What Made the Twenties Roar BY **KIMBERLY AMADEO**

The 1920s is the decade when America's economy grew 42%. Mass production spread new consumer goods into every household. The modern auto and airline industries were born. The U.S. victory in World War I gave the country its first experience of being a global power. Soldiers returning home from Europe brought with them a new perspective, energy, and skills. Everyone became an investor thanks to easy access to credit. That hidden weakness helped cause the Great Depression.

Economic Growth and Output

The economy grew 42% during the 1920s, and the United States produced almost half the world's output because World War I destroyed most of Europe. New construction almost doubled, from $6.7 billion to $10.1 billion. Aside from the economic recession of 1920-21, when by some estimates unemployment rose to 11.7%, for the most part, unemployment in the 1920s never rose above the natural rate of around 4%.[1]

Per-capita GDP rose from $6,460 to $8,016 per person, but this prosperity was not distributed evenly. In 1922, the top 1% of the population received 13.4% of total income. By 1929, it earned 14.5%.

The United States transformed from a traditional to a free market economy. Farming declined from 18% to 12.4% of the economy. Taxes rose 40%, while farm income fell 21%. At the same time, new inventions increased the manufacturing of consumer goods. According to the California State University, real gross domestic product was:[2]

- 1920: $687.7 billion
- 1921: $671.9 billion
- 1922: $709.3 billion
- 1923: $802.6 billion
- 1924: $827.4 billion
- 1925: $846.8 billion
- 1926: $902.1 billion
- 1927: $910.8 billion
- 1928: $921.3 billion
- 1929: $977.0 billion

Stock Market

After dropping by more than 32% in 1920, the Dow Jones Industrial Average jumped from a value of 71.95 points at the beginning of 1921 to a high of more than 381 points before the market crashed in October 1929.[3] One reason for the boom was because of financial innovations. Stockbrokers began allowing customers to buy stocks "on margin." Brokers would lend 80%-90% of the price of the stock. Investors only needed to put down 10%-20%. If the stock price went up, they became millionaires. This same innovation became a weakness when stock prices fell during the 1929 stock market crash.

Banking

Only one-third of the nation's 24,000 banks belonged to the Federal Reserve System.[4] Non-members relied on each other to hold reserves. That was a significant weakness. It meant they were vulnerable to the bank runs that occurred in the 1930s. Another weakness was that banks held fictitious reserves. Checks were counted as reserves before they cleared. As a result, these checks were double-counted by the sending bank and the receiving bank.

Timeline of Events

1920: A recession began in January. The highest marginal tax rate was 73% for those earning more than $1 million.[5] Almost 70% of federal revenue came from income taxes.[6]

1921: Warren Harding became president. The recession ended in July without any intervention. Congress increased the corporate tax rate from 10% to 12.5%. The Emergency Immigration Act restricted the number of immigrants to 3% of the 1910 U.S. population.

1922: Harding reduced the top income tax rate from 73% to 58%.[5]

1923: Vice President Calvin Coolidge became president after Harding died from a heart attack while on a speaking tour in San Francisco. His motto was "The business of America is business." The Supreme Court revoked the minimum wage for women in Washington, D.C. A recession began in May. The stock market began a six-year bull run.[7]

1924: The recession ended in July. The Revenue Act of 1924 lowered the top rate to 46%, according to the Tax Foundation.[8]

1925: Top tax rate lowered to 25%. The corporate tax rate increased to 13%. Secretary of Commerce Herbert Hoover warns Coolidge about stock market speculation. Most countries returned to the gold standard. More than 25% of families owned a car.

1926: A mild recession began in October. The corporate tax rate increased to 13.5%. Robert Goddard invented the liquid propulsion rocket, creating a U.S. advantage in defense. More than 2 million farmers moved to the cities, but only 1 million city folk moved to rural areas.[9]

1927: The recession ended in November after the Fed lowered the discount rate from 4% to 3.5% in September.[10] Charles Lindbergh flew solo from New York to Paris on May 20-21.

1928: Stock prices rose 39%. To stop speculation, the Fed raised the discount rate from 3.5% to 5%.[11] It also sold securities to banks as part of its open market operations. That removed cash from their reserves. Other countries responded by raising rates, even though they were still rebuilding from World War I.

1929: Herbert Hoover became president. He lowered the top income tax rate to 24% and the top corporate tax rate to 12%.[12] The Great Depression began in August, as the economy started shrinking. In September, the stock market reached its peak. The stock market crashed on Oct. 24. During those same months, the Graf Zeppelin completed the first around-the-world flight.

Why Are the 1920s Known as the Roaring Twenties?

U.S. prosperity soared as the manufacturing of consumer goods increased. Washing machines, vacuum cleaners, and refrigerators became everyday household items. By 1934, 60% percent of households owned radios.[13] By 1922, 60 radio stations broadcast everything from news to music to weather reports. Most of them used expanded credit offered by a booming banking industry.

The airline industry literally took off. In 1925, the Kelly Act authorized the Post Office to contract out airmail delivery. In 1926, the Air Commerce Act authorized commercial airlines. From 1926 to 1929, the number of people flying in planes increased from 6,000 to 173,000.[14] World War I had hastened the development of the airplane. Many returning veterans were pilots eager to show off their flying skills with nationwide "barnstorming."

The auto industry also greatly expanded due to Henry Ford's mastery of the assembly line. A Model T only cost $300. Also, more families could buy on credit. By the end of the decade, 26 million cars were registered. For the first time, women got behind the wheel. The expansion of the auto industry created an economic benefit for all.[15] Governments spent $1 billion to build new roads, bridges, and traffic lights. Gas stations, motels, and restaurants sprang up to service drivers who now covered longer distances. The insurance industry added expensive protection for the vehicles and their owners. Banks also profited by lending to new car owners.

What Else Happened?

On Jan. 16, 1920, the Volstead Act prohibited the sale, manufacture, or transport of any alcoholic beverages.[16] That led to an underground economy as people flouted the law. It also created a monopoly for gangsters such as Chicago's Al Capone.[17]

On Aug. 18, 1920, women won the right to vote in America. That's when the states ratified the 19th Amendment to the Constitution. That empowerment trickled down to many levels of society. So-called flappers cut their hair, dressed in less constrictive clothing, and became financially independent.

Key Takeaways

- The 1920s was a period of vigorous economic growth in the United States. That decade marked the beginning of the modern era as we know it.
- Rapid rise in prosperity induced sweeping changes in technology, society, and economy. The electricity boom revolutionized our way of life in areas such as transportation, communication, personal beauty, housekeeping, entertainment, and many more.[18]
- 1920s prosperity also gave rise to new ideas and ways of thought. Voting and independence were new rights and concepts accorded to women. Financial innovations allowed exuberant investment in the stock market, which supported rapid growth for many companies and the labor sector. But that same exuberance led to asset bubbles and an overheated economy. That eventually burst in 1929, signaling the Great Depression of the 1930s.