1H. THE USA: A NATION OF CONTRASTS, 1910-1929

KEY QUESTION 5 : The end of prosperity

What factors led to the end of prosperity in 1929?

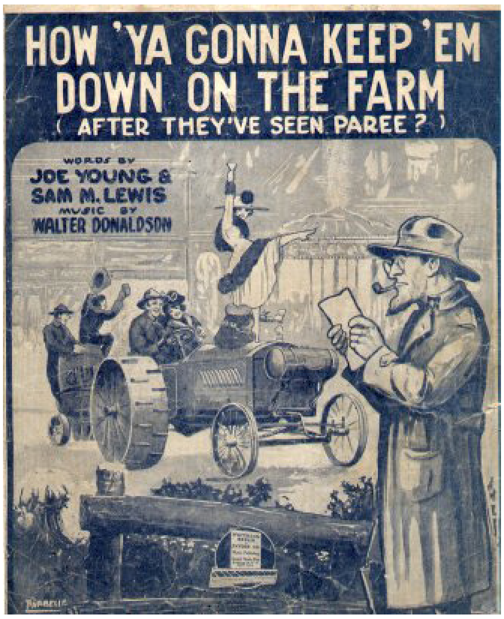
"I confess I was not prepared for what I actually saw. It seemed almost incredible that such conditions of poverty could really exist"

Fiorello Laguardia, a Congressman, visiting East Harlem, New York City in 1928

The American economy grew in value by billions of dollars throughout the 1920s. Total national income rose from $74.3 billion in 1923 to $89 billion in 1929. However, this wealth was not distributed evenly through the population. The richest 1% of Americans received a 75% increase in their disposable income, while the other 99% saw only an average 9%. Disposable income is money a family would have left over after paying for the necessities of life. To make matters worse, 80% of Americans had no savings at all and 50% of Americans lived below the poverty line, the amount of money needed to survive without help from charities or the government.

There were particular groups of people who lived in poverty during the 1920s:

- Black Americans were discriminated against which is why they were often very poor - in towns, black Americans were often the last to get jobs and the first to be sacked and they were also paid lower wages than white Americans for doing the same jobs; in the countryside, black Americans were share-croppers, earning very small amounts of money working on other people's farms; because black Americans were poorly educated compared to white people it was more difficult for them to get well-paid jobs.
- Immigrants often did the lowest paid jobs; they were usually poorly educated and spoke little English; it took some immigrants many years to work their way up to better jobs; like black Americans they faced a lot of discrimination.
- Workers in the older industries like coal, steel and textiles faced a lot of problems in the 1920s as they were producing too much which meant that prices were low and businesses did not make much profit so wages stayed low as well; some of these industries were also competing with more modern alternatives – artificial fibres like rayon were cheaper than cotton, while electricity and diesel were replacing coal.
- In the rural areas farming families were often large which meant money was spread between more children. Many farmers lived in very basic accommodation that was often little more than plain wooden shacks and could not afford modern farm machinery. Food prices fell during the 1920s. This meant that farmers were making less and less money so many could not afford to pay their rent and lost their farms. There was also a lot of devastation caused by natural disasters in the 1920s, such as the "Great Flood" of the Mississippi River in 1927, the Boll Weevil infestation in southern USA that destroyed cotton crops and the "Big Blow" hurricane that killed 243 people in Florida in 1926. This all led to rural depopulation as 6 million people in the 1920s moved to the cities.



Source 1: front cover of sheet music for a song about men leaving the countryside for the cities in the 1930s

Most workers were only on low pay, for example at Loray cotton mill in North Carolina men were paid $18 a week, women were paid $9 a week but average wages in New York were $200 a week. By 1929 average wages in the north east were $881 a year, in the south east it was $365 a year. Prices had doubled during the First World War but wages hardly rose at all. In 1919 4 million **demobbed soldiers** came back to the USA just as industry was winding down from wartime production and laying off workers. High prices and high unemployment did not lead to increased wages as bosses could just replace striking workers easily.

It was very difficult for urban workers to improve their pay or their working conditions. For example, a 1921 coal miners' strike in West Virginia over conditions and pay was broken up when the governor used state troops to break it up. President Harding had it investigated, and found that the miners were right but still did nothing. Force was also used to break up the 1927 United Textile Workers strike in Tennessee. The situation of workers was made even worse when the Supreme Court overturned two state laws banning child labour and laws setting minimum wages for women workers as unconstitutional. For every year in the 1920s 25,000 workers were killed on the job, 100,000 permanently disabled – two million people in New York City lived in **tenements** condemned as fire traps.

Farmers got no help from the federal government either. The Farm Relief Bill (aka the McNary-Haugen Bill) was introduced into Congress in 1924, 1927 and 1928 to help control farming prices threatened by cheap competition from Canada and Argentina. Each time President Coolidge used his veto to stop it becoming law. He justified this by saying, "*Instead of undertaking a method of marketing which will sell goods at a profit, it plans to sell them at a loss. This goes against the government's economic principles, which require farmers only to produce what can be sold at profit. They should not waste soil producing what can only be sold at a loss*".

Hoover's winning platform in the 1928 presidential election was based on continued prosperity: "*One of the oldest and perhaps the noblest of human activities has been the abolition of poverty... We in America today are nearer to the final triumph over poverty than ever before in the history of any land. The poorhouse is vanishing from among us.*" Herbert Hoover may have won the election but the Wall Street Crash quickly showed how close to financial disaster America was. There were simply too many people living in poverty to be able to keep the consumer boom going which led to a fall in consumer demand.

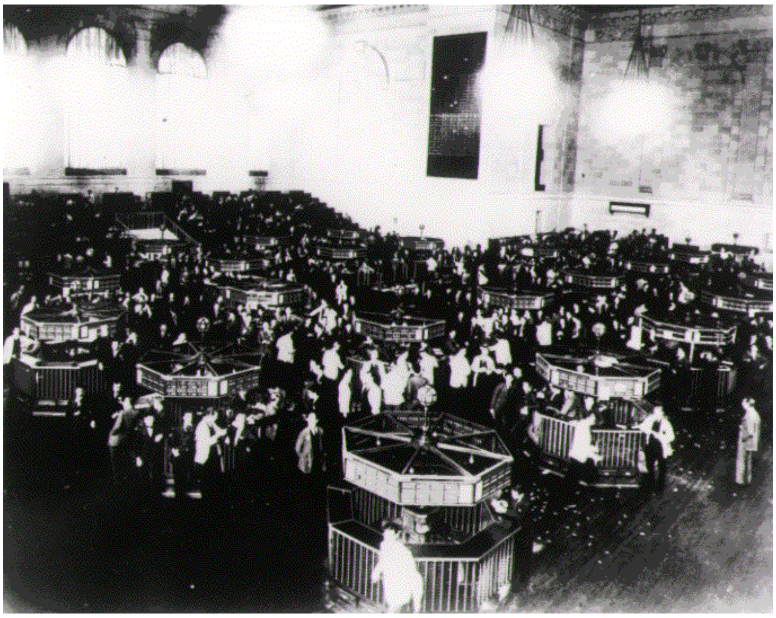
"They roared like lions. They hollered and screamed, clawed at one another's collars. It was a bunch of crazy men. Every once in a while, when shares in Radio or Steel took another tumble, you'd see some poor devil collapse and fall to the floor"

From the Stock Exchange Guardian, October 1929

"Huge crowds surged up and down the narrow streets in search of excitement. Rumours were started. A trader, caught by the falling share prices, jumped from a window."

From the New York Herald Tribune, October 1929

There had been signs of potential trouble ahead, particularly in regard to the boom in land and property values. The State of Florida saw a huge rise in property prices as speculators bought up land in the hope they would be able to sell it on for a huge profit. Many of these speculators had borrowed money to buy the land, confident that they would be able to pay off the loan and keep a profit. In 1926 there was a sudden fall in property prices in Florida leaving many land and home owners in **negative equity** (owing more than their property was worth). This should have acted as a warning to banks and investors but it was widely ignored.



Source 2: the share trading floor of the New York stock exchange on Wall Street

As the US economy boomed in the 1920s people had begun to invest in the **stock market**, buying **shares** in successful companies. As companies made more money their shares increased in value, so at some future point shareholders could sell their shares for a profit. Some people were so confident they bought shares '**on the margin**' by borrowing money from the banks so that when the shares made a profit they could pay back the loan and pocket the difference without having to risk any of their own money. As a businessman pointed out in 1928, "*The number of inexperienced speculators are being increased by a great many men who have been attracted by newspaper stories. These stories tell of the big, easy, profits to be made on the stock exchange and of millions of dollars being made by people overnight.... They discovered that it could be easy to make money in this way*".

With American business protected by tariffs, money easily available through hire purchase and credit and consumer spending high, investors had every reason to believe that share prices would continue to increase. There were 20 million shareholders by the summer of 1929 and share prices had reached an all-time high - the total value of shares in 1925 was $27 billion, but by 1929 it was $87 billion. It was a 'bull market' and seemed as if it would never fail.

By the late 1920s American businesses were producing more goods than there were American people who could afford to buy them because:

- The richest 5% of Americans earned 33% of all the money so only small numbers could actually afford the goods being produced, while too many others were forced to buy using hire purchase with loans that they might not be able to pay back.
- Factories were producing too much; wages did not increase quickly because large companies like General Electric Company and the Standard Oil Company kept wages low and prices high, so too few workers could afford to buy what the factory made.
- Farm incomes dropped throughout the 1920s because prices for farm products fell; in 1929 the average annual income for an American family was $750, but for farm families it was only $273; the price of farm land fell from $69 per acre in 1920 to $31 in 1930; problems in the agricultural sector had a large impact since 30% of Americans still lived on farms.

The solution to this problem would have been to sell more products abroad. However, at the end of the First World War European countries owed over $10 billion to the USA but they had no way of paying the money back. The USA insisted that their former allies pay the money back anyway. This meant that Europe could not afford to buy goods from America. To make matters worse in 1922, the USA passed the Fordney McCumber Act, which imposed high tariffs on imported industrial products. Other countries did the same to American imports and so the USA could not sell its goods abroad even when countries did have the money.

The only way forward was for businesses to lower prices, accept smaller profits, pay lower wages and sack some workers. This began to affect people's confidence in how much more money American businesses could make, which in turn began to affect the share prices of those companies.

By September 1929 falling demand and falling prices meant lower profits and falling share prices. Once investors realised this they began to sell their shares. As more shares were available to buy the price of shares went down and more people started selling. Share prices had been driven up by demand in the 1920s which meant most shares were overvalued. As prices fell to a more realistic level that also caused panic selling by many of the 1 million US shareholders in October 1929. This became known as the Wall Street Crash.

The main events of the Wall Street Crash October 1929:

- **Saturday 19th** - 3.5 million shares sold; prices fell
- **Sunday 20th** – newspaper headline, "*Stocks driven down as wave of selling engulfs market*"
- **Monday 21st** - 6 million shares changed hands, prices fell then rose in the afternoon
- **Tuesday 22nd** - prices began to rise
- **Wednesday 23rd** - 3 million shares sold in the last hour of trading; margin buyers were told to find more cash
- **"Black Thursday" 24th** - 13 million shares sold but no buyers found; there is widespread panic
- **Friday 25th** - top bankers decide to support market; banking firms buy millions of shares for more than they are worth
- **Saturday 26th** - President Hoover re-assured people, "*The fundamental business of the country is on a sound and secure basis*"
- **Monday 28th** - massive selling of shares; 3 million sold in the last hour of trading, 9 million sold in total; the banks stop supporting prices
- **"Black Tuesday" 29th** - 16 million shares sold, no buyers found; ticket tape machines that record share transactions break due to overuse

Company	Share price 3rd September 1929	Share price 13th November 1929
US Steel	361 cents	150 cents
New York Central Railroad	256 cents	160 cents
Union Carbide Chemicals	137 cents	59 cents
American Telephone & Telegraph	304 cents	197 cents
Anaconda Copper	131 cents	70 cents
Westinghouse Electrical	289 cents	102 cents

Table 1: changing shares prices on the Wall Street stock exchange, autumn 1929

"They used to tell me I was building a dream, and so I followed the mob,

When there was earth to plow, or guns to bear, I was always there right on the job.

They used to tell me I was building a dream, with peace and glory ahead,

Why should I be standing in line, just waiting for bread?"

From the song 'Brother, Can You Spare a Dime', lyrics by Yip Harburg, music by Jay Gorney (1931)

Source 3: a crowd of people gathering outside the American Union Bank in New York hoping to empty their bank accounts before the bank shuts down

There were a number of immediate consequences of the Crash, and its effects were felt in the USA throughout the 1930s:

- Within a few years unemployment rose from 1.5 million to over 12 million; out of the 120 million people in the USA 40 million were either unemployed or in a family where the major breadwinner was unemployed.
- Thousands of small businesses went bust increasing unemployment; people went bankrupt, lost their houses because they could not pay their debts.
- In 1929 alone 659 banks closed and $200 million of deposits were lost; desperate people ruined banks by taking out all of their savings in cash; banks tried to make cash by demanding people re-payed all of their mortgages in full and people lost their homes.
- Men roamed city streets on foot and the countryside on trains desperate for work; they were referred to as 'hoboes'.
- Temporary shacks were put up in public parks for unemployed workers to live in; these became known as 'hoovervilles'; as there was no unemployment benefit system people lived in shanty towns built out of rubbish and ate in soup kitchens run by charities.
- The value of goods in shops fell 50%, and farm income and wages fell 50%.
- GNP (Gross National Product – the total amount of money a country makes in a year) fell by almost 50%.
- US foreign trade dropped from $9 billion to $3 billion.

- Demand continued to fall as fewer people could afford goods so more companies closed down, more people lost their jobs, fewer people had money to spend, so more companies closed down, etc.; this is known as an **economic depression**.

President Hoover's belief in self-reliance, the '**rugged individualism**' that had seen him rise from delivering newspapers to President affected how he saw the solution to this crisis. For Hoover it was not up to the government to help people – they had to help themselves. As he put it, "*I do not believe that the power and duty of the General Government ought to be extended to the relief of individual suffering. . . . The lesson should be constantly enforced that though the people support the Government the Government should not support the people.*"

RECOMMENDED VIEWING – Key Question 5

The reasons for economic instability at the end of the 1920s are covered in BBC American Voices: Boom and Bust https://youtu.be/iwy5HNuHNes and more specifically the BBC Wall Street Crash Documentary https://youtu.be/FXNziew6C9A

GENERAL 1920s AMERICA SUPPORTING VIDEO MATERIAL:

Crash Course History - Roaring 20s https://youtu.be/VfOR1XCMf7A

BBC 20th Century Boom and Bust https://youtu.be/4Xrz69_W4ew

BBC American Voices: clips on Timelines TV https://www.youtube.com/playlist?list=PLvsS9mRi0sXb78FqO8DACjXgoF-sih5K-

BBC American Voices: full episodes

1. Immigration https://youtu.be/txB7_9E1E8Q
2. Boom and Bust https://youtu.be/iwy5HNuHNes
3. Hard Times https://youtu.be/OenNGPd6n-I
4. New Deal https://youtu.be/Re-XsLwyICo
5. Black America https://youtu.be/_4wiOs5T9go

The Century: America's Time –

1. The Beginning: Seeds of Change https://youtu.be/dssfiPirT2U
2. 1914-1919: Shell Shock https://youtu.be/1GBWDQ5cF_U
3. 1920-1929: Boom To Bust https://youtu.be/RN7ftyZigYs

GLOSSARY :

Demobbed soldiers	Soldiers who have just been released from military service (in this case after the First World War).
Tenements	Large apartment blocks with many small rooms, often overcrowded.
Negative equity	A property that is worth less than the money someone owes for it.
Stock market	Where company shares are bought and sold.

Shares	Owning part of a company; value increases with the value of the company.
On the margin	When investors borrow money to buy shares, hoping to sell them for a profit and pay the loan back.
Economic depression	A downward spiral when fewer people are spending money businesses find it harder to sell their goods so they cut wages or make workers unemployed; this then results in a further reduction in spending.
Rugged individualism	The belief that Americans can overcome any difficulties with hard work.

REFERENCES :

FRONT COVER : crowds gather outside the Wall Street stock exchange October 1929 (https://en.wikipedia.org/wiki/Wall_Street_Crash_of_1929#/media/File:Crowd_outside_nyse.jpg)

Source 1: Sheet music 1919 https://upload.wikimedia.org/wikipedia/commons/0/05/HowYaGonnaKeepEmDownOnTheFarm.jpg

Source 2: Wall Street stock exchange https://en.wikipedia.org/wiki/Wall_Street_Crash_of_1929#/media/File:1930-67B.png

Source 3: Crowd outside the American Union Bank in NY https://en.wikipedia.org/wiki/Wall_Street_Crash_of_1929#/media/File:American_union_bank.gif