



The Economy of the 1920s

Objectives

1. Describe the causes and effects of the industrial boom that occurred in the 1920s.
2. Explain how rising stock prices encouraged many to borrow money to invest in the stock market.
3. Identify groups that did not profit from the prosperity of the 1920s.
4. Describe the election of 1928 and Herbert Hoover's victory.

Prepare to Read

Reading Skill

Summarize a Passage Combine the skills you practiced in Sections 1 through 3 as you read Section 4. Pause after each major portion of text. Summarize the main ideas that fall under the major heading. Remember to paraphrase in your own words and to include all the important ideas.

Vocabulary Builder

High-Use Words

accumulate, p. 753

participate, p. 754

Key Terms

installment buying, p. 752

bull market, p. 753

buying on margin, p. 753

★ **Background Knowledge** The social and economic changes of the 1920s were accompanied by a prolonged period of prosperity. This section will describe the economic boom while explaining some key problems that were hidden beneath the prosperity.

Main Idea

After a brief postwar recession, industry revived and offered Americans a bounty of consumer goods.



New product to make life easier

Industrial Growth

The end of World War I was followed by a severe recession in agriculture and industry. For industry, that downturn did not last long. Industrial production recovered, and from 1922 to 1928 it climbed 70 percent. Many companies successfully switched from producing military goods to producing consumer goods. The market was filled with refrigerators, radios, and cars.

As more goods came to market, prices dropped. Meanwhile, rising incomes gave consumers more to spend. To encourage spending, businesses offered installment buying, or buying on credit. In 1925, Americans got 75 percent of their cars on the installment plan.

New forms of advertising surrounded customers with images of things they should consume. Chain stores and mail-order catalogs made it easier for people outside of major cities to buy these goods. A new consumer culture arose.

Middle-class women were especially affected by these changes. Many of the new electric appliances were designed to appeal to the American homemaker. Vacuum cleaners, toasters, washing machines, and refrigerators all lightened the household workload.

Government policies helped boost the economy. High tariffs on imports kept out goods that might compete with domestic products. Taxes on the wealthy were cut to encourage greater spending.

These measures did stimulate the economy. But they also helped Americans develop a recklessness about spending. In 1928, when Ford announced its new Model A, half a million people made a down payment on the car without even having seen it.

Checkpoint What factors caused an increase in consumer spending?

A Booming Stock Market

With a strong economy, more people chose to invest in the stock market. Many people could now afford to purchase stocks, or shares of companies. With money pouring into stocks, stock values kept rising. A period of rising stock prices is called a **bull market**.

Stocks were so profitable that many people began **buying on margin**—borrowing money in order to buy stocks. The investor put down a portion of a stock's cost and paid the rest later with the profits earned from selling the stock. So long as the market continued to rise, the investor had no problem paying the loan back.

Many Americans grew wealthy buying and selling stocks. Newspapers were filled with stories of investors who accumulated fortunes. However, by 1928, some economists began to worry. High stock prices seemed to have little to do with the actual value of the company that issued them. A few experts warned that the stock market was overvalued. But investors mostly ignored the warnings.

Main Idea

Rising stock prices lured many Americans into buying stocks with borrowed money.

Vocabulary Builder

accumulate (uh KYOOM yoo layt) v.
to slowly collect; to increase in amount over time

History Interactive

Buying Stocks on Margin

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Links to Economics

Buying Stocks on Margin

A sharp drop in the stock market is alarming news to investors who have bought stock on margin. **Critical Thinking: Identify Costs**
How might the practice of buying stock on margin turn a small drop in stock prices into a larger and more prolonged decline?

Investor buys stock on margin

Investor pays for part of the stock and takes out a loan from a broker for the rest.

Stock Price Rises

Investor pays off the margin loan and earns a profit.



Stock Price Falls

Investor must put more money into the margin account, or sell stock, losing part or all of the original investment.





Summarize a Passage

Use what you have learned in this chapter to summarize the text under the heading "A Booming Stock Market."

Main Idea

Many farmers and workers did not share in the era's prosperity.

Vocabulary Builder

participate (pah-TEEHS-ah-payt) *v.* to take part in; to share in an activity

Farmers in Trouble

Drought and erosion contributed to the troubles of farmers, who made up one fifth of the population. **Critical Thinking: Draw Conclusions** *Why might bad times for farmers also be bad for the American economy in general?*

They preferred to listen to predictions like this one spoken by Irwin Fisher, a professor of economics in 1929: "The nation is marching along a permanently high plateau of prosperity." However, most people at the time were far from prosperous. The wealthiest Americans made up about 5 percent of the population. Most people just worked hard to make ends meet.

Checkpoint Why did rising stock prices encourage people to gamble on the stock market?

Signs of Trouble

There were other signs of potential trouble, too. In fact, for many Americans, the 1920s were years of poverty rather than prosperity.

Farmers Farmers were among the groups that did not participate in the good times. About one fifth of Americans made their living on the land and many of them lived in serious poverty.

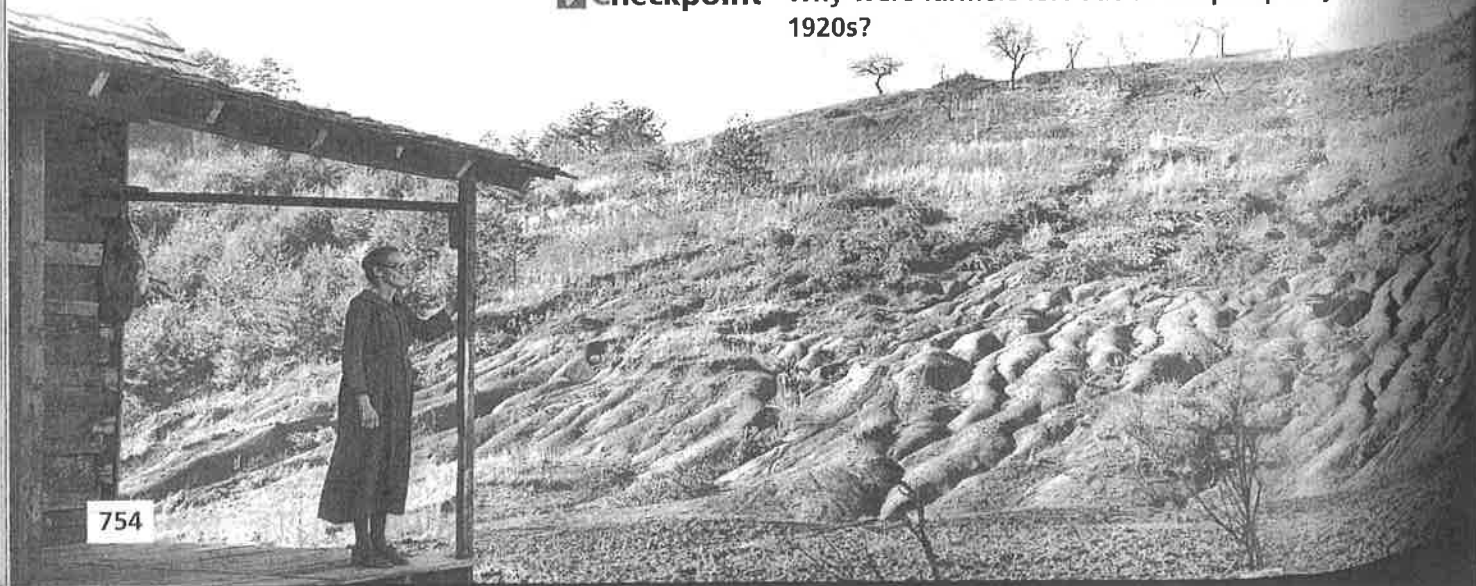
There were several reasons for the agricultural depression. American farmers grew far more crops than the American public could consume. Before World War I, farmers had sold their surplus abroad. However, demand for American farm products declined after the war, because many nations were too poor to purchase them.

High debt was another reason for rural poverty. In the good years before the world war, farmers had taken out loans to buy new lands and equipment. After the war, though, sales went down. Many farmers were unable to pay off their debts.

Workers The 1920s were years of mixed results for American workers. On the one hand, wages were rising. Companies also began offering new benefits, such as pensions and paid vacations, in an attempt to keep their workers from joining unions.

On the other hand, unemployment was high. During the 1920s, it was about 5 percent of the workforce each year. Those who had jobs found that their jobs were changing. The assembly line system was squeezing out skilled labor. Each step had been reduced to its simplest methods. Unskilled workers could handle the work—and they received lower pay.

Checkpoint Why were farmers left out of the prosperity of the 1920s?



The Election of 1928

The Republicans had held the presidency throughout the 1920s, and they claimed responsibility for the decade's prosperity. For their candidate in the 1928 presidential election, they chose Secretary of Commerce Herbert Hoover. The Democrats nominated New York Governor Alfred E. Smith.

The campaign highlighted some of the continuing divisions in American society. Smith was the first Catholic ever to run for President, and religion became one of the issues. Immigrants, Catholics, and urban residents tended to support Smith. Rural residents and Protestants tended to support Hoover, a Quaker born in Iowa.

The economy was another major issue. Hoover pledged to continue the policies he credited for prosperity. He campaigned on the slogan "a chicken in every pot and a car in every garage." He said the nation was near to "the final triumph over poverty."

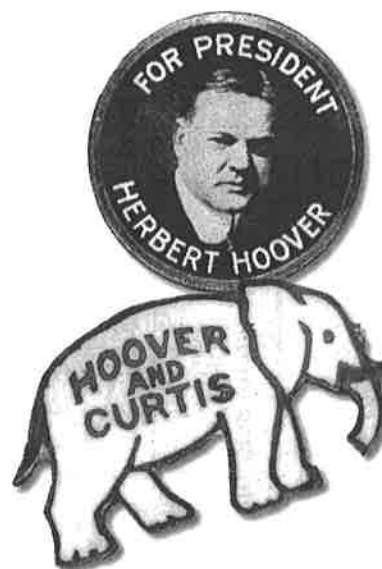
Although Alfred Smith won the largest cities, he lost every state but Massachusetts and six Deep South states. Hoover won with special strength in rural areas. Herbert Hoover entered the White House in 1929 with great expectations for a prosperous future.

Checkpoint Among what groups was Hoover strong?

Looking Back and Ahead A widespread prosperity and sweeping changes in society made the 1920s an exciting time. Within months of Hoover's election, however, a stock market crash plunged the nation into a great depression that spread misery across the land.

Main Idea

Expectations of continued prosperity helped Herbert Hoover win the 1928 election for the Republicans.



Hoover campaign plugs

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Comprehension and Critical Thinking

1. **(a) List** What were the reasons the economy, after a short slump, boomed following World War I?

(b) Identify Economic Benefits Explain how high tariffs and low taxes boosted the economy during the 1920s.

2. **(a) Recall** Which groups of Americans did not benefit from the prosperity of the 1920s?

(b) Synthesize Information Why might some farmers have felt government support was necessary at this time?

Reading Skill

3. **Summarize a Passage** Reread and then summarize the text under the heading "Signs of Trouble."

Vocabulary Builder

Complete each of the following sentences so that the second part further explains the first part and clearly shows your understanding of the key term.

4. To purchase a car, a person can turn to installment buying, _____.

5. People make money during a bull market, _____.

6. In order to purchase even more stock in the 1920s, people began buying on margin, _____.

Writing

7. Revise the following paragraph by putting the sentences in logical order: In the mid-1920s, however, reduced taxes and extended credit encouraged consumer spending. By 1929, the economy had grown to the point of being overheated. In the early 1920s the economy declined, partly as a result of World War I. The U.S. economy improved a great deal from the beginning to the end of the 1920s. The war had badly weakened European economies, and the overseas market for American goods shrank.