

# A Republican Decade

## READING FOCUS

- What events fueled the Red Scare of the early 1920s?
- What conflicts led to the major labor strikes of 1919?
- How did Republican leadership during the Harding and Coolidge presidencies shape the 1920s?
- What issues influenced the presidential election of 1928?

## MAIN IDEA

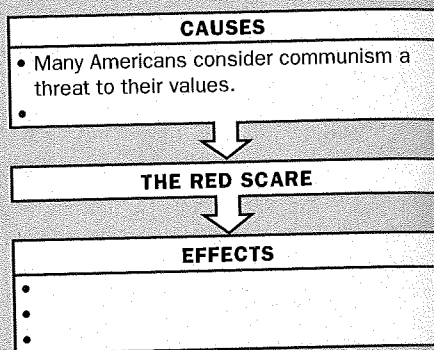
Republican administrations of the 1920s pursued pro-business economic policies and an isolationist foreign policy.

## KEY TERMS

communism  
Red Scare  
isolationism  
disarmament  
quota  
Teapot Dome scandal  
Kellogg-Briand Pact

## TAKING NOTES

Copy the cause-and-effect diagram below. As you read, fill in the causes leading to the red scare and the effects the scare had on domestic issues.



**VIEWING HISTORY** President Warren G. Harding had promised a return to “normalcy.” **Drawing Inferences** What sort of leadership were Americans seeking in the early 1920s?



**Setting the Scene** In 1920, the memory of World War I remained fresh. The Senate still refused to accept the Versailles Treaty, and debates on America’s participation in the League of Nations continued. At the same time, a harsh economic downturn had begun, bringing an end to a brief postwar boom. Emerging from the shadow of the war and putting the economy back on track became significant issues in the 1920 presidential race.

The eventual winner, Republican Warren G. Harding, had the style of a leader. With his deep voice and dignified manner of speaking, he impressed people as honest and kind. But Harding doubted his own ability to serve as President, as did many of his critics. One Democrat called Harding’s speeches “an army of pompous phrases moving across the landscape in search of an idea.”

Nonetheless, one of his campaign speeches struck a chord with Americans. In it, Harding spelled out what the nation required in order to shake off the gloom of war:

“America’s present need is not heroics, but healing; not nostrums [fake cures] but normalcy; not revolution, but restoration; not agitation, but adjustment; not surgery, but serenity; not the dramatic, but the dispassionate; not experiment, but equipoise [stability]; not submergence in internationality, but sustainment in triumphant nationality.”

—Warren G. Harding, Boston, May 14, 1920

Harding’s call for a return to “normalcy” became a hallmark of his campaign speeches. Voters got the message. In a nation weary of war abroad and sacrifice at home, the mere promise of “normalcy” gave Harding a landslide victory over Democrat James Cox and his running mate, Franklin D. Roosevelt.

## The Red Scare

“Normalcy” appealed to Americans in 1920 because events within the country and abroad seemed anything but normal. Upheaval in faraway Russia and a series of strikes and bombings at home convinced many people that political violence posed a real threat to the United States.

**The Russian Revolution** As you read in an earlier chapter, Russia’s absolute ruler, Czar Nicholas II, lost his hold on power in March 1917. The czar’s popularity had been declining as a result of several tragically poor decisions, including leading his country into World War I. The war brought devastating casualties and severe food shortages. With riots in the streets and the army too weak to protect him, Nicholas was forced to abdicate. A new government formed, led by Alexander Kerensky. Kerensky pledged to remain in the European war, a decision that hurt him politically. Weary of war and political turmoil, Russia’s workers and peasants fell under the sway of more radical ideas.

Promising “peace, land, and bread,” revolutionary leader Vladimir I. Lenin undermined Kerensky’s power. Although in the minority, Lenin and his followers took the name Bolsheviks, Russian for “majority,” and adopted the red flag as their party’s emblem. With such slogans as “End the war! All land to the peasants!” the Bolsheviks overthrew Kerensky’s government on November 6, 1917. They then made peace with Germany and put all privately owned farms, industries, land, and transportation under government ownership.

Civil war broke out almost immediately. Lenin’s Red Army, often simply called the Reds, met resistance from several armies, known collectively as the Whites. The Whites included former landowners, government officials, Russian army leaders and others. Britain, France, Japan, and the United States, whose investments in Russia had been seized by Bolsheviks, backed the Whites.

After more than two and a half years, the Reds triumphed in 1920. Two years later, their new nation became known as the Union of Soviet Socialist Republics (USSR), or the Soviet Union.

Lenin made communism the official ideology of Russia and, later, the Soviet Union. This ideology was openly hostile to American beliefs and values, such as capitalism, private ownership of land and business, and First Amendment freedoms. For Lenin and his followers, **communism** meant the following:

1. The government owned all land and property.
  2. A single political party controlled the government.
  3. The needs of the country always took priority over the rights of individuals.
- If isolated, a Communist country could be open to attack. For communism to survive, Lenin believed that it would have to be spread throughout the world.

To a working class long oppressed by czarist rule, communism’s appeal lay in the promise of a classless society, its wealth shared according to need. In practice communism evolved into something far different, especially when shaped by Joseph Stalin, who led the Soviet Union after Lenin’s death in 1924. Instead of “peace, land, and bread,” Stalin used terror to force the peasantry onto collectivized farms. The result was great famine.

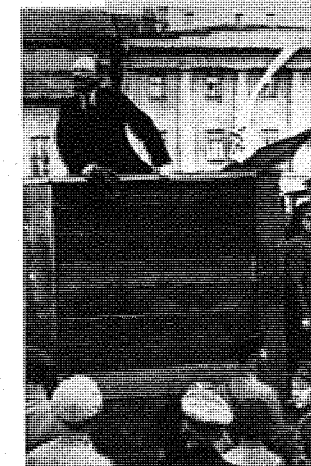
**American Fears** Russia’s intention to spread communism to other countries alarmed many Americans. They distrusted Europeans already, blaming them for starting World War I. Some Americans grew concerned that among the masses of

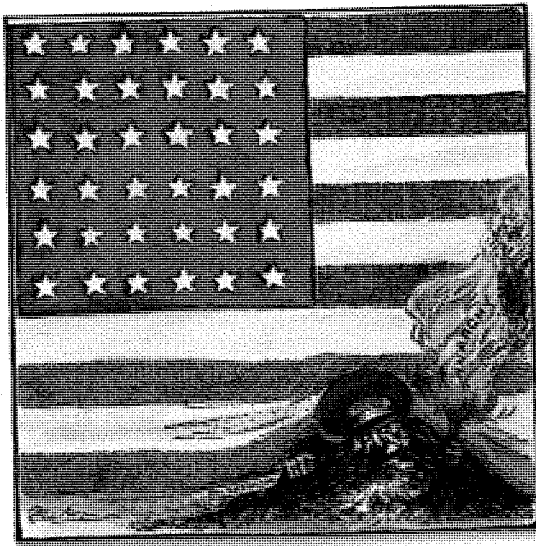
## Focus on GOVERNMENT

**The Origins of Communism** The communal sharing of wealth is an old concept, one often embraced by religious groups. The Shakers, who settled in New York in the mid-eighteenth century, worked together and shared wealth and property, as did the later Amana colonies of Iowa. Eventually, the huge disparities of wealth created by industrialization transformed communism into a general social ideal.

Followers of this ideal soon split into factions. Both Socialists and Communists believed that wealth should be shared according to need but differed on how to achieve this goal. Some socialists put their hopes in democratic processes and labor unions, others in terrorism. Communists adopted Lenin’s idea of the “dictatorship of proletariat,” which referred to a period when workers would rule through a single authoritarian party. The party would regulate all activities until it had

achieved a classless society and a world union of socialist republics. At left, Lenin addresses a crowd.





**INTERPRETING POLITICAL CARTOONS** Anarchists on American soil were a matter of concern at the time of this 1919 illustration. **Analyzing Visual Information** How does the artist use symbolism to convey a message?

European immigrants entering the United States were Communists and other radicals. American worries about foreigners from Europe reached new heights.

In early 1919, Russian-backed Communists tried to overthrow the new German government, and Communists came to power in Hungary. Similar chaos threatened to seep into the United States, or so many people thought. In February, shipyard workers went on strike in Seattle, and the mayor proclaimed them “revolutionists.” In April, a number of bombs were sent through the mail, addressed mainly to government officials—including Seattle’s mayor. One of the bombs reached its destination and exploded, severely injuring a Georgia senator’s housekeeper. Newspapers whipped up the public’s anxiety with sensational stories about these events. Soon the United States was in the grip of a **Red Scare**, an intense fear of communism and other politically radical ideas. Americans called for known Communists to be jailed or driven out of the country.

**Schenck v. U.S.** To some people, a 1919 Supreme Court decision seemed to justify jailing radicals. During World War I, a war opponent named Charles Schenck had mailed letters to men who were drafted, urging them not to report for duty. He was convicted of breaking the Espionage Act, a wartime law aimed at spies and people who opposed the war. Schenck appealed the case, claiming that he was only exercising his right to speak freely.

In the Court’s written opinion, Justice Oliver Wendell Holmes, Jr., said that the government is justified in silencing free speech when there is a “clear and present danger” to the nation. He compared what Schenck had done to falsely shouting “Fire!” in a crowded theater. Such an action could cause a dangerous panic. Some have argued that in equating what was reasonable with what was constitutional, Holmes expanded the powers of the Supreme Court beyond the original intent of the Constitution.

**Gitlow v. New York** The Supreme Court’s decision in another radical speech case in this period had later significance. The state of New York had convicted Bernard Gitlow, a Socialist, of “criminal anarchy” for publishing calls in 1919 to overthrow the government by force. Gitlow appealed on the basis that New York had violated his constitutional guarantees of freedom of speech and of the press.

In the past, the Supreme Court had argued that the Bill of Rights protected individuals only against actions of the federal, not the state, governments. In this case, the Court upheld Gitlow’s conviction, saying that he had indeed urged people to violent revolution. At the same time, it affirmed that the Fourteenth Amendment protected civil rights against restriction by state governments. Since *Gitlow*, the Court has used the Fourteenth Amendment to make other provisions of the Bill of Rights apply to state actions.

**The Palmer Raids** In June 1919, bombs exploded in several cities. One explosion severely damaged the home of A. Mitchell Palmer, the Attorney General of the United States. Although Palmer escaped injury, the bombings convinced him that radicals were conspiring to overthrow the government. He began a campaign to identify and root out groups whose activities posed a “clear and present danger” to the country.

Later that year the Justice Department, headed by Palmer, set up a special force to conduct raids and arrest suspected “subversives” (people trying to subvert, or overthrow, the government). Targets included Communists, Socialists,

and anarchists, or people who oppose all government. Palmer approached the task zealously. On the night of December 31, 1919, he stated: “Any movement, however cloaked or dissembled, designed to undermine the government, will be met with unflinching, persistent, aggressive warfare.”

On January 2, 1920, federal agents in 33 cities arrested thousands of suspected radicals, and without evidence, charged them with anarchy. Most of the suspects had been born overseas. Many were completely innocent. Still, more than 500 of them were later deported, or sent back to their homeland.

At first, Palmer received strong support for his actions. The army’s chief of staff urged that those deported be sent away on “ships of stone with sails of lead.” Popular preacher Billy Sunday suggested that a firing squad would save money on ships.

The Red Scare created such a frenzy that in April 1920, the New York State Assembly voted to expel five recently elected Socialist members. Many people protested that the assembly was violating the public’s right to choose its own representatives, but the Socialists never took office.

Americans expected the worst on May 1, 1920, an annual Socialist holiday honoring workers and labor organizations. On that day, according to Palmer, the nation would experience a general labor strike and widespread bombings. Newspapers predicted a major crisis. When May 1 came and went quietly, the press turned on Palmer, and Americans lost faith in him.

**Sacco and Vanzetti** The Red Scare played a part in one of the most controversial events in United States history. The story began on April 15, 1920, when gunmen robbed and killed the guard and paymaster of a shoe factory in South Braintree, Massachusetts. A few weeks later, police arrested two Italian immigrants in connection with the crime.

One, Nicola Sacco, was a shoemaker, and the other, Bartolomeo Vanzetti, was a fish peddler. Both of them were also anarchists. Police found guns on both men when they were arrested; Sacco’s gun was the same model used in the crime. Yet many Americans suspected that the two men were arrested mainly because they were immigrants with radical beliefs. The case drew international attention and controversy.

After a trial that many observers called unfair, a jury found Sacco and Vanzetti guilty. Their lawyers appealed the case to higher courts again and again for years, but the convictions were upheld. The two men were sentenced to death in April 1927, and despite mass protests, they died in the electric chair four months later.

### Labor Strikes

A wave of strikes helped fuel the Red Scare in 1919. Strikers included telephone operators in New England, machinists in Ohio, and construction workers in Texas. The number of strikes per month climbed from around 175 in March of that year to around 370 in August. Many Americans believed that Communist “agitators” were behind this labor unrest. Most of the strikes, however, had a simpler cause. In

## COMPARING HISTORIANS’ VIEWPOINTS

### The Sacco and Vanzetti Verdict

Over the years, historians have examined and reexamined evidence and transcripts from the Sacco and Vanzetti trial. Opinions regarding their guilt or innocence, and the fairness of the trial, have changed over time.

**Analyzing Viewpoints** Compare the main arguments made by the writers.

#### Vanzetti Was Innocent

“Even if one accepts the possibility that someone other than Sacco fired the [murder weapon], Sacco knew who that someone was.

Vanzetti’s innocence is, at least for me, confirmed by . . . contradictions to the court testimony. . . . Yet it would have been like Vanzetti to go to the chair rather than betray a friend.”

—Francis Russell, *Tragedy in Dedham: The Story of the Sacco-Vanzetti Case*

#### Opposed to the Verdict

“Any attempt to establish the guilt or innocence of Sacco and Vanzetti must be based upon an analysis of the evidence. . . . The revelations of the state police files, the grand jury proceeding, and the prosecution notebooks show that virtually every piece of evidence against the two men ultimately rested upon falsehoods and fabrications.”

—William Young and David E. Kaiser, *Postmortem: New Evidence in the Case of Sacco and Vanzetti*

early 1919, prices of food, clothing, housing, and other necessities soared. By 1920, inflation brought the cost of living to twice that of prewar levels. Most workers went on strike because the standard of living they had achieved during World War I had declined.

**The Boston Police Strike** Boston police officers had not received a pay increase since the start of the war. In September 1919, they took steps to organize a union, even though department rules banned labor unions. After the Boston police commissioner fired 19 officers for union activity, the whole force voted to strike.

Rioting broke out in Boston within hours after the police walked off the job, and it lasted through the night. In the morning, the mayor sent out a volunteer police force to restore order. Later in the day, Massachusetts governor Calvin Coolidge called out the state guard, but by then, calm had largely returned to Boston. "There is no right to strike against the public safety by anybody, anywhere, anytime," Coolidge stated. The future President gained national attention for his firm response to the strike.

**Steel and Coal Strikes** Later in September, steelworkers launched a strike against the United States Steel Corporation. At the time, steelworkers put in 12-hour shifts, and their work week averaged more than 65 hours. Backed by the American Federation of Labor (AFL), the workers asked for an 8-hour day and a 48-hour week. Some 350,000 workers walked off the job.

The strike nearly shut down a huge steel mill in Gary, Indiana, and it affected plants in several other cities as well. Claiming that the strike was the work of Communists, U.S. Steel set out to stop it. The company hired a private police force, which killed 18 strikers and beat hundreds more.

The company also brought in thousands of African American workers from the South to break the strike. The state and federal governments supported management by supplying troops to control the strikers and protect the strike-breakers. After ten weeks, the AFL called off the strike when workers, realizing that they could not win, started heading back to work.

Soft-coal miners also went on strike in that troubled fall of 1919, demanding higher wages. Their union, the United Mine Workers of America (UMW), had made a no-strike agreement during the war that they claimed had ended with the armistice. The Wilson administration argued that the agreement was still in effect. When the miners struck in November, Attorney General Palmer persuaded a court to order the strikers back to work. Regardless, the miners continued their walkout until early December, when a coal shortage developed. To end the strike, a government-established coal commission granted the miners a 14 percent pay raise.

**Strikes Decline** Most Americans opposed strikes. They saw them as anti-American and likely to result in violence. They also distrusted labor unions and the immigrant workers they represented, assuming they were influenced by radical ideas. Actually, the largest labor union by far in the United States, the AFL, did not fit this description at all. At its convention in 1919, the AFL went out of its way to declare its opposition to labor radicalism and to communism. Nevertheless, the union stuck by its main goals—to fight for higher wages, shorter hours, and the right to organize workers.

Membership in labor unions peaked at 5 million workers during the Red Scare of 1919–1920. Then it dropped sharply to a level that stayed fairly steady throughout the 1920s. When union growth leveled, the number of strikes declined. These changes to organized labor had a range of causes. Public opposition hurt unions, as did the lack of support from the government. President Wilson called the Boston police strike a "crime against civilization" and warned that striking for higher wages only drove up prices. Other causes were economic. The economic downturn that began in 1920 severely reduced the number of employed workers. The following economic boom brought higher wages, which undercut both the workers' desire to seek union representation and their need to strike.

## Republican Leadership

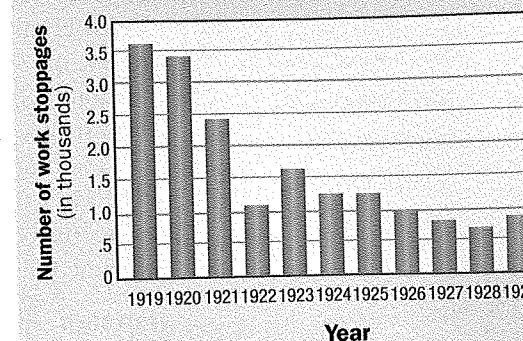
The Red Scare had important political consequences. Americans felt that the Republican Party was more likely to restore stability than the Democratic Party. Starting with the 1920 election, Republicans solidified their power and dominated all three branches of government for the rest of the decade. Republican Presidents Warren G. Harding, Calvin Coolidge, and Herbert Hoover served from 1921 to 1933. Republicans held the majority in Congress during this period. In addition, Supreme Court decisions of the era reflected the influence of its new chief justice, former President William Howard Taft, appointed by Harding in 1921.

Republican leaders agreed on basic policies and goals. Generally, they favored business and sought social stability. Many of these leaders were, in fact, businessmen who believed that social stability promoted economic growth.

## The Harding Presidency

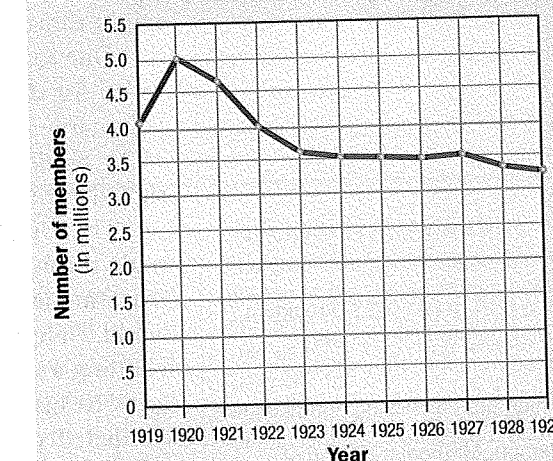
President Harding took office as the Red Scare and the labor strikes were beginning to subside. In that respect, the country did seem to be getting back to "normalcy."

Work Stoppages, 1919–1929



SOURCE: Historical Statistics of the United States, Colonial Times to 1970

Union Membership, 1919–1929



SOURCE: Historical Statistics of the United States, Colonial Times to 1970

### INTERPRETING GRAPHS

The post-World War I years were stormy ones for labor and business, until a booming economy caused wages to rise. **Making Comparisons** How do union membership and the number of work stoppages reflect changes in the economy?

### Sounds of an Era

Listen to President Harding's speech "Return to Normalcy" and other sounds from the 1920s.

**VIEWING HISTORY** Chicago steelworkers went on strike in 1919. **Distinguishing Fact From Opinion** Were Communist agitators behind the post-World War I labor unrest, as some Americans suspected?



Harding made some wise Cabinet appointments. An able administrator, Herbert Hoover reorganized the office of Secretary of Commerce. Charles Evans Hughes, a former Supreme Court justice, worked for world peace as Secretary of State. One of the nation's most powerful businessmen, Andrew Mellon, became Treasury Secretary. Serving under Harding and his two Republican successors, Mellon shaped the economic policies of the 1920s.

Harding showed poor judgment in many of his other appointments, however. He gave important jobs to friends and acquaintances, many of whom were inexperienced, incompetent, or dishonest. These choices eventually overwhelmed his presidency and his life.

**Foreign Policy** After the war, many Americans wished to avoid political or economic alliances with foreign countries, a policy called **isolationism**. Harding's opposition to American membership in the League of Nations reflected those wishes, and he made no attempt to join. Yet the President wanted to establish international peace and stability. To reach this goal, he worked with other nations, while carefully avoiding "entangling alliances" that might threaten the independence of the United States.

One road to peace and stability involved finding ways to prevent war. Harding called for **disarmament**, a program in which the nations of the world would voluntarily give up their weapons. He convened the Washington Conference in 1921 to discuss this plan. At the conference, several major military powers signed a treaty limiting the size of their navies.

The United States, now a major economic power, continued to engage in trade throughout the world. Harding promoted the expansion of trade, saying that American business must "go on to the peaceful commercial conquest of the world." He also acted to protect business at home. In 1922, Congress, with Harding's support, passed the Fordney-McCumber Tariff, which raised import taxes to historically high levels. The tariff especially discouraged imports that competed with goods made by new American industries, such as china, toys, and chemicals.

The new tariff angered the European nations who faced demands from the United States to pay their American war debts. To raise the money necessary to pay off those debts, Europeans needed to sell goods to the United States. Yet

the tariff acted as a barrier to their exports. Great Britain and France argued forcefully for the cancellation of their debts. To resolve the issue, Congress agreed in 1922 to scale back those debts to a level that better suited each country's ability to pay.

The United States hoped to apply the same approach to another sensitive international issue, German war reparations. In the early 1920s, inflation left Germany's economy in ruins. The German government simply could not afford the huge bill for war costs that the Allies demanded in the Versailles Treaty. Along with the British, the United States pushed for a plan to help the German economy recover enough to pay its debts. A special commission developed the Dawes Plan, which the Allies and Germany signed in 1924. The plan set a payment

schedule, reorganized the German national bank, and approved a loan to Germany.

**Domestic Issues** As Americans became more isolationist, they also became more nativist. Nativism is a movement favoring native-born Americans over immigrants. It had first appeared in the 1800s, but after World War I it flared up again, for several reasons:

**Patriotism** Many Americans believed that foreigners could never be fully loyal to the United States.

**Religion** Nativists, who were mostly Protestants, had long mistrusted immigrants who were Catholics, Orthodox Christians, or Jews.

**Urban conditions** Americans often blamed the problems in cities, such as slums and corruption, on the immigrants who lived in them.

**Jobs** Workers feared that immigrants would take their jobs away from them.

**Red Scare** Some immigrants came from the most unstable parts of Europe, where World War I had started. Nativists believed that these immigrants might hold or adopt radical political ideas, and spread them to the United States.

Nativists reacted to the sharp postwar rise in immigration with calls for government action. In 1921, at Harding's request, Congress passed a law restricting immigration. Although only a temporary measure, the law included an important feature whose impact would long be felt: a **quota**, or numerical limit, imposed on immigrants representing certain ethnic groups or nations. According to the law, a group's numerical limit equaled 3 percent of that group's total United States population as of the 1910 census.

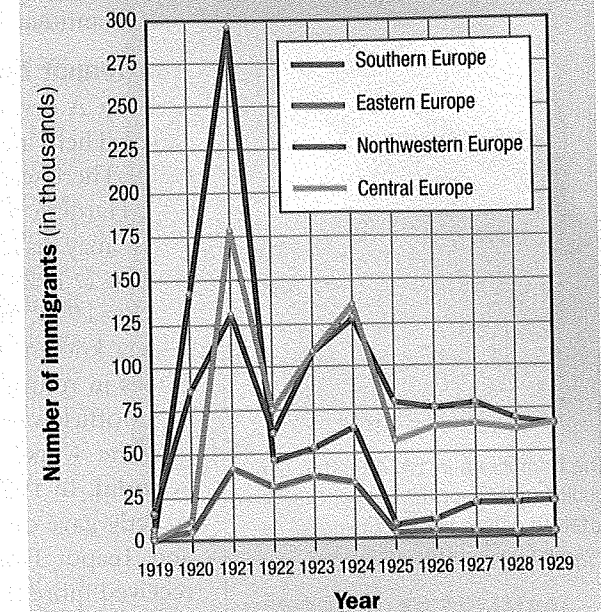
A permanent measure, the National Origins Act, passed in 1924. This law reduced the quota to 2 percent and based it on the census of 1890. In 1890, the population of immigrants from Italy, Poland, Russia, and other southern and eastern European countries was low. As a result, the law severely limited continued immigration from those countries. The law went further, prohibiting the entry of "aliens ineligible to citizenship," a category that referred specifically to the Japanese. (The Chinese Exclusion Act had already shut down immigration from China.)

Recall that social stability became a basic goal of Republicans in the 1920s. President Harding believed that restrictions on immigration helped the cause of social stability. He also believed that restrictions on the civil rights of American citizens hurt that cause. In 1921, in front of a segregated audience in Birmingham, Alabama, Harding made a surprisingly bold speech on equality:

"I want to see the time come when black men will regard themselves as full participants in the benefits and duties of American citizenship; . . . We cannot go on . . . with one great section of our population . . . set off from real contribution to solving national issues, because of division on race lines."

—Warren G. Harding, October 26, 1921

European Immigration, 1919–1929



SOURCE: Historical Statistics of the United States, Colonial Times to 1970

#### INTERPRETING GRAPHS

The graph shows European immigration to the United States before and after immigration legislation was passed. **Analyzing Information** Describe the effect of Harding's immigration policies on the number of immigrants from eastern and southern Europe as shown by the graph.

**VIEWING HISTORY** President Harding (seated center) with (seated from left) Henry Ford, Thomas Edison, tire manufacturer Harvey Firestone, and William Anderson, Methodist Bishop of Cincinnati. **Drawing Inferences** What goals and ideals might Harding and his companions in this photo have had in common?



African American onlookers cheered the President's words, but the white members of the audience responded with shocked silence. Later, Harding introduced federal anti-lynching legislation, but his proposal died in the Senate.

**The Teapot Dome Scandal** At the start of 1923, the economy was growing steadily. A period of prosperity had begun, and Harding enjoyed strong popularity. Then, major corruption scandals in Harding's administration came to light. There was no evidence that the President was involved in the scandals. In fact, Harding became terribly disturbed when he heard of the scandals, and the strain may have contributed to his death, possibly from heart problems, on August 2, 1923.

By 1924, the extent of the corruption in Harding's administration was widely known. One official had stolen government funds. Others had taken bribes in return for help in getting contracts approved or laws passed. Several other officials were also accused of wrong-doing, and two committed suicide.

The worst Harding scandal came to be known as the **Teapot Dome scandal**. In 1921 and 1922, Harding's Secretary of the Interior, Albert B. Fall, secretly gave oil-drilling rights on government oil fields in Elk Hills, California, and Teapot Dome, Wyoming, to two private oil companies. In return, Fall received more than \$300,000 in illegal payments and gifts disguised as loans.

### The Coolidge Presidency

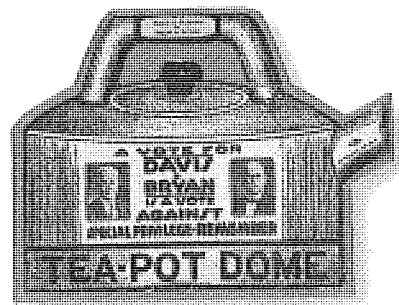
Vice President Calvin Coolidge was visiting his parents in Vermont on August 3, 1923, when word arrived of Harding's death. At 2:30 A.M., by the light of a kerosene lamp, Coolidge's father, a justice of the peace, administered to him the oath of office of President of the United States.

Coolidge was still widely respected for his actions as governor of Massachusetts. He had played no part in the Harding scandals. In fact, one Democrat said that Coolidge's "great task was to restore the dignity and prestige of the presidency when it had reached the lowest ebb in our history." After finishing Harding's term, Coolidge ran in the 1924 election, defeating Democrat John W. Davis and Progressive Robert M. La Follette with the slogan "Keep cool with Coolidge." Coolidge had a reputation as a skilled public speaker, but in private he was a man of few words. Someone said of him that "he could be silent in five languages."

**Laissez Faire** In one sentence, Coolidge summed up a major theme of the Republican decade: "The chief business of the American people is business." The best that the government could do, he believed, was to leave business alone and allow it to grow. This laissez-faire business policy helped fuel the tremendous economic boom of the 1920s.

For the most part, Congress supported a laissez-faire approach to business. It lowered income and inheritance tax rates and approved higher tariffs that benefited domestic manufacturing. Coolidge was so insistent on a minimal role for government that when Herbert Hoover, his Secretary of Commerce, urged him to regulate the buying of stocks on easy credit, he refused. When Mississippi River flood victims appealed to him for help, he said that government had no duty to protect citizens "against the hazards of the elements."

Coolidge's effort to have government do less drew criticism from those who saw it as a failure to take action. In 1926, the noted newspaper columnist Walter Lippmann said: "Mr. Coolidge's genius for inactivity is developed to a very high point. It is a grim, determined, alert inactivity, which keeps Mr. Coolidge occupied constantly."



The Democrats in 1924 tried to use public anger over the Teapot Dome affair to defeat the Republicans, as this campaign artifact shows.

**Kellogg-Briand Pact** Coolidge continued Harding's approach to international issues. He wanted peace and stability without getting the United States too deeply involved with other nations. Coolidge, however, left most foreign-policy decisions up to his Secretary of State, Frank B. Kellogg.

In 1927, Kellogg received an unusual suggestion from French Foreign Minister Aristide Briand. Briand thought that their two countries should formally agree not to declare war on each other. An isolationist at heart, Kellogg feared that such a treaty might entangle the United States with France. When other nations agreed to participate, however, Kellogg helped Briand iron out the details. Under the **Kellogg-Briand Pact**, 15 nations pledged not to use the threat of war in their dealings with one another. More than 60 nations eventually joined the pact. Outlawing war seemed to be a good idea, but the pact was unrealistic and unworkable because it had no provisions for enforcement. By 1941, many of the nations that had signed the pact would be at war.

### The Election of 1928

As Coolidge neared the end of his first full term, he was asked about his political plans. "I do not choose to run for President in 1928" was his brief and famous reply. In his place, Republicans nominated Herbert Hoover. During and after World War I, Hoover had won respect for programs he ran in Europe to ease hunger. He had held Cabinet posts under Harding and Coolidge.

Hoover's main opponent was Alfred E. Smith of New York, a popular Democratic governor. Prohibition emerged as a major issue of the presidential campaign, as did religion. Smith was the first Roman Catholic to be nominated for President, and he opposed Prohibition. Hoover, a Protestant, vigorously supported Prohibition, which he called a "noble experiment." The contest reflected the basic urban-rural split in the country, as Smith drew most of his votes from the large cities, while Hoover did best in small towns. Drawn especially by the Prohibition debate, women voted in fairly large numbers for the first time and made a strong impact on both parties. Hoover captured about 21 million popular votes to 15 million for Smith, and he won in the electoral college by a huge margin. Americans expected that what they called the "Coolidge prosperity" would continue under Hoover.



**INTERPRETING POLITICAL CARTOONS** Calvin Coolidge, shown here with a saxophone, was known for his support of big business. **Analyzing Information** What does this cartoon say about Coolidge and big business? Write a caption for the cartoon.

## Section

## 1

## Assessment

### READING COMPREHENSION

1. Why did **communism** seem to pose a threat to capitalist nations?
2. How did the **Red Scare** contribute to America's policy of **isolationism** in the 1920s?
3. What was the **Teapot Dome scandal**?
4. What was the **Kellogg-Briand Pact** and how did it reflect Republican foreign policy in the 1920s?

### CRITICAL THINKING AND WRITING

5. **Identifying Central Issues** What led Americans to suspect that Communists were the source of labor unrest in the 1920s?
6. **Write a Letter to the Editor** Suppose you observed the trial of Sacco and Vanzetti. Write a letter telling whether or not you think the defendants received a fair trial.

### Take It to the NET

**Activity: Writing a Biography**  
Write a brief biography of one of the three Republican Presidents of the 1920s. Include stands on important issues and highlights from the presidency. Use the links provided in the *America: Pathways to the Present* area of the following Web site for help in completing this activity.  
[www.phschool.com](http://www.phschool.com)



# Evaluating Advertisements

Advertisements offer more than evidence of the consumer goods and services produced in a historical period. They often hold clues to widely held ideas, attitudes, and values. However, when using advertisements as historical evidence, keep in mind that their stated or unstated messages may reflect what the advertisers want readers to believe, value, or desire—rather than the reality for most people of the time.

By the 1920s, “situational” ads depicted not only products and what they did, but also the ways these products might enhance the lives of typical consumers. One such ad from the 1920s is shown below.

### LEARN THE SKILL

Use the following steps to evaluate historical advertisements:

- 1. Identify the subject of the advertisement.** What product or service does the advertisement promote?
- 2. Analyze the advertisement's reliability as historical evidence.** Consider both the product itself and the way it is advertised.
- 3. Study the advertisement to learn more about the historical period.** Consider the product and its purpose, the situation depicted in the advertisement, the text, and the visuals.

### PRACTICE THE SKILL

Answer the following questions:

- 1. (a)** What product or service does this advertisement promote? **(b)** What facts about the product does it provide? **(c)** What is the situation of the ad—in other words, what “problem” will this product solve for the people depicted in the ad? **(d)** What strategy does this advertisement use to appeal particularly to men? How does the ad try to appeal to women?
- 2. (a)** Do you think the people depicted in the advertisement represent typical consumers of the 1920s? Explain. **(b)** In this ad, what is the unstated message that the advertiser is using to persuade people to buy the product?
- 3. (a)** What social or cultural values are promoted in the advertisement? **(b)** What clues to the time period are given in the photograph? **(c)** In general, do you think advertisements reflect consumers' desires for products or create the desire for such products? Explain your reasoning.

THE SATURDAY EVENING POST

—and he wonders why she said “NO!”

Could he have read her thoughts he would not have lost her. A picture of neatness herself, she detested slovenliness. And not once, but many times, she had noticed his ungartered socks crumpling down around his shoe tops. To have to apologize to her friends for a husband's careless habits was too much to ask. So she had to say “NO”—and in spite of his pleading couldn't tell him WHY.

No SOX Appeal Without

**PARIS GARTERS**  
NO METAL CAN TOUCH YOU  
25c to 82

Dress Well and Succeed

© 1928—A. STRIN & COMPANY—MAKERS—CHICAGO, NEW YORK, LOS ANGELES, TORONTO

### APPLY THE SKILL

See the Chapter Review and Assessment for another opportunity to apply this skill.

# A Business Boom

### READING FOCUS

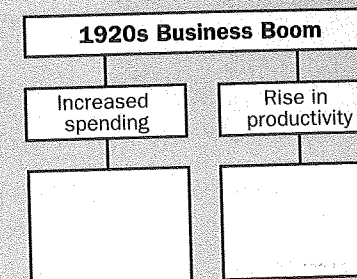
- What role do businesses and consumers play in a consumer economy?
- How were Henry Ford and the automobile important to the 1920s?
- In what ways did industrial growth affect the economy of the 1920s?
- Why did the economic boom bypass some people and benefit others?

### KEY TERMS

consumer economy  
installment plan  
Gross National Product (GNP)  
assembly line

### TAKING NOTES

Copy this flowchart. As you read, fill in the boxes with some of the factors that caused a business boom in the 1920s.



### MAIN IDEA

During the 1920s, new products and Americans' power to purchase them grew rapidly, producing a decade of enormous business growth.

**Setting the Scene** Until the 1920s, shopping centers did not exist. Food was not “fast.” Billboards did not line the nation's highways, because there were no highways, few cars, and relatively few advertisements.

The decade of the 1920s gave birth to much of the popular culture we know in modern America. The nation's first shopping center opened in Kansas City, giving consumers a more convenient way to shop. The first fast-food chain, A&W Root Beer, began selling burgers and soft drinks.

A popular roadside advertising campaign for shaving cream found its start in the mid-1920s. Signs that were evenly spaced apart compelled motorists to read each successive message: “Your shaving brush . . . has had its day . . . so why not . . . shave the modern way.” Advertising became big business in the 1920s, with companies spending \$3.2 billion on ads in 1927.

### A Consumer Economy

After a period of uncertainty following World War I, the United States economy made a rapid adjustment. By 1920, incomes had resumed the upward trend begun during the war. Between 1914 and 1926, average wages rose more than 28 percent. The number of millionaires in the United States more than doubled in the same period.

Much of this growth resulted from a new focus on the consumer. In fact, the 1920s saw the development of a **consumer economy**, one that depends on a large amount of spending by consumers—individuals who use, or consume, products. Increased spending leads to larger profits for businesses, which in turn pushes up wages and encourages even more spending.

Traditionally, Americans valued thrift. They bought mainly what they needed, and much less of what they merely wanted, or what was nonessential. Several factors helped spark more buying in this decade, including higher wages, clever advertising, new products, lower costs, and the widespread availability of credit.



**VIEWING HISTORY** The nation's first modern shopping center, the Country Club Plaza, opened in Kansas City, Missouri, in 1922. **Making Comparisons** How does it compare to the shopping malls of today?



Catalogs brimming with exciting new goods tempted consumers to buy on credit.

**Buying on Credit** Until the 1920s, middle-class Americans generally paid cash for everything. Borrowing money for any purchase but a house or land was considered unthrifty, even immoral. During the 1920s, new kinds of consumer goods, such as automobiles and refrigerators, became widely available. Americans wanted these modern conveniences, but they cost a great deal. Unless manufacturers sold more of these goods, they would go out of business. To increase their profits, manufacturers developed and financed buying on the **installment plan**. On an installment plan, the customer makes partial payments (installments) at set intervals over a period of time until the total debt is paid. Installment plans fueled the growth of consumer spending.

Clever advertising made this form of buying acceptable to the American people. People who otherwise would not spend beyond their means were encouraged to buy all kinds of items, even though interest charges ranged from 11 to 40 percent. By 1929, Americans were using the installment plan to buy 60 percent of all cars sold; 70 percent of all furniture; 80 percent of all vacuum cleaners, radios, and refrigerators; and 90 percent of all washing machines.

**Electric Power** Refrigerators, washing machines, and other power-hungry appliances created a surge in the demand for electricity. Between 1913 and 1927, the number of electric power customers more than quadrupled. The number of people who had electric lights jumped from 16 percent to 63 percent in about the same time. Part of this increase came from the expanding housing industry. New homes, wired for electricity, could now be filled with electric appliances.

Although cities gained electric power rapidly, the countryside did not. By 1925, for example, power plants supplied only 4 percent of American farms with electricity. Running power lines to scattered farming communities simply cost too much. Instead, some farmers created their own source of electricity by building wind-powered generators.

The growth of General Electric Company illustrates how the increasing use of electricity went hand in hand with the jump in consumer sales. General Electric was formed in 1892 to take over Thomas Edison's electric light business. During the 1920s, the company grew dramatically by selling a variety of household electric appliances. It also sold electric motors and other products for industry. Between 1919 and 1929, the value of electrical products of this kind more than doubled, from nearly \$1 billion to \$2.3 billion. General Electric rode this wave of consumer buying to become one of the world's largest companies.

**Advertising** General Electric's product line included electric toasters, ovens, sewing machines, coffee pots, irons, and vacuum cleaners. Other companies offered similar appliances, as well as a vast array of other goods, from telephones to cosmetics. To rise above the competition, manufacturers needed an edge: mass-media advertising.

By the 1920s, marketers had developed a new approach to advertising. In the past, advertisements had provided fairly basic information about a product. A magazine ad for clothing, for example, might have noted its quality of fabric, smart design, and affordable price. Advertising in the 1920s, especially in mass magazines, spoke less about the product and more about how the product could enhance the consumer's image. "A woman is only as old as her complexion," stated one cosmetics ad from 1923. For postal service, consumers were advised, "Air mail is socially correct." Ads like these appealed to

such emotions as insecurity and fear. Other ads used celebrities to associate an image with their products. This kind of ad might show a movie star using a product and claiming to adore it. The ad implied that anyone who used the product could be as stylish as a movie star.

The new advertising had its critics. Some saw it as a waste of time and money. Others condemned its use of psychology to persuade people to buy products. Advertising also had its defenders. One professional "ad man" claimed that advertising for modern products served a vital educational purpose:

*"The vacuum cleaner was introduced by educational advertising. The advertising was done partly by manufacturers anxious to sell vacuum cleaners, and partly by electric-light companies anxious to sell current. . . . But the result has been a public benefit, an increasing willingness to spend money to lighten the human burden, to cut down the waste of human energy spent in the operation of living."*

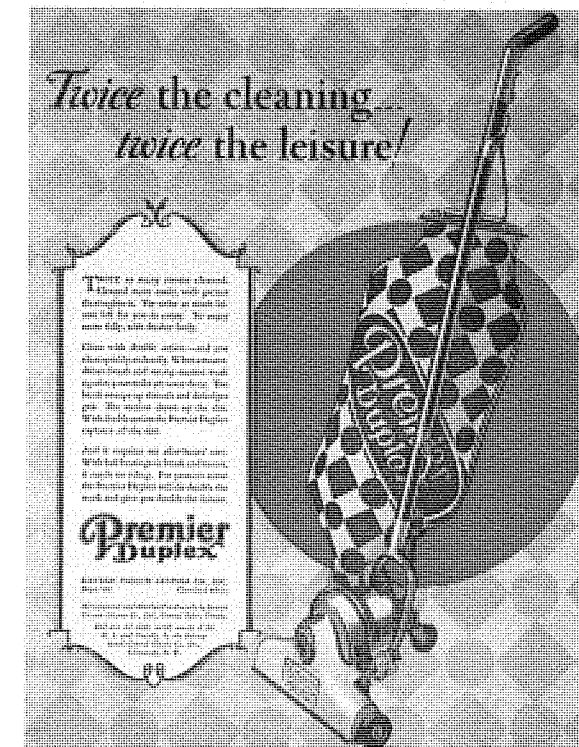
—Earnest Elmo Calkins, *Business the Civilizer*, 1928

**Rise in Productivity** Electric power, persuasive advertising, and the installment plan all helped consumers go on a buying spree in the 1920s. Without an increased volume of goods to buy, however, the consumer economy could not have developed as rapidly as it did. In order to meet consumer demand, productivity needed to increase. Productivity is a worker's level of output, whether in goods or in services, over a given period. One measure of productivity is the **Gross National Product (GNP)**, which is the total value of goods and services a country produces annually. From 1921 to 1929, the GNP grew at an average rate of 6 percent per year. The preceding decade had seen a growth rate of less than 1 percent.

Productivity rose in part because the nation developed new resources, new management methods, and new technologies. Major oil fields had been discovered in Texas, Oklahoma, and California around the turn of the century. These discoveries provided the resources to power industrial growth. You have read about Frederick Winslow Taylor's time-and-motion studies in the late 1800s, designed to increase worker efficiency. By the 1920s, industrial managers as well as labor leaders had come to accept Taylor's management principles. Application of those principles helped workers produce more goods. The increasing use of new machines and other kinds of technology also significantly increased workers' output. In addition, technology proved useful in solving production problems, such as how to make more automobiles in less time.

### Ford and the Automobile

The first automobile appeared in Germany in the 1880s. In 1892, Charles and Frank Duryea of Springfield, Massachusetts, developed a marketable car, and several other American inventors soon followed their lead. Over the next 28 years, about 8 million cars rolled out of factories and onto America's roads. Yet in the ten years after that period, during the 1920s, the number of registered cars rose by more than 15 million. Much of this rapid growth in production resulted from the efforts of the inventive businessman Henry Ford.



Electrical appliances such as the vacuum cleaner changed the nature of housework.

### READING CHECK

What factors allowed for a rise in productivity in the 1920s?

Spending on Goods and Services, 1928

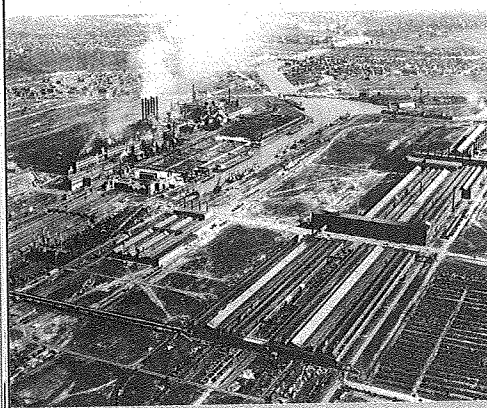
Item	Percent of Budget Spent
Food	27%
Clothing	13%
Shelter	12%
Fuel and light	4%
Furniture and furnishings	2%
Health and education	3%
Automobile	5%
Sundries:	
Tobacco, candy, soft drinks, gum	5%
Recreation (theater, ball games)	3%
Miscellaneous (trolley, stationery)	4%
Savings and insurance	12%
Taxes	10%
<b>Total</b>	<b>100%</b>

SOURCE: *Setting a Course: American Women in the 1920s*

**INTERPRETING TABLES** A study of family spending habits during the late 1920s reveals lifestyle choices as well as economic realities. **Drawing Conclusions** What does the sundries category say about life in the 1920s?

### INTERPRETING DIAGRAMS

The layout of the main buildings at Ford's River Rouge facility was designed to maximize efficiency. Locate the power house in the late 1920s photo by its eight smoke stacks. **Analyzing Information** Trace the work process from delivery of raw materials to finished automobile. What steps must be taken along the way?



### The Ford River Rouge Plant

Henry Ford's colossal plant on the River Rouge greatly influenced the auto industry. Never before had the concept of vertical consolidation been so keenly focused. Located just west of Detroit and covering more than 1,000 acres by 1926, the Rouge plant gained efficiency from careful attention to economy and work flow.

#### About the Rouge Plant

- The plant used 49 types of steel, four types of iron, 22 kinds of brass and bronze, and five types of aluminum.
- The river had to be deepened and widened to accommodate the large ships.
- The plant used about 43,000 machine tools in the mid-1920s.
- By 1926, the plant occupied more than 90 buildings and used a total of about 160 acres of floor space.
- The Rouge plant employed 75,000 workers.

SOURCE: Ford: Expansion and Challenge, 1915-1933

**Ford and the "Model T"** In the late 1880s, Ford worked as an engineer with a lighting company. In his spare time he began inventing a "horseless carriage." In 1896, Ford perfected his first version of a lightweight, gas-powered car he called the "quadricycle." By 1903, he had started his own automobile company. Five years later, Ford sold 30,000 of an improved vehicle that he called the Model T.

**Ford's Assembly Line** Ford wanted to "democratize the automobile," producing even more cars and selling them at prices ordinary people could afford. This goal set him apart from all other car makers and made him one of the most influential people of the century.

To achieve his goal, he adapted the **assembly line** for his factories. An assembly line is a manufacturing process in which each worker does one specialized task in the construction of the final product. In the past, an individual worker might build an entire product from start to finish. Since that type of manufacturing process required each worker to master hundreds of tasks, it was too inefficient for the mass production of something as complex as an automobile. On an assembly line, one worker might install windshields on all the cars. Another might mount the tires or weld a certain part in place or apply the paint.

Ford did not invent the assembly line, but he made it more efficient. His specially designed assembly line moved while each worker stayed in place, instead of moving from vehicle to vehicle. Critics of Ford's system claimed that the assembly line, with its endless repetition of tasks, strained workers both physically and mentally. Ford admitted that he would be bored working on an assembly line but insisted that his employees enjoyed it. At Ford's Highland Park, Michigan, factory, the assembly line turned out a Model T every 24 seconds. Between 1908 and 1927, Ford built half of the automobiles produced in the entire world, more than 15 million cars.

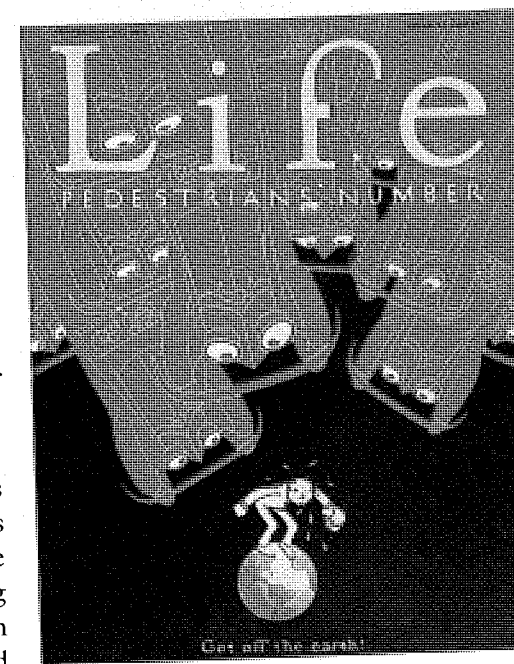
By making large numbers of identical automobiles in an identical way, Ford could take advantage of economies of scale, a concept you have read about in an earlier chapter. The more automobiles he made, the less each one cost. In 1914,

the first year Ford's assembly line was in full swing, his company sold Model T's at \$490 each. This price was almost half of what a car had cost in 1910. The following year he dropped the price to \$390.

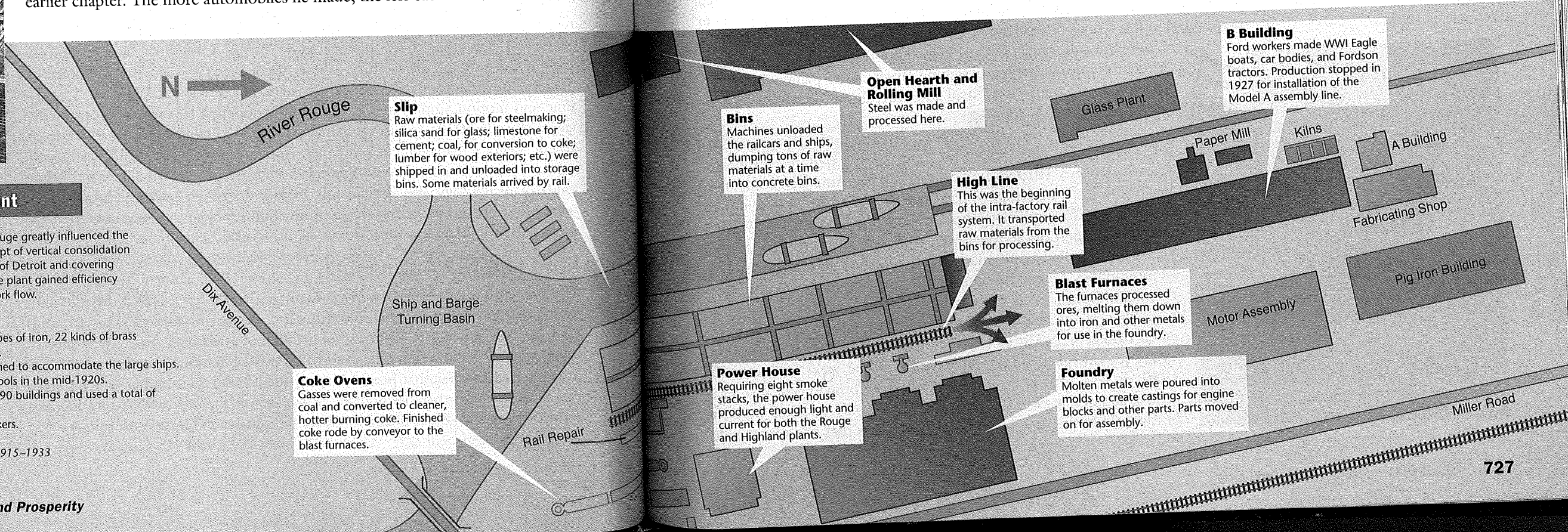
The Model T was a utilitarian, or practical, vehicle. It was available in a limited range of styles, all built with essentially the same engine and other basic parts. While early Model T's came in a variety of colors, Ford eventually switched to cheaper and more durable black paint. Ford's competitors, however, realized that the American public wanted different colors and styles of cars. When General Motors introduced its low-priced Chevrolet in several colors, Ford lost many customers. Not until 1925 did he introduce a choice of colors for his "improved" Model T. The last Model T was produced in 1927, making way for the Model A.

Ford's success came partly from vertical consolidation, which, as you have read, means controlling the businesses that make up phases of a product's development. From Ford's huge new plant built on the River Rouge, he was able to take a load of raw ore on any morning and roll it off the line as a car the next day. Much of the ore came from Ford's own iron mines and was forged in his own blast furnaces and steel mills, which were fired by coal from his 16 coal mines. Wood used in the car came from his 700,000 acres of forests, and glass for windshields from his own glassworks. He hauled materials over his own railroad and on his own fleet of ships. Company workshops made nearly all the tools used in his factories. Furthermore, he built this entire empire with profits from the Model T.

**A Complex Businessman** Like the empire he ran, Henry Ford was complex. He had both admirable qualities and personal failings. For example, he won praise in 1914 for introducing a \$5-a-day pay rate for many of his workers. At the time, other factories paid only about half that amount. Yet he was not always so generous. He ran his company harshly and used violence to fight unions. During World War I, Ford devised an Americanization program for his

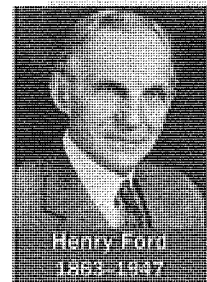


**VIEWING HISTORY** Automobiles are the subject of this 1925 Life magazine cover. **Making Comparisons** What do the illustration and its caption, "Get off the earth," say about the impact of the automobile on society in the 1920s?





## BIOGRAPHY

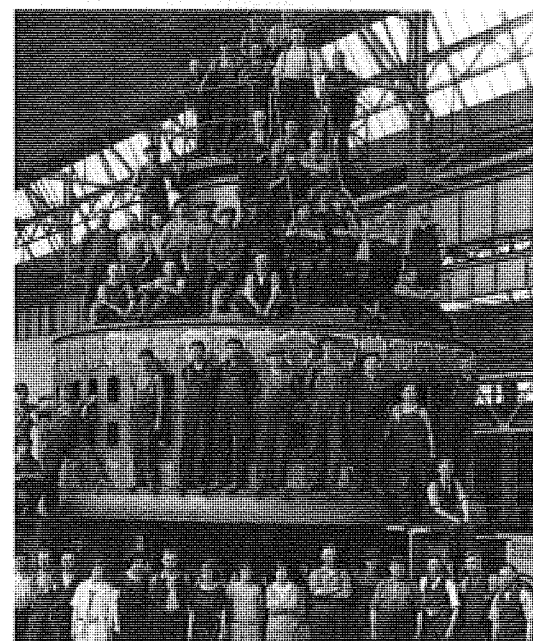


Henry Ford was born on a Michigan farm during the Civil War, the son of Irish immigrants. Although Ford is best known as an industrialist, not all his energies were devoted to the Ford Motor Company. His pursuits were diverse, at the very least.

In 1915, he sailed a rented ocean liner across the Atlantic in a hopeless effort to talk Europe out of fighting World War I. He purchased the *Dearborn Independent* in 1918, but then used his newspaper to run a series of articles that blamed Jews for the world's problems. In 1927, however, after being sued for slander, he apologized for these attacks and sold the paper.

As a nod to his early years on the farm, he recreated a rural American town, Greenfield Village, as well as a museum of American artifacts that can still be visited today.

Electric power fueled homes, businesses, and a consumer economy. Workers stand on an electric power generator in 1924.



foreign-born workers. In return for higher pay, workers had to enroll in English and civics classes and let investigators inspect their homes. The company held elaborate graduation ceremonies in which workers shed their previous ethnic identities and became "Americans." When postwar inflation made the pay incentive less attractive, the program declined. Although he showed genius in giving millions of Americans a car they could afford, he stubbornly refused to keep up with their changing tastes. By 1936, the Ford Motor Company had slipped to third place in the automobile industry.

### Industrial Growth

Through Ford's genius, automobile making became the nation's biggest single manufacturing industry in the 1920s. By the late twenties, automakers used 15 percent of America's steel, 80 percent of its rubber, half of its glass, 65 percent of its leather upholstery, and 7 billion gallons of its gasoline every year. Naturally, the industries that provided those materials, such as steelmaking and oil refining, also grew.

Thousands of new businesses arose to serve automobile travel, including garages, car dealerships, motels ("motor hotels"), campgrounds, gas stations, and restaurants. Thanks to the automobile, suburbs expanded, in turn boosting the housing industry. Truck lines began hauling the nation's freight, and motorized buses traveled new routes through both city and countryside. By 1929, about 3.7 million people owed their jobs directly or indirectly to the automobile industry. In that year, the nation spent nearly \$2 billion to build and maintain its roads and bridges.

Businesses unrelated to the automobile industry also boomed. As you have read, movie making, radio broadcasting, and publishing all flourished. One industry that greatly expanded during the late 1920s

was aviation. This industry had begun to develop during the war, with the production of military aircraft. The first domestic airlines, however, had limited success. They flew small planes, mainly over local routes, and many of them stayed in business only a short time. The public's fascination with Charles Lindbergh and Amelia Earhart helped boost the industry's fortunes. Aircraft companies began designing larger, faster planes. By late in the decade, air transport of mail and other goods, as well as passengers, had improved.

Under Republican laissez-faire policies, which limited government regulation of business, the value of the nation's businesses soared. Between 1919 and 1929, the 200 top American companies nearly doubled their total worth, which rose from \$43 billion to \$81 billion. Government and industry seemed eager to prove that the chief business of the American people truly was business.

Even with limited regulation and a business boom, the power of monopolies declined. Rapid business expansion opened up new opportunities for smaller companies. These competitors rushed in to challenge the giant steel and oil monopolies. For example, when banker J. P. Morgan created the U.S. Steel Corporation in 1901, it controlled about 60 percent of the steel business. By 1930, it had grown enormously. Yet its competitors also had grown, and in that year, U.S. Steel controlled only about 39 percent of the steel business. Likewise, the companies that had once made

up the Standard Oil Trust grew with the demand for oil products during the 1920s. Even so, by 1930 they controlled only about half of the nation's oil business.

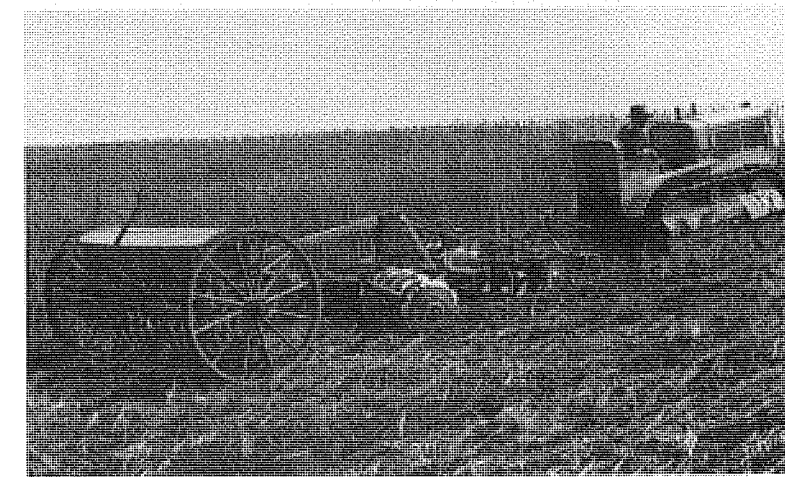
### Bypassed by the Boom

While most Americans enjoyed a better standard of living, others struggled to survive. Unskilled laborers, including many African American migrants, remained poor. Their wages and working conditions did not improve, nor did those for workers in several major industries, including agriculture.

For some sectors of the farm economy, the 1920s brought not prosperity but devastation. Farm prices had stayed high during the war and just afterward, as American farmers supplied food to the United States and to war-torn Europe. After the war, however, the recovering European farm industry and cheaper food imports helped to push American products out of the European market. The huge wartime demand shrank, and American farm prices, especially for wheat and hogs, plummeted.

During more prosperous times, many farmers had borrowed money to buy new tractors and other machinery. Their new equipment allowed them to expand their operations, so they bought more land as well. In the late 1920s, when most Americans spent freely on consumer goods, these farmers could not even pay back their loans. Many of them abandoned agriculture. Others hung on to the only way of life they had ever known, going even further into debt every day.

The same dwindling demand for goods hurt producers of cotton textiles and bituminous (soft) coal. These industries had expanded to meet wartime needs, but after the war they failed to uncover new markets for their products. The resulting low profits kept wage rates down. Railroads suffered, too, not just from shrinking demand but also from mismanagement, competition from trucking firms, and labor unions that fought against wage cuts and layoffs.



Purchasing expensive tractors and other equipment helped put many farmers into debt in the 1920s.

## Section

## 2

## Assessment

### READING COMPREHENSION

1. What conditions made a **consumer economy** possible in the 1920s?
2. What is an **installment plan**?
3. How did the **Gross National Product** change during the 1920s?
4. How did Henry Ford change his **assembly line** to increase efficiency?

### CRITICAL THINKING AND WRITING

5. **Making Comparisons** How did post-war economic conditions favor automobile workers and yet undermine the farming industry?
6. **Writing a List** List all the factors that led to increased consumer spending in the 1920s.

### Take It to the NET

**Activity: Writing a Summary**  
Research several inventions from the 1920s and write a summary of how they affected consumer goods or business in general. Use the links provided in the *America: Pathways to the Present* area of the following Web site for help in completing this activity.  
[www.phschool.com](http://www.phschool.com)

## The Economy in the Late 1920s

### READING FOCUS

- Why did the economy of the late 1920s appear healthy to most Americans?
- What danger signs were present in the economy of the late 1920s?

### MAIN IDEA

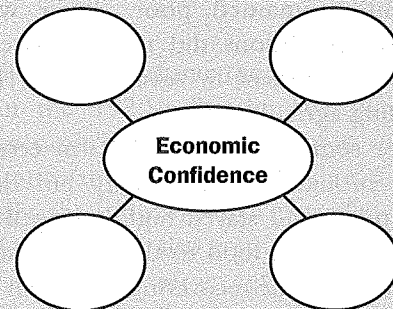
During the 1920s, rising wealth and a booming stock market gave Americans a false sense of faith in the economy. In fact, there were signs that the economy was in trouble.

### KEY TERMS

welfare capitalism  
speculation  
buying on margin

### TAKING NOTES

Copy the web diagram below. As you read, add reasons showing that Americans in the 1920s had confidence in the nation's economy.



Many Americans expected Herbert Hoover to oversee continued prosperity.



**Setting the Scene** The mood of most Americans in the late 1920s was optimistic, and with good reason. Medical advances had greatly reduced deaths from whooping cough, diphtheria, and other serious diseases. Since 1900 the number of infant deaths had declined, and life expectancy had increased by more than 10 years, to an average of 59 years for men and 63 years for women.

The brightest hopes seemed to come from the economy. During a campaign speech in 1928, Herbert Hoover reflected on Republican economic policies. Hoover sought to keep the government out of business in order to preserve “the American system of rugged individualism,” and to continue prosperity:

“[T]he greatness of America has grown out of a political and social system and a method of control of economic forces distinctly its own—our American system—which has carried this great experiment in human welfare further than ever before in all history. We are nearer today to the ideal of the abolition of poverty and fear from the lives of men and women than ever before in any land.”

—Herbert Hoover, New York City, October 1928

### Economy Appears Healthy

As you have read, Hoover easily won the 1928 election, benefiting from years of prosperity under previous Republican presidents. Americans widely admired this self-made millionaire for the way he had organized food relief in Europe during and after World War I. He had also worked effectively as Secretary of Commerce under Presidents Harding and Coolidge. People expected that the good times would get even better under Hoover.

**“Wonderful Prosperity”** As Hoover took office, the American economy seemed to be in fine shape. In 1925, the market value of all stocks was \$27 billion. Over the next few years, stocks soared. In 1928 alone, stock values rose by more than \$11 billion. Because the stock market was widely regarded as the nation’s economic weathervane, the *New York Times* could describe the

year as one “of unprecedented advance, of wonderful prosperity.” By early October 1929, stock values hit \$87 billion.

Many working people had prospered in the post-World War I period. Since 1914, the value of workers’ wages had risen more than 40 percent. Although certain industries were troubled and some workers lost jobs in the shift to new technologies, unemployment averaged below 4 percent. Even such critics of capitalism as journalist Lincoln Steffens made optimistic predictions: “Big business in America,” Steffens said in 1928, “is producing what the Socialists held up as their goal: food, shelter and clothing for all. You will see it during the Hoover administration.”

**“Everybody Ought to Be Rich”** People had unusually high confidence in the business world during the 1920s. For some, business success became almost a religion. One of the decade’s best-selling books was *The Man Nobody Knows* (1925). Written by Bruce Barton, an advertising executive, it told the biblical story of Jesus’ life in business terms. Barton portrayed Jesus as a managerial genius who “picked up twelve men [a reference to Jesus’ 12 apostles, or followers] from the bottom ranks of business and forged them into an organization that conquered the world.”

Similarly, Americans trusted the advice of corporate leaders such as John J. Raskob. In a 1929 article titled “Everybody Ought to Be Rich,” Raskob stated that savings of only \$15 a week over 20 years could bring a \$400-a-month income from investments. “I am firm in my belief,” Raskob said, “that anyone not only can be rich, but ought to be rich.” Statements such as this encouraged Americans to make investments that in an earlier era would have seemed far too risky.

**Welfare Capitalism** Following the violent labor strikes of 1919, the postwar economy stabilized. Many larger companies launched strategies to meet some of their workers’ demands. By doing so, they believed they could avoid union intervention, prevent strikes, and keep productivity high. This new approach to labor relations became known as **welfare capitalism**. Employers raised wages and provided such benefits as paid vacations, health plans, recreation programs, and English classes for recent immigrants, all in the interest of strengthening company loyalty and morale. Employers also set up “company unions,” which they controlled, as channels for workers to express their concerns. As a result of welfare capitalism, organized labor lost members during the 1920s.

### Economic Danger Signs

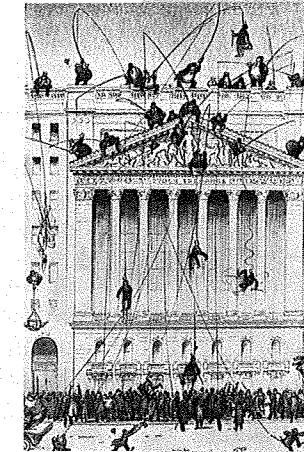
A climbing stock market, consumer confidence, and labor stability all pointed the way to a bright future. Yet despite the apparent prosperity, all was not well. Only later did many people recognize the warning signs of an unsound economy.

**Uneven Prosperity** Despite the stock market success stories, it was mainly the rich who got richer. Huge corporations rather than small businesses

## Fast Forward to Today

### Market Speculation

Stock market speculation was almost a sport in the 1920s: The cartoon at left shows stockbrokers fishing for new clients from the top of the New York Stock Exchange. Though market investment is now more regulated than it was in the 1920s, Americans continue to speculate on stocks, both by buying on margin and by practicing other forms of high-risk trading.



One trading method involves what are known as call options. An investor may buy the right to purchase a certain stock before an expiration date, but at a price set near its current value (the “strike price”). Profit is made this way: If the stock goes up in price, the investor then “calls” in that option.

In other words, he or she exercises the right to buy the stock at the lower rate set earlier. The investor then turns around and sells the same stock at its currently higher market price, or the option itself may be sold.

Some brokers have used the Internet to lure option speculators into making unwise investments. While the stock market has more government oversight than it did in the 1920s, buyers must still make their decisions carefully.

? How could investors lose money by buying call options? Explain.

### READING CHECK

Describe the distribution of wealth in the United States in the 1920s. How were families affected?

dominated industry. In 1929, some 200 large companies controlled 49 percent of American industry.

Similarly, a small proportion of families held most of the nation's personal wealth. In 1929, the richest Americans—24,000 families, or just 0.1 percent of the population—had incomes of more than \$100,000. They also held 34 percent of the country's total savings.

By contrast, 71 percent of individuals and families earned less than \$2,500 a year, an amount some budget experts at the time considered the minimum standard of living. Nearly 80 percent of all families had no savings. Many people earned so little that almost every family member, children included, had to work just to get by.

Government tax policy contributed to this imbalance. Andrew Mellon, Secretary of the Treasury and one of the richest people in the nation, successfully pushed Congress to reduce taxes. Mellon's tax plan, however, gave the largest tax cuts to the wealthiest Americans. He believed that continued high taxation of the wealthy, imposed during the war, would hinder business expansion.

**Personal Debt** Many Americans became accustomed to credit spending during the 1920s. However, the resulting increase in personal debt signaled trouble. As you have read, assembly-line production made consumer items more affordable and available. People bought radios, vacuum cleaners, refrigerators, and other exciting new products, whether or not they had the money to

pay for them. They believed that they could count on future income to cover their debts. Traditionally, Americans had feared debt and postponed buying goods until they had the cash to pay for them. Now, however, talk of unending prosperity eased worries about going into debt. Installment plans, boasting of "easy terms," made even luxury items seem affordable.

**Playing the Stock Market** Fed by the optimism of the age, a "get-rich-quick" attitude prevailed during the 1920s. The dizzying climb of stock prices encouraged widespread **speculation**, the practice of making high-risk investments in hopes of getting a huge return.

Before World War I, only the wealthy played the stock market. Now the press reported stories of how ordinary people were making fortunes. Many small investors entered the market, often spending their life savings. To attract these less wealthy investors, stockbrokers encouraged a practice called **buying on margin**. This option allowed investors to purchase a stock for only a fraction of its price (10 to 50 percent) and borrow the rest. The brokers charged high interest rates and could demand payment of the loan at any time. If the stock price went up, however, borrowers could sell the stock at a price high enough to pay off both the loan and the interest charges and still make money.

**Too Many Goods, Too Little Demand** Rising productivity had brought prosperity, but eventually it created a problem. By the late 1920s, the country's warehouses were overstocked; they held more goods than consumers would

buy. Wages had risen, but people still could not afford to buy goods as fast as the assembly lines turned them out.

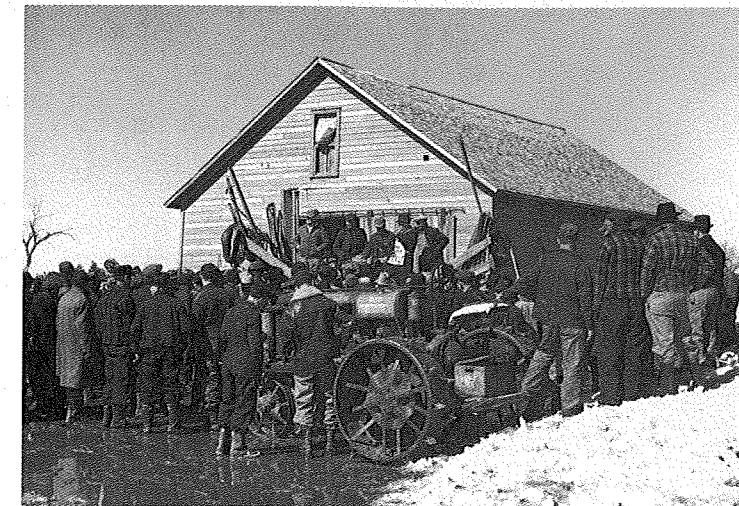
Although the stock market kept rising, overproduction caused some industries to slow in the late 1920s. The automobile industry, which had helped create American prosperity, slumped after 1925. Industries that depended on it, including steel, rubber, and glass, also declined. Housing construction, which also caused a "ripple effect" on the economy, fell by 25 percent between 1928 and 1929.

**Trouble for Farmers and Workers** As you have read, falling farm prices left many farmers unable to repay their debts for land and machinery. These farmers often lost their farms. Some rural banks gave farmers extra time to meet their obligations, but those banks struggled when loans were not repaid. About 6,000 rural banks failed during the 1920s.

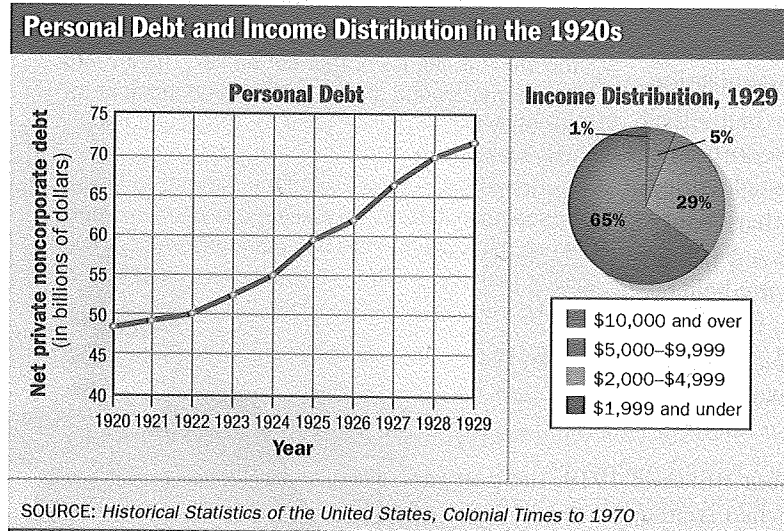
Congress responded to the farm problem with the McNary-Haugen farm relief bill. This measure was designed to increase the prices farmers received for their crops. Congress passed the bill twice, in 1927 and 1928, but each time President Coolidge vetoed it, believing that it was not the government's job to provide such assistance. Farmers continued to suffer.

Life remained exceedingly hard for many factory workers as well. While companies grew wealthy, most laborers still worked long hours for low wages. Conditions were especially bad in distressed industries, such as coal mining and textiles. In the rayon mills of Elizabethton, Tennessee, for instance, women worked 56-hour weeks, earning 16 to 18 cents an hour—about \$10 a week.

To some observers, these factors—uneven wealth, rising debt, stock speculation, overproduction, and the hardships of farmers and workers—clearly signaled trouble in the economy. In 1928, Belle Moskowitz, who had managed Al Smith's losing presidential campaign that year, predicted that "growing unemployment, business depression, or some false step" would soon trigger a reaction against Republican policies.



**VIEWING HISTORY** Auctioneers grew increasingly busy through the late 1920s, as distressed farmers defaulted on loans for expensive equipment and other items. **Identifying Alternatives** What economic choices did farmers face after they repaid their loans?



### INTERPRETING DIAGRAMS

The circle graph (right) shows how unevenly the country's wealth was distributed in the 1920s. The line graph (left) shows the rise in personal debt. **Analyzing Information** What percentage of American families earned less than \$2,000 a year in 1929?

## Section

3

## Assessment

### READING COMPREHENSION

1. What reasons did corporations have for practicing **welfare capitalism** in the 1920s?
2. Why was **speculation** in the stock market so popular in the 1920s?
3. How does a stockbroker profit from an investor **buying on margin**?

### CRITICAL THINKING AND WRITING

4. **Recognizing Cause and Effect** How does a widespread increase in personal debt affect a nation's economy?
5. **Writing to Persuade** Write an essay from the perspective of someone living in the 1920s and feeling optimistic about his or her finances. Persuade your readers that the economy is sound, despite all the existing danger signs.

### Take It to the NET

**Activity: Creating a Diagram** Research more on how the economy of the 1920s functioned. Create a chart or diagram showing what factors affected the economy and how the economy affected people's lives. Use the links provided in the *America: Pathways to the Present* area of the following Web site for help in completing this activity.  
[www.phschool.com](http://www.phschool.com)