1a.

LIVING ON CREDIT Although many Americans appeared prosperous during the 1920s, in fact they were living beyond their means. They often bought goods on **credit**—an arrangement in which consumers agreed to buy now and pay later for purchases, often on an installment plan (usually in monthly payments) that included interest charges.

By making credit easily available, businesses encouraged Americans to pile up a large consumer debt. Many people then had trouble paying off their growing debts. Faced with debt, consumers cut back on spending.

THINK THROUGH HISTORY
C. Drawing Conclusions
What did the experience of industry, farmers, and consumers at this time suggest about the health of the economy?

1b.

INDUSTRIES IN TROUBLE The superficial prosperity of the late 1920s hid troubling weaknesses that would ultimately lead to the Great Depression of the 1930s. A number of key basic industries, such as textiles, steel, and railroads, barely made a profit. Railroads lost business to new forms of transportation (trucks, buses, and private automobiles), while textile mills faced competition from foreign producers in Japan, India, China, and Latin America.

Mining and lumbering, which had expanded to supply wartime needs during World War I, faced diminished demand for their goods in peacetime. Coal mining was especially hard-hit, in part due to stiff competition from new forms of energy, including hydroelectric power, fuel oil, and natural gas. By the early 1930s, these sources supplied more than half the energy that had once come from coal.

By the late 1920s, Americans were buying less—mainly because of rising prices, stagnant wages, unbalanced distribution of income, and overbuying on credit in the preceding years—even as American farms and factories were producing more. Production expanded much faster than wages, resulting in an ever-widening gap between the rich and the poor.

The Stock Market Comes Tumbling Down

2.

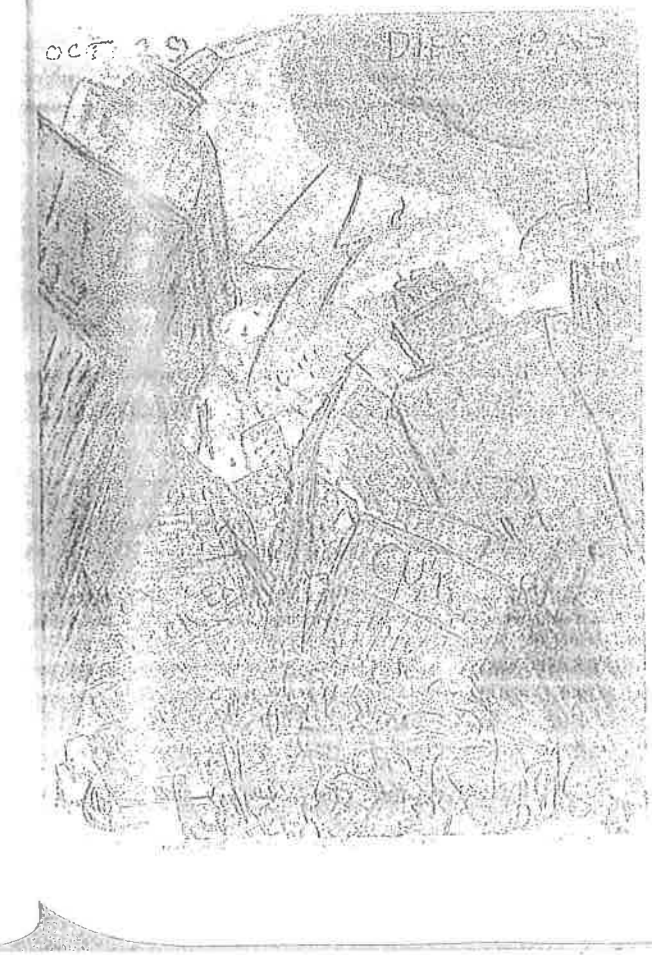
By 1929, some economists were warning of serious weaknesses in the economy. Most Americans, however, remained unaware of these problems and continued to have confidence in the nation's economic health. Those who could afford to invest in the stock market did so in increasing numbers. In fact, the stock market had become the most visible symbol of an American economy that seemed to be producing wonderful products in the years after World War I.

HINK THROUGH IT
.. Drawing Conclusions
What did the experience of industry, farme and consumen his time sugge about the heal he economy?

DREAMS OF RICHES IN THE STOCK MARKET Through most of the 1920s, stock prices rose steadily. (See *stock market* on page 938 in the Economics Handbook.) Eager to take advantage of this "bull market"—period of rising stock prices—many Americans rushed to buy stocks and bonds. One observer wrote, "It seemed as if all economic law had been suspended and a new era opened up in which success and prosperity could be had without knowledge or industry." By 1929, about 4 million Americans—or 3 percent of the nation's population—owned stocks. Many of these investors were already wealthy, but others were average Americans who hoped to strike it rich.

As stock prices rose, several problems became evident. More and more investors were engaging in **speculation**—that is, they bought stocks and bonds on the chance that they might make a quick or a large profit, ignoring the risks. Their unrestrained buying and selling fueled the market's upward spiral. As prices rose, wealth was generated on paper, but it bore little relation to the real worth of companies or the goods that they produced. The price of stocks had little relationship to the dividends the stocks paid.

Furthermore, many investors began **buying on margin**—paying a small percentage of a stock's price as a down payment and borrowing the rest. With stockbrokers willing to lend buyers up to 75 percent of a stock's purchase price, buying on margin became the rule. This system worked as long as prices continued to rise, since investors could sell their inflated stocks to make a profit and pay off their debt. If stocks declined, however, there was no way to pay off the loan.



This cartoon by James N. Rosenberg, which shows Wall Street crumbling on October 29, 1929, is titled *Dies Irae,* Latin for "day of wrath."

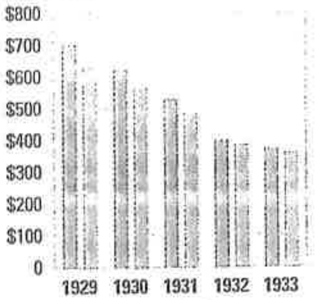
BLACK TUESDAY In early September 1929, stock prices peaked and began to decline. Confidence in the market started to waver, and some investors sold their stocks and pulled out. On October 24, the market took a plunge, as panicked investors unloaded their shares. But the worst was yet to come.

On October 29—known as **Black Tuesday**—the bottom fell out of the market. People and corporations alike frantically tried to sell their stocks before prices plunged even lower. The individual investors who had bought stocks on credit acquired huge debts as the prices plummeted. Other investors, who had put most of their savings into the market, lost huge portions of their nest eggs. The number of shares dumped that day was a record 16 million. Additional millions of

ECONOMIC BACKGROUND

AMERICA'S DECLINING WEALTH

As the following chart demonstrates, the yearly income and spending per person declined after 1929, the year of the stock market crash. (See *depression* on page 934 in the Economics Handbook.)



▨ Average Yearly Income per Person

▨ Average Consumer Spending per Person

Source: *Historical Statistics of the United States*

SKILLBUILDER **INTERPRETING GRAPHS** ***What happened to the difference between yearly income and consumer spending in the years 1929–1931? What do you think this change meant to Americans?***

shares could not even find buyers. By mid-November, investors had lost $30 billion, an amount equal to American spending in World War I. The stock market bubble had finally burst. One eyewitness to these events, Frederick Lewis Allen, described the resulting situation.

A PERSONAL VOICE

> The Big Bull Market was dead. Billions of dollars' worth of profits—and paper profits—had disappeared. The grocer, the window cleaner, and the seamstress had lost their capital [savings]. In every town there were families which had suddenly dropped from showy affluence into debt. . . . With the Big Bull Market gone and prosperity going, Americans were soon to find themselves living in an altered world which called for new adjustments, new ideas, new habits of thought, a new order of values.
>
> FREDERICK LEWIS ALLEN, *Only Yesterday*

"Wall Street Lays an Egg"

HEADLINE, *VARIETY*

THINK THROUGH H

D. Forming Opinions Wh

role did greed p

in the stock ma

crash?

3.

FARMERS NEED A LIFT Perhaps more than any other part of the economy, agriculture suffered in the 1920s. During World War I, international demand for crops such as wheat and corn had soared, causing prices to rise. Farmers had planted more crops and taken out loans to buy land and equipment. After the war, demand for farm products fell, and crop prices declined by 50 percent or more. (See *supply and demand* on page 939 in the Economics Handbook.)

To compensate for falling prices, farmers boosted production in the hope of selling more crops, but this only depressed prices further. Between 1919 and 1921, annual farm income declined from $10 billion to just over $4 billion. Farmers who had gone into debt had difficulty in paying off their loans. Many lost their farms when banks foreclosed and seized the property as payment for the debt. As farmers began to default on their loans, many rural banks began to fail.

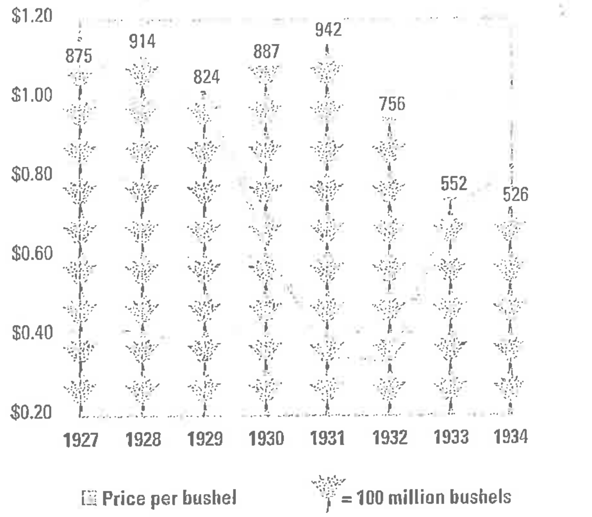
THINK THROUGH HISTORY
B. THEME **Economic Opportunity** *What were some of the basic difficulties faced by farmers in the 1920s?*

To prop up the farm sector, members of Congress proposed a complicated piece of legislation called the McNary-Haugen bill. This proposal called for federal **price supports**—the support of certain price levels at or above market values by the government—for key products. The bill had three major provisions:

- The government would buy surplus crops, such as wheat, corn, cotton, and tobacco, at guaranteed prices that were higher than the market rate.
- The government would then sell these crops on the world market for the lower prevailing prices.
- To make up for losses caused by buying high and selling low, the government would place a tax on domestic food sales, thus passing the cost of the farm program along to consumers.

Congress passed the bill twice, in 1927 and 1928, but each time President Coolidge vetoed it. At one point, the president commented, "Farmers have never made money. I don't believe we can do much about it." Farm prices remained low, and farmers continued to struggle.

U.S. Wheat Production and Wheat Prices



Source: *Historical Statistics of the United States*

SKILLBUILDER
INTERPRETING GRAPHS ***How far did the price per bushel of wheat drop in the years after 1927? How many times greater than the lowest price was the highest price? What factors do you think contributed to this drop?***

4a.

UNEVEN DISTRIBUTION OF INCOME Consumers also spent less because their incomes were not rising fast enough. During the 1920s, nearly half the nation's families earned less than $1,500 per year, then considered the minimum amount needed for a decent standard of living. Even families earning twice that much could not afford many of the household products that manufacturers produced. Economists estimate that the average man or woman bought a new outfit of clothes only once a year. Scarcely half the homes in many cities had electric lights or a furnace for heat. Only one city home in ten had an electric refrigerator.

In contrast, rich Americans did very well. Between 1920 and 1929, the income of the wealthiest 1 percent of the population rose by 75 percent, compared with a 9 percent increase for Americans as a whole. In 1929, the wealthiest 5 percent of American families took in nearly a third of the nation's income, while the poorest 40 percent of the population earned just over a tenth of the national income.

This unequal distribution of income meant that most Americans could not participate fully in the economic advances of the 1920s. Many people did not have the money to consume the flood of goods that factories produced. The prosperity of the era rested on a fragile foundation.

4b.

CONSUMERS HAVE LESS MONEY TO SPEND As farmers' incomes fell, they bought fewer goods and services. Without money to spend, rural families could not buy the products of American industry. The same problem was evident among American consumers as a whole.

Even the boom industries of the 1920s—automobiles, construction, and consumer goods—began to weaken. The construction of new houses, for example, fell steadily after peaking in 1925. Between 1925 and 1929, applications for new building permits declined by approximately 25 percent. Housing starts—or the number of new dwellings beginning construction—are an important economic indicator, because house construction has spinoff effects on other industries. New houses require building materials, new furnishings, new equipment, and new appliances. Construction also creates jobs.

When housing began to decline, so did other businesses that depended on construction. Furniture companies that had expected an expanding market produced too many goods and cut their labor forces to reduce inventories. The story was similar for makers of household appliances.

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THROUGH HISTORY
A. Analyzing Causes What ustrial weakness naled a declining economy in the 1920s?