

THE WHITE HOUSE
WASHINGTON

February 21, 1933

The Honorable
Simeon D. Fess
United States Senate

My dear Mr. Senator:

I am sending you herewith a letter for your records which, of course, should not be communicated to anyone in the present time as it would only increase the conflagration. I have no particular desire for it to be produced at all unless the Democratic leaders at some future time should endeavor to mislead the American people as to the origins of the present situation. If the President-elect and the Democratic party pursue policies of stability and remedy it need not be used as I have no desire to put forward unnecessary criticism.

Yours faithfully,

Woodrow Wilson

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Hon. Simeon D. Fess
United States Senate
Washington, D. C.

My dear Mr. Senator:

I am glad to respond to your request that I put in writing for your records, the statement I made to you yesterday as to the economic situation at the moment, and the causes thereof.

Today we are on the verge of financial panic and chaos. Fear for the policies of the new administration has gripped the country. People do not await events, they act. Hoarding of currency, and of gold, has risen to a point never before known; banks are suspending not only in isolated instances, but in one case an entire state. Prices have fallen since last autumn below the levels which debtors and creditors can meet. Men over large areas are unable or are refusing to pay their debts. Hundreds of millions of orders placed before election have been cancelled. Unemployment is increasing, there are evidences of the flight of capital from the United States to foreign countries, men have abandoned all sense of new enterprise and are striving to put their affairs in defense against disaster.

Some days before election the whole economic machine began to hesitate from the upward movement of last summer and fall. For some time after election it continued to hesitate but hoped for the best. As time has gone on, however, every development has stirred the fear and apprehension of the people. They have begun to realize what the abandonment of a successful program of this administration which was bringing rapid recovery last summer and fall now means and they are alarmed at possible new deal policies indicated by the current events. It is this fear that now dominates the national situation. It is not lack of resources, currency or credit.

The incidents which have produced this fear are clear. There was a delay by the President-elect of over two months in willingness to cooperate with us to bring about order from confusion in our economic relations. There have been a multitude of speeches, bills, and statements of demo-

cratic members of Congress and others proposing inflation or tinkering with the currency. My proposals for reduction of expenditures have been ignored to the extent of over \$200,000,000 by the Democratic House of Representatives. The differences between Democratic leaders and the President-elect over the basis of taxation with which to balance the budget caused them to reject the balancing of the budget. The publication by Democratic leaders of the House of the Reconstruction Corporation loans has caused runs on hundreds of banks, failures of many of them, and hoarding on a wide scale. There have been proposed in the Congress by Democratic leaders and publicly even by the President-elect, projects involving federal expenditure of tremendous dimensions which would obviously lie beyond the capacity of the federal government to borrow without tremendous depreciation in government securities. Such proposals as the bills to assume Federal responsibility for billions of mortgages, loans to municipalities for public works, the Tennessee improvement and Muscle Shoals, are all of this order. The proposals of Speaker Garner that constitutional government should be abandoned because the Congress, in which there will be an overwhelming majority, is unable to face reduction of expenses, has started a chatter of dictatorship. The President-elect has done nothing publicly to disavow any of these proposals.

The Democratic House has defeated a measure to increase tariffs so as to prevent invasion of goods from depreciated currency countries, thus estopping increased unemployment from this source. There have been interminable delays and threatened defeat of the Glass Banking Bill, and the Bankruptcy bill.

How much this whole situation is the result of fear of the policies of the new administration is further indicated by a short review of the five distinct periods in recent economic history.

The first period began with the financial and monetary collapse of Europe in the last half of 1931 culminating in October, bringing contraction of credit and reduction of exports, falling prices of both commodities and securities, followed by great fear and apprehension in the people which was promptly represented by hoarding, bank failures, flight of capital, withdrawal of foreign gold balances with final interpretation in decreased employment, demoralization of agriculture and general stagnation.

The second period following the approval by Congress of our measures of reconstruction in early February 1932 was a period of sharp recovery over a period between 60 and 90 days; during this period public confidence was restored, prices of commodities and securities rose, currency began to return from

hoarding, gold shipments abroad were greatly lessened, bank failures practically ceased and the whole country moved upward.

The third period began in April and continued through July. This was a period of a sharp debacle which was brought about by the Democratic House by the same character of proposals we now see again, that is by the original failure of the revenue bill, the failure to reduce expenditures recommended by the Executive with consequent fear that the movement toward balancing the budget would not be successful; the passage of a group of inflationary measures including the Patman Bill, the Goldsborough Bill, etc. The passage of a series of projects which would have required greater issues of government securities than the Treasury could support including the Garner Bills for gigantic public works and unlimited loans by the Reconstruction Corporation, etc. Public confidence was destroyed; hoarding, withdrawal of foreign gold, decrease in employment, falling prices and general economic demoralization took place.

The fourth period began about the adjournment of Congress when it was assured that these destructive measures were defeated and that constructive measures would be held. This period extended from July until October and was a period of even more definite march out of the depression. Employment was increasing at the rate of half a million men a month, bank failures ceased, hoarded currency was flowing back steadily and gold was returning from abroad, car loadings, commodity and security prices and all the other proofs of emergence from the depression were visible to every one. Fear and despair had again been replaced by hope and confidence.

The fifth period began shortly before election when the outcome became evident, and has lasted until today. I have already recited its events.

The causes of this terrible retrogression and fear in this fifth period have an exact parallel in the third period of last spring. The fact that there was no disavowal of the actions of last spring by the Democratic candidates during the campaign lends added color and alarm that the same actions and proposals which are now repeated in this period positively represent the policies of the new administration - and the people are seeking to protect themselves individually but with national damage. The movement forward in recovery of our people is again defeated by precisely the same factors as last spring and again emanating from the Democratic leaders.

In the interest of every man, woman and child, the President-elect has, during the past week, been urged by the saner leaders of his own party such as Senator Glass and others, by myself,

and by Democratic bankers and economists whom he has called on for advice, to stop the conflagration before it becomes uncontrollable, by announcing firmly and at once that the budget will be balanced even if it means increased taxation; (b) new projects will be so restricted that government bond issues will not in any way endanger stability of government finances; (c) there will be no inflation or tampering with the currency; to which some have added that as the Democratic party coming in with an overwhelming majority in both houses, there can be no excuse for abandonment of Constitutional processes.

The President-elect is the only man who has the power to give assurances which will stabilize public mind as he alone can execute them. Those assurances should have been given before now but must be given at once if the situation ~~will~~ be greatly helped. It would allay some fear and panic whereas delay will make the situation more acute.

The present administration is devoting its days and nights to put out the fires or to localize them. I have scrupulously refrained from criticism which is well merited, but have instead been giving repeated assurances to the country of our desire to cooperate and help the new administration.

What is needed, if the country is not to drift into great grief, is the immediate and emphatic restoration of confidence in the future. The resources of the country are incalculable, the available credit is ample but lenders will not lend, and men will not borrow unless they have confidence. Instead they are withdrawing their resources and their energies. The courage and enterprise of the people still exist and only await release from fears and apprehension.

The day will come when the Democratic party will endeavor to place the responsibility for the events of this Fifth period on the Republican Party. When that day comes I hope you will invite the attention of the American people to the actual truth.

Yours faithfully,

Herbert Hoover