

Attacking Financial Panics: Panic of 1893 Activity

Authors

Eva Johnston, Federal Reserve Bank of St. Louis
Mike Kaiman, Timberland High School
Genevieve Podleski, Federal Reserve Bank of St. Louis

Standards and Benchmarks (see page 15)

Description

Students will use the *Attacking Financial Panics Puzzle Guide* to connect events and gain understanding of what triggers financial panics and apply that learning to the Panic of 1893. The guide identifies four common triggers of financial panics: unstable currency, excessive speculation, weakness of the banking structure and regulations, and concern about public finance and government debt. Students examine a PDF of “Economic Conditions of 1892-1894,” excerpts from *75 Years of American Finance: A Graphic Presentation, 1861 to 1935*, which is a timeline, and record their findings. The activity includes teacher talking points and an assessment.

Grade Level

8-12

Concepts

Financial panic
Speculation

Objectives

Students will be able to

- identify causes of financial panics,
 - analyze connections among historical events and among continuity and change,
 - compare documents as evidence, and
 - compile a chart of what triggered the Panic of 1893 and cite their evidence.
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Compelling Question

What circumstances combine to create a financial panic?

Time Required

45 minutes

Materials

- Handouts 1, 2, and 4, one copy of each for each student or provide electronically
- Handout 2—Answer Key, one copy for the teacher
- Handout 3, one copy for the teacher
- PDF of “Economic Conditions of 1892-1894,” excerpts from *75 Years of American Finance: A Graphic Presentation, 1861 to 1835*, provided electronically; <https://fraser.stlouisfed.org/title/6419/item/610207> (This document is provided at the link only and not included below.)
- OPTIONAL: 1893 Primary Document Sets 1-4, one copy for each pair of students or provided electronically (These documents are provided at the links only and not included below.)
 - 1893 Primary Document Set 1: Excerpt from the *Annual Report of the Secretary of the Treasury on the State of the Finances for the Year 1893* about imports and exports of silver and gold; <https://fraser.stlouisfed.org/title/6419/item/610208>
 - 1893 Primary Document Set 2: “Results of President Cleveland’s Proclamation,” an article from the July 8, 1893, *Commercial and Financial Chronicle* weekly business newspaper; <https://fraser.stlouisfed.org/title/6419/item/610209>
 - 1893 Set 3: Excerpt from the *Annual Report of the Secretary of the Treasury on the State of the Finances for the Year 1893* about changes in silver currency legislation; <https://fraser.stlouisfed.org/title/6419/item/610210>
 - 1893 Primary Document Set 4: “The Banks and the Treasury” and “What Bonds Can Be Issued to Replenish Gold Reserve and How Redeemable,” articles from the February 18, 1893, *Commercial and Financial Chronicle* weekly business newspaper; <https://fraser.stlouisfed.org/title/6419/item/610211>

Procedure

1. Begin the activity by discussing the following:
 - Have you ever been in a panic about something? If so, if you are willing to share, what happened? (*Answers will vary but may include being locked out of the house, losing a phone, getting lost in a large crowd, or missing a plane.*)
2. Explain that the Oxford dictionary defines a panic as a “sudden uncontrollable fear or anxiety, often causing wildly unthinkable behavior.” Today we are going to focus on a **financial panic**. Transfer your understanding of panic to financial panic. Discuss the following:
 - What do you think financial panic means? (*Answers will vary but may include people’s fear of losing all their money, losing their houses, or losing anything owned of great value that causes them to rush and physically gather their cash.*)
3. Distribute a copy of *Handout 1: Attacking Financial Panics Guide* to each student (or provide electronically).
4. Have students read the guide using the popcorn reading technique: Select a student to begin reading. Tell that student to read at least one line and then say “popcorn” and the name of another student who then reads. No student may read a second time until all students in the class have had a turn to read. Stop the reading after each section, check for understanding, and answer questions.
5. Arrange the students in groups of 2-4. Distribute a copy of *Handout 2: Attacking Financial Panics Chart* to each student (or provide electronically) and electronically provide the PDF of “Economic Conditions of 1892-1894,” excerpts from *75 Years of American Finance: A Graphic Presentation, 1961 to 1835*, which is a timeline.
6. Instruct the groups to examine the timeline and look for evidence of the elements described in the Handout 1 guide and document the evidence on the Handout 2 chart. Allow students 5-7 minutes to work.
7. Invite the groups to report, compare, and discuss their findings. See the *Handout 2—Answer Key*. Use *Handout 3: Talking Points* as needed.
8. OPTIONAL: Distribute Primary Documents Sets 1-4 to each group (or provide electronically) and another copy of Handout 2. Repeat the activity:
 - Instruct the groups to examine the Primary Document Sets for more specific evidence of the elements described in the Handout 1 guide and document the evidence on the Handout 2 chart. Allow students 10-12 minutes to work.
 - Invite the groups to report, compare, and discuss their findings.

Closure

9. Use the following questions to discuss the evidence documented on Handout 2.
- What if any evidence did you find of unstable currency issues? (See the “Unstable Currency” column on Handout 2—Answer Key.)
 - What if any evidence did you find of excessive **speculation**? (See the “Excessive Speculation” column on Handout 2—Answer Key.)
 - What if any evidence did you find of banking structure and regulation issues? (See the “Banking Structure and Regulation” column on Handout 2—Answer Key.)
 - What if any evidence did you find of public finance and government debt issues? (See the “Public Finance and Government Debt” column on Handout 2—Answer Key.)
 - What if any additional evidence do you find of circumstances that could trigger a financial panic? (Answers will vary.)
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Assessment

10. Distribute a copy of *Handout 4: Assessment* to each student. Instruct the students to use evidence from the Handout 2 chart and class discussion to construct a puzzle about the Panic of 1893, writing a key evidence point in each piece. Students should draw jigsaw-style puzzle pieces showing how the evidence fits together. Answers and numbers of pieces used will vary, but the pieces should follow the progression shown on the timeline.

Handout 1: Attacking Financial Panics Guide (page 1 of 3)

After a financial panic, economists and historians try to identify its causes—to learn from it and, hopefully, prevent another one from happening. Over time, four common triggers of financial panics have been identified: unstable currency, excessive speculation, weakness of the banking structure and regulations, and concern about public finance and government debt.

Unstable Currency: What Is It and Why Does It Matter?

Stable, uniform currency is more than having money in your pocket that's the same shape or size. *Stable currency* holds its value. *Uniform currency* is issued from a single source. Governments and central banks that issue currency vouch for the ongoing stability of that currency (money). When people are confident that their money will be worth the same tomorrow as today, they will continue to use it in their everyday economic activities.

Anything that has an agreed-upon value can serve as money. Shells, cows, tobacco, and beaver skins are examples of commodities that have been used as money. The commodities of gold and silver (shaped into coins) have been widely used for payment because they can be made uniform and portable. However, commodities are often not easily portable or divisible and some may spoil or be consumed. Paper money can either be “backed” by a commodity or by the reputation of the government or bank issuing it. Since 1913 and the creation of the Federal Reserve System, the Fed is authorized by the U.S. government to print Federal Reserve notes, the paper bills used today. These paper bills are *fiat money*, which is money not backed by a commodity.

Paper money has been used as money in the United States since the nation's earliest days. However, because of changes in laws, the United States hasn't always had a stable, uniform currency. From 1791 to 1811 and from 1816 to 1836, U.S. currency was issued by one of two central banks known as the Bank of the United States. Since 1913, U.S. currency issued by the Federal Reserve System has remained stable and uniform. In all previous eras of U.S. history, however, this was not the case. Currency issued by state banks and national banks, along with gold and silver certificates issued by the U.S. Treasury, all competed with each other and all needed public trust to be effective currency.

When people are confident in the value of their money, they will continue to use it. When that confidence falters, people may look for other ways to protect the value of their money—for example, by investing in real estate, stock, or even gold bars—instead of holding cash.

What Is the Difference Between Investment and Excessive Speculation?

Speculation—a form of highly risky investment—is often cited as a cause of financial crises and panics. When a person invests, they bet that any money they put into a business (such as buying stock—a “share” of the business and its profits) or an asset (such as buying fine art or collectible toys) will be multiplied as the business or asset grows in value over time. All investment has some risk that the business or asset will become less valuable over time or that the money invested will be totally lost. Generally, these risks are small and the return—how much extra money the investor gets back—is also small.

Handout 1: Attacking Financial Panics Guide (page 2 of 3)

Although all investment carries some possibility of loss, speculation is an extreme and risky kind of investment that can cause major problems in an economy. Many economists and financial specialists think of speculation as investment with the hope of a large *quick* profit. Speculation is a gamble that the investment's value will increase dramatically, allowing the investor to sell the investment for a huge profit soon after if they *act now*. Proponents of speculative ventures often use persuasive ploys to build this sense of urgency, appealing to investors' emotions and greed.

As news travels of the opportunity to earn a quick "jackpot," the fear of missing out may fuel widespread involvement in speculative ventures. The "Tulipmania" of the 17th century is one of the first major examples of such speculation: People believed that tulip bulbs would continue to increase in value, and as more bulbs were bought (demand increased), the prices of tulip bulbs did go up. When people finally realized the bulbs were not actually worth such high prices, the speculative bubble popped and the prices fell dramatically. People who had invested heavily lost money. A crash resulting from speculation can cause bankruptcies, disruptions in public finance such as lost tax revenue, and even drag an economy into a recession as people lose money and confidence in other investments.

Banking Structure and Regulation: How Can Having Rules Help?

Banks serve a vital purpose in facilitating commerce. People want a safe place to keep their hard-earned money. Businesses want to easily and quickly transfer money to employees and suppliers and receive money for the goods and services they provide. Banks provide these services by taking deposits and facilitating transfers and exchanges of money. In turn, banks can use some of the money deposited to make loans.

Bank panics, or bank runs, take place when depositors hear that a bank is in a weakened state. Afraid of losing their money, depositors race to the bank and attempt to withdraw all their money. During a panic, banks that would otherwise be solvent can fail.

Because banks are important to so many people, and because bank panics can damage the economy, a bank cannot just hang out a sign and declare itself open for business. In the United States (and most other places), a bank must have a *charter* to open for business. A charter is granted by a government to ensure that the bank meets legal and financial standards and is capable of being trustworthy. Because a bank never keeps all the money deposited with it in its vaults at all times, customers must trust that the bank will be able supply the money they want to withdraw from their personal accounts at any time.

Bank charters have been around since our nation began, although the rigor and enforcement of the charters have varied. In the 19th century, banks often issued their own bank notes for their customers to use because such notes are convenient and portable currency. This paper money had stable value because it was backed by the *specie* (gold or silver, sometimes also known as "hard money") held within the banks' vaults. People could "redeem" their paper money for that gold or silver whenever they wanted. The value of the currency depended on the bank's reliability in issuing only as much currency as it had the gold or silver to redeem. In one notorious episode between 1837 and 1863, states passed "free bank laws" allowing banks to operate with weak charters and loose controls on printing bank notes.

Handout 1: Attacking Financial Panics Guide (page 3 of 3)

Governments pass *banking regulation*—laws governing the operations of banks—to try to prevent panics. These laws attempt to ensure that the financial system is stable and banks are contributing to a healthy economy.

The U.S. Congress passed banking regulation in 1933 that created the Federal Deposit Insurance Corporation (FDIC). The FDIC insures the deposits of each individual account up to \$250,000 at banks that are members of the FDIC. You can tell if your bank is a member by looking for the FDIC seal at the bank, possibly displayed on a window, or on the bank’s web page.

Today, banks are watched closely to make sure they can reliably protect and responsibly use their customers’ money. All insured banks must follow the rules and guidelines of the Federal Reserve, FDIC, and Office of the Comptroller of the Currency that make sure the bank has enough capital to support its operations. Supervisors from these three institutions regularly go to individual banks to review the bank’s accounting and business practices and make sure the bank is still operating properly. Other kinds of financial institutions, such as credit unions, brokerages, and mortgage companies, have their own supervisory institutions to make sure they follow their relevant rules.

Public Finance and Government Debt: What Is It and Why Does It Matter?

Public finance is the management of government debt, which includes the mechanism for issuing public debt. Government debt, or public debt, is the term for debt the government owes. Although a government’s budget isn’t the same as your personal budget, there are many similarities: balancing income, payments, credit, and debt is as important for governments as it is for ordinary people. States, cities, and countries seldom have enough money on hand to do all the things necessary to keep society running, so they borrow money to get things done. The U.S. Constitution (Article 1, Section 8) gives Congress the power “to borrow money on the credit of the United States.”

Governments issue bonds to finance long-term projects such as roads and bridges. A bond is a kind of IOU that pays investors back with interest. Trust that a government can and will pay its debts affects that government’s ability to issue bonds, how risky an investment in those bonds is perceived to be, and the amount of interest the government must pay on those bonds. Governments with a good payment history and credibility are considered less risky and pay lower interest rates, just like a person with a good credit score. When people have more trust in a government’s ability to pay them back on their bond investments, they are more willing to invest in that government’s bonds, allowing the government to more easily borrow money by selling bonds. When people have less trust in a government’s ability to pay them back, it may be harder for that government to borrow money to pay for necessary (and often expensive) services and to make sure the economy is stable and functioning.

Although rare, the perception that a government has too much debt can contribute to the uncertainty that sparks a financial panic. If investors fear that a government’s securities are losing value or that the government is less likely to pay out the money and interest owed, they may doubt the value of the securities. Since banks are major holders of government debt, doubt about the worth of those assets can erode confidence in the solvency of a bank or even the entire banking system. U.S. Treasury securities are considered to be among the safest investments that can be made, however, since all are backed by the “full faith and credit” of the U.S. government.

Handout 2: Attacking Financial Panics Chart—Answer Key

Name _____ Hr. _____

Compelling Question: What circumstances combine to create a financial panic?

Directions: Examine the primary document(s) provided. Based on the four categories below, write down evidence of circumstances that contributed to the Panic of 1893. If you find additional evidence that does not fit into a category, add it at the bottom.

Unstable currency	Excessive speculation	Banking structure and regulation weaknesses	Public finance and government debt issues
<p>1892</p> <ul style="list-style-type: none"> • U.S. Treas'y buying 4,500,000 oz. [of gold] per mo. and paying out gold notes! • Only 25% of Duties now paid in gold • \$41,500,000 gold exported • Sterling bankers presenting legal tenders • Aug. 12 Silver back down to 82½¢ <p>1893</p> <ul style="list-style-type: none"> • Mar. 4 TREAS'Y GOLD down to \$100,980,000! • Apr. 22 [Treas'y gold] Goes below \$100,000,000 • June 29 Silver hits new low (62¢) • June 30 PUBLIC DEBT \$961,400,000 (new post-war low) • A CURRENCY FAMINE • Aug.: \$41,000,000 gold imported • Oct. 19 Gold Reserve down to \$81,500,000 <p>1894</p> <ul style="list-style-type: none"> • Jan. 31 Bond issue • Gold Res. [down to] \$65,650,000 • Feb. 10 Gold Res. \$104,200,000 • N.Y. banks buy \$40,000,000 worth (of gold) but withdraw [\$]24,000,000 [in] gold to pay for them! • \$300 mil. worth Silv. idle in U.S. Treas'y • Net GOLD EXPORTS \$81,200,000 this year (record high) • A 34 firm syndicate buys \$50,000,000 [of bonds] (pays for them in gold) • Nov. 20 Gold Res. \$59,000,000 • Nov. 30 Gold Res. \$105,400,000 	<p>1892</p> <ul style="list-style-type: none"> • Feb. 11 Phila/Reading RR comb. • N.Y.S.E. volume 1,387,500 [shares] (new high) <p>1893</p> <ul style="list-style-type: none"> • Jan. 6 Great Northern completed... (5th Transcont. [railroad] line) • Feb. 20 N.Y.S.E. vol. hits new high (1,480,000 [shares]) • Feb. 20 Phil. & Reading fails • Nat'l Cordage pays 100% stock div. • May 5 NAT'L CORDAGE fails • 29,340 [MILLION IN] RR [STOCK] THROWN INTO RECEIVERSHIP • July 25 ERIE RR fails • July 26 Black Wed. • Aug. 24 NOR. PAC. fails • Oct. 13 UNION PAC. fails • Dec. 23 ATCHINSON fails <p>1894</p> <ul style="list-style-type: none"> • N.Y.S.E. vol. hits 16 yr. low 	<p>1892</p> <ul style="list-style-type: none"> • Mar. 24 Free coinage fails in H.R. • July 1 Sen. passes a free coinage bill <p>1893</p> <ul style="list-style-type: none"> • June 5 Cleveland calls Congress (To repeal Sherman Silv. Act of 1890) • Aug. 28-Oct 30 Repeal [of Sherman Silver Act] passes H.R.; Filibustering by silver senators; Senate concurs 	<p>1893</p> <ul style="list-style-type: none"> • Mar. 4 TREAS'Y GOLD down \$100,980,000! • June 30 PUBLIC DEBT \$961,000,000 (new post-war low) • Mar. 17 a stock clearing system estab. • Aug.: \$41,000,00 gold imported • 1st TREAS'Y DEFICIT since CIVIL WAR • Oct 19 Gold Reserve down to \$81,500,000 <p>1894</p> <ul style="list-style-type: none"> • Jan. 31 Bond issue • Gold Res. [down to] \$65,650,000 • N.Y. banks buy \$40,000,000 worth (of gold) but withdraw [\$]24,000,000 [in] gold to pay for them! • \$300,000,000 worth Silv. idle in U.S. Treas'y • Net Gold Exports \$81,200,000 this year (record high) • A 34 firm syndicate buys \$50,000,000 [of bonds] (pays for them with gold)

Handout 3: Talking Points (page 1 of 5)

These talking point are provided to accompany discussion of the Panic of 1893 as depicted in the excerpts from *75 Years of American Finance: A Graphic Presentation, 1961 to 1835* (a timeline) in the “Economic Conditions of 1892-1894” document. The four categories that combine to create financial panics are color coded as on the timeline:

Unstable Currency (UC), **Excessive Speculation (ES)**, **Weak Banking Structure and Regulation (BSR)**, and **Public Finance and Government Debt Issues (PFG)**

The Sherman Silver Purchase Act of 1890 skews the price people pay for gold and silver, affecting U.S. currency. A cascade of events follow.

Money isn’t reliable, so people look for other ways to build wealth.

1892**Unstable Currency**

Signs of **unstable currency** are prevalent. The U.S. government issues paper money “backed” by gold or silver, meaning a person could exchange that money for actual gold or silver. Gold and silver are commodities that have value or use beyond serving as a medium of exchange. Congress, per the U.S. Constitution (Article I, Section 8), passes laws setting the rate of exchange of notes for gold and silver. The ratio passed into law made it profitable for anyone holding gold certificates to exchange them for commodity gold, and the U.S. government was constantly buying more gold to have on hand to redeem those certificates. Meanwhile, silver languished in the vaults, with no one wishing to exchange silver certificates for silver. These circumstances led to a currency “famine” (when there is not enough cash available for basic transactions) in gold notes.

- **(BSR) March 24, 1892: Free coinage fails in House of Representatives** (The House does not pass legislation to address exchanging Treasury notes for gold.)
- **(UC) July 1, 1892: Senate passes a free coinage bill—House of Representatives refuses to consider it**

While Congress is deadlocked on how to address the unstable currency issues, the following occur:

- **(UC) 1892: Since 1890 U.S. Treasury buying 4,500,000 oz. [of gold] per month and paying out gold notes!!**
- **(UC) 1892: Only 25% of Duties now paid in gold (Formerly 80-90% due to distrust in the Silver Act of 1890)**
- **(UC) January to June 18, 1892: \$41,500,000 [of] Gold Exported (Europeans still selling American securities)**

Our currency was backed by gold and silver at the time. By selling U.S. securities, Europeans were sucking gold out of the United States and no one wanted the less-valuable silver. To increase the demand for silver globally, some promoted the use/value/acceptance of silver (e.g., the Brussels Silver Conference), but the efforts went nowhere.

Handout 3: Talking Points (page 2 of 5)

- **(UC) July 1892: Sterling Bankers presenting legal tenders for redemption** (Sterling bankers were bankers from London and called sterling bankers because the United Kingdom used the pound sterling as their currency.)
- **(UC) November 12-December 2, 1892: Brussels Silver Conference (no result)**
- **(UC) August 12, 1892: Silver back down to 82½¢** (The price has plummeted again.)

U.S. gold reserves continue to decline, so the U.S. Treasury buys replacement gold. The price of silver has dropped dramatically relative to the price of gold, making gold more desirable than silver. Low silver prices are a problem because Congress has passed laws using both gold and silver to back U.S. currency. U.S. silver producers had quickly mined and sold the allotted amount of silver to the U.S. government at the allotted price. The increased supply of silver drove down the price of silver. Senators from silver-producing states continue to push using silver to back U.S. currency. Using both gold and silver to back currency is referred to as “bimetallism.” The Brussels Silver Conference was the last of a series of international monetary conferences held to encourage bimetallism, to increase the usage of and demand for silver. The conference ended without an international agreement. People continued to redeem their silver certificates and greenbacks for gold, depleting U.S. gold reserves.

Reasons given to use silver to back U.S. currency:

- It will increase the money supply, making it less expensive to borrow and help borrowers.
- It will increase the demand for silver, driving up the price and profits for U.S. silver producers.

Also, some senators have a personal financial incentive to use silver to back U.S. currency and are sometimes called “silver senators.” Because passage of legislation requires approval of both houses of Congress, a few senators from silver-producing states filibuster to try to block any legislative action.

1893

Unstable Currency and **Public Finance and Government Debt Issues**

- ■ **(UC/PFG) March 4, 1893: U.S. Treasury gold [holdings] down to \$100,980,000**
- **(UC) April 22, 1893: [U.S. Treasury gold holdings drop] below \$100,000,000**

Congress will not commit to fixing the currency issue, and banks are failing because of a currency famine, destabilizing other parts of the economy. For example, when a business went to a bank to withdraw currency from the business’s account to pay its workers, if the bank did not have the cash on hand to give to the business, word spread quickly. Workers did not get paid, and deposit holders at the bank often rushed to try and get their money, causing panic to ripple through the economy.

Handout 3: Talking Points (page 3 of 5)

Weak Banking Structure and Regulation

Safeguards we have in place today did not exist in the 1890s. In the United States today, laws require banks to be inspected by special agencies, such as the Office of the Comptroller of the Currency, to guarantee deposits are safe; provide deposit insurance through the Federal Deposit Insurance Corporation (FDIC); and restrict the investments and activities of a bank. Congress did not pass legislation to create the FDIC until 1933. Prior to the creation of the FDIC, many businesses and families often lost all the money they had in banks that failed. People lost their life savings, and businesses could not pay workers or suppliers.

- (UC) June 29, 1893: Silver hits new low (62¢ [per ounce])
- ■ (UC/PFG) June 30, 1893: PUBLIC DEBT \$961,400,000 (new post-war low)
- ■ (UC/PFG) June 30, 1893: Many Bank Failures (158 National; 153 in Midwest and South)
- (UC) June 1893: A CURRENCY “FAMINE” (Banks do not have deposits.)
- ■ (UC/PFG) August 1893: \$41,000,000 [of] gold imported [by the U.S. Treasury]

The government tries to fix the currency issue by importing gold, but gold is flowing out of the country as fast as the government can bring it in (in late 1893 and into 1894). People are severely limited in their ability to buy and sell goods and services because of the currency famine—they have no money. Deposits in banks are down substantially, as noted on the timeline.

Public Finance and Government Debt Issues

- ■ (UC/PFG) October 19, 1893: Gold Reserve down to \$81,500,000 and no end in sight
- (PFG) July 1, 1893 (to June 30, 1894): 1st U.S. TREASURY DEFICIT since CIVIL WAR ([runs]for a full year) (\$61,170,000) deficits continue [for] 6 years

The government is going into debt purchasing gold to replenish the U.S. gold reserves.

Because money has become unreliable—it does not keep a stable value—people are looking for other ways to build wealth, which fuels excessive speculation.

- (ES) January 6, 1893: Great Northern completed (Cascade Mts) (5th Transcontinental [Railroad] line) (This new line makes the fifth transcontinental railroad, creating excess supply.)

Foreigners with money are enticed by the potentially high rate of return offered on their investment in U.S. railroad stock. When the railroads overbuild and go into receivership, investors from around the globe lose their money in a flurry of excessive speculation.

- (ES) February 20, 1893: N.Y.S.E. volume hits new high (1,480,000 shares) (The high volume of trades shows speculation in the market.)
- (ES) February 20, 1893: Philadelphia and Reading [Railroad] fails
- (ES) February 20, 1893: National Cordage [Company] pays 100% stock dividend (The company manufactures and sells ropes.)
- (ES) May 5, 1893: National Cordage [Company] fails (It fails because it can't get a loan.)

Handout 3: Talking Points (page 4 of 5)

The rope manufacturer National Cordage Company offers a 100% stock dividend, which leads to wild speculation and new highs for the New York Stock Exchange. Banks conclude it is too high a risk to loan National Cordage more funds.

Unstable Currency and Weak Banking Structure and Regulation

- **(BSR) June 5, 1893: President Cleveland calls Congress (To repeal Sherman Silver Act of 1890)**

President Cleveland calls Congress into a special session to address the financial crisis and asks Congress to repeal the Sherman Silver Act of 1890. The regulations set forth in the act require the U.S. Treasury to purchase 4.5 million ounces of silver bullion each month and to issue silver notes/certificates that can be exchanged for either silver or gold. As the price of silver plummets in the market, investors purchase silver, exchange it at the U.S. Treasury for gold dollars, and then sell the gold dollars in the metals market, making a handsome profit and depleting the U.S. Treasury's gold supply.

- **(BSR) August 28, 1893: Repeal passes House of Representatives [with a vote of] 234-108 (repealing the Sherman Silver Act of 1890)**

- **(BSR) August 28-October 30, 1893: Filibustering by silver senators (to prevent the repeal of the Sherman Silver Act of 1890)**

- **(BSR) October 30, 1893: Senate concurs [with the House of Representatives and votes to repeal the Sherman Silver Act of 1890] (but much damage has been done)**

Public Finance and Government Debt Issues

Public debt is the term for debt the government owes. Most local and state governments are required by virtue of their organizational charters to have balanced budgets. They must issue bonds to finance long-term projects such as building roads and bridges. The U.S. Constitution gives Congress the power "to borrow money on the credit of the United States" (Article 1, Section 8, Clause 2). The ability of a government to provide services for its people in the form of infrastructure—roads, bridges, ports, and military protection—are all dependent on funding. The belief that a government can and will pay its debts is fundamental in establishing the risk of buying bonds, the amount of interest governments must pay for these loans, and where a government will be able to issue bonds. Bonds are a certificate of indebtedness, where the government that issues them promises to repay the bonds (loans) with interest. During the American Revolution, the Continental Congress printed paper money, called "continentals," to finance war debt. The continentals were supposed to be redeemable on demand for specie (gold coins or bullion). The U.S. government did not have enough gold in its vault to cover the number of continentals it printed. The value of the continentals plummeted and stoked inflation, with an absurdly high amount of continentals needed to pay for anything. The Articles of Confederation relied on the states to pay the national debt and had no mechanism for the U.S. government to borrow money. The U.S. constitution (Article 1, Section 8, Clause 2) rectified this situation.

- **(PFG) July 1, 1893: 1st TREASURY DEFICIT since CIVIL WAR (to June 30, 1984)**

Handout 3: Talking Points (page 5 of 5)

1894

Unstable Currency and **Public Finance and Government Debt Issues**

- ■ (UC/PFG) January 31, 1894: Gold Reserves [drop to] \$65,000,000
- ■ (UC/PFG) February 1894: [U.S. Treasury] Bond Issue: N.Y. banks buy \$40,000,000 worth but withdraw \$24,000,000 [in] gold to pay for them!
- (UC) February 10, 1894: Gold Reserves [up to] \$104,200,000
- ■ (UC/PFG) May 1894: \$300,000,000 worth [of] Silver idle in U.S. Treasury
- ■ (UC/PFG) 1894: Net GOLD EXPORTS \$81,200,000 this year (record high)
- (UC) November 20, 1894: Gold Reserves [down to] \$59,000,000
- ■ (UC/PFG) November 30, 1894: A 34 firm syndicate buys \$50,000,000 10-year [and 5-year Treasury notes] (pays for them with gold) (This purchase pumps up the U.S. supply of gold reserves.)
- (UC) November 30, 1894: Gold Reserves [up to] \$105,400,000

How Unstable Currency, Public Finance and Government Debt Issues, Weak Banking Structure and Regulation, and Excessive Speculation Fit Together

In the 1890s, the United States was on a gold and silver standard (paper money was backed by gold and silver). Congress passed laws to regulate the value at which paper could be exchanged for gold or silver. Supply and demand dictate the price of gold and silver in the marketplace. The limited supply of gold and the high demand for gold drove up the price of gold. Given the fixed exchange rate set by the U.S. Congress, people could exchange paper money for gold and then sell the gold and make a profit, depleting the U.S. Treasury's gold supply and causing currency instability and the public debt to rise. The supply of silver was plentiful, and the demand for silver was less, causing the price of silver to fall in the marketplace. Proponents of "free silver" were attempting to increase the demand for silver and thus increase the price of silver in the marketplace. Inflated currency values helped borrowers repay loans, and deflated currency values made it almost impossible for borrowers to repay their loans. Adding silver and gold as backing for currency served to increase, or "inflate," the supply of money. Farmers who borrowed money to plant their crops and silver miners both pushed for the use of silver to back currency. Currency instability and a currency "famine" heightened the allure of speculative get-rich-quick schemes, and many succumbed to their appeal.

Handout 4: Assessment

Name _____ Hr. _____

Financial Panic of 1893 Puzzle

Directions: Evaluate the evidence you wrote down on *Handout 2: Attacking Financial Panics Chart* and combine it with evidence from class discussion. Construct a puzzle, writing a key evidence point in each piece.

Standards and Benchmarks

C3 Framework for Social Studies State Standards

History: Change, Continuity, and Context

D2.His.1.6-8. Analyze connections among events and developments in broader historical contexts.

D2.His.1.9-12. Evaluate how historical events and developments were shaped by unique circumstances of time and place as well as broader historical contexts.

D2.His.2.6-8. Classify series of historical events and developments as examples of change and/or continuity.

D2.Hist.2.9-12. Analyze change and continuity in historical eras.

AP U.S. History Key Concepts

6.1 II. A variety of perspectives on the economy and labor developed during a time of financial panics and downturns.

6.1 III. New systems of production and transportation enabled consolidation within agriculture, which along with periods of instability, spurred a variety of responses from farmers.

6.3 II. A. The major political parties appealed to lingering divisions from the Civil War and contended over tariffs and currency issues, even as reformers argued that economic greed and self-interest had corrupted all levels of government.