Decision Making in U.S. History

New Republic

By Kevin O'Reilly

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ABOUT THE AUTHOR

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NEW REPUBLIC

Introduction

OVERVIEW

This volume on the New Republic era consists of seven lessons: three focused on foreign policy and four on domestic questions. The lesson on the Barbary Wars comes after many of the other lessons because the primary decision comes in 1801 (though it starts in 1785). As in the other volumes, no effort is made to cover all the major topics in this time period. Rather, lessons were chosen around interesting decision-making problems.

SKILLS GRID FOR THIS VOLUME

X = part of lesson
E = emphasized in the lesson

Skill	Lessons 1	2	3	4	5	6	7
Underlying problem	X	X	E		X	X	X
Point of view	X	X	X	X	E	X	
Assumptions/emotions	X		X	E	X	X	
Ask—context	X	X	E	X	X	X	X
Ask—sources							X
Ask—analogies						E	E
Goals? Realistic?			X		X	X	
Options. Ethical?		X			X		
Unintended consequences	E	E	X	X	X	X	E
Play out options	X		X	E	X	X	X

LESSON 1: FINANCIAL POLICIES, 1790

Teacher Pages

OVERVIEW

As the nation began under the new Constitution, Secretary of the Treasury Alexander Hamilton suggested numerous financial programs. Which of these will students support?

VOCABULARY

- Alexander Hamilton—U.S. Secretary of the Treasury in the 1790s
- Government bond—A note promising that the government will pay back a loan with interest
- Government debt—The amount of money a government owes, usually held in bonds
- Tariff—A tax on imports
- Bounty—A government payment for an economic action, in this case for starting a certain type of business
- National bank—Bank for the United States that would take deposits of government money and would make loans to other banks and to the public

DECISION-MAKING SKILLS EMPHASIZED

- Identify underlying problems
- Consider other points of view
- Recognize assumptions, emotions
- Ask about context
- Predict unintended consequences
- Play out options

LESSON PLAN

A. IN-DEPTH LESSON (One 40-minute class)

Procedure:

Distribute Handout 1 and have students decide what they will do about each policy proposal. Next, divide students into five groups and assign one of the proposals to each group. Have each group report its decision on the assigned proposal. Discuss as a class and have students vote on whether they would support each proposal. Distribute Handout 2 with the outcomes or tell the class what actually happened. OPTION: Give students only the questions on the top of Handout 3, and have them vote on which two they would like to hear the suggested answers. Read only those two answers.

Reflecting on Decision Making:

Ask students what they learned from these outcomes. What would they have done differently, if anything, now that they know the outcomes? Which decision-making skills were especially important to the decisions on the financial programs? Which letters of **P-A-G-E** applied especially to this problem? (See the section on "Decision-Making Analysis" below for ideas.) Ask students what they did well or poorly on in terms of the **P-A-G-E** analysis. Discuss their answers.

Placing the Actual Decisions Into Historical Context:

Ask students whether historical context (for example, geographic location, national debt, or American attitudes toward Britain) or individual choices were more important for the decisions made on financial programs in the early republic. Was Alexander Hamilton more important in financial decisions or was historical context more important?

Connecting to Today:

Ask if the government today should pay off bonds at full value to whoever holds those bonds. Is the Federal Reserve Bank (like the Bank of the United States) good for the United States? Should the government give subsidies to important industries?

Troubleshooting:

Some students may have difficulty understanding the idea of paying for bonds at full value compared to discounted prices. It's helpful to have a student role-play buying a $100 bond during the Revolution and then selling the bond to another student for less (say $25); remind them that they are in the 1780's and having financial difficulties. It sells for less because there are more bonds for sale than there are people willing to buy them. With Hamilton's proposal, the student who bought the bond for $25 would be paid the full value of the bond ($100). This role play usually generates several questions, the answers to which help students clarify their understanding of bonds.

B. QUICK MOTIVATOR (15–20 minutes)

Have students read Handout 1 for homework. To save even more time, do not use the questions on Handout 3. In class, have students pair up to discuss their answers for about two minutes. Bring the class together and have students vote on which options they will choose for each proposal. Briefly discuss their reasons. Distribute Handout 2 with the outcomes and have students comment on them for homework. Another way to shorten the lesson is to do only one or two of the proposals, rather than all five.

TEACHER NOTES FOR EXPANDING DISCUSSION

(For outcomes for students, see Handout 2.)

Hamilton's pro-British thinking was very important to his proposals. He based much of his financial proposals on English actions. He admired the Bank of London (England's central bank), and he saw the benefits of the British government carrying debt.

Historians disagree about the extent to which Hamilton wanted to protect "infant industries" (industries just starting and therefore possibly needing protection), as opposed to free trade. Many history textbooks emphasize that Hamilton wanted to protect infant industries. This lesson sides with those who feel Hamilton was a strong supporter of free trade. He wanted a tariff primarily to raise revenue to pay off debts, not provide protection for manufacturing industries. Hamilton wrote in 1793, "My commercial system turns very much on giving a free course to trade. …And I feel a particular reluctance to hazard anything which may lead to commercial warfare with any power." Hamilton's primary method of helping industries was bounties, not tariff.

There was actually a different proposal for a low, temporary tariff only on certain products needed to defend the country, such as gunpowder, sails, cotton cloth, iron, and wood. This option would have complicated the general question of the tariff issue, so it was not included.

Hamilton also proposed internal improvements (such as road building) and encouragement of immigrant workers in his "Report on Manufactures." Congress rejected both proposals. The lesson is already extensive, so these other proposals are not included. The question of internal improvements is the focus of Lesson 7, on canals.

Hamilton was hoping to weaken state power by assuming their debts. He thought if the states had no debts, they would have no reason to tax. Without tax revenue, state power would wither away and the federal government would become dominant.

DECISION-MAKING ANALYSIS

P = Problem
* **- Identify any underlying problem(s)**
* **- Consider other points of view**
* **- What are my assumptions? Emotions?**

A = Ask for information (about)
* **- Historical context (history of this issue; context in the world)**
- Reliability of sources
- Historical analogies

G = Goals
- What are my main goals? Are they realistic?
- Generate options to achieve these goals. Are they ethical?

E = Effects
* **- Predict unintended consequences.**
* **- Play out the options. What could go wrong?**

*Denotes topics emphasized in this lesson

- **Identify underlying problems:** One underlying problem that Hamilton identified was the need of governments for support from wealthy people. His proposals were intended to tie investors to the federal government. Since wealthy investors would be owed money by the government, they would have strong motivation to make sure the government succeeded. (Otherwise, they don't get paid back.) He said the basic purpose of the bank was to "interweave itself into the monied interest of every State."
- **Consider other points of view:** Students should consider other points of view in the following two scenarios: (1) those who had bought bonds originally at full value, sold them for a fraction of what they paid, and then watched as the government paid the new owners the full value; and (2) taxpayers in states that had paid off their debts who now would be paying more taxes to cover for states that had not paid their debts. These groups would be angry.
- **What are my assumptions?** The problem of paying off bonds involves assumptions about how the money will be used. Hamilton believed that investors would use the money to promote business. They would pool their money in investments in order to make more money. Poorer people would not pool their money, so there would be little effect on the economy. Hamilton also assumed people were motivated primarily by self-interest. He felt policies should be adopted that used people's self-interest to get them to make choices for the public good. Hamilton also assumed, as he stated several times, that the British financial system was the "best in the world."

- **Ask questions about context:** Use the questions and suggested answers in Handout 3 to encourage students to ask questions.
- **Consider consequences:** If governments do not pay their debts, it makes it more difficult to get investors to lend money to those governments in the future. Hamilton stated that governments "are bound to keep their promises, to fulfill their engagements (debts)." One of the major effects of this whole program was to increase the power of the president compared to Congress. Hamilton was suggesting a whole program of economic changes through the executive branch. Congress still had to vote on the program, but the president was initiating a program of economic changes. Congress was merely deciding whether to support his plan.
- **Play out the option:** Students should consider how the idea of paying the bonds at full value should be enforced. Unscrupulous speculators could take advantage of the uninformed to buy bonds at the lower rate and immediately sell them to the government at the full price. Similarly, the directors of the National Bank would have access to wealth and power that they could use for corrupt purposes. People in the backcountry were especially suspicious of a National Bank and all the favors it could give the wealthy, urban merchants at the expense of small, western farmers.

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LESSON 1: FINANCIAL POLICIES, 1790

Vocabulary

- Alexander Hamilton—U.S. Secretary of the Treasury in the 1790s
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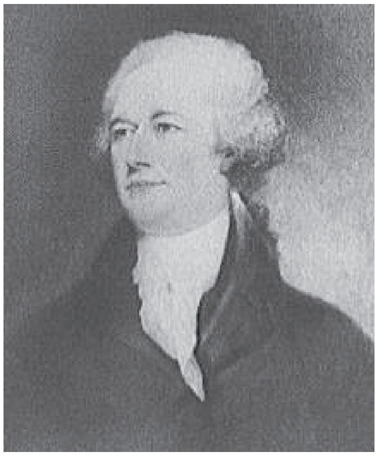
LESSON 1: FINANCIAL POLICIES, 1790

Student Handout 1: Problem

New Republic

1790	1795	1800	1805	1810	1815
Financial proposals					



Alexander Hamilton

It is 1790, the first year of the United States under the new Constitution. The atmosphere in the country is tense. While people are optimistic about the new government, no one is sure if it will work. There could be riots or civil war. Alexander Hamilton, the Secretary of the Treasury, has made several financial proposals to strengthen the country economically. Currently, the federal government takes in about $5.6 million per year. Decide whether you would support each proposal and explain why.

Proposal 1—Pay off government bonds at face value: The government is in debt to Americans who bought bonds, mainly during the American Revolution. Many of those who bought bonds sold them to pay off their own debts. They sold the bonds for a fraction of the original value. For example, let's assume a farmer in Maryland bought a 10-year bond for $100 in 1780. The farmer lent the government $100 and received an I.O.U. (the bond) from the government to pay him back $110 (principal plus interest) in 1790. But in 1786 the farmer needed money to pay expenses (or feared that the government would never pay back the bondholders) and sold the bond for $65. The buyer bought it hoping the government would still pay back $110 in 1790. Many of the bonds held by people now, in 1790, were bought for as little as $17 on a $100 bond. The government owes about $44 million to owners of bonds, which is a large sum of money. Hamilton argues that the government should pay the debt at face value (the value on the original bond) plus interest. That is, Hamilton wants to pay back $110 to holders of $100 bonds even though the owners may have paid as little as $17 for them.

Opponents argue that rich investors, including friends of Hamilton, will make a huge amount of money. Congressman James Madison proposes that the government pay the present bondholders the highest price in the market, with the remaining funds going to the original hardworking people who bought the bonds to help their country. For example, if an investor bought a $100 bond for $17, the government would pay the highest price for that bond over the past few years. If the highest price was $30, the government would pay $30 to the investor (still a good profit) and $70 to the patriotic American soldier or hardworking shopkeeper who bought the bond originally. Hamilton's proposal will cost the government about $2.6 million in interest per year.