Next few years could spotlight the gimcrackery of recent farm policy

The United States Department of Agriculture's May 12, 2020 "World Agricultural Supply and Demand Estimates" (WASDE) projects a record 16.1 billion bushel corn crop for the 2020 crop-marketing year as farmers increase corn planted acres from 89.7 million acres for the current marketing year to 97.0 million acres. Coupled with an expected return to trendline yields, the increased production results in year-ending stocks that jump from 2.1 billion bushels for the current marketing year ending August 31, 2020 to 3.3 billion bushels for the crop that is currently being planted. Given the prospective plantings we reported on in column 1022 (https://tinyurl.com/ya6gkuxe) this projected record is no surprise.

What did surprise us was the projected utilization of the corn crop for the coming crop-marketing year which begins this September. The USDA projects a 350 million bushel increase in corn used for animal feed and a 250 million bushel increase in corn used for ethanol production. From where we are sitting, it appears that the USDA holds a more limited view of the impact of COVID-19 on corn utilization than we do. With farmers slaughtering animals because of the lack of meat processing capacity in the US and the general public driving fewer miles and thus using less ethanol, we would expect at least a slight decline in corn utilization in both these categories, not an increase.

We also think that given a projected year-ending stocks-to-use ratio for the 2020 crop of 22.4 percent, the projected $3.20 season average corn price paid to farmers is overly optimistic. As we look at current corn prices in the upper Midwest which are in the mid-$2 range, we have a hard time imagining a $3 plus price for a crop year where year-ending stocks increase by 1.1 billion bushels or 57 percent.

All of this leaves us wondering about the state of US agriculture. Even if USDA is correct about the 2020 season average corn price, crop agriculture is in serious financial trouble, while the slaughter of large numbers of animals because the meat processing plants cannot handle them puts animal agriculture on the rocks as well. All of this leaves farmers in worse straits than they were at the end of last year and last year was not a good financial year for the agricultural sector.

At the same time, we have experienced a series of Emergency-type Payments as the result of the trade dispute with China and payments to farmers to partially cover losses due to the COVID-19 pandemic. If history provides us any insight, we should not expect these unscheduled payments to continue forever.

How sustainable is agriculture in this economic environment?

How sustainable are the Emergency Payments?

How long will it be before we hear an irresistable outcry for a new farm bill to replace the one adopted 2 years ago?

What will the funding level for a new farm bill be? Will the Emergency Payments be factored into the baseline?

Will we turn away from the gimcrackery (pronounced like the boy's name Jim) that has been used to develop farm bills over the last 40 years?

Gimcrackery, is that even a word?

It is.

A gimcrack is a showy bauble that may look like it is of great value but is actually relatively worthless. It is all show and no substance. Thus, gimcrackery is the process of developing worthless baubles.

And gimcrackery is what we have had for the past 40 years of agricultural policy: the trading of PIK certificates, the dairy buyout, recapturing our export markets in 1985, and Freedom to Farm in 1996 followed by direct payments, crop revenue insurance, ACRE, ARC, PLC, and the list goes on. If even just one of these had worked, agriculture would not be in the current dire straits. But the baubles with clever names all failed to deliver on their promises.

As we look forward, will we see more gimcrackery to distract farmer's attention from the development of meaningful programs that address prices, the oligopolistic markets that farmers buy from, the oligopsonistic markets that farmer sell into, the environment, and the needs of food consumers, all with a clear view of the nature of agricultural markets?

There is hardly an agricultural economist around who doesn't acknowledge the low price-elasticity of both supply and demand in agricultural and food markets. And yet there are few who are willing to apply that knowledge to the development of farm policy. Will this continue or will the current circumstances require a turn around?

Policy Pennings Column 1028

Originally published in MidAmerica Farmer Grower, Vol. 37, No. 274, May 22, 2020

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