

Chapter 33- The Politics of Boom and Bust

1920-1932

The Republican “Old Guard” Returns

- The United States retreated from its brief international fling during World War I and resumed with vengeance traditional foreign policy of military un-preparedness and political isolationism
- Warren G. Harding, inaugurated in 1921, looked presidential, exuded graciousness and love of people; Harding quickly found himself beyond his depth in the presidency “(weak, inept)”
- Harding, like Grant, was unable to detect moral corruption in his evil associates and hated to hurt people’s feelings—Harding had promised to gather about him the “best minds” of the party
- Charles Evans Hughes brought to the position of secretary of state a dominating if somewhat conservative leadership; the secretary of the Treasury was Andrew Mellon and Herbert Hoover became secretary of commerce—but the best minds were largely offset by two of the worst
- Senator Albert B. Fall of NM, a scheming anticonservationist, was appointed secretary of the interior and was the guardian of the nation’s natural resources; Harry M. Daugherty was a big-time crook in the “Ohio Gang” (cabinet) and was the attorney general

GOP Reaction at the Throttle

- Harding was a perfect “front” for enterprising industrialists; a McKinley-style old order settled back into place at war’s end, crushing reform seedlings that had sprouted in the progressive era
- The Old Guard hoped to improve on the old business doctrine of laissez-fair—their plea was not simply for government to keep hands off business, but for government to help guide business along the path of profits—courts and administrative bureaus into safekeeping of stand-patters
- Harding was president for less than three years but he appointed four of the nine justices of the Supreme Court; several were reactionaries but for chief justice he chose ex-president Taft, who not only performed his duties ably but surprisingly was more liberal than some other associates
- In the first years of the 1920s, the Supreme Court axed progressive legislation by killing federal child-labor law, stripping away labor’s gains and restricting gov’t intervention in the economy
- In the landmark case of *Adkins v. Children’s Hospital* (1923) the Court reversed its won reasoning in *Muller v. Oregon* and because women now had the vote, they were legal equals to man and invalidated a minimum-wage law for women—framed gender differences
- Antitrust laws were often ignored, circumvented, or feebly enforced and the Interstate Commerce Commission came to be dominated by men who were personally sympathetic to big businesses

- Big industrialists had free hand to set up trade associations—encouraged by Secretary Hoover
- His sense of efficiency led him to condemn competition and his commitment to voluntary cooperation led him to urge businesses to regulate themselves rather than be regulated by gov't

The Aftermath of War

- Washington returned the railroads to private management in 1921; reformers had hoped that wartime government operation of the lines might lead to their permanent nationalization
- Congress passed the Esch-Cummins Transportation Act of 1920, which encouraged private consolidation of the railroads and pledged the ICC to guarantee their profitability (for country)
- The Merchant Marine Act of 1920 authorized the Shipping Board, which controlled about 1,500 vessels to dispose of much of the hastily wartime fleet at bargain-basement prices
- A bloody strike in the steel industry was broken in 1919 (ethnic/racial divisions, “reds”)
- The Railway Labor Board ordered wage cut of 12 percent of 1922 provoking a two-month strike and ended when Attorney General Daugherty clamped on the strikers one of the most sweeping injunctions in American history—unions wilted in this hostile environment/membership dropped
- Needy veterans were among the few non-business groups to reap lasting gains from the war
- Congress in 1921 created the Veterans bureau, authorized to operate hospitals for the disabled
- Veterans organized into groups and American Legion founded in 1919 by Colonel Theodore Roosevelt Jr., became distinguished for its militant patriotism, conservatism, and antiradicalism
- The legion became notorious for its aggressive lobbying for veteran's benefits and they demanded “adjusted compensation” to make up for the wages they had “lost” while as soldiers
- The Congress passed a bonus bill in 1922, which Harding vetoed and finally in 1924 Congress passed the Adjusted Compensation Act, which gave every former soldier a paid-up insurance policy due in twenty years—adding \$3.5 billion to cost of war (Congress overrode Coolidge)

America Seeks Benefits Without Burdens

- The US, having rejected the Treaty of Versailles, was still technically at war with Germany, Austria, and Hungary nearly three years after the armistice—In July 1921 Congress passed a simple joint resolution that declared that the war officially ended
- Isolation was enthroned in Washington, the new world body was still regarded as dangerous
- Harding couldn't completely turn his back on outside world, especially the Middle East where a sharp rivalry developed between America and Britain for oil-drilling concessions (black gold)

- Secretary Hughes eventually secured for American oil companies the right to share in the exploitation of the sandy region's oil riches and disarmament was an international issue
- A deadly contest was shaping up with Britain and Japan, which watched with alarm as the oceans filled with American vessels—Britain still commanded the world's largest navy
- Public agitation in America brought about the "Disarmament" Conference in 1921-1922 and invitations went to all major naval powers-naval disarmament and the situation in the Far East
- Secretary Hughes startled the delegates with a comprehensive, concrete plan for declaring a stoppage for ten years on construction of battleships—proposed that the scaled-down navies of America and Britain would have battleships and aircraft carriers with Japan in ratio of 5:5:3
- The Five-Power Naval Treaty of 1922 embodied Hughes' ideas on ship ratios but only after compensation was offered to the insecure Japanese—fortifying Far Eastern possessions by British and Americans but Japanese were not subjected to such restraints in their possessions
- The Four-Power Treaty bound Britain, Japan, France and the US to preserve status quo in Pacific and the Nine-Power Treaty of 1922, whom agreed to nail open the Open Door in China
- No restrictions had been placed on small warships and other powers churned ahead with ships
- Congress declared it was making no commitment to the use of armed force of any kind of joint action and the Americans were seemingly content to rely for their security on words and thinking
- Calvin Coolidge's secretary of state, Frank B. Kellogg, signed the Kellogg-Briand Pact under which defensive wars were still permitted—false sense of American security in the 1920s

Hiking the Tariff Higher

- A lack of realism afflicted foreign economic policy in the 1920s—protect American economy
- Tariff walls were flung up around the US spurred into action by their fear of a flood of cheap goods from recovering Europe, especially during the sharp recession of 1920-1921
- In 1922 Congress passed the Fordney-McCumber Tariff Law—boost schedules from the average of 27 percent under Wilson's Underwood Tariff of 1912 to an average of 38.5 percent
- Duties on farm produce were increased and the principle was proclaimed that the general rates were designed to equalize the cost of American and foreign production (Tariff Commission)
- Presidents Harding and Coolidge authorized thirty-two upward changes, including on their list vital commodities like dairy products, chemicals, and pig iron—with only five reductions
- The high-tariff charted by the Republican regimes set off an ominous chain reaction—Europeans products felt the squeeze; Europe needed to sell its manufactured goods to the US and America needed to give foreign nations a chance to make a profit so they could repay their debts

- The American example spurred European nations to pile up higher barriers themselves and they hurt not only American-made goods but the products of European countries as well

The Stench of Scandal

- Loose morality/get-rich-quickism of Harding era manifested themselves in a series of scandals
- In 1923 Colonel Charles Forbes was caught with his hand in the till and resigned as head of the Veterans Bureau—he looted the gov't to the tune of about \$200 million in veterans' hospitals
- Most shocking of all was the Teapot Dome scandal, an affair that involved priceless naval oil reserves at Teapot Dome (Wyoming) and Elk Hills (California)—In 1921, Albert B. Fall of the Interior Department received these valuable properties and Harding signed the secret order
- Fall then leased the lands to oilmen Harry F. Sinclair and Edward L. Doheny, But not until he received a bribe (“loan”) of \$100,000 from Doheny and \$300,000 in all from Sinclair
- Details of the transaction began to leak out in March 1923 and they were indicted in 1924 but the case dragged through the courts until 1929—Fall was found guilty of taking a bribe
- The smudge from Teapot Dome polluted the prestige of the Washington government
- The acquittal of Sinclair and Doheny, the bribe givers, undermined faith in the courts
- Persistent reports of Attorney General Daugherty prompted a Senate investigation in 1924 of the illegal sale of pardons and liquor permits—he was forced to resign; they failed to convict him
- While news of the scandals was beginning to break, he embarked upon a speech-making tour across the country and on the return trip, he died in San Francisco in August 1923 of pneumonia
- The brutal fact is that Harding was not a strong enough man for the presidency—he admitted it

“Silent Cal” Coolidge

- News of Harding's death was sped to Vice President Coolidge—homespun setting of Coolidge whom embodied New England virtues of honesty, morality, industry, and frugality
- “Silent Cal” was a staunch apostle of the status quo and he became the “high priest of the great god Business”—his thrifty nature caused him to sympathize fully with Secretary of the Treasury Mellon's efforts to reduce both taxes and debts—he was no foe of industrial bigness
- Coolidge slowly gave the Harding regime a badly needed moral fumigation; the public was shocked by the scandal at first, but America's moral sensibility was being dulled by prosperity

Frustrated Farmers

- While the fighting had raged, farmers had raked in money hand over (price of wheat very high)

- But peace brought an end to government-guaranteed high prices and to massive purchases by other nations, as foreign production reentered the stream of world commerce
- Machines also threatened to plow the farmers under their own overabundant crops—the gasoline-engine tractor was working a revolution on American farms, steel mule, and reaper
- “Wheat belt” of the upper Midwest; more machines equals even more surplus
- “Farm bloc” from the agricultural states coalesced in Congress in 1921 and succeeded in laws
- The Capper-Volstead Act exempted farmers’ marketing cooperatives from antitrust prosecution
- The farm bloc’s favorite proposal was the McNary-Haugen bill that sought to keep agricultural prices high by authorizing the government to buy and sell surpluses—special tax on farmers
- Congress passed it and Coolidge vetoed; farm prices stayed down and farmers’ political temperatures stayed high, reaching fever pitch in the election of 1924

A Three-Way Race for the White House in 1924

- Self-satisfied Republicans nominated “Silent Cal” for presidency at their convention in 1924
- Democrats had more difficulty choosing a candidate—the party was split between “wets” and “drys,” urban and farmers, Fundamentalists and Modernists, northern liberals/southern stand-patters, immigrants/old-stock Americans—finally choose John W. Davis—corporation lawyer
- La Follette from Wisconsin led a new Progressive grouping and gained the endorsement of the American Federation of Labor and enjoyed the support of the Socialist party (farmers)
- La Follette’s new Progressive party’s platform called for nationalization of railroads, relief for farmers, lashed out at monopoly and antilabor injunctions, and urged a constitutional amendment to limit the Supreme Court’s power to invalidate laws passed by Congress (↓ Coolidge)
- La Follette polled nearly 5 million votes but the Republicans slipped easily back into office

Foreign-Policy Flounderings

- Isolation continued to reign in the Coolidge era—the Senate proved unwilling to allow America to adhere to the World Court—the League of Nations—a glaring exception to the inward looking
- US armed interventionism in the Caribbean and Central America; troops withdrawn from the Dominican Republic, remained in Haiti, and troops were taken out and sent back into Nicaragua
- American oil companies clamored for a military expedition to Mexico in 1926 when the Mexican government began to assert its sovereignty over oil reserves (Coolidge defused Mexican crisis)

- Overshadowing all other foreign-policy problems in the 1920s was the knotty issue of international debts, a complicated tangle of private loans, Allied war debts, and German reparations
- Almost overnight, World War I had reversed the international financial position of the US; in 1914, America had been a debtor nation and by 1922 it had become a creditor nation \$16 billion
- American investors loaned some \$10 billion to foreigners in the 1920s though even this huge river of money could not fully refloat the war-shelled world economy
- The key knot in the debt was the \$10 billion that the U.S. Treasury had loaned to the Allies during and immediately after the war—Allies protested that demand for repayment was unfair
- America, they argued, should write off its loans as war costs, just as the Allies had lost lives
- The effect of their borrowed dollars had been to fuel the boom on wartime economy in America and US's postwar tariff walls made it impossible for them to sell goods to pay their debts

Unraveling the Debt Knot

- America's insistence on getting its money back helped to harden the hearts of the Allies against conquered Germany and the French and British demanded that the Germans pay \$32 billion back
- The French seeking to collect reparations payments, sent troops into German's industrialized Ruhr Valley in 1923 and Berlin let its currency to inflate astronomically
- German society teetered on the brink of mad anarchy and house of financial cards was weak
- Sensible statesmen now urged that war debts and reparations be drastically scaled down or even canceled outright—the Washington administration proved unrealistic in its insistence
- Reality finally dawned in the Dawes Plan of 1924, which rescheduled German reparations payments and opened the way for further American private loans to Germany—U.S. bankers loaned money to Germany, Germany paid reparations to France and Britain, and Allies paid money to US—flow of American credit until the great crash in 1929, which all debtors defaulted
- The United States never did get its money, but it harvested a bumper crop of ill will

The Triumph of Herbert Hoover, 1928

- Calvin Coolidge bowed out of the 1929 presidential race and his logical successor was Secretary of Commerce Herbert Hoover, unpopular with political bosses, but much admired by the masses
- The Democrats nominated Alfred E. Smith, governor of New York and was an alcoholic

- New Yorker Smith was a Roman Catholic in an overwhelmingly Protestant land and the Democrats saddled the wet Smith with a dry running mate and a dry platform (Happy Warrior)
- Radio figured prominently in this campaign for the first time and it helped Hoover more than Smith; the New Yorker had more personal sparkle but could not project it through the radio
- Hoover came out of the microphone better than he went in (grass-rootish and statesmanlike)
- Herbert Hoover was an orphan boy who worked his way through Stanford and was a businessman
- Experiences abroad strengthened faith in American individualism free enterprise and small gov't
- Hoover did not adapt readily to the necessary give-and-take of political accommodation, but his real power lay in his integrity, his humanitarianism, his passion for the facts, his efficiency, his talents for administration and his ability to inspire loyalty in close associations ("the Chief")
- Hoover recoiled from anything suggesting socialism, paternalism, or "planned economy" yet he endorsed labor unions and support federal regulation of the new radio broadcasting industry
- Below-the-belt tactics were employed to a disgusting degree by lower-level campaigners
- Smith's Catholicism still won Deep South states but not his home state of New York
- Hoover triumphed in a landslide and won all the states except the Deep South and he proved to be the first Republican candidate in 52 years (except Harding) to carry a state that had seceded

President Hoover's First Moves

- Prosperity in the late 1920s smiled broadly as the Hoover years began—soaring stocks on the bull market continued but two immense groups of citizens were not getting their share of the riches flowing: unorganized wage earners and especially the disorganized farmers
- Hoover's administration responded to the farmers with The Agricultural Marketing Act (1929) that was designed to help the farmers help themselves and set up the Federal Farm Board with its revolving fund of half a billion dollars at its disposal—money was lent to farm organizations
- In 1920 the Farm Board created both the Grain Stabilization Corporation and the Cotton Stabilization Corporation—the prime goal was to bolster sagging prices by buying up surpluses
- But the two agencies were soon suffocated by a avalanche of farm produce
- The Hawley-Smoot Tariff of 1920 started as a fairly reasonable protective measure, designed to assist the farmers but it had acquired about a thousand amendments by the time it was passed
- It turned out to be the highest protective tariff in the nation's peacetime history (60 percent)
- The Hawley-Smoot Tariff was a blow below the trade belt to foreigners—economic warfare on the entire outside world and it reversed a promising worldwide trend toward reasonable tariffs

and widened the trade gaps—it plunged American and nations deeper into the terrible depression

- It increased international financial chaos and forced the United States further into the bog of economic isolationism—playing directly into the hands of German demagogue, Adolf Hitler

The Great Crash Ends the Golden Twenties

- When Herbert Hoover took the presidential oath on March 4, 1929, the long boom seemed endless with the painful exception of the debt-blanketed farm belt
- America's productive colossus (automobile, radio, movie) were roaring along—prosperity
- The speculative bubble was actually near the bursting point; prices on the stock exchange continued to spiral upward; Hoover tried to curb speculation through the Federal Reserve Board
- A catastrophic crash came in October 1929—it was partially triggered by the British, who raised their interest rates in effort to bring back capital lured abroad by American investments
- Foreign investors and speculators began to dump their "insecurities" and an orgy of selling followed—tension built up to "Black Tuesday" of October 29, 1929 (16 million shares sold)
- Losses, even in blue-chip securities, were unbelievable; by the end of 1929, stockholders had lost \$40 billion paper values—collapse heralded a business depression, at home and abroad
- By the end of 1920, more than 4 million workers in the United States were jobless (tripled, 1932)
- When employees weren't discharged, wages and salaries were often slashed
- Over five thousand banks collapsed in the first three years of depression (most severe setback)
- Bread lines formed, soup kitchens dispensed food; men often blamed themselves for their plight
- Mothers nursed fewer babies, precipitating a decade-long scarcity of births

Hooked on the Horn of Plenty

- What caused the Great Depression? One basic explanation was overproduction by both farm and factory—the depression of the 1930s was one of abundance, not want
- The nation's ability to produce goods had clearly outrun its capacity to consume or pay for them
- Too much money was going into the hands of a few wealthy people, who invested on industry while not enough was going into salaries and wages—should have revitalized purchasing power

- Overexpansion of credit through installment plan buying overstimulated production; paying on such easy terms caused many consumers to dive in beyond their depth (unemployment)
- The Continent had never fully recovered from the upheaval of World War I; depression in America was given a further downward push by a chain-reaction financial collapse in Europe, following failure in 1931 of a prominent Vienna banking house (reparations, war debts, loans)
- The Hawley-Smoot Tariff of 1930 had hastened the drying of international trade
- A terrible drought scorched the Mississippi Valley in 1930—thousands of farms sold at auction for taxes and farm tenancy was spreading at an alarming rate among both whites and blacks
- By 1920 the depression had become a national calamity; a host of industrious citizens had lost everything and they wanted to work but there was no work (self-respect were stifled)
- Tin-and-paper shantytowns sprang up in many cities cynically named “Hoovervilles”

Rugged Times for Rugged Individualists

- Hoover’s exalted reputation as a wonder-worker and efficiency engineer crashed about as dismally as the stock market—the president was impaled on the horns of a cruel dilemma
- As a humanitarian he was distressed by the widespread misery but as a “rugged individualist,” he shrank from the heresy of government handouts—industry, thrift, and self-reliance were virtues
- As the depression worsened, Hoover was forced to turn from his rugged individualism and accept the proposition that welfare of the people in a catastrophe is a direct concern of the gov’t
- The president worked out a compromise between hands-off philosophy and the direct dole being used in England—he would assist the railroads, banks, and rural credit corporations, in the hope of restoring financial health that would trickle down the economic pyramid to unemployment
- Commentators remarked that the “Great Humanitarian” was willing to lend gov’t money to the big bankers, who allegedly had plunged the country and to agriculture but not the people
- Hoover’s efforts probably prevented a more serious collapse than did occur and his expenditures for relief, revolutionary for that day, paved path for federal outlays of his New Deal successor

Herbert Hoover Battles the Great Depression

- President Hoover, with “trickle-down” philosophy, recommended that congress vote immense sums for useful public works—he secured from Congress \$2.25 billion for such projects
- Most imposing of the public enterprises was the Hoover Dam on the Colorado River—it was voted under Coolidge, begun in 1930 under Hoover and completed in 1936 under Roosevelt

- Hoover fought all schemes that he regarded as “socialistic”—Muscle Shoals Bill designed to dam the Tennessee River because he opposed the gov’t selling electricity to private companies
- Early in 1932 Congress established the Reconstruction Finance Corporation (RFC)
- With a capital of about half a billion dollars, this agency became a gov’t lending bank and was designed to provide indirect relief by assisting insurance companies, banks, agricultural organizations, railroads, and even hard-pressed state and local governments
- But to preserve individualism and character, there would be no loans to individuals
- The organization was established many months too late for maximum usefulness
- Hoover’s administration also provided some indirect benefits for labor—Congress passed the Norris-La Guardia Anti-Injunction Act in 1932 that outlawed “yellow-dog” (antiunion) contracts and forbade the federal courts to issue injunctions to restrain strikes, boycotts, and picketing
- Herbert Hoover did inaugurate a significant new policy—by the end of his term he had started down the road toward government assistance for needy citizens (hostile congress and a depression-cursed electorate reduced the Republican majority that the Democrats controlled the new House and almost controlled the Senate—insurgent R combined with D to harass Hoover)

Routing the Bonus Army in Washington

- Many veterans of World War I were numbered among the victims of the depression and the thoughts of the former soldiers naturally turned to what the government owed them for their services in 1917-1918—drive for premature payment of the deferred bonus (payable in 1945)
- Thousands of impoverished veterans prepared to move on to Washington to demand the Congress the immediate payment of their entire bonus—the “Bonus Expeditionary Force” (BEF)
- Converging in 1932 these supplicants set up camps in a gigantic “Hooverville” and created a menace to the public health, while attempting to intimidate Congress by their presence
- Following riots, Hoover responded to the demands of Washington by ordering the army to evacuate the unwanted guests and the eviction was carried out by General Douglas MacArthur with bayonets and tear gas with far more severity that Hoover had planned on the “Bonus Army”

- This brutal episode marked downfall of the American opinion of Hoover (“Hoover depression”)

Japanese Militarists Attack China

- Militaristic Japan stole the Far Eastern spotlight; in September 1931 the Japanese imperialists, noting that the West was in a depression, lunged into Manchuria (coveted Chinese province)
- This flagrant violation of the League of Nations covenant as well as other international agreements led Americans to urge strong measures ranging from boycotts to blockades

- The League was handicapped in the nonmembership of the US and Washington rebuffed initial attempts in 1931 to secure American cooperation in applying economic pressure on Japan
- The Stimson doctrine proclaimed in 1932 that the US would not recognize any territorial acquisitions achieved by force—righteous indignation would substitute for solid initiatives
- Smarting under a Chinese boycott, the Japanese bombed Shanghai in 1932 and Americans launched informal boycotts of Japanese goods but there was no real sentiment for intervention
- Collective security died and World War II was born in 1931 on the plains of Manchuria—the League members had the economic and naval power to halt Japan but lacked the courage to act
- One reason was that they could not count on America's support

Hoover Pioneers the Good Neighbor Policy

- Hoover's arrival brought a more hopeful turn to relations with America's southern neighbors
- After his election in 1928, Hoover took a goodwill tour of Latin America; following the stock-market collapse of 1929, Americans had less money to invest abroad
- Economic imperialism became much less popular in the United States (loosing money abroad)
- Hoover strove to abandon the interventionist twist given to the Monroe Doctrine by Theodore Roosevelt and negotiated a new treaty with the republic of Haiti in 1932, which provided for the complete withdrawal of American platoons by 1934; troops left Nicaragua in 1933
- Herbert Hoover happily engineered the foundation stones of the "Good Neighbor" policy