

Economics 10: Economic Systems

May 4 - 8

Time Allotment: 20 minutes per day

Student Name: _____

Teacher Name: _____

Packet Overview

Date	Objective(s)	Page Number
Monday, May 4	Explain the importance of economic considerations both in the American Revolution and US Constitution.	2
Tuesday, May 5	Explain the importance of economic freedom as a necessary, but not sufficient, condition for political freedom.	9
Wednesday, May 6	Explain why (1) factions pose a threat to any government and (2) how the US Constitution enabled economic success early on in the history of the US	13
Thursday, May 7 & Friday, May 8	Explain how the role of the US Government in the economy has changed. ***Quiz***	

Additional Notes:

Remember, Guided Instruction via Zoom **on Tuesday and Thursday from 1-1:50, you can connect with me via Zoom** to ask questions, discuss concepts etc... However, you can email any time! Please continue to ask questions! E-mail: Patrick.Franzese@greatheartsnorthernnoaks.org.

Again, each day's lesson is designed to take no more than 20 minutes. If you have spent more than 20 minutes on a lesson and/or you do not have access to a computer or the internet, then have your parent sign the page next to the "student expectation" section under each lesson and you will receive full credit for the assignment.

Academic Honesty

I certify that I completed this assignment independently in accordance with the GHNO Academy Honor Code.

Student signature:

I certify that my student completed this assignment independently in accordance with the GHNO Academy Honor Code.

Parent signature:

Monday, May 4 – Economics and the United States Founding

Objective: Explain the importance of economic considerations both in the American Revolution and US Constitution.

Student Expectations: Annotate the reading and answer the questions.

Introduction to Lesson

The past few weeks we have studied economic systems in general which range from pure market economies to pure command economies. We have seen that those countries which adopt market economies are much more successful than those countries which adopt command economies. More importantly, countries which adopt command economies are not just unsuccessful, they often lead to enormous human suffering. Yet, the allure of command economies persists. As the Road to Serfdom sets forth, those living in market economies are not immune from moving towards a command economy. This week, we will look specifically at the founding of the United States and the important role economic considerations played, and still play, in securing political freedom.

The Economics of the American Founding

The following reading was excerpted from an article entitled *The Economics of the American Revolutionary War* by Ben Baack (<https://eh.net/encyclopedia/the-economics-of-the-american-revolutionary-war/>)

By the time of the onset of the American Revolution, Britain had attained the status of a military and economic superpower. The thirteen American colonies were one part of a global empire generated by the British in a series of colonial wars beginning in the late seventeenth century and continuing on to the mid eighteenth century. The British military establishment increased relentlessly in size during this period as it engaged in the Nine Years War (1688-97), the War of Spanish Succession (1702-13), the War of Austrian Succession (1739-48), and the Seven Years War (1756-63). These wars brought considerable additions to the British Empire. In North America alone the British victory in the Seven Years War resulted in France ceding to Britain all of its territory east of the Mississippi River as well as all of Canada and Spain surrendering its claim to Florida (Nester, 2000).

Given the sheer magnitude of the British military and its empire, the actions taken by the American colonists for independence have long fascinated scholars. Why did the colonists want independence? How were they able to achieve a victory over what was at the time the world's preeminent military power? What were the consequences of achieving independence? These and many other questions have engaged the attention of economic, legal, military, political, and social historians. In this brief essay we will focus only on the economics of the Revolutionary War.

Economic Causes of the Revolutionary War

Prior to the conclusion of the Seven Years War there was little, if any, reason to believe that one day the American colonies would undertake a revolution in an effort to create an independent nation-state. As a part of the empire the colonies were protected from foreign invasion by the British military. In return, the colonists paid relatively few taxes and could engage in domestic

economic activity without much interference from the British government. For the most part the colonists were only asked to adhere to regulations concerning foreign trade. In a series of acts passed by Parliament during the seventeenth century the Navigation Acts required that all trade within the empire be conducted on ships which were constructed, owned and largely manned by British citizens. Certain enumerated goods whether exported or imported by the colonies had to be shipped through England regardless of the final port of destination.

Western Land Policies

Economic incentives for independence significantly increased in the colonies as a result of a series of critical land policy decisions made by the British government. The Seven Years' War had originated in a contest between Britain and France over control of the land from the Appalachian Mountains to the Mississippi River. During the 1740s the British government pursued a policy of promoting colonial land claims to as well as settlement in this area, which was at the time French territory. With the ensuing conflict of land claims both nations resorted to the use of military force which ultimately led to the onset of the war. At the conclusion of the war as a result of one of many concessions made by France in the 1763 Treaty of Paris, Britain acquired all the contested land west of its colonies to the Mississippi River. It was at this point that the British government began to implement a fundamental change in its western land policy. Britain now reversed its long-time position of encouraging colonial claims to land and settlement in the west. The essence of the new policy was to establish British control of the former French fur trade in the west by excluding any settlement there by the Americans. Implementation led to the development of three new areas of policy. 1. Construction of the new rules of exclusion. 2. Enforcement of the new exclusion rules. 3. Financing the cost of the enforcement of the new rules. First, the rules of exclusion were set out under the terms of the Proclamation of 1763 whereby colonists were not allowed to settle in the west. This action legally nullified the claims to land in the area by a host of individual colonists, land companies, as well as colonies. Second, enforcement of the new rules was delegated to the standing army of about 7,500 regulars newly stationed in the west. This army for the most part occupied former French forts although some new ones were built. Among other things, this army was charged with keeping Americans out of the west as well as returning to the colonies any Americans who were already there. Third, financing of the cost of the enforcement was to be accomplished by levying taxes on the Americans. Thus, Americans were being asked to finance a British army which was charged with keeping Americans out of the west (Baack, 2004).

Tax Policies

Of all the potential options available for funding the new standing army in the west, why did the British decide to tax their American colonies? The answer is fairly straightforward. First of all, the victory over the French in the Seven Years' War had come at a high price. Domestic taxes had been raised substantially during the war and total government debt had increased nearly twofold (Brewer, 1989). In addition, taxes were significantly higher in Britain than in the colonies. One estimate suggests the per capita tax burden in the colonies ranged from two to four percent of that in Britain (Palmer, 1959). And finally, the voting constituencies of the members of parliament were in Britain not the colonies. All things considered, Parliament viewed taxing the colonies as the obvious choice.

Accordingly, a series of tax acts were passed by Parliament the revenue from which was to be used to help pay for the standing army in America. The first was the Sugar Act of 1764. Proposed by England's Prime Minister the act lowered tariff rates on non-British products from the West Indies as well as strengthened their collection. It was hoped this would reduce the incentive for smuggling and thereby increase tariff revenue (Bullion, 1982). The following year Parliament passed the Stamp Act that imposed a tax commonly used in England. It required stamps for a broad range of legal documents as well as newspapers and pamphlets. While the colonial stamp duties were less than those in England they were expected to generate enough revenue to finance a substantial portion of the cost the new standing army. The same year passage of the Quartering Act imposed essentially a tax in kind by requiring the colonists to provide British military units with housing, provisions, and transportation. In 1767 the Townshend Acts imposed tariffs upon a variety of imported goods and established a Board of Customs Commissioners in the colonies to collect the revenue.

Boycotts

While the Americans could do little about the British army stationed in the west, they could do something about the new British taxes. American opposition to these acts was expressed initially in a variety of peaceful forms. While they did not have representation in Parliament, the colonists did attempt to exert some influence in it through petition and lobbying. However, it was the economic boycott that became by far the most effective means of altering the new British economic policies. In 1765 representatives from nine colonies met at the Stamp Act Congress in New York and organized a boycott of imported English goods. The boycott was so successful in reducing trade that English merchants lobbied Parliament for the repeal of the new taxes. Parliament soon responded to the political pressure. During 1766 it repealed both the Stamp and Sugar Acts (Johnson, 1997). In response to the Townshend Acts of 1767 a second major boycott started in 1768 in Boston and New York and subsequently spread to other cities leading Parliament in 1770 to repeal all of the Townshend duties except the one on tea. In addition, Parliament decided at the same time not to renew the Quartering Act.

With these actions taken by Parliament the Americans appeared to have successfully overturned the new British post war tax agenda. However, Parliament had not given up what it believed to be its right to tax the colonies. On the same day it repealed the Stamp Act, Parliament passed the Declaratory Act stating the British government had the full power and authority to make laws governing the colonies in all cases whatsoever including taxation. Legislation not principles had been overturned.

The Tea Act

Three years after the repeal of the Townshend duties British policy was once again to emerge as an issue in the colonies. This time the American reaction was not peaceful. It all started when Parliament for the first time granted an exemption from the Navigation Acts. In an effort to assist the financially troubled British East India Company Parliament passed the Tea Act of 1773, which allowed the company to ship tea directly to America. The grant of a major trading advantage to an already powerful competitor meant a potential financial loss for American importers and smugglers of tea. In December a small group of colonists responded by boarding three British ships in the Boston harbor and throwing overboard several hundred chests of tea owned by the East India Company (Labaree, 1964). Stunned by the events in Boston, Parliament

decided not to cave in to the colonists as it had before. In rapid order it passed the Boston Port Act, the Massachusetts Government Act, the Justice Act, and the Quartering Act. Among other things these so-called Coercive or Intolerable Acts closed the port of Boston, altered the charter of Massachusetts, and reintroduced the demand for colonial quartering of British troops. Once done Parliament then went on to pass the Quebec Act as a continuation of its policy of restricting the settlement of the West.

The First Continental Congress

Many Americans viewed all of this as a blatant abuse of power by the British government. Once again a call went out for a colonial congress to sort out a response. On September 5, 1774 delegates appointed by the colonies met in Philadelphia for the First Continental Congress. Drawing upon the successful manner in which previous acts had been overturned the first thing Congress did was to organize a comprehensive embargo of trade with Britain. It then conveyed to the British government a list of grievances that demanded the repeal of thirteen acts of Parliament. All of the acts listed had been passed after 1763 as the delegates had agreed not to question British policies made prior to the conclusion of the Seven Years War. Despite all the problems it had created, the Tea Act was not on the list. The reason for this was that Congress decided not to protest British regulation of colonial trade under the Navigation Acts. In short, the delegates were saying to Parliament take us back to 1763 and all will be well.

The Second Continental Congress

What happened then was a sequence of events that led to a significant increase in the degree of American resistance to British policies. Before the Congress adjourned in October the delegates voted to meet again in May of 1775 if Parliament did not meet their demands. Confronted by the extent of the American demands the British government decided it was time to impose a military solution to the crisis. Boston was occupied by British troops. In April a military confrontation occurred at Lexington and Concord. Within a month the Second Continental Congress was convened. Here the delegates decided to fundamentally change the nature of their resistance to British policies. Congress authorized a continental army and undertook the purchase of arms and munitions. To pay for all of this it established a continental currency. With previous political efforts by the First Continental Congress to form an alliance with Canada having failed, the Second Continental Congress took the extraordinary step of instructing its new army to invade Canada. In effect, these actions taken were those of an emerging nation-state. In October as American forces closed in on Quebec the King of England in a speech to Parliament declared that the colonists having formed their own government were now fighting for their independence. It was to be only a matter of months before Congress formally declared it.

Economic Incentives for Pursuing Independence: Taxation

Given the nature of British colonial policies, scholars have long sought to evaluate the economic incentives the Americans had in pursuing independence. In this effort economic historians initially focused on the period following the Seven Years War up to the Revolution. It turned out that making a case for the avoidance of British taxes as a major incentive for independence proved difficult. The reason was that many of the taxes imposed were later repealed. The actual level of taxation appeared to be relatively modest. After all, the Americans soon after adopting the Constitution taxed themselves at far higher rates than the British had prior to the Revolution (Perkins, 1988). Rather it seemed the incentive for independence might have been the avoidance

of the British regulation of colonial trade. Unlike some of the new British taxes, the Navigation Acts had remained intact throughout this period.

The Burden of the Navigation Acts

One early attempt to quantify the economic effects of the Navigation Acts was by Thomas (1965). Building upon the previous work of Harper (1942), Thomas employed a counterfactual analysis to assess what would have happened to the American economy in the absence of the Navigation Acts. To do this he compared American trade under the Acts with that which would have occurred had America been independent following the Seven Years War. Thomas then estimated the loss of both consumer and produce surplus to the colonies as a result of shipping enumerated goods indirectly through England. These burdens were partially offset by his estimated value of the benefits of British protection and various bounties paid to the colonies. The outcome of his analysis was that the Navigation Acts imposed a net burden of less than one percent of colonial per capita income. From this he concluded the Acts were an unlikely cause of the Revolution. A long series of subsequent works questioned various parts of his analysis but not his general conclusion (Walton, 1971). The work of Thomas also appeared to be consistent with the observation that the First Continental Congress had not demanded in its list of grievances the repeal of either the Navigation Acts or the Sugar Act.

American Expectations about Future British Policy

Did this mean then that the Americans had few if any economic incentives for independence? Upon further consideration economic historians realized that perhaps more important to the colonists were not the past and present burdens but rather the expected future burdens of continued membership in the British Empire. The Declaratory Act made it clear the British government had not given up what it viewed as its right to tax the colonists. This was despite the fact that up to 1775 the Americans had employed a variety of protest measures including lobbying, petitions, boycotts, and violence. The confluence of not having representation in Parliament while confronting an aggressive new British tax policy designed to raise their relatively low taxes may have made it reasonable for the Americans to expect a substantial increase in the level of taxation in the future (Gunderson, 1976, Reid, 1978). Furthermore a recent study has argued that in 1776 not only did the future burdens of the Navigation Acts clearly exceed those of the past, but a substantial portion would have borne by those who played a major role in the Revolution (Sawers, 1992). Seen in this light the economic incentive for independence would have been avoiding the potential future costs of remaining in the British Empire.

The US Constitution

After the Revolutionary War, the Articles of Confederation were still in effect, but clearly not sufficient. Trade between the independent states was an important issues and a meeting between some of the middle states took place during which a larger meeting to discuss the Articles of Confederation was initiated for the following year. This larger meeting is now referred to the Constitutional Convention.

With the economic background for the Revolutionary War, it is no surprise that the economic affairs between the states and the economic rights of citizens played an important role both at the

Economics 10: Economic Systems

May 4 - 8



convention and in the text of the US Constitution. Consider the following provisions that are contained in the US Constitution:

Article I, Section 7

- All Bills for raising Revenue shall originate in the House of Representatives; but the Senate may propose or concur with Amendments as on other Bills.

Article I, Section 8

- The Congress shall have Power To lay and collect Taxes, Duties, Imposts and Excises, to pay the Debts and provide for the common Defence and general Welfare of the United States; but all Duties, Imposts and Excises shall be uniform throughout the United States;
- To borrow Money on the credit of the United States;
- To regulate Commerce with foreign Nations, and among the several States, and with the Indian Tribes;
- To establish an uniform Rule of Naturalization, and uniform Laws on the subject of Bankruptcies throughout the United States;
- To coin Money, regulate the Value thereof, and of foreign Coin, and fix the Standard of Weights and Measures;
- To provide for the Punishment of counterfeiting the Securities and current Coin of the United States;
- To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries;

Article I, Section 9

- No Tax or Duty shall be laid on Articles exported from any State.

Amendment III

No Soldier shall, in time of peace be quartered in any house, without the consent of the Owner, nor in time of war, but in a manner to be prescribed by law.

Amendment IV

The right of the people to be secure in their persons, houses, papers, and effects, against unreasonable searches and seizures, shall not be violated, and no Warrants shall issue, but upon probable cause, supported by Oath or affirmation, and particularly describing the place to be searched, and the persons or things to be seized.

Amendment V

No person shall ... be deprived of life, liberty, or property, without due process of law; nor shall private property be taken for public use, without just compensation.

Amendment VII

In Suits at common law, where the value in controversy shall exceed twenty dollars, the right of trial by jury shall be preserved, and no fact tried by a jury, shall be otherwise re-examined in any Court of the United States, than according to the rules of the common law.

Economics 10: Economic Systems

May 4 - 8



Amendment VIII

Excessive bail shall not be required, nor excessive fines imposed, nor cruel and unusual punishments inflicted.

In short, the US Constitution both by its explicit protection of private property and its limited powers granted to Congress effectively established a market economy.

Summary Questions

1. What role did economic considerations play in the American Revolution?

2. What economic system did the US Constitution establish? How so?

Tuesday, May 5 – Economic Freedom and Political Freedom

Objective: Explain the importance of economic freedom as a necessary, but not sufficient, condition for political freedom.

Student Expectations: Annotate the reading and answer the questions.

Introduction to Lesson

As we studied a couple of week ago, there is a correlation between countries that adopt characteristics of market economies and countries that have personal freedom. Moreover, there is a correlation between countries that adopt characteristics of command economies and countries that lack personal freedom. However, there are countries such as China that have adopted some characteristics of market economies but still lack political freedom. Conversely, there are no countries that are considered command economies, and which also have political freedom. This situation begs the question, what is the correlation between economic freedom and political freedom? And, what is necessary for political freedom?

Economic Freedom and Political Freedom

Read “The Relation Between Economic Freedom and Political Freedom” by Milton Friedman, pgs 196-206 of your reader, and answer questions below.

1. Why is economic freedom necessary for political freedom? How does economic power serve as a check on political power?

2. Why is economic freedom not sufficient by itself for political freedom?

Wednesday, May 6 – Early Success of US Constitution

Objective: Explain why (1) factions pose a threat to any government and (2) how the US Constitution enabled economic success early on in the history of the US

Student Expectations: Annotate the reading and answer the questions.

Introduction to Lesson

By any measure, the United States Constitution has been a great success in ensuring political freedom for American citizens. As we saw on Monday, protection of private property and the establishment of a market economy were key aims of the Constitution. Then, as we saw on Tuesday, economic freedom is a critical component in achieving political freedom. In today’s lesson we look how the effective restraint of economic factions was a critical reason why the US Constitution succeeded early on.

Federalist No. 10

In Federalist No. 10, James Madison warns against factions in advocating for the ratification of the US Constitution. As he writes:

By a faction, I understand a number of citizens, whether amounting to a majority or a minority of the whole, who are united and actuated by some common impulse of passion, or of interest, adversed to the rights of other citizens, or to the permanent and aggregate interests of the community.

He argues that that the causes of faction cannot be removed. However, the effects of faction can be controlled through a Republican government. What is important for our purposes is understanding what major the causes of faction is; namely distribution of property.

The latent causes of faction are thus sown in the nature of man; and we see them everywhere brought into different degrees of activity, according to the different circumstances of civil society. A zeal for different opinions concerning religion, concerning government, and many other points, as well of speculation as of practice; an attachment to different leaders ambitiously contending for pre-eminence and power; or to persons of other descriptions whose fortunes have been interesting to the human passions, have, in turn, divided mankind into parties, inflamed them with mutual animosity, and rendered them much more disposed to vex and oppress each other than to co-operate for their common good. So strong is this propensity of mankind to fall into mutual animosities, that where no substantial occasion presents itself, the most frivolous and fanciful distinctions have been sufficient to kindle their unfriendly passions and excite their most violent conflicts. But the most common and durable source of factions has been the various and unequal distribution of property. Those who hold and those who are without property have ever formed distinct interests in society. Those who are creditors, and those who are debtors, fall under a like discrimination. A landed interest, a manufacturing interest, a mercantile interest, a moneyed interest, with many lesser interests, grow up of necessity in civilized nations, and divide them into different classes, actuated by different sentiments and views. The regulation of these various and interfering interests forms the principal task of modern legislation, and involves the spirit of party and faction in the necessary and ordinary operations of the government.

No man is allowed to be a judge in his own cause, because his interest would certainly bias his judgment, and, not improbably, corrupt his integrity. With equal, nay with greater reason, a body of men are unfit to be both judges and parties at the same time; yet what are many of the most important acts of legislation, but so many judicial determinations, not indeed concerning the rights of single persons, but concerning the rights of large bodies of citizens? And what are the different classes of legislators but advocates and parties to the causes which they determine? Is a law proposed concerning private debts? It is a question to which the creditors are parties on one side and the debtors on the other. Justice ought to hold the balance between them. Yet the parties are, and must be, themselves the judges; and the most numerous party, or, in other words, the most powerful faction must be expected to prevail. Shall domestic manufactures be encouraged, and in what degree, by restrictions on foreign manufactures? are questions which would be differently decided by the landed and the manufacturing classes, and probably by neither with a sole regard to justice and the public good. The apportionment of taxes on the various descriptions of property is an act which seems to require the most exact impartiality; yet there is, perhaps, no legislative act in which greater opportunity and temptation are given to a predominant party

Economics 10: Economic Systems

May 4 - 8



to trample on the rules of justice. Every shilling with which they overburden the inferior number, is a shilling saved to their own pockets.

Finish this quote: “But the most common and durable source of factions has been the _____
_____.”

Early Success of US Constitution

Read, “The Political Economy of the United States” by Dwight R. Lee, pgs 183 (start under the heading “The Economic Success of the Constitution”) – 185 (stop at “Constitutional Erosion and the Rise of Political Piracy”). Then answer question below.

1. Why was the Constitution so successful in ensuring the economic success of the United States?

Thursday, May 7 and Friday, May 8 – The Changing Role of the US Government in the Economy

Explain how the role of the US Government in the economy has changed.

Student Expectations: Watch my video, the annotate the reading and answer the questions.

****Take Quiz on page 15 after completing this lesson! Note, two questions come from today's video****

Introduction to Lesson

The interpretation of the US Constitution has changed dramatically since it was ratified. Suffice to say, many of the people who voted to ratify the US Constitution would be shocked at how the economic powers of the government have expanded and the respect of private property has been chipped away at over the last 100 years especially. In this lesson we look at what has changed and reflect upon what that means for both our economic freedom and political freedom.

The Changing Role of the US Government in the Economy

Read, “The Political Economy of the United States” by Dwight R. Lee, pg 185 (start at “Constitutional Erosion and the Rise of Political Piracy”) till pg 190 (look at footnote, page 190!) Then answer questions below.

1. What has led to the “Rise of Political Piracy”

2. What is the impact of “Political Piracy”

3. Based on your reading of Federal No 10, what would James Madison say about this situation?

4. Based on your reading of the “Road to Serfdom” what would Hayek and Freidman say about this situation?

5. Based on your reading of the “The Relation Between Economic Freedom and Political Freedom” what would Freidman say about this situation?

Quiz – Week of May 4
(Complete without looking at your notes or packet!)

For #1 – 10, please circle “True” or “False” (1 point each)

- 1. True False In Federalist No. 10, James Madison argues that factions promote the general or public good.
- 2. True False According to James Madison, the most common and durable source of factions has been the various and unequal distribution of properties.
- 3. True False According to James Madison, a democratic form of government can prevent the causes of factions.
- 4. True False The US Constitution promotes a command economy.
- 5. True False The US Constitution protects private property.
- 6. True False US Government spending has consistently decreased since the 1790s.
- 7. True False According to Lee, the US public has increasingly supported capturing existing wealth through nonproductive transfer activities.
- 8. True False Health Care is a public good.
- 9. True False National Defense is a public good.
- 10. True False According to Milton Friedman economic freedom is not needed in order to achieve political freedom.

11. What has enabled the United States to create such great wealth since its founding? (5 points)
