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PRESIDENT HOOVER'S DOMESTIC
POLICY DURING THE GREAT
DEPRESSION 1929- 1933

*Dissertation submitted in partial fulfilment of the requirements for the
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Dedication

To the dearest people to my heart

To my parents, Cherif and Houria

To my lonely sister Imen

To my brothers Farouk, Moundji and his wife Hadjer

To my best friends Samira and Nessrine

I say , I LOVE YOU SO MUCH.

Acknowledgement

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Possibly no words could accurately convey my profound gratitude and heartfelt thankfulness for my dear family . My mother Houria remain unmatched in her incomparable sacrifices , deepest love, boundless patience, and chiefly greatest encouragement. I am equally thankful to my sister Imen for the unremitting help I got from her . And I am grateful to her for all the extreme kindness , wise understanding , and above all endless patience.

Farouk , Moundji , my brothers deserve all my gratitude for their encouragement.

Abstract

The present research looks into the various attempts made by the President Hoover in order to get the United States out of its deepest depression of 1929. The Great Depression that placed the nation into a course of downward spiral. And to the economic plan made by the President to reform to improve the conditions of all Americans, his efforts on keeping the nation alive during its hard times. This study is divided into three chapters. The first chapter reviews briefly the status of President Hoover before taking the office and his development of intervention on both Unemployment and Labor Relations during the pre-era of the Great Crash. Chapter two delves into the time when President Herbert Hoover command and the various events which took place in the year of 1931. Chapter three explores The Hoover New Deal of 1932 and the tragic year before. The discussion reveals that President Hoover's domestic policy is principally held accountable to solve the United States its crisis of 1929, since it put the initial point for Roosevelt's New Deal of 1933

Résumé

La présente recherche se penche sur les diverses tentatives faites par le président Hoover en vue d'obtenir des États-Unis de sa profonde dépression de 1929. La Grande Dépression qui a placé le pays dans un cours de spirale descendante. Et au plan économique fait par le Président de réforme visant à améliorer les conditions de tous les Américains, ses efforts sur le maintien en vie de la nation au cours de sa période difficile. Cette étude est divisée en trois chapitres. Le premier chapitre passe brièvement en revue le statut du président Hoover, avant de prendre le bureau et son développement de mesures d'intervention sur le chômage et relations de travail au cours de l'ère pré-de la Grande Crise. Le deuxième chapitre se penche sur le moment où Herbert Hoover est devenu le président des États-Unis et les différents événements qui ont eu lieu dans l'année de 1931. Chapitre trois, explore le « Hoover New Deal » de 1932 et la tragique année auparavant. La discussion révèle que la politique intérieure du président Hoover est principalement tenus responsables pour résoudre les États-Unis sa crise de 1929, car il a placé le point initial pour « New Deal de Roosevelt » de 1933.

تعنى هذه الدراسة بتحليل طبيعة مختلف الإصلاحات التي بدلتها الرئيس الأمريكي "هربرت هوفر" من أجل مساعدة الولايات المتحدة الأمريكية على تخطي أزمتها العالمية "المالية والاقتصادية" سنة 1929 . بتسليط الضوء على الخطة الاقتصادية التي قدمها الرئيس للإصلاح من أجل تحسين المستوى المعيشي .

تنقسم هذه الدراسة إلى ثلاثة فصول . يستعرض الفصل الأول بإيجاز وضعية الرئيس "هوفر" قبل اتخاذ منصبه و التنمية على حد سواء من خلال تدخله في مشكل البطالة و علاقات العمل قبل الأزمة المالية 1929 . الفصل الثاني يتعلق بفترة توليه القيادة و مختلف الأحداث التي وقعت في سنة 1931. الفصل الأخير يناقش المشروع الاقتصادي الذي وضعه الرئيس الأمريكي "هوفر" من أجل النهوض بالولايات المتحدة الأمريكية و إيجاد حل لازمتها العالمية .

ينتهي هذا البحث إلى أن إصلاحات الرئيس "هربرت هوفر" كانت عنصرا أساسيا في وضع نقطة البداية لمشاريع الرئيس "روزفلت" "أما فشله فيمكن نسبه إلى مجموعة من الأسباب المتفرقة

INTRODUCTION

The present research probes into the domestic policy that President Herbert Hoover followed to reform and help the United States return to its power after the Great Crash of 1929 “ the Great Depression” . It particularly explains the way president Hoover go to combat the crisis and how he addressed the most pressing issues during the beginning of the “Great Crash” and his days as a president of the United States which dramatically coincided with his term in office.

The Great Depression dominated the course of President Hoover’s four years in office. Occurring right after his election , it placed the U.S into a course of downward spiral . President Hoover tried very hard to bring the nation out of depression . In Hoover’s scheme of things , the various items on agenda for economic policy called for different types of treatment , some were ripe for congressional action, others needed more detailed investigation and still others called for quite and behind the scenes diplomacy . In his campaign for presidency, President Hoover had committed himself to the development of a strong economic program that could help the United States get out of its crisis .

This research delves into the subsequent probing questions: What was the way President Hoover followed to get the United States out of the Great Depression ? To what extend did he succeed in getting his country out of this economic crisis? Also , it explains the various attempts made by President Hoover that led the U.S to be more prosperous in the beginning of his administration .

This study encompasses three divisions . The first part probes into the development of President Hoover’s interventionism on both unemployment and labor relations. It gives an overview of the Reconstruction program that President Hoover followed through raising taxes, the abolishing of child labor ,setting up a national old age insurance , and government arbitration boards for labor attempts to disputes . It also explains the different economic conferences and committees on unemployment that president Hoover assumed after taking the office.

Chapter two, investigates the different actions undertaken by the president in the time, the depression stuck and the year 1930. It gives a detailed study of the ordeal prepared by

President Hoover through his different interventions that begun with the White House Conferences , inflating credit and finished with public work . It also explains how did the president acted during the year of 1930 by taking decisive actions regarding such national cares as the Smoot – Hawley tariff and Public work agitation. Chapter three on the other hand, explains the situation of the United States during the last two years of President Herbert Hoover in office . Hoover acted differently during 1931 and 1932 when he achieved a success up to a point by his new deal of 1932. Chapter three , also shows the president's initial point of his program that began in early 1931 and finished by early 1933, a reconstruction program that included his different attempts at reform as the Reconstruction Finance Corporation ; the Home Loan Bank discount , the public works administration , and the reform of the bankruptcy law.

A descriptive analytical approach is adopted in this study to first depict the situation of the United States before the depression struck and explain Hoover's interventionism on both Unemployment and labor relations . Second to explain how the president dealt with the economic crisis and what were his different actions to solve the problem.

In conclusion, this research reveals that the failure of President Hoover to get out of the depression does not actually explain that he did not succeeded but the contrary. It explains his initial point that were considered to be the first steps in solving this economic crisis.

CHAPTER ONE

THE DEVELOPMENT OF HOOVER'S INTERNENTIONISM

INTRODUCTION

Hoover did not come upon his interventionist ideas suddenly . It is instructive to trace their development and the similar development in the country as a whole . It can't be fully understood how president Hoover could so easily reverse the policies that had ruled in all previous depressions without tracing his view and actions on the labor front during the 1920's .

1.1 THE DEVELOPMENT OF UNEMPLOYMENT-

President Herbert Clerk Hoover was very much the “ forward looking” politician . When he returned to the United States after a long stay abroad , he came armed with a suggested “ Reconstruction Program” such one that's are familiar to the present generation , but they were new to the United States in that time . Like all such programs , they were very heavy on government planning which was envisaged as voluntary cooperative action under central direction . The government was supposed to correct the American marginal faults including undeveloped health and the failure to conserve resources .

So “forward- looking” was Hoover and his program that Louis Brandeis, Herbert Croly of the New Republic, Colonel Edward M House, Franklin D. Roosevelt and other prominent Democrats for a while boomed Hoover for the presidency. Hoover continued to expound interventionism in many areas during the 1920's. The most relevant was the conference on labor management relations that he directed from 1919 to 1920. An appointment by President Wilson and in association with Secretary of Labor William B. Wilson a former official of the United Mine Workers of America. The conference which included forward – looking industrialists like Julius Rosenwald, Oscar Straus and labor leaders , and economist like Frank .W. Taussig, recommended wider collective bargaining , criticized “ company unions” urged the abolition of child labor , and called for national old age insurance , fewer working hours “betters housing “ health insurance , and government

arbitration boards for labor disputes . These recommendations reflected President Hoover's views. (Dorfman 27)

Hoover was appointed Secretary of Commerce by President Coolidge Harding in March 1921, under pressure from the left wing of the Republican party , led by William Allen White and judge Nathan Miller of New York . The government had pursued a largely laissez faire policy in the depression of 1920 – 1921 but this was not the doing of Herbert Hoover . On the contrary, he “set out to reconstruct America”. He only accepted the appointment on the condition that he would be consulted on all economic policies of the federal government. He was determined to transform the department of Commerce into “the economic interpreter to the American people”. Hardly had Hoover assumed office when he began to organize an economic conference and a committee on unemployment. The committee contributed with relief to the unemployed, and also organized collaboration between the local and federal government. As Hoover recalls:

We developed cooperation between the federal state and municipal governments to increase public works , we persuaded employers to divide time among their employees so that as many as possible would have some incomes. We organized the industries to undertake renovation, repair, and where possible, expand construction standard oil of New Jersey announced a policy off its older employees last, and it increased its repairs and production for inventory; US steel also invested \$ 10 million in repairs immediately upon conclusion of the conference . (Hoover 84).

While the government did not greatly intervene in the 1920-1921 recession, there were enough ominous seeds of the later New Deal. In December, 1920, the war Finance Corporation was revived as an aid to farm exports, and a \$ 100 million Foreign Trade Financial Corporation was established, Farm agitation against short selling led to the copper Grain exchanges. Further more, on the state level New York passed rent laws, restricting the ejection rights of land- lords, Kansas created an industrial Court regulating all key industries as “public utilities” and the Non Partisan league conducted socialistic experiment in North Dakota. The most important development of all was the president's conference on unemployment, called by Harding at the instigation of the indefatigable Herbert Hoover.

President Harding address to the conference was filled with great good sense and was almost the old order's way of dealing with depression. Harding declared that liquidation was inevitable and attacked governmental planning and any suggestion of Treasury relief, he said:

“The excess stimulation from that source is to be reckoned a cause of trouble rather than a source of cure” (Howenstine 479)

It was clear that President Harding's words were mere stumbling blocks to the wheels of progress, and were quickly disregarded. The conference obviously ,proffered Hoover's opening speech to the effect that the era of passivity was now over , in contrast to previous depression , Hoover was convinced the government must ‘ do something’. The conference aim was to declare the idea that government should be responsible for curing depression , even if the sponsors had no clear idea of the specific thing that government should do . The important steps in the view of the dominant leaders were to urge the necessity of government planning to combat depression and to bolster the idea of public works as a depression remedy. The conference very strongly and repeatedly praised the expansion of public works in a depression and urged coordinated plans at all levels of government. Not to be out done by the new administration former president Wilson, in December, added his call for a federal public works stabilization program. (Margolin 192)

The extreme public works agitators were disappointed that the conference did not go far enough. For example, the economist William Leasers had thought that a Federal Reserve Board ‘would do for the labor market what the Federal Reserve Board did for the banking interest’. But the wiser heads saw that they had made a great gain. As a direct result of Hoover's conference, twice as many municipal bonds for public works were floated in 1921 and 1922 as in any previous year, Federal Highway grantism- aid to the states totalled \$75 million in the autumn of 1921, And American opinion was aroused on the entire subject. Otto Tod Mallery (MC Mullen 16)

It was no accident that the conference had arrived at its interventionist conclusions as usually happens in conference of this type, a small group of staff men, along with Herbert Hoover actually prepared the recommendations that the illustrious front men duly ratified the Secretary of the commercial public committee of the conference was Otto Tod Mallery.For a long time the matters leading advocate of public warless programs in depression. Mallery was

a member and guiding spirit of the Pennsylvania emergency public works Commission, which had pioneered in public works planning, and Mallery's resolution thoughtfully pointed to the examples of Pennsylvania and California as beacon light for the federal government to follow. He was one of the leading spirits of the American Association for Labor Legislation (AALL) an organization of eminent citizens and economists devoted to the promotion of government intervention in the fields of labor, unemployment, and welfare. The association had helped the first national unemployment conference in early 1914. Now, its executive director John B. Andrews boasted that the presidential conference's recommendations followed the standard recommendation formulated by the AALL in 1915.

These standard recommendations featured public works and emergency public relief. The usual harms and wage rates. The wage rates of the boom period were supposed to be maintained. Neither was the conference's following of the AALL line a coincidence. Aside from Mallery's critical role, the conference also employed the expertise of the following economists, all of whom were of the AALL: John B. Andrews, Henry Samuel Mc Lindsey, Wesley L. Mitchell. (Andrews 307)

It seems not at all that the businessmen at the conference were not supposed to put an end to the policy, their function was to be indoctrinated with the Hoover AALL line and then to spread the interventionist to other business leaders. Andrews singled out for particular praise in this regard Joseph M. Derees, of the United States Chamber of Commerce, who appealed to many business organizations cooperate with the mayor's emergency committee, and generally to accept business responsibility to solve the unemployment problem. President Samuel Gompers of the American Federation of Labor (AFL) also described the widespread acceptance by industry of its responsibility for unemployment. As an outcome of this conference Hoover did his best to intervene in the recession, attempting also to stimulate home construction and urging banks to finance more export. Fortunately, President Harding and the rest of the cabinet were not convinced of the virtues of governmental depression. Hoover was finally to have his chance. As Lyons concludes: "A precedent for federal intervention in economic depression was set rather to the horror of conservatives." (Lyons 230)

The conference resolved itself into three research committees, run by a staff of experts, with Hoover in overall command. One project bore fruit in Leo Wolman's planning

and control of public works study published in 1930. A second committee published a study on seasonal operation in the construction industry in 1924, in cooperation with the division of building and housing of the department of commerce. This work urged seasonal stabilization of construction, and was in part the result of a period of propaganda activity by the American construction council, or trade association headed by Frank Delmar Roosevelt. Its foreword was written by Herbert Hoover. The most important project was study of business cycles and unemployment, published in 1923.

Hoover invited the National Bureau of Economic Research (headed by Wesley C. Mitchell) to make a fact-finding study of the problems of forecasting and control of business cycle, and then appointed a committee on business cycles to draft policy recommendations for the report. Chairman of the committee was Owen D. Young and other members included Edward Eyre Hunt, Joseph Defrees, Harry Von Kleeck, Clarence Woolly, and Matthew Woll of the A.F.L. Funds for the project were considerably supplied by the Carnegie Corporation. Wesley C. Mitchell of The National Bureau and A.A.L.L., planned and directed the report, which included interventionist chapters by Mallery and Andrew on public works and unemployment benefits and by Wolman on unemployment insurance while the National Bureau was supposed to do only fact-finding. (Mitchell 15)

President Herbert Hoover had not been idle on the more direct legislative front. Senator W.S. Kenyon of Iowa in late 1921, introduced a bill supported by Hoover, including recommendations of the conference and specifically requiring a public works stabilization program. In the December 1921, the Kenyon bill was supported by numerous leading economists as well as by the American Federation of Labor, the American Engineering Council (of which Hoover had first been named president) and the United States Chamber of Commerce, one of the supporters was Wesley C. Mitchell. The bill never came to a vote, since it was based on laissez faire ideas. The next public works stabilization bill before Congress was the Zelman bill in the house. This was promoted by the National Unemployment League, formed in 1922 for that purpose. They were held in the House Labor committee in February 1923. President Hoover backed the proposal, but failed of adoption. He presented the report on Business Cycles and Unemployment to Congress and strongly urged a public works program in depressions. In 1929, Hoover's Committee on Recent Economic Changes would also support a public works program.

In 1924, the A.A.L.L continued its agitation. It participated in a national conference proposing public works planning. The conference was called by the Federal American Engineering societies in January. In May 1928, Senator Robert Wagner introduced three bills for comprehensive public works planning, including the creation of an employment stabilization board, but the plan was not considered by Congress.

After Herbert Hoover was elected president, his technique was to trusted associates, who would obviously be presenting Hoover's views. He chose as his vehicle Governor Ralph Owen Brewster of Manie Brewster presented a public works plan to the conference of Governor in late 1928 , and designed a plan to ' prevent depression' . President Hoover had adopted the plan of Foster and catching, which had recently been outlined in their famous book "the road to plenty"1928 . It was not surprising that William Green of the A.F hailed the plan as the most important announcement on wages and employment in a decade, or that the A.F of John P. Frey announced that Hoover had now accepted the old A.F. Theory that depressions are caused by under consumption and low wages . The press reported that "labor is jubilant, because leaders believe that the next president has found remedy for unemployment which at least in its philosophy and its ground work, is identical with that of labor. (Trafton 267)

1.2 LABOR RELATIONS

Hoover's reconstruction program and his economic conference of 1920 expressed collective bargaining and unionism. In 1920, Hoover arranged a meeting of leading industrialists with 'advanced view' on labor relations to try to persuade them to establish liaison with the American Federation of Labor. From 1919 through 1923 President Herbert Hoover tried to persuade private corporations to insure the uninsurable by adopting unemployment insurance and in 1925 he praised the A.F.L as having exercised a powerful influence stabilizing industry. He also favored the compulsory unemployment of a child labor amendment which would have lowered the national product and raised labor costs as well as the wages of competing adult workers. Most important of President Hoover's activities in the labor field was his successful war against United States Steel and its chairman Judge Albert M. Cary . The success of his battle made it much easier later on to persuade business men to go along with his labor policies during the 1929 Depression.

President Herbert Hoover had decided that the twelve hour day in the steel industry must be replaced by the eight hour –day. He persuaded Harding, to tell a conference of steel manufactures in May 1922, at which Presidents Hoover and Harding called on the magnates to eliminate the 12 hour – day .It was of course easy for Harding and Hoover to tell other people how long and under what conditions they should work. The steel agitation should be pointed out, had not began with Hoover .It originated back in September 1919, when the U.S steel chairman’s refused to engage in collective bargaining with a workers unions The workers struck on that issue and the strike was led by communist leader William .Z .Foster . By the time the strike had failed, in January 1920, public opinion, properly regarding the strike as Bolshevik inspired, was directly on the side U.S Steel. By this time the inter-church world movement had appointed a commission of inquiry into the strike; the commission issued a report favourable to the strikers in July 1920 and thereby initiated the eight hour day agitation. The report started a propaganda war, with a nation’s left-lift attempting to change the whole temper of public opinion .

Secretary of Commerce Herbert Hoover told the press that President Harding was ‘attempting to persuade industry to adopt a reasonable working day’. Thus did the government mobilize public opinion on the side of the union. Hoover managed to have the national Engineering Societies effectively dominated by Hoover issue a report supporting the eight hour day in November 1922. (Lyons 231)

Under the presidential pressure Judge Gary appointed a committee of the steel industry headed by himself, to study the question. The committee reported on May 1923, rejecting the eight hour day demands U.S steel also issued a reply to the inter church report written by Mr. Marshall Olds , and supported by the prominent economist , Professor Jeremiah W. Jenks (1) . This and other arguments were moved by the wave of emotionalism. They did not hesitate to declare that the twelve hour day was ‘morally indefensible”. And they did not elaborate whether it had suddenly become ‘Morally indefensible” or whether it was not and even longer work days, had also been morally wicked throughout earlier centuries.

The American Association of the Labor Legislation threatened Federal maximum – hour legislation if the steel industry did not put an end to its demands. But the most effective blow was a letter sent to the U.S Steel chairman Gray by president by Harding. Faced by

Harding's public request and demands, Gray finally surrenders in July, permitting Hoover to write the notice of triumph into Harding's Independence Day address. (Yellen 255)

The Hoover –Harding victory over U.S steel effectively controlled industry , and President Hoover played a major role in railway unions. The railroad problem had begun in World War 1 When the federal government seized control of the nation's rails. Run by Secretary of The Treasury Mc Adoo , the government's policy was to encourage unionization .After the war was over, the railway unions tried their best to call for the joint operation of the railroad by employers unions and the government .

The railroad were returned to private owners in 1920, but congress set up a Rail Road labor Board , with tripartite representation , to settle all labor disputes . The Board's decisions did not have the force of law, but they could have an influence on public opinion. The unions were happy with his arrangement, until the government representatives saw the light of economic truth during the depression of 1921, and recommended reductions in wage rates. While Attorney General Daugherty acted ably in support of person and property by obtaining a Federal injunction against union violence, the “horrified” Mr Hoover, winning secretary of state Huges to his side persuaded Harding to force Daugherty to remove the injunction .

The Unions fought for a compulsory arbitration law. They achieved this goal with the railway Labor Act of 1926, which, in effect guaranteed collective bargaining to the rail-way unions .The bill was drafted by union lawyers Donald Rich –berg and David E. Lilienthal, and also by President Herbert Hoover, who originated the idea of the railway Labor Mediation Board .The railway labor act the first giant step toward the collectivization of labor relations was opposed by the National Association of manufactures .(Richberg 28)

President Herbert Hoover adopted a new theory that high wage rates were on important cause of prosperity. The nation grew during the 1920's that America was more prosperous than other countries because her employers paid higher wage rates, thus insuring that workers had the purchasing power to buy industry's product while high real wage rates were actually the consequence of greater productivity and capital investment . This theory claimed that high wage rates were standards. It followed of course that wage rates should be maintained . Hoover began championing this theory during the unemployment conference of 1921. Employers on the manufacturing committee wanted to urge lowering wage rates as a

cure for unemployment, but Hoover successfully insisted on eliminating this recommendation. By the mid 1920s, President Hoover declared the 'new economic' attacking the 'old economic'. In a speech on May 12, 1926, Secretary Hoover spread the gospel of high wage rates that was to prove so disastrous a few years later:

Not so many years ago, the employer considered it was in his interest to use the opportunities of unemployment and immigration to lower wages irrespective of other considerations. The lowest production costs and largest profit ... But we are a long way on the road to new conceptions. The very essence of great production is high wages and low prices, because it depends upon a widening ... consumption, only to be obtained from the purchasing power of high real wages and increased standard of living. (Hoover 108).

Hoover was alone in celebrating the 'New Economics'(2). The National Industrial Conference Board reported that, while during 1920-1921 depression, wage rates fell by 19 percent in one year, the high wage theory had taken hold from then on. More and more people adopted the theory that wage cutting would end the purchasing power and thus prolong the depression. This doctrine allied with the theory that high wage rates cause prosperity was preached by many industrialists, economists; and labor leader throughout the 1920's (3). The conference Board reported that 'much was heard of the dawn of a new era in which major business depressions could have no place'. And Professor Leo Wolman has stated that the prevailing theory during the 1920's was that 'high and rising wages were necessary to a full flow of purchasing power and therefore, to good business'. (Wolman 1)

Secretary Hoover's committee on Recent Economic changes issued a general multi-volume report on the American economy in 1929. Once again, the basic investigations were made by the National Bureau. In the early post war period, the committee opined, that there were reactionary calls for the "liquidation" of labor back to pre-war standards. But, soon, the leaders of Industrial thought came to see that high wages sustained purchasing power, which in turn sustained prosperity. They began consciously to propound the principle of high wages and low costs as a policy of enlightened industrial practise. This principle has since attracted the attention of economists all over the world. This change in the industrial climate according to the committee was largely due to the influence of the conference on unemployment. By

the fall of 1926 , steel magnates Eugene Grace was already heralding the new dispensation in the “Saturday Evening Post” Committee on Recent Economic changes , recent Economic changes in the United States (Dennison 523)

Conclusion

Secretary Herbert Hoover – appointed economic committee was suggested in their own right to maintain the dynamic equilibrium of the 1920’s it declared , leadership must be at hand to provide more and more deliberate public attention and control . In fact research and study, the orderly classification of knowledge well make complete control of the economic system . A technique to be supplied by economists, statisticians, and engineers, all working together. As so, President Herbert Hoover, ‘The Great Engineer’, stood armed on many fronts of new economic science. He would use his scientific weapons to bring the business cycle under governmental control. Hoover did not fail to control his modern political principles provided by modern economists. And, as a direct consequence, America was brought to years of prosperity as never before.

END NOTES

1 Also forgotten was the fact that wages were involved in the struggle, as well hours. The workers wanted shorter hours with a 'living wage' or as the inquiry report put it a minimum confront wage rates. In short, they wanted higher hourly wage rates. See Samuel Yellen, *American Labor Struggles* (New York: S.A – Russell, 1956) P 255.

2 The New Economic refers to the economic plan made by President Hoover

3 One of these industrialists was the same Charles .M. Schwab, head of Bethlehem Steel, who had bitterly fought Hoover in the eight – hours day dispute. Thus, in early 1929, Schwab opined that the way to keep prosperity permanent was to 'to pay labor the highest possible wages". *Commercial and Financial Chronicle* 128 (January 5, 129)

CHAPTER TWO

THE BEGINNING OF THE GREAT DEPRESSION AND THE YEAR 1930

INTRODUCTION

No American president has come into office with a more detailed conception of what he wanted to accomplish in economic policy and the way to go about it than did President Hoover in 1929. His apprenticeship as Secretary of Commerce had defined his thinking on both strategy and tactics. The year 1931 was to mark a turning point in the way the Hoover administration thought about the problems of the economy and about the form of intervention it was prepared to pursue them. Even though there had been some disappointments in the programs pursued in 1930, there were still measures for satisfaction.

1 PRESIDENT HOOVER TAKES COMMAND

When the Great Depression struck by the stock market crash of October 24, President Hoover stood prepared for the ordeal, ready to launch a program of government intervention for high wage rates, public works, and improving positions that was later to be christened the New Deal as Hoover recalls:

The primary question at once arose as to whether the president and the federal government should undertake to investigate and remedy the evils ... No president before had ever believed that there was a governmental responsibility in such cases. No matter what he urged on previous occasions. President's steadfastly and maintained that the federal government was apart from such eruptions ... Therefore we had to pioneer a new field. (Hoover 29).

President Hoover was the first president in American History to offer federal leadership in mobilizing the economic resources of the people. There was opposition within the

administration headed, considering his interventions throughout the boom, by Secretary of Treasury Mellon. Mellon headed what Hoover termed the leave – it alone liquidations. Mellon wanted to liquidate labor, liquidate stocks, liquidate the farmers, and liquidate real estate. And so, lower the high cost of living, and encourage hard work and efficient enterprise. Mellon cited the efficient working of this process in the depression of the 1870's; while phrased the proper course for the administration to follow. But Mellon's advice was overlodred by Hoover, who was supported by Secretary of the Treasury Ogden Mills, secretary of Commerce Robert Lamont, Secretary of Agriculture Myde, and others.

1.1 THE WHITE HOUSE CONFERENCES

President Hoover acted quickly and decisively. His most important act was to call a series of White House Conferences with the leading finances and industrialists of the country, to persuade them to maintain wage rates and expand their investments which influence expansion that could only bring losses to business and thereby worse the depression. President Hoover phrased the general aim of these conferences as “the coordination of business and governmental agencies in concerted action” .The first conference was on November 18, with the president of the Nation's major railroads. Attending for the government were President Hoover, Mellon and Lamont and also participating was William Butter Worth , President of the United States chamber of Commerce .The railroad presidents promised Hoover that they would expand their construction and maintenance programs , and later, the railroad executives met in Chicago to establish a formal organization to carry this program into effect.

The most important White House conference was held on November 21. All the great industrial leaders of the country were there. The business men asked Hoover to stimulate the cooperation of government and industry. Hoover pointed out to them that Unemployment had already reached two to three million that a long depression might ensure. And that wages must keep up. Hoover explained: That immediate ‘liquidation’ of labor been the industrial policy for labor was not a commodity: it represented human homes... more over, from an economic view point such action would deepen the depression by suddenly reducing purchasing power (Hoover 30). He insisted that wage rates were to be reduced eventually;

they must be reduced 'no more and no faster than the cost of living had previously fallen (so that) the burden would not fall primarily on labor. In short, real wages must be prevented from falling'. Hoover insisted that the first shock of the depression must fall on profits and on wages since profits provide the motive power for business activity. At present, wage rates should not be reduced at all, and industry should maintain its construction work. Industry should try to keep every one employed, and any necessary reduction in work should be spread over all employees by reducing the work week (reducing the work-week can only spread unemployment, and prevent that pressure of the unemployed upon wage rates which alone could have restored employment and achieve balance to the labor market) .If Industry followed this course great hard ship and economic and social difficulties would be avoided. The industrialists all agreed to carry out President Hoover's program and further organized cooperative efforts on its behalf in a conference in Washington December 5. (Ratner 443)

The agreement was also announced publicly, in addition, the telephone industry, steel industry, and automobile industry promised to expand their construction programs. The industrialists at the conference promised not to cut wages, and recommended that all employers in the nation do the same. On November 22, President Hoover called a conference at the White House of leading representatives of the building and construction industries, and they also promised to maintain wage rates and expand their activities. On November 21, he called a similar conference of the leading public utility executives and they promised to maintain wage rates and expand construction. The latter included representatives of the American Gas Association, the National Electric Light Association, and the Electric Railways and American Railways Association.

President Herbert Hoover recalled that the nation's leading labor leaders called to a White House conference on November 21, also agreed to cooperate in the program and not press for further wage increases, this was a sign of their basic "patriotism". These leaders included William Green, Matthew Woll, and John. L. Lewis, Williamhutcheson, A. F Whitney, and Alwanly Johnston. Upon their patriotism, however, since President Hoover's program was made to agree about the doctrine that union leaders had been long proclaiming. There was no chance of wage increases in market. The point is that Unions did not have the power to enforce wage throughout industry (Unions in this era being weak, constituting only about 7 percent of the labor force, and concentrated in few industries) and so the federal government was proposing to do it for them.

But even in an agreement so favourable to unions, the labor leaders were ready to cancel their part at the first opportunity. In his annual message to Congress on December 3, President Hoover pointed out that depressions had always been marked by the decrease of construction activities and reduction of wage rates, but now things were different: "I have instituted ... systematic ... cooperation with business ... that wages and, therefore, earning power shall not be reduced and that a special effort shall be made to expand construction ... a very large degree of individual suffering and unemployment has been prevented" .(Hoover 32)

On December 5, 1931 Hoover called a longer conference of industrial leaders in Washington, to adopt the Hoover program. He addressed the conference to hail their agreement as an: 'advance in the whole conception of the relationship of business to public welfare'. You represent the business of the United States. Undertaking through your voluntary action to contribute some thing very definite to the advancement of stability and progress in our economic life . This is a cry from the arbitrary and dog eat dog attitude of the business world of some thirty forty years ago.(Irving Bernstein 353) With all the leading industrialists thus pledge to maintain wage rates, expand construction, and share any reduced work it was no wonder that the American Federation of Labor hailed the new development. Its journal "The American Federations" edit to realized on January 1, 1930: "The president conference has given industrial leaders a new sense of their responsibilities ... never before have they been called upon to act together ... in earlier recessions they have acted individually to protect their own interests and... have intensified depressions".(The American Federationist 37)

By the following March , the new attitude toward wage , with employers realizing in contrast to the 1921 depression .That it was poor business to destroy consumer purchasing power, and it explained the fact that not one of the big corporation had thought of lowering wages as means of reducing unit costs .

1.2 INFLATING CREDIT:

If the Federal Reserve had an inflationist attitude during the boom. It was just to try to cure the depression by inflating further. It helped the expansion of credit and improved

financial positions. The Federal Reserve moved during the week of the crash – the final week of October and in that brief period added almost \$ 300 million to the reserves of the nation’s banks. During that week, the Federal Reserve doubled its holding of government securities, adding over \$ 150million more for member banks. Instead of going through a healthy and rapid liquidation of unsound positions, the economy must be improved by governmental measure . This enormous expansion was generated to prevent liquidation on the stock market and to permit the New York City banks to take over the broker’s loans that the ‘other’, non bank lenders were liquidating. The great bulk of the increased reserves all “controlled” were pumped into, New York. As a result , the weekly reporting member banks expanded their deposits during the last week of October by \$ 1,8 billion by (a monetary expansion of nearly 10 percent in one week), of which \$ 1,6 billion were increased deposits in New York City banks , and only \$0,2 billion were in banks outside of New York.(Lamont 269)

The Federal Reserve also lowered its rediscount rate, from 6 percent at the beginning of the Crash to 4. 5 percent by mid November. Acceptance rates were also reduced considerably. By mid November, the Great stock break was over, and the market began to move upward again. By the end of the year, stock prices had risen by several points. The stock market emergency over, bank reserves declined to their pre- crash levels. In two weeks, from November when the stock prices hit bottom, to November 27 member bank reserves declined by about \$275milions or to almost exactly the level existing just before the crash. The decline did not come in securities, which increased in the Federal Reserve from \$ 293million on October 30 to \$ 326 million a month later – arise of \$33 million. Discounts fell by about \$80 million, and acceptances by another \$80, while money in circulation started its seasonal increase, rising by \$70 million. Thus, from the end of October to the end of November, controlled reserves were reduced by \$ 111 millions. Uncontrolled reserve, which was more important, fell by \$ 165 million. (Lamont 269)

By the end of 1929, total reserves at \$ 236 billion were only a little over \$20 million below the level of October 23 (\$ 2.38 on each date) . But the distribution of factors was different. Thus, while total reserves were almost the same on October 23 and December 31, security holding had increased by \$ 375 million, more than tripling Reserve holding of U. S governments. Total discount were about \$165 million less, acceptances slightly larger, money in circulation higher by over \$ 100 million, and the gold stock down by \$ 100. Of the \$ 23 million fall in reserves from October 28 to December 31, controlled reserves increased by \$

359 million . While uncontrolled reserves fell by \$ 381 million. It is evident that the failure to inflate reserves over the last quarter of 1929 was no credit of the Federal Reserve, which did its best to increase reserves, but was failed by the decline in uncontrolled factors . The total money supply increased by about \$ 300 million during the final quarter of 1929.(Clarck 15).

President Hoover was proud of his experiment in cheap money , and on his speech to the business conference on December 5 , he describe the nation's good fortune in possessing the splendid Federal Reserve System , which had succeeded in saving banks , had restored confidence , and had made capital more abundant by reducing interest rates. President Hoover had done his part to encourage the expansion by urging the banks to rediscount at the Federal Reserve Banks. William Green issued a series of optimistic statement, commending the Federal Reserve's success in ending the depression. On November 22, Green said:

The entire factors which make for a quick and speedy industrial and speedy industrial and economic recovery are present and evident. The Federal Reserve System is operating , securing as a barrier against financial demoralization . Within a few months industrial conditions will become normal confidence and stabilization in industry and finance will be restored . (Clarck 16)

1.3 PUBLIC WORK

With President Hoover's view, we would not expect him to delay in sponsoring public works and unemployment relief as aids in curing depression. On November 23, Hoover sent a telegram to all the governors, urging cooperative expansion of all state public works programs. The governors, including Franklin D. Roosevelt of New York, promised their cooperation, and on November 24 the department of Commerce established a definite organization to join with the states in public works programs. President Hoover and Mellon also proposed to Congress an increase in the federal Building program of over \$400 million, and on December 3 the Department of Commerce established a division of Public Construction to encourage public works planning. President Hoover granted more subsidies to ship construction through the federal shipping Board and asked for a further \$ 175 million appropriation for public works. By the end of the year, Professor J. M. Clark of Columbia

University was already hailing president Hoover's "great experiment in constructive industrial states man ship of a promising and moral sort" (1).

2 THE YEAR 1930

By early 1930, people were generally convinced that there was little to worry about. President Hoover's action on so many fronts wages, construction, public works, farm support, indicated to the public that this time achieve a national planning would turn the result quickly. Farm prices then seemed to be recovering, and unemployment had not yet reached catastrophic proportions.

2.1 MORE INFLATION:

By the end of 1929, the leading Federal Reserve officials wanted to pursue a laissez faire policy "the disposition was to let the money market move its crisis and reach monetary ease by the whole some process of liquidation. The Federal Reserve was prepared to let the money market find its own level . In 1930, the government instituted a massive easy money program. Rediscount rates of the New York fed fell from 4.5 percent in February to 2 percent by the end of the year. Buying rates on acceptance and the call loan rates fell similarly. During the entire year, 1930, total member bank reserves increased by \$218 million consisted of an increase in government securities held Gold stock increased by \$309 million, and there was a net increase in member bank reserves of \$116 million. Despite this increase in reverse, the total money supply (including all- money substitutes) remained almost constant during the year falling from \$ 73. 52 billion at the end of 1929 to \$ 73.29 billion at the end of 1930. Security issues increased, and for a while stock prices rose again, but the latter soon fell back , and production and employment kept falling steadily. lThe Federal Reserve began the inflationist policy on its own. Inflation would have been greater in 1930 had not the stock market boom collapsed, and if not for the wave of bank failure in late 1930 (2). The inflationist was not satisfied with event. (Anderson 222)

2.2 THE SMOOT- HAWLEY TARIFF:

One of Hoover's first acts upon becoming president was to call a special session on tariffs, beginning 1929 where the policy of high tariff hurt the farmers export market when the loans lowered. Hoover's answer was to raise tariffs still further, on agricultural and on manufactured products. Hoover maintain that high tariff helped the farmer by building up his domestic market and lessening his 'dependence' on export market, which means in fact, that it hurt him by destroying his export market (3). It was at the time of depression that the Hoover administration chose to injure the American consumer, and harm the American Farmers export markets by raising tariffs higher than their already high levels. President Hoover was urged to veto the Smoot Hawley tariff by almost all the nation's economists, in a remarkable display of consensus, by the leading bankers and by many other leaders. The main proponents were the three leading farm organizations, and the American Federation of Labor.

President Hoover called for a higher tariff in an effort to help the farmers by raising duties on agricultural products. The bill added tariffs on many other products. The increased duties on Agricultural was not very important since farm products were generally export commodities, and little was imported. Duties were raised on sugar to 'do something for' the western beet sugar farmer, on wheat to subsidize the marginal North West wheat farmers, on cotton to protect the marginal Imperial Valley farmer against Egypt. The tariff rates were now the highest in American history. (Hoover memoires 35)

The stock market broke on the day that President Hoover agreed to sign the Smoot Hawley Bill. This bill gave the signal for protectionism to increase all over the world markets, and the international division of labor were prevented and American consumers were further burdened, and farmer as well as other export industries were stopped by the decline of international trade. The mining interests suggested an international monetary conference to rise and then to stabilize silver prices. The resolution was put through the senate in 1931, but the senate department could not interest's foreign government in such a conference. Main supporters of this price raising scheme were the Western governors at the behest of the American Silver producer's Association, Senator such as Key Pittman of Nevada and Reed Smoot of Utah and F. M Brownell, president of the American Smelting and Refining Company. (Taussig 21)

3. PRESIDENT HOOVER IN THE SECOND HALF OF 1930:

During the second half of the 1930, production, prices, foreign trade and employment continued to decline. President Hoover called for an investigation of bankruptcy laws in order to weaken them and prevent many bankruptcies. He took an unusual step: to reduce the unemployment problem, and also to help keep wage rates up, the president effectively forbid further immigration into the United States.

Reducing the labor force as a 'cure' for unemployment is similar to 'curing' a surplus of certain commodity by passing a law prohibiting any one from selling the product. President Hoover also records that he accelerated the deportation of aliens, again helping to ease the unemployment picture. President Hoover's Emergency Committee on Employment organized concerted propaganda to urge young people to return to school in the fall, and thus leave the labor market. By the end year, President Hoover felt that the time had come for self-congratulation. In an address to the American Banker's Association, he summed up his multi-faceted intervention as follows:

I determined that it was my duty, even without precedent to call upon the business of the country for coordinated and constructive actions to resist the forces of disintegration. The business community, the bankers, labor, and the government have cooperated in wider spread measures of mitigation than have ever been attempted before. Our bankers and Reserve System without imperment. Our leading business concerns have expedited heavy construction. The government has expanded public works, assisted in credit to agriculture and had restricted immigration. These measures have maintained a higher degree of consumption than would otherwise have been the case. They have thus prevented a large measure of unemployment. (Divine 78)

To the bankers, President Hoover delivered his theory of the Crash: that it was caused by credit, it was absorbed by speculation. He described the Federal Reserve System as the great instrument of promoting stability, and called for a supply of credit at low rates of interest. As well as, public work as the best method of ending the depression. The wage

agreement that President Hoover obtained at the white house conference held firm for a long while , thus becoming the prime generator of unemployment . President Hoover still records that the wages agreement lasted in the organized trades throughout his term.

In this address before the convention, Hoover returned to the glorious theme of the white house conferences: ‘at these white conference leaders of business and industry undertook to their utmost to maintain the rate of wages’. And to distribute work among the employees, he described the success of that pledge for the “great manufacturing companies, the railways, utilities and business houses have been able to maintain the established wages. Employers have spread their employment systematically”. The spreading of employment was in fact a spreading of unemployment, and helped to maintain the existing wage rates by keeping these unemployed off the labor market. Hoover admitted this when he said “through distribution of employment large numbers of workers have been saved from being forced into competition for new jobs”. However, employment were not permitted to discharge their least – marginally productive workers those whose productivity was below the artificially high wage rates costs to the employers become greater and they suffered loses. (Bernstein 259)

President Hoover also commended the business man for their great resolution in maintaining wage scales even in the face of falling prices and that rail roads and public utilities had been introduced to increase their construction by \$ 500 million. In the same year, President Hoover threatened Federal regulation of the exchange. He agreed ‘voluntary’ to withhold moans of stock for purposes of short –selling. Thereby forgetting that for every short seller there must necessarily be a buyer, and also that short –selling accelerated the necessary depression adjustment in stock prices. As early as January 1930, a bill was introduced to prohibit all short selling. Shortly after ward, President Hoover again asked for Enlarged Federal Public Works appropriations. One public work, already begun in September was named ‘Hoover Dam’ in Arizona, a government project to sell water and Electric power. The New Deal later was to complete this project. (Lawrence 597)

The president conceding that factory employment had fallen by 16 percent since 1928 and manufacturing production had declined by 20 percent pointed that consumption and wages rates had held to their former levels , bank deposits were 5 percent higher , and department store sales only 7 percent less. President Hoover did not attempt to relate these movements, or to realize that the decline of employment and production were the

consequences of policies that improved consumption and wage rates. He apparently never saw that keeping prices above the world market would be self-defeating, since few customers would buy American products at prices artificially higher than they obtain abroad. The current easy money policy of the Federal Reserve was causing the increase in bank failures chiefly due to 'their' inability to liquidate. The country was suffering from frozen and wasteful malinvestments in plants building and other capital and that the depression would only be cured when these unsound credit positions liquidated. (Kenneth 45)

3.1 THE PUBLIC WORK AGITATION

The employment stabilization Act had been introduced under the inspiration of the veteran public works agitator Otto Tod Mallery as part of a comprehensive plan of government intervention to combat unemployment. The Act provided for an employment stabilization Board consisting of several cabinet officers, to increase public works in order to stabilize industry and reduce unemployment in a depression. The bill laid the foundation for a national program to reduce unemployment, and that the principles of public works were widely accepted by economists as a means of stimulating construction and putting men to work.

The senate passed the Wagner Bill by an unrecorded vote. The bill was delayed in the house despite the complete lack of opposition and the pressure for the bill exerted by the senate members : Andrews , Green, Perkins, Emery , Douglas, Foster and Catching . In the late 1930, the Emergency Committee for Federal Public Works borrowed one billion dollars for public works. In February 1931, Congress passed the Employment stabilization Act in original form and President Hoover signed the measure. He quickly designated the Secretary of Commerce as chairman of the Federal Employment Stabilization Board. The senate also did something in the same month ; it passed the Wagner resolution to study the establishment of Federal unemployment insurance.

3.2 THE FISCAL BURDENS OF GOVERNMENT:

In the world of "National Product Statistics" government expenditure on goods and services constitute an addition to the nation's product .Actually, since government's revenue

in contrast to all other institutions is obliged from the tax payers rather than paid voluntarily. In fact, either government expenditures or receipts, whichever is the higher, may be regarded as the burden on private national product, and subtraction of the former figure from Gross Private Product (GPP) will provide an evaluation of the private product left in private hands. (Loth 198-200)

In a depression, it is particularly important that the government fiscal burden on the economy be reduced. In the first place, it is especially important to the economy from the government's acquiring resources, and second, a lowering of the burden will tend to change total spending so as to increase investment and lower consumption, thus providing a cure for depression. How did the government react when the 1929 depression hit? Were fiscal burdens on the economy raised or lowered? Detailed statistics from 1929 permit the answer to that question. In 1929, the Gross National product (GNP) was \$ 104.4 billion; Gross Private Product was \$ 99 billion. Total Federal deprecation on the private product equalled Federal receipts, which were \$5.2 billion (federal expenditures were a bit lower at \$ 4 billion. State and local deprecation were \$ 9 billion, the figure for expenditures, receipts being estimated at \$8.8 billion. Total government deprecation on the private product in 1929 was, therefore, \$ 14.2 billion, a burden of 14.3 percent of the gross private product. In 1930, GNP fell to \$91.1 billion and GPP to \$ 85.5 billion. Federal expenditures rose to \$ 4.2 billion, while receipts fell to \$4.4 billion, state and local expenditures rose to \$ 9.7 billion. But this now constituted 16.4 percent of the Gross Private product and 18.2 percent of the net private product. The fiscal burden of government had substantially increased when it should have been lowered. (Ratner 433)

Given any particular tax rates, it would be expected revenue to fall in a depression, as national income fell, if government simply remained passive. Government particular responsibility is to reduce its expenditures. Instead, expenditures rose by \$800 million, of this \$ 700 million came from state and local government. The federal government increased its expenditures by \$ 130 million, of which \$ 50 million was new construction. The Hoover policy of stimulating public works was already taking effect.

CONCLUSION

It was arguable that the development of the stabilization model had protected a part of the shock the economy experienced in 1930. By comparison with the contraction of 1921, the performance had not been too bad. Measured in current prices, the fall in GNP between 1929 and 1921. With considerable justification, Hoover could assert, as he did in October 1920, that the economy was still functioning at normal levels. There was still, a chance for improvement. This idea that led president Hoover to put the initial steps for his new program, was realised in Hoover's New Deal program of 1932.

ENDNOTES

1 J.M. Clark. 'Public work and unemployment' American Economic Review, Papers and proceeding (May, 1930)

2 The New York Federal Reserve also continues to lead in collaborating with foreign central banks, often against the wishes of the administration. Thus the Bank of International settlements, attempts at an inter-central banks central bank as America's central bank.

3 Herbert Hoover, Memoirs of Herbert Hoover, New York, Mac Millan 1952.

CHAPTER THREE

THE TRAGIC YEAR 1931 & HOOVER'S NEW DEAL OF 1932

INTRODUCTION

President Hoover had reoriented his campaign against depression in late 1931. The final goal remained the same putting a scheme for a new economic plan. There could be no question that the flow of events in late 1931 and early 1932 generated new challenges to economic thinking. Trying something different, even when the consequences of unconventional interventions could not be fore cost with confidence.

1. "1931"THE TRAGIC YEAR

The European economic collapse that happened during 1931, affected the United States monetarily and financially by causing people to doubt the stability of American adherence to the gold standard and the American banks with their collapsing European colleagues. Thus American banks held almost \$ 2 billion worth of German bank acceptance and the Federal Reserve Bank of New York had participated in the unsuccessful shoring operation. The fall in European imports from the United States as a result of the depression was not the major cause of the deep depression. American exports in 1929 constituted less than 6 percent of American business, while American agriculture was further depressed by international development. The great bulk of American depression was caused by American problems and policies. Foreign government contributed a small share to the American crisis, but the bulk of responsibility must be placed upon the American government itself.

1.1 THE AMERICAN MONETARY PICTURE

The depression grew ever worse in the United States. Production continued to fall , as did prices and foreign trade and unemployment fell to almost 16 percent of the labor force.

The Federal Reserve Board (F.R.B) index of manufacturing production, which had been 110 in 1929 and 90 in 1930, fell to 75 in 1931. From the end of 1929 to the end 1931, the FRB index of production of durable manufactures fell by over 5 percent. While the index of nondurable production fell by less than 2 percent. The American monetary picture remained about the same until the latter half of 1931. The increase in the first part of this year reflected a growing loss of confidence by Americans in their banking system caused by the bank failure abroad and the growing number of failures at home. Americans should have lost confidence age before, for the banking institutions were hardly worthy of their trust. (Wintroph 12)

When the monetary crisis came at the end of the year, the Federal Reserve raised the rediscount rate to 3.5 percent. But, actually its policy was still inflationary on balance, since it was still increased controlled reserves. And any greater degree of inflation would have endangered the gold standard itself. The Federal Reserve should have deflated instead of inflated, to improve confidence in gold, and also to speed up the adjustments needed to end the depression.

1.2 PUBLIC WORK AND WAGE RATES

President Hoover established an Emergency Committee for Employment in October 1930. The committee strongly recommended increased expenditures for public works at all levels of government. It was one of the major forces supporting the Wagner Employment Stabilization Act of February 1931. It was the main organ dealing with employers and curing them to maintain wage rates. The committee was satisfied to see advances in public works constitution in 1931.

During early 1931, California set up a state unemployment committee to aid localities and stimulate public works and Pennsylvania presented a planned program. Massachusetts suggested a bond issue for public works program. Minnesota went so far in a make work policy on its public works program as to state that wherever practical and whenever the cost is substantially the same, work should be performed by hand rather than by machines in order to provide for the employment of a greater number of persons.

1.3 MAINTAINING WAGE RATES

The maintenance of wage rates in the face of declining prices, meant that real wage rates on the employed were increasing, thereby worsening the unemployment problem. During depression, business leaders continued to say “reducing the income of labor is not a remedy for business depression .It was direct and contributory cause” The Hoover administration philosophy on wage rates is summarized in Mellon words:

In this country , there has been a concerted and determined effort on the part of both government and business not only to prevent any reduction in wages but to keep the maximum number of men employed to increase consumption . It must be remembered that the all important factor is purchasing power , and purchasing power ...Is dependent to a great extent on the standard of living (Oakwood 429)

The Federal government also did its part by enacting the Bacon Davis Act requiring a maximum eight- hour day on construction of public building and the building and the payment of at least the “prevailing wage” in the locality. Among the Chorus of approval on the Hoover wage program, there were only a few dissenting voices. Oak wood pointed out that on the free market, selling prices must be reflected in falling costs, else there will be unemployment and declines in investment and production. Wage rates are as basic parts of Production costs. Oakwood went on to stress the essential destruction between wage rates and buying power from wages. He pointed out that an individual’s buying power is really ‘his ability to create goods or services” and that the worker will be always tend to receive in wages the worth of his particular productive service. True purchasing power is therefore exchange power based upon production. If a good is in great demand or in short supply, its purchasing power in terms of other goods will be high, and if vice versa its purchasing power will be low. (Fusfeld 267)

1.5 VOLUNTARY RELIEF

Direct relief show or explain that President Hoover seemed to prefer voluntary to governmental action. The previous fall, he refused to call a special session of Congress for unemployment relief saying this was the responsibility of voluntary agencies.

Despite his initial voluntarism in this field, President Hoover appointed an Emergency Committee for Employment the previous fall. He had appointed the committee , and warned the members that Unemployment was strictly a local responsibility.

Chairman Colonel Woods , kept urging upon President Hoover a highly interventionist program , including greater public work , as well as Senator Wagner's bills for public works planning and national employment service . Woods resigned in 1931, and was replaced by Fred Crexton. In contrast , to Woods, he understood the role of British governmental unemployment in creating and perpetuating unemployment , attacked any idea of governmental relief.

2. HOOVER IN THE LATEST QUARTER OF 1931

How, specially, did President Hoover rise the challenge of the crisis in the later part of 1931?

In the first place, signs began to appear that he was getting ready to weaken or abandon his great care to the principle of voluntary relief. Hoover declared: " I am willing to pledge myself that if the time should ever come that the voluntary agencies of the country together with the local and state governments are unable to find resources with which to prevent hunger and suffering in country , I will ask aid of every resource of the federal government" (Fusfeld 267) .

Hoover abolished the Emergency Committee for Employment, and replaced it by a larger president Organization on Unemployment Relief. It encouraged every one to buy , encouraging confidence and combating loading urging banks to lend liberally and employers to spread available work , increasing public works . President Hoover resolved on a "board program of defence and offence" by mobilizing "voluntary" leading agencies to be financed

by the nation's leading bankers. He presented his plan to create a National Credit Corporation (NCC) with capitalization of \$ 500 million to extend credit to needy industrial firms. The banks were to finance the capital for the NCC and it would be allowed to borrow up \$1billion. The idea was that the strong banks would ask their resources to help the weak banks. The NCC was to rediscount with the Federal Reserve. Insurance companies were asked not to foreclose mortgages and, in return they would be helped by aid from the Federal Farm Loan Banks. (Wendt 8-9).In President Hoover's scheme of things, if the banks did not agree, Hoover threatened, he would obtain legislation to force their cooperation. The banks then agreed to set up the NCC. He promised that the NCC would be temporary, for the duration of the year, and that he would soon recreate a new and broaden War Finance Corporation (W.F. C) for emergency loans to broaden eligibility requirements for bank rediscounts with the Federal Reserve System, and to expand the Federal Farm Loan Banks.

Therefore the forthcoming, Hoover New Deal program of 1932 was already clear: the major measures, or new government corporation to make loans to business. A Reconstruction Finance Corporation (RFC) to replace the stop gap , largely bankers financed National Credit Corporation , the creation of a Home loan Bank System to discount mortgages , and an expansion of the Federal Farm Loan Bank System.

3. HOOVER'S NEW DEAL OF 1932

President Hoover came to the legislative session of 1932 in an atmosphere of crisis ready for drastic measures. Measures: such as Federal and state and local public works, work-sharing, maintaining wage rates, limitation of immigration, and the National Credit Corporation. President Hoover declared, have served these purposes and encouraged recovery. He urged more drastic action, and presented the following program: Establishing a Reconstruction Finance Corporation which would use treasury funds to lend to banks , industries , agricultural credit agencies and local governments, broaden the eligibility requirement for discounting at the Fed. Create a Home Loan Bank discount system to revive construction and employment measures which had been warmly endorsed by a National Housing Conference convened by Hoover for that purpose and expand government aid to Federal Lands Banks. Set up a Public Works Administration to coordinate and expand Federal Public Works ,legalize Hoover's order restricting immigration and do something to weaken

destructive competition (i.e., unnatural resource use). Finally grant direct loans of \$300 million to states for relief and reform the bankruptcy law (i.e., weaken protection for the creditor). President Hoover also protected railroads from unregulated competition and improved the bankrupt railroad lines. He called for sharing the work program to save several millions from unemployment.

3.1 THE TAX INCREASE

With \$2 billion deficit during the annual year of 1931, Hoover felt that he had do something in the next year to combat it. A balanced budget is not necessary good, particularly when the balance 'is obtained' by increasing revenue and expenditures. If he wanted to balance the budget, President Hoover had two choices open to him: to reduce expenditures, and thereby relieve the economy of some of the aggravated burden of government or to increase that burden further by raising taxes. He chose the latter course. There was an increase of taxes that include personal incomes taxes, estates taxes, and sales taxes postal taxes. In the 1932, the Revenue Act was passed as one of the greatest increases in taxation ever passed in the United States in peace time. The range of tax increases was enormous , sales taxes were imposed on gasoline , tires, autos , electric energy , malt, toiletries, furs , jewel , and other articles; admission and stock transfer taxes were increased. (Ratner 445-49)

President Hoover also tried his best to impose on the public a manufactures sales tax, but this was successfully opposed by the manufactures. It might be mentioned, here, that for Hoover the great increase in the estate tax was moral in itself. The raising of postal rates burdened the public further and helped the revenues of a compulsory governmental monopoly.

3.2 EXPENDITURES VERSUS ECONOMY

Despite the increase in tax rate, total Federal Revenue for 1932 declined because of the deepened depression itself, caused by the increase in tax rates. Total Federal Receipts, excluding government enterprise, declined from \$ 2.2 billion in 1931to \$ 1.9 billion in 1932

including government enterprises, Federal Receipts fell from \$3.4 billion to \$3 billion. Total government receipts fell from \$12.4 billion to \$11.5 billion including government enterprises, from \$10.3 billion to \$9.5 billion excluding them. As a result, the huge federal deficit continued in 1932, Federal expenditures falling from \$4.4 billion to \$3.4 billion (from \$5.5 billion to \$4.4 billion) and government expenditures falling from \$13.3 billion to \$11.4 billion. Of the \$1.7 billion in total government deficit, the bulk of it \$1.4 billion was in the federal government account.

What did all this mean for the fiscal burden of government on the economy? While the absolute amount of Federal deprecations fell from \$5.5 to \$4.4 billion in 1932 and state and local burdens fell from \$9.7 to \$8.8 billion GNP and Gross Private Product declined far more drastically. GNP fell from \$76.3 billion in 1931 to \$58.5 billion in 1932, while GPP fell from \$70.9 billion to \$53.3 billion. (Paul 162)

3.3 THE RECONSTRUCTION FINANCE CORPORATION 'R.F.C'

One of the other aspects of president Hoover's New Deal, was the creation of the Reconstruction Finance Corporation. The most important plan in his program. The R. F. C was provided with government capital totalling \$500 million, and was empowered to issue further debentures up to \$1.5 billion. For the first five months, the lending activities of the R.F.C were in secrecy, and only determined by the democratic Congress forced the agency to periodic public reports. The bureaucratic excuse was that the R.F.C loans should, like bank loans or previous National Credit Corporation (N.C.C) loans, remain confidential. But the point was that, since the R.F.C was designed to lend money to unsound organizations about to fail, they were weak and the public deserved to lose confidence. Since the taxpayers pay for government and are supposed to be its "owners". There is no excuse for governmental representatives to keep secrets from their own principals.

The R.F.C made \$1 billion worth of loans of which 80 percent was lent to bank and railroads, and about 60 percent to banks. Some \$264 million were loaned to railroad during the five months of secrecy. The theory was that railroad securities must be protected, since many were held by saving banks and insurance companies. Of the \$187 million of loans that

have been traced, \$ 37 million were for the purpose of making improvements, and \$ 150 million to repay debts.

President Hoover complained that the Democratic Congress had delayed its passage by six weeks, allowing securities to be depressed below their “true worth”. Whatever they may be, Hoover’s chief complaint was that Congress did not permit the R.F.C to lend directly to industry, to agriculture, or to government for public work. In short, he did not permit the R.F.C to loan widely and enough. Congress agreed to transform the R.F.C from a generally defensive agency aiding banks and railroad in debt, to a ‘positive’ institution, making capital loans for new construction. This amendment “ The Emergency Relief and Construction Act of 1932” increased the R.F.C authorized total capital from \$ 2 billion to \$3.8 billion and permitted loans to states for relief and work relief. For –self liquidating projects and for financing sales of agricultural surpluses abroad orderly marketing in agriculture and agricultural credit corporations.

Over the entire year of 1932, the R.F.C extended credits totalling \$ 2.3 billion, and advanced an actual \$ 1.6 billion in cash. Of the year advance, 52 percent were loaned to banks, 17 percent to railroad and 9 percent to agriculture. In the agricultural field the R.F.C established regional agricultural credit corporation, and advanced them \$ 1.4 million which authorized credits of \$ 55 million by the cotton loans. And although the American Engineering Council suggested a shelf- self liquidating public work projects totalling \$ 1 billion, the R.F.C only authorized \$ 147 million and advanced \$ 16million for such project during the 1932. (Ebersole 464-87)

3.5 GOVERNMENTAL RELIEF

If President Hoover accepted the statism of the R.F.C, he gave one issue where he had championed the voluntary approach to direct relief. Franklin D. Roosevelt, governor of New York induced New York to establish the 1st state relief authority; the temporary Emergency Relief Administration equipped with \$ 25 million. On July 1932, the administration passed “the Emergency relief and construction Act of 1932”. The nation’s first federal relief legislation. It extends loans for state relief rather than direct grants to states, but this was a difference. The loans to the states were to be made by the R.F.C at 3 percent on the basis of ‘need’ as requested by the respective governors. The R.F.C was authorized to lend up \$ 300 million for this purpose. Grants were quickly made to Alabama, Georgia, Illiunas,

Montana, North Dakota, Ohio, Utah, Louisiana, and Oregon. The R.F.C obtained a staff of social workers, headed by Fred Croxton to administer the program. Total public relief in the 120 of the nation's leading urban areas amounted to \$ 33 million in 1929, \$ 173 million in 1931, and \$ 308 million in 1932. (Geddes 31)

3.6 THE INFLATION PROGRAM

The administration cleared the program by passing the Glass-Steagall Act in February which permitted the Federal Reserve to use government bonds as collateral for its notes (3). The way was cleared for a huge program of inflating reserves and engineering cheap money once again. At the end of February 1932, total bank reserves had fallen to \$ 1.85 billion. At that point, the F.R.S launched a program of purchasing U.S government securities. By the end of February 1932, total bank reserves had fallen to \$ 1.85 billion. At that point, the R.F.C revenues had been raised to \$ 2.51 billion. This enormous increase of \$ 660 million in reserves in less than a year is unprecedented in the previous history of the system. If banks had kept loaned up, the money supply of the nation would loan up, the money supply of the nation would have increased by approximately \$8 billion. Instead the money supply fell by \$ 3.5 billion during 1932, from \$ 68.25 to \$ 64.72 billion at the end of the year.

Until the second quarter of 1932, the nation's bank had always remained loaned up, with only little excess reserves. The banks accumulated excess reserves, and estimate that the proportion of excess to total bank reserves raised from 2.4 percent in the first quarter of 1932 to 10.7 percent in the second quarter. A common explanation is that the demand for loans by business fell during the depression, because business could not see many profitable opportunities ahead. But this argument stated the fact that banks never have to be positive, that if they really wanted to, they could buy existing securities, and increase deposits that way. They do not have to depend upon business firms to request commercial loans, or to suggest new bond issues. The reason of excess reserves must be found, therefore, in the banks rose from 2.4 percent in the first quarter of 1932 to 10.7 percent in the second quarter. (Currie 116)

The Hoover administration pursued an inflationary policy through 1932, raising controlled reserves by \$ 1 billion through government securities, if all other factors had remained constant, and banks fully loaned up. The money supply would have rise widely by

over \$ 10 billion during that period. Instead, the inflationary policy was reversed. What defeated it? Foreigners who lost confidence in dollar, as a result of the program, and drew out gold; American citizens who lost confidence in the banks and changed their deposits into Federal Reserves notes and bankers who refused to cause themselves danger any further, and either used the increased resources to pay debt to the Federal Reserve or allowed them to pile up in the values. And so, inflation by the government was turned into deflation by the policies of the public and the banks and the money supply dropped by \$ 3.5 billion.

If Hoover's inflationist plans were thus expressed by foreigners, the public, and the banks, the president did not permit himself to remain idle in the face of these obstacles. President Hoover moderate inflationist relative to many others and he did not wish to go off the gold standard. Seeing money in circulation increase by \$ 800 million in 1931, President Hoover arranged a cry against "traitorous hoarding". "Hoarding" meant that individuals were choosing to redeem their own property, to ask banks to transform their deposits into the cash which the bank had promised to have on hand for redemption.

3.7 HOOVER AND THE STOCK MARKET

During 1932, President Hoover addressed short sellers whom he consider responsible for the fall in the stock prices. He persuaded the Senate to investigate the stock exchange. He admitted that the Federal government had no constitutional legal authority over New York institution. The president used continual pressure to began the investigation of what he termed 'sinister' systematic bear raids . Security prices making a profit from the loses of other people. Besides such constitutional limitations seemed pole indeed. President Hoover assert that present prices of securities did not represent "true values". The stock market persisted in judging stocks according to their earning. Instead, the public should be willing to investors the basis of the future of the United States.

The stock exchange was directed into restricting short- selling , and President Hoover went on to propose further controls of the stock market , in anticipation of the later securities and Exchange Commission (S. E . C) including compulsory stock prospectuses, increased responsibility of promoters, and congressional rules for security exchanges.

3.8 THE HOME LOAN BANK SYSTEM

President Hoover wanted to establish a mortgage discount bank system to include all financial institutions, but the rejection of the scheme by insurance companies forced him to limit the building and loan associations. The Federal Home Loan Banks Act was passed in 1932, establishing 12 district banks ruled by a Federal Home Loan Bank Board similar to the Federal Reserve system. \$5 million capital was subscribed by the treasury and this was changed to the R.F.C. President Hoover claimed that congress had limited discounted mortgages to 50 percent of value, whereas Hoover had wanted mortgages to be discounted up to 80 percent of value. President Hoover set up national business and to encourage use of the new system. The president proclaimed the necessity of coordinating individual action with governmental activity to aid recovery. (MC Dounough 668-85)

The New Home Loan Bank System took a while to get started opening formally on October 15, and not lending at all until December. At the beginning of 1933 total loans were only \$ 838 thousand outstanding but by March the entire district banks were operating and the total reached almost \$ 94 million by the end of the year.

3.9 THE BANKRUPTCY LAW

Another part of President Hoover New Deal of 1932 that finally was expressed is amendment of the Federal Bankruptcy law to weaken the property rights of creditors. If there is to be a bankruptcy law at all, with debtor summarily freed from much of his self-incurred obligation (which in itself is highly dubious unless creditors and adept had contracted for such forgiveness before hand), then certainly minimum justice to the creditor would permit him to take over the debtor's assets. But president Hoover thought even his excessive and in 1933 he urged amendments weakening the right of the creditors. These important innovations were debated in Congress and only approved for individuals on March 1st, 1933 and signed by Hoover in one of his last acts as president. (Hervey 402-30)

The amendment permitted a majority of creditors in amount and in number, to accept deals preferred by the insolvent debtor for extending the time for payment without parting with his assets. As a result, a minority of creditors who would want instant redemption of their own rightful property were stolen of their proper claims. If there must be majority rule voting among creditors at all, then surely the only proper course was to go immediately into bankruptcy, with each creditors quickly obtaining his proper individual share of the debtor's assets. Otherwise, the minority creditor owns nothing.

3.10 THE FIGHT AGAINST IMMIGRATION

President Hoover pressed for legal suspension of immigration in the 1932 session, and the 90 percent reduction bill was introduced again. The AF L, the American Legion and various patriotic societies supported the bill, but Representative Dick Stein managed that the bill will not be allowed in the house committee. Bills by Dickstein to admit more relatives than the administration was allowing, was attacked by the Senate department, and no action was taken in congress.

Thus, Hoover failed to get suspension of immigration into law, but he accomplished practically the same end by administrative order and in his fall campaign for re-election, he pointed with pride to his achievement, and prepared to continue his anti- immigration policy until the depression was over.

4. THE NEW DEAL FARM PROGRAM

The New Deal program of farm subsidies, characterized especially by farm price supports, arrived in the United States under the Hoover, not the Roosevelt administration. The first massive intervention in agriculture had been the Federal Farm Loan System, established by the Federal Farm Loan Act of July, 1916. This system had set up a net work of Federal land banks, under a Federal Farm Loan Board, to lend money on long term mortgages. (Under subsidized terms) to cooperative Farm Loan associations. The Regulation of the meat Packard and stockyards was the final result of campaign against the pack yards and yards that had been conducted for years. Since meat packers had few votes, it was common sport for farmers to agitate that the packers were paying them too little for livestock, while consumers denounced pokers for charging them too high a price of meat.

This harassment of efficient large scale enterprise bore fruit in a Federal Trade Commission (F.T.C) investigation and in bills before congress during the war. Congress threatened to authorize the president to seize and operate the large stockyards himself. After threatening an antitrust suit, Attorney General A. Mitchell Palmer in February 1920, managed to force the packers to agree to a packer's consent decree, which forced the packers out fall non- meat production (2).(Salontos 448)

Yet agitation continued and in the packers and stockyards act of 1921, which established a detailed regulation of the activities of packers, including their pricing policy, under the direction of the secretary of agricultures. The War Finance Corporation (W.F.C) headed by Eugene Meyer, JR had made loans to exporters during 1919 and 1920. Suspended in May, 1920, the W.F.C was reactivated by congress over the veto of President Wilson in January, 1921. It did not then do very much to finance exports; its major role at that point was helping country banks that had loaned to farmers an operation that served as model for the later Reconstruction Finance Corporation. The W.F.C worked closely with Farm bloc leaders and appointed an advisory Committee of these leaders to pressure Midwest bankers into lending more heavily to farmers. The aim of the expanded W.F.C was to encourage farm exports raise farm prices , subsidize cheap credit to farmers and subsidize farm cooperatives . The new W.F.C replaced the stock Growers Finance Corporation, an organization promoted by the Federal Reserve in the spring of 1921 and financed by eastern banks to stabilize the livestock market. The W.F.C ending its operation in 1925 after the Creation of the Federal intermediate Credit System (3).

Congress established a commission of Agriculture, which delivered a report in October 1921, it recommended that the government authorize more farm cooperatives, that it provide for intermediate –term credit to farmers, that agricultural rates be lowered (this was quickly adopted) that there be special agricultural attackers in foreign countries, that the agricultural department expand its research, and that more wholesales be provided.

In March 1922, the government made available over \$1 million for the purchase of seed grain in crop failure areas. But the farm bloc wanted credits on a more a regular basis. Farmers could obtain abundant bank credit for short- term mortgages from the Federal lands Banks and other institutions. The Capper MC Fadden Bill, supported by Eugene Meyer, JR,

livestock interests, and cooperative markets, which would have extended Federal Reserve powers to farm credits, and the Lenroot-Anderson bill, presented by the faint Commission of Agricultural Inquiry (appointed by Harding 1921) and backed by the three large national farmers organizations. The latter bill would have created new institutions with capital subscribed by the treasury, to grant intermediate credits. The packers and stockyards administration of the U.S also directly helped farm cooperatives to find markets, and investigate the balks of many private commission farms. This pattern of farm intervention was the overture to the important and characteristically New Deal policy of farm price support

From 1924 through 1928 , the first Mc Navy Haugen Bill was drawn down up by Charles J.Brand an executive of the American fruit Growers and former head of the Bureau of Markets in the U.S D.A the original mass base of peeks support was the marginal wheat farmers of the North West moved by the bankers of that region . It was time that President Coolidge voted MC Nry Maugen Bills in 1927 and 1928 but it was also significant that he called upon in 1926 to head a cotton corporation to try to keep cotton prices from falling and that grants totalling \$ 10 million were made to government sponsored farm organizations to buy cotton at a certain price. Other countries such as Canada, Hungary, and Poland were also trying to keep up the price of wheat but the threat of growing surpluses over the market that the reverse effect and droves prices lower in 1928 and 1929, inducing a farm clamor for more effective price support. (Leonond 26)

As a Secretary of Commerce, Herbert Hoover did a great deal to subsidize farmers, and especially farm corps. He aided the latter in many ways –solving their research and marketing problems, helping find export markets for their products, and making many speeches on their behalf. He also supported tariffs for agricultural produce. Further more, he was the man chiefly responsible for the appointment of the strongly pro- cooperatives Secretary Jardine. Hoover had been one of the earliest proponents of a Federal Farm Board to aid cooperative marketing associations, and he helped write the Capper William Bill of 1924 to that effect. And so it is no surprise that as presidential candidate, President Hoover advocated support for farm cooperative and promised the farm bloc that he would soon institute a farm price support program. As soon as he took office, he fulfilled both promises. In June 1929, the Agricultural Marketing Act was passed establishing the Federal Farm Board (F. F.B)

The new scheme was that , The Federal Farm Board which furnished with \$ 500 million by the treasury and was authorized to make all- purpose loans, up to \$ 20 year period, to farm cooperatives at low interests. The Board could establish stabilization corporations to control farm surpluses and bolster farm prices.

4.1 THE FEDERAL FARM BOARD THE F.F.B

As the depression struck, the F.F. B went into action. Its first big operation was in wheat prices which had been falling sharply for over a year. When first established, the F.F.B advised farmers not to send wheat forward to market too rapidly , but rather to hold wheat in order to wait for higher prices . Yet, the wheat price continued to fall sharply. Shortly after the stock market crash, the F.F.B announced that it would lend \$ 150 million to wheat corps, up to 100 percent of the market price, to try to hold up prices by keeping wheat off the market. So after the stock market crash, the F. F.B established a Farmers “National Grain Corporation, with capital of \$ 10 million, to centralize cooperative marketing in wheat and other grains. The F.F.B was supposed to work largely through such “a corporation” , as favoured farm marketing cooperatives , and the Farmer’s National was selected to centralize all farmers grain in cooperatives , eliminate competition among them , and thus stabilize and raise the market price .At first , the F.F.B and Farmers National loaned money to farm cooperatives to hold wheat off the market , then , after prices continued to fall , the farmer’s National itself began to buy wheat at the loan prices.

President Hoover organized one of his White House conferences with the major farm organizations, the appointed heads of the F.F.B, and the land Banks. The farm organization; like the Union, agreed to cooperate with Hoover’s program of massive subsidy to themselves. Whenever government intervenes in the market, it worsened rather than settled the problem it has set out to solve. This is a general economic law of government intervention. It was certainly time for the overall Hoover depression policy. This law has been so clearly illustrated as in the American Farm program since 1929. The F.F.B managed to hold up wheat prices for a time .Seeing this apparent success; wheat farmers increased their acreage, thus worsening the surplus problem by the spring of 1930. Further more, as America held wheat off the market, it lost its former share of the world’s wheat trade. Prices continued to fall and

the heavy 1930 acreage aggravated the decline. The accumulating wheat surpluses in the hands of the F.F.B frightened the market and caused prices to tumble still further.(Shaviro 12)

In the year 1930, President Hoover acquired from Congress to add \$ 100 million to continue the F.F.B's lending and purchasing policies. But the farmers found themselves with increased surpluses, and with prices still failing. Under farm bloc pressure Hoover established the Grain Stabilization Corporation to replace the Farmer's National and redoubled stabilization efforts. The G.S.C concluded that individual wheat farmers had held off wheat in the fall, and were "profiteering by selling wheat to the G.S.C. The F.F.B programs had thus encouraged greater wheat production, only to find that prices were falling rapidly, greater surpluses threatened the market and encouraged greater declines. It became clear, in the government intervention that the farmers would have to reduce their wheat production, if they were to raise prices effectively. And the government's farm drove the F.F.B to conclude that Farmers had been "over producing" . The secretary and the F.F.B urged farmers to reduce their acreage voluntary. (Lipsey 222-34)

The farmer wanted subsidies from the government having to reduce their production of the subsidized crop had not been included in their plans. Surpluses continued to accumulate, and wheat prices continued to fall. In late 1930, the G.S.C was authorized to purchase as much wheat as necessary to stop any further decline in wheat prices. The G.S.C bought 200 million more bushels by mid1931. The forces of world supply and demand could not be changed so easily. Wheat prices continued to fall, and wheat production continued to rise. The F.F.B decided to sell wheat stocks abroad and the result was an enormous fall in market prices. By the end of the President Hoover's administration combined cotton and wheat losses by the F.F.B totalled over \$ 300 million.

The wheat program was the F.F.B's major effort. The board also attempted several other programs . In the fall of 1929, the F.F.B made loans to cotton cooperatives to stop the decline in cotton prices. These loans were added to loans from the Federal intermediate Credit Banks. But cotton prices continued to fall, even after the American Cotton cooperatives Association was encouraged to assume management of the operation. The F.F.B established the cotton stabilization Corporation (C. S.C) to try to stop the rise. The C.SC announced that it would maintain its holding for an entire year if prices did not rise. But this proclamation designed to firm the market, had no effect.

Again, the Cartel was confronted with growing surpluses, and therefore heavier pressure on farm prices. The F.F.B tried to exhort the cotton farmers, too, to reduce acreage. In early 1932, the Board tried an heroic action along with its 1.3 million bales, it obtained an agreement from southern banks to withhold all of their cotton (3.5 million bales). While it continued to finance 2.1 million bales held by the coops. This firmed prices until 1932 when they fell drastically again. The Board had bought \$ 127 million worth of cotton, and it had lost over half of its value. The up shot was that the C.S.C had to give up , and it began to liquidate its cotton holding in August , 1932 completing its unloading in a year . (Livinson 34-47)

At the end of 1929, the F.F.B established a national wool- cooperative the National Wool Marketing Corporation (NWMC) made up of 30 state associations. The Board also established an allied National Wool Credit Corporation to deal with Finance. The N.W.M.C unskilled in the affairs of the wool industry, turned over its selling operations to the private woollen handling firm, The N.W.MC made huge advances to Woll growers from 1930 on , by concentrating a large part of the domestic wool put in the hands of the N.W.M.C and the F.F.B loaned heavily to its creature . Prices kept downward, and the N.W.M.C program only served to encourage a greater production of wool.

The N.W.M.C had sold its huge stock of wool at very low prices, thus worsening the wool price problem still further. A total \$ 31.5 million in loans for wool were made by the F.F.B of which \$12.5 million were permanently lost. The stabilization effort of the F.F.B failed. Its loans encouraged greater production adding to its farm surpluses, which drive the market prices down both on direct and on psychological grand's. The F.F.B worsening the farm depression that it was supposed to solve. With the F.F.B failure, president Hoover began to pursue the logic of government intervention to the next step: recommending that productive land be withdrawn from cultivation , that crops be plowed under , and that immature farm animals be slaughtered –all to reduce the very surpluses that government's prior intervention had brought into being . It was left to the Roosevelt administration to carry out the next great logical step down the road to wholly socialized agriculture – an agriculture socialized on principles of irrationality and destruction. (MC Manus 231-32)

Although they failed in their main objective , the farm councils managed to scale down farm mortgages with hundreds of thousands of dollars , and farmers also organized ‘

penny sales' where they forcibly revealed other than a bankrupt farmer's friend from attending the sale of his goods. The friend would buy the goods for a penny and then return it to the bankrupt. The low point of this accrued in April 1933.

4.2 AGRICULTURAL AND TARIFF REFORM

Few people disagreed with the president on the need or changes in the U.S agricultural system. Farmers had suffered economic hardships because technology had changed the means by which they made a living. Modernization in agriculture had for example increased the need for investment in agricultural machinery and for transporting agricultural commodities to market. Many farmers favoured raising farm prices to meet increased costs, and they tended to support the N.C Nary Haugen Bill or some other form of agricultural subsidy. President Hoover opposed direct payments to farmers to increase their efficiency. Thus, instead of subsidies, he urged the formation of marketing cooperatives, through which farmers working together might arrive at a business like resolution of their difficulties. He favoured high tariffs on farm products to protect U.S farmers from agricultural imports produced abroad.

President Hoover called for a special session of Congress to work out farm, and tariff legislation. Congress passed the agricultural Marketing Act. The act demands to reduce speculation, to eliminate waste in distribution to encourage cooperative Marketing associations, and to stabilize prices by controlling surpluses. A federal farm board of eight members appointed by the president was to supervise the program. Under the stress of economic depression, the persistence of agricultural problems seemed to justify the farmer's doubts. Tariff revision, the other legislative action that Hoover regarded as necessary for improvement of the rural economy became lost in struggles over the agricultural Marketing Act and had to be deferred. When Congress finally passed the smooth- Hawley Tariff in 1930. The great depression had begun. The new tariff not only helped increase the severity of tries by raising the price of food for consumers but also agreed other nation that believed the U.S import policies would harm other policies abroad. (Wilson 46)

4.3 PRESIDENT HOOVER'S PROGRAM FOR A RECOVERY PROGRAM

During 1930, President Herbert Hoover devoted more and more attention to the public works program. His object was to increase the number of jobs available to workers in the building trades especially to veterans who were unemployed. By the time, the fiscal year 1931 opened, estimates of expenditure had been revised by about \$ 200 million over actual expenditures for the previous year. In the fall, president Hoover announced that investment expenditures of railroad and public utilities for the first eight months of 1929 by \$ 500 million. Those were encouraging signs, but Hoover took them to be more reliable indicators of prosperity than they actually were. His conviction led him to reject proposals for unemployment relief submitted by a cabinet committee that he had established while he agreed that increases in government spending could provide a desirable economic stimulus, he would not commit himself to a program lasting more than a year. Persuaded that his policies were working, Hoover thought that by mid 1931 unemployment relief would no longer be necessary.

In 1930, the whole recovery program that President Hoover had so commended was struggling not because it was wrongheaded but because it was too limited. Expectation of economic revival encouraged revenue shows or explain that were much higher than the taxes actually collected. With the lower revenue extractions and with greater emergency expenditures, the possibility of expending programs for public works. Then congress passed the Smoot – Hawley Tariff, and in June the president signed it into law . The president's program, although failing to meet the expectation of voters, nevertheless appeared to have been in large part successful. Democratic victories were a measure of nation's discount, as the triumphant opposition party made the most of high Smoot- Hawley rates, and the continuing agricultural depression. Hoover's rejection of proposals to provide relief for farmers in drought – stricken areas of the west, his continued support of prohibition, his internationalism as expressed in his recommendation that the United States join failure to exercise leadership in meeting the needs of people experiencing severe economic hardship. (Kindleberger 48)

President Hoover had formed the National Drought Committee to develop community Relief programs, and the president's emergency committee for employment (P.E.C.E) to coordinate community programs providing jobs and relief. When economic indicators showed

improvement early in 1931, Hoover asserted that organized voluntary action had demonstrated its effectiveness. As conditions worsened at home and abroad, Hoover attempted to halt the global economic land slide with one – year suspension of International debts payments

CONCLUSION

After the entire struggle in the economic system. President Hoover's assaults on depression had failed to reach their objectives and that he no longer had the political ground to mount another one. There were to be more grand initiatives. But the charge that pained him most inaccurate: that he had presided over the greatest depression in the nation's history and he had done nothing. He was supposed to get the United States out of this great crisis by the different reforms he did in the various fields of agriculture , industry , labor and unemployment .

ENDNOTES

1 Stimson also added a racist note, fearing that permitting relatives would allow the bringing of too many of the “southern” as against the “northern” and “Nordic” races.

2 Daniel .R.Fusfeld . The Economic Thought of Franklin .D. Roosevelt and the origins of the New Deal. (New York: Columbia University Press .1956) P 267

3 The defender of the Glass Steagall Act might protest that the act fitted the quantitative policy of considering total quantity rather than quality of assets and therefore that an “Austrian” economist should defend the measure. But the point is that any further permission for government to lend to Banks. Whether quantitative or qualitative, is an inflationary addition to the quantity of money, and therefore to be criticized by “Austrian” economist.

CONCLUSION

The fact that President Hoover sought re-election in the midst of the deepest and worst depression in American history, and in the face of unprecedented unemployment did not lower his satisfaction as he looked back upon his record. Hoover took different measures to combat the depression, he used the policy of higher tariffs, which had protected agriculture and prevented much unemployment expansion of credit by Federal Reserve, which Hoover some how identified with “protection of the gold standard”, the Home Loan Bank system, providing long- term capital to building and Loan associations and saving banks and enabling them to expand credit and suspend foreclosures agricultural credit banks which loaned to farmers. Reconstruction Finance Corporation (R.F.C) loans to banks , states , agriculture and public works , spreading of work to prevent unemployment , the extension of construction and public works , strengthening Federal Land Banks , and especially , including employers to maintain wage rates . Wage rates were maintained until the cost of living had decreased and the profit had practically vanished. They are now the highest real wages in the world .

Hoover, indeed, placed humanity before money through the sacrifice of profits and dividends before wages. He made work for the unemployed, prevented foreclosures, saved banks and fought to retard falling prices. Hoover staunchly upheld a protective tariff during his campaign, and his administration had successfully kept American farm prices above world prices, aided by tariffs on agricultural products. He hailed work sharing without seeing that it perpetuated unemployment.

While claiming to defend the gold standard, Hoover greatly shook public confidence in the dollar and helped foster the ensuing monetary crisis by revealing in his opening campaign speech that the government had almost deviated to go off the gold standard in the crisis of November 1931.

Yet, if New Deal socialism was the logic of Hoover’s policy, he consciously extended the logic only so far. He warned at St Paul of the strange and radical ideas prevalent in the democratic party : the scheme for currency tinkering , the pension bill , the commodity dollar , the pork- barrel bill, the plans for veterans bonuses and over \$ 2billion of green back issue , make work schemes , and an agitation for a vast \$9 billion a year public work program . It

was to Hoover's credit that he resisted the pressure of Henry Harriman, who urged Hoover to adopt the swooped plan for economic fascism during his campaign, a plan which was soon to bear fruit in the National Recovery Administration (N.R.A)

Hoover met the challenge of the great depression ever attempted in America. Bravely, he used every modern economic "tool", every device of progressive and "enlightened" economics, and every facet of government planning to combat the depression. For the first time, laissez – faire was boldly thrown over board and every governmental weapon thrown into the breach. America had awakened, and was now ready to use the state to the hilt, unhampered by the supposed shibboleths of laissez –faire. President Hoover was a bold and audacious leader in this awaking . By every " progressive tenet of our day , he should have ended his term a conquering hero, instead he left America in utter and complete ruin- a ruin unprecedented in length and intensity.

What were the troubles? Economic theory demonstrates that only governmental inflation can generate a boom and bust cycle, and that the depression will be prolonged and aggravated by inflationist and other interventinary measures. In contrast to the myth of laissez –faire , government intervention generated the unsound boom of the 1920's , and how Hoover's new departure aggravated the Great Depression by massive measures of interference. The guilt for the great depression must , at long last be lifted from the shoulders of the free market economy , and placed where it properly belongs at the doors of politicians , bureaucrats , and the mass of " enlightened economists" . And in any other depression, past or future, the story will be the same.

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