

## Remote Learning Packet

*Please submit scans of written work in Google Classroom at the end of the week.*

**May 4-8, 2020**

**Course:** Economics, 10th Grade

**Teacher(s):** Mr. Loomis, joseph.loomis@greatheartsirving.org

### **Weekly Plan:**

Monday, May 4 (20 mn)

Read pp. 1- 5, up to but not including “The Economic Success of the Constitution.”

Tuesday, May 5 (20 mn)

Read pp. 5 - 8, to the end.

Wednesday, May 6 (20 mn)

Answer reading questions.

Thursday, May 7 (20 mn)

Answer reading questions.

Friday, May 8

Attend office hours

Catch-up or review the week’s work

### **Statement of Academic Honesty**

I affirm that the work completed from the packet is mine and that I completed it independently.

I affirm that, to the best of my knowledge, my child completed this work independently

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Student Signature

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Parent Signature

## Monday, May 4

- Read pp. 1- 5, up to, but not including, “The Economic Success of the Constitution.”
- While reading please think about the following questions:
  - What are the elements of the American Constitution that make it difficult for a majority to dominate a minority?
  - Why would a more democratic constitution be worse for the American people according to the author?

## Tuesday, May 5

- Read pp. 5 - 8, to the end.
- While reading please think about the following questions:
  - What aspects of the American Constitution set up positive incentives for individuals to create wealth?
  - Think back to our previous lessons on *Principles of Microeconomics* and *Finance*: how do protection of private property, access to information and low transaction costs incentivize productive activities?

## Wednesday, May 6

- Answer the reading questions from Monday’s assignment. Please spend the full 20 minutes allotted to the lesson.
- Roughly divide your time into 10 minutes for each question. Each answer should be a small paragraph consisting of 5 to 10 complete sentences. It would be preferable if you could type your answers and upload it as a digital file. If you must write it by hand, it would still be preferable to clean it up by typing.

## Thursday, May 7

- Answer the reading questions from Tuesday’s assignment. Please spend the full 20 minutes allotted to the lesson.
- Roughly divide your time into 10 minutes for each question. Each answer should be a small paragraph consisting of 5 to 10 complete sentences. It would be preferable if you could type your answers and upload it as a digital file. If you must write it by hand, it would still be preferable to clean it up by typing.

## Friday, May 8

- Attend office hours;
- Catch-up or review the week’s work.

[Source](#)**The Political Economy of the U.S. Constitution****Sunday, February 1, 1987*****Dwight R. Lee***

*Dwight Lee is a professor of economics at the University of Georgia and holds the Ramsey Chair in Private Enterprise. He is co-author (with Richard McKenzie) of the book Regulating Government: The Positive Sum Solution, Lexington Books, 1987. The present article is adapted from a chapter in this book.*

During the bicentennial of the U.S. Constitution it is appropriate to reflect on the political wisdom of our Founding Fathers. No written constitution in history has established a more durable or successful democracy than has the U.S. Constitution. A full appreciation of the Founding Fathers, however, requires an understanding of the economic as well as the political consequences of our Constitution. Every economy is a political economy and the enormous success of the U.S. economy has been as dependent on our political system as on our economic system.

Indeed, many of the problems that currently plague the U.S. economy are the result of our failure to hold on to the political wisdom that guided our Founding Fathers. Economic knowledge is obviously important in the effort to promote economic growth and development. But no matter how sound our economic understanding, economic performance will continue to suffer until we once again recognize that political power is a force for progress only when tightly constrained and directed toward limited objectives.

The genesis of the political and economic wisdom of our Founding Fathers is found in the fact that they distrusted government while fully recognizing the necessity of government for a beneficent social order. The cautious embrace the Founders gave government is reflected in their view of democracy as necessary but not sufficient for the proper control of government.

The concerns that led to the colonists' break with Great Britain were very much in the public mind when the Constitutional Convention met in Philadelphia during the summer of 1787. The well known pre revolution rallying cry, "No taxation without representation," reflected a clear understanding of the dangers that accompanied any exercise of government power not answerable to those who are governed. That the government established by the Constitution would be democratic in form was not in doubt. Unchecked democratic rule, however, was anathema to the most thoughtful of the Founding Fathers. A grievance against English rule rivaling that of "taxation without representation" concerned the sovereign authority assumed by the English Parliament in 1767. In that year Parliament decreed that, through its democratically elected members, it had the power to pass or strike down any law it desired. The colonists had brought with them the English political tradition, which dated back at least to the Magna Carta of 1215: the people have certain rights that should be immune to political trespass regardless of momentary desires of a democratic majority. The concern was not only that the colonists were unrepresented in Parliament but, more fundamentally, that Parliament assumed unlimited power to meddle in the private lives of individuals whether represented or not:

Although the Founding Fathers were determined to establish a government that was democratic in the limited sense that political decisions could not ignore citizen input, they had no intention of creating a government that was fully responsive to majority interests. In many ways the Constitution is designed to frustrate the desire of political majorities to work their will through the exercise of government power. The most obvious example of this is the first ten amendments to the Constitution, or the Bill of Rights. These amendments guarantee certain individual freedoms against political infringement regardless of majority will. If, for example, freedom of speech and the press was dependent on majority vote, many unpopular but potentially important ideas would never be disseminated. How effectively would a university education expose students to new and controversial ideas if professors had to submit their lectures for majority approval?

Other examples exist of the undemocratic nature of the government set up by the Constitution. There is very little that can be considered democratic about the Supreme Court. Its nine members are appointed for life, and their decision can nullify a law passed by the Congress and supported by the overwhelming majority of the American public. In a five to four decision one member of the court, insulated from the democratic process, can frustrate the political will of a nearly unanimous public. The arrangement whereby the President can reverse the will of the Congress through his veto power is certainly not a very democratic one. Neither is the Senate where the vote cast by a senator from Wyoming carries weight equal to the vote by the senator from California, even though the California senator represents a population fifty times larger than does the Wyoming senator. The senators from the twenty-six least populated states can prevent a bill from clearing Congress, even though it has incontestable popular support in the country at large. Congress is actually less democratic than just indicated once it is recognized that popular bills can be prevented from ever being considered in the full House of Representatives or Senate by a few representatives who serve on key congressional committees.

It is safe to say that the chief concern of the framers of the Constitution was not that of insuring a fully democratic political structure. Instead they were concerned with limiting government power in order to minimize the abuse of majority rule. In the words of R. A. Humphreys, “they [the Founding Fathers] were concerned not to make America safe for democracy, but to make democracy safe for America.”[1]

### **Prelude to the Constitutional Convention**

Fear of the arbitrary power that could be exercised by a strong central government, democratically controlled or otherwise, was evident from the Articles of Confederation. The Articles of Confederation established the “national government” of the thirteen colonies after they declared their independence from England. There is some exaggeration in this use of the term national government, since the Articles did little more than formalize an association (or confederation) of thirteen independent and sovereign states. While the congress created by the Articles of Confederation was free to deliberate on important issues and pass laws, it had no means of enforcing them. The Articles did not even establish an executive branch of government, and congressional resolutions were nothing more than recommendations that the states could honor if they saw fit. The taxes that states were assessed to support the Revolutionary War effort were often ignored, and raising money to outfit and pay the American army was a frustrating business.

Because of the weakness of the national government, the state governments under the Article of Confederation were strong and often misused their power. Majority coalitions motivated by special interests found it relatively easy to control state legislatures and tramp on the interests of minorities. Questionable banking schemes were promoted by debtors, with legislative assistance, in order to reduce the real value of their debt obligations. States often resorted to the simple expedient of printing money to satisfy their debts. Trade restrictions between the states were commonplace as legislators responded to the interests of organized producers while ignoring the concerns of the general consumers. There was a 1786 meeting in Annapolis, Maryland of the five middle states to discuss ways to reduce trade barriers between the states. At this meeting the call was made for a larger meeting in Philadelphia in the following year to discuss more general problems with the Articles of Confederation. This meeting became the Constitutional Convention.

### **Achieving Weakness Through Strength**

It was the desire of Madison, Hamilton, and other leaders at the Constitutional Convention to replace the government established by the Articles of Confederation with a central government that was more than an association of sovereign states. The new government would have to be strong enough to impose some uniformity to financial, commercial, and foreign policy and to establish some general protections for citizens against the power of state governments if the new nation was to be viable and prosperous. In the words of James Madison, we needed a “general government” sufficiently strong to protect “the rights of the minority,” which are in jeopardy “in all cases where a majority are united by a common interest or passion.”[2] But this position was not an easy one to defend. Many opponents to a genuine national government saw little merit in the desire to strengthen government power at one level in order to prevent the abuse of government power at another level. Was there any genuine way around this apparent conflict? Many thought not, short of giving up on the hope of a union of all the states. There were those who argued that the expanse and diversity of the thirteen states, much less that of the larger continent, were simply too great to be united under one government without sacrificing the liberty that they had just fought to achieve.[3]

Madison, however, saw no conflict in strengthening the national government in order to control the abuses of government in general. In his view the best protection against arbitrary government authority was through centers of government power that were in effective competition with one another. The control that one interest group, or faction, could realize through a state government would be largely nullified when political decisions resulted from the interaction of opposing factions within many states. Again quoting Madison,

The influence of factious leaders may kindle a flame within their particular States but will be unable to spread a general conflagration through the other States. . . . A rage for paper money, for an abolition of debts, for an equal division of property, or for any other improper or wicked project, will be less apt to pervade the whole body of the Union than a particular member of it. . .[4]

A central government strong enough to unite a large and diverse set of states would weaken, rather than strengthen, the control that government in general could exercise.

To the framers of the Constitution weakening government in the sense just discussed meant making sure that government was unable to extend itself beyond a relatively limited role in the affairs of individuals. This does not imply, however, impotent government. The referees in a football game, for example, certainly are not the strongest participants on the field and have limited control over specific outcomes in the game. Yet in enforcing the general rules of the game the decisions of the referees are potent indeed. Government, in its role as referee, obviously cannot lack the authority to back up its decisions. In addition to performing its refereeing function, it is also desirable for government to provide certain public goods; goods such as national defense that will not be adequately provided by the private market. Again this is a duty which requires a measure of authority; in this case the authority to impose taxes up to the limit required to provide those public goods which are worth more than they cost.

### **How to Impose Control?**

In granting government the power to do those things government should do, the Founding Fathers knew they were creating a power that had to be carefully controlled. But how could this control be imposed? It could not be imposed by specifying a particular list of government do's and don'ts. Such a list would be impossibly detailed and even if it could be drafted it would need to be revised constantly in response to changes in such considerations as population size, age distribution, wealth, and the state of technology. Instead, government has to be controlled by a general set of constitutional rules within which governmental decisions are made, with specific government outcomes determined through the resulting political process. It was the hope of those at the Constitutional Convention to establish a political process, through constitutional reform, that brought government power into action only when needed to serve the broad interests of the public.

This hope was not based on the naive, though tempting, notion that somehow individuals would ignore their personal advantages and concentrate on the general advantage when making political decisions. While noble motives are seldom completely absent in guiding individual behavior, whether private or public, the Founding Fathers took as a given that most people, most of the time, maintain a healthy regard for their private concerns. The only way to prevent self-seeking people from abusing government power was to structure the rules of the political game in such a way that it would be costly for them to do so. The objective of the framers was to create a government that was powerful enough to do those things that received political approval, but to establish a political process that made it exceedingly difficult to obtain political approval for any action that lacked broad public support.

There were, of course, some powers that the national government was not constitutionally permitted to exercise. The national government was created by the states, and until the Constitution all governmental power resided in the states. Through the Constitution the states relinquished some of their powers to the national government, e.g., the power to impose taxes on the citizens, establish uniform rules of naturalization, raise an army and navy, and declare war. In addition the states agreed to refrain from

exercising certain powers; e.g., the power to coin money, pass laws impairing the obligation of contracts, and pass retroactive laws. Important government powers remained in the states, however, with some of them located in the local governments. Thus the powers that could be exercised by government were limited, and the powers that did exist were diffused over three levels of government. The Constitution further diffused power at the national level by spreading it horizontally over three branches of government, the power of each acting as a check and balance on the power of the others.

The intent of the Founding Fathers was to so fragment government power that it would be extremely difficult for any narrowly motivated faction to gain sufficient control to work its political will. Only those objectives widely shared and consistent with Constitutional limits would be realized through the use of government power. The beauty of the political process established by the Constitution is that it is cumbersome and inefficient. According to Forrest McDonald the process is “So cumbersome and inefficient . . . that the people, however virtuous or wicked, could not activate it. It could be activated through deals and deceit, through bargains and bribery, through logrolling and lobbying and trickery and trading, the tactics that go with man’s baser attributes, most notably his greed and his love of power. And yet, in the broad range and on the average, these private tactics and motivations could operate effectively only when they were compatible with the public good, for they were braked by the massive inertia of society as a whole.”[5] Or, as Clinton Rossiter has said of the Founding Fathers’ motives in creating the system of checks and balances, “Liberty rather than authority, protection rather than power, delay rather than efficiency were the concern of these constitution-makers.”[6]

### **The Economic Success of the Constitution**

It is hard to argue with the success of the U.S. Constitution. The history of the United States in the decades after the ratification of the Constitution was one of limited government and individual liberty, major increases in the size of the U.S. in terms of population and geography, and unprecedented growth in economic well-being. With the major exception of (and to a large extent, in spite of) the unfortunate legacy of slavery and the Civil War, millions of diverse people were able to pursue their individual objectives through harmonious and productive interaction with one another. The opportunities created by the process of specialization and exchange made possible by limited and responsible government motivated an outpouring of productive effort that soon transformed a wilderness into one of the most prosperous nations in the world. The role the U.S. Constitution played in this transformation was an important one and can be explained in terms of both negative and positive incentives.

Broadly speaking there are two ways an individual can acquire Wealth: 1) capture existing wealth through nonproductive transfer activities, or 2) create new wealth through productive activities. A major strength of the Constitution is that it established positive incentives for the latter activities and negative incentives for the former.

The most obvious form of nonproductive transfer activity is private theft. The thief simply takes through force or stealth something that belongs to someone else. A primary purpose for establishing government is to outlaw private theft. But the power that government necessarily possesses if it is to enforce laws against private theft is a power that affords individuals or groups the opportunity to benefit through public

“theft” (legal transfer activity to phrase it more gently). The more vague and ineffective the limits on government authority, the less difficult it is to acquire legal transfers through political activity, and the larger the number of people who will find this activity offering them the greatest profit opportunity.

While those who are successful at the transfer game can increase their personal wealth, in some cases significantly, it is obvious that the country at large cannot increase its wealth through transfer activity. What one person receives is what another person, or group, loses. No net wealth is created, and for this reason transfer activity is often referred to as a zero-sum game. In fact, it is more accurately described as a negative-sum game. The attempts of some to acquire transfers, and the predictable efforts of others to protect their wealth against transfers, require the use of real resources. These resources could be productively employed creating new wealth rather than wasted in activities that do nothing more than redistribute existing wealth. For every dollar that one person receives from a transfer activity the rest of the community sacrifices more than a dollar.

### **Incentives to Produce**

A major virtue of the U.S. Constitution was that it discouraged people from playing the transfer game. By establishing a governmental apparatus that was very difficult to put in motion for narrowly motivated purposes, the Constitution dampened the incentive to use government as a means of acquiring the wealth of others. This is not to say that the government was not used as a vehicle for transfer in the early days of our Constitutional government. Every political decision results in some redistribution of wealth, and no governmental structure will ever completely insulate the political process against the transfer activities of some.[7] But the opportunity for personal enrichment through political activity was limited. Most people found that the best way to increase their wealth was through wealth producing activities.

It was here that the political structure established by the Constitution created positive incentives. Not only did the Constitution establish a climate in which it was difficult to profit from transfer activities, it also created a setting in which productive effort was rewarded. By providing protection against the arbitrary taking of private property (the Fifth Article of the Bill of Rights) people were given assurance that they would not be denied the value generated by their efforts. This provided people with strong incentives to apply themselves and their property diligently. In the words of M. Bruce Johnson, “America was a place where if you were ready to sow, then by God you could reap.”[8]

But the motivation to work hard is not enough for a productive economy. Also needed is information on the objectives toward which effort and resources are best directed, as well as incentives to act on this information\_ It is the protection of private property that provides the foundation for a system of price communication and market interaction which serves to guide effort and resources into their most valuable employments. To complete this system the concept of private property rights has to be expanded to include the right to transfer one’s property to others at terms regulated only by the mutual consent of those who are party to the exchange. The lower the cost of entering into transactions of this type, the more effectively the resulting market prices will allow people to communicate and coordinate with each other to the advantage of all. The U.S. Constitution lowered these transaction costs by reducing government’s



ability to interfere with mutually acceptable exchanges and by putting the weight of the national government behind the sanctity of the contracts that resulted from these exchanges.

In what has become known as the “contract clause” of the Constitution, the states are forbidden from passing any “law impairing the obligation of contracts. . . .” In the same clause the states are also forbidden from imposing tariff duties on imports or exports (unless absolutely necessary for enforcing inspection laws). In the “commerce clause” the national government was given the power to regulate commerce “among the several states.” Though the commerce clause can be interpreted (and indeed has been in recent decades) as providing the central government the authority to substitute political decisions for market decisions over interstate commerce, the U.S. Congress ignored this possibility until it passed the Interstate Commerce Act in 1887. Prior to the Civil War the commerce clause was used instead by the U.S. Supreme Court to rule unconstitutional state laws that attempted to regulate commerce. After 1868 the Supreme Court made use of the doctrine of due process as expressed in the fourteenth amendment to strike down many government attempts to violate the sanctity of contracts through their regulation of such things as prices, working hours, working conditions, and pay.

In summary, the Constitution created an environment in which private advantage was best served by engaging in productive positive-sum activities. The specialization and exchange facilitated by the Constitutional rules of the game is a system in which individuals can improve their own position only by serving the interests of others. When private property is protected against confiscation, an individual becomes wealthy only by developing skills, creating new products, or innovating better technologies and thereby providing consumers with more attractive options than they would otherwise have. In a truly free enterprise economy, with the minimum government role envisioned by the framers of the Constitution, the rich are the benefactors of the masses, not the exploiters as commonly depicted. Wealth through exploitation becomes possible only when unrestricted government allows negative-sum transfer activity to become more profitable than positive-sum market activity.

[...]

## **Conclusion**

The U.S. is a wealthy country today in large part because our Founding Fathers had what can be quite accurately described as a negative attitude toward government. They had little confidence in the ability of government to promote social well-being through the application of government power to achieve particular ends. In their view, the best that government can realistically hope to achieve is the establishment of a social setting in which individuals are free, within the limits of general laws, to productively pursue their own objectives.

This negative view of government contrasts sharply with the dominant view today; the view that government is the problem solver of last resort and has an obligation to provide a solution to any problem not resolved immediately in the private sector. Unfortunately, this positive view of government is less conducive to positive consequences than the negative view of the Founders. According to F. A. Hayek:

The first [positive view] gives us a sense of unlimited power to realize our wishes, while the second [negative view] leads to the insight that there are limitations to what we can deliberately bring about, and to the recognition that some of our present hopes are delusions. Yet the effect of allowing ourselves to be deluded by the first view has always been that man has actually limited the scope of what he can achieve. For it has always been the recognition of the limits of the possible which has enabled man to make full use of his powers.[19]

The exercise of government can, without doubt, be used to accomplish particular ends. Neither can it be denied that many of the specific outcomes realized through government programs provide important benefits and advance worthy objectives. But, as is always the case, those accomplishments are only realized at a cost, and the pervasive truth about government accomplishments is that those who benefit from them are seldom those who pay the cost. Indeed, much of the motivation for engaging in political actions is to escape the discipline imposed by the market where individuals are accountable for the cost of their choices.

The escape from market discipline is the inevitable consequence of reducing the constitutional limits on the use of government power. The immediate and visible benefits that are generated by wide-ranging government discretion are paid for by a shift in the incentive structure that, over the long run, will reduce the amount of good that can be accomplished. More, much more, has been accomplished by the American people because our Founding Fathers had a strong sense of the limits on what can be accomplished by government.