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'American System' behind parity policy

The origins of twentieth-century U.S. agricultural parity policy go back to the national development economics, or "American System" thinking of the nineteenth century, specifically as seen in the works of Henry Carey, the leading American economist associated with the circles of Abraham Lincoln, and of Treasury Secretary Alexander Hamilton and his famous *Report on Manufactures* (1791).

Put simply, the idea of agricultural parity policy, is that assuring farmers a price for their product that gives them the purchasing power to have an income enabling them to live at a decent level of physical comfort and educational and cultural achievement, and to invest in their farm's "reproductive" powers (the term often used at the turn of the last century, to describe essential farm inputs of all kinds, including machinery, seeds, chemicals, water sources, fuel, and supplies), will thus guarantee a reliable food supply for the whole society, and will set up a healthy demand for the products of factories and cities.

Thus, there is a "harmony of interests," in benefits to all parts of the nation from an agricultural parity policy. The parity policy is no "handout" to farmers; it works for the common good. And the parity concept is applicable to any strategic commodity or sector of the national economy, for example, fuels.

Moreover, by definition, a parity agricultural policy implies that international "free trade" is, on principle, undesirable. Free trade is axiomatically opposed to the buildup of domestic economic output potential; it is a modern-day version of colonialism. What is consistent with parity goals, is international trade based on mutual interest in the buildup of respective national economies.

Carey's 1851 book *The Harmony of Interests,* treats these ideas at length. This excerpt from chapter 26, "How Protection Affects the Government," indicates the approach:

"The American system is based upon agriculture, the work of production, and its object has been that of producing prosperous agriculture, by bringing the consumer to take his place by the side of the producer, and thus establishing that great commerce which is performed without the aid of ships or wagons. By aid of that system the original 13 states have planted numerous colonies, all of which have grown and thriven, giving and receiving strength, while those of England, so long the subjects of immense taxation, are now everywhere a cause of weakness. . . .

"The *free trade* of England consists in the maintenance of *monopoly,* and therefore, is it repulsive. The protective system of this country looks to the breaking down of monopoly, and the establishment of *perfect free trade,* and therefore is it attractive."

On a par

The word "parity" means "on a par," and can be found in various types of economic and financial legislation. For example, there is the famous March 14, 1900 act giving instructions to the U.S. Treasury on keeping money at par value, "That the dollar consisting of twenty-five and eight-tenths grains of gold nine-tenths fine, as established by section thirty-five hundred and eleven of the Revised Statutes of the United States, shall be the standard unit of value, and all forms of money issued or coined by the United States shall be maintained at a *parity* of value with this standard, and it shall be the duty of the Secretary of the Treasury to maintain such *parity.*"

What gave rise to the 1930s agricultural parity legislation, were the repeated, severe depressions in the U.S. farm sector around the turn of the century. By the 1890s, about 60% of the U.S. population was no longer living on the land, and depended on the farm sector to eat. But farmers were repeatedly devastated. It was obvious that rescue measures were necessary to secure the nation's food supply. It was also clear that farming cannot be "turned off and on." The nature of agriculture is characterized by seasonality, long lead times required for developing soils, livestock, and orchards, and critical need for timely inputs and capital improvements.

The impact of the 1893-96 depression on agriculture was severe. Conditions finally improved for most farm regions in the 1910s, and farm commodity prices continued high during World War I. However, following the war, farmers were squeezed once again by a sharp drop in prices they received, and by higher costs. By 1920, 70% of the U.S. population did not live on the land, and was dependent on the stricken farm sector for food.

There was much debate and various farm relief actions in the postwar 1920s period, during which time the parity policy gained increasing prominence. A "farm bloc" coalesced in Congress, of concerned senators and representatives, and the "bloc" consulted regularly with everyone, from Bernard Baruch to Thomas Alva Edison, about what to do. The first bloc meeting was reportedly on May 9, 1921, at the offices of the American Farm Bureau in Washington, D.C., to decide on farm program action. It was hosted by Sen. W.S. Kenyon (Iowa), and included 12 U.S. senators, six from each party. Attending were, Senators Kenyon, Capper, G.W. Norris (Neb.), F.R. Gooding (Iowa), E.F. Ladd (N.D.), Robert M. La Follette (Wisc.), E.D. Smith (S.C.), J.B. Kendrick (Wyo.), Duncan U. Fletcher (Fla.), Joseph E. Ransdell (La.), J.T. Heflin (Ala.), and Morris Sheppard (Tex.). Twen-

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ty-two other senators joined the group. The meeting set up four committees—transportation, Federal Reserve Act, commodity financing, and miscellaneous agricultural bills.

The first round of relief measures focused on assisting farmers to pool their product going to market. In 1922, the Capper-Volstead Cooperatve Marketing Act encouraged farmers to set up cooperatives to handle large volumes of their products and gain influence in the market. The Cooperative Marketing Act of 1926 directed the USDA to advise farmers how to form cooperatives. The Agriculture Marketing Act of 1929 established the Federal Farm Board, authorized to take various actions (such as making loans to product stabilization boards) to try to prevent declines in farm commodity prices.

However, by 1932, the net income of farm operators was less than one-third of what it had been in 1929. The Great Depression struck first in the farm sector. Farm prices fell more than 50%, while prices farmers had to pay for goods fell 32%. How could they continue to produce? And how could the 75% of Americans not on the land get food, if the 25% of population in farming were ruined?

Moreover, the persistent monopolistic actions from cartels of private-interest food companies made a mockery of farmers' attempts to band together to influence "the market." The "oil trust" is legendary. As of the early 1900s, there was a "meat trust," made up of five dominant meat-packing giants: Swift and Co., Armour and Co., Nelson Morris and Co. (later Morris and Co.), Cudahy Packing Co., and Schwarzschild and Sulzberger (which became Wilson and Co.). This was the era of some of the most famous anti-trust investigations and actions in U.S. history—the precedent for what is required today against the neo-British Empire food control networks.

Following the election of President Franklin Roosevelt, who had committed himself to rescuing the family farm sector and food supply, the parity tool was first introduced as policy for economic security. The following series of laws ensued, spelling out the formulas and the benchmark period (1909-14) for setting parity levels for farmers, and the various kinds of related measures for maintaining levels of parity, including commodity supply management through acreage reduction, financial incentives, and other devices.

Series of parity laws

1933: The Agricultural Adjustment Act was approved on May 12, which was the first legislation directing government action based on parity for agriculture. Notable among the subsequent laws:

1937: The Agricultural Marketing Agreement Act, authorizing marketing agreements and orders for milk and fruits and vegetables of certain types, reenacting import controls ("Section 22").

1938: The Agricultural Adjustment Act of 1938, establishing a system of acreage allotments and marketing quotas for specified commodities. Required price supports on cotton, corn, and wheat at 52-75% of parity, permitting price support for all other farm goods.

1941-45: Under various acts of Congress, the "basic" commodities were specified (cotton, corn, rice, wheat, tobacco, and peanuts), subject to acreage allotments and marketing quotas. Supports were raised to 90% of parity, until such time as the war had been over for two years (which turned out to be Dec. 31, 1948). A long list of perishable items (including hogs, eggs, chickens, milk, butterfat, turkey, and soybeans—the so-called "Steagall commodities," after the 1942 amendment, named after its sponsor) were also to be supported at 90% of parity.

1945: On May 24, just after the defeat of the German Army, War Administrator Jones sent this account to Congress: "The United States has produced 50% more food annually in this war than in World War I. With 10% fewer workers on farms, and with national population up one-third, our people have had 10% more food per capita during this war than the 1917-18 period." Unparalleled output per farm worker resulted in a 42% increase in gross farm production from 1939 to 1944 in the Plains states, producing enough food to feed an additional 50 million people (over the 1935-39 average).

1949: The Agricultural Adjustment Act froze basic commodity prices at 90% of parity for another year, then set sliding scales of 75-90% and 60-90% of parity, depending on the food, and depending on its supply volume each year. Farm labor costs were added to the parity calculation. And a new, "dual parity" system was devised.

Parity policy phased out

1951-54: Price supports were kept at 90% of parity during the Korean War, but the Agricultural Act of 1954, at President Eisenhower's request, permitted price supports for basic commodities to shift over to the lower, sliding scale, and dual parity was ended as of Jan. 1, 1956.

1956: President Eisenhower vetoed bill calling for restoration of 90% of parity supports.

1961-63: The Kennedy administration in 1961 raised support levels administratively on many commodities. Kennedy also requested Congress to enact companion farm production controls (and marketing limitation authority), but this was killed in committee the first time around. With various changes, production controls of various kinds were passed over 1962-63.

1961: President Kennedy's first executive order on Jan. 20, right after his inauguration, was to direct the secretary of agriculture to expand the program of food distribution to needy persons. A pilot food stamp plan was also started. The school lunch program was expanded, as well as foreign food relief.

1965: The Food and Agriculture Act of 1965 established

several means of production controls.

1970s: This was a decade of decline in the percentage of parity price American farmers received for their output. The decade also witnessed a simultaneous buildup of cartel company control of strategic food commodities flows (shipping routes, storage, processing, and trade facilities), and political control in Washington, tied to London political and financial interests.

1974: On Dec. 10, the U.S. National Security Council, under Secretary of State Henry Kissinger, released "National Security Study Memorandum 200," a 200-page study entitled "NSSM 200: Implications of Worldwide Population Growth for U.S. Security and Overseas Interests," which stated that population growth and food production in 13 strategically located nations was a threat to U.S. security. It implicitly endorses famine.

1975: A book, *Famine 1975: America's Decision Who Will Survive,* was released by Paul Paddock, an official in the Kissinger State Department, and his brother William Paddock, a consultant to the U.S. government. Chapter nine, "Herewith is a proposal for the Use of American Food," read: "The exploding populations in the hungry nations combined with their static agricultures make famines, in many, inevitable. Their future contains a mounting increase of civil tensions, riots, and military takeovers as the growing scarcity of food forces prices higher and higher. . . . Therefore the United States must decide to which countries it will send food, to which countries it will not."

1980s-90s: The decline in parity price percentage for U.S. farmers continued. Farm policy debate and five-year farm laws shift to endorsement of "market"-based measures, even while control of markets is consolidated still further in the hands of British-centered political and financial interests, and worldwide food shortages reach crisis stage.

1980: House Agriculture Subcommittee held a hearing on Sept. 18, on ending parity as an economic reference, which was reviewed by the Government Accounting Office in its 1979-80 study "An Assessment of Parity As a Tool for Formulating and Evaluating Agricultural Policy." Giving pro-parity testimony was economist Lyndon LaRouche—who, through national television broadcasts, made this a national issue in the 1980 Presidential election, and in subsequent campaigns. Associates of the National Organization of Raw Materials, including Vince E. Rossiter and Charles Walters, also testified for parity policy, and estimated that there is a 7:1 gain to the American economy for every dollar invested in agriculture.

1987: USDA public information document, "Price Parity—An Outdated Farm Policy Tool," (USDA, Bulletin 531, by Lloyd Teigen) typifies the thinking promoted by the USDA, popular media, and agricultural business schools. A typical 1993 USDA anti-parity study was "U.S. Agriculture Continues Trend Toward Market Orientation" (USDA ERS No. 25, June 1994).

Calculating parity prices: Begin with the 'market basket'

by M.M. Baker, F. Huenefeld, R. Baker

U.S. Department of Agriculture statisticians have been calculating farm parity prices for 63 years, from the first legislation in 1933, to the present. Though specific items included have changed over that time period, the basic formulas have remained the same. Today, parity prices are computed according to the 1938 Agricultural Adjustment Act (provisions of Title III, Subtitle a, Section 301 (a)), as amended by the Agricultural Acts of 1948, 1949, and 1956, and other directives.

To understand the approach, however, it is helpful to go back to the period of World War II, to the explanations prepared then by the USDA for the general public, in order to make clear to people how and why parity worked to aid the wartime production effort, while at the same time it did not result in windfall profits for farmers, nor inflated prices to consumers.

A USDA pamphlet, "Farm Parity Prices and the War," published in November 1942, begins with this introduction:

"What does 'parity price' mean?

"Parity price means a price for the farmer's product which will give it an exchange value, for things the farmer needs to buy, equivalent to that in a specified base period. The base period mostly used as 'par' has been the five prewar years, 1909-14. . . .

"How parity price is calculated

"1. A base price for the period 1909-14 is determined. This is done by averaging the prices reported by farmers, to the Department of Agriculture, for the 60 months beginning August 1909 and ending July 1914. For example, the average price of cotton during this period was 12.4¢ a pound; wheat averaged 88.4¢ a bushel; corn 64.2¢ a bushel.

"2. An index of prices paid, including taxes on real estate and interest paid, is calculated. In this are reckoned the prices of items used in family living and in farm production. [See **Table 1** for the full list of these items as it was kept in 1971-73, which was updated from time to time compared to earlier years.] The estimated quantity of each commodity used by farmers is used to weight both the prices paid in 1910-14 and current prices, in order to obtain the necessary ratios or indexes of prices paid. The tax and interest data are calculated as rates per acre and converted into index form.