THE WELFARE STATE

by
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Chapter 1

Introduction

A major thrust toward establishing the welfare state came swiftly in 1933. In a special session, which lasted from March 9 through June 16, 1933, Congress, prodded by the President, asserted the authority of the federal government over the American economy in an unprecedented fashion. Never before, certainly not in time of peace, had such far-reaching legislation been passed by any Congress. The swiftness of it has led some historians to ponder whether or not it was a revolution. In the traditional meaning of the term, it certainly was not a revolution. That is, it was not a successful revolt against the established authority, carried out by force of arms. If, however, the term be taken to signify a swift, as opposed to a gradual change, the change in direction was made quickly, and it did have a considerable impact on the country.

Actually, some of the central pieces of legislation to come out of the first hundred days of the New Deal were later held to be unconstitutional, and the particular approaches were abandoned. But the premise of the welfare state was vigorously asserted, and it became established. The premise of the welfare state in the United States is that the federal government is basically responsible for the material well-being of the American people. During the 1930s this premise became so well established that it had not been dislodged by the mid-1980s. President after President has affirmed the premise, and Congress and the courts have acted upon it. Grover Cleveland once asked, "If the government supports the people, who will support the government?" His meaning was this: The government is wholly dependent upon tax receipts (or occasionally other types of payments) for its revenues. It is a nonsensical reversal of roles for the people to be dependent upon the government for their material well-being. To put it yet another way, the government produces no goods; rather, it consumes some portion of the goods taken from people. It can only play a larger role by increasing the portion that it takes and thus reducing the amount available to people generally. Cleveland's question still wants a satisfactory answer, but a welfare state has been established based upon the premise that government will provide for a vast assortment of material and other needs.

The Great Depression, as it came to be called, was the occasion for the establishment of the welfare state. It served, or was used, as the catalytic agent for a massive assertion of governmental power. The economic difficulties which many Americans were experiencing gave an opportunity for the coalescing of reformers, radical and otherwise, behind the administration of President Franklin D. Roosevelt, which was bent on taking dramatic and drastic action. Since the 1890s, reformers had been beating the drums for reform, in and out of season, in good times and bad. Populists had sounded their call; Socialists had pushed for more radical change; Progressives had their heyday from around 1905 to the midst of World War I. Revolutionists, in or out of labor unions, had pressed the case for overturning the system. The alienation of many intellectuals reached its peak in the early 1930s as Hoover and the Republicans resisted drastic change and sought to bring about improvement by modest interventions. The deepening depression gave the reformers their opportunity to make drastic reforms.

Although social programs poured forth in great array in the early days of the New Deal, that is not to suggest that the welfare state was established in one great swoop. On the contrary; the welfare state was established over several decades. There were two great surges, and a goodly number of programs introduced over the years. The first surge came during the 1930s, roughly between 1933–39. Another great surge of programs came in 1965–1966, under President Lyndon Johnson. The symbolic establishment of the welfare state as a fixture, however, came in the 1950s, when the Department of Health, Education, and Welfare attained cabinet status. Not only did this signify a greater permanence to it, but since it was done under the first Republican President elected since the beginning of the New Deal, it indicated the decline of partisan opposition to it.

Not only did the welfare state entail much more government involvement in the lives of Americans but it was also brought about by major shifts in government power. Indeed, the thrust toward the welfare state was only possible by ignoring or overriding constitutional limitations on the federal government and the assumption by it of many new powers. It involved the centralization of power in the national government. This meant that powers formerly exercised by the state or local governments, if they were exercised at all, came under the direction of the central government. Presidential power was greatly increased under Franklin D. Roosevelt, and the traditional roles were almost reversed. Presidents presented programs, and Congress tended to either pass or veto them. The initiative in legislation definitely shifted toward the presidency. A vast bureaucracy was created to administer all the programs, and government became a major growth industry. In the 1960s, the Supreme Court emerged as the dominant branch of government on all those increasing number of matters on which it spoke. The federal government became involved in one way or another with virtually every facet of American lives over the years, ranging from the schools to the monitoring of the safety of lawn mowers and automobiles. Most of the states and many local governments have also enacted their own versions of welfare measures over the years.

Nor was the welfare state idea restricted to the territorial United States in its application. After World War II, the United States launched an assortment of foreign aid projects in lands around the world. The welfare state took on global dimensions. A part of the aid was military, as the United States embraced collective security by fostering and joining the United Nations, and then by fostering collective regional alliances. But much of the foreign aid was devoted to fostering welfare state projects and subsidizing socialism.

Although the welfare state is the central theme of this volume, there are many other themes as well. War and international conflict has been at the center of much American attention for many of the years covered. World War II was a cataclysmic conflict, embracing much more of the world than the first one, and leaving Europe even worse destroyed and sundered. This war was the fruit of the rise of totalitarianism and embodied mainly a clash of collectivisms. It was a titanic struggle between National Socialism in Germany and International Communism in the Soviet Union. The English-speaking peoples ranged themselves on the side of the Soviet Union, and Italy and Japan on the side of Germany. Total war was fought to obtain unconditional surrender. All the wounds have not yet healed.

The ignominious defeat of France early in World War II and the unconditional surrenders of Germany and Japan at the end of the war, plus British withdrawal from colony after colony, left huge power vacuums in the world. The situation was further aggravated by the civil war that continued in China between the Communists and the Kuomintang. International Communism, guided from Moscow, thrust into any volatile situations, moving to establish communist regimes. Eastern Europe was the first victim of this drive, aided by Soviet armies quite often, but any outpost in the world that was weak was a likely target as well.

It began to become apparent fairly early after the war that cooperation between those countries which were still actuated by the remains of Western Civilization and the Judeo-Christian heritage and the Communist bloc of countries was not possible. Indeed, a little analysis should have made that clear without the aid of experience. After all, Communism is bent on rooting out and destroying every relic of the prevailing civilization and religion. Natural law, the great philosophical underpinning of Western culture, is repudiated root and branch by Communists, except, perhaps, in mathematics, physics, and chemistry (and the technology that flows from it). In any case, a Cold War emerged between the West and Communists in the late 1940s and has continued off and on since. The victory of Mao Tse-tung's communist forces in mainland China added a huge population block, at the least, to the communist column. The temperature of this Cold War has varied so much over the years that no summary statement could capture the changes. Suffice it to say here that the contest has persisted and serves as much more than a backdrop to virtually all international relations.

Although the doings of government have assumed an ever larger role in American life over these years, there are other themes that are either not basically political or exist mainly on the periphery or exist largely in those areas free from government control. One of these is the post-World War II resurgence of industry and agriculture. In the midst of the depression which was a fixture throughout the 1930s, there was much talk among intellectuals that the age of American economic expansion had ended. This fit into the thesis that the problem of production had been solved and that the problem now was one of distribution. It fit also into the frontier thesis, that as the open frontier had come to an end, so had America as a land of opportunity. The task that lay ahead, claimed such seers, was not growth in production but conservation, restraint of output, and a better distribution of the wealth of America.

They were false prophets. Once the bulk of the controls and restraints of World War II were lifted, Americans came forth with a burst of production that continued apace almost uninterrupted from the late 1940s to the late 1960s. Though much of the government intervention which flowed from the welfare states still posed numerous obstacles to enterprise, many of these were overcome by ingenuity and technology. American farms were generally mechanized. The shift from rural to town and city living continued or accelerated. A building boom continued throughout these years, and an increasing number of Americans bought three- or four-bedroom homes with two baths and a two-car garage. Virtually every family in America had at least one car; two became much more common, and it was not unusual for a family to have three or more motor vehicles.

New and improved technology spurred and contributed to much of this economic expansion. Television joined radio and the movies as nationally produced entertainment after World War II. Automation in both factories and in the home followed the development of computers, solid state circuitry, and other electronically timed devices. Huge earth movers made building programs feasible which would have been impossible (or impractical) without them. Electrically operated devices multiplied, and even automobiles upgraded batteries from six to twelve volts. The use of chemicals in farming, along with much heavier and more delicate machinery, made possible the production of ever larger crops by fewer and fewer farmers. Repetitive tasks were more and more done by machines, and people were freed to perform those jobs requiring human dimension skills.

While this building and production was quite real and involved many accomplishments, much of it was fostered and channeled by a massive credit expansion. The national debt was the landmark of the credit expansion, as it continued to mount with year after year of government deficits and the rising cost of interest payments on the increasing amount of the principal. The value of the dollar continued to decline, and by the early 1970s the United States could no longer defend it with gold. The country was caught with a depreciated dollar, perilously rising prices, and what amounted to an inflationary depression.

The currency was not the only thing that depreciated in value over these years. Civility, morality, and public and private virtue suffered a similar decline. The crime statistics and, in the most recent decades, the dramatic increase of lawsuits and the fantastic growth in the number of lawyers gave the most readily quantifiable evidence of this decline. These things bespeak a society at odds with or contemptuous of authority. The decline was preceded and is accompanied by a massive assault on authority, on the authority of custom and tradition, the authority of home and church, and the authority of the anciently received absolutes of morality, civility, and virtue. Indeed, the assault upon authority has gone on at many levels ranging from the highest to the most vulgar. The decline of movies from polite respectability to purveyors of profanity, obscenities, and brutal assault on the institutions of society can be chronicled in the years from the early 1960s to the mid-1980s. The youth rebellion of the late 1960s and early 1970s reached a fever pitch of opposition to all received authority. These and associated developments are surely themes of these years.

One other theme of these years may bring this introduction to its appropriate close. A counter movement to these developments has been gaining ground, or at least followers, since the 1960s. It is generally known as the conservative movement, but it has many facets, and not all those who may be called conservatives have an equal concern or, for that matter, any concern about some of them. The movement includes those who are most apt to be concerned about reviving the authority of custom and tradition, the stability of the family, the freedom of enterprise, constitutionally limited government, property rights as well as the whole body of what used to be called natural rights, fiscally responsible government, sound money, traditional religion, and the like. The resurgence of those who are outspokenly concerned about these matters will conclude this work.

Chapter 2

The Great Depression

I am convinced we have now passed the worst and with continued unity of effort we shall rapidly recover. There is one certainty in the future of a people of the resources, intelligence, and character of the people of the United States—that is, prosperity.

—Herbert C. Hoover, 1930

Fifteen hundred jobless men stormed the plant of the Fruit Growers Express Company here [Indiana Harbor, Indiana], demanding that they be given jobs to keep from starving. The company's answer was to call the city police, who routed the jobless with menacing clubs.

—Federated Press, 1931

I say that . . . the Federal Government has always had and still has a continuing responsibility for the broader public welfare. It will soon fulfill that responsibility. . . . I pledge you, I pledge myself, to a new deal for the American people. . . . This is more than a political campaign; it is a call to arms. Give me your help, not to win votes alone, but to win in this crusade to restore America to its own people.

—Franklin D. Roosevelt, 1932

Chronology

June, 1929—Passage of Agricultural Marketing Act.

August, 1929—Federal Reserve raises rediscount rate.

October, 1929—Stock Market Crash.

1930—Smoot-Hawley Tariff.

1931—Trial of Scottsboro case.

January, 1932—Reconstruction Finance Corporation authorized.

March, 1932—Norris-La Guardia Act.

July, 1932—Veterans' ''Bonus Army'' march on Washington.

November, 1932—Roosevelt elected President.

February, 1933—20th Amendment adopted.

February–March, 1933—Banking crisis.

Since this chapter deals mainly with events and developments between 1929 and early 1933, it may be well to emphasize those are not the inclusive dates for what has come to be called the Great Depression. The depression may well have got underway in 1929, but it did not suddenly end with the inauguration of Franklin D. Roosevelt in 1933. It was a prolonged depression, from which there was no substantial recovery until 1940. Indeed, a case can be made that the depression did not end until after World War II, though it certainly changed its character during the war. Most economic indices—gross national product, employment figures, and the like—would indicate that the depression was ending in 1940 and 1941. But much of the production and employment was war production and employment for that or in the armed services. Wartime rationing and the curtailment of production for consumer use resulted in greater deprivation in some things during the war than in the 1930s for many people. However, at the least, it is well established that the depression lasted from 1929 to 1940.

It is important to emphasize the latter dates not only because they give a much more accurate impression of how prolonged the depression was, but also because Hoover's term, and his name, have been too closely associated with the depression and Roosevelt's New Deal too rarely identified with its prolongation. The blaming of the depression on President Hoover began during his term in office. Some people took the wheels off their dilapidated cars and used them on horse-drawn vehicles, dubbed "Hoover carts." Shanty towns were referred to as "Hoovervilles." The Democrats made political hay by blaming the Republicans, and Hoover in particular, for the depression. It would be twenty years before another Republican would be elected President. None of this is meant to suggest that Hoover, and other Republicans, were not in some measure responsible for the coming of the depression, nor that they did not have a hand in prolonging it, at least in the early stages. But it was the New Deal programs that prolonged the depression throughout the 1930s. That is reason enough for emphasizing its duration.

The Great Depression was a primal development for most Americans who lived through it. It left psychic wounds on many of them that have taken a long time to heal, if they ever do. As recently as 1966, an author wrote a compelling book entitled *The Invisible Scar*. It referred to those wounds made from experiencing the impact of the depression. The greatest wound, perhaps, was that many people lost confidence in their ability to provide for themselves and their families. This gave rise to fears and a sense of insecurity. There was a widespread loss of faith in the individual, the family, and the local community as the primary reliance for well-being. This set the stage for the great expansion of government activity and for people to turn to government for aid and security.

The impact of prolonged depression was heightened by an increasing dependence of so many Americans on the market. In an earlier America, even a prolonged depression would not have had so widespread and deep impact. Most people had not only been farmers but also subsistence farmers in many cases, depending hardly at all on the market. Many grew their own food, got most of their fuel for heating from cutting wood, made their own clothes, and bought only what they could not produce themselves. Even those farmers who produced primarily for the market and bought extensively in the market could, in a pinch, provide for most of their needs on their farms. By the 1930s, indeed well before, this situation had changed dramatically. A majority of Americans now lived in towns and cities, and had little or no means of providing for most of their livelihood from their own resources. A majority of the work force was now employed by others, either directly, as in self-employment, or indirectly through employers who paid them wages or salaries for what they produced. Farmers, too, had grown increasingly dependent on the market, specializing in producing one or a few goods to be sold mostly to others. Tenants were generally required by landlords to concentrate on those that could be most readily sold in the market. During World War I, Americans had been lured by high prices and government admonitions to increase their production for the market. In the 1920s, when the wartime demand declined, as many farmers as could continued to produce for the market, seeking especially to buy the new consumer wonders that were available.

Prolonged depression left many of those dependent on the market exposed, or at least revealed in an unpleasant way to them the potential difficulties attending dependence on the market. When jobs became hard to find, some were without a job, and those who still had jobs feared they would lose them. As prices declined, farming became less and less profitable. As the situation did not greatly improve and sometimes worsened from year to year, it was easy to give way to despair. Those in debt often saw little hope of paying their debts. There should be no doubt that the 1930s were hard times for many people.

There was no shortage of prophets, seers, would-be politicians, and doomsayers to put the worst face on the situation either. Indeed, radicals, promoters of panaceas, revolutionists, and reformers abounded, all too willing to apply their favorite remedies, or just to stir up trouble. Communists, of course, had a ready made explanation for the ills of America. Capitalism was in its final stage of collapse. When William Z. Foster, the head of the American Communist Party, appeared before a Congressional committee in 1930, he proclaimed:

> What is the cause of this starvation [a figment of his imagination], misery and hardship of the millions of workers in the United States? Is it because some great national calamity has destroyed the food, clothing and shelter available for the people? No, on the contrary. Millions of workers must go hungry because there is too much wheat. Millions of workers must go without clothes because the warehouses are full to overflowing with everything that is needed. Millions of workers must freeze because there is too much coal. This is the logic of capitalist system. . . .

What did Foster offer as the solution to his overdrawn picture of the problem? Communism, of course, on the Soviet model. "The Soviet Union," he told the committee, "is revolutionizing the workclass . . . by its very existence, and by the contrast which it presents to conditions of workers under capitalism."[1] He went on to present an imaginary idyllic picture of conditions in Russia as opposed to those in the United States. Moreover, he boldly declared that the workers would establish a dictatorship in America, and that "Under the dictatorship, all the capitalist parties—Republican, Democratic, Progressive, Socialist, etc.—will be liquidated."[2]

While Communist analysis had more than a little impact by way of the remedies applied in the 1930s, most of the changes were the fruit of a much less revolutionary approach. The truth was that a considerable number of reformist intellectuals had been waiting in the wings to come to the rescue of America. The prolonged depression gave them an opportunity to try their programs. Above all, they had come to believe that government action and intervention was the key to the solution. Many, perhaps most, Americans, came to believe, too, in the midst of the prolonged depression, that government had to do something about it. And, eventually the government programs were forthcoming.

For all the above reasons, it is highly important to understand both what caused the depression, what prolonged it, as well as what the impact of the government programs was.

The Coming of the Depression

The stock market crash in October of 1929 was the critical event in the beginning of the deflation which produced the depression. To understand what caused the crash provides a part of the answer to the question of what caused the Great Depression, though it will tell us very little about why the depression was so prolonged. The background to the crash is this. There had been an extensive credit expansion for most of the 1920s. The central role in this credit expansion had been played by the Federal Reserve system, particularly its rediscount and related policies. Stock prices had become highly inflated during the period 1927–1929. Much of the easy credit had been used for the purchase and speculation in stocks, as prices rose higher and higher. Indeed, the overall rise in stock prices was in many instances nothing short of spectacular between early 1928 and September, 1929, when they reached all-time highs. For example, between March 3, 1928 and September 3, 1929 the common stocks in the following corporations rose (with adjustments made for stock splits): American Can from 77 to 181⅞ per share; American Telephone & Telegraph from 179½ to 335⅝; General Electric from 128¾ to 396¼; Montgomery Ward from 132¾ to 466½; and Union Carbide & Carbon from 145 to 413⅝. During this eighteen-month period many stocks more than doubled in price, while others more than tripled.

What spurred this rising demand for stocks was not only credit expansion in general but loans to stockbrokers in particular. While many stocks were undoubtedly bought outright, the critical figures for the crash, as well as speculative fever, were stocks bought on margin. Those who buy on margin put up only a small portion of the price of the stock, while borrowing the bulk of the cost from the broker. These loans are subject to call at any time. The great advantage of buying on margin is that if the price of the stocks rises significantly, the buyer can make a large profit with a small investment. For example, suppose a marginal buyer buys 1,000 shares of a stock at $100 per share, putting up only 10 per cent of the cost, or $10,000. Suppose further, that the price of the stock doubles to $200 over the next year, and the buyer sells at that price. He will have made $100,000 on an outlay of only $10,000, plus whatever he paid in interest. On the other hand, if the stock falls below $90 per share, he will have to put up the difference or lose everything.

Marginal buying increased greatly over the period under consideration. Brokers' loans, which indicate this, rose from $3½ billion at the end of 1927 to over $6 billion in the course of 1929. Indeed, they had reached a peak of over $6.8 billion on October 2, 1929. Estimates indicate that in the summer of 1929 there were as many as a million people who held stock on margin, and the number of shares so held has been estimated at 300 million. This great speculative binge was greatly aided by the Federal Reserve credit expansion policies. The rediscount rate was lowered from 4 to 3½ per cent in August, 1927. It was, however, raised twice in the first half of 1929, first to 4 and then to 4½ per cent, but this did not appreciably alter the course of the speculative fever.

By early 1929, there were increasing worries in some circles about this ongoing bull market. Although there were setbacks from time to time, shaking out some of the marginal buyers, each time the market came back stronger than before and prices rose higher and higher. By 1929, the prices of many common stocks were so high that they bore little relationship to any profit that might come from dividends for any foreseeable future. Herbert Hoover had been worried about the heady speculation when he was in

Coolidge's cabinet, and once he became President in 1929 he determined to clamp down on it. As he later described it, he induced the "Reserve Banks to refuse rediscount to banks which were lending largely on stocks. . . ."[3] Indeed, even before the Federal Reserve Board sent this message to the banks: "The Federal Reserve Act does not . . . contemplate the use of the resources of the Federal Reserve Banks for the creation or extension of speculative credit. A member bank is not within its reasonable claims . . . when it borrows either for the purpose of making speculative loans or for the purpose of maintaining speculative loans."[4] Hoover said, "We did at one time almost secure a stranglehold on the stock market when the Reserve Banks had so tightened the call-loan situation that a moment arrived when there was no money available to the market."[5] Actually, Hoover somewhat overstated the case. It is true that there was some tightening of money temporarily for brokers' loans, and subsequent dips in the market, but there was money available from other sources, and the market bounced back from this selective effort at shutting off credit. The Federal Reserve finally authorized a raise of the rediscount rate to 6 per cent, and these and other measures may have contributed to an impact much greater than anyone expected or hoped.

At any rate, the stock market broke disastrously on October 24, 1929. Professor Murray Rothbard maintains that there was no significant increase of the money supply after the end of 1928, and that thereafter the credit contraction, deflation, and depression became inevitable. Be that as it may, the crash came with a rush in late October. More precisely, there were successive buildups to it. Following the September 3 highs, the market broke significantly. It recovered and advanced to new highs briefly later in the month, as it had been doing for several years. But then prices began to fall once again, and a considerable sell-off was underway by the beginning of October. However, as late as October 22, 1929, Charles E. Mitchell, head of the National City Bank of New York proclaimed: "I know of nothing fundamentally wrong with the stock market or with the underlying business and credit structure. . . ."[6]

What set off the wild selling and disastrous break in prices on October 24? Almost certainly, it was that the declining prices before that day had driven many stocks below the margins for many holders of stocks on margins. The brokers sent out their calls for more money to cover the loans, and many of the stocks were sold. At the same time, the banks were put under increasing pressure as deposits were withdrawn and their own loans had to be called. The market did rally before the end of the day on October 24. Representatives of the largest banks in New York City had met at J. P. Morgan and Company and pledged $240 million to try to steady the market. It worked to some extent for the remainder of that day and until the end of the week. However, wild selling began again on Monday, and on Tuesday, October 29, the bottom virtually fell out of the market. The New York Stock

Exchange was the scene of chaos; the ticker tape fell further and further behind, and no one could be sure what prices were being paid. Stocks were being offered at market, and sometimes no buyers could be found. White Sewing Machine, which had been earlier selling at 40, fell briefly to 1, when someone offered that price for some shares when there were no other offers. The confusion ended in the following days, but not the decline in prices. The lowest prices of the year were registered on November 13, 1929. By that date, approximately $30 billion in value of stocks had simply disappeared. Westinghouse which had sold at better than 289 on September 3 had fallen to 102⅝ by November 13. So it went for stock after stock. Many investors had been wiped out.

The Depression Deepens

The stock market crash signalled the onset of a vast credit contraction. It set off a liquidity crisis which continued to reverberate through the economy in the following months and years. A liquidity crisis occurs when many people are trying to turn their assets into cash. The initial impact of the stock market crash was to send margin buyers scurrying around to find cash to hold on to their stock. But the broader credit contraction made it highly desirable to have as many liquid (quickly convertible to cash) assets as possible. To put it still more generally, the credit contraction produced a great liquidation. Everything that had been buoyed up by the credit expansion of the 1920s had to contract sooner or later to confront the new reality.

A liquidation, a credit contraction, a deflation, a depression (at least one that is permitted to run its course fairly quickly),—call it what you will—is the first stage of the recovery. A credit expansion is to an economy what a fever is to the human body, or at least there are many similarities—; there is feverish activity during the boom; the cheeks of the economy are flushed, so to speak. Then there comes the crisis, and the fever breaks and begins its return to normal. Once, the fever has spent itself recovery can begin. Of course, an economy has numerous aspects and is more complex than the human body, and it is by no means easy for the fever to subside. The credit expansion of the 1920s left in its wake great debts, for after all it had been accomplished by borrowing and by expanding the debts of financial institutions. The debts proved to be the most intractable feature of the credit contraction. Beyond that, to the extent that the economy had become dependent upon credit, it was mortgaged to the future, and when the contraction came, the future was at hand. There had to be a catching up process in which people paid off their debts and accumulated a surplus if the economy was to recover. But the payment of debts is exceedingly difficult in a deflation.

The deepening of the depression 1930–1932 can be graphically shown by some statistics. Stock prices continued to decline overall from the time of the stock market crash in 1929 through much of 1932, though there were, of course, fluctuations up and down of particular stocks. American Telephone & Telegraph, for example, fell from its high mark of 304 in September, 1929 to a low of 70¼ in the course of 1932. United States Steel from 261¾ to 21¼. Twenty-five representative industrial stocks fell from 366 to a little over 96 during the same period. New capital issues of stocks and bonds were approximately $10 billion in 1929, $7 billion in 1930, and $1 billion in 1932. In short, investment capital was becoming only a trickle.

Foreign trade declined drastically as the depression deepened. The credit contraction following upon the stock market crash in the United States sent shock waves through many European countries as well. The United States had become the major creditor nation in the world in the 1920s, and much of the trade and debt payments from Europe had been fostered by credit from the United States. This dried up from 1930 onward, and by 1931 financial institutions in Europe were having grave difficulties. Ramsay MacDonald, a Labourite and socialist, headed a coalition government in Britain and took that country off the gold standard. This action, along with that of some other countries, made for increasing difficulties in making settlements in foreign trade. American exports fell from over $4½ billion in 1929 to less than $1½ billion in 1932.

The decline in industrial production in the United States and the rise in the number of unemployed give a clear enough picture of the course of the depression. By late 1930, industrial production had fallen 26 per cent below the peak in 1929, and in mid-summer of 1932 was 51 per cent below what it had been three years before. Statistics on unemployment, such as they were, were probably less reliable than those that have been gathered since the Bureau of Labor Statistics has assayed that task, and they are always more than a little suspect. At any rate, here are some estimates from that time: 3 million unemployed in April, 1930, 4 million in October, 1930, 7 million in October, 1931, 11 million a year later, and probably over 12 million in early 1933. Even if those figures are roughly accurate, they indicate that there had been a steady rise in unemployment.

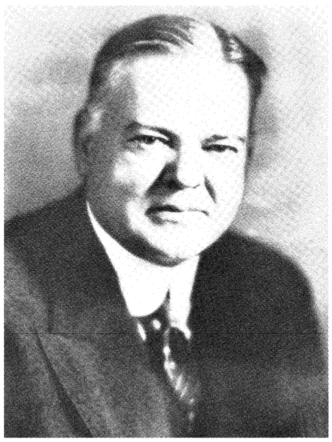
In the late summer of 1932 business improved noticeably, stock prices rose tentatively, and there were a number of signs that recovery was at hand. It did not turn out that way, but the story of the new crisis had best be left for telling a little farther on.

Mr. Hoover's Dilemma

On the face of it, Herbert C. Hoover appeared to be well qualified to be President of the United States during difficult times. Certainly, he had those qualifications that were so greatly admired in the 1920s when businessmen were in the ascendant. Hoover had not only been a businessman but also an unusually successful one. If he did not literally go from rags to riches, he came close enough as to hardly qualify the phrase. His father died when he was six, his mother a few years later, and the poor boy grew up under the care of relatives. He worked his way through Stanford to become an engineer. In the two decades or so before World War I, he became a millionaire several times over as an entrepreneur and mining engineer. His greatest successes were in buying mines that had failed and making them pay. His ventures took him to many different countries and climates, and his business was headquartered in London. Hoover became well known for his venturesome flair for investment, his careful attention to detail, and his ability to work wonders in whatever he undertook.

During World War I and its aftermath, Hoover attained international recognition for his charitable work to aid the victims of the war. The war was hardly underway when he busied himself in London coming to the aid of Americans stranded there. Soon, however, he was caught up in helping those in much more desperate circumstances, the Belgians who had been overrun by the Germans and cut off from the Allies. Hoover headed the Commission for Belgian Relief and through his determined efforts those people were saved from the full effect of the suffering that would otherwise have been their lot. At the end of the war, he answered the call from leaders of the Allies to bring aid to millions in many lands threatened by pestilence and famine. As one of his biographers has said: "Hoover sent his emissaries across Europe from Belgium to Azerbaijan. . . . His wheat laden ships sailed into empty harbors all over the former War zones. . . . For eleven months Hoover did not take a day off, never went into a shop—others bought his clothes—and ate on the run, his thoughts constantly haunted by the hungry millions, particularly the pale, stunted children, their heads shaved as a precaution against lice, stretching out their tin plates in canteens and schoolhouses for stew and bread that all Europe called Hoover Lunches. In Finland a new verb came into the language: 'to hoover' meant to be kind, to help. . . . All over the world he came to be known as the Great Humanitarian, and into his offices there poured a million signatures on a hundred thousand pages, the signatures of children and their childish drawings of him as a new angel of mercy."[7]

It is one of the great ironies of history that a man of such proven charitable instincts should come to be thought as cold and hard in the face of hardship and deprivation during the depression. The truth is that Hoover was caught on the horns of a dilemma. As President of the United States he was head of the government, not theretofore thought of as a charitable organization. Nor was Hoover of a mind to try to make it into one. On the other hand, government was already involved in the economy and under pressure from various directions to become more involved. There was the national banking system, the Federal Reserve system, the more general involvement in issuing and backing money with gold, the protective tariffs, and the like.



Herbert C. Hoover (1874–1964)

Hoover was 31st President of the United States, an engineer, philanthropist, and author. He was born in Iowa of Quaker parents, educated at the newly established Stanford University, a successful mining engineer and entrepreneur. After having been deeply involved in foreign relief activities during and after World War I, Hoover decided to devote himself to public service for the remainder of his career. Thus, he served as Secretary of Commerce 1921–1929 and as President 1929–1933. The Great Depression was his undoing and he never became actively involved in politics again. He did, however, continue an active interest in public affairs, writing, charitable work, and speaking. His early evaluation of the tendencies of the New Deal appeared in 1934 in a little book entitled *The Challenge to Liberty*. In it, Hoover pointed to parallels with Italian Fascism and warned that the programs were undermining the American constitutional system and individual liberty. In 1947, President Harry Truman appointed Hoover to head a commission to investigate the structure of the Federal government and make recommendations for improvement. The findings were known as the *Hoover Commission Report* and constituted a devastating analysis of the expansion of the Federal government bureaucracy since the early 1930s. While few could find fault with his findings, they made little impact on the continued growth of government.

Republican Presidents had claimed credit for the prosperity of the 1920s; was Hoover not equally responsible for the depression?

More broadly, Hoover saw it as his task to defend the American system of freedom and individual initiative from the efforts of interventionists and people under the sway of socialist ideas to change it. He believed in what he called *American Individualism,* the title of a little book he published in 1922, that it was up to people basically to provide for themselves by their own efforts. For those in need and unable to help themselves, because of special circumstances or disability, he thought the basic reliance ought to be on private and voluntary charity, supplemented as it might be by local government. So far as intervention in the economy went, he was strongly opposed to extensive and possibly disabling intervention. Moreover, he held that "Economic depression cannot be cured by legislative action or executive pronouncements. Economic wounds must be healed by the action of the cells of the economic body—the producers and consumers themselves."[8] He strongly opposed direct relief by the federal government:

> This is not an issue [Hoover said] as to whether people shall go hungry or cold in the United States. It is solely a question of the best method by which hunger and cold shall be prevented. . . . My own conviction is strongly that if we break down this sense of responsibility of individual generosity to individual and mutual self-help in the country in times of national difficulty, and if we start appropriations of this character we have not only impaired something infinitely valuable in the life of the American people but have struck at the roots of self-government. Once this has happened it is not the cost of a few score million but we are faced with the abyss of reliance in future upon Government charity in some form or another.[9]

On the other hand, Hoover was by temperament a take charge person and a doer. He had amply demonstrated these traits in business, in European relief work during and after World War I, as Food Commissioner under Wilson, and, above all, as Secretary of Commerce under Harding and Coolidge. Those who worked under him over the years always referred to him as "the Chief," i.e., the man in charge. The taciturn Calvin Coolidge was more than a little taken aback at the energy and bounty of ideas Hoover had in cabinet meetings and for the Commerce Department. He was the first man in Commerce to really activate the department, nor did he confine himself to that department but ranged well beyond in offering advice and conceiving things to do. Moreover, he may have been bitten by the Progressive bug more effectively than most critics have thought since his presidency. He voted for Theodore Roosevelt and his New Nationalism in 1912. He showed a bent toward regulation, though not a highly controversial one during his years in the Commerce Department. Radio had only recently begun as a commercial vehicle for broadcasting when Hoover took the post. He argued that the Federal government should regulate broadcasting on the grounds that the "ether is a public medium, and its use must be for the public benefit.The dominant element for consideration in the