

Unit 5 Lesson 25**The Economics of the U.S. Constitution****INTRODUCTION**

Economics The U.S. Constitution is essentially a plan of government. Understanding how the plan functions and the values it promotes is important in becoming an informed citizen. That understanding should include understanding the economic institutions established by the Constitution. The U.S. Constitution provides a set of rules within which a market economy can flourish. The legal framework includes provisions for the protection of private property, the enforcement of contracts, and federal regulation of interstate commerce.

Reasoning Perhaps the greatest contribution of the writers of the Constitution is that, in a time of great uncertainty, they established institutions necessary for the efficient conduct of private economic activity. Those institutions have evolved to create a stable economic system that defined private property rights, reduced economic uncertainty, and protected individual economic freedoms. The Constitution thus created incentives that encouraged people to look to themselves rather than to government in their efforts to earn wealth.

CONCEPT

- Market economy

OBJECTIVES

Students will:

1. Recognize that the U.S. Constitution is an economic as well as a political document.
2. Identify the institutions of a market economy featured in the U.S. Constitution.

CONTENT STANDARDS

- Institutions evolve in market economies to help individuals and groups accomplish their goals. Banks, labor unions, corporations, legal system, and not-for-profit organizations are examples of important institutions. A different sort of institution, clearly defined and well enforced property rights, is essential to a market economy. (NCEE Content Standard 10)
- There is an economic role for government to play in a market economy whenever the benefits of a government policy outweigh its costs. Governments often provide for national defense, address environ-

mental concerns, define and protect property rights, and attempt to make markets more competitive. Most government policies also redistribute income. (NCEE Content Standard 16)

LESSON DESCRIPTION

Students discuss why the American economy grew in the period following the American Revolution. After reading an essay by Douglass North and examining the U.S. Constitution, they identify the economic features of the Constitution.

Time Required: 60 minutes

MATERIALS

- A transparency of Visual 1
- Activities 1 and 2
- A copy of the U.S. Constitution for each student

PROCEDURE

1. Display Visual 1. Explain that after the American Revolution, it was not at all clear how the new nation would deal with the economic issues it faced.
 - Debt: The United States owed money to the French, to many of its citizens, and often others who had purchased war bonds.
 - Power to tax: The federal government could levy a tax only if the tax revenue was returned to the states on the basis of population. In other words, the federal government really had no way to collect revenue to pay for its own expenses.
 - Currencies: Congress issued currency and coins, but so did several states. In fact, foreign currencies were seen by many as more valuable than currency produced by the government under the Articles of Confederation.
 - Tariff wars: There were signs that tariff wars would erupt between the states. New York imposed a fee on vessels traveling to and from Connecticut and New Jersey. Not to be outdone, New Jersey imposed its own tax on a New York-owned lighthouse on New Jersey soil. New Jersey, lying between New York and Philadelphia, found its exports heavily taxed.
2. Ask: Why did the U.S. economy grow and prosper in the period following the American Revolution? Why didn't the United States collapse into squabbles over about taxes and trade as so often happened in Europe? (*Accept a variety of answers.*)

3. Explain that the economic “ground rules” established by U.S. Constitution have frequently been debated. Refer the students to Activity 1 and ask them to read it. (The author, Douglass C. North, is an internationally known economic historian; he received a Nobel Prize in Economics in 1993.) After the students have read the essay, ask:

A. How did Adam Smith, through his book *The Wealth of Nations*, influence the writers of the Constitution?

(Smith had argued against mercantilism, a system involving government subsidies, bounties, and monopolies. Instead, Smith argued in support of specialization, division of labor, and free markets.)

B. In North’s view, was the Constitution a document written to protect the interests of the founders?

(North acknowledges that certain features of the Constitution may have been in the long-term interests of the writers, but he finds this to be an uninteresting point. North argues that the real genius of the founders is shown in the provisions they wrote that made it difficult for legislators to redistribute income from rich to poor or poor to rich. In an environment in which wealth could not easily be taken from others by political means, people would seek to earn wealth through success in the private sector.)

C. Why is it difficult under the U.S. Constitution for factions or interest groups to redistribute income from rich to poor or poor to rich?

(The constitutionally required system of checks and balances among the legislative, executive, and judicial branches makes it difficult for one interest group or faction to gain control of the political process and redistribute wealth.)

D. What specific economic powers does the Constitution confer on the federal government?

(The Constitution provides that the federal government can levy taxes, coin money, and regulate its value. It gives the federal government authority over the conduct of foreign affairs, including the negotiation of tariffs and treaties. It gives the federal government sole authority to regulate interstate commerce. By specifying that contracts must be enforced and that private property may not be taken without compensation, it establishes the basis for a system of well-defined property rights, which are essential for a market system.)

E. Why might Adam Smith have approved of the U.S. Constitution?

(The Constitution permitted the development of free markets in the new nation. In Smith’s view, this was essential to developing a productive economy.)

F. Ask the students to take a closer look at the economic features of the U.S. Constitution. Provide them with a copy of the U.S. Constitution, perhaps from a civics or U.S. history textbook. Refer the students to Activity 2. By reference to the U.S. Constitution, answer the first two questions together. When the students have completed the remaining questions, discuss the answers with the class.

Answers to Activity 2

Question 1

How does the Constitution make it difficult for interest groups or factions to redistribute wealth?

Answer:

The U.S. Constitution established three branches of government that form a system of checks and balances, making it difficult for one interest group or faction to dominate.

Where is it in the Constitution?

*Article 1, Section 1
Article 2, Section 1
Article 3, Section 1*

Question 2

In what body must bills for raising revenue originate?

Answer:

House of Representatives

Where is it in the Constitution?

Article 1, Section 7

Question 3

The writers insisted that taxes should be levied with the consent of the governed. Who has the power to levy and collect taxes and duties?

Answer:

Congress

Where is it in the Constitution?

Article 1, Section 8

Question 4

Who has the power to coin money?

Answer:

Congress

Where is it in the Constitution?

Article 1, Section 8

Question 5

What branch of government regulates business?

Answer:

Congress

Where is it in the Constitution?

Article 1, Section 8

Question 6

Some governments allow scientists to “own” their ideas for a period of time, to create an incentive for research. May writers and inventors be granted copyrights to protect their ideas? Explain.

Answer:

Yes. Authors and inventors may have exclusive rights to their ideas for a period of time set by Congress.

Where is it in the Constitution?

Article 1, Section 8

Question 7

The United States created an internal “free trade zone” among the states. May states levy taxes on exports or imports? Explain.

Answer:

No. Taxes can not be applied to any good leaving one state for another.

Where is it in the Constitution?

Article 1, Section 9

Question 8

Contracts are an important means of protection for private property. They require that people hold to their financial commitments. Courts enforce contracts. Does the federal government have the authority to abolish contracts? Explain.

Answer:

No. Congress may not impair the obligations of contracts.

Where is it in the Constitution?

Article 1, Section 10

Question 9

What branch of government has the power to make and ratify treaties?

Answer:

The President has the power to negotiate treaties, with the advice and consent of the Senate.

Where is it in the Constitution?

Article 2, Section 2

Question 10

Does “due process of law” (the government must follow certain steps or procedures specified by the law) apply to private ownership of property? Explain.

Answer:

Yes. The Constitution states that people may not be deprived of their property without due process of law. Even then, people must be compensated for any loss.

Where is it in the Constitution?

Amendment 5

Question 11

Can people be forced to work for others without compensation? Explain.

Answer:

No. The United States Constitution makes slavery illegal.

Where is it in the Constitution?

Amendment 13

CLOSURE

Review the key points of the lesson. Ask:

- Did the ideas of Adam Smith influence the writers of the Constitution? Explain.

(Yes. Smith's most famous book, The Wealth of Nations, was well known to the founders. In this book, Smith argues against mercantilism in favor of specialization, division of labor, and free markets.)

- The message of the writers of the Constitution was that people should earn wealth on their own and not look to government to provide it for them. How did the Constitution make it difficult to redistribute wealth?

(The required system of checks and balances among the legislative, executive, and judicial branches made it unlikely that one interest group or faction could gain control of the political process and redistribute wealth.)

- What specific economic powers does the Constitution confer on the federal government?

(The Constitution provides that the federal government can levy taxes, coin money, negotiate treaties, and regulate interstate commerce. By specifying that contracts be enforced, it creates the basis of a system of well-defined property rights, which are essential to a market system.)

MULTIPLE-CHOICE QUESTIONS

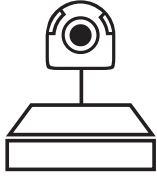
(CORRECT ANSWERS SHOWN IN BOLD)

1. A key clause in the Constitution that helped create a system of well-defined property rights is the
 - A. Statement establishing the Electoral College.
 - B. Contract clause.**
 - C. Statement delegating powers to the executive branch.
 - D. Copyright clause.
2. The Constitution discourages redistribution of wealth primarily by relying on a system of:
 - A. Checks and balances among the branches of government.**
 - B. Spending originating in the House of Representatives.
 - C. Regulated interstate commerce.
 - D. Treaty negotiation and approval.

ESSAY QUESTION

The American colonies had been established during a period of mercantilism. This is an economic system that stresses providing special favors from government to people in business. For example, the government of Great Britain granted trade monopolies to certain groups and provided subsidies to encourage the production of certain goods. The colonies often benefited from these mercantilistic practices. What influenced the writers of the Constitution to resist mercantilism?

(Adam Smith's book The Wealth of Nations had a large impact on the founders. The Declaration of Independence and the publication of The Wealth of Nations occurred in the same year, 1776. Smith argued against government subsidies, bounties, and monopolies. Instead, Smith argued in support of specialization, division of labor, and free markets.)



Unit 5, Lesson 25

Visual 1

PROBLEMS FOR THE NEW NATION UNDER THE U.S. ARTICLES OF CONFEDERATION

- Debt
- Power to tax
- Currencies
- Tariff wars

Unit 5, Lesson 25

Activity 1

The Economics of the U.S. Constitution

by Douglass C. North

It is now over two hundred years since the Constitutional Convention drafted the U.S. Constitution. That document thus is one of the most durable sources of rules in all of history. However, its origins and its significance have been and continue to be a source of controversy. In the essay, I shall try to provide some tentative answers to the following questions. 1) How did the Constitution come to be written as it is? 2) Whose interests were served by the document? 3) What does it say? 4) How important was it at the time and for subsequent generations? 5) What are the lessons to be learned with respect to calling a new constitutional convention to rewrite it?

HOW DID THE CONSTITUTION COME TO BE WRITTEN AS IT IS?

It is not often that people get a chance to shape their own history from the ground up. Usually we think of history evolving in an incremental way, through the choices and decisions of people as they stem one from another through time. But the Constitutional Convention that followed the creation of the new nation certainly presented the opportunity for its convenors to create an entirely new set of rules. However, both the past and the issues of the time provided constraints. The ideas embodied in the Constitution were forged in the struggle between Parliament and the Crown in the revolutionary 17th Century in England, by the charters of the colonies, and by the ideas that were current in 18th Century England.

The year 1776 produced not one but two documents of historically significant importance to the new nation. One, of course, was the Declaration of Independence. The other was Adam Smith's *Wealth of Nations*. In the course of writing what has come to be thought of as the foundation stone of modern economics, Smith inveighed against the evils of the system that he perceived had dominated England and Europe up to that time, a system he called mercantilism. Mercantilism was a system in which the government was deeply involved in the operation of the economy, providing subsidies, bounties, and monopolistic privileges to individual companies through the assignment of exclusive privileges and trading rights. Adam Smith felt that mercantilism was an inefficient system that fostered monopoly. In contrast, Smith argued that the main basis for economic growth and efficiency was specialization and

division of labor. Efficiency came from specialization in the production and distribution process. He argued that by allowing each person to concentrate on doing just one thing repetitively, goods could be produced more rapidly and efficiently. He believed that competition in the market would force people to become more efficient and would encourage improvements in technology and productive expansion. Thus, rather than artificial inducements to produce (bounty and subsidy), Smith believed that free markets, which valued the relative gains of producing different kinds of things, provided the proper incentives for productive economic activity.

The conflict between Adam Smith's view and the traditional mercantilist view was certainly much in the minds of the Americans in the 1780s as they struggled to resolve the many problems they faced. Separated from England, they no longer enjoyed the privileges of operating within her Navigation Acts, which had assured the colonies protected markets against foreign competition. Moreover, at home they faced huge debts accumulated in the course of the Revolutionary War (including the problem of paying the soldiers of the Revolutionary War who had been promised substantial benefits), the need to raise taxes to operate government, and the need to provide protection to traders against Barbary Pirates in the Mediterranean.

And it was not just the ideas and the issues of the time that turned out to be decisive for this remarkable document. An extraordinary concatenation of events also affected it. Initially the Convention was called simply to overhaul the Articles of Confederation. The convenors were heavily loaded in favor of federalists rather than anti-federalists. Many anti-federalists believed that the Convention would be a failure and that they could do very little to improve conditions; thus, they simply would have nothing to do with it. What actually happened was quite different. The views of the convenors turned out to be in near unanimity with respect to what ought to be done, and in short order they wrote a completely new constitution. Contrary to the anti-federalists, the federalists believed the new nation was in crisis and that in the absence of a new constitution it could not be held together. To assure and speed ratification, they suggested amendments to the Constitution that would be undertaken as soon as the new Constitution came into existence and the first Congress had been convened. Thus, the Bill of Rights was actually guaranteed in the course of the ratification controversy; in fact, it was essential for the success of ratification. As a result, the anti-federalists, who foresaw failure at the Convention and failure in the ratification process, were confronted instead with a feasible document, which, with the additional guarantee of the Bill of Rights, also became a document that was ratified and that provided the basic rules of the new nation.

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WHOSE INTERESTS WERE SERVED BY THE DOCUMENT?

Was the Constitution a class document written narrowly in the interests of a small group? This controversy has existed ever since Charles Beard's celebrated book, entitled *The Economic Interpretation of the Constitution*, asked whether the Constitution reflected the disembodied wisdom of a group of disinterested individuals or a narrower set of interests of its framers. Put that way, the question is not a very interesting one. Surely the framers of the Constitution devised it in such a way that it was consistent with their long-run interests, but surely also their view was that it must be a viable political and economic document that could enable a nation to survive and thrive. In fact a major issue that shaped the writing of the Constitution was a concern with factions or interest groups of citizens bent on using the political process to further their own well-being. The most durable source of faction was the unequal distribution of wealth and income. In one of the most celebrated essays ever written in political theory, Federalist Paper No. 10 (written to support ratification), Madison argued that the aim of the constitutional convenors was to prevent factions from controlling the political system and using it in their interests. The Constitution did not make everyone equal. Some states did impose property qualifications in order to vote and therefore excluded the poorest members of society. Moreover, it is clear that the Constitution made it more costly to redistribute wealth from the rich to the poor than vice versa. Yet, it is equally obvious that this was not the prime consideration of the makers of the Constitution. The prime consideration, if we take Madison at his word, was to make all redistributive efforts by factions (of whatever kind) costly and to provide a framework that would encourage productive pursuits instead of redistributive efforts.

WHAT DOES THE CONSTITUTION SAY?

Overall, a major design of the Constitution, as the foregoing paragraph suggests, was to provide a set of checks and balances in the political process, so that no faction could, in short order, get control of the reins of government and redistribute wealth and income in their favor. This was done by providing for separate legislative, executive, and judicial bodies, each with checks upon the other, each with distinct and separate powers. State and federal government powers were also separated. There is no doubt that this federal form of government was an important source of decentralization in the political process and that it certainly raised the costs of an interest group coming to control the political process.

Now let's turn to specific economic issues. The Constitution enabled the federal government to levy taxes (an essential function of government if it is to survive), and to coin money and regulate its value. It gave the federal government authority over foreign affairs, including the negotiation of tariffs and treaties. It gave the federal government the right to regulate interstate commerce, thus prohibiting the states from erecting barriers to the interstate movement of goods, but also permitting the federal government to impose its own rules upon interstate commerce.

Certainly the more important contribution of the Constitution was that it established a framework for the efficient conduct of economic affairs. It defined the protection of private property and specified that contracts would be enforced; it stipulated rules for bankruptcy, an important element since bankruptcy implies a failure to live up to contracts. In short, it created a system of well specified property rights, which reduced uncertainty and permitted the development of free markets — essential, in Adam Smith's view, for a productive economy.

QUESTIONS FOR DISCUSSION

A. How did Adam Smith, through his book *The Wealth of Nations*, influence the writers of the Constitution?

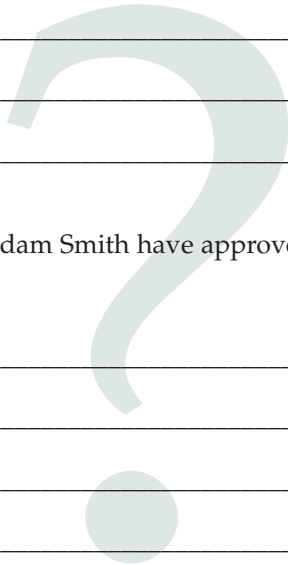
B. In North's view, was the Constitution a document written to protect the interests of the founders?

C. Why is it difficult under the Constitution for factions or interest groups to redistribute income from rich to poor or poor to rich?

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D. What specific economic powers does the constitution confer on the federal government?

E. Why might Adam Smith have approved of the U.S. Constitution?



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Activity 2

An Examination of the Economic Features of the U.S. Constitution

Directions: Below is a chart that allows you to identify the “economic articles” of the U.S. Constitution. Obtain a copy of the U.S. Constitution and answer the following questions; specify where in the Constitution you found the information.

Question	Answer	Where is it in the Constitution?
1. How does the Constitution make it difficult for interest groups or factions to redistribute wealth?	The U.S Constitution establishes three branches of government that form a system of checks and balances, making it difficult for one interest group or faction to dominate.	
2. In what body must bills for raising revenue originate?	House of Representatives	
3. The writers insisted that taxes should be levied with the consent of the governed. Who has the power to levy and collect taxes and duties?		
4. Who has the power to coin money?		
5. What branch of government regulates business?		
6. Some governments allow scientists to “own” their ideas for a period of time, to create an incentive for research. May writers and inventors be granted copyrights to protect their ideas? Explain.		
7. The United States created an internal “free trade zone” among the states. May states levy taxes on exports or imports? Explain.		
8. Contracts are an important means of protection for private property. They require that people hold to their financial commitments. Courts enforce contracts. Does the federal government have the authority to abolish contracts? Explain.		
9. What branch of government has the power to make and ratify treaties?		
10. Does “due process of law” (the government must follow certain steps or procedures specified by the law) apply to private ownership of property? Explain.		
11. Can people be forced to work for others without compensation? Explain.		