

# Welcome to the age of increased variability

The warning signs are all around us. We have had a derecho in Iowa that flattened grain bins and fields of corn. Hurricane Laura came tearing in off the Gulf of Mexico, leaving a path of devastation behind her and there are the severe wildfires in California.

All of these have the potential to negatively impact agriculture, whether it be dairy, vegetable crops, forestry products, corn, soybean, rice, cotton, or wheat.

Whether it happens this year or in a coming year, it is a certainty that we will have a series of storms and/or droughts that will result in a major crop production shortfalls worse than those we saw in the 2010-2012 crop marketing years when corn production declined by 2.3 billion bushels or 17.7 percent over three years, with the largest decline in production coming in the last year. As a result of lower levels of corn production, the amount of corn used for feed and exports declined. We were not able to fully fill the demand for corn.

Though 2012 is etched in the minds of younger farmers, older farmers remember the much larger 3 year decline in corn production in the 1986-1988 period with the largest decline in the last year, 1988. During that time span, corn production declined by 3.9 billion bushels or 44.5 percent. The difference between the 1986-1988 period and 2010-2012 is the amount of year-ending stocks that were available.

The 1985 crop year resulted in a bumper crop of 8.9 billion bushels exceeding domestic and export demand by 2.4 billion bushels some of which ended up in Commodity Credit Corporation stocks (CCC) and Farmer Owned Reserve (FOR) stocks. While corn production in the 1986 crop year was down, it still exceeded utilization by 0.8 billion bushels.

To meet the demand in the 1987 and 1988 crop years when production was less than utilization—0.6 billion bushel shortfall in 1987 and 2.3 billion bushels in 1988—accumulated reserves held as CCC, FOR and commercial stocks came to the rescue. As a result of the stability provided by government stock holding programs, corn exports were able to increase from 1.2 billion bushels in 1985 to 2.0 billion bushels in 1988 while domestic demand remained steady.

In the 2010-2012 period the US did not have any reserve stocks. As a result, exports fell from 2.0 billion bushels in the 2009 crop marketing year to 0.7 billion bushels in the 2012 crop year. Similarly, domestic corn utilization declined from 11.1 billion bushels to 10.4 billion bushels over the same period.

Part of our advocacy for including a supply management program in future farm bills is our belief that reserve stocks are necessary to ensure we have adequate supplies for periods where weather or other events significantly reduce output in a single year or a series of years like 1986-1988 or 2010-2012. From a practical perspective we need these supplies to ensure that we have adequate supplies of storable commodities to meet the needs of both domestic and export markets.

But more than that, we believe we need to maintain reserves out of a humanitarian concern. During the 2010-2012 period, corn prices rose to extraordinary heights. While those prices were a short-lived boon for farmers, those prices also resulted in a significant increase in the number of food insecure persons around the world. Hunger increased.

While reserves alone will not solve the problem of hunger in the world, they will at least mitigate any rise in hunger in response to US production problems.

In addition, price extremes contribute to inefficient use of the nation's resources. With extremely high and unsustainable prices, excess resources are drawn into agriculture. Because of

the well-documented lack of price responsiveness on the part of farmers, resources are trapped in agriculture that would be more efficiently used in other parts of the economy.

In the period since the 1990s, US agricultural policy has been driven by:

- Crop input suppliers who want to maximize their sales of seeds, chemicals, and machinery;
- Commodity traders and merchants who profit from increased price variability;
- Users of storable commodities who want to meet their needs through subsidized crop prices that are generally below the full cost of production; and
- Crop insurers who receive significant subsidies to provide below-cost insurance policies to farmers.

We believe the current and historic data call for agricultural policies that enable farmers to receive prices that cover the cost of production for their crops, protect consumers in the US and around the world from the effects of weather-related production problems and the accompanying high prices, and US taxpayers from expensive farm programs that ignore the economic characteristics of aggregate agriculture and leave farmers in financial peril.

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