1
An Economic History of the United States 1900–1950

Eric Rauchway

In 1900 Americans still counted as a country people, and for most of them the rhythms of rural life shaped their ideas about past, present, and future. They shared memories of cultivation and scheduled their work in anticipation of the seasons and obedience to the weather. But before the twentieth century had half passed, the American city grew to overshadow the farm. Business cycles displaced seasons at the center of Americans’ forecasts, and while weather still played its capricious part in determining how fully an investment might come to fruition, a host of other factors, epiphenomena of the industrial world, joined storm, drought, and flood as the unpredictable masters of fate. Americans who lived through this shift from rural to urban life often complained that the regimentation and complexity of the industrial world robbed them of their independence. At the same time, the shift to modern modes of production turned the United States into the most nearly independent national actor on the world’s stage, at the center of an international economy Americans had little experience managing or even imagining. Only through the wrenching of war and depression did they come even to a tentative reckoning with the way the world worked now, and their place in it.

The Move to the Cities, 1900–1920

The shift from farm to city occupies a central place in the developmental theories of economists and the developmental histories of those nations fortunate enough to make it. By shifting resources out of agriculture and into industry, a people make possible greater specialization in production and begin to learn how to manufacture goods for which they can earn higher profit margins than they can for agricultural commodities. The shift to cities requires more elaborate networks of connections extending not only from farm to mill to market, but from steel town to rubber town to manufacturing center.
The movement of the American people from farm to city thus entailed the extension of American influence throughout the continent, as railroads and telegraphs made the riches of the interior available to the manufacturing centers on the coasts. While the balance of the population shifted to cities and went to work on the assembly lines of factories, a smaller but still significant share of the populace moved into the remoter parts of the nation’s territory. As the population concentrated itself in cities, its frontier outposts grew more numerous and farther-flung.

The mobility of the American people thus meant not only a shift to cities, but also the extension west and south of the urban economy. Movement west meant wars with the indigenous peoples of the continent, and it meant the reshaping of American politics to admit the peculiar interests of those underpopulated western states. Extension of the modern American economy to the South also meant the end of the South’s traditional isolation from urban life and culture. All these shifts and changes provoked profound political and cultural changes in the American people. As they became a more urban nation, they began to think of themselves in new ways.

In the summer of 1893 the historian Frederick Jackson Turner seized on a landmark pronouncement by the US Census to mark an epoch in US history:

In a recent bulletin of the Superintendent of the Census for 1890 appear these significant words: “Up to and including 1880 the country had a frontier of settlement, but at present the unsettled area has been so broken into by isolated bodies of settlement that there can hardly be said to be a frontier line. In the discussion of its extent, its westward movement, etc., it can not, therefore, any longer have a place in the census reports.” This brief official statement marks the closing of a great historical movement. Up to our own day American history has been in a large degree the history of the colonization of the Great West. The existence of an area of free land, its continuous recession, and the advance of American settlement westward, explain American development. (Turner 1920: 1)

In 1910 Turner elaborated on this theme: “A new national development is before us, without the former safety valve of abundant resources open to him who would take. Classes are becoming alarmingly distinct . . .” (Turner 1920: 280). His pronouncements captured the imaginations of many Americans seeking for an explanation of why their country plunged repeatedly into depression, why so many Americans found themselves out of work through no evident fault of their own, why the ladder upward from wage-work to self-employment seemed to have gone, and why working Americans now joined unions and struck against the national welfare. They had used up all the free land, and with it went the outlet for discontented labor radicals, who had no choice but to congregate in cities and clamor for expropriation of the comfortable classes’ wealth. By 1920, Turner’s story seemed to have reached a logical peak, as a year of strikes and police raids culminated in the Census’s dry confirmation that half the American population now lived in officially urban areas (Haines 2006).

These two census bookends, 1890 and 1920, offer a useful cartoon sketch of American urbanization at the start of the twentieth century, and Turner’s gloss on
these occurrences gives us an excellent starting point for what such changes might have meant for the United States. But they provide only a starting point, and stopping with them often occasions erroneous conclusions constituting what we might call the nationalist fallacy, which has two components. First, it incorrectly creates the picture of a uniform country. Not only was the United States a large and diverse republic at the turn of the century, and unevenly economically developed, but it had then as it has now a highly federalized system of government, with a considerable degree of local control over policy. Second, it omits mention of the international influence on American affairs, which was particularly significant in the decades before World War I.

The end of the frontier and the move to cities did not mean the end of Americans’ mobility, but it meant that the pattern of their movement followed a different course than the one Turner outlined, and became discernibly part of an international movement of peoples. Turner thought the move to cities would mean an end of the United States’s peculiar character as a frontier nation, believing that as Americans crowded into cities they would become more and more like the European peoples from whom they had seceded, miserable in their proximity and riven by class. But as the social scientist Charles Beard wrote in 1912, a close observer might have reason to believe that even as Americans became a city people they would become a city people quite unlike any other: “In addition to the unhappy working and living conditions which characterize modern urban centers generally, the American city has special problems of its own on account of the large percentage of foreigners embraced in its population . . . Our larger cities are in fact foreign colonies” (Beard 1912: 22–4).

In the first decade of the twentieth century, annual net immigration to the United States increased dramatically from about 288,000 in 1901 to about 818,000 in 1910 (Carter, Gartner, Haines, Olmstead, Sutch, and Wright 2006: series Aa13). Foreign immigration accounted for as much as half the population growth in the US during this period (Barde, Carter, and Sutch, 2006).

While it is certainly possible to overstate the importance of immigration to US history, it is not possible to overstate it by much, especially for the early twentieth century. On the one hand, the US was only one among a set of New World nations that received immigrants in the late nineteenth and early twentieth centuries, when tens of millions of Europeans sought work and residence overseas. If the US was a nation of immigrants, so were Canada, Argentina, Brazil, Australia, and others. And because those nations had smaller populations than the US did, foreign-born people accounted for a much larger share of their population. For example, in 1911 immigrant arrivals in Canada amounted to about 5 percent of the total population, while in the US at about the same time, they accounted for only 1 percent of the total population, so we might want to say that immigrants had five times the impact in the further north of North America than they did in the United States (Mitchell 2003: series A8 and A1). And if both countries had completely integrated national labor markets, then this might be true strictly as an assessment of the economic impact of additional labor.
But to suggest as much entails two errors. The first is another application of the nationalist fallacy to the United States. Immigrants did not arrive in America evenly dispersed over the landscape; if they had, they might indeed have assimilated, little noticed, into the population. Rather, they landed in a few select locations and often stayed there. The federal character of American politics then translated this uneven local impact of immigration into national conflicts over policy. The second is a sin specific to social science: the idea that an immigrant is only one unit of a quantifiable mass— which might be so if all foreign migrants came from some single source country named, perhaps, Foreignia. But immigrants came potentially from a wide variety of places, spoke a wide variety of languages, and worshiped a wide variety of gods—if, that is, we are speaking of immigrants to the United States: the US received not only more, but more kinds of immigrants than other New World nations in the age of mass migration. Immigrants from Britain and Ireland accounted for the largest share of the sojourners streaming to Canada and Australia, immigrants from Spain dominated the migration to Argentina and those from Portugal the newcomers to Brazil, but immigrants to the United States came from all over, and no single country of origin dominated.

Immigrants to the United States made up a diverse population before they even began to mix with the already resident Americans. In the playwright Israel Zangwill’s rather unflattering language, they constituted “a hodge-podge of simultaneous hordes” (cited in Rauchway 2006: 67). The numerous nationalities encouraged some enthusiastic observers to invent American multiculturalism: as Randolph Bourne wrote, “We have needed the new peoples—the order of the German and the Scandinavian, the turbulence of the Slav and Hun—to save us from our own stagnation” (cited in Rauchway 2006: 67). But to more Americans, the many kinds of immigrants mattered for their economic impact (see Rauchway 2006: 65–9 for further discussion).

Inasmuch as immigration increased the labor supply, it threatened workers with competition, and so one would expect employers to favor immigration more than employees would. The added element of cultural difference gave employers an increased incentive to employ immigrants: a shop foreman could prevent unionization by deliberately hiring a workforce drawn from not only different but traditionally antagonistic populations: Catholics and Protestants, Japanese and Chinese, Germans and Poles, Irish and English, and so forth; the world’s bitter history presented many possibilities. Members of a multicultural workforce looked less likely to talk to one another, let alone organize and unite behind common interests. At the time and ever since, many observers have essentially agreed with Karl Marx’s coauthor Friedrich Engels, who wrote that American laborers divided into “the native-born and the foreigners, and the latter into (1) the Irish, (2) the Germans, (3) the many small groups, each of which understands only itself; the Czechs, Poles, Italians, Scandinavians, etc. And then the Negroes . . . The dissimilar elements of the working class fall apart” (cited in Rauchway 2006: 66).

Labor activists opposed immigration for just these reasons. As the sometime political candidate and theorist Henry George wrote, the new immigrants, “believed to be
imported, or at least induced to come, for the express purpose of reducing wages and making employers independent of their men . . . have naturally been regarded with dislike and dread” (cited in Rauchway 2006: 69).

Amid this dislike and dread, some Americans simply moved. One study finds that for every 10 immigrants that arrived in an American city, four residents left to find a home somewhere else in the country (Hatton and Williamson 1998: 168; see also Eldridge and Thomas 1964: 71–5 and Goodrich et al. 1936: 679–85.) But this migration worked differently from Turner's safety valve: where his idea of the western movement had discontented American factory workers moving west to settle on the free land and find release from modern conditions, the migration of the early twentieth century saw discontented American factory workers moving from eastern industrial employment to western industrial employment, finding perhaps higher wages, but no relief from industrial conditions or indeed from foreign competition for their jobs: some western factory towns had proportions of immigrant labor as high as or higher than eastern cities (Overton 1946).

Other Americans, and increasingly union leaders, began to oppose immigration. A member of the Machinists' Union said in 1902, “every thinking man in the ranks of organized labor is wondering how long the United States can supply work to the illiterate hordes of Eastern Europe if they continue to come in unchecked.” The President of the United Mine Workers supported immigration restriction in 1909 by arguing, “the first duty of a community is to give its own members the opportunity of being employed at decent wages.” Samuel Gompers, President of the American Federation of Labor, wrote in 1911 that immigration should slow because it was “to a very large extent induced, stimulated artificial immigration . . . for the exploitation of the ignorant classes” (Lane 1984: 7, 10).

While an influx of immigrants competing for workingmen's wages generally increased support for restriction of immigration, it had other effects too. On average, and allowing for the influence of other factors, American cities with rising numbers of immigrants began spending more of their tax dollars on public health. Explanations for this increase abounded at the time. Some observers, like Jane Addams, attributed a general increase of interest in social problems to the concerns of immigrant communities who themselves had to endure such problems. Others attributed it to the xenophobia of native-born Americans convinced that swarthier populations must carry disease. Irrespective of the cause, the development of even a modest, local program of social spending gave taxpaying Americans an increased worry that immigrants might come to the United States to drain the public purse.

With middle-class Americans worried that immigrants might cost them tax dollars, and working-class Americans worried that foreign competition might do them out of a job, or at least lower their wages, and with all Americans' susceptibility to xenophobic appeals accentuated in 1917 by the imminence of war, Congress passed – over President Woodrow Wilson’s veto – an immigration restriction bill that forbade immigrants who could not pass a literacy test, along with those previously blocked (as most Chinese and Japanese immigrants were) and migrants coming from a newly
defined Asiatic barred zone. In 1921, amid a postwar depression, Congress followed with an Emergency Immigration Act establishing quotas for immigrants of various nationalities, and in 1924 with the National Origins, or Johnson–Reed, Act. These laws dramatically reduced immigration to the United States, and other New World nations followed suit, breaking up what had been something like a global market for labor and insulating American workers from some foreign competition.

If, rather than staying in cities and opposing immigration, American workers had wanted to move to the countryside, they would have found it increasingly difficult up to World War I. Over the decade after 1900 the price of farmland rose 6 percent a year on average, its speediest rise in American history to date (Lindert 1988: 54). Rates of farm tenancy increased, as it became more difficult to buy a farm outright (Wright 1988). Only after the war did the price of farmland begin to fall, as the introduction of tractors reshaped American agriculture and increased the flow of Americans to cities.

With the introduction of tractors, American farming changed dramatically. The amount of farmland devoted to the feeding of horses and mules, the draft animals who provided the principal, nonhuman, premechanical source of horsepower in the fields, peaked in 1915. Tractors put animals out of jobs, and men too, as machines replaced hands in the harvesting of crops. As farmers needed fewer draft animals, they needed fewer acres devoted to feeding their livestock, and so more land became available for feeding people. Farms grew fewer, while those that remained grew larger (Olmstead and Rhode 2001).

The American shift to urban life entailed a shift not only in the way Americans lived and worked but in the way many Americans envisioned themselves. It became less possible, as Turner worried, for Americans to imagine themselves as a hardy people dependent only on their own resources. As they took jobs in factories and worked at the whim of managers, as they lived in rented apartments, as they bought food that once they would have prepared for themselves, they depended more on one another. The American cities, affected as they were by global migrations of people, also gave evidence that the US depended on other nations.

Americans continued to move to their cities, even as they resisted the implications of their new lives. Through their Congressmen, they opposed immigration, and eventually succeeded in restricting it. As the cities continued to grow, the US Congress dragged its feet in letting this economic and cultural shift affect American politics: after the 1920 Census showed more Americans in cities than not, the legislators failed in their constitutional duty to reapportion the House of Representatives. As one scholarly observer noted:

The House is still organized according to the census of 1910, so that the recent great shifts of population, notably to California and the centers of the automobile industry, remain disregarded in Congress, and in the Electoral College as well. In many states the situation resulting from neglect or unfair discrimination in the demarcation of legislative districts is perhaps even worse. (Chafee 1929: 1015–16)
The popular press gave such concerns blunter expression, as when the American Mercury ran an article complaining of “Government by Yokel” (Chafee 1929: 1016, n. 3). Modernizing countries generally retain nostalgia for their lost rural past. But the United States had structural institutions like the Senate (which apportions two Senators to each state, however underpopulated) and incidents like the failure to reapportion after 1920 that ensured a more profound lag in letting the shift toward city life affect national economic policy.

The Prosperity Decade

Over the course of the 1920s American motor vehicle bureaus showed an increase of automobile registrations from an average of one for every three households to one per household. By 1929 the 123 million Americans owned 23 million cars, which meant that, at a tight fit, the whole country could go on the road at once.

The growth of the automobile industry signified an increase of factory production, which meant an increasingly urban laboring class; it drew on glass, iron, steel, rubber, timber, and other industries. It drove the construction of roads and roadside attractions. It also indicated the increasing importance of consumer debt. Henry Ford’s motor company made it possible for more Americans to own cars, by building the standard Model T and reducing its price constantly, and were Ford’s the whole story of the car industry, credit would scarcely enter it. But General Motors (GM) changed the car market by introducing planned obsolescence, with regular new models, and began extending credit through its General Motors Assurance Corporation (GMAC).

With new car models and with other durable goods, like radios, boilers, and domestic appliances, advertising helped Americans learn how much they needed color and color style: “every free-born American has a right to name his own necessities,” the industry journal Advertising and Selling proclaimed (Marchand 1985: 160). Consumer debt doubled over the course of the decade (Carter et al. 2006: series Cj889 and Ca10).

Global credit, too, had extended as a result of the war, and the United States was at the center of the world network of debt. Belligerent nations borrowed money from the US to wage war. Unlike the money Americans had borrowed from Europe in the nineteenth century, wartime borrowing went to destructive purposes. Through the 1920s the crippled countries struggled to recover from the damage they had inflicted on each other, and to pay back their debts. Continued American lending kept them afloat for much of the decade.

Both at home and abroad, the smooth continuation of economic affairs depended on this new tendency to borrow. If money significantly slowed its flow overseas before other countries had recovered from their injuries, an international crisis might ensue, as nations failed to repay debts. If American consumers significantly slowed their borrowing, a domestic crisis might ensue, as manufacturing firms depending on consumer credit to fuel their output slowed or even stopped. In the event, both crises occurred in relatively quick succession.
Not until the end of the decade did Americans begin to worry much about such possibilities. For much of the 1920s, policy affecting economic affairs looked like nineteenth-century law. Republican administrations raised tariffs in 1921, 1922, and 1930, helping to reduce international trade. They restricted immigration in 1921 and 1924, introducing quotas that cut immigration to the United States in half. Both laws inspired other countries to restrict trade and immigration in turn. The world economy gradually slowed, and as the barriers to the movement of goods and labor went up, economies lost their ability to adjust to crises.

Meanwhile, the New York stock market went up and up, driven evidently by still more borrowing. Americans of the era distinguished between investment and speculation, believing that investment reflected careful study and a long-term commitment to business prospects, while speculation reflected judgment about other people’s investment decisions. And speculation looked like it was on the increase. Not only were Americans speculating more in the stock market, they were taking increasing risks by borrowing money from their brokers to do it. At last the Federal Reserve System decided it could countenance such frivolous use of its credit no longer. Noting in 1928 “an unprecedented volume of transactions on the exchange and a continued rise in security prices,” while “brokers’ loans reached a record figure . . . and continued to increase,” the Federal Reserve began “withdrawing funds from the money market” and making it more expensive to borrow money (Federal Reserve Bulletin, cited in Rauchway 2008: 17).

With higher interest rates in the United States, New York’s foreign capital issues halved after 1928. And countries that depended on money from America slid into default: Germany, Argentina, Brazil, Australia, Canada, and Poland all began to falter (Eichengreen 1992: 223). In 1929, the New York stock market crashed. American consumers, uncertain about what might happen next, paused in their buying and their borrowing to buy. Within a few months of the crash, new car registrations fell by a quarter of their precrash number. In the next year, spending on consumer durables fell by a fifth. Banks failed, factories closed, and unemployment began a sickening climb to its peak, in 1932, at slightly under 25 percent of the American workforce.

Americans had a folk tradition of returning to the countryside when the cities entered a slump, and in 1932 and 1933, the share of Americans living on farms rose – the only time in the first half of the twentieth century it would do so (Carter et al. 2006: series Da2). Even so, the American economy had become an urban economy, and with the coalition of voters behind Franklin D. Roosevelt’s victory in 1932, its politics would become more urban too.

The New Deal

When Roosevelt accepted the Democratic nomination for President in the summer of 1932, he pledged himself to “a new deal for the American people.” In that speech he promised public works, working-hours legislation, reforestation, agricultural price
supports, mortgage support for home-buyers, publicity in corporate accounting and securities issuing, and the restoration of international trade. All these measures responded to the current crisis, but all had also long been demands of various constituencies styling themselves populist or progressive, and all derived from the recognition that Americans had become at last a people who could not do without their cities, and must begin to think of themselves accordingly. As Roosevelt put it, “this nation is not merely a nation of independence, but it is if we are to survive, bound to be a nation of interdependence, town and city, and North and South, East and West” (New York Times, July 3, 1932: 8). Drawing on this understanding, Congress implemented all these requests and more, adding in Roosevelt’s first term alone watershed management, legalization of labor unions, federal deposit insurance, and a strengthened Federal Reserve System.

At Roosevelt’s election, unemployment stood at near 25 percent, and real GDP at under three-quarters of its 1929 level. Over the course of the New Deal, GDP grew between 8 and 11 percent a year, and unemployment fell to around 10 percent. Roosevelt’s first two terms in office thus present the picture of an economy recovering from the disaster of 1929–32, without fully returning to normal. On balance, the New Deal did not prevent this process of recovery, and some of Roosevelt’s policies – particularly, perhaps, reflation of the currency, and relief programs like the Works Progress Administration (WPA) – provided some employment and dignity to American citizens as well as stimulus to the economy. At the same time, some New Deal programs may have slowed the recovery – particularly, perhaps, the National Recovery Administration (NRA), which allowed industry cartels to fix prices. But NRA ran for less than two years before the Supreme Court invalidated it early in 1935, while the meliorative effects of relief and currency devaluation operated into the start of World War II.

The most important and lasting changes the New Deal wrought in the US economy had little to do with resolving the immediate crisis, instead seeking to change the way the American marketplace worked. By giving groups, regions, or individual persons within the American economy more autonomy in negotiating, the New Deal sought to create what the economist John Kenneth Galbraith (1952) called “counter-vailing power,” on the assumption that through the nineteenth and into the twentieth century, the federal government had used laws such as tariffs to increase the power of corporations. As Senator Lewis Schwellenbach (Democrat of Washington) explained, Turner’s independent frontiersman was a myth:

Don’t let anyone tell you that government bounties were not being given in those days. . . . The railroads got their sections of land in each township. . . . Vast tracts of timber lands were available for . . . the timber operators. . . . A protective tariff system was maintained by which hidden taxes were removed from the pockets of everyone who labored in industry and agriculture. . . . There were [government] bounties galore. But the people who worked, and who bought and consumed our products never got in on them. (cited in Smith 2006: 120–1)
For example, the Wagner Act, or National Labor Relations Act of 1935, offered legal protections to labor unions so they could bargain more effectively with corporate managers on behalf of workers. The Tennessee Valley Authority (TVA) and Public Works Administration (PWA) began to modernize the economies of the South and West to afford them more independence from the Northeast. The Social Security Act of 1935 established basic protections of unemployment, old-age, and disability insurance to American workers (though it did not provide healthcare), thus rendering them somewhat less dependent on their employers. All these laws operated on the principle of countervailing power rather than direct state intervention to redistribute wealth, which served the purpose of keeping the federal government relatively small. As Senator Robert Wagner (Democrat of New York) explained, such measures provided “the only key to economic stability if we intend to rely upon democratic self-help by industry and labor instead of courting the pitfalls of an arbitrary or totalitarian state” (cited in Jacobs 2005: 145). The concept of countervailing power allowed New Dealers and scholars afterward credibly to claim they had preserved American capitalism. For all that the New Deal did, it left the essential marketplace functions of commerce largely intact.

The War and After

Mobilization for World War II brought the end of the New Deal but a massive increase of government spending. In 1943, unemployment fell below its 1929 level. By the end of the year, Congress had ended WPA and many other New Deal agencies. At the same time, it increased federal spending from 8 percent of GDP in 1938 to 40 percent in 1943. The remaining unemployment from the Great Depression vanished in the war.

Mobilization of industrial resources brought Americans flooding back into factory cities, to plants like Henry Ford’s Willow Run in Michigan, a mile-long assembly line that at its peak could produce a B-24 bomber in just over an hour from start to finish, or Henry Kaiser’s Richmond, California shipyards. Such facilities vacuumed up workers from the regions where they languished, and put them to work on the materiel of war. The munitions-makers included women as well as men; 40 percent of the welders at the Richmond Kaiser plant were women (Kennedy 1999: 647–55).

The rush of Americans to manufacturing plants during the war appeared to complete a process begun with the transformation of the countryside. Farming became ever more a government-assisted minority pursuit, rather than the ordinary way of life for most Americans. The war also allowed the federal government to attack racial segregation more directly than the New Deal ever had. Roosevelt’s Executive Order 8802, banning discrimination in federal employment, helped bring African Americans in large numbers out of the South to work in port and manufacturing cities for the war effort. At the same time defense contracting and manufacturing brought rapid
industrialization and modernization to the South and West, creating new industrial areas and new manufacturing specialties in the once backward or frontier regions (Schulman 1994).

The Postwar Settlements

The end of mobilization brought the fear that depression might return. Policymakers created postwar global institutions to manage international trade and finance at the 1944 Bretton Woods conference, spawning the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (better known as the World Bank). Both operated on the philosophy that an interdependent world economy, managed cooperatively through international institutions, would more easily create prosperity and peace (Borgwardt 2005).

The newly reindustrialized nation reached new accommodations between labor and management after the war. Strikes and postwar inflation created political opportunities for Republicans, who won a congressional majority in 1946 and passed the Taft–Hartley Act in 1947, allowing states to prohibit closed shops, among other limits on labor organization (Lichtenstein 1989).

With the labor movement curbed, the New Deal’s countervailing powers largely intact, a limited form of social insurance in place, and the war’s mobilization efforts over, the shape of America’s urban economy briefly settled – but not before the generous veterans’ benefits for home ownership as passed in the Servicemen’s Readjustment Act of 1944 (better known as the GI Bill) began to create a suburban America and a set of policies and attitudes meant to promote a consumers’ economy (Cohen 2003).

Note

1 Historians continue to debate whether Turner’s safety valve ever actually existed. See, e.g., Ferrie (1995), Goodrich and Davidson (1935, 1936).

References and Further Reading


An Economic History of the United States


