

Is it fair to say that america was booming in the 1920s essay sample

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“ We in America are nearer to the financial triumph over poverty than ever before in the history of our land. The poor house is vanishing among us.”

Herbert Hoover’s declaration in 1928 over the level of prosperity that America had gained. However, was America really ‘ booming – a period of economic growth’?

The effects of the war, left most of Europe in debt, and America’s main economic problem was for the Europeans to repay loans that they had taken out to finance the First World War. Unfortunately, European countries could not afford to repay the loans and the prohibitive tariffs made it more difficult, as European countries could not export their manufactured goods to the USA in mass quantities, thus being unable to earn the money to repay their loans. To make matters more confusing, the USA had lent money to Germany for them to repay reparations to other European countries through the demands of the Treaty of Versailles.

These European countries then used the money from Germany to repay America – therefore America was paying itself. This became more confused through the Dawes and Young Plans which scaled down German reparations, which in turn meant that they repaid less of their American loans and reparations, therefore Europeans were even more unlikely to be able to pay American loans back. This showed that America was actually not prospering economically through loans, as the cycle of international debt meant that in the end they were paying themselves, which doesn’t show a boom, as each factor made the cycle more tangled and confusing.

However, there was an astonishing economic growth throughout the USA during the 1920s which ended in 1929 in the collapse of the New York Stock Exchange.

Average unemployment never rose about 3.7% during these years and inflation never rose higher than 1%. Employees were working fewer hours and were paid more.

Production of industrial goods rose by 50% between 1921 and 1929. This was due to the introduction of the mass production line by Henry Ford in 1914, in which he revolutionised the motor vehicle industry. He had wanted cars to be for anyone earning a reasonable income and not just for the wealthy to afford one. The cost of his Model T came down from \$950 to \$500, and by 1920 he could produce 1,250,000 cars per year, or one every 60 seconds in 1925. When the price fell to \$290, his factory produced one in every 10 seconds.

In 1930, 26.5 million cars were on the roads. Despite the demand, the supply always exceeded it. The growth of the motor industry had major social and economic effects. The motor car enabled other service industries such as garages, petrol stations, motels and used car sales. Improved transportation also enabled goods to be transported easily from factories to their markets.

People began to easily afford electrical goods such as the motor car because of government policies. It was government policy to let business operate as far as possible unfettered by regulation, “The chief business of the American people is business.” And both Coolidge and Andrew Mellon, Treasury

Secretary, believed in the free market. Mellon believed that wealth was filtered down naturally to all classes in society and that the best way to ensure increased living standards for everyone was to do everything possible to enable the rich to continue to make money to invest in industrial development.

Industrial expansion meant more job opportunities which in turn meant more employment, more wage earners, more consumption, more industrial expansion and so on.

The basic government policy was laissez-faire – this basically meant that the economy was left to run itself. However, the government did intervene to support businesses with benevolent policies in three main ways:

High Tariffs

In 1922, the Fordney-McCumber Act was passed, which raised tariffs covering the difference between domestic and foreign production costs. For some products, this meant that the import duties were high so that domestic producers were given an almost guaranteed market. The level of foreign trade was affected while domestic demand for goods remained high and American industry made huge profits.

Tax Reduction

The government reduced federal taxes which mainly benefited the wealthy. To reduce the National Debt was the aim, and this seemed to have been achieved. In 1920, the highest surtax stood at 65% and was reduced down to

25% in 1928. Mellon handed out rebates, credits and abatements totalling \$3.5 billion to large-scale industrialists and corporation during his eight years in office, and Coolidge's government acted on a surplus – \$677 million in 1925 and \$607 million in 1927.

Fewer Regulations

Economies in government meant fewer regulations and fewer personnel to enforce them. Often businesses were left unrestricted to carry on with their affairs as they saw fit and laws concerning sharp business practices, such as price fixing were often ignored. The offenders usually won on appeal when the government prosecuted. The lack of regulation became an important contributor to a company's profit. However, there was no body with authority to stop issues such as child labour.

People were also able to afford goods such as the vacuum cleaner and the washing machine because of the introduction of easy credit. It was a way of enhancing the massive consumer boom. By 1929, almost \$7 billion worth of goods were sold on credit; including 75% of cars and half of major household appliances. This enabled those in the working class to buy goods that they could not otherwise afford. Everyone seemed to be in debt but they didn't seem to be concerned as it was assumed that everyone's credit must be good and banks and loan companies seemed to be falling over backwards to lend money, with few questions.

Easy credit also meant that Americans were able to invest in stocks and shares and the Stock Market Boom was a way for Americans to get rich

quick, and many Americans went ' Wall Street Crazy'. Stocks and shares could be bought ' on the margin', on credit with loans from their broker. Increasingly people purchased them not to invest in a company but as a speculation. If the price rose they would sell, making a quick and easy profit.

The banks became eager to lend to foreign governments, to businesses and to individuals, with the extension of credit at low rates, increasing the Americans spending power.

New technology increased advertisement particularly on radio, which created consumer interest. In 1920, Americans owned 60, 000 radios, but by 1929, this had raised to 10 million creating a mass audience open to new forms of communication such as the telephone.

However, America didn't prosper throughout because wealth was not distributed evenly, therefore it is unfair to say that America as a whole was booming.

The North East and Far West had the highest per capita incomes, and the South East had the lowest. In 1929, the Brookings Institute found that income distribution was becoming more unequal, and that 60% of families had incomes of less than \$2, 000, which was the minimum for survival. They also found that employment was often transitory, and out of 165 families they looked at, 72% lost their jobs within the first 9 months. Women did not have improved career opportunities during this period.

There were only 150 women dentists and less than 100 female accountants in USA by 1930. Most women were often low paid domestic servants, and women receiving college education fell by 5%. Native Americans and blacks were the worse off. Blacks made up to 10% of the population but 85% were living in the South, the poorest region in the USA. There was considerable migration north, particularly to the large cities, but here too blacks faced discrimination in housing and employment. Comparatively few blacks were allowed to share in any prosperity and 14% of blacks were farmers.

Farmers faced problems such as over production resulting from mechanisation, the creation of food surpluses and falling prices. Their situation was made worse by their attempts to find a solution. They borrowed \$2, 000 million in mortgages, and whilst banks were still willing to offer cheap loans, they were unable to repay them. Many were eventually evicted or sacked.

The governments' little regulation of the economy, meant that people could take out excessive loans whenever they wanted to pay for luxury goods that they could otherwise not afford without credit. The governments' theory was that an injection of money and easy credit stimulated the economy. In 1927, the Federal Reserve Board further inflated the currency by creating several more billion dollars.

People went into debt, and the prices of real estate and stocks skyrocketed. The policies pursued by Coolidge made the later stock market crash inevitable and depression inescapable. Credit expansion and inflation

artificially reduced the interest rates, thus sending false signals to businessmen. Normally, declining rates would mean an increase in capital savings. Believing this to be the case, businesses increased production, leaving large inventories of unsold items. More money leads to an economic boom, which causes prices to increase.

Each time prices increase for capital goods, used for business expansion, the costs of doing business increases. The prices continue to swell until businesses can't afford to remain in operation. In order to prolong the boom, more money may be injected into the system. This is exactly what occurred until 1929, when the Federal Reserve Board, scared silly of run-away inflation, scrapped its policy of easy money. All this after a failed attempt to do the same thing in 1928.

The stock market speculation 'get-rich-quick' schemes were able to convert Americans from rags to riches, but in 1929 sophisticated investors realized that many stocks were overvalued — the value of stocks were worth more than the value of the corporation that was selling them. With the cut back of industrial production they began to sell their stocks, at first slowly, but on "Black Thursday," October, 24, 1929, a record 13 million shares were sold, and values collapsed. By the end of October, more than \$30 billion in paper values had been wiped out.

In conclusion, to say that it was fair that America was booming is partly true – there was an astonishing economical growth throughout America during the 1920s, with many prospering through their abilities to buy certain luxury

goods that they could not have afforded before. Mass production kept products at low prices, and with easy credit schemes, many people bought on credit.

However, the view that not everybody shared in the prosperity must be seen, as there were many lower class as well as farmers who didn't share in the boom, and many families were earning below the survival wage.

Therefore it can be said that it wasn't fair to say that America was booming, because not everyone was able to share in the boom. The boom seemed to occur because of the government's laid back policies, which meant that people's access to more money was unrestricted, leading to having more power to spend as much as they like and borrow as much as they wanted with low interest rates to pay back as banks were happy to lend out money to anyone.

I don't think that it is fair to say that America was truly booming in the 1920s, because of the various factors that contributed to this 'boom'. The government's laid-back policy and the banks eagerness to loan out money to everyone showed that there was indeed an enormous increase in money that could be spent within the economy. However, people increasingly owed money to the bank as well as to stores through their hire-purchase schemes for luxurious goods. Overall, people's debts increased, and this became prominent after the Federal Reserve Board further inflated the currency by creating several more billion dollars. The economic status was worsened when "Black Thursday" came along resulting in everyone selling their shares so that America eventually went into the Great Depression.