Chapter 2
AMERICAN ECONOMIC GROWTH, POPULATION CHANGES, & LABOR FORCE DEVELOPMENTS, 1920-1940

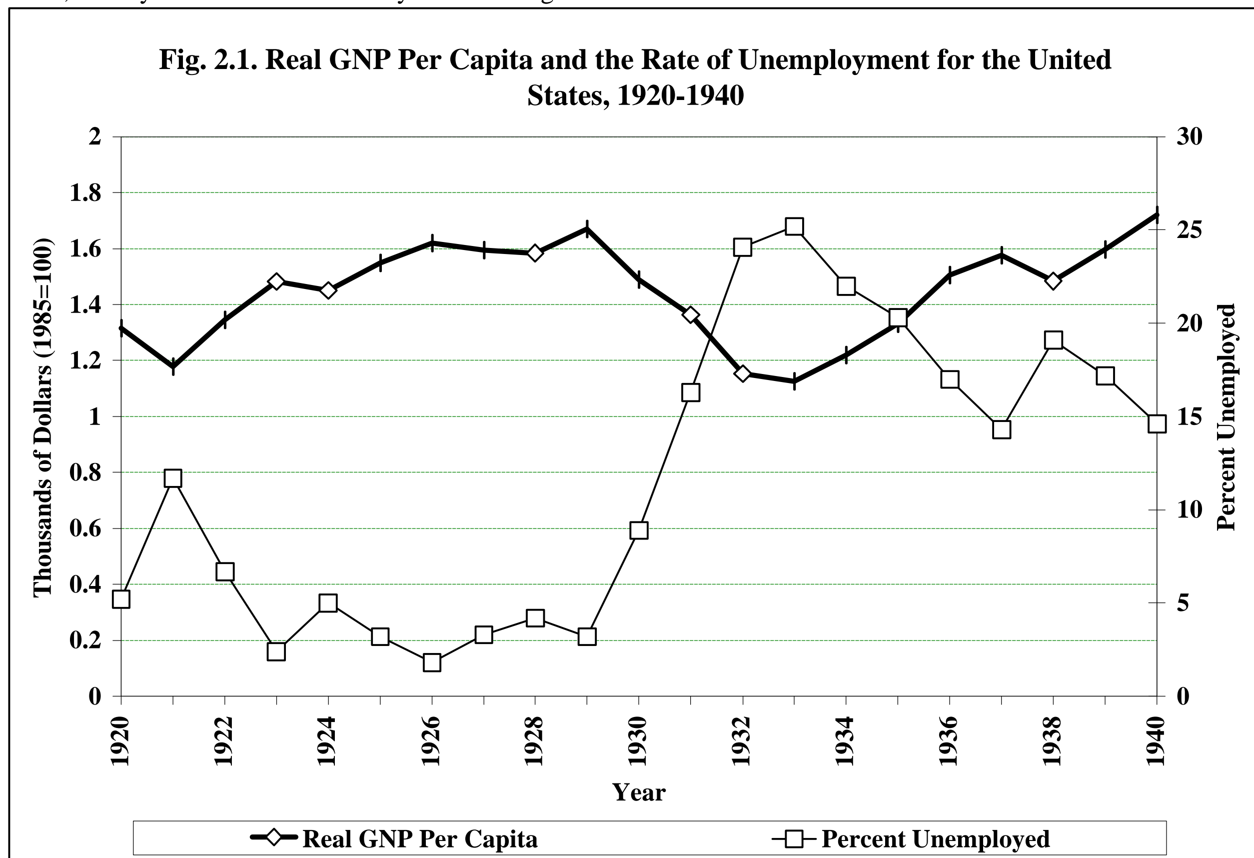
An Overview Of American Economic Growth, 1920-1940

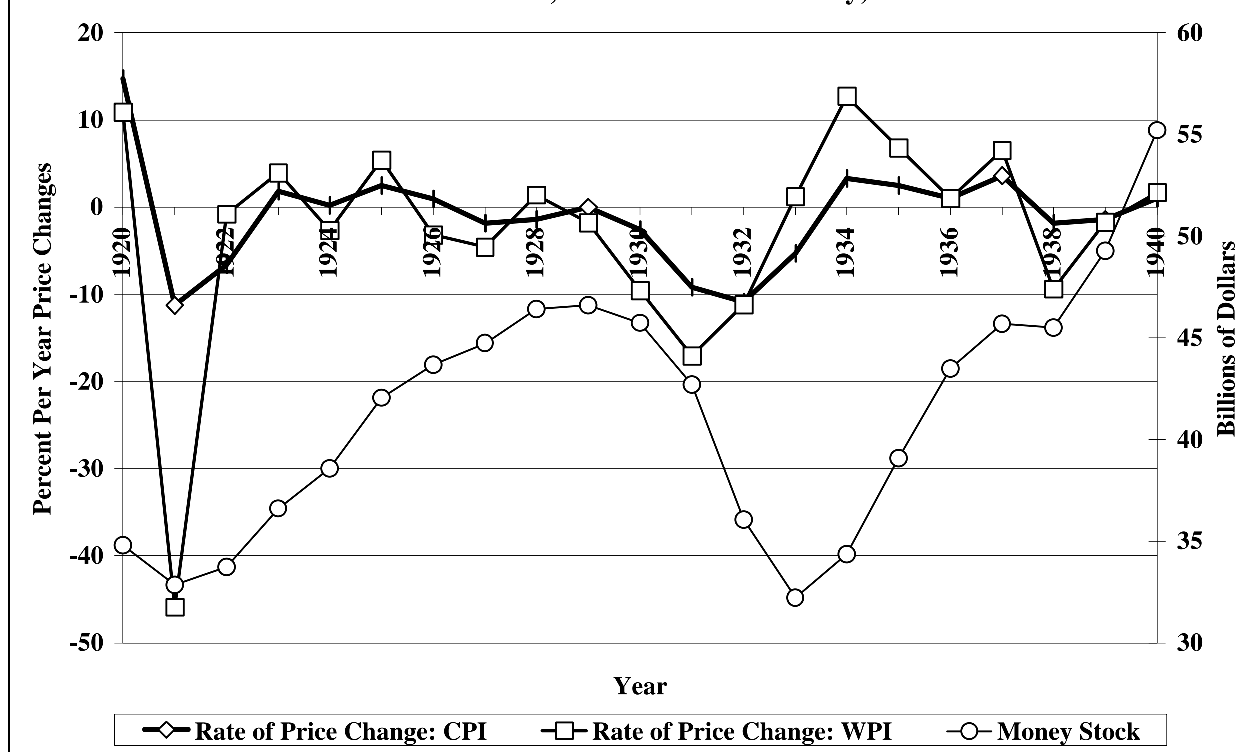
Few decades in American history present such dramatic contrasts as the 1920s and 1930s. The 1920s, after the recovery from the 1920-21 depression, were a decade of growth and prosperity. In fact George Soule titled his well known book on the economic history of the 1920s *Prosperity Decade*.[1]The twenties are often depicted as a decade of flamboyant and frivolous fun, of open roadsters, speakeasies, and the Charleston. Americans were the richest people in the world, and in this decade they realized it and began to enjoy it. In 1929 this new era ended. It seems likely that the collapse of the booming stock market in late October of 1929 will, in popular perception, forever mark the end of the prosperous twenties and the onset of the thirties, the "depression decade" as Broadus Mitchell calls it.[2]

As Figure 2.1 shows, a sharp depression opened the 1920s. This contraction was severe but short, and by late 1922 the economy was once again operating near full employment. Minor recessions occurred in 1923-24 and 1927-28, though these were hardly noticeable in the midst of the real growth of the decade. From the cyclical peak in 1923 to the cyclical peak in 1929, total real GNP grew 3.38 percent per year, while real GNP per capita grew 2 percent per year. Consumption purchases grew at a rate of 3.72 percent per year, gross private domestic investment grew at 0.75 percent per year, and the government purchases of goods and services grew at a rate of 5.5 percent per year.

The economic contraction that is called the Great Depression began in the middle of 1929 and continued through the first quarter of 1933. It is without parallel in the history of the United States. The depression of the 1870s lasted somewhat longer, from 1873 to 1878, but most economic historians now believe that price declines played a more important role in that contraction than declines in real output and employment. The 1893-96 depression is generally conceded to have been the second most severe contraction, but the highest nonfarm

Fig. 2.1. Real GNP Per Capita and the Rate of Unemployment for the United States, 1920-1940





unemployment rate then was 32 percent in 1894, while the nonfarm unemployment rate was over 36 percent in 1932 and nearly 38 percent in 1933. (And this rate would have been much higher if it also counted those who could only find part-time employment.) The recovery was much more rapid in the 1890s. In the Great Depression of the thirties, the recovery began in the second quarter of 1933 and continued slowly until 1937 when another depression occurred. It was 1942 before the unemployment rate dropped to 5 percent, a level commonly used to indicate full employment.

Nominal GNP fell 46.1 percent from 1929 to 1933 while real GNP fell 30.5 percent over the same years. The largest declines occurred between 1929 and 1930 (9.9 percent), and 1931 and 1932 (14.8 percent). Prices also fell sharply. (See Figure 2.2.) Real consumption expenditures fell 21.7 percent between 1929 and 1933. Gross private domestic investment fell 86.9 percent between 1929 and 1932 and was less than one billion dollars in nominal terms in 1932. Net investment was negative at the depths of the depression. Personal savings of households were negative in 1932 and 1933 as, in the aggregate, households spent more than they received in income for two consecutive years.

The course of unemployment from 1930 through 1941 is shown in Figure 2.1. The unemployment rate shown there counts only the totally unemployed individuals; there is no adjustment for those who were forced to work part-time. At the peak of unemployment in 1933, 25 percent of the labor force was totally unemployed. In the rural sector few people became unemployed; instead, real income dropped to extraordinarily low levels. In the urban sector wage rates did not drop as sharply, and complete or partial unemployment was more common than in the countryside.

Unemployment did not equally affect all groups or all cities. For example, in Cincinnati between 1929 and 1932, part-time employment rose from 5.27 to 18.85 percent and total unemployment rose from 5.94 to 18.32 percent. In Philadelphia 19.9 percent of the labor force had only part-time employment in 1933, while 46 percent was totally unemployed. In Buffalo the unemployment rate, weighted to include those who were employed only part-time, rose from 7.9 percent in 1929 to 31.2 percent in November of 1932. Large cities with a concentration of heavy industries, such as steel and automobile production, had much higher unemployment rates—often 40 or 50 percent.[3] Finally, as would be expected at a time when the number of individuals seeking employment was increasingly larger than the number of jobs employers could offer, other types of job rationing

became much more important. Employers could choose not to hire the very young or old; they could hire men rather than women; and, at low cost, they could discriminate against nonwhites. As a result, unemployment rates for the young, the old, women, and nonwhite workers were much higher than reported unemployment rates for the total labor force.

The recovery from the Great Depression is generally judged to have been slow because full employment was not reached during the thirties. From 1933 to 1937, the rate of unemployment fell from 25.2 to 14.3 percent; the unemployment rate in early 1937 was likely considerably less than 14.3 percent because a short but severe depression began around May of 1937.[4] The 1937-38 depression increased the unemployment rate from 14.3 to 19.1 percent. As late as 1940, 14.6 percent of the labor force was still unemployed.

The Twenties

It is frequently asserted that there is a tradeoff between inflation and unemployment—that to have a growing, highly active economy, the society's inhabitants must be willing to pay the price of some inflation. However, the decade of the twenties contradicts this assertion. This was a relatively modern period. Although the essential urban-industrial nature of the society was in place, with high levels of employment and real economic growth, prices were virtually constant and, in fact, tended to decline slightly during the decade. Between 1923 and 1929 real per capita GNP grew 12 percent, while prices were virtually constant. (See Figures 2.1 and 2.2.) After the end of the 1920-21 depression, the unemployment rate remained quite low at less than 4 percent except for the peaks of 5 percent in 1924 and 4.2 percent in 1928. There was a high rate of capital formation that helped raise productivity and led to a more rapid growth of real incomes. The federal government contracted from its wartime and depression size as its outlays fell from 4.3 and 3.5 percent of GNP in 1922 and 1923, respectively, to 3.0 percent in 1926 and 1927 and 3.1 percent in 1928 and 1929. The rising productivity and continuing real income growth during the 1920s accelerated changes in the consumption habits of American consumers.

In 1965, W. W. Rostow proposed that the 1920s marked the onset of a consumer durables revolution.[5]Though this had been a generally accepted axiom in economic history, in 1967 Harold Vatter challenged the idea.[6]He pointed out that there was actually little data presented to support this assertion. Vatter's examination of the evidence did not show any significant rise in the ratio of durables to total consumption. In constant dollars the ratio rose from about 9 percent in the late nineteenth century to about 11 percent in the 1920s.[7]

Though it does not appear that the consumption shift toward durable goods was of much magnitude, there does seem to have been some small shift. More important than this was the change in the character of the durable goods being purchased. The most obvious change, which Vatter suggests may have given rise to the idea of a consumer durables revolution, was the automobile as production rose from 1,746,000 in 1917 to 4,587,000 in 1929, an increase of 13.1 percent per year. This rapid adoption of the automobile by Americans initiated a number of other changes such as traffic jams, increasing calls for improved (or paved) roads, and new recreational pursuits.

An important force in this period was the electrification of the household. In 1920, 47.4 percent of the urban and nonfarm households, 1.6 percent of the farms, and 34.7 percent of all dwellings had electric service. In 1930, 84.8 percent of all urban and nonfarm households, 10.4 percent of farm households, and 68.2 percent of all American dwellings had electric service. As a result there was a rapid expansion in the production and purchase of household electric appliances such as mechanical washing machines, electric ranges, refrigerators, radios, clocks, lighting, toasters, and fans.

With the increasing real incomes and leisure time there was an expanding demand for new and existing services. The twenties saw a huge increase in movie patronage and major league baseball and college football attendance. The growth in the consumption of these services was associated with the rise of the automobile as a means of rapid, comfortable, and relatively cheap personal transportation. America became a nation of people on the move, and the demand for other types of recreational activities much more closely linked with the automobile as a means of transportation exploded. The American countryside became dotted with gasoline stations, hot dog and hamburger stands, and cabin camps (as the early motor hotels were called) to cater to the automobile traffic.

These changes in consumer purchases were accomplished by changes in the methods of making purchases of durable goods. The rapid rise of consumer installment credit in the 1920s allowed consumers to borrow the purchase price of a durable good while savings were realized after the purchase by paying off the debt. Though installment credit existed as early as the 1850s, it had been relatively unimportant. During the first two decades of the twentieth century, however, installment credit for consumer durables gradually became much more respectable. Estimates suggest that by the late

twenties, nearly two thirds of the new car sales and three fourths of the furniture were sold “on time.” Installment credit grew much faster than noninstallment credit—in 1919, 30.3 percent of all credit outstanding was installment credit, compared with 66.3 percent in 1941. Installment credit to purchase automobiles, though somewhat less than credit on consumer goods such as furniture and other household appliances, grew faster during the interwar period. Noninstallment credit outstanding as a share of consumer credit declined as a result of a dramatic drop in consumer borrowing through charge accounts.

The Great Depression, 1929-1933

The Great Depression brought about a profound transformation of the role of government in the economy. Though governmental power had been expanding for decades, the depression spawned a huge number of new rules and regulations designed to allow the government to direct and stabilize private economic activity. The government assumed the primary responsibility of caring for the aged, disabled, and unemployed. As a result of the Great Depression, what occurred was little short of a social revolution in American society in terms of the relationships between individuals, business, and the government.

Through the summer and early fall of 1930, the character of the contraction was not particularly unusual though many noted that it appeared to be more severe than any contraction since that of 1920-21. In November of 1930, there was a series of bank failures in the southeastern states, and in December of 1930 the private Bank of the United States failed. By the end of 1930, the depression had overtaken all of the developed countries. There was a renewed banking panic and a flurry of bank failures from March to June of 1931 in the United States and an avalanche of bank panics and failures in Europe from May through July of the same year. Countries abandoned the gold standard and began to withdraw gold from the financial centers in London. Britain left the gold standard on September 21, 1931, and the pressure to convert financial assets into gold shifted to New York. The Federal Reserve System took steps to stop the gold drain and keep the United States on the gold standard. But there was another flurry of bank failures, and the decline in economic activity intensified in late 1931 and early 1932. By the late summer of 1932, there were signs that the trough of the depression had been reached; in fact, in most European countries the depression ended in 1932 or earlier. In late 1932 there were renewed bank failures. The number of failures grew sharply in January 1933, and states began declaring “banking holidays.” President Roosevelt took office on March 6, 1933, and using emergency Presidential powers granted by Congress, he declared a nationwide banking holiday that was extended to a week or more in some areas. This final convulsive banking panic in early 1933 marked the end of the Depression.

This description and these statistics cannot adequately convey the complexity and character of the Great Depression. It is difficult for those who did not live through the era to fully grasp the extraordinary human suffering and frustration the contraction brought about. But the following brief descriptions can provide a more graphic impression.

The automobile industry was concentrated in and around Detroit. In 1929 total new car production was 4,587,000 but by 1933 had dropped to 1,573,512 new cars. General Motors’ production between 1929 and 1933 shrank from 1,482,189 to 652,063 new cars. Chrysler’s production fell from 375,249 to 245,058 in 1931 but then rose to 399,829 in 1933. The Ford’s production fell the most, from 1,435,856 new cars in 1929 to 325,560 new cars in 1933.[8] The fall in automobile production meant that thousands of autoworkers were laid off and entire plants shut down.

Firms supplying the automobile industry, such as producers of tires or steel and manufacturers of electrical equipment, found their sales falling and so laid off workers. As Lester Chandler writes, “Detroit was virtually impoverished.”[9] By early 1933 roughly 51 percent of Detroit’s labor force was totally unemployed, and many of the employed worked only part-time. Tax revenues fell, tax delinquencies were up, and attempts to provide a subsistence level of relief to the most needy caused the city to head toward bankruptcy. A similar scene existed in most other large cities. Across the United States, services normally provided by governments were being reduced. School expenditures were cut and whole programs eliminated, library hours and services were slashed, and medical and hospital services provided by government were curtailed.

The incidence of illness and malnutrition increased, and the number of the homeless multiplied. “Hoovervilles,” the ramshackle huts of the destitute, arose in many American cities.[10]Others among the unemployed and homeless--men, women, and entire families--wandered the United States; these were the “Nomads of the Depression” as David A. Shannon terms them. One estimate suggested that there were 1,250,000 homeless; another estimate said that there were 25,000 families and 200,000 homeless men and boys. By the end of 1931, it was thought that as many as 1,200 homeless people were arriving in California each day. Railroad officials in Kansas City reported that 1,500 individuals a day passed

through on the freight trains, and the Missouri Pacific Railroad officially counted 186,028 transients, or trespassers, on their trains in 1931, up from 13,875 in 1929.[11]

The Soviet government advertised for 6,000 skilled workers and its American office was deluged by 100,000 applications. Jury duty had often been considered something to be avoided in the twenties. But during the depression the "Halls of Justice" were crowded, and it was rare to hear of an absence because jurors were paid $4 for each day they served. Shining shoes became a common occupation of the unemployed, and shoe shiners from all walks of life and all ages multiplied.[12] At the same time that malnutrition and hunger were ravaging the United States, farmers were destroying crops because prices were too low. In Montana, wheat prices were often too low to make it worthwhile to harvest some of the crop. In Oregon's Willamette Valley, thousands of bushels of apples went to waste because only absolutely flawless apples could be sold. In Oregon, thousands of ewes were killed by sheep ranchers because the price they brought was insufficient to pay the cost of shipping them to market. In the South cotton rotted in the fields because, given the price paid by the cooperatives, the planters could not pay wages high enough for the pickers to purchase food.[13]

In what came to be known as the "shame of Anacostia Flats," unemployed veterans, who gathered between May and July in 1932 at Washington, D.C., to demand early payment of war bonuses were driven out by the army, and their shacks were destroyed. In the same year Milo Reno led farmers in Iowa to organize a Farmers' Holiday Association and this spread to other states. Their goal was to stop the shipment of food to market for 30 days or until the cost of production was received. Shannon reports that one article described the situations as follows:

> Omaha, Council Bluffs, and Des Moines were blockaded as well as Sioux City. In all these cities numerous deputies were sworn in to help the respective sheriffs. The Governor of Iowa ordered the roads cleared. Trucks attempted to rush through the lines of picketing farmers. A few trucks were escorted through the farmers' line by armed deputies.
>
> The armed deputies at James, ten miles out of Sioux City, started to convoy a fleet of thirty trucks through the lines. Guns were pointed. The farmers stood fast. Before an audience of bystanders the trucks were turned back. No shots were fired.
>
> On another highway, farmers bared their breasts, daring the armed deputies to shoot. The deputies did not take the dare.
>
> At Council Bluffs there were sixty arrests. A thousand farmers marched on the jail. The prisoners were hastily released on nominal bail.[14]

The U.S. economy was in its darkest hour. There was starvation amid bountiful resources. The nation's factories, land, minerals, forests, and laborers still existed, but much of these resources were unemployed. The knowledge of how to produce commodities and services was still there and people continued to desire them, but the intricate market coordination that made the demands effective and employed the resources and knowledge was failing. There were rumblings of social discontent across the nation.[15]

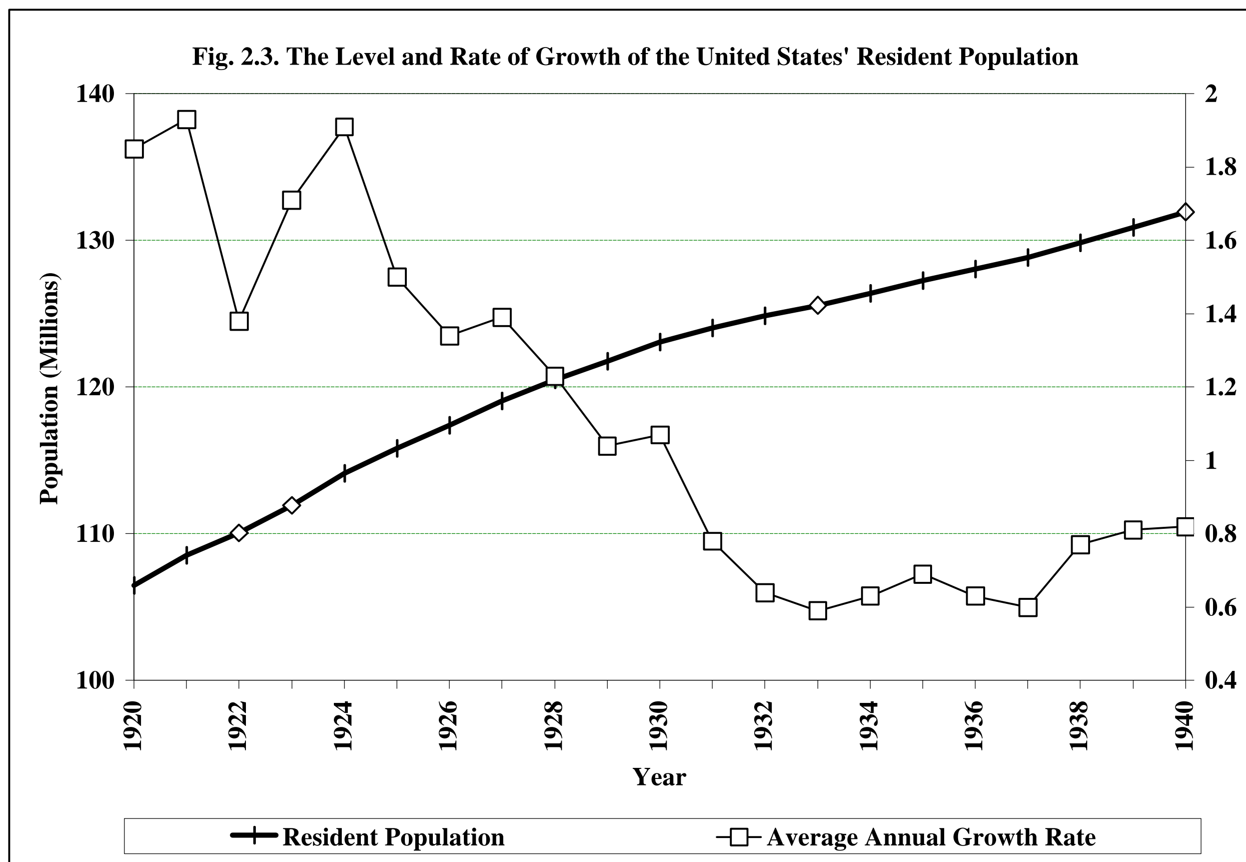
The Recovery of 1933-1937

Franklin Delano Roosevelt assumed the presidency in March of 1933 during the nadir of the depression. The continuing banking crisis had culminated in nationwide runs on banks. Roosevelt's first act as president was to use emergency powers to close the nation's banks. All banks were closed a week or more; then "sound" banks were allowed to reopen, weak ones merged into strong ones, and bankrupt ones dissolved. Nearly a quarter of all banks disappeared.

Though the depression came to an end with this final convulsive tremor of the financial system, the American economy was farther from full resource employment than ever before. Roosevelt had been elected by an overwhelming majority, and he took this landslide as a mandate from the American people "to do something" about the depression. The election brought in a huge Democratic majority in Congress who were anxious to act. Lester Chandler argues that Roosevelt's problem was often to keep Congress from "enacting unwanted mandatory measures."[16]

Over the next seven years Roosevelt's administration implemented what came to be called the New Deal. This haphazard amalgam of programs and policies was intended to restore the health of the American economy. Some of the programs were intended to provide immediate relief to the destitute, homeless, and unemployed; other programs aimed at restructuring and reform. Taxes were increased several times in an attempt to provide more equality in the distribution of income because Roosevelt believed that one of the defects of American society was too great a concentration of wealth in the hands of too few.

Measured by its ability to bring about a level of economic activity that fully employed Americans and restored high levels of income, Roosevelt's New Deal must be judged an abject failure. It was 1940



before real per capita income equaled or exceeded the level of 1929. In other words, the 1930s were a decade with no growth, the longest such period in the annals of American history. The Roosevelt administration was successful at its goal of getting prices to rise as the rise in the consumer price index averaged 2.6 percent a year between 1934 and 1937.

With the end of the banking crisis in early March of 1933, industrial production quickly rose until June of 1933 and then was stagnant. As Michael Weinstein points out, "After June 1933 industrial production reached a plateau that was not finally surpassed until more than a year and a half later."[17] On May 27, 1935, the Supreme Court ruled that the National Industrial Recovery Act, one of the early cornerstones of Roosevelt's New Deal, was unconstitutional. Industrial production increased 15 percent in the last half of 1935, and then rose 19 percent during 1936. From December of 1936 to the peak in May of 1937, industrial production rose only 3.6 percent, with most of this smaller increase occurring in January and February of 1937.

The 1937-1938 Depression

From May through July, industrial production was almost constant. It declined 1 percent from July to August and 3.2 percent from August to September. Between September and December, industrial production fell 27 percent, a precipitous decline. The contraction continued until the trough in May of 1938, when industrial production was 39.1 percent lower than one year earlier. Though the depression ended in May of 1938 industrial production did not surpass the May 1937 level until October of 1939.

The 1937-38 depression was about as short as the 1920-21 depression but was also very severe, and it ended a recovery that had never came close to reaching full employment. Though the index of industrial production suggests that the depression began in June, it was a violent stock market crash beginning in mid-August of 1937 that really caught the public's attention. From a Dow-Jones average of 190.38 on August 14, stock prices fell sharply and continuously until reaching a low of 97.46 on March 31, 1938, a decline of 48.8 percent over that seven month period.[18] Though annual averages understate the magnitude of the changes, unemployment rose from an average of 14.3 percent in 1937 to 19.1 percent in 1938, and real per capita GNP dropped by 6 percent. Consumer prices fell 2 percent, while wholesale prices fell over 9 percent. The recovery from the 1937-38 depression was slow, and unemployment still averaged 14.6 percent in 1940. It was 1942 before the United States once again reached full employment.

The Interwar American Economy

Interest in the performance of the interwar American economy has always focused on its schizophrenic nature, with the prosperity of the twenties contrasted with the devastating contraction of the thirties. And this is as it should be, because the Great Depression is one of those defining events that ushered in dramatic societal and economic changes. In later chapters we will examine the government's attempts to control the economy in the twenties and resurrect it in the thirties. We will also look at explanations of how the Great Depression could have occurred.

But a fascination with the Great Depression as a whole, must not lead us to ignore the important changes in individual sectors of the American economy that took place at this time. Agriculture had its own problems throughout the interwar period. Manufacturing innovations, many of which were related to the rise of electric utilities and the electrification of the nation, continued even during the depressed thirties. New institutions to distribute goods and services to consumers reduced the costs of making transactions. Long distance telephone services brought new conveniences to businesses and consumers while the radio provided a startling innovation in home entertainment. Trucks and airlines began to compete seriously with the nation's railroads. We will briefly examine these sectors before we look at the big picture of the interwar.

First, however, we need to examine changes in the interwar American population and labor force.

Population Growth

The growth rate of the American population, which had been declining since the end of the Revolutionary War, continued to decline during the twenties and thirties. As can be seen in Figure 2.3, from an annual rate of increase of 1.85 and 1.93 percent in 1920 and 1921, respectively, population growth rates fell to 1.23 percent in 1928 and 1.04 percent in 1929. The 1930s saw a dramatic decline in the growth rate of the American population: between 0.6 and 0.8 per year from 1931 through 1940.

These changes in the overall growth rate were linked to the birth and death rates of the resident population and a decrease in foreign immigration. Though the crude death rate changed little during the period, the crude birth rate fell sharply into the early 1930s. (See Figure 2.4.) There are several explanations for the decline in the birth rate during this period. First, there was an accelerated rural-to-urban migration. Urban families have always had fewer children than rural families because urban children do not augment family incomes as rural children do. Second, the period also saw continued improvement in women's job opportunities and rise in their labor force participation rates. Third, with the depression of the thirties, individuals waited longer before marrying and had fewer children. Divorces rose as families were torn apart due to the dismal prospects brought on by the depression.

Immigration also fell sharply. In 1917 the federal government finally began to limit immigration and in 1921 an immigration act limited the number of prospective citizens of any natinality entering the United States each year to no more than 3 percent of that nationality's resident population as

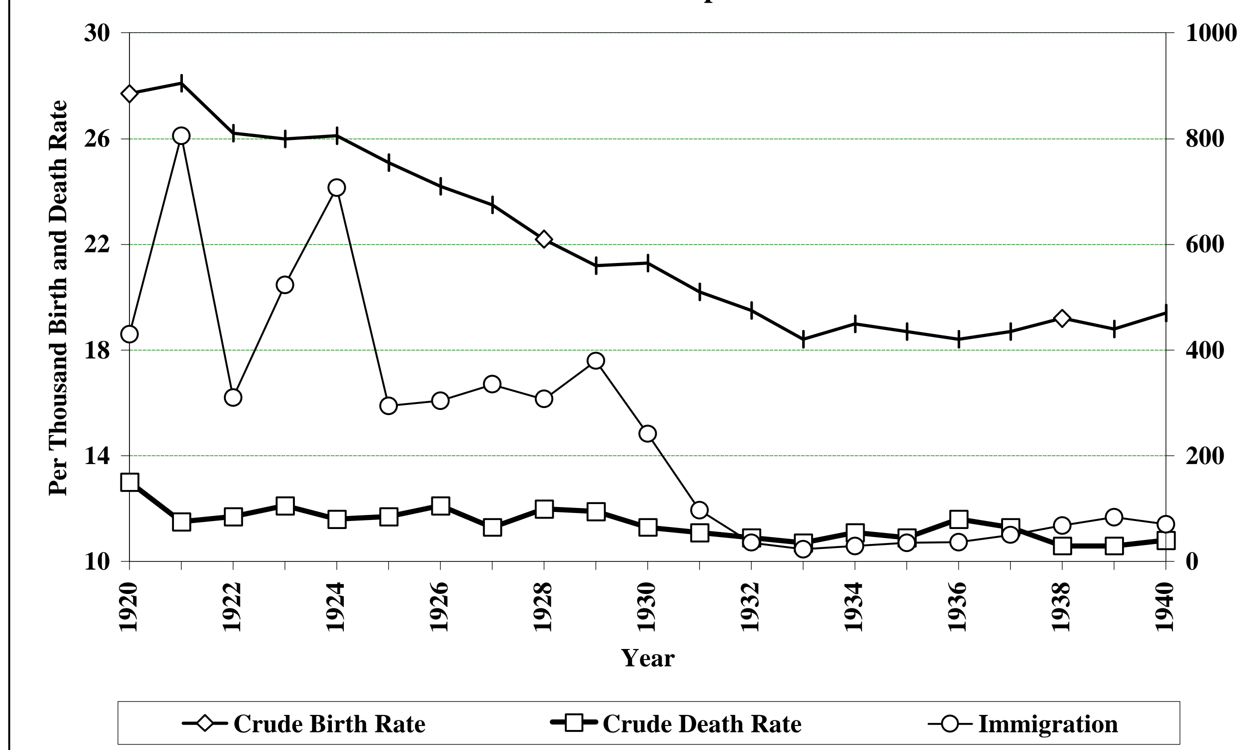
TABLE 2.1. REGIONAL POPULATION SHARES AND SHIFTS, 1920-1940.

Region	1920	1930	1940	Change 1920-1940
New England	7.0%	6.7%	6.4%	-0.6
Middle Atlantic	23.1	23.3	23.0	-0.1
Great Lakes	20.3	20.6	20.2	-0.1
Southeast	23.0	22.2	22.9	-0.1
Plains	11.9	10.8	10.3	-1.6
Southwest	7.0	7.4	7.4	+0.4
Mountain	2.4	2.2	2.2	-0.2
Far West	5.3	6.8	7.5	+2.2

New England: ME, NH, VT, MA, RI, CT. Middle Atlantic: NY, NJ, PA, DL, MD, DC. Great Lakes: OH, IN, IL, MI, WI. Southeast: VA, WV, KY, TN, NC SC, GA, FL, AL, MS, AK, LA. Plains: MN, IA, MO, ND, SD, NE, KS. Southwest: OK, TX, AZ, NM. Mountain: MT, ID, WY, UT, CO. Far West: WA, OR, CA, NV.

Source: Harvey S. Perloff, Edgar S. Dunn, Jr., Eric E. Lampard, and Richard F. Muth, *Regions, Resources and Economic Growth* (Lincoln: University of Nebraska Press, 1960), Table 1, p. 12.

Fig. 2.4. Immigration Into the United States and Crude Birth and Death Rates for the Resident Population



of the 1910 census. A new act in 1924 lowered this to 2 percent of the resident population at the 1890 census and more firmly blocked entry for people from central, southern, and eastern European nations. Though the limits were relaxed slightly in 1929, the depression and sluggish recovery in the 1930s slowed immigration to a mere trickle.

The American population continued to move during the interwar period. Table 2.1 shows regional population shares and shifts from 1920 to 1940. Two regions experienced the largest losses in population shares, New England and the Plains. For New England this was a continuation of a long-term trend. The population share for the Plains region had been rising through the nineteenth century. In the interwar period its agricultural base, combined with the continuing shift from agriculture to industry, led to a sharp decline in its share. The regions gaining population were the southwest and, particularly, the far west. California began its rapid growth at this time.

Labor Force Growth

During the interwar period the labor force grew at a more rapid rate than population. (See Figure 2.5.) This somewhat more rapid growth came from the declining share of the population less than 14 years old and therefore not in the labor force. In contrast, the labor force participation rates, or fraction of the population aged 14 and over that was in the labor force, declined from 54.3 percent in 1920 to 52.4 percent in 1940. This was due entirely to a fall in the male labor force participation rate (84.6 percent in 1920 to 79.1 percent in 1940) as the female labor force participation rate rose from 22.7 percent in 1920 to 25.8 percent in 1940.

Earnings for laborers varied considerably during the interwar period. Figures 2.6 and 2.7 present relative average annual earnings for nine broad sectors, which are shown as a percentage of the mean average annual earnings for the nine sectors. The annual earnings reflect variations in both pay and hours worked. As can be seen annual earnings for workers in manufacturing, mining, and construction fell sharply during the Great Depression. Other workers—especially those in communications, public utilities, and government—saw their relative earnings rise during the depression.

Figure 2.8 presents average weekly earnings for 25 manufacturing industries. For these industries male skilled and semi-skilled laborers generally commanded a premium of 35 percent over the earnings of unskilled male laborers during the twenties. Unskilled males received on average 35 percent more than females during the twenties.

Fig. 2.5. The Level and Rate of Growth of the American Labor Force
Labor Force (Millions)
58
56
54
52
50
48
46
44
42
40
2.4
2.2
2
1.8
1.6
1.4
1.2
1
0.8
1920
1922
1924
1926
1928
1930
1932
1934
1936
1938
1940
Year
Labor Force
Average Annual Growth Rate

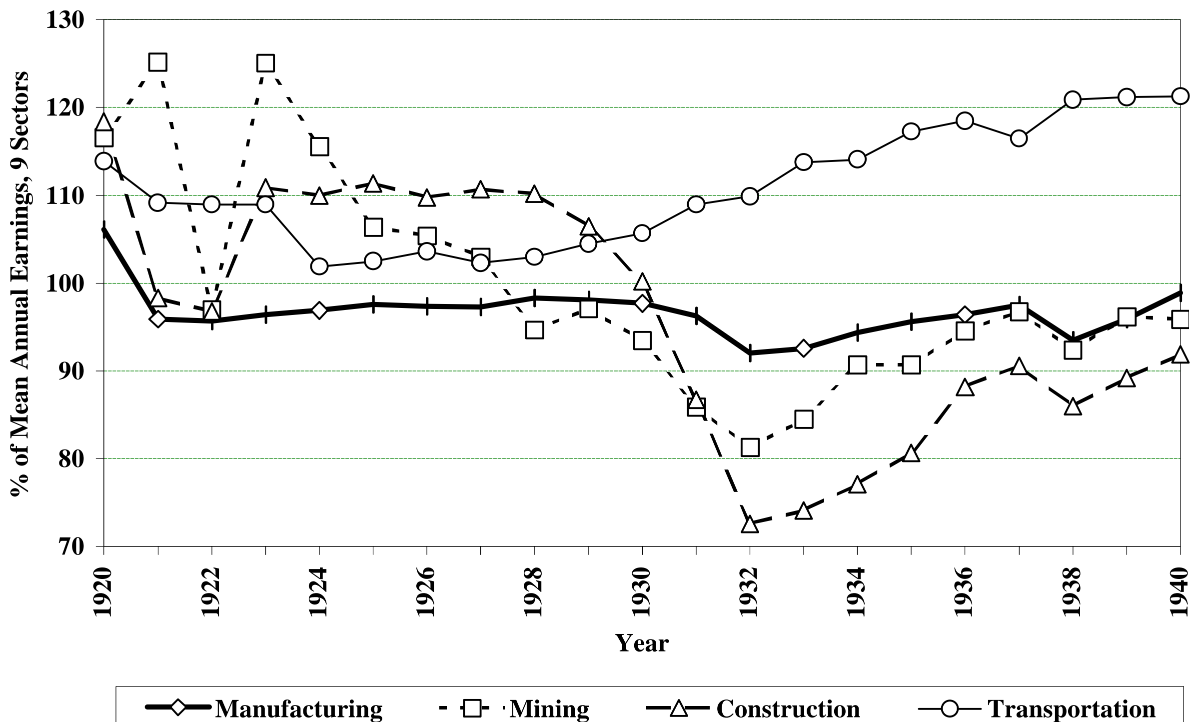


Fig. 2.6. Annual Earnings for Selected Sectors as a Percentof Mean Annual Earnings for Nine Sectors
% of Mean Annual Earnings, 9 Sectors
130
120
110
100
90
80
70
1920
1922
1924
1926
1928
1930
1932
1934
1936
1938
1940
Year
Manufacturing
Mining
Construction
Transportation

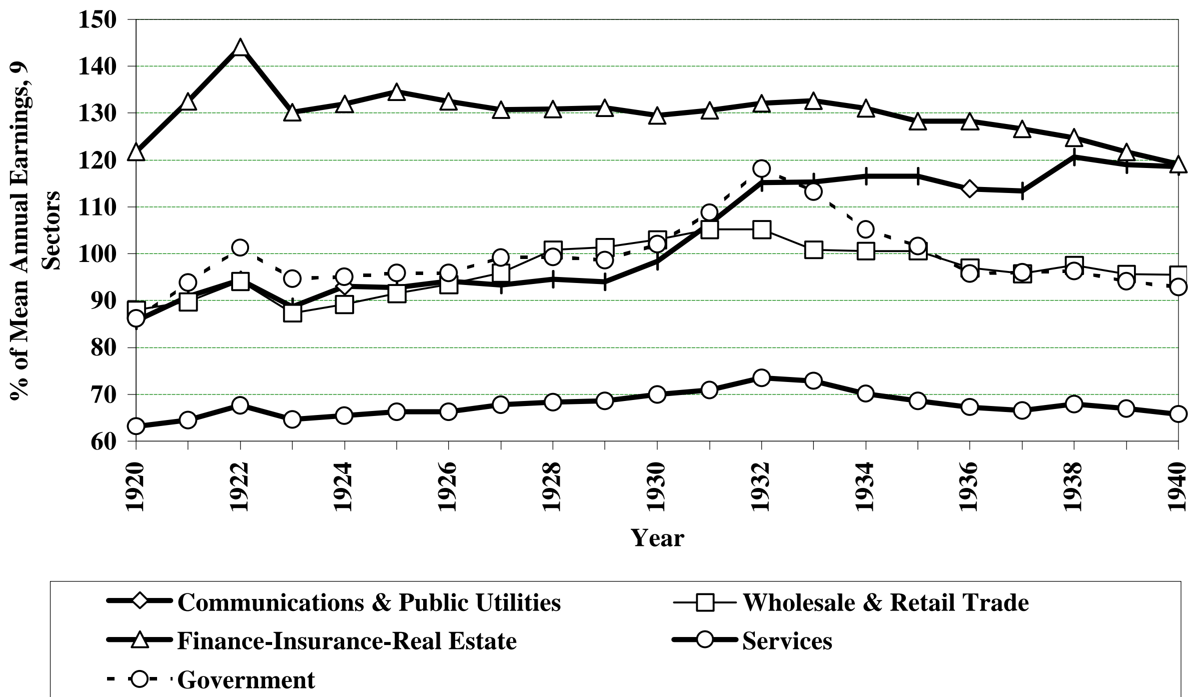


Fig. 2.7. Annual Earnings for Selected Sectors as a Percent of Mean Annual Earnings for Nine Sectors
% of Mean Annual Earnings, 9 Sectors
150
140
130
120
110
100
90
80
70
60
1920
1922
1924
1926
1928
1930
1932
1934
1936
1938
1940
Year
Communications & Public Utilities
Wholesale & Retail Trade
Finance-Insurance-Real Estate
Services
Government

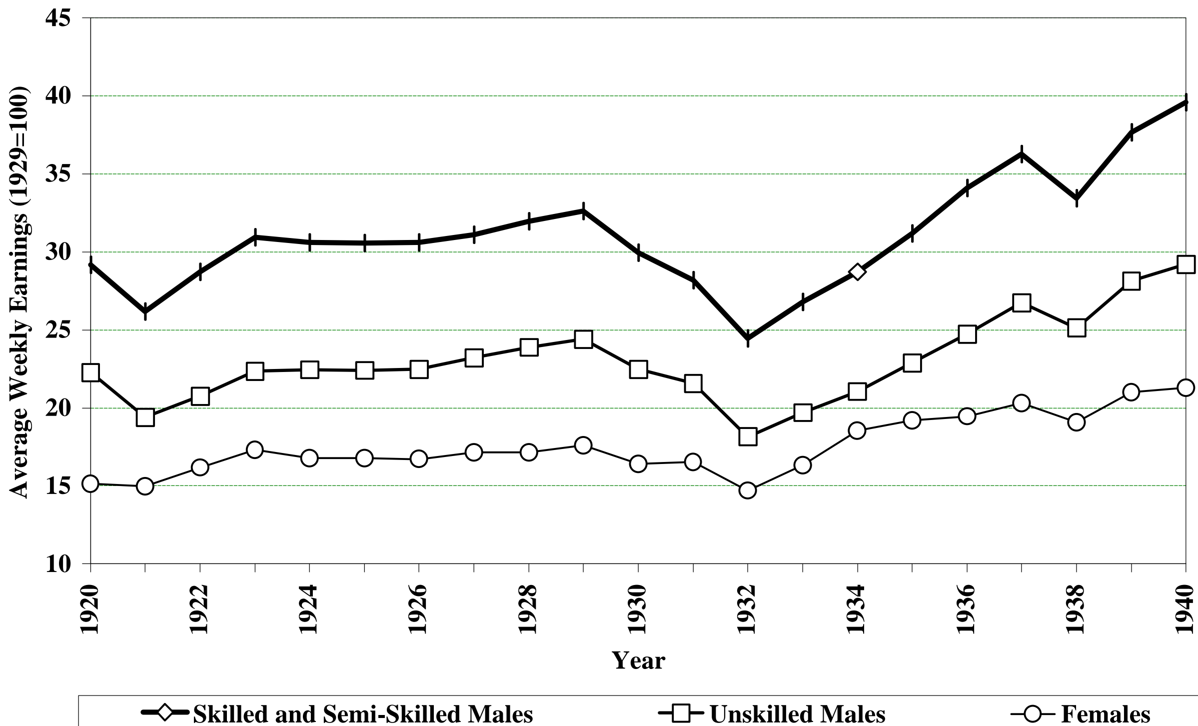
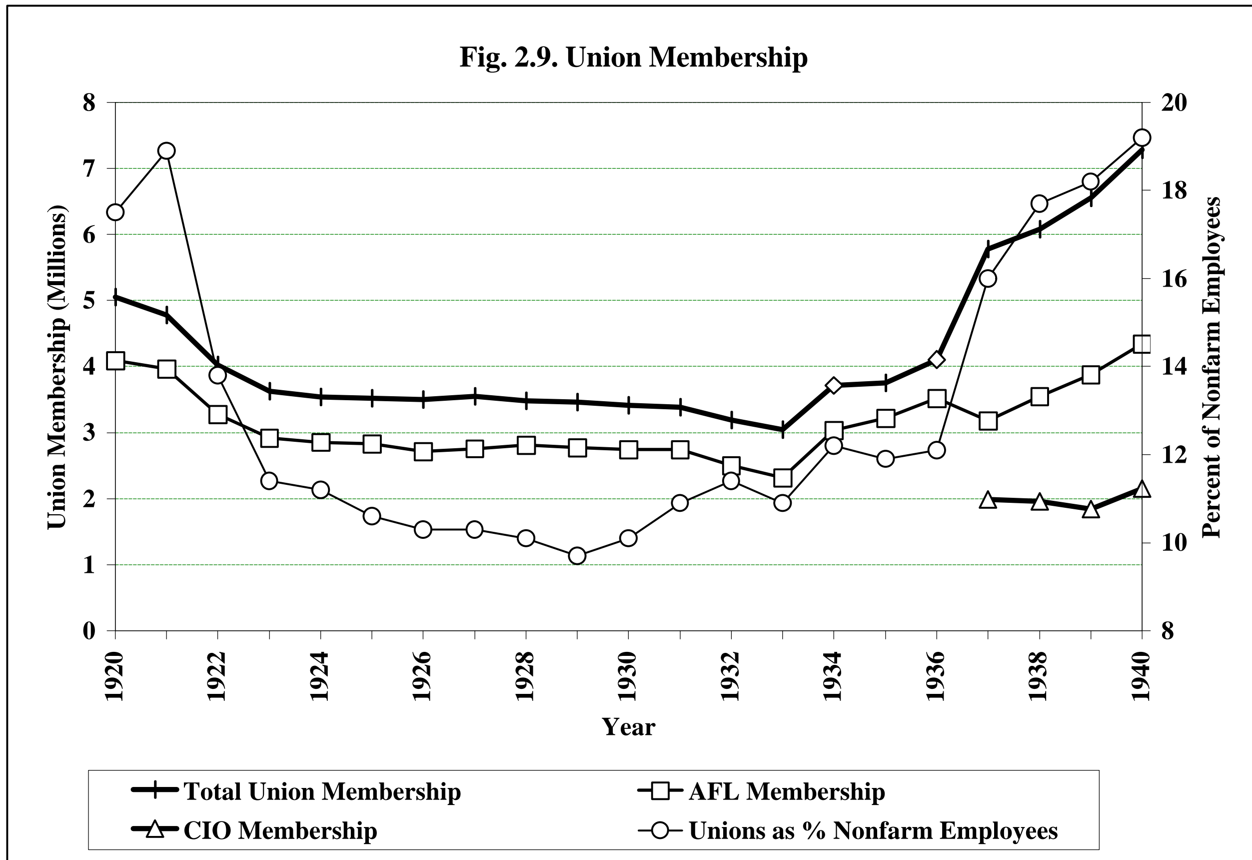


Fig. 2.8. Real Average Weekly Earnings for Production Workers in 25 Manufacturing Industries
Average Weekly Earnings (1929=100)
45
40
35
30
25
20
15
10
1920
1922
1924
1926
1928
1930
1932
1934
1936
1938
1940
Year
Skilled and Semi-Skilled Males
Unskilled Males
Females



Between 1934 and 1940, the differential between male unskilled laborers and male skilled and semiskilled laborers remained at 35 percent, while the differential between male unskilled laborers and femal laborers declined to 28 percent. These earnings increased sharply after 1933 and this is at least partly due to the post-1933 success of labor unions at organizing industrial workers.

Labor Unions in the Interwar Period

The First World War solidified the dominance of the American Federation of Labor among labor unions in the United States. The rapid growth in union membership fostered by federal government policies during the war ended in 1919. A committee of AFL craft unions undertook a successful membership drive in the steel industry during 1919. When U.S. Steel refused to bargain, the committee called a strike, the failure of which was a sharp blow to the unionization drive.[19] In the same year, the United Mine Workers undertook a large strike and also lost. These two lost strikes and the 1920-21 depression took the impetus out of the union movement and led to severe membership losses that continued through the twenties. (See Figure 2.9.)

Under Samuel Gompers's leadership, the AFL's "business unionism" had attempted to promote the union and collective bargaining as the sole answers to the workers' concerns with wages, hours, and working conditions. The AFL officially opposed any government actions that would have diminished worker attachment to unions by providing competing benefits.[20]As Lloyd Ulman points out, the AFL, under Gompers's direction, differentiated on the basis of whether the statute would or would not aid collective bargaining.[21]After Gompers's death, William Green led the AFL in a policy change as the AFL promoted the idea of union-management cooperation to improve output and promote greater employer acceptance of unions. But Irving Bernstein concludes that, on the whole, union-management cooperation in the twenties was a failure.[22]

To combat the appeal of unions in the twenties, firms used the "yellow-dog" contract requiring employees to swear they were not union members and would not join one; the "American Plan" promoting the open shop and contending that the closed shop was un-American; and welfare capitalism. The most common feature of welfare capitalism was the creation of a management-controlled company union; other aspects included personnel management to handle employment issues and problems, the doctrine of "high wages," company group life insurance, old-age pension plans, stock-purchase plans, and more.

Until the late thirties the AFL was essentially a voluntary association of independent national craft unions. It had been created on two principles: the autonomy of the national unions and the exclusive jurisdiction of the national union.[23] Individual union members were not, in fact, members of the AFL; rather, they were members of the local and national union, and the national was a member of the AFL. Representation in the AFL gave dominance to the national unions, and, as a result, the AFL had little effective power over them. The craft lines, however, had never been distinct and increasingly became blurred. The AFL was constantly mediating jurisdictional disputes between member national unions.

The 1933 passage of the National Industrial Recovery Act (NIRA) made the promotion of unionism a federal government policy, and the legions of unskilled and semiskilled workers in American industry were the target. John L. Lewis and the leaders of the essentially industrial unions in the AFL wanted to move quickly. Lewis, in particular, expanded the United Mine Workers (UMW) membership dramatically, as did the David Dubinsky with the International Ladies Garment Workers Union (ILGWU) and Sidney Hillman with the Amalgamated Clothing Workers Union (ACWU).[24]

At the AFL convention in October of 1933, a resolution was offered to prevent the inclusion in the AFL of any Federal Labor Union[25] that included members over whom a member national craft union might have jurisdiction. Without much AFL support and in the face of company unions and violent, largely unsuccessful strikes, by 1935 the Federals in rubber, textiles, and automobiles had largely withered away.

Section 7a of the NIRA had been largely unsuccessful in promoting unionization. New York's Senator Wagner authored a National Labor Relations Bill that became law on July 5, 1935. The National Labor Relations Act, or Wagner Act, has been called labor's Magna Carta because it established labor's right to organize freely and engage in collective bargaining and abridged employers' right to resist unionism. This was largely accomplished by outlawing company unions, outlawing employer discrimination against union members, and requiring firms to bargain collectively with unions. The act provided a mechanism for employees to elect their bargaining agent and established the National Labor Relations Board (NLRB) to hear and decide on unfair labor practices, determine the collective bargaining unit, and conduct elections. Though employers continued to sharply resist union organization, the battle was now fought on dramatically different terms. The NLRB had legal powers.

Because of the AFL's continued reluctance to organize workers in unorganized industries, John L. Lewis and the leaders of several other minority industrial unions in the AFL formed a Committee for Industrial Organization (CIO) following the November 1935 AFL convention. Because this was considered "dual unionism," the AFL expelled the CIO unions in November of 1937. They then formed a rival federation, the Congress of Industrial Organizations.

In 1936 the new CIO moved aggressively to organize under the Wagner Act. Financed largely by the UMW, and, to a lesser extent, the ACWU and ILGWU, the CIO's drive led to success in 1937 in organizing GM, Chrysler, U.S. Steel, and other, smaller steel companies. U.S. Steel, the very epitome of antiunion sentiment and activity in previous decades, capitulated in March of 1937 without a strike. In the automobile industry the United Automobile Workers (UAW) concentrated on GM, which was larger and not as aggressively antiunion as Ford. At GM the sit_down strike, later to be ruled unlawful, emerged as a major and powerful union tactic. Once GM signed on February 11, 1937, Hudson, Packard, Studebaker, and Chrysler quickly signed agreements. The CIO also undertook successful organizing drives among dock workers, the rubber firms, electrical manufacturers, textile firms, and the sawmill industry.

However, neither Ford nor "Little Steel" (composed of Bethlehem, Republic, Youngstown Sheet and Tube, Inland, National (or Weirton), and ARMCO) signed agreements in 1937 or 1938. Little Steel developed a strategy to fight unionization where they granted the same wages and hours as U.S. Steel did in its agreement: 10 cents an hour increase to 62.5 cents per hour and time and a half after 8 hours a day or 40 hours a week. They then used a combination of propaganda, public relations, and force in successfully fighting off unionization. With Little Steel paying the same wages and having the same hours as U.S. Steel, some of the organizing momentum was lost. Strikes against firms in the declining economy of the last half of 1937 failed.

Having failed in 1937 at organizing Little Steel and Ford through membership drives and strikes, the Steel Workers' Organizing Committee (SWOC) and the UAW brought charges of unfair labor practices by these firms before the NLRB, which in 1938 and 1939 found the firms guilty. The firms' appeals delayed the final rulings until mid-1941. In 1941 and 1942 the SWOC undertook the last steel organizing drives and finally unionized Little Steel. With Ford employees overwhelming choosing the UAW affliated with the CIO in 1941, Ford entered into bargaining. In 12 days the negotiations

were over, and Ford had yielded far more to the UAW than even GM or Chrysler had.

With the capitulation of Little Steel and Ford, the great union organizing drives of the late thirties ended.

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Notes

[1]. George Soule, *Prosperity Decade: From War to Depression, 1917-1929* (New York: Holt, Rinehart, and Winston, 1947).

[2]. Broadhus Mitchell, *Depression Decade: From New Era Through New Deal, 1929-1941* (New York: Rinehart and Co., 1947).

[3]. Lester V. Chandler, *America's Greatest Depression, 1929-1941* (New York: Harper and Row, 1970), chapter 3.

[4]. Michael Darby has argued that this overstates the "correct" unemployment rate because these figures count as unemployed all those who were employed on federal work-relief projects. Using figures revised to exclude those employed on such projects, Darby found that unemployment would have declined to 5 percent in 1938 if the 1937-38 depression had not occurred. Michael Darby, "Three-and-a-Half Million U.S. Employees Have Been Mislaid: Or, an Explanation of Unemployment, 1934-1941," *Journal of Political Economy*, 84 (February 1976): 1-16.

[5]. W. W. Rostow, *The Stages of Economic Growth: A Non-Communist Manifesto* (New York: Cambridge University Press, 1965), chapter 6.

[6]. Harold Vatter, "Has There Been a Twentieth-Century Consumer Durables Revolution?" *The Journal of Economic History*, 27 (March 1967): 1-16.

[7]. Ibid., 8-11.

[8]. Alfred D. Chandler, Jr., ed., *Giant Enterprise: Ford, General Motors, and the Automobile Industry* (New York: Harcourt, Brace, and World, Inc., 1964), 3.

[9]. Chandler, *America's Greatest Depression*, 44.

[10]. David A. Shannon, ed., *The Great Depression* (Englewood Cliffs, NJ: Prentice-Hall, 1960), chapter 9. The quotation is from page 14.

[11]. Ibid., chapters 27-31.

[12]. Ibid., chapters 6-7.

[13]. Ibid., chapter 13.

[14]. Ibid., 124.

[15]. For a flavor of this discontent, see Shannon, *The Great Depression*, chapters 43-50.

[16]. Chandler, *America's Greatest Depression*, 133.

[17]. Michael Weinstein, "Some Macroeconomic Impacts of the National Industrial Recovery Act, 1933-1935," in Karl Brunner, ed., *The Great Depression Revisited* (Boston: Martinus Nijhoff Publishing, 1981), 262-81. See also Michael Weinstein, *Recovery and Redistribution Under the NIRA* (Amsterdam: North Holland Publishing Co., 1980).

[18]. Benjamin M. Anderson, *Economics and the Public Welfare: A Financial and Economic History of the United States, 1914-1946* (Indianapolis: Liberty Press, 1979 reprint of 1949 edition), 430-31.

[19]. David Brody, *Labor in Crisis: The Steel Strike* (Philadelphia: J. B. Lippincott Co., 1965).

[20] Competing government benefits included government-sponsored unemployment insurance, minimum wage

proposals, maximum hours proposals, and social security programs.

[21]. Lloyd Ulman, "The Development of Trades and Labor Unions," chapter 14 in Seymour E. Harris, ed., *American Economic History* (New York: McGraw-Hill Book Co., 1961). See also Lloyd Ulman, *The Rise of the National Trade Union* (Cambridge, MA: Harvard University Press, 1955).

[22]. Irving Bernstein, *The Lean Years: A History of the American Worker, 1920-1933* (Boston: Houghton Mifflin Co., 1960).

[23]. Ulman, "The Development of Trades and Labor Unions."

[24]. See Irving Bernstein, *The Turbulent Years: A History of the American Worker, 1933-1941* (Boston: Houghton Mifflin, 1970), particularly chapter 8. Most of the following discussion of unions in the thirties draws upon Bernstein's detailed history.

[25]. The Federal Labor Union was the chief method of bringing in unorganized workers in new industries. It was attached directly to the AFL. Once the workers were organized, the process of deciding which workers were to belong to which member national craft union could take place, and the Federal Labor Union would be dismantled. Craft unions were not anxious to pursue this strategy because skill classifications were ambiguous, and this threatened to dilute the membership of the unions, weakening their bargaining power.