The Origin of American Farm Subsidies

BY BURTON FOLSOM, JR.

In the United States how did we go from having no role for the federal government in farming to having government intertwined in all aspects of farming from planting to harvesting to selling crops?

The Constitution is clear on the subject. Article 1, Section 8, provides no role for the federal government in regulating American farmers. And that is the way it was (with rare exceptions) until about 1930.

American farmers dominated world markets under the free-enterprise system. They were ever creative in figuring out how to gain larger yields of crops through mechanization or through improving crop strains, such as hybrid corn. Americans have been the best-fed people in the world.

Even during times of economic hardship, the federal government largely stayed out of the farm business. For example, during the mid-1890s, when we had a recession and 18 percent unemployment, the secretary of agriculture, J. Sterling Morton, focused on cutting budgets, not pushing subsidies. He chopped almost 20 percent off his department's budget, which allowed taxpayers to keep and spend more of their cash, rather than sending it to Washington. Morton fired unproductive bureaucrats, starting with a man who held the job of federal rainmaker. He also slashed the travel budgets as well.

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Furthermore, when beet-sugar producers came to Washington eager for some kind of special help, Morton said, "Those who raise corn should not be taxed to encourage those who desire to raise beets. The power to tax was never vested in a Government for the purpose of building up one class at the expense of other classes."

That philosophy, written in the Constitution by men who were themselves mainly planters and farmers, governed American farming for about 140 years. Even after World War I, when many farmers had to readjust from the high prices commanded during the war, Americans were still determined not to tax one economic group to support another.

One proposal during the 1920s, the McNary-Haugen bill, would have fixed prices of some crops by a complicated bureaucratic system and passed the costs on to American consumers. When Congress, under pressure from some farmers, passed the bill, Coolidge vetoed it.

In his veto message, Coolidge echoed major themes of limited government. "I do not believe," Coolidge said, "that upon serious consideration the farmers of America would tolerate the precedent of a body of men chosen solely by one industry who, acting in the name of the Government, shall arrange for contracts which determine prices, secure the buying and selling of commodities, the levying of taxes on that industry, and pay losses on foreign dumping of any surplus."

Coolidge then added, "There is no reason why other industries—copper, coal, lumber, textiles, and others—in every occasional difficulty should not receive the same treatment by the Government." He concluded, "Such action would establish bureaucracy on such a scale as to dominate not only the economic life but the moral, social, and political future of our people."

The next two presidents, Hoover and Roosevelt, broke the precedents set by Morton, Coolidge, and 140 years of American history. The Great Depression hit the United States, and both men argued that others must be taxed so that some farmers could be subsidized.

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Hoover's program was the Farm Board, which fixed price floors for wheat and cotton only. If market prices went below 80 cents a bushel for wheat and 20 cents a pound for cotton, the federal government would step in to buy the crop, pay to store it, and hope to resell it later for a decent price.

The Farm Board had disastrous unintended consequences for almost everyone. For example, many farmers who typically grew other crops shifted to wheat or cotton because they were protected and now provided a secure income. The resulting overproduction forced down the prices of both crops below the price floors, so the government had to buy over 250 million bushels of wheat and 10 million bales of cotton. The costs of buying and storing these crops quickly used up the program's allotted $500 million. After about two years of buying surpluses, the government finally just gave them away or sold them on the world market at huge losses.

When Roosevelt became president, he also intervened in the farm business, but in a different way. He supported the Agricultural Adjustment Act (AAA), which dealt with the problem of oversupply by paying farmers not to produce. As for farm prices, they would be pegged to the purchasing power of farm prices in 1910; millers and processors would pay for much of the cost of the program, which of course meant an increase for consumers in the price of everything from bread to shirts.

Two concepts in the AAA are fascinating. First is the idea that because farmers overproduce some crops the government ought to pay them not to grow on part of their land. Second is the idea of "parity," that farmers ought to be protected from falling prices by fixing them so that they were comparable to the purchasing power of their crop in the excellent years 1909–14.

Let's tackle both of these concepts one at a time. First, Supreme Court Justice Owen Roberts voted with most of the rest of the Court to strike down the AAA as unconstitutional. In doing so, he posed the following analogy:

> Assume that too many shoes are being manufactured throughout the nation; that the market is saturated, the price depressed, the factories running half-time, the employees suffering. Upon the principle of the statute in question Congress might authorize the Secretary of Commerce to enter into contracts with shoe manufacturers providing that each shall reduce his output and that the United States will pay him a fixed sum proportioned to such reduction, the money to make the payments to be raised by a tax on all retail shoe dealers or their customers.

His conclusion echoed that of Coolidge's almost ten years earlier: "A possible result of sustaining the claimed federal power would be that every business group which thought itself under-privileged might demand that a tax be laid on its vendors or vendees, the proceeds to be appropriated to the redress of its deficiency of income."

Parity for Everyone?

In a similar vein, economist Henry Hazlitt challenged the concept of parity by noting that if we gave parity to farmers, why not to other groups? General Motors, for example, was in a deep slump during the Great Depression. Why not a parity price for cars? "A Chevrolet six-cylinder touring car cost $2,150 in 1912," Hazlitt observed, "an incomparably improved six-cylinder Chevrolet sedan cost $907 in 1942; adjusted for 'parity' on the same basis as farm products, however, it would have cost $3,270 in 1942."

Despite temporary resistance from the Supreme Court and American consumers, the farming industry, even after the Great Depression had long vanished, was and is dominated by the ideas of payments to reduce crops and fixing prices at higher-than-market levels. American politicians, under pressure during hard times, sacrificed the Constitution and economic sense for votes at the ballot box.

Once some farmers had their subsidies, they were viewed as entitlements and were hard to take away, even when the farm crisis was over. Perhaps the new Justice Roberts will mark a return to the earlier Justice Roberts, and the Supreme Court will limit the government to its historical role as an enforcer of contracts and a protector of private property.