Consumer Economy/Consumer Debt

1920s

Before industrialization in the United States, most products were handmade. Living comfortably required physical labor, and the individual, his employee, or his slave had to provide this physical labor. Those who produced more were able to reap larger profits, and workers were usually self-sufficient farmers or artisans.

Between 1850 and 1920, machines began producing the majority of goods. In addition, the standard of living was improving for the middle class; and there was a greater demand than supply of products. Manufacturers were confident they could sell all the products they produced.

As mass production continued and improved in the United States during the 1920s, there were shifts in the way products were marketed and sold. At one point the existing demand for products was met and industry could still make more. The question now was how to get the customer to buy more. One method during this time was an increase in newspaper advertising. In the past, advertisements would only state the number of products delivered to a store and how much they cost. The new advertisements focused on other aspects of the product. Lifebuoy soap was a perfect example. Advertisements for Lifebuoy promoted the idea of the Saturday night bath, which helped the company to sell more soap. This type of advertisement created a demand for products, and many of these products were disposable.

People buying the products were now considered to be consumers, because they would consume the growing array of products and be urged to buy new products. Thanks to technology, it was easy to meet the demand for products in the 1920s. Companies had no choice but to continue to grow to keep up with other companies. If they did not, other companies would overtake them.

In the 1920s, installment credit grew. Installment credit allowed a person to pay for a product in monthly installments. It soon was apparent people would buy more products if they did not have to pay right away. New methods of business operation helped the consumer economy to grow. Businesses created advertising to increase companies' sales and profits. In addition, the 1920s saw the development of chain stores. One of the most prominent chain stores was Woolworth's, a five and dime store. Food stores also developed as chains. By 1928, A&P was operating more than 17,500 grocery stores.

Those who produced the products for the masses allowed their customers to pay on installment plans. The new economy of the United States became focused on spending and borrowing. However, the average person spent less and less on household necessities such as food because chain stores were selling it more cheaply due to increased sales volume. Instead, people were purchasing new appliances. This gave rise to many new industries that promoted appliances, entertainment, and automobiles. At the same time, it caused many existing industries in the United States to decline, including the railroads and textiles.

Alfred Sloan of General Motors and Henry Ford of Ford Motor Company led the automobile industry and revolutionized the United States. Originally, custom builders built automobiles, and these custom-built automobiles commanded high prices. At the beginning of the automobile age, only the very wealthy could afford an automobile. Later, Ford used mass production techniques, including the assembly line. This not only lowered the cost of automobiles, it allowed the production of more autos. In a ten-year span, there was a significant increase in automobile sales. In 1919, only 6.7 million automobiles were owned in America. By 1929, there were more than 27 million cars. It was estimated that every household had at least one automobile. Automobile sales also increased when consumers were allowed to purchase their cars on credit.

Automobiles also helped people's lives. A simple car ride gave the family a chance to spend time together. There were those, however, who did not approve of the extensive use of automobiles. Some stated that teenagers and adults argued over the use of the cars, and church attendance on Sunday decreased. Nonetheless, the automobile industry helped to stimulate the American economy by spurring the construction of more roads and highways. The automobile industry allowed other industries to grow, including those for glass, steel, and rubber. Gas stations also increased.

Two other inventions that boomed during the 1920s and 1930s were electric power and the telephone. Electricity helped to illuminate households, while telephones helped to bring the nation closer together. Electricity gave way to appliances such as refrigerators and washing machines. Another invention that aided people was ready-made clothing, first conceived during World War I. The United States military had made clothes in standard sizes, as opposed to having clothing tailored to fit a specific person. With ready-made clothing, consumers no longer had to make their own.

The success of the consumer economy was the creation of demand. Those selling and advertising products had to convince the consumer he needed a product and the benefits it provided. Sometimes the consumer did not need the product he considered purchasing. Richard Huber of Princeton University stated it best in his book *The American Idea of Success* when he said, "The businessman was not only 'producing the goods,' he was making money for himself. By the end of the decade, it was observed, 'Values based on money make headway over all other values. …Above all, today the businessman is the dictator of our destinies. He has more influence than the statesman, the priest, or the philosopher as the creator of standards and behavior, and has become the final authority on the conduct of American society. In no previous civilization has the businessman enjoyed the power or prestige that he possesses in the United States.' "

Buying products on credit soon applied to the stock market where people would buy stocks with only a small portion down. This was called "buying on margin." For example, if a stock cost ten dollars, a buyer would pay ten percent of the stock's value. This meant the buyer would only pay one dollar for the stock at purchase. If the stock went up, the cost of paying the rest could come out of the selling price later. However, this was considered a gamble, because if the price of the stock fell, the buyer would have to make up the difference that was lost. Stockbrokers put "automatic sell" clauses into their margin contracts to protect themselves from credit buyers leaving the broker to absorb the cost of falling stock prices. When stocks began to fall before the start of the Great Depression, people did not have the money to repay the difference that was lost. This damaged America's and the world's economy.

One of the causes of the Great Depression was this large increase in consumer debt. Today, the large percentage of debt that stimulates the consumer economy is still a potential risk for Americans as well as an effective way to sell more products to the ever-shopping consumer.

Name: ________________________________ Date: ____________________

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Multiple Choice: Choose the correct answer to each question.

_____ 1. What was the goal of the American consumer economy of the 1920s?

a. to consume as many goods as possible to keep the economy growing
b. to ensure industries produced enough for American citizens
c. to ensure the economy was level and balanced at all times, so the nation would remain stable
d. to consume as few goods as possible to ensure a surplus in case of an economic emergency
e. to show the world the United States was a profitable superpower, in addition to promoting American goods around the world

_____ 2. What is installment credit?

a. a person put no money down for a product for at least six months, giving him enough time to purchase the product
b. a person only paid half the cost of the product one month, then paid small amounts each additional month
c. a person paid for a product in different installments each month
d. a person signed a contract promising to pay for the product by a certain date
e. all of the above

_____ 3. How did companies in the 1920s increase their sales and profits?

a. *creating new advertising*
b. *allowing customers to pay on the installment plan*
c. *developing chain stores*
d. *none of the above*
e. *all of the above*

______ 4. The rise of this new consumer economy caused many American industries to grow. Which of the following industries declined?

- **a.** entertainment industry
- **b.** automobile industry
- **c.** appliance industry
- **d.** textile industry
- **e.** communication industry

______5. Why did the number of Americans purchasing automobiles increase?

- **a.** They purchased on credit.
- **b.** Americans had better jobs.
- **c.** The cost of public transportation rose.
- **d.** The cost of automobiles rose.
- **e.** The number of wage earners in the household rose.

______ 6. What concerns did some people have about the effect of automobiles in the United States?

- **a.** Some people said it led to arguments between parents and teenagers over the use of the automobiles.
- **b.** Automobiles were causing massive amounts of pollution in the United States.
- **c.** Attendance in church on Sundays was on the decline.
- **d.** both a and c

______ 7. A customer wants to buy a washing machine from a local store for $50. The salesman says the customer can pay $5 each month toward the purchase. After three months, how much has the customer paid on the washing machine?

- **a.** $15
- **b.** $12.75
- **c.** $16.55
- **d.** $14.35

______ 8. What aspect of the consumer economy also was one of the causes of the Great Depression?

- **a.** New jobs increased in the United States.
- **b.** Cases of depression increased among American workers.
- **c.** Buyers were unable to repay the marginal cost of declining stocks.
- **d.** The economy went into a tailspin after World War I.
- **e.** The defense budget increased dramatically.