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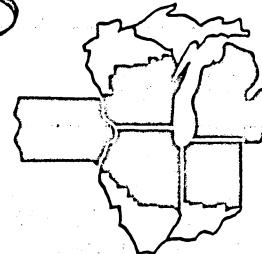
Federal Reserve Bank of Chicago --

December 4, 1970

DEC 11 1970

CURRENT SERIAL RECORDS

Agricultural Letter



Number 1094

THE AGRICULTURAL ACT OF 1970 was signed into law on November 30 and will be the basis of farm policy for the next three years. The new law provides the basis for making agriculture more market-oriented which could mean less government support and control. In many respects, however, the new act resembles the 1965 Food and Agricultural Act which expires this year. Farm production will continue to be controlled by idling cropland, with farmers' incomes being supplemented through direct government payments and price support loans.

A new feature in the 1970 Agricultural Act limits payments any one recipient may receive to \$55,000 per crop. This measure will affect relatively few farmers. In 1969, only 1,100 producers—950 of which were cotton growers in the South and West—received payments of \$55,000 or more. Only 18 Seventh District farmers received payments in excess of \$55,000. Passage of the payment limitation is significant, however, in that it may portend stricter limits in the future.

In 1968 and 1969, the House of Representatives passed legislation to limit payments to \$20,000 per producer, but the Senate did not support the House bills. In 1970, the Senate passed a \$20,000 limit, but it lost to the House supported \$55,000 limit.

The set-aside provision, a new twist to the old scheme for idling cropland, is designed to allow the farmer greater freedom to choose the crops he wishes to grow after "setting aside" a designated portion of his acreage. It differs from the old program of acreage diversion in that acreage of supported crops is no longer tied to the base acreage allotment. The allotment is used in determining the amount of acreage to be idled, however. Under the old feed grain program, a farmer with a 100-acre feed grain base that chose to idle 20 percent of his cropland could plant only 80 acres of feed grains even though his farm might contain 200 acres of cropland. The new set-aside program will allow the farmer to plant whatever crop he wishes on his remaining acres after idling the required acreage. The farmer may plant all his remaining cropland to feed grains if he deems this decision to be the most profitable. It is possible this added flexibility could result in a sharp expansion in grain acreage and lower grain prices. There are provisions in the new act, however, which allow the Secretary of Agriculture to limit, if necessary, the number of acres of specific crops on participating farms through 1973 to provide an "orderly transition" to the new program.

Parity, long a keystone of farm policy, was de-emphasized in the 1970 farm act. Guaranteed parity prices which rise as costs increase were subordinated to minimum price support levels. In the case of feed grains, cooperating farmers are guaranteed a minimum price support payment of \$1.35 per bushel for corn or 70 percent of parity, if higher, on half the production from their feed grain base acreage. In 1973, however, if the 70 percent parity guarantee would result in total payments exceeding those of the previous year, such increase would not be effective. The minimum loan rate is fixed at \$1.00 per bushel without reference to parity.

Parity is a politically sensitive issue which has its greatest support in tradition rather than economic rationale. Farm prices are said to be at parity when the relationship between prices of farm products and the prices of goods and services farmers purchase is the same as it was in agriculture's "golden era," 1910-14. Parity focuses only on the prices-received to prices-paid relationship. It is offered as a means of combating the much talked about "cost-price squeeze" facing farmers.

Parity pricing ignores the advances in production technology—notably mechanization, hybrid seed, fertilizer, and chemicals. Increases in prices paid for farm inputs have been offset in varying degrees, depending on the commodity produced, by substantial increases in productivity (the amount of inputs required per unit of output). Average annual production of farm commodities increased about 127 percent from the 1910-14 period to the 1967-69 period. But the amount of inputs required to produce this output increased less than 30 percent. Technology has changed the organization of agriculture from a small-scale labor intensive enterprise in the early 1900s to a large-scale capital intensive enterprise today. This has caused a large outflow of labor from agriculture and a consolidation of small farms into larger units. Those commercial farmers remaining have maintained or increased their incomes through more efficient combination of resources and a higher volume of sales, despite the higher prices paid for inputs relative to prices received.

Dennis B. Sharpe
Agricultural Economist

FARM BUSINESS CONDITIONS

ITEMS	1970		1969
	October	September	October
PRICES			
Received by farmers, U. S. (1957-59=100)	113	116	115
Paid by farmers, U. S. (1957-59=100)	135	134	128
Parity price ratio (1910-14=100)	70	72	74
Wholesale, all commodities (1957-59=100)	117.8	117.8	114.0
Paid by consumers (1957-59=100)	137.4	136.6	129.8
Wheat, No. 2 red winter, Chicago (dol. per bu.)	1.74	1.67	1.36
Corn, No. 2 yellow, Chicago (dol. per bu.)	1.42	1.52	1.21
Oats, No. 2 white, Chicago (dol. per bu.) .....	.75	.79	.60
Grain Sorghum, No. 2 yellow, Kansas City (dol. per cwt.)	2.22	2.29	2.08
Soybeans, No. 1 yellow, Chicago (dol. per bu.)	2.90	2.81	2.38
Hogs, barrows and gilts, Omaha (dol. per cwt.)	18.10	20.39	25.42
Beef steers, choice grade, Chicago (dol. per cwt.)	30.25	30.75	29.02
Milk, wholesale, U. S. (dol. per cwt.)	5.95	5.81	5.85
Butterfat, U. S. (dol. per lb.) .....	.71	.71	.70
Broilers, live, U. S. (dol. per lb.) .....	.13	.13	.15
Eggs, U. S. (dol. per doz.) .....	.33	.39	.40
Milk cows, U. S. (dol. per head)	340	341	337
Farm labor, U. S. (dol. per week without board)	76.50	--	73.00
Factory labor, U. S. (dol. earned per week)	133.85 ^P	135.43 ^P	132.28
PRODUCTION			
Industrial, physical volume (1957-59=100)	162.3 ^P	166.1	173.1
Farm marketings, physical volume (1957-59=100)	180	143	179
INCOME PAYMENTS			
Total personal income, U. S. (annual rate, bil. dol.)	809.5 ^P	811.9	766.7
Cash farm income, U. S. ¹ (annual rate, bil. dol.)	46.4	44.6	45.4
EMPLOYMENT			
Agricultural (millions)	3.4	3.5	3.3
Nonagricultural (millions)	75.5	74.7	75.1
FINANCIAL (district member banks)			
Demand deposits:			
Agricultural banks (1957-59=100)	143.5	139.4	140.4
Nonagricultural banks (1957-59=100)	131.1	136.3	127.8
Time deposits:			
Agricultural banks (1957-59=100)	375.4	371.6	339.5
Nonagricultural banks (1957-59=100)	346.2	340.8	304.3

¹ Based on estimated monthly income.

Preliminary.