PolicyPennings by Daryll E. Ray & Harwood D. Schaffer

What goes up for years can collapse in weeks

The Board of Directors of the National Farmers Union passed a resolution on the farm economy at its June meeting. In part, "the ratified resolution calls for 'corrective action and evaluation of price support levels' so that farm programs can serve to minimize the farm income drop." NFU President Roger Johnson said, "Family farmers and ranchers should call on their elected officials at the local, state and national levels to educate them about the economic problems facing our nation's family farmers and ranchers."

Farmers have become alarmed about the farm economy as net farm income has plummeted from $123.3 billion in 2013 to the United States Department of Agriculture (USDA) 2016 forecast of $54.8 billion, a decline of $68.5 billion. If net farm income comes in as forecast, it would be the lowest since 2002's $39.1 billion. In 1996, net farm income was $59.0 billion, $4.2 billion higher than the current forecast, two decades later.

July 1, 2016 saw September 2016 corn futures close at a contract low of $3.60 a bushel, a decline of nearly 82 cents over a little more than two weeks as the result of better than anticipated weather and good crop development throughout the Corn Belt. The June 30, 2016 USDA Acreage report that planted acreage for corn and soybeans is 2 million acres higher than indicated in the March 31, 2016 Prospective Plantings did not help.

As a result, July 1 corn prices were down. Jewell, Iowa saw cash corn close at $3.10 while the price was $3.06 in Truman, Minnesota. Farmers in Berthold, North Dakota were offered $2.65 per bushel. If we see average weather during corn pollination coupled with adequate moisture, prices could fall even further. We could see corn in the upper $2 range across a wide swath of the Corn Belt.

We point out the current crop price situation—corn is not alone in this—not to depress our farm readers even more than they already are but to raise the issue of the purpose of agricultural policy. Without a means to manage crop production, we are back to the boom-bust cycles that have plagued farmers from time immemorial: a few years of high prices followed by a much longer periods of low prices.

We know that some have always felt that the government needs to stay out of agriculture and that a larger group of people oppose public policies that would use market triggers to manage crop production. Many in this latter group have instead supported policies that result in the government shelling out bushels of money when net farm income is well above the cost of production while providing little support when the bottom falls out of the market.

It is our observation that policies developed by those who oppose price support/supply management programs invariably end up costing significantly more than policies that take into account the nature of crop agriculture. In this matter, we adhere to the old adage, "an ounce of prevention is worth a pound of cure."

Over the last twenty years, well-tailored policies that modestly reduced production while accumulating a reasonable level of crop reserves would have ended up costing significantly less than the various agricultural policy configurations we have seen, beginning with 1996's "Freedom to Farm," while providing farmers with better protection than they are currently experiencing.

When corn prices shot up above $4.00 a bushel in response to the ethanol boom in the last half of the previous decade, it was tempting to think that agriculture was entering a new era, price/income problems were a thing of the past, and all we had to do was to provide farmers against in-season income declines. Unfortunately, like with all previous "new eras," it did not take long for the old problems to return. Without the drought of a couple of years ago, the day of reckoning would have come sooner.

This is not to say that a scorching pollination period, very dry weather or an exceptionally early frost could not result in higher prices this fall. Any one of these conditions could have that result. But a look at the history of crop agriculture shows us that the biggest problem is not an in-season price decline, but rather an extended period of time where prices remain well below the cost of production.

We need to establish agricultural policies that will provide support during those extended periods. Or as the recent NFU resolution indicates, we need "corrective action and [an] evaluation of price support levels including an increase in price supports…so that farm programs serve their purpose to stabilize farm income in low commodity price cycles."

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Originally published in *MidAmerica Farmer Grower*, Vol. 37, No. 77, July 8, 2016