

THE “BERTH” OF PUBLIC DEBT

Lesson by

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Subject

Economic and Financial History of America and the United States

Academic Level

Secondary/Collegiate

Bloom Levels

Knowledge

Comprehension

Analysis

Synthesis

Unit

The Art of Political Finance—Chapter 2

Lesson Description

The “Berth of Public Debt” will explore the beginning of public debt in the United States, introduce students to related terms and to the Treasury Department and its primary role. It will also cite some quotes and perspectives from our founding fathers on both sides of the concept of debt and introduce students to the website for “The Debt Clock.”

Time Required

Three 60-minute classes

Lesson Number within Unit: 2**Objectives**

Students will be able to:

1. Navigate the US Treasury website to find tools and terms to help define debt, types of bonds, and various statistics
2. Understand several definitions, especially the difference between debt and deficit
3. Download and analyze data contained in tables of the history of our public debt
4. Create Charts within a spreadsheet to show data graphically
5. Understand how to read and analyze data within tables, especially large numbers

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Concepts & Terms

Public Debt

Money (or credit) owed by the government — federal, state, or local. The government accumulates debt over time by running a deficit; it spends more than it receives in tax revenue.

Deficit

The difference between government receipts and spending in a single year, that is, the increase of debt over a particular year.

Interest

A fee for borrowing money generally in the form of a percentage of principle (amount borrowed).

The Treasury

The Treasury Department is the executive agency responsible for promoting economic prosperity and ensuring the financial security of the United States.

Monetary Policy

A government or central bank's actions to influence the availability and cost of money and credit in the economy, as a means to promote national economic goals.

Fiscal Policy

The use of government revenue and expenditures (spending) to influence the economy.

Excise Tax

An indirect tax on items. Excise taxes can be and are made by federal, state and local governments and are not uniform throughout the United States. Excise taxes are collected by the producer or retailer and not paid directly by the consumer, and as such often remain "hidden" in the price of a product or service, rather than being listed separately. This is thought to explain their appeal to many politicians.

Tariff

Tax on imports or exports.

Federalists

The supporters of the proposed Constitution called themselves "FEDERALISTS." Their adopted name implied a commitment to a loose, decentralized system of government. In many respects "FEDERALISM" — which implies a strong central government — was the opposite of the proposed plan that they supported. A more accurate name for the supporters of the Constitution would have been "NATIONALISTS." <http://www.ushistory.org/us/16a.asp>

Anti-Federalists

A diverse coalition of people who opposed ratification of the Constitution. Although less well organized than the Federalists, they also had an impressive group of leaders who were especially prominent in state politics. <http://www.ushistory.org/us/16b.asp>

Confederation

The Articles of Confederation represented an opposite form of government, a CONFEDERATION, which has a weak central government and strong state governments. In a confederation, the state or local

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government is supreme. The national government only wields powers granted by the states. Most confederations have allowed the local government to nullify a federal law within its own borders.

Pecuniary

Relating to or consisting of money.

Materials/Equipment

Computers with Internet Connections, Video Screen, Calculators or computers with calculators and spreadsheet software, debt tables.xls file.

Procedures and Pupil Activity

Day 1

1. Read Chapter 2 – Revolutionary Finance
2. Motivational Techniques
 - A) Questions – Has anyone heard the phrase, “Time is Money”? What do you think that means? Elicit divergent/convergent responses. If we borrow money why do we have to pay interest?
3. Reading Activity:

The public debt of the United States can be traced back as far as the American Revolution. In 1776, a committee of ten founders took charge of what would become the Treasury, and they helped secure funding for the war through "loan certificates" (equivalent to bonds) with which they borrowed money for the fledgling government from France and the Netherlands.ⁱ

In 1776, private citizens purchased more than \$27 million in government bonds to help finance the Revolution—buying them on trust, not being sure they would ever see their money again. That is about 400 million in 2007 dollars.ⁱⁱ

The Articles of Confederation, adopted in 1781, reflected the American fear of a strong central government and so retained much of the political power in the States. The national government had few responsibilities and no nationwide tax system, relying on donations from the States for its revenue. Under the Articles, each State was a sovereign entity and could levy tax as it pleased.ⁱⁱⁱ

This committee [of the ten founders] morphed over the next decade into the Department of Finance. Robert Morris, a wealthy merchant and Congressman (nicknamed "The Financier"), was chosen to lead this new department in 1782. As the new Superintendent of Finance, Morris was the first committee member to order a reporting of the total government debt owed. This marked the beginning of annual reports to the President. On January 1, 1783, the public debt of the new United States totaled \$43 million.^{iv}

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That year, Congress was given the power to raise taxes. But in 1785, revenues were still inadequate. Alexander Hamilton rallied for the government to assume some debt and help meet its expenses. He pushed the framers of the new Constitution to establish measures to provide the assurance that the debt would be paid, and thus increase confidence in the growing government. Many of Hamilton's policies have remained a part of our government's operations ever since. On September 2, 1789, Congress established The Treasury Department, naming Alexander Hamilton, its chief architect, as "Secretary."^v

Shay's Rebellion

Prior to the Treasury under Hamilton and the establishment of the Constitution many farmers were thrown in jail for debt and their farms were being confiscated and sold for taxes. In 1786 some of the farmers had fought back. Led by Daniel Shays, a former captain in the Continental army, a group of armed men, sporting evergreen twigs in their hats, prevented the circuit court from sitting at Northampton, MA, and threatened to seize muskets stored in the arsenal at Springfield. Although the insurrection was put down by state troops, the incident confirmed the fears of many wealthy men that anarchy was just around the corner.^{vi}

The Federalists believed that the greatest threat to the future of the United States did not lie in the abuse of central power, but instead could be found in what they saw as the excesses of democracy as evidenced in popular disturbances like Shays' Rebellion and the *pro-debtor* policies of many states.^{vii}

When the Constitution was adopted in 1789, the founding fathers recognized that no government could function if it relied entirely on other governments for its resources, thus the Federal Government was granted the authority to raise taxes. The Constitution endowed the Congress with the power to "...lay and collect taxes, duties, imposts, and excises, pay the Debts and provide for the common Defense and general Welfare of the United States." Ever on guard against the power of the central government to eclipse that of the states, the collection of the taxes was left as the responsibility of the State governments.^{viii}

Tariffs and excise taxes were authorized by the United States Constitution and recommended by the first U.S. Secretary of the Treasury, Alexander Hamilton, in 1789 to tax foreign imports. Hamilton thought it was important to start the U.S. federal government out on a sound financial basis with good credit and a regular, easily collected source of income. Customs duties (tariffs) on imported goods, as set by tariff rates, were the source of about 80-95% of all federal revenue up to 1860.

To pay the debts of the Revolutionary War, Congress levied excise taxes on distilled spirits, tobacco and snuff, refined sugar, carriages, property sold at auctions, and various legal documents. Even in the early days of the Republic, however, social purposes influenced what was taxed. For example, Pennsylvania imposed an excise tax on liquor sales partly "to restrain persons in low circumstances from an immoderate use thereof." Additional support for such a targeted tax came from property owners, who hoped thereby to keep their property tax rates low, providing an early example of the political tensions often underlying tax policy decisions.^{ix}

With the establishment of the new nation, the citizens of the various colonies now had proper democratic representation, yet many Americans still opposed and resisted taxes they deemed unfair or improper. In 1794, a group of farmers in southwestern Pennsylvania physically opposed the tax on

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whiskey, forcing President Washington to send Federal troops to suppress the **Whiskey Rebellion**, establishing the important precedent that the Federal government was determined to enforce its revenue laws. The Whiskey Rebellion also confirmed, however, that the resistance to unfair or high taxes that led to the Declaration of Independence did not evaporate with the forming of a new, representative government.^x

Day 2

1. Reading Activity - Navigate to <http://www.treasurydirect.gov/> then to http://www.treasurydirect.gov/govt/reports/pd/histdebt/histdebt_ourheritage.htm
2. Peruse the website to browse some of its features then read the following:

Founding father, economist, political philosopher and confidant of George Washington, Alexander Hamilton was one of America's first Constitutional lawyers, and co-wrote "The Federalist Papers," a primary source for Constitutional interpretation. Hamilton was very influential in the policy decisions and an admirer of British political systems. He emphasized strong central government and implied powers, under which the new U.S. Congress funded the national debt, assumed state debts, created a national bank, and established tariffs and taxes. "A national debt, if it is not excessive," Hamilton argued, "will be to us a national **blessing**." ^{xi}

"The United States debt, foreign and domestic, was the price of liberty. The faith of America has been repeatedly pledged for it... Among ourselves, the most enlightened friends of good government are those whose expectations of prompt payment are the highest. To justify and preserve their confidence; to promote the increasing respectability of the American name; to answer the calls of justice; to restore landed property to its due value; to furnish new resources, both to agriculture and commerce; to cement more closely the Union of the States; to add to their security against foreign attack; to establish public order on the basis of an upright and liberal policy; these are the great and invaluable ends to be secured by a proper and adequate provision, at the present period, for the support of public credit." ^{xii}

Alexander Hamilton, 1790, First Report on the Public Credit

3. Ask students to write a few lines about the first line in red of the above statement urging them toward anything peculiar about it or better, paradoxical about it - *Debt and liberty has some contradiction to it.*
4. If working with an art class, have students draw the concept of the “Berth” and public debt

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5. Math/Computer Activity - Download data from <https://www.treasurydirect.gov/govt/reports/pd/histdebt/histdebt.htm> into a spreadsheet and graph every 50 year period
- a. Have students analyze the data from each period. For example, the data in the spreadsheet below shows the debt from 1800 to 1849. The fourth column contains some events that did affect or may have affected the debt. *Students should recognize the wars that cause debt and the Age of Jackson where Andrew Jackson is credited as the only president to virtually eliminate the national debt.*

Date	Dollar Amount	Percent Increase from Previous Year	Events
1800	\$82,976,294.35	5.83%	
1801	\$83,038,050.80	0.07%	
1802	\$80,712,632.25	-2.80%	
1803	\$77,054,686.40	-4.53%	
1804	\$86,427,120.88	12.16%	Lousiana Purchase
1805	\$82,312,150.50	-4.76%	
1806	\$75,723,270.66	-8.00%	
1807	\$69,218,398.64	-8.59%	
1808	\$65,196,317.97	-5.81%	
1809	\$57,023,192.09	-12.54%	
1810	\$53,173,217.52	-6.75%	
1811	\$48,005,587.76	-9.72%	
1812	\$45,209,737.90	-5.82%	
1813	\$55,962,827.57	23.78%	War of 1812
1814	\$81,487,846.24	45.61%	War of 1812
1815	\$99,833,660.15	22.51%	War of 1812
1816	\$127,334,933.74	27.55%	War of 1812
1817	\$123,491,965.16	-3.02%	
1818	\$103,466,633.83	-16.22%	
1819	\$95,529,648.28	-7.67%	
1820	\$91,015,566.15	-4.73%	
1821	\$89,987,427.66	-1.13%	
1822	\$93,546,676.98	3.96%	
1823	\$90,875,877.28	-2.86%	
1824	\$90,269,777.77	-0.67%	
1825	\$83,788,432.71	-7.18%	
1826	\$81,054,059.99	-3.26%	
1827	\$73,987,357.20	-8.72%	

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Date	Dollar Amount	Percent Increase from Previous Year	Events
1828	\$67,475,043.87	-8.80%	
1829	\$58,421,413.67	-13.42%	Andrew Jackson
1830	\$48,565,406.50	-16.87%	Andrew Jackson
1831	\$39,123,191.68	-19.44%	Andrew Jackson
1832	\$24,322,235.18	-37.83%	Andrew Jackson
1833	\$7,001,698.83	-71.21%	Andrew Jackson
1834	\$4,760,082.08	-32.02%	Andrew Jackson
1835	\$33,733.05	-99.29%	Andrew Jackson
1836	\$37,513.05	11.21%	Andrew Jackson
1837	\$336,957.83	798.24%	
1838	\$3,308,124.07	881.76%	
1839	\$10,434,221.14	215.41%	
1840	\$3,573,343.82	-65.75%	
1841	\$5,250,875.54	46.95%	
1842	\$13,594,480.73	158.90%	
1843	\$20,201,226.27	48.60%	
1843	\$32,742,922.00	62.08%	
1844	\$23,461,652.50	-28.35%	
1845	\$15,925,303.01	-32.12%	
1846	\$15,550,202.97	-2.36%	
1847	\$38,826,534.77	149.69%	Mexican War
1848	\$47,044,862.23	21.17%	
1849	\$63,061,858.69	34.05%	

Instructor can use this lesson to teach students how to format the data with colored headings, columnar borders, etc., in addition to writing the formula in column 3 to calculate the percentage change in debt:

(Dollar Amount 2 – Dollar Amount 1)/Dollar Amount 1

In other words, (Column B2 – Column B1)/Column B1 or just (B2-B1)/B1

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Day 3

1. Use part of the day if necessary, to graph the data from the debt table. The chart wizard in Excel offers many types of charts and facilitates the construction. Here is one example:



See also: <https://support.office.com/en-us/article/create-a-chart-from-start-to-finish-0baf399e-dd61-4e18-8a73-b3fd5d5680c2>

2. Navigate to the website for The Debt Clock <http://www.usdebtclock.org/> and browse around the site. Save the site as a bookmark

Ask what are some of the items you saw at the Debt Clock website? Did anything surprise you?

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Closure

"No pecuniary consideration is more urgent than the regular redemption and discharge of the public debt: on none can delay be more injurious, or an economy of the time more valuable."

George Washington, 1793, Message to the House of Representatives

So, where does the “berth” of debt lie? *First with the government but since governments generally do not produce anything, it ultimately lies with the Public – its citizens.*

Recommended Websites

<http://www.usdebtclock.org/>

<http://www.treasurydirect.gov/>

<https://support.office.com/en-us/article/create-a-chart-from-start-to-finish-0baf399e-dd61-4e18-8a73-b3fd5d5680c2>

ⁱ "REPORTS." Government. US Treasury, 29 Apr. 2014. Web. 07 Mar.

2016. http://www.treasurydirect.gov/govt/reports/pd/histdebt/histdebt_ourheritage.htm

ⁱⁱ publicdebt.treas.gov/history/1700.htm

ⁱⁱⁱ History of the US Tax System US Department of the Treasury Undated. Added August, 2003.

http://www.policyalmanac.org/economic/archive/tax_history.shtml

^{iv} "REPORTS." Government. US Treasury, 29 Apr. 2014. Web. 07 Mar.

http://www.treasurydirect.gov/govt/reports/pd/histdebt/histdebt_18cent.htm

^v "REPORTS." Government. US Treasury, 29 Apr. 2014. Web. 07 Mar.

http://www.treasurydirect.gov/govt/reports/pd/histdebt/histdebt_18cent.htm

^{vi} Bruns, Roger. "A More Perfect Union : The Creation of the United States Constitution." National Archives Trust Fund Board. Washington: National Archives and Records Administration, 1986.

^{vii} "Federalists." *Ushistory.org*. Independence Hall Association, 2008-2014. Web. 10 Mar. 2016.

^{viii} History of the US Tax System. Page 1: University of Albany, 28 Mar. 2006. Doc.

^{ix} History of the US Tax System. Page 2: University of Albany, 28 Mar. 2006. Doc.

^x History of the US Tax System US Department of the Treasury Undated. Added August, 2003.

http://www.policyalmanac.org/economic/archive/tax_history.shtml

^{xi} "REPORTS." Government. US Treasury, 29 Apr. 2014. Web. 07 Mar.

http://www.treasurydirect.gov/govt/reports/pd/histdebt/histdebt_18cent.htm

^{xii} From The Papers of Alexander Hamilton, vol. 6, edited by Harold C. Syrett. Copyright © 1962 by Columbia University Press. Reprinted with permission of the publisher.