
CHAPTER 25

THE NEW ERA:

1921-1933

The American Nation:
A History of the United States, 13th edition
Carnes/Garraty

HARDING AND “NORMALCY”

- Warren G. Harding won the 1920 Republican nomination because the party was split between
 - General Leonard Wood (TR Progressives)
 - Frank Lowden, governor of Illinois
- Harding was ignorant and imprecise and known for bungling the English language



HARDING AND “NORMALCY”

- Harding was hardworking and politically shrewd
 - Major weakness: indecisiveness and unwillingness to offend
- Turned most important government departments over to efficient administrators of impeccable reputation
 - Secretary of State: Charles Evans Hughes
 - Commerce Department: Herbert Hoover
 - Treasury Department: Andrew Mellon
 - Agriculture Department: Henry C. Wallace

HARDING AND “NORMALCY”

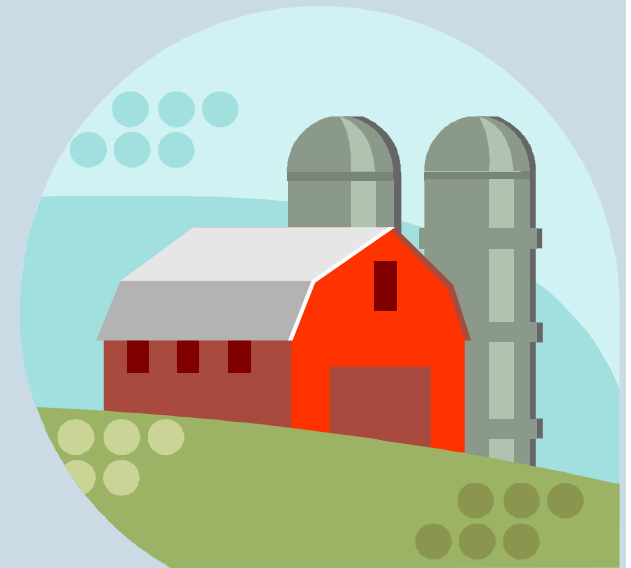
- Unfortunately gave lesser offices, and a few important ones, to the unsavory “Ohio Gang” headed by Harry M. Daugherty, whom he appointed Attorney General
 - Secretary of the Interior: Albert Fall
 - Director of the Mint: “Ed” Scobey
 - Veterans Bureau: Charles R. Forbes
- Harding disliked being President

“THE BUSINESS OF THE UNITED STATES IS BUSINESS”

- Secretary of the Treasury Mellon dominated the administration’s domestic policy
 - Wanted to lower taxes on the rich
 - Reverse the low tariff policies of Wilson period
 - Return to laissez-faire policies of McKinley
 - Reduce the national debt by cutting expenses and administering the government more efficiently
- While ideas had merit in principle, Mellon carried to an extreme—desiring to eliminate inheritance tax and reduce income tax by two-thirds for high incomes but refusing to consider lower rates for those earning less than \$66,000 per year

“THE BUSINESS OF THE UNITED STATES IS BUSINESS”

- Midwestern Republicans and southern Democrats (farm bloc) disliked Mellon’s tax and tariff policies
 - Post WWI revival of European agriculture cut demand for U.S. farm produce just when fertilizers and machinery were boosting outputs
 - Farmers had heavy debts and declining income—share of national income declined by 50 percent after 1919
 - Farm bloc represented a sort of conservative populism and their Congressional representatives pared back Mellon’s proposals



“THE BUSINESS OF THE UNITED STATES IS BUSINESS”

- Mellon balanced the budget and reduced the national debt by \$500 million a year
 - Republicans refused veterans’ demands for an adjusted compensation bonus
- Business heartily approved of policies of Harding and Coolidge who were big business advocates
 - Used power of appointment to convert regulatory bodies like Interstate Commerce Commission and Federal Reserve Board into pro-business agencies

THE HARDING SCANDALS

- Jesse Smith, a crony of Attorney General Daugherty, was an influence peddler who committed suicide when he was exposed in 1923
- Charles Forbes of the Veterans Bureau siphoned millions of dollars appropriated for the construction of hospitals
 - Originally fled to Europe but eventually returned, stood trial, and spent two years in jail
 - His assistant committed suicide
- Daugherty was implicated in the fraudulent return of German assets seized by the alien property custodian
 - Escaped jail by pleading the Fifth

THE HARDING SCANDALS

TEAPOT DOME SCANDAL

- 1921: Secretary of the Interior Albert B. Fall arranged with Secretary of the Navy Edwin Denby for the transfer to the Interior Department of government oil reserves being held for future navy use
- Then leased them to private oil companies
 - Edward Doheny's Pan-American Petroleum Company got Elk Hills Reserve in California
 - Harry F. Sinclair's Mammoth Oil Company got Teapot Dome reserve in Wyoming

THE HARDING SCANDALS

TEAPOT DOME SCANDAL

- 1923: Senate ordered investigation that showed Doheny had “lent” Fall \$100,000 while Sinclair had given him \$300,000 in cash and securities
 - No one convicted of defrauding the government but Sinclair got 9 months for contempt of Senate and tampering with a jury while Fall was fined \$100,000 and imprisoned for a year for accepting a bribe
- 1927: Supreme Court revoked the leases and two reserves were returned to the government

THE HARDING SCANDALS

- Public was still not aware of extent of scandals when Harding left Washington in June 1923 to visit Alaska on a speaking tour
 - Health was poor and spirits low
 - Returning from Alaska suffered a heart attack, which doctor misdiagnosed
 - Died in San Francisco on August 2
- The nation mourned

COOLIDGE PROSPERITY

- Vice President Calvin Coolidge, untainted by scandals, became president
 - Appointed Harlan Fiske Stone, dean of Columbia University School of Law, as Attorney General
 - Scandals ceased to be handicap for Republicans and Coolidge became darling of conservatives
- Coolidge deeply admired businessmen and was devoted to laissez-faire
 - Easily won 1924 Republican nomination



COOLIDGE PROSPERITY

- Democrats took 103 ballots to choose a candidate
 - Southern, dry, anti-immigrant, pro-Klan wing wanted William McAdoo, Wilson's Secretary of the Treasury
 - Eastern, urban, wet element supported Governor Alfred E. Smith of New York (Catholic)
 - Compromised on John W. Davis, a conservative corporation lawyer
- Robert M. La Follette entered the race as the candidate of the New Progressive party
 - Backed by the farm bloc, the Socialist Party, the AFL, and many intellectuals
- Coolidge won 15.7 million votes to Davis' 8.4 million and La Follette's 4.8 million

PEACE WITHOUT A SWORD

- Harding deferred to senatorial prejudice against executive domination in foreign affairs
 - Let Secretary of State Charles Evans Hughes make policy
 - Coolidge adopted similar course
- Faced obstacle of resurgent isolationism, yet far-flung economic interests made close attention to developments all over world unavoidable
 - Open Door concept remained predominant
 - State Department worked to obtain opportunities in underdeveloped countries for exporters and investors
 - Hoped to stimulate American economy
 - Hoped to bring stability to “backward” countries

PEACE WITHOUT A SWORD

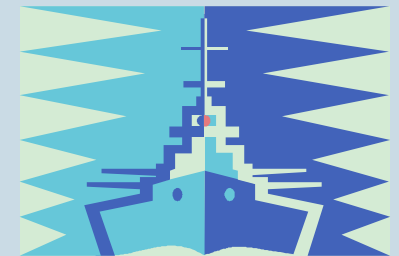
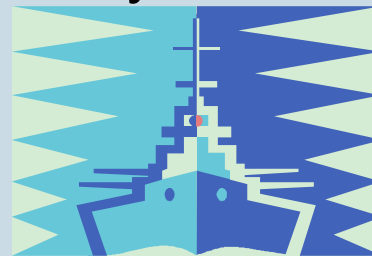
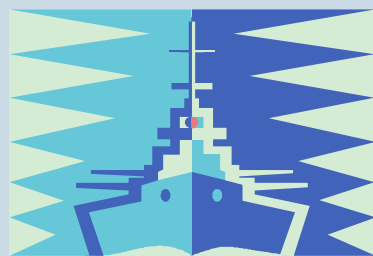
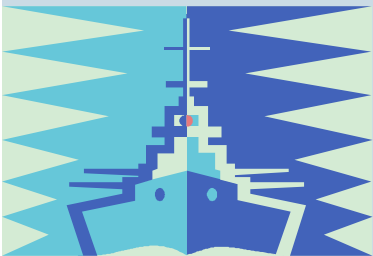
- During WWI, Japan had increased its influence in Far East, especially in Manchuria
 - To maintain Open Door in China, needed to check Japanese expansion
 - Could not restore deeply resented spheres of influence
 - Japan, United States, and Great Britain were engaged in expensive naval building programs



PEACE WITHOUT A SWORD

WASHINGTON NAVAL CONFERENCE

- November 1921: Secretary of State Hughes convened a conference in Washington that drafted three major treaties by February 1922
 - **Five-Power Treaty:** United States, Great Britain, France, Japan, and Italy agreed to
 - Stop building battleships for 10 years
 - Reduce their fleets of capital ships to a fixed ratio: U.S. and Britain: 525,000 tons, Japan: 315,000 tons, and France and Italy: 175,000 tons



PEACE WITHOUT A SWORD

WASHINGTON NAVAL CONFERENCE

- **Four-Power Treaty:** United States, Great Britain, Japan, and France committed these nations to respect one another's interests in the islands of the Pacific and to confer in the event that any other country launched an attack in the area
- **Nine-Power Treaty:** signed by all conferees
 - Agreed to respect China's independence and to maintain the Open Door

PEACE WITHOUT A SWORD

- By taking the lead in these agreements, U.S. regained some of moral influence lost when it did not join the League of Nations
- Treaties were toothless
 - Four-Power Treaty only promised consultation
 - Five-Power Treaty said nothing about the number of other warships powers might build while 5:5:3 ratio actually enabled the Japanese to dominate the western Pacific
 - Made the Philippine Islands indefensible and exposed Hawaii to possible attack

PEACE WITHOUT A SWORD

- Congress was so unconcerned about Japanese sensibilities that it refused to grant any immigration quota to Japan under the National Origins Act of 1924
 - If formula had been applied, only 100 Japanese a year would have been allowed to enter
 - Japanese were deeply insulted and resentment played into military party in that nation, many of whom increasingly considered war with U.S. to be inevitable
- Despite Nine-Power Treaty, Japan maintained territorial ambitions in China
 - China remained riven by conflict among warlords and so resentful of imperialists that rewards from Open Door were small

THE PEACE MOVEMENT

- Americans wanted peace but refused to abandon prejudices and dislikes or build necessary defenses to indulge those passions
- Peace societies flourished
 - Carnegie Endowment for International Peace: designed to end war
 - Woodrow Wilson Foundation: aimed at promotion of peace through justice
 - 1923: Edward Bok offered \$100,000 for the best workable plan for preserving international peace



THE PEACE MOVEMENT

- Yet Americans did not want to be involved in international cooperation
 - Refused to join World Court
 - Mostly simply wanted to point out moral and practical disadvantages of war
- 1928 Kellogg-Briand Pact
 - Proposed by French minister that U.S. and France agree not to go to war with each other
 - U.S. minister Kellogg suggested broadening to include all nations
 - 15 nations signed in August 1928 and Senate ratified



THE GOOD NEIGHBOR POLICY

Mexico

- Mexicans completed their social and economic revolution of the 1920s without significant interference by the U.S.

Herbert Hoover

- United States began to treat Latin American nations as equals
- Reversed Wilson's policy of trying to teach them to "elect good men"

THE GOOD NEIGHBOR POLICY

- 1930: Clark Memorandum written by Undersecretary of State J. Reuben Clark
 - Disassociated the right of intervention in Latin America from the Roosevelt Corollary
- By 1934 marines who had been occupying Nicaragua, Haiti, and the Dominican Republic had been withdrawn
- U.S. had renounced the right to intervene in Cuban affairs
 - Abrogated the Platt Amendment
- Did little to actually improve social and economic conditions in the region

THE TOTALITARIAN CHALLENGE

- September 1931: Japan marched into Manchuria and converted the province into a state named Manchukuo
 - Violated Kellogg-Briand Pact and Nine-Power Treaty
 - China, under Chiang Kai-shek, appealed to the League of Nations and U.S. for help
 - League sent an investigatory commission

THE TOTALITARIAN CHALLENGE

- **STIMSON DOCTRINE:** Hoover's Secretary of State, Henry Stimson, announce the U.S. would never recognize the legality of seizures made in violation of American treaty rights
- January 1932: Japan attacked Shanghai
 - Indiscriminate bombing of residential districts
 - League condemned the aggression and Japan left the League and extended its control of northern China
- 30 January 1933: Adolph Hitler became Chancellor of Germany

WAR DEBTS AND REPARATIONS

- The U.S. had lent more than \$10 billion to Allies
 - Money had been spent on weapons and other supplies in U.S.
 - Public demanded full repayment, with interest
 - Even when Foreign Debt Commission scaled down the interest from 5 percent to 2 percent, the total to be repaid over 62 years was \$22 billion
- Almost impossible to repay debt
 - Dollars had not been put to productive use
 - American protective tariff reduced the ability of the Allies to earn the dollars needed to repay the debt

WAR DEBTS AND REPARATIONS

- Allies tried to load their debts to U.S. and cost of war on backs of Germans
 - Demanded payment of \$33 billion in reparations
 - Germans defaulted and so did Allies
- Everyone was resentful
 - Germans felt they were being bled dry
 - U.S. felt Allies were treating them as “an international sucker”
 - Allies felt U.S. was acting as a “Shylock” looking for pound of flesh

WAR DEBTS AND REPARATIONS

- Germans resorted to runaway inflation that reduced the mark to less than one trillionth of prewar value in hopes of avoiding international obligations
- Americans refused to recognize the connection between the tariff and the debt question
- Allies made little effort to pay even a reasonable proportion of their obligations

WAR DEBTS AND REPARATIONS

- 1924: Dawes Plan provided Germany with a \$200 million loan designed to stabilize its currency
 - Germany agreed to pay \$250 million a year in reparations
- 1929: Young Plan further scaled down reparations bill
- In practice, Allies paid the United States about what they collected from Germany, which mainly got money from private American loans
- In the late 1920s, U.S. stopped loaning Germany money, the Great Depression struck, Germany defaulted, and Allies defaulted

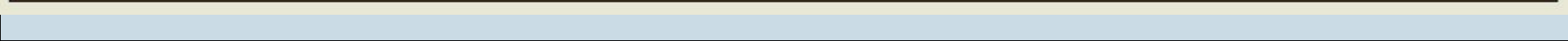
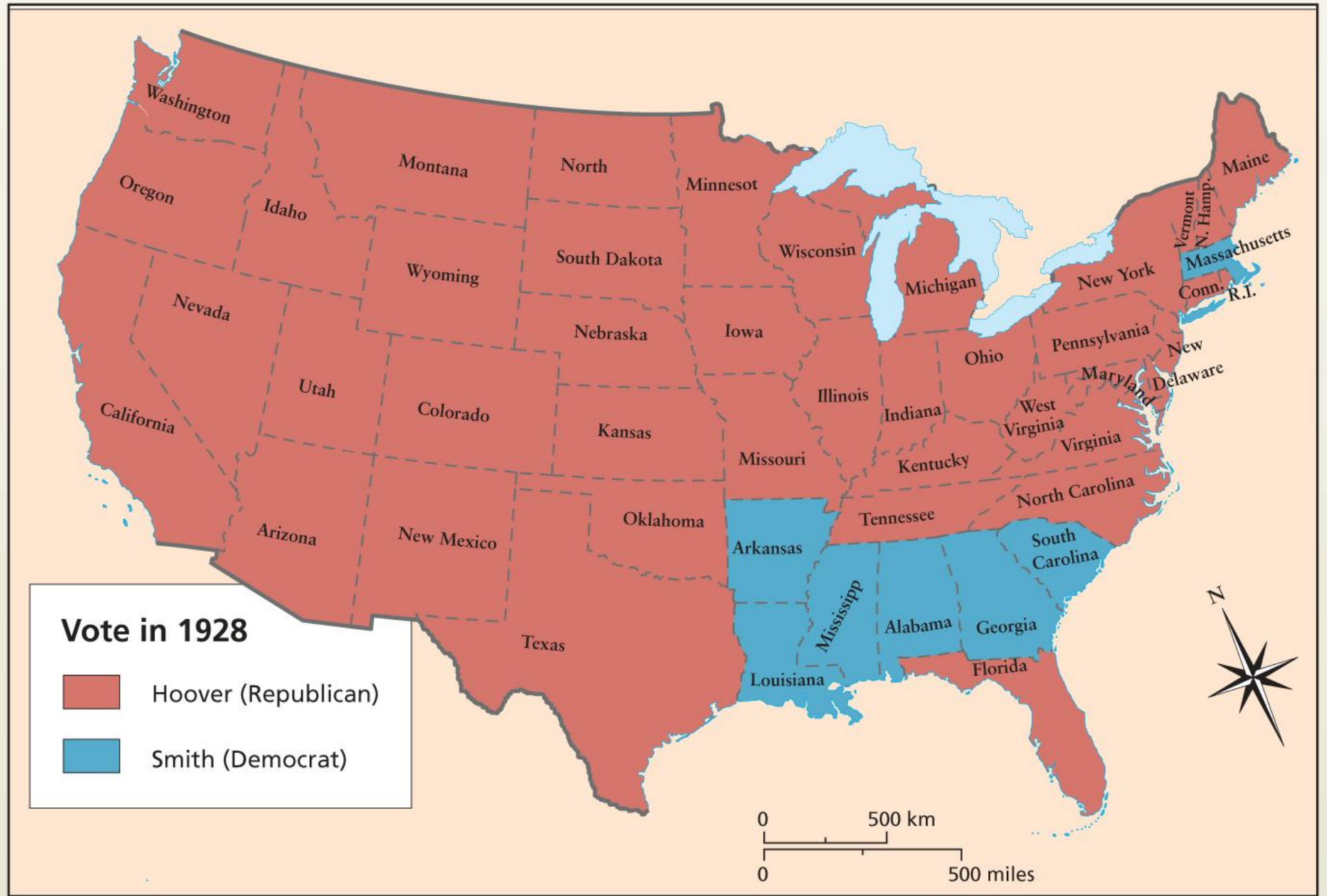
THE ELECTION OF 1928

- When Coolidge chose not to run again in 1928, Herbert Hoover won the Republican nomination
 - Felt American capitalists had learned to curb their selfish instincts
 - Voluntary trade associations would create codes of business practice and ethics that would establish higher standards
 - Businessmen should cooperate with one another and with workers
 - Opposed union busting and trust busting
 - Was highly critical of Europe



THE ELECTION OF 1928

- Democrats gave nomination to Governor Al Smith and adopted a conservative platform
- Hoover won with 444 electoral votes to 87 and 21.4 million to 14 million popular votes
 - All the usually Democratic border states and North Carolina, Florida, and Texas went to the Republicans, along with entire West and Northeast except for Rhode Island and Massachusetts
 - Democratic Party seemed on verge of extinction but real reason Smith lost was prosperity



ECONOMIC PROBLEMS

- Some businesses were not doing well in 1920s
 - Coal industry suffered from competition from petroleum
 - Cotton and wood textiles lagged because of competition of new synthetics
- Movement toward consolidation in industry resumed
 - By 1929, 200 corporations controlled nearly half the nation's corporate assets

ECONOMIC PROBLEMS

- GM, Ford, and Chrysler turned out 90 percent of all-American cars and trucks
- Four tobacco companies produced over 90 percent of the cigarettes
- One percent of all financial institutions controlled 46 percent of the nation's banking business
- A&P food chain expanded from 400 stores in 1912 to 17,500 in 1928, and the Woolworth chain experienced similar growth
- Most large manufacturers sought stability and “fair” prices

ECONOMIC PROBLEMS

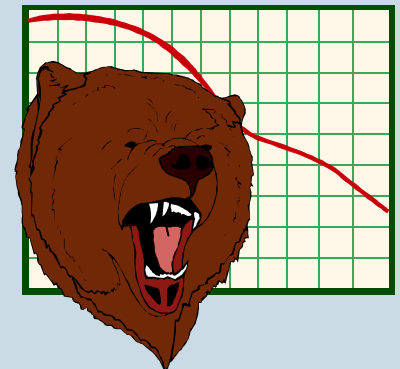
- Regulated competition flourished and oligopoly was the typical situation
- Trade association movement flourished
 - Producers formed voluntary organizations to exchange information, discuss policies, and administer prices
 - Largest corporation usually became the “price leader” while the rest followed slavishly
 - Government generally supported
- Agriculture was weakest element in the economy as farm prices slumped and costs increased

ECONOMIC PROBLEMS

- Harding opposed direct aid to farmers
 - Did strengthen laws regulating railroad rates and grain exchanges and make it easier for farmers to borrow money
- Forced to sell produce abroad, farmers found that world prices depressed domestic prices
- Prosperity rested on unstable foundations
 - Maldistribution of resources
 - Productive capacity outstripped buying power
 - 27,000 families with highest income in 1929 received as much money as the 11 million who made under \$1,500

THE STOCK MARKET CRASH OF 1929

- Spring 1928: stock market prices, already at an historic high, surged ahead
- Continued to climb during presidential race
 - Some warned stocks were overpriced but most dismissed concerns
- During first half of 1929, stocks continued to climb
 - Large numbers of small investors put their savings in the stock market
- In September, the market wavered
- 24 October: wave of selling sent prices spinning
 - 13 million shares changed hands
 - Bankers and politicians rallied to check the decline
- 29 October: bottom dropped out of the market
 - 16 million shares were sold
 - Prices plummeted



HOOVER AND THE DEPRESSION

- Stock market collapse did not cause the Depression
 - Stocks rallied late in year
 - Business activity did not begin to decline significantly until the spring of 1930
- Worldwide phenomenon caused by economic imbalances resulting from WWI
 - U.S.: too much wealth in too few hands so consumers could not buy everything produced
 - Easy-credit policies of Federal Reserve Board and Mellon tax structure favored the rich
 - Politicians did not know how to respond

HOOVER AND THE DEPRESSION

- Underconsumption sped the downward spiral
 - Manufacturers closed plants and laid off workers, which caused demand to shrink even more
 - Automobile output fell from 4.5 million in 1929 to 1.1 million in 1931 with 75,000 workers put out of work
- Financial system cracked under the strain
 - 1,300 banks closed their doors in 1930
 - 3,700 more in next two years
 - Bank of United States in New York City became insolvent in December 1930 and 400,000 depositors lost their money

HOOVER AND THE DEPRESSION

- Industrial depression worsened the depression in agriculture by further reducing the demand for foodstuffs
- Every economic indicator reflected the collapse
 - New investments declined from \$10 billion in 1929 to \$1 billion in 1932
 - National income fell from \$80 billion to under \$50 billion in same period
 - Unemployment, which was under one million at height of the boom, rose to at least 13 million

HOOVER AND THE DEPRESSION

- Hoover initially called on businessmen to maintain prices and wages
- Felt government should
 - Cut taxes in order to increase consumers' spendable income
 - Institute public works programs to stimulate production and create jobs for the unemployed
 - Lower interest rates to make it easier for businesses to borrow in order to expand
 - Make loans to banks and government corporations threatened with collapse and to homeowners unable to meet mortgage payments

HOOVER AND THE DEPRESSION

- Hoover also proposed measures making it easier for farmers to borrow money
 - Suggested government should support cooperative farm marketing schemes to solve problem of overproduction
 - Called for expansion of state and local relief programs
 - Urged all who could afford it to give to charity
 - Tried to restore public confidence

HOOVER AND THE DEPRESSION

- Plans failed to check the slide
 - Placed too much reliance on powers of persuasion and willingness of citizens to act in public interest without legal compulsion
- Manufacturers slashed wages and curtailed output sharply
- Permitted the Federal Farm Board to establish semipublic stabilization corporations with authority to buy up surplus wheat and cotton but refused crop or acreage controls
 - Stabilization corporation poured out hundreds of millions without halting falling agricultural prices because farmers increased production faster than corporations could buy up excess

HOOVER AND THE DEPRESSION

- Hoover refused to shift responsibility from state and local agencies to the federal government
 - By 1932: federal government was spending \$500 million a year on public works
 - Due to decline in state and municipal construction, total public outlay was \$1 billion below level of 1930
- Refused to allow federal funds to provide relief to individuals
- Depression dried up funds from private charities even as demand increased
 - 1932: more than 40,600 Boston families were on relief compared to 7,400 in 1929
 - In Chicago, 700,000 persons (40 percent of workforce) were unemployed

HOOVER AND THE DEPRESSION

- When drought destroyed crops in South and Southwest in 1930, government lent them money but refused direct relief to the farmers
- 1932: Reconstruction Finance Corporation created to lend money to banks, railroad and insurance companies
- Glass-Steagall Banking Act of 1932
 - eased the tight credit situation by permitting Federal Reserve banks to accept a wider variety of commercial paper as security for loans
- As Depression worsened, Hoover put more stress on the importance of balancing the federal budget
 - Counterproductive and made Depression worse, yet most experts believed it to be essential
 - As late as 1939, 60 percent of population and 57.5 percent of unemployed believed in a balanced budget

HOOVER AND THE DEPRESSION

1930 Hawley-Smoot Tariff

- Raised duties on most manufactured goods to prohibitive levels
- Made it impossible for European nations to earn money needed to continue making loan payments
- Fostered European collapse in 1931
- Hoover put one-year moratorium on foreign debts but blamed Europeans for Depression when they devalued their currencies

THE ECONOMY HITS BOTTOM

- During the spring of 1932, the economy hit rock bottom and thousands faced starvation
 - Only one-quarter of unemployed in the country were receiving public aid
 - People who had been evicted gathered in ramshackle communities constructed of packing boxes and other discarded items—Hooverilles
 - Thousands of “tramps” roamed the countryside
 - Food prices fell so low, farmers burned their corn for fuel while others protested and refused to ship products due to low prices
- 1931: federal officials in Southwest began deporting Mexican-Americans

THE ECONOMY HITS BOTTOM

- June and July 1932: 20,000 WWI veterans marched on Washington to demand immediate payment of their adjusted compensation bonuses
 - Congress rejected their appeals
 - Some 2,000 refused to leave and settled in at Anacostia Flats
 - President charged that the “Bonus Army” was composed of radicals and criminals
 - He sent troops to disperse them with bayonets, tear gas, and tanks
- Some people favored radical economic and political changes
 - Communist party gained converts among intellectuals alienated by the trends of the 1920s

THE DEPRESSION AND ITS VICTIMS

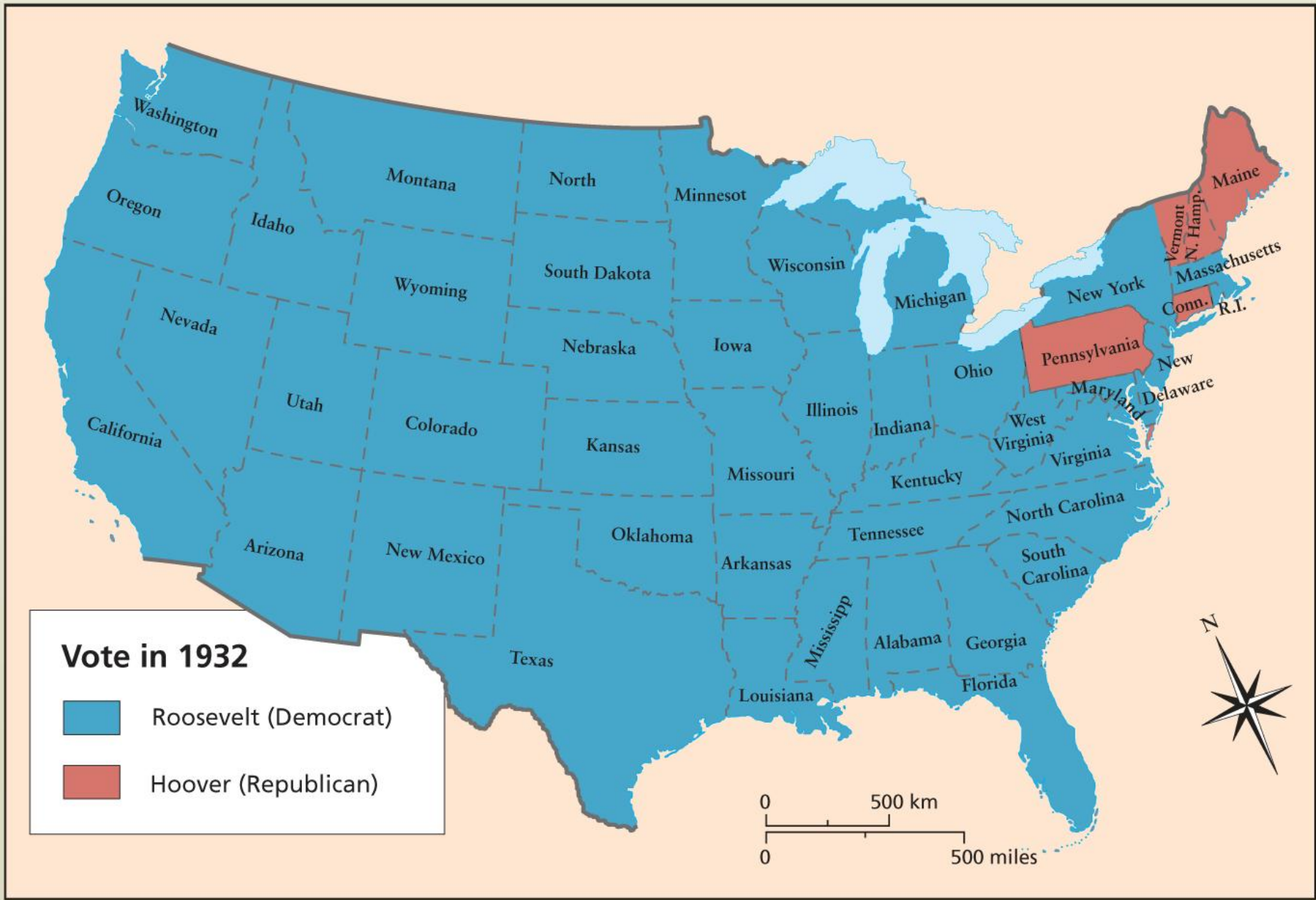
- People who lost their jobs initially searched energetically for new ones
 - If unemployment continued for more than a few months, they sank into apathy
 - Became ashamed of themselves when they could not find a job
 - Listlessness resulted from poor nutrition
- Birthrate dropped
 - 1920: 27.7 per thousand
 - Early 1930s: 18.4 per thousand

THE DEPRESSION AND ITS VICTIMS

- Influence of wives in families struck by unemployment tended to increase
 - Too busy trying to make ends meet to become apathetic
 - Wives reacted differently to their new found influence—some were sympathetic to their husbands, some scornful
 - Husbands also had a variety of reactions to their wives' newfound power
 - Children caused strain in families as parental authority declined

THE ELECTION OF 1932

- Democrats nominated Governor Franklin Delano Roosevelt of New York
 - New York had led nation in providing relief for the needy
 - Had enacted a program of old-age pensions, unemployment insurance, conservation and public power projects
- Roosevelt campaigned actively and soaked up information from thousands of sources
- While he was hard to pin down on many issues, Roosevelt was clear that there needed to be a “New Deal”
- Hoover won only 6 states in the election and FDR triumphed easily with 22.8 million votes to 15.8 million and an electoral victory of 472 to 59



MILESTONES

<i>1921–1922</i>	Washington Conference tries to slow arms race
<i>1923</i>	President Harding dies; Coolidge becomes president Teapot Dome and other Harding scandals are exposed
<i>1924</i>	Dawes Plan restructures German reparations payments National Origins Act establishes immigration quotas Coolidge is elected president
<i>1928</i>	Fifteen nations sign Kellogg-Briand Pact to “outlaw” war Herbert Hoover is elected president
<i>1929</i>	New York Stock Exchange crash ends big bull market; Great Depression begins Young Plan further reduces German reparations
<i>1930</i>	Clark Memorandum renounces Roosevelt Corollary to Monroe Doctrine Hawley-Smoot tariff raises duties on foreign manufactures Ten-year Dust Bowl begins in South and Midwest
<i>1931</i>	Japan invades Manchuria Hoover imposes moratorium on war debts
<i>1932</i>	Federal troops disperse Bonus Army marchers in Washington, D.C. Reconstruction Finance Corporation (RFC) lends to banks, railroads, insurance companies Franklin Delano Roosevelt is elected president
<i>1933</i>	Japan withdraws from League of Nations

WEBSITES

- America from the Great Depression to World War II: Photographs from the FAS and OWI, c. 1935-1945

<http://memory.loc.gov/ammem/fsowhome.html>

- Warren Gamaliel Harding

<http://www.ipl.org/div/potus/wgharding.html>

- The Coolidge Experience

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