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STATEMENT OF  
HENRY ESCHWEGE, DIRECTOR  
COMMUNITY AND ECONOMIC DEVELOPMENT DIVISION

BEFORE THE  
COMMITTEE ON AGRICULTURE  
SUBCOMMITTEE ON FAMILY FARMS, RURAL  
DEVELOPMENT, AND SPECIAL STUDIES

HOUSE OF REPRESENTATIVES  
ON  
[ PARITY AND THE AGRICULTURAL SECTOR ]



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MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

WE ARE HERE TODAY AT THE REQUEST OF THE SUBCOMMITTEE TO DISCUSS OUR STUDY OF PARITY AND THE AGRICULTURAL SECTOR. ON SEPTEMBER 26, 1978, WE ISSUED A STUDY ENTITLED, "CHANGING CHARACTER AND STRUCTURE OF AMERICAN AGRICULTURE: AN OVERVIEW." BECAUSE THAT STUDY ONLY MENTIONED PARITY BRIEFLY, YOU ASKED US TO EVALUATE THE CONCEPT OF PARITY PRICES TO A GREATER DEGREE AND TO IDENTIFY THE IMPACTS THAT COULD BE EXPECTED FROM PARITY-LEVEL PRICE SUPPORTS FOR AGRICULTURAL PRODUCTS, PARTICULARLY THE SECONDARY IMPACTS. AS YOU KNOW, PARITY IS ESSENTIALLY A CALCULATION WHICH MEASURES THE PURCHASING POWER OF FARM COMMODITIES TODAY IN RELATION TO THEIR PURCHASING POWER DURING THE BASE PERIOD OF 1910 TO 1914.

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OUR 1978 STUDY QUESTIONED THE ABILITY OF THE FARM SECTOR TO WITHSTAND SUPPLY-DEMAND FLUCTUATIONS IN THE FACE OF 3 DECADES OF FARM CONCENTRATION. THIS QUESTION OF THE AGRICULTURAL SECTOR'S ABILITY TO WITHSTAND ECONOMIC BUFFETING IS A STARTING POINT IN OUR DISCUSSION OF PARITY BECAUSE THE ESSENCE OF U.S. FARM POLICY SINCE THE 1930s HAS BEEN TO PROVIDE A CERTAIN LEVEL OF ECONOMIC SECURITY TO THE FARM SECTOR THROUGH PROGRAMS MANY OF WHICH WERE LINKED TO PARITY.

THE IMPORTANCE OF THE FARM SECTOR AND ITS INTERRELATIONSHIP WITH OTHER SECTORS WAS RECOGNIZED AFTER WORLD WAR I WHEN FARM PRICES PLUNGED, FARM INCOMES DECLINED, AND FARMERS CUT BACK ON PURCHASES OF ALL TYPES OF MANUFACTURED GOODS. FARM EQUIPMENT PRODUCERS WERE PARTICULARLY HARD HIT AND THE IDEA OF STRENGTHENING THE FARM ECONOMY WAS FIRST CONCEIVED AND FOSTERED BY MANUFACTURERS WHO DEPENDED ON FARM PURCHASES FOR THEIR OWN LIVELIHOOD. DURING THE 1930s, A PARITY FORMULA WAS ENACTED BY THE CONGRESS TO IMPROVE FARM INCOME SO THAT THE FARM SECTOR COULD BUY GOODS AND SERVICES FROM OTHER SECTORS.

TODAY, THERE ARE GENERALLY THREE PARITY MEASURES: PARITY PRICES, PARITY INCOME, AND THE PARITY RATIO. WHEN FARMERS ASK FOR 100 PERCENT PARITY, THEY MEAN 100 PERCENT OF PARITY PRICES. WHEN POLICYMAKERS SAY THAT FARM COMMODITIES BUY ONLY 60 PERCENT OF WHAT THEY DID IN 1910-14, THEY ARE USUALLY REFERRING TO THE PARITY RATIO. WHEN OTHERS SAY THAT

FARM INCOMES MUST BE MAINTAINED AT A PARITY LEVEL, THEY ARE PROBABLY TALKING ABOUT IMPLEMENTING SUPPORT PROGRAMS BASED ON PARITY INCOME.

IT IS APPARENT THAT PARITY, AS IT IS USED BY DIFFERENT PEOPLE, CAN REFER TO MANY DIFFERENT THINGS DEPENDING ON WHICH ELEMENT OR SPIN-OFF OF THE ORIGINAL FORMULA IS BEING USED. THE ESSENTIAL INGREDIENT OF ALL OF THESE PARITY TERMS IS THE SAME, HOWEVER. THAT IS, PARITY WAS EXPECTED TO MEASURE THE ECONOMIC WELL-BEING OF THE FARM SECTOR RELATIVE TO OTHER SECTORS.

ONE REASON YOU HAVE ASKED US TO STUDY PARITY IS THAT THE ECONOMIC STRENGTH OF THE FARM SECTOR TODAY IS SUSPECT. FARM CONCENTRATION OVER 3 DECADES HAS HAD THE BENEFICIAL IMPACT OF INCREASED PRODUCTIVITY AND LOW CONSUMER PRICES. FOR EXAMPLE, ACCORDING TO THE BUREAU OF LABOR STATISTICS, THE RATE OF INCREASE OF FARM WORKERS' PRODUCTIVITY HAS AVERAGED 75 PERCENT MORE OVER THE PAST 20 YEARS THAN THAT OF MANUFACTURING WORKERS. BUT TOO MUCH CONCENTRATION INCREASES RISKS AND REDUCES THE ABILITY OF THE FARM SYSTEM TO ADAPT TO CHANGES.

AT YOUR REQUEST, WE EXAMINED INTO THE PARITY CONCEPT AND PARITY FORMULA AND ASSESSED HOW WELL PARITY TRACKED THE WELL-BEING OF THE FARM SECTOR. WE WERE NOT ABLE TO CONCLUSIVELY AND HOLISTICALLY ASSESS THE IMPACTS OF PARITY-LEVEL PRICE

SUPPORTS ON WORLD TRADE AND ECONOMIC DEVELOPMENT, ON THE GENERAL ECONOMY, THE FARM SECTOR, RURAL COMMUNITIES, AND CONSUMERS BECAUSE CURRENT EVALUATION TECHNIQUES PRIMARILY MEASURE SHORT TERM ECONOMIC IMPACTS, AND DO NOT CONSIDER SECONDARY IMPACTS SUCH AS IMPACTS ON RURAL VIABILITY, LONG-TERM IMPACTS ON RETAIL PRICES, SOIL CONSERVATION, ETC. THERE PRESENTLY IS NO GOOD FRAMEWORK FOR EVALUATING THE SECONDARY IMPACTS OF POLICY OPTIONS SUCH AS THOSE WHICH WOULD RAISE OR LOWER SUPPORT PRICES.

WE, THEREFORE, DECIDED TO BUILD ON OUR EARLIER STUDY OF FARM STRUCTURE AND DEVELOP A CONCEPTUAL FRAMEWORK FOR FORMULATING AND EVALUATING POLICY ALTERNATIVES ON A BROAD RANGE OF FACTORS. THIS WAS DONE BY IDENTIFYING FARM PROBLEMS AND THE UNDERLYING REASONS FOR THOSE PROBLEMS.

OUR REVIEW CONSISTED OF INTERVIEWING AGRICULTURAL AND DEVELOPMENTAL ECONOMISTS AND SPECIALISTS; FARMERS; AND VARIOUS FARM AND COMMUNITY SUPPORT GROUPS. WE ALSO INTERVIEWED AND OBTAINED DATA FROM OFFICIALS AT USDA; AGENCY FOR INTERNATIONAL DEVELOPMENT, DEPARTMENT OF STATE; BUREAU OF THE CENSUS, DEPARTMENT OF COMMERCE; INTERNAL REVENUE SERVICE; DEPARTMENT OF LABOR; FEDERAL RESERVE BOARD; AND THE FARM CREDIT ADMINISTRATION. WE REVIEWED SIMULATION MODELS AND RESEARCH LITERATURE, LEGISLATION, AND RELATED DOCUMENTS AND PUBLICATIONS CONCERNING FARM STRUCTURAL ISSUES AND AGRICULTURAL PRICE POLICY.

WE DID NOT REVIEW THE MATHEMATICAL DETAILS OF THE PARITY FORMULAS OR THE APPROPRIATENESS OF THE CALCULATIONS TO ACCURATELY REFLECT FARMERS' INCOME AND EXPENSES. (AN ANALYSIS OF THE DAIRY FORMULA WAS DONE IN OUR REPORT, "ALTERNATIVES TO REDUCE DAIRY SURPLUSES," (CED-80-88, DATED JULY 21, 1980).)

#### THE PARITY CONCEPT

WE EVALUATED THE CONCEPT OF PARITY WHICH WAS DEVELOPED NEARLY 50 YEARS AGO. PARITY IS STILL A RALLYING POINT FOR MANY OF TODAY'S FARMERS. MEMBERS OF THE CONGRESS AS WELL AS MANY FARMERS AND FARM SUPPORT GROUPS RELY ON PARITY AS A BAROMETER OF THE FARM SECTOR'S ECONOMIC WELL-BEING. ALSO, GOVERNMENT PRICE SUPPORT PROGRAMS HAVE BEEN, AND SOME STILL ARE, LINKED TO PARITY ALTHOUGH THE SUPPORT LEVELS HAVE NEVER BEEN 100 PERCENT. SUPPORT LEVELS HAVE RANGED FROM 60 TO 90 PERCENT.

PARITY IS USEFUL AS A BAROMETER OR INDICATOR OF ECONOMIC WELL-BEING. CHANGES IN THE PARITY RATIO HAVE TRACKED (1) STRUCTURAL CHANGES (AS THE RATIO HAS FALLEN SO HAVE THE NUMBER OF FARMS); (2) CHANGES IN FARMER'S MARGINS ON A PER UNIT BASIS; AND (3) NET FARM INCOME FROM MARKETING RECEIPTS.

PARITY DOES NOT, HOWEVER, ADEQUATELY REFLECT TOTAL FARM SECTOR WELL-BEING, TOTAL PERSONAL INCOME OF FARM FAMILIES, OR INCREASED FARM ASSETS AND EQUITIES.

FOR MANY YEARS, THE TRENDS IN U.S. AGRICULTURE HAVE BEEN TOWARD GREATER TECHNOLOGICAL ADVANCES, DECLINING MARGINS,

DECLINING NUMBERS OF FARMS, AND INCREASINGLY LARGER FARMS. ALTHOUGH THE NATION HAS GENERALLY BENEFITED FROM THESE TRENDS, RECENT STUDIES HAVE SUGGESTED THAT IF THE TRENDS CONTINUE UNABATED, THE SECONDARY IMPACTS MAY WELL BE A LOSS OF FARM SECTOR RESILIENCY, A DECLINE IN RURAL VIABILITY, A CUTBACK IN EFFORTS TO CONSERVE OUR FERTILE SOIL, AND LESS COMPETITION. PARITY BY ITSELF IS NOT A GOOD INDICATOR OF SECONDARY IMPACTS.

#### PARITY LEVEL PRICE SUPPORTS

YOUR SECOND QUESTION WAS--WHAT WOULD BE THE IMPACTS OF PARITY-LEVEL PRICE SUPPORTS? AS PREVIOUSLY STATED, THE EVALUATION AND ANALYTICAL TECHNIQUES CURRENTLY AVAILABLE WOULD NOT GIVE US A TOTAL PICTURE. NOT ONLY DO WE NOT KNOW WHAT THE SECONDARY IMPACTS WOULD BE, WE DO NOT KNOW WHETHER THERE WOULD BE MORE OR LESS FARMERS OR WHETHER CONSUMERS WOULD BE BETTER OR WORSE OFF IN THE LONG RUN. WE DO KNOW THAT CONSUMERS WOULD PAY MORE FOR FOOD IN THE SHORT TERM AND THAT NET FARM INCOME WOULD RISE.

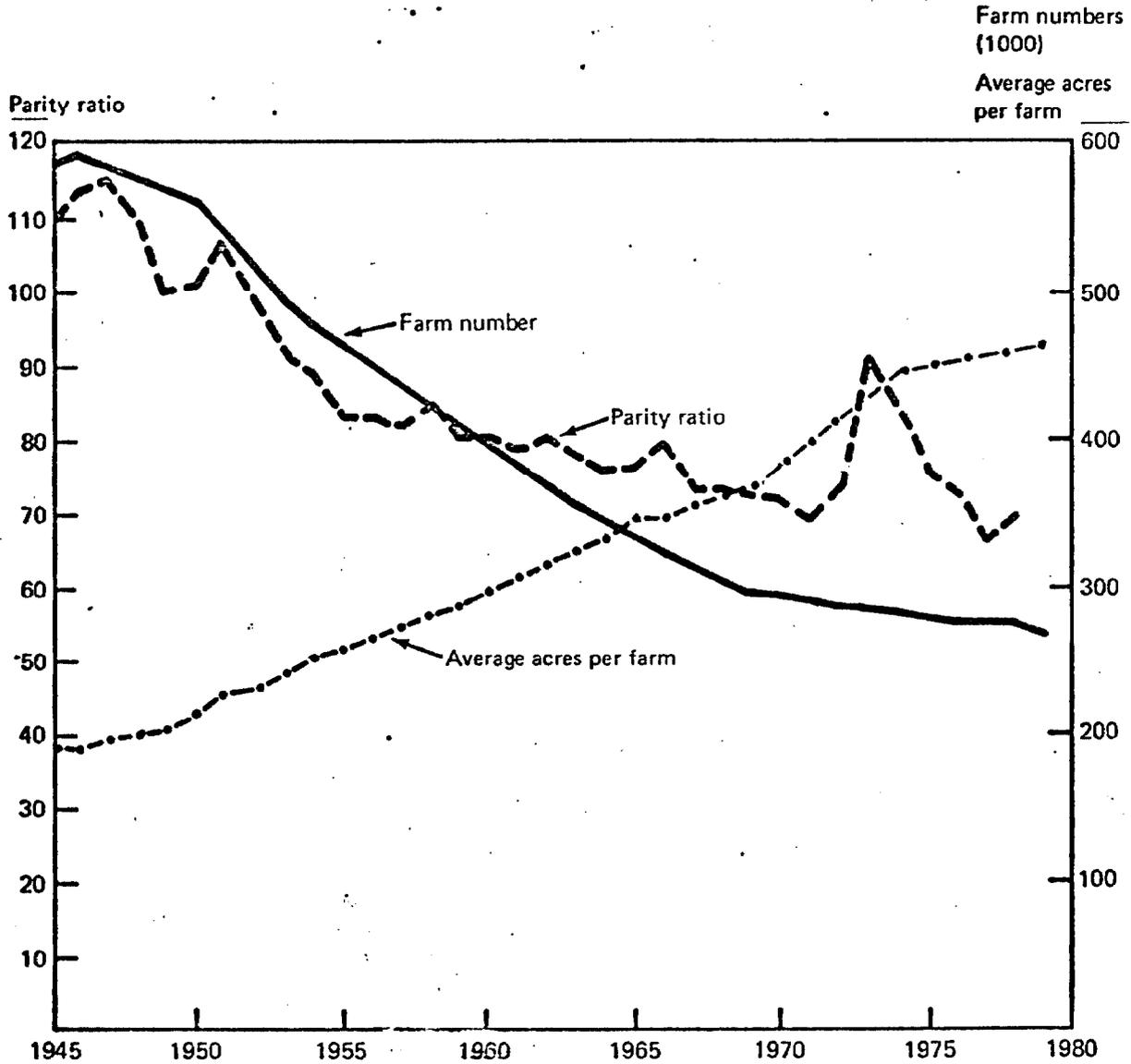
ON THE BASIS OF OUR WORK, WE HAVE CONCLUDED THAT THE CONGRESS AND OTHER POLICYMAKERS NEED, IN ADDITION TO PARITY A BROADER FRAMEWORK TO USE IN DEVELOPING, ANALYZING, AND EVALUATING FARM POLICIES AND PROGRAMS. WE HAVE DEVELOPED, IN THE TABLE ATTACHED TO MY STATEMENT, A PROPOSED FRAMEWORK WHICH NEEDS FURTHER DEVELOPMENT BY USDA TO FLESH OUT THE PERTINENT ISSUES AND SUBISSUES. THE FRAMEWORK, HOWEVER, CAN BE A STARTING POINT FOR USDA AND OTHERS IN SETTING UP A

SYSTEMATIC METHODOLOGY FOR CONSIDERING THE IMPACT OF VARIOUS ALTERNATIVE POLICY OPTIONS.

SOME OF THESE IMPACTS ARE CONSIDERED IN SETTING POLICY TODAY. OUR PROPOSAL WOULD ASSIST IN ENSURING THAT ALL MAJOR IMPACTS ARE SYSTEMATICALLY CONSIDERED IN FORMULATING AND EVALUATING AGRICULTURAL POLICY. OUR CONCEPTUAL FRAMEWORK VISUALIZES THAT ECONOMICS, SOCIAL SOUNDNESS, ENVIRONMENT AND POLITICS PLAY OVERLAPPING ROLES IN THE PROCESS OF DETERMINING A DESIRED FARM POLICY.

THAT CONCLUDES MY STATEMENT, MR. CHAIRMAN. I WILL BE GLAD TO RESPOND TO ANY QUESTIONS.

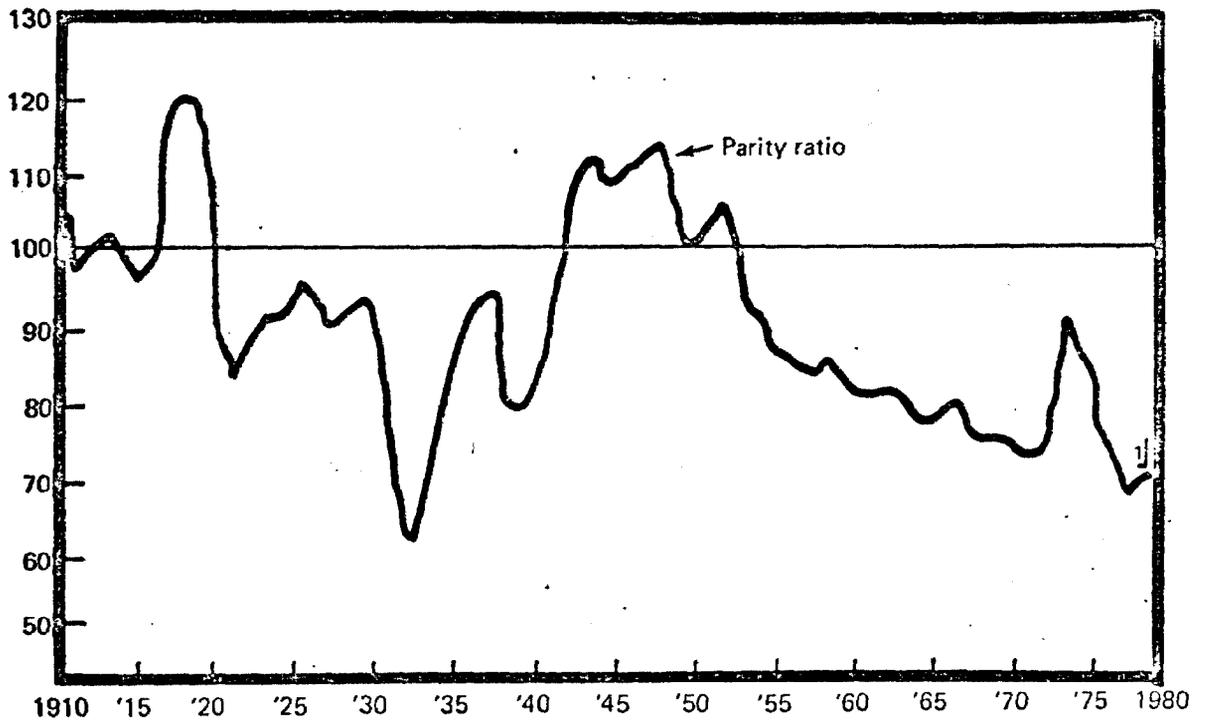
**CHART 1**  
**CHANGE IN TOTAL FARM NUMBERS, AVERAGE FARM SIZE AND THE PARITY RATIO**



SOURCE: GAO ANALYSIS OF U.S. DEPARTMENT OF AGRICULTURE AGRICULTURAL CENSUS DATA

CHART 3

VARIATION IN THE ANNUAL PARITY RATIO  
FOR ALL FARM PRODUCTS

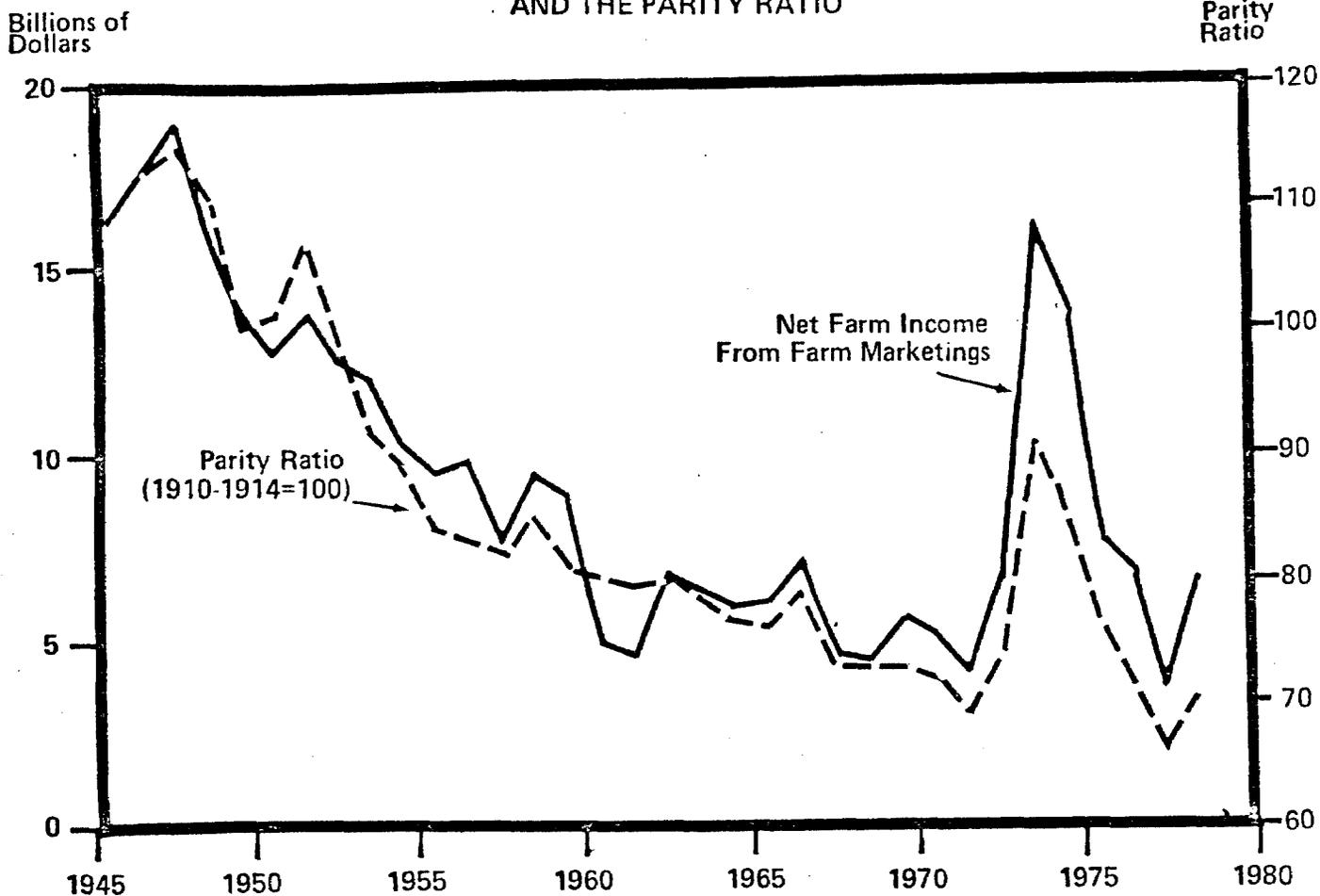


Source: USDA statistics

1/ August 1980 figure

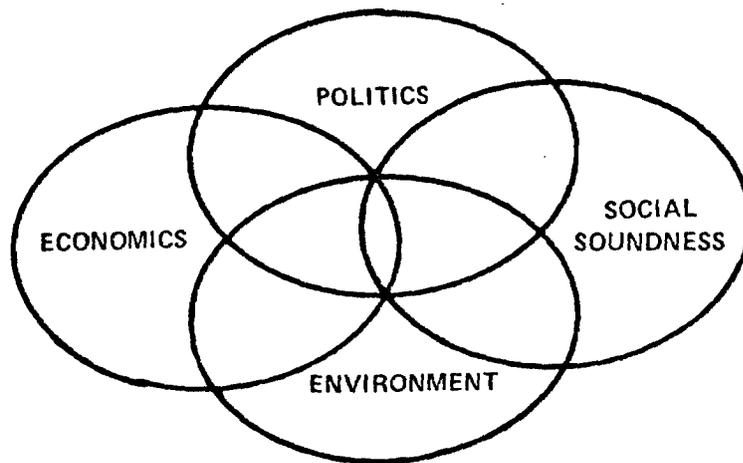
CHART 5

NET FARM INCOME FROM FARM MARKETINGS  
(CONSTANT 1972 DOLLARS)  
AND THE PARITY RATIO



SOURCE: GAO ANALYSIS OF AGRICULTURAL STATISTICS  
USDA, FARM INCOME SITUATION

COMPREHENSIVE AGRICULTURAL POLICY FRAMEWORK



**TABLE 6.**  
**PROPOSED CONCEPTUAL FRAMEWORK FOR U.S. FARM POLICY FORMULATION AND EVALUATION**

Evaluation Framework	Types of Assessments	Economic Assessment		Social Impact	Environmental Assessment		Political Assessment
		Financial viability analysis	Macro-economic impact analysis	Social soundness analysis	Technological analysis (biological and mechanical)	Physical environmental analysis	Institutional analysis
Definitions	The assessment of the financial viability of the production unit by farm size, geographic region and cropping systems	The assessment will go beyond the production unit to broadest perspective--community, State, region, and nationwide.	The assessment will go beyond economic indicators and will assess impacts upon small vs. large farms, rich vs. poor, and developed vs. LDCs.	The assessment of either a biological or mechanical breakthrough which might alter traditional production patterns and the impact assessment upon the producer, consumer, and the Nation (i.e., twinning in cattle, nitrogen fixation of grasses, grain alcohol as a fuel)	The assessment will focus upon impact of policy decision upon renewable and non-renewable resources and its cost to society at the national and world level.	The assessment of the organization(s) capacity to work, function, collaborate and develop adequately to carryout the programs mandated by the policy. Coordination and collaboration needs to transcend institutional jurisdictions as well as link to state and local efforts.	An assessment of the various policy options as to the impact upon the viability and resiliency of our food and agricultural system including the international implication of our policy decisions.
Goal of the assessment	A broad based farm policy.	An effective and efficient farm policy.	An equitable farm policy.	A responsive and far reaching farm policy.	An environmentally sound farm policy.	An easily administered viable farm policy.	A strategic farm policy which can be used to improve world-wide relations.
The purpose of the assessment	To prevent piecemeal legislation and misconceptions about viability of varying farm-size and to point out constraints in farm level viability.	To indicate economic importance of agriculture to the economy.	To develop a structurally sound farm policy--minimizing the analytical biases that favor wealth.	To assess the impact of research and technological transfer prior to its happening so that adjustments can be made.	To conserve our national resources.	To minimize coordination and administrative bottlenecks and to simplify administrative procedures.	To maintain a viable effective and efficient food and agricultural system.
Types of questions to be asked?	Who can participate all producers only a few? Will it pay? Is it less expensive? Is it broad based? Does it insure long ranged viability of the farming community?	How many jobs are generated? What is the net benefit of trade? How is income earned in to the system? What role does agricultural have in the economy? Are food and agricultural commodities properly valued?	What are the structural and social implications of the policy decision? What is the forward or backward linkages implicit in our policy decision? What is the forward or backward linkages implicit in our policy decisions? What are the intangible benefits and cost to society?	Will the new technology be available, profitable, affordable, feasible, for all? What could be done to make the new technology more socially sound? Does it make the food system dependent upon certain types of technologies? Does it reduce risks?	Will it grow? What are the environmental implications? Is dependency being built upon a non-renewable resource? Is farm land being maintained for the future?	Can the policies be implemented? What are the human and budgetary commitments? Can they be reduced and/or simplified? Are institutional lines of coordination established?	Has resiliency in food and agricultural system been maintained? Has the gap between the "haves" and the "have nots" been narrowed? Are food needs being met?
Criteria for Judgement	Rural support indicators farm level profitability indicators.	Balance of payments/Economic indicators. National income accounts.	Social welfare indicators/structural indicators.	Research and technology transfer and utilization output indicators.	Natural resource inventories Research experience Utilization and conservation indicators Land use planning and zoning	.A Master Plan .Budget .Management .Personal and .Coordination indicators.	National security indicators economic security indicators indicator of food system resiliency.
Important Assumptions	That small-to-mid sized farms are just as productive as larger farms.	That the disparities between sectors will be minimized.	That an environment in which a family farm system of owner operators, can economically survive is the best interest of the consumers the rural economy and the entire nation.	That advancements in technology can be used as a tool for increased efficiency without destroying the family farm structure.	That environmental consequences (costs) to society although perhaps not captured by the producer or manufacturer should be considered as part of the total cost of the product.	That policy implementation will not be constrained by an inadequate institutional capability or funding.	That productivity and equity considerations are not mutually exclusive and will in fact improve the resiliency and therefore the security of our food and agricultural system.