Agricultural Overproduction

U.S. agriculture did not share in the prosperity of the booming 1920s. U.S. farmers had been overproducing since World War I (1914–18). During that war Herbert Hoover was the federal government's food administrator. He encouraged large increases in American agricultural production during the war because European production was greatly disrupted and the United States needed to supply its European allies with food. Before the war U.S. farmers produced less than 690,000 bushels of wheat yearly, but by the war's end they were producing 945,000 bushels per year. After the war U.S. farmers went on producing vast amounts of food each year. The use of machinery improved farm technology. Tractors replaced horses and mules. American agriculture employed 25 to 30 percent of the U.S. workforce in the 1920s, and it relied on income from food exports to European countries. But European countries had resumed their own food production after the war. Many of the European nations were troubled with postwar economic problems, so even though they still needed some U.S. food, they had no money to purchase it. U.S. producers had competition from Argentina, South Africa, and other nations, and this made it more difficult to sell meat and cereal crops on the world market. Nevertheless, U.S. agricultural production remained high. Farmers were still producing 800,000 bushels of wheat a year in 1930, and they were generally growing more crops of various kinds than they could sell. Because of the large U.S. crop and meat surpluses, prices for farm products fell dramatically.

President Calvin Coolidge took little interest in the farmers' problems. He dismissed the difficulties, saying that farmers never made money. Efforts in Congress to protect U.S. farmers from foreign competition failed. As a result the farmers' situation worsened throughout the 1920s. Farmers had to borrow to buy seed and equipment. Most took out loans against their land and homes. But food prices continued to fall, and by the late 1920s many U.S. farmers were hopelessly in debt. They began to miss payments on their loans, weakening their local banks. Between 1921 and 1929 an average of more than six hundred banks failed every year (compared to sixty-six a year between 1910 and 1919). Almost all of the failures were small rural banks. By 1929 farming families—roughly a quarter of the U.S. population—were desperately struggling.

Falling Demand on Manufacturing Goods

Although farmers were losing ground throughout the 1920s, manufacturing rolled along at top speed. By 1929 stores and warehouses in America were bulging with goods. Between 1923 and 1929 worker output of manufactured goods increased by 32 percent. Assembly lines and new machinery boosted production. As manufacturers saw it, the more goods produced and sold, the more profit there was to be had. Homes in U.S. cities were being electrified, which created a market for new, timesaving electric appliances. Appeals to buy were everywhere. Advertisers touted their products, and movies teased Americans with images of movie stars living with luxuries all around. Although most Americans had little money left over after paying for necessities such as housing and food, they found a way to buy the new automobile, the electric washing machine, and the radio: It was called credit, or installment buying. A small first payment (down payment) was made; then the rest of the price was paid over time. This system worked well as long as the buyer had a job. Installment buying had never been used in America before the late 1920s. Previously, if the total cash price could not be paid up front, the purchase was not made.

Even with the installment plan, there were limits on how much Americans would or could buy; there were only so many kitchen appliances or cars a person needed. Buying slowed down. By 1929 the stores had built up huge inventories of goods and stopped ordering from factories. Manufacturers had overproduced, and they had to begin cutting back. Factories began laying off substantial numbers of workers, even before the stock market crash. When the crash came, many more people lost not only their jobs but their savings, too. The growing number of unemployed people bought only bare necessities. Goods sat on shelves in warehouses and stores. Manufacturing ground to a halt, and more and more people were laid off as a result. It was a vicious spiral downward.

Stock speculation and “Buying on Margin”

Speculation in stock means to buy stock with the assumption that it can always be sold at a profit. Businesses needed to sell stock to raise money to expand. By the mid-1920s only 2 percent of Americans were purchasing stock. But as manufacturing continued to expand, stock prices climbed upward and investors made money. Word got around, and by the late 1920s nearly everyone who had a decent income saved to buy a share of stock. It appeared to be an especially safe way to make easy money. However, investors were not protected from misleading information about stocks. It was difficult for investors to know exactly what they were buying. Companies told the public that they were doing well, but the public had no means of confirming that the company's' financial reports were reliable. To make matters worse, a dangerous way of buying stock developed. It was called "buying on margin."

Buying on margin means that a person purchases a stock by using a bit of his or her own money and borrowing the rest. It is similar to buying on credit. For example, to purchase a $100 stock the buyer might put up $20 and borrow $80 to make up the entire price. Investors worked with investment brokers to borrow money and then buy a stock. Investment brokers got their loan money from banks; brokers and banks alike believed that the stock market was on a permanent upward climb. The brokers set a margin limit. In the example the margin limit was 20 percent, meaning that the investor had to keep 20 percent of his or her own cash invested in the stock. If the stock value increased to $130, then the investor paid back the $80 borrowed and was left with the $20 originally invested and $30 profit. All $50 could be reinvested in a similar manner. The $30 profit represented a 150 percent profit. Such large profits were common as the market continued to rise. Investors, using their increasing profits and borrowed money, continued to buy stocks. This growing demand for stocks pushed stock prices up until they were dramatically higher than the stocks' real worth based on the particular company's profits and overall worth. When stock prices are steadily rising, the market is called a "bull" market. When the market steadily drops, it is a "bear" market. The market in mid-1929 was a raging "bull" market.

Consider what would happen if the investor in the previous example saw the price of his or her stock drop rather than rise. If the $100 price of the stock dropped to $70, then selling the stock at $70 would not even pay back the loan from the broker. The investor, owing $80 but having only $70, would have to come up with more cash. This is what happened not to one share but to millions of shares when the market dropped in October 1929. Investors could not come up with enough cash to meet their "margin calls," demands by the brokers for more cash. In only a few days several million investors lost all the money they had invested, as the market turned into the worst "bear" market of the twentieth century. One day these investors had been wealthy; the next, they wondered how they would survive.

Wealth and Personal Debt

Despite the general appearance of prosperity in the 1920s, Americans did not share wealth equally. Historians speak of a growing maldistribution of wealth in the 1920s. *Maldistribution* means a very uneven distribution of wealth. Maldistribution has characterized much of human history: Many people have only a few material goods and have no way to change their position; a few people have a great deal of wealth and are determined to keep that wealth for themselves. Such was the case in America in 1929 prior to the Great Depression. The top 0.1 percent of American families had a combined income equal to the total income of the bottom 42 percent of the population. Between 1920 and 1929 the disposable income (money beyond what is needed for necessities) per person rose by 9 percent for most Americans, but the top 1 percent of the population saw a 75 percent increase. Concerning wealth (not income, but all forms of material goods that have money value), the maldistribution was even greater than it was for income: The top 2.3 percent of families with incomes of over $10,000 held 66 percent of all savings. In 1929 just prior to the stock market crash, of America's 27.5 million families, 78 percent—21.5 million—were not able to save anything after necessities were purchased. These 21.5 million earned under $3,000 a year. Six million earned less than $1,000 yearly.

The reason for the gap between rich and poor had much to do with wages. Although worker productivity (the rate at which goods are produced) increased 32 percent between 1923 and 1929, wages increased only 8 percent in the same period. At the same time, prices remained stable, and the costs of production fell as items were mass-produced. As a result, profits soared. Corporate profits increased by 62 percent, and those profits went to the factory owners, not to the workers. American workers were increasingly less able to purchase the vast amount of goods they were producing, even with installment buying. Of course, the wealthy spent money on luxury items, but this spending could not counteract the mounting financial distress of the masses in America.

The government did little to address the growing maldistribution of wealth. In fact, government action worsened the problem. Andrew Mellon (1855–1937), secretary of the treasury under Presidents Harding, Coolidge, and Hoover, was one of America's richest men. He saw to it that tax cuts for the wealthy passed through Congress in the 1920s, helping the rich retain even more of their wealth. When workers tried to organize and use unions and strikes to improve their wage and health benefits, the government was hostile to such activities. For a time the wealthy offset problems by investing in businesses, factories, and new beautiful buildings. But when Wall Street crashed, they pulled back, ceasing all investing. The wealth of the richest families was not based on the soaring stock market but on decades of banking and ownership of manufacturing companies. So, unlike the newly rich whose money was all in stocks, these families did not lose everything in the market crash.. Nevertheless, in late 1929 they retreated from investing and conserved their vast wealth.