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Hoover Was No Budget Cutter

By Megan McArdle

My colleague, James Fallows, has led a just and righteous battle against the myth of the boiling frog. I am distressed, therefore, to see him repeat another hoary old canard that dogs our policy debates:

> Those days of the 1970s are now nearly 40 years in the past. And this morning's jobs report makes me wonder whether, as a political system, we ever learn anything. Even this basic thing: That when tens of millions of people cannot find work because of an overall "failure of demand" -- not enough paychecks going to not enough people who can not make enough payments to create jobs for enough other people -- the main problem facing the nation is not "runaway government spending." Any more than it was when Herbert Hoover tightened up on spending as markets crashed, in the wave of folly that Keynes and Ahamed in their different ways chronicled. A lot has changed since the 1930s, and the 1970s. But not this basic principle.

I'm not quite sure what passages in Keynes and Ahmed he is referring to, but the evidence is not ambiguous: Hoover did not tighten up on spending. According to the historical tables of the Office of Management and Budget, spending in 1929 was $3.1 billion, up from $2.9 billion the year before. In 1930 it was $3.3 billion. In 1931, Hoover raised spending to $3.6 billion. And in 1932, he opened the taps to $4.7 billion, where it basically stayed into 1933 (most of which was a Hoover budget). As a percentage of GDP, spending rose from 3.4% in 1930 to 8% in 1933--an increase larger than the increase under FDR, though of course thankfully under FDR, the denominator (GDP) had stopped shrinking.

This spending represented a substantial increase over the Coolidge years (outlays had been steady between $2.85 billion and $2.95 billion since 1924). And in real terms they represented a very substantial increase, since both nominal and real GDP were falling.

Hoover did raise taxes on high earners quite a bit in 1932, and perhaps this is what my colleague is thinking of--though as this did not produce any immediately noticeable increase in tax revenue, it's hard to say how much of a fiscal contraction this actually represented. (Even if it were, outside of the odd Cato paper, Hoover's name is never invoked to warn against the mortal dangers of what he actually did: raised taxes on rich people in the middle of a recession.)

Instead, he is associated in the public mind with slashing spending. But there doesn't seem to be any question that Herbert Hoover raised both spending and government deficits by rather a lot, and quite bravely considering that his critics--a group led by a fellow named Franklin Delano Roosevelt--"accused the president of 'reckless and extravagant' spending, of thinking 'that we ought to center control of everything in Washington as rapidly as possible,' and of presiding over 'the greatest spending administration in peacetime in all of history.' Roosevelt's running mate, John Nance Garner, charged that Hoover was 'leading the country down the path of socialism.' "

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