



CONSTITUTIONAL ACTION REPORT

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IS OBAMA ANOTHER HOOVER?

Few matters demonstrate the leftists' ignorance of history more than their warnings that the United States, in dealing with the current recession, must avoid the "conservative" policies followed by President Herbert Hoover at the beginning of the Depression. Even a quick glance at the historical record shows us that the policies of Hoover were not only left-oriented and anti-Constitutional, but very similar to those now being followed by President Obama. Let us review the parallels.

1. STIMULUS AND DEFICIT

Hoover was a firm believer in using Federal spending, especially on public works, as a stimulus during hard times. In 1928, while still Secretary of Commerce, he put forth a plan to establish a \$3 billion reserve fund to be used for public works spending during economic downturns.¹ (The entire Federal budget in 1928 was less than \$3 billion.)

Hoover followed this same general policy as President. In late 1929, just weeks after the stock market crash, he asked Congress for \$400 million in additional public works spending, followed soon by a request for \$175 million more, and used his existing statutory authority to increase Federal subsidies for shipbuilding.² (At this time, the entire Federal budget was only \$3.1 billion.) In 1930, he pushed through Congress a \$915 million public works program, followed by a request for \$150 million more (reduced by Congress to \$116 million).³

When Democratic Senator Robert Wagner introduced his Employment Stabilization Act for still more public works, Hoover gave it his support in an act of bipartisanship.⁴ By the time he left office, Hoover could boast that the Federal government had spent more on public works during his four years than during the previous thirty.⁵

Public works were not the only stimulus program of the Hoover years. Grants to the states increased dramatically (up by \$200 million in 1931 alone) as did payments to veterans (up by almost \$900 million, mostly loans, in 1931).⁶

The result was a Federal budget in which spending increased by 57% during Hoover's time in office. President Obama has proposed an increase of only 26% during his term.

President Coolidge left office having achieved a 1928 budget surplus of more than \$900 million, while Hoover's spending produced a deficit of more than \$2.7 billion by his final year in office. The deficit was 59% of total Federal spending that year, greater than any actual or projected Obama deficit. Coolidge and Harding had, over eight years, paid off 32% of the debt incurred during World War I, but Hoover's 1932

¹ Warren, Harris Gaylord, *Herbert Hoover and the Great Depression* (W.W. Norton & Company, 1959), pg. 66.

² Rothbard, Murray N., *America's Great Depression* (Nash Publishing, 1963), pg. 193; Warren, *Herbert Hoover*, pg. 118.

³ Rothbard, *Great Depression*, pgs. 212, 223.

⁴ *Ibid*, pg. 234.

⁵ *Ibid*, pg. 261.

⁶ *Ibid*, pgs. 233-34

deficit alone wiped out almost all the progress made in Coolidge's last three years. The Hoover deficits of 1931 and 1932 were the largest peacetime deficits in American history up to that point.⁷

Hoover did not escape criticism for his profligate spending. The Democratic Speaker of the House, John Nance Garner, declared that "Their failure to balance the budget . . . is at the very bottom of the economic trouble we are suffering." Hoover's Democratic opponent in the Presidential election, Franklin D. Roosevelt, campaigned saying, "I accuse the present administration of being the greatest spending administration in peacetime in all our history. It is an administration that has piled bureau on bureau, commission on commission, and has failed to anticipate the dire needs of and the reduced earning power of the people. Bureaus and bureaucrats, commissions and commissioners, have been retained at the expense of the taxpayer." Roosevelt also said that he considered "reduction of federal spending as one of the most important issues in this campaign."⁸

The Democratic Party platform of 1932 pledged "an immediate and drastic reduction of governmental expenditures . . . to accomplish a saving of not less than twenty-five percent in the cost of the Federal government" while condemning Hoover administration for resistance "to every effort made by Congressional Committees to curtail the extravagant expenditures of the government . . ." ⁹ Just six days after taking the oath of office, President Roosevelt called for passage of the Economy Act to reduce government expenditures, and signed it into law ten days later¹⁰ As a result, both Federal spending and the deficit were slightly lower in 1933 than in 1932. Unfortunately, Roosevelt soon abandoned this path and became even more liberal than Hoover.

2. BAILOUTS

Few people remember that President Hoover was the inventor of the Federal policy of bailing out failing banks and other corporations. He began this with the deceptive illusion that it was a purely private activity, meeting secretly with banking officials and threatening Federal action unless they would create a National Credit Corporation to loan \$500 million to banks, and through those banks to other businesses.¹¹

This soon gave way to undisguised government bailouts through the establishment of the Reconstruction Finance Corporation (RFC), which was authorized to make loans to any "bank, savings bank, trust company, building and loan association, insurance company, mortgage loan company, credit union, Federal land bank, joint stock land bank, Federal intermediate credit bank, agricultural credit corporation, or livestock credit corporation."¹² The RFC quickly made loans of \$1.6 billion, primarily to bail out large banks.¹³ The loans were technically not expenditures, and therefore did not have to be included in Federal spending totals, deficit calculations, and the national debt. The RFC was allowed to borrow as much as \$1.5 billion.¹⁴ Rexford Tugwell, a future leader in FDR's New Deal, accurately described this program as relief for bankers.¹⁵

3. PROPPING UP HOME LOANS

We have seen in recent months the failure of President Obama's attempt to rescue homeowners who obtained mortgages they could not afford. It was President Hoover who set the precedent with his Federal

⁷ Schlesinger, Arthur M., Jr., *The Age of Roosevelt: The Crisis of the Old Order, 1919-1933* (The Riverside Press, 1957), pg. 232.

⁸ Lyons, Eugene, *Herbert Hoover: A Biography* (Doubleday & Company, 1964), pgs. 295-96. See also Warren, *Herbert Hoover*, pg. 261 for a summary of FDR's criticism of Hoover.

⁹ Porter, Kirk H. and Johnson, Donald B., *National Party Platforms, 1840-1968* (University of Illinois Press, 1970), pgs. 331, 333.

¹⁰ Kennedy, David M., *Freedom from Fear: The American People in Depression and War, 1929-1945* (Oxford University Press, 1999), Pg. 138.

¹¹ *Ibid.*, pgs. 82-83; Rothbard, *Great Depression*, pgs. 242-43.

¹² Warren, *Herbert Hoover*, pg. 143.

¹³ *Ibid.*, pgs. 144-45.

¹⁴ Rothbard, *Great Depression*, pgs. 261-65; Kennedy, *Freedom from Fear*, pgs. 84-85.

¹⁵ Kennedy, *Freedom from Fear*, pg. 85

Home Loan Bank Act. He also persuaded the Federal Farm Loan Board to cease mortgage foreclosures.¹⁶

4. TAX INCREASES

President Obama has raised taxes already, and proposes even more for 2011 (primarily income and death taxes). However, Obama cannot hold a candle to the tax increases enacted and proposed by President Hoover.

Hoover's 1932 tax bill increased income taxes at all levels. Taxpayers at the bottom of the system, with taxable income of \$2,000, saw their effective tax rate increase from 0.3% to 2%, while those with more than \$1 million saw it jump from 24.1% to 57.1%.¹⁷ The number of individuals required to pay income taxes increased by more than one-quarter.¹⁸ Corporate taxes went from 12% to 13.75% and the Death Tax was doubled while the exemption was reduced. New taxes were added on cars, tires, gas, electricity, telephones, and much else.¹⁹

During his final months in office, Hoover even attempted to persuade Congress to enact a national sales tax.²⁰ Not surprisingly, raising taxes during a depression backfired, as higher taxes handicapped the economy. Despite the higher rates, revenue from individual income taxes did not reach the 1931 level again until 1937. The same was true for corporate income taxes. The inheritance tax increase was more effective, but still took three years to produce an increase in collections.²¹ High rates on the income of wealthy individuals were especially counterproductive, since it all but forced them to invest in tax-free municipal bonds instead of more productive enterprises.²² Tax attorneys also appear to have found ways to reduce the impact of the death tax, since the average taxable value of estates filing tax returns dropped by 40% in 1932 and another 30% in 1933. It was 1948 before the average taxable value exceeded that of 1931.²³

5. REGULATION

President Hoover preferred to blame the nation's problems on Wall Street, denouncing what he saw as "sinister" and "vicious" activity. He demanded new regulations to restrict short-selling.²⁴

6. PROHIBITING THE PRODUCTIVE USE OF FEDERAL LAND

Hoover agreed with the liberal desire to deny access to natural resources on Federally-owned land. In May, 1931, he put a moratorium on issuing new leases for lumbering activities in forests owned by the U.S. government. He also cancelled many permits for drilling for oil on Federal land, while strongly encouraging a cutback in production on nearby privately-owned land.²⁵ The negative economic impact of these policies was lost on him.

History tells us that the liberal policies of President Hoover failed to prevent the Depression, and probably made it worse. Should anyone be surprised that President Obama, following similar policies, has also achieved unsatisfactory results?

Statistics relating to the Federal budget, unless otherwise indicated, are taken from Historical Tables, Budget of the U.S. Government, Fiscal Year 2011, prepared by the Office of Management and Budget and released in February 2010.

¹⁶ Rothbard, *Great Depression*, pgs 279, 243.

¹⁷ *The Statistical History of the United States from Colonial Times to the Present*, (Bureau of the Census, 1974) pg. 716.

¹⁸ Kennedy, *Freedom from Fear*, pg. 81; *Statistical History*, pg. 715.

¹⁹ Rothbard, *Great Depression*, pgs. 253-54

²⁰ Schlesinger, *Crisis*, pg. 449; Warren, *Herbert Hoover*, pgs. 275-76.

²¹ *Statistical History*, pg. 713

²² Shlaes, Amity, *The Forgotten Man: A New History of the Great Depression* (Harper Perennial, 2007), pgs. 347-48.

²³ *Statistical History*, pg. 717.

²⁴ Rothbard, *Great Depression*, pgs. 219, 241, 278

²⁵ *Ibid.*, pgs. 235, 250-51; Warren, *Herbert Hoover*, pg. 65.

IS THE PANAMA CANAL SECURE?

Ever since the withdrawal of U.S. armed forces in 1999, the security of the Panama Canal has been a matter for concern to all who pay attention to U.S. national security matters. When a company with very close ties to Communist China was given leases for ports at each end of the Canal, that concern grew. Recently, even more potential threats have emerged.

Panama's new President, Ricardo Martinelli, has adopted a policy of seeking close relations with Venezuela's anti-American dictator, Hugo Chavez. Minimizing what he called "political differences" between the two nations, Martinelli emphasized that he has established "excellent relations" with Venezuela. Chavez has been invited to visit Panama later this year.

Even more disturbing is the fact that Panama has announced support for the Chavez plan to create a new organization for Western Hemisphere nations that would exclude the United States and Canada. This is such an obvious threat to U.S. interests that even Secretary of State Clinton has been publically critical of it.

However, Venezuela is not the only Marxist threat to the Canal. The Columbian guerillas known by their acronym, FARC, are now acknowledged to have crossed the border and to be operating in Panama. Two corporales of Panama's National Border Service were recently wounded, probably by FARC.

It is possible that FARC also has allies within Panama. One of its leaders, Ovidio Salinas, has met with leaders of Panamanian unions and leftist organizations. There are even rumors that the last two presidents of Panama may have reached secret agreements with FARC, promising not to hinder its operations within Panama. Since Panama has no army or navy, the Panamanians are unable to carry out military actions against FARC, and would have to call in the United States, something they are reluctant to do for nationalistic reasons. There is also the question of whether the U.S., deprived of its bases, could react quickly enough.

Finally, the Canal itself may be endangered by local unions. The long-awaited expansion of the Canal (it cannot accommodate the largest aircraft carriers and oil tankers) has been delayed by a strike. If this should develop into a violent confrontation (and some strikers have already been arrested), the violence could make the Canal itself unsafe for shipping.

The 1978 agreement to completely withdraw from Panama in 1999 was recognized at the time as endangering the U.S. ability to rely on the use of the Canal. The passage of time has done nothing but reinforce those worries.

WILL LEFT-WING SUPREME COURT JUSTICES FOLLOW PRECEDENT IN ARIZONA CASE?

Lefties have been praising the importance of precedent for deciding cases which reach the Supreme Court, criticizing the Court's conservatives for allegedly overturning previous decisions. The Federal lawsuit against Arizona's immigration enforcement law will test the lefties on consistency, for here the precedents appear to be against them. In the 1976 case of *De Canas v. Bica*, the Court ruled in favor of a California law prohibiting the hiring of illegal aliens. The court found no conflict between state and Federal statutes. If the Court's four left-wing justices adhere to precedent, they will all vote to uphold the Arizona law.

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