The Politics of Boom and Bust

Chapter 33

Warren G. Harding

Presidential Term: 1921-1923
Lived: 1865-1923
Born in: Ohio
Party: Republican
Vice President: Calvin Coolidge
Elected from: Ohio
Occupations: Newspaper Editor, Publisher

The Republican “Old Guard” Returns

- Warren Harding was a handsome, but weak mentally.
- He failed to see corruption in his cabinet, including Albert Fall and Harry Daughtery.
- He did have quality people like Charles Evans Hughes and Herbert Hoover.

GOP Reaction at the Throttle

- Harding hoped to improve on laissez-faire.
- Under Harding, corporations could expand again, and anti-trust laws were not as enforced or downright ignored.
- Men sympathetic to railroads headed the Interstate Commerce Commission.

The Aftermath of the War

- Wartime government controls disappeared (War Industries Board).
- Sold off excess ships and reduced navy.
- Labor lost much of its power, as a strike was ruthlessly broken in 1919. Labor membership shrunk by 30%.
- In 1921, the Veterans’ Bureau was created to operate hospitals and provide vocational rehabilitation for the disabled.

The Aftermath of War (cont.)

- Veterans organized into pressure groups.
- American Legion demonstrated militant patriotism, rock-ribbed conservatism, zealous antiradicalism, and aggressive push for veterans’ benefits, especially “adjusted compensation” to make up for wages while in service.
- Won with 1924 passage of Adjusted Compensation Act.
- Gave former soldiers a paid-up insurance policy due in 20 years.
- Added $3.5 billion to cost of war.
The Aftermath of War

- Wartime government controls on economy swiftly dismantled:
  - War Industries Board disappeared
    - With its passing, progressive hopes for more government regulation of big business evaporated
  - Returned railroads to private management in 1920
    - Crushed hope for permanent nationalization
    - Congress passed Esch-Cummins Transportation Act:
      - Encouraged private consolidation of railroads

- Congress passed Esch-Cummins Transportation Act:
  - Encouraged private consolidation of railroads
  - Pledged Interstate Commerce Commission to guarantee railroad profitability
  - New philosophy was to save railroads
  - Government tried to get out of shipping business:
    - Merchant Marine Act (1920) authorized Shipping Board to sell most of hastily built wartime fleet
    - Board operated remaining vessels without much success
    - Under La Follette Seaman's Act (1915), American shipping could not thrive in competition with foreign shipping

- Lacking government support, labor limped along badly in postwar decade:
  - Bloody steel strike crushed in 1919
  - Railway Labor Board cut wages 12% in 1922
    - When workers struck, Attorney General Daugherty clamped injunction on strikers

America Seeks Benefits Without Burdens

- American still at war (until July ‘21)
- US participates in but not member of League of Nations
- We Look for OIL in the MIDDLE EAST (nothing but peace and happiness forever)
- International Disarmament problems (Britain and Japan)

Hiking the Tariff Higher

- 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%.
- 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.
The Stench of Scandal

- **Charles R. Forbes** was caught with his hand in the till (Cookie Jar) and resigned as the head of the Veterans’ Bureau. (Stole over $200 million)
- The **Teapot Dome Scandal** (oil)
- Whiskey Scandal (Booze-a-riffic)
- Harding dies before Scandals become public outrage

TEAPOT DOME SCANDAL

- Secretary of the Interior, Albert B. Fall leased naval reserve oil land in Teapot Dome, Wyo., and Elk Hills, California, to oilmen Harry F. Sinclair and Edward L. Doheny.
- Fall had received a bribe of $100,000 from Doheny and an amount that was three times that figure from Sinclair.
- Fall found guilty of taking a bribe.
- Sinclair and Doheny were acquitted.

Calvin Coolidge: A Yankee in the White House

- New president Calvin Coolidge was serious and never spoke more than he needed to.
- 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.
Frustrated Farmers

- World War I had given the farmers much prosperity. Tractors increased production greatly.
- After war over-production plagued farmers
- Coolidge voted against Agricultural relief bills as he saw them as not capitalistic

Three-Way Race for the White House in 1924

- Coolidge was chosen by the Republicans again
- Democrats endorsed the KKK
- Robert LaFollette led Progressives
- Coolidge easily won

The 1924 Election

- Calvin Coolidge served as President from 1923 to 1929.
- “Silent Cal”.
- Republican president

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<td>La Follette</td>
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Foreign-Policy Flounderings

- Isolationism caused America to ignore League of Nations and World Court
- European debt problems.
- Gave loans to Germany to repay reparations to France and Britain to repay war loans to US.
- Stupid circle of money

Map 33.1: Presidential Election of 1924 (showing popular vote by county)

Figure 33.2: Aspects of the Financial Merry-go-round, 1921–1933
The Triumph of Herbert Hoover, 1928

- In 1928, Calvin Coolidge said, “I do not choose to run.”
- Logical successor was Hoover
- Hoover won an easy but mudslinger campaign over the Catholic Al Smith of New York.

Herbert C. Hoover

- Presidential Term: 1929–1933
- Lived: 1874–1964
- Born in: Iowa
- Elected from: California
- Occupation: Engineer
- Party: Republican
- Vice President: Charles Curtis

President Hoover’s First Moves

- Farm protection bills
- Hawley-Smoot Tariff (60%)
- Caused international problems

The Great Crash Ends the Golden Twenties

- October 29, 1929, a devastating crash caused by overspeculation and overly high stock prices built only upon nonexistent credit struck the nation.
- 30 billion lost, 12 million unemployed, 5000 banks failed
Herbert Hoover: Pioneer for the New Deal

- Hoover voted to withdraw $2.25 billion to start projects to alleviate the suffering of the depression.
  - Hoover Dam
  - Reconstruction Finance Corporation
  - Norris-La Guardia Anti-Injection Act

Japanese Militarists Attack China

- In September 1931, Japan, alleging provocation, invaded Manchuria and shut the Open Door.
- This broke international law, so Japan withdrew from League of Nations, weakening the organization.
- America played scared little wimp

WHAT WOULD YOU DO?

Pretend you were President and your country's unprecedented wealth suddenly evaporated.

- 25% of US population unemployed
- Stock prices are greatly overvalued and the stock market is in ruins
- 5,000 banks closed because they loaned out all their money
- Millions of people have lost jobs, savings accounts, homes and personal property.
- Foreign countries can't make loan payments
- Foreign economies have collapsed
- American companies are not producing goods or services
- Consumer spending declines
- The size of the economy continues to shrink
- A great drought is turning precious farmland into huge clouds of dust and within a year the Great Plains is ruined
- A new political philosophy called Fascism is on the rise in Japan, Spain, Portugal and Germany.
- War looms on the horizon.

HOOVER’S GREAT DEPRESSION

1. Causes and effects 1929 – 1941
2. Snowball effect by 1932
3. President Herbert Hoover---1929 - 1933
   - Philosophy and belief

PRESIDENT HERBERT HOOVER

- 31st President 1929 to 1933
  - Republican
  - Graduated from Stanford University 1895
  - Occupation: Engineer
  - Food Administration Director during WWI
  - Secretary of Commerce 1921-28

- “A chicken in every pot and car in every garage”. Hoover quote in 1929

PRESIDENT HERBERT HOOVER

- Stock Market Crash
  - Black Tuesday, Oct. 23, 1929
  - Hoover was blamed for not providing “direct relief” to help Americans? WHY?
  - US Govt. should not provide “direct relief”
  - laissez faire

- Rugged individualism: Americans are self-sufficient and would work themselves out this depression through hard work and determination.
- Charitable organizations: Churches, volunteers and people helping one another.
Hoover reassures the public; downplayed the public’s fears.
Critics were angry that the conditions worsened as Hoover tried to put a good face on the situation.
Privately, Hoover is deeply worried about the economy and gathers a heads of banks, labor, railroads, labor, big business, and government officials.

Promoting Recovery

The theory was that prosperity at the top would help the economy as a whole.
Many Americans saw it as helping bankers and big businessmen, while ordinary people went hungry.

BUT, no direct relief to American people. Why? Hoover did not support federal public assistance because he believed it would destroy people's self-respect and create big government which would violate laissez faire.

Hoover’s Attempts to Solve the Great Depression

Industry pledged to keep factories open and stop slashing wages.
This did not work: by 1931 most businesses reneged.
Next step was public works:
- government financed building projects.
Hoover urged governors and mayors throughout the nation to increase public works spending.
- Many governors and mayors did not choose to do this. WHY?
- Pay higher taxes or borrow money from banks (deficient spending) which leaves less money for banks to loan out to people.
- Hoover feared that deficient spending could delay an economic recovery.

Pumping Money Into the Economy

Hoover asked the Federal Reserve Board to pump more money into circulation.
The National Credit Corporation was created to have a pool of money that would enable troubled banks to continue lending money in their communities.
- he encouraged wealthy New Yorkers to contribute to this
By 1932 he believed that this wasn’t going to be effective and the government had to do the lending in what was called the Reconstruction Finance Corporation.
- The RFC lent out $238 million to approximately 160 banks.
- A total of $500 million the US Government provided “indirect” relief to assist insurance corporations, agricultural organizations, railroads and state and local governments.
- “Too little, too late”. It did not increase its loans in sufficient amounts to meet the need, and the economy continued its decline.
Early in 1932, Congress, responding to Hoover’s appeal, established the Reconstruction Finance Corporation, which became a government lending bank.

With $500 million, US Government provided “indirect” relief by assisting insurance corporations, banks, agricultural organizations, railroads and state and local governments.

The theory was that prosperity at the top would help the economy as a whole.

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\textbf{BUT, no direct relief to American people. Why?} Hoover did not support federal public assistance because he believed it would destroy people’s self-respect and create a large bureaucracy.

\begin{itemize}
  \item \textbf{Direct Help for Citizens}
    \begin{itemize}
      \item Hoover strongly opposed the federal government’s participation in relief. \textbf{WHY?}
        \begin{itemize}
          \item Hoover did not support federal public assistance because he believed it would \textit{destroy people’s self-respect}, violate \textit{laissez faire} and create a large bureaucracy.
          \item However, states and cities were doing it—but by 1932, they were running out of money.
          \item Many Americans saw it as helping bankers and big businessmen, while ordinary people went hungry.
          \item Political support was building for a relief measure; Congress passed the \textbf{Emergency Relief and Construction Act}.
        \end{itemize}
      \end{itemize}
    \end{itemize}

\begin{itemize}
  \item \textbf{Hunger Marches}
    \begin{itemize}
      \item January 1931: 500 men and women in Oklahoma City broke into a grocery store
      \item Rallies and “hunger marches” were held by the \textbf{American Communist Party}
      \item December 5, 1932: a freezing day in Washington, DC; 1200 hunger marchers assembled \Rightarrow “Feed the hungry, tax the rich.”
        \begin{itemize}
          \item Police herded them into a blocked-off area, where they had to sleep on the sidewalks or in trucks.
          \item The police denied them food, water, and medical treatment.
          \item Congress insisted the right of the marchers’ to petition their government.
        \end{itemize}
      \end{itemize}
    \end{itemize}

\begin{itemize}
  \item \textbf{Farmers Revolt}
    \begin{itemize}
      \item During World War I, many farmers had heavily mortgaged their land to pay for seed, feed, and equipment.
      \item After the war, prices sank so low that farmers could not even earn their costs and could not make a profit.
      \item 1930-1934: creditors foreclosed on nearly one million farms, taking possession of them and evicting families
      \item Some farmers began destroying their crops in a desperate attempt to raise prices by lowering the amount of crops on the market.
        \begin{itemize}
          \item In Nebraska grain growers burned corn to heat their homes in the winter.
          \item In Iowa food growers prevented the delivery of vegetables to distributors.
          \item Georgia dairy farmers blocked the highways and stopped milk trucks, emptying the milk cans into ditches.
        \end{itemize}
    \end{itemize}

\begin{itemize}
  \item \textbf{GREAT DEPRESSION DEFINED}
    \begin{itemize}
      \item The Great Depression can be described as the total collapse of the US economic system of \textbf{Capitalism, \textit{laissez faire}} and everything we believed in as a country.
      \item Our \textbf{democracy} and way of life was threatened.
    \end{itemize}
  \end{itemize}

\begin{itemize}
  \item \textbf{ABOUT THE DEPRESSION}
    \begin{itemize}
      \item It was the worse economic calamity in the US and was part of a world-wide economic depression
      \item The US government radically changed its domestic-economic policies
      \item Many Americans migrated within the US and left the US for the Soviet Union.
      \item The US government slowly became less isolationist in its foreign policy
      \item The Depression had a huge impact and legacy on the country.
    \end{itemize}
\end{itemize}
Events which led to Great Depression

Causes:
- Decrease in consumer spending
- Unequal distribution of wealth
- Overproduction of goods
- War debts not paid back
- Buying on margin (Credit)
- Stock Market Crash: Black Tuesday, Oct. 23, 1929

Effects:
- Under consumption of goods and services—not buying goods
- Families had limited income to purchase goods
- Led to falling prices of goods
- Orders to sell any any price...
- Speculation on stocks
- Investors buy stocks on credit
- Wealth on paper
- Total collapse of US economy, laissez faire and capitalism

The "Snowball Effect" of the Crash

- Bankers call brokers wanting their money!
- Brokers go to investors to collect their money to pay the bank loans borrowed by broker for investor
- Orders to sell any any price...
- Brokers go under—stocks are worthless—investors lose their savings!
- Run on the Banks: People begin to panic and go to banks—try to withdraw their money...Banks don't have any money to give back
- More workers lose their jobs

Effects of the Stock Market Crash

- Stock values drop from $87 - $19 billion
- Steel production drops 80%
- Industrial output drops 50%
- 500,000 homes and farms foreclosed
- "Run on the banks", 5,190 banks failed
- 9 million people lost their savings
- Unemployment 25—40%
- 4 million by 1930----12 million by 1932
- 25,355 businesses fail
- Work week cut----3 to 1 and lay offs.

Effects of the Stock Market Crash

- People did not have savings...
- Families fell behind on mortgages, rent and credit payments......
- Lost their homes, businesses & possessions
- A great drought turned precious farmland into huge clouds of dust and within a year the Great Plains is ruined
- American values of hard work & individual responsibility were tested
- Standard of living of Americans reduced
- Psychological effects on many Americans, especially men.

Economic Background

Uneven Income Distribution, 1929

The 1920s were an era that favored big business. Life was good for the rich. They made up just 0.1 percent of the population and had yearly incomes of more than $100,000. Conversely, much of the population had to scrape to get by. Many earned so little that everyone in the family, including children, had to work. Nearly 80 percent of all families had no savings.
**Pyramid of Wealth**

- 2%: $50,000 or more a year
- 3%: $10,000 or more a year
- 70%: $2,500 or less a year
- 25%: $1,500 or less a year

1929-30
2.8 Million Households

**Great Depression Events**

- US high tariffs (Hawley-Smoot Tariff) caused Great Britain and France to not trade with US.
- US became "economic isolationist".
- Because of this, Great Britain and France did not pay back war debts to the US.
- GB and France defaulted on their debt because they had paid in blood.

**Run on the Banks**

- Banks lost their investments in the Market after the Crash.
- Millions of Americans were caught in the panic of the Stock Market crash.
- Went to their banks to withdraw their savings accounts.
- Banks loaned out their $$$ and had no reserve funds to give customers withdrawing their savings.
- Once banks ran out of $$$ they closed their doors and left people stranded.
- 1929 = 659 and by 1933 = 5190

**A Wise Economist Asks A Question**

Bank failures crushed the average American who put faith in the banks to save their money.

When they went to withdraw their money, it had been lent out so they lost savings.

**Effects of the Stock Market Crash**

- 25% to 40% of workers out of work
- Was able to lower it to 14%
The Great Depression (1929–1941)

The rapid increase of stock prices encouraged:

- **Speculation**, the practice of making high-risk investments in hopes of getting a huge return.
- **Buying on margin**, the practice of allowing investors to purchase a stock for only a fraction of its price and borrow the rest at high interest rates.
- When Stock Market begins to crash banks call in loans
  - To pay back banks investors sold stocks for less than they purchased
  - Loose money and go into debt
  - No US Government regulations on the stock market or margin buying.

**Farm Foreclosures**

Because people lost their jobs they could not make payments on their farms, ranches or homes.

Banks would foreclose on their property and thousands lost their homes.

Thousands of people became homeless and workless.

Many went to California to try and find work....
Hoovervilles or shantytowns, were migrant towns of people who were out of work and on the move to find work. Usually outside large cities where migrants were trying to find jobs. Named after President Hoover because he wouldn’t do anything to help the people who were in need. 

Impact on Health
- Some people starved and thousands went hungry.
- Children suffered long-term effects from poor diet and inadequate medical care.
- Social and Psychological Effects
  - 1928–1932, suicide rate rises over 30%
  - Admissions to state mental hospitals triple

Stresses on Families
- Living conditions declined as families crowded into small houses or apartments.
- Men felt like failures because they couldn’t provide for their families.
- Working women were accused of taking jobs away from men.

Discrimination Increases
- Competition for jobs produced a rise in hostilities against African Americans, Hispanics, and Asian Americans.
- Lynchings increased.
- Aid programs discriminated against African Americans.

Psychological Effects of the Great Depression
- One of the immediate concerns of FDR was to raise the self confidence of the people.
- He had to get people back on their feet by putting them back to work.
- People lost their homes, possessions and property.
- Families lived in Hoovervilles or shantytowns.
- No hope, despair, emotional pain, depression and guilt.
- When you have millions of “unhappy” men out of work, you have the potential for social chaos.
**Bonus Army March** in the summer of 1932 over 20,000 veterans from WWI marched on Washington, DC.

- Demanded their Bonus promised to them by the government for fighting in WWI.
- They were out of work and wanted to feed their families.

**Battle of Washington**
- July 28, 1932
- President Hoover orders the army to remove Bonus Army from Washington, D.C.
- General Douglas MacArthur, later a WWII hero, was part of removing the Bonus Veterans.

**August 28, 1932, Battle of Washington, D.C.** US troops supplied with tanks fought skirmishes, made arrests and burnt down the camps of the Bonus veterans.

- The American people were appalled how President Hoover solved the problem. People felt Hoover had no compassion and would blame him for the Depression. He would not be re-elected in 1932.
The Dust Bowl was an ecological and human disaster that took place in the southwestern Great Plains region, including Oklahoma, in the 1930's.

It was caused by misuse of land and years of sustained drought.

Millions of hectares of farmland became useless, and hundreds of thousands of people were forced to leave their homes---many migrated to California.

As the land dried up, great clouds of dust and sand, carried by the wind, covered everything and the word “Dust Bowl” was coined.
The Election of 1932

**Franklin Roosevelt**
- Believed government had a responsibility to help people in need and provide direct relief.
- Believed capitalism and laissez faire needed to be reformed.
- Governmental involvement in people’s lives was a good source for those in need.

**Herbert Hoover**
- Believed that federal government should not try to fix people’s problems.
- He believed direct relief would destroy people’s self-respect.
- He believed it would create a big government which would violate laissez faire.

**Franklin D. Roosevelt, beat the Republican, Herbert Hoover, who was running for reelection.**

- **FDR** promised relief for the unemployed, help for farmers and a balanced budget.
- **Prohibition** whether it should be repealed or not.

**The Election of 1932**

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- **FDR** promised relief for the unemployed, help for farmers and a balanced budget.
- **Prohibition** whether it should be repealed or not.

- **Democrats**
  - FDR appealed to the common man because he was crippled
  - Eleanor became the eyes and ears for her husband
  - Promised to help the people through the Great Depression by direct governmental involvement

- **Many Americans were unsure exactly what FDR meant with his New Deal.**
- **Interests group were lining up to protect their self-interests in FDR’s New Deal.**

**FDR and Hoover at FDR’s Inaugural**

- Americans believed FDR could get the country out of the depression and put people back to work......
President Roosevelt began the “fireside chats” on a weekly basis as a way to reassure the American people. His comforting voice, calming words, confidence in the country and the American people helped restore faith of the American people in democracy. 

“I pledge to you, pledge myself to a NEW DEAL for the American People.” 
“The only thing we have to fear...is fear itself.”