

PolicyPennings by Dr. Daryll E. Ray

The challenges of peak production: Drawing lessons from the past

As we write this column, the market is in the process of adjusting to the *Prospective Plantings* report that was released by the USDA on Friday, March 30, 2007. The intention of farmers to plant 90.5 million acres of corn was at the top of the range of trade expectations. As a result, corn futures were down the limit on Friday. What they will do between our writing of this column and when you read it is anyone's guess.

With that in mind, we would like to continue our discussion of a grain reserve, particularly a corn reserve. If corn is planted on 90.5 million acres, that will be the highest acreage planted to corn since 1944. In 1944, 95.5 million acres was planted to corn. The yield was 33.0 bushels per acre. The country was on a wartime footing and prices were controlled.

As the war came to an end, price controls were taken off and farmers were concerned with whether or not they would face the same low price/overproduction problems they faced at the end of WWI. The low prices that began at the end of WWI plagued farmers for most of the next twenty years.

Let us look at those post-WWII years of 1945 to 1949 and the role of the grain storage program. The CCC began to store corn in 1938 and storage peaked at 132 million bushels of corn in September 1941 as it became clear that the US would probably be drawn into the conflict. The US entered the war on December 8, 1941 with a declaration of war on Japan and a December 11, 1941 declaration of a war on Germany. By September 1942, CCC corn stocks were down to 30 million bushels. They were at zero for the remainder of the war.

In the 1946-1947 crop year with wartime price controls at an end, corn prices rose to a season average price of \$1.53 per bushel on a production of 3.2 billion bushels and a demand of 3.1 billion bushels. Year-ending stocks were 283 million bushels.

The CCC held no stocks going into the 1947 crop year when a wet spring and poor planting conditions drove production down by 27.7 percent (862 million bushels) to 2.4 billion bushels. This production was well below the previous year's demand.

With carry-in stocks of just 283 million bushels, 1947 season average corn prices rose to \$2.16, exports fell from 127 million bushels to 7 million bushels and domestic demand fell by 472 million bushels. In a time of tight supplies, a bad weather year resulted in extraordinarily high corn prices for producers and demanders alike.

As sometimes happens, a short crop year is followed by a bin-buster and plummeting prices. 1948 saw a 56.9% increase in production, year-ending stocks increased to 27.9 percent, and prices

fell to a season average of \$1.28 with some local areas seeing sub-\$1.00 prices.

While the CCC program was in effect, legislation limited CCC's authority to build or lease storage facilities. This reduced the ability of the CCC to mitigate the negative price impact of the bumper crop of corn. Eventually 68 million bushels of the 1948 corn crop were placed in CCC storage. But it was a case of too little, too late.

Although 1949 saw the eleventh largest year-to-year percentage decline in corn production (-10.9%), production was still slightly ahead of demand. This small surplus production added to the previous year's crop surplus resulting in an increase in total year-ending corn stocks. CCC stocks increased to 253 million bushels, while commercial stocks fell by 153 million bushels and the season average price slipped to \$1.24 from the previous year's \$1.28. Without the price supporting effect of CCC stocks, prices could have fallen much further.

In his book, *Farm Policies & Politics in the Truman Years*, Allen Matusow writes, "By the beginning of 1950 [in the middle of the 1949 corn crop year], a great disquiet was permeating American agriculture. Net farm income, which had been a record \$17.3 billion in 1947, had declined to \$13.7 billion in 1949 and was expected to fall to \$12 billion in 1950. To support prices in 1949, the CCC had nearly exhausted its \$4.7 billion borrowing capacity, forcing the Administration to request an additional \$2 billion for 1950. The largest corn carry-over in all history threatened hard times in the Middle West, and the nearly 300 million bushels of [corn] under government loan would no doubt be augmented by new surpluses in the coming season. Faced by the prospect of overproduction in 1950, the government decreed acreage allotments for all basic commodities."

The agricultural crisis vanished in June 1950 as the US found itself in the midst of a war on the Korean Peninsula and as Matusow puts it, "suddenly the surpluses of yesterday became essential material for fighting the Korean War." As at the beginning of WWII, the CCC stocks proved beneficial in enabling the country to meet a changed situation.

Perhaps 2007's 90.5 million acres and a favorable growing season will provide us with the opportunity to establish a storage program and set aside some stocks for an unforeseen event.

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