PolicyPennings by Dr. Daryll E. Ray

Policy for all seasons

The recent run-up in prices has been a welcome respite for corn farmers who have seen season average prices of $2.06 or below for six of the last eight years. By way of contrast, the corn season average price paid to farmers was that low in only four of the previous 25 years.

Much of the run-up in prices to $3.00-plus levels is in anticipation of a number of ethanol plants coming online in the next 12-18 months. The farm press contains articles that are talking about prices in this range for the next several years with some anticipating prices in the $5.00-plus range. While other crops have not enjoyed the degree of price increase seen by corn, wheat and soybeans have seen an increase in prices since late summer.

The price increase has lobbyists talking about releasing some CRP land for crop production. Others are calling for a significant contraction of the CRP.

While there has been a lot of discussion about the 2007 Farm Bill during the last year, the shaping of that legislation has yet to occur. With the experience of the high prices of 1995 in mind, we are concerned about farm legislation that is written during price surge. The high 1995 crop year prices were one factor in determining the shape of the 1996 Farm Bill. Then like now, people were operating on the assumption that the anticipated demand (China in that case) would materialize and continue for the foreseeable future.

By the 1998 crop year, corn prices were in the basement, below $2.00, and Congress passed the first in a series of emergency payments to keep the crop economy from collapsing. The authors of the 1996 legislation were so sure of how their policies would work that they made no contingency plans for a long period of extremely low prices.

As we approach the 2007 Farm Bill, we need to avoid the mistakes of 1996. While we would hope that the marketplace would work in a manner that would keep crop prices at or above the cost of production, we need to design that legislation so that it will work during times of low prices as well as times of high prices. We think it would be very risky to have a policy that works only in times of extremely high prices.

As we said last week: “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.”

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