Economics in the 1920s

# I. Boom Times

## A. Prosperity and Productivity

1. Energy supplies such as coal, oil, natural gas, and water power were in abundance
2. Vast network of electrical plants were built (usage increased from 56 billion kw in 1920 to 114 billion kw in 1929)
3. There was an availability and demand for a number of new electrical appliances such as washing and sewing machines, cake mixers, vacuum cleaners, radios, phonographs
4. Chemical companies created and produced a variety of synthetic products, or "wonder" materials
5. Henry Ford introduced the assembly line to mass produce automobiles

## B. Changes in Work

1. The assembly line put skilled workers and caused burnout for those on the job
2. Ford responded by lowering the workday to eight hours and provided a $5 daily wage

3. Frederick W. Taylor created concept of scientific management, the idea that every kind of work could be broken down into smaller tasks
4. While factory work remained consistent, "white collar" jobs – clerical, managerial, and sales – grew rapidly
5. Servants and delivery people were out of work due to advances in technology
    - Housewives took over cooking and cleaning tasks with aid of new devices, and took over transportation duties as well

C. A Land of Automobiles
1. The availability of cars revolutionized the entire transportation system
2. More than 400,000 miles of roads were built during the 1920s
3. This resulted in a number of roadside diners, motor lodges, gas stations, and billboards
4. Cars linked rural with urban areas, allowing people to commute to work and enjoy various leisure activities
5. Negatives included an increase in pollution, traffic jams, parking problems, and accidents
    - It also reduced "neighborliness"

D. Creating Consumers

1. Annual spending for advertising increased from $500 million prior to WWI to $3 billion in 1929
2. An abundance of ads reached consumers through magazines, newspapers, billboards, and radio
3. Most ads focused their attention on women and played on people's hopes and fears
4. Companies used slogans, jingles, and celebrity endorsements to fix their products in the people's minds
5. Chain stores began to appear in response to consistent demand for growing number of products
    - One, AP Grocery, grew from 3,000 to 14,000 between 1920-25
    - Recent developments like cellophane and quick-freezing techniques preserved foods and allowed long-distance shipping
6. Purchasing power increased with the advent of credit, allowing people to buy now and pay later

II. <u>Prosperity Shattered</u>

A. "Get Rich Quick"
    1. Only farmers and the poor worried about the nation's economic health
    2. Stock sales had increased steadily over the years, with demand pushing up the prices
    3. Stock speculation, buying and selling to make a quick profit, was widespread
    4. Created problem by inflating stock to more than it was worth
    5. Margin buying, purchasing stocks with borrowed money, made matters worse
        - Buyers put up as little as 10 percent, borrowing the rest
        - If prices fell, investors would go belly up

B. The Stock Market Crashes
    1. On October 24, 1929 – Black Thursday – investors panicked and began to sell stock in large quantities
    2. The dumping of so much stock as once caused prices to fall drastically
    3. On October 29, 1929 – Black Tuesday – the bottom fell out of the market as 16 million shares of stock are dumped
    4. Brokers demanded money from investors to cover loans

- Unable to pay, thousands were forced to sell stock at great losses
- Many investors were wiped out

5. By mid-November, stockholders had lost nearly $30 billion nationwide

C. The Depression Begins

1. Business leaders and public officials claimed setback was minor and temporary
2. Between 1929-33, the national economy suffered greatly
   - The gross national product – the total value of goods and services produced in a given year – went from $103 billion to $56 billion
   - Average salary earned was cut in half
   - Industries slowed to a halt or shut down completely
   - Millions of Americans lost their jobs
3. Banks were hit hard when investors panicked and withdrew funds
4. Because those with loans could not pay back money, there were no incoming funds – as a result, the system collapsed
5. Between 1929-32, 5,000 banks failed

- Money not insured, so entire savings were lost

D. What caused the Depression?

1. The Troubling Twenties
   - Many blamed economic practices of the 1920s
   - Farm prices dropped and other industries – mining, textiles, construction – began to suffer
   - Widespread dependence on credit left many in serious debt
   - When many places cut off credit allowances, many could no longer afford to make purchases
2. A mismanaged economy
   - Another central cause was the unequal distribution of income
   - Throughout the decade, disposable income of the top 1 percent increased by 63 percent, while that of the poorest 93 percent decreased by 4 percent
   - Better wages and fairer prices for farm crops could have averted economic disaster

- Internationally, U.S. contributed to worldwide problems by placing high tariffs on imported goods

3. The business cycle
    - Some say the Great Depression was inevitable due to the business cycle
    - In theory, industries hire workers creating surplus production, then lay them off, causing economic recession
    - In reality, the people who could afford expensive products already had them
    - The inability to sell their products, instead caused businesses to fail, contributing to economic downfall
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