

LESSON 8

PROBLEMS UNDER THE ARTICLES OF CONFEDERATION

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LESSON DESCRIPTION

This lesson begins with a teacher-led discussion of economic problems facing the new nation under the Articles of Confederation. The students read and discuss information about these problems in a handout; then they consider possible responses and make predictions about how those responses would affect economic growth.

The Articles of Confederation, adopted in 1781, represented the former colonists' first attempt to establish a new government after the Revolutionary War. These Articles provided for a weak central government. Because of the excesses of King George III, whose rule they had just overthrown, the Americans were reluctant to grant much economic power, or authority of any sort, to the central government.

But urgent economic questions remained to be addressed. Should the war debt be paid by the new national government? If so, how would sufficient revenue be raised? How should interstate trade be governed? How important would it be for the new nation to develop a strong military force for national defense? If a strong military establishment were needed, how should it be paid for? The resolution of these issues could have a large influence on the economic future of the new nation.

MYSTERY

Americans faced severe problems after the Revolutionary War. One was the governmental debt left over from the war. Many argued that the new U.S. government should not assume responsibility for this debt. After all, the bonds issued to pay for the war had been resold many times and their value had fallen as doubts about their repayment had increased. Repayment now would not go to those who originally bought the bonds. Speculators would benefit if the bonds were redeemed at their face value. Under the Articles of Confederation, Congress had no power to tax and thus no obvious way to raise the money to repay war debts. Even so, some influential Americans including Alexander

Hamilton argued forcefully for repayment of the debts. Why would Hamilton and others want the struggling new government to take on a big debt at this pivotal time in its history?

ECONOMIC HISTORY

As Americans began to find drawbacks to the Articles of Confederation, they considered changes that would improve the economic strength of the nation. Failure to repay debts would discourage lending, resulting in reduced investment in the economy. Other weaknesses in the Articles of Confederation would have similar ill effects. Allowing the imposition of trade barriers among the states would discourage specialization and reduce voluntary trade. The lack of a dependable source of revenue for the central government would make it more difficult for the new nation to defend itself from attacks, thus jeopardizing newly won freedoms.

CONCEPTS

- Debt
- Tariff
- Tax
- Trade

OBJECTIVES

Students will:

1. Identify the economic questions facing the nation during the period of the Articles of Confederation.
2. Make predictions about how the failure to address these problems could hurt the economic growth of the nation.

CONTENT STANDARDS

Economics

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

History

- The institutions and practices of government created during the Revolution and how they were revised between 1787 and 1815 to create the foundations of the American political system based on the U.S. Constitution and the Bill of Rights. (Era 2, Standard 3, National Standards for History)

TIME REQUIRED

45 minutes

MATERIALS

- A transparency of Visuals 8.1, 8.2. and 8.3
- A copy for each student of Activities 8.1 and 8.2.

PROCEDURE

1. Explain to the class that new nations often face serious economic problems. In the twentieth century, newly independent nations in Africa, Asia, Latin America and, more recently, Central and Eastern Europe have struggled with fundamental decisions about how to manage their economies. Display Visual 8.1 and read it aloud. The United States also faced a struggle after it gained independence. The economic situation facing the United States in 1781 caused some to think that the new country was on the brink of economic collapse.
2. Display Visual 8.2. Use the diagram to provide an overview of what the students will read about in Activity 8.1.
3. Distribute copies of Activity 8.1. Explain that the students should use economic reasoning to answer questions about certain problems faced by the United States under the Articles of Confederation.
4. Divide the class into four small groups. Assign each group to work on one of the four topics presented in Activity 8.1: debt, the power to tax, tariff wars and military strength. Ask each group to write out its predictions and explanations.
5. Discuss the students' responses to each problem, focusing on economic reasoning. Then distribute Activity 8.2. Ask the students to compare their reasoning to the reasoning summarized in Activity 8.2. *(Possible responses for the first three problem areas are summarized in the bulleted list below.)*
 - Debt. *(People lend money in the expectation of repayment with interest. Lenders would have lost confidence in the U.S. government if debts had not been repaid. Future borrowing and investing to stimulate economic growth would have been discouraged.)*
 - The power to tax. *(The government needed a practical way to repay debts. Without revenue, the new government might have defaulted on debts, thus undermining its ability to obtain credit from other nations in the future. The effect would have been to discourage saving and investment, thus reducing the nation's potential for economic growth.)*
 - Tariff wars. *(If the states had been permitted to impose tariffs on goods and services imported from other states, prices of goods and services would have increased. States then would have been discouraged from specializing in producing the goods and services they could provide most efficiently. Instead, they would have sought to become more self-sufficient. The result would have been less trade and thus less wealth for the nation.)*
6. Display Visual 8.3. Ask the students to use supply and demand curves to explain how tariffs would have reduced supply and increased prices. *(Placing tariffs on goods from other states discourages the willingness to produce. This would reduce*

supply from S_1 to S_2 . Prices would increase from P_1 to P_2 .)

7. Turn to the fourth problem area from Activity 8.2: Military strength. *(Without a strengthened military to ensure secure conditions for trade, shipping costs would have increased as U.S. merchants took steps to provide their own security. Exploration, settlement and trade would have been discouraged. The standard of living would have been reduced. This analysis raises another question. Were the benefits to be obtained from secure trade greater than the new costs of supporting a stronger military establishment? Perhaps the proponents of revolution underestimated some benefits of remaining in the British empire.)*

CLOSURE

Conclude the lesson by projecting Visual 8.1 again. Review the problems faced by the new American government. Ask the students to use economic reasoning in explaining how responses to these problems would affect economic growth.

ASSESSMENT

Multiple-Choice Questions

- Which of the following was a key economic problem after the American Revolution?
 - Decreased demand for credit
 - Military threats from the Netherlands
 - Danger of tariff battles between states**
 - Insufficient government debt to attract foreign investment
- One result of allowing states to place tariffs on goods from other states would be
 - decreasing the production of goods and services.**
 - increasing the production of goods and services.
 - prices on goods would be little changed.
 - prices on goods would be decreased.

ESSAY QUESTIONS

- Use economic reasoning to explain why failure to repay war debts, even to speculators, would have hurt the long-term prospects of the American economy.

(Possible answer: People lend money in the expectation of repayment with interest. The confidence of lenders in the future of the United States would have been greatly reduced if debts had not been repaid. Future borrowing and investing to stimulate economic growth would have been discouraged.)

- Americans had spent relatively little to pay for their own defense before the Revolution. In what way might the Americans have miscalculated the costs of gaining independence?

(Possible answer: During the colonial period, Americans benefited from military protection provided by Britain. Following the Revolution, Americans faced ongoing threats — without British protection. British armed forces remained in North America. The Spanish refused to grant Americans navigation rights on parts of the Mississippi River. The Barbary pirates were attacking American shipping in the Mediterranean Sea. Thus the United States needed a more powerful military force than it had had before. But bolstering the military meant higher costs — higher than had been experienced before the Revolution.)

VISUAL 8.1

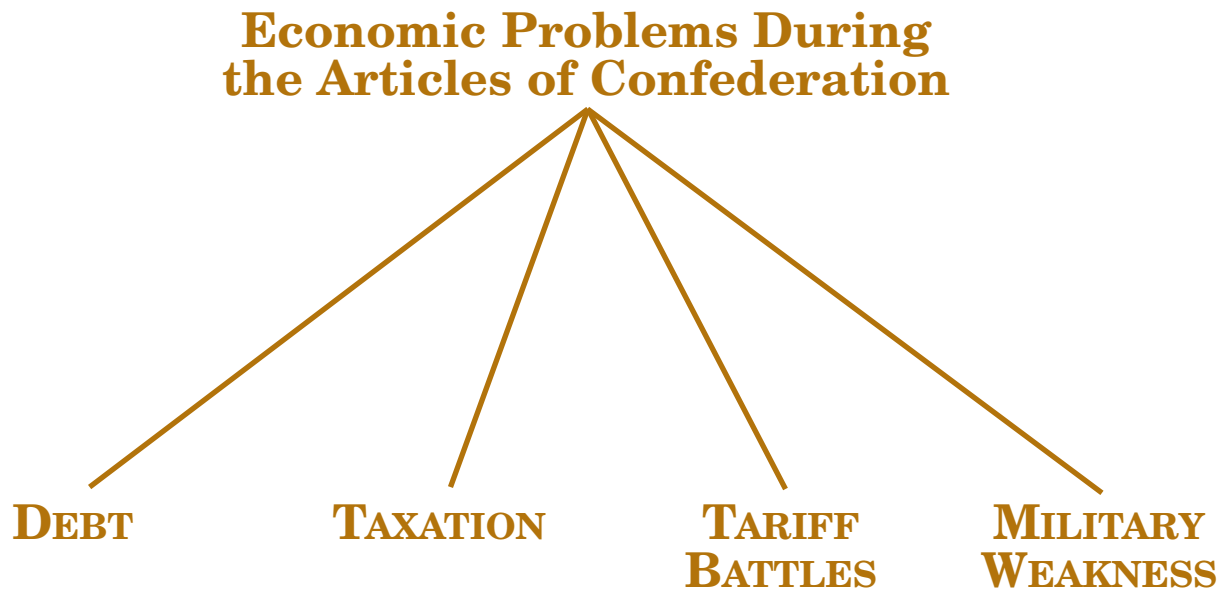
THE PROBLEMS FOLLOWING INDEPENDENCE

There is scarcely anything that can wound the pride or degrade the character of an independent nation which we do not experience . . . we owe debts to foreigners and to our own citizens. . .these remain without any proper or satisfactory provision for their dischargeWe have neither troops, nor treasury, nor government. . . . Are we entitled by nature and compact to a free participation in the navigation of the Mississippi? Spain excludes us from it. Is public credit an indispensable resource. . .? We seem to have abandoned its cause. . . . Is commerce of importance to national wealth? Ours is at the lowest point. . . . Is respectability in the eyes of foreign powers a safeguard against foreign encroachments? The imbecility of our government [under the Articles of Confederation] even forbids them to treat with us.

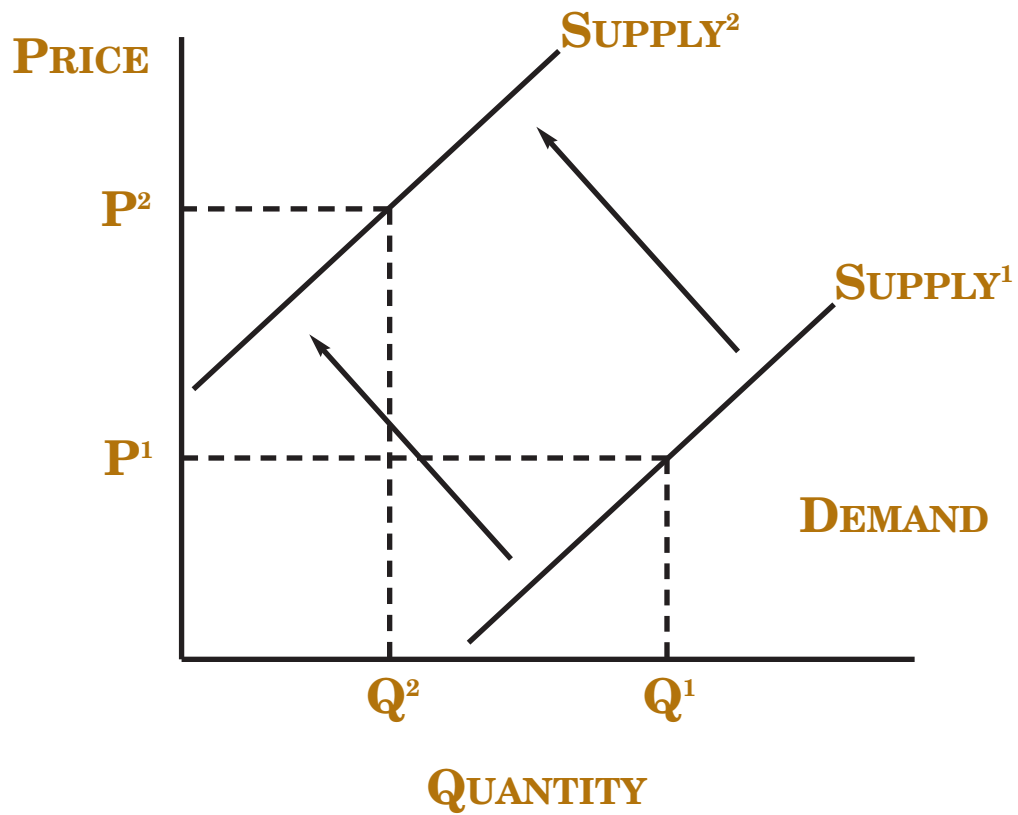
The Federalist, No. 15 (December 1, 1787).

VISUAL 8.2

BE CAREFUL WHAT YOU WISH FOR



VISUAL 8.3
ANALYZING TARIFFS ON EXPORTS FROM OTHER STATES



ACTIVITY 8.1

A NEW BEGINNING IN 1781: ONE NATION OR THIRTEEN?

The Americans won the Revolutionary War. People around the world saw it as a remarkable accomplishment. But after the war the new nation faced serious economic problems. Here is a summary of four of those problems. Read about each one in *The problem* sections below. Then use economic reasoning to respond to questions posed in the *Predicting consequences* sections.

1. Debt

The problem. After the Revolutionary War, Congress faced enormous debt. The United States owed money to the French, who had helped to support the war. Money also was owed to American citizens who had bought bonds from the government to help support the war. The total debt was so steep that some Americans recommended simply not paying it back. They argued that, since the war bonds had changed hands several times, payment now would not go to the people who originally helped to support the war; instead, it would go to speculators who had purchased the bonds from the original bond holders. Under the Articles of Confederation, moreover, Congress had no power to tax and thus no way to raise money to use in paying off war debts.

Predicting consequences. You are a member of the Congress of Confederation (the new name for the Continental Congress) in 1781, considering the issue of war debts. Predict the consequences likely to follow if war debts are not repaid. Explain your prediction briefly, making use of the economic principle that people respond to incentives in predictable ways.

2. The Power to Tax

The problem. Under the Articles of Confederation, Congress had no power to tax. It could levy a tax only if the revenue it raised were turned back to the states on the basis of each state's population. In other words, the U.S. government was severely restricted in its capacity to handle debts and expenses. Even if it seemed prudent to repay war debts, therefore, Congress in 1781 had no obvious means of raising the revenue that would be needed for repayment.

Predicting consequences. You are a member of the Congress of Confederation, considering whether the federal government should be granted new powers to tax. Predict the consequences likely to follow if Congress gains no new power to tax. Explain your prediction by reference to the economic principle that people respond to incentives in predictable ways.

ACTIVITY 8.1, CONTINUED

A NEW BEGINNING IN 1781: ONE NATION OR THIRTEEN?**3. Tariff Wars**

The problem. Under the Articles of Confederation, the federal government had little power, but the states were empowered to act independently, as sovereign bodies. In matters of trade, they could pursue their self-interest even at the expense of neighboring states. Thus it seemed likely that tariff wars would erupt, pitting states against states. For example, 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 City and Philadelphia, found its imports heavily taxed. Leaders in other states watched attentively and considered placing their own taxes on products from neighboring states.

Predicting consequences. You are a member of the Congress of Confederation, considering whether Congress, rather than the several states, should be authorized to regulate interstate commerce. Predict the consequences likely to follow if the several states retain exclusive authority to govern interstate commerce. Explain your prediction by reference to the economic principle that people gain when they trade voluntarily.

4. Military strength

The problem. Although America won the Revolutionary War, Britain continued to occupy territories in the Great Lakes region, in open violation the Treaty of Paris. British occupation interfered with Americans who sought to develop the Northwest Territory for settlement and trade. At the same time, Spain refused to grant Americans navigation rights on parts of the Mississippi River; and in parts of the Mediterranean Sea, Barbary pirates were attacking American shipping. Pockets of civil unrest — the armed rebellion of poor Massachusetts farmers led by Daniel Shays in 1786, for example — also threatened the peace in some places at home. Having separated themselves from the British Empire, Americans now faced the need to provide for their own security in these cases. Under the Articles of Confederation, however, the federal government had no means to provide for Americans' defense and security.

Predicting consequences. You are a member of the Congress of Confederation, considering whether the federal government should be authorized to develop a strong military force to provide for Americans' defense and security. Predict the consequences likely to follow if no such authority is granted. Explain your prediction by reference to the economic principle that people gain when they trade voluntarily.

ACTIVITY 8.2

APPLYING ECONOMIC REASONING TO THE ARTICLES OF CONFEDERATION

1. Debt

After the Revolutionary War, the U. S. government and the nation's many new farms and businesses needed to be able to borrow money. If the U.S. government had not repaid its debts, its failure to do so would have discouraged lending and inhibited economic growth.

People who lend money expect the money to be repaid in full, at an agreed-upon rate of interest. Interest provides lenders with an incentive to lend. A government refusing to repay its war debts, including the interest owed to bond holders, would seem untrustworthy to lenders. The effect would be to discourage future lending. Citizens would hesitate to invest their savings in U.S. government bonds or in new businesses, knowing that the government might break its promise to repay or might allow others to do so. Some lenders would be willing to continue lending, but they would expect to be compensated for their risk at correspondingly higher rates of interest. Higher rates would increase costs for borrowers, discouraging investment.

To encourage lending and investment, and thus foster economic growth, the U.S. government made the right choice in deciding to repay its debts.

2. The Power to Tax

The analysis here is similar to the analysis of debt repayment. Lacking the power to tax, the federal government had no straightforward way to meet its financial obligations. Defaulting on loans would decrease the possibility of obtaining credit from other nations at reasonable rates of interest in the future. The United States would appear to be a poor risk in the eyes of lenders, and their incentive to lend would be weakened accordingly.

To foster economic growth, therefore, the federal government needed enhanced authority to levy and collect taxes.

3. Tariff Wars

It is a basic principle of economics that people gain when they trade voluntarily. Tariff walls erected by states against other states would increase costs for people engaged in interstate trade. Increased costs would create an incentive for farmers and other business people to strive for self-sufficiency rather than specializing in what they could do best and relying, for other goods and services, on trade with farmers and business people in other states. Reduced specialization and trade would have harmful effects, with fewer goods produced at higher costs. Imagine the situation today, for example, if people in New York were required to grow their own citrus fruit, or go without, because they could not obtain imported citrus products from Florida or California.

Economic reasoning suggests, therefore, that the federal government should be authorized to govern interstate commerce in order to prevent restraints on trade.

4. Military Strength

People gain when they trade voluntarily. But people are more apt to engage in trade when they can do so in a secure trade environment. Threats to security weaken the incentive to explore, save, invest and engage in transactions. The incentives that might prompt a settler to establish a farm, or a shipping company to ship goods, would obviously be weak in an environment in which property might be attacked or goods might be stolen. An adequate level of internal security and national defense is necessary to foster trade.



ACTIVITY 8.2, CONTINUED

APPLYING ECONOMIC REASONING TO THE ARTICLES OF CONFEDERATION

Economic reasoning suggests, therefore, that the United States needed to strengthen its capacity to provide for internal security and national defense. However, this analysis raises another question: Were the benefits to be gained from secure, expanded trade greater than the costs required to establish a stronger military establishment? Perhaps the benefits of remaining in the British Empire were greater than the proponents of independence had imagined.

