Visual 27.1
A Money Mystery

From 1870 to 1900, the prices American consumers paid for goods and services generally declined. For farmers, this meant lower costs, since prices for supplies and equipment declined. Yet, many farmers supported the Greenback and Free Silver movements — movements committed to increasing the money supply in order to raise prices.

Why would farmers support policies that would increase the prices they would have to pay for tools, clothing, household goods and all the other things needed by their families?

VISUAL 27.2
WHO WANTED WHAT IN THE "SOUND MONEY" CONTROVERSY

SUPPORTERS OF A RADICAL INCREASE IN THE MONEY SUPPLY

- Greenback Party
- Free Silver Movement
- Populist Party
- Westerners
- Southerners
- Farmers
- Democrats

SUPPORTERS OF THE GOLD STANDARD AND "SOUND MONEY"

- Easterners
- Business People
- Republicans

VISUAL 27.3

UNITED STATES WHOLESALE PRICE INDEX, 1870 - 1890

Year	**Wholesale Price Index (Base Year 1880)**
1870	135
1875	118
1880	100
1885	85
1890	82

Source: U.S. Department of Commerce, Bureau of the Census, *Historical Statistics of the United States: Colonial Times to 1970*, volume 2 (Washington D.C.: Government Printing Office, 1975).

VISUAL 27.4

PRICES FOR FARM PRODUCTS, 1864-1896

Prices for farm products fell by 60 percent from 1864 to 1886 and by an additional 20 percent between 1886 and 1896.

Wheat: $3.00 a bushel in 1866

56 cents a bushel in 1894

Cotton: 40 cents a pound in 1866

7 cents a pound in 1894

Source: Paul B. Trescott, *Financing American Enterprise: The Story of Commercial Banking* (New York: Harper & Row, 1963), p. 149.

VISUAL 27.5

PRICES FARMERS RECEIVED AND PAID, 1870-1900

Year	Prices of Livestock and Crops	Prices of Farm Machinery	Midwest Interest Rates	Freight Distribution Cost of West North Central Wheat
1870	100	100	100	100
1880	76	68	83	60
1890	64	48	68	45
1900	63	45	55	35

Source: Stanley Lebergott, *The Americans: An Economic Record* (New York: Norton, 1984), p. 302.

VISUAL 27.6

1. WHAT HAPPENS TO BORROWERS DURING DEFLATION?

	Year One Price Index = 100	Year Two Price Index = 90	Year Three Price Index = 81
Total Income	$1,200	$1,080	$972
Farm Supplies and Living Expenses	- 550 _____	- 495 _____	- 455.50 _____
Loan Payments	- 500	- 500	- 500
Net Income	_____	_____	_____

2. WHAT HAPPENS TO BORROWERS DURING INFLATION?

	Year One Price Index=100	Year Two Price Index=110	Year Three Price Index=121
Total Income	$1,200	$1,320	$1,452
Farm Supplies and Living Expenses	- 550 _____	- 605 _____	- 665.50 _____
Loan Payments	- 500	- 500	- 500
Net Income	_____	_____	_____

Activity 27.7
Wheat Prices

Round 1	Round 2
$5	
$4	
$3	
$2	
$1	

Average Price = _____ **Average Price = _____**

VISUAL 27.8
WHAT IS A GOLD STANDARD?

- A government guarantees to exchange gold for its national currency at a fixed rate.
- Both domestic and foreign holders of that currency can redeem the currency in gold.
- When a nation imports more than it exports, it pays the difference in gold.
- The money supply of a nation on the gold standard is limited by the amount of gold available. Banks must be prepared to pay out gold in exchange for checks written against the accounts of their customers. This limits the number of loans bankers can prudently write.
- An advantage of a gold standard is that it tends to prevent inflation.
- A disadvantage is that the money supply may not be able to grow as the economy grows.

