

1 Politics and Prosperity

BEFORE
YOU
READ

Reading Focus

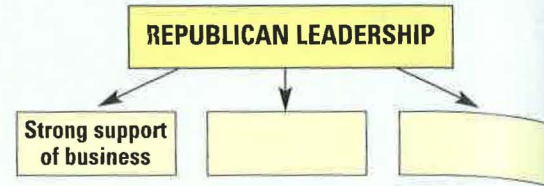
- What scandals hurt Republicans in the 1920s?
- How did Coolidge's policies increase prosperity?
- What role did the United States play in world affairs?


Key Terms

recession
Teapot Dome Scandal
installment buying
stock
bull market
communism
disarmament
Kellogg-Briand Pact

Taking Notes

Copy the chart below. As you read, complete the chart to show the effects of Republican leadership on the United States during the 1920s. Add as many boxes as you need.



 **Main Idea** As the Republican party returned to power in the 1920s, the economy boomed.



AS YOU
READ

Warren G. Harding

Predict How do you think the country will change with Harding as President?

Setting the Scene “The change is amazing,” wrote a reporter just after the inauguration of President Warren G. Harding on March 4, 1921. Woodrow Wilson and the Democrats were out; Harding and the Republicans were in. Wilson had been ill, remote, and increasingly sour. Harding was warm, friendly, and open.

During the campaign, Harding’s slogan had been “Back to Normalcy.” By “normalcy,” he meant “a regular steady order of things . . . normal procedure. . . .”

The 1920s turned out to be anything but normal. As one official said, the decade ushered in a “new era,” of Republican leadership, booming prosperity, and changes in everyday life.

Republicans in Office

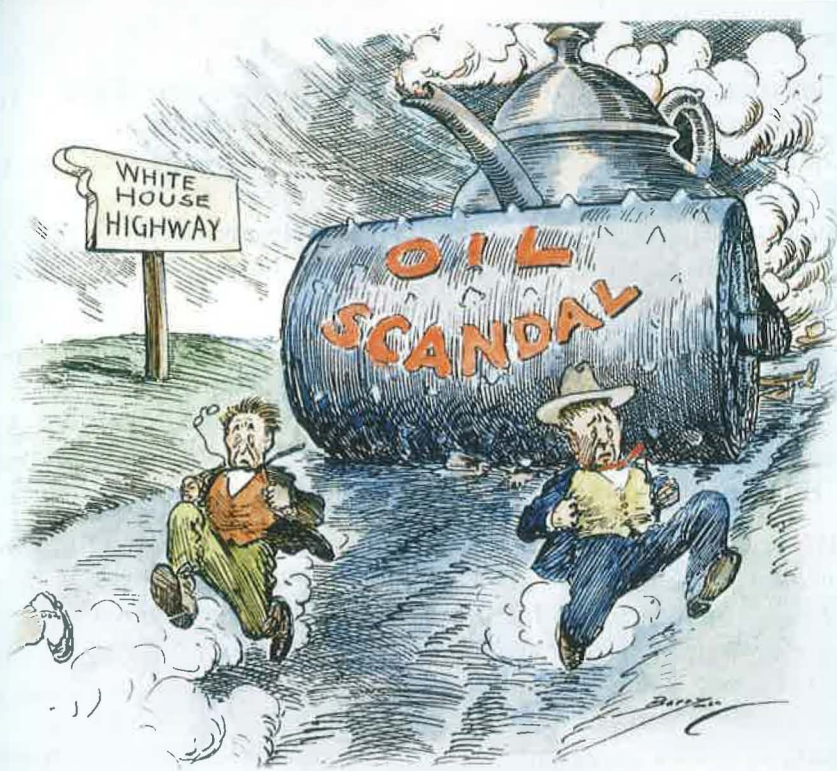
World War I had helped the economy. Europeans ordered vast amounts of supplies from American factories. After the United States entered the war in 1917, American factories expanded rapidly to meet the demand for military supplies.

When the war ended, more than 2 million soldiers came home and began to look for jobs. At the same time, factories stopped turning out war materials. The result was a sharp **recession**, or economic slump.

Harding Takes Office The recession fed voter discontent with the Democrats, who had held power for eight years. In the 1920 election, Warren Harding swamped his Democratic opponent.

For the top Cabinet posts, Harding chose able men who strongly followed pro-business policies. Andrew Mellon, a wealthy financier, became secretary of the treasury. Mellon balanced the budget and lowered taxes.

Herbert Hoover became the new secretary of commerce. During World War I, Hoover had earned the world’s admiration by organizing efforts to supply food to millions of starving Belgians. As



secretary of commerce, he worked to help American businesses expand overseas.

Corruption and Scandals To fill most other Cabinet posts, however, Harding brought in his old friends. They became known as the “Ohio Gang.” Harding himself was honest and hard-working, but the Ohio Gang saw government service as a way to enrich themselves. A series of scandals resulted. For example, Harding made Charles Forbes head of the Veterans Bureau. Forbes was later convicted of stealing millions of dollars from the bureau.

Harding looked upon Forbes’s crime as a betrayal. When rumors of new scandals surfaced, he grew even more distressed. In August 1923, Harding died of a heart attack. Many believed that the scandals contributed to his sudden death.

After Harding died, new scandals came to light. The most serious involved Secretary of the Interior Albert Fall. Two oil executives had bribed Fall. In return, he secretly leased them government land in California and at Teapot Dome, Wyoming. As a result of the **Teapot Dome Scandal**, Fall became the first Cabinet official ever sent to prison.

Coolidge Takes Office On the day Harding died, Vice President Calvin Coolidge was visiting his father’s farm in Vermont. Coolidge recalled, “I was awakened by my father. . . . I noticed that his voice trembled.” Coolidge’s father, a justice of the peace, used the family Bible to swear his son in as President.

“Silent Cal” Coolidge was very different from Harding. Harding loved throwing parties and making long speeches. Coolidge was tight with both money and words. A woman reportedly told Coolidge she

POLITICAL CARTOON

Skills

The Teapot Dome Scandal

This cartoon, published in 1924, comments on the Teapot Dome Scandal.

1. Comprehension

(a) Why are the officials running? (b) How do you think the White House will be affected?

2. Understanding Main Ideas

What is the significance of the rolling oil tank?

3. Identifying Points of View

According to the cartoon, how will this scandal affect the government?

Civics



had bet that she could get him to say more than two words. “You lose,” Coolidge replied.

Coolidge set out to repair the damage caused by the scandals. He forced the officials involved in scandals to resign. In 1924, Coolidge ran against Democrat John Davis and Progressive Robert La Follette. Voters chose to “Keep Cool With Coolidge” and returned the cautious New Englander to office.

Coolidge Prosperity

Like Harding, Coolidge believed that prosperity for all Americans depended on business prosperity. Coolidge cut regulations on business. He also named business leaders to head government agencies.

Industry Booms Coolidge’s pro-business policies contributed to a period of rapid economic growth. People referred to this boom as “Coolidge prosperity.” As factories switched to consumer goods, the postwar recession ended. From 1923 to 1929, the quantity of goods made by industry almost doubled.

For most Americans, incomes rose. As a result, they were able to buy a flood of new consumer products. Electric refrigerators, radios, phonographs, vacuum cleaners, and many other appliances took their places in American homes.

Businesses used advertising to boost sales of consumer goods. Advertisements encouraged people to think that their happiness depended on owning a wealth of shiny, new products.

Faced with so many goods, people often wanted to buy things they could not afford. In response, businesses allowed **installment buying**, or buying on credit. For example, buyers could take home a new refrigerator by putting down just a few dollars. Each month, they paid an installment until they had paid the full price, plus interest.

The new policy of “buy now, pay later” increased the demand for goods. At the same time, however, consumer debt jumped. By the end of the decade, consumers owed more than the amount of the federal budget.

A Soaring Stock Market The economic boom of the 1920s gave the stock market a giant boost. As you read in Chapter 20, corporations sold **stocks**, or shares of ownership, to investors. Investors made or lost money depending upon whether the price of the shares went up or down.

By the later 1920s, more people were investing in the stock market than ever before. Stock prices rose so fast that some people made fortunes almost overnight. Stories of ordinary people becoming rich drew others into the stock market. Such a period of increased stock trading and rising stock prices is known as a **bull market**.

Many people bought stocks on margin. Under this system, an investor bought a stock for as little as a 10 percent down payment. The buyer held the stock until the price rose, and then sold it at a profit. Margin buying worked as long as stock prices kept going up.

In 1928 and 1929, however, the prices of many stocks rose faster than the value of the companies themselves. A few experts warned

Connecting to Today

The Stock Market

Maybe you have heard a business reporter announce, “The Dow Jones is up.” The reporter is referring to the Dow Jones Industrial Average, sometimes called “the Dow.” The Dow is calculated by averaging the stock value of 30 large corporations.

Average prices of stocks are quoted in points rather than dollars. On a day when more people buy than sell shares in the Dow stocks, the Dow average might rise by, say, 30 points. On a very good day, the Dow may rise 100 or more points. Of course, on a bad day, it might go down by an equal amount.

Investors use many different sources of information to decide whether to buy or sell. They consider national and world events, corporate reports, and the opinions of financial experts. In the end, however, no one can really predict how the Dow will do in any given day, month, or even year.

Why is it hard to predict whether the Dow will go up or down?



that the bull market could not last forever. Still, most investors ignored the warnings.

A Limited Role in World Affairs

After World War I, the United States was the world's leading economic power. Europeans expected the United States to take a major role in world affairs. Presidents Harding and Coolidge wanted to keep the hard-won peace in Europe. However, they did not want to commit the United States to the job of keeping world peace. The United States sent observers to the League of Nations but refused to join. Most Americans supported this return to prewar isolationism.

Latin America During the war, Latin American nations had been cut off from Europe. As a result, United States trade and investment in Latin America increased. This trend continued after the war. However, the United States limited its role abroad for fear that more involvement might push the country into another war.

At times, the United States intervened to protect its economic interests in Latin America. In 1926, for example, a revolution broke out in Nicaragua, where Americans owned plantations and railroads. Coolidge sent marines to oversee new elections.

In 1927, Mexico announced plans to take over foreign-owned oil and mining companies. American investors called on President Coolidge to send in troops. Instead, Coolidge sent a diplomat, Dwight Morrow, to Mexico. After much hard bargaining, Morrow was able to work out a compromise with the Mexican government.

Viewing History

Consumer Credit

With installment plans and the appearance of mail-order catalogs, people bought radios, vacuum cleaners, and other new products on credit. Some stores showed attractive window displays of furniture available for purchase on credit. **Analyzing Information** How did Americans' ideas about owing money change in the 1920s?



Draw Inferences Why do you think Coolidge chose to send a diplomat, instead of troops, to Mexico?

The Soviet Union Meanwhile, in the Soviet Union, V. I. Lenin created the world's first communist state.* **Communism** is an economic system in which all wealth and property are owned by the community as a whole.

The United States refused to recognize Lenin's government. Most Americans disliked communism. It shocked them when the Soviet government did away with private property and attacked religion. Yet, despite disapproval of the Soviet government, Congress voted \$20 million in aid when famine threatened Russia in 1921. American aid may have saved as many as 10 million Russians from starvation.

Pursuing Peace An arms race in Europe had helped cause World War I. For this reason, many people in the 1920s favored the reduction of armed forces and weapons of war, or **disarmament**. Pacifist groups such as the Women's International League for Peace and Freedom, founded by Jane Addams, led the call for disarmament in the United States and Europe.

Presidents Harding and Coolidge also backed peace efforts. At the Washington Conference of 1921, the United States, Britain, and Japan agreed to limit the size of their navies. Seven years later, the United States and 61 other nations signed the **Kellogg-Briand Pact**. This treaty outlawed war.

The treaty, however, had a fatal flaw. It did not set up any means for keeping the peace. One nation could still use force against another without fear of punishment. Still, many hailed the Kellogg-Briand Pact as the beginning of a new age of peace.

* In 1922, Russia became the most powerful state in the newly created Union of Soviet Socialist Republics, or Soviet Union.

AFTER
YOU
READ

Section 1 Assessment

Recall

1. **Identify** Explain the significance of (a) Warren G. Harding, (b) Teapot Dome Scandal, (c) Calvin Coolidge, (d) Kellogg-Briand Pact.
2. **Define** (a) recession, (b) installment buying, (c) stock, (d) bull market, (e) communism, (f) disarmament.

Comprehension

3. How did corruption hurt the Republicans during the 1920s?
4. How did Americans benefit from "Coolidge prosperity"?
5. What role did most Americans in the 1920s think that the

United States should take in world affairs? Explain.

Critical Thinking and Writing

6. **Exploring the Main Idea** Review the Main Idea statement at the beginning of this section. Then, explain why Calvin Coolidge made this statement: "The business of America is business."
7. **Making Predictions** During the 1920s, many Americans bought consumer goods on credit and stocks on margin. How would this make economic conditions worse after the economy began to slow down?

ACTIVITY



Take It to the NET Connecting to Today

The shared economic interests of Mexico and the United States still exist. Use the Internet to find out about the North American Free Trade Agreement (NAFTA). Summarize the purpose of NAFTA. Then, discuss the effects of the agreement today. Visit *The American Nation* section of www.phschool.com for help in completing the activity.