Henry Ford's Five-Day Week
April 29, 1922

In 1914, automobile manufacturer Henry Ford (1863-1947) made the stunning announcement that he was raising wages to five dollars a day (twice the standard industry rate) and implementing an 8-hour workday (10–16-hour workdays were the norm). The move made business sense, he argued. Higher wages would reduce worker turnover, attract better workers, and create new customers for consumer goods like cars. Reducing daily work hours would lessen fatigue-induced mistakes, thereby raising overall worker productivity. This drive for efficiency resulted in other Ford innovations such as assembly-line production, moving conveyor belts, and well-lit and ventilated factories. Ford also hoped that the overall popularity of these measures would allow him to continue running his factories unencumbered by either unions or minimum wage and maximum hour laws. In 1922, Ford announced a plan to introduce the five-day work week, which he implemented in 1926. In the excerpts below, newspaper editorialists debate the merits of Ford's 1922 proposal.

Source: "Henry Ford's Five-Day Week," *Literary Digest* (April 29, 1922), 8.
Available at https://babel.hathitrust.org/cgi/pt?id=mdp.39015028101460&view=1up&seq=388

WILL HENRY FORD'S FIVE-DAY WEEK, with the minimum basic day-wage of $6 unchanged benefit the Ford employee who has been working six days a week? True. he has an added day's leisure for rest and recreation, or for self-improvement, but he also loses at least half a day's pay. Will family and individual budgets have to be slashed because of the recent reduction in working days? These are some of the questions that occur to the Newark *News*, published in a manufacturing city. Ford announces that in order to provide employment for several thousand of Detroit's idle workers, and to afford workers already on the payroll more time to spend with their families the Ford Motor Company and its allied interests will adopt, as a settled policy, the 40-hour week, the workers now in the service to continue to receive a minimum wage of $6 per day and new employees $5 per day. Dispatches from Detroit note that a minimum of $5 per day was the wage-scale established in 1914 by Henry Ford, and that it was during the war period that this was raised to $6 to enable employees to meet higher living costs.

"The Ford plan is joyous news to all who like to think of bringing work down to the irreducible minimum," remarks the New York *Herald*; "later we shall have a thirty-hour week, then a twenty-hour week. Perfectly fascinating."

Approximately 55,000 men, according to Edsel Ford[1], will be affected by the new order, while some 5,000 additional employees already have been taken on. The management. we are told, believes that with more leisure the workers will be more contented and that there will be a corresponding increase in efficiency. Certainly, as the Boston *Financial News* predicts, "the working out of this latter innovation will be watched with considerable interest, if not concern, by all other employers of large numbers of workmen." A few editors recall the wide-spread scoffing, and the prediction that Ford would suffer financial collapse, upon his radical departure from common practice almost a decade ago. "Yet," observes the Louisville *Courier-Journal* "it was after he announced an astonishing and seemingly impractical wage-scale that he made his

[1] Edsel Ford (1893-1943) was Henry Ford's only child, who became president of Ford Motor Company in 1919.

greatest success." And, in the opinion of the New York *Herald*, Mr. Ford is just as canny now as he was in 1914. Says *The Herald*, in an editorial headed “Henry Ford's Stroke of Genius":

“Henry Ford's five-day week may be only another proof that his business genius blazes undimmed upon his own automobile industry, in which he is the world’s incomparable inventor, manufacturer, salesman and publicity agent.

“It can not be that Henry Ford has failed to discover, along with so many other employers, that the Saturday half-holiday wasn't any good as half a work-day, anyhow. The workers report, ready to quit before they begin, with their eyes on the clock and their minds on what they are going to do after their midday release. It can not be that Henry Ford has failed to consider that even he, like other employers, couldn't get half a day of work out of his men on Saturday for half a day of pay.

“It can not be that Henry Ford has failed to speculate on the very good chance that he, the man who is always speeding up production, can so speed it up further that he will get as many cars out of his 50,000 men working five days a week, with a correspondingly smaller pay-roll, as he before got out of them working five and one-half days a week.

“Other employers couldn’t do it with their clerks, and possibly the average labor, for while such workers can speed down on Saturday forenoons, with their eyes and brains full of the half-holiday ahead of them, there is no Henry Ford dynamics to speed them up the other days. Henry Ford can.”

Apparently organized labor is satisfied with the new arrangement, for Samuel Gompers, head of the American Federation of Labor, is quoted as saying that “Mr. Ford will find his new plan as beneficial as he found the introduction of the eight-hour day, both as to quality and quantity of output.” “Mr. Ford, in his recent announcement. shows that he fully understands the human element, or factor, in production," agrees Matthew Woll, one of the vice-presidents of the American Federation. And as we read in the *Pennsylvania Labor Herald*, of Allentown:

“In establishing the five-day work week plan in his Detroit factories, Henry Ford again shows that he intends to maintainthe most efficient shop force in the automobile industry. Instead of reducing working forces and disrupting his producing machine, Ford supplies his present needs by working his force five days per week and keeps his wages to the point where his employees can maintain a decent standard of living. This in turn keeps these men in a state of mind where the maximum production can be secured, and it is a question whether or not the production will not be increased per work-day, rather than decreased through the shorter week. Any manufacturer who treats his employees fairly will surely be well repaid, and Ford is entitled to anything he gets by trying to keep in mind that his employees are entitled to a decent living and that production in his plant will be maintained with that thought in mind.”

“It is true," admits the Boston *Christian Science Monitor*, “that Ford's plan means that the pay envelop of the present employees, who are on a $6-a-day basis, will be found to contain only $60 each bi-weekly pay day, but it is also true that by stabilizing conditions in the city as a whole the new plan is almost bound to react upon living conditions favorably. As this paper goes on to point out:

"The almost unmeasured benefits which this action promises in relieving the unemployment situation in Detroit will offset, at least to some degree, any loss that might be felt by individuals, and even tho the new rate does mean a slightly decreased hourly wage. it must be remembered that cuts in wages are being made all through the country, and that the generally improved living conditions are enabling a family to live comfortably to-day on considerably less than a year or so ago."

“As to the five-day program in the abstract, it is obvious that it is better to have six men employed five days a week than five men six days with the sixth out of Work all the time,” believes the Newark *News*. And, notes the Boston *Financial News*:

"The five-day week becomes all the more spectacular introduced, as it is, at a time when more work and longer hours, rather than less of either is being advocated by the world's leading economists and business men alike, not only as a panacea but as a requisite to the return of normal business and living costs. The contrast is specifically striking in the case of the textile industry, the operators of which assert that nothing short of more work at less pay will insure its survival. An added contrast may be found in certain phases of the steel and iron industry which apparently continues to require twelve-hour days and seven-day weeks.”

“A generation ago, when the eight-hour day or 48-hour week movement got under way," recalls the Cleveland *Plain Dealer*, published in a great industrial center, “there were numerous old fogies who predicted that the country would be ruined if the shorter week became general, but they have been proven false prophets." Moreover—

“If all the capitalists of the country followed the example of Henry Ford the 4,000,000 to 5,000,000 unemployed workers would be quickly absorbed, the work that is to be done would be spread over all industry, much human suffering and misery would disappear, and business would come back to ‘normalcy’ in short order.”

On the other hand, the Cleveland *Commercial* fears that the new Ford policy will create more unrest among the labor people of the country and cause them to ask for the same conditions. The *Huntington* (W. Va.) *Advertiser* also finds it “difficult to see that Ford's present employees will derive any benefit from the new arrangement.” As this paper sees it—

“They will receive wages for five days instead of six days. Their earning capacity has been reduced one-sixth. Doubtless most of them would consider one day out of seven sufficient for recreation and rest, and would prefer to work that sixth day instead of loafing and earning nothing.”

Everybody Ought to be Rich
John J. Raskob
August 1929

John J. Raskob's life (1879-1950) was a classic rags-to-riches tale. A self-made businessman and financier, who got his start selling candy on railway cars as a teenager, Raskob believed that credit and investment were the keys to economic growth. He convinced General Motors to offer installment plans to help consumers purchase automobiles and later used his own personal fortune to finance the construction of the Empire State Building in New York City. In 1929, Raskob began crafting plans to draw small, primarily working-class, investors into the stock market. In this Ladies' Home Journal article, Raskob claimed that purchasing shares in a well-managed investment trust offered all Americans a realistic way to accumulate wealth. This prophecy, made two months before the stock market crashed, proved spectacularly ill-timed.

Source: Samuel Crowther, " Everybody Ought to Be Rich: An Interview with John J. Raskob," *Ladies' Home Journal* (August 1929), 9; 36.
Available at https://archive.org/details/sim_ladies-home-journal_1929-08_46_8/page/n9/mode/2up

BEING rich is, of course, a comparative status. A man with a million dollars used to be considered rich, but so many people have at least that much in these days, or are earning incomes in excess of a normal return from a million dollars that a millionaire does not cause any comment.

Fixing a bulk line to define riches is a pointless performance. Let us rather say that a man is rich when he has an income from invested capital which is sufficient to support him and his family in a decent and comfortable manner—to give as much support, let us say as has ever been given by his earnings. That amount of prosperity ought to be attainable by anyone. A greater share will come to those who have greater ability.

It seems to me to be a primary duty for people to make it their business to understand how wealth is produced and not to take their ideas from writers and speakers who have the gift of words but not the gift of ordinary common sense. Wealth is not created in dens of iniquity, and it is much more to the point to understand what it is all about than to listen to the expounding of new systems which at the best can only make worse the faults of our present system.

It is quite true that wealth is not so evenly distributed as it ought to be and as it can be. And part of the reason for the unequal distribution is the lack of systematic investment and also the lack of even moderately sensible investment.

One class of investors saves money and puts it into savings banks or other mediums that pay only a fixed interest. Such funds are valuable, but they do not lead to wealth. A second class tries to get rich all at once, and buys any wildcat security that comes along with the promise of immense returns. A third class holds that the return from interest is not enough to justify but at the same time has too much sense to buy fake stocks - and so saves nothing at all. Yet all the while wealth has been here for the asking.

The common stocks of this country have in the past ten years increased enormously in value because the business of the country has increased. Ten thousand dollars invested ten years ago in the common stock of General Motors would now be worth more than a million and a half dollars. And General Motors is only one of many first-class industrial corporations.

It may be said that this is a phenomenal increase and that conditions are going to be different in the next ten years. That prophecy may be true, but it is not founded on experience. In my opinion the wealth of the country is bound to increase at a very rapid rate. The rapidity of the rate will be determined by the increase in consumption, and under wise investment plans the consumption will steadily increase.

We Have Scarcely Started

Now anyone may regret that he or she did not have ten thousand dollars ten years ago and did not put it into General Motors or some other good company—and sigh over a lost opportunity. Anyone who firmly believes that the opportunities are all closed and that from now on the country will get worse instead of better is welcome to the opinion -and to whatever increment it will bring. I think that we have scarcely started, and I have thought so for many years.

In conjunction with others I have been interested in creating and directing at least a dozen trusts for investment in equity securities. This plan of equity investments is no mere theory with me. The first of these trusts was started 1907 and the others in the years immediately following.[1] Under all of these the plan provided for the saving of fifteen dollars per month for investment in equity securities only.[2] There were no stocks bought on margin, no money borrowed, nor any stocks bought for a quick turn or resale.[3] All stocks with few exceptions have been bought and held as permanent investments. The fifteen dollars was saved every month and the dividends from the stocks purchased were kept in the trust and reinvested. Three of these trusts are now twenty years old. Fifteen dollars per month equals one hundred and eighty dollars a year. In twenty years, therefore, the total savings amounted to thirty-six hundred dollars. Each of these three trusts is now worth well in excess of eighty thousand dollars. Invested at 6 per cent interest, this eighty thousand dollars would give the trust beneficiary an annual income of four hundred dollars per month, which ordinarily would represent more than the earning power of the beneficiary, because had he been able to earn as much as four hundred dollars per month he could have saved more than fifteen dollars.

Suppose a man marries at the age of twenty-three and begins a regular saving of fifteen dollars a month—and almost anyone who is employed can do that if he tries. If he invests in good common stocks and allows the dividends and rights to accumulate, he will at the end of twenty years have at least eighty thousand dollars and an income from investments of around four hundred dollars a month. He will be rich. And because anyone can do that I am firm in my belief that anyone not only can be rich but ought to be rich.

The obstacles to being rich are two: The trouble of saving, and the trouble of finding a medium for investment.

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[1] A trust investment fund holds and manages assets on behalf of others, pooling money from investors to create a diversified portfolio of investments and distributing profits to them.

[2] Equity securities are stocks or bonds that represent shares, or ownership, in a corporation.

[3] Buying on margin refers to the prevalent practice in the 1920s of using short-term loans to purchase stocks, with the expectation of quickly reselling those stocks at a higher price to both cover the loans and make a profit. The resulting influx of money into the stock market over-inflated stock values, creating a bubble that burst in October, 1929.

If Tom is known to have two hundred dollars in the savings bank then everyone is out to get it for some absolutely necessary purpose. More than likely his wife's sister will eventually find the emergency to draw it forth. But if he does withstand all attacks, what good will the money do him? The interest he receives is so small that he has no incentive to save, and since the whole is under his jurisdiction he can depend only upon his own will to save. To save in any such fashion requires a stronger will than the normal.

If he thinks of investing in some stock he has nowhere to turn for advice. He is not big enough to get much attention from his banker, and he has not enough money to go to a broker—or at least he thinks that he has not.

Suppose he has a thousand dollars; the bank can only advise him to buy a bond, for the officer will not take the risk of advising a stock and probably has not the experience anyway to give such advice. Tom can get really adequate attention only from some man who has a worthless security to sell, for then all of Tom's money will be profit.

The plan that I have had in mind for several years grows out of the success of the plans that we have followed for the executives in the General Motors and the Du Pont companies. In 1923, in order to give the executives of General Motors a greater interest in their work, we organized the Managers Securities Company, made up of eighty senior and junior executives. This company bought General Motors common stock to the then market value of thirty-three million dollars. The executives paid five million dollars in cash and borrowed twenty-eight million dollars. The stockholders of the Managers Securities Company are not stockholders of General Motors. They own stock in a company which owns stock in General Motors, so that, as far as General Motors is concerned, the stock is voted as a block according to the instructions of the directors of the Managers Securities Company. This supplies an important interest which can exercise a large influence in shaping the policies of General Motors.

From $25,000 to a Million

The holdings of the members in the securities company are adjusted in cases of men leaving the employ of the company. The plan of the Managers Securities Company contemplates no dissolution of that company, so that its holdings of General Motors stock will always be en bloc. The plan has been enormously successful, and much of the success of the General Motors Corporation has been due to the executives' having full responsibility and receiving financial rewards commensurate with that responsibility.

The participation in the Managers Securities Company was arranged in accordance with the position and salary of the executive. Minimum participation required a cash payment of twenty-five thousand dollars when the Managers Securities Company was organized. That minimum participation is now worth more than one million dollars.

Recently I have been advocating the formation of an equity securities corporation; that is, a corporation that will invest in common stocks only under proper and careful supervision. This company will buy the common stocks of first-class industrial corporations and issue its own stock certificates against them. This stock will be offered from time to time at a price to correspond exactly with the value of the assets of the corporation and all profit will go to the stockholders. The directors will be men of outstanding character, reputation and integrity. At regular intervals—say quarterly— the whole financial record of the corporation will be published together with all of its holdings and the cost thereof. The corporation will be owned by the public and with every transaction public. I am not at all interested in a private investment trust. The company would not be permitted to borrow money or go into any debt.

In addition to this company, there should be organized a discount company on the same lines as the finance companies of the motor concerns to be used to sell stock of the investing corporation on the installment plan.[4] If Tom had two hundred dollars, this discount company would lend him three hundred dollars and thus enable him to buy five hundred dollars of the equity securities investment company stock, and Tom could arrange to pay off his loan just as he pays off his motor-car loan. When finished he would own outright five hundred dollars of equity stock. That would take his savings out of the free-will class and put them into the compulsory-payment class and his savings would no longer be fair game for relatives, for swindlers or for himself.

People pay for their motor car loans. They will also pay their loans contracted to secure their share in the nation's business. And in the kind of company suggested every increase in value and every right would go to the benefit of the stockholders and be reflected in the price and earning power of their stock. They would share absolutely in the nation's prosperity.

Constructive Saving

THE effect of all this would, to my mind, be very far-reaching. If Tom bought five hundred dollars' worth of stock he would be helping some manufacturer to buy a new lathe or a new machine of some kind, which would add to the wealth of the country, and Tom, by participating in the profits of this machine, would be in a position to buy more goods and cause a demand for more machines.[5] Prosperity is in the nature of an endless chain and we can break it only by our own refusal to see what it is.

Everyone ought to be rich, but it is out of the question to make people rich in spite of themselves.

The millennium is not at hand. One cannot have all play and no work. But it has been sufficiently demonstrated that many of the old and supposedly conservative maxims are as untrue as the radical notions. We can appraise things as they are.

Everyone by this time ought to know that nothing can be gained by stopping the progress of the world and dividing up everything—there would not be enough to divide, in the first place, and, in the second place, most of the world's wealth is not in such form it can be divided.

The socialistic theory of division is, however, no more irrational than some of the more hidebound theories of thrift or of getting rich by saving.

No one can become rich merely by saving. Putting aside a sum each week or month in a sock at no interest, or in a savings bank at ordinary interest, will not provide enough for old age unless life in the meantime be rigorously skimped down to the level of mere existence. And if everyone skimped in any such fashion then the country would be so poor that living at all would hardly be worth while.

Unless we have consumption we shall not have production. Production and consumption go together and a rigid national program of saving would, if carried beyond a point, make for general poverty, for there would be no consumption to call new wealth into being.

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[4] Installment plans proliferated in the 1920s, allowing consumers to purchase expensive items by making a small down payment, and then paying off the balance gradually with smaller, regularly scheduled payments.

[5] A lathe is a machine tool primarily used to cut or shape wood and metal.

Therefore, savings must be looked at not as a present deprivation in order to enjoy more in the future, but as a constructive method of increasing not only one's future but also one's present income.

Saving may be a virtue if undertaken as a kind of mental and moral discipline, but such a course of saving is not to be regarded as a financial plan. Constructive saving in order to increase one's income is a financial operation and to be governed by financial rules; disciplinary saving is another matter entirely. The two have been confused.

Most of the old precepts contrasting the immorality of speculation with the morality of sound investment have no basis in fact. They have just been so often repeated as true that they are taken as true. If one buys a debt—that is, takes a secured bond or mortgage at a fixed rate of interest—then that is supposed to be an investment. In the case of the debt, the principal sum as well as the interest is fixed and the investor cannot get more than he contracts for. The law guards against getting more and also it regulates the procedure by which the lender can take the property of the borrower in case of default. But the law cannot say that the property of the debtor will be worth the principal sum of the debt when it falls due; the creditor must take that chance.

The investor in a debt strictly limits his possible gain, but he does not limit his loss. He speculates in only one direction in so far as the actual return in dollars and cents is concerned. But in addition he speculates against the interest rate. If his security pays 4 per cent and money is worth 6 or 7 per cent then he is lending at less than the current rate; if money is worth 3 per cent, then he is lending at more than he could otherwise get.

The buyer of a common share in an enterprise limits neither his gains nor his losses. However, he excludes one element of speculation—the change in the value of money. For whatever earnings he gets will be in current money values. If he buys shares in a wholly new and untried enterprise, then his hazards are great, but if he buys into established enterprises, then he takes no more chance than does the investor who buys a debt.

It is difficult to see why a bond or mortgage should be considered as a more conservative investment than a good stock, for the only difference in practice is that the bond can never be worth more than its face value or return more than the interest, while a stock can be worth more than was paid for it and can return a limitless profit.[6]

One may lose on either a bond or a stock. If a company fails it will usually be reorganized and in that case the bonds will have to give way to new money and possibly they will be scaled down. The common stockholders may lose all, or again they may get another kind of stock which may or may not eventually have a value. In a failure, neither the bondholders nor the stockholders will find any great cause for happiness—but there are very few failures among the larger corporations.

Beneficial Borrowing

FIRST mortgage on improved real estate is supposedly a very safe investment, but the value of realty shifts quickly and even the most experienced investors in real-estate mortgages have to foreclose an appreciable percentage of their mortgages and buy in the properties to protect themselves. It may be years before the property can be sold again.

[6] A bond purchase is a form of loaning money to a company or the government for a set amount of interest. Investors become partial owners of a company through stock purchases, and a stock's value on the stock market determines whether an investor gains or loses money on the investment.

I would rather buy real estate than buy mortgages on it, for then I have the chance of gaining more than I paid. On a mortgage I cannot get back more than I lend, but I may get back less.

The line between investment and speculation is a very hazy one, and a definition is not to be found in the legal form of a security or in limiting the possible return on the money. The difference is rather in the approach.

Placing a bet is very different from placing one's money with a corporation which has thoroughly demonstrated that it can normally earn profits and has a reasonable expectation of earning greater profits. That may be called speculation, but it would be more accurate to think of the operation as going into business with men who have demonstrated that they know how to do business.

The old view of debt was quite as illogical as the old view of investment. It was beyond the conception of anyone that debt could be constructive. Every old saw about debt—and there must be a thousand of them—is bound up with borrowing instead of earning. We now know that borrowing may be a method of earning and beneficial to everyone concerned. Suppose a man needs a certain amount of money in order to buy a set of tools or anything else which will increase his income. He can take one of two courses. He can save the money and in the course of time buy his tools, or he can, if the proper facilities are provided, borrow the money at a reasonable rate of interest, buy the tools and immediately so increase his income that he can pay off his debt and own the tools within half the time that it would have taken him to save the money and pay cash. That loan enables him at once to create more wealth than before and consequently makes him a more valuable citizen. By increasing his power to produce he also increases his power to consume and therefore he increases the power of others to produce in order to fill his new needs and naturally increases their power to consume, and so on and on. By borrowing the money instead of saving it he increases his ability to save and steps up prosperity at once.

The Way to Wealth

THAT is exactly what the automobile has done to the prosperity of the country through the plan of installment payments. The installment plan of paying for automobiles, when it was first launched, ran counter to the old notions of debt. It was opposed by bankers, who saw in it only an incentive for extravagance. It was opposed by manufacturers because they thought people would be led to buy automobiles instead of their products.

The results have been exactly opposite to the prediction. The ability to buy automobiles on credit gave an immediate step-up to their purchase. Manufacturing them, servicing them, building roads for them to run on, and caring for the people who used the roads have brought into existence about ten billion dollars of new wealth each year—which is roughly about the value of the farm crops. The creation of this new wealth gave a large increase to consumption and has brought on our present very solid prosperity.

But without the facility for going into debt or the facility for the consumer's getting credit—call it what you will—this great addition to wealth might never have taken place and certainly not for many years to come. Debt may be a burden, but it is more likely to be an incentive.

The great wealth of this country has been gained by the forces of production and consumption pushing each other for supremacy. The personal fortunes of this country have been made not by saving but by producing.

Mere saving is closely akin to the socialist policy of dividing and likewise runs up against the same objection that there is not enough around to save. The savings that count cannot be static. They must be going into the production of wealth. They may go in as debt and the managers of the wealth-making enterprises take all the profit over and above the interest paid. That has been the course recommended for saving and for the reasons that have been set out—the fallacy of conservative investment which is not conservative at all.

The way to wealth is to get into the profit end of wealth production in this country.

The Great Depression as Historical Problem

Michael A. Bernstein

It is now well over a half-century since the Great Depression of the 1930s, the most severe and protracted economic crisis in American history. To this day, there exists no general agreement about its causes, although there tends to be some consensus regarding its consequences. Those who at the time argued that the depression was symptomatic of a profound weakness in the mechanisms of capitalism were only briefly heard. After World War II, their views appeared hysterical and exaggerated, as the industrialized nations sustained dramatic rates of growth and as the economics profession became increasingly preoccupied with the development of Keynesian theory. As a result, the economic slump of the interwar period came to be viewed as a policy problem rather than the outgrowth of fundamental tendencies of capitalism. The presumption was that the Great Depression could never be repeated owing to the increasing sophistication of economic analysis and policy formulation. Indeed, the belief became commonplace that the business cycle was "tamed" and "obsolete."

The erratic performance of the American economy during the 1970s and 1980s and more recent challenges associated with globalization have made this notion itself obsolete. Entirely new varieties of economic thinking have emerged, asserting that the government cannot alter levels of real output except under exceptional circumstances. Indeed, confidence in the "Keynesian Revolution" has been shaken, and a new "classicism" has come to prominence in economic thought.

In this climate of economic opinion, it is important to remember that the postwar optimism for Keynesian economics emerged at a time of dramatic reconstruction in the world economy and concomitant prosperity in the United States. Such hope had been absent in the decade of the Great Depression, and even during the war years there had been apprehension that a return to depression would come close on the heels of victory. But the high growth rates of the fifties and sixties obscured the prewar debates and dissolved for the moment any fears of a return to hard times.

Yet far from being resolved, the concerns and misgivings of the depression and war years simply faded from view. It has by now long been fashionable to claim that "Keynes is dead," and few economists choose to engage with the ideas of an older generation who struggled to understand devastating events at a time when orthodox theories and remedies no longer sufficed. Indeed, the vast majority of contemporary economists have grown decidedly hostile to arguments concerning the Great Depression that do not focus on the short run or on policy failure. In this respect, they have avoided the structural, institutional, and long-run perspectives more characteristic of the work of their forebears who sought to situate the Great Depression within a historical framework that spanned several decades or more. By so doing, they have lost an appreciation not simply of some possible causes of the Great Depression itself, but also of the subsequent development and performance of the American economy since mid-century. It is for this reason that I seek, through a reassessment of these older analytical approaches, to persuade you of the insight afforded by an understanding of "The Great Depression as Historical Problem."

Trends in the Literature

The older literature concerning the Great Depression in the United States may be broadly classified into three categories. One set argued that the severity and length of the downturn was the direct result of the collapse of financial markets that began in 1929. Such work emphasized the causes of the 1929 crash and those factors that amplified its impact. Another school of thought concluded that the economic calamity of the 1930s was the direct result of poorly formulated and politically distorted actions undertaken by the government. A third set of research took a broader

The challenge for those of us who teach about this profound economic crisis is to find substantive ways in which to link the economics of the interwar years with the personal and social experience of contemporaries.

perspective and attempted to analyze the depression in a long-run context. It suggested that whatever the origins of the slump, the reasons for its unparalleled length and severity predated and transcended the events of 1929.

The Stock Market Crash as Cause

All short-run analyses of the Great Depression shared a common attribute. They focused on the immediate causes and impacts of the New York Stock Market collapse of 1929, and they asserted that the resulting devaluation of wealth and disruption of the banking system explained the intensity of the crisis. The "business confidence" thesis was perhaps the best example of this school of thought. It held that regardless of the mechanisms that caused the collapse, the dramatic slide of the stock market created intensely pessimistic expectations in the business community. The shock to confidence was so severe and unexpected that a dramatic panic took hold, stifling investment and thereby a full recovery.

A more comprehensive formulation of the short-run argument directly confronted the question of why financial markets collapsed. Looking to the political and institutional distortions created by the Treaty of Versailles, some writers (such as Irving Fisher and Lionel Robbins) argued that the depression was the inevitable consequence of the chaotic and unstable credit structure of the twenties. The principal irritant consisted of a dangerous circle of obligations and risks, epitomized by the Dawes Plan of 1924, in which the United States lent funds to Great Britain, France, and Germany, at the same time the Allies depended on German reparations to liquidate their American debts. By 1928 American banks were already quite wary of the situation, but their predictable response, cutting back on loans to European governments, merely made the situation worse.

Moreover, the demise of the gold standard in international trade and demands that Germany make reparations payments in gold created a net gold flow into the United States that led to a veritable explosion of credit. Extremely unstable credit arrangements thereby emerged in the twenties, and once the crash came, the collapse of the banking system was quick to follow. Thus excessive credit and speculation, coupled with a weak banking network, caused the Great Depression.

Another version of the short-run approach concerned the immediate effects of the crash on consumer wealth and spending. The severity of the downturn, it was argued, resulted in a drastic devaluation of consumer wealth and a loss of confidence in credit. The resulting decreases in purchasing power left the economy saddled with excess capacity and inadequate demand.

None of these short-run arguments were completely convincing. Because the business confidence thesis was subjective, it was virtually impossible to evaluate in the light of historical evidence. There was also the objection that notions like these mistook effect for cause; the economic circumstances of the thirties may have *generated* pessimism and panic, rather than being *caused* by such feelings.

Later economists frequently rejected the excessive credit and speculation argument on the grounds that it abstracted too boldly from real rather than monetary events in the interwar economy. Indeed, business cycle indicators turned down before the stock market crashed. Indices of industrial production started to fall by the summer of 1929, and a softness in construction activity was apparent in 1928. Such critics as John Kenneth Galbraith held that "cause and effect run from the economy to the stock market, never the reverse. Had the economy been fundamentally sound in 1929 the effect of the great stock market crash might have been small . . . the shock to confidence and the loss of spending by those who were caught in the market might soon have worn off."

As for the wealth and spending hypothesis, the evidence did not provide compelling proof. The dramatic decline in consumption expenditures after 1929 may have been due to the stock market debacle; it may have arisen once expectations had been dampened by the events after 1929; or it may have been an outgrowth of a declining trend in construction activity and in farm incomes during the twenties. But even recent investigations have been incapable of unambiguously explaining a large portion of the decline in spending. We can speak of a drop, but we cannot say for sure why it happened.

Policy Errors as Cause

Another approach to understanding the Great Depression evaluated the extent to which the slump was the result of systematic policy errors. According to this school of thought, inadequate theory, misleading information, and political pressures distorted the policy-making process. Such investigators as Melvin Brockie, Kenneth Roose, and Sumner Slichter maintained that from 1932 onward the American economy showed great potential for recovery, only to be set back profoundly by the 1936 recession. They asserted that the New Deal's Industrial Codes raised labor costs and material input prices, thus negating whatever monetary stimulus existed. The rhetoric and ideology of the Roosevelt Administration may have further contributed to the downturn by jeopardizing the confidence of the business community. Not surprisingly, several investigators labeled the downturn of 1936-1937 the "Roosevelt Recession."

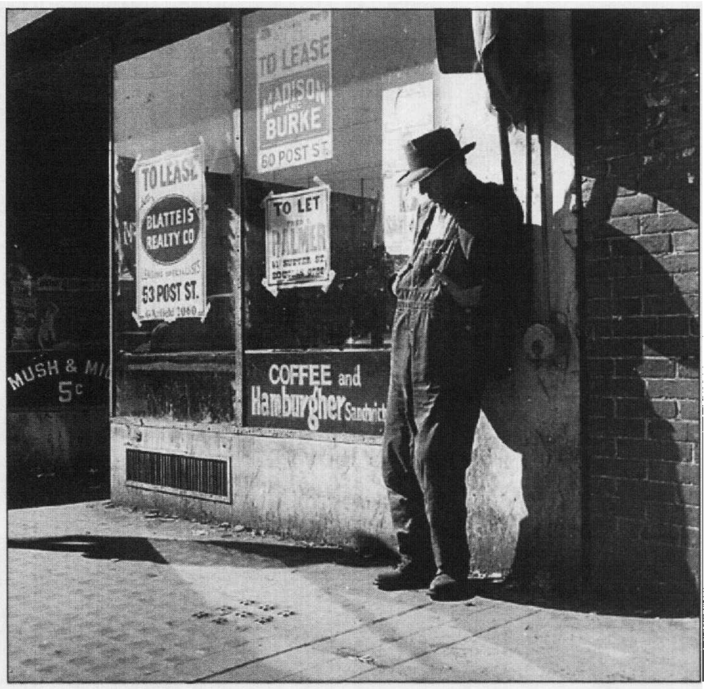
It was not solely criticisms of actual government policy in which these writers indulged to explain the depression's unusual severity. In some cases they also criticized the government for not doing enough. They maintained that the private sector moved too quickly in the mid 1930s in raising prices. As a result, by 1937 consumers increasingly resisted higher prices as they sought to liquidate the large debt incurred earlier in the decade and to maintain their savings in uncertain times. The average propensity to consume subsequently fell, and a recession took hold. Pro-competitive policies presumably were the solution, but government action (such as the creation of the Temporary National Economic Committee to Investigate the Concentration of Economic Power) was too little, too late, and was often inspired more by political than economic concerns.

The notion that the Great Depression was essentially an outgrowth of policy failures was problematic at best. To be sure, one could with the benefit of hindsight engage in some forceful criticism of economic policy during the 1930s. But it seems a futile exercise. After all, in many respects the Roosevelt Administration (especially the Board of Governors of the Federal Reserve System) did what many of its predecessors had done in the face of a cyclical downturn. One must ask, therefore, how government officials suddenly became so inept in the interwar period. Moreover, the question remains: why were traditional policies that had seemingly worked in the past and that represented a theoretical consensus among generations of economists suddenly so perverse in the 1930s? What had changed in the structure and operation of the national economy in the interwar period that made orthodox economic theory and policy inadequate?

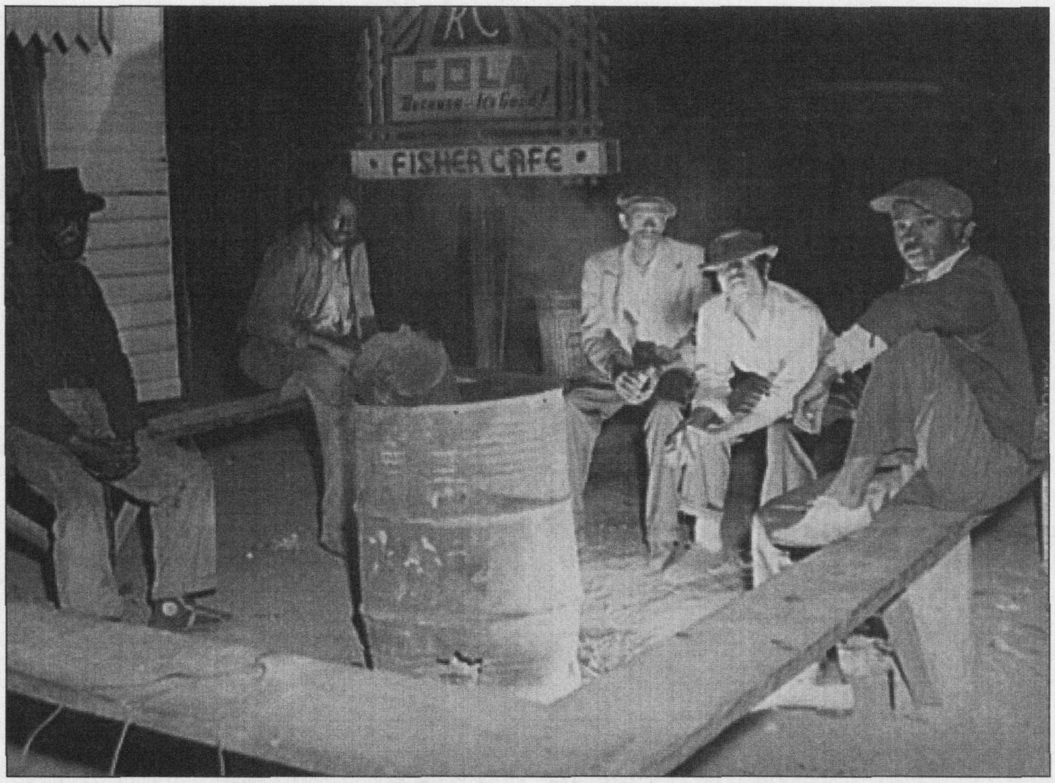
Long-Run Factors as Cause

The literature that focused on long-run factors in the American depression was distinctive in holding that the stock market crash of 1929 was less important than certain developments in the economy that had deleterious impacts throughout the interwar period. Some authors (for example, Seymour Harris and Paul Sweezy) argued that during the 1920s the distribution of national income became increasingly skewed, lowering the economy's overall propensity to consume. Others, such as Charles Kindleberger, W. Arthur Lewis, and Vladimir Timoshenko, focused on a shift in the terms of trade between primary products and manufactured goods, due to the uneven development of the agricultural and industrial nations. This change in the terms of trade, they argued, created a credit crisis in world markets during the bad crop yields of 1929 and 1930. At the same time that agricultural economies were losing revenue because of poor harvests and declining world demand, the developed economies were contracting credit for the developing nations and imposing massive trade restrictions such as America's Hawley-Smoot Tariff of 1930. As the agricultural nations went into a slump, the industrialized countries (most notably the United States) lost a major market for their output. Hence, the downturn of 1929 became more and more severe.

Industrial organization economists (Adolf Berle and Gardiner Means most prominent among them) sought an explanation of the depression in the trend toward imperfect competition in the American economy of the early twentieth century. After the crash of 1929, prices became increasingly inflexible, due to the concentrated structure of American industry and the impact of labor



An unemployed worker stands outside a vacant store, 1930s. Photograph by Dorothea Lange for the Farm Security Administration. (Courtesy of the Franklin D. Roosevelt Presidential Library.)



"Negro laborers sitting around in front of fire." Belle Glade, Florida, February 1941. Photograph by Marion Post Wolcott. (Courtesy of the Library of Congress, LC-USF34-057095-D.)

unions. On the one side, these "sticky prices" further limited the already constrained purchasing power of consumers. On the other, noncompetitive pricing predominated in the capital goods sector, meaning producers were less willing to buy new plants and equipment. Price inflexibility thus inhibited the recovery of both final product demand and investment demand.

There were several weaknesses in these theories. Those authors who focused on an increasingly unequal distribution of income did not marshal unambiguous evidence to make their case, nor did they specify precisely how such factors came to life in the interwar economy. While Berle and Means claimed to have demonstrated a relative price inflexibility in concentrated economic sectors during the 1930s, their critics were unconvinced. Given that the aggregate price level fell by one-third in the early thirties, they argued, how inflexible could the general price system have been? The "sticky prices" thesis also relied on an assumption of perfect competition in all markets other than those where the imperfections existed. If this assumption were relaxed, the thesis did not hold.

The terms of trade argument similarly had a major flaw. The major weaknesses in the American economy of the interwar period were domestic, and the collapse of demand on the part of agricultural nations was not highly relevant. During the 1920s, exports as a share of the nation's gross national product had annually averaged only a bit over 5 percent. A fall in export demand, then, could not have played a major role in worsening or prolonging the Great Depression.

Theories of Economic Stagnation

Continued research on the Great Depression necessarily relied upon the work of Joseph Schumpeter on cyclical processes in modern economies. Schumpeter held that the interwar period was an era in which three major cycles of economic activity in the United States (and Europe) coincidentally reached their nadir. These cycles were 1) the *Kondratieff*, a wave of fifty or more years associated with the introduction and dispersion of major inventions; 2) the *Juglar*, a wave of approximately ten years' duration that appeared to be linked with population movements; and 3) the *Kitchin*, a wave of about forty months' length that had the appearance of a typical inventory cycle.

Schumpeter's efforts were paralleled by those of Simon Kuznets and, more recently, Moses Abramovitz and Richard Easterlin. Kuznets was successful in documenting the existence of waves of some fifteen to twenty years in length. These periodic swings, according to Abramovitz, demonstrated that in the United States and other industrialized countries, "development during the nineteenth and early twentieth centuries took the form of a series of surges in the growth of output and in capital and labor resources followed by periods of retarded growth." Significantly, "each period of retardation in the rate of growth of output . . . culminated in a protracted depression or in a period of stagnation in which business cycle recoveries were disappointing, failing to lift the economy to a condition of full employment or doing so only transiently." The specific behavioral mechanisms that could account for the Kuznets phenomenon (and its precise manifestation in the United States in the 1930s) were necessarily the focus of continued debate. It is in this context that we can understand the large literature on "secular stagnation."

In general, stagnation theorists agreed that stagnation, or economic maturity, as it was sometimes called, involved a "decrease of the rate of growth of heavy industries and of building activity . . . [and] the slowing down of the rate of growth of the total quantity of production, of employment, and usually of population.

It [also involved] the rising relative importance of consumer goods." However, they differed in emphasis, falling into two broadly defined groups: those who focused on the decline of new technologies and those who were more concerned with the shrinkage of investment outlets as the rate of population growth fell. Followers of this second school held that as population growth fell off, and as major markets in housing, clothing, food, and services consequently contracted, outlets for new investment were quickly limited.

Both variants of stagnation theory had limitations. For one, arguments concerning economic maturity and population growth conflated population with effective demand. As one critic put it: "[i]t is sometimes maintained that the increase in population encourages investment because the entrepreneurs anticipate a broadening market. What is important, however, in this context is not the increase in population but in purchasing power. The increase in the number of paupers does not broaden the market."

Much like the population theory, the variant of stagnation theory that focused on the decline of technological change embodied many inconsistencies and questionable assertions. Proponents of this school claimed that the lower rate of technological innovation (said to be a primary cause of the economy's inability to recover from the depression) derived from the state of technological knowledge at the time, yet they offered little justification of this position. A further objection to the technology argument was apparent to some of the stagnation theorists themselves. Their work contained an implicit assumption that new innovations were always of the capital-using type, but if innovations were capital-saving, their argument foundered. Heavy investment (in railroads, motor cars, and housing, for example) during earlier stages of economic growth may have given way in later periods to newer forms of investment in managerial technique and information processing. These latter innovations may not have absorbed very large amounts of investment expenditure at all. While they may have improved the organization and efficiency of production, their impact on spending would not have been adequate to the task of systematic recovery.

The Work of Josef Steindl

It was the Austrian economist Josef Steindl who provided the most sophisticated version of the economy maturity idea. Not surprisingly, he did so in part by explicitly situating the Great Depression in the United States within a long-term development framework. His work linked economic stagnation directly with the behavior of capitalist enterprise, thereby avoiding the mechanistic qualities of many of the stagnation arguments as well as their frequent appeals to external factors. Steindl's version of the maturity thesis was that long-run tendencies toward capital concentration, inherent in capitalist development over time, led to a lethargic attitude toward competition and investment. Specifically, the emergence of concentrated markets prevented the utilization of excess capacity that is required for an economic revival.

Price inflexibility in concentrated industries is intensified during depressions, and this has an important impact on the response of firms to economic fluctuations. Firms' revenues tend to be so jeopardized in a slump that price reduction seems unfeasible. There may even be incentives to raise prices in order to compensate for the reduction in sales. For a given industry, therefore, the impact of a decline in the growth rate will depend on the extent to which the industry is concentrated. In a sector where the squeezing out of competitors is relatively easy, large declines in demand will result in the reduction of profit margins for each firm as prices are cut. By contrast, in a concentrated market, profit margins will tend to be inelastic in the face of lowered demand.

At the macroeconomic level the implications of inelastic profit margins are most profound. In these circumstances, price reductions do not compensate for declines in the rate of growth, and thus companies tend to reduce their rate of capacity utilization. Reductions in capacity utilization imply not only declines in national income but also increases in unemployment. In the presence of underutilized capacity, firms will be increasingly disinclined to undertake any net investment. A cumulative process is thereby established wherein a decline in the rate of growth, by generating reductions in the rate of capacity utilization, will lead to a further decline in the rate of expansion as net investment is reduced. Individual firms, by believing that decreases in their own investment will alleviate their own burden of excess capacity, merely intensify the problem economy-wide. The greater the proportion of the nation's industry that is highly concentrated, the greater the tendency for a cyclical downturn to develop into a progressive (and seemingly endless) decline.

A further consequence of the existence of highly concentrated sectors in the national economy is the impact it has on demand. The higher profit margins secured by large firms are indicative of an increasingly skewed distribution of output that, when combined with the reluctance of firms to invest (or otherwise spend) their revenues, generates a rising aggregate marginal propensity to save. Declining effective demand is combined with rising excess capacity when a slump occurs. The potential for recovery, barring the intervention of exogenous shocks, government spending, or the penetration of foreign markets, is therefore greatly lessened.

What is central to Steindl's thesis is the concept of long-term alterations in industrial structure that make the economy as a whole less capable both of recovering from cyclical instability and of generating continued growth. He assumed the emergence of oligopolistic market structure to be inherent in the process of capitalist development, because of capitalism's tendencies toward the development of large-scale manufacturing techniques and financial concentration. Economic maturity and the threat of stagnation result because the growing incidence of "[o]ligopoly brings about a maldistribution of funds by shifting profits to those industries which are reluctant to use them." In order to escape stagnation, capital must be redistributed either to more competitive sectors or new industries.

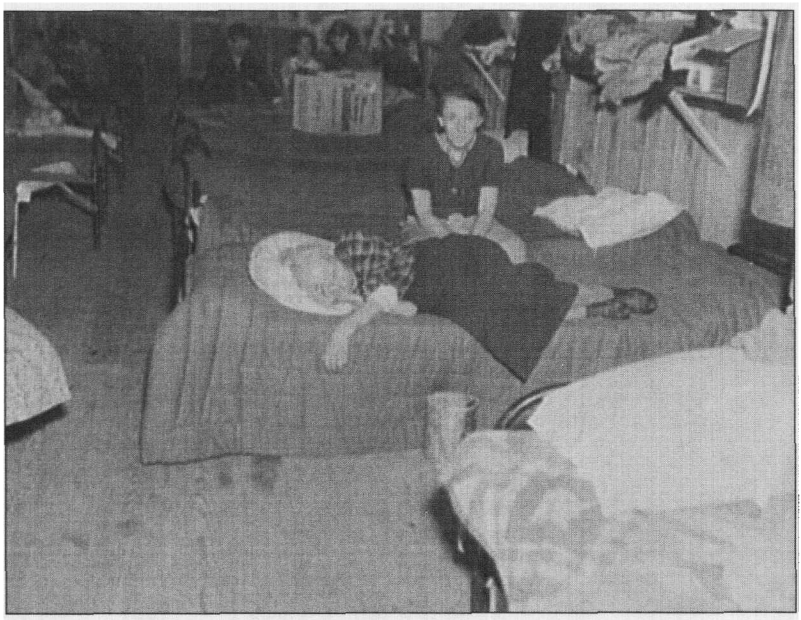
Indeed, during the Great Depression, some members of Roosevelt's "Brain Trust," such as Rexford Tugwell, argued forcefully for the imposition of an "undistributed profits tax" to prevent the accumulation of corporate surpluses. The incentive of the tax, it was claimed, would lead firms to issue more of their surpluses in the form of productive investment or dividends. As a result, the mobilization of capital resources would be more efficient and more likely to generate recovery. Embedded in the Revenue Act of 1936, the undistributed profits tax proved to be one of the most unpopular and controversial pieces of legislation to emerge from the New Deal, and it was repealed in 1938.

Interestingly enough, there exists no clear relationship between stagnation and concentration in American industry during the Great Depression. By applying a static conception of market structure, investigators have tended to focus on the number of firms in an industry as the primary determinant of a sector's competitiveness. Yet, as I discovered in my own research, some highly concentrated industries were relatively vibrant during the decade, while others appeared virtually moribund. Clearly, the evidence concerning market structure was a frail reed upon which Steindl based his theory. Whether a given industry is dynamic or not involves several issues unrelated to the number of firms or the extent of capital concentration issues having to do with the industry's position in the economy's input-output matrix, the durability of its output, and the relative maturity of the industry with respect to the shifting composition of the economy as a whole.

The weaknesses in Steindl's analysis do not, of course, obscure the importance of his contribution to an understanding of the Great Depression in particular, and of mature capitalist economies in general. That importance derives from the fact that Steindl attempted to situate the decade of the thirties within a larger historical framework. In this context, he could view the Great Depression as the outcome of an interaction between cyclical forces dating from 1929 and tendencies of long-run development spanning a half-century or more. In short, he was thus able to understand the Great Depression as a historical problem.

The U.S. Economy Since the Great Depression

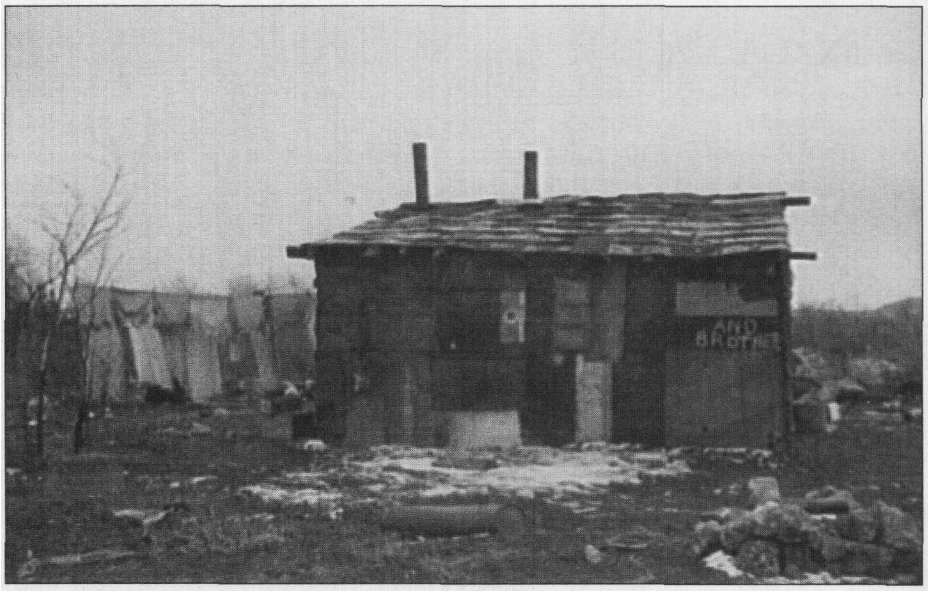
Steindl had, of course, focused his work on the interwar economic crisis of the 1930s. His central theses regarding maturity and stagnation in advanced capitalist economies seemed particularly compelling when viewed in terms of the long-run historical experience of the Great Depression. Yet both the postwar record, at least in the case of the United States, and some of the theoretical lacunae in his earlier claims, led Steindl to modify some of the arguments of his 1952 book. With the 1976 republication of his *Maturity and Stagnation in American Capitalism*, Steindl allowed that technical innovation, product development, public spending, and research and development initiatives might provide the means to escape from investment inertia. Even so, he was extremely concerned that most accumulation strategies in mature capitalist nations would focus on military-industrial activity and war itself. Using both public and private investment funds for other purposes, while obviously desirable, would be "exceedingly hard" given "the workings of political institutions."



"Flood refugees." Mayfield, Kentucky, February 1937. Photograph by Walker Evans. (Courtesy of the Library of Congress, LC-USF34-008217-D.)

The wisdom (not to mention the prescience) of Steindl's 1976 observations becomes apparent as soon as one surveys the more recent evolution of American capitalism. American accumulation in the latter half of the twentieth century, on the one side, confirmed many of Steindl's suppositions regarding expansion in advanced industrial states. On the other, it demonstrated both the unique and abiding flexibility of capitalism in the face of contradictory tendencies toward underutilization, and the importance of political and social forces often thought by economists to be superfluous. In all these respects, contemporary history reveals the conceptual power and importance of what Steindl had to say when he first examined the crisis of the1930s. But it also reminds us of the unyielding impacts of contingency and human agency in economic performance over time.

World War II achieved in the United States, of course, what the New Deal could not—economic recovery. With the start of war in Europe, the unemployment rate began to fall so that by the time of the Japanese naval offensive at Pearl Harbor, only 7 percent of the labor force remained idle. American entry into the war brought almost instantaneous resolution of the persistent economic difficulties of the interwar years. Between 1939 and1944 the national product, measured in current dollars, increased by almost 125 percent, ultimately rising to $212 billion by 1945.



"A shanty built of refuse." Herrin, Illinois, January 1939. Photograph by Arthur Rothstein. (Courtesy of the Library of Congress, LC-USF33-003000-M1.)

Yet as World War II came to a close many economists and businesspeople worried about the possibility of a drop in the level of prosperity and employment. But these apprehensions proved to be unwarranted. In the first year after the war, gross national product fell less than the postwar reduction in government spending; unemployment did not even reach 4 percent; consumer spending did not fall at all, and eventually rose dramatically. Although recessions occurred between 1945 and the mid 1970s, most of them lasted only about a year or less, and none of them remotely approached the severity of the Great Depression. During these three decades American output steadily increased with only minor setbacks. According to the Federal Reserve Board's index, manufacturing production doubled between 1945 and 1965, and tripled between 1945 and 1976.

Such robust economic performance is hardly surprising in wartime especially when conflict is global and, with few exceptions, kept outside of national boundaries. What is most striking about the American economic experience linked with World War II was the enduring growth and prosperity of the postwar years. Consumption and investment behavior played a major part in this great prosperity of the late forties and fifties. As soon as Germany and Japan surrendered, private and foreign investment in the United States rose quickly. On the domestic side, reconversion was itself an investment stimulus. Modernization and deferred replacement projects required substantial deployments of funds. Profound scarcities of consumer goods, the production of which had been long postponed by wartime mobilization, necessitated major retooling and expansion efforts. Even fear of high inflation brought on by the dismantling of wartime price and wage controls prompted many firms to move forward the date of ambitious and long-term investment projects. On the foreign side, both individuals and governments were eager to find a refuge for capital that had been in virtual hiding during the war. Along with a jump in domestic investment, therefore, a large capital inflow began in late 1945 and early 1946.

Domestic consumption was the second major component of postwar growth. Bridled demand and high household savings due to wartime shortages, rationing, and controls, coupled with the generous wages of the war economy, contributed to a dramatic growth in consumer spending at war's end. The jump in disposable income was bolstered by the rapid reduction in wartime surtaxes and excises. And the baby boom of the wartime generation expressed itself economically in high levels of demand for significant items like appliances, automobiles, and housing. G.I. Bill benefits additionally served to increase the demand for housing and such things as educational services, with associated impact on construction and other industrial sectors.

Foreign demand for American exports grew rapidly in the immediate postwar years. In part the needs of devastated areas could only be met by the one industrial base that had been nearly untouched by war-related destruction. Explicit policy commitments to the rebuilding of allied and occupied territories, such as the Marshall Plan in Europe, also served to increase the foreign market for the output of American industry.

American postwar prosperity and the benefits of world economic leadership continued throughout most of the 1950s. But the prosperity of the decade, while robust and impressive, nevertheless weakened by 1957. This set the stage for the arrival of a new brand of economics in Washington, explicitly (and self-consciously) imbued with the doctrines of Keynesianism.

From the "New Frontier" policies of John F. Kennedy, to the "Great Society" agenda of his successor Lyndon Johnson, through the declaration of a "New Federalism" by Richard Nixon, there ensued an era of sustained central government intervention in the nation's economic life. The goal of many (but not all) of the "new" economists of the early 1960s—achieving simultaneously acceptable levels of unemployment and inflation—has more recently shattered. But throughout the sixties and much of the seventies (and for some even during the eighties) the perceived obligation of government to secure overall economic instability was not seriously questioned and remained one of the more important changes of twentieth-century American economic history.

Historical specificity notwithstanding, American economic performance in the latter half of the twentieth century seems to have conformed in many respects with the general analytical propositions derived from interwar economics. The ability to forestall and/or overcome tendencies toward economic stagnation has depended upon a varied set of circumstances, both global and domestic. But a continuation of such a charmed existence is apparently no longer possible. Josef Steindl himself noted, in 1976, that "the cheerful extroverted era of [postwar] growth has apparently come to an end." And, in words that today seem as relevant as they did over twenty years ago, he noted that the reasons for this were "the reduction of tension between the superpowers . . . the increase in tension within the capitalist countries . . . and . . . the emergence of environment, raw material, and energy problems . . . ."

In the midst of a return to the unstable growth of earlier decades, an altogether reactionary (re)orientation of fiscal and monetary policy has occurred. A resurgence of general equilibrium approaches to cyclical phenomena has prompted the formupoignancy of this state of contemporary affairs are made strikingly clear when we reflect upon the Great Depression as a significant and coherent historical problem.

Note on this Issue: As this article amply demonstrates, consideration of the economic history of the Great Depression necessarily focuses on both quantitative and aggregate data that tend to obscure the human dimensions of the event. Indeed, the challenge for those of us who teach about this profound economic crisis is to find substantive ways in which to link the economics of the interwar years with the personal and social experience of its contemporaries. It is for this reason that the inspired work of the contributors to this special issue of the *OAH Magazine of History* should prove so useful to all of us in our work with students. In the pages that follow, readers will find visual and textual examination of the many ways in which Americans endured, understood, and ultimately overcame the burdens of the Great Depression. These articles and lesson plans will assist us all in our determination to convey to students the singular nature of the economic crisis of the interwar era and the remarkable accomplishments of the generation that lived through it.

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