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How the Feds Took Over Farming

by James Bovard

I appreciate all the feedback from readers from last month's article, "Harebrained Pot and Wheat Decisions." That piece showed how the Supreme Court this year justified banning medical marijuana on the basis of a 1942 Supreme Court decision involving wheat subsidies. This essay will seek to answer some of readers' questions about how the feds came to take over American agriculture.

The history of agricultural policy is a history of endless political finagling, of bureaucracies that always lagged behind the pace of events, of policymakers' appalling misperceptions that repeatedly destroyed farmers' independence, of politicians who refused to admit their limitations, and of farmers who refused to admit their responsibility. Government farm programs have been impervious both to failure and to change.

The years before World War I were the most prosperous for American farmers up to that time. After the start of World War I, grain prices rose, because much of Europe's best cropland was covered by armies instead of seeds and fertilizer. For the 1915–16 crop year, wheat averaged 98 cents a bushel, which was then considered a good price.

When the United States entered the war, the government guaranteed farmers at least $2 a bushel for their wheat to encourage increased production. President Wilson declared, "Food will win the war" and farmers planted another 40 million acres. Liberal export credits to Allied nations drove wheat prices far above the government-guaranteed level.

By the end of the war, America's farmers were more prosperous than city residents. Many farmers were exempted from the draft and profited greatly from the high wartime prices. Farm income exceeded nonfarm income by 50 percent in both 1918 and 1919. By 1920, almost 60 percent of the farmers in Minnesota, Montana, Kansas, Missouri, Illinois, and Iowa had automobiles and almost 70 percent had telephones. At the same time, nationwide, less than half of all American families owned cars. Federal agricultural subsidies were capitalized in farmland values — leading to an unprecedented rise in farm values.

A few months after the Armistice in November 1918, prices for hogs, corn, and other farm products naturally began to edge downward with the expectation of a fall in demand. The United States, Argentina, and Australia all had huge wheat surpluses available to send to Europe after the end of hostilities. While the U.S. government continued to guarantee American farmers more than $2 a bushel for their wheat, the Australian government was guaranteeing its farmers only 98 cents a bushel and Argentina was selling its wheat to the Dutch for $1.26 a bushel. Treasury Secretary Carter Glass favored ending export credits, but Herbert Hoover and the U.S. Food Administration considered the existing huge U.S. wheat surplus a grave threat to the stability of domestic farm prices and concluded that wheat had to be exported at any cost. Officials in the Wilson administration believed that farmers were morally entitled to high prices for their harvest.

In May 1920, the War Finance Corporation stopped making export loans “on the ground that our agricultural export business was holding up well enough.” At the same time, the U.S. Grain Corporation stopped buying wheat. Politicians fretted that farmers were still not producing enough food. In June 1920, the Democratic presidential nominee, James W. Cox, urged in his acceptance speech that “we increase to our utmost the area of tillable land.” Herbert Hoover, the chief of the Food Relief Administration and a dominant influence on farm policy, warned, “Our agricultural production is decreasing, and unless we can stem this tide of decrease we shall soon be dependent on overseas supplies.” Politicians were convinced that American agricultural exports had been permanently increased.

Both politicians and farmers were surprised when wheat prices rapidly plummeted more than 50 percent after the end of government intervention. Granaries in Europe were already bulging with American grain. The high wheat price obtained through mid 1920 was due largely to subsidized export credit and the government price guarantee. Thanks to foolish government signals, farmers continued overproducing wheat long after the wheat market was glutted. Farmers plowed up an extra 20 million acres after the end of World War I; huge surpluses accumulated and depressed prices throughout the early 1920s. As historian James Shideler, author of *Farm Crisis 1919–1923,* notes,

> Speculative frenzy in land prices was one of the most notable features of the postwar years in agriculture, and a source of great future trouble for farmers.

Farm prices and federal policy

The U.S. economy suffered a sharp depression in 1920, and then quickly recovered. The takeover of agriculture by the federal government in the 1930s was based on the belief that agriculture had been permanently depressed after World War I. Yet the agricultural depression of the 1920s was largely a statistical illusion. One organization did more than any other to promote the idea that agriculture was permanently in need of federal aid: the U.S. Department of

Agriculture (USDA). This was one of the greatest bureaucratic coups in history — defining the problem in such a way that the only solution was a massive expansion of government power. Farmers have complained for eons about low prices; English poet George Crabbe wrote in 1807, "Our farmers round, well pleased with constant gain, / Like other farmers, flourish and complain." But the USDA resolved to fundamentally change the nature of agriculture in order to guarantee farmers perpetually high prices.

There were many farm bankruptcies in the 1920s, but they were largely due to the government-induced speculative land binge of 1919–1920 that left many farmers with large mortgages. At its peak in 1927, the rate of bankruptcies among farmers was still lower than the rate for all American businesses. According to a 1935 USDA report, while farm income had averaged $4.6 billion a year during the farmers' golden era of 1909–1914, it averaged $7 billion a year from 1923 to 1929. Average farmland values stayed above pre–World War I levels throughout the 1920s, and crop prices were generally higher than they had been before the war. In 1933, economist G.M. Peterson concluded that

> the economic position of the farmer compared very favorably with the average for over 95 percent of the entire population ... during [the 1920s] when the agriculture industry is supposed to have been in a state of continued depression while other classes enjoyed prosperity.

So why were people convinced that farmers were miserable? Largely because of the invention of "parity." The USDA's Bureau of Agricultural Economics concocted a formula for comparing farm and nonfarm family income — and the formula "proved" that the U.S. economy was inherently unfair to farmers.

The official parity calculation (still used by federal farm-policy-makers) is based on the current ratio of farm prices to nonfarm prices compared with the ratio of farm and nonfarm prices between 1910 and 1914. The USDA picked out the most prosperous years for farmers in American history, and then proceeded to implicitly condemn America in almost all subsequent years because farm prices were apparently not as high as they had been during farmers' "golden age."

Economist H. Thomas Johnson noted in 1961, "Most of the statistical measures of the agricultural 'depression' ... were generated at the USDA." The parity formula was designed to significantly understate farm income. Even though more than 25 percent of farmers had jobs off their farms, parity did not count their off-farm income.

In fact, the more money farmers earned off the farm, the poorer they would appear to be. If off-farm income had been included, then farmers would probably have achieved parity. The formula also exaggerated farmers' business costs by counting half the cost of passenger automobiles as a farm expense. And the poorer farmers appeared to be, the more power the USDA could demand to aid farmers.

The concept of parity presumed that there had been no change in the cost of production for major crops; yet farming underwent a mechanical revolution in the 1920s. Farmers bought almost a million tractors in the 1920s, resulting in a revolution in productivity and a sharp decrease in production costs. In Kansas, mechanization in the 1920s reduced by 50 percent the number of man-hours required to raise an acre of wheat. A farmer with a tractor could plow up to eight times as many acres as a man with a two-horse team.

The incompetence of high-ranking USDA officials in the 1920s is almost impossible to overestimate. H.C. Taylor, chief of the USDA's Bureau of Agriculture Economics, urged farmers not to purchase expensive new machinery such as tractors, convinced that the additional expense would not be justified by higher productivity. (Henry Wallace, Franklin Roosevelt's secretary of agriculture, later denigrated labor-saving devices.) Historian Vernon Carstensen observed in 1960,

> It almost seems that many [agricultural economists] were reluctant to acknowledge [in the 1920s] that the tractor had been invented and there seems to have been a tendency among some to regard it merely as a different kind of horse — one that used kerosene instead of oats.

Farmers responded to the post–World War I crop price collapse by lobbying for government guarantees of perpetual high crop prices. Calvin Coolidge vetoed two bills to establish federal controls over agricultural commodities. He declared, "Government price-fixing once started, has alike no justice and no end. It is an economic folly from which this country has every right to be spared."

However, the next president, Herbert Hoover, did not possess Coolidge's sense of justice or his awareness of the folly of government controls: he made himself czar of American agriculture. As a result, the government drove farmers into the ditch even before Franklin Roosevelt was sworn into office.

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