

Let the Weather Do It

Market outlook analysts often say a commodity is in a “weather-market,” meaning that any news about growing conditions translates into sharp daily changes in the commodity’s price. Now it turns out that even over multi-year periods, weather is about our only hope for raising season average crop prices and market incomes..

We have gotten ourselves into such a predicament because we mistakenly thought that worldwide population-and income-driven demand would exceed technology driven-supply.

Besides that, the conventional wisdom evolved to the idea that any overproduction will be quickly dissipated because now when prices tank—in contrast to the past—crop users will sufficiently expand purchases and farmers will sufficiently reduce production causing price-depressing inventories to vanish.

If one or more of these premises were correct, then no supply affecting policy instruments would be needed.

However, since farmers are unable to control supply because existing farmers or their replacements tend to produce something on their cropland all the time. And, since market forces are incapable of quickly self-correcting imbalances in the overall crop sector, some have said that we are left with a “head in the sand” policy, in which we do nothing but just hope for the best.

Although there are many variations, the “hope for the best” declaration that I most often hear is a wish, if not a

prayer, for a crop failure due to flood, hail, drought, pestilence or disease SOMEWHERE ELSE in the world. In that way, the crop the farmer is nurturing would bring a good price and enable him/her to pay the bills. Failing that, weather-reduced yields in the U. S. would be fine as long as no acreages located in or near local zip codes are affected.

Some U.S. agricultural leaders continue to suggest that the quickest way out of the current disaster in crop agriculture is a crop failure somewhere. Yet, not even on April Fool’s Day did any of the commodity groups or farm organizations testify before the House Agriculture Committee as being four-square behind declaring “crop failure” as an official federal farm policy instrument for raising crop prices and incomes. Insurmountable implementation problems, I presume.

Seriously, doesn’t it seem somewhat odd to have an agricultural policy in place that provides little hope for adequate market returns to farmers other than to wish disaster on another farmer somewhere else?

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