CHAPTER 26

The New Era: 1921-1933

ANTICIPATION/REACTION

Directions: Before you begin reading this chapter, in the column entitled “Anticipation” place a check mark beside any of the following seven statements with which you now agree. When you have completed your study of this chapter, come back to this section and in the column entitled “Reaction” place a check mark beside any of the statements with which you then agree. Note any variation in the placement of check marks from anticipation to reaction and explain why you changed your mind.

Anticipation

1. _____ The progressive movement surged forward in the 1920s to continue to meet the popular demand for government reform, economic regulation, and social justice.
2. _____ In the 1920s the United States retreated to its traditional isolationist foreign policy.
3. _____ Al Smith, the governor of New York, was the first Roman Catholic to be nominated for president by a major political party (1928).
4. _____ The 1920s was the Prosperity Decade when all the major sectors of the national economy prospered.
5. _____ The stock market crash of 1929 caused the Great Depression.
6. _____ The Depression would have been shorter and less severe had President Hoover tried to balance the federal budget, raise the tariffs, and provide government aid to businesses.
7. _____ Franklin Roosevelt won the presidency in 1932 by promising to spend the federal government into debt in order to prime the pump of economic recovery from depression.

Reaction

1. _____
2. _____
3. _____
4. _____
5. _____
6. _____
7. _____

LEARNING OBJECTIVES

After reading Chapter 26 you should be able to:

1. Assess the key accomplishments and failures of the Harding and Coolidge administrations. What features did they have in common?
2. Identify the major foreign policy problems of the United States in the 1920s. Explain if and how those problems were solved.
4. Explain what economic problems of the 1920s led to the stock market crash of 1929 and the depression of 1930.
5. Evaluate Hoover’s policies to curb the Great Depression. What were the effects of the Great Depression on the American people?

CHAPTER OVERVIEW

Harding and “Normalcy”

Party regular Warren Harding secured the 1920 Republican nomination as the result of a deadlock among Republican delegates. Harding’s coining of the vulgarism normalcy as a substitute for normality exasperated those who insisted on proper erudition. Nevertheless, Henry Cabot Lodge declared Harding a vast improvement over Wilson, and voters agreed—at least for a time. Though characterized as lazy and incompetent, Harding was hardworking and politically shrewd, but he was also indecisive and unwilling to offend, two liabilities that doomed his administration. Though he named men of impeccable reputation to some departments, Harding was also committed to the unsavory “Ohio Gang” of his political and personal friends headed by Harry M. Daugherty, whom he made attorney general.

“The Business of the United States is Business”

Treasury Secretary Andrew Mellon, a multimillionaire banker and aluminum magnate, set out to lower taxes on the wealthy, raise tariffs, cut government expenses to reduce the national debt, and return to a laissez-faire policy. He proposed to eliminate inheritance taxes and reduce taxes on the wealthy, but he opposed lower rates for other taxpayers. Mellon claimed that freeing the rich from taxation would encourage investment in productive enterprises, the success of which would create jobs.

Midwestern Republicans and southern Democrats loosely organized as the farm bloc opposed Mellon’s extremely conservative program. The revival of European agriculture after the war cut the demand for American farm produce just as the increased use of fertilizers and machinery enlarged output. Therefore, the heavily indebted farmers’ income languished during the 1920s.

Mellon’s policies balanced the budget and reduced the national debt each year. Harding and Coolidge were so committed to Mellon’s policies that, in the name of economy, they vetoed “bonus” bills aimed to compensate veterans for their World War I service, a program pushed by the American Legion. Harding and Coolidge both used their powers of appointment to make regulatory agencies like the ICC, FTC, and Federal Reserve Board more probusiness.

The Harding Scandals

Harding’s Ohio Gang used its influence in corrupt ways. Veterans Bureau Director Charles R. Forbes was convicted of siphoning into his own pockets millions of dollars earmarked for the
construction of veterans’ hospitals. Attorney General Harry M. Daugherty was implicated in a fraud case but escaped imprisonment by taking the Fifth Amendment.

The worst scandal involved Interior Secretary Albert B. Fall, who arranged for the transfer of naval oil reserves to his jurisdiction, then leased the properties to private oil companies. A probe conducted by Senator Thomas J. Walsh of Montana disclosed that Fall had received cash and securities from the two lessees. The three escaped conviction for defrauding the government, but Harry F. Sinclair was later given nine months in jail for contempt of the Senate and tampering with a jury, and Fall was fined $100,000 and given a year in prison for accepting a bribe. In 1927, the Supreme Court revoked the leases. The public learned of these scandals only after Harding’s death in June 1923. Harding was deeply mourned at the time of his death, but later revelations about his administration caused Americans to view him with contempt.

**Coolidge Prosperity**

Vice-President Coolidge succeeded Harding to the presidency and moved swiftly to clean up the Harding scandals in time to run for the office in his own right in 1924. He appointed Harlan Fiske Stone to replace Daugherty as attorney general, retained Mellon as treasury secretary, defended business interests, uttered folksy witticisms, and was highly admired among conservatives. The Democrats, deadlocked between “wet” and “dry” wings of the party, finally nominated John W. Davis, a conservative corporation lawyer identified with Morgan banking interests.

Dismayed by the Coolidge/Davis choice, Robert M. La Follette entered the race as the nominee of a new Progressive party, which carried the support of the farm bloc, Socialists, the American Federation of Labor, and a number of intellectuals. Coolidge handily defeated Davis, whose strength was confined to the South, and La Follette carried only his native Wisconsin. Conservatism was clearly the dominant mood of the country.

**Peace Without a Sword**

Harding and Coolidge permitted Secretary of State Charles Evans Hughes to exercise broad powers over foreign policy. Though many Americans became resurgent isolationists after World War I, American economic interests in finding sources of raw materials and markets for American products meant national leaders found international involvement increasingly unavoidable.

In an attempt to maintain the Open Door in China and check Japanese expansionism in the Pacific, Hughes convened the Washington Conference in 1921. The United States, Britain, France, Japan, and Italy agreed to stop building battleships for 10 years and to reduce their fleets of capital ships to a fixed ratio. Conferees also agreed to respect one another’s interests in the Pacific, to maintain the Open Door in China, and to respect China’s independence. However, no provisions were made to enforce the terms of the agreements.

The Japanese felt a sense of injury when they were given no immigration quota under the National Origins Act of 1924. Japan did not abandon its territorial ambitions in China and the
Washington Conference treaties enabled it to dominate the western Pacific. Military leaders in Japan came to view war with the United States as inevitable.

The Peace Movement

Peace societies such as the Carnegie Endowment for International Peace and Woodrow Wilson Foundation flourished after World War I. Yet, despite interest in the peace movement, the United States did not join the World Court. In 1928, the Kellogg-Briand Pact, initially signed by 15 nations, condemned war “as an instrument of national policy” amid optimism that merely by condemning war, another world war might be averted.

The Good Neighbor Policy

In the face of radicalism and instability in Mexico, which caused Americans with land and oil rights to suffer losses, Coolidge acted with restraint. He dispatched a patient and sympathetic ambassador, Dwight Morrow, to improve relations with Mexico.

Under Herbert Hoover, the United States began to treat the Latin American nations as equals. The Clark Memorandum set aside the Roosevelt Corollary to the Monroe Doctrine, meaning the United States would no longer be so quick to intervention in the hemisphere. By 1934, the marines that occupied Nicaragua, Haiti, and the Dominican Republic had been withdrawn, and the United States abrogated the Platt Amendment and renounced its right to intervene in Cuba.

The Totalitarian Challenge

In 1931, Japan conquered Chinese Manchuria and established the puppet state of Manchukuo, a violation of the Kellogg-Briand and Nine-Power pacts. Secretary of State Henry Stimson announced that the United States would not recognize the legality of seizures made in violation of such treaty rights. A few months later Japan attacked Shanghai and withdrew from the League of Nations after that organization condemned Japanese aggression. Meanwhile, the meek response of Western democracies to Japanese aggression in Manchuria was not lost on Adolf Hitler, who became chancellor of Germany in January 1933.

War Debts and Reparations

Devastated from World War I, Germany could not pay the reparations she had been forced to accept at the peace conference in 1919. Therefore, the Allies could not repay the United States for loans made prior to American entry into the world war because they had expected to get that money from the Germans. The Allies, moreover, explained that the loaned money had been spent in the United States and had stimulated the American economy, and ought to be considered part of America’s contribution to the war effort. The Europeans also claimed that they could not repay the loans because high American tariff rates made it difficult for them to earn American dollars in trade.
Two attempts were made to scale down the reparations, the Dawes Plan of 1924 and the Young Plan of 1929, but neither could remedy a defective international financial situation. Germany defaulted on the reparations, and the Allies abandoned all pretense of meeting their obligations to the United States. In practice, the Allies paid the United States about what they collected from Germany. The whole issue merely heightened mistrust and hostility among nations.

The Election of 1928

When Coolidge declined to seek reelection, the Republicans nominated Secretary of Commerce Herbert Hoover, an advocate of voluntary trade associations who believed capitalists had learned to curb their selfish instincts. He thought businessmen should cooperate with each other and with their workers too. The Democrats nominated Governor Al Smith, who, like Hoover, was an adept administrator and avid capitalist. Smith combined his basic conservatism with humanitarian concern for the underprivileged. A product of New York’s Lower East Side slums, Smith became the first Roman Catholic nominated for president by a major party. Smith’s religion, machine connections, brashness, and opposition to prohibition combined to hurt him in rural areas, especially the South, but it was prosperity that cost him the election.

Hoover won a smashing victory and carried five southern states where Smith’s Catholicism aroused resentment. The 1928 election also began a political realignment that was taking shape in the cities, as Smith carried the nation’s 12 largest cities, all of which had previously been Republican. In agricultural states Smith surpassed Davis’ showing of four years earlier. A new coalition of urban workers and dissatisfied farmers would emerge by 1932.

Economic Problems

Not all industries shared in the prosperity of the 1920s: Coal and textiles, for instance, faced competition from oil and new synthetics. The movement toward business consolidation resumed: Two hundred corporations came to control nearly half the nation’s corporate assets. General Motors, Ford, and Chrysler turned out nearly all of the nation’s vehicles; four tobacco companies produced most of the nation’s cigarettes. Retail merchandising was revolutionized by the growth of chain stores, epitomized by F. W. Woolworth and A&P, which took business from small shopkeepers.

Trade associations flourished in the 1920s, as producers formed voluntary organizations to regulate competition, exchange information, discuss policies toward government and the public, and control prices in their industries. Defenders argued that the associations stabilized prices and made business more efficient, though they may well have been in violation of antitrust laws.

The weakest element in the economy was agriculture. Farm prices slumped and farmers’ costs mounted, yet the government did little to improve the situation and nothing to increase agricultural income. Thus the boom times of the 1920s rested on unstable foundations. The problem was mainly one of maldistribution of resources: High earnings and low taxes permitted too large a share of the profits to go into the pockets of too few people who did not invest the money productively.
The Stock Market Crash of 1929

Stock prices, already at a historic high, began to surge even higher in the spring of 1928. Some conservative brokers warned that most stocks were overpriced, but the majority scoffed at pessimistic talk. The bull market continued through the first half of 1929, as many small investors put their savings into common stock. In September, the market wavered, and a month later, in a state of panic selling, prices plummeted. The boom was over.

Hoover and the Depression

The collapse of the stock market did not cause the Great Depression; stocks rallied late in the year, and business activity did not decline until the spring of 1930. The depression was a worldwide phenomenon caused by economic imbalances resulting from the Great War.

In the United States, too much wealth had fallen into too few hands and consumers were unable to buy all the goods produced. The problem of underconsumption worked to speed the downward economic spiral. Due to their mounting inventories, manufacturers closed plants and laid off workers. In 1930 more than 1,300 banks closed; each failure deprived people of savings that they might have used to buy goods. Demand for farm goods fell, new investments declined, and unemployment increased. Politicians did not know what to do about it.

President Hoover proposed a tax cut to increase consumers’ spendable income, endorsed public-works programs administered at the state level to create jobs for the unemployed, and urged lower interest rates to make it easier for businesses and farmers to borrow money. But the program failed to check the economic slide; Hoover relied too heavily on his powers of persuasion and the willingness of businessmen and farmers to act in the public interest. In addition, he refused on constitutional grounds to allow federal funds to be used for the relief of individuals, placing the responsibility on overburdened states, cities, and private charities.

Hoover believed that federal loans to businesses were constitutional and approved the Reconstruction Finance Corporation to lend money to banks, railroads, and insurance companies. As time passed and the depression worsened, Hoover put more stress on balancing the federal budget, a counterproductive move that by reducing the government’s expenditures may have actually prolonged the depression. Yet, nearly all informed opinion supported the president’s balanced budget views.

In 1930 Hoover signed the Hawley-Smoot Tariff, which raised duties on most manufactured goods to prohibitive levels, and helped to bring on a financial collapse in Europe. He then proposed a one-year moratorium on all international obligations. Britain and other nations in response devalued their currencies to encourage foreigners to buy their goods, leading Hoover to blame them for the depression in the United States. As the economic situation deteriorated, Hoover, inflexible and unwilling to experiment, lost the support of the American people.

The Economy Hits Bottom

By the spring of 1932 thousands faced starvation; only about a quarter of the unemployed received any public aid. Some who were evicted from their houses gathered in “Hoovervilles,”
ramshackle communities made of packing boxes and rusty sheet metal. Tramps roamed the countryside, farmers blocked roads and railroads, and federal agents deported Mexican American workers.

Some 20,000 World War I veterans marched on Washington, demanding immediate payment of their “adjusted compensation” bonuses. Hoover, fearing that this “Bonus Army” was composed of criminals and radicals, sent troops to disperse the veterans. No one was killed, but the spectacle of tanks and tear gas being used against the veterans appalled the nation.

The severity of the depression caused some to demand radical economic and political changes. Some intellectuals even embraced communism because of its emphasis on economic planning and total mobilization of the state to achieve social goals.

The Depression and Its Victims

The depression had profound psychological, as well as obvious economic, effects on its victims. Those who lost jobs and could not find work fell into a state of apathy, often forfeiting their ambition and pride. Others declined to apply for public assistance out of shame. But despite difficulties, most workers did not become radical and held out hope for better times. The depression led to a sharp drop in the birth rate, and changes in family life resulted when “breadwinners” came home with empty hands. Parental authority declined when there was less money available to supply children’s needs. Some adolescents found part-time jobs to help out. Generally, where family ties were already close and loving, they became stronger during the depression. Where they were not, families broke up.

The Election of 1932

Certain of victory in 1932, the Democrats nominated Governor Franklin D. Roosevelt of New York to challenge President Hoover. Under Roosevelt’s leadership, New York had led the nation in providing relief for the needy, old-age pensions, unemployment insurance, and conservation and public power projects. Roosevelt’s sunny, magnetic personality contrasted with that of the glum, colorless Hoover, who seemed more pessimistic with each passing day.

Born to wealth and social status, Roosevelt graduated from Harvard and embarked on a political career. Even an attack of polio in 1921 did not cause him to abandon his hopes for high office; despite his physical handicap, Roosevelt proved to be a marvelous campaigner. He radiated confidence and humor when attacking the Republicans and criticized Hoover for presiding over the “greatest spending administration in peacetime in our history.” In a contradictory stance, Roosevelt called for a balanced budget while also vowing to increase government spending to alleviate the dire need of the citizenry. Roosevelt promised to experiment with numerous possible solutions to the depression and test the conventional limits on the extent of federal power.

Roosevelt easily defeated Hoover in 1932. During the interval between the election and the inauguration, the depression worsened, as Roosevelt, Hoover, and the last “lame duck” session of Congress prior to the Twentieth Amendment failed to act on any interim economic policy.
PEOPLE, PLACES, AND THINGS

Define the following:

totalitarian ____________________________

oligopoly ____________________________

underconsumption ______________________

Describe the following:

Teapot Dome __________________________

Washington Conference __________________

Stimson Doctrine ________________________

Kellogg-Briand Pact ______________________

Good Neighbor Policy ____________________

Manchukuo _____________________________

Reconstruction Finance Corporation ________

Hawley-Smoot Tariff _____________________
Bonus Army ______________________________________________________________

______________________________________________________________________________

“Hoovervilles” ____________________________________________________________

______________________________________________________________________________

New Deal ________________________________________________________________

______________________________________________________________________________

*Identify the following:*

Andrew Mellon____________________________________________________________

______________________________________________________________________________

Albert Fall________________________________________________________________

______________________________________________________________________________

“Ohio Gang” _____________________________________________________________

______________________________________________________________________________

Harry Daugherty __________________________________________________________

______________________________________________________________________________

John W. Davis ____________________________________________________________

______________________________________________________________________________

Alfred E. Smith ___________________________________________________________

______________________________________________________________________________

John Nance “Cactus Jack” Garner _____________________________________________

______________________________________________________________________________
SELF-TEST

Multiple-Choice Questions

1. In the 1920s, U.S. foreign policy was based on all of the following EXCEPT
   A. isolationist sentiments.
   B. the Open Door concept.
   C. support for democratic elements in underdeveloped countries.
   D. the need for new sources of raw materials and new markets for U.S. goods.

2. The major treaties at the Washington Conference in 1921 resulted in some major nations agreeing to all of the following EXCEPT
   A. fix capital ship ratios at 5:5:3 to balance naval forces in the Pacific.
   B. halt naval construction for 10 years.
   C. respect one another’s interests in islands in the Pacific.
   D. respect China’s independence and the Open Door policy.

3. Match the following international agreements with the terms of the agreement.
   A. Kellogg-Briand Pact 1. The U.S. backs away from claiming the right to intervene in the affairs of Latin American nations.
   B. Stimson Doctrine 2. The U.S. condemns recourse to war for solution of international controversies.
   C. Clark Memorandum 3. The U.S. pledges to improve social and economic conditions in the Caribbean region.
   4. The U.S. refuses to recognize the legality of territorial seizures made in violation of U.S. treaty rights.

   A. A3, B4, C2
   B. A2, B3, C1
   C. A1, B2, C3
   D. A2, B4, C1

4. The Dawes and Young plans
   A. were efforts to limit naval arms after the Great War.
   B. provided financial assistance in rebuilding Europe after the Great War.
   C. sought to assist the Germans in making reparations payments to the Allies.
   D. called for a moratorium on war debts.

5. Treasury Secretary Andrew Mellon’s economic plan included all of the following EXCEPT
   A. lowering taxes.
   B. laissez-faire.
   C. reducing the national debt.
   D. lowering tariffs.

6. The “worst scandal” among the many involving Harding’s “Ohio Gang” was related to
   A. oil leases.
   B. veterans’ hospitals.
   C. Indian reservations.
   D. liquor permits.
7. Robert La Follette’s Progressive party presidential campaign in 1924 was supported by all of the following EXCEPT
   A. the American Federation of Labor (AFL).
   B. the farm bloc.
   C. Socialists.
   D. trade associations.

8. U.S. foreign policy in the Harding and Coolidge administrations was made by Secretary of State
   A. Harlan Fiske Stone.
   B. John W. Davis.
   C. Charles Evans Hughes.
   D. William G. McAdoo.

9. In the 1928 presidential campaign, BOTH Al Smith and Herbert Hoover were all the following EXCEPT
   A. uncritical of the American capitalist system.
   B. prohibitionists.
   C. conservatives.
   D. adept administrators.

10. Al Smith lost the presidential election in 1928 because of all of the following reasons EXCEPT
    A. he was connected to New York machine politics.
    B. he supported prohibition.
    C. he was Catholic.
    D. the national economy was prosperous in 1928.

11. Some industries that did not share in the prosperity of the 1920s included all of the following EXCEPT
    A. coal mining.
    B. cotton textiles.
    C. farming.
    D. home appliances.

12. In trade associations
    A. “adjusted compensation” was offered to bankrupt businesses.
    B. the courts later uncovered wholesale violations of antitrust laws.
    C. the nation moved toward national economic planning.
    D. businessmen discussed common problems of production and marketing and reached accommodations that decreased competition.

13. Which one of the following is NOT true of the Great Depression?
    A. The Great Depression was a world-wide event.
    B. The collapse of the stock market caused the Great Depression.
    C. The Great Depression was so profound and prolonged because politicians did not know what to do about it.
    D. The underlying problem of the Great Depression was one of underconsumption.
14. President Hoover’s gradually developing plan for ending the depression included all of the following EXCEPT
   A. tax cuts.
   B. direct relief.
   C. public works.
   D. lower interest rates.

15. The Reconstruction Finance Corporation was created to lend money to all of the following EXCEPT
   A. individuals.
   B. banks.
   C. railroads.
   D. insurance corporations.

16. As the depression worsened, President Hoover put more stress on
   A. lowering tariffs.
   B. balancing the federal budget.
   C. shifting state and local relief responsibilities to the federal government.
   D. laissez-faire.

17. Why did President Hoover break up the veterans’ Bonus Army in 1932?
   A. He had earlier vetoed “adjusted compensation” bonuses.
   B. He believed that criminals and communists had infiltrated the ranks of the demonstrating veterans.
   C. He opposed direct government aid to individuals.
   D. He believed that the right of free speech and assembly did not permit harassment of the national government.

18. The psychological effect of the depression on families was
   A. to have no effect on family ties.
   B. to strengthen some families’ ties and weaken others.
   C. to strengthen family ties only.
   D. to weaken family ties only.

19. The social effects of the depression included all of the following EXCEPT
   A. decrease the birth rate.
   B. increase the influence of wives in families.
   C. increase the consumption of protein foods.
   D. increase parental authority in families.

20. When he campaigned for the presidency in 1932, Franklin Roosevelt
   A. set forth a well-defined plan to guide his administration’s solution to the depression.
   B. pledged that his would become “the greatest spending administration in peace time in our history.”
   C. promised bold, persistent experimentation to solve the depression.
   D. committed to preserving the conventional limits on the extent of federal power.
Essay Questions

1. Show how corruption marred the Harding administration even though Harding himself was not involved in scandals.

2. Explain how the Mellon financial program led to a balancing of the budget and a reduction in the national debt.

3. Explain how Charles Evans Hughes led the United States into an activist foreign policy during the 1920s despite the decision not to join the League of Nations.

4. Compare and contrast the Coolidge and Hoover administrations in reference to the economic conditions each president faced.

5. Why was the election of Franklin D. Roosevelt in 1932 one of the least surprising political events in history? Evaluate Roosevelt’s campaign style and national goals.

CRITICAL THINKING EXERCISE

Economics has been referred to as the “dismal science” because economists can examine the same statistics and circumstances and reach opposite conclusions. Examine these statements regarding President Hoover and the Great Depression. Label the true statements with “T,” the opinion statements with “O,” and false statements with “F.” In some cases you, like economists, may disagree as to whether the statement is truth, opinion, or falsehood.

___1. Hoover rejected laissez-faire because he refused to follow Mellon’s suggestion that the economic disaster be permitted to run its course, as the government had allowed in earlier panics.

___2. Because many factories could not sell their goods during the 1930s, they often closed plants and laid off workers and hence caused demand to decrease even more.

___3. Had the depression been allowed to run its course, the American public would have worked harder and lived more moral, spiritual lives.

___4. Hoover’s program would likely have succeeded had he been reelected and freed of political pressures.

___5. In postponing calls for a balanced budget during the depression, Hoover may have inadvertently prolonged and deepened the impact of the collapse.

___6. Only the national government possessed the power and the credit to deal adequately with the Great Depression.

___7. As the Hoover administration spent $500 million a year on public works, construction outlay rose by 1932.
8. Federal loans to businesses were constitutional because the money could be put to productive use and repaid.

9. Hoover’s signing of the Hawley-Smoot Tariff was later criticized by supply-side economists.

10. Prosperity cannot be restored by raids on the public treasury.

11. Hoover was too rigidly wedded to a particular theory of government to cope with the depression.

12. High American tariffs could have prevented depression because they would have enabled Europeans to buy American goods more easily.