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## **CASE ANALYSIS: UNITED STATES V. BUTLER ET.AL.**

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### **ABSTRACT**

The foundation of the expansion of the government's power to intervene in the economy and society was laid down in the doctrine of federal spending power was first enunciated in U.S v.

Butler. The outcome of this case was overtly hostile to the expansion of government's power, since the Supreme Court ruled unconstitutional a tax provision of Agricultural Adjustment Act of 1933 that was designed to encourage limitation of production. However the lasting contribution of the decision emerged from the Supreme Court's conclusion that constitution gives congress a general and broad power to tax and spend in support of the general welfare.

**Keywords:** agricultural adjustment , federalism, general welfare

**PRIMARY DETAILS OF THE CASE**

<b>Name of the case</b>	United States V. Butler Et Al., Receivers Of Hoosac Mills Corp.
<b>Jurisdiction</b>	Supreme Court of United States
<b>Appellants</b>	United states
<b>Respondent</b>	Butler
<b>Bench</b>	Charles E. Hughes, Willis Van Devanter, James C McReynolds, Louis Brandeis, George Sutherland, Pierce Butler, Harlan F. Stone, Owen Roberts, Benjamin N. Cardozo
<b>Citation</b>	<b>297 U.S.1 (1936)</b>
<b>Date of Judgement</b>	<b>06.01.1936</b>

**HISTORICAL BACKGROUND OF THE CASE**

During the Great Depression, agriculture was one of the hardest-hit sectors of the economy. The nation's farmers were overproducing, which caused prices for farm products to drop. In many cases the cost of production was higher than the income from crop sales, leaving farmers in desperate straits. The more the farmers got behind economically, the more they attempted to produce to improve their situation. This strategy further increased production, making matters even worse. At that time agriculture was responsible for a much larger proportion of the nation's economy than it is today, and conditions in the farming sector had dire effects on the general welfare of the entire country.

In response, Franklin Roosevelt proposed and Congress passed the Agricultural Adjustment Act (AAA), a statute that combined the taxing and spending powers to combat the agricultural crisis. The central purpose of the plan was to reduce the amount of acreage being farmed. To

accomplish this goal, the federal government would "rent" a percentage of the nation's farmland and leave this acreage unplanted. In effect, the government would pay the farmers not to farm. If the plan succeeded, production would drop, prices would rise, and the farmers would have a sufficient income. Making payments to the nation's farmers was an expensive proposition, and to fund these expenditures the AAA imposed an excise tax on the processing of agricultural products. The essence of the AAA is that Congress hopes to re-establish prices to farmers at a level that will give agricultural commodities a purchasing power, with respect to articles that farmers buy, equivalent to the purchasing power of agricultural commodities in the base period.

By mid-1935, thanks in part to the AAA, farm income has increased by about 50%. What stood in the way of Roosevelt's decision U.S Constitution and Federalism. Federalism gives supremacy of federal government over certain areas specifically expressed in the constitution, but in all other areas, the power is reserved to the states. This is expressed in 10<sup>th</sup> amendment. Further Article 1, section 8 enumerates certain federal powers including 3<sup>rd</sup> clause. Hence scenario met with the passionate opposition, and the case, *United States v. Butler* come to the Supreme Court.

### **FACTS OF THE CASE**

Hoosac Mills was a failing Massachusetts cotton mill and William Butler was one of its court appointed receiver. The United States submitted an 81,000 dollars claim for taxes under the processing and floor taxes on cotton, levied under §§ 9 and 16 of the Agricultural Adjustment Act. Butler took legal action to avoid payment, claiming that the AAA exceeded the taxing and spending powers granted to the federal government. The receivers asked Federal Court to reject the claim. The Court ordered the Mill's receivers to pay the tax, receivers appealed. The First Circuit court of Appeals reversed the district court's decision holding the power to regulate agriculture within the state borders was solely reserved to the states. The government petitioned for Review and United States Supreme Court granted Certiorari.

### **ISSUES OF THE CASE**

1. Whether congress's power to tax and spend for general welfare was limited to exercising specifically enumerated powers?
2. Whether congress could use it's taxing and spending power to regulate local agriculture

production or instead the 10<sup>th</sup> amendment reserved the power to the state?

### **LAWS / PROVISIONS INVOLVED**

1. Article 1, Sec 8 of U.S Constitution
2. 5<sup>th</sup> and 10<sup>th</sup> Amendment
3. Agricultural Adjustment Act,1933

### **ARGUMENTS ADVANCED BY THE PETITIONER**

Solicitor General Reed appeared on behalf of the petitioners contended that the respondents have no standing to question the validity of the tax. Even if the respondent may question the propriety of appropriation, embodied in the statute, but Art.1 Section 8 of the constitution which enumerates certain federal powers including then third clause which states , “ congress shall have the power to regulate commerce with foreign nations and among several states, and with Indian tribes” authorizes the contemplated expenditure of funds raised by tax. General welfare clause authorize the spending of money for general welfare, that phrase should be construed to cover anything conducive to national welfare. With respect to the validity of the Act, as a tax /revenue statute alone is dependent upon the consideration of Child labour tax case, Hills v. Wallace case etc. Here is a tax which is to be used, in rental and benefit payments, together with other things. But there is nothing in the use for a rental or benefit payment which deprives the person who contracts with the Government of any constitutional right which he had at that time.

### **ARGUMENTS ADVANCED BY THE RESPONDENT**

George Wharton Pepper appeared on behalf of the respondents submitted that ,the processing exaction is not in its nature the exercise of taxing power of U.S, but is wholly regulatory in character, and is a part of nationwide scheme for the federal regulation of agricultural production. Processing tax is merely a cog. This regulatory scheme is an invasion of 10<sup>th</sup> amendment to the states and to the people and that therefore scheme must fall and carry the processing tax fall. It even disregard the policies against the restraint on trade announced by many of the states in formal enactment. The processing and floor stock taxes are levied in violation of 5<sup>th</sup> amendment. The taxes are arbitrary and unreasonable. The Fifth Amendment requires that the law shall not be unreasonable arbitrary or caprice.

## **JUDGEMENT**

On 6<sup>th</sup> January 1936, United States Supreme Court delivered the judgement on the basis on 6:3 ratio. It was Mr. Justice Owen Roberts who delivered on behalf of the majority joined by Mr. Justice Charles Hughes, Willis Van Devanter, James Mc Reynolds, George Sutherland, and Pierce Butler. The taxing and spending power is broad. That is not limited to the enumerated list of issues in Art.1 Sec 8 of U.S Constitution. However, the tax in this case was levied to discourage production of crops beyond the limits set by the Act. This is beyond the powers delegated to the federal government. Court held that congress, through this programme, was using constitutional means that is taxing and spending for an unconstitutional purpose. The act invades the reserved rights of the states. The tax, the appropriation of the funds raised, and the direction for their disbursement, are but parts of the plan. They are but means to an unconstitutional end. Hence, Congress can use its spending power neither to coerce nor to encourage compliance with a regulation that it cannot impose directly. Court affirmed the decision of Court of appeal and the act was struck down as unconstitutional.

## **DISSENTING OPINION**

Dissenting opinion is put forwarded by Mr Justice Harlan F.Stone followed by Mr Justice Brandeis and Mr Justice Cardozo. They opined that Courts are concerned only with the power to enact statutes, not with their wisdom. The Constitutional power of Congress to levy an excise tax on the processing of agricultural products is not questioned. There is no basis for saying that the expenditure of public money in aid of farmers is not within the specifically granted power of Congress to levy taxes to "provide for the . . . General welfare. "This levy is not any less an exercise of taxing power because it is intended to defray an expenditure for the general welfare rather than for some other support of government.

## **FINDINGS OF THE COURT**

1. Processors of farm products have a standing to question the constitutionality of the "processing and floor-stock taxes" sought to be laid upon them by the Agricultural Adjustment Act.
2. Ours is a dual form of government; in every State there are two Governments-the State and the United States; each State has all governmental powers, save such as the people, by

the Constitution, have conferred upon the United States, denied to the States, or reserved to themselves. The Government of the United States is a Government of delegated powers; it has only such powers as are expressly conferred upon it by the Constitution and such as are reasonably to be implied from those expressly granted.

3. In Article I, Section 8, cl. 1 of the Constitution, which provides that Congress shall have power "to lay and collect taxes, duties, imposts and excises, to pay the debts and provide for the common defence and general welfare of the United States," the phrase "to provide for the general welfare" is not an independent provision empowering Congress generally to provide for the general welfare, but is a qualification defining and limiting the power "to lay and collect taxes," etc.

4. The power to tax and spend is a separate and distinct power; its exercise is not confined to the fields committed to Congress by the other enumerated grants of power; but it is limited by the requirement that it shall be exercised to provide for the general welfare of the United States.

5. The Court is not required in this case to ascertain the scope of the phrase "general welfare of the United States," or to determine- whether an appropriation in aid of agriculture falls within it.

6. The plan of the Agricultural Adjustment Act is to increase the prices of certain farm products for the farmer by decreasing the quantities produced; the decrease is to be attained by making payments of money to farmers who, under agreements with the Secretary of Agriculture, reduce their acreage and crops; and the money for this purpose is exacted, as a tax, from those who first process the commodities. Held that

- The Act invades the reserved powers of the States.
- Regulation and control of agricultural production are beyond the powers delegated to the Federal Government.
- The tax, the appropriation of the funds raised, and the direction for their disbursement, are but parts of the plan-the means to an unconstitutional end.
- The power of taxation, which is expressly granted to Congress, may be adopted as a means to carry into operation another power also expressly granted; but not

to effectuate an end which is not within the scope of the Constitution.

- Congress cannot invade state jurisdiction by purchasing the action of individuals any more than by compelling it.
- Owing to the supremacy of the United States, if the contracts with farmers contemplated by the Agricultural Adjustment Act were within the federal power to make, the States could not declare them void or prevent compliance with their terms. Existence of a situation of national concern resulting from similar and widespread local conditions cannot enable Congress to ignore the constitutional limitations upon its own powers and usurp those reserved to the States.
- Congress, being without power to impose the contested exaction, could not lawfully ratify the acts of an executive officer in assessing it.

### **CRITICAL ANALYSIS AND CONCLUSION**

United States v. Butler makes it clear that the Court's function is to preserve personal and state rights from federal encroachment only for so long as they are administered in such way that the objects of personal or state regulation do not become matters of national concern. When a subject, such as crop control, becomes of national importance, it becomes also an object of the congressional spending power. This decision is important as the first authoritative declaration that the federal taxing and spending power is unlimited by the enumerated powers of Congress.

I completely agree with the judgement of majority where the government measure is that by offering financial incentives to farmers to reduce the production, congress sought to regulate agriculture with the state which the constitution didn't authorize. Even though re-enacted by congress under commercial clause and upheld by the Supreme Court, its significance remains as it expressly held that taxing and spending clause is a separate grant of congressional authority not limited to supporting congress's other enumerated powers.