

Bill of Rights in Action



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SIMON BOLIVAR: THINKER, LIBERATOR, REFORMER

SIMON BOLIVAR IS BEST KNOWN AS THE LIBERATOR OF MOST OF SPANISH SOUTH AMERICA. HE WAS ALSO A REVOLUTIONARY THINKER WHO TRIED TO ADAPT DEMOCRATIC IDEAS AND SOCIAL REFORMS TO NATIONS HE LIBERATED.

Simon Bolivar was born in 1783 in Caracas, Venezuela, then a Spanish colony. Venezuela had originally been part of New Granada. (The modern nations at the north of South America — Venezuela, Colombia, Ecuador, and Panama — made up New Granada.)

Venezuela's ruling class came from those born in Spain and from creoles, who were born in the New World to Spanish parents. Important positions in the colonial government, however, were reserved for the Spanish-born, and creoles resented being barred from holding them. The remainder of Venezuela's



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SIMON BOLIVAR (1783-1830) led the successful effort to make South America independent from Spain.

population consisted of free blacks, African slaves, Indians, and mixed-race groups.

Bolivar was born into a wealthy creole family. Both of his parents died before he was 10, and he inherited estates, plantations, and about 150 slaves. An uncle became his guardian and took care of his inheritance.

Young Bolivar learned little from a series of tutors. His uncle complained about his roaming the streets of Caracas with lower-class youth. For a short time, he was enrolled in a militia where he received his only formal military training.

At 16, Bolivar went off to Spain for further schooling, but he never

attended a university. At age 18, he fell deeply in love and married the daughter of a Spanish aristocrat. Bolivar took his bride to Venezuela, but she died of yellow fever within a few months. He vowed never to marry again. Bolivar later said that the death of his wife sent him on a totally different path in life, one that made him a revolutionary.

Becoming a Revolutionary

In 1803, Bolivar left Venezuela for Paris. France had undergone a revolution, experienced years of revolutionary rule, and a new leader, Napoleon Bonaparte, had taken charge of the nation.

Bolivar began studying about government and how countries should be ruled. He read books by Enlightenment thinkers such as John Locke, Jean-Jacques Rousseau, and Montesquieu, who had differing opinions on government. He also studied the revolutionary ideas of the American Thomas Paine. One lesson he learned was that each nation's laws should fit that nation's character. Bolivar vowed ▶

A NEW ORDER

This edition of *Bill of Rights in Action* looks at people who set up a "new order," for better or worse. The first article explores the life of the Liberator, Simon Bolivar, who fought for South America's independence from Spain. The second article examines J.P. Morgan, the Panic of 1907, and the creation of the Federal Reserve. The last article looks at Juan Peron, the president of Argentina whose Peronism still influences that country.

World History: Simon Bolivar: Thinker, Liberator, Reformer

U.S. History: J.P. Morgan, the Panic of 1907, and the Federal Reserve Act

Government: Juan Peron: Dictator or Champion of Social Justice?

WORLD HISTORY

to break the chains of Spanish rule in his homeland.

In 1807, Bolivar returned home. The following year, Venezuela learned that Napoleon had invaded Spain and sent King Ferdinand VII into exile. Resistance forces in Spain established their own government, called the Central Junta. Caracas creoles also proclaimed a junta to govern Venezuela in the name of the king until he was restored to the throne. The junta idea spread throughout Spanish South America.

Bolivar and others demanded full independence from Spain. On July 5, 1811, the Caracas Junta declared independence for Venezuela, the first such declaration anywhere in Spanish South America.

The revolutionaries established a republic. From the U.S. Constitution, they adopted the idea of federalism, which divides power between the central government and states. In Venezuela, this meant a weak central government with three presidents, while the provinces and cities held most of the power.

Not all creoles supported an independent republic. They wanted Spanish rule to come back once King Ferdinand VII returned to the throne. Called royalists, these creole supporters of the monarchy began to provoke uprisings against the republic.

In 1812, Spanish troops landed to crush the republic. The republicans fielded an army, which Bolivar joined, but the soldiers were poorly trained and led. Spanish and royalist troops entered Caracas with little resistance. Supporters of the republic fled, Bolivar among them. The First Republic, as it was later called, collapsed.

Revolutionary Thinker

Bolivar escaped westward to Cartagena, the main seaport of New Granada. In December 1812, he wrote the Cartagena Manifesto, which stated the reasons he thought Venezuela's republic had failed.

Bolivar wrote that the biggest mistake was to adopt U.S. federalism. In

practice, he explained, this allowed each province and city to rule itself and ignore national needs, including defense against the Spanish and royalists.

Bolivar also opposed the republic's elections. He wrote that in the countryside, the vast majority of people were illiterate and ignorant of politics. In Caracas, he argued, elections only divided people into warring factions.

Bolivar wrote that Venezuela should have a strong unifying central government. "Our division, not the Spanish forces," he declared, is what defeated the republic.

With hardly any military background, Bolivar recruited an army and led it back into Venezuela. When he defeated the Spanish in one battle after another, his reputation grew, and more men joined him.

The Spanish committed atrocities on civilians to stop them from aiding Bolivar. This caused Bolivar to declare "a war to the death," which meant any Spanish prisoner who refused to join the fight for independence was executed.

On August 6, 1813, Bolivar entered Caracas. An assembly established the Second Republic. It granted Bolivar "supreme power" to prevent the division that undermined the First Republic. The following year, however, Spanish troops and royalists drove Bolivar and the republicans out of Caracas a second time. Bolivar went into exile on the British island colony of Jamaica.

Meanwhile in Europe, Napoleon was defeated in Spain, and King Ferdinand VII returned to the throne. He sent a huge Spanish military expedition to America to crush the independence movement. This "pacifying" army reconquered New Granada by October 1816 and executed thousands of republicans in mass hangings.

In Jamaica, Bolivar again put his thoughts on paper. In the Jamaica Letter, Bolivar accused Spain of crippling the political development of South Americans by depriving them of any

experience with self-government.

Bolivar argued that U.S.-style democracy was impractical until South Americans could "acquire the political skills and virtues that distinguished our brothers to the north." He also declared that British- or Spanish-style monarchy was wrong for South America. He thought there should be a middle way of governing.

In December 1815, Bolivar sailed to Haiti to organize another attempt to liberate Venezuela. Haitian slaves had revolted against the French-ruled colony in 1804 and established the first republic in all of Latin America.

In Haiti, Bolivar recruited an invasion force of creole exiles and Europeans. He also got arms, supplies, and naval transport from the Haitian president but on the condition that Bolivar would abolish slavery in Venezuela.

After Bolivar landed in Venezuela in 1816, he decreed freedom for those slaves who joined his liberation army. Few accepted this condition.

After suffering initial defeat, Bolivar set up a base far up the Orinoco River in the interior of Venezuela. He actively recruited slaves and those of mixed race who made up more than half of Venezuela's population. He promised them land confiscated from Spanish and royalist owners.

Bolivar spoke of his vision for Venezuela. He emphasized that the only way to unify Venezuela's diverse people was legal equality for all. "Unity, unity, unity — that must be our motto," he cried. Unity had to include "absolute freedom for the slaves." A nation "cannot be simultaneously free and enslaved."

He argued for a single powerful president, elected by the people or their representatives. A weak executive, he warned, led to anarchy and then tyranny. Finally, he called for the union of Venezuela and New Granada into one strong nation. He foresaw this union as

a new order, "revealing to the old world the majesty of the modern world."



A MAP OF THE MODERN COUNTRIES of South America. All were Spanish colonies except Brazil (Portuguese), Guyana (British), Suriname (Dutch), and Guiana (still a French possession).

The Liberator

Over the next few years, Bolivar mounted successful military campaigns against the Spanish in Venezuela and New Granada. He surprised the Spanish and their royalist allies by his quick movements and unexpected tactics. Bolivar captured Caracas in June 1821, permanently ending Spanish rule there. Bolivar assembled a constitutional convention that voted to unify Venezuela and New Granada into the Republic of Colombia with its capital at Bogota.

Colombia's Congress unanimously elected Bolivar as the new nation's first president for a four-year

term. Bolivar accepted, but only if he could continue the fight to liberate all of Spanish South America.

As president, Bolivar pressed for the immediate freedom of all slaves. He divided community lands among the Indians, established schools for their children, and required wages for their work. But creole landowners in Congress opposed most of these reforms.

Bolivar was soon on the move to liberate the remaining Spanish colonies. His top general, Antonio Jose de Sucre, defeated the Spanish in Ecuador. Bolivar joined him there in June 1822 and annexed it to Colombia.

Jose de San Martin was the other great liberator of Spanish South America. He was a creole professional army officer from Argentina and part of the independence movement there. He led an army over the Andes to liberate Chile. From Chile, San Martin invaded and liberated coastal Peru.

In July 1822, San Martin and Bolivar met secretly in Ecuador, and San Martin apparently agreed to hand over Peru to Bolivar and return home to Argentina. Bolivar moved to Peru, and the republican Congress made him dictator. To the dismay of many Peruvian creoles, Bolivar decreed that land be distributed and schools set up for the Indians, who made up a large majority of the population.

The last Spanish army in South America occupied a large area called Upper Peru. On April 1, 1825, Gen. Sucre defeated the Spanish in the last battle of the liberation wars, ending 300 years of Spanish colonial rule in South America.

Several months after Sucre's victory, an assembly of creole representatives declared Upper Peru's independence and named their new nation Bolivia in honor of the man whom all patriots in South America now called the Liberator.

The Bolivian Constitution

The Bolivian assembly asked Bolivar to write its constitution. The Bolivian Constitution reflected Bolivar's attempt to design a government suitable for South American nations.

The Liberator proposed his constitution to the Bolivian Constitutional Congress in May 1826. He called for Bolivia to adopt a representative democracy with the people holding ultimate political power. But voters would have to be able read and write even though two-thirds of the people were illiterate Indians.

Bolivar wanted a three-house legislature that would divide the responsibility of lawmaking. The judiciary's job was to safeguard freedom, equality, and security.

The most controversial part of the constitution was Bolivar's idea ►

for the president to hold a life term with the power to choose his successor. The president's authority was limited by the constitution, but he commanded the military, and the legislature could vote him absolute power "in time of war or extreme danger."

For a society where government and the Roman Catholic Church had always been joined together, Bolivar surprisingly recommended religious freedom and the separation of church and state. The state, he said, "cannot govern the conscience of its subjects."

Finally, Bolivar added a bill of rights. This included guarantees for civil liberties, property, press freedom, and privacy in the home. The constitution also abolished slavery and banned the use of torture.

The Bolivian Constitutional Congress adopted most of what Bolivar proposed. But it delayed freeing the slaves and made Catholicism the official religion. The Congress elected Gen. Sucre president for life, but he really did not want this position and resigned after two years.

Bolivar hoped the Bolivian Constitution would become the model for all the nations liberated from Spain. He also proposed a confederation of American republics to promote cooperation among them. He wanted Britain to provide overall protection since he distrusted the growing power of the U.S. Despite a meeting of some republics in 1826, nothing came of this idea.

Dictator of Colombia

At the end of 1826, Bolivar returned to Colombia to find Venezuela in rebellion. Re-elected to another four-year term as president, Bolivar stopped a possible civil war by promising the Venezuelans to reform the constitution.

Bolivar called a convention in 1828, hoping it would adopt the constitution he wrote for Bolivia. But the convention divided into factions and disbanded, plunging the nation into chaos. The wealthy landowners, fearing revolts by

slaves and the mixed-race classes, agreed to make Bolivar the temporary dictator of Colombia.

As dictator, Bolivar ruled thoughtfully. He attempted to speed up the abolition of slavery. He decreed that forests belonged to the public and required permits to prevent "excessive harvesting" of trees.

Jealous political rivals, however, spread false rumors that Bolivar wanted to be king. Venezuela again rebelled, and Bolivar barely escaped an assassination plot. Finally, in January 1830, he called a new constitutional convention and announced the end of his dictatorship and political career.

In May, Venezuela and Ecuador declared their independence from Colombia. News came that Gen. Sucre, Bolivar's only possible political heir, had been assassinated. Bolivar intended to go to Europe into exile, but he was too weak to travel due to advanced tuberculosis.

On December 10, 1830, the Liberator issued his final proclamation. He again pleaded for the unity of the Colombian people. Seven days later, he died at age 47.

Bolivar wished to be buried in Caracas. But the new leaders of

Venezuela called him a tyrant and refused his body. He was buried in Colombia, abandoned by friends and hated by enemies. Most of his enlightened reforms were soon forgotten.

This rejection of the Liberator did not last long. In 1842, he was reburied in Caracas. Today, this man of action and ideas is celebrated as the outstanding revolutionary hero of South America.

For Discussion and Writing

1. Why did Bolivar reject the U.S. form of government for the liberated nations of Spanish South America?
2. Bolivar sought a middle way between U.S. democracy and British monarchy. How did he attempt to do this in the Bolivian Constitution?
3. Toward the end of his life, Bolivar wrote, "Those who serve a revolution plow the sea." What do you think he meant by this?

For Further Reading

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ACTIVITY

Bolivar's Best and Worst Ideas

In small groups, students discuss Bolivar's ideas listed below. Each group then ranks these ideas 1 to 10 from best to worst. The groups then defend their choices for Bolivar's best and worst ideas.

- _____ Bolivar's vow to liberate his homeland.
- _____ His "war to the death."
- _____ His confiscation of Spanish and royalist land to redistribute to his liberation army.
- _____ His belief that a nation's form of government should fit the conditions of the people.
- _____ His advocacy for a president for life with the power to choose his successor.
- _____ His conclusion that the people of Spanish South America were not ready for U.S.-style democracy.
- _____ His view that there should be legal equality for all races and classes.
- _____ His conviction that slavery was incompatible with a free nation.
- _____ His reforms to benefit Indians and preserve forest resources.
- _____ His concept of religious toleration and separation of church and state.

J. P. MORGAN, THE PANIC OF 1907, & THE FEDERAL RESERVE ACT

IN 1907, J.P. MORGAN AND OTHER WALL STREET BANKERS RESCUED BANKS, THE STOCK MARKET, AND NEW YORK CITY FROM FINANCIAL RUIN. IN 1913, CONGRESS PASSED THE FEDERAL RESERVE ACT, WHICH PUT THE GOVERNMENT IN CHARGE OF MANAGING FUTURE FINANCIAL CRISES.

In 1900, more than 20,000 banks operated in the United States (compared to fewer than 8,000 today). When people deposited money in a bank, it did not just store the cash in a vault. The bank made its profits by lending most of these funds to businesses and individuals and charging interest on these loans.

Banking regulations required most banks to keep a certain percentage of their deposits, called reserves, in ready cash or easily available. Small town banks often deposited some of the reserves in larger city banks to earn interest there, but they could quickly call back their reserves as needed.

The city banks in turn usually deposited part of their required reserves in the biggest city banks. A large percent of the reserves that flowed up this chain of banks ended up in New York City's Wall Street financial institutions, the largest banks of all.

Wall Street banks made loans to railroads, huge corporations, and even to the U.S. government. They also invested in stocks and bonds. In this way, Wall Street financed much of America's booming industries.

When things went smoothly, money from bank reserves flowed up the chain of banks to Wall Street and then down the chain in the form of profitable interest. But things did not always go smoothly.

Bank Panics

One problem was the frequent shortage of money in circulation.



J.P. MORGAN (1837-1913), left, walks with his son, John Jr., in 1912.

Library of Congress

To meet an increase in the demand for loans, local banks sometimes had to call back reserves they had deposited in city banks. In turn, these banks then often had to call back their reserves from up the chain of banks.

The United States did not have a central bank. In 1836, President Andrew Jackson had refused to re-charter the Bank of the United States. Thus, no national central bank managed the supply of money or acted as a "lender of last resort" to keep banks in business when they temporarily ran short of cash.

Repeated bank panics broke out during the 19th century. Such

events occurred suddenly when depositors, acting on real or imagined fears, ran to their banks to demand their cash deposits back.

People panicked easily because if their bank failed, they would lose all the money they had deposited. Unlike today, no government insurance program guaranteed bank deposits.

"Bank runs" quickly wiped out the reserves of banks and often caused them to fail even though they might still hold solid assets such as profitable loans. A panic could start among small rural banks and spread up the chain of banks. It could also go down the chain after the failure of banks on Wall Street.

The financial markets could also cause bank panics. If banks recklessly speculated their reserves on land, when the value of land fell, a bank panic might follow. If the stock market crashed, a bank panic could result. During the 1800s, at least five major bank panics erupted followed by economic depressions of varying lengths and severity.

Without a central bank to rescue the banking system during a panic, the bankers themselves had to try to stop the financial meltdown. No banker was better at this than J.P. Morgan.

J.P. Morgan

Born in 1837, John Pierpont Morgan was the son of a successful bank financier. Pierpont, as he preferred to be called, was educated in private New England schools and studied art history at a German university. After his first wife died, Morgan married Frances Tracy in 1865. They had four children.

At age 24, Morgan entered New York finance as the Wall Street agent for his father's banking company. In 1871, Morgan's father arranged for his son to form a partnership with an older banker. Drexell, Morgan and Co. soon emerged as the main source of loans to the U.S. government.

Over the next decades, Morgan became the dominant figure on Wall ►

Street. He was more than six feet tall with a deformed purplish nose caused by a skin condition. He hated pictures taken with his nose in profile, and he once assaulted photographers with his walking cane.

Morgan believed American capitalism should be under the control of bankers like him. His Wall Street peers saw him as their natural leader, who was known as honest and fair.

Morgan viewed the wild cut-throat capitalism of the late 19th century as wasteful and destructive. He hated “ruinous competition,” such as the rate wars that drove many railroads into bankruptcy. Morgan believed the best way to create business stability was for competitors to regulate themselves with private agreements based on trust. In the 1880s, Morgan started to organize mergers of competing railroads.

‘Jupiter’

In 1893, a stock market crash triggered a bank panic and the worst depression in U.S. history up to that time. During this depression, the money supply shrank as people and businesses hoarded cash. Scarce money caused high interest rates on borrowing, which led to a drop in spending and mass unemployment.

The gold standard worsened the crisis. The U.S. Treasury could only print paper money that was backed by its reserves of gold. The money crisis worsened when European nations demanded payment in gold to settle trade imbalances. This threatened to shrink the money supply further.

In February 1895, Morgan and other bankers met with President Grover Cleveland. Morgan proposed a plan for his financial firm to coordinate the U.S. purchase of gold from world sources in exchange for government gold bonds payable in 30 years.

Cleveland approved Morgan’s plan. It worked, and the U.S. money supply stabilized. Morgan and the other bankers who carried out the plan made a nice profit as well.

In effect, Morgan acted in place of a central bank that the U.S. did not have. Wall Street nicknamed him “Jupiter,” after the chief Roman god.

When his bank partner died, Morgan renamed the firm J.P. Morgan & Co. Morgan’s bank financed the merger of numerous railroads into six huge systems. He traded his financing for the majority of stock in the merged railroads and a place on their boards of directors. Wall Street called this process “morganization.”

Morgan also merged competing industrial companies into gigantic

He assembled the city’s commercial and trust company bankers, put them in separate rooms, locked the front door, and kept the key in his pocket until he could negotiate a deal.

corporations. In 1901, he merged steel companies he owned with Carnegie Steel plus nine others to form U.S. Steel. This became the world’s first billion-dollar corporation, which controlled about half the American steel business.

Morgan donated millions of dollars to museums, the opera, hospitals, schools, and his Episcopal Church. His passion was collecting fine art, manuscripts, and other rare objects. To contain his vast collection, he built the Morgan Library next to his home.

The Panic of 1907

In 1901, Vice President Theodore Roosevelt became president following the assassination of President William McKinley. Roosevelt quickly signaled that he sympathized with

reformers, called progressives, who demanded vigorous enforcement of antitrust (anti-monopoly) laws.

During the summer of 1907, a pair of minor Wall Street bankers devised a scheme to capture the stock of the United Copper Co. and drive up its price. But the scheme fell apart, and the company’s stock plunged in value.

One investor in the scheme was the president of the Knickerbocker Trust Company. This was a new type of bank that was only lightly regulated.

Trust companies did regular banking but also made risky loans and speculated in the stock market. By taking risks, they made greater profits and could offer higher interest rates to depositors than the more common commercial banks did. Also, trust companies did not have to hold as much in reserve as commercial banks.

Early in October, Knickerbocker depositors learned that their bank’s president had invested in United Copper stock. This caused a run on the trust company by depositors who feared it had lost money and would fail. Actually, Knickerbocker itself had not invested in the scheme and was stable.

But Knickerbocker still ran out of cash to pay off its panicked depositors, and it closed. A panic began. Depositors in other New York trust company banks started withdrawing their money. Banks down the banking chain were calling back their reserves from Wall Street to guard against a run on their deposits.

Wall Street bankers turned to 70-year-old J.P. Morgan, the one man they trusted. When a new run on the Trust Co. of America bank occurred, Morgan and two of his banker friends raised \$3 million to save it. But the bank runs continued, especially on the trust companies.

Then New York City’s mayor reported to Morgan that the financially stressed city needed a loan to cover its payroll and pay contractors.

Fearing the city's financial collapse would worsen the panic, Morgan and his banker friends purchased \$30 million in city bonds.

Brokerage firms, which handled stock market transactions, were also in danger of failing. They were paying skyrocketing interest rates on loans to meet their obligations. Morgan put together a \$25 million "money pool" for making lower interest loans to them, avoiding an almost certain stock market crash.

But the largest brokerage firm on Wall Street, Moore & Schley, was \$25 million in debt. The bankruptcy of this key firm could still set off a stock market crash.

Morgan called a meeting at the Morgan Library. He assembled the city's commercial and trust company bankers, put them in separate rooms, locked the front door, and kept the key in his pocket until he could negotiate a deal.

The meeting went well into the night. Trust company bankers resisted pooling their reserves to stop the panic, but negotiations wore on. At 4:30 a.m., Morgan finally bullied them into signing an agreement. It called for the trust company bankers to bail out their brother bankers who were struggling with runs on their deposits. For his part, Morgan promised to save the Moore & Schley brokerage.

Morgan then devised a plan to erase the debt of Moore & Schley. It would sell a steel company it owned to U.S. Steel, a company that Morgan held stock in and was a member of its board of directors. The only problem with this deal was that by buying a competitor, U.S. Steel would monopolize the steel industry even more. This could trigger an antitrust prosecution by the Roosevelt administration.

Morgan immediately sent trusted advisers to Washington to persuade President Roosevelt to approve the deal. Roosevelt agreed that the circumstances of the Wall Street panic warranted U.S. Steel's purchase of a competitor.



A CROWD GATHERED in front of a failed bank in New York City. Before federal deposit insurance (created in the 1930s), if a bank went under, its depositors lost all their money.

Library of Congress

The Fallout

Morgan's deal-making finally stopped the Wall Street panic. Much economic damage, however, had already spread across the country. The resulting depression of 1907–08 was severe, but probably would have been greater if the bank panic had continued.

Wall Street cheered Morgan as a hero. But progressives attacked Morgan and Wall Street for all the profits they made from their deals. Some even accused them of causing the panic so they could make money from it, but this was never proved.

It also turned out that the steel company purchased by U.S. Steel had been underpriced. This made the purchase even more profitable for U.S. Steel (and Morgan).

Progressives criticized the president for being hoodwinked by Morgan into undermining his own trust-busting campaign. In addition, progressives claimed that a "money trust" of Wall Street bankers, headed by Morgan, conspired to monopolize the nation's financial investments.

In December 1912, Morgan testified before a congressional banking committee hearing chaired by Rep. Arsene Pujo. At age 75, Morgan was

semi-retired with his son, John Jr., in the process of taking over the family bank.

When the committee's chief counsel questioned Morgan whether he commanded any power over the economy, he replied, "Not the slightest." He denied that any money trust existed. He also disagreed that his mergers of railroads and industries had created an unhealthy concentration of economic power.

The Pujo committee, however, concluded that a "community of interest" existed on Wall Street that concentrated "the control of money and credit in the hands of a comparatively few men." The committee's report identified six Wall Street banks, including Morgan's, which made it nearly impossible for large companies to sell their corporate bonds without the group's cooperation. The six banks had agreed not to compete against one another in handling new issues of bonds. The Pujo report also revealed that Morgan's bank along with two others held voting seats on the boards of directors of corporations worth an astounding \$25 billion (between 2 and 9 trillion in today's dollars).

Morgan sailed to Europe early in 1913. He died in his sleep in Rome on March 31. Morgan's partners ►

publicly blamed his death on the stress of the Pujo hearings. Morgan's estate was valued at more than \$100 million. That figure was much smaller than the fortunes of industrial barons like Carnegie and Rockefeller. Carnegie commented, "And to think, he was not a rich man." Morgan's only son, John Jr., inherited control of his father's financial empire.

The Federal Reserve Act

After the Panic of 1907, there was widespread agreement that a central bank was needed to manage the money supply and to be the "lender of last resort" to stop bank panics. Sharp disagreement arose, however, over who should run this bank.

Most of the nation's bankers, including Morgan, wanted a private central bank controlled entirely by bankers. The progressives wanted a central bank under the control of the federal government.

After Democrat Woodrow Wilson won election as president in 1912, he sided with the progressives. Wilson insisted that the central bank be a public agency directed by government officials appointed by the president.

Bankers and Republicans objected to Wilson's demand for federal control of the central bank. They argued that the bank would be controlled by politicians who would follow the policies of whichever party was in power. They also complained such a board would mean major government interference in private banking and the free enterprise system. They much preferred that any "capstone" board, as Wilson called it, should be in the hands of expert bankers alone.

The progressives used the findings of the Pujo hearings to justify the need for a government-controlled central bank to counter Wall Street's dangerous concentration of economic power. For many years, farmers and populist politicians had complained that the New York

banks had too much control over the cost of borrowing. It was time, the progressives argued, to stop relying on Wall Street bankers, like J.P. Morgan, to end bank panics themselves and make big profits in the process.

With the Democrats in control of Congress, the Federal Reserve Act was passed by strong majorities in the House and Senate. President Wilson signed it into law on December 23, 1913. These were the act's key features:

- A seven-member Federal Reserve Board, appointed by the president with the consent of the Senate, was to coordinate money supply policy with 12 banks designated as Federal Reserve Banks. Each of the banks would be located in a different region of the country.
- The Federal Reserve Banks were to be "lenders of last resort" for U.S. banks.
- The Federal Reserve Banks could issue Federal Reserve Notes, paper currency redeemable in gold, to make the money supply more "elastic" or expandable, if needed.

The Federal Reserve Act of 1913 has been changed a number of times, most notably to centralize power from the 12 regional banks to the Federal Reserve System's policymakers in Washington. One major flaw in the 1913 banking reform effort was the lack of a government bank deposit insurance system to

protect people's money when banks failed. Congress finally enacted this reform in 1933, creating the Federal Deposit Insurance Corporation. Today, the FDIC insures every depositor up to at least \$250,000 in an insured bank.

* * * * *

In 2000, J.P. Morgan & Co. merged with Chase Manhattan Corp. to form the JPMorgan Chase Bank. This bank participated in the 2008 U.S. bailout of banks. It borrowed \$25 billion, which it has since repaid to the U.S. Treasury. JPMorgan Chase is currently the largest U.S. bank by assets held.

For Discussion and Writing

1. Why did bank panics often lead to the failure of banks and economic depressions?
2. President Theodore Roosevelt condemned the "predatory man of wealth." Was J.P. Morgan such a man? Why or why not?
3. How did the Federal Reserve Act attempt to stop the destructive bank panics?

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ACTIVITY

Control of the Federal Reserve System

In 1913, J.P. Morgan and other bankers disagreed with President Woodrow Wilson and the progressives over who should control the Federal Reserve System. *Should it be directed by private bankers like Morgan or by government officials appointed by the president?*

1. Form small groups that will first list arguments for each side of the question above based on information in the article.
2. The groups will then discuss the arguments on each side and decide who should control the Federal Reserve System.
3. The groups will then report their conclusions and reasons to the class.

JUAN PERON: DICTATOR OR CHAMPION OF SOCIAL JUSTICE?

IN 1946, JUAN PERON WAS ELECTED PRESIDENT OF ARGENTINA. HIS INFLUENCE ON HIS COUNTRY LASTED FOR DECADES, AND EVEN TODAY HIS LEGACY IS CONTROVERSIAL.

During most of Argentina's history, the control of the country switched back and forth among the military, wealthy conservative landowners, and reform-minded politicians. None of these groups paid much attention to the economic hardships of Argentina's workers and poor. All this changed when Juan Peron, an army colonel, adopted a surprisingly different path to political power.

Peron's Rise to Power

Born in 1895, Juan Peron was the son of a farmer and estate manager. At 16, Peron entered a military school modeled on German-style instruction.

After graduating in 1913, he rose rapidly in Argentina's army ranks. In 1939, Argentina's government sent Peron to Benito Mussolini's fascist Italy as a military representative. The Italian dictator impressed Peron with his ability to excite large crowds with fiery speeches and his regime's ability to assert governmental control over business, labor, and other groups. When Peron returned to Argentina in 1941, he was an ardent admirer of Mussolini's brand of fascism.



JUAN PERON (1895-1974), here wearing the presidential sash, was elected president of Argentina three times.

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Now a colonel, Peron became convinced that Argentina should remain neutral in World II. In May 1943, he helped form a secret group of army officers to assure this goal. When Argentina's civilian president seemed to move toward abandoning neutrality, the officers led a takeover of the government and installed a general as president.

As a leader of the group, Peron could have taken any government position. He surprised many when he requested to be put in charge of a minor government agency, the National Labor Department. Soon, he reorganized it into the more powerful Ministry of Labor and Welfare.

In February 1944, the vice presi-

dent, Gen. Edlemiro Farrell, and Col. Peron joined together to seize control of the government. Gen. Farrell became president and appointed Peron minister of war. Peron also continued as the head of the Ministry of Labor and Welfare.

Peron quickly began to use his new position to benefit workers and increase his own power. He decreed laws that provided health insurance, paid vacations, and retirement pensions for Argentinean workers. He sided with workers in settling labor strikes, and he organized thousands of workers into new labor unions.

In July 1944, Peron again increased his power by stepping into the vacant office of vice president ►

while still holding his other two positions in the government. Some army and navy leaders worried that Peron was scheming to take control of the regime.

In October 1945, army and navy officers pressured President Farrell to force Peron out of the government. After Peron resigned, he was arrested and imprisoned. The labor unions, fearful of losing all that they had gained from Peron, organized strikes and a massive march on Buenos Aires. Up to 300,000 converged on the Plaza de Mayo in front of Casa Rosada (Pink House), the presidential palace. They demanded to see Peron.

Fearing a revolution, President Farrell and the top military leaders freed Peron. On October 17, 1945, he appeared on the balcony of Casa Rosada and spoke to a huge crowd. Millions more listened to his speech on radio. Peron called for a brotherhood of workers, the army, and the police. "Upon the brotherhood of those who labor," he said, "we must construct in this beautiful land the unity of all Argentina." Peron's speech solidified his power base among Argentina's disadvantaged majority.

Juan and Eva

Born in 1919, Maria Eva Duarte was the illegitimate child of a wealthy landowner and his cook. At age 16, she traveled to Buenos Aires to find work. Eva, as she called herself, grew up enchanted by romantic movies. In Argentina's capital, she found minor parts in the theater. In 1937, she played her first small roles in film and on the radio. Two years later, she became an actress on a radio soap opera, popular with women all over the country. She continued her career in films and the radio, and by 1943 she was a star.

Eva met Peron during a campaign for earthquake relief, and they began a relationship. In 1945, Peron married Eva, just a few days after his dramatic speech from the balcony of Casa Rosada.

Peron Takes Power

The military government decided to return the government to civilian rule and set an election for February 1946. Riding a tide of popularity among workers, Peron ran for president.

Peron aimed his campaign at the poor uneducated workers, called *los descamisados* (shirtless ones). During his campaign, he argued that if he were not elected president, they would lose the benefits he had given them. He declared, "The substance of Argentina's drama is simply a championship match between social justice and social injustice."

Peron based his political philosophy on that of Mussolini, who preached that bringing the different groups in society together under his control produced unity and strength

In a move unheard of in Argentina, Eva joined her husband on the campaign, often appearing at his side. In the election on February 24, 1946, Peron won the presidency with 52 percent of the vote. In Congress, Peron's allied political parties won all but two seats in the Senate and had a two-thirds majority in the Chamber of Deputies.

Peron moved swiftly to consolidate his power. He merged his allied parties into a new Sole Party of the Revolution under his tight control. He also had hostile members of the Supreme Court impeached and replaced them with his supporters.

Peron made efforts to control the media. Eva bought several newspapers and a radio network to promote Peron's policies. Newspapers that charged Peron with being a dictator found that they could not get paper to print their newspapers.

Peron increased military spending to assure support of the army

and navy. He redoubled his efforts to build political support among Argentina's workers, providing them with new benefits such as a minimum wage and restrictions on the right of employers to fire their workers. Peron also promised workers steady employment on public building projects, higher wages, and education for their children.

Labor union membership increased dramatically. When unions went on strike, Peron took their side. But labor paid a price. Peron replaced union leaders who did not support him with those who did.

Evita

Eva Peron held no elected or appointed office, but she effectively took control of the Ministry of Labor and Welfare. From there she distributed food and other kinds of aid to the poor who lined up to ask for help.

Eva met with union delegations and visited factories to check on workers' needs and complaints. She personally delivered school books, clothes, furniture, toys and other donations to the homes of the needy.

In 1948, she established the Eva Peron Foundation, funded by a national lottery, unions, private contributors, and tax revenue provided by Congress. The foundation enabled expanded distribution of aid for the poor.

In addition, Eva's foundation built 12 hospitals, 1,000 schools, medical clinics, and homes for the aged. The foundation financed a Children's City, which had child-sized stores, public buildings, and housing for nearly 500 disadvantaged children.

Eva became involved in politics as well. After women won the right to vote in 1947, she organized the Peronist Women's Party and doubled the number of registered voters. Not a modern feminist, she once said that "for a woman to be a Peronist, means above all, loyalty to Peron, submission to Peron, and blind trust in Peron."

Eva's devotion to Peron became an obsession. "We must hold three things sacred: the Fatherland, the People, and Peron," she said. She called Peron's critics in the government "traitors" because "he, who does not feel himself to be a Peronist, cannot feel himself an Argentine."

The workers, poor, and women she helped idolized Eva, calling her the "Lady of Hope" and the "Bridge of Love." Most people simply called her "Evita."

Peronism

Peron based his political philosophy on that of Mussolini, who preached that bringing the different groups in society together under his control produced unity and strength. Peron also believed in a strong central government and an "organized community."

Peron saw himself as the "conductor" of the process. He required organized workers, industrialists, merchants, consumers, and other groups to reach agreements rather than resort to strikes, boycotts, and conflict. Peron viewed his form of government as a "third position" between capitalism and communism. Others called it Peronism.

Peron set up a government agency that bought Argentina's wheat, beef, and other products at low set prices. The agency exported the products to other countries at higher world prices. The government kept the profits to pay for Peron's "social justice" programs.

Peron's financing system worked while Argentina had trade surpluses accumulated from its exports during World War II. When these were gone, profits in foreign trade decreased, and the government did not have enough to pay for the benefits Peron showered on the workers and poor.

Argentina began to print money to make up the difference. This led to inflation (higher prices), a problem that continued to plague Peron's regime.



EVA AND JUAN PERON. The extremely popular Eva was her husband's political partner. She died at age 33 in 1952.

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Peron willingly used laws to maintain his vision of a unified nation and discourage political enemies. Peron's tightly controlled Congress strengthened a law against disrespecting government officials and passed new laws on treason, sabotage, and spying.

Peron closed *La Prensa*, the last remaining opposition newspaper in Buenos Aires. He removed university professors and tried to keep students under his control. He made it difficult to form new political parties.

In 1949, Peron engineered a change in Argentina's constitution to permit him to run for a second term as president. When a military plot to overthrow him failed, he declared a State of Internal Warfare that increased his presidential powers and enabled him to crack down on civil liberties.

During the election campaign in 1951, Peron's new powers allowed him to keep a number of opposition political leaders under arrest. The recently strengthened law against disrespecting government officials prevented any real criticism of Peron. Police tightly controlled public meetings, and opposition parties were often barred from using the radio to campaign. When the election was over, Peron had won 64 percent of the vote. Peronists also

won control of all the provincial governments and nearly every seat in Congress.

Peron's Fall and Return

In 1952, Evita died of cancer at age 33. Nationwide mourning accompanied an elaborate funeral. Some even wanted the Catholic Church to make her a saint.

Weakened by the loss of his wife and bold political partner, Peron also faced a decline in exports that put pressure on the government to reduce spending. Argentina faced steeply rising prices, and the government had frozen workers' wages in an attempt to control inflation.

Opposition to Peron and his policies increased, finally erupting in violence by radical political groups. In June 1955, a plot by navy officers to overthrow Peron failed, but only after Casa Rosada had been bombed and hundreds of civilians were killed.

To gain support, Peron rallied the workers to march again to the Plaza de Mayo as they did in 1945. This move only provoked army and navy officers to force Peron from power. On September 20, 1955, Peron fled to the Paraguay embassy and soon left the country.

After living in exile in several Latin American countries, Peron ➤

finally settled in Spain. In 1961, he married Isabel Martinez, an Argentine dancer.

During Peron's exile, a series of mostly military governments tried to govern Argentina. Congress and the Supreme Court were closed, and Peron's political party was banned. Strikes by workers still loyal to Peron disrupted the economy. Violent radical groups increased bombings, kidnappings, bank robberies, and attacks on government targets. Peron kept in touch with his allies in Argentina and plotted to return to power.

In 1971, the military regime decided to restore Argentina to civilian rule and scheduled elections for March 1973. Peron's political party was allowed to operate again, but a new residency rule prevented Peron from running for president.

Peron devised a plan to regain the presidency. He had an ally run for president who, once elected, abolished the residency rule. The president and his vice president then resigned and called a new election. Peron returned to Argentina, ran in the election, and was elected to a third term. His wife Isabel was elected as vice president. They won 62 percent of the vote.

Peron took office in October 1973, but his health declined, and he failed to solve the nation's economic problems or to suppress radical violence. On July 1, 1974, Peron died of heart failure at age 78. Unlike Evita's funeral 22 years earlier, his was a simple one.

Peronism without Peron

Isabel Peron succeeded her husband as president, but she failed to

gain the emotional support of the people as Evita had done or to effectively address Argentina's problems. Another military takeover removed her from office in 1976, and she eventually went into exile in Spain.

The military regime that replaced Isabel turned out to be the most brutal in Argentina's history. It launched a campaign to destroy the violent radical groups and ended up trying to crush any opposition. Up to 30,000 innocent people were arrested, tortured, and executed between 1976 and 1983. During this "Dirty War," many simply "disappeared."

Elected civilian government finally returned in 1983. Since then, Argentina has held seven presidential elections, five of them won by candidates supporting Peronism. Argentina's current leader, Cristina Kirchner, the first elected woman president, represents the Front for Victory Party, a faction of a party first organized by Juan and Eva Peron in 1947.

For Discussion and Writing

1. What strategy did Peron use to win and keep power in Argentina?
2. What was Peronism under Peron? Do you think it was a good or bad thing for Argentina? Why?
3. Why did many call Evita "the face of Peronism"?

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ACTIVITY

Dictator or Champion of Social Justice?

Some have described Juan Peron as a champion of social justice for the workers and poor of Argentina. Others have called him a dictator. Which description do you think is closer to the truth?

1. In small groups, first draw up a list of evidence for each description of Peron.
2. Discuss the question above, and then take a vote on it.
3. Report to the class your group's conclusion and the reasons for it.

Standards Addressed

Simon Bolivar

National High School World History Standard 32: Understands the causes and consequences of political revolutions in the late 18th and 19th centuries. (2) Understands comparisons between the Latin American revolutions and those in America, France, and Haiti . . . (3) Understands the status of women and other social classes during and following the Latin American independence movements (e.g., the political roles of Creole elites, the Catholic Church, and mestizo, mulatto, and Indian populations . . .) (5) Understands the ideas and issues during and after the Latin American independence movement (e.g., . . . issues that concerned New Granada after independence . . .).

California History Social Science Standard 10.2: Students compare and contrast the Glorious Revolution of England, the American Revolution, and the French Revolution and their enduring effects worldwide on the political expectations for self-government and individual liberty. (1) Compare the major ideas of philosophers and their effects on the democratic revolutions in England, the United States, France, and Latin America (e.g., John Locke, Charles-Louis Montesquieu, Jean-Jacques Rousseau, Simon Bolivar, Thomas Jefferson, James Madison).

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National High School U.S. History Standard 18: Understands the rise of the American labor movement and how political issues reflected social and economic changes. (4) Understands how economic issues influenced American society (e.g., the causes and the effects of the depressions of 1873–1879 and 1893–1897, and how government, business, labor and farmers responded. . . .

National High School U.S. History Standard 20: Understands how Progressives and others addressed problems of industrial capitalism, urbanization, and political corruption. (1) Understands the origins and impact of the Progressive movement

National High School Economics Standard 8: Understands basic concepts of United States fiscal policy and monetary policy. (5) Knows that monetary policy refers to actions by the Federal Reserve System that lead to changes in the amount of money in circulation and the availability of credit in the financial system.

California History Social Science Standard 11.2: Students analyze the relationship among the rise of industrialization, large-scale rural-to-urban migration, and massive immigration from Southern and Eastern

Europe. (5) Discuss corporate mergers that produced trusts and cartels and the economic and political policies of industrial leaders. (9) Understand the effect of political programs and activities of the Progressives. . . .

California History Social Science Standard 11.6: Students analyze the different explanations for the Great Depression and how the New Deal fundamentally changed the role of the federal government. (1) Describe the monetary issues of the late nineteenth and early twentieth centuries that gave rise to the establishment of the Federal Reserve

California History Social Science Standard 12.3e: Students analyze the influence of the federal government on the American economy. (4) Understand the aims and tools of monetary policy and their influence on economic activity (e.g., the Federal Reserve).

Juan Peron

National High School World History Standard 42: Understands major global trends from 1900 to the end of World War II. (1) Understands how revolutionary movements in such countries as Mexico, Russia, and China either drew upon or rejected liberal, republican, and constitutional ideals of the 18th and 19th century revolutions.

National High School World History Standard 44: Understands the search for community, stability, and peace in an interdependent world. (14) Understands how specific countries have implemented social and cultural changes

California History Social Science Standard 12.9: Students analyze the origins, characteristics, and development of different political systems across time, with emphasis on the quest for political democracy, its advances, and its obstacles. (5) Identify the forms of illegitimate power that twentieth-century African, Asian, and Latin American dictators used to gain and hold office and the conditions and interests that supported them.

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Corrections

In the last edition of *Bill of Rights in Action*, we made errors in two captions. The caption on the front page wrongly identified King Henry VIII as King Henry V.

The caption on page 10 was dropped mid-sentence. It should have read: “John C. Calhoun (1782–1850), who served as vice president, U.S. senator, and member of Congress in his long political career, was the leading advocate for states’ rights.”

The errors have been corrected on the PDF version of this edition on our web site, available for free download.



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About Constitutional Rights Foundation

Constitutional Rights Foundation is a non-profit, non-partisan educational organization committed to helping our nation’s young people to become active citizens and to understand the rule of law, the legal process, and their constitutional heritage. Established in 1962, CRF is guided by a dedicated board of directors drawn from the worlds of law, business, government, education, and the media. CRF’s program areas include the California State Mock Trial, youth internship programs, youth leadership and civic participation programs, youth conferences, teacher professional development, and publications and curriculum materials.

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When Constitutional Rights Foundation got its start in 1962, the world was a very different place . . .

Riots broke out as James Meredith enrolled at the University of Mississippi.

In the case of *Engel v. Vitale*, the U.S. Supreme Court banned mandatory prayers in public schools causing widespread protests.

The Cold War peaked in October with the Cuban Missile Crisis.

That same year, in Los Angeles, a small organization hired its first employee, Vivian Monroe, and set about to better educate about the Bill of Rights. By 1963, the new organization had influenced the State Board of Education to adopt a policy statement:

The study of the Bill of Rights is of the greatest importances and we believe that more attention should be given to the Constitution of the United States.

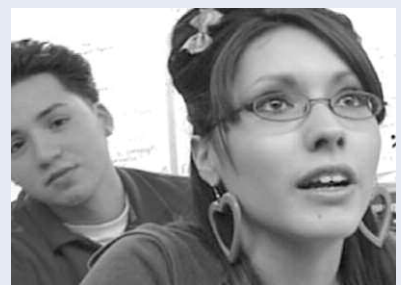
The situation in some communities indicates that too many Americans have never understood the Bill of Rights and the present civil rights crisis reveals how sketchy has been our education in this field. Young Americans facing communist indoctrination ought to be able to counter with an affirmation of their democratic faith. We believe that one of the essential things we must do is to establish in our children the American belief in the dignity and rights of every person.

Constitutional Rights Foundation was born in tumultuous times, but its timeless mission to educate about our Constitution and Bill of Rights is just as important today as it was then. The Cold War is over, but now we face the threat of terrorism, and debates over the meaning of the Constitution and equality continue. Sadly, numerous studies and surveys show that adults and students lack basic knowledge of our Constitution and institutions of government, and rates of civic engagement are low.

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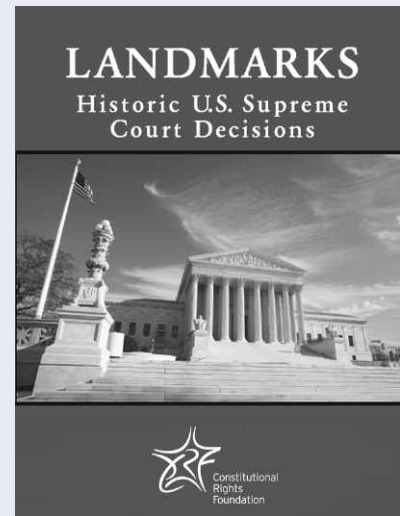
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Schenck v. U.S. (1919)
Palko v. Connecticut (1937)
Brown v. Board of Education (1954)
Mapp v. Ohio (1961)
Gideon v. Wainwright (1963)
Miranda v. Arizona (1966)
U.S. v. Nixon (1974)
Regents of UC v. Bakke (1978)
Texas v. Johnson (1989)
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