

History Grade 11: Crisis in Capitalism - 1

The nature of capitalism in the USA

Key question: What was the nature of capitalism in the USA in the early 20th century?

Introduction

How did the United States of America (USA) become the world's leading industrial and manufacturing country in the early 1900s?

Foundations of economic strength:= raw materials, skilled labour force, growing market for manufactured goods. → Early 20th century, USA overtook Britain and Germany in industrial output.

World War I

USA did not enter war in 1914: → supported Allies (Britain and France) = main supplier of weapons and food.

ALSO became debtor nation = lent money to Allies to help in the war effort: → WWI boosted USA economy.

1917

Germany said it would wage unrestricted submarine warfare: all vessels in the war zone would be sunk without warning.

→ German submarines sank five USA merchant vessels in the north Atlantic

→ President Wilson's cabinet voted in favour of a declaration of war against Germany.

Lenin withdrew Russia from the War.

Economic mobilisation

- result of WWI
 - traditionally US government did not interfere in business
- change: industries regulated to gear production towards war effort

War Industries Board (WIB)

- set up in 1917

- set priorities and plan production in key industries
- allocate raw materials
- tell manufacturers what to produce
- order construction of new factories
- with President's approval → fix prices

Labour

War and arms factories = rapid increase in demand for labour.

Results:

- improved employment and wages
- membership of labour unions grew
- laws passed = favourable to labour

End of WWI

- helped by entry of USA into war
- o 1918: Germany began to try to end war
→ advanced, but fresh troops from USA in Europe = counterattack
- 1919: Treaty of Versailles formally ended war.

1. What was the nature of capitalism in the USA in the 1920s?

President Wilson

1913–1921

- played key role in drawing up the Treaty of Versailles
- included in the Treaty a plan to set up a League of Nations = organisation to ensure peace
- o decision not to ratify Treaty of Versailles → end of President Wilson's political career

USA after WWI

US never ratified the Treaty of Versailles

- never became part of the League of Nations
- way opened for Republican president

PLUS

Implementation of a policy of isolation

- USA withdrew from direct involvement in European affairs

Warren Harding elected president

- 1920
- Republican
- Conservative
 - called for a 'return to normalcy' → election campaign focused on political isolationism
 - aim = reduce government involvement in business.
 - After initial economic slump, capitalism took root:
 - in 1922 GNP (gross national product) started increasing
 - tariffs imposed → protect against revival of German industries.
- Died in 1923.

Calvin Coolidge became president (1924):

- Capitalism
 - = 'The business of the American people is business'
 - So → welcomed by big business.
 - He focused on industrial expansion at the expense of agriculture.
 - He worked to remove government controls over industry and reduce labour laws:
 - rapid expansion of industry → economic boom of the 1920s.

Isolationism

- withdrawal from European affairs
- country's immigration policies
 - first immigrants to America had been mostly of northern and western European heritage.
 - After World War 1 thousands of refugees were arriving in the USA daily = alarmed many Americans
 - 1924: Immigration Act = limited total immigration to 165 000 per year, about 15–20% of peak years. Restricted immigration from southern and eastern Europe and Japan to only 9% of the total.

Free market:

No interference with free competition by price or wage control –

- economy would run itself

- government – not its job to interfere in economy.

2 . What was the American Dream?

Why did so many people from other countries want to immigrate to America?

- ‘Rags to riches’ stories of immigrants.
- ‘Rugged individualism’, hard work and entrepreneurship = people made their fortunes.
- Gave optimism to Americans, as well as to immigrants to America:
 - suggested all people could succeed through hard work
 - potential for successful, happy lives.
- American Dream → 1600s, first settlers
 - dreams: owning land, prosperous businesses
 - religious freedoms.

BUT, American reality

- Inequalities based on class, race and ethnic origin
 - kept many people poor and unsuccessful.

3. How should we understand the capitalist boom of the 1920s?

Boom of 1920s:

- Revealed USA’s strengths and weaknesses.
- ‘We in America are nearer the final triumph over poverty than ever before in the history of mankind.’ (Herbert Hoover, USA president)

3.1 Republican impact on the US economy in the 1920’s

Pro-capitalists actions:

- laws introduced that favoured capitalism against labour
 - federal law that protected children against child labour removed
 - law that stipulated minimum wages for women removed
 - harsh actions taken against striking labour unions
 - powers of the federal government agencies were limited

Taxes and tariffs

- tax deductions introduced that favoured the rich
- American businessmen invested capital in factories that produced new inventions = radios, cars, refrigerators, etc.
- entrepreneurs knew they would be able to keep most of what they invested
- high import tariffs introduced → protect American producers

3.2 Impact of technology on the US economy in the 1920s

Advertising:

- Old consumer values = thrift and saving.

- BUT, advertising contributed to the dramatic increase in the sales of consumer goods on the hire purchase and credit system.
- new values = spending
- credit, instalment plans introduced
 - resulted in people buying luxury goods
- Mass production:
 - lowered costs → meant that more people could afford goods (e.g. model T Ford = first car mass-produced by Ford; nickname = Tin Lizzie)

3.3 Impact of the Stock Exchange on the US economy in the 1920s

New York Stock Exchange – Wall Street

- flourished
- industries' prosperity led to rising share values
- investors made money by speculating

Stock exchange

- buying on credit → extended to shares
- borrow money to buy shares in companies listed on the New York Stock Exchange
 - buying on the margin
 - investors: pay 10% of the value of the share and could borrow the rest from a bank
 - share prices rose, they would sell their shares at a profit
 - trading on the margin
 - if share prices continue to rise, profit is made; if they fall, people lose a lot of money.

3.4 Other impacts on the US economy in the 1920s

In addition to Republican government, technology and the Stock Exchange

3.4.1 The impact of trade tariffs

- To encourage local production, tariffs placed on imported goods:
 - → made imported goods too expensive for ordinary Americans to buy
 - → aimed at forcing Americans to buy American-produced goods.
- Retaliation: European countries put tariffs on US goods
 - → result: US could not expand imports in those countries
 - → local market (US) could no longer absorb goods produced because:
 - most people who could afford goods already owned them = no need to buy any more.

3.4.2 The impact of wages and monopolies

Wages

- rise in the real wages of most workers
- wages of miners and textile workers dropped
- technological advances + new methods = created jobs, also destroyed them
- 'old' industries became automated
 - → need fewer workers

Monopolies

Monopolies

- became powerful
- led to labour exploitation
- one huge company dominated steel industry
- US Steel – no choice but to work for them
- banned trade unions, low wages
 - High prices for consumer

Labour unions and Communism

- labour unions suffered a setback after WWI
- fear of the spread of communism after the Russian Revolution
- strikes in 1919 made industry owners + government think that unions were socialist
- result: strong action against unions + strikers

3.4.3 The impact of agricultural overproduction

Poverty

- wealth during 1920s not evenly spread
- two 'separate' Americas
- farmers + farm workers not prosperous
- after WWI income for farmers fell because of European agriculture revival

Agriculture

- inventions: machinery, tractors, combine harvesters
- caused farm production to increase just as prices were falling
- overproduction of goods = reduction of price of farm produce

Prices

- 1920 = surplus of wheat, which farmers couldn't sell
- cost farmers more to harvest/transport produce than they were paid for it
- overseas markets closed to imports (tariffs)
- value of farmland dropped

In addition, the introduction of synthetic fibres had an impact on the cotton plantations. However, farmers who grew luxury produce were less affected by the overproduction. Wealthy Americans wanted fresh vegetables and fruit throughout the year and supply to the cities rose steadily.

1920s: farming = one of largest sectors of US economy:

- approximately half of Americans lived in rural areas
- either lived on farms or worked in businesses supplying farm machinery
- result: problems affected millions
- worst affected = farm labourers + share croppers
 - *nearly 6 million forced off farms
 - * unskilled workers migrated to cities
 - *largescale unemployment.

Many workers from the Midwest moved to California = hoped to find work as farm labourers.

3.5 The overall impact of the US boom in the 1920s

Economic Expansion

based on the principle :

- **factories** would keep producing
- **consumers** would keep buying

Problems

- wages of the workers (consumers) not keeping up with income of employers
 - by end of 1920s workers = unable to afford goods produced by economy
- export markets
- closed by tariffs
- overproduction

Inequality

- Huge profits by big business + industry:
 - top 5% of wealthy Americans received one third of all personal income in the country
 - 60% earned just enough for bare essentials
- Unemployment
- poverty in all race/ ethnic groups

4 What was USA society like in the 1920s?

Roaring twenties:

Europe still suffering after WWI BUT America thriving =

- jazz, wild parties
- growth of entertainment industry
- more leisure time, more money
- radio → music widely available
- African Americans moved from rural areas to cities → brought jazz + new dances.

4.1 How did the position and role of women change in the 1920s?

Vote

women got vote BUT,

- no real access to political power
- only handful elected to office.
- Therefore: women explored ways to become politically/ socially active → succeeded in joining together to reform society

New ideas

- freed women from traditional roles, old ideas about how they should behave
- progressive young women = 'flappers' wore short dresses or trousers, cut their hair, wore make-up, smoked in public, movie stars = sex symbols

Societal change

- divorce rate doubled → women left unhappy marriages
 - joined organisations supporting women's liberation
 - worked for equal gender status
- advertising targeted women → made decisions about what to buy for homes/ families

Women and jobs:

- WWI changed labour patterns: women take on more challenging jobs, not eager to return to pre-war roles.
- Driving → brought freedom of movement.
- Society's rules changed: women went to bars without men as 'protectors'.
- Especially middle-class women competed with men in job market.

Wages:

Women still paid less than men: women = cheaper labour → employment of women increased.

4.2 What were race relations like in the 1920s?

Racial tensions

Southern states originally seen as 'racist' states

many poor African Americans moved from rural areas to cities → led to:
racial tension
discrimination
unfair treatment of blacks

Riots

At first whites rioted against blacks →

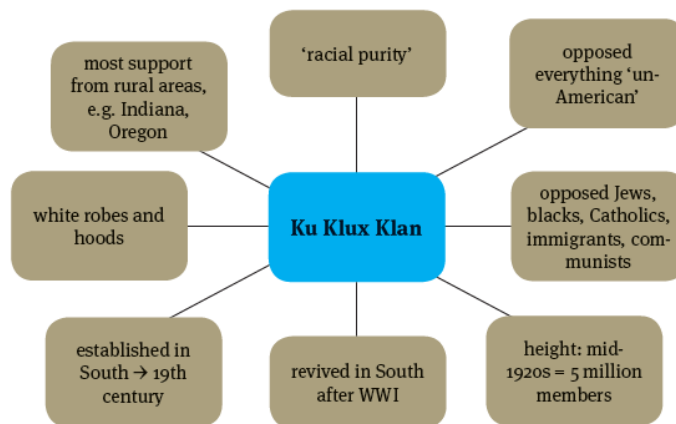
retaliation: blacks rioted against the way whites had treated them.

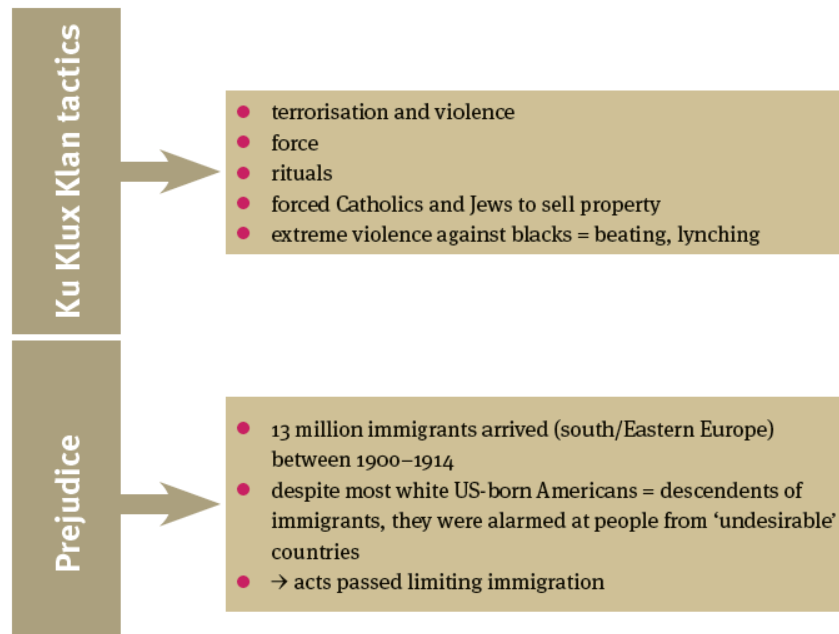
Services to predominantly black areas = poor, e.g. Harlem, Manhattan, New York = became ghetto → only black Americans lived there → by 1929 = crime-ridden, slum = no services at all.

'Jim Crow' laws

still in place in Southern States enforced segregation

denied African Americans the right to vote, attend 'white' schools or take certain jobs = reserved for whites no such laws in Northern States but African Americans still = badly paid, e.g. doorkeepers, railway labourers, etc





4.3 What was social life like in the USA in the 1920s?

4.3.1 Prohibition

- not very successful
- ban on sale of alcohol → 1920s
- supporters: 'sober' society, hard work, less crime
- enforced by federal government.

Failure of Prohibition laws

- Alcohol = scarce, therefore expensive:
- people prepared to take risks to make money by smuggling alcohol
- easy for smugglers to bring liquor into the country illegally
- brought over Mexico border.
- → Bootlegging = making/importing alcohol illegally
- → Moonshining = transporting illegal alcohol (at night)
- liquor brought from neighbouring countries - trucks/boat
- people set up own whisky stills
- cost \$10 million a year to police Prohibition
- many arrested every year for breaking law (50 000).

Prohibition and crime

- big increase in especially violent crime
- bootlegging = great profit → people willing to protect this income by any means, including violence
- armed gangs employed to protect illicit liquor in trucks → gun battles between rivals

Al Capone

- most notorious, most powerful in Chicago
- forced bootlegging operation owners to pay for 'protection'
- otherwise threaten to destroy shops
- bribed people, including police, to leave him alone
- killed anyone who defied him

End of Prohibition

- speakeasies = places where illegal liquor could be bought
- crime extended to armed robbery, prostitution:
 - more and more called for end of Prohibition
 - 1931: end of Depression, states realised liquor tax would bring much needed revenue
 - Roosevelt (Democrat) won 1932 election: Democrats opposed Prohibition
 - → 1933: ended