

Depth Study United States 1919–41

KEYNOTES

Key question 1: How far did the US economy boom in the 1920s?



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<p>What do we mean by economic boom? (The big picture)</p>	<ul style="list-style-type: none"> • What is an economic boom? When the wealth and prosperity of a nation grows rapidly. Known as the 'Roaring Twenties'. (Has been described as a second industrial revolution such was the scale of the change) • It is the name given to the dynamic growth of the American economy (GDP) which grew by 40% over the 1920s. • The assembly line = mass production, and the growth of a consumer society meant ordinary people bought more household goods than ever before. • Key feature: Easy credit (borrowing) meant greater demand for consumer goods. • In the 1920s, American businesses grow more quickly than ever before. • The number of millionaires grew from 7,000 to 35,000. • The average wage increased between 10% and 27% - stimulating a consumer culture (society) • Economic growth led to societal changes (See Key Question 2) - families bought houses in the suburbs of the cities, disposable income on leisure activities (leading to the growth of those industries. e.g entertainment and sport • The 1920s saw higher wages, more disposable income and more leisure time (helped by inflation at only 1%) • There was an expansion in the music, radio and cinema industries, and even sport. (See below) • Expansion in the construction industry – roads to skyscrapers. Symbolised by the iconic Chrysler and Empire State buildings • Company profits, boomed in confidence, led to massive investment in the stock market. (Speculation – buying and selling of company shares to make a profit) • Searching for the American Dream - In 1929 Herbert Hoover claimed the US had 'triumphed over poverty' and promised every American 'a car in every garage and a chicken in every pot'! (He was wrong of course!)
<p>What made the 'boom' possible?</p> <p>Natural advantages.</p>	<ul style="list-style-type: none"> • The USA was rich in natural resources, such as oil, coal, iron, gas, livestock and agriculture – as well as a large population. • The population of c 120 million provided a basis for a consumer society to develop (= large internal market for manufactured goods.) + Provided a workforce (labour). • It emerged from World War I as a creditor nation. • It only joined in 1917 and the Allies had borrowed vast sums and owed the US \$20 billion. • Post war the US followed a policy of isolationism – so reduced the amount being spent on foreign affairs e.g didn't contribute to the budget of the League of Nations. (Which was Woodrow Wilson's idea!) • During the war US businesses were able to sell their goods to Europe as European business converted to produce war goods. Agriculture and chemical engineering did particularly well. • Wheat exports pre-war were \$90 million – increased to \$300 million during war. • Chemical Industry (Fertilizers, dyes, plastics) pre-war \$20 million – wartime \$300 million • Iron and steel – pre-war \$250 million – wartime \$1.2 billion! • War stimulated new technologies which were already developing such as the motor car telephones and electric lighting as well as a chemical industry.

	<ul style="list-style-type: none"> US agriculture was also in a very strong position by the end of World War I. (Produce being bought by Europe) Government loans saw US farmers invest in new machinery – 40 million more acres being cultivated.
	<ul style="list-style-type: none"> Unemployment remained low. In 1921 (after a brief post war recession) it was 12%. In 1926 it was below 2% The average across the 1920s was below 5%
<p>How did Republican policies contribute to the boom?</p> <p>(Laissez-faire politics)</p>	<ul style="list-style-type: none"> There were three REPUBLICAN Presidents in the 1920s – Warren Harding, 1920-23, Calvin Coolidge, 1923 -28 and Herbert Hoover, 1928 – 32. Continuity of Republican economic strategy.
	<ul style="list-style-type: none"> A policy of laissez-faire meant government should not interfere in the everyday lives of the people. Businesses should be left alone. There should be few regulations. (In societal terms this meant 'rugged individualism' – Society should not depend on Government. People should be self-reliant and their personal prosperity should depend on hard work and initiative. Believed in a 'free market economy' - they don't need excessive government regulations – reducing regulation would 'stimulate' the US economy and create a favourable business environment. Calvin Coolidge in 1925 – 'The chief business of America is Business' (Harvard business school founded 1924.
	<ul style="list-style-type: none"> Protective tariffs (a tax on foreign goods being imported to a country) – Republicans believed in PROTECTIONISM – making its expensive to import foreign goods.
	<ul style="list-style-type: none"> Trade Unions – courts allowed business to prevent workers joining them (Yellow Dog contracts) and strikes could be broken by force. (Henry Ford did this)
	<ul style="list-style-type: none"> In 1922, president warren Harding introduced the Fordney – McCumber tariff protecting US business from foreign competition. (An import tax which was as much as 40% on some imports!)
	<ul style="list-style-type: none"> Low taxation – (Business and personal) Republicans kept taxation as low as possible. The idea was to put money into people's pockets = disposable income = consumer society. Businessmen would reinvest their money in their businesses making them grow = increasingly employment = increasing output = lower costs etc... Average wages increased between 10 and 27% (More disposable income)
	<ul style="list-style-type: none"> Powerful trusts-super corporations that dominated US industry such as Carnegie steel and Rockefeller oil. Republicans believed the captains of industry were better equipped and politicians were to run the economy.
<p>What was mass production?</p>	<ul style="list-style-type: none"> A new method of production of goods, using an electrified ASSEMBLY LINE.
	<ul style="list-style-type: none"> An assembly line meant MASS PRODUCTION - goods could be produced more cheaply and so were made more affordable. Cycle of prosperity: Assembly line = mass production = reduced costs = affordability = increased demand.
	<ul style="list-style-type: none"> Cars, consumer durables, clothes – all 'mass produced' Luxury items are now made cheaper from silk stockings to cars!
	<ul style="list-style-type: none"> In 1900 only 12,000 pairs of silk stockings were sold in the 1920s, rayon, a substitute for silk meant by 1930 300 million pairs of stockings were sold!
<p>How did the motorcar industry</p>	<ul style="list-style-type: none"> The first cars were Costly and slow to build – built by blacksmiths and skilled craftsmen. Pre war took c 12 hours to build a car. In 1900 only 4000 cars produced by 1925 15 million Model T Fords were produced. Post war (Assembly line) 90 minutes. (7,500 a day 1 every 10 seconds coming off the assembly line)

<p>contribute to the boom?</p>	<ul style="list-style-type: none"> • 26 million cars on the road by 1929. (Ford, General Motors and Chrysler the big 3 manufacturers)
<p>(Creating a cycle of prosperity)</p>	<ul style="list-style-type: none"> • Automobile was central to creating a ‘cycle of prosperity’. • In 1913, Henry Ford, revolutionised car production – Introduced an assembly line in his factory (River Rouge) in Detroit. 80,000 employed! <i>‘Take the work to the man’</i> • Detroit nicknamed the ‘motor city’ • 4 million were employed in the automobile industry (c 75 of the total workforce) • Ford increased daily wage from \$2.34 for 9 hours work to \$5 for 8 hours work.
<p>How did other industries benefit from the car industry?</p>	<ul style="list-style-type: none"> • The model T Ford epitomised the boom of the 1920s. • Standardisation = cheaper products: 15 million were produced by 1925. You could have <i>‘any colour you liked so long as it was black’</i> • A model T Ford was being produced every 10 seconds by 1927. • In 1925 a model T cost \$290, three months wages for an average American worker. (Down from \$890 at the start of the 1920s)
<p>How did other industries benefit from the car industry?</p>	<ul style="list-style-type: none"> • It helped create a cycle of prosperity as it stimulated other industries e.g creating employment. • Automobiles used 75% of US glass production, 20% of steel, 70% of rubber.
<p>How did other industries benefit from the car industry?</p>	<ul style="list-style-type: none"> • The motorcar made America More, mobile which required roads and petrol stations. • Road construction was the biggest single employer in the 1920s. 400,000km of roads were built (Doubled) • Road building stimulated the growth of the suburbs and tourism (e.g California)
<p>How did other industries benefit from the car industry?</p>	<ul style="list-style-type: none"> • Owning a car made it possible for people to commute to work, so they bought houses in the suburbs which stimulated a housing boom.
<p>How did electricity contribute to the boom?</p>	<ul style="list-style-type: none"> • Provided a cheap reliable and efficient source of power for the assembly lines (making mass production possible)
<p>How did electricity contribute to the boom?</p>	<ul style="list-style-type: none"> • Developed rapidly during the 1920s – consumption of electricity doubled and by 1929 70% of homes had electricity. • In 1914 only 30% of factories had electricity – by 1929 this was 70%
<p>How did electricity contribute to the boom?</p>	<ul style="list-style-type: none"> • ‘Powered’ a boom in consumer industries such as fridges, radios, vacuum cleaners and washing machines. (Household goods) • Telephones 1915 10 million to 20 million by 1920 alone. • 1902 60,000 radios – by 1929 10 million • Washing machines 8% of homes to 24% • Refrigerators 1% of homes to 8% • Vacuum cleaners 9% of homes to 30%
<p>How did electricity contribute to the boom?</p>	<ul style="list-style-type: none"> • Allowed a ‘revolution’ to take place in the entertainment industries – especially film and radio e.g., 600 stations by late 1920s • 1902 cinema tickets 40 million a week – by 1929 100 million. • Hollywood made 3 films a week. (Birth of a Nation – blockbuster \$60 million profit) • 30,000 cinemas across the USA
<p>How did electricity contribute to the boom?</p>	<ul style="list-style-type: none"> • Electricity – replacing coal as the chief form of energy. • Allowed skyscrapers to be built (electric cement mixers and lifts in buildings)
<p>How did electricity contribute to the boom?</p>	<ul style="list-style-type: none"> • Bakelite Plastic – versatile and durable providing the casings for consumer durables e.g. radios, electric switches, telephones, kitchenware, toys and games etc.
<p>How did electricity contribute to the boom?</p>	<ul style="list-style-type: none"> • Rayon – replacing traditional textiles (silk, wool + even cotton) Highly versatile. • Used for dresses, blouses, lingerie – 1930, 300 million pairs of stockings sold! • Car and furniture upholstery and curtains etc..
<p>Construction Industry</p>	<ul style="list-style-type: none"> • Roaring 20s witnessed huge construction projects helping to stimulate the economy and proving employment for millions.

	<ul style="list-style-type: none"> • Electric concrete mixers – replacing slow manual mixing (thereby reducing labour costs) which was time consuming and labour intensive. Much more efficient, more consistent quality concrete – allows faster construction and bigger projects. E.g. skyscrapers (New York skyline dominated by big businesses that wanted their HQ's there), + building large department stores e.g J C Penney and other infrastructure such as bridges, airports (Like La Guardia in New York) and schools etc. • Very important in the creation of suburban housing and prompted a housing boom.
<p>How did sales and marketing techniques develop in the 1920s? <i>(All helped by hire purchase)</i></p>	<ul style="list-style-type: none"> • Mass nationwide advertising, including posters, radio advertisements, and travelling salesman. • Fashion, movies and sport magazines all contained advertisements (Time and Life magazines)
	<ul style="list-style-type: none"> • A massive growth in mail order, companies, meaning people in rural areas, could purchase consumer goods from catalogues. (Mail order) • In 1928, one third of Americans purchased goods from Sears, Roebuck and Co catalogue = sales of \$350 million in 1928 alone.
	<ul style="list-style-type: none"> • Higher purchase schemes meant people could spread payments. • 8 out of 10 radios and 6 out of 10 cars were bought on hire purchase.
<p>Hire Purchase (Credit) + Personal loans <i>End of 'thrift' Easy Money!</i></p>	<ul style="list-style-type: none"> • Concept of 'hire purchase' made manufactured goods 'affordable.' (Spreading the costs) Urged on by mass marketing techniques. • Made more attractive by promise of secure employment – and encouraged people to keep buying which means demand rises so industry keeps producing. • Personal Finance Companies started – e.g The Household Finance Company (HFC) and Beneficial Loan Company) • Alfred Sloan the CEO of General Motors started the General Motors Acceptance Corporation (GMAC). 35% deposit and 12 monthly instalments to buy a car from them. • E.g typical vacuum cleaner would cost \$28. \$2 down payment followed by \$4 instalments. • Applied to all manufactured goods – estimated that half of all manufactured goods were being bought on hire purchase schemes and two thirds of cars were bought his way. • The American Dream was bought on an instalment plan!
<p>Stock Market Speculation</p>	<ul style="list-style-type: none"> • Buying stocks and shares (On New York Stock exchange) • 1 in 20 had bought shares by 1929. • Made easier by buying on credit (Buying on the Margin – make a down payment borrow the rest - buy shares – wait for value to increase – sell shares – pay off debt. (Very risky!) • \$8.5 billion borrowed!
<p>Summary: what factors caused the economic boom?</p>	<ul style="list-style-type: none"> • The USA's existing industrial strength • Emerging strongly as a consequence of the First World War • Republican policies • New industries and technological innovation • Mass marketing • State of mind (Confidence)
<p>Did everyone benefit from the boom?</p>	
<p>Summary</p>	<ul style="list-style-type: none"> • Agriculture and traditional industries did not share in the prosperity of the 1920s • Wages in all older industries fell. • Unemployment remained at 5% (about 2 million – especially immigrants and African Americans) • African Americans face discrimination, prejudice and low wages and fewer employment opportunities. • By 1929 it was estimated that 40% of Americans lived on / below the poverty line.

	<ul style="list-style-type: none"> • Wealth was not evenly distributed – 5% of US citizens owned a third of the wealth.
What problems did agriculture experience?	<ul style="list-style-type: none"> • Debt, Declining exports (retaliatory tariffs), new competition (Canada), Falling demand, Over production (= surplus they can't export) = falling prices. • 60/1000 farmers couldn't afford rents or filed for bankruptcy.
	<ul style="list-style-type: none"> • Farm debt – farmers had borrowed heavily during WWI to invest in new machinery (combine Harvesters etc) + 40 million more acres being cultivated. • OK during wartime when exports and prices were high – post war conditions not as beneficial for agriculture especially.
	<ul style="list-style-type: none"> • Exports in decline – Post WWI slump: After World War I Europe, imported less food from the USA - Partly because Europe (recovery) and imposed RETALIATORY tariffs (In response to US Fordney McCumber Tariff of 1922)
	<ul style="list-style-type: none"> • New competition, especially from highly efficient, Canadian wheat producers (Canadians selling cheap produce to Europe, undercutting US)
	<ul style="list-style-type: none"> • Over production improved machinery, e.g. combine harvester and use of fertilisers made agriculture, more efficient, but by 1920. It was producing surpluses which were not needed. • Agricultural income fell from \$22 billion (1920) to \$13 billion (1929) • Value of wheat per bushel: wartime \$2.30 – Post war \$1.65 • Value of corn per bushel: wartime \$1.30 – post war 47 cents
	<ul style="list-style-type: none"> • Falling prices-surpluses meant prices plummeted by 1921 farm prices fell by 50% • Farm wages were a third of industrial wages. • Less than 10% of rural houses had electricity or running water.
Scale of problem for farming	<ul style="list-style-type: none"> • Almost half of the US lived in rural communities / farming = 60 million people • 6 million labourers lost jobs including 750,000 African Americans. (New technology!) • Agricultural recession from 1927
Why did older industries struggle?	<ul style="list-style-type: none"> • Changes in manufacturing processes – The Assembly line driven by electricity (required coal but less) • Overproduction in coal industry saw prices and profits fall. • Leather, textiles and shoe making were protected by tariffs but these industries became more mechanised and new manmade materials were cheaper • Competition from new and cleaner energy sources like electricity and oil – people heating their homes with efficient and clean oil / gas heaters. • Less coal was required to produce electricity. • Construction of roads and manufacture of cars impacted on railways – reducing demand (Trains still relied on coal) • Case Study: In 1928 coal workers went on strike in North Carolina as they were earning \$18 for a 70-hour week when \$48 was seen as the basic living wage.
What problems were evident by the end of the 1920s in the US economy?	<ul style="list-style-type: none"> • A post war European economic recovery meant US firms faced more competition.
	<ul style="list-style-type: none"> • Reciprocal (Retaliatory) tariffs (From Europe) making US exports more difficult (especially in agriculture where US producers competed against the highly efficient Canadians)
	<ul style="list-style-type: none"> • The population was large BUT there was uneven wealth distribution. 70% of profits made went to 0.3% of the population! • c. 40% of the population lived below the poverty line. An estimated 18 million Americans lived in poverty (official)
	<ul style="list-style-type: none"> • Overproduction + underconsumption (and can't export because of retaliatory tariffs)
	<ul style="list-style-type: none"> • Unemployment still at c. 5% = 2 million people (+ Much work still seasonal e.g shipping industry)
	<ul style="list-style-type: none"> • Urban areas were doing better than rural communities.

	<ul style="list-style-type: none">• Stock Market speculation lured in many ordinary investors (1 in 20) and many borrowed to pay for their shares.• Companies were overvalued (Dow Jones index in 1902 stood at 63 by 1929 it was 380!) (Ticking time bomb!)
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