

We've seen this movie too many times before, and it always ends badly

It seems like it was just yesterday that we were writing about the problems some farmers were having getting the financial support they needed to be able to put in the 2020 crop. Between 2014 and 2019, corn prices, and thus most other crop prices, were below the full cost of production. No one was talking about purchases of new equipment and land.

What a difference two years make. The USDA has projected a \$5.45 average price for a bushel of corn during the 2021 crop marketing year. That's a price that will cover the full cost of production and then some.

The result of these higher prices is a scramble for land and new equipment, driving up the prices of both.

Higher prices are extremely common in this COVID-19 era where almost all areas of the economy are experiencing supply chain problems for newly manufactured or produced items. These supply chain problems range from the lack of chicken livers in grocery stores (must have them to go fishing for catfish or train pups to hunt), to intermittent supplies of the electronic chips that are used to operate most anything. This translates into a shortage of new cars, and by extension, other mechanical equipment, resulting in high demand for quality used cars and equipment.

Supply chain problems in the new product category has driven up the price of used cars, lumber, and farm machinery. We have even seen the price of farmland move up sharply.

At the same time, the September USDA World Agricultural Supply and Demand Estimate for corn showed a drop of \$0.30 per bushel in the 2021 crop marketing year projected price for corn compared to a month earlier. While the \$5.45 price is certainly respectable given that the 2019 average price for a bushel of corn was \$3.56/bu., a price that was below the full cost of production for many farmers, it may not last long enough to pay off expensive land and equipment.

Even if the corn price remains above \$4.00 per bushel, the question is how long it will be before the price is again below the full cost of production.

Current crop market prices tell us one thing, history tells another. Over the last century-and-a-half and more, crop markets have been characterized by long periods of low prices, punctuated by short periods of high prices. If low prices return, as history would suggest, we all need to remember that the current farm programs are not very robust. Even if prices fall, farm program payments will not be large enough to come to the rescue.

Our hope is that most farmers have used the high prices of last year and those projected for the 2021 crop marketing year to pay down their debt and put some money away for the inevitable.

As we close out this column, we want to return to the discussion we had concerning the \$3.5 trillion Build Back Better legislation being proposed by the Congressional Progressive Caucus. It turns out that the \$3.5 trillion is the cost of the new programs that are being envisioned in the Build Back Better program. But that number does not indicate that much of this cost is to be paid for by a) enabling Medicare to negotiate drug prescription prices; b) taking steps to improve tax compliance, particularly by those who receive income in forms that do not require the issuance of a W-2 form; and c) raising taxes on and making sure that high income

individuals and major corporations pay their fair share of taxes (currently many escape paying most taxes).

In addition, the Build Back Better legislation also includes some spending reductions (<https://tinyurl.com/ed5xnu5f>).

When all that is taken into consideration, the net cost of the Democrat-only bill could be as low as \$1.0 trillion or as high as \$1.75 trillion—we have even seen estimates of \$800 million in net costs. That makes the measure more palatable to many people and increases the chances that farmers could benefit from the inclusion of farm conservation programs in the Build Back Better legislation. When crop prices fall from today's levels, payments for conservation measures may save many farms from bankruptcy.

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