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Herbert Hoover
Father of the New Deal

by Steven Horwitz

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Executive Summary

Politicians and pundits portray Herbert Hoover as a defender of laissez faire governance whose dogmatic commitment to small government led him to stand by and do nothing while the economy collapsed in the wake of the stock market crash in 1929. In fact, Hoover had long been a critic of laissez faire. As president, he doubled federal spending in real terms in four years. He also used government to prop up wages, restricted immigration, signed the Smoot-Hawley tariff, raised taxes, and created the Reconstruction Finance Corporation—all interventionist measures and not laissez faire. Unlike many Democrats today, President Franklin D. Roosevelt's advisers knew that Hoover had started the New Deal. One of them wrote, "When we all burst into Washington . . . we found every essential idea [of the New Deal] enacted in the 100-day Congress in the Hoover administration itself."

Hoover's big-spending, interventionist policies prolonged the Great Depression, and similar policies today could do similar damage. Dismantling the mythical presentation of Hoover as a "do-nothing" president is crucial if we wish to have a proper understanding of what did and did not work in the Great Depression so that we do not repeat Hoover's mistakes today.

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Introduction

As the Great Recession threatens to become the Little Depression, the comparisons between the U.S. economy today and that of the 1930s continue to proliferate. The expansion of activist government policy that began with the Bush administration and that has been pursued even more vigorously by the Obama administration has invited comparisons to the New Deal legislation of Franklin Delano Roosevelt. The objections raised to the use of aggressive fiscal and monetary policy to deal with the stagnant economy have invited comparisons as well, namely to the Herbert Hoover presidency of 1929–33. Many in the media have tried to discredit the arguments made by free-market economists and other critics of Keynesian policy recommendations by claiming they are modern-day Hoovers, who wish to do nothing in the face of an economic crisis. From Paul Krugman to Rachel Maddow to dozens of others on TV or the Internet, Hoover is seen as a defender of laissez faire whose dogmatic commitment to small government led him to stand by and do nothing while the economy collapsed in the wake of the stock market crash in 1929. In their eyes, the modern-day Tea Parties and the academics and intellectuals who agree with their criticism of activist government are repeating the mistakes of the Hoover administration and delivering us to a repeat of the Great Depression.

The critics of laissez faire are right about one thing: Herbert Hoover deserves a good deal of blame for turning what would have most likely been a steep but short recession into a much deeper and eventually much longer Great Depression. Everything else about Hoover, however, they have wrong.

The version of Hoover presented in the media's narrative of Hoover as champion of laissez faire bears little resemblance to the details of Hoover's life, the ideas he held, and the policies he adopted as president. In fact, Hoover *rejected* laissez faire early in his life and much of his career was spent working in government and using the state to solve social problems, including reducing unemployment during recessions. When faced with an economic crisis only months into his presidency, his actions were completely consistent with his well-established views: he expanded the role of government significantly in order to fight the Depression. He would be more accurately portrayed as the father of the New Deal, not its enemy. The result, unfortunately (but not surprisingly), was to fan the flames rather than successfully fighting the fire. Dismantling the mythical presentation of Hoover as a "do-nothing" president is crucial if we wish to have a proper understanding of what did and did not work in the Great Depression so that we do not repeat Hoover's mistakes today.

Hoover's Early Career

Hoover began his career as a very successful engineer, and he desired to bring the engineering mentality to government. He thought that the engineer's focus on efficiency could enable government to play a larger and more constructive role in the economy. He was a supporter of Teddy Roosevelt and the Progressives in the 1912 presidential election and, by 1917, he had his own government job as head of the wartime Food Administration, working to reduce American food consumption, which is not the project one would expect of a free marketeer. His work there was lauded and many Democrats, including FDR, saw him as a potential presidential candidate for their party in the 1920s. He remained a registered Republican, however, and for most of the 1920s served as secretary of commerce under Presidents Warren Harding and Calvin Coolidge.

Hoover had long believed that it was necessary to "transform the structure of the U.S. economy from one of laissez-faire to one of voluntary cooperation."[1] In her biography *Herbert Hoover: Forgotten Progressive* Joan Hoff Wilson summarizes Hoover's economic views this way:[2]

> Where the classical economists like Adam Smith had argued for uncontrolled competition between independent economic units guided only by the invisible hand of supply and demand, he talked about voluntary national economic planning arising from cooperation between business interests and the government. . . . Instead of negative government action in times of depression, he advocated the expansion of public works, avoidance of wage cuts, increased rather than decreased production—measures that would expand rather than contract purchasing power.

Hoover was also a long-time critic of international free trade, and favored "increased inheritance taxes, public dams, and, significantly, government regulation of the stock market."[3] This was not the program of a devotee of laissez faire, and he was determined to use the Commerce Department to implement it.

As commerce secretary during the 1920–21 recession, Hoover convened conferences between government officials and business leaders as a way to use government to generate "cooperation" rather than individualistic competition. He particularly liked using the "cooperation" that was seen during wartime as an example to follow for economic crises. In contrast to Harding's more genuine commitment to laissez faire, Hoover began one 1921 conference with a call to "do something" rather than nothing. That conference ended with a call for more government planning to avoid future depressions, as well as using public works as a solution once they started.[4] Pulitzer Prize–winning historian David M. Kennedy summarized Hoover's work in the 1920–21 recession this way: "No previous administration had moved so purposefully and so creatively in the face of an economic downturn. Hoover had definitively made the point that government should not stand by idly when confronted with economic difficulty."[5] Most of Hoover's ideas were rejected by Harding, and later by Coolidge, but the publicity he generated made it quite clear to the political class and the American people that if he had the power of the presidency, he would not stand idly by in the face of a depression. That Hoover did not get his way might explain why the 1920–21 recession, as steep as it was, was reasonably short and did not get anywhere near the depth or length of the Great Depression, during which Hoover *was* able to get his way.

In his role as secretary of commerce, Hoover also created a new government program called "Own Your Own Home," which was designed to increase the level of homeownership. Hoover jawboned lenders and the construction industry to devote more resources to homeownership and he argued for new rules that would allow federally chartered banks to do more residential lending. In 1927, Congress complied and, with this government stamp of approval, as well as the resources made available by Federal Reserve expansionary policies through the decade, mortgage lending boomed. Not surprisingly, this program became part of the disaster of the Depression as bank failures dried up sources of funds, preventing the frequent refinancing that was common at the time, and high unemployment rates made the government-encouraged mortgages unaffordable. The result was a large increase in foreclosures, which also weakened thousands of very small U.S. banks that were in a precarious situation as a result of laws preventing them from operating across state lines and thereby diversifying and reducing their risks.[6] The parallels between Hoover's program and the similar policies of the Clinton and Bush administrations in the 1990s and the first decade of the 21st century demonstrate his willingness to use government intervention. The real lesson from Hoover's career is the failure of intervention, not his supposed laissez faire.

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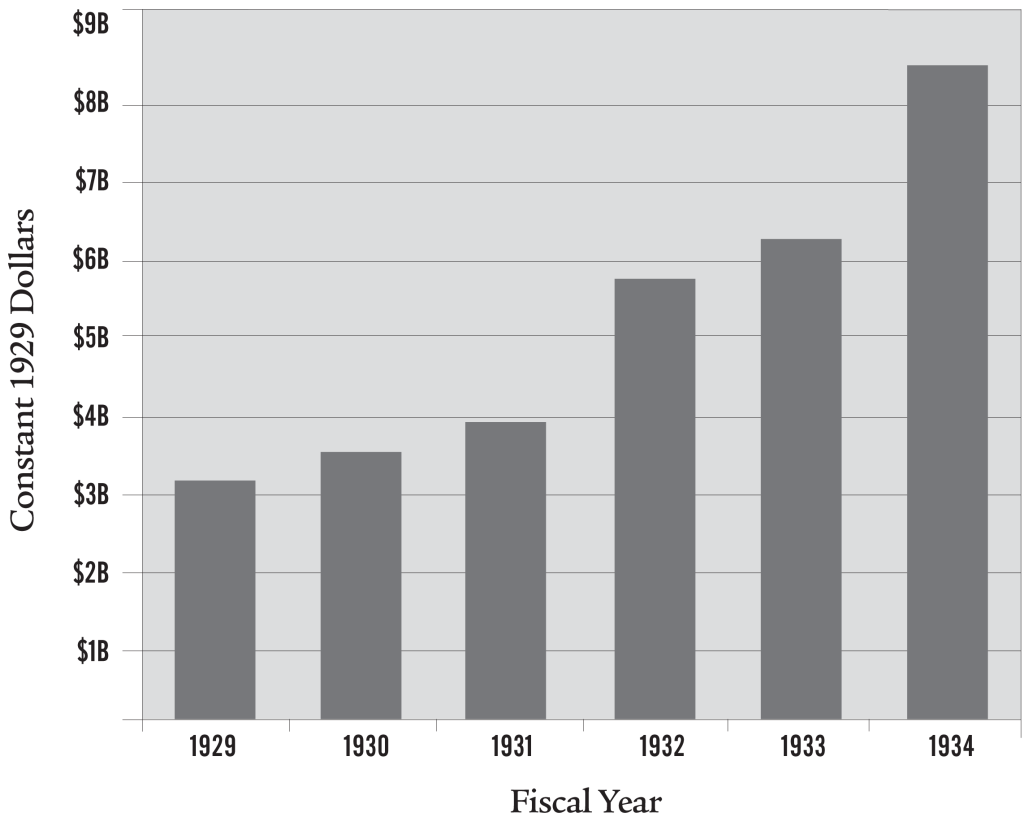
The Hoover Presidency

Hoover did anything but stand idly by

Figure 1
Real Federal Spending



Source: http://www.whitehouse.gov/sites/default/files/omb/budget/fy2009/pdf/hist.pdf.
Note: Hoover administration encompassed FY1930–FY1933 budgets.

after the onset of the Depression. There are several major examples that one can point to where Hoover extended the size and scope of the federal government in order to fight the rapidly worsening Depression. To set the stage for those, I start with a quick look at the overall level of federal government spending during his presidency. The 1929 budget was $3.1 billion, and Hoover's first budget in 1930 had $3.3 billion in spending, followed by $3.6 billion, $4.7 billion, and $4.6 billion over the following three years. In nominal terms, he increased spending 48 percent over the last budget of the previous administration. However, this period was one of significant deflation, so if we adjust for the approximately 10 percent per year fall in prices over that period, the real size of government spending in 1933 was almost double that of 1929.[7] The budget deficits of 1931 and 1932 represented 52.5 percent and 43.3 percent of total federal expenditures. No year between 1933 and 1941 under Roosevelt had a deficit that large.[8] It is hard to reconcile those data with the claim that Hoover was a defender of "austerity" and "budget cutting" in the name of laissez faire.

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In the immediate aftermath of the stock market crash in October of 1929, Hoover extended federal control over agriculture by expanding the reach of the Federal Farm Board (FFB), which had been created a few months earlier, as well as calling for public works expenditures.[9] The idea behind the FFB was to make government-funded loans to farm cooperatives and create "stabilization corporations” to keep farm prices up and deal with surpluses. In other words, it was a cartel plan. That fall, Hoover pushed the FFB into full action, lending to farmers all over the country and otherwise subsidizing farming in an attempt to keep prices up. As is the case with such arrangements, it failed miserably, as subsidies only encouraged farmers to grow more crops. That exacerbated farm commodities surpluses, and eventually drove prices way down, sending more farms into dire circumstances. Hoover responded by proposing the further anti-market policy of paying farmers not to grow crops.

Hoover also quickly proposed an expansion of public-works projects as a way to address unemployment—an idea that he had not only championed throughout the 1920s, but that was, contrary to perception, agreed upon as worthwhile by a majority of economists at the time, well before John Maynard Keynes’s *The General Theory* was published in 1936. Hoover sent a telegram to state governors asking them to cooperate on state-level public-works programs. Hoover and his secretary of the treasury, Andrew Mellon (himself often wrongly portrayed as a defender of laissez faire), proposed $400 million in new federal buildings as well as $175 million in public works through the federal Shipping Board. These proposals met with approval from the professoriate as examples of “constructive industrial statesmanship.”[10] They were also ridiculed as “pump priming” in a *New York Tribune* editorial cartoon of April 8, 1930, reproduced in Figure 2. The cartoon showed Hoover pouring buckets of water labeled “millions for public roads,” “millions for public buildings,” and “millions for public construction” through a water pump labeled “U.S. Business.” Observers at the time understood exactly what Hoover’s program was all about.

Most significantly, Hoover revived the business-government conferences of his time at Commerce by summoning major business leaders to the White House several times that fall. His agenda for these meetings was clear: he wanted businessmen to promise not to reduce wages in the face of rising unemployment. Hoover believed, as did a number of intellectuals at the time, that the cause of prosperity was high wages, even though the truth is the reverse: prosperity, thanks to the accumulation of capital that increases the productivity of labor, leads to higher wages. He argued that if major firms cut wages, workers would not have the purchasing power they needed to buy up the goods being produced. As most depressions involve falling prices, cutting wages to match falling prices would have kept purchasing power constant. What Hoover wanted amounted to an increase in real wages, as constant nominal wages would be able to purchase more goods at falling prices. Presumably out of fear of the White House, or perhaps because it would keep the unions quiet, industrial leaders agreed to this proposal. The result was rapidly escalating unemployment as firms quickly realized they could not continue to employ as many workers when their output prices were falling and labor costs were constant.[11]

Of all the government failures of the Hoover presidency, excluding the actions of the Federal Reserve between 1929 and 1932 over which he had little to no influence, his attempt to maintain wages was the most damaging. No proponent of laissez faire would have used White House pressure to intervene in the private sector this way. Hoover’s high-wage policy was a clear example of his lack of faith in the corrective forces of the market and his willingness to use governmental power to fight the Depression. The promulgators of the myth of Hoover’s commitment to laissez faire will find it difficult to explain away this point.

Later in his presidency, Hoover did more than just jawbone to keep wages up; he signed two pieces of labor legislation that dramatically increased the role of government in propping up wages and giving monopoly protection to unions. In 1931, he signed the Davis-Bacon Act, which mandated that all federally funded or assisted construction projects pay the “prevailing wage,” (i.e., the above-market-clearing union wage).

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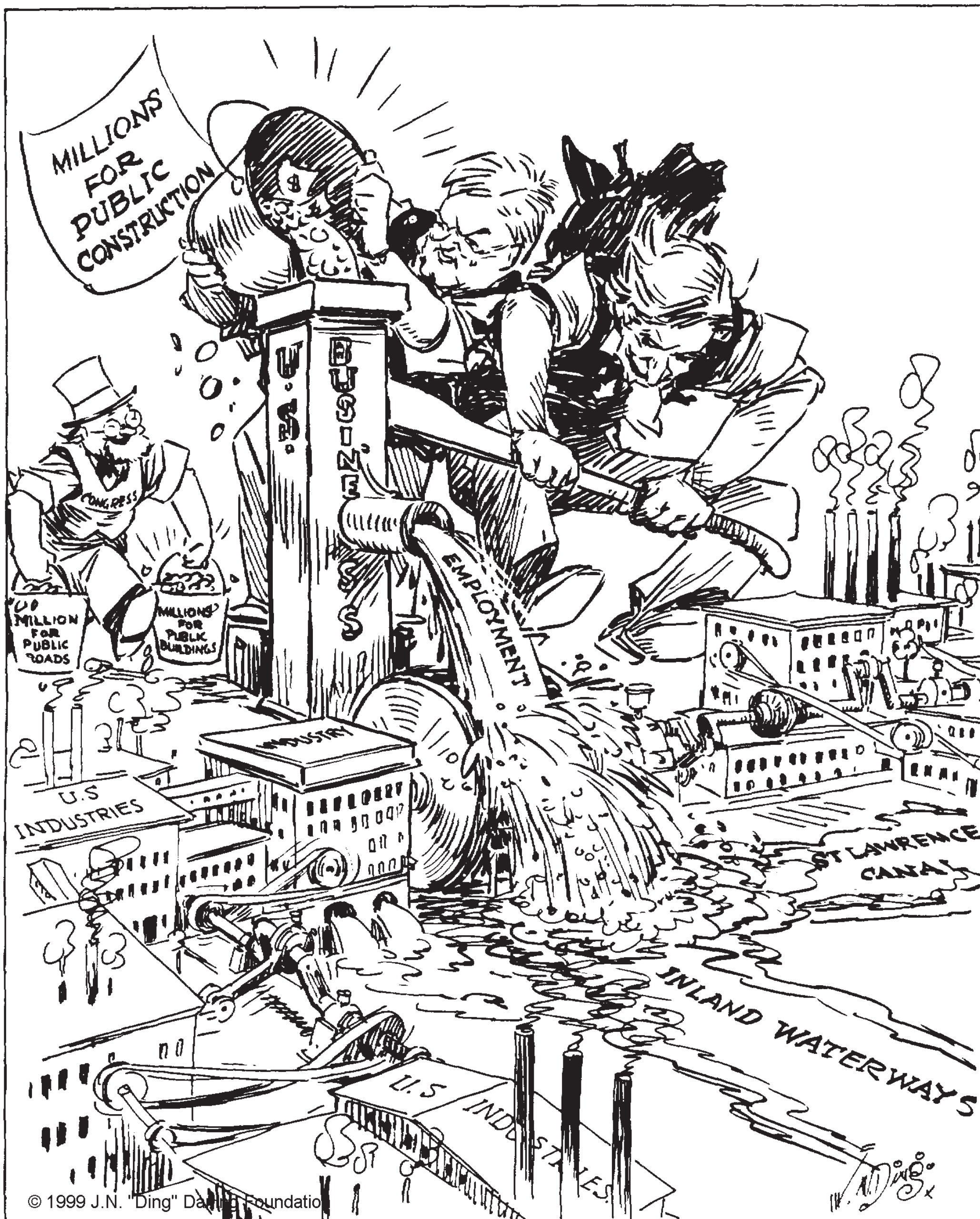
Figure 2
Reproduction of a *New York Tribune* Editorial Cartoon from April 8, 1930



Source: Courtesy of the Jay N. "Ding" Darling Wildlife Society.

This had the result of both shutting out non-union labor, especially immigrants and non-whites, and driving up the cost to taxpayers. A year later, he signed the Norris-LaGuardia Act, whose five major provisions each enshrined special provisions for unions in the law, including a prohibition on judges using injunctions to stop strikes and making union-free contracts unenforceable in federal courts.[12] Hoover's interventions into the labor market are further evidence of his rejection of laissez faire.

Two other areas that Hoover intervened in aggressively were immigration and international trade. One of the lesser-known policy changes during his presidency was that he put a near halt to immigration by issuing an executive order in September of 1930. The argument was largely economic: it was an attempt to preserve the jobs and wages of American citizens against the competition from low-wage immigrants. Immigration fell to a mere 10–15 percent of the allowable quota of visas for the five-month period ending February 28, 1931. Once again, Hoover was unafraid to intervene in the economic decisions of the private sector by preventing the competitive forces of the global labor market from setting wages.[13]

Among those with even a casual knowledge of the Great Depression, Hoover's most-recognized policy mistake was his promotion and signing of the Smoot-Hawley tariff in 1930. This law increased tariffs significantly on a wide variety of imported goods. The results were disastrous, as the stock market plunged upon its signing and other countries retaliated by passing new tariffs of their own, leading to a dramatic reduction in U.S. exports and a worsening of the Depression.

The collapse of international trade contributed to the worsening Depression, even as Hoover argued it would help maintain the purchasing power of American workers by protecting the firms that employed them from cheap competition. As with immigration, Hoover preferred the visible fist of government to the invisible hand of the market.

What is striking about the Smoot-Hawley tariff is that even those who claim Hoover was a defender of laissez faire will admit that he was in favor of the law. They do not recognize that his support for sharp tariff increases is strong evidence against their characterization of him as a laissez faire dogmatist. Protectionist legislation is one of the most obvious rejections of market competition that one can engage in, and enforcing such laws requires a significant extension of government power both at the borders and domestically. Promulgators of the Hoover myth will likely agree that the increase in tariffs was an example of activist government and that it worsened the Depression, yet they seem to experience deep cognitive dissonance when doing so because they remain unable to give up on their belief that Hoover's commitment to laissez faire is what worsened the Depression.

Most of these policies continued, and many expanded, throughout 1931, with the economy worsening each month. By the end of the year, Hoover decided more drastic action was necessary and, on December 8th, he addressed Congress and offered a set of proposals that historian David Kennedy refers to as "Hoover's second program" and that has also been called "The Hoover New Deal."[14] The list of items he proposed included:

- The Reconstruction Finance Corporation to lend tax dollars to banks, firms, and others institutions in need.
- A Home Loan Bank to provide government help to the construction sector.
- Congressional legalization of Hoover's executive order that had blocked immigration.
- Direct loans to state governments for spending on relief for the unemployed.
- More aid to Federal Land Banks.
- Creating a Public Works Administration that would both better coordinate Federal public works and expand them.
- More vigorous enforcement of antitrust laws to end "destructive competition" in a variety of industries, as well as support for work-sharing programs that would supposedly reduce unemployment.

On top of those spending proposals, most of which were approved in one form or another, Hoover proposed, and Congress ap-

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proved, the largest peacetime tax increase in American history. The Revenue Act of 1932 increased personal income taxes dramatically, but also brought back a variety of excise taxes that had been used during World War I. The higher income taxes involved an increase of the standard rate from a range of 1.5–5 percent to the 4–8 percent range. On top of that increase, the act placed a large surtax on higher-income earners, leading to a total tax rate of anywhere from 25 to 63 percent. The act also raised the corporate income tax along with several taxes on other forms of income and wealth.

Whether what Hoover did was the right medicine or not—and the evidence suggests it was not—the set of programs he offered added up to a fairly aggressive use of government to address the problems of the Depression.[15] These programs were hardly what one would expect from a man devoted to laissez faire and accused of doing nothing while the Depression worsened. The same point can be made of the whole of the Hoover presidency. He came into office with a reputation as a man who desired an active role for government, and he governed consistent with that belief.

The Views of Contemporaries and Modern Historians

The myth of Hoover as a defender of laissez faire persists despite the fact that his contemporaries clearly understood that his program was one of making aggressive use of government to fight the Depression. One reason they understood it was because a number of Hoover's own statements made clear that was how he saw his presidency. The myth also persists in spite of the widespread recognition by modern historians that the Hoover presidency was anything but an era of laissez faire. The Hoover myth is only one of many persistent myths about the Great Depression, but it remains one of the most problematic because Hoover's actions *did* cause a great deal of damage, making it even more imperative that we have an accurate understanding of what he did and did not do.

I have already noted the cartoon poking fun at Hoover's use of public works programs as early as 1930. Hoover's secretary of state, Henry Stimson, reported that Hoover argued that balancing the budget was a mistake, saying: "The President likened it to war times. He said in war times no one dreamed of balancing the budget. Fortunately we can borrow."[16] Hoover himself summarized his administration's approach to the Depression during a campaign speech in 1932:

> We might have done nothing. That would have been utter ruin. Instead, we met the situation with proposals to private business and the Congress of the most gigantic program of economic defense and counterattack ever evolved in the history of the Republic. These programs, unparalleled in the history of depressions of any country and in any time, to care for distress, to provide employment, to aid agriculture, to maintain the financial stability of the country, to safeguard the savings of the people, to protect their homes, are not in the past tense—they are in action. . . . No government in Washington has hitherto considered that it held so broad a responsibility for leadership in such time.[17]

Some might dismiss this as campaign rhetoric, but as the other evidence indicates, Hoover was giving an accurate portrayal of his presidency. So accurate, in fact, that Hoover's profligacy became a line of attack for Roosevelt during the campaign.[18]

Roosevelt's own advisers understood that much of what they created during the New Deal owed its origins to Hoover's policies, going as far back as his time at the Commerce Department in the 1920s. Rexford G. Tugwell, one of the academics at the center of FDR's "brains trust" said: "When it was all over, I once made a list of New Deal ventures begun during Hoover's years as Secretary of Commerce and then as president. . . . The New Deal owed much to what he had begun."[19] Another member of the brains trust, Raymond Moley, wrote of that period:

> When we all burst into Washington . . . we found every essential idea [of the New Deal] enacted in the 100-day Congress in the Hoover administration itself. The essentials of the NRA, the PWA, the emergency relief setup were all there. Even the AAA was known to the Department of Agriculture. Only the TVA and the Securities Act was drawn from other sources. The RFC, probably the greatest recovery agency, was of course a Hoover measure, passed long before the inauguration.[20]

Late in both of their lives, Tugwell wrote to Moley and said of Hoover, "we were too hard on a man who really invented most of the devices we used."[21] Roosevelt's inner circle would have every reason to disassociate themselves with the policies of their predecessor, yet two of them recognized quite clearly Hoover's role as the father of the New Deal.

This point is not lost on contemporary historians either. In his authoritative history of the Great Depression era, David Kennedy wrote of Hoover's 1932 program of activist policies that they helped "lay the groundwork for a broader restructuring of government's role in many other sectors of American life, a restructuring known as the New Deal."[22] In a later discussion of the beginning of the Roosevelt administration, Kennedy observed (emphasis added):

> Roosevelt intended to preside over a government *even more* vigorously interventionist and directive than Hoover's . . . [I]f Roosevelt had a plan in early 1933 to effect economic recovery, it was difficult to distinguish from many of the measures that Hoover, even if sometimes grudgingly, had already adopted: aid for agriculture, promotion of industrial cooperation, support for the banks, and a balanced budget. Only the last was dubious. . . . FDR denounced Hoover's budget deficits.[23]

Kennedy is hardly someone with an ideological agenda to distort either Hoover or FDR's accomplishments, and his view of matters corresponds both with Hoover's own description and those of his contemporaries in the Roosevelt administration.

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Conclusion

Despite overwhelming evidence to the contrary, from Hoover's own beliefs to his actions as president to the observations of his contemporaries and modern historians, the myth of Herbert Hoover's presidency as an example of laissez faire persists. Why that is so is beyond the scope of this study, but it surely remains a source of comfort to those among the intelligentsia who deeply believe that the Great Depression demonstrates the problems with free-market capitalism and the importance of government intervention in stabilizing a market economy. The truth, of course, is nearly the opposite. This misinterpretation of the Great Depression lies at the bottom of much of their more general belief in the deep flaws of market economies, as we have seen in the way the media and many intellectuals have cheered on the activism of Bush and Obama since 2008.

Accepting Hoover's role as the father of the New Deal would challenge the fundamental argument at the core of their preferred narrative that laissez faire made matters worse during the Depression and that government intervention was the solution. Everyone agrees that Hoover's presidency made things worse, but for the critics of capitalism to accept the truth of Hoover's

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activist policies would require that they question the effectiveness of such activism and drop the claim that laissez faire failed. In the past three years the failure of massive government intervention to deal with our own economic crisis has become clearer each day. Facing a failed ideology, it should not come as a surprise that defenders of the interventionist faith would cling to the Hoover myth like a plank in the ocean. Unfortunately for them, the historical facts are not on their side and, unfortunately for the American economy, the persistence of the Hoover myth continues to justify the counterproductive policies of the Obama administration and thereby prevents markets from generating the economic recovery of which they are fully capable.

Notes

1. Donald R. Stabile, "Herbert Hoover, the FAES, and the AF of L," *Technology and Culture* 27 (1986): 819.

2. Joan Hoff Wilson, *Herbert Hoover: Forgotten Progressive* (Boston: Little Brown, 1975), p. 68.

3. Wilson, p. 65–66. See also Murray N. Rothbard, *America's Great Depression*, 5th ed. (1963; Auburn, AL: Ludwig von Mises Institute, 2008), p. 188.

4. Rothbard, p. 192.

5. David M. Kennedy, *Freedom from Fear: The American People in Depression and War, 1929–1945* (New York: Oxford University Press, 1999), p. 48.

6. See Steven Malanga, "Obsessive Housing Disorder," *City Journal* 19, no. 2 (Spring 2009).

7. Federal government spending data can be found on the U.S. Census Bureau's website at http://www2.census.gov/prod2/statcomp/documents/CT1970p2-12.pdf.

8. See the data and discussion in Jonathan Hughes and Louis P. Cain, *American Economic History*, 7th ed. (Boston: Pearson, 2007), p. 487. Hughes and Cain also note of those deficits, "The expenditures were in large part the doing of the outgoing Hoover administration."

9. See Kennedy, pp. 43–44; Rothbard, p. 228; and Gene Smiley, *Rethinking the Great Depression* (Chicago: Ivan R. Dee, 2002), p. 13.

10. Professor John Maurice Clark, as quoted in Rothbard, p. 217.

11. See Lee Ohanian, "What—or Who—Started the Great Depression?" *Journal of Economic Theory* 144 (2009): 2310–35.

12. Chuck Baird, "Freeing Labor Markets by Reforming Union Laws," Cato Institute: Downsizing the Federal Government, June 2011, http://www.downsizinggovernment.org/labor/reforming-labor-union-laws.

13. See Herbert Hoover, "White House Statement on Government Policies to Reduce Immigration," March 26, 1931, The American Presidency Project, http://www.presidency.ucsb.edu/ws/index.php?pid=22581#axzz1V7klWwZu. That statement opens with an explicit link between the immigration policy and unemployment: "President Hoover, to protect American workingmen from further competition for positions by new alien immigration during the existing conditions of employment, initiated action last September looking to a material reduction in the number of aliens entering this country."

14. Kennedy, p. 83. The phrase "Hoover's New Deal" is from the title of chapter 11 in Rothbard.

15. Hoover's higher tax rates backfired, as they further depressed income-earning activity, reducing the tax base, which in turn led to a fall in tax revenues for 1932.

16. As cited in Kennedy, p. 79.

17. Herbert Hoover, "Address Accepting the Republican Presidential Nomination," August 11, 1932, The American Presidency Project, http://www.presidency.ucsb.edu/ws/index.php?pid=23198&st=&st1=#axzz1XPYTaLXo.

18. Franklin D. Roosevelt, Campaign Address on the Federal Budget at Pittsburgh, Pennsylvania, October 19, 1932, http://www.presidency.ucsb.edu/ws/index.php?pid=88399#axzz1XPYTaLXo.

19. As quoted in Amity Shlaes, *The Forgotten Man: A New History of the Great Depression* (New York: HarperCollins, 2007), p. 149.

20. Raymond Moley, "Reappraising Hoover," *Newsweek*, June 14, 1948, p. 100.

21. Rexford G. Tugwell to Raymond Moley, January 29, 1965, Raymond Moley Papers, "Speeches and Writings," box 245–49, Hoover Institution on War, Revolution and Peace, Stanford University. Cited in Davis W. Houck, "Rhetoric

as Currency: Herbert Hoover and the 1929 Stock Market Crash," *Rhetoric & Public Affairs* 3 (2000), p. 174.

22. Kennedy, p. 83.

23. Kennedy, p. 118.

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