



POWELL CENTER FOR
ECONOMIC LITERACY

Lesson Plan

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Was there a Silver Lining?

Time Required

2-3 class periods

Economic Concepts

currency
deflation
Federal Open Market Committee
Federal Reserve System
monetary policy
output

Overview

The evolution of monetary policy in the United States has been nothing short of remarkable. Yet most students are unaware of it. They do not understand the policies set by the Federal Reserve today, let alone those pursued in pre-Fed times. This lesson is intended to engage students in the economic policy process of Congress in the late 1800s. Taking on various roles, groups will research various policy positions advanced by contending parties over the "free silver" issue. They will report on their findings in a mock congressional committee hearing set in 1889.

This lesson will be most successful when used with students who have an understanding of current monetary policy and the Federal Reserve System. Identify the issues that surfaced during the free silver controversy and that are still relevant today. Examples include the relationship between the money stock and the price level, the fear of deflation, and the income-distribution effects of inflation and deflation (that is, who loses and who benefits from inflation and deflation).

Objectives

- Students will research and analyze the effects of competing interests on economic policy of the late 1800s.
- Students will evaluate the economic and political impact of changes in the money



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supply, as well as price and output impacts.

Materials and Handouts

Handout 1 **Group Research Instruction Sheet**

Handout 2 **Web Site Suggestions**

Library reference materials

Internet access

Teaching Activity

Deflation plagued the United States in the late 1880s. Decreasing prices took their toll on debtor farmers and laborers, thus stimulating agitation for political and economic reform. Groups hurt by deflation began calling for expansionary policy, pursued through the coinage of silver. At the time, there was no Federal Reserve System to set monetary policy. Only Congress could act through its constitutional power of coining money. Some suggested the 1873 demonetizations of silver should be reversed. (Demonetization occurred when Congress adopted a gold standard rather than one based on silver as well as gold.) Their arguments called for an increase in the money supply to halt and reverse the fall in prices.

Opponents who stood to benefit from falling prices and to lose from rising prices argued against silver and in favor of gold. Was their political power matched by the cogency of their arguments? Could they convince Congress of the dangers of free silver? Few disagreed that something had to be done to stabilize the troubled economy. Was that "something" the free coinage of silver? If not coinage, what would have corrected the ailing economy?

Day 1

Begin this lesson by leading a discussion on money. Most students have misconceptions about money, past and present. Deflation began in the United States in 1867. Explain why the steady decrease in prices was bad for the economy as a whole. Ask students how adding more money into circulation would affect the economy. Discuss how adding more money could increase spending and, in turn, increase prices. This is an example of expansionary policy.

NOTE: Agitators for bimetallism were not after price inflation per se. They wanted the stimulative output and unemployment effects which they thought gently rising prices might bring about.



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Explain that changes in the monetary base today are conducted through open market operations and that changes are an adjunct of interest rate policy in which the Federal Reserve targets key interest rates (federal funds rate and discount rate). There was no Federal Reserve System in 1889. The silver issue was different in some — but not all — respects from issues that arise today under our modern-day version of monetary policy. The policies and monetary regimes were different. But key issues were the same as they are today. Some still argue for expansionary policy on the grounds that it will spur output and employment in the short run and counter the threat of deflation. Others argue that deflation is no threat and the economy will recover from recession more or less automatically. In short, everyone is for stability in monetary affairs. They just interpret the requirements for stability differently. And, yes, different policies still affect different income groups. There are gainers and losers from every policy move. It will be up to the students to find out the details on this issue. Ultimately, they should discover how Congress temporarily resolved it through the Sherman Silver Purchase Act in 1890.

Next, divide the class into the following seven groups:

1. Eastern industrialists
2. Western farmer debtors
3. Silver miners
4. Labor
5. Treasury Department employees
6. Gold standard advocates (monometallists)
7. Congressional committee members

Inform students that they will be testifying before a congressional committee to argue for or against the coinage of silver. Distribute Handout 1, **Group Research Instruction Sheet**, and discuss each group's task. Modify accordingly. Groups 1-6 will represent competing interests from within the United States and even the U.S. government. Group 7 will represent the congressional committee and will report on the Sherman Silver Purchase Act. Students will find it challenging to formulate each group's position. Encourage students to use textbooks, library references, and the Internet as sources of information. Distribute Handout 2, **Web Site Suggestions**, to help them get started. Each group's testimony should last approximately three minutes.



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Day 2

Assign research as either an in-class or outside-class assignment. For in-class assignments, one class period should be used in the school's library and/or computer lab. Groups would then be responsible for completing the research on their own. Alternatively, research can be assigned to groups to be completed entirely outside of class. Two days for research is advisable.

Day 2 or 3 (as applicable)

Arrange desks in the front of the classroom for group presentations. Each group should sit facing the class as they present their testimony. Congressional committee members should sit in the front row of the regular classroom seating.

As the chair of the committee, the teacher should announce the following:

The congressional hearing is now called to order! The first matter of business for this morning's meeting will be the issue of silver coinage. There are six groups hoping to testify this morning. Each group represents a side for or against the reinstatement of silver in U.S. currency. We ask each group to restrict its remarks to three minutes. Time will be called at that point and speakers will be asked to complete their remarks. Congressional committee members will render a decision at the conclusion of the testimony.

Allow each position three minutes to argue its case. At the conclusion of the testimonies, instruct the congressional committee members to report on the Sherman Silver Purchase Act.

Conclusion

Describe the problems with the Sherman Silver Purchase Act. Explain how people began hoarding gold and stripping the U.S. gold supply by trading in notes for gold. Foreign investors were able to more easily obtain gold by the bimetallic system. The price of silver also continued to drop as silver miners over-produced, and world demand for silver continued to fall. The Sherman Silver Purchase Act was repealed in 1893. The issue did not go away, however. It was a major issue in the presidential election of 1896.

Extension Activities



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Activity 1

Assign the following questions for research and/or class discussion. Use the Federal Reserve Web sites for research purposes.

- What challenges might Congress face today when making economic policy?
- What are the timeless and lasting questions raised by the controversy over "free silver"? How do those questions manifest themselves today?
- How might interest groups influence those decisions?
- Does the Federal Reserve System avoid such pressure from interests? If so, how?

Activity 2

Examine *The Wizard of OZ* by L. Frank Baum. Hugh Rockoff, a professor at Rutgers University, claims that *The Wizard of OZ* is nothing other than an allegory of the free silver debate. Have students read the book and find parallels with the debate. What real-life historical figures do Dorothy, the Wizard, Tin Man, Scarecrow, Wicked Witch of the West, Cowardly Lion, etc., represent? For more information on this, see <http://www.halcyon.com/piglet/Populism.htm> and [http:// www.tech-head.com/oz.htm](http://www.tech-head.com/oz.htm).

HANDOUT 1
Group Research Instruction Sheet

Research your assigned position on the "free silver" issue, using library reference materials, your textbook, and Internet sources. Answer the questions below from your assigned perspective. Be prepared to report this information to a committee in two days. Each committee member must take part in the testimony.

Group

Members

1. Eastern industrialists

2. Western farmer debtors

3. Silver miners

4. Labor

5. Treasury Department employees

6. Gold standard advocates (*monometallists*)

7. Congressional committee members

Groups 1-6:

Answer the following questions. Then develop answers into a three-minute presentation to the special committee on silver. Be as factual and convincing as possible!

- What group are you representing?

- Would your group be in favor of free coinage of silver? Why or why not?

- What factors during the late 1880s may have contributed to your position? Explain.

- How might coinage of silver affect your interests? Explain.

Group 7:

Research the Sherman Silver Purchase Act of 1890, and report on that information. Who did the act please? Why? Was the act successful?

HANDOUT 2

Web Site Suggestions

Sherman Silver Purchase Act, with link to articles on the free silver movement.

<http://www.encyclopedia.com/html/s/shermans1p1a1.asp>

Free Silver Movement. <http://www.britannica.com/elections/micro/219/20.html>

“*The Wizard of Oz* and William Jennings Bryan” is a discussion of the Frank Baum classic as allegory.

http://www.evsc.k12.in.us/schoolzone/schools/EMPOWER/harrison/kt/wizard_of_oz_and.htm

“The Rise and Fall of *The Wonderful Wizard of Oz* as a ‘Parable on Populism’”.

<http://www.halcyon.com/piglet/Populism.htm>

“The Panic of 1893: Seattle’s First Great Depression” told in the context of the national depression engendered by the passage of the Sherman Silver Purchase Act.

http://www.historylink.org/output.CFM?file_ID=2030

“The Currency Question: The Gold Standard, Bimetallism, or ‘Free Silver’?” The site contains links to numerous relevant, contemporary political cartoons and newspaper articles. <http://iberia.vassar.edu/1896/currency.html>

“The Silver Panic”.

<http://www.libertyhaven.com/theoreticalorphilosophicalissues/protectionismpopulismandinterventionism/silverpanic.html>

“The Bimetallic Standard”, includes graphics for understanding the computation of the relative value of gold and silver, and the application of Gresham’s Law.

<http://www.micheloud.com/FXM/ML/Bimetalintro.htm>