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The Memoirs of Herbert Hoover - The Great Depression, 1929-1941

Herbert Hoover

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42 Highlight(s) | 0 Note(s)

Yellow highlight | Page: 6

Behind these alarms was my knowledge that the Federal Reserve Board had deliberately created credit inflation. The Reserve System had been established early in the Wilson administration on December 23, 1913. The act was largely fathered by Senator Carter Glass and was hailed by him, President Wilson, and Secretary of the Treasury William G. McAdoo as the remedy to the whole problem of booms, slumps, and panics. They asserted that, by the control of discount rates, open market operations, and currency issues, business crises could be eliminated. They contended that raising rediscount rates and restriction of credit through the sale of government securities by the Reserve Banks ("open market operations") would curb all speculation, and that the opposite actions by the Reserve Banks would stimulate business activity. A few of their expressions were:

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Yellow highlight | Page: 7

A contribution to optimism and the belief in the "New Era" was the illusion that the economic system was thus completely immune from financial crises. Bankers, accepting this illusion, neglected many of their own responsibilities.

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Yellow highlight | Page: 7

The Federal Reserve Board, during 1925, had undertaken credit expansion by open market operations and by lowering discount rates. It had been led into this action by Governor Benjamin Strong of the New York Federal Reserve Bank upon the urging of Montagu Norman, head of the Bank of England, Hjalmar Schacht of the Reichsbank, and Charles

Rist of the Bank of France, who came to New York and Washington to press this expansion. It was direct inflation. One

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Yellow highlight | Page: 8

believe it was national pride more than economic sense that had induced the British to resume the prewar gold content of the pound. Having adopted the higher content, they at once found themselves in difficulty supporting its exchange value, as this rate fixed the price of their exports too high, slackened their trade balances, and weakened their gold reserves. They invented the idea that the United States should expand credit and maintain lower interest rates than Britain so that she could attract capital and thus foreign exchange in her direction.

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Yellow highlight | Page: 9

In November, 1925, it was confirmed to me by Adolph Miller, a member of the Reserve Board, that Strong and his European allies proposed still more "easy money policies," which included continued manipulation of the discount rates and open market operations—more inflation.

Note:

Yellow highlight | Page: 14

In 1928 the Committee on Economic Changes, which I had appointed under the chairmanship of Mr. Arch Shaw, gave a warning of another but much smaller cloud coming out of the economic sea. They stated that from our very increase in efficiency we might get some readjustments. They reported that, from an increase in production efficiency of some 30 per cent per person during the 1920's, very little had gone to decrease prices of industrial products. The average price level had remained about the same from 1922 to 1929. The Committee found that about three-fourths of the gains from increased efficiency and decreasing costs had gone to increased industrial wages and one-fourth to increased profits. The buying power of the industrial workers had been increased, and increased profits had become a stimulant to speculation. But as labor and business absorbed the benefits of increased efficiency, such other groups as the farmers and the "white-collar" classes benefited only by a small increase in buying power. Therefore, these groups could not absorb the increased production of

industry. To put it another way, had there been a decrease in price levels, the nonindustrial groups could have bought more goods, thus sustaining production.

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Yellow highlight | Page: 15

In consequence, during the late twenties, we ran into relatively distorted production of some industrial goods, and a readjustment of income between groups had become necessary.

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Yellow highlight | Page: 18

When the public becomes mad with greed and is rubbing the Aladdin's lamp of sudden fortune, no little matter of interest rates is effective. We did at one time almost

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Yellow highlight | Page: 21

Among all our banking ills, I give a few of outstanding importance. 1. Our banking system was the outgrowth of a muddle of good and bad laws and the high spirit of enterprise in our people. There were 52 different bank regulatory systems, one for National Banks, one for the other member banks of the Federal Reserve System, and forty-nine others for state banks and the District of Columbia. The Federal regulatory systems were much better than those of the states. The Federal inspection system was good, as far as it went, but the states' systems shaded all the way from good to purely political. The Federal Reserve and National Bank inspections covered only a minority of the number of banks. 2. There were too many banks. In 1929 there were about 25,000 commercial banks, trust companies, and savings banks entrusted with the people's deposits. Of the commercial banks, 7,500 were National Banks and 14,300 state. There simply were not enough capable bankers to go around among 25,000 banks. And there were some very evil ones in some large banks. 3. Of these deposit institutions, more than 3,500 had less than 100,000 capital and, of these, some 1,500 had less than 25,000 capital. A safe banking life, including payment of bank salaries, simply could not be led on such capital. 4.

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All commercial banks were permitted to loan excessive amounts of demand deposits on long-term mortgages and to invest in long-term bonds. When stress came, long-term assets could not be quickly liquidated, and depositors' demands had to be met by calling in the short-term business loans. That paralyzed business and employment. The supposed restriction on withdrawal of "time" deposits and their use for long-term lending amounted to nothing, for if the banker refused to cash a time deposit before due date, his bank fell under suspicion.

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5. Our agricultural areas must have mortgage capital from the great centers to buy farms and equipment. They must have seasonal capital to raise livestock, to plant, harvest, and market the ground crops. In the normal working of the banking system, the banks and loan concerns in the farm area borrowed seasonally from the nearest cities. These cities borrowed in turn from New York and other large centers. The moment depression came, the city banks drew in funds from their country correspondents or refused to furnish their usual needs. The insurance companies abruptly ceased lending on mortgages, and foreclosed wholesale those in default. As a result, farmers and small business men were the immediate victims. 6. Only one-third of the total number of banks were members of the Federal Reserve System, and therefore only one-third had the safety valve of rediscount privilege with the Reserve Banks. Moreover, the rediscount privilege was limited to short-term commercial paper. Those banks also had no method of realizing on mortgages. In the slump they could sell many bond holdings in the market, but only at a loss and often for less than their true value. 7. The theory of the Federal Reserve System can well be repeated here. The idea was that speculation could be checked by increasing interest rates, and restricting credit by open-market operations; and on the other hand, that business could be activated by decreasing interest rates and expanding credit by open-market operations....

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8. Many of the larger banks had "affiliates" through which they speculated in stocks and engaged in stock promotion, indirectly using their depositors' money with ultimately great losses. 9. Nor was our financial weakness solely in the banks. Throughout the whole business

of providing capital for our economic life there ran a pollution—the habit of making money by manipulation and promotion of securities. And that promotion too often disregarded the merits of the goods it sold. In addition, the financial world, instead of providing merely the lubricants of commerce and industry, had often set itself up to milk the system....

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Yellow highlight | Page: 25

The credit system in all its phases should be merely a lubricant to the systems of production and distribution. It is not its function to control these systems. That it should be so badly organized, that the volume of currency and credit, whether long or short term, should expand and shrink irrespective of the needs of production and distribution; that its stability should be the particular creature of emotional fear or optimism; that it should be insecure; that it should dominate and not be subordinate to production and distribution—all this is intolerable if we are to maintain our civilization. Yet these things have happened on a gigantic scale. We could have weathered through these failures with some losses and could have secured reorganization as we went along. . . . The rain of blows from abroad, however, on the system of such weakness has wholly prostrated us by a second phase of this depression which came from a collapse of the financial systems in Europe.

Note:

Yellow highlight | Page: 31

this earlier stage we determined that the Federal government should use all of its powers: (a) to avoid the bank depositors' and credit panics which had so generally accompanied previous violent slumps; (b) to cushion slowly, by various devices, the inevitable liquidation of false values so as to prevent widespread bankruptcy and the losses of homes and productive power; (c) to give aid to agriculture; (d) to mitigate unemployment and to 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 economic Gibraltar of the earth—in other words, to assure that America should meet every foreign debt, and keep 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 to secure from the people themselves every effort for their own salvation;

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Yellow highlight | Page: 32

to adhere rigidly to the Constitution and the fundamental liberties of the people.

Note:

Yellow highlight | Page: 42

Less than 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

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Yellow highlight | Page: 42

As a result, we were assured that many billions of dollars would be spent and many thousands employed on capital improvement during the first phase of the depression.

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Yellow highlight | Page: 44

The same afternoon I conferred with the outstanding labor leaders and secured their adherence to the program. This required the patriotic withdrawal of some wage demands which already had been made. In the meantime, various business organizations had been called by the United States Chamber of Commerce to confer in Washington on the situation. The purpose was to gain wider support of the industrialists' undertaking of two weeks earlier. On December 5th I addressed these groups, and after a reserved review of the situation, so as not to add to public alarm, I said: . . . The cure for such storms is action;

Note:

Those conferences in Washington established four understandings vital to the recovery program: (a) no strikes or lockouts that leaders could prevent; (b) wage rates not to be reduced except as the cost of living fell; (c) within their resources, employers to look after the relief of their own employees; (d) where possible, a sharing of work. The three last provisions were currently referred to in our discussions as the "employers' direct relief." As all this was voluntary, we did not expect a 100 per cent compliance; but we did receive an astonishing support.²

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Note:

In the first seven months of 1931 the number of cuts reported per hundred firms was twelve compared to fifty-four in 1921. These accomplishments in the creating of industrial good will were evidenced by the sharp decrease in labor conflicts. We had fewer strikes and lockouts than in any other four years of recent history.³

Note:

To ease the agricultural strains I again set the Federal Farm Board to the task of lifting farm prices over the hump of the marketing season from August, 1931, to April, 1932. They gradually overcame a considerable part of the disastrous falls of the summer. Beginning in July, we strengthened our relief measures throughout the country so that they could carry the additional load of unemployment distress already upon us, which would be, no doubt, still greater during the forthcoming winter of 1931–1932. I give the details of this expanded organization in the next chapter.

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To meet this increasingly desperate situation, we expanded our program of economic defense and recovery measures, even further than at the Congressional meeting a month before. The following is the full program including secondary items, some of which were developed later in the session but are given here in full rather than in scattered parts. 1. Our tax receipts had fallen by more than one-half, and we were faced with a 2,000,000,000 annual deficit. As the stability of the

American government was the first necessity in the world, I proposed to balance the budget by drastic decreases and postponements of ordinary expenditures, and increased taxation.

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Yellow highlight | Page: 98

2. In order that the country should be absolutely assured that the government was in position to meet any public necessity, I proposed for the emergency the establishment of a Reconstruction Finance Corporation, with a capital of 500,000,000 and authority to borrow up to 3,000,000,000 from either the Treasury or private sources. These resources were to be used for the following purposes: (a) to establish and finance a system of agricultural credit banks that would make loans for crop and livestock production not to be had during the depression from existing banks; (b) to make loans to the existing Farmers' Intermediate Credit Banks to enable them to finance the marketing of the crops; (c) to make loans to building and loan associations, savings banks, insurance companies, and other real estate mortgage agencies so as to enable them to postpone foreclosures; (d) to make loans to banks and financial institutions "which cannot otherwise secure credit where such advances will protect the credit structure and stimulate employment"; (e) to make loans to the railways to prevent receiverships;

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Yellow highlight | Page: 98

(f) to finance exports that would aid the farmers and the unemployed; (g) to finance modernization and construction of industrial plants and utilities so as to increase employment and plant efficiency; (h) to make loans to closed banks upon their sound assets so as to enable them at least partially to pay out deposits to a multitude of families and small businesses who were in distress because their deposits were tied up pending liquidation or reorganization of these banks. 3. To liberalize during the emergency the eligibility requirements for...

Note:

Yellow highlight | Page: 98

To make government bonds temporarily eligible for part coverage of the currency, so as to compensate for our fluctuating gold supply and to prevent our being forced off the gold standard. 5. To authorize the

Federal Reserve Banks to expand credit further by open market operations and lowered discount rates so as to counteract the credit stringencies caused by foreign withdrawals. While we knew that Reserve action had been futile in stopping booms, we hoped it might have some effect by expanding credit in depression. 6. Reform of the bankruptcy...

Note:

Yellow highlight | Page: 99

Reform in Stock Exchange and stock promotion practices. 8. Immediate reform of the banking system. I stated: "Our people have a right to a banking system in which their deposits shall be safeguarded," so that "the flow of credit be not subject to interruption." 9. Subscription by the government of further capital to the Federal Land Banks so as to permit expansion of their lending capacity by 1,000,000,000 with which to take over expiring farm mortgages, and relaxation of certain regulations in these banks in...

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Yellow highlight | Page: 99

against panic selling and to make loans to farm cooperatives. 11. A system of Home Loan Discount Banks to protect home mortgages as the foundation for a national system of mortgage discount banks. 12. A continuation of our system of national, state, and local committees for family relief. (a) An expanded public appeal for their support. (b) An appropriation of 85,000,000 bushels of wheat and 500,000 bales of cotton from the Farm Board stocks to be distributed by the relief committees. (c) In the early spring of 1932, when the resources of state and local committees for direct family relief were under strain, we secured an appropriation of 300,000,000 to aid the states, but contingent upon additions by the states, and to be expended through our committees. (d) Appropriations of 600,000,000 to 700,000,000 for ordinary Federal public works (a direct charge on the Treasury). (e) Authorization...

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Yellow highlight | Page: 100

13. Reorganization of the railways on a sound financial basis in the manner recommended by the Interstate Commerce Commission. 14. Authority to regulate interstate electric power rates and utility finance.

15. Ratification of the moratorium on intergovernmental debts. 16. Cooperation with other governments in promoting world recovery. This included the re-creation of the former World War Debt Commission to examine and report to Congress on the problems involved in these debts. 17. Appropriation for the expenses of the American delegation to the World...

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Yellow highlight | Page: 100

other administrative reforms in the interest of economy and efficiency. I take up the...

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Yellow highlight | Page: 156

During my administration our agricultural relief policies included (a) higher tariffs; (b) loans to farm cooperatives from the Farm Board; (c) support of prices in wheat and cotton by the Farm Board; (d) loans by the RFC to stimulate farm exports; (e) loans from the RFC to the Intermediate Credit Banks to finance the marketing of crops; (f) expansion of the Federal Land Banks; (g) creation of the Agricultural Credit Banks to finance the farmers' production of ground crops and livestock; (h) provision of seed loans from the Department of Agriculture on easy terms; (i) especial emphasis on rural-area road building in our public works programs, by which we provided opportunities for wage employment of many farmers in the off-crop season.

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Yellow highlight | Page: 191

Roosevelt's refusal to cooperate, in view of which negotiations and Congressional approval were impossible, prevented the re-erection of the War Debt Commission and postponed the World Economic Conference indefinitely. Apprehensions and fears over the country were greatly increased. In the end the Economic Conference failed. The debts were repudiated.

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Yellow highlight | Page: 404

There was still another by-product of devaluation. Shrewd American speculators either deduced from the attitudes of Roosevelt and his

associates that it was coming or had inside information. They bought huge amounts of foreign currencies before devaluation and sold them afterwards at huge profits and little risk. Some of the men close to Roosevelt's campaign did beautifully in this pasture. Hugh Johnson, one of Roosevelt's greatest supporters in the campaign of 1932 and a subsequent high official in the New Deal, ultimately recanted. On the devaluation, he said: Some

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Yellow highlight | Page: 408

Along with currency manipulation, the New Deal introduced to Americans the spectacle of Fascist dictation to business, labor and agriculture. Fascism came to agriculture by way of the Agricultural Adjustment Act of March 12, 1933, sent by the President to Congress as a "must" and passed with little real debate.

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Yellow highlight | Page: 408

This act and supplemental acts, in their consequences of control of products and markets, set up an uncanny Americanized parallel with the agricultural regime of Mussolini and Hitler. In short summary, it provided:1

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Yellow highlight | Page: 420

Among the early Roosevelt fascist measures was the National Industrial Recovery Act (NRA) of June 16, 1933. The origins of this scheme are worth repeating. These ideas were first suggested by Gerard Swope (of the General Electric Company) at a meeting of the electrical industry in the winter of 1932. Following this, they were adopted by the United States Chamber of Commerce. During the campaign of 1932, Henry I. Harriman, president of that body, urged that I agree to support these proposals, informing me that Mr. Roosevelt had agreed to do so. I tried to show him that this stuff was sheer fascism; that it was merely a remaking of Mussolini's "corporate state" and refused to agree to any of it. He informed me that in view of my attitude, the business world would support Roosevelt with money and influence. That, for the most part, proved true.

Note:

In my philosophy the anti-trust acts had emancipated and protected the American people (common man, if you will) from the vicious growth of laissez-faire economics inherited from Europe. By maintaining competition, our industries were forced into channels of constantly improving methods and plants and constantly lowering prices with the increasing consumption of goods. European industry with its uncontrolled laissez-faire had grown into a maze of cartels, trusts and trade restraints the result of which was to stagnate improvements in favor of price and distribution controls. Now with the NRA, Roosevelt shackled his common man to unrestrained monopolies. The act, as drafted by the administration, was passed by rubber-stamp methods on May 27, 1933. The President made a flat statement that its purpose was to repeal the anti-trust acts as follows: One of the greatest restrictions upon such cooperative efforts [of industry and business] up to this time has been our anti-trust laws . . . "with the authority and under the guidance of the Government private industries are permitted to make agreements and codes insuring

Note:

Section 7a of the NRA (June 16, 1933) provided for the inclusion in all codes of a provision requiring collective bargaining through representatives of labor's own choosing, the establishment of minimum hours, minimum wages and conditions of labor. If no voluntary code could be agreed upon, the President was authorized to prescribe one. Roosevelt by Executive Order, on June 30, 1933, established the National Labor Relations Board to administer it. The board died when Title I of NRA was declared unconstitutional in May, 1935.

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On July 5, 1935, the so-called Wagner Act (a) created the National Labor Relations Board of three members with authority to make rules and regulations; (b) confirmed the right of labor to bargain collectively through representatives of their own choosing; (c) provided for elections in which workers were to choose representatives; (d) provided for the prosecution of unfair practices through the courts, where the findings of fact by the Board were to be binding; (e) established regulations as to "unfair practices."

Note:

Yellow highlight | Page: 443

A whole series of socialist electrification activities were initiated with presumed authority from various acts of Congress. They stemmed partly from the Reclamation Acts, together with Title II of the NRA of June 16, 1933, the Federal Emergency Relief Act of May 12, 1934, the Emergency Relief Appropriation Act of April 6, 1936, and the use of RFC funds and relief funds.

Note:

Yellow highlight | Page: 443

From this authority stemmed a long series of activities encroaching upon private enterprise. They included not only the TVA but government operations resulting from the Grand Coulee and Bonneville dams on the Columbia, the Shasta and Friant dams in California, and the Flat Rock Dam in Montana. They finally developed into a plan of a government grid of hydroelectric power and transmission lines that were to envelop the eleven western states.

Note:

Yellow highlight | Page: 447

The collectivist character of this phase of the New Deal and "planned economy" included the deliberate centralization of relief in the Federal government, thus undermining state and local responsibility; the creation of a huge Federal political bureaucracy; and, above all, the securing of votes out of fear of discrimination or from favors given people receiving relief. Congressional investigations repeatedly exposed such evils. This method of relief thus became an instrument for the creation and perpetuation of a one-party form of government. Such lines of action and such accumulations of power are symbolic of all collectivist movements.

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Yellow highlight | Page: 453

An essential technique of collectivism is thought control. It is the natural instinct as well as a necessity of bureaucracy for self-preservation and expansion. Propaganda is its first weapon. The public mind must be conditioned, through government propaganda, into common denominators of thought. No private agency has the funds to

contend with government money in this field. Also criticism must be silenced. Physical concentration camps are not necessary. Repeated defamation, constant attack, and smearing of objectors can create intellectual concentration camps.

Note:
