

## Herbert Hoover's Response to the Great Depression

The onset of the Great Depression tested the ideals and government policies of President Herbert Hoover, who firmly believed cooperation between public and private spheres would lead to long-term growth in the economy. Hoover feared too much intervention or coercion by the government would destroy individuality by fostering a reliance on assistance and reducing the incentive to work. Yet this proved increasingly problematic as the U.S. economy continued to decline and calls for greater government assistance increased.

### **Rugged Individualism**

(1) "Rugged individualism" was a term Hoover used often during his presidency to explain the idea that individuals should be able to help themselves without government involvement in personal economic affairs or national economics in general. A libertarian, Hoover's own rugged individualism may have resulted from his frustration with the unprecedented government involvement in the economy during World War I. He emphasized that rugged individualism was not laissez-faire economics, which he denounced.

(2) Hoover entered office in March 1929 with a plan to reform the nation's regulatory system, holding that a federal bureaucracy should have limited regulation over a country's economic system. A self-described Progressive and reformer, Hoover saw the presidency as a vehicle for improving the conditions of all Americans by encouraging public-private cooperation. He termed this relationship as "volunteerism" and considered it preferable to government coercion or intervention, both of which he believed were in opposition to the American ideals of individualism and self-reliance.

(3) Hoover said that, "given the chance to go forward with the policies of the last eight years, we shall soon, with the help of God, be in sight of the day when poverty will be banished from this nation." He added that, "we in America today are nearer to the final triumph over poverty than ever before in the history of any land." These statements came mere months before the Wall Street crash of October 29, 1929, which opened a chapter of American history that would redefine an impoverished society.

(4) A strong proponent of balanced budgets and unwilling to run a deficit, amount by which something usually money is too small, to fund welfare programs, Hoover carried his idea of rugged individualism into the Great Depression that followed the crash, insisting that the federal government should not interfere with the American people during the economic crisis. Providing large-scale humanitarian efforts, Hoover feared, would injure, "the initiative and enterprise of the American people."

(5) Yet in spite of his personal, libertarian beliefs, Hoover still pursued policies aimed at pulling the country out of the Depression. Some of his major initiatives, however, were misguided and negatively impacted both the economy and American society.

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## **Mexican Repatriation**

In 1929, Hoover authorized a program of Mexican repatriation with the stated intention of combating rampant American unemployment, reducing the burden on municipal aid services, and removing people who were considered usurpers of American jobs. This has been perceived as an attempt by the administration to use immigrants as a scapegoat to divert criticism and regain the support of the U.S. organized labor movement.

The repatriation program, which continued through 1936, was a forced migration of Mexicans and Mexican-Americans over the southern border, with estimates of the deported ranging from 500,000 to 2 million. In 2005, the government of California proclaimed an official apology to those who were removed from the state to Mexico, including an estimated 1.2 million legal U.S. citizens.

To justify the program, county officials in Los Angeles, California, for example, petitioned the federal government to reduce the number of families on federal welfare and make jobs available to "Real Americans" by deporting immigrants. The American Federation of Labor and the National Club of America for Americans both stated that deportation of Mexicans would free jobs for U.S. citizens. This sentiment took precedence as the Great Depression continued, despite national statistics showing that less than 10 percent of people on welfare were Mexican or of Mexican descent. Nonetheless, states passed laws requiring all public employees to be American citizens, while the federal government imposed restrictions on immigrant labor. Many employers fired Mexican workers and refused to hire others, causing an increase in unemployment in the Mexican community.

Hoover endorsed a plan to deport "foreigners" under the third U.S. secretary of labor, William N. Doak, whose measures to expel Mexican immigrants included arresting participants in labor protests and farm strikes, charging them with illegal activities or being illegal immigrants, and deporting them. This focus on labor garnered public support for further actions by immigration agents including mass arrests and arbitrary deportations.

Repatriation: the return of someone to their own country.

Precedence: the condition of being considered more important than someone or something else

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## **Smoot-Hawley Tariff**

Despite the objections of many economists, Hoover signed the Tariff Act of 1930, commonly called the "Smoot-Hawley Tariff," which raised the entry tax on more than 20,000 items imported from foreign countries to historically high levels.

Signed into law on June 17, 1930, and sponsored by Senator Reed Smoot of Utah, the Republican chairman of the Senate Finance Committee, and Representative Willis C. Hawley of Oregon, the Republican chairman of the House Ways and Means Committee, the act encouraged the purchase of American-made products by increasing the cost of imported goods. It also was expected to garner revenue for the federal government and protect U.S. farmers from foreign competition.

By the time the tariff passed into law, however, the economic depression had spread through much of the world, spurring other nations to retaliate by increasing their own tariffs on American-made goods and subsequently lowering the overall amount of international trade. This worsened the Great Depression by reducing American imports and exports by more than half.

A petition signed in May 1930 by 1,028 U.S. economists had asked Hoover to veto, rather than pass, the tariff act. Automobile magnate Henry Ford visited the White House in an attempt to convince Hoover to veto the bill, while J.P. Morgan CEO Thomas W. Lamont was quoted as saying he, "almost went down on my knees to beg Herbert Hoover to veto the asinine Hawley-Smoot tariff." Hoover himself opposed the bill, calling it, "vicious, extortionate, and obnoxious" due to its undermining of his pledge to international economic cooperation. He yielded to pressure from within his own party and the business community, however, and signed the bill, which was later used against him by Franklin Delano Roosevelt in the 1932 presidential election that tossed Hoover from office.

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## **Moratorium and NCC**

On June 20, 1931, the president issued the so-called Hoover Moratorium, his proposal for a one-year halt in reparation payments by Germany to France as well as payments of Allied war debts to the United States. This was met with fierce opposition among a large segment of Americans and especially by France, which had suffered significant losses to Germany during World War I. The moratorium, however, gained the support of 15 nations by early July and earned congressional approval in December. Yet it did little to ease the continuing economic decline. As the moratorium neared its expiration, representatives from Britain, France, and Germany met from June 16 to July 9, 1932, at the Lausanne Conference in Switzerland to find a permanent solution. Yet a working compromise was never established and by the start of World War II, reparations payments had stopped completely.

Hoover also urged the major U.S. banks to form a consortium known as the "National Credit Corporation (NCC)" in 1931. The NCC exemplified Hoover's belief in volunteerism as a mechanism for aiding the economy. He encouraged NCC member banks to provide loans to smaller banks in order to prevent their collapse. The banks within the NCC were often reluctant to provide loans and usually required small banks to provide their largest assets as collateral. It quickly became apparent the NCC was incapable of fixing the problems it was designed to solve.

Hoover and Congress also approved the Federal Home Loan Bank Act to spur new home construction and reduce foreclosures. The plan initially seemed to work as the rate of foreclosures dropped, but for many, it was seen as too little, too late, with tens of thousands of Americans homeless.

Consortium: an association, typically of several business companies.

Collateral: something pledged as security for repayment of a loan, to be forfeited in the event of a default

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## Final Attempts

By 1932, unemployment had reached 24.9 percent; a drought persisted in the central United States, particularly in Oklahoma and Texas; businesses and families had defaulted on loans in record numbers, and more than 5,000 banks had failed.

To pay for government relief programs and to make up for lost revenue, Hoover agreed to roll back several tax cuts his administration enacted on higher-bracket incomes. Prior to the Great Depression, Hoover's first Treasury secretary, Andrew Mellon, had proposed and enacted numerous tax cuts under Presidents Warren G. Harding and Calvin Coolidge, which cut the top income tax rate from 73 percent to 24 percent. When combined with the sharp decline in incomes during the early Depression, the result was a serious deficit in the federal budget.

Desperate to increase federal revenue, Congress approved one of the largest tax increases in American history, the Revenue Act of 1932. Income tax on the highest incomes rose from 25 percent to 63 percent, the estate tax was doubled, and corporations were taxed at an increased rate of 13.75 percent. A "check tax" placed a two-cent levy on all bank checks, equal to more than 30 cents in today's economy. Hoover also encouraged Congress to investigate the New York Stock Exchange, resulting in various reforms.

The final Hoover administration attempt to rescue the economy occurred in 1932 with the passage of the Emergency Relief and Construction Act, which authorized funds for public works programs and the creation of the Reconstruction Finance Corporation (RFC), an independent agency whose purpose was to provide government-secured loans to financial institutions, railroads, and farmers.

The agency gave \$2 billion in aid to state and local governments and made loans to banks, railroads, mortgage associations, and other businesses. Though the RFC had minimal impact at the time, it was adopted by Franklin D. Roosevelt and greatly expanded as part of his New Deal economic recovery plan. In fact, economist Rexford Tugwell, a member of FDR's policy team known as the "Brain Trust," later remarked that although no one would say so at the time, "practically the whole New Deal was extrapolated from programs that Hoover started."

Herbert Hoover has been criticized for taking a laissez-faire approach to the Depression, relying on "volunteerism" through churches and social groups to provide public assistance. Yet in his memoirs, he claimed to have rejected Treasury Secretary Mellon's suggested "leave-it-alone" approach and noted that he called many business leaders to Washington, urging them to refrain from terminating workers or cutting wages.