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PRICES received by farmers on November 15 were 249 per cent of their level in 1910-14. A month earlier the index was 250, and a year earlier it was 277. A drop in prices of hogs, eggs, and cotton which more than offset higher prices for milk, wheat, and some vegetables accounted for the further easing of prices received between mid-October and mid-November.

On November 15 the index of prices paid by farmers for commodities, in addition to interest, taxes, and wage rates, stood at 277 per cent of its 1910-14 level. A month earlier this figure was 276 per cent, and a year earlier it was 284. The slight increase in prices paid between October 15 and November 15 was due primarily to a rise in the price of feeder cattle.

The parity ratio is defined as the index of prices received by farmers divided by the index of prices paid by farmers. On November 15, 1952, this ratio was 98 (277 ÷ 284=98). On October 15 of this year the ratio was 91 (250 ÷ 276=91). On November 15 it was 90 (249 ÷ 277=90).

When the parity ratio drops, it means that prices received by farmers for the products they market have dropped compared with prices paid by farmers for goods and services they must buy in order to operate a farm. Thus, in the last twelve months, prices received by farmers have declined 10 per cent. Prices paid by farmers have dipped less than 2 per cent. The result has been a decline of 8 points in the parity ratio.

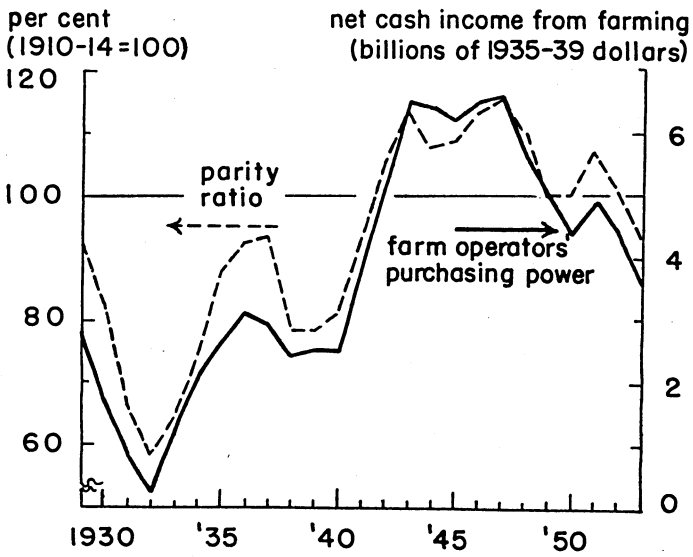
It can be expected that a decline in the parity ratio would be associated with a drop in the net cash income of farm operators. This follows because operators' net cash income is the residual after production expenses are deducted from cash receipts from farm marketings. And if prices received by farmers drop compared with prices paid by farmers, then cash receipts will drop compared with production expenses (if other things, such as volume of marketings, remain the same).

Statistics support the logic of this analysis. Farm operators' net cash income from farming has been low when the parity ratio was low, and vice versa. However, operators' income has fluctuated much more widely than the parity ratio.

Thus, in 1932, when the parity ratio averaged 58, net cash income was only 250 million dollars. By contrast, in 1947, when the parity ratio averaged 115, income hit 12.8 billion dollars. Over the years, the amplitude of income fluctuation has increased because an expansion has occurred both in farm output and in the amount of resources used in farm production. Thus, for example, if the parity ratio were to drop again to 58, farm operators probably would lose 3.5 billion dollars, rather than make 250 million as they did in 1932. It is, of course, highly unlikely that the parity ratio will drop to anywhere near 58 in the foreseeable future.

A dollar bought a lot more things used in family living in 1932 than was the case, for example, in 1947. So, between 1932 and 1947 the purchasing power of farm operators did not increase nearly as much as cash income.

However, if farm operators' net cash income is converted to constant dollars, then we remove the effect of changes in the prices farmers pay for commodities used in family living. This gives farm operators' real income (excluding non-money income like the rental value of farm dwellings). As the chart shows, there has been a fairly close correlation between movements in the parity ratio and the purchasing power of operators' net cash income.



The moral of the whole story is this: the parity ratio has been a good indicator of the purchasing power of the total of farm operators in this country. But the ratio is only an indicator of the relative level of real income. It does not necessarily indicate the absolute level which would be socially desirable.

L. John Kutish -- Agricultural Economist