THE FEDERAL RESERVE BANK OF CHICAGO

AGRICULTURAL LETTER

September 24, 1948

New high records for the national income at an annual rate of 221 billion dollars have just been announced by the U. S. Department of Commerce for the second quarter of this year. The record was set in spite of declining farm prices, particularly for crops, with industrial prices generally advancing and corporate profits making the most striking gains. The new record for national income was about three per cent above the first quarter level and nearly 10 per cent above the 1947 annual total.

In spite of the softening of some farm prices USDA indicates that the 1948 cash farm income for U. S. farmers will set by possibly a small margin another record. The three factors accounting for the showing this year are: an increase in marketings of about four per cent above last year during the first eight months of 1948; record high livestock prices this year; and record crop production, a substantial proportion of which will be marketed during the rest of the year. At this time it appears the year's total will be 31.5 to 32.0 billion dollars, compared with last year's estimated total of 30.5 billion.

But there are some signs of uneasiness beginning to show up in other than crop prices. In spite of new records for mill prices of 21.6 cents at retail and $5.33 for class I milk to farmers in early September resistance to these prices may soon make itself felt at the retail level with some slight to moderate downward adjustments shortly. USDA anticipates somewhat lower prices for fruits in 1949. Even if demand continues at the 1948 level, slightly larger supplies are expected to shave prices.

This is the time of year when recommendations of USDA as to production goals for the following year begin to come along with increasing frequency. The Department has recently recommended a continued high level of production of spring vegetables at a level about equal to this year's output. Suggestions for summer and fall vegetable crops for processing will be made later. Another goal recommendation the Department made this week was for a record peacetime 1949 spring pig crop of 60 million pigs, about one-sixth larger than the 1948 spring crop. The recommendations include an increase of one-fifth in the number of sows farrowed, thus assuming only an average size of litter. The Department says that even larger increases than this are in order, but that the number of available sows and gilts for breeding make the goal suggested as large as is practicable.

The announced production goals for eggs also call for continued high production in 1949 to meet continued high market demand. USDA recently announced that there will be no change in the October price support level for eggs. Producers are to continue to receive 35 cents per dozen in the Midwest. Expanded poultry production is indicated by the commercial hatchery report for August which showed chick production at 31 per cent above August of last year with hatcheries reporting a very strong demand for chicks for broiler production and with inability to fill chick orders in some parts of the country. Eggs in incubators on September 1 were 40 per cent above a year earlier.

Because of the interest in and the importance of the new farm legislation embodied in the Agricultural Act of 1948, we are enclosing herewith a copy of our summary of the main provisions of that Act. There is also enclosed a copy of a diagram which we have designed and reproduced by which the reader can quickly and graphically determine the current parity price for important Corn Belt farm products.

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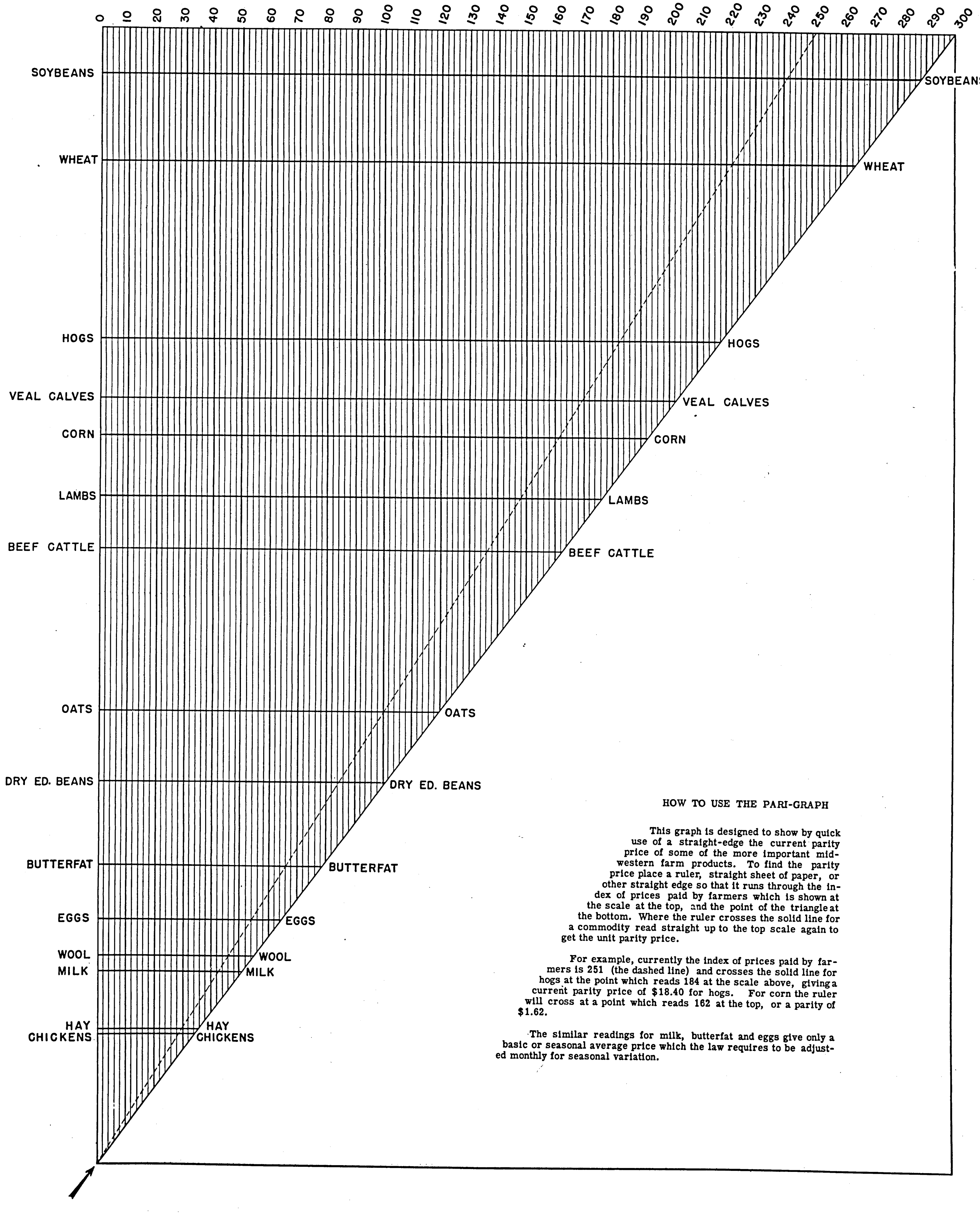

HOW TO USE THE PARI-GRAPH

This graph is designed to show by quick use of a straight-edge the current parity price of some of the more important mid-western farm products. To find the parity price place a ruler, straight sheet of paper, or other straight edge so that it runs through the index of prices paid by farmers which is shown at the scale at the top, and the point of the triangle at the bottom. Where the ruler crosses the solid line for a commodity read straight up to the top scale again to get the unit parity price.

For example, currently the index of prices paid by farmers is 251 (the dashed line) and crosses the solid line for hogs at the point which reads 184 at the scale above, giving a current parity price of $18.40 for hogs. For corn the ruler will cross at a point which reads 162 at the top, or a parity of $1.62.

The similar readings for milk, butterfat and eggs give only a basic or seasonal average price which the law requires to be adjusted monthly for seasonal variation.

Digest of the Agricultural Act of 1948

Major Changes Scheduled for 1950

In the closing days of the last regular session in June Congress passed the Agricultural Act of 1948. This Act represents a material alteration of previously existing farm legislation. Because the Act is in some ways complicated and not easily understood without some study, there is presented in the following paragraphs a digest of the major provisions of the legislation. There is no certainty at this time as to how permanent this law may be, and it may be that it will be again revised in later sessions, as some agricultural leaders have indicated. Whether or not it is materially changed, in its present form it contains important provisions as to farm price supports and production controls that will be the basis of Federal agricultural programs for several months to come.

BACKGROUND

At the time the Congress was discussing new farm legislation there were widely divergent views in the Senate on one hand and in the House of Representatives on the other as to the form which such legislation should take. The views were so far apart on major points that it was widely believed that Congress would be unable to agree on legislation acceptable to both Houses.

Boiled down to simplest terms, the position of agricultural leaders in the Senate was: that a substantial reorganization of the U. S. Department of Agriculture is needed in order that farm production programs, and particularly soil conservation programs, be operated with more control in the hands of state and local officials; that existing methods of parity are antiquated and need modernizing; that price supporting programs need overhauling to make them more realistic in terms of a threatening potential surplus position of agriculture; and, generally, that while agriculture is now in a relatively favorable economic position, this is a good time to make such changes with a minimum of hardship on farmers and the economy generally.

On almost all of these points the position of House agricultural leaders was opposed. There it was felt: that most of the provisions as to reorganizing the Department of Agriculture were unacceptable, and the House Agricultural Committee had very different proposals of its own as to production and soil conservation programs; that with world needs for food (to meet nutritional goals and to implement foreign policy) continuing at or near maximum levels the present is no time to jeopardize maximum production in this country by altering the wartime commitments to support farm prices at 90 per cent of parity; that the present situation called for the continuation of the present price program for several years.

THE ACT AS PASSED IS A "COMPROMISE"

The conflicting positions of the two houses were in effect reconciled by the passage of the Act in a form that comprises the divergent views. The compromise is achieved by continuing until June 30, 1950, (with some modifications) the price support commitments which otherwise were to expire December 31, 1948. This might be said to be the Senate's concession to House views. After the expiration of these commitments the Act provides for a new method of computing parity and for a variable level of price support, ranging from 60 to 90 per cent of the "modernized" parity, with the percentage variations based on the yearly level of supplies of each commodity in relation to a "normal supply." This may thus be said to be the House's concession to Senate views. To summarize the Act in one sentence, it can be said that it continues present price supports on 1949 production, and that after that commodities will have new "parities," some higher and some lower than now, and that price support levels will be lower than under present commitments.

MOST OF PRESENT SUPPORTS CONTINUED

The Agricultural Act of 1948 continues, with some relatively minor modifications, the existing system of supporting "basic" and "Steagall" commodities at 90 per cent of parity, until December 31, 1949, with some exceptions as to this date. It should be here emphasized again that the parity price of any commodity is not an absolute, unchanging amount. To speak metaphorically, "parity" is measured by a rubber yardstick. Each commodity has a "base-period" price—1909-14 average for most commodities, but 1919-28 for citrus fruits, and tobacco, and a calculated "comparable"[1] base for soybeans. This figure for each commodity, for example $7.27 for hogs, is the starting point. This starting point, or base-period price, is next multiplied by an index number. That index number measures changes in the prices of the things farmers buy for living and production. It is measured in terms of 1909-14 as 100 per cent. For example, the June and July level of this index of prices paid by farmers was 251 per cent, or 2.51 times as high as it was in 1909-14. The parity price of any item at any given time, then, is the base-price multiplied by this index. For example, the July parity price of hogs was $7.27 times 2.51, or $18.20. Thus it may be seen that as prices *paid* by farmers rise and fall, parity prices of each commodity rise and fall by the same percentage.

[1]The Secretary is authorized under this and previous legislation to calculate and establish a "comparable base-period" price for certain commodities where he finds that the production or consumption has so changed since 1909-14 as to make that period unsatisfactory as a base.

Thus if prices *paid* by farmers should rise to a level where they are three times the 1909-14 level, the parity price of hogs would then be $7.27 times three or $21.81.

The Act gives the Secretary of Agriculture authority to require compliance with production goals and marketing regulations and restrictions as a condition of eligibility for these price supports.

Authority to make payments to producers for soil conservation practices is continued by the Act until December 31, 1950.

The Act also authorizes the President, on the basis of findings by the U. S. Tariff Commission that the importation of articles renders the price supporting operations ineffective or reduces the amount of product processed from agricultural commodities, to impose import fees up to 50 per cent of the value. Such fees are not to be regarded as duties for the purpose of granting preferential concessions in international trade negotiations. At the same time such fees shall not be imposed in contravention of any existing treaties or agreements to which the country is a party at that time.

TABLE 1
PRICE SUPPORTS PROVIDED BY AGRICULTURAL ACT OF 1948

Commodity	Support at	Until
Corn	90% of parity	June 30, 1950
Wheat	90% of parity	June 30, 1950
Cotton	90% of parity	June 30, 1950
Rice	90% of parity	June 30, 1950
Tobacco	90% of parity	June 30, 1950
Peanuts	90% of parity	June 30, 1950
Irish potatoes	90% of parity or "comparable price"	All the crop harvested before January 1, 1949, is marketed
Milk and milk products	90% of parity or "comparable price"	January 1, 1950
Hogs	90% of parity or "comparable price"	January 1, 1950
Chickens	90% of parity or "comparable price"	January 1, 1950
Eggs	90% of parity or "comparable price"	January 1, 1950
Turkeys Dry edible beans Dry edible peas Soybeans for oil Flaxseed for oil Peanuts for oil American Egyptian cotton Sweet potatoes	Not less than 60% of parity or "comparable price," but not more than the level of support in 1948	January 1, 1950
Wool	42¢ lb., approximately	June 30, 1950
All other commodities	A level to bring prices and income to "a fair parity relationship" to the above commodities, but only to the extent funds are available after commitments on above commodities have been met	January 1, 1950

"PERMANENT" CHANGES IN PARITY AND SUPPORT PRICES

It was seen from the above discussion and the table on price supports that most of the current provisions expire during or at the beginning of 1950. As these expire, the provisions that represent the contributions of Senate agricultural leaders are to come into effect. These are sometimes referred to as "permanent" legislation because they are designed to form the basis for relatively long-time Federal farm programs. There is, of course, very little in the way of legislation that can be counted on as permanent, since needs, conditions, and pressures are constantly changing. The new provisions do, however, represent a new stage in the evolution of farm legislation. They are likely to continue in substantially the same form as embraced in the Act for some time to come.

MODERNIZING PARITY

Parity based on historical price relationships in 1909-14, 35 to 40 years ago, has been under criticism as unrealistic and unfair for a long time. Changing tastes and habits in consumption of foods, changing technology in industry and in the farm production of commodities, and the changing role of the nation in international relations have all contributed to cost and price structures and cost-price relationships quite different today from what they were a third of a century ago. There has consequently been insistent pressure for a more modern method of computing parity prices for farm products.

The Agricultural Act of 1948 sets up a new method of calculating parity that in part, and in part only, meets this need. With a 1909-14 base, as under previous legislation and the temporary provisions of the current Act, a commodity was at parity only when a given unit, a pound or a bushel, would buy the same physical quantities of things and services used by farmers as it did in 1909-14. In the same way when the level of all farm commodity prices was such that taken as a whole they would buy the same quantities of the things farmers use as they did in 1909-14, the farm price level was at parity. The "modernized" parity differs from the old parity in respect only to the former provisions. To the extent that it seeks to maintain the same relationship between prices *received generally* by farmers and prices *paid* by them as prevailed in the 1909-14 period it fails in completely modernizing parity because it ignores the changes in the technologies of farm production and of industrial production, and in the marketing and distribution of farm and nonfarm products during the last third of a century, and the consequences of these relative changes in establishing new and different relationships between farm and nonfarm prices than held, more or less incidentally, during 1909-14. Parity in the new Act continues to be based on the 1909-14 relationship of the *level* of farm prices to the level of prices *paid* by farmers.

But the Act does "modernize" parities for individual commodities by setting as a base for the price of each commodity the average of the most recent 10-year period. In this way the relationships among the various farm commodity prices during recent history are reflected in the parity prices; that is, recent trends in consumption and production that have affected prices are carried into the parity base for each commodity, thus "modernizing" the parity. This new base, the average of 10 years, is next to be adjusted so as to convert it to an adjusted 1909-14 base. This is done by *multiplying* it by the ratio of the general level of prices received by farmers in 1909-14 to the general level of prices received during the same (the most recent) 10-year period. For example, suppose that the average price received by farmers for hogs during the 10 years, 1938 through 1947, was $12.52, and that the average level of all prices received by farmers during the same decade was 168 per cent of the 1909-14 level. The adjusted base price thus becomes $12.52 times 100/168 or $7.45. To get the current parity price of hogs this adjusted base-price is then to be multiplied by the index of prices paid by farmers, which was 251 per cent of the 1909-14 level for June and July. This would give a current parity price of $18.70 if this were the method currently required by law. The parity price for hogs is currently $18.20.

This illustration was for a commodity whose parity will be raised under the new method of calculating parity. The parities of beef cattle, hogs, milk, butterfat, wool, and several other commodities will be raised when the new provisions become effective, while the parities of other commodities, such as corn, wheat, and eggs, will be lowered. The Act provides, however, for a gradual easing into, or adjustment over to, the new parity price for those commodities that are to have a lower parity. During the period of adjustment the parity price to be used is a special one defined in the Act as "the transitional parity price." This transitional parity price is to be the parity as now calculated less five per cent for each full calendar year after January 1, 1949, and will prevail until it gets down to the new parity level. In other words, the transitional parity will be 95 per cent of parity under the present formula for 1950, 90 per cent for 1951, 85 per cent for 1952, etc., or until the level of the new parity is reached.

But even these specific provisions for the calculation of parity are not necessarily rigid. The Act gives the Secretary of Agriculture power to hold hearings and proclaim other parity prices for commodities whose parity as defined in the law is nevertheless "seriously out of line with the parity prices of other agricultural commodities."

Of current interest, although not directly connected to the major emphasis of this article, is the relationship between parity prices as calculated at present and the prices actually received by farmers for a recent date. In mid-August the index of prices *received* by farmers was 293 and the index of prices *paid* was 251 (1910-14=100). Thus farmers received for their products prices which averaged 17 per cent above parity. Corresponding data for individual commodities appear in Table 2.

PRICE SUPPORTS

When the "permanent" provisions of the new Act become effective, prices are to be supported, but at varying rates or percentages of parity depending on several conditions. The Act provides that in determining the level of price support for any one commodity consideration shall be given to the level of supply in relation to demand, to the level at which other commodities are being supported, to the availability of funds, to the perishability of the commodity, to its relative importance to agriculture and in the national economy, to the ability to dispose of stocks acquired in supporting prices, to the need for offsetting temporary losses of export markets, and to the ability of producers to adjust supplies.

For the "basic" commodities (wheat, corn, cotton, rice, tobacco, and peanuts) the percentage of parity at which prices are to be supported is to be determined under the Act by the relation of total supply at the beginning of the marketing year to a normal supply. Total supply is production plus carryover at the beginning of the marketing year, plus expected imports. Normal supply is the estimated domestic consumption in the previous year plus estimated exports for the forthcoming marketing year, plus an allowance for carryover. Prices of these basic commodities are to be supported at rates ranging from 90 per cent of the "new" parity when supplies are not more than 70 per cent of normal to 60 per cent of parity when total supplies are more than 130 per cent of normal. When total supply equals normal supply, and no

TABLE 2
PRICES RECEIVED BY FARMERS, PARITY PRICES, AND PRICES RECEIVED AS PER CENT OF PARITY AUGUST 15, 1948

Item	Unit	Price Received	Parity Price	Price Received as Per Cent of Parity
Wheat	bu.	$1.96	$2.22	88
Rye	bu.	1.46	1.81	81
Rice	bu.	2.56	2.04	125
Corn	bu.	1.91	1.61	119
Oats	bu.	.69	1.00	69
Barley	bu.	1.14	1.55	74
Grain sorghum	cwt.	2.07	3.04	68
Hay	ton	17.80	29.80	60
Cotton	lb.	.30	.31	97
Cotton seed	ton	76.60	56.60	135
Soybeans	bu.	2.91	2.41	121
Peanuts	lb.	.10	.12	83
Flaxseed	bu.	5.75	4.24	136
Potatoes	bu.	1.58	1.86	85
Sweet potatoes	bu.	2.65	2.20	120
Dry beans (edible)	cwt.	10.50	8.46	124
Apples	bu.	2.22	2.41	92
Hogs	cwt.	27.10	18.20	149
Beef cattle	cwt.	24.40	13.60	179
Veal calves	cwt.	26.60	16.90	157
Lambs	cwt.	24.80	14.80	168
Butterfat	lb.	.81	.63	129
Milk, wholesale	cwt.	5.02	3.94	127
Chickens, live	lb.	.33	.29	114
Turkeys, live	lb.	.43	.36	119
Eggs	doz.	.49	.54	91
Wool	lb.	.47	.46	102

SOURCE: U. S. Bureau of Agricultural Economics.

production restrictions or marketing quotas have been declared, the support level is to be 75 per cent of parity. This might be called a balance point. The complete schedule specified in the Act allows a decrease of one per cent of parity in the minimum support level for each two per cent of increase in the ratio of total to normal supplies. Assuming that these scheduled price supports were to be achieved, the schedule is thus presumed to guarantee farmers a larger return for output above "normal" needs than for output smaller than normal supply.

But these varying levels of support for prices are only the beginning of the story. Several important exceptions are listed in the Act which are more likely to be the rule. If acreage allotments are in effect when the crop was planted, or if marketing quotas have been approved by producers and are in effect at the beginning of the marketing season, the minimum support level is then to be 120 per cent (1.2 times) the minimum support provided in the schedules up to a maximum of 90 per cent of parity. Incidentally, it should be noted that this brings the support level at the "balance point" up to 90 per cent. If producers have disapproved marketing quotas, the support level is to be 50 per cent of parity. Let us see how this set of figures works out. Suppose that the total supply of corn is determined to be 11 per cent above normal supply. If there were no acreage allotments on the planting of the crop, and if there has been no referendum on marketing quotas, the Act requires the price to be supported at 70 per cent of parity. If there had been acreage allotments on the planted crop and/or marketing quotas, the support level minimum would then be 84 per cent of parity (70 per cent times 1.2). But if producers have voted against marketing quotas, the support level would be 50 per cent of parity.

An exception to all these provisions is granted to permit the support of tobacco at 90 per cent of parity whenever marketing quotas are in effect. And notwithstanding all these provisions for minimum supports the Secretary of Agriculture is given authority in the interest of national security to establish higher support levels in order to "increase or maintain" production.

On nonbasic commodities no minimum support levels are provided (except for Irish potatoes and wool). A ceiling of 90 per cent of parity is placed on price supports for such commodities. Potatoes are to be supported at 60 to 90 per cent of parity and wool at 60 to 90 per cent with the Secretary to determine what support level is necessary to yield an annual production of 360 million pounds of shorn wool. Otherwise the support of "nonbasic" commodities is to be at the discretion and under the approval and direction of the Secretary subject to the general conditions already mentioned.

In price supporting operations the Commodity Credit Corporation is not permitted to resell acquired stocks below the highest of these three measures: (1) costs of acquisition, (2) the average of the support price and parity, or (3) a price equivalent to 90 per cent of parity. These restrictions do not apply, however, to sales for new uses or by-product uses, to sales of peanuts for oil, and of wool, to sales of deteriorated products or sales to prevent spoilage, to sales for export, nor to "sales for other than primary uses."

MARKETING QUOTAS

One of the conditions of price support required by the Act is the ability and willingness of producers to keep supplies in line with demand. To implement this condition the Secretary of Agriculture is given power to proclaim marketing quotas on the basic commodities, and to require compliance under penalty payments with such quotas when they are in effect. This is in part to be enforced by the price provisions in the Act which give higher than the scheduled supports where acreage allotments or marketing quotas are in effect, which set a support level of only 50 per cent of parity where producers reject marketing quotas by referendum, and which permit only low or nominal price supports to "non-cooperators" (those who willingly and knowingly exceed acreage allotments).

The Act provides that in the case of wheat and corn the Secretary shall proclaim marketing quotas for the crop produced in the next succeeding calendar year when he finds that the total supply for the marketing year ending in the current calendar year is more than 20 per cent above the normal supply. For cotton such quotas are to be proclaimed when the total supply has exceeded normal by eight per cent. Quotas are also to be proclaimed when for any three successive months in the marketing year the price received by farmers has not exceeded 66 per cent of parity. For tobacco the quotas are to be set up whenever the Secretary finds that the total supply exceeds normal supply. Criteria with regard to the relation between total and normal supply are not a condition to the proclamation of peanut marketing quotas.

Deadline dates are set by the legislation for the proclamation of these respective quotas. Within reasonably short times after their proclamation the Secretary is required to conduct a referendum vote among producers giving them an opportunity to accept or reject the quotas. The advantages in terms of price supports are such that it would, however, be a most unusual situation that would result in a rejection of the quotas by producers. But they can reject the quotas if more than one-third of those voting disapprove. In other words, approval of the quotas by producers requires a two-thirds vote.

SUMMARY NOTE

The above discussion is an attempt to digest as briefly as can reasonably be done the main provisions of the Agricultural Act of 1948. It should be clearly understood that these comments represent in no way whatsoever an attempt to make a legal interpretation of what the law requires. What has been attempted here is to summarize what may be called the economic provisions of the new Act, which are the current legislative framework for farm policies and programs, and are presumably to be continued in substantially this form for some time to come. However, possible changes in the agricultural situation may necessitate revisions of this Act.

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