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FDR's AAA — The First Government Lockdown

"Curiously enough," wrote John T. Flynn in his 1948 classic *The Roosevelt Myth*, "while [Franklin Roosevelt's Secretary of Agriculture Henry] Wallace was paying out hundreds of millions to kill millions of hogs, burn oats, plow under cotton, the Department of Agriculture issued a bulletin telling the nation that the great problem of our time was *our failure to produce enough food to provide the people with a mere subsistence diet*." (Emphasis added.)

Today, Americans have endured a government-imposed lockdown of the U.S. economy, which has, in a matter of weeks, transformed a booming economy — with the lowest unemployment rate in half a century — into one with about 35 million Americans unemployed and talk of potential shortages of food. But our present situation is not the first time in our nation's history that the government has been the instigator of intentional deprivation of its citizens.

As Flynn described it, there was a time in our nation's history when it was official government policy to destroy both crops and livestock, at a time when many Americans faced serious malnutrition, if not outright starvation.

The Roosevelt farm policy during the dark days of the Great Depression was based upon the idea that government should control prices. Ordinarily, governments have resorted to forcing producers to accept less compensation for their work (in order to gain favor with voters), but the New Deal of President Franklin D. Roosevelt rested on the proposition that government should, in effect, force consumers to pay more. Either way, the end result is, as limited government advocate Tom Anderson said in the introduction to Dan P. Van Gorder's book *Ill Fares the Land: The Famine Planned for America*, not good. Rather, as Anderson bluntly put it, "Price control is people control."

In the decade before Roosevelt told the American people that the destruction of crops and livestock would be good for the country — because it was supposedly to help the nation's farmers — President Calvin Coolidge had to veto the McNary-Haugen bill. Written by Senator Charles McNary of Oregon and Representative Gilbert Haugen of Iowa, it was a plan for farmers to sell their surpluses to the federal government, which would then attempt to dump those "surpluses" in foreign markets.

As is so often the case, the origin of the acute farm problems in the otherwise-booming 1920s was generated by government. When the World War broke out in Europe in 1914, the U.S. government encouraged the nation's farmers to increase production for the European market. To do so, many farmers had increased their acreage and invested in machinery. For example, the number of acres used for wheat went from 48 million in 1914 to 75 million in 1919.

Of course, when peace came to Europe, millions of British, French, and German soldiers returned to their farms, resulting in the collapse of American farm exports from $4.1 billion in 1919 to $1.9 billion by 1922.

The McNary-Haugen bill proposed a Federal Farm Board that would purchase commodities at prices more in line with the prosperous years of 1909-1919, so as to prop up farm prices. The purchased commodities would then be sold abroad.

Coolidge Fights Against Government Price Controls

President Coolidge twice vetoed the legislation, arguing that the scheme would only encourage farmers to continue to increase production, which would in turn require more subsidies, and the problem would only be exacerbated. Besides that, Coolidge viewed the proposal as a violation of the Constitution.

Coolidge argued in his veto message that McNary-Haugen would create "a bureaucratic tyranny of unprecedented proportions." Coolidge called the measure "cruelly deceptive," in that "these provisions would disappoint the farmer by naively implying that the law of supply and demand can thus be legislatively distorted in his favor. Economic history is filled with the evidences of the ghastly futility of such attempts. Fiat prices match the folly of fiat money."

He also warned that the bill would make America dependent on the actions of foreign governments. "To stake the future prosperity of American agriculture upon the course of action to be taken by foreign governments acting under such hostile impulses is altogether too hazardous."

Despite Coolidge's clear-headed analysis of the problems associated with government placing a "floor" under farm prices, the Roosevelt administration adopted the economically unsound plan found in McNary-Haugen, and added its own negative provisions in its New Deal legislation, the Agricultural Adjustment Act of 1933.

In between the Coolidge and Roosevelt presidencies was the presidency of Herbert Hoover. Hoover based his policies to deal with the Great Depression on the theory that high prices and high wages produce prosperity. For agriculture, he offered government subsidies to deal with falling farm prices, which only caused farmers to produce even more, resulting in an even more precipitous decline in prices.

Instead of learning from the failures of Hoover, Roosevelt basically became Hoover on steroids. As Rexford Tugwell, a top FDR advisor, admitted later, "Practically the whole New Deal was extrapolated from programs Hoover started." Roosevelt adopted the same theory that "underconsumption" and "overproduction" had caused the Great Depression. This dubious theory — that if wages could be increased, prosperity would return — was the guiding ideology of the New Deal, necessitating government intervention into the American economy on a scale never seen before.

This was the philosophy that led to the creation of the American Agricultural Administration (AAA). Since it was believed that American farmers were overproducing, the government would pay farmers to cut back on production. This would, in turn, lead to a rise in farm prices. As a result of this policy, six million pigs were slaughtered, milk was poured onto the ground, and 10 million acres of cotton were plowed under — while millions of Americans were going hungry and suffering a shortage of proper clothing.

The idea was to raise prices to be in line with a time when farm prices were relatively high, 1909-1914. Under what was called "parity," if the price of a farm product was a dollar then, and the cost of living had doubled, then the price should now be two dollars. Writing in *Economics in One Lesson*, Henry Hazlitt challenged this fallacious thinking. "A Chevrolet six-cylinder touring car cost $2,150 in 1912; 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 $3,720 in 1942."

Actually, the way to increased prosperity is not through higher prices, but lower prices. Producers take in more money when they have more customers purchasing products at a lower price, rather than having fewer customers paying a higher price. For example, Henry Ford made more money selling lower-priced Model T's than his competitors did selling higher-priced automobiles, because he sold more of them.

In short, the free market is best for both consumers and producers.

The New Deal Rejects the Free Market

Unfortunately, Roosevelt rejected a free-market solution for both industry and agriculture. As Flynn wrote in *The Roosevelt Myth*, his plan was "to take the whole industrial and agricultural life of the country under the wing of the government, organize it into vast farm and industrial cartels, as they were called in Germany, corporatives as they were called in Italy, and operate business and the farms under plans made and carried out under the supervision of the government."

In fact, as Burton Folsom, Jr. wrote in *New Deal or Raw Deal? How FDR's Economic Legacy Has Damaged America*, Roosevelt even envisioned an "international cartel in different commodities," which FDR himself would organize in order to solve the problems of the world.

Van Gorder makes the case in his *Ill Fared the Land* that this globalist mind-set (or as it was then called, internationalist mind-set) of Roosevelt was a large part of the problem involved in the New Deal's policies concerning agriculture. "American farmers were, by a stroke of evil genius, paid to permit their products to be removed from the market, while these products were being replaced by foreign imports."

Van Gorder supported his argument with hard statistics, noting that between 1919 and 1938 the United States exported 530 million tons of fresh vegetables while importing 2,205 million tons. During the same years, the United States exported 10,139,000 tons of fresh fruits while importing 24,917,000 tons. And when six million little pigs were killed from 1928 to 1938 "to drive up prices for pork," the United States imported 665 million pounds of beef, veal, pork, mutton, and lamb *more* than was exported.

In 1900, America produced 184 pounds of meat per capita, but by 1939, this had decreased to only 141 pounds per capita. "Despite the fact that the number of hogs on our farms has been steadily declining from an all-time peak of 970 to 1,000 of total population in 1872 to only 475 in 1932," Van Gorder wrote, "Secretary Wallace buckled on his official armor in 1933 and set his face resolutely to do battle against the porcine host which threatened our nation." When it was over, over six million pigs had been killed, not for food, but either for "fertilizer or inedible grease."

Amazingly, while American farmers were being paid not to produce crops and livestock, the United States was importing some of those same goods! "The truth [was that]," Van Gorder wrote, "instead of so-called declining exports contributing to economy-crushing 'burdensome surpluses' of food, our increasing population took up the slack and actually decreased, the domestic supply."

This madness leads one to question if the Roosevelt administration was simply incompetent. George Peek, who was Roosevelt's first AAA administrator, offered some perspective in his book *Why Quit Our*

Own? He wrote, "The major policies of agriculture and foreign trade are in charge of men who have never earned their livings in industry, commerce, finance or farming. Presenting facts to them is a sheer waste of time. They are long on theories but short on simple arithmetic."

And what were their theories? "They deeply admire everything Russian.… To them Russia was the promised land and the sooner the United States became like Russia the better for everyone."

Photo: AP Images

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Breaking the Individualistic Spirit of U.S. Farmers

Standing in the way of this transformation of the United States was the American farmer. "The AAA became a means of buying the farmer's birthright as a preliminary to breaking down the whole individualistic system of the country," Peek wrote. He added, "They are talking social revolution and they have the idea that it is the mission of the Roosevelt Administration to turn us into some kind of socialistic state. They think the place to start is with the farmers because it is the farmers who in other countries have formed the chief obstacle to socialism."

Because of this, while most Americans who read about the madness of killing pigs, plowing under cotton, and the like in the 1930s presume it was just a temporary solution for the desperate time of the Great Depression, Roosevelt and his army of planners actually saw AAA as part of a permanent change to the country. Folsom wrote that Roosevelt endorsed the AAA "not just as an emergency program but as the basis for full-time government control of farming. He wanted parity, and payments not to produce, to be a permanent part of American farm policy."

In October 1935, Roosevelt announced, "But it was never the idea of the men who framed the [Agricultural Adjustment] Act, or those in Congress who revised it, or of Henry Wallace or [AAA director] Chester Davis that the Agricultural Adjustment Administration should be either a mere emergency operation or a static agency. It was their intention — as it is mine — to pass from the purely emergency phases necessitated by a grave national crisis to a long-time, more permanent plan for American agriculture."

Of course, the ideology under which the AAA operated was economically unsound. Raising the price of one product meant that those in another line of work saw their real wages (what they would actually buy) reduced. And this would lead those thus adversely affected to demand their own "adjustment." The AAA and other New Deal cartelization schemes, such as the National Industrial Recovery Act, gave more power to the men who ran the programs, and correspondingly took away freedom from those, such as the farmers, who were controlled by the policies of those programs.

It made the federal government bureaucrats the divider of national income, and neither the farmer nor the consumer of his produce was then truly free.

While many farmers meekly gave up their independence and liberty and accepted the subsidy from the government, many others did not give up easily, and they sued in federal court. On January 6, 1936, by a 6-3 vote in the case *United States v. Butler*, the U.S. Supreme Court declared the AAA unconstitutional, on the grounds that its tax on agricultural processors (such as cotton gin operators) was constitutionally indefensible.

Justice Owen Roberts said the act "invades the reserved rights of the states. It is a statutory plan to regulate and control agricultural production, a matter beyond the powers delegated to the federal government. The tax, the appropriation of funds raised, and the direction for their disbursement, are but parts of the plan. They are but means to an unconstitutional end" and could lead to the "regulation of all industry."

Unfortunately, Roosevelt did not accept defeat easily. In 1937, the year after triumphantly winning reelection, carrying 46 of 48 states, he failed to get an overwhelmingly Democratic Congress to pass his plan to pack the Supreme Court with six new members, but he ultimately won when justices either retired or died. Soon enough, the AAA rose from the dead in 1938, with new legislation including the Agricultural Adjustment Act of 1938. Very little was changed from the original act, except that the Supreme Court was now more compliant to the goals of the New Deal. (Despite its supposed dedication to the importance of "precedent," the Supreme Court has no real problem reversing itself when it suits the purposes of the majority of the judges.) The new act included acreage and production controls, benefit payments to farmers, and price supports, thus creating the foundation for a subsidy-dependent class of farmers.

Most farmers accepted their loss of independence, but not all.

Supreme Court Rules Production Is Commerce

One of those who did not meekly capitulate was Ohio wheat farmer Roscoe Curtiss Filburn, the great-grandson of a German immigrant, Johann Peter Fillbrunn, who had made his way to America in 1818. "I never worked for another man in my life," Filburn had once proudly declared, exhibiting the individualistic spirit that Peek said needed to be crushed before America could be duly changed into the socialist state envisioned by the New Dealers.

But under the AAA, Filburn was told by the U.S. government how many acres of wheat he could plant on his own land. If he grew too much, he would be fined. Furthermore, if he used the excess to feed himself, his family, and his animals, he would likewise be breaking "the law." This was justified by the supposed "overproduction" engaged in by U.S. farmers, but at the same time the United States was killing little pigs we were increasing our imports of lard, Flynn noted in *The Roosevelt Myth*. He added that while the country was importing 30 million bushels of corn, we were "cutting corn production."

How did the federal government find such authority in the Constitution? They claimed that their power derived from the "commerce clause," that part of the Constitution that delegates to the U.S. government the power to regulate foreign trade, interstate trade, and trade with the Indian tribes. But nothing is said in the Constitution about regulating trade — exchange of goods — within a state, or for that matter, production of goods that are not brought to market at all.

That would change with the lawsuit filed by Filburn and several other farmers.

In 1940, Secretary of Agriculture Claude Wickard imposed an acreage quota on all wheat farmers such as Filburn. According to Wickard's decree, wheat farmers were to plant no more than 11.1 acres of wheat at a yield of 20.1 bushels per acre. If they did not follow this dictate, they would be subject to a fine of 15 cents per bushel for the excess wheat, *including wheat "dispose[d] of by feeding to poultry and livestock as well as by selling."* (Emphasis added.)

Filburn ignored that last provision, and planted more than double his allotment of 239 bushels of wheat, storing the excess for use on his farm.

The fine would have been $35.85, but in a May 1941 radio address to farmers, Wickard proposed a new marketing quota. The amendment to AAA increased the penalty for non-compliance from 15 cents per bushel to 49 cents per bushel. It was required that a farmer would have to get government permission to sell his crop, until he had paid his penalty.

The lawsuit that resulted was *Filburn v. Helke* (Helke being the AAA Montgomery County, Ohio, county chairman). A three-judge panel in the federal court for southern Ohio ruled for Filburn and his fellow wheat farmers. Filburn had argued that he was using his own wheat to feed his family and his livestock, and because he was not selling it, the wheat could not be considered part of interstate commerce. The panel chose not to address the commerce question, instead ruling that subjecting his crop to a lien was "taking of the plaintiff's property without due process." The district court held that Wickard's radio address to the farmers had omitted important facts about the program, so when the nation's wheat farmers voted in a referendum to follow it, Filburn and his fellow farmers could not have known what they were agreeing to, even if Filburn had been willing to go along with it — which he was not.

But when the case made its way to the Supreme Court, the justices did use the commerce clause in their decision. Filburn argued that the government's expansive reading of the commerce clause "would not only effectually approach a centralized government, but could eventually lead to absolutism by successive nullification of all constitutional limitations."

The Supreme Court said that "whether the subject of the regulation in question was 'production,' 'consumption,' or 'marketing,' is therefore, not material for purposes of deciding the question of federal power before us. But even if appellee's activity be local, and though it may not be regarded as commerce, it may still, whatever its nature, be reached by Congress if it exerts a substantial economic effect on interstate commerce, and this irrespective of whether such effect is what might at some earlier time have been defined as 'direct,' or 'indirect.'"

In other words, the fact that Filburn produced the wheat and used it himself, meant that had he not produced it, he would have had to buy it in the marketplace! "If we assume," the court reasoned, "that it is never marketed, it supplies a need of the man who grew it which would otherwise be reflected by purchases in the open market. Home grown wheat in this sense competes with wheat in commerce."

The *New York Times* commented, "The net effect of the ruling, in short, seems to be that Congress can regulate every form of economic activity if it so decides."

Filburn paid his fine and kept on farming. In 1966, Filburn eventually gave up the fight and sold his farm for the development of housing and a shopping mall.

This ruling emboldened Congress to force every American to purchase a product — health insurance — in the Affordable Care Act during the Obama administration. When the Supreme Court failed to strike down that law as unconstitutional, in the case of *National Federation of Independent Business v. Sebelius*, the silver lining was that Chief Justice John Roberts specifically rejected the use of the commerce clause to justify the action of Congress, saying, "The Commerce Clause is not a general license to regulate an individual from cradle to grave, simply because he will predictably engage in particular transactions."

The New Deal-era regulation of private business did not end with the death of President Roosevelt on April 12, 1945. Robert Higgs, in his article in *The Independent Review* ("Regime Uncertainty: Why the Great Depression Lasted So Long and Why Prosperity Resumed After the War"), makes the powerful case that although his passing did lead to a revival of the normal economy, citing statistics proving an almost overnight jump in investor and business confidence, the legacy of Roosevelt's New Deal is still with us today.

This is certainly true of agriculture, but also other elements of the national economy. Americans today seldom question the idea that government, whether at the state or federal level — or even the city government, in some cases — can dictate the hours, wages, prices, and practices of a privately held business. In Roosevelt's day, it was fear due to economic uncertainty that led Americans to compliantly accept government dictates. Since then our liberties have been restricted due to fear of terrorism, and now, even a virus has been used to justify shuttering businesses — some permanently, as it turns out — and dictating very intimate decisions of individual Americans.

In 1935, Garet Garrett wrote in *Salvos Against the New Deal: Selections from the Saturday Evening Post*, after the Supreme Court struck down the National Recovery Act as unconstitutional, "The mayor of New York City said, 'You cannot leave the destinies of the American people in the hands of a tribunal [the Supreme Court], no matter how well meaning they may be.' In what hands they should be left, he did not say. But the tribunal to which he was referring [the Supreme Court] … said the destinies of the American people should be left in the hands of the American people, and it said this because it is so written in the Constitution."

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