

Economy in The 1920s

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Roaring Twenties or Tale of Two Countries?

The 1920s earned their moniker—the "Roaring Twenties"—through the decade's real and sustained prosperity, dizzying technological advancements, and lively culture. The decade marked the flourishing of the modern [mass-production](#), mass-consumption economy, which delivered fantastic profits to investors while also raising the living standard of the urban middle- and working-class. For the large minority of Americans who made their livelihoods in agriculture, however, the decade roared only with the agony of [prolonged depression](#).

Labor Militancy, Recession and Recovery

The Roaring Twenties actually began with an economic whimper; the transition back to peacetime after World War I was a difficult adjustment. Labor unions, which had grown strong during the war, fought to maintain their power through a series of strikes in 1919. The largest strikes—a [General Strike of all workers in Seattle](#), and a [strike of the entire American steel industry](#)—affected hundreds of thousands of workers and consumers, and the radical rhetoric used by some workers' leaders seemed to raise the prospect of full-fledged class warfare. Coming just two years after a successful Communist revolution in Russia, the militancy of the 1919 strike wave proved deeply alarming to most Americans; employers held firm against workers' demands, and most of the big strikes, including the strikes of Seattle and big steel, collapsed when workers returned to work under heavy threat of violence.

The labor turmoil and difficulties of the transition back to peacetime production caused a short but sharp recession in 1920-21, with unemployment briefly exceeding 11 percent.¹² However, the situation soon turned around, thanks in no small part to Commerce Secretary (and future President) Herbert Hoover's success in convincing major industrial leaders to voluntarily increase wages and production in order to pull the entire economy out of its slump. By 1922, the economy was growing robustly, a pattern it would follow more or less continuously until the Great Crash of 1929.

Red Scare and Anti-Radical Violence

One important aftermath of the failed strike wave of 1919, however, was a powerful reaction by government and business against radicals in labor and politics. Ascribing the unions' postwar militancy to Communist intrigue, Attorney General [A. Mitchell Palmer](#) encouraged [J. Edgar Hoover](#), an aggressive young agent of the Bureau of Investigation (today's FBI), to arrest thousands of radicals around the country. These [police actions](#), combined with private vigilante attacks such as the deadly [1919 raid of American Legionnaires against the Industrial Workers of the World hall in Centralia, Washington](#), decimated America's radical groups and made the decade safe for free-market capitalism.

A Great Time to be Rich

The 1920s' reputation as the epitome of wretched excess may have been unduly biased by the devastatingly memorable portrait of life among the plutocrats provided by F. Scott Fitzgerald's classic novel, [The Great Gatsby](#). But the Roaring Twenties were, in fact, a great time to be rich. Treasury Secretary Andrew Mellon, himself an extremely successful investment banker, lowered the top marginal income tax rate for the wealthiest Americans from 73% to just 25% while investors enjoyed one of the greatest bull markets in American history.

Meanwhile, the explosion in new mass-production industries fueled by the spread of technologies like electricity and the assembly line provided ample opportunities for profitable investment, and the stock market began its famed

ascent—the Dow Jones Industrial Average peaked in 1929 at a value more than six times as high as in 1921. Since less than one percent of the American people owned any stock, those fabulous returns in the stock market directly benefited only the wealthy. As a result, the share of America's wealth controlled by the richest of the rich increased rapidly to perhaps the highest level in American history. (We say "perhaps" because good statistical measurements of wealth inequality don't exist for the period before World War I; it is possible that income inequality at the peak of the Gilded Age at the turn of the 20th century was greater than that of the Roaring Twenties, and the income inequality of the 1920s may also soon be matched by that of today.) In any case, the Roaring Twenties offered a classic case of the rich getting richer. Much richer.

A Good Time to be Middle-Class

However, the fantastic wealth accrued by the rich during the decade should not obscure the real and sustained gains made by the urban working- and middle-classes. Notwithstanding the near collapse of the labor movement in 1919-21, real wages for urban workers increased by about 20% during the 1920s. Their wage gains were stretched even farther due to the falling cost of wonderful new mass-production goods. Technologically advanced new products like automobiles, [washing machines](#), and radios became much more affordable as manufacturers mastered the assembly-line techniques developed by Henry Ford's [Detroit auto plants](#). Ford's [Model T](#), by far the most popular car sold in America in the first three decades of the 20th century, cost almost \$1000 when it was first introduced in 1908. Thereafter the Model T's cost fell every single year, so that by 1927—the year it was replaced by the more modern Model A—it cost less than 300 bucks. Ford ultimately sold more than 15 million Model T's; during the 1920s the rate of automobile ownership increased from one car per fifteen Americans to one per five.

While the auto industry remains the iconic example, other industries in mass-production goods followed a similar trajectory during the Roaring Twenties. By the time of the Great Crash of 1929, ordinary folks in America's cities and towns could reasonably expect to be able to own a car, a washing machine, a refrigerator, a radio, and a host of other modern conveniences that drastically reduced housework and improved the quality of life. Goods that a generation earlier would have been affordable only to the very wealthy—or that did not even yet exist—disseminated widely through society. The 1920s were a great time to be middle-class, too.

Mass Production, Mass Consumption, Mass Culture

Demand for the multitude of new products that emerged in the 1920s was pumped up by a new industry, [advertising](#), which developed new methods of enticing buyers to desire new products through new media like the radio. The minstrel-show radio sitcom, *Amos n' Andy*, became a smash nationwide hit... [sponsored by Pepsodent toothpaste](#). Through such sponsorships, the advertising industry grew in perfect harmony with the emerging industries of mass culture—especially network radio and [Hollywood](#) cinema. The emergence of broadcast networks and proliferation of studio-linked movie theaters made possible the development of a robust nationwide mass culture. For the first time, a Detroit factory worker, a San Francisco longshoreman, and a Birmingham domestic could be expected to enjoy the same radio programs and watch the same films... and to smoke the same [cigarettes](#) and use the same [toothpaste](#) promoted on screen and on the radio.

Rural America: Left Behind by Modernity

However, the prosperity of the 1920s was not universal. In 1920, nearly half the nation's population still resided in rural areas, dependent upon agriculture for survival. And the Roaring Twenties were unkind to America's farmers. The decade began with the end of a period of great prosperity. World War I, by disrupting the agricultural production of much of Europe, had created enormous demand and high prices for farm products throughout the world. Farmers in America, like other areas that hadn't been turned into trench-lined battle zones, increased production accordingly and reaped great profits. However, the war's end allowed the resumption of normal European production, and suddenly the world faced a huge glut of agricultural products, with no market of buyers.

From 1920 to 1921, farm prices fell at a catastrophic rate. The price of wheat, the staple crop of the Great Plains, fell by almost half; the price of cotton, still the lifeblood of the South, fell by three-quarters. Farmers, many of whom had taken out loans to increase acreage and buy efficient new agricultural machines like [tractors](#), suddenly could not make their payments; throughout the decade, farm foreclosures and rural [bank failures](#) increased at an alarming rate. Agricultural incomes remained flat, with rural Americans' wealth falling far behind their urban counterparts. [Rural electrification](#) increased at a snail's pace, with more than 90 percent of American farms still lacking power into the 1930s. The proportion of farms with access to a telephone actually fell during the Roaring Twenties.

It is no great exaggeration to say that for rural America, the [Great Depression](#) began not in 1929 but in 1920, and it continued for an entire generation. The roaring prosperity of America's cities during the 1920s made the privation of rural life all the more painful, by contrast. The divide between Haves and Have Nots in the 1920s was the divide between city and country, and the economic resentments created by that divide helped to fuel a powerful traditionalist backlash against modernity, most menacingly through the re-emergence of the Ku Klux Klan on a nationwide scale.

End of the Boom: The Great Crash and the Great Depression

Urban America only began to share the pain long felt in the countryside late in 1929, when the stock market crash suddenly caused billions of dollars in assets to evaporate. While the [Great Crash](#) itself directly affected only the tiny minority of affluent Americans who owned stock at the time, ensuing cutbacks in industrial production caused a nationwide economic downturn unprecedented in its depth and length. The descent from the [Roaring Twenties](#) into the [Great Depression](#) was steep.



