

President Herbert Hoover

NOT LAISSEZ-FAIRE
MORE GOVERNMENT
LESS FREEDOM



WHAT ARE THEY TEACHING?
CAN WE ADD CAPITALISM?

Another Tough Month for the Market

TQQQ: DOWN 28.5%
UC FUND: DOWN 23.3%
TIME TO INVEST?

FAILING STOCK MARKET
DRIVING INFLATION
INVERTING YIELD CURVE
NEGATIVE REAL GDP GROWTH
WHEN WILL THE RECOVERY BEGIN?

THE UNDERGROUND

President Herbert Hoover

Were we all told Herbert Hoover was the laissez-faire president. Search the writings of others today, and we see page after page telling us Hoover’s response was to do nothing. Those authors use that lie to try to convince us

that government intervention is essential to correct recessions. They blame the failings on Capitalism. This is a false conclusion based on a lie.



Herbert Hoover

Herbert Hoover converted his career from mining engineer to politician by providing war relief to US persons living in Europe during WWI. He established the Commission for Relief in Belgium and was appointed to lead the U.S. Food Administration by Woodrow Wilson.

Under the Food and Fuel Control Act, Hoover supervised food production throughout the US. After WWI, Hoover created the American Relief Administration, providing support to Europe including Germany and Russia. When government funding ran out, he converted the organization into a private organization. Hoover’s book, *The Ordeal of Woodrow Wilson*, is a glowing tribute to Wilson, his intelligence and morals. Hoover considered Wilson to be his mentor and adopted Wilson’s belief that government has a duty to take care of its citizens.

In the 1920 presidential election, Hoover ran as a Republican because he didn’t believe the Democrats had a chance of winning. He received few votes at the convention and later accepted the Secretary of Commerce position under

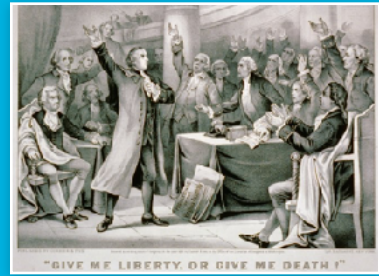
Warren G. Harding. As Secretary of Commerce, Hoover set out to improve the function of businesses. He called over 3,000 conferences to encourage efficiency, standardization, and elimination of waste. He created departments and committees to oversee and regulate business and industry such as the 1922 National Conference on Unemployment and the Colorado River Compact. He helped pass the Radio Act of 1927 allowing the government to abolish stations it sees as not useful to the public. He established the government’s power to regulate the air travel industry and to license pilots.

Hoover standardized and regulated everything. With all the new technology, voters must have thought all the government coordination was necessary. He was seen as a middle ground between Capitalism and Socialism. In 1927, President Coolidge announced he would not run for another term creating the opportunity for Hoover to be elected. Hoover won easily.

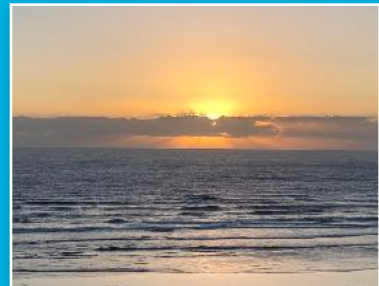
Hoover signed the Agricultural Marketing Act of 1929, establishing the Federal Farm Board and a process where the government would buy surplus production in an attempt to stop falling farm prices. Farm production increased as a result of the price supports; the government ran out of money to buy the surpluses and the prices continued to fall.

In September/October 1929 the Stock Market crashed with a 47% loss in the Dow Jones Industrial Average by November 1929. Why did the market crash? The Federal Reserve Rate was increased to 6.5%, reducing the ability of people to make large

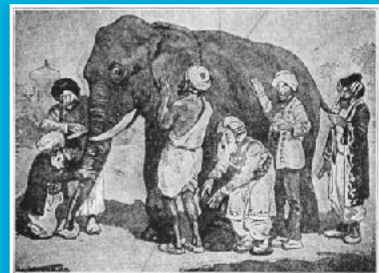
First Principles



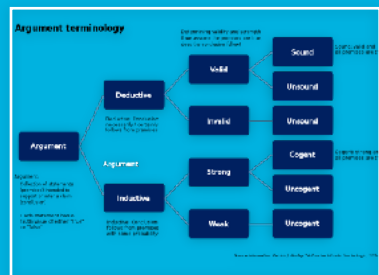
Courage



Faith in God



Knowledge



Critical Thought



Create Wealth

purchases like homes and automobiles. Increased inventories resulted, and production curtailed, undermining the valuation of companies. Highly leveraged margin trading (90% LTV) held at 9% interest by speculators exasperated the crash through margin calls.

In November, President Hoover held a business leader conference and pressured owners to maintain higher wages and start new construction projects worth \$1.8B. Government and business spending increased dramatically but consumer spending continued to fall.

In June 1930, in an attempt to protect American Workers, Congress passed the Smoot-Hawley Tariff Act. Hoover had asked for tariff increases on agricultural goods, but Congress voted for a tariff on industrial and agricultural goods. Hoover didn't like it, but he signed under pressure from the Republicans. Many countries retaliated. Since the US had a trade surplus, the trade war was harder on the US than other countries. Do not start a trade war when you have a surplus.

In October 1930, President Hoover created the President's Emergency Committee of Employment (PECE) to work with private welfare organizations to increase relief and increase employment. This organization failed to get funding after 1932 and was abolished. America is doing the same thing today with organizations like Douglas County Works employment agencies. Have you ever tried to work with any of those? You will quickly discover that government assistance does not improve a charitable organization.

Bank failures were commonplace prior to 1934. The Bank of United States (not a federally owned entity, just a deceiving name) closed its doors on December 11, 1930 due to a run on the bank. It was the fourth largest bank at the time. The Federal Reserve did nothing to prevent the failure of this and many other banks. The bank failures reduced the currency to deposit ratio and reduced the money supply by 23.6% by 1933. The 1933 "Glass-Steagall" Banking Act gave the federal government power over the banks and stopped bank failures by implementing the FDIC among other things.

In January 1932 Hoover recommended and got approval for the Reconstruction Finance Corporation. It was a government-owned corporation that provided

financial backing for New Deal relief programs and jobs programs by state and local governments. It made loans to banks, railroads and other businesses.

The Revenue Act of 1932 created the gift tax, increased the corporate rate, and increased the top marginal income tax rate from 25% to 63%.

In July 1932, through the Federal Home Loan Bank Act, Hoover created the Federal Home Loan Bank System to make home loans more easily available and increase community investment.

No, Herbert Hoover was not the laissez-faire president. Not even close. In fact with the actions listed above he laid the groundwork for President Roosevelt's New Deal.

The Federal Reserve allowed the recession to become a depression by not serving as a backstop to prevent runs on banks. The Federal Reserve allowed the money supply to drop 23.6% driving the economy into a deflationary period and making things far worse.

Hoover caused malinvestment by creating farm subsidies and convincing business owners to artificially increase worker pay and build projects that were not in their best interests. To top it all off he increased the top income tax rate to 63% to try to reduce the national debt when all that was needed was a reduction in government spending.

The Federal Reserve owns much of the blame but Hoover's socialist policies laid the groundwork that would allow Roosevelt to drag the depression out for 12 years.

Herbert Hoover's Presidential Score:

As Secretary of Commerce:

Growth of Government -10

Radio Act: Restriction of Freedom of Speech -10

As President:

Agriculture Marketing Act: Artificial Price Supports -5

63% tax marginal rate -10

Raising Taxes in a Recession -7

Smoot Hawley Tariff while in a Surplus -5

Voluntary Artificial Wage Increases -1

Voluntary Malinvestment in projects -1

Hoover's 1932 Budget: \$4,659M, a 30% increase over 1931 causing a \$2,735M deficit - the highest non war deficit in the History of America
-10

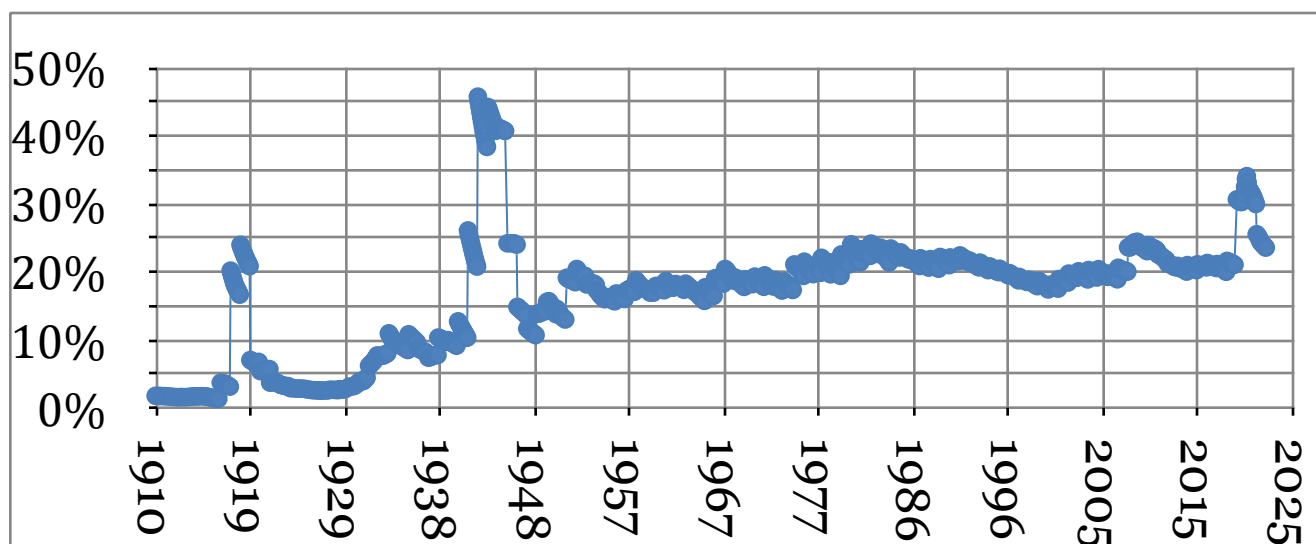
Federal Home Loan Bank System: Leads to the crash in 2007 -5

Total: -64 or -16/year

Recommended Reading: *American Individualism* by Herbert Hoover. You will find it enlightening in trying to understand Hoover.

Economic Statistics

Let's pull together a chart showing Federal Government Outlays vs GDP to see what lessons we could learn. What does this chart tell us? Bottom Line: We need a much smaller Federal Government.



The government prior to WWI only accounted for 2% of national spending. WWI spending was extreme, as expected, but began to return to normal after the war. Hoover was elected in 1928 with a new idea, government must take care of the needs of its citizens. Hoover's budget in 1932 was 7.8% of GDP.

Then Roosevelt showed what a real socialist can do. Roosevelt's policies were so bad that they extended the Great Depression until 1941. If Hoover and Roosevelt had done nothing the recession would have ended by 1933 - maybe sooner.

WWII had another spending spree - there is a reason wars bankrupt countries. The dip in the 1990s is not from reduced spending but instead due to the revolution in computer systems. 2010 and 2020 spending bumps are because government thinks it can save us during a recession.

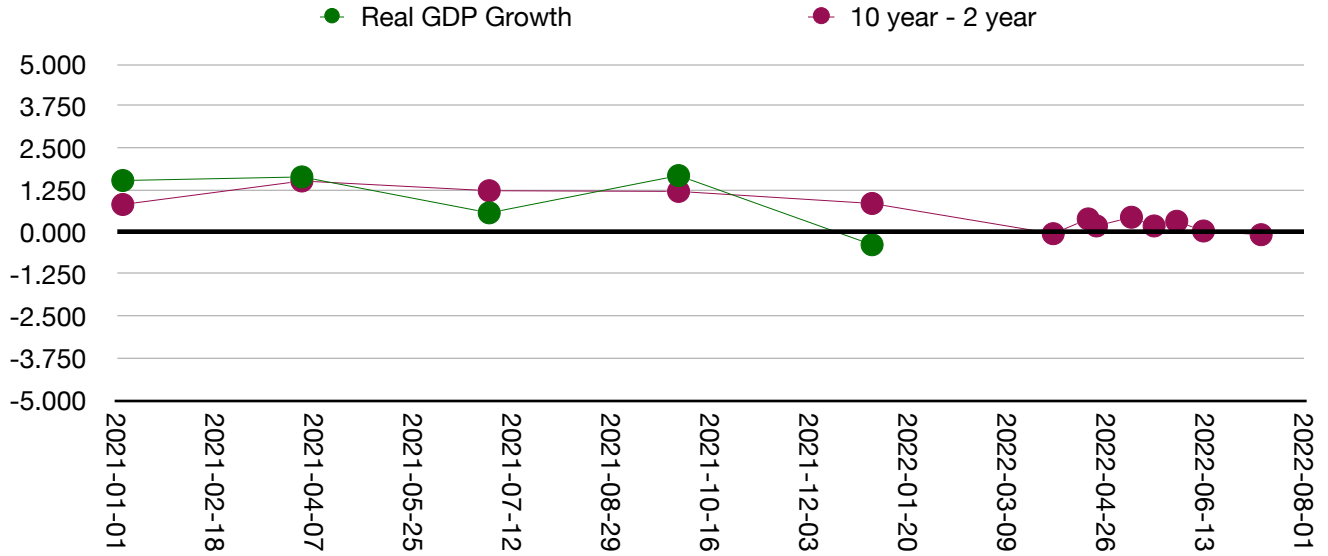
Our overspending since 1930 has bankrupted our nation and made us all depend on the government for our livelihood. The Federal government accounts for 30% of our GDP - do they provide 30% of the goods and services you need or want? Maybe 5 to 10%?

The Federal government does provide some good things. It is time for a national debate on what the Federal Government should do, What the State and Local government should do, and We the People should do for ourselves.

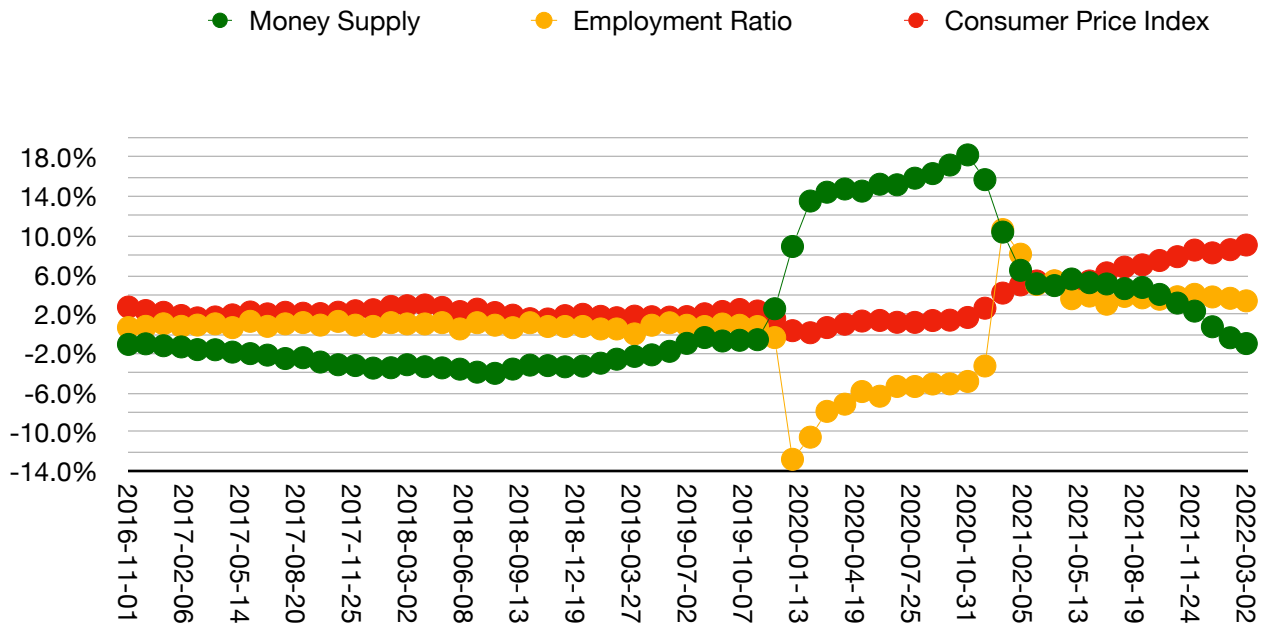
Some ideas on things the Federal government should do: National Defense, international diplomacy, border control, interstate highway, Federal rule of law, post office, national archives, national parks, interstate banking, patent, us mint, weather service, air traffic control, bureau of statistics. What things do you think the government should be doing? How do we curtail this bloated monster we have created?

Economic Dashboard

The Yield Curve went negative again on July 6th. A negative yield curve is an indicator that we could be headed into a recession. The GDP report will be out at the end of the month. Who wants to place bets on a negative GDP?

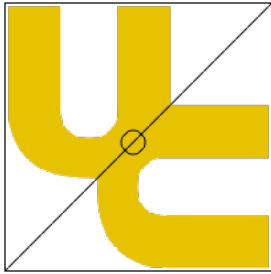


The Money Supply continues to decrease and inflation continues to increase. The recession continues to set in with a small drop in the employment ratio.

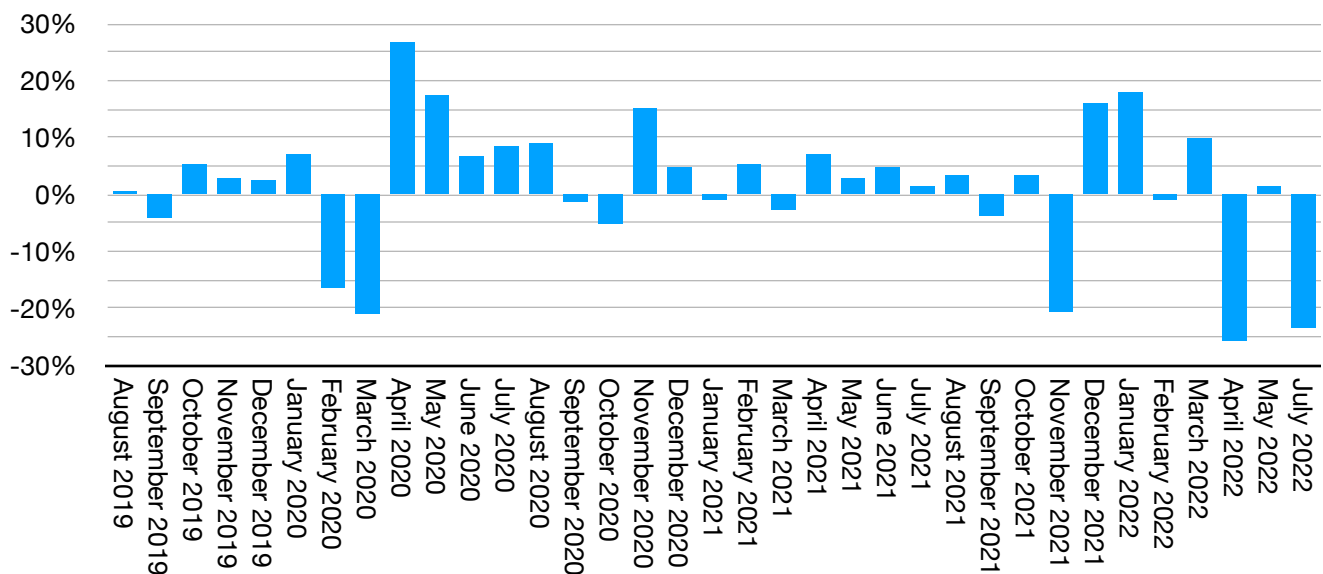


What additional statistics are needed to keep our finger on the pulse? We look forward to your inputs

Historic Returns



In June 2022 TQQQ dropped from \$33.53 to \$23.98; a 28.5% loss. Since we are invested in TQQQ exclusively, our returns were negative as expected, with an 23.3% loss. Our losses were less than the market due to our buy the dip, sell the rally process. As always, any time there is a drop in the market, it is time to contribute to your investment and reduce your average stock purchase price.



Imparts

Underground Capitalist is very interested in your questions on our process and suggestions for Upcoming Thoughts, Additional Statistics and Reoccurring Sections we should include. Please contact us at ...

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