

THE FISCAL CASE AGAINST STATEHOOD

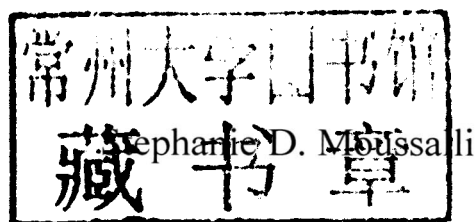
ACCOUNTING FOR STATEHOOD
IN NEW MEXICO AND ARIZONA



STEPHANIE D. MOUSSALLI

The Fiscal Case against Statehood

Accounting for Statehood in
New Mexico and Arizona



LEXINGTON BOOKS

Lanham • Boulder • New York • Toronto • Plymouth, UK

Published by Lexington Books

A wholly owned subsidiary of The Rowman & Littlefield Publishing Group, Inc.
4501 Forbes Boulevard, Suite 200, Lanham, Maryland 20706
www.rowman.com

10 Thornbury Road, Plymouth PL6 7PP, United Kingdom

Copyright © 2012 by Lexington Books

All rights reserved. No part of this book may be reproduced in any form or by any electronic or mechanical means, including information storage and retrieval systems, without written permission from the publisher, except by a reviewer who may quote passages in a review.

British Library Cataloguing in Publication Information Available

Library of Congress Cataloging-in-Publication Data

Moussalli, Stephanie D., 1953–

The fiscal case against statehood : accounting for statehood in New Mexico and Arizona / Stephanie D. Moussalli.
p. cm.

Includes bibliographical references and index.

ISBN 978-0-7391-6699-4 (cloth : alk. paper) — ISBN 978-0-7391-6700-7 (electronic)

1. Finance, Public—New Mexico—History. 2. Finance, Public—Arizona—History. 3. New Mexico—Appropriations and expenditures—History. 4. Arizona—Appropriations and expenditures—History. 5. New Mexico—Politics and government—1848–1950. 6. Arizona—Politics and government—To 1950. 7. Statehood (American politics—History. 8. State governments—United States—History. 9. United States—Territories and possessions—History. I. Title.

HJ2423.M68 2012

336'.01373—dc23

2011052030



TM The paper used in this publication meets the minimum requirements of American National Standard for Information Sciences—Permanence of Paper for Printed Library Materials, ANSI/NISO Z39.48-1992.

Printed in the United States of America

The Fiscal Case against Statehood

Acknowledgments

There are not many doctoral programs that would allow research as interdisciplinary as this. It was my great fortune to find one that did, at the University of Mississippi.

The accounting faculty unanimously agreed that I could pursue the topic (even those who thought it not very promising, an open-mindedness not to be found at some schools). My committee—Dr. Dale Flesher, Dr. Tonya Flesher, and Dr. Karl Wang—not only provided essential guidance but were enthusiastic throughout the long process. The Department of Economics was hugely supportive, allowing me to minor in that field and providing me with the indispensable outside member of my committee, Dr. William Shughart, II. The Department of History not only accepted but welcomed the oddity of an accounting candidate who wanted to minor in history; members of that faculty made numerous important suggestions. I believe it is an unusual experience for a dissertation writer to have the expert advice and consistent good will of scholars from so many diverse perspectives.

Librarians at the University of Mississippi, the National Archives, and numerous state archives made this work possible by locating enormous amounts of primary source material. Dr. Royce Kurtz, at the University of Mississippi library, advised me at every stage and was unfailingly generous with his time and knowledge. Julie Doub, Rhodes College undergraduate *extraordinaire*, wrestled innumerable citations into shape so I could work with them. Finally, and far from least, my fellow doctoral students listened with good humor and patience for more than three years as the study developed through numerous versions.

I am also very grateful for the funding I received while working on the dissertation. The Graduate School of the University of Mississippi funded two

terms of research; the Graduate Student Council paid for a trip to the National Archives; and the Graduate School, the Patterson School of Accountancy, the Government and Nonprofit Section of the American Accounting Association, and Dr. Barbara Merino of the University of North Texas provided travel monies that allowed me to present parts of this work at various conferences while still a student.

Weaknesses remaining in the book despite the generosity and attention of all of these people are due to my failures.

Chapters 1, 5, and 12 and figures 4.1, 5.1, 5.2, and 5.3 of this book contain material that appeared in a different version in *Public Choice*, vol. 137, 2008, pp. 119–126, “The Fiscal Effects of Statehood: New Mexico and Arizona, 1903–1919.” Reprinted by kind permission of Springer Science and Business Media.

Chapter 6 of this book contains material that appeared in a different version in the *Accounting Historians Journal*, vol. 35, no. 1, 2008, pp. 167–195, “State and Local Government Accounting in 19th Century America: A Review of the Literature.” Reprinted by kind permission of the Academy of Accounting Historians.

Contents

List of Figures	vii
List of Tables	ix
Acknowledgments	xi
Introduction	1
Part I: The Money	
1 Statehood and Leviathan	7
2 New Mexico's Rocky Fiscal Road to Statehood	19
3 Arizona's Rocky Fiscal Road to Statehood	33
4 The Statehood Gamble	45
5 The Birth of Leviathan	49
Part II: The Books	
6 Accountability and Statehood	63
7 The Talk: Management's Discussion and Analysis	83

8	Accountants at the Service of the State: Reforming Property Tax Administration	105
9	Funds, Assets, Liabilities, Fiscal Years, and Report Timing	131
10	Interfund Transfers, Federal Subsidies, Revenues and Expenditures, Tax Rates, and Budgets	151
11	The Elements of Accountability	171
	Conclusion: Statehood and Accountability, Leviathan and Accountants	177
	Appendix	187
	Bibliography	199
	Index	215
	About the Author	221

List of Figures

Figure 1.1	Leviathan dynamic of statehood	11
Figure 1.2	Hypothesized change in relative fiscal burden as government changes from territory to state	12
Figure 4.1	Total adjusted-to-true property values, New Mexico, Arizona, Nevada, 1880–1930	46
Figure 5.1	Relative fiscal size of government (F-RevA), New Mexico and Arizona, 1903–1919	50
Figure 5.2	Relative fiscal size of government (F-RevA), Nevada, 1902–1919	51
Figure 5.3	F-GNP (ratio of own-source collections to GNP), New Mexico, Arizona, and Nevada, 1902–1919	53
Figure 8.1	Percent of total property assessments by property class, New Mexico, 1911–1919	108
Figure 8.2	Percent of total property assessments by property class, Arizona, 1911–1919	111
Figure A.1	Relative fiscal size of government (F-RevA), New Mexico, Arizona, Nevada, 1883–1930	193

List of Tables

Table 7.1	Narrative Text Similar to Management's Discussion and Analysis, 1880s–1930	86
Table 8.1	Percent of Total Receipts by Source and State, Selected Years	117
Table 8.2	Published Assessments and Estimated Full Values of property, New Mexico, Arizona, Nevada, 1880–1930	118
Table A.1	Determinants of Relative Fiscal Size in New Mexico, Arizona, and Nevada	192
Table A.2	Data Series for New Mexico's Fiscal Ratios, 1890–1930	194
Table A.3	Data Series for Arizona's Fiscal Ratios, 1883–1930	195
Table A.4	Data Series for Nevada's Fiscal Ratios, 1883–1930	196

Introduction

“[T]he amount we require being small, [New Mexico] will be the lowest-taxed sovereign State in the nation,”¹ declared New Mexico statehood promoters to Congress in 1901. The promoters were actually continuing an argument with their fellow New Mexicans, who had voted statehood *down* by a two-to-one margin just a decade earlier. Miguel Otero, future governor, had opposed statehood too at the time because he “notice[d] all the politicians on both sides favor statehood, and all the business men and tax payers on both sides are not in favor,” at least in 1890 when the election was held.²

It is not a widely known fact that many residents of American territories oppose statehood on the grounds that the new state government will be too expensive. I, for one, didn’t know it until I was conducting research for my history master’s thesis in the 1980s. In all six of the southern territories I studied, there was significant opposition to statehood within the territory, usually for fear of its expense.

Intrigued, I checked the secondary literature to see what scholars of statehood had to say about the phenomenon. Most of them didn’t mention the pattern at all. An exception is Peter Onuf, whose study of statehood notes that in the past, fiscal policy often sparked territorial opposition to statehood. Residents feared the increased taxes and unrestrained spending they believed the change would bring.³ Onuf thinks opponents exaggerated the costs, however.⁴

I was curious about this local opposition to statehood, but had neither the time nor the skills to determine whether the historians or the territorial residents were right. Decades later, though, I decided to tackle the question for my dissertation in accounting at the University of Mississippi. This book is a re-written version of that dissertation, with the addition of some subsequent research.

Roughly, I wanted to know two things for the dissertation:

1. Does statehood increase the fiscal burden of government?
2. Does statehood improve the government's accounting for its use of the public purse?

As best as I can tell, the answer to both questions is yes. There is a Leviathan dynamic of statehood, and it includes better accountability on the part of the new state. One of the purposes of this book is to present the evidence for these conclusions.

While no prior study has tried to answer these questions, several observers have noted cases when a government simultaneously increased its power, fiscal size, and financial accountability on the occasion of war or the establishment of a post-revolutionary government.⁵ This work adds statehood to the list of events that can lead to the same mix of changes.

I want to emphasize at the outset that this evidence does not address the efficiencies with which territories and states supply public goods and other government services. Instead, it is the first systematic test—albeit a limited one using only two subject governments—of the claims of the opponents of statehood that the loss of territorial status would bring substantial increases in the tax burden. Whether the provision of additional public goods and services that came with statehood justified the heavier state tax burden remains an open question, one on which readers will differ.

A second purpose of the book is to tell the story of how fiscal politics affected the history of some specific new states. I chose New Mexico and Arizona, which became states in 1912, near the end of the period when most American states joined the union. The financial records for their governments were easier to obtain than the records of the nineteenth century's new states. To make sure that the changes I found were not just due to national or regional trends, I used a control—Nevada, which had been a state for a long time by 1912. The book thus tells fiscal policy stories about three Western states from the 1880s to the 1920s.

I also hope the book will convince some people that accounting is *not* as dull as they think it is. Much of human history, even in recent centuries, is recorded only in the accounts. People often say one thing but do something else. Government accounts record what politicians *do*, whereas our histories sometimes rely on what they and others *say* about what they do. This book is based on what the accounts show happened when two governments made the transition from territory to state.

So part 1 of the book, "The Money," describes what I call the Leviathan dynamic of statehood as it occurred in New Mexico and Arizona, including

the fiscal tensions between the territories and the national government. Then, analysis of the data series I created from those governments' financial statements shows what happened to the size of government, both before and after statehood. Part 1 is based on public choice economic theory.

Measuring fiscal behavior requires close examination of the government accounts of a set of territories and the succeeding states. Fortunately, the detailed data often still exist to be examined because state and territorial governments in this country have always been required to publish such information.

It is one thing, however, to put fiscal accountability into the law, and another thing actually to make the information accessible, consistent, and useful. Over the course of American history, the many state and local governments have differed widely in their accounting practices, in the degree to which they made the accounts public, and in their efforts to preserve the records. Comparing information across those governments lies in *terra incognita* for any period much before World War II. No nationally accepted formal accounting standards existed, and little prior research has been done on the informal development of state and local government accounting practices.

Thus, part 2, "The Books," deals with how the governments of New Mexico and Arizona (and Nevada) changed their accounting from the 1880s to the 1920s. This section includes many specific examples of what the governments were doing in those days. It is oriented around questions of accountability, and is largely written as accounting history.

This book will, I hope, interest accounting scholars as an examination of changes and the causes of changes in American government accounting techniques from the 1880s to the 1920s. Economists may be interested in its test of public choice theory; scholars of public administration in the differences in the "technologies of government"⁶ between territorial and state governments; legal scholars and political scientists in the book's exploration of a key phenomenon of the U.S. federalist system—statehood; and historians in the controversial conclusions it draws about the range of local opinions and government actions when a territory becomes a state.

Like most Americans today, I see statehood as a Good Thing. I agree with the North Carolina representative who declared, in the congressional debate over Louisiana statehood in 1811: "I never would have consented to have taken [the Louisiana Purchase] to have kept [its people] in territorial government forever. I do not want provinces."⁷

But I learned something about a different and important point of view in doing this research, and I now think the question is more complex. As the people of New Mexico and Arizona celebrate the centennial of their statehood, they, and the rest of the nation, may be curious to know the story of why some of their forebears thought it was a *bad* idea.

In short, anyone who is interested in a contrarian historical example of how the American system of government works at the state level may enjoy this story.

NOTES

1. *Admission of Oklahoma*, HR 12543, 57th Cong., 1st sess., *Congressional Record* 35, part 5 (May 7, 1902) [Petition from convention held in Albuquerque on October 15, 1901]: H 5136.

2. Dargan, "New Mexico's Fight," 24. Otero refers to his early opposition on the grounds of poverty in *My Nine Years*, 200. See also Welsh, "Star," 36.

3. Onuf, "Territories and Statehood," 1284, 1298. See also Bakken, "Rocky Mountain," 6.

4. Onuf, "Territories and Statehood," 1283, 1284; Onuf, "New State Equality," 1988.

5. Brownlee, *Federal Taxation*; Daunton, *Trusting Leviathan*; Ezzamel, "Accounting Working for the State"; Peterson, "Why It Worked."

6. Miller, "Accounting and the State," 315–338.

7. *Annals of Congress*, 11th Cong., 3rd sess., 505.

THE MONEY

Statehood and Leviathan

The Treaty of Guadalupe-Hidalgo between the United States and Mexico (1848) declared that the Mexican-American inhabitants of the newly acquired lands “shall be incorporated into the Union of the United States, and be admitted at the proper time (to be judged of by the Congress of the United States) to the enjoyment of all the rights of citizens of the United States. . . .”¹ But the “proper time” for states to join the union from the new southwestern lands varied by more than half a century, from 1850 (California) to 1912 (Arizona and New Mexico). Why the difference in dates? What determined when a new state was created?

The usual answer to that question is that national politics controls the timing of statehood. For example, when Nevada was admitted in 1864, a key factor was Civil War politics; the Union wanted to admit new pro-Union states if at all possible.² So Congress granted statehood to Nevada when it had only about 21,000 to 40,000 inhabitants, many of them transient miners.³

This was fewer people than any other state except perhaps Illinois had when it entered the Union,⁴ fewer than the next smallest state had at the time (67,460 in Oregon),⁵ fewer than the 60,000 originally suggested in the Northwest Ordinance for statehood,⁶ and far fewer than the 122,614 people then required for adding a congressional representative.⁷ As historian Peter Onuf dubbed it, Nevada was the Union’s “rotten borough.”⁸ National politics, and Nevada’s role in those politics, trumped other concerns in timing statehood.

The congressional fight over admitting a new state, often dramatic, captures most historiographical attention.⁹ But national politics is not the entire story. Territorial politics plays a major role, too, because the people of the territory must vote for statehood before the new state can be created. And at the territorial level, the argument turns primarily on fiscal questions—who