Roaring 1920's and 2020

Similarity and Differences

The stage pre 1921

- End of WW1
- De-mobilization
- 1920-21 Recession
- Defeat of Wilson
- Harding and Coolidge Presidencies
- Mellon and Hoover in the Cabinet
- European troubles post Versailles

Republican agenda
(Harding, Coolidge, Mellon and Hoover boom)

- Cut taxes
- Small government
- Light regulation
- Pro business
- Control labor
- Protectionism and Immigration control
- Globalization of capital flows

Factors of production

- Cheap and abundant Land, Labor and Capital
  - Expansion of white-collar middle class
  - Female labor force participation
  - Opening up of the West and other new markets
  - Cross border flows of capital
- Technological change
  - Electricity, autos and white goods
  - Housing
  - Infrastructure
  - Suburbia, housing and appliances
- Time, leisure and discretionary expenditure
  - Jazz, whiskey and baseball, golf and boxing
  - Dance halls and Mah-Jong

Technology meets the Consumer

- Technology
  - Cars, trains and radio
  - Electricity and White goods
  - Consumerism, Processed foods
  - Oil, gasoline and heating oil
  - Hollywood and movies with sound
- Consumer demand
  - Employment and Income
  - Credit growth, Installment plans and mail order catalogues
  - Land sales and sale of off plan projects
  - Housing and suburbia developments
  - Highways and networks

Technology and S shaped adoption curves

- Car sales, 30mm on the road by the mid 1920’s
  - Penetration rate 20%
  - 40 mph in a closed cabin
- Florida and suburban sub development boom
- Home appliances
- Processed foods and time saving devices
- Sears Roebuck mail order catalogue listed autos and pre-fab houses
- RCA (radio) formed and the Movies
- Leisure and discretionary expenditure

Stock markets +6x (1921-1929)

- Dow Jones -30% between 1919-1921
- 10% dividend yield at the bottom of 1921
- IP-30% recession peak to trough in 1921
- Inflation and interest rates peak
- Money supply rises on the back of the Gold Standard mechanism
- Capital flows out of Europe
- Deflationary boom as supply expanded to meet demand and costs under control

Money, interest rates and prices

- Gold standard, Capital inflows and Cheap money
- Deflation and falling interest rates
- European outflows
- Non sterilized inflows and Easy money in the US
- Low leverage, rising real income and low interest rates
- Installment sales plans and consumer demand
- Speculative booms
- Stocks were late comers to the party (1924-29)
- GM, RCA, MGM
- NYSE seat prices from $75k to $600k

Inflation of the bubble

- Emergence from the darkness of the Recession and Wars and break out of Peace
- New Republican administration with right of center policies
- Technological changes serve up a positive supply shock
- Consumer demand explodes as adoption rates climb
- Starting valuations of assets are cheap
- Credit and money is cheap and plentiful
- Speculative gains are made by the early players
- Masses join in and participation of the public increases
- The growth era and the New-New World lasts a few years and is extrapolated far into the future
- Valuations shoot up setting up the critical initial conditions for a shock

What prima facie looks the same

1920-1929

- Cheap money and abundant capital
- Big sectors innovating and growing e.g consumer durables
- Selective deflation
- Emergence from a recession

2020-

- Ample liquidity and low rates
- Technology booming Cloud, AI, Health
- Deflationary forces at work
- Several shocks… some more severe

What is different

1920-1929

- Burst of innovation causing a supply shock driving prices down
- Low leverage barring the government
- Credit demand and supply booming
- High real growth
- Young dynamic population eager to borrow and spend
- Loads of room for financialization

2020-

- Corporate leverage is high
- Capital investment sacrificed to buybacks
- Ageing population
- Low demand for credit
- Low growth
- Private savings already low compared to needs
- High inequality limiting consumer demand growth
- Valuations are not cheap
- Financial assets are over-owned