The Roaring ‘20s: America Comes of Age

- Aftermath of WWI: no doubt that United States had become the leading economic power in the world.

What made the 20s roaring?

- **Economic Growth**
  - ordinary decade, started with short-lived but deep recession and ended with the beginnings of the Great Depression

- **Sectoral Prosperity?**
  - No very high failure rates in farming and banking

- **The first age of mass consumption**
  - diffusion of cars, electricity, household conveniences
Sectoral Failures:

- Bank failures in the 1920s
  - 1920 28,885 banks in the US
  - 1929 23,712 banks

- # of banks in places with less than 4000 population fell by 27%

- Considerable regional variation 0 in NH to 12% of all banks in Montana
What explains the failure rates?

- 1. Agricultural distress (farm foreclosures): + effect (most failed banks lent to failed farms)
- 2. Federal charters: + effect (more efficient, crowded out other banks)
- 3. Branch banking: − effect (diversification, specialization)
- 4. Deposit insurance: mixed effect (prevents runs, but increases risk taking)
- 5. Population density: - effect (implies economies of scale or greater diversification)
- 6. Automobile ownership: + effect (increased competition, people can avoid weaker banks increasing the chance of failure.)
Farm failures

- Interwar period had the highest farm failure rates on record – from 1926 to 1940- 100,000 farms per year failed

<table>
<thead>
<tr>
<th>Year</th>
<th>Failure rate per 1000</th>
</tr>
</thead>
<tbody>
<tr>
<td>1913-20</td>
<td>3.2</td>
</tr>
<tr>
<td>1921-25</td>
<td>10.7</td>
</tr>
<tr>
<td>1926-40</td>
<td>20</td>
</tr>
<tr>
<td>1940-50</td>
<td>3</td>
</tr>
<tr>
<td>1950-60</td>
<td>1.7</td>
</tr>
<tr>
<td>1960-70</td>
<td>1.3</td>
</tr>
<tr>
<td>1970-80</td>
<td>1.3</td>
</tr>
</tbody>
</table>
Why were failure rates so high?

- 1920 drop in farm prices June 1920 to Dec 1921
  - Corn $1.85 bushel to $0.41
  - Wheat $2.58 to $0.92

- But, there was considerable regional variation in farm failures
  - 1920s: Plains and Southern States
  - 1930s: Midwest and Plains States
What determined the failure rates?

- 1. Earnings: - current and past
- 2. Urbanization: - proxy for off-farm opportunities
- 3. Increase in value 1920/1912: + proxy for ex-post overly optimistic expectations
- 4. Increase in improved acreage 1920/1910: + proxy for ex-post overly optimistic expectations
- 5. % of farms mortgaged: +
- 6. Debt/value: +
- 7. Government programs
Government farm programs – clearly rent seeking

- 1) AAA - 1930s price supports, artificially reduce supply
- 2) Federal credit Administration – created federal land banks
  - before 1933 longer pay-back period, after 1933 lower interest rates & refrained from foreclosing
- 3) State foreclosure moratoria (25 states) reprieve of 3 months to 4 years
Minnesota Moratorium Case:

- **Minnesota Moratorium Case: Blaisdell vs. Home Building and Loan**
  - Supreme Court Vote: 5 to 4 in favor
  - Majority Opinion: while emergency does not create power, emergency may furnish the occasion for the exercise of power... the economic interests of the states may justify the exercise of its continuing and dominant protective powers notwithstanding interference with contracts.
Dissenting Opinion: ...that the contract impairment clause denies to the several states the power to mitigate hard consequences resulting to debtors from financial or economic exigencies by the impairment of the obligation of contracts of indebtedness. A candid consideration of the history and circumstances which led up to and accompanied the framing and adoption of this clause will demonstrate conclusively that it was framed and adopted with the specific and studied purpose of preventing legislation designed to relieve debtors especially in times of financial distress. Indeed, it is not probable that any other purpose was definitely in the minds of those who composed the framers’ convention or the ratifying state conventions which followed...
Justice Sutherland

Justice Sutherland: “He simply closes his eyes to the necessary implications of the decision who fails to see in it the potentiality of future gradual but ever-advancing encroachments upon the sanctity of private and public contracts. The effect of the Minnesota legislation, though serious enough in itself, is of trivial significance compared with the far more serious and dangerous inroads upon the limitations of the Constitution which are almost certain to ensure as a consequence naturally following any step beyond the boundaries fixed by that instrument.”
Economic Plus side:
- the farm crisis was temporary a moratorium gives sound farms breathing room until prices increase

Political Plus side:
- capitalism was at stake

Economic Negative side:
- banks won’t make loans (difficult to get into farming); protects bad farmers
The Age of Mass Consumption

<table>
<thead>
<tr>
<th></th>
<th>Automobiles</th>
<th>Electric lights</th>
<th>Flush toilets</th>
<th>Washing machines</th>
</tr>
</thead>
<tbody>
<tr>
<td>1920</td>
<td>26</td>
<td>35</td>
<td>20</td>
<td>8</td>
</tr>
<tr>
<td>1930</td>
<td>60</td>
<td>68</td>
<td>51</td>
<td>24</td>
</tr>
</tbody>
</table>
Why did mass consumption arise in the 1920s?

- 1) Pent-up demand from WWI
- 2) Changes in the production process: costs per unit fell (Fordism and the assembly line)
- 3) End of mass migration increased wages for some
- 4) Increased wealth from the stock market boom
  - i) By 1929 -28% of households owned stock
  - ii) stock prices had more than trebled since 1920
- 5) Increasing availability of consumer credit — most radios and cars bought on credit
- 6) Bandwagon effect — goods like cars and radios need a critical mass to drive down costs; there are high fixed costs of production