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

KEY QUESTION 4 : Economic boom

What were the causes of the economic boom experienced in the 1920s?

"We in America today are nearer to the financial triumph over poverty than ever before in the history of our land. The poor man is vanishing from us. Under the Republican system, our industrial output has increased as never before, and our wages have grown steadily in buying power."

President Hoover, speaking in 1928

In 1910 the USA had vast supplies of important natural resources – coal, oil, wood, etc. - oil came from California, Oklahoma and Texas; coal came from Kentucky, Pennsylvania and West Virginia; iron ore came from Minnesota; timber came from the forests of Washington State and Oregon. It also had a large population to provide workers, but also to provide consumers for US products. There were the huge farming areas of the mid-west and south that produced so much food the USA had more than it needed to feed itself. Mining and manufacturing industries were also particularly strong.

Table 1: US economic production compared to its rivals c.1910

Commodity	US Production	Nearest competitor production
Wheat	638 million bushels	552 million bushels (Russia)
Coal	262 million tons	219 million tons (UK)
Oil	9.5 million tonnes	11.5 million tonnes (Russia)
Shipping	4.3 million tonnes	9.3 million tonnes (UK)
Railways	183,000 miles	28,000 miles (Germany)
Iron	28.8 million tons	16.3 million tons (Germany)
Steel	13.5 million tons	6 million tons (Germany)
Cotton	10.6 million bales	3 million bales (India)

The outbreak of the First World War resulted in an economic boom for the USA. America did not join in the First World War until 1917 but was involved in selling food and weapons to the countries that were involved. This led to huge increases in production and exports, as can be seen in the tables below:

Table 2: Increases in production (in millions of tons) during the First World War

	1914	1917
Iron ore	41.4	75.3
Coal	422.7	551
Petrol	265.7	335.3
Wheat	763.4	1025.8

Table 3: Exports (in millions of dollars) during the First World War

	1914	1917
Chemicals	21.9	281
Wheat	87.9	298.2
Iron & steel	251.5	1133.7

There were a number of ways in which the US economy benefited from the war:

- US banks lent money to Britain, France and Russia to fight the war. This would have to be paid back with interest, but also money borrowed from US banks was spent on buying weapons and supplies from American businesses.
- Food shortages in Europe meant that American farmers could sell their surplus crops for high prices on the international market.
- American businesses were able to gain control of international trade markets while their rivals were busy fighting the war, replacing Germany as world leader in chemical and plastics industries. Increased demand also encouraged manufacturers to mechanize the production process which meant that goods could be made more quickly and more cheaply.

However from 1917 onwards taxes rose sharply to pay for America's direct involvement in the war.

By the early 1920s America led the world economically. Part of this economic advantage was to do with the rise of **consumer spending** on items that were luxuries rather than just necessities. A lot of this consumer spending was linked to newer industries, related to newer technologies, for example motor cars or radios, as can be seen in these tables:

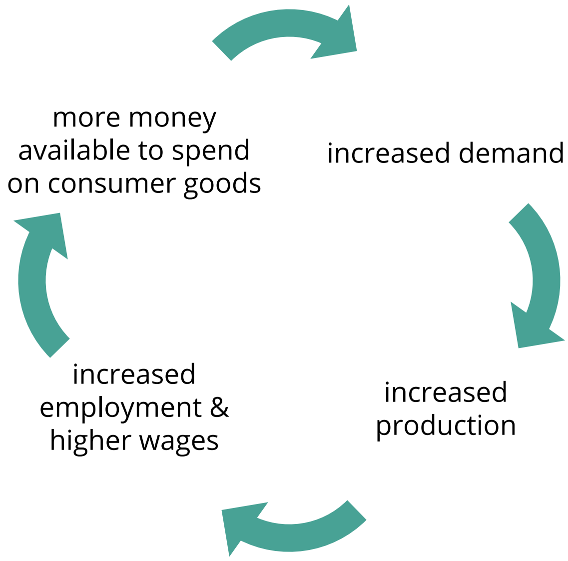
Table 4: numbers of important technological products in the USA

	1919	1929
Cars	9,000,000	26,000,000
Radios	60,000	10,000,000
Telephones	10,000,000	20,000,000

Table 5: the proportion of US houses with these labour-saving and sanitary devices

	1920	1930
Flushing toilets	20%	51%
Vacuum cleaners	9%	30%
Washing machines	8%	24%
Refrigerators	1%	8%

This 'consumer boom' was part of the upward **cycle of prosperity**:



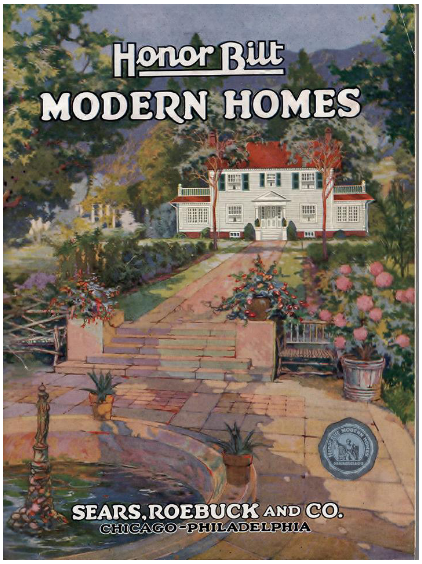
Americans had more money to spend on consumer items in this period. Wages increased by 25% in the 1920s while prices stayed the same or fell. If someone did not have the money to buy an item all in one go there was **hire purchase** which allowed consumers to buy the goods they wanted with a small deposit, and then pay the rest in weekly or monthly instalments. It was a payment method pioneered by the car industry and 6 out of 10 cars in the USA were bought this way in the 1920s. Credit, borrowing money to be paid back later, was easily available to most people in the USA.

New technology played an important role in this consumer boom. The electrification of America led to a new range of consumer goods such as radios, washing machines, or more specifically the 1926 Hoover vacuum cleaner or the 1927 General Electric Monitor Top refrigerator. Only 33% of American homes in 1920 had electricity but this had increased to 70% by 1929. In 1914 only 30% of American factories had electricity, by 1929 this was 70%. In 1902 the USA had generated 6,000 million kilowatt hours of electricity but by 1929 it was 118,000 million kilowatt hours. Between 1919 and 1929 industrial productivity (per worker per hour) increased 72% due to mechanization. As well as new mechanized production techniques like the production line, there were also new materials from the chemical industry, like rayon, bakelite and cellophane, which made products cheaper to produce so more could be sold at lower prices.

"*One reason there's so much success in America is because there's so much advertising of things to want, things to work for,*" as the National Advertiser put it. Advertising became a much more important way of encouraging consumers to spend their money in the 1920s. Before this, advertising had not been necessary as products were nearly always sold locally. Coca Cola was one of the first companies to show that businesses could increase their sales by advertising their products nationally. In 1918 US companies spent $58.5 million dollars on advertising, but by 1929 this was $200 million. Companies began to use glamorous images of their products, sometimes associated with celebrities, that gave people something to aspire to if they had them. Alternatively they could make consumers worry about something - in 1921 the Lambert Company invented a pseudo-scientific term, 'halitosis', for bad breath which could be cured by the product Listerine.

New technology also increased the opportunities for advertising. America's first full time radio station KDKA in Pittsburgh was privately owned but paid for by adverts. Magazines like Vogue could associate products with the lifestyles of the fashionable, the rich and the famous.

Another marketing tool was the mail order catalogue. Improving roads and the growth of the truck industry led to the growth of the mail order businesses like Sears, Roebuck and Co of Chicago. There were new shopping experiences to be had as well as the number of department stores like JC Penney increased and Piggy Wiggly introduced the supermarket.



Source 1: front cover of a 1922 Sears Roebuck 'Modern Homes' catalogue

As the wealth of America's businesses increased, so did people's confidence that they would continue to increase the amount of money they could make. People bought shares in industries because as industries made more money the shares became worth more so that in future they would have made a profit on the money they used to buy the shares. This was known as '**speculating**' on the stock market. Between 1919 and 1929 share dividends paid owners 65% more than they paid for the shares. John Jaskob Director of General Motors explained this in 1928: "Suppose a man begins a regular savings account of $8 a month. If he invests in common stocks he will, after 20 years, have at least $80,000. Anyone cannot only be rich, but ought to be rich." There was even 'buying on the margin' - a way that people could borrow money to buy shares so that when they rose in price and made a profit they could sell the shares, pay back the loan and keep the profits without having spent any of their own money.

Republican presidents in the 1920s did not interfere in the 'business of business.' This is best illustrated by President Coolidge's famous remark, "*The chief business of the American people is business... the man who builds a factory builds a temple – the man who works there worships there.*" They would not force employers to set minimum wages or improve working conditions. Employers could keep wages low and hours long to keep down costs because unions were too weak to oppose them. The growth of trusts, large national companies like the General Electric Company, helped prevent unions from interfering in businesses so that wages were kept low while prices were kept high. The policy of allowing businesses to get on with their work without interference was known as '**laissez faire**', a French phrase that means 'let things happen". As the Wall Street Journal put it, "*Never before, here or anywhere else, has a government been so completely fused with business.*"

Republican presidents in the 1920s cut taxes so that business owners could invest more money in improving their businesses and consumers would have more money to spend on buying consumer products. President Harding's Secretary of the Treasury Andrew Mellon pushed through cuts in government spending and tax cuts to wealthy citizens to encourage them to spend more following the 'trickle down' theory of economics. They believed this this would ultimately benefit everyone as wages would increase in the businesses who benefited from this money.

Another policy of the Republican presidents was to impose protective **tariffs**. These were taxes on imported goods to make them less competitive with American-made goods, to encourage people to buy American. The most important of these were the Emergency Tariff Act of 1921 and the Fordney McCumber Act of 1922. The aim of these 'protectionist' tariffs was to protect American interests as Europe began to recover from the war and export its goods to the USA again. It made it more difficult for Europe to pay its war debts to America and slowed international trade because European countries put up high tariffs on U.S. exports to them as well.

CASE STUDY: Henry Ford and the production line

"We'd rather go without clothes than give up our car. I never feel as close to my family as I do when we are together in the car."

The view from an American housewife

Source 2: the 1910 Model T Ford

Henry Ford set out to build a car which everyone could afford to buy. It was slow, ugly and difficult to drive, and was nick named the 'Tin Lizzie'. The attraction of the Model T Ford was that its price never increased. It cost $1200 in 1909, but only $295 in 1928. By 1929 Ford was producing more than one car per minute in the River Rouge plant in Detroit, which employed 81,000 men.

Ford was able to sell cars cheaply because they were mass-produced and every part was standardised - only one colour and one engine size were available, or as he said, "A customer can have any colour he likes for his car so long as it's black". Using an idea he borrowed from the meat-packing industry, Ford invented the idea of using an **assembly line** to speed up the process of building a car. This meant that workers stayed at a fixed station along the line and the car was brought to them. They would perform their operation on the car and it would then move on to the next station until it was completed. In 1925 Ford explained that "*the thing is to keep everything in motion and take the work to the man not the man to the work*" or as one worker put it, "*the belt is boss*." In 1913 it took 14 hours to assemble a Model T using the old system. In 1914 at Ford's Highland Park plant in Michigan using the new assembly line it was 93 minutes.

By producing large numbers of cars on an assembly line Ford needed fewer skilled workers, and that cut the cost of paying wages which helped keep the price of the car low. By 1925 Ford factories completed a car every 10 seconds. Made quickly and cheaply the cars could be sold in large numbers for a low price and a small profit on each car. This meant that more and more people could buy and enjoy a car, but it also meant more work for more people. By the 1920s other American car companies like Chrysler and General Motors copied Ford's techniques and increased their car sales as well. During the 1920s annual car production in the USA rose from1.6 million in 1920 to 5.6 million in 1929.

Car production boosted employment in other industries because it used up 20% of America's steel, 80% of her rubber, 75% of her plate glass and 65% of her leather. By the end of the 1920s American cars used seven billion gallons of petrol a year which helped to create jobs in the oil industry and made the oil state of Texas rich. With more jobs there were more people with the money to be able to afford a car.

Increasing car ownership resulted in more roads being built with more roadside diners, motels and petrol stations being built along with them. There was a massive road building programme from 1916. In 1920 there were 620,000 miles of roads and 9,000,000 cars. By 1929 there were 1,000,000 miles of roads and 26,000,000 cars.

RECOMMENDED VIEWING – Key Question 4

A good overview of the economic strengths of the USA in the 1920s is the BBC American Voices: Boom and Bust https://youtu.be/iwy5HNuHNes as well as the in-depth American Experience: Henry Ford https://www.youtube.com/watch?v=VwkPF1uTncY and an excellent look at the concept of the production line and its impact not just in the USA but also internationally can be seen in "People's Century episode 5: On the Line" at https://youtu.be/aarFxsGUJSA.

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 –

6. The Beginning: Seeds of Change https://youtu.be/dssfiPirT2U
7. 1914-1919: Shell Shock https://youtu.be/1GBWDQ5cF_U
8. 1920-1929: Boom To Bust https://youtu.be/RN7ftyZigYs

GLOSSARY :

Consumer spending	Buying non-essential or luxury goods.
Cycle of prosperity	People buy more goods, businesses make more money, hire more workers and pay higher wages; means more people have money to spend on consumer items.
Hire purchase	“Buy now, pay later”; paying for expensive items in instalments over a period of time.
Shares	Owning part of a company; value increases with the value of the company.
Speculating	Buying shares in the hope that they will rise in value and can be sold for a profit.
Laissez faire	When the government does not regulate business.
Tariffs	Taxes paid on goods being imported into a country.
Assembly line	A mechanical process where machines are brought to workers on a timed belt system for them to perform their task before it is moved on to the next station.

REFERENCES :

[i]FRONT COVER : building the Empire State Building (https://en.wikipedia.org/wiki/History_of_New_York_City_(1898%E2%80%931945)#/media/File:Old_timer_structural_worker2.jpg)

[ii]1922 Modern Homes Catalogue cover https://en.wikipedia.org/wiki/Sears_Catalog_Home#/media/File:1922_Sears_Modern_Homes_Catalog.jpg

[iii]Model T Ford 1910 https://en.wikipedia.org/wiki/Ford_Model_T#/media/File:1910Ford-T.jpg