HOOVER AND THE GREAT DEPRESSION

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Mention the name Herbert Hoover, the 31st President of the United States, and you probably think "Great Depression."

Here's how the usual narrative goes: The stock market crashes in October of 1929. Hoover, a Republican, refuses to intervene. Instead, he lets the free market deal with the problem and the economic downturn morphs into a catastrophic decline.

Well, the Stock Market did crash in 1929 and the economic downturn that followed did lead into the Great Depression, but it wasn't because Hoover was a small government man like his predecessor, Calvin Coolidge. It was just the opposite. My research shows that it was Hoover's incessant meddling -- not the mistaken view that he did nothing -- that provoked the Great Depression.

Hoover, a good man with magnanimous instincts, was a successful mining engineer before he got into government. He believed that almost anything could be engineered, and he brought that philosophy to the economic crisis of 1929. As a result, he was the wrong man for the job at exactly the wrong time. For starters, Hoover distrusted the free market. He knew that unfettered competition forces companies to reduce prices; but, he believed, lower prices lead to lower wages.

In November of 1929, shortly after the stock market swoon, Hoover called a meeting with the CEOs of major American industry. Henry Ford of Ford Motor, Alfred Sloan of GM, and Pierre Dupont of Dupont Chemicals led the group that met with Hoover.

The President set down a very clear and unprecedented directive: 1) Despite the weakening economy, keep wage rates at current levels. 2) Minimize layoffs. If you must reduce manpower, do it through work sharing -- that is, have two workers work half a day each or every other day.

In return for maintaining wage rates and sharing jobs, Hoover promised the CEO's that he would convince workers to neither strike nor demand additional pay or benefits. He kept his promise. Labor agreed not to strike. Industry agreed not to cut wages. In fact, Henry Ford raised wages as a gesture of solidarity.

The engineer, it seemed, had engineered the perfect solution. Only it didn't work.

As 1929 moved into 1930 and 1931, prices for industrial goods declined. One reason was the economy-wide deflation brought on by the Federal Reserve's tight money policy. People simply didn't have money to buy goods or invest in companies. But another reason, and a

big one, was the result of something else Hoover did -- his signing of the Smoot-Hawley Tariff Act of 1930. That act, which raised tariffs on imports to the highest levels in 100 years, led America's trading partners to retaliate by placing tariffs on American goods. With American exports cut in half, the prices of American industrial goods declined sharply.

As the Depression deepened, industry asked Hoover for permission to cut wages, but Hoover refused. "If we cut wages, there will be hell to pay with unions," he said.

By the end of 1931, with the economy in shambles, industry broke their deal by cutting wages and increasing layoffs. But it was too late to stop the free fall. Business failure built on business failure. Unemployment soared from 3.2% in 1929 to 23.6% in 1932. Hoover countered by vastly increasing government spending, offering a nine-point plan that included major public works projects like the Hoover Dam and the Los Angeles Aqueduct. He raised taxes on the top income bracket from 25% to 63%. He did everything he could think of to engineer the economy back to health except the one thing that might have worked -- let the free market heal itself. What should have been a couple of hard years turned into a decade long disaster.

And what of the commonly-held view that Hoover and Franklin Roosevelt's economic policies were so different? You can now see that view is also inaccurate. Both Hoover and FDR believed in forceful government intervention into the economy.

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