# Support versus parity prices

In her May 5, 2015 Politico article on a Bernie Sanders rally in Osage, Iowa, Liz Crampton wrote that he "seeks to reform the [farm] subsidy system so that more federal dollars go to small and mid-sized family farms instead of the largest producers. It suggests moving away from a subsidy system and toward a 'parity system,' which 'means setting price floors and matching supply with demand so farmers are guaranteed the cost of production and family living expenses'"(https://tinyurl.com/yy4enaja).

A little over a week later Jonathan Coppess, Department of Agricultural and Consumer Economics, University of Illinois, posted an article on the farmdocsdaily website titled "Considering Policy Reversion: The Parity Paradox" for the Gardner Policy Series (https://tinyurl.com/y2eegd77). While we do not know if Coppess was responding to Sanders' speech, we do think his article deserves further analysis.

The term parity has both a general meaning and, with regard to agricultural policy, a technical meaning. In general, parity suggests two parties being on equal footing. As we read Sanders' comments about "price floors and matching supply with demand," they sound more like the programs of the 1970's to 1996, than they do of earlier programs which were based on a more technical meaning of parity.

The more technical meaning refers to the relationship between farm prices in the 1910-1914 period compared to prices in the rest of the economy. In particular, this meaning of parity was important in the period from the end of WWI until about 1950. But even by the end of this period, there was broad understanding that the dynamics of consumer preferences and changes in yields had made this earlier definition unworkable for writing farm policy.

Members of farm groups, Congress, and the Truman administration were well aware of the problems with the technical meaning of parity when they included the concept in the 1948 and 1949 Farm Bills. The inclusion of parity in these bills was matter of political expediency even though they knew better. Their vote then was not much different than the vote on the 2018 Farm Bill that included "enhancements" to ARC and PLC (Agricultural Risk Coverage and Price Loss Coverage programs) even though members of Congress knew full well that these programs would not provide adequate help for farmers in the current low-price period. The vote was a matter of political expediency.

We are analyzing Coppess' paper because we feel it is important to provide alternative or broader perspectives to some of the statements included in his analysis.

From our perspective, one of the problems with Coppess' analysis is that he conflates the "Parity-based" programs of the New Deal period with the supply management programs of the 1970's to 1996. We would be the first to admit that there were problems with the design and administration of the supply management programs of that period. But there were also some clear advantages those programs had compared to today's programs.

We would like to look at one paragraph from his analysis and respond to his conclusions, sentence by sentence.

*The parity policy experience taught that it is nearly impossible for policy to control or manage supplies of these commodities, especially over any significant number of years. Weather and farm practices (mechanization, hybrids, chemicals and fertilizers) have far more impact on supplies* (Coppess, p. 4).

The first sentence suggests that parity pricing (in its 1910-14 technical sense) is part and parcel of managing supplies. The technical definition of parity prices has not been used to set support prices for decades, much to the dismay of many rescued by the New Deal. Rather support prices, known as nonrecourse loan rates, have been set as a percentage of production costs or other considerations, including Congressional mandate. Grain stocks were typically held by the government as part of the support program prior to the mid-1990s. Given the "overwhelming impact of weather" (Coppess, p. 3) there is a good reason to hold adequate stocks, even if we only need them occasionally. With adequate stocks, we would not have seen the reduction in exports and corn used for feed that we saw in response to the 2012 drought in the Central Corn Belt. Stocks would have been available to meet both needs and we can set reasonable policies governing the release of these supplies.

*Limiting acres, moreover, tends to incentivize farmers to increase yields on the acres that remain in production, especially when limits on acres are coupled with price-based assistance.* (Coppess, p. 4).

From our perspective, this is exactly what we want. We want a supply capacity that always runs well ahead of our utilization of that capacity. To do otherwise would be to run on the ragged edge of crop failure and hunger and that would be immoral. Having both reserve supplies and excess productive capacity is exactly what we need in an uncertain world where we might have two major droughts in a row.

*The end result was a failure to control supplies and large surpluses being held by the federal government; forfeited by farmers under the parity loan (price support) policy, these federal stores of commodities were a very public reminder that the policies were not working* (Coppess, p. 4).

Coppess is correct there was a "failure to control supplies," But that failure came about because the relevant policies were often administered by people who did not believe in them and thus made avoidable blunders. Here again using the word parity is confusing and potentially misleads the reader. Supply management is not predicated on the use of parity prices.

We believe that the stocks were reminders of a balanced commodity policy, that protected farmers from ruinous prices, consumers in the US and around the world from unmanageable price increases (e.g. 2007 and 2012), avoided dumping US production on the world market at prices below the full cost of production, and provided a level of stability for products that are critical for life.

We believe that a well-managed supply management program can provide financial stability for farmers, ensure food security for the public, improve the environment, and have both the physical reserves and productive capacity we need to meet future challenges. If this statement, or some variation of it, is what Sanders wanted to convey, he should be aware that the term "parity system" provides opportunities for misleading interpretations.

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*Dr. Harwood D. Schaffer: Adjunct Research Assistant Professor, Sociology Department, University of Tennessee and Director, Agricultural Policy Analysis Center. Dr. Daryll E. Ray: Emeritus Professor, Institute of Agriculture, University of Tennessee and Retired Director, Agricultural Policy Analysis Center.*
*Email: hdschaffer@utk.edu and dray@utk.edu; http://www.agpolicy.org.*