

1920s Politics and the Great Depression

I. Election of 1920

- A. Republicans nominated Warren G. Harding of Ohio (Calvin Coolidge was nominated as his vice presidential running mate)
1. Platform was effectively ambiguous regarding whether or not to join the League of Nations
 2. Harding spoke of returning America to "Normalcy"
 - a. Americans seemed less interested in international issues.
 - b. Many Americans were tired of the idealism, sacrifice and overreaching reforms of the Progressive era.
 3. Conservative "Old Guard" wing of the Republican party now dominated as Roosevelt's Progressive followers had bolted the party in 1912 and lost much influence in the Republican party once they returned in 1916.
- B. Democrats nominated James M. Cox of Ohio who supported America joining the League of Nations
- His running mate was assistant navy secretary Franklin Delano Roosevelt.
- C. Result:
1. Harding defeated Cox 404-127 in the Electoral College
 2. Women voted for the first time in a national election
 3. Eugene Debs received about 6% of the vote for the Socialist party while sitting in jail (Harding pardoned him several months later)
 4. Isolationists turned the Republican victory into a mandate to block U.S. entry into the League of Nations.

II. Harding's administration

A. Scandal

1. "Ohio Gang" or "Poker Cabinet"
 - a. Harding appointed his friends to prominent positions in his cabinet and used his connections with them to make money in some instances.
 - b. Harding is considered one of the worst presidents in U.S. history.
 - Most stories of his corrupt administration came out after his death.
2. Col. Charles R. Forbes, Veteran's Bureau chief and his accomplices stole about \$200 million, mostly in connection with the building of veterans' hospitals.
3. **Teapot Dome Scandal: One of biggest presidential scandals of the century**

Use space below for notes:



A Republican campaign poster, 1920

- a. 1921, Secretary of the Interior Albert Fall arranged transfer of valuable naval oil reserves at Teapot Dome, Wyoming & Elk Hills, California to the Interior Department.
 - b. Harding signed the secret order.
 - c. Fall then leased lands to two oilmen and received a bribe of about \$400,000
 - d. The scandal became public in 1923 and the three men were indicted in 1924 but the case was not resolved until 1929.
 - Fall was sentenced to one year in jail.
 - The two oilmen were acquitted of the bribe
 - Scandal undermined Americans' faith in the courts & public officials
4. Attorney General Harry Daugherty was investigated by the U.S. Senate for illegal sale of pardons and liquor permits.
- a. He was forced to resign and brought to trial in 1927.
 - b. The jury twice failed to convict him.
 - c. One of his advisors committed suicide in the face of the scandal.
- B. Harding died in San Francisco in Aug. 1923, while on a speech tour
1. Scandals had not yet reached the public in full force.
 2. Stress from the scandals may have prompted his death.
 3. Vice president Calvin Coolidge assumed the presidency.
- C. Significant members of Harding's cabinet
1. Charles Evans Hughes: Secretary of State
 - Led several important international peace conferences
 2. **Andrew W. Mellon**: Secretary of the Treasury
 - a. Lowered the national debt and taxes for the wealthy
 - b. Pittsburgh aluminum king, major financier; perhaps the richest man in the U.S.
 3. **Herbert Hoover**: Secretary of Commerce
 - a. Only major progressive cabinet member; sought reforms
 - b. Promoted increased cooperation between government and business
 - c. Made headlines in 1927 for his humanitarian role in dealing with the Great Mississippi Flood.
 - His broken promises to African Americans in the region, however, later cost him politically in the 1932 election
 4. The Republican "Old Guard" dominated Harding's administration
 - His administration resembled the McKinley-style old order of the Gilded Age

Use space below for notes:

- D. Harding's conservative economic agenda (carried out by Coolidge and Hoover)
1. Conservatives believed role of gov't was to make business more profitable.
 - a. Tax cuts for corporations and the wealthy: "trickle down" economics
 - Advocated by Sec. of the Treasury Andrew Mellon who favored rapid expansion of capital investment.
 - Premise: high taxes forced investors to invest in tax-exempt securities rather than in factories that provided economic growth.
 - In practice, it resulted in a smaller net return to the Treasury than moderate taxes.
 - Tax cuts for the wealthy, he believed, would result in investment in business which would expand the economy and create more jobs for ordinary workers.
 - Mellon thus engineered a series of tax cuts from 1921 to 1926
 - Much of tax burden was shifted to the middle-class
 - b. Higher tariffs: Fordney-McCumber Tariff (1922)
 - Businessmen feared cheap goods coming in from Europe.
 - Tariff rates pushed from 27% (under the Underwood Tariff) to about 38.5% (almost as high as the Payne-Aldrich Tariff of 1909).
 - Duties on farm produce were increased
 - Impact:
 - Europeans' post-WWI economic recovery was hurt
 - Europeans had more trouble paying huge debt owed to the U.S.
 - Retaliatory tariffs against U.S. goods hurt U.S. manufacturers.
 - High European tariffs also hurt neighboring Europeans.
 2. Government's role should be limited and stay out of the way of business (*laissez faire*)
 - a. Less government regulation occurred than in the Progressive era, and few regulatory laws were passed
 - b. Harding appointed people to regulate agencies that didn't like progressive regulation
 - Interstate Commerce Commission was dominated by men personally sympathetic to the managers of the railroads.
 3. Government helped to facilitate monopolies and consolidation of industries
 - a. Antitrust laws often ignored, circumvented, or inadequately enforced by Attorney General Daugherty

- b. Industrialists set up **trade associations** where an industry would agree upon standardization of a product, publicity campaigns, and a united front in dealing with other industries and customers.
 - Despite violating antitrust legislation, Secretary of Commerce Herbert Hoover encouraged their formation.
 - Trade associations sought to eliminate cutthroat competition.
4. Businessmen ran the government as they were seen to have had experience in management.
 - Cabinet positions went to wealthy business leaders who looked out for big business interests.
5. Rejected federal gov't programs to help ordinary citizens or local economies
 - a. To the Mississippi flood victims appeal: "The gov't is not an insurer of its citizens against the hazards of the element."
 - b. A plan to develop government-controlled hydroelectric power stations near Muscle Shoals in the Tennessee Valley was rejected by presidents Harding and Coolidge as too socialistic.
 - Such a project would have significantly improved the economy of the Tennessee Valley region, one of the nation's poorest areas.
 - Muscle Shoals eventually became the nucleus of the Tennessee Valley Authority during the New Deal in the 1930s.
 - c. Many conservatives believed local communities and charity should take that responsibility
 - This was largely Hoover's philosophy during the Depression
6. Conservatives were appointed to the Supreme Court.
 - a. Harding appointed 4 Supreme Court justices in his less than 3 years as president
 - Judges were often reactionary and held back reforms for nearly two decades.
 - Exception: Harding appointed former president William H. Taft as Chief Justice, who was relatively liberal
 - b. The Court reversed many of labor's gains, and restricted government intervention in the economy.
 - *Adkins v. Children's Hospital* (1923): the Court invalidated a minimum-wage law for women.
 - Justification: Females now had the vote and no longer could be protected by special legislation.
7. Conservatives were hostile to Unions
 - a. Conservatives were shocked by the 1919 Seattle General Strike, Boston Police Strike, steel strike, United Mine Workers

- strike, and others
- b. Membership in labor unions dropped nearly 30% between 1920 and 1930; dropped from approximately 12% of the civilian labor force to 8%.
- c. 1922, the Railway Labor Board ordered 12% wage cut sparking a two-month railroad strike
 - Attorney General Daugherty implemented one of the most sweeping injunctions in U.S. history.
- 8. Reduced the national debt by making government smaller
 - a. Nat'l debt increased from \$1.2 billion in 1914 to about \$24 billion in 1921.
 - b. **Bureau of the Budget** was created by Congress in 1921 to reduce the national debt.
 - c. Treasury Secretary Andrew Mellon reduced the national debt from about \$26 billion to \$16 billion.

III. Calvin Coolidge's presidency (1923-1929)

A. Coolidge carried out Harding's conservative agenda

B. The Farm Problem

1. Causes

- a. Recovery of European farmers brought less demand for U.S. farm products.
 - b. Machines facilitated more food production but the increased supply meant a decrease in food prices.
 - The gasoline-powered tractor revolutionized American farms.
2. A depression hit the agricultural sector in the 1920s as 25% of farms were sold for debt or taxes.
- a. Foreclosures increased 500% between 1918 and 1923
 - b. Foreshadowed the Great Depression later in the decade
3. **McNary-Haugen Bill** (proposed repeatedly between 1924 to 1928)
- a. Bipartisan Congressional "farm bloc" from agricultural states aimed to help farmers.
 - b. Sought to keep agricultural prices high by authorizing the gov't to buy up surpluses and sell them abroad.
 - c. Gov't losses would be made up by a special tax on the farmers.
 - d. Coolidge vetoed it twice
 - e. Result: Farm prices stayed down

C. Election of 1924

1. Party nominations

- a. Republicans nominated incumbent Calvin Coolidge
- b. Democrats nominated conservative businessman John W. Davis

- The party was divided among various factions: "wets" vs. "drys"; fundamentalists vs. modernists; northern liberals vs. southern white supremacists; immigrants vs. WASPs
 - A resolution to condemn the KKK failed by one vote.
 - c. The new Progressive party nominated Senator Robert "Fighting Bob" La Follette.
 - Endorsed by the AFL and the shrinking Socialist party.
 - Bulk of support came from farmers
 - Platform:
 - Gov't ownership of railroads and relief for farmers
 - Anti-monopoly and anti-labor injunctions
 - Constitutional amendment to limit Supreme Court's power to invalidate laws passed by Congress (in effect, an attack on judicial review).
2. Result:
- a. Coolidge defeated Davis & La Follette 382 - 136 - 13 in the Electoral College
 - b. La Follette received nearly 5 million votes (all electoral votes came from his home state of Wisconsin).
 - c. The nation's current prosperity meant that the incumbent party was not going to be defeated; reform was not high on the list of most Americans at this time.

Memory Aid for Conservative Politics in the 1920s: "HALT"

Higher tariffs
Anti-Union
Laissez faire
Trickle-down tax policies

IV. Election of 1928

A. Nominations

1. **Herbert Hoover** was the Republican nominee: platform of prosperity & prohibition.
2. **Alfred E. Smith** was nominated by the Democrats
 - First Irish-American Catholic nominated by a major party
 - Smith had been a Tammany Hall boss, and was the "Wet" son of Irish immigrants
 - Rural America and the South were deeply opposed to him.

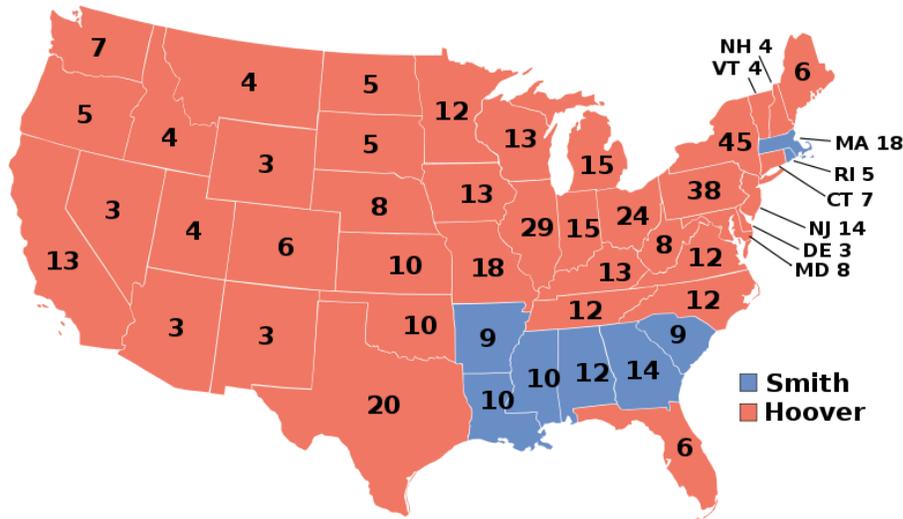
B. Campaign

1. Radio was used significantly for the first time.
2. Hoover warned of "socialism" and preached "rugged individualism"
3. Religious bigotry surfaced regarding Smith's Catholicism: "A

vote for Al Smith is a Vote for the Pope."

C. Results:

1. Hoover defeated Smith 444 to 87 in the Electoral College
 - Hoover was the first Republican in 52 years to carry several former Confederate states (he won 5).
2. A huge Republican majority was returned to the House of Representatives.



The Republican victory in several former-Confederate states demonstrates the high degree of anti-Catholicism that existed in the South against the Democrat Al Smith

V. Hoover's presidency (1929-1933)

A. Herbert Hoover

1. Organized food drives for the starving people of Belgium during WWI.
2. His leadership of the Food Administration during WWI earned him the titles of "Great Engineer" and "Wonder Boy."
3. Successful businessman who hated socialism or large-scale gov't intervention in the economy (not *laissez faire*, however)
4. As secretary of commerce, he supported some progressive ideas e.g. endorsing labor unions and supporting federal regulation of new radio broadcasting industry.
 - For a time, considered gov't-owned radio like Britain's BBC.
5. Claimed in 1928 that "Poverty will be banished from the nation." "Everybody ought to be rich."

B. The Great Crash of 1929

1. **Bull market:** values of stocks continued to increase during the 1920s.
 - a. Dow Jones in 1924 = 180

- b. September 1929 = 381: stocks were selling for 16 times their earnings; rule of thumb = 10 times earnings
2. **On margin** buying of stocks
 - a. Investors purchased stocks from stockbrokers for as little as 5% down
 - b. When stock values rose, investors would pay back their debt.
 - If no payment was made, stocks would be held as collateral.
 - c. If prices of stock decreased more than 10%, the broker would sell stock for whatever price they could get.
 - Result: Banks and businesses that had financed brokers' loans lost much money.
 - d. Banks loaned money to stockbrokers to facilitate on margin buying.
3. **Overspeculation:**
 - a. Investors gambled that prices would continue to rise
 - b. Artificial increases in stock and commodity values fueled speculation
 - c. Hoover unsuccessfully tried early on to curb speculation by pressuring the Federal Reserve Board to raise the Federal discount rate (the rate the Fed charges to member banks).
4. **The Great Crash**
 - a. **Oct. 29, 1929 ("Black Tuesday")** -- Everybody wanted to sell. Within hours, the stock market crashed.
 - b. By mid-November, \$25 billion in stock value had disappeared
 - Fortunes were wiped out almost overnight; Dow Jones in 1932 = 41; down from 381 in September, 1929.
5. Traditional historical interpretation puts the Crash as the immediate cause of the Great Depression.
 - a. However, no direct connection has ever been proven
 - In fact, there are few universally-agreed upon causes for the depression
 - b. The recession actually began in August, 1929, two months before the Crash.
 - This was largely due to contractionary policies by the Federal Reserve Board that sought to curb overspeculation on stocks
 - c. U.S. did not sink into a major depression until December 1930 after several major banks collapsed (e.g. Bank of U.S., a NY private bank)
 - d. Some economists put the cause of the international depression as late as 1931 when certain major European banks collapsed (e.g. Kreditanstalt in Austria)
 - e. After "Black Tuesday," stock prices were still at 1926 levels, which were strong.
 - f. The stock market regained much of its losses by mid-1930
 - g. Other factors may have been more important (see below)

VI. Long-term Causes of the Great Depression

A. Weak industries

1. Cotton industry was affected by the rise of synthetic materials.
2. Railroad industry was affected by the automobile and airplane.
 - Railroad passenger miles declined from 47 million in 1922 to 34 million in 1927
3. Coal industry declined in the face of the electrical, oil, and chemical industries
4. Low food prices affected the farming industry (see pages 5 & 6)
 - a. Demand for foodstuffs dropped after WWI.
 - b. Government refused price supports in 1920's.

B. Overproduction of goods by manufacturers

1. Consumers began to spend less on goods -- **underconsumption**
 - a. Ordinary workers and farmers had used their consumer credit and did not have enough money to keep buying products that were produced.
 - b. Immigration laws of the 1920s reduced population growth that, in turn, reduced aggregate demand
2. Many warehouses were full of products that couldn't be sold. Companies lost money.

C. Uneven distribution of income

1. 5% of the population received 30% of the total income.
 - a. One estimate: Income of top 1% increased about 75%; bottom 93% = only 6%.
 - b. Partly due to Andrew Mellon's "trickle down" policies
 - c. Urban industrial workers tended to earn more than farmers
2. One-half of country lived below the poverty line. These were potential customers.

D. Unstable banking system

1. Due to mismanagement in real estate and overspeculation in the stock market
2. 1% of banks controlled 46% of bank resources.
3. **Runs on banks** caused many banks to close after the Crash

E. Weak international economy

1. U.S. protectionist trade policies hurt foreign trade
 - a. Fordney-McCumber Tariff, 1922 (see pages 3 & 4)
 - b. **Hawley-Smoot Tariff (1930)** --created highest tariff in U.S. history
 - 23 nations retaliated by imposing tariffs on U.S. exports.
2. The U.S. economy in 1929 was less affected by the weak international economy due to foreign trade representing a small percentage of the overall U.S. economy

- Yet, loan defaults from foreign countries and reduced demand ultimately worsened the crisis in the U.S.

VII. The Great Depression

A. By 1932, 5,761 banks had failed (22% of the total)

1. Many banks invested in stocks before the crash
2. 4,000 more banks collapsed between December 1932 and the new president's inauguration in March, 1933

B. Thousands of businesses failed

1. 20,000 in 1929; 30,000 in 1932
2. Business investment between 1929 and 1932 decreased by nearly 95%!

C. Unemployment reached 25% by 1932 (13 million people) excluding farmers.

- a. As high as 33% including farmers; Chicago = 50%!
- b. Low-skilled workers most affected (professionals & middle-class suffered less)
 - Blacks and immigrant workers especially hard hit (low-skilled)
- c. Unemployment had been as low as 3.2% in 1929
- d. Auto industry only functioned at 20% of capacity by 1932; steel industry only 12% of capacity

D. Total wages dropped from \$12 billion to \$7 billion from 1929 to 1932 (lower wages = less money spent in the economy); about 41%

1. Partly due to **deflation**
2. Increase in child labor occurred as a result

E. By 1932, 25% of farmers had lost their farms

- A major cause was the large drop in food prices caused by overproduction and less demand from Europe

F. Human Cost

1. Many people experienced a loss of self-worth
2. Many families broke up; the marriage rate and birth rate declined
 - Families doubled up in houses and apartments
3. Three million people became hobos and lived in makeshift shacks known as "**Hoovervilles**"
4. Malnutrition was rampant in certain areas but death by starvation was uncommon.
 - Nevertheless, malnutrition caused people to be more susceptible to fatal diseases.

G. The Depression was the longest and most devastating in U.S. history

1. The U.S. was hit the hardest among industrialized nations.
 - Gross National Product fell from \$104 billion in 1929 to \$56.1 billion in 1933.
2. The international reparations and war debts structure collapsed.
3. U.S. exports dropped, further hurting the U.S. economy.
4. Not until the U.S. began preparing for World War II in 1939 did the depression end (by then it had lasted 10 years).

VIII. Hoover's response to the Great Depression

A. Hoover did not respond quickly enough

1. Hoover believed (perhaps correctly) that outside forces in Europe were responsible for the Great Depression.
 - a. Economic consequences of WWI (especially the Versailles Treaty and German reparations)
 - b. Post-war military alliances and doubling of prewar armament.
 - c. Inflationary public works programs to alleviate unemployment.
 - d. Unbalanced budgets and increasing debt.
2. Hoover thus took too long to initiate domestic measures to help the economy believing instead the international system had to be repaired first.

B. Farming

1. Pre-crash: **Agricultural Marketing Act** passed by Congress in 1929.
 - a. Designed to help farmers help themselves, largely through producers' cooperatives.
 - b. Indicated Hoover's progressive tendencies; Coolidge had vetoed such policies
2. **Federal Farm Board** established in 1930 with a revolving fund of \$500 million
 - a. Lent funds to buy, sell and store agricultural surpluses.
 - b. Goal: raise sagging prices by buying up surpluses and selling them abroad
 - The policy failed as the production of food increased further

C. Attempts at economic recovery

1. Volunteerism

- a. Hoover believed voluntary cooperation (like in WWI) would enable the country to overcome the depression.
- b. He urged businesses to avoid lay-offs of workers and wage cuts
 - Eventually, the worsening economy forced businesses to cut workers and wages anyway
- c. He secured no-strike pledges from labor leaders.
- d. He urged all citizens to contribute to charities to ease the

- suffering; Hoover himself donated generously
- In reality, private charity was not adequate to meet the country's needs during the economic calamity.
- 2. Hawley-Smoot Tariff of 1930**
 - Tariff became the highest peace-time barrier in the nation's history.
 - The average duty increased from 38.5% (Fordney-McCumber Tariff of 1922) to nearly 60%.
 - It exacerbated the existing international economic depression.
 - Foreign countries interpreted the tariff as an economic declaration of war as the volume of trade shrunk
 - International financial chaos resulted in the U.S. becoming even more isolationist
 - 3. Public works**
 - In 1930 Congress appropriated \$750 million for public buildings, river and harbor improvements, and highway construction to stimulate employment.
 - Hoover Dam construction began in 1931 and was completed in 1936.
 - Construction of the dam employed thousands and created huge man-made lake for purposes of irrigation, flood control, and electric power.
 - By 1932, the efforts of the president and Congress had yielded little in economic growth
 - 4. Moratorium on international debts (1931)**
 - Hoover courageously pushed for a 1-year freeze on international debt payments to help European countries (especially Germany) recover.
 - Yet, the international economy was too heavily damaged for this to make much difference.
 - 5. Reconstruction Finance Corporation (RFC), 1932**
 - RFC had an appropriation of \$500 million and the authority to borrow \$1.5 billion for loans to railroads, banks, and other financial institutions.
 - Later, Hoover approved legislation authorizing RFC to lend \$300 million to states for relief, and to make loans to states and cities for self-liquidating public works.
 - Became a "mini-blue print" for the New Deal in the 1930s during Franklin Roosevelt's presidency
 - Result: prevented the failure of basic firms on which many other elements of the economy depended, but was criticized by some as relief for the rich.
 - 6. Norris-La Guardia Anti-Injunction Act (1932):** Outlawed "yellow dog" (antiunion) contracts and forbade the federal courts to issue injunctions to restrain strikes, boycotts, and peaceful picketing.

7. Revenue Act of 1932 further reduced demand through taxation on personal income and mandating a balanced budget

D. **Bonus Army**, 1932

1. 14,000 unemployed veterans marched on Washington in the summer of 1932 to lobby Congress for payment of bonus that was payable in 1945.
2. At Hoover's insistence, the Senate did not pass the bonus bill and about half of the Bonus Army accepted congressional transportation back home.
3. The remaining 5,000 marchers lived in shanties along the Anacostia river and continued to lobby for their cause.
4. Hoover called in the Army to remove the Bonus Army after two veterans were killed in a clash with the police.
 - Veterans were driven from Washington, D.C. and their camps were burned.
5. Significance: Hoover appeared heartless to already angry Americans; contributed to his defeat in the November election.

E. Hoover evaluated

1. Despite not doing enough, Hoover advocated more direct gov't involvement than any previous president in the nation's history.
 - a. Probably prevented a more serious collapse than did occur.
 - b. Policies paved the way for the New Deal (e.g. RFC)
 - c. Yet, his conservative underpinnings prevented him from going far enough in addressing the worst slump in U.S. history.
2. His focus on maintaining a balanced budget through tax receipts from the Revenue Act of 1932 further decreased demand
3. By refusing to get off the gold standard, the money supply in the U.S. remained stagnant
 - In contrast, President Franklin Roosevelt took the nation off the gold standard early in his presidency and the increased money supply helped stimulate the economy, somewhat.
4. Refusal of large-scale relief resulted in misery among the masses
 - a. Hoover vetoed use of federal funds for relief for the needy.
 - He feared gov't handouts were socialistic and would destroy the nation's work-ethic; he believed instead in "rugged individualism."
 - b. Hoover eventually compromised by authorizing the RFC to lend millions to states for relief but this proved to be too little, too late.

Terms to Know

election of 1920 isolationism President Warren G. Harding "normalcy" Teapot Dome Scandal Andrew Mellon, Treasury Secretary Herbert Hoover, Commerce Secretary "trickle-down" economics Fordney-McCumber Tariff trade associations Bureau of the Budget McNary-Haugen Bill Isolationism Election of 1928 Al Smith President Herbert Hoover bull market	bear market on margin buying of stocks overspeculation Great Crash of 1929 ("Black Tuesday") overproduction underconsumption runs on banks Hawley-Smoot Tariff, 1930 Great Depression deflation "Hoovervilles" Agricultural Marketing Act, 1929 Federal Farm Board debt moratorium Reconstruction Finance Corporation Norris-LaGuardia Anti-Injunction Act Bonus Army
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Essay Questions

Note: This sub-unit is a high probability area for the AP exam. In the past 10 years, 3 questions have come wholly or in part from the material in this chapter. Below are some questions that will help you study the topics that have appeared on previous exams.

1. Compare and contrast the conservative policies of the 1920s presidents with the progressive policies prior to 1920.
2. Analyze the long-term and short-term causes of the Great Depression.
3. To what extent was Herbert Hoover a failure in his response to the problems of the Great Depression?

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