If Low Prices Cure Low Prices, Why Do We Have $1.50 Corn?

Every so often, someone will say, "Program crops should be treated like other agricultural commodities. In the livestock sector, low prices cure low prices. They don't have price and income support programs. They get along fine without them; crop agriculture would too."

When told this, my flow of thoughts goes something like this: "Well, that sounds logical… But… No, it's really not that simple. The output decision making process is much different for livestock than for crops. How can I pull my thoughts together so as to respond in a brief but convincing way?" By then, so much time has elapsed that the response opportunity is gone. Let's take some time to discuss it here where we have the luxury of several column-inches of space.

Livestock production decisions ARE different from crops and the nature of crop and livestock demands are different, as well. These differences are true today just as they have been for decades.

Speaking of decades, let's start by going back a few, as a way to illustrate some of the past and ongoing differences between crops and livestock. When I was in the early grades of school—no, it wasn't a one-roomer—we had dairy cows, beef cattle, hogs and laying hens. The dairy cows provided household milk. The separated cream was sold in town and immediately converted to groceries. My sister and I gathered and washed the eggs and they, too, were carted off to town. The proceeds from these were also used to buy groceries at the store across the street in our small, one-main-street hometown.

The dairy cows were the first to go. None of us missed them and there was never any talk of getting back into the dairy business. Chickens were part of the farm much longer, but soon disappeared when family child labor became scarce. By then, the "egg money" didn't cover the grocery bill and the groceries were not purchased in our hometown anymore but, at the county seat twenty miles away. The brooder house was used to store seed corn and the layer house was converted to a machine shed. Neither ever saw chickens again.

We would buy 400 to 500 pound calves in the winter; feed them oats, silage and hay until spring, and then over summer grow them up on a timber pasture a county away. In the late fall, we turned them out into the corn stalks to clean-up ears that had fallen from the corn picker. We feed them silage and corn through the next winter and finish them with corn and protein the following summer.

It worked that way if we could buy, at a reasonable price, several odd lots of 10 to 20 calves that had good frames. At the time, that usually meant short horns or mixed breeds, never purebreds—they were too expensive. We never bought feeders or yearlings either because, on average, we figured the profit margin was much smaller and the risk was greater than growing our own. If calves were high priced, we might stay out for the year or buy just a few. The barn would remain empty or partially unused and the baled hay and straw would remain stacked high in the loft. Even if we bought a full contingent of calves, there was the option of selling them as feeders the following fall.

On our farm, hogs were the proverbial "mortgage lifter." We had a hog house that was about triple their usual size back then. We also had hogs in the barn and a hog house on another place Dad owned. When prices were good, we would also put hogs in any other building we could rig-up as a shelter. We normally farrowed twice a year and fed the pigs to market weight. But, if hog prices took a dip and we felt we would be better off selling corn than pork, we might skip the second farrowing. If prices remained low, we might only use the main set of hog buildings the next year.

We, and most of the farmers we knew, responded to changes in livestock prices by adjusting output, sometimes drastically. While empty barns, hog houses and chicken houses occurred periodically, there was never a year in which any of our cropland was voluntarily left idle. The land was always farmed no matter what.

There are not as many livestock "inners and outers" as there used to be. Many have permanently opted out leaving the legions of abandoned livestock buildings so evident in the countryside. Increasingly, the supply response is being transferred from independent operators to vertical integrators and companies that contract out production, adjusting the supply in response to demand.

In addition, the demand for livestock products tends to be more price-responsive than the demand for crops. Consumers respond much differently to a 25 percent drop in beef steak than a 25 percent drop in the price of pasta or bread.

Unlike crops, livestock are not "storable." They cost money everyday you have them. As a result, farmers with livestock need to make production and marketing decisions in a regular and timely manner. Farmers engaged in crop agriculture, on the other hand, can make their production decisions only once a year and the bulk of the input costs are incurred at that time.

So it comes down to this: livestock output responds to price—sometimes over responds causing multiyear cycles in breeding herd inventories—and livestock demand responds to price to a larger extent than crop demand. Hence, livestock markets self-correct. Low prices actually do cure low prices in the case of livestock.

It doesn't work that way in crop agriculture. The land used to produce major crops will continue to be used to produce major crops over a wide range of prices. Total crop acreage/output does not decline significantly with lower prices nor does its demand respond appreciably to lower prices. As a result, inventories can continue to increase and prices can continue to decline.

Since livestock markets tend to self-correct and total crop markets do not, it is not surprising that the crop sector has been the subject of farm programs and livestock sector has not.

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