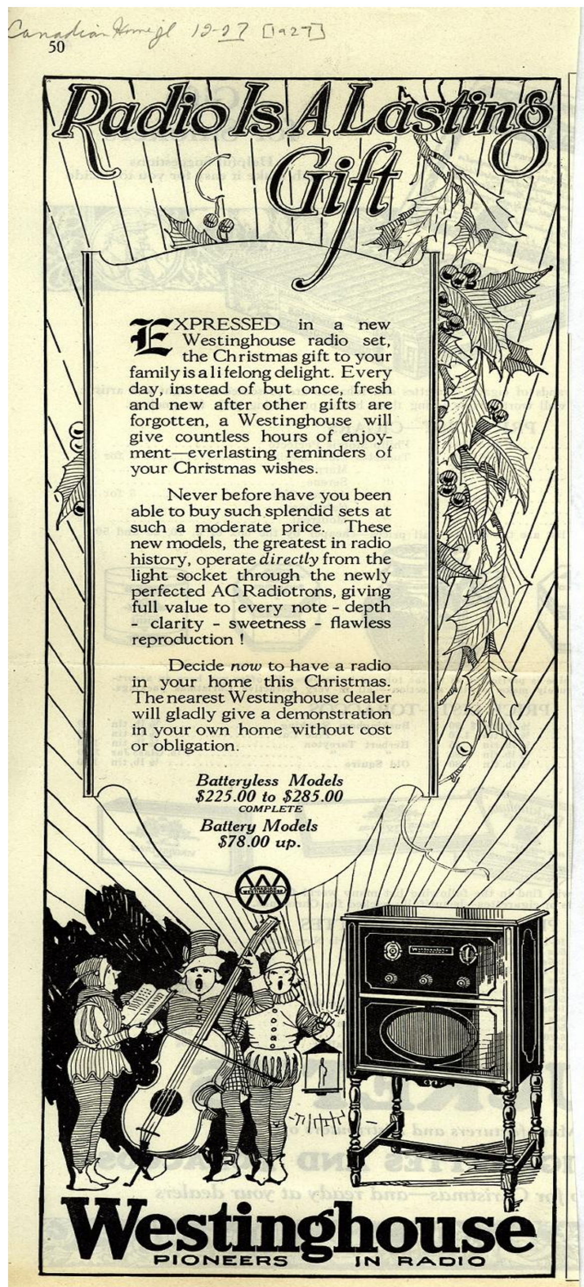
4. **Under-consumption/Debt/Income Inequality (Group 4)**

Critical Ideas: What is credit? What are savings? What are the benefits of Credit? What are the possible drawbacks? What happens if businesses and consumers save at the same time? How would income inequality affect the number of consumers? What was new about the 1920s?

Explain how underconsumption contributed to the Great Depression

Source 22: Advertisement from 1927
(From: http://library.duke.edu/digitalcollections/adaccess_R0163/)



Source 23: Photo of Firestone Tire Store (1926)
(From: US Library of Congress:)

Source 24*: Why it happened?* A historical narrative from DigitalHistory.com (2011)
(From: http://www.digitalhistory.uh.edu/disp_textbook.cfm?smtID=2&psid=3432)

For many groups of Americans, the prosperity of the 1920s was a cruel illusion. Even during the most prosperous years of the Roaring Twenties, most families lived below what contemporaries defined as the poverty line. In 1929, economists considered $2,500 the income necessary to support a family. In that year, more than 60 percent of the nation's families earned less than $2,000 a year--the income necessary for basic necessities--and over 40 percent earned less than $1,500 annually. Although labor productivity soared during the 1920s because of electrification and more efficient management, wages stagnated or fell in mining, transportation, and manufacturing. Hourly wages in coal mines sagged from 84.5 cents in 1923 to just 62.5 cents in 1929.

The farm sector had been mired in depression since 1921. Farm prices had been depressed ever since the end of World War I, when European agriculture revived, and grain from Argentina and Australia entered the world market. Strapped with long-term debts, high taxes, and a sharp drop in crop prices, farmers lost ground throughout the 1920s. In 1910, a farmer's income was 40 percent of a city worker's. By 1930, it had sagged to just 30 percent.

The decline in farm income reverberated throughout the economy. Rural consumers stopped buying farm implements, tractors, automobiles, furniture, and appliances. Millions of farmers defaulted on their debts, placing tremendous pressure on the banking system. Between 1920 and 1929, more than 5,000 of the country's 30,000 banks failed.

Because of the banking crisis, thousands of small businesspeople failed because they could not secure loans. Thousands more went bankrupt because they had lost their working capital in the stock market crash. A heavy burden of consumer debt also weakened the economy. Consumers built up an unmanageable amount of consumer installment and mortgage debt, taking out loans to buy cars, appliances, and homes in the suburbs. To repay these loans, consumers cut back sharply on discretionary spending. Drops in consumer spending led inevitably to reductions in production and worker layoffs. Unemployed workers then spent less and the cycle repeated itself.

A poor distribution of income compounded the country's economic problems. During the 1920s, there was a pronounced shift in wealth and income toward the very rich. Between 1919 and 1929, the share of income received by the wealthiest one percent of Americans rose from 12 percent to 19 percent, while the share received by the richest five percent jumped from 24 percent to 34 percent. Over the same period, the poorest 93 percent of the non-farm population actually saw its disposable income fall. Because the rich tend to spend a high proportion of their income on luxuries, such as large cars, entertainment, and tourism, and save a disproportionately large share of their income, there was insufficient demand to keep employment and investment at a high level.

Even before the onset of the Depression, business investment had begun to decline. Residential construction boomed between 1924 and 1927, but in 1929 housing starts fell to less than half the 1924 level. A major reason for the depressed housing market was the 1924 immigration law that had restricted foreign immigration.

Soaring inventories also led businesses to reduce investment and production. During the mid-1920s, manufacturers expanded their production capacity and built up excessive inventories. At the decade's end they cut back sharply, directing their surplus funds into stock market speculation

Source 25: Will Rogers on Slogans, (Syndicated Column April 12, 1925)

AMERICA in CLASS BECOMING MODERN: AMERICA IN THE 1920s
PRIMARY SOURCE COLLECTION

THE TWENTIES

WILL ROGERS on SLOGANS

Syndicated column, April 12, 1925

Everything nowadays is a Saying or Slogan. You can't go to bed, you can't get up, you can't brush your Teeth without doing it to some Advertising Slogan. We are even born nowadays by a Slogan: "Better Parents have Better Babies." Our Children are raised by a Slogan: "Feed your Baby Cowlicks Malted Milk and he will be another Dempsey." Everything is a Slogan and of all the Bunk things in America the Slogan is the Champ. There never was one that lived up to its name. They can't manufacture a new Article until they have a Slogan to go with it. You can't form a new Club unless it has a catchy Slogan. The merits of the thing has nothing to do with it. It is, just how good is the Slogan?

Jack Dempsey: boxing

Source 26: The 1920s Economy: A Statistical Portrait (From San Francisco State, 2007 From: http://bss.sfsu.edu/tygiel/Hist427/texts/1920seconomy.htm)

The 1920s Economy: A Statistical Portrait

Industry: % of Increase from 1922-28

Industrial Production: 70%
Gross National Product (GNP): 40%
Output per factory man hour: 75%
Corporate Profits: 62% (1923-1929)

Electric Power

% Industries powered by electricity in 1929: 50%

Advertising: Total Spending:

Pre WW I: $300-400 Million a year
929: $1.8 Billion/ year

Consumer Credit

1925: $1.38 Billion (Consumer Credit outstanding)
1927: 15% of all consumer durables bought on installment payments
60% of automobiles bought on installment payments
80% of radios bought on installment payments
1929: $3 Billion (Consumer Credit outstanding)
$7 Billion (Total Consumer Goods purchased on Credit)

Economic Concentration, 1929

% of banks controlled by the top 1% of Banking Corporations: 46%
% of industry controlled by top 200 Corporations: 50%
% of corporate wealth controlled by top 200 Corporations: 49%
% of all wealth controlled by top 200 Corporations: 22%

Workers

Percentages of Increase, 1923-29
Worker's incomes increase:11%
Real Earnings (for employed wage earners) increase: 22%
Average Work Week: -4%
Minimum income necessary for a decent family standard of living: $2500
Percentage of American families with incomes under $2500 in 1929: 71%

Agriculture

Farm Production in 1919: $21.4 billion
Farm Production in 1929: $11.8 billion

Distribution of Wealth

Rise in per capita income for top 1% of population, 1920-1929: 75%
Rise in per capita income for nation as a whole: 9%
% of American Families with no savings: 80%
% of savings held by top .1% of Americans: 34%
% of savings held by top 2.3% of Americans: 67%

Source 27: Feed the rich. 1929, editorial cartoon unsigned
(From: http://www.bearishnews.com/post/2580 Accessed February 2, 2014)

"Keep out of there, you bum! That's the millionaires' bread line!"