

Surplus, Federal (1836) ^[1]

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by Benjamin R. Justesen, 2006

See also: [Literary Fund](#) ^[2].

Distribution of the U.S. government's surplus revenue in 1836 helped inaugurate an era of unprecedented development in North Carolina, particularly in the realm of [public education](#) ^[3]. Although the \$1.5 million distributed in the state may seem small by modern standards, it was an unexpectedly generous sum in 1836. Its proceeds transformed the moribund [Literary Fund](#) ^[2], established a decade earlier, into a nearly inexhaustible source of revenue for local schools, lasting until the end of the [Civil War](#) ^[4]. On a political level, the surplus ushered in more than a decade of [Whig](#) ^[5] political supremacy in North Carolina, coming after a lengthy battle on the national level between [Democratic](#) ^[6] president [Andrew Jackson](#) ^[7] and his congressional opponents, the Whigs, led by Henry Clay.

In 1833 Jackson had vetoed an earlier distribution bill that sought to return federal funds from the sale of western lands to the states after the national debt had been repaid. But the issue refused to die, and Jackson was forced to accept the compromise bill of 1836. By then even Democrats, while distrustful of federal encroachment on [state rights](#) ^[8], were clamoring for the revenue to reduce [state taxes](#) ^[9] and pay off the state debt. In some states, however, the more progressive Whigs successfully advocated use of the money for [internal improvements](#) ^[10] (primarily [railroads](#) ^[11] and [swamp](#) ^[12] drainage) and state aid to public education. In North Carolina, Whigs engineered a legislative compromise that kept \$100,000 for state operating expenses but devoted the remainder to purchasing bank stock (\$600,000) and railroad securities (\$533,000) and financing internal projects, such as swamp drainage (\$200,000). The stock and securities were assigned to the Literary Fund, where the accrued dividends allowed annual financing for the state's first "[common](#) ^[13]," or public, schools.

The distribution proved an immediate bonanza for two unfinished railroads—the Wilmington & Raleigh (later renamed the [Wilmington & Weldon](#) ^[14]) and the Raleigh & Gaston—that had run out of private construction funds before the state took up their cause. Despite strong opposition from Democrats, the Whigs soon committed \$500,000 of the Literary Fund's new money to the 161-mile Wilmington-Weldon system, which in 1840 was the world's longest. Also in 1840 the Raleigh & Gaston Railroad was completed after the legislature agreed to endorse its bonds. The state would eventually commit more than \$1 million to the Wilmington-Weldon line, which began paying dividends after 1850. The failing Raleigh-Gaston line, which the state was forced to buy in 1845, proved less lucrative. Meanwhile, the swamp-drainage project was ineffective and the investment considered almost a total loss; the Literary Fund paid out \$200,000 to drain [Mattamuskeet](#) ^[15], Pungo, and Alligator Lakes and open savanna lands in [Carteret County](#) ^[16], but it saw no return on its investments.

It was the public schools that benefited most from the Literary Fund's expenditures after 1836. The public school law of 1839 permitted an annual expenditure by the fund of \$40 for every school district in the state; this raised an additional \$20 in taxes and supplied a school building for at least 50 white pupils. By 1840 [Rockingham County](#) ^[17] voters had authorized the first free common school in the state; within six more years, every county had at least one public school. More than 100,000 children were enrolled in 1850, when 2,657 individual schools were in operation. The Literary Fund, which boasted more than \$2 million in 1850, remained solvent until 1865, when poor investments and the postwar financial collapse virtually wiped out its capital.

For all its limitations, the experiment in federal revenue sharing was more successful in North Carolina than in other states, where speculators and unwise investments quickly used up the distributions. Although the surplus distributions were theoretically issued as loans to the states, they were never required to be repaid; many states expected the federal largess to continue indefinitely, but for political and economic reasons, this did not occur. The next attempt at federal revenue sharing did not occur until the 1970s, more than a century later.

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