"Life before the Crash"


The decade between 1920 and 1929 is often called the Roaring Twenties, New Era, Prosperity Decade, or Jazz Age. It was a time of optimism and hope, and the future looked promising. American culture had made huge strides since the end of the previous century, and rapid changes continued to be made during this decade.

Now, looking back on those years, it is hard to comprehend just how different life was then. There were no televisions or computers. Most people did not own a car. Electricity and indoor plumbing were fairly new developments and were still scarce outside of cities. People relied on themselves, friends, and family both for entertainment and for help in case of an emergency. The extent to which people were "on their own" is hard to imagine, because today there are many social safeguards. If a person loses his or her job today, chances are he or she can collect unemployment insurance, which did not exist in 1930. If an elderly woman has worked during her lifetime, she can now collect a monthly Social Security check, another form of insurance that had not yet been developed in the 1920s. Private relief agencies existed to help out widows and orphans or the elderly poor, but for the most part, families looked after their own.

Americans were proud of their self-sufficiency. Most did not feel the government should play a part in their private lives and were happy that the government felt the same way. The most involvement the majority of people had with the federal government was when they used the postal service to mail a letter.

With the end of World War I in 1918, the country turned back to developing domestically. Many people were intent on enjoying themselves. Jazz music became all the rage, filling smoky clubs and radio airwaves. Its popularity caused writer F. Scott Fitzgerald to call the era the Jazz Age. "The Charleston" was one of the more popular dance crazes sweeping the nation. And women became increasingly "modern," cutting their hair short, wearing baggy dresses that exposed their arms and legs, wearing makeup, and daring to smoke cigarettes in public. These "flappers" fought for social freedoms, while their political counterparts, the suffragettes, rallied to get the right to vote (which they did in 1920, with the passage of the Nineteenth Amendment).

The temperance movement, which worked to make the manufacturing, transportation, and sale of alcohol illegal, began during World War I, and was successful when the Eighteenth Amendment to the Constitution was ratified in 1919. (It was then repealed by the Twenty-First Amendment in 1933.) During the period in which alcohol was illegal, known as Prohibition, many people ignored the law, opening private clubs in homes and the back rooms of stores. Known as "speakeasies," these clubs served alcohol and gained a bad reputation. Many of them were owned by gangsters, and violence became more prevalent. Other people learned to brew their own beer or make gin at home, sometimes in large vats or even in their bathtubs, earning this home-brewed alcohol the name "bathtub gin."

Moving into the 1920s
Up until the late 1800s, Americans grew or made just about everything they needed to live, buying
the few items they could not produce at home. But as the country became increasingly industrialized, Americans began to purchase more household items. Farmers also began to join this "market economy." Instead of raising a variety of livestock and a diversity of crops, they increasingly raised just one crop, sold it, and bought everything else. As farms became more efficient through the development of new machinery for harvesting crops and baling hay, for example, a surplus was created that could be sold elsewhere. During World War I, buyers for those products were found in the war-torn countries of Europe, which were too damaged to produce enough food for their citizens.

Electricity allowed many homes to run such newly invented luxuries as refrigerators, fans, toasters, washing machines, vacuum cleaners, and radios. Suddenly, these became "must-have" items and a shift in the cultural mind-set occurred. Before long, the traditional values of frugality and saving for the future gave way to something new: buying on credit. By 1929, almost 15 percent of all purchases were made on credit. And this "easy way to buy" was encouraged by advertisers, who found their job even easier by promoting their products on the radio.

With all these new gadgets cutting the time spent on housework in half, Americans suddenly had newfound leisure time. Some of them used this free time to take drives in the country in their new cars. Henry Ford's Model T was a car for the masses, and at around $600 to $800, many people could afford one—on credit, of course. Another favorite leisure activity was watching sports games or listening to them on the radio. Baseball and boxing fans listened avidly to broadcasts of their favorite teams and bouts and followed the lives of sports figures, who were the celebrities people most admired. Lou Gehrig and Joe Louis, for example, were seen as heroes for their achievements on the field and in their everyday lives, too. So for many, or even most Americans, the 1920s was a time to live life to the fullest, without much thought of the future.

The state of the economy

Although unemployment was low during the 1920s, wages were also low, and company owners had little incentive to raise them. The bulk of the country's wealth was concentrated in the hands of a few. Six out of 10 families had incomes of less than $2,000 per year and only 3 of every 100 families earned incomes of more than $10,000 a year, the equivalent of about $116,000 in today's dollars. The bottom line was that only a small proportion of the population had the money to make purchases with cash. The increasing debt load on individuals and families worsened the Great Depression, as many consumers simply could not repay their loans. In addition, new technologies meant that factories were able to produce goods faster than consumers were able to purchase them, leaving factories with surplus products. This forced factory owners to lay off workers, because there was no longer a great need to churn out products.

Railroads, factories, mines, and other industries were owned by private individuals who ran their companies in their own ways. There were few, if any, governmental controls over management. Employees often worked long hours for low pay, but as long as there was a steady supply of new immigrants and an influx of young men from rural locations to the cities, all of whom were eager and willing to work for whatever salary and under whatever conditions, the status quo was not about to change.

Some changes had been made in working conditions by President Theodore "Teddy" Roosevelt, who entered office in 1901 after President William McKinley was assasinated. Unfortunately, some of those reforms hurt, rather than helped, certain industries and their employees. For example, as oil became more popular than coal for heating homes, unemployment rose in coal-mining areas such as the Appalachian region. As newly developed synthetic materials replaced cotton in clothing (as well as the fact that styles of the day used less fabric to begin with), the cotton industry suffered. Then there were the farmers, who did not know what to do with their surplus crops. As Europe
recovered from the war and its farmers went back to their fields, American farmers lost a valuable market. This loss created a cash shortage, keeping American farmers from buying necessary farm equipment and fertilizer. Planting the same crop year after year in the same field used up the nutrients in the soil, and the weather during this period was uncooperative. Drought followed by floods decimated crops and added to the downward cycle of events.

The federal government may have been able to help farmers recover more quickly from some of their losses, but Calvin Coolidge, the president at the time, told the chairman of the Farm Loan Board, "Farmers have never had money. I don't believe we can do much about it." Coolidge twice vetoed legislation that would have provided relief to farmers and protected them from foreign competition. Most Americans at the time believed in this form of "leave-alone" or "laissez-faire" governing. They believed that their system of government and economy had built-in checks and balances and they did not want the federal government solving their problems or telling them what to do.

So for some, the Great Depression began almost 10 years before it did for the rest of the country. Many farmers could not make their mortgage payments, and banks became overwhelmed by properties they had seized after farmers failed to make their payments. The banks then tried to sell those properties, but no one wanted to buy land to grow crops for which there was not a market. More than 1,500 banks closed between 1926 and 1928 because they had overextended credit.

Economies rise and fall; consequently, this depression was not the first the United States had experienced. In fact, it was the nineteenth depression since the American Revolution. In 1837 and 1857, depressions occurred in the United States due to several factors, including over-speculation in railroads and real estate, an increase in agricultural production, and a shift to more of a manufacturing economy. Again, in 1869, after the gold rush in California, investors raced to buy up gold, and when the supply of gold grew and prices dropped, a panic ensued. The depression of the 1930s, however, was by far the worst.

The Allure of Money

Many people are naturally attracted to making money. Buying and selling stocks was, and often still is, seen as a way of making money quickly and easily. When enough people invest in a certain stock, it can cause the price to rise. If too many people continue to buy and share prices continue to rise, stock prices will eventually become unrealistic in relation to the true value of the company they represent. Unless that true value "catches up" with the stock price, the price will begin to fall. When a share of stock loses value, some people sell their shares, afraid they will lose everything if they do not get rid of the devalued stock. If too many sell too quickly, panic can set in, with investors believing they won't get back at least what they paid for the share. This is what happened in October 1929.

People's overuse of credit soon extended to buying stocks on credit. Known as buying on margin, investors could now buy more stock than they could afford, buoyed by the belief that when the value of their stock rose, they could sell it and pay off their debt. People invested a great deal of their money in such companies as General Motors, DuPont, and RCA (Radio Corporation of America). RCA was just about the most popular stock of the 1920s because of the growing popularity of radio and the company's domination of that market.

Individuals were not the only ones who bought stock for themselves. Banks invested their depositors' money and others formed companies that existed solely to buy up enough stock of other companies to gain control of them. These "holding companies" grew in popularity and there were many of them. "Stock manipulators" sold stocks and bonds and used the income to buy up enough stock in an existing company to control it. Whenever the promoters needed cash, they
created another holding company, and so on. After October 29, 1929, there were no more customers who wanted to buy stock with cash. The owners of the holding companies could no longer make payments on the bonds they had sold. Empires that were built during the 1920s in the entertainment, railroad, and utilities industries often fell hard.

One such empire was built by Samuel Insull, an Englishman who had once been inventor Thomas Edison's private secretary. Insull's company, Commonwealth Edison, was billed as "the world's safest investment." He became a millionaire by manipulating stock from his base in Chicago, where he was active politically and socially. Because of his reputation for being trustworthy, many invested in his utility company, which at one point produced nearly one-eighth of all electric power in the country. However, Insull went bankrupt in 1932, taking thousands of people with him.

Herbert Hoover took office as president in 1929, and soon afterward he commissioned a study by some of the most respected sociologists of the time. The statistical study was to be used as a basis to establish "sound national policies" in the United States for the coming years. The resulting document, titled *Recent Social Trends*, was 1,500 pages long and full of all kinds of data about American life. The scientists discovered that the years since 1890 (they used the 1890 national census as their point of reference) had experienced huge social and economic changes, more than in the entire preceding 100 years.

One of the biggest contradictions they found was the difference in standards of living between the country and the city. (The suburbs did not exist yet.) Almost half of the national population was still living in rural areas in 1929, living a lifestyle that had changed little from 100 years before. Immigrants, who had poured into the United States around the turn of the twentieth century, had a huge impact on American life, economically and culturally. But during the 1920s, the government began to pass laws that limited how many new people the country would accept. In 1928, more than 300,000 people immigrated to the United States, but that number dropped to 23,000 by 1932. And during the decade of the Great Depression, from 1930 to 1940, for the first time the number of people who left the country actually exceeded those who arrived.

Contrary to what many believed and how many lived, the ongoing "bull" market—when people are buying stock and prices are rising—could not last forever. Many believed prices would keep climbing indefinitely, but a few small breaks in the rise of prices made others nervous. Some signs of danger that were mostly ignored included the slowdown in the textile, coal, and farming industries and in business overall. Unemployment had grown slightly throughout 1928, and—a real warning sign for many—construction of new homes declined in 1927. When new homes are not being built, there is less need by consumers for new refrigerators, carpets, furniture, and other home supplies. Fewer factory workers were needed to produce the same amount of products because of improved machinery and production methods. Production then had to be reduced because the supply far exceeded the demand. This was followed by worker layoffs, creating a downward spiral. In addition, most people who could afford a car, radio, or refrigerator, or who wanted to buy these items on credit, already had them by 1929.

The stock market crash of 1929 had devastating and long-lasting effects, unlike those depressions that had come before, which passed fairly quickly. The 1929 crash joined other factors in triggering the Great Depression. It was a decade-long period of economic downturn that affected virtually every resident of the United States and spread throughout the world.
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