

BALANCE OF POWER: THE POLITICAL FIGHT FOR AN INDEPENDENT CENTRAL BANK 1790-PRESENT

TEACHER INTRODUCTION

This book explores the Federal Reserve Bank's role throughout history, emphasizing the theme of independence of the central bank from political control. Through looking at the challenges that the Federal Reserve has faced, as well as the resulting changes in its role, students can develop an overview of the functions of the Federal Reserve and its responsibilities to U.S. citizens. The book is available in PDF form at: <http://www.kansascityfed.org/publicat/balanceofpower/balanceofpower.pdf>.

Suggestions for teacher use include the following:

- Use the entire text as supplemental reading for American History, Government, Civics or Economics classes and assign the activities below as assessments.
 - Use specific chapters of the text to highlight historical content and tie into standards, using appropriate activities and/or extension questions.
 - Use the text and activities as an enrichment project for Honors, Advanced Placement or gifted/talents students.
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GRADE LEVEL: 9-12

CONTENT STANDARDS

Voluntary National Content Standards in Economics

- Standard 18: Students will understand that a nation's overall level of income, employment and prices are determined by the interaction of spending and production decisions made by all households, firms, government agencies and others in the economy.
- Standard 20: Students will understand that federal government budgetary policy and the Federal Reserve's monetary policy influence the overall levels of employment, output and prices.

Curriculum Standards for Social Studies

- Theme V: Historical influence of individuals, groups and institutions on society.
 - Theme VI: Historical effects of power, authority and governance on society.
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SUGGESTED GROUP ACTIVITIES:

1. Create a PowerPoint presentation focusing on the highlights of the book by assigning a team of three or four students to each chapter. Each team should develop two or three slides that include a summary of the historical information and its importance. The slides can then be combined for a visual presentation
 - **Extension Question:** How did the information you found impact the Federal Reserve's development?
2. Work with a team of three or four students to create a visual graphic display of the timeline from pp. XII-IX, using pictures and symbols to represent each historical event. Display the completed timeline with the appropriate titles and years on a wall or bulletin board and explain each event to the class.
 - **Extension Question:** Which periods of the timeline do you feel were most influential in developing the Federal Reserve's current role?



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SUGGESTED GROUP ACTIVITIES (CONTINUED)

3. As legislation that led to the Federal Reserve Act was discussed in the House and Senate, politics came into play as Democrats and Republicans aired opposing views on how much control the proposed central bank should have. Using pp. 11-15 for reference, write and perform a skit with a small group that demonstrates the dueling views of the two political parties.
 - **Extension Question:** Discuss how the final Federal Reserve Act met and appeased these political challenges.
4. After reading about the friction in the relationship between the Federal Reserve and the Treasury (pp. 29-33), develop a podcast interviewing Federal Reserve Chairman McCade and Treasury Secretary Snyder on the topic of long term interest rates set during the Korean War. Interview questions might include asking why Snyder felt the rate should be unchanged during the war; why McCabe felt locking in the rate would lead to inflation; and other general questions on changes and improvements needed in the Federal Reserve/Treasury partnership.
 - **Extension Question:** Discuss the reasons why monetary policy may fluctuate during war time.
5. Read “Twelve Banks: The Strength of the Federal Reserve” by Thomas Hoening, President of the Federal Reserve Bank of Kansas City (pp. 58-64). Use this essay as a starting point for research on the pros and cons of the twelve regional bank system. Additional websites to research include: www.federalreserve.gov/otherfrb.htm and <http://www.frbsf.org/publications/federalreserve/fedinbrief/index.html>. Use the information from research to prepare for a classroom debate on this proposal: “Resolved: The Federal Reserve Bank should reduce its System to four regional banks.” After affirmative and negative teams are assigned for this topic, prepare information backing your team’s position. Hold the debates as a classroom activity.
 - **Extension Question:** Which affirmative and negative arguments most influenced the debate results?

SUGGESTED INDIVIDUAL ACTIVITIES

1. Analyze the political cartoons on pp. 16 and 58. What is the message of each cartoon? Do you agree with each message? Give reasons for your answers. Draw an original political cartoon showing politicians fighting to take over the Federal Reserve Bank.
 - **Extension Question:** Do you feel that political cartoons influence the public’s opinion on a topic? Why or why not?
2. After reading “The First Bank of the U.S.” (pp. 1-2), develop a three column chart to compare opinions of the founding fathers and other notable political groups. List the name of the political figure or group in column 1, whether they supported or opposed the new bank in column 2, and the reasons for their opinions in column 3.
 - **Extension Question:** What conclusions about the success of the First Bank can you draw from the popular opinion of the time?
3. The president of the Second Bank of the U.S., Nicholas Biddle, put the central bank in a political battle with Andrew Jackson, who felt the bank had failed to establish a uniform and sound currency. Write a letter to Jackson as Biddle, trying to convince the president of the importance of the Second Bank and its charter renewal. Use pp. 3-8 as a reference for your letter.
 - **Extension Question:** How did the politics of a presidential election play a role in the demise of the Second Bank?



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SUGGESTED INDIVIDUAL ACTIVITIES (CONTINUED)

4. Several bank panics were precursors to the development and passing of the Federal Reserve Act in 1913. After reading pp. 9-11, research the bank panics of 1837, 1873 and 1907 to develop an oral report detailing the cause and effect of bank panics on the public.
 - **Extension Question:** Explain why bank panics often lead to recessions or larger financial upheaval.
 5. Compare the components of the Banking Act of 1933 with the changes made to this act in 1935, using pp. 19-26 as a reference. Make a table that highlights the key elements of each act to share with the class.
 - **Extension Question:** Research and discuss which components of the acts are still in effect today.
 6. Several legislators throughout history, such as Rep. Wright Patman (pp. 35-37), and Rep. Henry Gonzales (pp. 48-50), publicly opposed the monetary independence of the Federal Reserve. Both pushed for greater oversight of the Federal Reserve by Congress, as well as for other methods of control and reform. After reading each legislator's demands, compose a blog written as Federal Reserve chairman, listing reasons why the Federal Reserve should remain free of political pressure and control.
 - **Extension Question:** Research current political opposition to Federal Reserve policies and who is prominent in leading this opposition.
 7. The Federal Open Market Committee (FOMC) reflects the unique structure of the Federal Reserve Bank. Read "The Historical Analysis of the FOMC Tenures" (pp. 68-75) to understand the history behind this structure and its currency components. Draw a diagram or graphic to visually show FOMC representation, including the Board of Governors, voting Federal Reserve Bank presidents and non-voting presidents. In your diagram's description, explain the number of terms each group is able to serve.
 - **Extension Question:** What are the rules for appointment and tenure of the Board of Governor's Chairman?
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