

Learning the lessons of Hoover

Colin Read: Everybody's Business

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— I heard an interesting take on the length of institutional memories on Wall Street, that little road on the other end of New York State. It is IBG, YBG. When conspirators were concerned they may face consequences for their fraudulent follies, they reminded themselves of IBG, YBG. It stands for "I'll be gone, you'll be gone." That says a lot. These were the same guys that took "management" out of "risk management." This attitude is emblematic of the short-memory syndrome.

I was chatting with someone the other day about this Great Recession. We concluded the best thing that could come out of this current meltdown would be a longer memory. My friend was relating to me the story of his grandfather who went through the Great Depression. Those that experienced such hardship never fail to remember the pain. It was a lifelong lesson on personal responsibility, ethics and hardship.

I fear the pain has not been sufficient to impart a lifelong lesson on us all.

It is not for want of sufficient economic displacement, though. Unemployment recently went into double digits, for only the second time since the Great Depression. But, while unemployment stayed that way for years in the 1930s, we are on the brink of return to a new normal. And that is a concern.

We are coming to this point now, after more than two years of steady economic decay and relatively little governmental action to arrest this worst recession since the Great Depression.

It reminds me of poor Herbert Hoover. Many thought then that he was the best Secretary of Commerce in history. He went on to a landslide presidential election victory in 1928. Four short years later, he ended his political career with a landslide loss. His downfall was his unblinking faith in free markets and the private sector.

Hoover believed in a thousand points of light, a principle recycled 70 years later, with inflation, as George Bush Sr.'s 10,000 points of light. Ironically enough, Hoover was elected president in his first run for public office based on his reputation as a first rate government technocrat. He was almost universally popular for a string of successes flowing from his private sector pragmatism brought to public sector problems.

His swift handling of the Mississippi floods swept him to the forefront of public servants. Then, his insensitivity toward army veterans, who marched on D.C. to beg for an early payout of their promised 1945 veterans bonuses, led to his demise. His benign disregard for the Crash of 1929, and his desire to balance the federal budget in the early 1930's, sealed his fate.

Sure, he was the first president confronted with an economic tsunami of the scale of the Great Depression. To his credit, he was also a president that dabbled in government infrastructure projects in response to the downturn, most notably a dam that still bears his name.

However, he refused to revise his firm belief in the laissez-faire policies that created the boom in the Roaring Twenties, but also gave rise to the terrible bust in 1929. Even Alan Greenspan, that other worshiper of unfettered free markets, recently revised his evangelical zeal once the house of cards collapsed.

By 1932, Hoover was vulnerable to a contender at the right place at the right time. Roosevelt offered shiny new shoes while Hoover offered only bootstraps.

President Obama, like Roosevelt, has been given an A for rhetoric, but, also like Roosevelt, has actually been failing in early and successful implementation of policies designed to lift us out of this morass. And like Hoover, Obama's primary mechanism to bail out a nation moving toward the precipice has been to bail out dysfunctional states. In doing so, he failed to invest in economic infrastructure that could change the future face of our private economic engines. If Hoover was unsuccessful then in forcing states to reinvent themselves, why would Obama have any more success today? State bailouts are not reforms. Indeed, their enabling effect may even make matters worse.

Unlike Obama, Hoover administered a very small federal government that was perhaps a quarter of the size of the federal government now. He also oversaw a Federal Reserve in its infancy, had no Keynesian theory of the federal government as the spender of last resort, and administered a government with virtually no knowledge of fiscal and monetary policy.

You'd think we could do much, much better this time around.

Perhaps the problem is that we now expect too much. While Hoover failed to recognize the occasional need for government to prime the economic pump, he probably had a greater sense that recovery must begin with a modicum of personal responsibility and a willingness to disband the old institutions, organizations and corporations that got us in to this mess in the first place. Hoover and Roosevelt had the distinct advantage that in 1930 there was no such thing as "too big to fail." And now, two years into the Great Recession, and with the first signs of pulling out, we are again seeing these mega-banks offering mega-bonuses. This is most disturbing to the taxpayers that had to bail out these geniuses.

Meanwhile, financial reform is losing momentum each day it is debated in Congress. What will finally come out of Congress will likely prove to be relatively ineffective. Surprised? We shouldn't be. The very individuals that got us in to this mess have been orchestrating recovery and reform. And a citizenry grateful that their 401ks are no longer spiraling downward have almost forgotten the genuine fear in everybody's eyes just more than a year ago.

That fear does remain, though, in the eyes of the 10 percent of the population officially unemployed, and of the 16.4 percent of the population that is either officially unemployed, forced to be employed part time rather than laid off, or are so discouraged about not finding work that they have given up entirely. One in six of us still live this fear every day.

I just wish our leaders could remember just how close we came to complete financial disaster. Perhaps then they will reinvent what we do so there is no chance in history repeating itself, once again.

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