generated much more revenue for both state and county governments. The regional effects are as expected. Both land values and commercial activity declined as one moved from east to west in antebellum North Carolina, and this shows up clearly in the regional coefficients.

How much confidence can one have in time series estimates of tax revenues derived from a cross-sectional relationship from a later year? It is difficult to say. We know that the state land and poll tax *rates* were unchanged from 1817 to 1853. If the county rates in general were increasing in these earlier years, then it is possible that our relationship overstates tax revenues in the earliest years. The tax-rate data I have for several counties do not seem on balance to show much trend from 1800 to 1855, but if there is any trend it is an upward one. So tax revenues for the earlier years may be overestimated. On the other hand, one of the reasons tax rates rose may have been that citizens preferred to pay taxes when their market opportunities increased rather than to pay the old and persistent labor service "tax" by working on the roads, and so on. That would seem to be normal expectation. So even if monetary tax revenues are overestimated in earlier years, the estimates may not exaggerate to the same degree the tax *effort* of the counties.

Some more direct tests of accuracy or reasonableness of the county estimates are possible. Hershal Macon, recognizing that the county and state tax bases were largely the same, used sample county tax rate data to estimate that county tax collections were $185,000–$275,000 annually in the mid-1830s (Macon 1932, pp. 197, 364–65). My estimates are about $250,000 for those years. Macon's similarly derived estimate for 1852 was $296,000; mine is $304,000. Macon also surmised that total county expenditures were about $100,000 annually between 1776 and 1814; my tax revenue estimates are 1½–2 times this figure, but they could be consistent with Macon's average and a rising trend. A more precise test is to compare actual tax collections with the estimates

for a period when both are available—this being, to be sure, a period containing the year for which the estimating equation was developed. For 1856–60, my estimated total county tax revenues are $2,656,600; the reported figures total $2,633,800 for these 5 years. The estimates thus may not be far off, at least for much of the antebellum era. In the nature of the procedure, of course, they should be viewed as a smoothed series, not a portrayal of the tax revenue collected in each year.

The annual estimates for 1800–1860, and the actual reported data on county tax revenues for 1856–1930 are given in table 16.A.2.

State and Local Finance, 1930–77

Table 16.A.3 continues the state receipts and disbursements series of table 16.A.1 to 1977, and presents a more comprehensive series of local tax revenue, 1930–77, than the county-only series, 1801–1930, of table 16.A.2.

Table 16.A.1 **Receipts and Disbursements of the State of North Carolina, Fiscal Years, 1801–1930 (Thousands of Dollars)**

Year	Receipts	Disbursements	Year	Receipts	Disbursements
1801	47.0	57.7	1824	140.3	87.3
1802	50.4	82.9	1825	144.7	135.4
1803	55.2	57.7	1826	237.7	223.7
1804	60.8	62.1	1827	139.8	125.2
1805	57.3	83.5	1828	144.0	127.5
1806	55.3	64.0	1829	131.6	134.1
1807	58.2	61.3	1830	131.0	125.3
1808	58,9	61.6	1831	137.3	103.4
1809	57.0	90.4	1832	110.7	128.9
1810	64.1	74.2	1833	218.7	140.2
1811	64.9	68.7	1834	230.3	311.8
1812	61.7	56.5	1835	201.0	219.6
1813	83.3	80.0	1836	588.4	619.1
1814	97.3	115.8	1837	1,691.8	1,701.5
1815	153.2	123.4	1838	485.8	481.0
1816	170.6	142.9	1839	667.0	705.7
1817	141.0	127.0	1840	219.5	154.0
1818	209.9	206.6	1841	223.5	214.3
1819	147.0	126.0	1842	195.7	198.2
1820	136.5	121.0	1843	253.7	285.4
1821	152.4	193.7	1844	240.9	263.7
1822	146.8	126.7	1845	260.0	230.5
1823	139.0	119.4	1846	238.9	233.9

Table 16.A.1 (continued)

Year	Receipts	Disbursements	Year	Receipts	Disbursements
1847	300.8	282.7	1889	989	1,047
1848	248.3	246.4	1890	1,204	1,063
1849	480.1	453.3	1891	1,204	1,180
1850	286.1	341.0	1892	1,225	1,058
1851	414.4	451.8	1893	1,243	1,320
1852	504.1	410.7	1894	1,233	1,196
1853	1,952.4	1,704.3	1895	1,167	1,379
1854	1,417.4	1,775.4	1896	1,261	1,247
1855	2,598.9	2,526.7	1897	1,316	1,364
1856	1,557.0	1,427.9	1898	1,343	1,288
1857	2,457.4	2,394.7	1899	1,556	1,597
1858	1,735.4	1,870.1	1900	1,630	1,648
1859	2,547.2	2,201.9	1901	1,620	1,686
1860	3,949.7	3,863.8	1902	1,924	1,866
1861	3,703	3,906	1903	2,372	2,322
1862	13,563	12,411	1904	2,150	1,953
1863	18,405	17,095	1905	2,510	2,563
1864	7,535	7,148	1906	2,354	2,254
1865			1907	2,653	2,818
1866	1,958	1,850	1908	2,922	2,637
1867	2,254	2,109	1909	3,212	3,663
1868	1,947	2,056	1910	6,375	6,571
1869	8,721	8,855	1911	4,013	3,771
1870	3,892	3,658	1912	3,414	3,513
1871	788	823	1913	5,506	5,277
1872	700	802	1914	4,812	4,981
1873	523	607	1915	4,803	4,883
1874	711	505	1916	5,094	5,012
1875	522	599	1917	6,424	5,584
1876	566	582	1918	6,391	6,427
1877	567	638	1919	12,546	11,299
1878	546	539	1920	14,398	13,748
1879	558	582	1921	13,278	16,119
1880	553	497	1922	40,096	35,123
1881	760	676	1923	61,039	51,263
1882	769	695	1924	70,286	77,872
1883	995	945	1925	86,838	90,297
1884	1,472	862	1926	130,783	118,748
1885	386	801	1927	85,546	83,294
1886	843	1,180	1928	84,038	84,827
1887	855	892	1929	62,364	66,210
1888	722	826	1930	95,556	98,487

Table 16.A.2 **Tax Revenues of Counties in North Carolina, 1801–1930 (Thousands of Dollars)**

Year	Tax Revenue (Est.)	Year	Tax Revenue (Est.)	Year	Tax Revenue (Reported)
1801	168.1	1846	283.6	1891	1,607
1802	172.0	1847	287.4	1892	1,814
1803	175.0	1848	298.3	1893	1,681
1804	177.1	1849	300.7	1894	1,831
1805	179.5	1850	304.4	1895	1,805
1806	181.9	1851	309.1	1896	1,915
1807	184.2	1852	313.6	1897	1,894
1808	186.5	1853	317.1	1898	2,128
1809	188.8	1854	325.0	1899	2,145
1810	191.2	1855	406.1 (reported)	1900	2,351
1811	193.8	1856	450.9 (512.1)	1901	2,395
1812	204.9	1857	498.4 (490.3)	1902	2,733
1813	210.3	1858	502.4 (522.2)	1903	2,829
1814	215.7	1859	598.3 (544.4)	1904	3,424
1815	221.2	1860	606.6 (564.8)	1905	3,357
1816	229.1		(reported)	1906	3,694
1817	226.6	1861	680	1907	3,908
1818	232.3	1862	736	1908	4,567
1819	224.2	1863	1,451	1909	4,528
1820	226.7	1864	3,061	1910	4,959
1821	226.2	1865	n.a.	1911	5,205
1822	229.4	1866	n.a.	1912	5,553
1823	232.9	1867	363	1913	6,176
1824	236.2	1868	467	1914	6,929
1825	238.9	1869	n.a.	1915	7,354
1826	241.3	1870	868	1916	8,424
1827	243.6	1871	704	1917	8,593
1828	245.2	1872	893	1918	9,810
1829	247.8	1873	891	1919	10,649
1830	251.6	1874	1,098	1920	14,583
1831	250.5	1875	1,020	1921	17,276
1832	250.6	1876	1,143	1922	24,002
1833	250.6	1877	1,189	1923	26,484
1834	251.9	1878	1,349	1924	28,476[a]
1835	252.3	1879	1,252	1925	30,468[a]
1836	252.7	1880	1,310	1926	32,460[a]
1837	252.8	1881	1,235	1927	34,452[a]
1838	259.9	1882	1,286	1928	36,444[a]
1839	259.9	1883	1,372	1929	38,433
1840	260.9	1884	1,533	1930	37,326
1841	265.6	1885	1,614		
1842	268.5	1886	1,644		
1843	272.5	1887	1,525		
1844	276.2	1888	1,662		
1845	279.5	1889	1,626		
		1890	1,607		

[a]Estimate.

Table 16.A.3 State Receipts, Disbursements, Debt, and Local Tax Revenue, 1930–77 (Millions of Dollars)

Year	State Receipts	State Disbursements	State Debt	Local[a] Tax Revenue
1930	96	98	178	65
1931	80	85	179	62
1932	79	79	183	50
1933	79	80	182	46
1934	89	86	177	36
1935	123	118	171	36
1936	105	103	167	37
1937	121	114	162	38
1938	133	132	155	43
1939	145	142	153	43
1940	145	146	148	44
1941	157	149	142	45
1942	174	154	134	47
1943	187	191	126	49
1944	261	257	118	49
1945	403	392	110	49
1946	278	256	100	50
1947	410	386	91	56
1948	366	348	83	68
1949	633	577	76	79
1950	529	554	201	87
1951	773	750	287	91
1952	647	726	274	102
1953	615	675	263	110
1954	703	678	298	116
1955	876	909	296	120
1956	783	782	277	130
1957	1,011	999	261	139
1958	1,101	1,110	255	153
1959	1,029	1,047	254	162
1960	1,018	964	251	178
1961	1,098	1,059	244	196
1962	1,489	1,220	239	211
1963	1,302	1,281	220	226
1964	1,480	1,440	212	243
1965	1,461	1,423	193	262
1966	1,866	1,799	211	285
1967	2,087	1,915	323	310
1968	2,451	2,465	339	343
1969	2,466	2,390	361	388
1970	3,108	3,104	325	441
1971	3,395	3,358	415	493
1972	3,745	3,720	425	558
1973	4,160	3,993	394	640
1974	4,984	4,860	362	714
1975	5,932	6,062	404	804

(*continued*)

Table 16.A.3 (continued)

Year	State Receipts	State Disbursements	State Debt	Local[a] Tax Revenue
1976	6,506	6,621	564	871
1977	7,071	6,975	658	960

Source: State receipts, disbursements, and debt from *Annual Report* of the State Auditor, 1930–77. Local tax revenue data from Annual Report of the Department of Revenue, Reports of the Tax Commission and the Local Government Commission, and Reports of the Department of Tax Research, various dates.

[a]Local tax revenue is the tax revenue of counties, municipalities, and special districts. Small amounts of miscellaneous nontax revenue may be included.

Comment Lance E. Davis

Twenty years ago, as Sylla notes, two graduate students and I became interested in the history of the "public finances." After some very preliminary studies, we recognized that the topic was important; but we concluded that further progress involved delving into 50 state (and perhaps several hundred county) archives. Given budget constraints, we suggested a cooperative effort that, when completed, could yield a single national data set. With that suggestion we sat back to await the profession's response to our "call to arms." And wait we did—for 20 years. Professor Sylla has almost convinced me that the wait was worthwhile. He has done for North Carolina most of the work we outlined, and more besides. I find it very difficult to criticize a paper that sets out to accomplish a task that I have long said was most important and that does it as least as well as I could have done. The subject is by agreement (Sylla's and mine) an important one, the research has been done in a straightforward and intelligent fashion; and Sylla has all the data in his possession, so it is impossible to check on his sources (I personally have always felt that possession is one of the most profitable products of archival research).

Sylla has, however, sent me a list of what he thinks are his most important conclusions; so, if we cannot debate the quality of the work, we can at least argue about Sylla's ability to recognize its merit. Sylla summarizes his work as follows: "The paper is light on interpretation; what to conclude about one state will not be altogether evident until we have more states to compare. Personally, I found the more interesting items to be (1) the real growth rates (table 3), which seem to imply a steadily rising 'share' for government even in a 'backward' state, (2) the county resources devoted to the poor, always a large part

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of the antebellum county budget, and (3) the contrast between the nineteenth and twentieth centuries, both in government activities and economic growth" (personal communication, March 5, 1984).

This list certainly provides a partial enumeration of the most interesting findings, but it proves that Sylla is either falsely modest or unable to judge the total merit of his own work. The growth rates do increase, but the rate of increase is far from steady. A comparison of the period 1801–50 with the period 1871–1920, for example, indicates a change in the real rate from 2.08% to 3.38%. A slight temporal change (consider the periods 1801–60 and 1871–1930) has a major impact on the levels in both periods: both rates increase by more than 80%.[1] A potential consumer of Sylla's results will quickly recognize that the 1850s and 1920s were periods of particular interest.

A glance at his estimate of the composition of expenditures confirms the substantial transfers to the poor at the county level in the antebellum decades, but equally interesting is the very low level of educational expenditure in that period. It is interesting to speculate about the political structure that produced this result—one that so neatly captures at least California experience in the present decade. Again, we (he and I) can agree that a single state is not the basis for reliable extrapolations, and we can both bemoan the fact that within a state a single county may serve only slightly better, and Sylla's conclusions do depend on both. The former is the product of the state-by-state approach, the latter may be more serious. A weakness of the study is the lack of data on county expenditures; however, that is probably an archival, not an investigatorial problem. It may be that some of those records are still aging and molding in the basements of some county courthouses, although the voracious appetite of the North Carolina State Archives makes this unlikely.

The county data seem particularly important in light of Sylla's very suggestive findings of the relative importance of federal, state, and county government. He indicates that, over the entire 130 years, state expenditures averaged less than three-fifths of North Carolina's "share" of federal expenditures; but that county expenditures, while lower than the federal index, exceeded the state's by about one-fifth. This ordering, if it proves generally correct, should directly affect the design of future research into the public finances. Moreover, his comparisons highlight periods in which the state did exceed the federal and county averages; and those periods must have been important from the viewpoint of the North Carolinian historiography (they were associated with surges in transport development and the Civil War).

1. The ratio of the second estimate to the first is 1.89 for the earlier period and 1.81 for the later.

Nor is interest in the functional distribution of receipts and expenditures limited to welfare and education. At least two other features of North Carolina's fiscal experience are of interest. Throughout the state's history earnings on investments in private economic activities have made a substantial contribution to the budget. Between 1811 and 1860, they averaged almost one-quarter of total revenues, and even in the period 1882–1912 the figure appears to have been more than one-tenth. In the earlier period, finance and transport appear to have been the major recipients of the transfers that led to these returns; it would be interesting to know who the recipients in the later years were.

Between the years 1887–1912, penal institutions absorbed about 10% of the state's resources; however, over the same period those institutions contributed about 12% of the state's revenue. Given the current problems raised by the costs of maintaining large prison populations, we might conclude that we have had institutional technological regression over the past half a century. It would be interesting to know if these trends (welfare, education, business support, and penal) are the result of a deliberate fiscal policy or the unintended results of a policy of very low taxes and expenditure coupled with some minimal sustainable levels for some categories of activities.

Three other points made lucidly in the paper but omitted in Sylla's summary seem worthy of note. First, the postbellum period was marked by a rapid increase in educational expenditures. For a state that had no public schools before 1840, the later growth seems particularly impressive. From 1872 to 1892, state school expenditures were only one-fifth of the expenditures on prisons; near equality was achieved in the 1890s, and from then until World War I, the state spent almost three times as much on education as on incarceration. At the county level (to the extent that receipts are a good proxies for expenditures), it appears that the proportion of effort devoted to education doubled between the 1840s and the 1870s, and doubled again between then and the early 1920s.

Second, the trend toward increased government appears to have been reinforced by the rapid growth in importance of the state's cities. Almost nonexistent in the 1860s, they still accounted for less than 10% of governmental activity in the late nineteenth century, but for almost a quarter in the twentieth. Moreover, while the turn-of-the-century surge is dramatic, there does not appear to have been further relative growth in that sector between then and the 1930s. Third, given the proclivity of the state to default on its debt obligations, one might wonder about the speculative nature of governmental securities, a question of considerable interest to British investors in the late nineteenth century. While all these observations pose interesting questions for the history of North Carolina, their overall significance will emerge only as we are able to compare Carolina with other states.

Thus far, I have performed more as illuminator than as critic; however, some questions remain. The study suffers from a shortage of both county and municipal data: Can those gaps be filled? Since local tax data are more plentiful than expenditure figures, the scarcity raises a second question: Just how good are taxes as proxy for expenditures? And a third: The county revenues reported by Sylla for the years before 1855 are "statistical" rather than "historical" artifacts. He has estimated them from an 1856 cross-section of county and state taxes; and he acknowledges that the procedure may present some problems, particularly in the early years. The estimation technique, although based on a much sounder foundation, is similar to one employed by Legler and me some 20 years ago. At that time I felt about our estimates much like the Duke of Wellington is said to have felt about a particularly scruffy draft of recruits: "I don't know what effect these men will have on the enemy, but by God they frighten me."[2] Two decades have not allayed all my fears. Finally, on a much more trivial note, would an adjustment for the county labor-road tax have significantly altered any of the findings for the earlier years?

Sylla has largely eschewed generalizations, certainly a wise course given the limited scope of his data, but he does provide some interpretation in a very tentative fashion. In so doing, he reveals the potential fruitfulness of his public finance project. He shows how research of this kind should be able to resolve once and for all the laissez-faire versus government-as-entrepreneur controversy and, of even more general interest, the relation between government activity and economic growth. Sylla compares Georgia and its activist government with North Carolina and its passive one; and he contrasts North Carolina in the nineteenth century (a passive government) and the same state in the present century (when government was much more active). He concludes, with appropriate caveats, that economic growth and an active government appear to have gone hand in hand. He quite rightly admits that even if the conclusion is correct (and data problems make even that result far from a certainty), there are serious questions about the direction of the causal connection. What he does not point out, but what his paper demonstrates conclusively, is that the kind of "data grubbing" that he has effected is not a substitute for analysis, but it is a *necessary* complement to it—a proposition all too often implicitly denied by "new" economic historians.

In summary: How can a study be faulted when the state selected for analysis includes as a major expenditure an item old "bills" paid by the state's banks as dividends, "which the state proceeded to burn,

2. Ascribed—probably apocryphally—to various statesmen and commanders: to the Duke of Wellington, on a draft of troops sent to him in Spain in 1809; to William Pitt, on being shown a list of English generals to be sent out to fight the colonists, etc. See Evans 1968.

terming the operation a disbursement of public funds." How is it possible to criticize a scholar who, when faced by a need to find a proxy for a state's relative income, cites the fact that the three native sons of Carolina who went on to become president of the United States (Andrew Jackson, James K. Polk, and Andrew Johnson) all "left North Carolina in their youth to pursue his career and become President from another state." How can you criticize a finished piece of work—the product of a major research effort—whose author refuses to speculate about the nature of a Turner seascape from the fact that one piece in the jigsaw puzzle is entirely blue. One might, however, criticize the rest of the profession for not filling in the other pieces—there is almost certainly a ship out there somewhere, and it may be a Spanish treasure galleon.

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