



A Tale of Two Conservatives

Comparing Bush and Hoover on the Economy

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Introduction

It may seem premature to compare President George W. Bush to Herbert Hoover, the president who helped steer the economy into the Great Depression in 1929, and then presided over steady economic deterioration until the end of his term in 1933. After all, the current economic downturn under President Bush's watch hasn't even officially been declared a recession, while under Hoover the United States experienced four straight years of severe economic decline.

Yet close inspection of the economic track records and ideology of these two presidents reveals that they are quite similar. Both presided over a suddenly deteriorating economy yet resisted taking action to prevent further economic losses. Both believed the market would naturally self-correct, and that government intervention would be harmful. And both took limited government action once it became clear that it was needed—to help businesses, rather than working families—to weather the storm.

There are certainly areas, of course, where the comparison does not fit. And any comparison will inevitably reveal that in some cases President Bush's record is much better and in others that Hoover's legacy is tarnished by such comparisons. We'll explore some of those policy differences and similarities, but first a straight-up comparison of broad economic trends under the two presidents is in order.

Economic Performance

The broadest of economic indicators, gross domestic product, fell dramatically under President Hoover, dropping to \$643.7 billion (measured in 2000 dollars) in 1932, his last year in office, from \$865.2 billion in 1929.¹ President Bush's record on this score doesn't compare, with GDP growing at an average pace of 2.4 percent each year over the first seven years of his administration.² This year, however, may well tell another story, with anemic GDP growth in the first quarter of 0.9 percent,³ and expectations of negative growth in the second quarter.

But if we look underneath the broad GDP figures at the housing and labor markets, and at average income and income inequality—the economic areas with the greatest effect on the standard of living of working families—we find notably poor performances under both presidents. Indeed, in some cases President Bush's legacy is already worse than Hoover's, which is something of a feat given the severity of the early Depression years.

Housing

Under both presidents, housing foreclosures rose rapidly—even more rapidly under Bush than Hoover. Housing starts also fell significantly, though to a much greater degree under Hoover than Bush.

Housing starts fell by 79 percent under President Hoover, declining from 105,000 in 1929 to just 22,500 in 1932, at the end of Hoover's term. Under President Bush, housing starts fell by 16 percent from 2001 to 2007, declining from 1,600,000 to 1,350,000, though from 2005 to 2007, a more severe decline of 35 percent occurred.

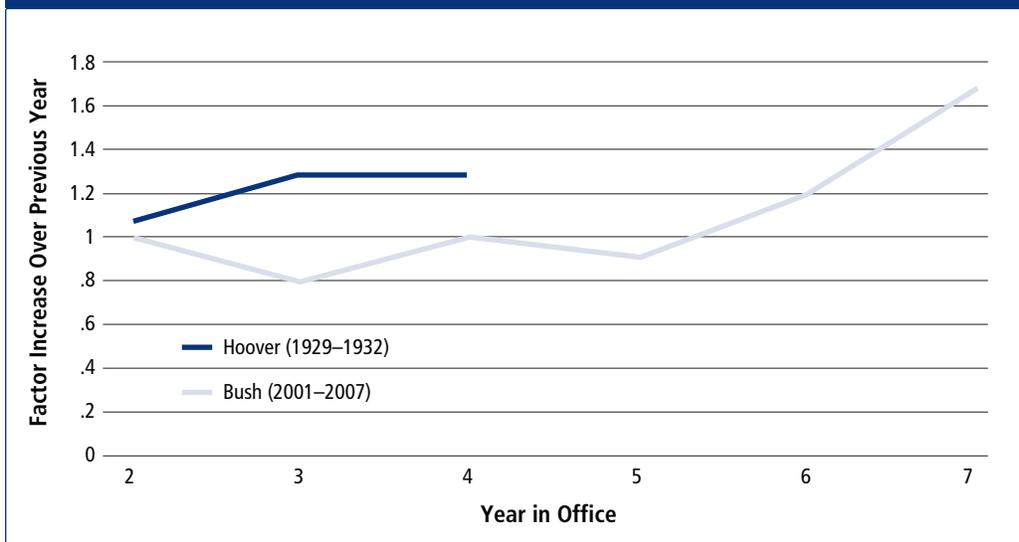
Foreclosures under Hoover increased by 84 percent between 1929 and 1932. Under Bush, foreclosures increased by 45 percent from 2001 to 2007. From 2005 to the end of 2007, however, foreclosures more than doubled under President Bush (see chart and table below). Foreclosures are expected to continue to grow in 2008. During the Great Depression, the displaced worker camps that resulted from mass unemployment were popularly referred to as Hoovervilles. President Bush's housing record may soon make "Bushvilles" the appropriate term for the suburban and exurban developments, formerly home to large concentrations of subprime borrowers who are now faced with an extremely high number of foreclosures.

BUSH VS. HOOVER—HOME FORECLOSURES
Recent foreclosure rates surpass early Depression era.

	HOME FORECLOSURES	HOUSING STARTS
Hoover 1929	134,900	104,798
Hoover 1932	248,700	22,522
Change from 1929 to 1932	+84%	-79%
Bush 2001	674,550	1,602,700
Bush 2005	483,940	2,068,300
Bush 2007	977,132	1,353,700
Change from 2001 to 2007	+45%	-16%
Change from 2005 to 2007	+102%	-35%

Sources: For foreclosures: Authors' calculations based on US Census Bureau and Mortgage Bankers Association data. For home starts: Authors' calculations based on US Census Bureau data. Additional details provided in appendix.

BUSH VS. HOOVER—HOME FORECLOSURE ACCELERATION
Velocity of foreclosures since 2005 surpass early Depression era.



Sources: Authors' calculations based on US Census Bureau and Mortgage Bankers Association data. Additional details provided in appendix.

Employment

The unemployment rate under Hoover rose dramatically, to 24.1 percent in 1932 from 3.2 percent in 1929. Under President Bush, unemployment has generally remained at a little bit under 5 percent, starting at 4.7 percent in 2001 and finishing 2007 at 4.6 percent, though it did rise to 6.0 percent in 2003. Under President Hoover, employment fell by 8 million

jobs, while under President Bush employment fell by 1.8 million jobs between 2001 and 2003, then rebounded through the end of 2007, and created a total of 5.3 million jobs.

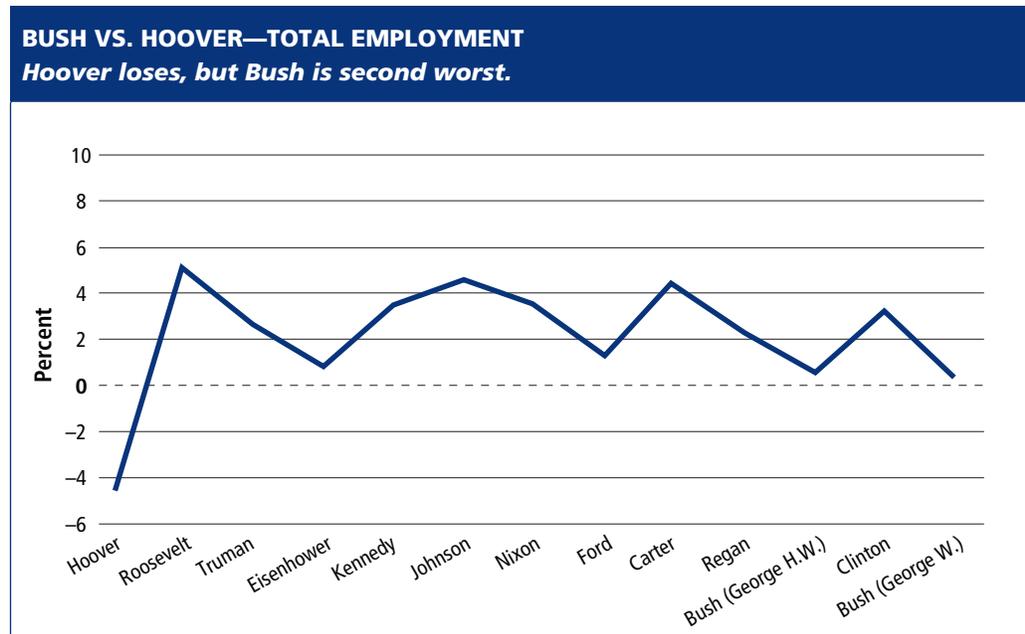
While President Bush's labor market record is generally much better than Hoover's, the employment comparison is relevant because President Bush has presided over the worst annual job creation

record of any president since Hoover (see chart and graph below). Most presidents in the 20th century have created jobs at an annual rate of between 2 percent and 4 percent. Hoover lost jobs at an annual rate of 4.4 percent, making him the only president to preside over an economy that actually lost jobs. While President Bush

has not lost jobs, he created jobs at an annual rate of only 0.7 percent through the end of 2007—a record slightly worse than his father, who previously held the second-worst record. When employment figures through April 2008 are included, Bush’s record is even worse, creating jobs at an annual rate of 0.58 percent.

BUSH VS. HOOVER—UNEMPLOYMENT			
<i>Hoover loses hands down.</i>			
	TOTAL EMPLOYMENT	TOTAL UNEMPLOYMENT	UNEMPLOYMENT RATE
Hoover 1929	46,207,000	1,550,000	3.2%
Hoover 1932	38,038,000	12,060,000	24.1%
Change from 1929 to 1932	-17.7%	+678.0%	+20.9%
Bush 2001	132,469,000	6,830,000	4.7%
Bush 2007	138,078,000	7,079,000	4.6%
Change from 2001 to 2007	+4.2%	+3.6%	-0.1%

Source: Authors’ calculations based on Stanley Lebergott, *Manpower in Economic Growth: The American Record Since 1800* and Bureau of Labor Statistics data. Note: Figures for Hoover are based on total employment. Figures for Bush are based on total non-farm employment.



Source: Data from 1929 to 1938 is based on Stanley Lebergott, *Manpower in Economic Growth: The American Record Since 1800* and data from 1939 to present is based on Bureau of Labor Statistics data.

Note: Data is based on total non-farm employment for the full term of each president, except for George W. Bush, which includes data up to April 2008.

Income of Average Americans

The average income of most Americans—the bottom 90 percent—fell dramatically during the Hoover administration, to \$6,688 in 1932 from \$10,847 in 1929 (measures in consistent 2006 dollars), a drop of 38 percent. Under the Bush administration this same group of American wage earners saw their average income drop to \$32,080 in 2006 from \$32,371 in 2001, a drop of 0.9 percent (see table below).

While the drop in average income during the Bush administration has been obviously less severe than that of the Hoover era, it is one of only three instances since the end of the Great Depression in which average income for most Americans has decreased during a president’s tenure. Average income also dropped during the presidencies of Jimmy Carter and George H. W. Bush.

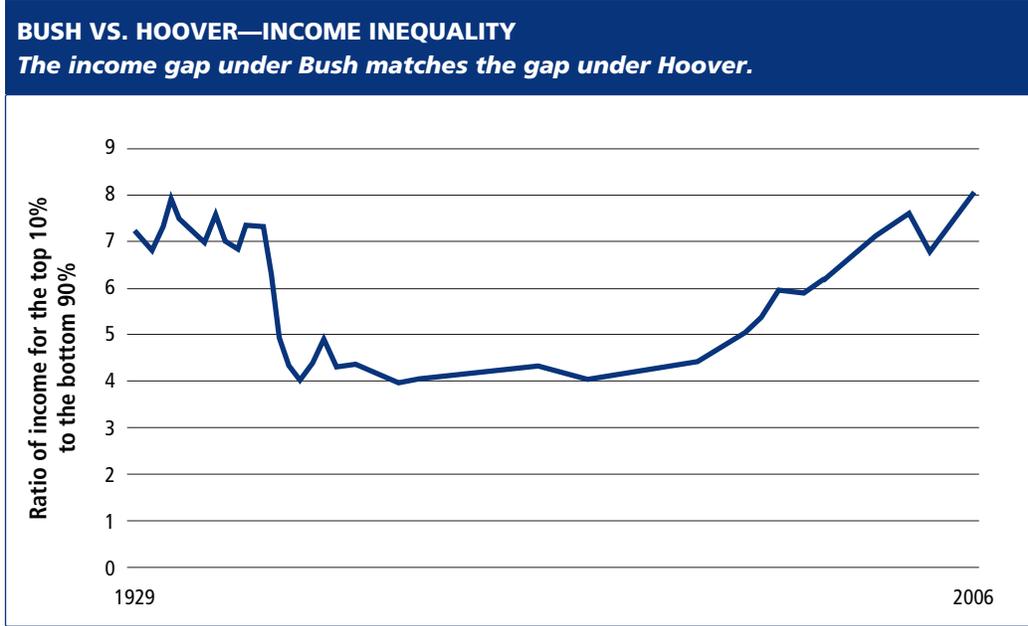
But there is one key difference between the trends in average income under Presidents Hoover and Bush. In the Hoover years, people of all incomes experienced income declines, but in the Bush years the top 10 percent of income earners boosted their income while the rest of the country experienced a decline. Between 1929 and 1932 the average income of the top 10 percent of wage earners fell to \$52,026 in 1932 from \$76,625 in 1929, a decline of 32 percent, or roughly the same percentage decline experienced by all other Americans over the same period. In contrast, between 2001 and 2006, the average income of the top 10 percent of wage earners increased to \$254,296 in 2006 from \$221,115 in 2001, an increase of 15 percent. This makes President Bush the first president since 1917 (the first year for which data is available) under which the average income of the wealthiest Americans went up while the average income of everyone else went down.

BUSH VS. HOOVER—INCOMES

Everyone suffered from falling incomes under Hoover. The wealthy escaped this fate under Bush.

	HOOVER 1929	HOOVER 1932	CHANGE FROM 1929 TO 1932	BUSH 2001	BUSH 2006	CHANGE FROM 2001 TO 2006
Average income: 0–90 percentile wage earners	\$10,847	\$6,688	–38%	\$32,371	\$32,080	–.9%
Average income: 90–100 percentile wage earners	\$76,625	\$52,026	–32%	\$221,115	\$254,296	+15%

Source: Authors’ calculations based on Emmanuel Saez and Thomas Piketty, “Income Inequality in the United States.”



Source: Authors' calculations based on Saez and Piketty, "Income Inequality in the United States."

Income Inequality

Income inequality in the Bush years has grown to levels above even those during the Depression era. The average income of the top 10 percent of America's wage earners today is now nearly eight times the bottom 90 percent. Under President Hoover, income inequality, as measured by the ratio of the average income of the top 10 percent compared to the average

income of the bottom 90 percent, rose from 7.1 percent in 1929 to 7.8 percent in 1932. Under President Bush the rise in inequality has been even greater, with the ratio rising from 6.8 percent in 2001 to 7.9 percent in 2006, the most recent year the data is available. These periods of high-income inequality sharply contrast the period 1942–1987, when the ratio of top incomes to the incomes of most Americans never exceeded five.

The Presidents Respond to the Economy

A deteriorating economy under Hoover and now under Bush is due in large part to a lack of action by both presidents. In both cases, their refusal to act was motivated by a hands-off economic ideology and an unconditioned faith in the power of the market to self-correct. The little action taken by both leaders either lacked the force necessary to avert an economic downturn or was aimed at helping businesses rather than individuals.

President Hoover's economic policy took three basic forms⁴:

- Influencing the economy through voluntary coordination with businesses rather than direct government action
- Opposition to direct assistance to individuals
- Government aid to protect businesses from the effects of the Great Depression

All three policy positions and policy actions did little or nothing to help brake a falling economy throughout Hoover's term in office.

Hoover's preference for voluntary coordination resulted in a summit at the end of 1929 at which he asked industry to voluntarily maintain employment levels and asked labor not to ask for higher wages. This commitment to voluntary, market-based solutions also led Hoover to create the National Credit Corporation, a group of large banks which he asked to make emergency credit available to failing financial institutions. Both voluntary efforts were unsuccessful, largely because Hoover refused to mandate compliance.

Hoover's unwillingness to offer direct federal aid to workers displaced by the Depression was due to his belief that such assistance would destroy "American Character" and personal initiative. His intransigence culminated in his veto of the Garner-Wagner relief bill, which would have provided funds for the establishment of state unemployment services. Hoover also considered public works projects to be an unacceptable government handout if they involved direct expenditure by the U.S. Treasury.

While he supported such projects if funded by private, state, or local loans, he refused to offer federal grants when these sources of capital dried up. By the summer of 1932, however, Hoover relented a bit, signing the Emergency Relief Construction Act, which allowed a small amount of federal money to be spent on public works. Still, he never dropped his total opposition to direct relief to the unemployed.

Hoover's position on assisting business could not have been more different. Believing that the economic system of the day was fundamentally sound, Hoover thought that the only reform necessary was the creation of credit pools to shield banks and businesses from the downturn. This belief was behind the creation of the voluntary National Credit Corporation. When this venture failed, Hoover replaced it (despite his opposition to federal involvement in such matters) with a government entity, the Reconstruction Finance Corporation, which also supplied at-risk financial institutions with capital, but this time from a pool of federal rather than private funds.

That Hoover was willing to allow the federal government to step in when cooperation failed highlights his commitment to helping businesses, but not individuals, during the Great Depression.

These later decisions to help businesses directly and toss a little federal money into public works projects, however, were more than offset by Hoover's determination to cut government spending as the Depression accelerated late in his term. Committed to preserving the gold standard at all costs, Hoover offset falling government revenues with budget cuts. These spending cuts, along with Hoover's reluctance to provide federal funds for public works projects, deprived the economy of needed stimulus, increasing the length and severity of the Great Depression.

While President Bush in 2008 did sign into law an economic stimulus package that provided tax rebates to individuals—indicating his willingness to, on some occasions, provide direct assistance to individuals—his overall response to the current economic downturn follows the conservative logic employed by Hoover.

Bush's HOPE NOW Alliance program, under which private home mortgage lenders, investors, and mortgage service companies are asked to voluntarily work with borrowers to help them avoid foreclosure, is strikingly reminiscent of Hoover's voluntary policies. The fact that the HOPE NOW Alliance isn't working very well and yet President Bush continues to resist more direct government action is akin to Hoover's position as the economy in his era turned sharply south.

Another similarity: the Bush administration's successful opposition to the extension of unemployment insurance benefits during negotiations over this year's stimulus package, which is reminiscent of Hoover's opposition to direct relief for workers. And then there's the extension of a \$29 billion line of credit by the Federal Reserve to JP Morgan Chase & Co. in March, 2008 to finance its emergency acquisition of failing Wall Street investment bank Bear Sterns Cos. This move, which was supported by Bush's Treasury Secretary Henry Paulson, was similar to Hoover's efforts to help businesses through the National Credit Corp. and later, the Reconstruction Finance Corp.

Bush's concern for "Wall Street over your street" mirrors Hoover's policy of helping businesses rather than working families.

While more time and perspective are needed to judge the depth of the current economic downturn and the merits of President Bush's policy choices, comparisons between Bush and Hoover already indicate many similarities. Though Presidents Hoover and Bush are different men who faced different economic challenges, a review of their performance and ideology indicates that history is likely to link the two men.

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Appendix

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Endnotes

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- 2 Bureau of Economic Analysis. "National Economic Accounts: 'Percent change from preceding period file.'" March 13, 2008. available at <http://www.bea.gov/national/index.htm#gdp> (accessed March 13, 2008).
- 3 Bureau of Economic Analysis. "National Economic Accounts: 'Current-dollar and real GDP file.'" May 29, 2008. available at <http://www.bea.gov/national/index.htm#gdp> (accessed May 29, 2008).
- 4 The historical claims and information in this section can be found in the following sources: Herbert Hoover, "Inaugural Address." In James M. McPherson, ed., *To the Best of My Ability: The American Presidents* (New York: DK Publishing Incorporated, 2000); Miller Center of Public Affairs, University of Virginia, "A Life in Brief." *An American President, An online Reference Resource*; Herbert Clark Hoover (1874–1964), 2008 available at <http://millercenter.org/academic/americanpresident/hoover/essays/biography/1> (accessed February 29, 2008); Arthur M. Schlesinger, *The Crisis in the Old Order: 1919–1933* (Boston: Houghton Mifflin Company, 1957); Joan F. Wilson, *Herbert Hoover: Forgotten Progressive* (Boston: Little, Brown and Company, 1975).

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