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Chapter 32 - The Politics of Boom and Bust

I. The Republican “Old Guard” Returns

1. Newly elected President Warren G. Harding was tall, handsome, and popular, but he had a mediocre mind and he did not like to hurt people's feelings.
 - Nor could he detect the corruption within his administration.
2. His cabinet did have some good officials, though, such as Secretary of State Charles Evans Hughes, who was masterful, imperious, incisive, and brilliant, Secretary of Commerce Herbert Hoover, and Secretary of the Treasury Andrew W. Mellon.
3. However, people like Senator Albert B. Fall of New Mexico, a scheming anti-conservationist, became secretary of the interior, and Harry M. Daugherty took over the reigns as attorney general.
 - These two became the worst of the scandalous cabinet members.

II. GOP Reaction at the Throttle

1. A good man but a weak one, Harding was the perfect front for old-fashioned politicians to set up for the nation a McKinley-style old order.
 - It hoped to further laissez-faire capitalism, and one of the examples of this was the Supreme Court, where Harding appointed four of the nine justices, including William H. Taft, former president of the United States.
2. In the early 1920s, the Supreme Court killed a federal child-labor law.
 - In the case of *Adkins v. Children's Hospital*, the court reversed its ruling in the *Muller v. Oregon* case by invalidating a minimum wage law for women.
3. Under Harding, corporations could expand again, and anti-trust laws were not as enforced or downright ignored.
4. Men sympathetic to railroads headed the Interstate Commerce Commission.

III. The Aftermath of the War

1. Wartime government controls disappeared (i.e. the dismantling of the War Industries Board) and Washington returned control of railroads to private hands by the Esch-Cummins Transportation Act of 1920.
2. The Merchant Marine Act of 1920 authorized the Shipping Board, which controlled about 1,500 vessels, to get rid of a lot of ships at bargain prices, thus reducing the size of the navy.
 - Labor lost much of its power, as a strike was ruthlessly broken in 1919, and the Railway Labor Board ordered a wage cut of 12% in 1922.
 - Labor membership shrank by 30% from 1920 to 1930.
3. In 1921, the Veterans' Bureau was created to operate hospitals and provide vocational

rehabilitation for the disabled.

- Many veterans wanted the monetary compensation promised to them for their services in the war.
- The Adjusted Compensation Act gave every former soldier a paid-up insurance policy due in twenty years. It was passed by Congress twice (the second time to override president Calvin Coolidge's veto).

IV. America Seeks Benefits Without Burdens

1. Since America had never ratified the Treaty of Versailles, it was still technically at war with Germany, so in July of 1921, it passed a simple joint resolution ending the war.
2. The U.S. did not cooperate much with the League of Nations, but eventually, "unofficial observers" did participate in conferences. The lack of real participation though from the U.S. proved to doom the League.
3. In the Middle East, Secretary Hughes secured for American oil companies the right to share in the exploitation of the oil riches there.
4. Disarmament was another problem for Harding and he had to watch the actions of Japan and Britain for any possible hostile activities.
5. America also went on a "ship-scrapping" bonanza.
 - The Washington "Disarmament" Conference of 1921-22 resulted in a plan that kept a 5:5:3 ratio of ships that could be held by the U.S., Britain, and Japan (in that order). This surprised many delegates at the conference (notably, the Soviet Union, which was not recognized by the U.S., was not invited and did not attend).
 - The Five-Power Naval Treaty of 1922 embodied Hughes's ideas on ship ratios, but only after Japanese received compensation.
 - A Four-Power Treaty, which bound Britain, Japan, France, and the U.S. to preserve the status quo in the Pacific, replaced the 20-year-old Anglo-Japanese Alliance.
 - The Nine-Power Treaty of 1922 kept the open door open in China.
 - However, despite all this apparent action, there were no limits placed on small ships, and Congress only approved the Four-Power Treaty on the condition that the U.S. was not bound, thus effectively rendering that treaty useless.
6. Frank B. Kellogg, Calvin Coolidge's Secretary of State, won the Nobel Peace Prize for his role in the Kellogg-Briand Pact (Pact of Paris), which said that all nations that signed would no longer use war as offensive means.

V. Hiking the Tariff Higher

1. Businessmen did not want Europe flooding American markets with cheap goods after the war, so Congress passed the Fordney-McCumber Tariff Law, which raised the tariff from 27% to 35%.
 - Presidents Harding and Coolidge, granted with authority to reduce or increase duties, and always sympathetic towards big industry, were much more prone to increasing tariffs than decreasing them.
2. However, this presented a problem: Europe needed to sell goods to the U.S. in order to get the money to pay back its debts, and when it could not sell, it could not repay.

VI. The Stench of Scandal

1. However, scandal rocked the Harding administration in 1923 when Charles R. Forbes was caught with his hand in the money bag and

resigned as the head of the Veterans' Bureau.

- He and his accomplices looted the government for over \$200 million.
- 2. The Teapot Dome Scandal was the most shocking of all.
 - Albert B. Fall leased land in Teapot Dome, Wyoming, and Elk Hills, California, to oilmen Harry F. Sinclair and Edward L. Doheny, but not until Fall had received a "loan" (actually a bribe) of \$100,000 from Doheny and about three times that amount from Sinclair.
- 3. There were reports as to the underhanded doings of Attorney General Harry Daugherty, in which he was accused of the illegal sale of pardons and liquor permits.
- 4. President Harding, however, died in San Francisco on August 2, 1923, of pneumonia and thrombosis, and he didn't have to live through much of the uproar of the scandal.

VII. "Silent Cal" Coolidge

1. New president Calvin Coolidge was serious, calm, and never spoke more than he needed to.
2. A very morally clean person, he was not touched by the Harding scandals, and he proved to be a bright figure in the Republican Party.
 - It was ironic that in the Twenties, the "Age of Ballyhoo" or the "Jazz Age," the U.S. had a very traditional, old-timey, and some would say boring president.

VIII. Frustrated Farmers

1. World War I had given the farmers prosperity, as they'd produced much food for the soldiers.
 - New technology in farming, such as the gasoline-engine tractor, had increased farm production dramatically.
 - However, after the war, these products weren't needed, and the farmers fell into poverty.
2. Farmers looked for relief, and the Capper-Volstead Act, which exempted farmers' marketing cooperatives from antitrust prosecution, and the McNary-Haugen Bill, which sought to keep agricultural prices high by authorizing the government to buy up surpluses and sell them abroad, helped a little.
 - However, Coolidge vetoed the second bill, twice.

IX. A Three-Way Race for the White House in 1924

1. Coolidge was chosen by the Republicans again in 1924, while Democrats nominated John W. Davis after 102 ballots in Madison Square Garden.
 - The Democrats also voted by one vote NOT to condemn the Ku Klux Klan.
2. Senator Robert La Follette led the Progressive Party as the third party candidate.
 - He gained the endorsement of the American Federation of Labor and the shrinking Socialist Party, and he actually received 5 million votes.
 - However, Calvin Coolidge easily won the election.

X. Foreign-Policy Floundering

1. Isolationism continued to reign in the Coolidge era, as the Senate did not allow America to adhere to the World Court, the judicial wing of the League of Nations.
2. In the Caribbean and Latin America, U.S. troops were withdrawn from the Dominican Republic in 1924, but remained in Haiti from 1914 to 1934.
 - Coolidge took out troops from Nicaragua in 1925, and then sent them back the next year, and in 1926, he defused a situation with Mexico where the Mexicans were claiming sovereignty over oil resources.

- However, Latin Americans began to resent the American dominance of them.
- 3. The European debt to America also proved tricky.

XI. Unraveling the Debt Knot

1. Because America demanded that Britain and France pay their debts, those two nations placed huge reparation payments on Germany, which then, to pay them, printed out loads of paper money that caused inflation to soar.
 - At one point in October of 1923, a loaf of bread cost 480 million German marks.
2. Finally, in 1924, Charles Dawes engineered the Dawes Plan, which rescheduled German reparations payments and gave the way for further American private loans to Germany.
 - Essentially, the payments were a huge circle from the U.S. to Germany to Britain/France and back to the U.S. All told, the Americans never really gained any money or got repaid in genuine.
 - Also, the U.S. gained bitter enemies in France and Britain who were angry over America's apparent greed and careless nature for others.

XII. The Triumph of Herbert Hoover, 1928

1. In 1928, Calvin Coolidge said, "I do not choose to run," and his logical successor immediately became economics genius Herbert Hoover. Hoover spoke of "Rugged Individualism" which was his view that America was made great by strong, self-sufficient individuals, like the pioneers of old days trekking across the prairies, relying on no one else for help. This was the kind of folk America still needed, he said.
 - Hoover was opposed by New York governor Alfred E. Smith, a man who was blanketed by scandal (he drank during a Prohibitionist era and was hindered politically by being a Roman Catholic).
2. Radio turned out to be an important factor in the campaign, and Hoover's personality sparkled on this new medium (compared to Smith, who sounded stupid and boyish).
3. Hoover had never been elected to public office before, but he had made his way up from poverty to prosperity, and believed that other people could do so as well.
4. There was, once again, below-the-belt hitting on both sides, as the campaign took an ugly turn, but Hoover triumphed in a landslide, with 444 electoral votes to Smith's 87.

XIII. President Hoover's First Moves

1. Hoover's Agricultural Marketing Act, passed in June of 1929, was designed to help the farmers help themselves, and it set up a Federal Farm Board to help the farmers.
 - In 1930, the Farm Board created the Grain Stabilization Corporation and the Cotton Stabilization Corporation to bolster sagging prices by buying surpluses.
2. The Hawley-Smoot Tariff of 1930 raised the tariff to an unbelievable 60%!
 - Foreigners hated this tariff that reversed a promising worldwide trend toward reasonable tariffs and widened the yawning trade gaps.

XIV. The Great Crash Ends the Golden Twenties

1. Hoover confidently predicted an end to poverty very soon, but on October 29, 1929, a devastating stock market crash caused by

over-speculation and overly high stock prices built only upon non-existent credit struck the nation.

- Losses, even blue-chip securities, were unbelievable as by the end of 1929, stockholders had lost over \$40 million in paper values (more than the cost of World War I)!
- By the end of 1930, 4 million Americans were jobless, and two years later, that number shot up to 12 million.
- Over 5,000 banks collapsed in the first three years of the Great Depression.
- Lines formed at soup kitchens and at homeless shelters.

XV. Hooked on the Horn of Plenty

1. The Great Depression might have been caused by an overabundance of farm products and factory products. The nation's capacity to produce goods had clearly outrun its capacity to consume or pay for them.
2. Also, an over-expansion of credit created unsound faith in money, which is never good for business.
3. Britain and France's situations, which had never fully recovered from World War I, worsened.
4. In 1930, a terrible drought scorched the Mississippi Valley and thousands of farms were sold to pay for debts.
5. By 1930, the depression was a national crisis, and hard-working workers had nowhere to work, thus, people turned bitter and also turned on Hoover.

*Villages of shanties and ragged shacks were called Hoovervilles and were inhabited by the people who had lost their jobs. They popped up everywhere.

XVI. Rugged Times for Rugged Individualists

1. Hoover unfairly received the brunt of the blame for the Great Depression, but he also did not pass measures that could have made the depression less severe than it could have been.
 - Critics noted that he could feed millions in Belgium (after World War I) but not millions at home in America.
2. He did not believe in government tampering with the economic machine and thus moving away from laissez faire, and he felt that depressions like this were simply parts of the natural economic process, known as the business cycle.
 - However, by the end of his term, he had started to take steps for the government to help the people.

XVII. Hoover Battles the Great Depression

1. Finally, Hoover voted to withdraw \$2.25 billion to start projects to alleviate the suffering of the depression.
 - The Hoover Dam of the Colorado River was one such project.
2. The Muscle Shoals Bill, which was designed to dam the Tennessee River and was ultimately embraced by the Tennessee Valley Authority, was vetoed by Hoover.
3. Early in 1932, Congress, responding to Hoover's appeal, established the Reconstruction Finance Corporation (RFC), which became a government lending bank. This was a large step for Hoover away from laissez faire policies and toward policies the Democrats (FDR) would later employ.
 - However, giant corporations were the ones that benefited most from this, and the RFC was another one of the targets of Hoover's

critics.

4. In 1932, Congress passed the Norris-La Guardia Anti-Injection Act, which outlawed anti-union contracts and forbade the federal courts to issue injunctions to restrain strikes, boycotts, and peaceful picketing (this was good for unions).
5. Remember, that in past depressions, the American public was often forced to “sweat it out,” not wait for government help. The trend was changing at this point, forced to do so by the Depression.

XVIII. Routing the Bonus Army in Washington

1. Many veterans, whom had not been paid their compensation for WWI, marched to Washington, D.C. to demand their entire bonus.
 - The “Bonus Expeditionary Force” erected unsanitary camps and shacks in vacant lots, creating health hazards and annoyance.
 - Riots followed after troops came in to intervene (after Congress tried to pass a bonus bill but failed), and many people died.
 - Hoover falsely charged that the force was led by riffraff and reds (communists), and the American opinion turned even more against him.

XIX. Japanese Militarists Attack China

1. In September 1931, Japan, alleging provocation, invaded Manchuria and shut the Open Door.
2. Peaceful peoples were stunned, as this was a flagrant violation of the League of Nations covenant, and a meeting in Geneva, Switzerland, was arranged.
3. An American actually attended, but instead of driving Japan out of China, the meeting drove Japan out of the League, thus weakening it further.
4. Secretary of State Henry Stimson did indicate that the U.S. probably would not interfere with a League of Nations embargo on Japan, but he was later restrained from taking action.
 - Since the U.S. took no effective action, the Japanese bombed Shanghai in 1932, and even then, outraged Americans didn’t do much to change the Japanese minds.
 - The U.S.’s lackluster actions support the notion that America’s isolationist policy was well entrenched.

XX. Hoover Pioneers the Good Neighbor Policy

1. Hoover was deeply interested in relations south of the border, and during his term, U.S. relations with Latin America and the Caribbean improved greatly.
 - Since the U.S. had less money to spend, it was unable to dominate Latin America as much, and later, Franklin D. Roosevelt would build upon these policies.

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