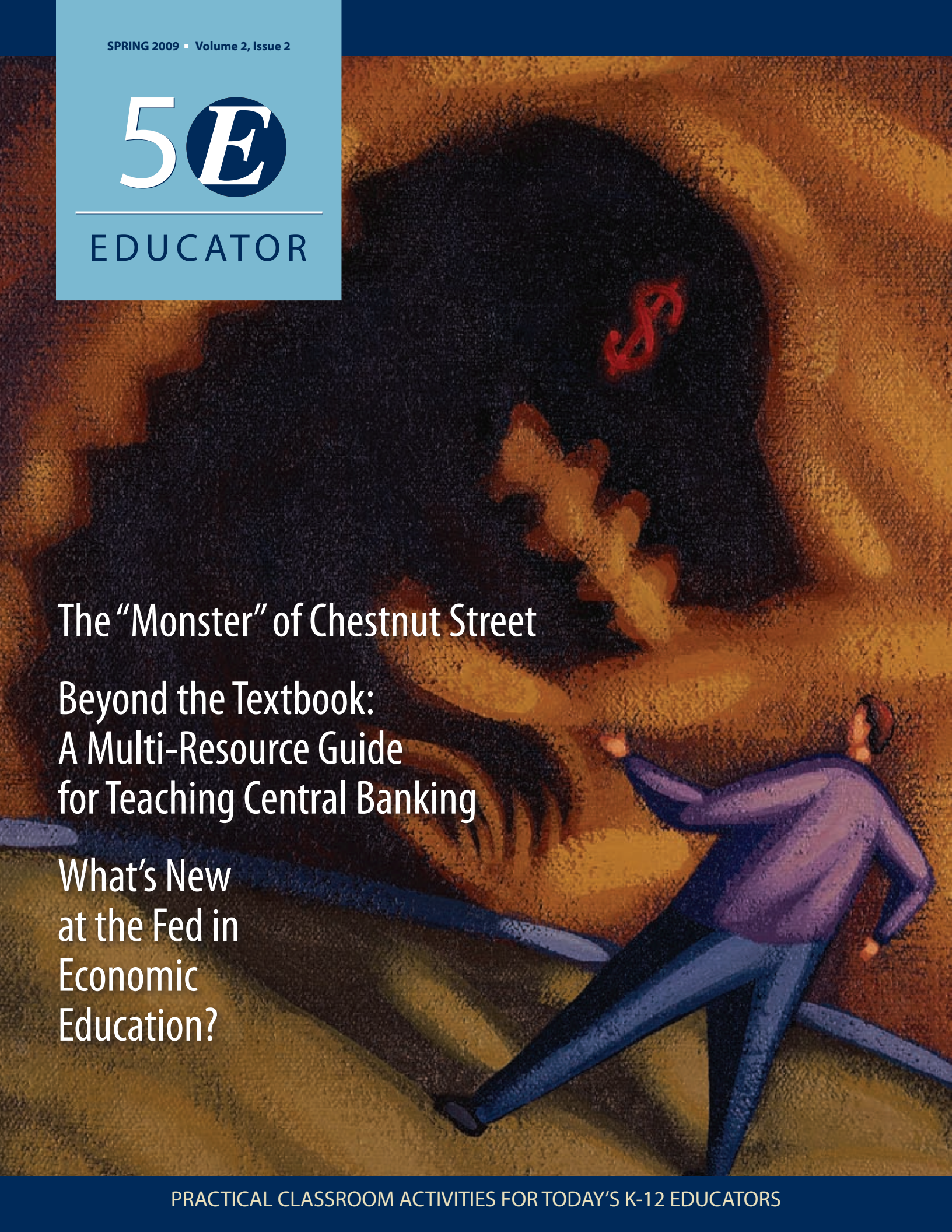


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5E

EDUCATOR



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MISSION

The *5E Educator* provides K-12 teachers with content to enhance understanding of economics. It also offers lesson plans and Federal Reserve resources to reinforce state and local curriculum. We seek to enrich the learning experience for students and to highlight the importance of economics in the process of every day decision making.

To sign up to receive the online *5E Educator*, visit: www.richmondfed.org/publications/education/5e_educator/

Dear Educators,



Have you ever heard the saying, "Everything old is new again?" Commentary on the actions and role of the central bank is not new. This

issue of *5E Educator* examines a prior era of fervent debate on the role of central banking. The feature article examines the debate around the recharter of the Second Bank of the United States. While there are many differences in the recharter debate and the debate on the role of the Fed in the current economic situation, both time periods are characterized by considerable discussion on the responsibilities of the nation's central banking system.

While President Jackson questioned the existence and power of the Second Bank of the United States, the current

commentaries on the Fed are about the extent to which recent actions have prompted central bank lending to extend well beyond its traditional boundaries.

After you read the excerpt of the article by Phil Davies, "The 'Monster' of Chestnut Street," which originally appeared in *The Region*, I hope that you have a better understanding of the issues surrounding central banking. The *5E Educator* also contains lesson plans and other classroom resources designed to enhance student comprehension of this complex issue. As always, we welcome your comments and suggestions.

Jeffrey Lacker
President
Federal Reserve Bank of Richmond



Hallway Monitor

Contact Us:

Richmond Office

Amanda Gibson
Economic Education Specialist
701 East Byrd Street
Richmond, Virginia 23219
Amanda.Gibson@rich.frb.org
800.526.2031 • 804.697.8107

Richmond Office

Lis Turner
Economic Education Specialist
701 East Byrd Street
Richmond, Virginia 23219
Lis.Turner@rich.frb.org
800.526.2031 • 804.697.8135

Baltimore Branch

Karen Kokernak
Economic Education Specialist
502 South Sharp Street
Baltimore, Maryland 21202
Karen.Kokernak@rich.frb.org
800.368.2100, ext. 3441
410.576.3441

Charlotte Branch

Karen Davis
Economic Education Specialist
530 East Trade Street
Charlotte, North Carolina 28202
Karen.Davis@rich.frb.org
800.729.9800, ext. 2470
704.358.2470



Class in Session

The “Monster” of Chestnut Street

The life and death of the Second Bank of the United States is a cautionary tale about the exercise of monetary power

Excerpt from *The Region*, Federal Reserve Bank of Minneapolis, September 2008

By Phil Davies

In July 1832, Congress sent a bill to renew the charter of the Second Bank of the United States to the White House for President Andrew Jackson’s signature. The measure had passed both the Senate and House by comfortable margins; many legislators and their constituents believed that over the past decade the Bank had proven itself a wise and efficient overseer of the nation’s monetary affairs.

The institution had virtually erased the government’s debt from the War of 1812. Its paper notes were as good as gold anywhere in the Union. State banks and businesses had benefited from tens of millions of dollars in loans by the Bank. Thanks to its interregional payments system, trade was flourishing from Boston to Chicago, on the expanding frontier. These successes argued for a new lease on life for the Second Bank.

Jackson begged to differ. The war hero known as “Old Hickory” to his followers considered the Second Bank an unconstitutional “money power” that favored wealthy stockholders over working people and twisted democracy to its own ends. As the bank bill sat on his desk, Jackson lay ill, suffering from a flare-up of an old battle wound and the hot, sticky weather. Martin Van Buren, who would succeed Jackson as president, visited the White House one day and found his mentor lying on a couch, pale and gasping for breath.

“The bank, Mr. Van Buren, is trying to kill me,” he said in a whisper. Then Jackson grasped his friend’s hand tightly and added, “but I will kill it.” True to his word, Jackson vetoed the bill, and four years later, upon expiration of its charter, the Second Bank closed its doors. There would not be another bank like it for 77 years, until the formation of the Federal Reserve System.

The creation and destruction of the Second Bank were flashpoints in a long-running debate in the United States over the need for a central bank and how the economic power of such an entity should be controlled. Established as a national bank to restore financial order after the war with Britain, the Second Bank got off to a rocky start. But led by the brilliant and forceful Nicholas Biddle, the institution thrived and developed into a de facto central bank with some functions analogous to those of the modern Federal Reserve. Most scholars agree that by issuing a uniform currency, ensuring access to credit and facilitating domestic and international trade, the Bank fostered economic stability and growth in the 1820s and early 1830s.

But what many regarded as a force for public good came to be seen by others as a plutocracy that held too much sway over the nation’s fortunes. “Many people have argued that United States history shows the suspicion of all concentrated power but a special suspicion of concentrated financial power,” said Richard Sylla, an economic historian at New York University, in an interview.

The Bank War in which Jackson and his supporters killed the Second Bank was a reprise of the bitter fight 20 years earlier over the recharter of the First Bank of the United States (see the September 2007 *Region*). Congressional opponents brought down the First Bank by charging that the brainchild of Alexander Hamilton was unconstitutionally powerful and an oppressor of state-chartered banks. Similarly, Jackson aroused populist

passions and the envy of state banks to topple an institution that he considered unconstitutional and a menace to society because of its unrivaled economic power exercised outside government control. Biddle’s desperate efforts to save the Bank, prostrating the economy in hope of forcing Jackson to relent, showed even its supporters that the Bank was capable of abusing its power.

The architects of the Federal Reserve System took to heart the fate of the Second Bank. Instead of a mostly private bank that massed financial power in one city, the framers of the Federal Reserve Act created a federal bank composed of 12 independent, regional banks overseen by a central board in Washington, D.C. The eventual legacy of the Second Bank was a more democratic banking system that has rendered largely moot the ideological struggle that doomed its predecessors. ■

Read the full article to find out how Jackson finally killed the Second Bank of the United States and to what desperate measures Nicholas Biddle would stoop to save it. To sign up to receive future issues of *The Region*, visit the Web site of the Federal Reserve Bank of Minneapolis. To read more about President Jeff Lacker’s views on current issues facing central banking, visit the Web site of the Federal Reserve Bank of Richmond.



Snacks

Share The “Monster” of Chestnut Street with your students using the following teaching tips.

Students can ...

- Create their own political cartoon that addresses the issues of the time period. Have the students present both sides of the argument, perhaps developing or creating their own “Monsters.”
- Conduct a WebQuest around the history of central banking using resources from the **Philadelphia Fed** and the **Minneapolis Fed**.



Heard over the P.A.

The *SE Educator* features information on upcoming workshops, competitions, new resources from the Fed and/or other topics of interest.

New Lessons from the Fed

New **children's literature lesson plans** from the Philadelphia and St. Louis Feds are now available. From the Kansas City Fed, *Payment Parliament* introduces third through eighth-grade students to different methods of payment through role play. High school students learn about the role of money in the colonial economy in, *A Lesson to Accompany "Benjamin Franklin and the Birth of a Paper Money Economy."*

Fifty Nifty Economic Concept Cards

Enhance the economic vocabulary of elementary and middle school students using the Fifty Nifty Economic Concept cards (available soon for order from the **Federal Reserve Bank of Kansas City**). With each set of cards comes a teacher resource guide that includes suggested grade level introductions for each concept, teaching activities to use with core subjects, games to reinforce concepts, assessment activities and other Web resources.

Region Focus Resources

Region Focus provides information on, and analysis of, the Fifth District economy and the public policy issues affecting it. New on our Web site teachers will find engaging lesson suggestions and additional resources to accompany selected articles in

Region Focus. View the **resource connections** or subscribe to receive *Region Focus*.

Fed Challenge "Webshop"

Fed Challenge is a high school competition that engages students' public speaking and economic analysis skills as they role play Fed policymakers. For an overview of the competition with commentary from research economists as well as winning teachers and students, go online anytime to our **Fed Challenge Webshop**.

Staff Development Opportunities

The Federal Reserve Bank of Richmond offers opportunities for teachers to enhance their knowledge of economics and pick up resources and activities for teaching economics. Check our **Web site** for upcoming events in your area.



Beyond the Textbook

Consider using the following resources to introduce your middle and high school students to the many issues that have confronted U.S. central banking.

The *History of Money and Banking in the United States* lesson plan, offered as a companion to the video, *The Fed Today*, is designed to reinforce student comprehension of the evolution of U.S. central banking. In this lesson, students develop timelines that identify key events in American banking history.

The **American Currency Exhibit** from the Federal Reserve Bank of San Francisco, available **online** and by **request** in CD-ROM format, introduces students to the evolution of central banking. An accompanying **lesson plan** features discussion questions on key issues faced by American policymakers over the legitimacy and role of a central bank.

History holds many economic lessons. The Great Depression, in particular, is an event that provides the opportunity to teach and learn a great deal about economics—whether you're studying the economic reasons that the Depression took place, the factors that helped it come to an end or the impact on Americans who lived through it. *The Great Depression Curriculum* is designed to provide teachers with economic lessons that they can share with their students to help them understand this significant experience in U.S. history.

PBS's online video, *Andrew Jackson: Good, Evil and The Presidency*, covers the issues surrounding the Bank Wars of the 1800s. Two segments,

The Corporations and *Bank Wars*, apply specifically to central banking. A correlating **lesson plan** has discussion questions and primary documents for student evaluation.

An event, *A Word on the Economy: Why is the Country Facing a Financial Crisis?*, was held at the Federal Reserve Bank of St. Louis last fall and focused on the origins of the current financial crisis. The resources developed for the event by Senior Vice President Julie Stackhouse included a PowerPoint presentation (with audio commentary) and a timeline of financial events.

The editors welcome comments and feedback on these lessons and your recommendations for future lesson plan topics.