

Statement from Herbert Hoover about Emergency Relief and Construction Legislation, July 6, 1932

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The President said:

"I regret that the conferences in endeavor to arrive at a basis of a workable relief bill did not succeed. It is all the more regrettable since the deliberations this morning made it clear that it was possible to harmonize conflicting views and so reach an agreement were it not for the insistence of the Speaker on one point. The Bill as reported by the Conferees provides:

"First, provision for expanding the borrowing authority of the Reconstruction Corporation by \$1,500,00,00 to be used for temporary financing of self-liquidating construction projects of public and semi-public character to increase employment.

"Second, Speaker Garner insists that the Corporation shall also make loans to any individual, any private corporation, any partnership, any state, or any municipality on any conceivable kind of security and for any conceivable purpose.

"Third, provision of a fund by the Reconstruction Corporation of \$100,00,000 for the President, to be disposed of either as charity or as loans, and one of \$200,000,000 to be loaned to state governments who are unable to finance themselves to care for distress, but such loans to be apportioned amongst the states on a percapita basis of population.

"Fourth, \$322,000,000 of additional public works beyond the \$500,000,000 of construction work now provided for in the budget.

"As to the first provision, the Reconstruction Corporation authority to make loans today is practically limited to institutions under state and federal regulation, this is - banks, savings banks, building and loan associations, agricultural credit corporations and railways. It is serving to protect the credit structure of the nation whose collapse would mean the complete disaster to all and the savings of all the people that directly or indirectly are in the safekeeping of the great fiduciary institutions, savings banks, insurance companies, building and loan associations. That is, the whole people.

"The provision to finance \$1,500,000,000 self-liquidating construction projects for relief of unemployment comprised part of the proposals I had already made to the Congress.

"The fatal difficulty is the Speaker's insistence upon provision that loans should also be made to individuals, private corporations, partnerships, states and municipalities on any conceivable security and for every purpose. Such an undertaking by the United States Government makes the Reconstruction Corporation the most gigantic banking and pawn-broking business in all history.

"There are 48 states and 16,000 municipalities who could under its terms dump their responsibilities upon the Federal government. The purpose to take care of unemployment distress in such centers is provided for in the proposals of employment and loans to the states. The Speaker's proposal in no sense contributes to relieve such distress. It would compel the Reconstruction Corporation to attempt to deal with millions of people in terms of hundreds of thousands of small and large loans. It would result in dumping a vast amount of doubtful private and corporation debts on the federal treasury to no national purpose of relieving unemployment. It would require the extension of branch offices in every town and county in the United States and set up a huge bureaucracy able to dictate the welfare of millions of people and at the will of its agents deal favor and disaster amongst them. No group of seven men can so organize as not to discriminate unfairly between competitive enterprises. There is no body of the Reconstruction Corporation, except one absent member, informs me unanimously that the making of loans to individuals is totally unworkable. It would undermine federal credit and bring a vast increase in unemployment.

"I wish to emphasize what it means. Such a proposal means that the Reconstruction Finance Corporation is to take over an impossible task and most difficult part of the banking business that is to deal with the doubtful credits in the whole United States. To carry out such a purpose it would be necessary as I have said for the Board of seven men to set up branch banks in practically every community and to direct their operations from Washington. It would be dependent upon men in these thousand branches. The task of organization and of finding competent personnel would not be a matter of months but of years. From an organization and administrative standpoint it is self-evident that the proposal is impossible of execution, and huge losses and great scandals must inevitably result from any attempt to do so.

"Any attempt to carry out such a law under these circumstances must mean the squandering of hundreds of millions of dollars of public funds. The Board would be flooded with hundreds of thousands of applications. There would be serious interference, if not a complete breakdown, of the vital activities it is now carrying on under high pressure. And there will be disappointment on the parts of hundreds and thousands of individuals and thousands of businesses who will have been led to believe that the credit of the United States Government was made available for their individual purposes. There will be inevitable discriminations. The organization would be subject to predatory corporations and interests everywhere.

"Aside from the utter impracticability of the proposal, no funds, or totally inadequate funds, are provided for the making of these loans. The bill as it came from the Senate provided for increasing the authority of the Reconstruction Finance Corporation to borrow by \$1,500,000,000

for certain self-liquidating construction projects enumerated in the bill. Presumably the Senate did not provide more than it thought was necessary for these purposes. Not one penny is to be added for the making of these individual, private, corporation and public loans. In other words, the Reconstruction Corporation is to be charged with a duty which is impossible to carry out in practice and it is to be furnished with no additional funds with which to make the loans unless the Senate unemployment projects are to be abandoned.

“Some conception of the credit needs of the people of the United States may be had from the following figures. Total bank loans on December 31st last aggregated over \$31,600,000,000. This does not take into consideration loans made by insurance companies running into the billions, loans made by savings banks, mortgage companies, building and loan associations amounting to \$9,000,000,000, or the funded debt of corporations running into further billions.

“To hold out the hope to the people of the United States that the United States Government is prepared to take care of their credit needs with the ridiculously small sum provided, or the impossible organization urged, must be condemned, in addition to every other reason, as a deception. Furthermore, the statement of the Speaker that the Board can determine if it should enter under such loans is a shifting of responsibility from the Congress to the Board which is itself misleading the hopes of the people.

“Under the provisions of the bill as it came from the Senate, the funds available to the Reconstruction Finance Corporation were increased from \$2,000,000,000 to \$3,800,000,000. Of this the Corporation must borrow \$3,300,000,000. The Corporation can only borrow such sum because its debentures are guaranteed by the United States, or, in other words, because the credit of the United States is pledged to secure its obligations. To sell any such vast amount of securities at a time like this is a difficult enough task, strong as is the credit of the United States Government. But it can only be done and done without danger to breakdown of the credit of the Government if the purposes for which the funds are to be used are economically sound and if the loans be made under such safeguards that they will be repaid, in order that the transactions will not constitute a charge on the general fund of the Treasury and the taxpayers. But if these funds are to be squandered by the making of loans for every conceivable purpose, with inadequate safeguards, it will at once become evident that the credit of the Government is being misused.

“We have sought during these difficult times to maintain as a pillar of unassailable strength the credit of the United States Government. It is not too much to say that the measure proposed and insisted upon even to the extent of defeat of relief legislation by the Speaker of the House threatens the credit of the United States Government and disaster to our people. The proposal violates every sound principle of public finance and of government.

“My objection to the second proposal of placing \$100,000,000 at the disposal of the President was that the Federal Government should not make direct charitable gifts to individuals and that such responsibility should not be placed on the President: A further objection is that the \$200,000,000 of loans to states were allocated on a population basis, or \$1.66 per capita. A large

part of the states are able to take care of their own and to finance their relief needs, and probably three-fourths of the total amount would be unused by such states or alternatively there would be every pressure upon state officials to demand the money even though there was no need.

“The funds assignable to states where there is acute need would, when reduced to the per capita of the people suffering from unemployment in those acute areas amount to less than \$10 per person for a whole year. The apparent large sums discussed would raise false hopes, would tend to destroy charity and undermine local and governmental contributions to the needy in several times the amount which would be made available. Furthermore, loans are to be made to states solely on the certificate of the governor and administered solely by him. There is no precaution that the funds are to be administered under the ordinary checks and supervisions of the state governments or federal government. To allocate such large sums to a public official without restriction or the necessity of proper accounting and auditing is unheard of.

“As to the third point, that is the provisions to spend additional \$322,000,000 on public works, my objections were that the cost of these works ultimately comes from the taxpayer and will produce a deficit in the budget by just the amount expended; that it discards to the winds every effort made to balance the budget. Many of the works designed are remote from centers of unemployment. The technicians of the government state that it would give during the year an average direct employment to less than 100,000 out of a total of 8,000,000 unemployed.

“It was, however, possible to reach a fair adjustment of the proposal as to \$300,000,000 loans to the states which may be unable to relieve distress, and to protect the Treasury in large measure in the matter of the \$322,000,000 of non productive public works. We are in agreement in the provision of temporary loans by the Reconstruction Corporation to finance \$1,500,000,000 of productive construction work for the unemployed.

“There is unquestioned need for the passage of legislation to take care of unemployment and such cases of destitution as the resources of the states are unable to meet. I have recommended such legislation. While I am determined that there shall be relief legislation at this session of Congress, I cannot accept the proposal up to now insisted upon by Speaker Garner as a condition to securing his support, for I do not propose to further increase unemployment by such disastrous action as is now proposed through jeopardizing the whole credit of the government and laying our people open to every kind of injustice and loss.”