

The Depression Begins: President Hoover Takes Command

- Hoover promotes high wage rates, public works, and propping up unsound businesses
 - The New Deal, just a bit less so
- Surprise! Secretary of the Treasury Mellon opposes Hoover's policies, is overruled by the rest of his cabinet

The White House Conferences

- Called between the White House and prominent industrialists
- Hoover bullies them into maintaining wage rates and continuing expansion of investments
 - (not real investments, these are consumption because they're done at the behest of government!)
- Called it "coordination," but really just more velvet glove over mailed fist
- Railroads surrender on November 18
 - Made promises, announced them publicly on the 19th
 - More formal organization (cartel) set up later
- The most important meeting on Nov. 21
 - Many great industrial leaders
 - Hoover wheedles: "labor represents human homes!"
 - Avoid real wage rate decreases
 - Put the first "hit" of the Depression onto profits
 - This makes it harder for industrialists to know what to do!
 - Maintain construction and expansion
 - Reduce the work week if necessary
 - As discussed before, a bad idea: less efficient and spreads pain onto more productive workers
 - The industrialists agreed, and further organized on December 5th
 - Telephone, steel, and automobile industries expand construction
 - Executive Committee formed for oversight (to make sure no participants cheated!)
- Also on the 21st: labor leaders meet
 - This was easy because Hoover was already giving them everything they wanted
 - Wasn't even followed! Betrayed by Nov. 27th
- November 22nd: building and construction industries agree
- November 27th: public utilities agree
- Hoover says his actions will prevent suffering
- Use of phrase "dog-eat-dog" by Hoover, page 213
- AFL extremely pleased

Inflating Credit

- \$300M dumped into markets on first week of crash, bolstering shaky firms and causing more inflation
- Massive pumping of the stock market
 - \$1.8B in 1 week! (10% of money supply!!)
 - Reduced rediscount rate
 - Stock market (of course) bounces
 - But despite the massive "controlled" inflation, "uncontrolled" deflation was larger!
 - Recall Ch. 4, part 1, in which Rothbard classified various forms of inflation/deflation
- By December 1929, government was declaring victory!

Public Works

- Nov. 23 & 24, 1929: a telegram and an agreement: \$400M for federal buildings, a new Division of Public Construction, and \$175M for other public works

The New Deal Farm Program

- Farm lobbying started in earnest around 1914, with the Dept. of Agriculture
 - 1916 regulations to favor farmers
 - War Finance Corp. and Federal Farm Loan System
- Futures Trading Act puts prohibitive tax (\$0.20/bushel) on “speculative” trades except in certain specific markets authorized by the Secretary of Agriculture
 - Which markets allowed speculation, and how did they compare to others?
- War Finance Corp. sunsets in May 1920, but reactivated in Jan. 1921 (remember 1920-1921 depression)
 - \$1B lending to farmers’ coops and foreign importers
 - mostly done by 1925, mostly lent to coops
- Fall 1921, 10% cut in freight rates imposed by gov’t
- 1921-1922: Conferences and Commissions suggest more aid to farmers
- 1922 Capper-Volstead Coop Marketing Act exempts coops from anti-trust as long as they maintain a policy that each farmer gets a single vote
 - Futures Trading Act declared unconstitutional around now, but Congress just does an end-run with the Grain Futures Act, which basically does the same thing
- 1923, Agricultural Credits Act establishes fast Federal farm credit
- Traders ordered to stop discriminating against coops in 1924
- 1920: wheat & cotton try to cartelize and fail
- Henry A. Wallace tries similar thing with corn in 1921 & 1922, limited success
 - He resorts to calling uncooperative individualist farmers “scabs”
- Sapiro movement tries to collect wheat again starting July 1920, failed by 1922
- July 1920 conference encourages more cartelization
 - fruit, dairy, vegetable, wool, cotton, tobacco fail; livestock cartel effective
- Pushes for price controls begin
 - Plans culminate in McNary-Haugen bills, vetoed by Coolidge
 - Price supports largely fail where tried. Coolidge tried with cotton.
- Coolidge not so “silent” after all
 - 1924 Norbeck-Burtness bill for livestock loans fails
 - He initiates a commission/conference instead, Capper-Haugen bills fail
 - He keeps trying to aid farm coops: new marketing division for them
- Hoover also pushing farm coops, trying to “help” them
 - Farm-price supports via Federal Farm Board (1929)
 - “Jardine plan:” \$500M for loans up to 20y long to coops
 - Set up stabilization corporations to control surpluses and prices
 - Cronies fill the FFB (moral hazard/regulatory capture danger!)
- Depression strikes
 - The Pattern:
 1. Loan to farmers to hold back crops
 2. Short-term success leads to more acreage of the crop in question
 3. Prices keep falling, market spooked
 4. Attempt to stop bleeding by favoring coops
 5. Gov’t cries “Overproduction!”
 6. FFB sells the stuff it bought at a huge loss, causing further price drops
 - Done in:
 - Wheat
 - Cotton
 - Wool

- Livestock (failed early, thankfully)
- Beans
- Pecans
- Citrus
- Grapes
- Butter
- More!
- Farm Holiday movement starts to cause riots, promote barter economy
 - Mob violence
 - Intimidation at penny sales (holds farms in the hands of inefficient farmers)

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