THE OBSERVATION POST

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Parity and the Price Support Program

CONGRESS first gave legislative recognition to the parity concept in the Agricultural Adjustment Act of 1933 by declaring that it was the policy of Congress, among other things, ". . . 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 1910 to 1914."

Price-support operations carried on by the United States Department of Agriculture establish price minimums or floors for some twenty-five agricultural commodities. Levels of support are directed or authorized by the Agricultural Act of 1949. Support for "basic" commodities—corn, cotton, wheat, rice, tobacco, and peanuts—is *required* at 90% of parity through 1954. Support is also mandatory for some nonbasic commodities at levels from 60 to 90% of parity and permissive for others at any level up to 90% of parity.

Secretary of Agriculture Ezra T. Benson has stated: "I believe in price supports and am under oath to give sound administration to all price-support laws which Congress in its wisdom places upon our statute books. Price supports should provide insurance against disaster to the farm producing plant and help stabilize national food supplies. But price supports which tend to prevent production shifts toward a balanced supply in terms of demand and which encourage uneconomic production and result in continuing heavy surpluses and subsidies should be avoided."

Adverse publicity has caused antagonism to the agricultural price support system. Few people know what it is all about. Many economists and others have raised questions regarding the validity of the parity formula on the grounds that it is not an accurate measurement of the real economic position of groups of farmers.

To get authoritative information on specific aspects of the price-support program, some officials at the Department of Agriculture were interrogated; and their story will be presented in this issue and the next.

What are the objectives of a price support program?

In general, the farm price support program is designed to place a floor under the prices of specific farm commodities, especially those that can be stored for considerable periods, which will protect the farmer against undue or too-severe price declines and at the same time assure stable and continuing food supplies for American consumers.

How is parity calculated?

The original definition of parity was a price which would give to the several agricultural commodities the same purchasing power per unit that they had in some base period. For many of the important commodities, the base period is 1910–14. The new or modernized parity (Agricultural Act of 1949): (1) holds the *average* purchasing power of *all* farm products at the same level relative to nonfarm products as prevailed during the pre-World War I base years, 1910–14, and (2) recalculates the parity price for the various commodities in such a way that the price of wheat relative to the price of dairy products, or of corn relative to beef cattle, or of beef cattle or any other commodity relative to all farm commodities, is the same as that which prevailed during the 10 calendar years immediately preceding the year to which the parity price applies.

How are results of technological advances, or greater productivity through use of machines, pesticides, fertilizers, improved stock, and the like reflected in parity computations?

Technology is not a monopoly of farm people and the industries serving them. Improving technology also pervades our entire industrial system. Such estimates as are available seem to indicate that productivity has been increasing about as fast on the industrial side as on the farm side over the years since 1910. And if increases in industrial efficiency are translated into lower prices at retail (Index of Prices Paid by Farmers) for tractors, gasoline, fertilizer, clothing, farm machinery, and into lower taxes and service rate charges for such things as electricity and telephones, then parity prices for farm products will be lowered. Because the average rate over the last 30 or 40 years of increasing efficiency on the industrial and farm fronts have been at somewhere around the same rates, no substantial correction has been made in the parity price structure for technological advances. If, however, the gains resulting from increased technological efficiency in industry are not passed on to consumers, including farmers, in the form of lower prices but are absorbed in the form of increased wages to workers or increased service charges by wholesalers and retailers and of increased profits and capital structure by businesses, then parity prices will not fall.

What are the major faults of price support programs?

On occasion, price support programs may tend to hold prices at such a level as to prevent desirable shifts in agricultural production or to cause farmers to produce more of particular commodities than is desirable. In these cases, the commodities move into government ownership and storage and create some very difficult disposal problems. High prices also tend to reduce consumption and may create serious export and import problems.

Would it not be fair to consumers to impose ceilings on farm products so long as consumer taxpayers are to finance a government-supported floor?

Ceilings have been imposed on farm products both during World War II and more recently as a part of the defense program following the invasion of South Korea. But the question appears to assume that ceilings should be continuously used. We have a minimum wage law; would you advocate that we also maintain continuous ceilings on wages and salaries? One of the urgent problems which most advanced economists face today has to do with the question as to how much security or assurance various groups—business, labor, and agriculture, all three if you please—should be given in order to induce some stability into the economy and to prevent a recurrence of another massive depression such as dominated the years from 1930 into 1940.

(This article will be concluded in the next issue.)