Herbert Hoover the Interventionist

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One of the projects I have been working on lately is a unit about the Great Depression for junior high age students. It is designed to correct a number of popular myths associated with the worst economic disaster in our nation's history. These myths are legion (the idea that the free market caused the crash, that the New Deal brought the country out of the Depression, etc.), but perhaps the most popular is the notion that President Herbert Hoover (1929–33) instituted a do-nothing policy in response the crisis. In fact, Hoover intervened in the economy more than any president up to that point.

Nevertheless, economist Robert Murphy catches several writers — who should know better — repeating this hoary old myth . For instance, Nobel laureate economist Paul Krugman recently compared the current Republican position on federal spending to Hoover's during the Depression:

> "Liquidate labor, liquidate stocks, liquidate the farmers, liquidate real estate." That, according to Herbert Hoover, was the advice he received from Andrew Mellon, the Treasury secretary, as America plunged into depression. To be fair, there's some question about whether Mellon actually said that; all we have is Hoover's version, written many years later.

> But one thing is clear: Mellon-style liquidationism is now the official doctrine of the G.O.P.

To which [Murphy responds](#) :

> To his credit, Krugman acknowledges that this quote comes from Hoover's own memoirs, written well after the fact. But to his discredit, Krugman fails to notify us that *on the very next page* of Hoover's memoirs, after he explains the liquidationist advice he got from his treasury secretary, Hoover wrote,
>
> > *"But other members of the Administration,* also having economic responsibilities — Under Secretary of the Treasury Mills, Governor Young of the Reserve Board, Secretary of Commerce Lamont and Secretary of Agriculture Hyde — *believed with me that we should use the powers of government to cushion the situation.*"[2]
>
> If you read Hoover's memoirs in context, you see that his whole point in bringing up the Mellon doctrine *was to tell his readers that he rejected the advice*. Hoover was trying to show people (and of course I'm paraphrasing here), "Hey, I did everything I could to get us out of that awful downturn! You should have seen the crazy laissez-faire stuff my treasury secretary was recommending."

And Hoover was not exaggerating when it came to his expansion of the government. It's relatively well-known that Hoover endorsed and signed the Smoot-Hawley Tariff into law, causing American exports and imports to decrease by more than 60 percent by the end of his term. However, Hoover's meddling was hardly limited to the sphere of international trade. He increased federal spending by almost 50 percent and dramatically increased taxes , including raising the top income tax rate from 25 to 63 percent. Perhaps most disastrously, Hoover urged businessmen to keep wages up , which they did even amid serious deflation. These artificially inflated wages forced businesses to lay off workers. Soon, the country experienced the greatest mass unemployment in history, with a quarter of the labor force out of work.

It was Hoover's dramatic interventions into the economy that turned what would have been a severe recession into the Great Depression. In a 2009 article , UCLA economist Lee Ohanian estimated that Hoover's high-wage policies accounted for two thirds of the 27-percent drop in GDP from 1929 to 1931. Unfortunately, Franklin Roosevelt built on Hoover's mistakes instead of learning from them. Rexford Tugwell, a leading member of FDR's brain trust, later remarked that "[t]he ideas embodied in the New Deal legislation were a compilation of those which had come to maturity under Hoover's aegis." Not surprisingly, the continuation of bad policy did nothing to remedy the economic situation, and the country stayed mired in depression until after World War II .

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