THE FUTURE OF FREEDOM FOUNDATION

11350 Random Hills Road, Suite 800, Fairfax, Virginia 22030   Phone (703) 934-6101   Fax (703) 352-3678

fff@fff.org   www.fff.org

Hoover's Second Wrecking of American Agriculture

by James Bovard

My last *Freedom Daily* article traced how the federal government wrecked the agricultural sector after World War I and how the Agriculture Department became a permanent lobby for "socialism in one industry." But President Calvin Coolidge steadfastly resisted the push to have the feds take over crop pricing. Unfortunately, his successor did not have Coolidge's common sense or political decency.

Herbert Hoover, nominated by the Republican Party to replace Coolidge in the 1928 presidential race, strongly supported federal farm intervention. In his speech accepting the presidential nomination in 1928, Hoover promised to create a farm board to "establish for our farmers an income equal to those of other occupations." He signed legislation to create the Federal Farm Board and, on July 15, 1929, he told the new board, "I invest you with responsibilities and resources such as have never before been conferred by our government in assistance to any industry." The Farm Board's $500 million budget was larger than any ever authorized for a nondefense expenditure.

Immediately after its creation, the Farm Board decided to boost the income of American farmers by cornering the world grain market and driving up prices. In August 1929, the Farm Board pressured the federal credit banks to liberalize their loans to agricultural cooperatives to help them make more generous loans to farmers, so that farmers could hold their crops off the market.

In November 1929, the chairman of the Farm Board declared, "Anyone selling wheat or cotton at the present market price is foolish." Prices subsequently plunged. By December 1929, Farm Board officials were preaching to farmers to reduce production and abandon exports so that the government could drive their prices up for them.

The Farm Board set up the Grain Stabilization Corporation, which began desperately buying up wheat. The board managed to boost U.S. prices to 18 cents a bushel above world wheat prices, which led to the collapse of U.S. wheat exports. The Farm Board was certain that a world shortage of wheat was imminent and that importing nations would soon come begging to

America. Instead, Canadian and Argentinean farmers reaped windfall profits because of the Farm Board's action. Its massive cache of wheat further depressed world prices, since every grain dealer in the world knew that the United States would eventually dump its surplus on the market. As Bernard Ostrolenk, the author of *The Surplus Farmer* (1932), observed,

> It was this large carry-over then which created the wheat emergency.... The Farm Board had advised the farmer to gamble with his crop instead of urging him to market it, and these repeated statements of the Board had led farmers to believe that by withholding their wheat and cotton they could get higher prices.... During 1930 it was the known surplus of agricultural commodities in the U.S. which forced farmers to face the most drastic price cuts in a decade.

The Farm Board also wrecked the market for cotton, America's largest cash export. Harvey Parnell, governor of Arkansas, complained in 1932 that the Farm Board had "done more to destroy the cotton market" than any other factor except high tariffs.

In 1930, as in 1960, 1970, and 1998, the federal government's agricultural policy made a mockery of the policymakers' rhetoric. The Farm Board intervened to drive cotton prices up and then begged farmers to plant smaller crops. But farmers paid more attention to prices than they did to bureaucrats, so harvests grew instead of shrinking.

In August 1931, the Farm Board urged Southern farmers to destroy every third row of cotton; Southern politicians suggested that farmers instead destroy every third member of the Farm Board.

J.W. Garrow of the American Cotton Shippers Association told the Senate Agriculture Committee in 1931,

> By spreading overconfidence among growers that government would maintain cotton prices at a high level, the Farm Board has made a major contribution to the present large surplus.

Thanks to the Farm Board, 1931 was the first year since the Civil War that "consumption of foreign-grown cotton throughout the world exceeded that of American cotton."

In 1930, the *New York Times,* surveying the wreckage of agricultural markets after the federal intervention to drive up wheat prices, concluded, "It is perhaps fortunate for the country that its fingers were so badly burned at the very first trial of the scheme." Congressman James Beck, author of the 1932 bestseller *Our Wonderland of Bureaucracy,* concluded,

> The Farm Board is clearly the most costly and inexcusable legislative folly in our history.

In a harebrained effort to enrich farmers, the Farm Board destabilized the grain trade, substantially reduced U.S. exports, and created a massive price-depressing surplus, greatly weakening American agriculture. Argentinean, Canadian, and Australian farmers weathered the Great Depression far better than American farmers did largely because their governments did not abandon export markets. Canadian and Australian exports actually increased in the 1930s. The prices of American wheat and cotton declined far more than those of other domestic crops between 1929 and 1932.

Lionel Robbins, a British economist, observed in 1934,

> The grandiose buying organizations by which Hoover tried to maintain agricultural prices had the effect of demoralizing markets altogether, by the accumulation of stocks and the creation of uncertainty.

Geta Feketekuty, an economist at the U.S. trade representative's office in the White House, observed in 1988, "The world protectionist binge of the 1930s started as a result of efforts to protect American farmers from low world market prices." After the federal government had driven U.S. crop prices far above world prices, politicians had no choice but to close U.S. borders or abandon their price-boosting scheme. The Farm Board debacle convinced many farmers that foreign trade was the only thing standing between them and far higher prices. The farm bloc put its weight behind an extreme protectionist measure, the Smoot-Hawley Tariff Act, that boosted tariffs on agricultural products far more than it boosted tariffs on industrial products.

Federal policies and the Great Depression

The Smoot-Hawley Act turned a bad recession into a worldwide depression. In the year after Smoot-Hawley was enacted, U.S. foreign trade decreased more than 50 percent. Jude Wanniski noted,

> Smoot-Hawley had a major impact on spurring the stock market crash and led to a worldwide trade war that devastated both America and Europe.

Once the United States stopped purchasing European goods, Germany and other European powers were forced to default on their debts to the United States. This helped cause a wave of bank failures and panic across the country.

Farmers suffered during the Great Depression because of other federal policies as well. The Federal Reserve Bank reduced the money supply by one-third between 1929 and 1932, thereby causing a huge drop in price levels. Farmers with mortgages were hurt badly by the deflation, since the price of their crops fell sharply while their mortgage payments became much higher in real dollars. The deflation-caused mortgage crunch was a major cause of desperation in the farm belt.

The single most devastating expense for farmers in the early 1930s was higher taxes. In 1933 an article in the *Journal of Farm Economics* noted,

> The taxes paid by farmers as an entire group have, within the past few years, exceeded the interest paid on farm mortgages. The farmer of today performs ... two days [of work] per week for the state for a privilege of working the land.

Farmers were taxed heavily because most local and state governments relied on property taxes for most of their income, and because “farm land was still listed on the tax rolls at figures approaching the extravagant prices of the immediate post-war years.” As crop prices declined, taxes as a percentage of income skyrocketed. An estimated 25 percent of the farms that went bankrupt between 1931 and 1933 were sold for failure to pay taxes. E.C. Young, an economist at Purdue University, declared in 1935 that “the depression would not likely have developed into an agricultural crisis had it not been for the tax and mortgage load.”

Though much of the farm crisis of the early 1930s was the result of high taxes and government mismanagement of the currency, many agricultural economists and politicians insisted that the problem was in the inherent nature of the business and could be solved only by a government takeover of agriculture.

It is ironic that the college professors who made up Roosevelt’s Brain Trust were so ignorant or contemptuous of the failures of federal farm policy before Roosevelt took office in 1933. Instead, these geniuses were convinced that there was no problem that the Iron Fist could not solve.

Many of the architects of federal agricultural policy in the 1930s — a policy that continues to the present day — thought the Soviet economic system was superior to that of the United States. Rexford Tugwell, the assistant secretary of agriculture, praised the Soviet Union for its “operation of industry in the public interest rather than for profits.” Tugwell was accused of learning all he knew about agriculture from a visit to Moscow. The Agricultural Adjustment Administration was a hotbed of radicals and, according to historian Arthur Schlesinger, there was a communist clique in the legal and policy-making branch, where Alger Hiss worked. Schlesinger is careful to point out that “nothing of importance took place in AAA as a result of [the communists’] presence in AAA which liberals would not have done anyway.” It is unclear whether Schlesinger’s remark was intended as a compliment to the liberals or to the communists.

Regardless of the tainted origins of federal farm programs, they have been embraced by generations of Republican and Democratic politicians. But it is difficult to detect what sort of policy differences occurred as a result of Republicans' or Democrats' being in charge, since the socialist core of the policies has been preserved.

James Bovard is the author of ***Attention Deficit Democracy*** *[2006] as well as* ***The Bush Betrayal*** *[2004],* ***Lost Rights*** *[1994] and* ***Terrorism and Tyranny: Trampling Freedom, Justice and Peace to Rid the World of Evil*** *(Palgrave-Macmillan, September 2003) and serves as a policy advisor for The Future of Freedom Foundation.*

This article was originally published in the December 2005 edition of *Freedom Daily*..