Are we courting disaster?

by Daryll E. Ray, Blasingame Chair of Excellence in Agricultural Policy, Institute of Agriculture, University of Tennessee, and director, UT Agricultural Policy Analysis Center, 865-974-7407; dray@utk.edu; http://www.agpolicy.org.

The 2001 corn stocks-to-use-ratio for the United States is projected to be 0.159, the twelfth lowest in the last forty years (for the world less China it is projected to be 0.129, also the twelfth lowest level). If China is included—China’s stock levels are as usual, uncertain and unverified—then the stocks-to-use ratio is 0.206, the fourteenth lowest level in the last forty years.

With stocks at those levels why are prices at record lows? From the U.S. perspective, there are two reasons. The first is that in many of the past years government or Farmer-Owned-Reserve stocks—although isolated from the market for a range of prices—were available and made the stock-to-use ratio larger for a given level of price. The other reason market prices tend to be low even though stocks are low is that the market knows there are no farm program instruments that will kick in now, or next crop year, to raise prices. Market participants would bid up prices if they anticipated additions to government stocks or the Farmer Owned Reserve this year or if acreage reduction programs were likely to be instituted next crop year. Since none of these actions are possible under current legislation, buyers have every reason to believe that prices will be just a low or lower next crop year. And with continued good weather providing trend level or better increases in yield, prices will remain low.

But low prices are not the only thing that farmers and the nation have to be on the lookout for. In some ways, we have the worst of all possible worlds. Prices remain low, although stocks are relatively small compared to the past. However, if a yield catastrophe hits, there are no stocks to buffer prices and to provide assurance to exporters and domestic demanders that the U.S. is a dependable supplier of grain. With stocks at the present relatively low levels, what would happen if we had a drop in corn yield similar to the ones we experienced in 1993 or 1988 or 1983? What would happen to our projected 2001 corn carryover levels of 1.57 billion bushels, if we had two poor crops in a row?

If we had a 23–29 percent drop in yields like we saw in 1983, 1988, and 1993 along with the concomitant increase in the abandonment of planted acres, we could see the current modest carryover levels drop significantly and prices rise to unprecedented levels. It is not inconceivable that producers could see a lot of $5 corn with peaks as high as $10. The other crops would be affected as well resulting in some utilization changes being made due to the shortage of “cheap” corn. Again it is not inconceivable that we might see $10 beans with higher peaks.

While prices like that would be good for those who have something to sell, the repercussions would be dramatic. Some of our steady export customers would have to develop contacts elsewhere in the world. Like Charlie who got on the Kingston’s Trio’s MTA, one has to wonder “if they would ever return.” Some of our largest hog and poultry conglomerates would likely become significant importers of grain and soybean meal—a practice they might become comfortable with. For those who have both grain and livestock, what they gained in the grain prices would be lost on the livestock side of the operation.

Besides not satisfying the needs of traditional demanders, the high prices would cause countries around the world to further step-up major-crop production. It is one thing to talk about raising loan rates $0.20, it is quite another to have $4, $5, or $6 corn. And, we know that when new acreage is brought into production, the increase tends to be relatively permanent.

All of this brings us back to a point we have made before. Properly administered, an emergency food reserve could be of vital importance to producers and consumers in the US and around the world. While short-term high prices might feel good, everyone may benefit more in the long run with a more stable food supply system that can accommodate significant weather-related production problems.

Handling gains and losses on cooperative stock *

by Neil E. Harl, Charles F. Curtiss Professor in Agriculture, professor of economics, 515-294-6354, harl@iastate.edu

The reporting of gains and losses on the stock of cooperatives has been a pressing issue in many farm communities as value-added cooperatives. * Reprinted with permission from the January 4, 2002 issues of Agricultural Law Digest, agricultural law press publications. Footnotes not included.