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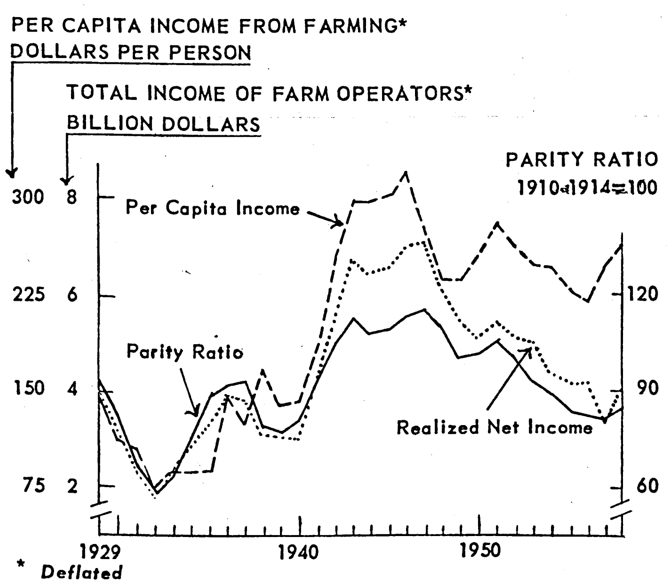
"PARITY" has served as a central hitching post for farm policy since about the mid-1930's. At times, key policies were snubbed closely to this post, at other times the rein was allowed a good deal of slack. Thus, it has been possible by varying the hitch to provide some leeway in farm price policies to adjust to changing conditions even though remaining hitched to the same post.

But, as has been pointed out repeatedly over the years by able statisticians and economists, and, in recent years, by a growing number of farm leaders as well, prices based on historical conditions more often than not are inadequate to current conditions. Very persuasive evidence of this fact is provided in the $9 billion of CCC stocks and loans outstanding as of January 31, 1959.

However, if prices are to be set by means other than market forces, some kind of guide is needed. While prospective supply and demand would seem to be the most logical guides, these are matters of judgment, and judgments differ. Thus, the effort to hitch prices to a pattern of historical relationships has prevailed.

Year-to-year movements in the parity ratio (the ratio of prices received to prices paid by farmers) have paralleled movements in farm income. Over a longer period of time, however, the technological revolution in agriculture has freed labor, increased output and permitted farm income (and in particular income per person in agriculture) to break away from the trend of the parity ratio. Further, the individual farmer's income depends on the amount of his output and his efficiency, as well as the prices received for his products.



EVERYONE, of course, is interested in prices. Incomes of professional people, laborers and farmers are all heavily dependent on the prices of their products and services. And as consumers, we are all interested in the costs of things we buy.

Price and output adjustments to changing market conditions vary for different commodities. Production of most industrial goods show large changes in response to short-run demand changes while prices remain relatively stable. In the absence of support programs, however, prices of most agricultural and some other commodities often show large changes, usually in response to supply changes.

Efforts to support farm prices were originally aimed at leveling out wide seasonal fluctuations. It was believed that prices at harvest time were unduly depressed. Also it was thought that a portion of large crops could be carried over to years of smaller crops and prices and income stabilized. After the efforts of the Federal Farm Board to stabilize prices in the period 1929-1933 proved unsuccessful, Board officials concluded that any effort to raise market prices merely by shifting supplies from one season to another or one year to another could not be effective. It was a problem of controlling total supply.

During the mid-1930's, production controls were not effectively tested because the severe droughts cut farm output drastically. Then during World War II, price supports were raised in order to encourage needed expansion in food and fiber production. Following the end of the critical postwar world food shortages in 1948, strong opposition developed to any reduction in the level of price support and to the introduction of strict output controls on most farm commodities. Many point out that while production controls could, if effective, raise prices and reduce outlays for Government programs, it would not solve the income problem of many individual farmers though total farm income might be maintained.

Thus, adoption of new farming practices and enlargement of farm units may be the most promising method of solving the income problem of individual farmers. To break with traditional methods of production is not easy. Yet no one can deny that improvements in production—greater output at lower costs—provide the key to economic progress for any society, agricultural or industrial. The process of adjustment, however, is not conducive to "the quiet life."

Research Department

FARM BUSINESS CONDITIONS, 1940–1958

ANNUAL SUMMARY

ITEMS		Calendar Years				
		1940	1945	1950	1957	1958[1]
PRICES:						
Prices received by farmers	(1947-49=100)	37	76	95	87	92
Paid by farmers	(1947-49=100)	50	76	102	114	117
Parity price ratio	(1910-14=100)	81	109	101	82	85
Wholesale, all commodities	(1947-49=100)	51	69	103	118	119
Paid by consumers	(1947-49=100)	60	77	103	120	124
Wheat, No. 2 red winter, Chicago	(dol. per bu.)	.95	1.73	2.22	2.21	2.04
Corn, No. 2 yellow, Chicago	(dol. per bu.)	.63	1.21	1.50	1.29	1.26
Oats, No. 2 white, Chicago	(dol. per bu.)	.39	.74	.85	.76	.69
Soybeans, No. 1 yellow, Chicago	(dol. per bu.)	.95	2.20	2.74	2.39	2.23
Hogs, barrows and gilts, Chicago	(dol. per cwt.)	5.80	14.75	18.39	18.28	20.28
Beef steers, choice grade, Chicago	(dol. per cwt.)	11.86	17.30	29.68	23.83	27.42
Milk, wholesale, U. S.	(dol. per cwt.)	1.82	3.19	3.95	4.24	4.15
Butterfat, local market, U. S.	(dol. per lb.)	.28	.50	.62	.60	.58
Chickens, local markets, U. S.	(dol. per lb.)	.14	.27	.25	.18	.18
Eggs, local markets, U. S.	(dol. per doz.)	.18	.38	.37	.36	.38
Milk cows, U. S.	(dol. per head)	61	111	198	166	209
Farm labor, U. S.[2]	(dol. per week without board)	9.38	25.25	31.00	41.25	42.50
Factory labor, U. S.	(dol. earned per week)	25.20	44.39	59.33	82.39	83.71
PRODUCTION:						
Industrial	(1947-49=100)	67	107	112	143	134
Farm marketings	(1947-49=100)	77	98	100	116	123
INCOME:						
Total personal	(bil. of dol.)	78.7	171.2	228.5	347.9	354.4
Farm:						
Cash receipts from marketings	(bil. of dol.)	8.4	21.7	28.5	29.8	33.2
Farm operators' net, total	(bil. of dol.)	4.6	12.4	14.0	11.6	14.2
Farm operators' net, per farm	(dollars)	675	2,154	2,334	2,232	2,735
Income of farm population from all sources	(bil. of dol.)	8.0	18.2	21.0	19.7	21.4
EMPLOYMENT:						
Farm	(millions)	9.5	8.6	7.5	6.2	5.8
Nonagricultural	(millions)	37.9	44.2	52.5	58.8	58.1
FINANCIAL:						
Weekly reporting member banks:[3]						
Demand deposits adjusted[4]	(bil. of dol.)	(22.3)	(37.1)	51.3	56.9	59.0
Total loans[4]	(bil. of dol.)	(9.4)	(15.8)	31.4	55.4	56.2
Commercial, industrial, and agricultural loans[4]	(bil. of dol.)	(5.0)	(7.2)	17.9	32.3	31.4
U. S. Government total gross direct debt[3]	(bil. of dol.)	45	278	257	275	283

[1] *Preliminary estimates.*

[2] *Estimates based on monthly wage rates for years prior to 1948.*

[3] *December.*

[4] *Data prior to 1952 not directly comparable with previous data.*

Compiled from official sources by the Research Department, Federal Reserve Bank of Chicago.