The Roaring ‘20s

PEACETIME PURSUITS

In the decade after World War I the people of the United States wanted to return to the pursuits and values of the pre-Progressive period. Tired of war and disillusioned by the treaty-making that followed, the people attempted to withdraw from international commitments.

RETURN TO “NORMALCY”

Politics in the 1920s saw the old issues go. Progressive reform, imperialism, war, treaty-making—all were forgotten. The vast majority of voters, wanted to escape from the challenge of Wilsonian idealism and the responsibilities of world leadership. They wanted to return “normalcy” (a campaign term used Warren Harding, the Republican presidential candidate in 1920) by putting the Republican party back in power, and putting the Progressive Era and World War I behind them.

Election of 1920

The essence of the election was an expression of disapproval of the Wilson administration, arising out of the animosities of the war years and the disappointments of the postwar period.

DEMOCRATS. At the Democratic national convention there were three front-runners for the presidential nomination: Secretary of the Treasury William G. McAdoo; Attorney General A. Mitchell Palmer; and Governor James M. Cox of Ohio. On the forty-fourth ballot the delegates chose Cox to be the party's standard-bearer. Selected as his running mate was the young Franklin D. Roosevelt of New York, who had achieved distinction during World War I as assistant secretary of the navy. The platform advocated the ratification of the Treaty of Versailles, thus providing for American entry into the League of Nations.

REPUBLICANS.The convention chose a little-known party regular, Senator Warren G. Harding of Ohio. For vice-president the delegates named Governor Calvin Coolidge of Massachusetts, who had recently gained fame by breaking a police strike in Boston. The platform avoided the League of Nations issue.

THE CAMPAIGN. Cox made it clear that if elected his first duty would be to press for the ratification of the treaty. As the campaign progressed, Harding vacillated on the League issue. but promised that the nation would return to “normalcy.” The term provided a vague sort of slogan that essentially appealed to:

- ★ the end of Progressive reform;
- ★ a renewed support for big business and prosperity;
- ★ a renewal of traditional U.S. isolationism in the wake of W.W. I and the embarrassment of the peace.

HARDING'S LANDSLIDE VICTORY. Harding captured every state outside the Democratic Solid South; he even cracked that by taking Tennessee. As one prominent Democrat remarked: “It was not a landslide, it was an earthquake.” Harding's great victory signified popular disapproval of the Wilson administration and their desire to have power transferred to the Republican party.

The Harding Administration
Harding believed that the Constitution constrained presidential power, and he intended to stay within thous bounds. He was also fully aware of his own limited ability, Harding allowed the Congress and his cabinet to give the nation the leadership it needed.

Warren G. Harding was a handsome man of amiable disposition. He enjoyed the ceremonial functions of the presidency, but he found making decisions to be sheer torture.

THE CABINET. Harding announced in his presidential campaign that if elected he would turn to the “best minds” in the Republican party. His cabinste appointments werer generally excellent. His best appointees ware:

- ★ Secretary of State Charles Evans Hughes, who was a former governor of New York, a former associate justice of the Supreme Court, and the Republican candidate for president in 1916;
- ★ Secretary of the Treasury Andrew Mellon, the Pittsburgh industrialist and financier;
- ★ Secretary of Commerce Herbert C. Hoover, a mining engineer who had successfully directed a program for the relief of the Belgians during World War I.

They weren’t all winners, though. His worst choices were:

- ★ Albert B. Fall of New Mexico was made secretary of the interior;
- ★ Harry M. Daugherty of Ohio was made attorney general.

These two good friends of Harding were to bring disgrace to the administration.

The Scandals
Harding placed great confidence in his personal friends and political associates. Some of them betrayed that trust. Here are the worst scandals of his administration.

- ★ THE VETERANS BUREAU. In 1925 Charles R. Forbes, the recently resigned director of the Veterans Bureau, received a two-year prison sentence and a $10,000 fine for bribery and conspiracy. He and his associates had made about $200 million in graft by granting to private interests government contracts connected with the care of disabled veterans.
- ★ THE ALIEN PROPERTY CUSTODIAN. Thomas W. Miller, the Alien Property Custodian, accepted a $50,000 bribe in a transaction involving the sale for much less than its value of German property confiscated during World War I. In 1927 Miller was sent to prison for eighteen months and fined $5,000 for conspiracy to defraud the government.
- ★ TEAPOT DOME. The major disgrace associated with the Harding administration was known as Teapot Dome. In 1921 Secretary of the Interior Albert B. Fall, after gaining the support of Secretary of the Navy Edwin Denby, convinced President Harding to transfer from the Navy Department to the Interior Department control of naval oil-reserve land at Teapot Dome in Wyoming and Elk Hills in California. Fall then, secretly and without asking for bids, granted drilling rights to private companies operated by oil producers Edward L. Doheny and Harry F. Sinclair, but not until he had received a "loan" of $100,000 from Doheny and three times that much in cash and World War I bonds as a "gift" from Sinclair. An investigation was begun in 1923 by a Senate committee headed by Democrat Thomas J. Walsh of Montana. Fall resigned from the cabinet, and was soon "lent" $25,000 by Sinclair. The Senate investigation led to an indictment of Fall, Doheny, and Sinclair. Their cases dragged on for a number of years. Meanwhile, the government canceled the leases to the oil-reserve land. Finally, in 1929 Fall was

convicted of bribery, sentenced to one year in prison, and fined $100,000. He became the first cabinet member in the nation's history to go to jail for dishonoring his office. Both Doheny and Sinclair were acquitted of bribery, although the latter received a prison sentence and fine for contempt of court.

★ CHARGES AGAINST DAUGHERTY. Evidence was produced disclosing that Attorney General Harry M. Daugherty had received sums of money from liquor dealers who were evading the prohibition statutes. Also, it was discovered that he had not taken the proper course of action to prosecute Forbes and others in the Veterans Bureau for graft. Further, he was implicated in the matter involving Alien Property Custodian Miller. In 1924 Daugherty was forced by President Coolidge to resign. Two years later he was tried for conspiracy to defraud the government, but was acquitted.

Harding's Death

On August 2, 1923, President Harding died suddenly of a stroke in San Francisco, as he was returning from an official visit to Alaska. The last months of his life had been darkened by his awareness that a few of his close advisers had betrayed him and their public trust. Shortly before his death he realized that evidence of corruption would soon be revealed.

Coolidge's Succession

Thrust into office by Harding's unexpected death, Calvin Coolidge insisted that his associates should help in the investigation of corrupt political acts committed during his predecessor's administration; he thus quickly won the confidence of the American people, who admired his courage and personal integrity.

Election of 1924. Coolidge sought the presidency in his own right. With prosperity at its height and the Democrats choosing a compromise candidate who was as conservative as Coolidge, a Republican victory seemed assured.

DEMOCRATS. Trouble developed in the Democratic ranks over a proposed plank in the platform denouncing by name the Ku Klux Klan, an organization designed to maintain the political supremacy of native-born white Protestants. After prolonged and acrimonious debate the convention rejected by one vote the inclusion of an anti-Klan plank. The platform that was adopted lashed out at the corruption in the Harding administration and proposed a referendum to decide the issue of United States membership in the League of Nations. The Democrats elected Governor Alfred E. Smith of New York.

REPUBLICANS. Coolidge was the virtually unanimous choice of the delegates to the GOP convention. The platform appealed to the nation's conservative business interests, and promoted the continuation of national prosperity and avoidance of both further reform at home and further entanglement abroad.

PROGRESSIVES. Dissatisfaction especially of Western farmers resulted in the formation of a new Progressive party. The Progressives nominated Progressive/Republican Senator Robert M. La Follette of Wisconsin. The platform, drafted by La Follette himself, was largely an expression of agrarian discontent.

THE CAMPAIGN. Davis castigated the Republican party for the recently exposed corruption in the Harding administration. Coolidge made very few speeches all of which ignored the Davis indictment. La Follette, whose candidacy was endorsed by the

American Federation of Labor and the Socialist party, provided some drama in an otherwise boring campaign. Both Democrats and Republicans tried to frighten the voters with the charge that La Follette was a dangerous radical.

COOLIDGE'S LANDSLIDE VICTORY. In popular votes, Coolidge received 15,725,000; Davis, 8,386,000; La Follette, 4,822,000. Coolidge captured the electoral vote of every state in the East, Midwest (except for Wisconsin), and Far West, while Davis secured only the Solid South and Oklahoma, and La Follette won the electoral vote of his home state alone. The big advantage to the Republicans was that the times were so prosperous that most people were uninterested in Davis's attacks on the party in power or La Follette's strident appeals for further reform.

The Coolidge Administration

Coolidge restored honesty to the executive branch of the government. His administration, like Harding’s, tended to support business interests and prosperity. For the most part, this was exactly what the American people, still smarting from Wilson’s idealistic leadership, wanted.

THE PRESIDENT — Coolidge was unpretentious and laconic. While not a creative person, he did possess a respectable amount of common sense. In fact, he was best known for a quality very rare in politicians — his silence. He was even nicknamed “Silent Cal.”

Election of 1928

The Republican candidate represented the Protestant middle class, while the Democratic nominee was an antiprohibitionist Catholic from the city. With continued prosperity a help, the Republican standard-bearer achieved an easy victory.

Candidates — The Democratics nominated Governor Al Smith of New York. A year before the Republican national convention, Coolidge issued a short public statement: “I do not choose to run for President in 1928.” The GOP nominated the Secretary of Commerce, Herbert C. Hoover.

HOOVER'S LANDSLIDE VICTORY — In popular votes, Hoover received 21,392,000 to Smith's 15,016,000. Hoover won the electoral vote offorty states, including his opponent's home state of New York and five statesVirginia, Tennessee, North Carolina, Florida, and Texas-of the half-century-old Solid South. Smith's race for the presidency seemed doomed from the outset; he was handicapped in the South and Midwest by his antiprohibition views, his Catholic faith, and his connection with Tammany Hall (the Manhattan Democratic political machine). But more important, the American people were experiencing great prosperity and were in no mood to break the spell that appeared to have been induced by Republican rule.

The Hoover Administration

Upon his inauguration, Hoover was hailed as a person who would run the complicated machinery of government with skill and efficiency. Four years later he was rejected by a nation consumed by economic despair. Hoover was among the most conscientious of all who have ever occupied the White House. A man of scrupulously correct behavior, he became stiff in dealing with others during the difficult days of his presidency.

Hoover’s cabinet thoroughly reflected the conservative philosophy of the man who selected it. Members of the official family implemented policies that won the appreciation of the business community. As a matter of fact, more than half the men in the cabinet were millionaires, including Secretary of the Treasury Andrew Mellon.

Domestic Issues

In the post-World War I decade there were many persistent economic and social problems that Americans were reluctant to face.

The Mellon Fiscal Policy — Andrew Mellon headed the Treasury Department from 1921 to 1932, holding that position longer than any other person in the nation's history. Hailed by many Americans as the “greatest Secretary of the Treasury since Alexander Hamilton,” Mellon was given more and more freedom to set the fiscal policies of the three Republican administrations of the 1920s.

Secretary Mellon advocated a reform of the national budget system. The Budget and Accounting Act, passed in 1921, established the Bureau of the Budget, with a director appointed by the President, and required the President to submit to each session of Congress an estimate of federal income and expenditures. Named the first director of the budget was Chicago banker Charles G. Dawes, who became the supervisor of the government's economy campaign.

TAX REDUCTIONS. Mellon and the three Presidents under whom he served decreased tax rates both on corporations and on individuals. Lower taxes contributed to increased prosperity throughout most of the 1920s. Increased prosperity enabled the government to collect more than enough revenue to meet current expenses and to apply the surplus to the steady reduction of the national debt. The debt had been primarily accumulated as a result of World War I.

CONGRESSIONAL REACTION. Mellon's tax program did not meet with full success in Congress, where a combination of Democrats and rebellious Republicans compelled the Harding administration and the early Coolidge administration to accept higher rates on large personal incomes than the Treasury Department had proposed. This political dissent centered in the farm bloc, representing constituencies of the midwestern “corn belt,” which insisted that agriculture receive breaks similar to those conferred upon industry. However, as prosperity reached unprecedented heights from 1924 until the onset of the depression five years later, the people, through their choice of federal legislators, permitted Mellon to pursue his policy as he saw fit.

The Tariff Issue

Despite the growing realization of the interdependence of manufacturing, agriculture, and trade among the nations of the world, there was a significant increase in tariff barriers after World War I.

THE FORDNEY-McCUMBER TARIFF — This measure represented a decisive return by the United States government to protectionist principles, in keeping with the traditional position of the Republican party, which had recently come to power. The Fordney-McCumber Tariff, enacted in 1922, was an elaboration of the emergency tariff of 1921, which had reversed the notably low rates of the Wilson administration's Underwood Tariff. It:

- ★ reduced the number of commodities on the free list;
- ★ increased the rates on agricultural products;

- ★ charged the Tariff Commission, established six years earlier, with investigating for purposes of comparison production costs at home and abroad;
- ★ empowered the President to revise rates up to 50 percent in either direction whenever it seemed advisable on the basis of the commission's report.

In general, the act restored the level of duties of the Payne-Aldrich Tariff of the Taft administration.

THE SMOOT-HAWLEY TARIFF — This tariff provided for the highest rates in the nation's history. The average duty was approximately 60 percent. In May, 1930, Hoover had received a petition signed by more than 1,000 prominent economists, opposing the passage of the Smoot-Hawley bill and urging a presidential veto if the Congress approved the measure. The petition argued that the rates would sharply reduce American trade, a situation particularly harmful during the recently begun depression. Hoover signed the bill in June, 1930. Within three years, thirty-three foreign countries retaliated against the high rates by increasing their rates on American products.

Restriction of Immigration

As a direct consequence of World War I, the United States during the l920s reversed its traditional immigration policy.

TIIE DEMAND FOR LIMITATION — Before 1914 the United States permitted unrestricted immigration from Europe, barring only those aliens considered likely to affect adversely public health, safety, or morals. The United States, representing in the minds of many the epitome of the New World, was proud to be an asylum for the oppressed of the Old World. In addition, the nation needed cheap labor to exploit its abundant mineral wealth, to build its railroads, and to operate the machinery in its factories. Yet there was a growing demand for a selective immigration policy.

THE LITERACY TEST ACT — Bills providing for a literacy test for immigrants had been vetoed by Cleveland in 1896, Taft in 1913, and Wilson in 1915. Finally, in 1917 Congress succeeded in passing over Wilson's veto an act requiring immigrants to be able to read and write a language, whether English or another.

THE EMERGENCY QUOTA ACT OF 1921 — When it appeared to many at the close of World War I that "the world was preparing to move to the United States," Congress rather hastily adopted a policy of restriction. The Emergency Quota Act of 1921 limited immigration from Europe in anyone year to 3 percent of the number of each nationality resident in the United States according to the census of 1910. The total number of immigrants who would be permitted to enter the United States was set at approximately 35/,000 annually.

THE QUOTA ACT OF 1924 — This measure further restricted the number of people settling in the United States by limiting immigration from Europe in anyone year to 2 percent of the number of each nationality resident in the United States according to the census of 1890, with the total number of immigrants set at approximately 164,000 annually. The changing of the census base from 1910 in the act of 1921 to 1890 in the act of 1924 drastically reduced the quotas of the "new immigrants" (those coming from eastern and southern Europe beginning in the 1880s) and automatically increased the proportion of the "old immigrants" (those arriving from northern and western Europe before the 1880s). Members of the former group, because of language harriers, their relatively poor education, and their tendency to cluster together in large cities, were considered by many to be more difficult than those of the latter group to assimilate into the dominant American culture. As for the non-European nations, the act exempted the Western Hemisphere from its terms but totally prohibited immigration from Asia.

THE NATIONAL ORIGINS PLAN — The Quota Act of 1924 called for a set of permanent regulations to take effect three years later, but the calculations for establishing new quotas proved so difficult that the regulations did not become operative until 1929. According to the National Origins Plan, the total number of immigrants from outside the Western Hemisphere was restricted to approximately 150,000 annually, with each country given a quota based on the proportion that the number of persons of that "national origin" residing in the United States bore to the total American population in 1920. But each European country was permitted to send at least 100 people a year. All immigration from Asia was still prohibited. Although the quota system did not apply to Canada or the independent nations of Latin America, so wide was the latitude for administrative discretion that State Department and Labor Department officials were able to restrict selectively even nonquota groups by requiring certain qualifications, such as the holding of property. Mexican immigration, for example, was greatly reduced as a result of this administrative action. The National Origins Plan remained in effect until 1965.

Prohibition

Probably no public issue was so widely discussed during the 1920s as the prohibition of the manufacture and sale of intoxicating beverages.

THE EIGHTEENTH AMENDMENT — So successful were the tactics of the Anti-Saloon League that by the fall of 1917 the legislatures of more than half the states had banned the liquor traffic and fully two-thirds of the people of the nation were living in areas that were "dry" by either state or local legislation. As we have seen, Wilson used a war-time emergency in order to support the passage of prohibition without causing a rebellion of the urban Northeast.

In December, 1917, Congress passed the Eighteenth Amendment to the Constitution, prohibiting the manufacture, sale, or transportation of intoxicating liquors. It was not surprising to the American people that ratification by the required number of states was achieved by January, 1919, with ease.

THE VOLSTEAD ACT — This act, passed over President Wilson's veto in October, 1919, provided the machinery for implementing the Eighteenth Amendment. It defined as intoxicating any beverage containing more than one-half of 1 percent alcohol. Administration of the act was assigned to the Bureau ofInternal Revenue, a division of the Treasury Department.

There were major obstacles to successful enforcement of the Volstead Act, including

- ★ the opposition of some communities, especially larger cities, to national prohibition;
- ★ the lack of cooperation between federal and local authorities;
- ★ the corruption of some enforcement agents, who accepted bribes from bootleggers earning large profits from the illicit liquor traffic;
- ★ the failure of the Treasury Department and the Justice Department to centralize control of the enforcement services.

The difficulties of making the Volstead Act effective caused opponents of prohibition to denounce the Eighteenth Amendment as a failure, the chief result of which had been an increasing disrespect for law, as evidenced in the rise of bootlegging and hijacking.

THE WICKERSHAM COMMISSION — In 1929 President Hoover appointed the National Commission on Law Observance and Enforcement, with former attorney general George W. Wickersham as chairman, to conduct an investigation of prohibition and related problems of law enforcement. In 1931 the Wickersham Commission submitted its report, which declared that prohibition was not being effectively enforced but recommended further trial of the Eighteenth Amendment and the Volstead Act.

THE TWENTY-FIRST AMENDMENT — In February, 1933, Congress passed, and by December, 1933, the required number of states had ratified, the Twenty-first Amendment, which repealed the Eighteenth Amendment. Thereupon, control of the liquor traffic reverted to the states. All but eight promptly permitted the manufacture and sale of intoxicating liquors under various types of regulation.

Antiradicalism

During the 1920s fear pervaded the nation that radicalism might destroy American traditions. Even the moderate reforms of the recent progressive era came under suspicion. As a result, some who had been reformers in their younger years now gained prominence as defenders of the existing economic and social order.

THE "RED SCARE" — The success of the 1917 Communist revolution in Russia convinced many Americans that the Communists ("Reds") and their sympathizers were using the postwar turmoil to secure political power elsewhere in the world, including the United States. Law enforcement agencies, both federal and state, were put on their guard against radical uprisings. In 1919 almost 250 aliens whose views were regarded as dangerously radical were deported to Russia. Early in 1920 Attorney General A. Mitchell Palmer authorized raids on both acknowledged and alleged Communists, resulting in the arrest of more than 4,000 persons, many of whom were apprehended and held in violation of their constitutional rights. In the fall of 1920 a bomb exploded on Wall Street, killing 38 people, sending a wave of fear across the nation, and contributing greatly to the antiradical fervor. Palmer asserted that the "Reds" were ready to "destroy the government at one fell swoop." By the beginning of 1921, however, the "Red Scare" had abated.

THE BOSTON POLICE STRIKE — A dispute in Boston between the police commissioner and members of the police force over the latter's right to affiliate with the American Federation of Labor led to a strike in the fall of 1919 of about three-fourths of the force. To prevent the collapse of law enforcement, Calvin Coolidge, then governor of Massachusetts, dispatched the state militia to the city. Although Coolidge had taken action after Boston was already under control, he won widespread approval by his statement: "There is no right to strike against the public safety by anybody, anywhere, anytime."

THE SACCO-VANZETTI CASE — Fear of radicalism was evident in the handling of the case against two acknowledged anarchists, Nicola Sacco and Bartolomeo Vanzetti. **In** 1921, despite inconclusive evidence, the men were found guilty of murdering a paymaster and a guard in the course of a robbery at a shoe factory in South Braintree, Massachusetts. They received the death sentence, which was stayed for a number of years by appeals from many people both in the United States and abroad who felt that the two men had been convicted because of their anarchist beliefs rather than the evidence presented. They were finally executed in 1927. As a *cause celebre,* the Sacco-Vanzetti case forced large numbers of Americans to reappraise their fears of radical views and those who held them.

THE SCOPES TRIAL — Conservative alarm over radicalism had a counterpart in the area of religion, as many were apprehensive that the changing mood of the nation would weaken traditional religious beliefs. The liberals among Protestant clergy and laymen feared that a fundamentalist (literal) acceptance of every Biblical idea and a denial of the discoveries of science would separate the Christian churches from any interaction with modern culture. At times the liberals were inclined to test traditional religious beliefs by the standards of the twentieth century. The conservatives, or fundamentalists, feared that the liberal interpretation of the Scriptures would destroy the power of Protestantism to maintain its evangelical influence in human affairs. Among conservative Protestant laymen none defended their position more forcefully than William Jennings Bryan, who urged state legislatures to prohibit teaching the theory of evolution in the public schools.

When John T. Scopes, a young teacher in Dayton, Tennessee, was indicted in a test case for presenting the evolutionary theory in his high school biology class, Bryan himself served on the prosecution staff. Scopes's defense attorney was Clarence Darrow, the most famous trial lawyer of the period. The arguments of the two distinguished counselors focused the attention of the world on the trial in 1925. Scopes was found guilty of violating the state law and fined $100. Bryan's strenuous efforts for the conservative point of view and the severe cross-examination to which he was subjected by the skillful Darrow probably were factors in shortening his life.

THE KU KLUX KLAN — In the United States during the 1920s most notorious manifestation of organized hatred was the Ku Klux Klan. Founded in 1915 by a former itinerant preacher, William Joseph Simmons, in Atlanta, Georgia, the organization spread rapidly throughout the nation after 1920. Although the secret order was to be a memorial to the Ku Klux Klan of the post-Civil War period, it had a wider program than the antiblack one of its precursor. To the original Klan's attacks on blacks, the Klan of the 1920s added anti-Catholicism, antiSemitism, and antiforeign-bornism. Under a burning wooden cross and clad in white hoods and robes, Klansmen would listen to their leaders preach an intolerance seldom matched in the history of the nation. At the height of its activity in the mid-1920s the Klan had an estimated 4 million members. But as a result of the nation's increasing wrath toward the organization, by the beginning of the 1930s the membership had withered away to scarcely 50,000. Since then the Ku Klux Klan has been revived a number of times, existing, however, as a multiplication of splinter groups, as government on all three levels-federal, state, and local-took action against the order.

The Great Depression

Origins

The world economy began to return to normal after World War I. In Europe farmers began to return to farming, workers began to return to factories to work on peacetime consumer goods. After the war ended there was considerable economic upheaval as men returned to civilian life and factories had to re-tool for peacetime markets. That took some time, but from 1925 to 1929 things looked like they were going to be okay. After all, a number of industries had made considerable progress during the war and were well-suited for the peacetime market as well — automobiles and all of the necessary side industries like oil production, gasoline stations, and auto repair places, radios, moving pictures, refrigerators, a new product developed during WWI.

But in 1929 it all began to unravel into what is called the Great Depression. While the most famous part of the Depression is the stock market crash of October, 1929, the underlying cause of the Depression rested in agriculture.

The Agricultural Depression

The agricultural problems grew out of the First World War. In Europe, farmers were drafted like everyone else, but not only farmers — farm animals were drafted too, horses and even oxen for pulling weapons. In countries like Germany, France, and Britain, women, children, and old people had to do the farming with whatever animals were left to pull the plows.

But Britain and France had access to the huge agricultural production capacity of Canada and the United States. The demand for food was enormous during WWI and that meant that prices for agricultural products were high. So, American and Canadian farmers not only grew all that they could on their own land but they borrowed money to buy machinery and acquire even more land so that they could grow even more food — and take advantage of those high prices.

But then the War came to an end. European farmers who survived returned home, the best farm animals were now used to plow fields rather than haul artillery, and by the early 1920s European agricultural production was reaching its pre-war numbers. But the American and Canadian farmers did not want to and really could not cut back on their production. They had borrowed a lot of money to invest in the expansion of their operations, and they had to keep production high so that they could pay off those loans. As prices fell because now there was too much food on the market, they tried to grow more and more to prevent themselves from going under. Prices fell even more, production went up even more, and by the late 1920s, farmers were simply going bankrupt. But in these days there was no national support system for farmers or for banks — no FDIC, no farm relief, no nothing. So, when farmers could not pay their loans, banks could not get capital, and they went under too. And those banks got their capital from bigger banks, which of course now could not get payment on that capital either. So, the financial structure of the United States weakened.

Credit Purchasing

When the peacetime economy got started in the period after World War I, our soldiers came home, entered civilian life, got good jobs, got married and wanted homes and all of the consumer goods that were available, some for the first time, like cars, refrigerators, washing machines and the like. Large businesses like Sears and Roebuck and Montgomery Ward, Ford and General Motors, began to offer a new way for young families to acquire the consumer goods that they wanted. They could buy on credit, borrow against their future success, and acquire the goodies now.

As more and more people began to buy durable items, like cars and fridges on credit, manufacturers producer to keep up with demand. But, by the later 1920s, demand began to soften, and manufacturers began to worry that they had too much inventory in the face of a shrinking demand. Now, under those circumstances, companies began to look for ways to cut back on production, like laying off workers.

Stock Market Speculation

Stock market speculation was a new thing for American small investors in the 1920s. Before about 1925, small investors who has capital to invest had put their money into real estate. Before World War I the big thing had been land investment in Florida. But a series of devastating hurricanes in the early 1920s left Americans unwilling to sink (get it!) any more money into land in Florida. At that point folks began to invest in the stock market instead.

A main reason was speculation in stock pricing. What that means is to some degree what economists talk about today. The stock market rose in the 1920s because people were bidding against each other for stock without taking a good look at whether or not the companies whose stock they were buying were really worth it.

And some people were greatly attracted by the possibility of large profits, and so they began to borrow money to buy stocks. Now, once again do not forget that in those days there was no regulation of the stock market — no Securities and Exchange Commission to make sure that speculation was kept firmly under control.

On Thursday, October 24, 1929, the bottom began to fall out. With the opening of the New York Stock Exchange that morning, the market began to show weakness. Prices dropped precipitously as more and more investors tried to sell their holdings. By the end of the day, the New York Stock Exchange had lost four billion dollars, and it took exchange clerks until five o'clock the next morning to clear all the transactions. By the following Monday, the realization of what had happened began to sink in, and a full-blown panic ensued. Thousands of investors — many of them ordinary working people, not just serious "players" — were financially ruined. By the end of the year, stock values had dropped by fifteen billion dollars.

People who had borrowed money to invest were really happy with the stock market until early 1929, when the market began to weaken seriously. Then in October the market plummeted; in fact, the market fell 40% just in the month of October. So, people who borrowed money to invest were now in deep trouble, but so were the banks which had loaned the money.

Add all of this together. Farmers could not pay back their loans to their banks, which could not pay their loans to bigger banks; investors could not pay their loans to banks, which could not pay their loans to holding companies. Between 1929 and 1932 five thousand American banks closed up shop. And, as I mentioned a bit ago, manufacturers were already on shaky ground over their inventories. Then suddenly, people couldn’t meet their credit payments, factories first began to lay off workers, and somewhat later, simply began to fail—go out of business...

Feedback Loop

There is no Federal Deposit Insurance Corporation at this time, so people who had their money in banks simply lost it. They would go down to the bank in the morning to take out some money for living expenses, and the doors were locked.Their money was simply gone. Imagine yourselves going to your ATM machine, putting in your card, and receiving a piece of paper which says, “Sorry, the bank is closed until further notice.” And that means your money is simply gone. How are you going to pay for food? clothes? school? And imagine that being the case of about 1/4 of the banks that serve the campus. Well, you would probably just go home. Imagine that, when you got home, you learned your parents’ bank, which may be the same one as yours, has closed as well. Then think of what would happen here. Let’s say 25% of the students went home because there was no money. We would have to lay off 25% of the staff and faculty, 25% of the businesses around campus would close, laying off workers, and all of that would take additional money out of the economy. That sort of thing happened all over the country from 1929 on.

In Europe

And it rapidly spread to Europe. As I mentioned earlier, Europe was enjoying a decent recovery by 1929, but most of it was financed by American capital, because only America in 1929 had a lot of money to invest. But imagine what happened now. Stocks collapsed, and companies and banks had to scramble to create liquid capital to pay their own creditors. One quick way to do it was to sell any holdings they had in Europe and bring that money home. Well, that pulled the rug completely out from under the European economy.

And the effect was the same in Europe as it was in the United States. Companies could no longer afford to pay all of their workers, so they laid workers off. That took those workers out of the economy — they had no money to spend — so that means that demand for products went down. And, as demand for products went down, there were fewer orders for goods, which meant companies laid off more people because orders were falling. Since most companies were shedding workers, those people could not find jobs, so they stopped buying.

And that meant fewer taxes were collected, which meant that governments had to lay off people too. They laid off civil servants, maintenance people, school teachers, and, horror or horrors, university professors. But those people could not find jobs either, so they dropped out of the economy and stopped buying.

National Policies

Each country tried to become as self-sufficient as possible. The goal was to provide economic assistance to its people, and, the way to do it, many thought, was to make certain that people bought goods only grown or manufactured in their own countries. So, countries put up trade barriers, high tariffs, and tried to control trade. In other words, just as in World War I, governments abandoned ideas of free trade and tried to control the economy as much as they could to try to make certain it served the public interest. This is the time of banking laws, insurance laws, stock market laws, the creation of things like FDIC and SEC and other regulatory agencies that we still have.

Countries instituted public works projects, which meant state-supported ways to put people back to work. One country that did a lot of it was the United States. Under the leadership of President Franklin Roosevelt, congress created the Works Projects Administration or WPA, which built public buildings all over the country, including a number on this campus. The WPA also supported artists of various kinds, collecting folk stories, doing interviews, decorating the new public buildings; in fact, a good example of WPA art are the murals in Allen Hall. They were actually painted by LSU students, but they reflect the kind of art that was common in the 1930s. A second example of public jobs was the Civilian Conservation Corps, or CCC, which undertook a number of projects that would improve or preserve the natural environment. A good example nearby of CCC projects was in the Felicianas where there were broad expanses of land abandoned since the boll weevil did damage to the cotton fields. The CCC did extensive planting of trees and created a truly wonderful natural environment there. A third example was the Tennessee Valley Authority or TVA, which still exists. It controlled through the construction of a number of dams the flood-prone Tennessee River and created a huge generation of electric power. But the main purpose of the TVA, like all of the "New Deal" programs, was to provide people with jobs.

	USA	Britain	Germany	Netherlands
1930	7.80%	14.60%	15.30%	9.70%
1931	16.3	21.5	23.3	18.1
1932	24.9	22.5	30.1	29.5
1933	25.1	21.3	26.3	31
1934	20.2	17.7	14.9	32.1
1935	18.4	16.4	11.6	36.3
1936	14.5	14.3	8.3	36.3
1937	12	11.3	4.6	29.2
1938	18.8	13.3	2.1	27.2
1939	16.7	11.7	0	21.8

Unemployment statistics for the United States and various European nations from 1930-1939.

And governments believed that even people who could not work needed some help, not only so that they would not starve but also because giving them a little money would pump more money into circulation. The best example that we know about is Social Security, which is a Depression-era innovation and which is the topic of much discussion today.

Hitler's "New Deal"

The United States might offer a good example of public works to put people back to work, but no country invested more in public works than Germany under Adolf Hitler. Just look at those unemployment figures. Much of Hitler's popularity was due to his providing jobs. Many of those jobs were in his rearmament efforts, but a lot were not as well.

In fact, probably more than anything else, the Depression helped Hitler come to power. And he was not alone. Throughout the new democracies there was a feeling that perhaps democracy was not the kind of government that could deal with a crisis like the Great Depression. What was needed instead was strong leadership, and, if that new leadership decided to junk the democratic constitution in order to save the country, that seemed okay.

Every country east of the Rhine River had became a democracy by 1920. By 1938, the only country east of the Rhine that still had a democracy was Czechoslovakia; every other country had fallen to some kind of dictatorship. And it was the Depression that brought that about.

Posters extolling government work programs in the U.S. (above) and Hitler's Germany (right).