Handout 8, Hist. 261, Prof. Mogren

I. Republican Rule

The Republicans controlled the White House from 1921 to 1933. Republicans also controlled both houses of Congress from 1918 to 1930.

President Warren G. Harding, and his successor Calvin Coolidge, delegated power and resisted reform. Harding made some good appointments -- Hughes as Sec. of State, Wallace as Sec. of Agriculture, and Hoover as Sec. of Commerce. Harding also made bad appointments. Attorney General Henry Daugherty sold influence for cash. Sec. of Interior Fall accepted bribes and became the first cabinet member convicted of a felony.

Harding died in 1923 and Coolidge became president. Coolidge was honest, ascetic, and publicly tight-lipped. He believed in small-town values, minimal government, and wealth. His Yankee frugality and restrained manner reassured Americans. Coolidge won because Americans were apathetic about government, tired of reform, happy with the national prosperity, and approved of the business-oriented Republican government.

Coolidge retained Sec. of the Treasury Mellon and Commerce Sec. Hoover. Mellon revived Republican conservatism, while Hoover developed policies enabling the executive branch to function in the new mass-production economy.

Mellon believed that prosperity "trickled down" from the rich to the poor, raising production, employment, and wages. He persuaded Congress to cut government spending and reduce taxes on the wealthy.

Hoover was a self-made millionaire mining engineer. He was dedicated to efficiency, cooperation, and public service. He believed in a progressive capitalism called "associationalism" that sought to stabilize industry by trusting in industry organizations, known as "trade associations." The government would help business leaders exchange ideas, set standards for industries, and develop markets. Hoover also encouraged welfare capitalism for workers. For Hoover, government and business were partners in prosperity.

Not everyone profited by the government-business alliance. Agriculture declined and the farmers' portion of the national income shrunk by half. The federal government removed price supports. The post-war economic chaos in Europe reduced export markets. Wartime speculation in farmland and equipment doubled farm mortgage debt. New consumption habits meant that Americans ate less food. Large crops in the 1920s depressed prices. Republicans refused to allow farm relief to derail the government-business alliance.

II. Foreign Affairs

The Allies imposed on Germany $33 billion of war reparations, most of which was used to pay the Allies' war debts to the U.S. When Germany defaulted on the reparation payments, France occupied the Rhur Valley, Germany's industrial heartland. Germany printed more money, fueling a runaway inflation that threatened the economic stability of all Europe.

In 1924, Charles Dawes proposed a plan to stabilize Europe's economy. The Allies scaled down their reparations demands. In return, American bankers made loans to Germany, which they used to pay the war reparations, which the Allies used to pay their war debts to the U.S.

The major world nations engaged in an arms race. Pacifists in the U.S. believed it would lead to war, and budget-cutters believed it was too expensive. In 1921, the leading naval powers signed an arms reduction treaty limiting the number of battleships that each nation could build; but it proved to be unsuccessful because they continued the race in with other ships. Another futile peace gesture was the Kellogg-Briand Pact, by which most of the major world nations outlawed war. But with no way of enforcing it, the treaty was a hollow gesture.

III. Elections of 1928

In 1928, Hoover was elected in another Republican sweep. He was an administrator who had never been elected to public office. In the 1920s, the Democrats were divided between the urban industrial Northeast and the rural South and West. The 1928 landslide hid signs of a political realignment, and Democrats made gains. The Democrats were becoming the party of immigrants and cities -- a nucleus around which the party could rebuild.

IV. The Great Bull Market

The volume of stock sales jumped 400% between 1923 and 1928. Buyers were not concerned about the worth of the companies. They bought stock with expectation that the stock values would rise.

In Florida, land speculation reached a fevered pitch. But in September 1926, a hurricane struck, bursting the speculation bubble. Property values plummeted, thousands went bankrupt.

Stock market scams were common on Wall Street. Fraud in phony stocks netted crooks $600 million a year. Insiders made huge profits. Buyers formed stock pools to artificially drive up the price of a stock, than unload it for a profit when it reached an artificially high price.

1928 was a banner year of the market. Nobody knows what caused the wave of speculation. In the 1920s an obsession with quick riches infected American culture. The market succumbed to greed in a decade when avarice was a virtue.

Inexperienced investors and innovative financial devices fed the boom. Stockbrokers aggressively sold stocks. Money to fuel the speculation was plentiful because of the booming economy.

Interest rates were high, making it more profitable to loan money to investors than to build new factories. There was little government regulation, and credit enabled stock buyers to buy far more stock than could have if forced to buy with cash. In Wall Street parlance, the "Bulls" -- buyers of stock -- and routed the "bears" -- those who sold.

V. The Crash

On October 24, 1929, "Black Thursday," after days of gradually falling prices, market speculators began to sell their stocks. Within an hour of opening the New York Exchange, millions of shares went up for sale.

As sell orders flooded the market, prices plunged, and panic set in. On nearly 13 million shares had been traded -- over 10% of the total number of shares traded in all of 1928. Losses stood at $3 billion.

The following Tuesday, October 29, panicked investors sold 16 million shares and lost $10 billion. Banks and brokers demanded that they be repaid in cash for their loans, forcing borrowers to tsell more stock, further depressing prices. Within a month, industrial stocks lost half of their value. At their peak in 1929, stocks had been worth $87 billion; in 1933, they were worth only $18 billion.

The crash did not cause the Great Depression, but damaged the economy. Many who lost money were people whose investments had helped sustain the economy and prosperity. The credit structure of the nation was jeopardized, banks were near collapse, and business confidence evaporated.

If the economy had been sound, nothing could have shattered it. But the economy was not healthy. The construction and auto industries began to loose vitality by 1928 as demand declined. Consumer spending declined, and business inventories of unsold goods grew.

Business had been able to boost profits while keeping wages and raw material costs down. Consumers never had enough money to keep up with productivity, and eventually plants simply overexpanded. Consumers compensated for the difference between what they earned and what bought by borrowing.

The unequal distribution of wealth in America was a problem. The wealthy had more money than they could spend, and saved too much. The working and middle classes did not have enough to keep the economy afloat, no matter how much they spent.

Mismanagement, greed and the emergence of hybrid banker-brokers led banks to divert funds from investment into speculation. The American decentralized banking system left no way for correction if one bank failed. Even before the crash, 6000 banks had already failed in the 1920s.

Government did not monitor stock exchanges, and fraud was common. The public encouraged corporate control of the economy by discouraging anti-trust suits. Business had gained so much control that they were immune to price changes caused by shrinking consumer demand. High profits and low taxes made corporations so wealthy that they had no need to borrow, and changes in interest rates that might have cooled down the economy had little effect on them.

Several "sick" industries appeared as early as 1927. Unemployment rose in important industries. They suffered from overexpansion, reduced demand, and weak management. Farmers were dealt another blow as European agriculture revived from the war, further depressing farm prices.

High tariffs protected American industries but discouraged foreign trade, limiting European access to the world's most profitable market. Only American loans and investments supported foreign demand for American goods. Declining American investment in Europe led to reduced European demand at the very time that American industries desperately needed to increase foreign sales.

VI. The Downward Spiral

The crash signaled the beginning of the greatest economic disaster in the history of the nation. In the first three years after the crash, total production fell from $103 billion to $56 billion; national income fell by half, industrial wages by half, foreign trade by two-thirds.

American capital had sustained the European economy since the end of the war. When investment stopped, European governments defaulted on their war debts, banks and businesses collapsed, and the disaster toppled fragile European governments.

Domestic farm prices hit new lows. Rural bank failures swept the nation as frightened depositors withdraw their savings. Foreign investors traded their dollars for gold and currency became so scarce that banks could not meet demand for currency.

Between 1929 and 1932, an average of 100,000 a week lost their jobs, until nearly 13 million people were out of work. At least one in four Americans could find no work of any kind, and a high percentage of the employed were underemployed.

VII. Depression America

The Great Depression had a profound effect on everyone in America.

By 1932, most American families were earning barely enough to survive. For the first time in American history, emigration from the U.S. exceeded immigration, because people could not find work.

Morale sank, and the nation suffered a paralysis of spirit. Millions foraged to make ends meet. In 1932, between 1 and 2 million Americas were homeless wanderers.

The nation's 21 million children suffered. Hospitals began to see patients ill from starvation. Diseases associated with poor nutrition increased, and children died of malnutrition. Those who were not physically in danger suffered emotional trauma.

The Depression began a trend toward a better educated society as children remained in school longer, and more people graduated from high school.

People turned their anger inward, blaming themselves, not the system, for their condition. Work had defined them as productive members of society and along with their lost job went their sense of structure and self-worth. They believed that it was their own personal limitations that prevented them from finding work. Mental illness rates increased, as did the suicide rate.

Fear of pregnancy and of having extra mouths to feed boosted the sale of contraceptives. The birth rate dropped. The marriage rate declined. The number of divorces and abandonments increased. The Depression did not split families but magnified existing tendencies.

The Depression did not change homemakers' duties, but it increased their responsibilities. They watched the budgets closely. People turned yards into vegetable patches. Families took in boarders or family members. Women tried home industries to bring in extra cash. Prostitution increased as working-class women sold themselves to make ends meet.

After a decade of mass entertainment, families turned inward. Church and club attendance declined. Telephone service declined. People read magazines and books, listened to the radio, or attended movies. The movies reflected the emotions of the era.

In an age of uncertainty and fear, games built on rationality became popular. Contract bridge and Monopoly swept the nation. Record sales increased, and "Swing," a form of commercialized jazz, dominated the charts.

IX. Mexican Americans and African Americans

The Chavez family lost their farm in Arizona in 1934. Cesar Chavez's family become migrant workers in California. Thirty years later, Cesar founded the United Farm Workers of America, the first union of migratory workers in the nation.

The Depression turned Americans coldly against Latinos. Cities, fearing Latinos would burden city relief rolls, found it cheaper to ship them back to Mexico. In 1931, the federal government began deporting Mexicans to Mexico -- including American-born children (who were by law citizens of the US).

For African-Americans, the hard times were nothing new. When the Depression hit, Black unemployment reached 50%, twice the national level. Unemployed whites demanded the jobs once reserved for Blacks. Even skilled Black workers usually had their pay slashed by one-half.

Migration from the rural South to cities in the South and North disappeared. As late as 1940, 75% of Blacks lived in rural areas, and 40 % of all Black workers in America were farm laborers. One study in 1934 estimated the average annual income for Black cotton was approximately one-sixth of the poverty level amount.

The Depression also inflamed racial prejudice. Lynching tripled between 1932 and 1933. In 1931 nine Black teenagers were convicted and eight sentenced to death for raping two white women on a train bound for Scottsboro, Alabama. The convictions rested on the testimony of the women, one of whom later admitted the boys had been framed. It was the most notorious racial case of the decade. Ultimately, the prosecution dropped charges against four of the "Scottsboro Boys." The other five received substantial prison sentences. One fled to Michigan, where the governor refused to extradite him to Alabama.

But the Depression was not only about Black victimization. In 1915, George Baker had moved to Harlem, became M. J. Divine, and founded a religious cult that promised followers an afterlife full of equality. In the 1930s, "Father Divine" stressed economic cooperation and opened shelters for impoverished blacks and whites.

In Arkansas, poor Black and White farmers joined forces to organize the Southern Tenant Farmers Union in 1934 to protect tenant farmers from the abuses of the share-crop system. Although they won few concessions, the members hung together, laying the foundation for ending the share crop system. Ironically, in much of America, the Depression divided Blacks and Whites, but at least in Arkansas, it brought them together.