

Crop Insurance Corporation, Federal

The government-owned and -operated Federal Crop Insurance Corporation (FCIC) was created in 1938. Under the Department of Agriculture Reorganization Act of 1994, the FCIC will be eventually merged with the proposed Agriculture Service Agency. The FCIC offers all-risk crop insurance to cover unavoidable losses owing to insects, adverse weather, floods, plant disease, fire, and earthquake. The coverage extends to more than fifty agricultural commodities. The federal government subsidizes thirty percent of the premiums through the sixty-five percent coverage level. The corporation's administrative costs and agent commissions are paid by congressional appropriations.

—GEORGE THOMAS KURIAN

Customs Service



As a function of government, the work of customs services spans the history of the American experience from colonial times to the present. Historically, it can claim status as the first national government pro-

gram with a local presence, and in several areas (e.g., public health, immigration, consumer protection) it was the administrative forerunner of other major federal agencies. Furthermore, its shifting roles and operations reflected the changes that took place as America evolved from a colonial settlement to a world power. Administratively, it often found itself at the center of criticism and the object of the latest push for reform and reorganization. In many respects, the administrative history of the American customs services is a history of American public administration.

THE COLONIAL EXPERIENCE

Customs took two forms during the colonial period. First, it existed as a fundamental part of British colonial policy; second, it played a central role in financing the operations of colonial government.

As British policy, the beginning of customs services in America was a product of the mercantilist mentality that fostered colonial settlement. The collection of customs duties was established as policy for the Colony of Virginia by the British Privy Council in 1621. Seeking the greater advantage for "his Majesties subjectes," the council ordered that "henceforth all Tobacco and other commodities whatsoever" should not be exported "into any forraine partes until the same have been first landed here and his Majesties Customes paid therefore." Collection and enforcement in the colonies was under the jurisdiction of the colonial governors, who, until the 1670s, received an annual salary for their work overseeing the collection of these earliest duties.

The Navigation Acts of 1660, 1663, and 1673 enhanced mercantilist efforts to restrict the commerce of the colonies to England's benefit through the application of customs regulations and duties. The act of 1660 limited all trade to English shipping and specified certain key commodities—for example, tobacco, sugar, cotton—that could only be shipped to England or its colonies. The 1663 act required that all shipments to the colonies must be transited through England, and the 1673 law added a "Plantation Duty" to be paid on each measure of enumerated commodities such as tobacco.

Poor enforcement of these various acts and general suspicion of the colonial governor's collection efforts led Whitehall to appoint the first royal customs officer for the colonies in 1671. Posted to Virginia (the center of the tobacco trade, which provided the greatest source of revenue for many years), the first royal agent was paid an annual salary. Under the 1673 act, however, the appointment of customs officers was once again left to colonial governors and the compensation shifted to a percentage of collections.

The decision to rely on the governors was facilitated by the fact that customs policies and collection machinery were also in place for raising revenues to support the operations of colonial governments. Although there was a wide variation among the colonial policies, they typically included the collection of four types of duties: tonnage duties on shipping in and out of

colonial ports; export taxes on tobacco; import duties on slaves; and duties on wines and liquors as well as other enumerated items.

Tonnage duties were imposed on all shipping, although they were usually designed to give some advantage to local shippers through specific exemptions. Tobacco export duties were especially important for Maryland and Virginia, but almost every colony grew some of this exportable commodity, which proved to be a central source of revenue for many governments. Imposed in addition to the British plantation duties, these colony-specific duties had a relatively minor impact on the overall price of the exported crops. Import duties on slaves were a key revenue generator for some states (e.g., South Carolina), and by the 1700s were used as a means for controlling the influx of slaves across colonial borders as well as from abroad. Import duties on enumerated items beyond the tobacco and general tonnage levies also varied from colony to colony. Some states imposed high duties on specific items such as wines and liquors, while others (e.g., Rhode Island, New Jersey) did not seem to have any levy on specific goods.

The wide use and application of British and colonial duties did not necessarily translate into the effective enforcement of these various policies. There was constant evasion of customs duties. One indicator is the mismatch uncovered between figures related to imports and revenue collections. For several years before the American Revolution, for example, the ports of New York processed goods valued at £500,000 annually. Yet despite a duty of five percent during that period, records show that not much more than one-fifth of the expected amount (£5,000) was ever collected in any of those years. In part these figures reflected an inefficient, if not blatantly corrupted, administration. It was well known that customs agents found it easier and more profitable to turn a blind eye toward smuggling.

The problems of customs administration in the American colonies were so commonplace that until the 1760s there was a pervasive sense of frustration and resignation among those in Whitehall that little could be done to correct the situation. There is evidence, in fact, that those overseeing colonial administration until the

1760s regarded tolerance of smuggling and other forms of customs avoidance as the price to be paid for peace and economic profitability in the American colonies. The case of the Molasses Act of 1733 is illustrative. Passed at the insistence of politically significant British sugar planters in the West Indies, the act imposed a duty intended to dampen the growing illegal sugar trade between New England rum merchants and French West Indies planters. While passage of the act appeased the British West Indies' landowners, extremely lax enforcement of the duty was accepted as a means for satisfying the New Englanders. Rough estimates are that the 1733 act generated £2,000 annually at a yearly administrative cost of £7,000! In the meantime, the French sugar remained a primary ingredient in New England rum.

Locally, there were additional pressures against stringent enforcement practices of the British duties. A sufficient number of violent incidents against customs agents who attempted to stringently apply the law seemed to promote a reluctance to push enforcement too hard. "To be a customs official in the colonies," notes Theodore Draper, "was not a peaceful occupation."

The years 1763 through 1767 proved to be a watershed for both general customs administration and the future of the American colonies. Histories of the American Revolution often point to the proliferation of British acts from 1763 forward as the sparks that eventually resulted in the Revolution. More important, perhaps, was the fact that 1763 also marks the year that British colonial administrators became serious about enforcement of their customs laws. As part of an effort to stabilize England's financial condition and economize in its administration, Chancellor of the Exchequer George Grenville instituted a variety of reforms in colonial administration. British naval officers were given commissions as customs officials, and the prosecution of smuggling came under the jurisdiction of officials perceived as outside agents. In 1764 adjudication of customs violations was shifted to the Admiralty Courts in London and Halifax, where violators were less likely to escape adverse judgment. Hostile reaction to these and other measures in the colonies eventually led Britain to pass the Towns-

hend Acts in 1767, which, among other things, moved the central administrative body for colonial customs—the American Board of Customs Commissioners—from London to Boston. With these enhancements in the administration of customs laws and the mercantilist system, the British assured the growth of revolutionary sentiment. The history of specific events leading to the Revolution is filled with episodes related to the efforts to effectively enforce British customs laws—from mob actions caused by the British seizure of John Hancock's vessel *Liberty* in 1768 to the Boston Tea Party in 1773.

IMPLEMENTING THE CONSTITUTION: THE ESTABLISHMENT OF A NATIONAL CUSTOMS SERVICE

Given the key role that the administration of duties played in stirring colonial resentment and eventual upheaval, it is not surprising that there was considerable reluctance to give the new national government (organized under the Articles of Confederation) the power to impose duties. Proposals to that effect emerged from the Continental Congress as the newly formed government faced financial crises in 1781 and 1783, but there was never sufficient support from the states to carry the day. Even those proposals that gained serious consideration included provisions that would rely on state and local officials for collection and thus avoid the issue of creating a national customs service.

The new Constitution of 1787 was clear in its provisions giving Congress the power to “levy and collect taxes, duties, imposts and excises” as well as to “regulate commerce with foreign nations, and among the several states” (Art. I, Sec. 8). Also included was an express prohibition on the states' ability to levy duties on imports, exports, or shipping tonnage without the express consent of Congress. As for restriction on Congress, it could not impose export duties and was forbidden to show any preference among the states or their ports in the design and implementation of customs policies.

The importance of these provisions for the newly constituted government is indicated by the high priority given by the first Congress to

establish tariffs for raising revenues. Only the constitutionally mandated task of establishing subordinate courts took precedence. Legislation creating the administrative machinery for collecting customs duties emerged from Congress a month later, at the end of July 1789. The legislation created fifty-nine customs districts in the eleven states that had ratified the Constitution to that date, with the majority of districts being distributed to Massachusetts (20), Virginia (12), and Maryland (9). These districts were to be manned by collectors, surveyors, and naval officers.

Collectors were essentially the district managers, having overall charge of the office operations as well as responsibility for receiving information on all shipments and calculating and collecting the appropriate duties. The surveyors were the field managers of the group, overseeing the inspection and processing (e.g., weighing and measuring) of relevant shipments. The job of the naval officers was to receive copies of all relevant paperwork and inspection reports and to countersign all permits and other clearances issued by the collector. (In 1922, the naval officer's title was changed to comptroller of customs.) Appointment of these officials was made by the president with the advice and consent of the Senate, and there was no formal term of office designated. It was not until 1820 that Congress passed legislation limiting these appointments (and those of other federal officials) to four-year terms. Compensation was based on specified fees set by law, with the collector also receiving a commission on monies paid to the U.S. Treasury. The costs for operating each district were to be paid by the collector who, in turn, would share some of those costs with the naval officers.

ANTEBELLUM CUSTOMS: BEYOND REVENUE RAISING

It is difficult to understate the importance of the customs offices during the first decades of the new government. Between 1789 and 1800, for example, eighty-eight percent of all revenues raised by the national government were derived from customs service activities. In addition, cus-

toms officials were the most visible of national officials at the local level. With the exception of judicial officials, customs personnel were often the only local representatives of the national government throughout the states. Taking advantage of their placement and high reputation (many collectors were local heroes from the Revolution), Congress assigned them additional functions to perform on behalf of the central government. For example, almost immediately collectors were assigned duties as superintendents for federal lighthouses within their districts and as pension agents who distributed benefits to eligible veterans. Secretary of the Treasury Hamilton also assigned them the task of gathering information on the local economy to be used in his Report on Manufactures.

Over time, even more functions were given to the customs officials. They were drawn into the implementation of foreign policy: in light of attacks on U.S. ships by both sides in the war between England and France declared in 1793, Congress and the president had the customs officials enforce intermittently imposed embargoes on American shipping to the belligerents. They were also involved in the first efforts at health care policy when, in 1798, customs collectors were authorized to assess set fees from shippers that were used to pay for the relief of sick and disabled seamen. In larger ports these funds were used to pay for the creation of the Marine Hospital Service (forerunner of the Public Health Service), and the collectors often became *de facto* directors of the hospitals and other facilities established under that service. Complementing these tasks was the collectors' role as federal enforcers of state health laws and local quarantines.

Customs officials even acted as the nation's first immigration officials. In 1803 Congress required that the customs districts maintain a list of crew members aboard ships bound for foreign ports and collect a bond that would assure the return of each listed seaman. By 1820 customs collectors were required to obtain a list of all passengers aboard ships arriving in U.S. ports, and to determine that there were sufficient provisions to handle the number of passengers on departing ships. Most of these immigration func-

tions amounted to little more than collecting statistics, but the information provided could be used by litigants to take judicial action against a vessel's owner.

The tasks of customs personnel became more regulatory in nature during the pre-Civil War period. Congress passed specific regulations regarding the conditions of passenger vessels in the late 1840s and gave enforcement powers to the customs offices. In 1848 Congress gave them jurisdiction over the importation of drugs, medicines, and chemical preparations, allowing for the appointment of special examiners at major ports who would determine if the relevant goods met standards established by the leading pharmacopoeias of the day. Inferior or adulterated goods falling below those standards would not be permitted in the country. Two years later the customs service was formally empowered to establish and maintain a national system of recording deeds and titles for marine property, and in 1852 they were given a central role in the regulation and inspection of domestic steamboat commerce.

Little is known about the details of how customs officials carried out their multiple and diverse functions during this period. We do know that the lines of accountability were changed in the 1790s when the secretary of the Treasury directed the comptroller of the Treasury to assume oversight of the function. This arrangement was modified in 1849, when Congress authorized creation of a commissioner of customs to conduct the supervision of customs. In both instances, however, the supervisory power was limited to overseeing the collection and receipt of customs duties. Their supervisory jurisdictions did not relate to the growing number of other tasks undertaken by the proliferating district and subdistrict offices.

If legislative action is any indication, then a central administrative concern during this period was the problem of appraising the value of assessed shipments. Initially the customs officials relied on the value of goods stated on the invoice and supported by the sworn statement of the shippers; formal appraisal was undertaken only for damaged or uninvoiced goods. Reacting to an

obvious pattern of undervaluation, appraisers were appointed to work at some of the major ports to help provide a solution to this problem. Disagreements were to be settled through a variety of reappraisal systems that permitted the shipper to bring in outside experts to help establish the correct value of a shipment.

As for the day-to-day operations of a customs house during this period, the only major documentation remaining is the introductory chapter ("The Custom-House") to Nathaniel Hawthorne's *Scarlet Letter*. A reflection on his three years as the surveyor at the Salem, Massachusetts, customs house in the late 1840s, it is as much a commentary on the impact of the patronage system as it is a vehicle for explaining the discovery of the scarlet "A" that is central to the classic novel that followed. Hawthorne pictures the workers of the customs house as "ancient sea-captains . . . who, after being tost on every sea, and standing up sturdily against life's tempestuous blast, had finally drifted into this quiet nook; where, with little to disturb them, except the periodical terrors of a Presidential election, they one and all acquired a new lease of existence." His description of their work is hardly flattering, giving the impression that they went through the formalities of office but essentially were ineffective in accomplishing their jobs.

IN THE ERA OF REFORM: CUSTOMS AT THE CENTER OF SCANDAL

Given the significance of customs houses in the overall scheme of the national government's administrative infrastructure during the last half of the nineteenth century, it is not surprising their operation was the focal point of efforts to reform government. Immediately after the Civil War, the editors of *The Nation*, an influential weekly, began to publish articles on the corruption and inefficiency of the New York Custom House. The scandals publicized by them and *Harper's Weekly* became a *cause célèbre* among reformers and eventually proved important in the adoption of the Pendleton Act in 1883. [See Civil Service.]

Ironically, civil service reform came very slowly to the customs service itself. As the focal point of controversy, many positions in the New York district customs house were brought under

civil service by the 1890s. As a member of the civil service commission, the young Theodore Roosevelt gave a great deal of attention to spreading the Pendleton Act's coverage to Philadelphia and other ports. Overall, however, the effort was incremental rather than comprehensive.

More characteristic of the period from the 1850s to the turn of the century were shifts in the organization and operations of the customs service. A Division of Customs was created in the Treasury Department as part of a more general reorganization of that unit. Not much is known about the duties of that unit, although it is assumed that the head of the division played a greater role in supervising the districts than did the Commissioner of Customs Office that preceded it. A major problem facing the division administrators was the number of different acts of Congress they were to oversee. All told, there were more than 263 relevant tariff acts being enforced by the service by the turn of the century. A revision of federal statutes in 1873 helped make sense of the disarray, but the problem remained a major one for those charged with enforcement.

Another major administrative change during this period involved how the customs system was funded. Legislation passed in 1849 required all receipts to be turned in to the Treasury Department, which would in turn allocate appropriated funds to each district to cover expenses. Under this system, receipts for storage, cartage, and other local functions would be retained at the local level to deal with those specific costs. The amount that the Treasury Department was permitted to spend on customs operations was a gross amount set by Congress from time to time. In 1849 that sum was set at \$1.56 million; in 1858 it was raised to \$3.6 million; \$4.2 million in 1866; and \$5.5 million in 1871. It wasn't until 1913 that Congress began making annual appropriations to fund the customs service.

The appraisal issue continued to be a sensitive one and was addressed more systematically in 1890 with the appointment of a Board of General Appraisers. Comprising nine members appointed for life, the board was one of the first examples of federal administrative law courts. If either a collector or importer questioned an appraisal done at the local level, the dispute could

be brought to one of the board members. If not satisfied with the resulting decision, either party could have the dispute heard before a group of three board members. From this point, appeals could be taken to the U.S. Circuit Court of Appeals, and ultimately to the Supreme Court. Because of the burden this process created in the federal circuit courts, as well as the resulting inconsistency emerging from the decisions of different circuits, the Congress established a special Court of Customs Appeals in 1909, which was given exclusive jurisdiction over appeals from the Board of General Appraisers.

CUSTOMS IN THE TWENTIETH CENTURY

Organizationally, the customs service was ripe for reform as it entered the twentieth century. During the 1800s, and building on the original fifty-nine districts, Congress had created a structural puzzle that made no operational sense and proved very costly. By 1912 there were 126 districts and 38 independent ports. Some covered vast territories; the New Orleans district, for example, stretched from the Gulf of Mexico to La Crosse, Wisconsin. Expenses for running fifty of the districts exceeded the receipts they generated, including nine districts that generated no receipts at all. Politically, however, customs houses and the patronage they provided proved difficult to change. Calls by the Treasury Department for authorization to reorganize the districts fell on deaf congressional ears. Finally, in 1912, in the face of critical studies and negative press coverage, Congress authorized the president to submit a reorganization plan for the customs service. As a result, a plan was implemented that reduced the number of districts to forty-nine. That effort also included the abolishment of all fee-based compensation, and all customs personnel were placed on salaries.

The next flurry of administrative change took place in the early 1920s. The position of naval officer was changed to "comptroller of customs," and their jurisdiction was extended to cover all districts rather than just the one to which they were assigned. A Special Agency Service that acted as an investigatory unit was established separate from the Division of Customs, and various administrative codes and procedures were re-

written and consolidated into a single code. In addition, several information-gathering functions were transferred from the Customs Service to the newly formed Department of Commerce. Personnel policies within the Division of Customs were also changed at this time, with formalized duties being given to the director and his assistants and, over an extended period, many more of the lower-level employees of all the districts being placed under the classified civil service.

This period of administrative change occurred in the context of equally significant additions to the agency's missions. Especially noteworthy was its role in the enforcement of two major pieces of "social" legislation that were seemingly extraneous to the service's fundamental revenue collection roles. With passage of the Chinese Exclusion Act in 1882, customs officials had become deeply involved in the nation's efforts to "stem the yellow tide." Until their major immigration obligations were taken over by other agencies in 1910, customs officials had the task of keeping out all Chinese male laborers and prostitutes while certifying reentry for those who were American residents returning from trips home. In the process, the service established incarceration camps where hundreds were detained in facilities that were notably less than safe and sanitary. At the same time, the service did gain a reputation for honoring the civil rights of those who fell under the exclusion law.

The other major social policy that customs had to deal with during this period was Prohibition. The customs service had always played a role in the regulation and taxation of alcohol, and liquor smuggling was a major issue plaguing the agency throughout its history. But Prohibition demanded a greatly expanded role, and the efforts to control alcohol smuggling took an ever-greater toll on the customs service's resources throughout the 1920s.

The story of the customs service since the 1930s has been one of mission expansion, adaptation, and modernization. The growth of air transport for both goods and passengers has become a major feature of contemporary customs work. Customs has also taken on major roles in the nation's fight against child pornography and

the war on drugs. During both world wars and the Cold War, the service played central roles in the regulation of trade and related intelligence operations. In the 1970s a corps of "sky marshals" was created to deal with aircraft hijackings. In each instance, new divisions were created within the agency to meet the diverse needs of each new challenge.

Organizationally, the service became increasingly rationalized, professionalized, and automated over the past seven decades. By 1965 presidential appointment was limited to the very top officials in the customs service, and the traditional office titles of collector, surveyor, and appraiser were abolished. Consolidation of districts began in the late 1960s, and regional offices were developed to facilitate unity of command at appropriate operational levels. Additional reorganizations during the 1970s and 1980s led to the centralization of key financial, personnel, and logistical functions. As it entered the 1990s, the customs service included a headquarters unit, seven regional offices, forty-two districts, 301 ports of entry, and over a hundred residential and special agents with distinct operational duties. Data processing and automated systems became a major focus of the service starting in the late 1960s, and by 1985 the agency had developed a mainframe-based Automated Commercial System (ACS) that enhanced its enforcement capabilities in a variety of areas.

THE FUTURE: REENGINEERING THE U.S. CUSTOMS SERVICE

In what might be the most significant administrative changes in the long history of the U.S. Customs Service, the agency adopted a major reorganization plan in 1993 that is unlike any changes previously undertaken. Behind these plans are provisions of the North American Free Trade Agreement Implementation Act of 1993 that specifically called for the modernization of the service. Termed the "Mod Act" by agency insiders, those provisions effectively lifted many of the arbitrary organizational constraints that had held back agency changes for decades. In response, the customs service developed a plan that called for the structural and operational transformation of the agency.

By fiscal year 1996 all districts were abolished and replaced by a multilevel structure emphasizing process and function rather than hierarchical reporting relationships. At the "field operations level," most of the ports and residential agent offices were retained and given more autonomy to deal with local needs and requirements. At the "field management level," district and regional offices were replaced with twenty Customs Management Centers that were to provide administrative support for, and facilitate coordination and cooperation among, the operational units under their jurisdiction. In addition, five Strategic Trade Centers were created to deal with special areas of concern such as antidumping and intellectual property rights issues. A headquarters level was retained in order to assure national consistency of customs policies and to provide the necessary management coordination through offices dealing with finances, human resources, and information/technical services.

The explicit objective of these and related operational changes was to convert the customs service into a more mission-driven agency that stressed customer needs and partnerships while reducing and minimizing management overhead. If successfully implemented, these changes will create an agency that is culturally, as well as structurally, different from the customs service of the past. And it is that point that makes these efforts to "reengineer" the service so different from past efforts. The customs service of the past was structurally and procedurally the product of responses to external constraints and immediate needs. Reorganizations and procedural reforms were reactive, typically dealing with the need to bring the service in line with changed environments and to address issues raised by negative press coverage. The reform agenda of the 1990s, in contrast, is based on an explicit desire to create a customs service capable of adapting quickly to changes in its constantly changing environment, especially when it comes to the needs of service "customers" such as importers, shippers, and passenger airlines. Internally, the changes emphasize streamlining, structural flattening, teamwork, and enhanced responsibility at the field operations level. Whether the U.S. Customs Service is transformed by these changes or not,

its contribution to the development of America's federal administrative infrastructure should not be overlooked.

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—MELVIN DUBNICK