

The Defects of the Articles of Confederation, Part 9

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Synopsis: In this ninth essay on the Articles of Confederation, the single most serious defect is discussed, namely the fact that Congress relied entirely on the states for operating revenue.

Every viable government must possess the means to fulfill its duties and to keep its promises. A national or federal government, whether it is a republic, aristocracy, or some other, naturally has the duty to manage the nation's defenses, engage in diplomacy, manage trade relations, and maintain a judicial system; all these must be paid for in some way or another. In the American system, the states likewise exercise many powers for which considerable revenue is required, and so on down to the local level. Our early history instructs us on one thing in particular with regard to finances: a government must have the financial means to execute its respective powers and duties. It cannot, in the long run, depend on another level of government for money; it will become captive to the interests and prejudices of the politicians and bureaucrats within the other government entity. A prime example of this principle is contained in the most serious defect of the Articles of Confederation: Congress, as the only federal power, was dependent entirely on the states for revenue. This disconnect caused a radical divergence between need and ability: Congress' needs were great, even after the war, but the states, attending to their own problems, soon found ready excuses not to meet their financial obligations to Congress. By the mid-1780's, Congress had neither credit nor credibility, and the thinkers of that time realized that Congress' lack of a revenue stream caused many other problems. If the states were to stay together, a more consistent federal government would be required, and that government must have its own independent revenue source.

At the beginning of the Revolutionary War, Congress assumed emergency powers to manage the war effort. Although the Articles of Confederation were proposed and debated from 1776 to 1778, they did not actually go into operation until the spring of 1781. Congress attempted to fund the war effort prior to the implementation of the Articles by three means: borrowing, issuing its own currency, and asking requisitions from the states. The first two will form the subject of the next essay, but the last will be considered here since it emulates so closely the provision in Article VIII of the Confederation:

Article VIII. All charges of war, and all other expenses that shall be incurred for the common defence or general welfare, and allowed by the United States, in Congress assembled, shall be defrayed out of a common treasury, which shall be supplied by the several States, in proportion to the value of all land within each State, granted to, or surveyed for, any person, as such land and the buildings and improvements thereon shall be estimated according to such mode as the United States in Congress assembled, shall from time to time direct and appoint. The taxes for paying that proportion shall be laid and levied by the authority and direction of the legislatures of the several States, within the time agreed upon by the United States, in Congress assembled.

Under this system, Congress allocated to each state a requisition, based on an estimate of the total value of land and buildings. The state was obligated to raise this sum by internal taxation, which was then to be forwarded to Congress. The system never worked as envisioned, and the proof of it lies in these facts. In the following, all amounts have been converted to Spanish milled dollars, a coin in common use at the time, which was reckoned at 386.7 grains of pure silver.

First, consider requisitions issued by Congress prior to the ratification of the Articles of Confederation:

22 Nov 1777: Congress issued a recommendation that the states raise \$5,000,000, apportioned according to population, to be paid in quarterly installments starting 1 Jan 1778 to pay the expenses for 1778.

5 Jan 1779: Congress issued a requisition to the states for SM\$15,000,000 for 1779. Congress passed additional resolutions urging the states to pay it on 7 Oct 1779 and 18 Mar 1780.

19 May 1779: Congress requisitioned \$45,000,000 from the states.

None of the above requisitions were ever paid. In fairness to the states, Congress was not acting under any constitutional authority, only as an emergency institution.

But the requisition system under the Articles, in which the states were obligated by the compact, did not fare much better:

30 Oct 1781: Congress issued its first requisition to the states under the Articles of Confederation for SM\$8,000,000.

4 Sep 1782: Congress requisitioned SM\$1,200,000 from the states, but did not require it be paid directly to Congress. The states were to use the revenue to pay down interest in their own states.

16 Oct 1782: Congress requisitioned another SM\$2,000,000 from the states.

18 Apr 1783: A standing annual requisition of SM\$1,500,000 was requested as part of resolution to give Congress the power to levy import duties.

27 Apr 1784: Of the \$SM8,000,000 requisitioned on 30 Oct 1781, SM\$1,436,511 had been received from the states. The states were credited with having paid the SM\$1,200,000 requisitioned on 4 Sep 1782 as it was for local interest payments. Of the requisition of 16 Oct 1782 for SM\$2,000,000, none had been paid. The request for the standing requisition of 18 Apr 1783 had been ignored. Congress decided to lower its expectations down to half of the original requisition of SM\$8,000,000, subtracted the amount paid, and accordingly requisitioned SM\$2,670,988 for 1784. This amount would meet the immediate minimal needs of the government.

27 Sep 1785: Congress requisitioned SM\$3,000,000 from the states.

31 Dec 1785: Of the original SM\$8,000,000 requisition of 30 Oct 1781, about SM\$1,600,000 had been paid by the states.

15 Feb 1786: The total receipts since 1781 amounted to SM\$2,457,987: a) from requisitions made between 1 Nov 1781 and 1 Nov 1784, SM\$2,025,089; b) from requisitions made between 1 Nov 1784 and 1 Jan 1786, SM\$432,898.

31 Dec 1786: Congress had received only SM\$500,000 of the money requisitioned from the states over the past two years.

In summary, ignoring the standing requisition of 18 Apr 1783 and the requisition of 4 Sep 1782, Congress had requisitioned \$13,000,000 from the states, but had received about \$2,525,000, which is a little less than 20%. This was clearly not a workable system; Congress could not meet its basic obligations (including paying the men in the army). Congress survived on borrowed money, usually at very high interest rates, because its credit and means were so bad.

During the debate leading up to the 15 Feb 1786 requisition, Congress issued a report by a committee consisting of Pinckney, King, Kean, Monroe, and Pettit, declaring that the Articles of Confederation were inadequate. It laid out several conclusions, two of which were: a) the requisition system of raising revenues had been a failure for its entire eight year duration; and b) the requisition system could not be relied upon in the future.

There were some proposals to alter the Articles to give Congress an independent revenue source by granting it a power to levy duties on imports. Twelve of the states agreed to it, but New York refused on the grounds that a general import duty levied by Congress would serve to weaken New York's position as a trade center. The persistent financial crisis and New York's intransigence, coupled with Shays' Rebellion, led to the calling of the Constitutional Convention in 1787.

James Madison wrote an undated paper near the end of his life in which he recounted this period as Congress and the nation as a whole suffered under this defect [1]:

"But the radical infirmity of the "Articles of Confederation" was the dependence of Congress on the voluntary and simultaneous compliance with its requisitions by so many independent communities, each consulting more or less its particular interests and convenience, and distrusting the compliance of the others."

This problem was resolved by the adoption of the U. S. Constitution, in which Congress was given power to raise revenue independent of state influence:

[Article 1] Section 8. Congress shall have the power to lay and collect taxes, duties, imposts, and excises to pay the debts and provide for the common defense and general welfare of the United States; but all duties, imposts, and excises shall be uniform throughout the United States.

[1] Jonathan Elliot, *Debates on the Adoption of the Federal Constitution in the Convention Held at Philadelphia in 1787, With a Diary of the Debates of the Congress of the Confederation; As Reported by James Madison*, Philadelphia: J. B. Lippincott & Co., 1881, Vol. 5, p. 112