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Don't Blame Hoover

Public opinion made him the villain of the Great Depression. In fact, the 31st president was a visionary -- but a hopelessly inept politician.

by David M. Kennedy

On the warm, early autumnal evening of September 26, 1929, a tweedy group of social scientists gathered at the White House for dinner with President Hoover, then six months into his presidency. The stock market crash, still four weeks away, was unimagined and almost unimaginable: three decades of barely punctuated economic growth had just been capped by seven years of unprecedented prosperity.



ON A ROLL: Like the country itself, Hoover seemed invincible in 1928. In Boston, cheering crowds welcome the "Great Engineer."

Attired as always in starched high collar and immaculate business suit, the president greeted his guests with stiff, double-breasted dignity. He exuded the laconic assurance of a highly successful executive. A wave of

popular acclamation had lifted him to the White House after a distinguished career as a mining engineer, international businessman, relief and food administrator in the Great War of 1914-1918, and exceptionally influential secretary of commerce in the administrations of Warren G. Harding and Calvin Coolidge.

Over the coffee cups as the table was being cleared, Hoover outlined an ambitious project. He meant to recruit the best brains in the country to compile a landmark study of American society. Their data and analysis -- more comprehensive than anything ever before attempted -- would be the basis for "large national policies looking to the next phase in the nation's development."

Hoover's hopes for an orderly command of the future were never fulfilled. The following month's upheavals in the financial markets heralded a crisis that shook the foundations of the American way of life. Hoover's research project was one casualty. Another was his reputation. By 1932, the most respected man in America had become the most loathed, his name forever synonymous with the Great Depression.

But history's indictment of Hoover is flawed. His failure in the face of the Depression has obscured his achievement as an activist president who pointed the way to the New Deal. Hoover was no mossback conservative in the Harding-Coolidge mold. Long sympathetic to the progressive wing of his party, he had supported labor, urged closer business-government cooperation, established government control over the new technology of radio, and proposed a multibillion-dollar federal public works fund to offset downswings in the business cycle.

As president, he was no passive custodian. His vigorous response to the stock market crash dazzled most commentators. "No one in his place could have done more," said the *New York Times* of March 2, 1930. A Roosevelt adviser conceded: "Practically the whole New Deal was extrapolated from programs that Hoover started... his policies were substantially correct."



Why, then, did he fail? Hoover's downfall was partly of his own making: the Great Engineer turned out to be a peculiarly artless politician. "He can face with equanimity almost any of the difficulties of statesmanship except the open conflict of wills," wrote Walter Lippmann. Yet Hoover's struggle against the Depression, like Roosevelt's after him, was

LOCAL HERO: Hoover, '95, accepts the GOP presidential nomination before a cheering crowd of 70,000 at Stanford Stadium on August 11, 1928. He and his running mate, Charles Curtis (to Hoover's right), easily defeated Al Smith and Joseph T. Robinson.

circumscribed by the institutional and intellectual limitations of the day. The federal government was a scanty, Jeffersonian structure with limited resources. Hoover would play no small part in its radical transformation.

To a degree uncommon among presidents, Hoover was a man of scholarly bent, even something of a political philosopher. Born in West Branch, Iowa, in 1874, he bore the imprint of his rural, Quaker origins all his life. He dressed plainly, spoke simply, faced the world with a serenely impassive demeanor and listened gravely to the voice of his conscience. The early loss of his parents and his upbringing among near-strangers forged the growing boy's natural aloofness into the mature man's glacial reserve.

After graduating with a degree in geology in Stanford's "pioneer class" of 1895, Hoover worked briefly as a day-laborer in the nearly spent Sierra mines. In 1897, Bewick, Moreing, a London-based mining concern, sent the intense young engineer to Australia to scout for gold. He soon found it and quickly thereafter helped develop more efficient extraction technologies. Bewick, Moreing made Hoover a partner in 1900, and for the next 14 years, he supervised operations in Australia, Asia, Africa and Latin America. In 1909, he published *Principles of Mining*, a manual that advocated collective bargaining, the 8-hour day and serious attention to mine safety. The book helped spread Hoover's reputation as an unusually progressive, enlightened businessman.

Having amassed some \$4 million at age 40, Hoover retired from active business in 1914. His Quaker conscience prodded him toward good works. So did his wife, Lou Henry Hoover, a fellow Stanford geology graduate he had married in 1899. She was a formidable woman who was his lifelong shield against the intrusive world, the organizer of punctiliously correct dinner parties at which Hoover took refuge behind a mask of decorum.

When the Great War broke out, Hoover volunteered to organize international relief efforts for Belgium, then suffering under German occupation. His success earned him a global reputation as a great humanitarian. He returned to the United States in 1917 to serve as food administrator in Woodrow Wilson's wartime government and accompanied Wilson to the Paris peace talks at war's end. As much as any one man could, he got the credit for reorganizing the war-shattered European economy. Progressives of both parties courted him after the war; but before long, he declared himself a Republican, campaigned for Warren G. Harding and was rewarded with an appointment as secretary

of commerce, a post he held for eight years.

"We were in a mood for magic," wrote Anne O'Hare McCormick in the *New York Times* of Hoover's inauguration on March 4, 1929. "We had summoned a great engineer to solve our problems for us: now we sat back comfortably and confidently to watch the problems being solved." The wait was not long, as Hoover promptly called Congress into special session to deal with the decadelong agricultural depression brought on by farmers' wartime debts and postwar commodity surpluses.

Hoover demanded the creation of a Federal Farm Board to oversee agricultural cooperatives and stabilization corporations. The cooperatives were to sustain orderly markets by promoting voluntary agreements among producers; the government-funded corporations would stand ready to buy unmanageable surpluses. Awed by Hoover's aura of command, Congress swiftly obliged, and on June 15, 1929, the president signed the Agricultural Marketing Act.

In just 60 days, the Great Engineer had wrung from Congress a bold remedy for the agricultural depression. The measure embodied the principle of government-stimulated voluntary cooperation that lay at the heart of Hoover's social thought, even while it provided for direct government intervention in the private economy if voluntarism proved inadequate.

Hoover gave voice to a concept of individualism that embraced regard for others and attachment to the community as a whole. In his lexicon, the word that captured its essence was service. Government might indeed step in where voluntarism had manifestly failed, but it was decidedly not the government's role to substitute coercive bureaucracy for voluntary cooperation. That way lay tyranny and the corruption of America's unique political soul.

Hoover had seen his vision work in practice. As food administrator during the war, he relied on massive educational and propaganda campaigns to spur production and limit domestic consumption. In the sharp recession of 1921, as secretary of commerce, he organized the unprecedented President's Conference on Unemployment to publicize the plight of the nation's nearly 5 million unemployed workers and goad management to take corrective measures. Two years later, Hoover shamed the steel industry into abandoning the man-killing 12-hour day, again without resorting to formal legislation. Throughout the 1920s, he had promoted trade associations with the purpose of stabilizing prices, protecting employment and rationalizing production in various industrial sectors, all through enlightened, voluntary cooperation among businessmen.

As president, Hoover's mastery of the legislative agenda was short-lived. He had shepherded an agricultural measure through Congress, but he proved far less able to control tariff legislation, and Congress proceeded to raise import duties to their highest level in American history. Economically, the 1930 Hawley-Smoot Tariff signaled the world that the United States, as the Depression lowered, was moving toward the same autarkic, beggar-thy-neighbor protectionist policies with which many other nations were also dangerously flirting. One thousand economists signed a petition urging him to veto the bill, but Hoover possessed neither the political power to stop the congressional steamroller nor the political will to veto the final legislation.

The implications of Hoover's failure on the tariff were only faintly visible in the first weeks of 1930. Most commentators were much more impressed by his vigorous response to the stock market crash of October 1929.

Orthodox economic theory held that business downturns were inevitable parts of the business cycle. Orthodox political theory prescribed that government should refrain from interfering in the natural course of recovery in the economic organism itself. Hoover would have none of it. He believed the federal government should use "all of its powers" to prevent bank panics and ease the plight of the unemployed and the farmers. Accordingly, over a two-week period in November 1929, he summoned banking, railroad, manufacturing and public utilities leaders to the White House.

On December 5, he announced the results of those meetings. The Federal Reserve System had eased credit to ensure the availability of investment capital for legitimate business needs. The industrialists had acceded to Hoover's request that "the first shock must fall on profits and not on wages." Holding the line on wages, according to Hoover, would both preserve the dignity and well-being of individual workers and arrest the downswing by bolstering consumption -- a point of economic theory later credited to the Keynesian revolution, but actually commonplace among economic analysts in the 1920s, and well understood by Hoover.

Then Hoover announced what was potentially the most important component of his anti-Depression program: stimulating construction work to revitalize the economy. Railway and public utilities executives had agreed to expand their building and maintenance programs, and Hoover had pressed governors and mayors to speed up public works projects.

It became fashionable in later years to dismiss these various measures as tragicomic evidence of Hoover's quaint, ideologically hide-bound belief

that responsibility for economic recovery lay with private business and state and local governments, and that the federal government had only a modest role to play in combating the Depression. That indictment has echoed for decades in the history books, where Hoover has been embalmed as a specimen of the "old order" of unbridled laissez-faire capitalism.

But the structure and size of the federal government in that era severely limited its financial prowess, whatever the ideology of its chief executive. The Federal Reserve Board, then as now, was independent of the executive branch. It could not be counted upon to help finance a large federal deficit even if the president requested one. Federal expenditures in 1929 accounted for only about 3 percent of GNP, compared with more than 20 percent in the 1990s. In the crucial area of construction work, the states dramatically outspent the federal government (\$2 billion vs. \$200 million), while private industry spent some \$9 billion on construction projects in 1929.

When Hoover determined that the federal government should use all of its powers, therefore, he was heralding a revolution in attitudes about the government's proper economic role. But he was not, by the very nature of things in the world of 1929, reaching for a truly powerful instrument.

Given the constraints under which he labored, Hoover made aggressive countercyclical use of fiscal policy. Measured against either past or future performance, his accomplishment was remarkable: he nearly doubled federal public works expenditures in three years.

By the spring of 1930, many Americans were cautiously optimistic. The stock market had by April recouped about one-fifth of its slippage from the speculative peak of the preceding autumn. Some rural banks had begun to crack, but the banking system as a whole had thus far displayed surprising resilience; deposits in operating Federal Reserve member banks actually increased through October of 1930. The still sketchy reports on unemployment were worrisome, but not unduly alarming. (Only in April 1930 did census-takers for the first time attempt a systematic measurement of unemployment.)

In reality, the economy was continuing its downward slide. By the end of 1930, business failures had reached a record level, and 600 banks closed their doors in the last 60 days of the year, bringing the annual total of bank closures to 1,352, twice the usual number. GNP had slumped 12.6 percent from its 1929 level. Despite public assurances, private business was in fact decreasing expenditures for construction. Later studies estimated that some 4 million laborers were unemployed in 1930.



SCAPEGOAT: In hesitating to approve unemployment relief payments, Hoover committed political suicide. By 1932, he had collected 20,000 cartoons of himself and kept them in a room he called his "chamber of horrors."

Yet most Americans evaluated what they could see against their most recent experience with an economic recession, in 1921. Then, GNP had plummeted almost 24 percent in a single year, twice the decline of 1930. Americans could justly feel that they were not -- yet -- passing through as severe a crisis as the one they had endured less than a decade earlier.

Until early 1931, midway through his presidency, Hoover had waged a vigorous offensive against the Depression. International events pushed him back onto the defensive. His overriding goals became damage control and even national economic self-preservation, as it became clear that the Depression was not just another cyclic valley, but an historic watershed. Hoover came to believe that the root cause of the Great Depression was the Great War.

The war of 1914-1918 had set the stage for disaster, weakening the European economy as a whole and paving the path for Adolf Hitler's rise to power.

Seeking to rob Hitler of his main electoral appeal by bolstering the German economy, German Chancellor Heinrich Brüning proposed in March 1931 a German customs union with Austria. The French government regarded the proposal as the Weimar Republic's first step toward annexation of Austria, which the Versailles Treaty explicitly prohibited. The prospect that France might begin pressuring Austrian banks, to frustrate Brüning's design, touched off a panic in Vienna. By May, the largest Austrian bank shut its doors. Panic swelled, and many German banks closed, followed by more closures in neighboring countries.

Underlying and complicating this alarming chain of events was the tangled issue of international war debts and reparations payments. The Germans

relied on private American bank loans to make reparations to the British and French, who in turn applied those sums to their own wartime debts to the U.S. Treasury. This surreal financial merry-go-round had been rudely shoved out of balance when the stock market crash dried up the well of American credit. In this sense, it could be argued that the American crash had helped to initiate the global Depression. But the shock of the crash fell on a global financial system already distorted and vulnerable because of the war.

The Allies had more than once offered to relax their demands on Germany, but only if their own obligations to the United States could be forgiven. American public opinion, however, regarded all efforts to scale back those intergovernmental debts as ploys to shift the burden of the war's cost from Europeans to Americans. Wall Street favored war-debt cancellation, not least because forgiving the governmental loans would render private loans more secure. On Main Street, especially in the post-crash atmosphere of 1929, this obvious willingness to sacrifice taxpayers' dollars to secure bankers' dollars was anathema.

To understand the depth of that sentiment is to appreciate the political courage of Hoover's proposal on June 20, 1931, that all nations observe a one-year moratorium on intergovernmental debts, reparations and relief debts. Though Congress eventually ratified this plan, Hoover was savagely attacked for bringing it forward. He followed it with a "standstill" agreement, whereby private banks also pledged not to present their German paper for payment. These were positive and forceful initiatives, but as Hoover later lamented, they provided "only a momentary breathing spell.... "

Most observers, including Hoover, regarded the British abandonment of the gold standard, on September 21, 1931, as an unmitigated catastrophe. Drained of gold by jumpy European creditors -- and politically unwilling to take the deflationary steps to bid gold back to English shores -- Britain defaulted on further gold payments to foreigners. More than two dozen other countries quickly followed suit. World commerce shivered to a stop.

The blow to American foreign trade was harmful, but hardly fatal. The United States simply did not depend on foreign trade to the degree that other nations did, as the high protective tariffs of 1922 and 1930 attested. But American banks held some \$1.5 billion in German and Austrian obligations, for the moment effectively worthless. Foreign investors began withdrawing gold and capital while domestic depositors renewed their runs on banks. In the month following Britain's farewell to gold, 522 American banks failed. By year's end, 2,294 had suspended operations, nearly twice as many as in 1930, and an American record.

Hoover thus confronted an altogether more severe and complicated crisis in late 1931 than he had just a year earlier. He resorted to a new tactic: an aggressive effort to balance the federal budget by raising taxes -- even though in May 1931 he had argued strenuously against the budget-balancers in his own Cabinet. To be sure, he faced deficits beyond all known precedent: the 1932 federal budget would end up \$2.7 billion in the red, a figure that represented almost 60 percent of federal expenditures. No New Deal deficit would be proportionately larger. Ironically, Franklin Roosevelt would make the federal budget deficit a centerpiece of his attack on Hoover in the 1932 presidential campaign.

But neither reflex fiscal orthodoxy nor a staggering deficit fully account for Hoover's decision. His overriding goal was to pump life-giving liquidity into the desiccated American credit system. By using increased tax revenues to reduce the federal deficit, he would restore confidence to the credit markets, stabilize the banks, make money available for business borrowing, and thus promote economic activity. By a complex reasoning process, Hoover convinced himself that a tax hike would serve the purposes of recovery.

In his ongoing effort to liquefy the credit system, Hoover was to show himself capable of the most pragmatic, far-reaching economic heterodoxy. The effort would, in the end, carry him and the country into uncharted economic and political territory.

In October 1931, Hoover asked a group of private bankers to create a \$500 million credit pool to assist weaker institutions. The resulting National Credit Association testified to Hoover's preference for nongovernmental, voluntaristic approaches. Its brief life also testified to the growing recognition -- even in the highest circles of capitalism and indeed in Hoover's own mind -- of the irrelevance of that approach. After only a few weeks of activity and after dispensing a paltry \$10 million in loans, the president later wrote, leaders of the association "threw up their hands and asked for governmental action."

At this moment, Hoover stood on the shore of a political and ideological Rubicon. He had gingerly waded into it more than two years earlier with the creation of federally funded agricultural stabilization corporations. Now he plunged in deeply, proposing a series of measures that amounted to a frank repudiation of his own voluntaristic principles. Sometimes lumped together as Hoover's "second program" against the Depression, these measures would eventually help to revolutionize the American financial world. They would also lay the groundwork for a broader restructuring of government's role in many other sectors of American life, known to history as the New Deal.

By far the most radical, innovative and consequential initiative was the creation in January 1932 of the Reconstruction Finance Corporation (RFC), an instrument for making taxpayers' dollars directly available to private financial institutions as emergency loans. By agreeing to the bankers' demands, the president had implicitly legitimized the claims of other sectors for federal assistance. Hoover had given up the ground of high principle. He now stood ideologically naked before a storm of demands for unemployment relief.

No issue plagued Hoover more painfully, or caused him more political and personal hurt, than the plight of the unemployed. By early 1932, well over 10 million persons were out of work, nearly 20 percent of the labor force. In big cities like Chicago and Detroit, home to hard-hit capital goods industries like steelmaking and automobile manufacturing, the unemployment rate approached 50 percent. Perhaps one-third of all workers were employed only part time, and those lucky enough to hold a job found themselves working for smaller paychecks. United States Steel cut wages by 10 percent in September 1931, the first major employer to break the 1929 agreement with Hoover. Its action was swiftly followed by General Motors and other major corporations. Unemployment now loomed not as a transient difficulty but as a deep, intractable problem.

The cry for direct federal assistance grew ever more insistent. When Sen. Robert Wagner introduced a bill in 1930 for federal unemployment insurance, Hoover opposed it on philosophical grounds of antipathy to the bureaucratic state and fear of creating a welfare-dependent class. The president had himself called for unemployment insurance in his inaugural address, but he had in mind encouraging private plans, not creating new government programs.

In New York state, meanwhile, Gov. Franklin Roosevelt had secured the enactment of the New York Temporary Emergency Relief Administration. Its very name bespoke the continuing anxieties in American culture, as well as in Roosevelt's own mind, about the danger of creating a permanent welfare class dependent on a government dole. Yet Roosevelt also forthrightly declared that relief "must be extended by government, not as a matter of charity, but as a matter of social duty; the state accepts the task cheerfully because it believes that it will help restore that close relationship with its people, which is necessary to preserve our democratic form of government."

Here was an attitude toward government that defined a distinct difference from Hoover, who stewed in anxieties about the dole and endlessly lashed the Congress and the country with lectures about preserving the nation's moral fiber, not to mention the integrity of the

federal budget, by avoiding direct federal payments for unemployment relief.



MONUMENTAL: The Hoover Institution on War, Revolution and Peace began with a \$50,000 gift from Hoover in 1919. It holds the world's largest archive of 20th century political thought.

The Great Humanitarian who had fed the starving Belgians in 1914, the Great Engineer so hopefully elevated to the presidency in 1928, now appeared as the Great Scrooge, a corrupted ideologue who could swallow government relief for the banks, but priggishly scrupled over government provisions for the unemployed. Hoover vetoed the Garner-Wagner relief bill on July 11, 1932, though he did reluctantly accede to a compromise, the Relief and Reconstruction Act, on July 21. It authorized the RFC to finance up to \$1.5 billion in "self-liquidating" public works and to lend up to \$300 million to the states for relief purposes.

But Hoover's somersault came too late to bring him political credit. Cartoonists now caricatured him as a dour, heartless skinflint whose obsolete doctrines caused men and women to go jobless and hungry. The Democratic National Committee's propaganda machine missed no chance to label the crisis the "Hoover Depression."

Folk usage added its own epithets. Tar-paper-and-cardboard hobo shantytowns became "Hoovervilles." Pulled-out empty trouser pockets were "Hoover flags."

To White House visitors, the president seemed prematurely aged. He kept up a punishing regimen of rising at 6 and working without interruption until nearly midnight. His clothes were disheveled, his hair rumpled, eyes bloodshot, complexion ashen. He grew increasingly testy and brittle. A newspaperman noted: "He burst out at me with a volley of angry words... against the politicians and the foreign governments... in language that he must have learned in a mining camp."

Hoover had been nominated for a second term by a dispirited Republican convention in June, but the honor was worth little. He had been overwhelmed by events too large and swift even for his capacious and agile mind to grasp.

By the fall of 1932, Hoover had lost all stomach for political campaigning.

He took to the hustings only in October. Just four years earlier, he had won one of the most lopsided victories in the history of presidential elections. Now he took an even worse drubbing than he had given to Al Smith. On November 8, 1932, Hoover won just six states. All eyes now looked to his successor, Franklin D. Roosevelt.

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