Click here for Full Issue of EIR Volume 15, Number 18, April 29, 1988

1930, 1988: A first time as tragedy, a second time as cataclysm

by Webster G. Tarpley

Six months after the crash of the New York Stock Exchange on Oct. 19, 1987, a number of editorial writers and television commentators have attempted to offer reassuring remarks on the state of the U.S. and world economies. A crude but typical example of this is provided by Sander Vanocur of ABC News, who told his viewers six months after Black Monday that the only part of the U. S. economy that has been seriously affected by the stock market crash has been Wall Street itself. A slightly more sophisticated case is that of Hobart Rowen of the *Washington Post,* who told watchers of the Reuters Nightly Business Report that although "it can happen again," the benefit of the crash of last October has been to increase vigilance all along the line, and thus increase the hope that a second crash can be avoided this time around.

The idea that Black Monday was nothing more than a temporary aberration, a momentary ripple on the surface of economic and financial events, is of course more than just the personal opinion of a few editorialists. Over the past few months, some Wall Street brokerage houses have expended large sums to publish full-page newspaper announcements saying that "The Worst Is Over." The adamant assertion that Black Monday is not already leading the world economy into a virulent new depression is the hallmark of the Bush-Baker political faction. Both George Bush and James Baker have indeed been quoting Herbert Hoover (probably unconsciously) in assuring their supporters in Texas and elsewhere that "The Worst Is Over." It is the official compulsory doctrine of the Reagan regime that no world depression has been placed on the agenda by the events of one-half year ago. Upon this doctrine, the Bushmen contend, will hang the continued Republican tenancy in the White House.

Those who hold history in contempt are indeed condemned to repeat it. Perhaps the ghosts of men like Insull, Charles E. Mitchell, Wiggins, and Richard Whitney—for these, though now lost in obscurity, were the tycoons of 1929—are laughing at the Trumps, Pickenses, Icahns, and Lorenzos of our time. Almost certainly, Charles Curtis, Hoover's vice president, is laughing bitterly out of the oblivion to which history has consigned him at the megalomania of his counterpart, George P. Bush.

In a recent half-hour television broadcast on CBS, Democratic presidential candidate Lyndon LaRouche called attention to the uncanny similarity between the data series for the Dow Jones Industrial Average for 1929-30 and the corresponding set for 1987-88. In that broadcast, LaRouche coined the apt metaphor of the "bouncing ball" to approximate the series of descending peaks of the Dow between the late spring of 1930 and its historical nadir of the summer of 1932. The chart used by LaRouche during this broadcast was later shown by Dan Rather on the CBS Evening News. Comparisons of the Dow Jones averages during 1929-30 and 1987-88 have been published by *Business Week* and the *Wall Street Journal.* According to *U.S. News and World Report* of April 11, some stock market analysts are pointing to "disturbing similarities between the market's recent up-then-down behavior and 1930, when shares, after five months of rebounding from the historic crash of 1929, began an even sharper and more prolonged descent."

The Dow figures of 1929-30 make clear that the Crash of October 1929, despite its unprecedented severity, did not lead directly to a total liquidation of stocks. Rather, they show that the stock market rebounded from its lows of October-November 1929 to stage an unmistakable, though short-lived recovery that reached its peak about the middle of April 1930. In May 1930, the Dow index was at about the same level it had occupied in May 1929, slightly before the last phase of the stock market boom. During May 1930, a noticeable downturn in stock prices began, and by June 1930, stocks almost touched the absolute low they had reached in November 1929, in the immediate aftermath of the Great Crash. A sharp downward break in the market came on June 17-18, 1930, the day that Herbert Hoover signed the trade-

© 1988 EIR News Service Inc. All Rights Reserved. Reproduction in whole or in part without permission strictly prohibited.

suffocating Smoot-Hawley Tariff Law.

Historians and economists have referred especially to the early months of 1930 as an "interlude of hope" which was then terminated by the "severe contraction" of May to December 1930. The brutal disappointment of 1930 was followed by the tragedy of 1931, with the harrowing descent into all-out depression, the depths of which were not reached until 1932-33. Thus, it is important to stress that the hopes of January-April 1930 were a pathetic delusion, a foolish exercise in wishful thinking. The same is even more true of the wishful thinking of the spring of 1988. It is more true because today's U.S. economy is far weaker than that of 1930, and today's speculative cancer far more pervasive.

From the standpoint of today, we must add that any such delusions of recovery in 1988 are outright suicidal, since they open the White House door to George Bush and a financier clique that wishes to take a firm hold on the levers of power before contraction and depression become evident, in order to use those levers of power to establish a regime of an authoritarian-fascist type. An unprecedented world economic convulsion is the great issue of the next presidential term, and U.S. national survival now depends on making sure that this issue be faced during the election campaign, before November.

'The danger has passed'

President Hoover gave an off-the-record talk at the Gridiron Club of Washington on Dec. 3, 1929, in which he made the following remarks about the October crash: "Fear, alarm, pessimism, and hesitation swept through the country, which, if unchecked, would have precipitated absolute panic throughout the business world with untold misery in its wake. Its acute dangers were far greater than we are able to disclose at the present time." But Hoover, like Reagan today, became one of the leading publicity men for the period of foolish wishful thinking of the first months of 1930. On May 1, 1930, Hoover said in a speech to the United States Chamber of Commerce, "I am convinced we have now passed the worst and with some continued unity of effort we shall rapidly recover." These views by Hoover represented a restatement of the conclusions of a cabinet meeting held in the middle of February 1930, which had found that the danger of a general panic in finance and industry had definitely passed.

During the early 1930 interlude of self-delusion, such sentiments were widely repeated, including in supposedly authoritative investment advice—the same type brokers are offering today to their non-preferred customers. The Van Strum Financial Service, in the sixth edition of *How to Make and Keep Stock Market Profits,* wrote in early 1930, "Today investors in common stocks need not fear a general reduction in dividends paid by corporations." Similar views were also offered by officials of the U.S. central bank. At the beginning of 1930, E.A. Goldenweiser of the Federal Reserve Board senior staff summed up his review of 1929 and survey of business conditions at the outset of the new year with these words: "I feel that we are entering the year 1930 under more favorable credit conditions than we have had for at least two years, and while there are many phases of the situation that need to be watched and much that might develop that will not be so favorable, I think I can on the whole view the future in an optimistic light."

In an editorial of Feb. 12, 1930, the *New York Times* had stated that "the patient" had begun to recover. But perhaps the most interesting entries in this catalogue of delusion from our present-day standpoint are the comments of one Mr. Albert Shaw, the editor of a periodical entitled the *Review of Reviews.* In his issue for June 1930, Mr. Shaw noted, "The best authorities believe that conditions will soon show marked improvement." Mr. Shaw then went on to make the following proposal: "If Mr. Hoover could be made dictator of the United States for the next 10 years, we should have before us a period of social progress and of diffused well being, such as no country has ever known since the Middle Ages." Although Mr. Bush indeed has dictatorial intentions, he lacks such effusive advocates as Mr. Shaw.

These were the early months of 1930, when Vice President Charles Curtis pronounced the fateful words, "Prosperity is just around the corner." This can be usefully compared with the pronouncements of President Reagan, in whose view the United States is today enjoying the 65th consecutive month of economic prosperity, the longest such period in peacetime history.

One writer on the history of the period sums up the temper of the months in question, "In the first quarter of 1930, in short, it was not merely a hope but a common belief that the direct and indirect effects of the stock market crash would be so neutralized, localized, and minimized that return to normal, if not high prosperity, would be fairly prompt. This belief rested in large part on exaggerated confidence in the basic soundness of the U.S. economy; on excessive faith in European recovery, the League of Nations, the Federal Reserve System, and President Hoover. . . . In December-April 1929-1930 little or no effort was made, so far as I can ascertain, to tackle the job that had been neglected before the crash, namely, to re-examine three basic assumptions: (1) that U.S. business was fundamentally sound; (2) that easing money would provide adequate stimulus to recovery; and (3) that the administration would be able to prevent a severe contraction." (Joseph S. Davis, *The World Between the Wars, 1919-1939,* p. 217. This study is the source of many statistics cited in this article.)

Anyone believing point (1) today is covered by Cicero's observation that the number of fools is infinite, especially since this view has been systematically refuted by detailed analysis that has been regularly offered in the *Quarterly Economic Reports* of this magazine. Point (2) is more interesting

to consider today. ABC's Sander Vanocur, in television broadcasts marking the passage of six months after Black Monday, offered up again a piece of mythography that has been frequently repeated over these recent times. According to Vanocur, one of the big differences between 1929-30 and 1987-88 is that, starting on Oct. 20, the Greenspan Federal Reserve wisely announced a policy of easy money, of flooding the system with liquidity, making abundant credit available to stave off the threatening bankruptcies of concerns hit by the crash. In Vanocur's report, this is supposed to contrast with a tight money policy allegedly pursued by the Federal Reserve in 1929-30.

In reality, during the last week of October 1929, the Fed had responded to the crash by buying large quantities of government securities to increase the money supply, expanding credit, and reducing buying rates for bankers' acceptances. On Nov. 1, 1929, the New York Federal Reserve Bank reduced its rediscount rate from 6% to 5%, and on Nov. 15 lowered it further to 4.5%. On Feb. 7, 1930, the New York rediscount rate went down to 4%. On March 13, 1930, it reached 3.5%, and on June 20 of the same year reached a record low of 2.5%. According to the *Weekly Letter of the Harvard Economic Society* of Nov. 2, 1929, the "easing of money is itself evidence of the soundness of the present business situation."

Point (3) addressed by Davis finds its modern equivalent in the delusions of those who assert that "Baker won't let the second crash hit until after the November elections."

Nevertheless, the stock market recovery of the deluded months of March and April 1930 turned into the declines of May, June, and beyond. It thus turned out that the foolish wishful thinking of early 1930 had been only a passing moment within the collapse of the greatest financial bubble in world history up to that time. The stock market bubble of 1929 was comparable to John Law's Mississippi speculative bubble in the France of the early 1720s, or the South Sea bubble in England. It was comparable to the Spanish and Portuguese colonial bankruptcies of the 16th century, which provoked the insolvency of the Fuggers of Augsburg. It was comparable to the fall of the banking houses of the Bardi and Peruzzi in Florence in the 14th century.

Hoover's (and Reagan's) policies

Once the speculative hysteria in Wall Street had run out of steam in October-November 1929, a liquidation of stock and real estate prices was inevitable. Yet, the declines in stocks, bonds, and real estate need not have provoked the events of late 1930 to 1932, including mass unemployment and misery, business failures, and a banking panic that shut down 10,000 banks before it had come to a halt. Hoover and his administration made the descent into contraction and depression inevitable because of the policies that were followed, which may be summed up in the following points. The direct parallels to Reagan administration policies are obvious enough so as not to need pointing out.

1) Lying. As we have seen, Hoover systematically falsified predictions on the economic outlook in order to "restore confidence." Under the Reagan administration, this has meant that all government statistics issued from 1982 on are so falsified as to be totally worthless.

2) Easy money, in the form of the lowered discount rates already referred to and abundant borrowing made available during the decline of the stock market. The bulk of this credit went into financial operations.

3) Balanced budget. The U.S. Treasury ended its fiscal year on June 30, 1930 with a budget surplus of $184 million, which was almost as large as the surplus that had been posted in June of 1929. Then, in 1931, a deficit appeared, to which Hoover reacted with calls for drastic cuts in federal spending, which he backed up by use of the veto. "We cannot squander ourselves into prosperity" became Hoover's favorite slogan. He requested tax increases, which the Congress was reluctant to pass.

Hoover's *Memoirs* describe in detail his "Battle of the Budget" with the Democrat-controlled Congress. In his messages to Congress of Dec. 8-9, 1931, Hoover stated, "The first requirement of confidence and of economic recovery is financial stability of the United States Government. I must at this time call attention to the magnitude of the deficits which have developed and the resulting necessity for determined and courageous policies. These deficits arise in the main from the heavy decrease in tax receipts due to the depression and to the increase in expenditure on construction in aid to unemployment, aids to agriculture, and upon services to veterans. . . . Several conclusions are inevitable. We must have insistent and determined reduction in Government expenses. We must face a temporary increase in taxes. The welfare of the country demands that the financial integrity of the Federal Government be maintained." (Hoover, *Memoirs,* p. 133). This is one of at least 21 calls for a balanced budget that Hoover issued between 1931 and 1932, as the United States settled into the nightmarish deep trough of the depression. Any recent Reagan State of the Union address can be compared to Hoover.

4) The Smoot-Hawley Tariff of June 17, 1930. Smoot-Hawley raised duties on U.S. imports to irrational and punitive levels, and led to universal animosity expressed in the vehement protests received in Washington from 38 nations, followed by retaliation by other countries in the form of exclusionary tariffs against U.S. goods. By making it almost impossible for Britain, France, and Germany to earn U.S. dollars by trade, Smoot-Hawley helped accelerate the breakdown of the post-Versailles reparations and war debt financial system. Smoot-Hawley also led to the creation of currency zones, including the pound sterling area, which was formed around the principle of British Empire preference as enunciated at the Ottawa Conference of August 1932. France became the lead nation of a so-called "gold bloc." As a result

of all this, world trade declined dramatically. In every month from January 1930 to June 1933, the dollar value of all international trade was less than the corresponding month a year earlier. The physical volume of world trade in 1931 was only 74% of the average of the years 1925-29, and its dollar value was only 60% of the average of those years.

By 1932, world trade had fallen to one-third of the pre-crash levels in terms of value. By the spring of 1933, the physical volume of world trade had fallen to one-fourth of the 1929 levels. The total of imports and exports for each person living in the United States declined from $80 in 1929 to $24 in 1932, and went even lower in 1933. In line with these developments, world production is estimated to have declined by 38% between 1929 and 1932. If Reagan signs the Byrd-Wright trade bill, his congruence with Hoover will be downright eerie. Even without the trade bill, he is already following Hoover.

5) Financial bailouts. Although Hoover refused to make special credit available for the revival of production, he did provide the means required for selected financial bailouts. Hoover first attempted to organize this through the "National Credit Corporation" of 1931, to which bankers contributed a capital of $500 million for the purpose of granting loans to prevent their weaker colleagues from going under. Hoover later complained that the bankers had then refused to lend this money to banks that were about to go under, as they became "ultra-conservative, then fearful." Then, in 1932, as bank failures multiplied, Hoover created the Reconstruction Finance Corporation (RFC), modeled on the War Finance Corporation. The RFC, under its first chairman, Eugene Meyer, was a federal agency that made loans to banks, insurance companies, and to state and local governments about to go under. These loans totaled some $2 billion before Hoover left office. In July 1932, Hoover also set up the federal Home Loans Banks to discount home mortgages.

6) Corporatism. Hoover was by training a technocratic social engineer interested in a kind of voluntary corporatism. He differed from Secretary of the Treasury Andrew Mellon who, as Hoover later wrote, "felt the government must keep its hands off and let the slump liquidate itself." Hoover's immediate response to the crash was to convoke a series of White House conferences, which were announced by the following AP wire dated Nov. 15, 1929: "Leaders of industry, labor, and agriculture will be called into conference by President Hoover next week to lay preliminary plans for concerted action looking towards business progress." Hoover's refusal to promote federal relief and federal job-creation alienated labor. Hoover could not pursue the compulsory corporatism recommended by Bernard Baruch, Gerard Swope of General Electric, and Charles Beard. But, as Rexford Tugwell, one of FDR's brain trusters from the Hundred Days of the New Deal pointed out in 1974, "We didn't admit it at the time, but practically the whole New Deal was extrapolated from programs that Hoover started."

The panic becomes depression

It was as a result of these Hoover administration policies that the stock market crash of 1929 was transformed, during the summer and fall of 1930, into the Great Depression. In particular, the descent into all-out depression was caused by Hoover's failure to make available credit specifically earmarked for production, infrastructure, and exports. In his sins of commission and omission, the parallels between Hoover and Reagan stand out starkly.

Stock prices, as previously noted, began to decline in May and June of 1930, and by December of the year had reached levels that were significantly below the post-crash lows touched in mid-November 1929. From the late spring of 1929 on, the stock market was in steady, inexorable decline. As one high school textbook of the 1940s summed it up, "In spite of repeated assurances from high authorities, both in government and finance, that prosperity lay 'just around the corner,' no less than nine similar declines to 'new low levels' were recorded within the next three years. By the first of March 1933, the value of all stocks listed on the New York Stock Exchange was set at only nineteen billion dollars, less than one-fifth the inflated figures of October 1929. . . . In spite of the optimistic efforts to maintain that the stock-market collapse was purely a paper loss which would not seriously undermine the fundamental soundness of American business, it was soon evident that an unparalleled depression had begun." According to today's figures, this implies that "the bottom" may be a Dow Jones Industrials level of slightly over 500, although this may turn out to be too optimistic.

In an essay published in London on May 10, 1930, the degenerate British economist John Maynard Keynes wrote, "The fact is—a fact not yet recognized by the general public—that we are now in the depths of a very severe international slump. A slump which will take its place in history amongst the most acute ever experienced." In the United States, all significant economic indicators of physical production were rapidly falling. Prices of farm commodities and raw materials were also in rapid decline. Building construction was sharply down. By April 30, 1930, unemployment reached 3.2 million, and by the end of the year the jobless rate was estimated at 7 million, with an average of 4.34 million for the entire year.

In November 1930, the Harvard Economic Society stated in its *Weekly Letter* that real estate prices were dropping rapidly. The Harvard economists noted that this was a sector in which "unsoundness had long been evident." Real estate bonds began to decline, and this decline spread rapidly into other categories of bonds. As a result of these developments, by the late autumn of 1930, a nationwide banking crisis was at hand. The preliminary focus of this first wave of bank failures was the Bank of the United States, whose bankruptcy was the largest in the banking annals of the United States up to that time. The Bank of the United States shut its doors on Dec. 12, 1930. It had 413,000 depositors with savings of

$212 million. This was the counterpart to today's Texas and Southwest banks. During 1930, a total of 1,300 banks failed. In 1931, the number of bankruptcies had increased to 2,300. In the successive waves of bank failures that gripped the United States between 1930 and 1932, 5,000 banks were bankrupted. One of these waves came in June 1932, when the banks of Chicago were hit by panic runs. More than 10,000 deposit institutions out of the 25,000 in existence were to disappear during the five years after 1929. This attained the level of a total collapse of the banking system during the last weeks of Hoover's term in spring 1933, starting from banking panics in Detroit and then in Cleveland. From this state of utter prostration, the banking system was raised only by the expedient of temporarily closing all the banks for financial reorganization through the Roosevelt bank holiday, which was declared by the new President on March 5, 1933, the day after his inauguration. Under the Emergency Banking Act of March 9, 1933, conservators would take charge of insolvent banks. Three thousand banks either reopened under conservators or never reopened at all. In spite of this, a functioning banking system was saved. The final collapse of the banking system occurred at the same time that the number of foreclosures on non-farm mortgaged real estate reached its all-time high of 252,400 in 1933.

By the end of 1930, the year that had started off with hopes of quick recovery, the view from AT&T was that the United States depression was "distinctly the most severe in economic history." Unemployment in the industrialized countries has jumped from 5 million in the autumn of 1929 to as much as 22 million by the end of 1930. And that proved to be only the beginning. October 1930 had brought the collapse of the French Oustric banking group, with panic runs on the big Paris banks. Then came the collapse of the Austrian Kreditanstalt bank in the spring of 1931. This was followed by the fall of Germany's Danatbank. On Sept. 20, 1931, the United Kingdom suspended gold payments, de facto departing from the gold standard. Between 1932 and 1934, all European countries except Finland defaulted on war debt payments to the United States. The international financial system, based on looting Germany for reparations to pay British and French war debts to the U.S.A., had ceased to exist.

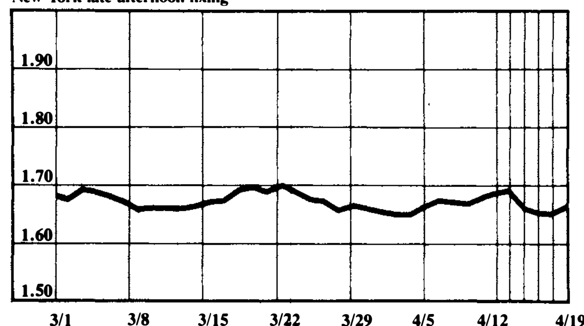
If official unemployment had seemed catastrophic in 1930 with a year-long average of 4.34 million, that increased to 8.02 million in 1931, 12.06 million in 1932, and 12.88 million in 1933, with the latter figure approximating one-fourth of the labor force. From 1930 on, each winter was worse than the preceding one, with pessimism yielding to despair, until, in the horrible winter of 1932-33, suffering and misery reached such levels that numerous observers feared that the integument of human society was about to collapse into chaos.

Unless economic policies are changed, the coming months must bring a far more rapid descent into unplumbed depths of economic depression.

Currency Rates

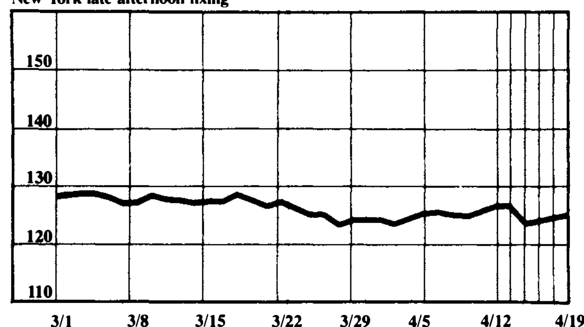
The dollar in deutschemarks

New York late afternoon fixing



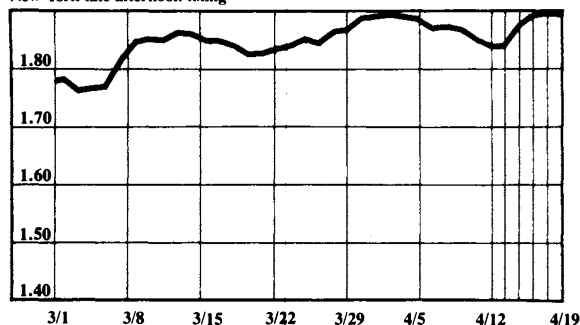
The dollar in yen

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing