Parity Prices

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THE sharp break in prices of farm products after World War I focused attention on indicators to measure price changes. Prices of some period shortly before the outbreak of war were viewed as a suitable base or bench mark for this purpose. Prices for 1913, the last full year before the war, frequently were used. However, a somewhat longer period seemed desirable, consequently the five years, 1910-14, came to be accepted as a suitable base period for an agricultural price index to measure changes during and after the war period.

Various legislative proposals dealing with farm prices were in the limelight in the United States during the 1920's. One of these was the McNary-Haugen bill. An early form of this bill included a feature which was a forerunner of the parity price idea later embodied in the agricultural adjustment act of 1933. It proposed that the relationship between prices received by farmers and the wholesale price index be the guide for raising prices of farm products to the prewar level. While this scheme was not enacted into law, the idea of using indexes to measure price relationships remained popular.

Legal Definition

The agricultural adjustment act of 1933 gave legal recognition to a measure of this sort. Its objective was that of bringing about conditions which would "reestablish 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." August 1909 to July 1914 was designated as the base period (tobacco, 1919-29). The measure of prices paid by farmers is an index which had been developed previously by the Bureau of Agricultural Economics. The following will serve to illustrate the use of these indexes. The index of prices received by farmers for the depression years, 1930-34. averaged 90 (1909-14-100) while that of prices paid by farmers averaged 135. Dividing the former by the latter gives the parity ratio for the period as 66. As a result of the effects of war on farm prices, the index of prices received for November, 1946, was 263, while that of prices paid was 212, giving a parity ratio for that month of 124.

During the 1930's, the adjustment program sought to bring the parity ratio back to the 100 level by adjusting crop acreage, by loans on stored farm commodities withheld from market, by surplus disposal and other means. Congress adopted support prices during the war as a measure of assurance to farmers that they could undertake all-out production without fear of sudden market collapse. The level of these supports is 90 per cent ($92\frac{1}{2}$ per cent in the case of cotton) of parity and as they are to continue for at least two years after the war was officially declared to have ended, price floors based on the parity formula are provided for many farm products through 1948. There is some sentiment for the further extent of these supports.

Price and Income

The parity price idea has received wide acceptance as something to which farmers are entitled as a matter of right and justice. The very name "parity" carries that implication. Students of the problem, including many farmers, realize that it is not quite that simple.

The distinction between price and income often is not kept in mind. The latter includes quantity as well as price. During the war, farm income increased

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even more than farm prices because of the expanded output to which the prices applied. Some efforts have been made to substitute parity income for parity price as a measure of the economic situation of farmers. While provision for this has been included in amendments to the adjustment act, the idea has not become dominant in the thinking of the people. Parity income is not so easily defined and measured. It is less tangible than price. The fact that calculations indicated that income was much nearer to parity than farm prices during much of the 1930's also may have made it less attractive than the price idea.

Base Period Outmoded

The years 1909-14 clearly are out of date as a base. A period of more than three decades ago could fit the situation today only if there had been no change in cost or efficiency of production, or all if changes had been at the same rate, and if there had been no change in demand. Everyone knows that these conditions do not hold. Agriculture is a dynamic industry. Vast changes have occurred since 1910-14 in both agricultural and nonagricultural lines. They have not been the same for all lines. The tractor, the truck, the combine and the corn picker have reduced greatly the labor required on the farm to produce a bushel of grain. Hybrid corn has come into general use and has increased acre yields significantly. Cotton yields likewise have increased. Such changes cannot be ignored in price relationships.

Changes in demand likewise are striking. The shift to mechanical power has curtailed the number of horses and mules on farms and elsewhere. This has reduced the amount of land needed for feed and pasture for work animals. Per capita consumption of cereals has tended to decrease while consumption of some vegetables has increased. Export trade likewise has changed markedly. Any program which fails to recognize such changes in costs and demand will misdirect production if it becomes effective in determining prices.

Modifications Proposed

There are various proposals for modification in the parity formula. At present farm labor is not included in the index of prices paid. Farm wages were low when the legislation was enacted in 1933. The sharp rise which has taken place has created pressure to include them. If this is done the parity prices of various farm products will be increased considerably. Because changes in technology have affected crops more than livestock, some contend that the formula needs revision to raise the parity prices of livestock and livestock products. Seemingly, there is less readiness to accept modifications which would tend to restore the former balance by reducing parity figures for crops.

The assumption that the weaknesses of the parity formula can be overcome merely by shifting to a more recent base period is popular. True, such a shift would lessen the disparities growing out of changes over time. However, the fundamental flaw would still be there. No period of the past can be representative of current or future relationships in any exact manner. Moreover, shift to a more recent period will not be satisfactory to the majority of farmers, unless the change is favorable to agriculture.

Evaluation

An appraisal of the parity price concept needs to give heed to the functions which prices perform. Price is an important guide to the farmer in his decisions regarding what he is to produce. A price relationship which favors one line over another shifts production. A favorable price is a magnet which draws out larger output. Similarly, the consumer is guided by price in deciding on what and how much to buy. Price, in short, plays a very important role in determining the use of productive resources.

The function of price which receives major attention, of course, is its part in the distribution of income. Much of the interest in parity price has sprung from the hope that it will give farmers a larger share of the national income. In this, it is easy to exaggerate the effect of price changes on real income. While a price represents income to the receiver it means cost to the payer. Moreover, changes in prices by themselves do not increase the total real income; they merely alter stream of its distribution.

Parity prices in order to be attractive must be above the levels otherwise likely to prevail in the market place. Such prices in the case of agriculture can be maintained only by the intervention of the government. If the participation by the government ended with bringing about higher prices, farmers would be satisfied. But prices above the market will encourage production, curtail consumption, invite competition from substitutes (e.g. synthetic fibers in place of cotton and wool), and interfere with exports. The ultimate result of such a program will be agricultural surpluses and the government will have to step in with effective controls of production or disposal, or both. If farmers insist on the maintenance of arbitrarily high prices, they must accept controls. There is strong doubt over whether such controls will lead to the best use of resources and serve the ends of general welfare. There was widespread dissatisfaction over price ceilings during the war. Controls encountered difficulty in keeping prices in proper relationship. Price supports find themselves up against similar problems.

Indications are that ardent supporters of continuing and raising parity prices have not given too much consideration to consequences which will flow from a program of having the government replace the market in arriving at farm prices. Farmers as well as the public generally ought to ponder these matters before the decision is made rather than rue the consequences when it may be too late.

The choice is not, as some contend, between price manipulation or nothing. No serious-minded student of farm problems believes that government can ignore the plight of agriculture in a period of serious depression and unemployment. The real solution is recovery and expansion in nonagricultural lines rather than price fixing and curtailment for agriculture. Some form of government payments to farmers during periods of extreme depression may interfere less with normal operations of farmers and the market than a program of arbitrary price supports.

Before any parity or other farm price program is adopted for longer-run use, certain questions deserve very careful consideration. Will the program serve the common good? Will it encourage the best use of resources for the satisfaction of human wants? Will it discourage desirable cityward migration and lead to overmanning of agriculture? Will higher prices be lost to the farmer by being capitalized into higher land prices? Will the program aid or hinder desirable adjustments on the individual farm and between regions? Will it encourage independence and self-reliance or will it be an incentive to seek increased aid from the government? How well is it realized that government is not something separate and apart from the people but is all of the people?

The problem today is more than one of national concern. Efforts to develop international co-operation for maintaining peace can be helped or hindered by domestic programs. It is highly important that each nation today do its part in aiding international cooperation and that it refrain from embarking on domestic programs which will keep it from so doing. An arbitrary price structure, whether on farm products, on labor, or on the products of industry, within a given country will draw it away from world cooperation to maintain peace.

Economic problems of today need to be approached from the standpoint of larger and longer-run consequences rather than to be weighed in terms of narrow and immediate gains. Agricultural leadership has an opportunity to exercise wise statesmanship and to set an example for other groups in deciding upon its program and demands for the future. The decision on how well it is going to meet that challenge is now in the making.