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# The Regulation of Hemp in the United States

Working Paper No. 61

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**Abstract:** This inquiry seeks to establish that in the United States the growing and processing of industrial hemp faced an array of barriers. Its involvement in the effort during World War Two was successful and experienced high praise from the federal government. While hemp provided measurable and grand benefits as a strategic war crop, its importance diminished sharply as the United States transitioned out of the war era. What was once a highly desirable crop became a demonized crop that gradually faded into the background of the American economy. Despite its initial positive portrayal, the utilization of industrial hemp was essentially nonexistent until the turn of the 21st century. As the industrial hemp industry went on a fifty-year hiatus, it became apparent that strict government regulations played a critical role. But with softened government restrictions, industrial hemp has potential to make an entrance back into the market and become a high growth industry producing an array of products for contemporary times.

**JEL Classification Codes:** N5, N12, N52

**Key Words:** Agriculture, Government Regulation, Industrial Hemp, United States, World War Two

With this inquiry I shall seek to establish that in the United States industrial hemp faced an array of barriers. The journey of industrial hemp is one that is rather complicated, as the public's attitude towards this crop and line of possible products fluctuated over the course of the 20<sup>th</sup> century and beyond. While it was once an admired crop during World War Two, the perception of its usage became highly critical as time progressed and as society's opinions changed. By analyzing the hemp industry at its highest and lowest points, this helps to offer an in-depth understanding regarding what triggered these changes in society's attitudes towards hemp. In this inquiry it will be necessary to acknowledge the critical role played by the U.S. Federal Government, because the government was in a position to determine the relevance of industrial hemp at particular moments in time.

Because the hemp industry served as major component for the war effort, then, as expected, we found a full-fledged support from the government. However, with the war's end and the start of the postwar era, hemp's relevance dwindled and did not receive any financial supports during the postwar era. Although the integration of industrial hemp emerged as a staple crop at one point in time, there were plenty of instances where it caused wild controversies. After uncovering and considering the enormous powers wielded by the federal government in relation to the hemp industry, this helps us to understand how industrial hemp slowly disappeared from American life—only to make a return decades later.

## **Hemp during World War Two**

To prepare for any large-scale war it is crucial that the preparatory process is executed in an efficient manner. The text, *American Economic History Eighth Edition*, authored by Jonathan Hughes and Louis P. Cain, reveals the importance of a command economy during wartime. In the view of Hughes and Cain (2011, 448), the procuring resources to support the effort needed to prosecute World War One required mass mobilization, making it highly likely a similar case would be argued for the prosecution of World War Two. The effort for prosecuting this second world war called for an accelerated production processes whereby the command economy temporarily controlled many market functions. One of the crowning achievements that drove the United States to success was the strength of industrial hemp. By learning from experience, the utilization of hemp was brought back into the picture and was once again strongly encouraged by the federal government.

Prior to the economic boom of the hemp industry, the United States was actually reluctant to support a full-scale mobilization of the crop. In fact, the country faced political barriers regarding the various usages of the crop and put a damper on production. Since hemp was strictly viewed as a war crop, there was not as high of a demand during periods of peace. Instead, the United States turned to importing the crop from the Philippines, and this became the primary way of

obtaining an adequate supply. However, in the text *Hemp in the United States: a case study of regulatory path dependence*, authors Malone and Gomez (2019, 209) mention the building up of tension in the Philippines leading up to World War Two that apparently led to cutting off the supply heading to the United States. As conflict escalated, the command economy took over and it proved imperative to again jump-start the domestic production of industrial hemp.

It appears to be a bit ironic as the crop that was once demonized in the 1930s became highly praised throughout World War Two. With the establishment of the Marijuana Tax Act of 1937, the production of hemp was significantly cut back due to the high levels of taxation upon the crop. Malone and Gomez (2019, 201) call attention to the negative attitude of hemp held by the American public, highlighting that the federal government wielded a powerful influence that fostered hemp's stigma. As the association of hemp and marijuana emerged, there were tighter restrictions and efforts were made to eradicate the crop and industry. However, as World War Two reached such a high level of national urgency within the United States, there occurred a profound shift in societal perception regarding the importance of hemp, as hemp's production had served great purpose in previous American wars. As a result, the taxation of hemp was lifted and it became apparent that a hemp boom was occurring. All in all, by transitioning away from importing industrial hemp, this allowed the United States to acquire a strong

domestic production that also helped to boosted the economy as the U.S. came out of the Great Depression.

Because the planting and harvesting of hemp was not based on free market forces, the construction of the wartime economy played a prominent role. The journal, *Hemp: Wisconsin's Forgotten Harvest* emphasizes that the cultivation of hemp was critical to the future economy. Hildebrandt (2017, 22) mentions the heavy dependence the United States had on the crop, conveying that it was a key component of the wartime economy. In particular, it was the state of Wisconsin that transformed itself into becoming the most efficient producer during this time period. All the way through the end of World War Two, it was most feasible to expand hemp mills in Wisconsin as the land was more suitable for mass production. Especially in times of desperation, the command economy forced the pace of hemp production by promoting hemp mills, improving machinery, and increasing the acreage for cultivation. According to Hildebrandt (2017, 22), the amount of hemp had reached record amounts with 400,000 acres planted, translating to about 141 million points of harvested hemp. Ultimately, it was the subsidies granted by the federal government that boosted hemp output; moreover, revealing the positive portrayal of the crop for the war effort.

Since the fibers from industrial hemp are highly valued for its durability, it was imperative to increase production for the war effort. The federal government

was aware of the urgency and created strategies that would give American producers a competitive edge over producers in other countries. In the view of Hildebrandt (2017, 21), the characteristics associated with a wartime economy meant strong regulation and rapid mobilization by the government. Because the utilization of hemp set forth groundbreaking achievements starting all of the way back with the Revolutionary War, in later years hems qualities offered the United States a strong incentive to increase production. By building off the success from previous experiences, the command economy sought to expand and enhance the production and processing of hemp. Especially considering the fact that supply from other countries got cut, fostering demand in domestic production became a top priority.

In order to further encourage the cultivation of hemp, the United States went to great lengths by creating a film that was released back in 1942. Known as “Hemp for Victory,” Hildebrandt (2017, 12) suggests that this particular film promoted strong support from the federal government and aimed to educate the American public of all the benefits hemp could provide. Not only did this film offer insights into the advantages hemp could offer the military and the war efforts, but it also appealed to its everyday functions for the general public. This 1942 release garnered quick responses and attracted a great deal of attention; therefore, resulting in many people taking action to ramp up production. Since many

Americans were not aware of the versatile functions associated with industrial hemp, a new appreciation was fostered. Following the few years after the launch of this film, production of hemp reached new heights, and the hemp industry was put on stable footing. However, when the United States entered the post war period, controversies began to surface and the negative perceptions associated with hemp hit the industry as a new narrative unfolded.

While the rise of hemp during World War Two did indeed create a positive outlook on the production of hemp, it must be noted that this took place within the private sector of the economy. Certainly, regulations stemming from the federal government were a leading and driving force in guiding the success of the industrial hemp industry. However, on the flipside, the attempt to portray hemp as an “evil” crop was also effective as the government was able to swiftly eschew hemp from the larger economy, and without implications. These are key notions to keep in mind as the years following the war came to a point where the hemp industry no longer received governmental aid. As far as why this came to be, it is critical to be aware of the underlying governmental regulations that had earlier determined the stability of the hemp industry. Since hemp was strongly valued as war crop, the industry flourished as a part of the war effort; nevertheless. So, the dismantling of the command economy left the hemp industry facing a state of uncertainty.



## **Decline of Industrial Hemp**

As World War Two wound down and ended, the demand for industrial hemp took a rather sharp dip. As the Marijuana Tax Act became active again, the future of the hemp industry was effectively brought into question and took a downward spiral. From the legal barriers to the drastic shift in attitude, it was ultimately too much for the hemp industry to overcome. By analyzing the suspension in subsidies granted by the federal government, there will be an all-inclusive understanding of what caused the initial downfall. Since industrial hemp had been a staple crop from the birth of the nascent United States, it seems far-fetched that there was no record of hemp production for about 50 years. In order to understand what triggered this hiatus, it is necessary to evaluate the factors that targeted the status of the crop.

The first sign that indicated hemp's decline came in the immediate years following World War Two. With the federal government deeming industrial hemp as solely a strategic crop, all of the promotions and subsidies gradually diminished. According to the journal, *Hemp as an Agricultural Commodity* by Renee Johnson, this author explores the downfall of industrial hemp. From the perspective of Johnson (2014, 13), the sudden decline can be attributed to the anti-drug sentiments, suggesting that the government should cut all ties associated with the crop. Although the ban of industrial hemp was temporarily lifted for the wartime

economy, it became criminalized for its association with marijuana. Ultimately, the strict regulation of hemp negatively affected domestic production, which in turn led to an absence of commercial production by 1958.

Despite the successful hemp boom during World War Two, it was unfortunately the legal barriers of industrial hemp that weighed so heavily on the post war future of this crop and industry. *Industrial Hemp in North America: Production, Politics, and Potential*, authored by Jerome Cherney and Ernest Small, calls attention to the changing attitudes towards hemp. As the shift in perception within the United States went to the opposite side of the spectrum, the restrictions on hemp were at the forefront and faced intense backlash. Cherney and Small (2016, 19) provide insight into the characteristics of classifying industrial hemp as a “Schedule 1 controlled substance;” furthermore, revealing that there was ambiguity in terms of distinguishing hemp from its psychoactive counterpart, marijuana. The process of disassociating the beneficial functions of industrial hemp proved a complicated matter that ultimately damaged the industry. Even though the listed exemptions from the Controlled Substances Act of 1970 alluded to the functions of industrial hemp, it remained to be prohibited for nearly half a century. All in all, it was the convoluted features of the crop that made it possible for the federal government to enforce tight restrictions, consequently driving it out of the economy.

By permitting less acreage for hemp cultivation, it was evident that open market operations were not going to keep the industry going. Johnson (2014, 13) notes the dramatic difference in the scales of hemp production, expressing that the amount of harvested hemp went from 150 million pounds in 1945 all the way down to three million pounds by 1948. During this same time period, there was a decrease in acreage whereby hemp was planted on 400,000 acres throughout the war and then fell to 2,800 acres. From these data one can observe the tendencies of a command economy and its undoing, furthermore demonstrating that the transition out of a war had substantial effects on particular industries, including hemp. It becomes more relevant than ever that the federal government played a crucial role with regards to the projection of the hemp industry. As the government had the power to both drastically ramp up production and pull the plug on all of its operations, the government became effectively responsible for various outcomes.

In addition to the circumstances of domestic production, there were forces on the global scale that were influencing the industry. As the industrial hemp markets in Canada and China were far more competitive than in the United States, there was indeed was a strong incentive to import the crop instead of producing domestically. However, in the text *Industrial hemp in North America: production, politics and potential*, Cherney and Small (2016, 2) stress the significance of the emergence of grain and cotton, highlighting that the interest in producing hemp

lessened declined and remained placed on the back burner. Because hemp gradually faded into the background, perhaps the application of other crops progressed at a faster rate. In the view of Johnson (2014, 7), there were limitations of pursuing hemp production in the United States; moreover, emphasizing that the lack of harvesting innovations left the industry relatively inefficient. Since worldwide production of industrial hemp decreased in demand, it was not attractive for the United States to invest in its cultivation. Not only were the increased costs of production that hindered the presence of hemp, but it was also the entrance of new and improved crops.

While there is no denying that industrial hemp was once a highly valued crop, it was the combination of the stigma, cheaper imports, and the negative attitude that nearly knocked the industry out of existence for half a century. This long-term absence gave way for the improvement in other crops, which inevitably contributed to the further decline of industrial hemp. Although the pathway for the hemp industry looked ominous, new perspectives and innovations had occurred at the turn of the 21<sup>st</sup> century.

### **Hemp Market Potential**

Even though industrial hemp production fell back into the shadows for a good fifty years; nevertheless, marketing opportunities appeared promising. There is no doubt

that the industry has gone in and out of waves of boom and bust; however, there is a general consensus that the crop would make a comeback in upcoming years. As it was once a desirable agricultural commodity, there are hopes that industrial hemp has the potential to continue and expand its versatility. Johnson (2014, 30) points out the major stepping stone of removing hemp from the list of banned substances, alluding to its ability to minimize any negative perceptions. Evidently, the end of this fifty year hiatus made it possible to re-integrate industrial hemp back into the economy, making it likely that it will be understood as a respectable crop once again.

With a favorable turn of events, it was essential to acknowledge the barriers that the hemp market endured. Even though world competition contributed to the decline of industrial hemp during World War Two, it still remained to be a leading concern near the end of the century. Johnson (2014, 7) conveys the lack of competition the United States brought to the global market, suggesting that it was not feasible to drastically increase production. At the time when domestic hemp production was absent, a great deal of time and profits were lost. This valuable time could have been spent modernizing the harvesting process; however, the attention was instead focused on demonizing the crop. In the view of Johnson (2014, 6), this demonizing affected the profitability of the small scale producers in the United States; moreover, indicating that the superiority of world producers

such as Canada and China would reign supreme. Rather than investing time and money for as to make production more efficient, the industry candidly missed the mark in terms of modernizing hemp facilities.

As far as where industrial hemp can flourish within the economy, there is no one definitive sector. It appears to be challenging to detect how hemp sales would compare with cotton and grain production due to their strong presence in the United States. Johnson (2014, 7) mentions the profitability of other crops, implying that there may not be a big enough incentive to fully replace them with industrial hemp. Despite the competition among these crops, hemp still has the potential to enter the market on a solid economic foundation. There is no doubt that hemp provides important qualities as an agricultural commodity, but it is the unpredictable feature that is worrisome. According to Cherney and Small (2016, 19), the fear of unknown economic shifts creates instability; furthermore, revealing that there has not been a long enough history to observe the supply and demand tendencies. Even though grain and cotton provide a sense of certainty, the emergence of industrial hemp would be a highly valued alternative.

As the 20th century came to its close, there had been pivotal turning points with regards to reigniting and expanding the hemp industry. According to Johnson (2014, 28), attention was paid to the role of industrial hemp near the end of the century, emphasizing that it had resurfaced as a strategic crop for national security.

With this order placed by President Clinton in 1994, industrial hemp appeared to be necessary even in relatively modern times. Besides its implementation for the war effort, a great deal of advocacy for its commercial uses have been brought to the forefront. The federal government reintroduced the important attributes of industrial hemp. As this was the last notable production of industrial hemp after the 50 year absence, a solid foundation was established for the hemp market to build upon.

While the hemp industry has yet to make a substantial comeback, there are various opportunities that make the crop economically viable. Especially after considering the controversies and the deeply rooted negative attitude towards the crop, it is unlikely that we will witness a sudden surge in production. According to Johnson (2014, 29), the initial launching of the Farm Bill in 2014 allowed states to advance hemp production; furthermore, displaying that industrial hemp was of high agricultural value. With this piece of legislation, agricultural production was able to increase and provided a sense of security within the industry. Institutions had the opportunity to conduct research and farmers from several states were keen to capitalize on the growth of the hemp market. Despite these strides forward, there were additional barriers and government meddling that prevented mass production. It was not until there was an expansion upon the Farm Bill through which the federal government was prohibited from interfering with state agencies.

The subsequent bill that further expanded the potential for industrial hemp was the Industrial Hemp Farming Act of 2018. At this point in time the future of hemp was looking brighter, as the introduction of commercialized products were propelling the industry forward. In the perspective of Johnson (2014, 3), it appears that industrial hemp offered a variety of commercial advantages as it can be incorporated in numerous submarkets. With this in mind, there are reasons to be optimistic about the potential of the hemp market as it is appealing for both the agricultural economy and the downstream industries that process it further and introduce new uses and products.

Although the strict policies of hemp production were on a tight leash for several years, it became a defining moment when these tendencies began to shift. By eliminating industrial hemp from the list of controlled substances, this effectively paved the way for a plethora of new products and marketing opportunities. In the face of increased commercialized products of hemp, there is potential for a growing demand in domestic production within the United States. Considering its controversial past, its integration back into the economy is encouraging for the future growth of industrial hemp and the derived products.



## **Conclusion**

This inquiry has sought to establish that in the United States industrial hemp faced various economic barriers. From the advantages that hemp provided during World War Two, to its demonizing portrayal in the post war years, the industry faced inconsistent reactions. As the turn of the 20th century approached, regulations regarding the production of hemp in the United States adjusted. With these changes in mind, the hemp industry is projected to make great strides in the 21<sup>st</sup> century, with its becoming a widely available and accepted crop. Not only has hemp served to be a respectable strategic crop, but it also has potential to become integrated into the modern economy as the foundation for a wide range of products. Perhaps it was intended for industrial hemp to be exclusively for war efforts; however, the industry is evolving and now finding a wide array of opportunities. By allowing hemp to encompass more than a single function, stigmas associated with industrial hemp should diminish. Although the hemp industry has been subjected to a controversial journey, hemp production turned a new corner as the nation transitioned into the 21st century. With this new chapter awaiting, it is likely that hemp production and the hemp industry will indeed experience new breakthroughs and also suffer new hardships.

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