Recent corn price swing: "Danged if you do" and "Danged if you don't"

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Crop farmers must have that "danged if you do" and "danged if you don't" feeling right about now. But, really, it is not what they have done, it is what a low-farm-price policy and a surge in ethanol-driven corn demand have wrought. Nonetheless, the blame game continues and crop farmers have been hit with a double whammy of late.

The first hit comes from WTO trade talk discussions and the argument that US farmers, supported by what are described as generous subsidies, are dumping corn on the world market at prices below the true cost of production. International development NGOs argue that US subsidies have stimulated US producers to grow more corn, soybeans, wheat, rice, and cotton than they would have in the absence of subsidies. As late as August 11, 2006 the cash price of a bushel of corn on the CBOT was $2.06. As a result they call for the end of US farm subsidies. At the same time, various groups argue for the reallocation of budgeted funds from commodity programs to rural development, conservation, subsidized insurance, decoupled payments or whatever is in the interest of the person speaking.

The second hit is typified by the comments from Richard Bond, Tyson Foods chief executive, who is quoted by Philip Brasher in a DesMoines Register article as saying "Quite frankly, the American consumer is making a choice here. This is either corn for feed or corn for fuel - that's what's causing this."

Brasher writes, "Tyson Foods Inc., the world's No. 1 meat processor and poultry producer, warned Tuesday that consumers would have to pay more for beef, pork and chicken next year because of the rising price of corn." Tyson Foods is reacting to the high animal feed prices brought about by the current demand for corn to be used to make ethanol. On November 22, 2006 cash corn prices hit $3.59 per bushel.

Let's get this straight. When the prices of corn and cotton are low, US farmers are blamed for depending on subsidies to cover their cost of production and hurting farmers in less developed countries around the world. And when these same US farmers invest in ethanol plants to sop up the surplus production, consumers are told that the resulting higher prices will force them to make a choice between food and fuel.

Seldom does anyone mention that meat producers have benefited from commodity prices that are below the cost of production. Some of the benefits of subsidized crop production have been enjoyed by integrated meat animal producers like Tyson Foods who have benefited from low cost feed inputs.

This double whammy confronts us with a policy challenge. Policies that result in low commodity prices harm some people (farmers in less developed countries) and benefit others (integrated livestock producers, processors of grains and seeds, and bulk farm commodity importers). Likewise high crop prices benefit some people (farmers in the US and countries around the world) while increasing the costs for those who have benefited from the earlier low prices.

Lost in all of this is any discussion of corn farmers and what it takes to produce a bushel of corn. No one wants to talk about the characteristics of crop markets that result in long periods of low prices. Policy makers run away from discussions of the type of policy instruments it would take to provide farmers with a fair remuneration for their investment and labor while at the same time providing consumers stable prices and a secure supply of farm commodities to meet their needs for both food and fuel.

To our way of thinking, what is needed is a "policy for all seasons" that enables commodity farmers to receive the bulk of their income from the marketplace while, at the same time, ensuring consumers of the long-term stability of their supply of farm products to meet their needs for food AND fuel.

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