**Chapter 21, Section 3: The Policies of Prosperity**

**I. Promoting Prosperity** *(pages 647–648)*

**A.** Andrew Mellon, named secretary of treasury by President Harding, reduced government spending and cut the federal budget. The federal debt was reduced by $7 billion between 1921 and 1929.

**B.** Secretary Mellon applied the idea of **supply**-**side economics** to reduce taxes. This idea suggested that lower taxes would allow businesses and consumers to spend and invest their extra money, resulting in economic growth. In the end, the government would collect more taxes at a lower rate.

**C.** Secretary of Commerce Herbert Hoover attempted to balance government regulation with **cooperative individualism.** Manufacturers and distributors were asked to form their own trade associations and share information with the federal government’s Bureau of Standards. Hoover felt this would reduce waste and costs and lead to economic stability.

**Discussion Question**

How did the Harding administration encourage economic growth in the United States? *(Secretary of the Treasury Andrew Mellon refinanced the national debt to lower the interest on it* *and persuaded the Federal Reserve to lower interest rates as well. Mellon reduced government* *spending and cut the federal budget. Mellon applied the idea of supply-side economics to reduce* *taxes. This idea suggested that lower taxes would allow businesses and consumers to spend and* *invest their extra money, resulting in economic growth. In the end, the government would collect* *more taxes at a lower rate. Secretary of Commerce Herbert Hoover attempted to balance government* *regulation with cooperative individualism. Manufacturers and distributors were asked to* *form their own trade associations and share information with the federal government’s Bureau of* *Standards. Hoover felt this would reduce waste and costs and lead to economic stability.)*

**II. Trade and Arms Control** *(pages 648–650)*

**A.** By the 1920s, the United States was the dominant economic power in the world. Allies owed the U.S. billions of dollars in war debts. Also, the U.S. national income was far greater than that of Britain, Germany, France, and Japan combined.

**B.** Many Americans favored **isolationism** rather than involvement in international politics and issues. Americans wanted to be left alone to pursue prosperity. The United States, however, was too powerful and interconnected in international affairs to remain isolated.

**C.** Other countries felt the United States should help with the war’s financial debt. The United States government disagreed, arguing that the Allies had gained new territory and received reparations, or huge cash payments that Germany paid as punishment for starting the war.

**D.** Reparations crippled the German economy. As a result, **Charles G**. **Dawes,** an American diplomat and banker, negotiated an agreement—the Dawes Plan—with France, Britain, and Germany by which American banks would make loans to Germany so they could meet their reparation payments. France and Britain agreed to accept less reparations and pay more on their war debts.

**E.** The Washington Conference held in 1921 invited countries to discuss the ongoing postwar naval arms race. Secretary of State **Charles Evans Hughes** proposed a 10-year **moratorium,** or pause, on the construction of major new warships. The conference did nothing to limit land forces. Japan was angry that the conference required Japan to keep a smaller navy than the United States and Great Britain.

**F.** The **Kellogg-Briand Pact** was a treaty that outlawed war. By signing the treaty, countries agreed to stop war and settle all disputes in a peaceful way. On August 27, 1928, the United States and 14 other nations signed it, and eventually 62 nations ratified it. The treaty had no binding force, but was hailed as a victory.

**Discussion Question**

How did the Dawes Plan affect Europe’s economic problems? *(The plan did little to help. Britain, France, and Germany tried to pay what they owed while going deeper in debt to American banks and corporations.)*