Click here for Full Issue of EIR Volume 15, Number 37, September 16, 1988

Agriculture by Marcia Merry

Is farm parity pricing 'outmoded'?

Only the food cartel companies would think so, but that's always good enough for the Department of Agriculture.

Now that the drought has hit U.S. farmers hard, on top of years of heavy debt service and low farm prices, the need for parity farm price levels has never been greater. Whatever the Agriculture Department's Sept. 12 crop forecast says (the department notoriously overstates harvests and stocks), the corn crop will likely be down by 50%, soybeans down 35%, and spring wheat down 50%, differing by type and location.

The August Drought Relief Act is like a bucket of water for a fire. The core of the act's "assistance" measures simply offers farmers more loans for "drought relief," at a time when farmers need relief from debt. The U.S. farm sector could successfully withstand even the killer Drought of '88, but only in a context of parity prices and reliable agriculture infrastructure—water supply, transportation, and industrial and scientific inputs.

However, for the past few years, the Agriculture Department and related networks of agriculture "experts" on campus, have propagandized that farm parity pricing is outmoded. In September 1987, a report was issued called "Price Parity, An Outdated Farm Policy Tool?" by Lloyd Teigen, an Agriculture Department staff member (USDA, Economic Research Service, Agriculture Information Bulletin No. 531). This report presented a gobbledygook argument that asserts, "Changes in the structure of agriculture and the distribution of income among producers make parity prices obsolete indicators of farmer well-being."

The report begins by misrepresenting parity farm prices. Basically, parity pricing means fair pricing. Parity prices ensure that the farmer is getting a price that roughly covers his costs of production, and also gives a return on investment that permits the farmer to continue to conduct present operations, and at the same time, make needed capital improvements. In this way, using the parity mechanism, the food supply is guaranteed for present and future generations.

In both world wars, a policy of parity pricing formed part of the all-out mobilization that produced food for both Allied military and civilian requirements.

However, after the mid-1950s, the federal government abandoned the commitment to parity pricing. In the last 30 years, the prices paid by farmers has far exceeded the prices received by them. A table presented in the Agriculture Department's anti-parity report shows this graphically.

A cartel of a small number of secretive international food trading companies (Cargill, Continental, Louis-Dreyfus, Archer Daniels Midland/Toepfer, Bunge, André/Garnac, Nestlé, Unilever) has consistently underpaid for U.S. farm commodities. The federal farm income support programs (of loans, price deficiency payments, and other mechanisms) have evolved in the last 25 years, to serve the purpose of keeping family farmers at a minimum level of existence, in order to still produce output for the cartel to obtain at below costs of production.

Now, because of the drought, and the deterioration in the overall economy, the entire farm sector is in crisis.

However, the cartel wants its right to underpay maintained under any circumstance. Therefore, the USDA Economic Research Service is coming out with cartel-serving propaganda, about how "outdated" parity pricing is.

What the report calls for as an "alternative" to parity pricing policy, is "parity income policy." By this, the USDA proposes that the government could give a lump sum to small farm producers, who do not have the volume output to benefit if farm prices are raised.

The USDA cloaks its argument in expressions of "concern" for the well-being of the small farmer, but fails to comment on the glaring subsidy to the cartel involved in the USDA plan. The USDA proposes that the government budget give money to a category of small farmers as a sop, while the cartel food companies continue to pay low prices to the larger farm operations, under the rationalization that their volume will guarantee them a "parity farm income" even if prices are low. The USDA anti-parity report features a bar diagram "proving" its point on the desirability of the "parity farm income," by showing statistics titled, "Large-Farm Income Responds More to a 1 Percent Price Increase than Does Small-Farm Income."

The report concludes by saying, "Parity prices were designed to help farmers achieve parity income. But, the means has taken on a life of its own and the end has been all but forgotten. Significant defects in the way parity prices are calculated have eroded the usefulness of parity prices as a federal farm policy instrument. Fixing these defects would make the parity price formula work better. Even then, the parity price is only an instrumental means, and not the goal of farm policy."

© 1988 EIR News Service Inc. All Rights Reserved. Reproduction in whole or in part without permission strictly prohibited.