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# AGRICULTURAL PRICE POLICIES IN WARTIME

A Discussion of Dr. Holbrook Working's Paper at an Annual Meeting of the Western Farm Economics Association at Palo Alto, California. June 24 - 26

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Dr. Working well points out that agricultural price policy is related to price policy in other parts of the economy. He is also correct in pointing out that we really have no price policy, except as the President, or certain administrative officers at any given time, may have a policy. Dr. Working mentions congressional policy, but I wonder if we can say that such a body has a policy on such a matter as wartime prices? The opposing pressures of conflicting interests too often lead to delayed action, which most members as individuals deplore, and to results which the majority disapproves. Can we say that the final compromise represents a policy?

Dr. Working points out that there are three aspects of the price problem, namely, (1) that of preventing a spiraling of the price level, (2) that concerning distribution of income, and (3) the problem of bringing forth a flow of goods needed for war. All three need to be kept in mind simultaneously. However, the main objective is at all times that of getting the goods made.

Economists have a way of disagreeing with each other on many points, much to the discomfiture of those who are inclined to look to them for a "scientific" approach to current problems. They disagree because, among other reasons, (1) they do not have the same factual background; (2) they have different emotional reactions to current events which they seek to explain; (3) they make different assumptions as to what other moves will be made in the several parts of the economy; and (4) they may have in mind different end results.

In spite of such disagreement, I suspect there is substantial agreement concerning the topic at hand that (1) the price level should be kept from rising; (2) such nonprice factors as rationing, priorities, and licensing will have to be used to bring about the necessary shifting of the uses of our resources; and (3) there will need to be taxation, or deferred payment of wages, or increased bond selling, if the pressure of increased buying power on a bare market is not to lead to widespread price ceiling violations or to black markets in many goods. However, when it comes to the precise procedures to get the desired results, there will again be a good deal of difference of opinions.

A price economy is predicated on the assumption that the price structure will bring about that allocation of resources which will produce the desired goods and services. But prices result largely from individual preferences expressed in the market. In wartime the needs of the government suddenly overshadow all others, regardless of price. To meet this situation devices such as licensing, rationing, and priorities have been developed to supplement other price control measures as directors of production and consumption.

However, except for the military personnel, the human resources are still largely allocated on the basis of the pay envelope. Men select their jobs and work much or little overtime largely on the basis of the wage inducement. How will this inducement work when the goods are largely drained off by the gluttonous demands of a modern government suddenly plunged into a mechanized war?

Leaving this allocation of human resources to the price system also means trouble for those who are to carry out the provisions of the Emergency Price Control Act of 1942. Even with job freezing there is apparently under way some shifting of workers and organized dickering for increases which may gradually force higher wages, and in turn force controlled prices through the established ceilings.

How important taxation or bond selling may come to be as a supplement to any price control and rationing program is suggested by the recent estimate of Professor Howard S. Ellis 1/ that, with the 25 billion dollars of new bank credit we are likely to have as the result of government financing, the cost of living might well rise by 55 per cent in a single year.

Without wishing to belabor a topic on which I have a notion most economists who have studied the problem are substantially in agreement, I should like to comment on the parity concept which the Emergency Price Control Act of 1942 sets up as one of our guides to agricultural price policy in this war period.

Of course it's in the law, so perhaps it's academic to discuss it. But it does not seem to me that the parity idea has any place in a national wartime price program. Its use in the Emergency Price Control Act of 1942 gears present day policy to a period just prior to the last war -- a period beginning just thirty-three years ago. It was not designed to help win the war but rather to favor a particular group, and that group one likely to be injured by inflation.

Repeatedly, discussions of parity stress the notion of balance of par, of fairness, and so forth. Thus, under date of June 1, 1942, there appeared

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1/ Ellis, Howard S., President Roosevelt's Seven-Point Program. An address before the Commonwealth Club of California, May 8, 1942.

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a one-page release from the United States Department of Agriculture entitled "Parity is a Fancy Word; Stands for Fair Balance." This release, which probably went to the several thousand farm advisors over the country, was so worded as to suggest that they give it publicity by passing it on to the local newspapers as a statement of the local farm advisor

If we apply the parity notion to regions (states), using the national index of prices paid, which stood at 148 in March, 1942, and the farm prices of eggs for certain states as of March 15, 1942, we find farm prices of eggs at 105 and 109 per cent of parity, respectively, in Iowa and Kansas, and at an average of only 76.5 per cent of parity in the Pacific Coast states.

If we compare the position of groups of farm products as of March 15, 1942, we again find wide discrepancies. Thus, there are such extremes as rye at 60 per cent of parity, hay at 63 per cent, barley at 68 per cent, beef cattle at 133 per cent, rice at 140 per cent, and wool at 141 per cent. 2/

It is interesting to reflect that the selection of the 1909-1914 base period was not made on any notion of balance between agriculture and the rest of the economy. The balance notion is a sort of halo which three decades of popular discussion have built up about the concept. As a matter of fact, the selection of this base was largely accidental, in the sense that (1) World War I broke out in August, 1914, rather than at some other time, and (2) monthly farm prices were first estimated and later published for a considerable list of farm products just about five years before the war broke out, in the early months of 1909.

The widespread notion that agriculture was in balance with the rest of the economy in the 1909-1914 period is seldom jarred by the presentation of charts showing data prior to the period 1909-1914. Instead, there has been a very widespread use of a chart which begins in 1910 and which has two lines, one representing agricultural prices and the other nonagricultural prices, both calculated on the basis of 1910-1914. (The legally correct base period is August, 1909, to July, 1914.) The fact that a statistical operation puts both lines of a chart on the same level during the base period readily misleads the untrained or uninformed reader. Such a chart published in January, 1942, with 1910-1914 as the base covers the thirty-year period 1910 to 1940. It carries the caption "Farm Prices Subnormal for Twenty Years."3/

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2/ Data compiled from United States Department of Agriculture. Mid-Month Local Price Reports. March 30, 1942.

3/ United States Agricultural Adjustment Administration, Division of Information. Farm prices and food costs. p. 2. January, 1942.

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Another chart published by the Department of Agriculture in December, 1940, 4/ compares farm prices from 1869 to 1937 with the all-commodities index of the Bureau of Labor Statistics both on the basis 1910-14=100.

This chart, effectively hidden in a technical bulletin which few will see, shows the index of farm prices far below the all-commodities index from 1869 to 1909, a period of just forty years. The two charts might well be combined and labeled "Farm Prices Subnormal for Sixty Years."

But the parity notion is in the law, and for the time being there is probably no use in discussing it. However, I am inclined to consider the whole notion preposterous. To quote Dr. J.S. Davis, "I know no other set of ideas so widely accepted as ground for agitation and basis for action which supposedly rest on good statistical evidence but do not." 5/

In spite of criticism of methods of procedure, I feel that perhaps prices should have been allowed to rise somewhat as the surest way to get increased production in a field in which production is needed and in which the response to higher prices is normally rather prompt. More useful as a means of directing production is the proviso of the so-called Steagall Amendment, which permits the Secretary of Agriculture to announce that he will support the prices of the products which he finds urgently needed at 85 per cent of parity.

We have indeed, as Dr. Working has stated, started forces at work which will bring big changes in the pattern f consumption. "The decisions from which they will flow have been taken. The economic machine has been redesigned to produce these effects; and power is on. We now merely await an outcome which will be affected only in minor degree by decisions and adjustments yet to be made." But apparently most persons do not yet realize what changes are likely to come. They are still using tires, not in the hope that they will be able to buy substitutes, but in the childish confidence that they will be able to do so.

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4/ Strauss, Frederick, and Louis H. Bean. Gross farm income and indices of farm production and prices in the United States, 1869-1937. U. S. Dept. Agr. Tech. Bul. 703:139. December, 1940.

5/ Davis, Joseph S. On Agricultural Policy, 1926-1938. Food Research Institute. p. 216. 1939. The statement was orginally made in December, 1932.

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