

Indeed by 1813 the state appeared to be in such good fiscal shape that its government was able to function, to a large extent, from interest earned on investments without the need of direct taxation.¹⁰

The legislature was, of course, anxious to perpetuate this ideal state of affairs and thus searched for a dependable source of revenue that would permit the government to continue to operate without direct taxation. Its eye soon focused on the indirect taxation of corporations holding state charters.

Corporations were, and for some years had been, natural prey for the General Assembly; they owed their birth, their powers, their privileges, and often their continued existence to the legislative will. There was no general incorporation law at the time. Corporate charters were issued on an individual basis by the General Assembly, and they often contained special conditions intended to benefit the state. As Hugh Sisson Hanna points out, "The principle was definitely formulated that all corporations enjoying special privileges from the state—such as canal and road companies—should be compelled to make a return for such privileges."¹¹

This type of *quid pro quo* was often a continuing one. In many cases the corporate charters issued by the legislature were for fixed periods; unless renewed by that body they simply expired. Thus every ten or twenty years these corporations had to go back to Annapolis and pay whatever price the General Assembly demanded for their continued existence.

How the legislature implemented this general policy can be seen by looking at the early banks chartered in Maryland. It was not at all uncommon, for example, for the original charters to require the banks to set aside a sizable portion of their capital stock for purchase by the state. In the case of the Farmers Bank, the state, through the original 1804 charter, reserved an option to purchase up to one-third of the stock, and it eventually exercised that option.¹² Bank charters, moreover, were among those that had to be periodically renewed, and a number of them were due to expire in 1815. There was by then considerable opposition to banking institutions and thus some sentiment not to renew the charters.¹³

The General Assembly was more perspicacious, however. Instead of allowing the charters to expire, it extended them for an additional twenty years provided the banks agreed (1) to pay a new tax on their capital stock, the proceeds of which were dedicated to the establishment of the public schools, (2) through their directors to form a corporation to build a turnpike from the Big Conococheague River to Cumberland, and (3) to fund that enterprise through subscriptions to the stock of the corporation. What the legislature thus did, at the price of renewing the charters, was to finance both the building of an important road and the development of a public school system—without imposing a direct tax on the people. Through these various devices—the investment

10. Hanna, *Financial History of Maryland*, pp. 20-22. Hanna, p. 41, states that "Maryland had practically realized the millennial condition of a government supported without taxation. Absence of taxation of revenue legislation was the mark of the first quarter-century of the state's history."

11. *Ibid.*, p. 35.

12. See John Wirt Randall, *The Farmers National Bank of Annapolis, Formerly the Farmers Bank of Maryland* (Baltimore: Lord Baltimore Press, 1905), which was compiled at the direction of the board of directors of the bank to commemorate its centennial year. See also Acts of 1805, res. 1 (directing the treasurer to apply \$200,000, repaid to the state by Washington, D.C., to purchase Farmers Bank stock); 1807, res. 6 (directing, among other things, the purchase of \$80,000 in Farmers Bank stock with surplus money); 1808, res. 12 (directing subscription to 1,400 shares of Farmers Bank stock). The purchase of bank stock was somewhat of an anomaly, since the legislature was extremely wary of banks and, indeed, actually forbade the state to deposit any of its funds in a bank or to purchase any bank notes. See, for example, Acts of 1804, res. 9. Randall, *Farmers National Bank*, p. 20, describes the purpose of this prohibition as follows: "One of the matters that seemed to have awakened grave anxiety during that session, on the part of the General Assembly, was the apprehension lest some one or more of the four banks . . . should get on deposit some of the State's good hard cash, which when it had any, all during those early days, was wont to be kept locked up in the two big iron chests, which constituted the actual places of deposit of the state's money and which you may still see in the State Treasury at Annapolis with the ledgers stating accounts, not with such and such a bank, but with *Iron Chest*."

13. Hanna, *Financial History of Maryland*, p. 34; Randall, *Farmers National Bank*, p. 20.