

1920s Economic Prosperity

Focus Question: What economic factors and conditions made the American economy prosperous in the 1920s?

Directions: Read, highlight, and annotate the secondary source below to answer the focus question.

The 1920s may not have been good times for everyone. Most farmers, for instance, saw their incomes drop. But for the economy as a whole, the “Roaring Twenties” were a period of impressive and sustained growth. Between 1922 and 1928, the **gross national product (GNP)** – the total value of goods and services produced in a nation during a specific period – rose by 30 percent. At a time when most people’s understanding of the economic matters was relatively limited, such rapid growth triggered a feeling of optimism that proved contagious.

The explosive growth of American manufacturing, particularly the new automobile industry, helped drive the expansion of the American economy. By 1929 one in five American owned a car. Industries that made products related to automobile production - including steel, oil, and rubber - enjoyed unprecedented business opportunities. Overall, the automobile industry and related industries employed nearly 4 million workers.

As corporate profits swelled, companies hired additional factory workers to keep up with production needs. Unemployment between 1923 and 1929 remained very low, averaging around 3 percent. Low unemployment, in turn, slowed the growth of organized labor. Union membership dropped as employers expanded welfare capitalism programs.

Welfare capitalism is a term for various benefits, such as employer-paid insurance, which companies provide to employee as a way of improving worker loyalty and satisfaction. Such programs helped increase worker’s sense of prosperity and wellbeing in the 1920s.

This feeling of prosperity encouraged many workers to purchase the new products coming off the nation’s assembly lines. With their shorter work hours and bigger paychecks, Americans flocked to the movie theaters, sporting events, and other leisure activities. Times, it seemed, were good.

While Americans generally were feeling good about the economy in the 1920’s, those who invested in the **stock market** were overjoyed. The stock market is a place where stocks are bought and sold. Stock is ownership in a company, and it is sold in **shares**. In other words, by buying shares of stock, a person is able to buy a piece of a corporation. If the corporation succeeds, its value may rise. This means that the value of its stock also rises. If the corporation does not do well, it may lose value. This would drive the value of the stock down.

The American stock market performed spectacularly during the 1920s. Although stocks increased at different rates, the general trend in stock prices was sharply upward. Between 1920 and 1929 the overall value of stocks traded at the nation's stock markets quadrupled.

The steep rise in stock prices changed the way many people thought about buying stocks. Since the market never seemed to go down in the 1920s, many people began to act as though it never would.

A growing number of ordinary Americans began to make stock investments. To invest means to put money into stocks, land, or some other location in the hope that the value of this money will grow.

The number of shares being traded in the United States rose sharply during the 1920s. The number rose from 318 million in 1920 to more than 1 billion in 1929. Many investors were encouraged by the words of men such as John Raskob, a leader of General Motors. "If a man saves \$15 a week and invests in good common stocks...at the end of the 20 years, he will have at least \$80,000 and ...\$400 a month. He will be rich. And because income can do that, I am firm in my belief that anyone not only can be rich, but ought to be rich." (Raskob, "Everybody Ought to Be Rich," Ladies' Home Journal, August 1929)

For many Americans, the prosperity of the 1920's demonstrated the triumph of American business. Presidents Harding and Coolidge favored policies that gave businesses the maximum freedom to achieve and succeed. As Coolidge once famously remarked, "the chief business of the American people is business."

This approach was popular with the majority of voters. Harding had won a clear victory in the 1920's election, and Coolidge did the same in 1924. Coolidge in particular remained widely popular throughout his term in office. Public confidence in the federal government and in its pro-business policies remained very high.

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