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Industrial Employment and the Policies of Herbert C. Hoover

Douglas W. MacKenzie

ABSTRACT: Most historians claim that Herbert Hoover adhered to a policy of laissez faire after the stock market crash of 1929. This laissez faire policy is allegedly responsible for the severity and persistence of unemployment during the early years of The Great Depression. Herbert Hoover actually reacted to the crash of 1929 by urging industrial leaders to keep money wages high. Hoover believed that high wages would support consumer spending and spur recovery. This paper extends the hypothesis advanced by Rothbard (1972) that Hoover's high wage policy intensified and prolonged unemployment during the depression. Analysis of wages and employment in specific industries indicates that Herbert Hoover successfully increased real wages. There are strong correlations between real wages and employment losses in the industries that Hoover intended to influence. The evidence indicates that Hoover's activist high wage policy prolonged and intensified unemployment during the early years of the Great Depression.

KEYWORDS: business cycle, wage policy, business cycle theory

JEL CLASSIFICATION: E24, E32, E65, J38, N12

Dr. MacKenzie is Visiting Assistant Professor of economics at Ohio Northern University, and may be contacted at dmackenz_2000@yahoo.com.

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WAGES AND EMPLOYMENT

Presidents Bush and Obama responded to the subprime crisis of 2008 with aggressive intervention. Bush and Obama believed that intervention could prevent a second Great Depression. More specifically, Obama intends to keep wages high.[1] Obama's position on wages can be compared to the policies of Herbert Hoover. To understand this comparison, we must examine two histories of the Great Depression. In the standard history of the depression, President Hoover adhered to a laissez faire, "hands off" policy, though he supposedly could have intervened to prevent the Depression. The standard history of the Depression also indicates that the unregulated nature of financial markets during the 1920s resulted in a stock market boom which led to the crash of 1929.

Rothbard (1972, p. 111) argues that the standard history of Herbert Hoover's policies is purely mythical. President Hoover actually intervened with the intention of keeping nominal wages and employment at high levels, believing that high wages would restore prosperity through increased consumer spending. Rothbard (1963) sees Hoover's high wage policy as the cause of high unemployment rather than as its cure.[2] The idea that high wage policies cause unemployment derives from general principles. Mises (1949, pp. 596-7) blames all unemployment on excessively high wages.[3] Rothbard (1962, p. 527) argues that wage flexibility makes unemployment unnecessary, even during periods

[1] President Obama has proposed keeping wages high through increased minimum wages, indexing minimum wages to inflation, and Federal support of unions. See http://change.gov/agenda/economy_agenda/. Obama supports higher incomes for "workers" only. Obama has also sought to limit the incomes of executives.

[2] Vedder and Gallaway (1997), Bernanke and Parkinson (1991), Rustici (1985), and Cole and Ohanian (2004) attribute persistent unemployment to the high wage policy of the Hoover and Roosevelt administrations.

[3] "Unemployment in the unhampered market is always voluntary. In the eyes of the unemployed man, unemployment is the minor of two evils between which he has to choose. The structure of the market may sometimes cause wage rates to drop. But, on the unhampered market, there is always for each type of labor a rate at which all those eager to work can get a job. The final wage rate is that rate at which all job-seekers get jobs and all employers as many workers as they want to hire. Its height is determined by the marginal productivity of each type of work."

when most industries are in the process of redeploying capital and restructuring production.

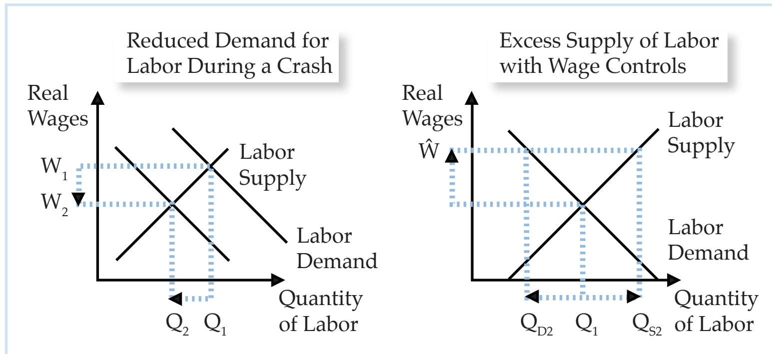
This paper examines the wage policy of Herbert Hoover. Most studies of Depression-era unemployment examine aggregate labor market data. The first part of this paper considers the role of wages and interest rates in unemployment as well as Hoover's intentions and his ability to intervene in labor markets. The second part examines wages in individual industries to show how Hoover's policies intensified and prolonged unemployment. The final section summarizes the arguments of this paper and relates the Hoover episode to recent events.

WAGES AND CYCLES

What were the roles of wages and interest rates in the Great Depression? Hayek (1933), Rothbard (1963), and Garrison (2001) blame trade cycles on manipulation of interest rates by central banks. Industrial depressions involve layoffs of workers and are often associated with unemployment. Since unemployment exists in labor markets, we must factor wages into any explanation of this phenomenon. Rothbard (1962, p. 527) insists that wage reductions can eliminate unemployment even during industrial depressions.

The role played by interest rates in trade cycles is easily summarized. If the central bank drives interest rates below equilibrium levels, capitalists will tend to invest in longer-term projects. Investment in excessively long and ultimately unprofitable projects causes an unsustainable boom. When the boom collapses, capital projects are curtailed or abandoned, and redeployment of capital in a recession means that workers must find new jobs. The interest rate theory explains the boom and bust of the 1920s. Interest rate reductions by the Federal Reserve in 1930 failed to create a boom in the early 1930s. Analysis of industrial wages can explain the rise and persistence of unemployment in the early 1930s.

We can depict the wage and interest effects of intervention graphically. The interest rate theory suggests movement of the labor demand along the labor supply curve. Abandonment of unprofitable projects appears in the data as a shift in the labor demand curve.



In the first graph, an industry has invested in projects based on artificially low interest rates. Once this error is apparent, the project is canceled and labor demand in this industry shifts left. The real wage rate then falls from W1 to W2, and employment falls from Q1 to Q2. In the second graph, government increases real wages to Ŵ through some type of intervention. The higher wage decreases employment to QD2, and increases observed unemployment (QS2 minus QD2). It will be argued that Hoover's high wage policies led to higher, not lower real wages, as in the second of these two graphs.

Some scholars blame the rise in real wages during the Depression on "market failure," while others blame Hoover personally. The idea that President Hoover intensified and prolonged unemployment with his high wage policy depends upon five propositions:

1. He intended to keep nominal wages high during industrial depressions
2. He possessed real influence over the industries he targeted
3. He could monitor wages in these industries
4. He followed through by applying actual pressure on targeted industries
5. He pushed industrial wages above equilibrium

The remainder of this paper supports the five above propositions.

HOOVER'S ECONOMICS

The idea that Hoover favored maintaining high wages is easily shown. Many historians view Herbert Hoover as the last guardian of laissez faire. Hoover (1952, p. 301) favored *regulated individualism* over *laissez faire individualism*. Hoover saw capitalism and socialism as equally bankrupt (Hawley, 1981, p. 83) and believed that interest group competition and anti-trust laws could regulate industry (Rosen, 1977, pp. 43–4). Regulated individualism could "achieve justice" for American workers by increasing living standards (Hawley, p. 93). Hoover opposed wage cuts by business and maintained that employers ought to keep wages high through "elimination of waste" (*Ibid*., p. 53).

Hoover embraced the Keynesian idea that high wages stimulate the economy by enabling workers to "buy back the products" they make.[4]

> The very essence of great production is high wages and low prices, because it depends upon a widening range of consumption only to be obtained from the purchasing power of high real wages. (Herbert C. Hoover, May 12, 1926, quoted in Rothbard, 1963)

Consequently, Hoover insisted that "labor is not a commodity" and must not be liquidated in a crisis (Rothbard, 1972). He believed that the elimination of industrial waste and innovation could keep prices low, and insisted that unionization was necessary to keep nominal wages and spending high. Hoover was not alone in advocating aggregate demand management. American economists were "overwhelmingly Keynesian" before Keynes published his *General Theory* (Garvey, 1975).[5] The idea that Hoover favored regulation

[4] It is widely held that Keynes invented the idea that mass unemployment derives from deficient private sector spending. However, other economists published demand-driven theories of business cycles prior to Keynes, including Kalecki (1933, 1935), Lautenbach (1929), and Clark (1923).

[5] Keynes (1936, p. 258) himself actually rejected such simplistic assertions that wage cuts reduce demand by reducing worker income. Lerner (1939) demonstrated the possibility of wage reductions reducing aggregate demand, but only within the Keynesian paradigm. He instead argued that money wage reductions might have "disturbing effects" on confidence, may not influence interest rates adequately, might reduce the marginal propensity to consume, would be a drag

over laissez faire should be uncontroversial. The first of the five aforementioned propositions is therefore plausible. Substantiation of the remaining four propositions provides further proof of Hoover's beliefs and intentions regarding industrial wages.

Did Hoover possess real influence over industry? Stone (1932) suggests that Hoover impressed his views via his regulatory authority over some businesses, while other businesses may have simply been wary of drawing his adverse opinion. As Secretary of Commerce, Hoover pressed for an eight-hour workday in the steel industry. Success in reducing hours meant that the twelve-hour day was on the way out in American industry (Hawley, 1981, p. 95). Hoover's ability to reduce work hours indicates that he could influence industry.

Hoover's influence as Secretary of Commerce was limited. Secretary Hoover had intended to keep industrial wages high during the depression of 1920–22, blaming this crisis on difficulties associated with readjustment following the First World War. In September 1921, Hoover invited some 300 business and labor leaders to a conference, the goals of which were to alleviate unemployment, eliminate waste, increase foreign trade, and study business cycles (Hoover, p. 44–5). Under his influence, union operators would maintain wages for coal workers well into 1923 (Hawley, 1981, pp. 63–4). Hoover affected the coal industry even earlier (*Ibid*., p. 63). Passage of the Railway Labor Act of 1926 seems to have given Hoover influence over that industry as well. The influence of Secretary Hoover appears weak. Vedder and Gallaway (1997) observe that wages and unemployment remained high only briefly, while high wages and high unemployment would be more persistent during Hoover's presidency. The idea that Hoover held influence over industry, especially as President, appears reasonable.

Hoover reacted to the stock market crash in 1929 by holding new conferences with business leaders. Hoover's aim was to maintain

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on the marginal efficiency of capital, and delay investment. Keynes also noted that downward wage flexibility, with many independent employers, could make business calculations futile during depressions and could only be brought about in a uniform and coordinated fashion in an authoritarian society. Keynes believed that stable, short run money-wage, and rising long run wages (given a stable price level and rising labor productivity), would reduce unemployment better than would a laissez faire flexible wage policy (*Ibid*., p. 271).

wages, stimulate counter-cyclical investments, and provide emergency relief (Hawley, p. 65).[6] His program entailed three steps: mobilizing credit, maintaining wages, and constructing and maintaining plants and equipment (Cover, 1930).[7] At these conferences, he obtained pledges from numerous business leaders to refrain from cutting wages (Rothbard 1972).

As far as the ability to monitor industry is concerned, the Commerce Department recorded data on wages and employment during this time. Hoover had access to this data, both as Secretary of Commerce and as President. The third proposition is therefore correct.

We can conclude at this point that Hoover believed in keeping wages high and could influence and monitor industry. Vedder and Gallaway have also provided evidence to support our fourth proposition that Hoover actually tried to implement a high wage policy. We can further support the fourth proposition by examining wages and employment in individual industries during Hoover's terms as Commerce Secretary and as President.

HOOVER AS SECRETARY AND AS PRESIDENT

The evidence suggests that Secretary Hoover had relatively little influence on wages during the 1920–22 crisis. With the onset of this crisis, money wages fell, but consumer prices fell further, so productivity-adjusted real wages initially rose by 17 percent while unemployment rose to 11.7 percent (Vedder and Gallaway, 1997, p. 62).[8] Vedder and Gallaway find an 86 percent correlation between productivity-adjusted real wages and unemployment during the 1920–22 crisis. Subsequent declines in productivity-adjusted real wages coincided with falling unemployment during the mid 1920s.

[6] Thornton (2010) advances a detailed history of Hoover's interventionist policies.

[7] Hoover ultimately opposed more drastic measures proposed by Gerard Swope in September 1931 (Rosen pp. 63–4), viewing these measures as Fascistic and unconstitutional. His opposition caused many in the business world to switch their support to Roosevelt (Rothbard, 1972).

[8] Vedder and Gallaway (1997, p. 16) define productivity-adjusted wages in terms of the nominal wage (W) divided by a price index (W/P), and the level of money output per hour (O) divided by the same price index (O/P). Dividing W/P by O/P yields W/O.

According to Hawley (1981, p. 65), Hoover believed that his high wage policies had solved the crisis. Yet in fact, it was Hoover's failure to implement his plans before the end of this crisis that allowed for the reductions in real wages that actually reduced unemployment (Rothbard, 1972).

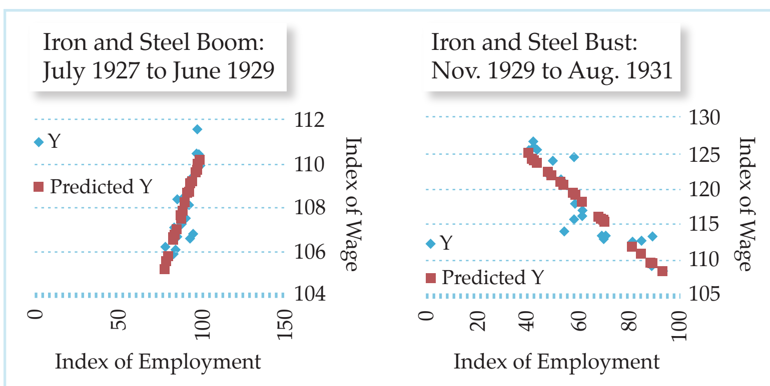
President Hoover used the crisis in 1929 as an opportunity to implement his Keynesian policies. Hoover blamed this crisis on dislocations following the Great War, excessive flotation of foreign securities by greedy New York bankers, lax Federal Reserve policies, and low margin requirements. Starting in November 1929, as we shall see, Hoover was able to keep nominal wages high, but his goal of restored prosperity remained elusive. Money wages remained stable in 1930 and fell only slightly in 1931. Price deflation during this time caused real wages to rise by 12 percent in 1930. This trend continued until the latter part of 1932. Wage increases paralleled the trend in unemployment at this time. Unemployment during 1929 started out in the low single digits but had climbed to 9 percent by December. Unemployment ranged from about 6–8 percent throughout most of 1930, but spiked up to 14 percent at the end of the year. During 1931 it gradually climbed to 20 percent, and peaked in 1932 at one quarter of the workforce.

Since the failure of Hoover's policies cost the attendees of his conferences heavily, one would expect compliance to wane as Hoover lost influence. Nominal wages remained high during the initial years of the depression, despite pressure for wage reductions in labor markets. Wages fell in 1932 as Hoover's reelection campaign faltered. Yet even the decline of wages in 1932 was not as extreme as in previous crises (Vedder and Gallaway, 1997).

Hoover's impact on employment during the Great Depression is made clear by comparing it to the Depression of 1920–21, where he failed to get his policies enacted in a timely manner. In November 1920, the National Industrial Conference Board (NICB) index of wages peaked in November at 123.5 (with 1923 as the base year value of 100). The NICB index of employment peaked in October at 130.1 percent of the 1923 level. Employment and wages fell from November 1920 to the end of 1921, indicating a leftward shift of labor demand. Since Hoover failed to maintain nominal wages, employment during this period appears to be driven by interest rates.

The 1920s are usually regarded as a period of prosperity and strong economic growth. There was an employment boom in the iron and steel industries from July 1927 to June 1929, and a positive correlation between real wage rates and employment can be detected in these industries at this time, with a correlation coefficient (R^2) of 0.728. Given that this boom originated at a time when the Federal Reserve had set low interest rates, it is possible that this boom was bank credit induced. After President Hoover held his White House conferences in 1929, real wages for iron and steel workers *rose* and employment fell, and there is a negative correlation between real wages and employment in these industries between December 1929 and August 1931 ($R^2 = 0.823$).

Data from the boom years is consistent with the interest rate-driven boom in that higher wages coincided with higher employment levels. We can see this in the first of these graphs. The points for the Y variable represent actual data. The points for "predicted Y" represent the statistical trend. The first graph indicates a rightward shift in demand.



Data from the bust years indicate that Hoover's high wage policy was problematic. In the second graph, higher wages coincided with lower employment and lower wages coincided with higher employment. The bust likely reduced demand for iron and steel workers, but Hoover's high wage policy drove the decline in employment.

To summarize, from November 1920 to December 1921 employment in steel and iron fell by half, and average nominal wages fell by 42 percent—a shift in demand caused employment losses in this industry. In contrast, from October 1929 to August 1931, iron and steel employment fell by over 50 percent while real wages on the NICB index rose from 109.3 to a peak level of 126. Real wages remained high during 1932 *despite an overall decrease in employment in this industry of over 70 percent*. This evidence clearly suggests that Hoover's policies caused the historically high losses in employment.

Other industries experienced a boom up to 1929 and higher real wages and job losses after Hoover's conferences. The foundries and heavy equipment industry saw employment and real wages increase from late 1927 to mid 1929 with a weak but positive correlation ($R^2 = 0.495$). After Hoover's conferences, nominal wages *rose* and employment *fell* (a negative correlation: $R^2 = 0.652$). As before, Hoover seems to have pushed real wages above equilibrium.[9] From December 1929 to January 1933 real wages in the machine tools industry rose and employment fell sharply with a very high correlation ($R^2 = 0.887$). These data, of course, extends beyond Hoover's presidency. Most of the employment losses and wage increases did take place between the Hoover conferences and the summer of 1932 (during Hoover's campaign for reelection), and there was a high negative correlation between wages and employment during this period ($R^2 = 0.860$).

The National Industrial Conference Board index for real wages for auto workers rose from 108.2 in December 1929 to 125.5 in May of 1932. This real wage increase resulted in a reduction in the auto employment index of nearly sixty points. Overall, there is a negative correlation, but the statistical correlation is low ($R^2 = .422$). Nominal wages have a stronger correlation with auto employment ($R^2 = 0.600$). Why? Henry Ford not only attended the Hoover conferences, he was an outspoken advocate of the "buy back the product" theory of high wages. Of course, Ford did not set wages for the entire industry, but his influence may provide a partial explanation of the importance of nominal wages in this industry.

[9] It is worth noting that this industry experienced some of the heaviest employment losses, yet real wages remained higher much longer than other industries.

During the first half of 1929, nominal automobile wages fell 2 percent below 1928 levels. During the second half of 1929, wages fell an additional 11 percent and employment rose by 5 percent. It therefore appears that wages were flexible leading into the Hoover conferences. Employment in the auto industry dropped 25 percent in 1930, during which time wages for auto workers fell only 3 percent. A slight fall in the price level in 1930 meant that wages for auto workers were virtually unchanged. It would seem that the industry followed Hoover's instructions and tried to maintain nominal wages. Since overall unemployment rose about ten percentage points during this time, it is clear that the auto industry bore a disproportionately large part of the national increase in unemployment.

Nominal auto wages actually rose by 1 percent in 1931. With 9 percent deflation during that year, real wages rose 10 percent and employment fell three more points to 28 percent below its 1929 peak. Nominal wages in the automobile industry rose an additional 8 percent in 1932. An additional 10.5 percent of deflation during that year drove real wages up 30 percent. Employment then fell 17 points more to 55 percent of its 1929 peak. This drastic decline in employment greatly exceeds what we should expect from the 6 percent increase in national unemployment rate during 1932.

Employment in the machine tool industry rose 20 percent in 1929, while nominal wages rose 2 percent in 1930. Deflation caused real wages to rise 4 percent, and employment fell 17 percent. In 1931 nominal wages fell 1 percent from their 1929 peak, but real wages rose 8 percent and employment fell 21 more points, a total decline of 38 percent. Nominal wages fell by 9 percent in 1932, but a deflation of 11.5 percent more than offset this decrease in wages, and employment fell another 17 percent for a total 3 year decline of 55 percent. This loss of 55 percent exceeded the employment losses of the auto industry, despite a decline in machine shop wages relative to auto wages. The rapid increase in machine tool employment in 1929 is consistent with a credit-driven boom. The subsequent collapse of employment in the machine tool industry also fits with the idea of an unsustainable credit driven boom. Abandonment of investment projects in a bust should cause disproportionately large employment losses in capital goods industries.

Steel and iron industry nominal wages were stable in 1929, and employment expanded 6 percent. In 1930 nominal wages fell 1 percent and real wages increased by 1.5 percent, while employment declined 13 percent from its 1929 peak. In 1931 real wage rates increased by 7.5 percent and employment fell to 68 percent of its peak value. In 1932, real wage rates fell to 4 percent below their peak level, but employment fell another 16 points to 52 percent of the peak level. The initial rise in real wages indicates that Hoover succeeded in "keeping steel worker pay high." Unfortunately, it also drastically reduced the number of employed steel workers. As Secretary of Commerce, Hoover succeeded in reducing the workweek for steel producers from twelve to eight hours (Rothbard 1972). Since Hoover had already impressed his views upon the leaders of this industry in the early 1920s, it is reasonable to expect that they would follow his dictates at the 1929 conferences.

OTHER INDUSTRIES

The leather industry saw less wage rigidity and less employment losses. In 1929 there was a 1 percent increase in employment and no change in wages. In 1930, nominal wages fell 1 percent, and real wages rose by 1.5 percent. By 1931, nominal wage rates were 8 percent below their 1929 peak, but after adjusting for deflation, real wage rates were still 2 percent above their 1929 level. Employment dropped 17 percent below its peak, far less than in the heavy industries on which Hoover had focused so much of his attention. In 1932, nominal wages fell to 22 percent below their prior peak, but this decline was almost entirely offset by deflation.

In the meat industry, nominal wages fell slightly in 1929 and employment grew by 2 percent. In 1930, real wages rose 2.5 percent and employment fell by only 4 percent. In 1931, real wages rose to 8 percent above their peak, and employment fell by a total of 10 percent from its peak level. In 1932 real wages were 6 percent lower than peak, and employment had fallen off by 20 percent.

The paper industry exhibited a 2 percent nominal wage decrease and a 6 percent employment increase in 1929. Wages fell 2 percent in 1930 and deflation caused a slight increase in real wage rates, but employment in this industry actually rose 3 percent. In 1931,

deflation pushed real wages to 7 percent above the 1928 level, and employment lost all its previous gains, falling 8 percent below its peak. In 1932 deflation pushed real wages 3 percent above their peak, and employment fell by a total of 19 percent from its peak.

MARKET OR GOVERNMENT FAILURE?

Neoclassical economists (e.g., O'Brien, 1989) explain nominal wage rigidity in the Great Depression in terms of efficiency wages. According to efficiency wage theory, employers pay artificially high wages to improve worker productivity. Efficiency wage theory entails several assumptions. First, employers have "market power" to fix wages above market equilibrium and to create a queue of unemployed workers. Second, employers do not have the power to continuously monitor employees. Third, workers have short time horizons (e.g., they do not think in terms of career advancement).[10] High wages and the dismal prospect of joining the pool of unemployed workers results in increased effort and productivity.

In order to substantiate the efficiency wage theory, one must first explain why wages fell after the deflation of 1921 but not in early 1930s. The proposition that President Hoover used his influence to inhibit nominal wage reductions, and that this caused real wage rate increases, is a reasonable alternative to efficiency wage theory.

O'Brien (1989) tries to extend the efficiency wage argument to explain employment losses during the Great Depression. O'Brien claims that employers resisted cutting wages because workers might quit in reprisal after prosperity resumed. While it is quite possible for workers to resent wage cuts, it is equally possible for workers to value job security. That is, the company that cuts nominal wages and retains more workers offers greater security to its employees. Furthermore, O'Brien notes that workers had less reliable information on consumer prices during the 1930s than in recent times. This is true, but how many workers monitor indexes like the CPI now that this data is available? Workers do, in fact, monitor the prices of the actual goods they buy as they buy them. These personal indexes are, perhaps, more relevant

[10] This assumption is necessary, but rarely mentioned. Keynesians like Shapiro and Stiglitz (1984) implicitly assume short time horizons on the part of workers.

to each individual worker than any national index. Even in the total absence of official price indexes, workers should still be able to recognize deflation as it affects the goods that they buy on a routine basis. Even if workers ignored prices as they engaged in routine purchases of staple items, they would surely notice increasingly large amounts of funds in excess of these purchases as their real wages rose. Depression era workers could not have been so ignorant of prices as to have thought that any nominal wage cuts would reduce their real income. O'Brien also overlooks the strong possibility that industrial leaders adopted Hoover's wage maintenance policy out of fear of reprisal by the President rather than out of conviction. Finally, O'Brien must explain why employment losses tended to be the highest in industries whose leaders attended Hoover's conferences.

The evidence in this paper indicates that the historically high levels of unemployment during President Hoover's term in office were the consequence of his high wage policies rather than market failure. There are several questions that arise from this interpretation of these events. Why did Hoover persist in following these policies for as long as he did? Why did industrial leaders obey his dictates for so long? Why did the public opt for a political candidate (FDR) with even more extreme views on labor market policy?

Hoover seems to have believed that his policies were sound despite both the success of the Harding policy of laissez faire during the previous crisis and the utter failure of his own high wage policies. Early on, Hoover seemed unaware of the extent of the problem that he faced, as he asserted publicly, "The fundamental business of the country, that is, the production and distribution of commodities, is on a very sound and prosperous basis" (Herbert Hoover on business and economic situation October 25th 1929, Hoover, 1952, p. 257).

He was not alone in believing that his policies were sound.

> Too much praise cannot be given to the President for the prompt and resolute and skillful way in which he has set about reassuring the country after the financial collapse…. [T]he President's course in this troublous time has been all that could be desired. No one in his place could have done more; very few of his predecessors could have done as much (*New York Times*, 1929b).

> "President Hoover is pursuing the right course in his campaign against reduced employment and productivity." (Irving Fisher, Professor of Economics, Yale University, quoted from the *New York Times*, 1929a)

The American Federation of Labor also declared that Hoover had vindicated its assertion that high wages drive prosperity.[11]

The support from people like Irving Fisher and publications like the *New York Times* permitted Hoover to disassociate the disaster that followed his policies from those very policies. Given the failure of his high wage policy during the Great Depression and the previous success of Harding's "do nothing" policies during the Depression of 1920–21, one must wonder what, if anything, could have dispelled his fallacious convictions concerning high wages.

The second question is the easiest to answer because most accounts of the White House conferences indicate that Hoover persuaded industrialists to support his policies. It is, in fact, the case that many did profess a belief in Hoover's high wage-spending answer to the slowdown of 1929. As he exited the Hoover conference, Henry Ford announced that he would increase wages to stimulate the economy and declared that "the only thing that should be high priced in this country is the man that works" (*New York Times*, 1929c, p. 1). O'Brien (1989, p. 725) claims that industrial leaders expected a coordinated program of wage rate maintenance to preclude the possibility of a severe downturn. O'Brien claims specifically that belief in the "high wage-high demand" theory was commonplace. It is very unlikely that a CEO of a high profile company or the president of a major trade association would publicly contradict a sitting President, especially during the early part of his term in office. O'Brien notes that wages did break by the fall of 1931 because firms may have felt that wage cuts would not affect productivity. Rising unemployment had, after all, led to decreasing probabilities of finding another job. However, the simultaneous decline of wages and Hoover's influence as president is probably not a coincidence.

[11] See the *New York Times*, November 30th 1929.

CONCLUSION

Employment losses during the Hoover administration were not the result of market failure. There is clear evidence that the policies of Herbert Hoover increased and prolonged unemployment during the early phase of the Great Depression. Industrial leaders who attended Hoover's White House conferences tended to keep their employees' wages high until shortly before his defeat in the 1932 election. These industries exhibited above average employment losses, while industries that did not attend Hoover's conferences exhibited below average losses.

The data presented in this paper largely supports the boom component of Austrian business cycle theory. The Federal Reserve financed an unsustainable boom that caused temporary increases in labor demand, wages and employment. There is some evidence of downward wage flexibility during the first few months of the Great Depression before Hoover's conferences. After his conferences, nominal wage rates remained far more stable than during the Depression of 1920–21. Price deflation in the early 1930s caused real wage increases and severe employment losses.

This evidence may suggest how the Austrian business cycle theory lost ground to Keynes's theories amongst professional economists. Initially, Hayek (1931, 1933) had great success in explaining the Great Depression in terms of a credit driven and unsustainable boom-bust cycle. This cycle theory does, however, predict both a boom and a crash, *and recovery*: Once uneconomical projects are abandoned, capital will be redeployed and economic progress can resume. The Great Depression dragged on far too long for Austrian business cycle theory to be the sole explanation of this event. Followers of Keynes assumed that Hayek's theory was wrong rather than incomplete. The addition of Rothbard's wage hypothesis provides a more complete explanation of economic instability during the interwar years.

President George W. Bush entered office with Republican control of the House and the Senate. Yet President Bush quickly discarded Republican fiscal priorities and initiated an unprecedented spending binge. Bush also adopted even more ambitious goals for subprime lending and low income home ownership. Pressure from the Bush administration on the banking industry was not

itself sufficient to produce the subprime boom. The relatively low and declining level of saving by American consumers could have restrained the subprime boom. However, the Federal Reserve provided ample funds at rates low enough to generate an inflationary housing boom. The subprime crisis is the latest example of misplaced executive priorities. President Obama is now implementing an even more extreme agenda than his predecessor in much the same way as Roosevelt followed Hoover. Only time will tell if President Obama can permanently reorder the priorities of the federal government.

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