Continuing My White House Years

The GREAT DEPRESSION

By HERBERT HOOVER

Those seeking a scapegoat for it found in him an "ideal subject," writes our ex-President, but in reality the primary cause of our worst economic disaster in history was World War I

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OVERWHELMING numbers of words have been written concerning the cause of the Great Depression. The authors of this mass of literature are divided into two groups: those searching for a single cause, condition or person to blame it on, and those searching patiently for the truth.

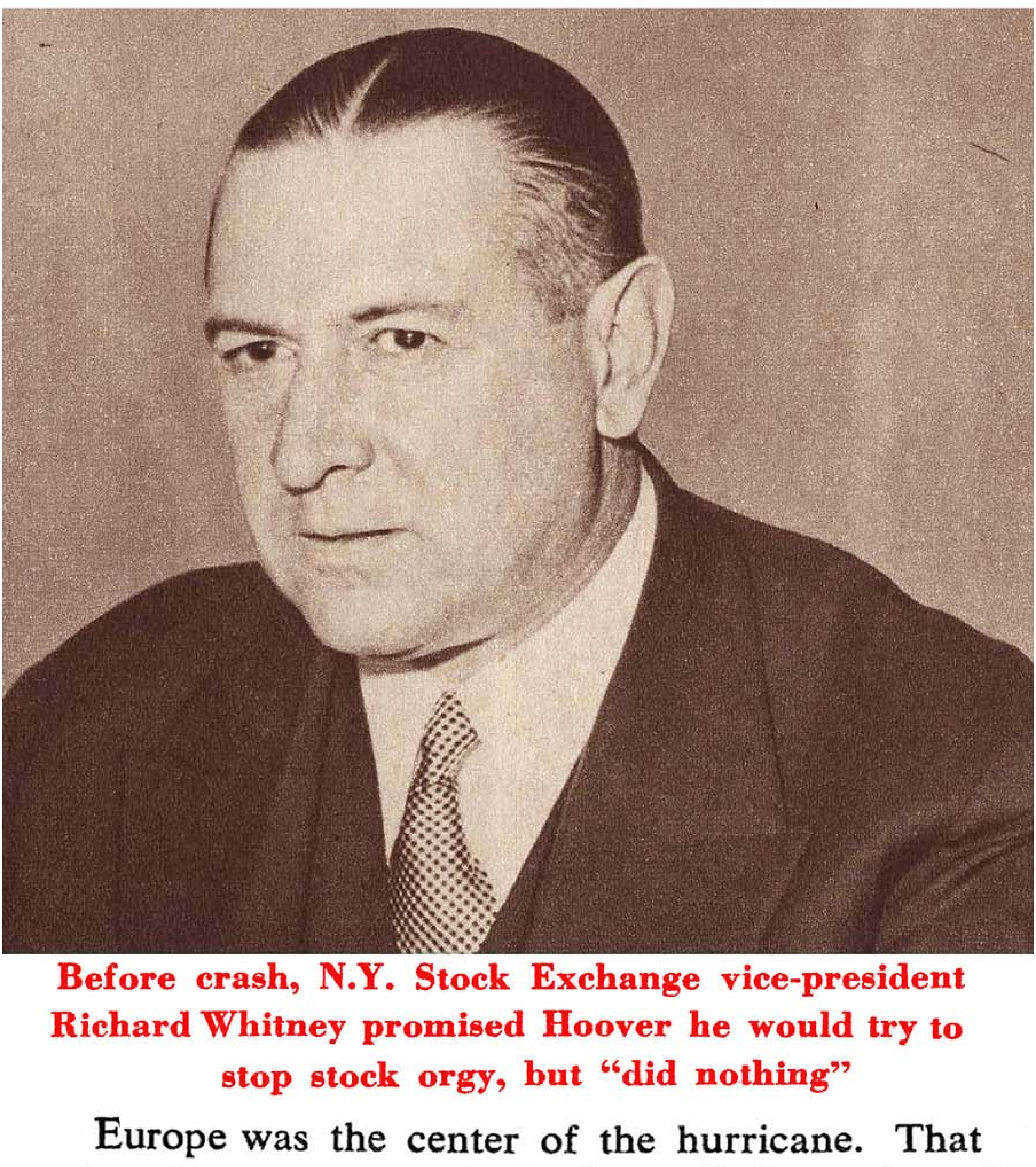
Those who have sought a single cause or person as a scapegoat seemed to find, in me, an ideal subject. Fortunately, most of this species will be forgotten much sooner and more completely than the searchers for truth.

I was in a better position to know the facts than anyone else. In an expanded version of these memoirs to be published later in book form, I will provide data, documentation and collated incidents not possible to present in a magazine summary. The purpose of this account is to clarify understanding of the forces in motion during the depression and to describe my efforts to deal with it. It is my hope that this bit of history will afford, for the future, more objectivity and some permanent service to economists and historians.

It is easy to look back and say that different policies should have been undertaken. But the reader should have the grace to remember that mortals are permitted only dimly to foresee coming events or detect the emergence of hidden forces. Moreover, America had never before had to meet such a combined domestic and foreign storm, and therefore had little experience as a guide.

The Great Depression did not really begin in the United States until the economic collapse of Europe in the spring of 1931. Beginning with the stock-market slump in October, 1929, we had a normal domestic recession, but we were on the way out of it when the hurricane struck our shores.

The primary cause of the Great Depression was the war of 1914-'18. Without the war there would have been no depression of such dimensions.



Before crash, N.Y. Stock Exchange vice-president Richard Whitney promised Hoover he would try to stop stock orgy, but "did nothing"

Europe was the center of the hurricane. That gigantic storm moved slowly until the spring of 1931, when came the final failure to fend off the explosive forces inherent in the enormous destruction of the war, in the economic consequences of the Versailles Treaty, in the revolutions, unbalanced budgets, hugely increased armament expenditures, inflations, and a score of other war aftermaths.

It has been asserted that the American stock-market slump pulled down the world. That was not the fact.

The British, French, and Dutch empires, Germany, Sweden, Italy, Japan, Bolivia, Brazil and Bulgaria had entered a period of economic recession prior to our 1929 stock crash.

Thus, the economic situation had begun to deteriorate in over 80 per cent of the economically sensitive areas of the world before a decline began in the United States. We could not but be affected by the forces moving elsewhere in the world.

Bank president Charles E. Mitchell of N.Y. offered credit to stock players, thus foiled Federal Reserve effort to curb speculative boom

Collier's for May 3, 1952

Forces That Slowed U.S. Recovery

There were several immediate weaknesses in our own economic situation. For some time just prior to the stock crash certain adverse forces had been in motion which in any event would have necessitated a recession for purposes of readjustment such as we had previously gone through at intervals in our history. This phase of the depression lasted for about 17 months, when our internal strength enabled us to begin a solid convalescence in the first three months of 1931. Had no external influences beset us, it is certain that we would have shortly recovered.

The first of our immediate weaknesses was the Federal Reserve System's deliberate inflation of credit, which was one of the prime causes of our stock-speculation orgy. Second was our dreadfully organized banking system, which was unable to take shocks. Third was the powerful growth of undue optimism. Fourth was a maladjustment stemming from our record increase in productivity. Fifth was the completion of great construction programs which had been taking up the building slack of World War I.

I deal with these weaknesses in inverse order of importance.

1. During the war, both industrial and home building had been largely suspended. Catching up with this lag for the next eight years had created a sort of supereconomy. For instance, at this time we needed about 400,000 new dwellings a year as replacements and as homes for newlyweds. But because of taking up the slack of the war years, home building had risen to a rate of more than 700,000 a year. Much the same situation existed in industrial building. By 1929 this super construction program was completed, and some readjustment was inevitable.

2. Since 1921 we had increased our per capita productivity to levels hitherto unknown (about a 30 per cent rise). About three fourths of the increase had gone into higher wages; about one fourth into higher business profits. Very little of the increase had been translated into lower prices. There were two results. While the buying power of industrial workers had gone up, that of farmers and white-collar workers had not advanced proportionately. Thus our increased industrial output could not all be absorbed. The second consequence was that the increased business profits stimulated stock speculation.

3. Our production progress in the decade of the twenties had produced a surging optimism out of which came a foolish notion that we were in a "new economic era" where the old laws of economics no longer applied. This was spurred by the belief that the Federal Reserve System made us completely immune from financial crises. When the Federal Reserve Act was passed in 1913, the system's founders—Senators Aldrich and *(Continued on page 37)* Glass—together with President Wilson and Treasury Secretary McAdoo, had categorically stated that credit crises and booms or slumps would never happen again, as they could now be controlled by the regulation of credit.

4. The feet of clay in our entire economic system belonged to our banking structure, which was the outgrowth of a multitude of laws (both good and bad) and of the belief of too many people that they could start and manage a bank. By 1929 we had about 24,000 commercial banks, trust companies and savings banks entrusted with the people's deposits. More than 3,500 had less than $100,000 capital; some 1,500 had less than $25,000 capital.

A safe banking life, including the payment of bank salaries, simply could not be led on such capital. Worst of all, deposit institutions were allowed to invest largely in mortgages and long-term securities; when pressure came from their depositors, they could not realize on long-term investments, and were forced to reduce short-term commercial loans. As a result business was stifled. The prior notice depositors were required to give before withdrawing "time deposits" meant nothing, because if the banker refused to pay on demand, his bank became suspect.

We had 48 different state laws regulating banks, a law for District of Columbia banks, and a federal law regulating national banks. We also had certain controls by the Federal Reserve System. There was inspection of the national banks and partial inspection of the Federal reserve banks—both of which were fairly good; but the 49 other banking inspections ranged from merely fair down to political.

Another fault was that many of the large banks had affiliates through which they dealt in active stock promotion.

The public had become callous to bank failures because we had had nearly 5,000 such failures in the eight good years before the depression. More than 10,000 deposit institutions were to disappear in the five years after 1929 despite governmental props under the banking system. Their mortality rate was about 40 times that of industrial and commercial firms.

That all this was unnecessary is shown by the fact that in the entire British Empire during the depression there was not a single failure of a bank of importance.

People Used to Bank Failures

Although it anticipates the story, I may add here that at every regular session of Congress during my administration I urged complete reorganization of the banking system to make depositors safe. But our people were so used to bank failures that it took a major storm to arouse public demand for reorganization.

5. The biggest of our immediate weaknesses was the Federal Reserve System's pre-1929 deliberate inflation of credit. The system had a direct responsibility for the mad Mississippi Bubble on the stock market, with its inevitable collapse.

The basic theory behind the Federal Reserve System was that the system could curb speculation or excessive business activity by raising interest rates and restricting credit through the purchase of government securities ("open-market operations"); that, on the other hand, the system could stimulate business by lowering interest rates and expanding credit by the sale of government securities. Experience, however, showed that this theory worked mostly when applied to stimulating business.

Inflation of credit by the Federal Reserve System began in late 1925. At that time Montagu Norman, head of the Bank of England, Hjalmar Schacht of the Reichsbank and Charles Rist of the Bank of France visited Washington and urged credit-expansion policies on the Federal Reserve Board. They contended that Britain could not stay on the gold standard and Continental countries survive a business crisis unless American interest rates were lowered and credit expanded so that Europe's higher interest rates could attract American capital.

The board acted on their representations. Adolph Miller, who was a member of the board, Senator Irvine Lenroot and I at once protested that in the country's rosy mood this action would stimulate speculation in stocks and possibly in commodities. Speculation did immediately ensue; the expansion of credit was promptly reflected on the New York Stock Exchange by a 40 per cent rise in stock prices and by an increase in loans on stocks from less than $1,200,000,000 to more than $2,800,000,000—all in a period of a few months.

What Europe Really Needed

During 1926, I made a number of public statements warning against the speculation then under way. The board stopped further credit-expansion operations until mid-1927, when the same European bankers reappeared and persuaded it to undertake even more extensive credit expansion than that of late 1925. Mr. Miller and I again protested that this would invite dangerous speculation. We insisted that what Europe needed was not credit, but disarmament, balanced budgets, harder work and more production.

Inflation of credit is like a delayed time bomb. During 19 months the new inflation measures of mid-1927 brought a further speculative orgy and more loans on stocks. New York stock-market loans rose from about $3,500,000,000 to $8,500,000,000, and stock prices rose almost 100 per cent. Another consequence of the credit inflation was a flood of unwise private loans to Europe.

It does not follow that these international banking policies were inaugurated for the personal profit of the gentlemen concerned or for their friends. Undoubtedly they were acting in the hope of preventing European difficulties. But certainly the huge budget deficits, currency inflation, vast armaments increases and growing military alliances which were at the root of their trouble were not to be cured by a poultice of inflated credit from the United States.

I do not attribute the whole of the stock boom to the Federal Reserve System's mismanagement. But the policies adopted by that system must assume the greater responsibility. The fact that action of such gigantic moment may be set on foot in a democracy, without adequate public consideration or check, emphasizes the dangers of undue powers in the hands of mere individuals—governmental or private.

It was difficult for the public to believe that such griefs and tragedies lay hidden in so obscure a process as credit inflation when forced on an already optimistic people. It set the stage for wicked manipulations and promotions of stocks. Its collapse brought hunger and despair to millions of homes.

It also furnished ammunition to radicals for attacks on the whole American system. The exhibition of waste, fraud and greed which flowed from this artificial credit appears in their literature as a typical phenomenon of our free civilization—whereas it was the exception. There are crimes far worse than murder for which men should be reviled and punished.

A summary of the contribution of Federal Reserve policies to the boom later appeared—in July, 1935—in the magazine Sphere. Quoting Adolph Miller, the Reserve Board member who had worked with me before 1929 in attempts to get some sanity into the Reserve System, the magazine reported:

"The board only began issuing warnings (against speculation) when Mr. Hoover was about to take office . . . the board knew that Mr. Hoover, from 1926 on, had been protesting that the money policy of the Reserve System was certain to bring about disaster and calamity. Mr. Hoover, before and after he took office, was struggling desperately to curb credit extravagance . . . The record will show that he became the victim of a policy that was anathema to him the whole time it was in operation."

In late 1928, President Coolidge appointed Mr. Roy Young governor of the Reserve Board. Young was able, courageous and co-operative. Prior to my inauguration I conferred several times with him. He agreed to use the board's full powers to try to stem the tide. A month before I took office the board issued public notice of drastic "direct action" toward the banks to restrain indirect use of Federal Reserve credits or loans for speculative purposes.

But the fever was beyond control.

Moreover, the effect of the board's action was greatly minimized by an unfortunate press statement by President Coolidge a few days before he left office, in which he assured the country that its prosperity was "absolutely sound" and that stocks were "cheap at current prices." He undoubtedly believed this; and, as I had disparaged the speculation in my public statements, no doubt he wanted to indicate his feeling.

Dangers of the Stock Bubble

When I came to the White House the stock boom was going great guns. Being fully alive to the danger inherent in this colossal bubble, my first interest was to get it under restraint. It was obvious that there had to be a vast liquidation of paper values, and especially of the mental attitude of people mesmerized by the idea of gambling as a basis of living and of national progress.

The initial difficulty was a lack of government authority, except such as could be exerted by the Federal Reserve System. To ask Congress for powers to so interfere with the stock market was futile. Certainly an expansion of Presidential power to dictate the prices of stocks was of doubtful constitutionality. I therefore resolved to attack the problem from several directions in addition to co-operation from the Federal Reserve System.

To create a spirit of caution in the public, I sent individually for editors and publishers of major newspapers and magazines and requested them systematically to warn against gambling and the unduly high price of stocks. Most of them responded with strong editorials. This had no appreciable effect.

Secretary of the Treasury Mellon and others, at my request, issued repeated statements urging the public to convert stocks into bonds, and advising other forms of caution. This also had no effect.

My second line of attack, in April, 1929, was to request Henry M. Robinson, president of the Los Angeles First National Trust and Savings Bank, to go to New York and to talk in my name to the promoters and bankers behind the market. He fully agreed with me as to the dangers of the situation. But the New York bankers all scoffed at the idea that the market was not "sound." One of them, Thomas Lamont of Morgan & Company, sent me a long memorandum to prove it.

My third effort was to send for Richard Whitney, vice-president of the New York Stock Exchange, and urge that the exchange itself act to curb the manipulation of stocks. I informed him that I had no desire to stretch the powers of the federal government by legislation to regulate the stock exchange, and that regulative authority existed in the state of New York—of which Franklin D. Roosevelt was governor. I stated that I preferred to let American institutions and the states govern themselves, and that the exchange had full power, under its charter, to control its own members and to prevent itself from being used for manipulation against the public interest.

Whitney made profuse promises, but did nothing. (Subsequently he was sent to the penitentiary for mishandling trust funds.)

Through the use of some federal powers in post-office-fraud matters we did stop a flock of bucket-shop stock operators. Later I was compelled to secure—as a preliminary to federal action—an investigation by the Senate Banking Committee into stock-exchange manipulations. The disclosures were heartbreaking.

A dispute arose between Governor Young of the Federal Reserve Board and the important banks as to whether or not discount rates should be raised to brake speculation. Governor Young contended that to raise the rate simply gave the banks larger returns by penalizing commercial business. He contended that the banks could curb loans for speculation merely by refusing to make such loans.

I held with the governor, who now proceeded by direct action. He issued orders to the reserve banks to refuse rediscounts to banks which were lending largely on stocks. (Their method was to rediscount their commercial bills at the reserve banks, then loan the proceeds to the market.)

At one point these Federal Reserve Board actions forced rates for money for speculative purposes up to 20 per cent per annum. But people who dreamed of 100 per cent profit in a week were not deterred by an interest rate of 20 per cent a year.

We almost secured a strangle hold 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. A break seemed inevitable. But Charles E. Mitchell, president of the National City Bank of New York, announced that in this emergency his bank would furnish the deficient credit.

Senator Glass expressed my feelings when he said of Mr. Mitchell:

". . . He avows his superior obligation to a frantic stock market over against the obligation of his oath as a director of the New York Federal Reserve Bank . . . Mr. Mitchell's proclamation is a challenge to the authority and the announced policy of the Federal Reserve Board . . . The board should ask for the immediate resignation of Mr. Mitchell as a Class A director of the New York Federal Reserve Bank. . . ."

All our efforts to secure an orderly readjustment covered a period of six months. Perhaps they served somewhat to slow up the orgy, but they failed to cure the public's madness. For the real trouble was that the bellboys, the waiters, and the host of unknowing people—as well as the financial community—had become so obsessed with rubbing the Aladdin's lamp of sudden fortune that the movement was uncontrollable.

Finally the new economic era "blew up." On October 29, 1929, in the eighth month after I entered the White House, the stock market crashed of its own follies.

When the inevitable black morning of their dream came, exponents of the "new economic era" were surprised. A flood of reassuring statements issued from bankers, economists, labor leaders and the press. Professor Irving Fisher of Yale asserted that stocks had not even reached their full values. Mr. Rockefeller, Mr. Morgan and Mr. Raskob all announced that they were buying stocks. William Green of the AFL declared: "In a few months we will be back to normal."

I am not a pessimistic soul, but I was not impressed by any of this optimism. The press urged that I issue a statement. Obviously, as President, I had no business making things worse in the middle of a crash. Loath to speak of the stock market, I emphasized as a source of encouragement the progress which had been made in our productive system.

Within a few weeks the slump began seriously to affect industrial employment and farm prices, confronting us with problems of the first order. At once there arose the fundamental question as to whether the President and the federal government should undertake to mitigate and remedy the inevitable evils stemming from the crash.

No President before had ever believed there was a governmental responsibility in such cases. Such eruptions had always been left to blow themselves out. Presidents Buchanan, Grant, Cleveland, Theodore Roosevelt and Wilson had all stood aloof on the occasion of economic crises. On one such occasion there had been a little currency relief, on another, the deposit of federal money in some banks, and there was the crisis where Cleveland announced his fidelity to the gold standard.

But that was all. We had to pioneer a new field because there was no governmental experience to guide us. As a matter of fact there was little economic knowledge to guide us. The previous great postwar depression—that of the 1870s—had left only a scant legacy of economic information.

I may reiterate that it is not given, even to Presidents, to see into the future. We could have done better—in retrospect. But storms do not develop all at once, and they change without notice. In my three years of the slump and depression they changed repeatedly for the worse—and with the speed of lightning.

The stock quake on October 29th was followed by succeeding shocks until, by November, industrial stocks had fallen to 60 per cent of their high point. Even so the business world for some time refused to believe that the danger was any more than that of run-of-the-mill, temporary slumps such as had occurred at three- to seven-year intervals in the past.

However, we in the administration took a more serious view, partly because of our inner knowledge of the fearful inflation of stock-market credit, but more particularly because of our fear of the situation of Europe's economy. I perhaps knew the weaknesses of the latter better than most people from my experience in Europe during 1919 and my knowledge of the economic consequences of the Versailles Treaty.

Two schools of thought developed within the administration. First were the "leave-it-alone liquidationists" headed by Secretary of the Treasury Mellon, who felt that the government must keep hands off and let the collapse liquidate itself.

Mr. Mellon had only one formula—"liquidate labor, liquidate stocks, liquidate the farmers, liquidate real estate." He insisted that when the people get an inflation brainstorm the only way to get it out of their blood is to let it collapse. He held that even a panic was not altogether a bad thing: "It would purge the rottenness out of the system. High costs of living and high living will come down. People will work harder, live a more moral life. Values will be adjusted and enterprising people will pick up the wrecks from less competent people."

Post-Civil War Panic Recalled

Mr. Mellon recounted to me at great length his recollection of the great depression of the seventies after the Civil War. He had started in his father's bank a few years after that time. Tens of thousands of farms had been foreclosed; railroads had almost wholly gone into the hands of receivers; few banks went unscathed; many people were jobless; and mobs roamed the streets. Mr. Mellon told me that his father had gone to England during that time and had cut short his visit when he got word that back home the orders for steel were pouring into the closed furnaces. By the time Mellon, Senior, got back, confidence was growing on every hand; suddenly the panic had ended and in 12 months the whole system was again working at full speed.

I reminded Mr. Mellon that back in the seventies suffering did take place which might have been prevented; that our economy had been far simpler 60 years ago; that we were then 75 per cent an agricultural people as opposed to 30 per cent now; that unemployment during the earlier crisis had been mitigated by the return of large numbers of unemployed to relatives on the farms, and that our farm economy itself had been largely self-contained. But Mr. Mellon shook his head and observed: "Human nature has not changed in 60 years."

The secretary was not hardhearted; he felt that there would be less suffering and fewer scars left if his course were pursued.

But other members of the administration having economic responsibilities—Secretary of Commerce Lamont, Secretary of Agriculture Hyde, Undersecretary of the Treasury Mills and Governor Young of the Reserve Board—believed with me that we should use the powers of government to cushion the liquidation. We especially had in mind the need to prevent bank panics, and to mitigate the privation among the unemployed and the farmers which would then certainly ensue.

The record will show that we went into action within 10 days and were steadily organizing each week and month thereafter. We determined that the federal government should use all of its powers:

(a) To avoid bank depositors' and credit panics;

(b) To cushion slowly, by various devices, the inevitable liquidation of false values so as to prevent widespread bankruptcy and the loss of homes and productive power;

(c) To give aid to agriculture;

(d) To mitigate unemployment and relieve those in actual distress;

(e) To prevent industrial conflict and social disorder;

(f) To preserve the financial strength of the United States government, our credit and our currency, as the Gibraltar of the world—in other words, to see that America met every foreign debt, and kept the dollar ringing true on every counter in the world;

(g) To advance much-needed economic and social reforms as fast as could be, without such drastic action as would intensify the illness of an already sick nation;

(h) To sustain the morale and courage of the people in order that their initiative should remain unimpaired, and secure from the people themselves every effort for their own salvation, and

(i) To adhere rigidly to the Constitution and our fundamental liberties, for one of the dangers of the times was that governmental action would undermine or weaken the initiative, free enterprise and recuperative powers of the people, or endanger the fundamental concepts on which our system of freedom was based.

Five Phases of Depression

To provide a clear perspective of the depression, I will summarize its different phases—they were definitely different—then give a detailed account of each.

The depression divided itself roughly into five successive periods or phases, each more severe than the preceding.

Each phase began with new destructive forces; each had its own acute crisis. As each developed, we undertook new efforts and measures to ward it off, to cushion its effects and restore the constructive forces of economic life. As the consequences of each crisis passed, we gained in strength and confidence—for a while. We successfully passed the first four crises without panic. The panic and setback of the last (after my defeat in 1932) could have been easily prevented.

The first phase was the 17 months from the stock-market crash in October, 1929, to April, 1931. This was a time of normal economic readjustment from a boom, such as the country had experienced before at intervals every few years. The number of family breadwinners unemployed rose to about 2,000,000. By January, 1931, we had paid the price for our own economic misdeeds and were convalescing. We made steady upward progress from January until April, 1931, when the storm struck us from Europe.

The depression's second phase comprised the four months from April to July, 1931, when we suffered the impact of a financial panic in Continental Europe. Heavy blows rained on our feeble banks and on our convalescing economic system. The remedies we applied stopped the development of panic, and again we had a flash of hope of recovery. That hope lasted less than a month. It was preliminary to a still greater shock from abroad.

The depression's third phase covered about four months, through mid-November, 1931. The shocks in this period—more severe than any previous—began with Britain's difficulties in August, 1931, which in turn culminated in British abandonment of the gold standard and suspension of payments of most foreign obligations, public and private. A score of other countries also went off the gold standard. The number of our unemployed breadwinners rose to about 4,000,000. Purchases abroad of our farm products practically ceased; farm prices collapsed; banks were toppling all around us; and foreigners, showing fear that we too would not hold to the gold standard, began to withdraw gold from us. Our citizens began hoarding currency and gold.

We initiated a number of measures—which I will detail later—which again prevented panic, and our difficulties and the paralyzing fears of our own people again began to relax, with a few rays of sunlight appearing around mid-November, 1931.

The fourth period of the depression began early in December, 1931. It lasted 11 months and saw our descent to the bottom of the depression pit in July, 1932. It was in this period that a Democratic Congress, bent on political destruction of the Republican administration, added to the impacts of Europe and of our own weak banking system. We narrowly escaped being forced off the gold standard by drains from abroad. Farmers were pushed into even deeper distress, and the unemployed increased to about 7,000,000 families without breadwinners.

Great legislative and other measures which we finally forced through an opposition Congress turned away panic and started us on the road to real recovery around July, 1932. That upturn lasted four months, until the Republicans were worsted in the Maine elections in the latter part of September, 1932.

The fifth phase of the depression began with the election on November 5, 1932. It was wholly a domestic political creation. With all the world turning, in July, 1932, to steady recovery, only the United States marched in the opposite direction. If the New Dealers had carried on our policies instead of deliberately wrecking them and then trying to make America over into a collectivist system, we should have made complete recovery after 1932—as did all the dozen other nations of the world which had free economies at that time.

This setback in the United States arose from public apprehension over the heterodox economies, currency tinkering and social policies announced by the New Dealers, and Mr. Roosevelt's unwillingness as President-elect to co-operate in meeting the situation. It all finally culminated in a wholly unnecessary bank depositors' panic in February, 1933.

In sum, each of the five phases of the depression—except the last—ended in an upturn and in a passing moment of hope that the worst was over.

As indicated above, the first phase of the depression lasted 17 months from the stock-market crash in October, 1929, to the European collapse in April, 1931. The measures we took during this time were new in national history.

The immediate problems to be dealt with were unemployment, farm distress, and the need for liquidation of loans on stocks, which amounted to more than $8,500,000,000 on the New York exchange alone.

Aftermath of the Loan Orgy

Governor Young and the Federal reserve banks, in constant conference with myself, Treasury Secretary Mellon and Undersecretary Mills, set up co-operative measures to cushion this liquidation in such a way as to prevent widespread bank failures and panic. All the large banks had participated in the loan orgy, and we should have had panic and loss to millions of innocent depositors, had not the liquidation been conducted with great skill. With the help of the Federal Reserve System, the stockbrokers' loans were drastically liquidated—down to $3,000,000,000 from $8,500,000,000.

With unemployment reaching threatening dimensions, relief of distress was imperative. We made a distinction between "direct" and "indirect" relief. "Direct" relief was that given individuals or families through charitable, local, county, municipal and state action. "Indirect" relief included public works, the stimulation of private construction, "spreading of work," restriction of immigration, and governmental financial measures to support private employment.

Within a month after the crash, we began to organize indirect relief.

On November 18th I instructed Secretary of Commerce Lamont to set up an organization of experienced men to assure as much public and private construction work as possible. The next day, with the secretary, I called the major railway presidents to the White House. At the end of our meeting they issued a statement that the railways would continue and even expand their construction and maintenance programs over the next year.

A few days later I invited the public-utility executives to confer and secured their agreement to continue and expand their construction activities. We made similar arrangements with the larger manufacturers.

On November 23d I wired governors and mayors, asking their co-operation to expand public works. They responded with full assurances. I directed the expedition both of our federal public works program, for which we had some $420,000,000 available, and of all ship construction possible. I recommended to Congress further federal appropriations for these purposes. As a result, we were assured of many billions of dollars spent and many thousands employed on capital improvement during the first 17 months of the depression.

To Relieve Unemployment

With a view to developing programs to aid the unemployed aside from construction work, I called a meeting of leading industrialists on November 21st. Many were not impressed with the gravity of the situation but became more seriously concerned as the meeting proceeded.

My secretary, Walter Newton, later published his notes on what took place:

"The President . . . explained the seriousness of the situation at home and abroad. He stated that immediate liquidation of labor had been the industrial policy of previous depressions; that his every instinct was opposed to both the term and the policy, for labor was not a commodity. It represented human homes . . . He held the view that wage rates should be maintained for the present . . . that in some cases the available work should be spread among all employees by temporarily shortening the work week of individuals; and that each industry should look after distress among its own employees . . . The program was accepted subject to its approval by labor leaders and the agreement by them that they would initiate no strikes or demands for increased pay during the present situation."

The same afternoon I conferred with outstanding labor leaders and secured their adherence to the program. This required the patriotic withdrawal of some wage demands which already had been made.

Conferences of various business organizations called by the U.S. Chamber of Commerce in December, 1929, established an understanding with the principal management and labor groups that wage rates would not be reduced except as the cost of living fell, that there should be a sharing of work, and that there should be no strikes or lockouts. This agreement held up fairly well in the organized trades through my whole administration.

We had fewer strikes and lockouts than in any other four years of recent history. Department of Labor records on man-days lost by strikes and lockouts show these figures: 1929, 9,975,000; 1930, 2,730,000; 1931, 6,386,000, and 1932, 6,462,000. The high figure for 1929 was influenced by attitudes prior to our good-will program.

The record of Roosevelt's administration was one of stimulating labor conflict instead of seeking to find healing measures. Their record of man-days lost in strikes and lockouts was: 1933, 16,872,000; 1934, 19,592,000; 1935, 15,456,000; 1936, 13,902,000; 1937, 28,425,000; 1938, 9,148,000; 1939, 17,812,000 and 1940, 6,701,000. The lower 1929-'32 figures cannot be attributed to the reluctance of men to strike because of unemployment fears.

To find out exactly how many unemployed there were at the time, in April, 1930—six months after the slump—I ordered the first accurate house-to-house census ever made in the United States. This census seemed simple on the face of it, but turned out to be most complicated. The shiftless citizen who had no intention of working had to be listed as unemployed. A household of four adults capable of work, of whom only the father had ever worked for pay, might be listed as only one unemployed, but the number could be stretched to enumerate the other three, especially since they might tell the census taker that they wanted work.

Other perplexing cases were persons out of work but not looking for it; those in the seasonal trades resting—as usual—between seasons; persons laid off temporarily or laying off voluntarily; persons idle for short periods between old jobs which they had lost and new ones for which they had been engaged.

While listed as unemployed, these groups were not in distress. But their number was so large as to influence estimates importantly.

This census showed on paper that at the time 2,429,000 persons were out of jobs and 758,000 still retained their jobs but were laid off temporarily without pay—a total of 3,187,000. But a rough review of the facts indicated that probably 500,000 to 1,000,000 of these did not intend to work under any circumstances, while 500,000 to 1,000,000 represented "between-jobbers," mostly in the seasonal trades. Even in highly prosperous times like 1927-'29, when there was no distress, the pool of unemployed had averaged about 1,500,000.

After considering all the factors, we concluded that there were, in April, 1930, about 1,000,000 families without breadwinners, although these statistics did not indicate with full accuracy the degree of destitution in the country or the burden of real distress which we had to carry.

Our measures for direct relief began with our November, 1929, conferences with employers, when I obtained promises that those able to do so would care for their own employees out of work. Many thousands of employers kept the staffs they had in 1929 for the three years that elapsed before the end of my administration. A moderate estimate of actual relief by employers during these years would exceed $1,000,000,000.

(One reason why unemployment rose so rapidly after the 1932 election was Roosevelt's promise of legislation by which the federal government would take over the burden of relief. Another was the NRA's later stipulation of minimum hours. Employers had to reduce their staffs to that level, and as the federal government had taken over relief, industries generally abandoned their own relief organizations and system of part-time work. At one time I had a partial list of more than 500,000 men so displaced from different concerns for this reason.)

When we took our 1930 census of the unemployed our investigations showed that any real distress was being taken care of by our indirect relief methods, by employers and by local community action.

But wanting to be sure of no failure in the care of the unemployed, and fearful of the inevitable increase of unemployment and distress during the winter of 1930-'31, I set up "The President's Committee for Unemployment Relief."

I appointed Colonel Arthur Woods, former Police Commissioner of New York, chairman, with a committee of 30 leading citizens to assist him. I requested governors of the states to co-operate by forming nonpartisan committees in each state, these in turn to organize such committees in each municipality and county. This was carried out in each locality where unemployment existed.

We set up some 3,000 nonpartisan committees of devoted, intelligent men and women. They were given the primary responsibility to see that no one was hungry or cold. By October, 1930, Colonel Woods reported to me that his organization was functioning everywhere.

On January 2, 1931, our government departments estimated the total unemployed at 6,050,000. With the usual deductions and taking account of the fact that this was the low point in seasonal work, this represented about 2,300,000 families without employed breadwinners. I directed Colonel Woods to check these estimates and make a complete survey, by his own independent agents, of the workload of his committees. He confirmed the government estimates as approximately correct, and reported that needs were being well cared for by local, county and municipal committees and by "indirect relief."

In a conference with the national committee and state committee representatives, I insisted that the first obligation of relief rested on local communities, and that they should not call on the state and federal governments until the load overtaxed their capacities. I said that if federal aid became necessary we would act through the state committees, supplementing state appropriations, and would insist that both federal and state aid supplement that given by local authorities; also that the whole should be administered by the nonpartisan committee system as the only method by which waste, politics and graft could be prevented.

I added emphatically that direct relief to individuals from the federal government would bring an inevitable train of corruption and waste such as our nation had never witnessed. (Years later this proved all too true.)

As a result of surveys, the state committees reported it unnecessary at that time for the state governments to make substantial appropriations for relief other than public works, and that likewise no call was involved on the federal government except for our "indirect relief."

However, much public discussion and conflict developed as to the method of relieving distress.

During the winter Congressional session of 1931, Senate Democrats, aided by Senator Borah and all radical groups in the country, demanded appropriations for direct federal doles. Both our relief committees and the Red Cross, then looking after the drought-distressed Midwest, reported that it was not needed.

Hoping that I could keep relief measures out of politics, I called individually to the White House Senator Robinson and Representative Garner, Democratic Senate and House leaders, Senator Borah, representing the "left-wingers," and the Republican leaders. I described our indirect relief measures by public works and by the cooperation of industry, and our direct relief system of committees and the Red Cross. I insisted that if the local committees became exhausted, they should apply to the state committees, and they in turn to the state government; that if these resources were exhausted, then—and then only—should the federal government contribute to the states, this aid to be administered by the system of nonpartisan committees. I insisted that federal action other than in such fashion would destroy local responsibility and introduce graft, politics, waste and mismanagement. *(continued)*

Grist for the Political Mill

Constant repetition of this thesis became with me a sort of refrain. I did not, however, satisfy my political opponents. They saw great political grist in appeals to presumed sympathy—or to human greed.

An opportunity for an ugly incident was offered the Democratic members of Congress and Senator Borah by the distress which had been brought on by drought in August, 1930, through large farm sections of the Midwest and South.

The Red Cross had undertaken the direct relief of drought sufferers. Working in Arkansas, it had properly insisted on delivering its relief directly to Negro and white tenant families. The plantation owners demanded that they distribute it, obviously to keep these dependents under control. I backed the Red Cross in refusing. A riot by "starving people" was organized in February 1931, attacking the Red Cross. It was greatly exploited by Democrats in Congress. I sent my military aide, Colonel Hodges, to investigate the "riot"; he found that it was a fake.

My opponents in Congress tried to force the issue by various dole amendments to a bill for seed-loan appropriations which I had recommended for the drought areas. I was now proved "heartless," to the great exultation of my opponents. Senator Borah assailed me mercilessly. The affair came to a climax on February 3, 1931.

I issued a statement saying:

"This is not an issue 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 . . .

". . . *I am willing to pledge myself* that if the time should ever come that the voluntary agencies of the country together with the local and state governments are unable to find resources with which to prevent hunger and suffering in my country, *I will ask the aid of every resource of the federal government because I would no more see starvation amongst our countrymen than would any senator or congressman.*"

Despite all the smearing, we got through the first phase of the depression until the spring of 1931 without anyone being hungry and cold—if our committees knew of it.

Such was the movement toward general recovery from December, 1930, to April, 1931, that by March a survey by our committees showed that in 120 cities direct relief had been ended as unnecessary.

The third major problem with which we had to deal during the depression's first 17 months was help for our farmers.

Overproduction on the Farms

Agriculture had been out of balance with the rest of our economic system for some years; the farmer was still overproducing as a result of acreage expanded during World War I. The Republican platform of 1928 had promised—and at my recommendation Congress several months before the slump had approved—a Federal Farm Board with $500,000,000 capital to help agriculture and particularly to build up co-operatives as a means of decreasing destructive competition between farmers. The Farm Board was not intended as an emergency agency, but when the crash came we transformed it to that purpose.

Immediately after the crash, I called a White House conference of leading farm organizations to discuss measures to meet its effect upon agriculture. The fall in farm prices did not begin to develop seriously until January, 1930, when export orders for farm products began to drop and credits with which to carry them in storage became restricted.

The 1929 crop was by now partially marketed. The farmers had raised the crop at costs which, if not realized in selling the remainder, would be ruinous.

We now determined that where prices seriously declined, we would support them indirectly by Federal Farm Board action. Some action was taken in January, and on February 3d we gave support to both wheat and cotton by loans to create a floor under prices and thereby indirectly support all farm prices.

The board eased the farmers over the 1929-'30 winter marketing hump and at the end of April withdrew its support to allow prices to reach their natural level. The bulk of the 1929 crop harvest was marketed at fair prices.

While the outlook was generally improving in the middle of 1930, we were in August hit with the above-mentioned drought throughout the Midwest and South. About 1,000,000 farm families and 20,000,000 animals were affected by this added calamity.

The first result was an acute shortage of feed for animals. We at once secured from the railroads half rates on feedstuffs into stricken sections, and directed an expansion of federal highway construction in those localities to aid farmers with supplementary employment.

I also called a meeting of governors of the states concerned to devise other relief measures. This conference decided that the situation could be handled by an appropriation from Congress for seed loans to the farmers, by direct relief to needy families through the Red Cross, by persuading banks and insurance companies to extend mortgages and interest payments, and by systematically handling highway and other public works to give farmers cash employment. All these things were done.

The problem of marketing farm products was renewed with the harvest of 1930. That autumn we continued Farm Board support of prices until the following April, when again we allowed prices to readjust themselves to natural levels.

The New York Times of November 19, 1930, reported the directors of the Chicago Board of Trade as confirming that these actions alone had prevented widespread panic in the agricultural markets. The Board of Trade had not hitherto been friendly or very co-operative. The Farm Board lost about $100,000,000 in stabilization operations over these two crops, but we saved many times that for the farmers. This was not a perfect solution, but it did cushion the blows agriculture was taking.

A side issue arose late in September, 1930, when we learned that the Soviet government had been selling large amounts of wheat short on the Chicago market. Investigation confirmed this. I demanded that the Chicago Board of Trade and other markets prohibit transactions by foreign governments, and was compelled to threaten federal control in order to secure action by them to protect our farmers. The Soviet short-selling, however, took a considerable sum which would otherwise have gone to our farmers.

The Congressional election in November, 1930, went against us, with a Democratic majority in the House and an effective opposition coalition in the Senate. That Democratic-controlled Congress was not to come into session until a year later in December, 1931, but prices of commodities and securities fell sharply with the election. I tried to patch up this threat to public morale by making an agreement to "cooperate" with the Democratic leaders. They soon demonstrated, however, that they were entirely satisfied—and even anxious—to see the depression prolonged to the Presidential election of 1932.

Soon after the first of 1931 the general economic situation began to show improvement. The New York Times, on March 23, 1931, concluded that the depression had passed bottom, and that we were on our way up. This view was supported by the press generally. All business indexes at the end of March showed rises in employment, payrolls, prices of commodities and securities and industrial production beyond the usual seasonal movements.

Signs of Economic Recovery

At the end of March the Federal Reserve Board's economic indexes plainly showed the signs of returning health. They revealed that, during 1931's first quarter, industrial production had increased 12 per cent, payrolls 10 per cent, common stocks 11 per cent, and construction contracts 25 per cent.

Bank failures during these three months were inconsequential, and foreign confidence in our strength was unimpaired—as indicated by the increasing volume of deposits in our banks from abroad. The American public mind had recovered from its mania of extravagance and speculation. We had no panics. Significant reforms had taken place in business management. The actual slump industrially—due to our cushioning measures—had been less than in some previous economic crises. We had sustained agriculture and cared for the destitute unemployed.

With all the evidence, I made an encouraging statement on the situation by way of strengthening public courage and confidence. I did not say that "prosperity is just around the corner" (that was a smear circulated by the opposition), but I did express great hopes that the worst was over.

As there were no signs as yet of economic collapse in Europe, I began to feel that I had been overanxious in that quarter. But we were scarcely to set our feet on the floor out of our economic sickbed when Europe struck us a stunning blow.

The Great Depression's second phase was touched off by the difficulties of an Austrian bank. In a few days, panic swept Europe and dashed hopes for our own recovery. For Hoover's gripping report on this phase, order next week's copy of Collier's today