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The concept of parity for agriculture and the support of agricultural prices appears to be deeply rooted in the thinking of American farmers as well as in federal statutes. Let us examine briefly some of the apparent causes of this far reaching development in our economy.

The collapse of farm prices following World War I and subsequent depressed conditions in agriculture which came to be more or less chronic in the interwar period provided a fertile setting for the germination and growth of farm price control ideas of the period. Low average per capita farm income in those years was accompanied by highly unstable prices of farm products. Since over-all agricultural production remains stable from year to year, it is only natural that farmers and their spokesmen look upon prices as the disease which needs specific treatment in order to increase and stabilize farm income.

Prices of agricultural products increased faster and further than most other prices during the Post-World War II inflationary period. As a result, the financial position of many farmers has improved, yet most farmers see in this inflation the making of a record breaking farm price collapse.

Under the stimulus of wartime demand, agricultural production in the United States increased 25 percent and food output by one-third over the pre-war level. Agricultural production is essentially a one-way street, and it is not likely that our total output of food, feed, and fibers will decline from the new high levels; in fact, further increases in output are more probable over the next decade.

The demand for many United States farm products, both foreign and domestic, is, on the other hand, easing off and further declines appear to be in the offing. The extent and duration of this adjustment in the agricultural supply-demand relationship is not calculable but is greatly feared by farmers who see in it, together with the mounting costs of recent years, a serious threat to their income.

Farmers have in the past suffered from the major ups and downs in production, income, employment, and prices in the general economy, and fear of further reverses from this source appears to be widespread. Farm prices are sensitive to changes in consumer demand as reflected in retail prices. The costs and prices of services performed on farm commodities between the farmer and the consumer are, on the other hand, relatively slow to change with de clining demand and declining prices at retail. Accordingly, as consumer expenditures decline the percentage of the reduced outlay going to farmers also declines. For example, the part of the consumer food dollar going to farmers varies as much as 20 percent between periods of prosperity and depression.

Possible or likely decreases in industrial production, consumer income, and consumer expenditures, together with high and stable agricultural output and collapsing farm prices, is the specter which accounts, in the main, for the large measure of backing given by farmers to the support price policy. Other factors of concern to farmers are administered and sticky industrial prices and wages.

It should be mentioned at this point, however, that there is a significan and growing appreciation, on the part of well informed farmers, of the close identity of the general business cycle problem and the "farm problem". The president of one of our leading national farm organizations recently stated, "If we can find the way to keep our economy at a high and stable level of production and employment, the farm problem will in large measure be solved." He offered the further observation that without solution of the general business problem, the farm problem could not be satisfactorily solved.

Function of Prices. I would like to turn at this point to a consideration of the function of prices and a few of the more important limitations of support prices in a capitalistic economy. Prices in an economy such as ours have a dual role. They register the swings in business, and are in an import ant sense the pulse taker and thermometer of the nation's economic health. In addition, prices have, for better or for worse, been our principal device for allocating resources between alternate lines of production. Consumers, throu their choices, support the production of goods of their choice which in turn attracts the labor and capital necessary for production. This allocating mechanism has been far from perfect, but we have yet to devise an improved technique.

Price changes have not, in all instances, contributed to the best use of agricultural resources, and a limited use of certain administrative controls might well increase efficiency in resource use. However, support prices tied to the parity concept are more likely to make worse than they are to facilita needed shifts in the use of agricultural resources. As techniques of producti and consumer tastes change over time, the favored lines of production should b expanded while others are contracted. Support prices, such as those on cotto and wheat, tend to restrain resource movement to more productive uses. All t frequently support prices tend to aid and abet the failure of competitive pri to effect needed adjustments; e.g., freer movement of labor from agriculture t industry.

Support prices during the war and the postwar period have stimulated a record production which has met the unprecendented level of demand at home an the relief needs abroad. The high fixed level of support prices for a number of commodities during much of that period made a notable contribution, and could not be objected to as a false economy.

Support Prices and Agricultural Surpluses. The enormous stocks of surplu wheat and cotton which we held in 1939 and 1940 resulted in the main from sup price programs and the general failure of crop acreage restrictions to contro production. With the advent of the war, these surpluses, especially wheat, changed from a major farm problem to a boon to the Allied cause. Defense and other considerations will likely justify an annual carry-over of about one-quarter of a billion bushels of wheat. However, annual wheat crops well in excess of one billion bushels, together with some reduction in domestic and foreign demand, will likely give rise to unmanageable surpluses under the cur rent support price program. A dual price system for wheat designed to expand exports and use of wheat for livestock feed will violate the basic principles of our foreign trade policy and aggravate the corn price problem. Such a sch might be reconciled with trade policy through the International Wheat Agreeme

Our experience in attempting to support prices during the last three yea should convince the doubting of the impracticability of supporting the prices relatively perishable products.

A recent announcement from the Commodity Credit Corporation revealed government inventories of the following commodities on April 30, 1950; linseed oil, 439 million pounds; dried eggs, 88 million pounds; butter, 99 million pounds; dried milk, 316 million pounds. Inventories of dried eggs and dried milk have reached a point which requires disposals at a fraction of the procurement cost. Substantial losses beyond those already incurred on these programs appear inevitable. The Commodity Credit Corporation incurred net losses amounting to $410 million during the 16 months ended June 30, 1950.

<u>Alternatives to Present Support Prices</u>. The grievances of agriculture are not without foundation, and the welfare of the national economy is not well served by leaving agriculture fully exposed to maladjustments arising out of violently fluctuating demand on one hand and vagaries of nature on the other hand. The larger, more commerical half of United States farms produce 85 to 90 percent of our agricultural production moving in trade. On the other hand, about 2 million farms produce a minor proportion of the commercial farm output and have extremely low incomes and a low level of living. A farm program designed to provide protection against major economic shocks and natural destruction to the larger commercial farms will not adequately meet the needs of most of the 2 million lowest income farms.

United States farm income, although down 15 percent from the postwar high, is still 33 percent above the 1935-39 average in relation to national income. Some further downward adjustment of farm income in relation to national income may be inevitable.

Current or prospective surpluses of grain need no longer pose a serious problem. A moderate lowering of support prices would encourage an increase in livestock and poultry feeding to an extent that would keep grain stocks at desired levels. A continued export of wheat at desired levels may well be facilitated by successful operation of the International Wheat Agreement.

As long as the national economy continues to operate at a high level of employment, production, and national income there will likely continue a demand for meat products that would abosrb an amount of livestock and poultry production sufficient to absorb grain surpluses at generally profitable prices.

Protection against severe price and income declines that would appear with a falling off in demand could well be provided by income payments to producers of perishable products at a level designed to cover out-of-pocket costs of a fairly high proportion of the commercial farms. This is essentially the Brannan proposal with a notable modification relative to the level of income payments. If price and income policies would provide for a ratio of feed price to livestock and poultry prices favorable to feeding the demand for grains would remain high and eliminate most if not all surplus problems. Such a price and income policy plus extended crop insurance would go far toward solving major problems for a large segment of United States commerical agriculture,namely, grain, livestock and poultry producers.

Such a program would, however, leave the problem of some two million small, low-income farms largely unsolved. This farm sector is bedeviled with surplus labor, inadequate capital, poor educational and health facilities. In addition to such aid as moderate price and income supports might offer this group they require several forms of direct aid. Direct aid to these farms might well tak the form of increased government support for improved educational facilities, vocational training, employment service and medical service. Such aid would contribute toward relieving the surplus labor problem and raise the level of education and health. In addition to facilitating a needed economic adjustment this aid would make a notable social contribution in that the youth from such farms constitute a primary source of our net annual population increase to meet and fill the deficits of urban areas.