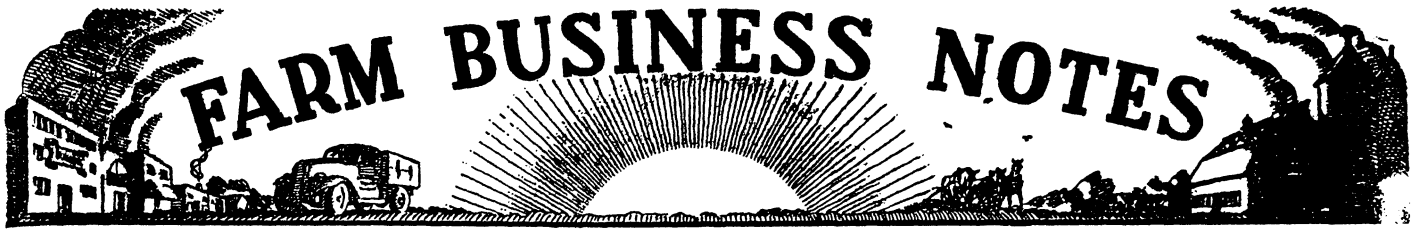

Prepared by the Divisions of Agricultural Economics and Agricultural Extension
Paul E. Miller, Director Agricultural Extension

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What About Parity?

O. B. JESNESS

The idea of parity prices was developed after World War I as a convenient indicator of the relationship between the prices received by farmers for products they sell and the prices paid by them for commodities which they buy. It is the ratio between an index of farm prices and an index of prices paid by farmers. The usual base period employed as representing 100 is that of the five years immediately preceding World War I, August 1909 to July 1914. If prices to farmers rise more than the prices they pay, the ratio will be greater than 100; when prices they pay are relatively higher it will be less than 100.

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When the agricultural adjustment act was passed in 1933, parity price became the guide and objective. Among other purposes, it has been used to determine the amounts to be loaned on stored farm commodities under the loan program to support prices. It became a guide for price ceilings and for the price support program which provides floors under prices of 90 per cent (92½ per cent in the case of cotton) of parity. The latter program is to remain in effect for two years after the war is officially declared at an end.

The parity price ratio compares prices rather than incomes. The latter depend on quantity of product and amount of employment as well as on prices and wage rates. The basic principle on which parity commonly is assumed to rest is that of a fair division of income among the different groups and individuals of which the population consists. There can be no quarrel with this general idea but questions arise over what a fair division actually is and over whether parity prices or any other arbitrary measurements are adequate for its determination.

The period 1909-14 probably was adopted after the previous war because it represented a period immediately preceding the war and consequently was a useful bench mark. In addition, it was acceptable to farmers because most farm prices were in a relatively favorable position during those years. Without reviewing here existing differences of opinion relative to the representativeness of that particular period, it is in order to examine the validity of the assumptions on which the use of any past base period rests. One of these assumptions is that either there has been no change in the efficiency or cost of production, or that such changes have been at the same rate for all lines. A similar assumption on the demand side is that either there has been no change or that changes have been identical for all lines.

These assumptions, patently, are not in line with facts. Production methods change constantly and these changes do not occur at the same rate for all commodities. The changes which have taken place in automobiles and automobile tires since 1909-14 supply excellent illustrations. But it is not necessary to go outside agriculture for such cases. The development and adoption of hybrid corn have altered yield and efficiency of corn and hog production very decidedly over a comparatively short span of time. The development of the tractor, the combine, the corn picker, and other machines has affected cost relationships very decidedly. Such changes cannot be ignored in price relationships.

Changes on the demand side are no less striking. Shift to mechanical power and automobiles on the farms has altered greatly the demand for horses, harness, and buggies. The demand for grains, hay, and pasture for work animals is far different from that of 1909 to 1914. Per capita consumption of cereals has tended to go down; that of some other products such as certain vegetables to go up. Changes in demand also are very marked with changes in income, as demonstrated so effectively by the depression of the thirties and by the war period.

The base period of 1909-14 clearly is outmoded in that it does not fit present-day relationships. This may invite the suggestion that this difficulty can be overcome by shifting to a more recent base period. Such a shift would lessen but not eliminate the weakness. Any base period would face the problem that it is constantly going out of date. Besides, efforts to shift to another period encounter opposition if the result is unfavorable to certain farm products, in spite of the fact that it should be obvious that the fundamental idea of parity will not be served if each line

seeks to base its comparisons on a period which is particularly favorable to it. Carried to its logical conclusion such a procedure seeks the impossible goal of dividing a given income in a way which will provide everyone with a larger share. It is too often forgotten that what is price to one becomes cost to another.

Any attempt to appraise the concept of parity prices needs to recognize the functions which prices perform. One of these functions is to help guide production. Farmers plan their production on the basis of price prospects. A favorable prospect generally may expand total production. If some lines present better prospects than others, farmers will shift resources accordingly. Prices likewise help guide buyers in making their choices. Consumers look at the general price level and relative prices in deciding how much and what to buy. A third function of price is that of aiding in deciding how income is to be distributed. The interest in parity prices has been concerned mainly with this function. Farmers look to parity prices as a means of increasing their incomes.

Considerable misconception regarding the effectiveness of price in increasing real income is apparent. The difference between real income and money income often is overlooked. If all prices, including debt charges, suddenly doubled, everyone would receive twice his previous money income but since the buying power of money would be halved, the real income would be unchanged. Prices do not all change at the same rate and individuals and groups seek changes which will benefit them. Such changes by themselves do not increase the total real income but only change its distribution. An increase in the total real income can come only from greater output of goods and services.

Parity prices can be maintained over market levels only by intervention of the government. Such prices will lead to an expansion of output, reduce consumption, make exporting difficult, and invite increased competition from other products, as in case of substituting synthetic fibers for cotton. Mere government decree will not suffice. Government will need to exercise control of production and sale or use to maintain such prices. If farmers insist on receiving arbitrary prices, they and marketing agencies will have to accept the controls needed to make them effective. The public, including farmers, will have to pay the higher prices and bear the costs to the treasury as well as the social costs which may result from less efficient production and smaller supplies.

Such a program would have some far-reaching implications which should be weighed carefully in advance of adoption. For one thing it would add to the difficulties of international cooperation. The maintenance of artificial price levels within a country leads toward economic nationalism. Such prices not only make it difficult to sell abroad but also bring demands for increased protection against competing imports. Moreover, if agriculture is to have governmental assistance of this sort, can farmers with good grace resist the providing of similar aids to other parts of the economy?

Will such a program serve the common good? Will it lead to the best and most effective use of productive resources for the satisfaction of human wants? We cannot enjoy the highest attainable level of living unless our resources are used fully and efficiently. Will such a program tend to reduce city-ward migration and thereby result in a larger farm population than needed and consequently in a division of the farm income among more persons than otherwise would be the case? If such a program succeeds in maintaining prices at higher levels, to what extent will these prices be bid into higher land prices and thereby add to farmers' expenses rather than to net farm income? Agriculture is a dynamic industry and needs flexibility if adaptations to changing technology and markets are to be made. Will the controls necessary to make the program work interfere with desirable adjustments on individual farms and between regions?

Questions such as these indicate that a program of price parity involves much more than many appear to appreciate. It is easy to assume that a program of this kind is one of right and justice which ought to be accepted as a matter of course. Questions of the type outlined above should be weighed and discussed fully, not only by farmers but by citizens generally, in order that any price program which may evolve in the future will serve the common good. Any program which fails to do so will not benefit farmers themselves over the longer run. It may not be out of place to suggest that the same is true of any program for labor, industry, or other segments of the economy. Group demands of agriculture, labor, and industry too often are couched in terms of immediate and short-run considerations, rather than in terms of general and long-run consequences. That is not the way to an adequate solution of our problems.

Consumption of Fats and Oils in Food Products

R. W. Cox

Civilian consumption of food fats declined steadily during the war. The per capita consumption in 1945 is estimated at 42.3 pounds per person, 2.3 pounds less than in the previous year and 5.7 pounds below the 1935-39 average (table 1). The disappearance of butter, lard, and cooking and salad oils was down sharply, largely because of reduced output. The operations of the lend-lease program in 1945 was only a very minor factor accounting for reduced available supplies for civilians. Butter consumption declined to a record low point of 10.9 pounds per person, one pound less than in 1944 and only two thirds of the average consumption in 1935-39. Civilian per capita consumption of lard dropped to 12.1 pounds, 1.7 pounds below the 1944 figure and 2.7 pounds less than the consumption in 1940. The consumption of cooking and salad oils also reached its lowest level of recent years.

Supplies of margarine and shortenings in 1945 were sufficient to provide for increases in consumption over the previous year. Civilians used an average of 3.3 pounds (fat content) of margarine, the highest on record or half again as much as in 1935-39. Although the per capita consumption of 10.0 pounds of shortening exceeded that in 1944, it was substantially below the 1935-39 level.

A moderate decline in per capita consumption of food

Table 1. Per Capita Disappearance of Food Fats, 1935-45*

Year	Total	Butter	Lard	Margarine†	Shortening	Cooking and salad oils
			Pounds			
Average 1935-39	48.0	16.7	11.0	2.3	11.7	6.3
1940	50.0	16.9	14.8	1.9	8.9	7.5
1941	50.8	15.9	14.1	2.2	10.4	8.2
1942	47.9	15.6	13.6	2.2	8.9	7.6
1943	45.6	11.7	14.6	3.1	9.8	6.4
1944	44.6	12.0	13.8	3.1	9.2	6.5
1945	42.3	10.9	12.1	3.3	10.0	6.0

* From data reported in U.S.D.A. Bureau of Agricultural Economics, The Fats and Oils Situation, No. 108.
† Fat content.

fats is likely in 1946. The decline will occur mainly in butter, although the output during the remainder of the year may be more than was originally anticipated. There is some increase in lard output reflecting the increase in the fall pig crop last year.

The important oils which enter into the processing of food products other than lard and butter are cottonseed, soybean, peanut, and corn. The manufacture of these products, particularly shortenings, margarine, and cooking and salad preparations, provides the main outlets for the four oils (table 2). More than two thirds of the cottonseed oil and almost nine tenths of the soybean oil used in manufacture in 1945 were used in processing of shortening and margarine. Most of the remainder of the cottonseed oil was used in cooking and salad oils. In the same year, cottonseed oil contributed 35 per cent and soybean oil, 50 per cent to the total weight of fats and oils used in shortenings. Cottonseed oil also accounted for 51 per cent and soybean oil, 42 per cent of the fats and oils used in margarine. Practically no foreign oils have been used in food or other products in recent years because of their very limited supply.

Table 2. Utilization of Specified Oils in the Manufacture of Various Food Products, 1945

Oil	Total utilization	Shortenings	Margarine	Cooking and salad oils	Other food products	Non-food products
	Million pounds			Per Cent		
Cottonseed	1,081	45.0	23.5	30.1	1.0	.4
Soybean	1,012	67.5	20.4	2.8	4.6	4.7
Peanut	81	63.0	12.6	4.3	11.9	8.2
Corn	31	8.0	29.4	45.5	14.6	2.5

Farmers Increased Their Net Worth In 1945

TRUMAN R. NODLAND

A study of the 1945 net worth statements for the cooperators in the farm management services in southern and west central Minnesota shows that 119 owner-operators increased their net worth by 8 per cent, 70 part-owners by 12 per cent, and 59 renters by 17 per cent. Net worth statements for each of these three groups of farm operators are presented in table 1.

There was an increase in the total assets of all groups and a decrease in the liabilities of owners and part-owners. A substantial proportion of the increase in total assets is represented by war savings bonds and cash on hand. Part-owners and renters also increased their investment in farm capital. Owner-operators decreased their indebtedness by 14 per cent—nearly all this decrease being in real estate mortgages. Part-owners decreased their indebtedness by 17 per cent; both real estate and chattel mortgages were reduced considerably. Renters, on the other hand, increased their indebtedness by 14 per cent. Much of this increase was in the form of real estate mortgages on property purchased during the year. By the end of 1945, 19 per cent of the owners, 17 per cent of the part-owners, and 30 per cent of the renters were entirely free from debt.

On the average all the groups studied were in sound financial condition. By the end of 1945 the owners had enough liquid assets—stocks, bonds, and cash on hand—to pay off 78 per cent of their liabilities, part-owners could pay off 56 per cent, and renters had nearly enough stocks and bonds to pay their liabilities without using the cash on hand.

Table 1. Net Worth Statement for Owners, Part-Owners, and Renters, 1945

	Owners	Part-Owners	Renters
Number of cases	119	70	59
Acres per farm	208	284	226
Owned	208	186	.....
Rented	.....	98	226
JANUARY 1, 1945			
Assets:			
Total farm capital	$28,589	$27,792	$ 8,368
Accounts receivable	72	136	196
Outside investments:			
Stocks and bonds	2,414	1,953	1,350
Life insurance	852	736	363
Miscellaneous	1,071	439	483
Total	$ 4,337	$ 3,128	$ 2,196
Household and personal assets:			
Cash on hand and in bank	1,064	568	433
Other household and personal assets	1,017	1,268	970
Total	$ 2,081	$ 1,836	$ 1,403
Total assets	$35,079	$32,892	$12,163
Liabilities:			
Real estate mortgages	5,415	4,721	67
Chattel mortgages	364	907	578
Notes payable	876	1,491	966
Accounts payable	105	263	160
Total liabilities	$ 6,760	$ 7,382	$ 1,771
Net worth	$28,319	$25,510	$10,392
DECEMBER 31, 1945			
Assets:			
Total farm capital	$28,485	$28,085	$ 8,926
Accounts receivable	110	317	210
Outside investments:			
Stocks and bonds	3,153	2,486	1,819
Life insurance	977	841	396
Miscellaneous	1,290	641	781
Total	$ 5,420	$ 3,968	$ 2,996
Household and personal assets:			
Cash on hand and in bank	1,414	878	1,038
Other household and personal assets	1,006	1,242	987
Total	$ 2,420	$ 2,120	$ 2,025
Total assets	$36,435	$34,490	$14,157
Liabilities:			
Real estate mortgages	4,634	3,871	263
Chattel mortgages	392	433	512
Notes payable	710	1,482	1,002
Accounts payable	86	244	229
Total liabilities	$ 5,822	$ 6,030	$ 2,006
Net worth	$30,613	$28,460	$12,151
Gain in net worth	+$2,294	+$2,950	+$1,759

Minnesota Farm Prices For June, 1946

Prepared by W. C. WAITE and R. W. COX

The index number of Minnesota farm prices for June, 1946, is 197. This index expresses the average of the increases and decreases in farm product prices in June, 1946, over the average of June, 1935-39, weighted according to their relative importance.

Average Farm Prices Used in Computing the Minnesota Farm Price Index, June, 1946, with Comparisons*

	June 15, 1946	May 15, 1946	June 15, 1945		June 15, 1946	May 15, 1946	June 15, 1945
Wheat	$1.73	$1.69	$1.54	Hogs	$14.10	$14.10	$14.10
Corn	1.27	1.19	.98	Cattle	13.80	13.00	13.00
Oats	.76	.75	.62	Calves	13.70	13.40	13.90
Barley	1.23	1.21	.99	Lambs-Sheep	13.12	12.82	12.80
Rye	1.39	2.33	1.30	Chickens	.22	.20	.24
Flax	3.11	2.92	2.91	Eggs	.31	.32	.33
Potatoes	1.25	1.20	1.80	Butterfat	.58	.55	.53
Hay	8.50	9.20	9.70	Milk	3.10	2.90	2.60
				Wool†	.44	.44	.43

* These are the average prices for Minnesota as reported by the United States Department of Agriculture.

† Not included in the price index number.

Prices received by Minnesota farmers for wheat, corn, and flax made substantial gains during the month ending June 15. The sharp drop in rye prices reflected the price ceiling effective on this crop as of June 1, 1946. With the exception of hogs, which have shown practically no change for several months, the prices of livestock were generally higher, particularly those of cattle. Prices reported for butterfat and milk also increased from May 15 to June 15.

The Minnesota farm price index is about 12 points above the level of one year ago. The indexes representing the various classes of products are all higher than those of June, 1945, with the crop price index showing the largest change of 36 points.

The relatively large advances in prices of feed grains during the past year have resulted in marked declines in the feed ratios. They are now at the lowest level in several years.

Indexes and Ratios for Minnesota Agriculture*

	June 15, 1946	June 15, 1945	June 15, 1944	Average June 1935-39
U. S. farm price index	206.8	195.4	183.1	100
Minnesota farm price index	197.3	185.2	176.7	100
Minn. crop price index	223.9	187.7	191.3	100
Minn. livestock price index	181.1	176.6	163.3	100
Minn. livestock product price index	204.1	191.8	184.2	100
U. S. purchasing power of farm products	132.8	135.9	131.0	100
Minn. purchasing power of farm products	126.7	128.8	126.4	100
Minn. farmers' share of consumers' food dollar	60.5†	64.9	61.5	45.5
U. S. hog-corn ratio	10.1	12.7	10.9	12.0
Minnesota hog-corn ratio	11.1	14.4	12.5	15.2
Minnesota beef-corn ratio	10.9	13.3	12.3	12.8
Minnesota egg-grain ratio	12.1	15.8	12.8	14.6
Minnesota butterfat-farm-grain ratio‡	30.5	32.8	27.1	30.9

* Explanation of the computation of these data may be had upon request.

† Figure for January, 1946.

‡ Includes an allowance for dairy production payments.

Pig Crop Report, June, 1945

The 1946 spring pig crop is estimated by the United States Department of Agriculture at 52.3 million head. This is 1.5 per cent larger than the 1945 spring pig crop and 5 per cent larger than the 1935-44 average. Although the number of sows that farrowed was under that of last year the number of pigs saved per litter was the highest ever to be reported. Compared with 1945 the number of pigs saved shows the largest increase (6 per cent) in the East North Central and South Atlantic states. The West North Central region was the only one in which the decrease was as much as 1 per cent.

Farmers' reports on breeding intentions show a sharp drop from last year in the number of sows being kept for fall farrowing. The indicated number of sows is 4.6 million head, a decrease of 16 per cent from a year earlier, and represents the smallest number since 1938. Compared with last year the numbers are down in all regions but one and in nearly all states, with the largest relative declines in the West North Central and Western states, which show a drop of 24 and 22 per cent, respectively. These reports on intentions do not take into consideration the possible effect of the removal of price ceilings and subsidies; in consequence, the situation in the fall may be quite different from that originally anticipated. Nevertheless, if the number of sows that farrow is about as was indicated on June 1 and the number of pigs saved per litter is about equal to the 10-year average, the 1946 pig crop should number around 29 million head, or 17 per cent smaller than last year.

The estimated number of hogs over 6 months old, including brood sows, on June 1 this year was almost 23.0 head, a decrease of 10 per cent from a year earlier, and the smallest number since 1938. The number in the North Central states was down 13 per cent.

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