

First Congress Unit - Lesson 4: Funding Bill

Congress Seeks Ways to Build National Credit: The Funding Debate

“All Debts contracted and Engagements entered into, before the Adoption of this Constitution, shall be as valid against the United States under this Constitution as under the Confederation.”

- **Article IV, United States Constitution**

Congress’s inability to repay war debts was a major factor in the decision to “revise” the Articles of Confederation at the Philadelphia [Constitutional] Convention in 1787. At the FFC, Alexander Hamilton submitted a funding plan under which he proposed a system by which the new national government would repay those who currently held government bonds or “certificates.”

The main goal of the plan was to restore the credit of the national government. Opposition to the funding plan centered on its failure to “discriminate” between what was owed to the current bondholders and what some believed was owed to the original bondholders who had to sell their deflated bonds at greatly reduced prices. In this lesson, students will engage in a mock congress to debate the plan to fund (“repay”) the national, domestic debt.

Targeted Audience: Students of early American history and government.

Goals: This lesson is designed to help students understand **(a)** the role that Congress plays in helping to promote the financial health of the nation and regulate economic growth, **(b)** the impact of government action on economic choices and the functioning of market economies, **(c)** one of the causes of sectional tensions in United States history, and **(d)** a purpose of taxes.

Focus Questions

- Why did bondholders sell their bonds prematurely?
- What role did Congress play in restoring the credit of the United States?
- How did Hamilton’s Funding plan add to the emerging sectional tensions within the United States?

Time to Complete: 1-2 class periods.

Standards Addressed

1. Delaware

- **Civics 1 (Grades 4-5):** Understand that the United States government is divided into executive, legislative, and judicial branches, each with specific responsibilities and powers.
- **Economics 1 (Grades 4-5):** Understand that consumers and producers make economic choices based on...demand...and the actions of government (e.g., sale of bonds).
- **Economics 2 (Grades 6-8):** Analyze the...ways in which government taxes...affect the functioning of market economies (e.g., government builds credit... more services...).
- **Economics Standard 1 (Grades 4-5):** Understand that prices in a market economy are determined by the interaction of supply and demand, with governments intervening to deal with market failures.

2. National

- **Civics (Grades 9-12):** Students should be able to identify major uses of tax revenues received by the national government (e.g., interest on the federal debt).

Materials Needed

- Copies of Handout 1
- Handout 4-2
- Handout 4-3 (see Unit Resources)

Terms to Know: funding, bond, bondholder, credit, manufacturing.

Prior Knowledge

- The Constitution specifies that revenue bills must originate in the House of Representatives.
- The failure to grant the Confederation Congress the power to tax contributed to the financial problems experienced in the United States following the War for Independence.

Procedures

1. Entry Activity: Display the following prompt on the board or overhead.

“You are a legislator for Country A. Your country is at war. Your legislature has a budget of \$100,000 to spend. You have to decide how that money will be spent. These are your choices:

- a. pay the salaries of 50 government workers at \$2,000 per person
- b. build 10 roads in your country at \$10,000 per road
- c. repay the debts you owe to 100 people. Each person is owed \$1,000.

d. purchase \$100,000 in supplies for your military.
How would you vote to spend the money? Explain why.”

Pass out index cards as the students enter the room and ask the students to respond to the prompt. After you collect their responses, ask student to volunteer answers.

This activity is designed to stimulate thinking about how governments incur debts and why there might be reasons for a government’s failure to repay those debts. If you have taught them about “opportunity costs” you may want to reinforce this concept by asking them to identify their opportunity costs as well.

2. Brainstorm: Begin the lesson by asking students to identify the three branches of government. Write the names of the three branches across the board (legislative, executive, and judicial). Then, ask the students to explain which branch has (or ought to have) the power to initiate tax bills and why. Assuming that you have already taught the Constitutional Convention, the goal of this activity is to reinforce that idea that Congress, and specifically the House of Representatives, is granted exclusive power under the Constitution to initiate tax bills because of the historic debate over taxation without representation and the fact that the House of Representatives was originally the only "branch" of the federal government elected directly by the people.

3. Lesson Description: Tell the students that they are going debate what the FFC labeled the "Funding" bill. The intent of the bill is to devise a way to pay the national debt.

4. Assign Roles: Remind students to debate within roles. Since the final vote on Madison’s proposal to split payments was 36-13 (defeated) in the House, give approximately one-third of the class “Role Card B: Opponent.”

5. Parliamentary Rules: Distribute copies of Handout 1 (see Unit Resources) so that the students can refer to them during the debates.

6. Distribute Legislative Brief 1 (Handout 4-2 - see Unit Resources): Ask students to read their briefs then clarify any questions they may have about the contents of the brief. This may be assigned for homework the night before the simulation.

7. Distribute Role Cards (Handout 4-3 - see Unit Resources): Ask students to read over their roles and the arguments advanced on the cards.

8. Debate

9. Vote

10. Debrief

(a) Reteach. One of the problems that can occur when using simulations as a method of instruction is that students may “learn” that what they did during the simulation actually occurred in history. Be sure that the students conclude the lesson with the understanding that the FFC rejected the plan to split funding payments between the original & current bondholders by a margin of 36-13 thereby approving Hamilton’s plan to pay current bondholders only.

(b) Reflect. Ask students:

- why the value of bonds decreased during the 1780s?
- why the value of bonds increased after 1790?
- which branch of the federal government has the power to initiate tax bills and why?

Recommended Readings/Sources Cited

- Bickford, Charlene Bangs and Bowling, Kenneth R. Birth of the Nation: The First Federal Congress 1789-1791. Madison House Publishers. Madison, WI. 1989.