Profitability is the pressing issue facing farmers this election year

Labor Day not only marks the contribution of working people to the prosperity of the US, every four years it marks the beginning of the final dash to the November election of the President and members of Congress. Conventional wisdom suggests that people do not get serious about deciding on who they will vote for until Labor Day, though with all the attention generated by the Presidential election this year, it is hard to believe that people have not been watching up to now.

With the current low prices, those who are elected to Congress may matter more than the name at the top of the ticket. With the present makeup of Congress, we are doubtful that farmers would receive the same response they did when prices plummeted in 1998. We do not want to be melodramatic, but it seems to us that a lot hangs in the balance.

So here is the question that we want to address, “What are the questions that farmers ought to be asking their Congressional candidates?” We will suggest a few that are of utmost importance and a few that might better be put on the back burner. The answer to those questions could lose relevance if farmers start losing their farms.

Let’s start with what we think is the number one question: “What policies will you support if the current low prices remain for an extended period of time and threaten farm stability?” Even if this fall’s crop comes in slightly lower than projected and prices remain stable at current levels, farmers need something more than the hope of a crop failure somewhere to bring prices back to profitable levels. By now it should be clear to everyone that there was no new corn price plateau at $4, only the temporary price response to a 500-million-bushel a year increase in the demand for corn by ethanol producers.

Now we can throw a ton of money at the problem of low prices like we did with emergency payments. But even with a minor difference in the makeup of Congress, how likely is that?

Long-time readers of this column know that we favor policies that establish a price band around the average cost of production by managing the supply of crops that are held in commercial stocks.

Are there other solutions? Yes. But none that we have seen work over the long-run. However, what is important right now is that farmers begin asking the profitability question because the answer affects most of the other questions.

Recently we reported on Secretary Vilsack’s meeting with a group of young farmers who were concerned with support for beginning farmers and gaining access to land that they could farm. Just as important as giving young farmers a chance to establish a farming operation is the level of prices. Without profitability, no amount of start-up support will enable them to remain on the farm for any length of time.

Then there is the discussion of the Renewable Fuel Standard (RFS) which sets the level of biofuels that must be used in motor fuel. No matter which side of the RFS debate one is on, it is clear that reducing it at this time would make a bad situation worse. Reduce the level of ethanol that needs to be blended into fossil fuels and thus the amount of corn demanded by the ethanol industry by even a couple of hundred million bushels and recent prices will look good by comparison.

On the other hand, if we solve the price problem, then changes in the RFS can be managed. The issue is not really about how much corn is used to produce ethanol, it is about farm profitability. It always was.

For those of us who were around in the late 1990s, the discussion about investment in ethanol cooperatives was always about the price of corn. The buzz words were "further processing." Farmers were encouraged to invest in the further processing of corn so they could get slightly higher prices for their corn and share in the revenue generated by ethanol plants to improve their farm profitability.

But it wasn't only the RFS, it was the Conservation Reserve Program (CRP) that took millions of acres of land out of production and helped keep row crop prices from falling worse than they did during the 1998 to 2001 period. With the high prices of the last decade and the concomitant policy changes, we saw the acres in CRP fall. Recent low prices have seen CRP acres make a turn around.

Then there is the question of the inheritance tax. Despite the very low number of farmers affected, it continues to be an issue. But, with continued low prices, land prices will soften and may even drop dramatically; it has happened before.

Low prices could take more off the price of land than estate taxes ever would and that affects most farm estates, not just a few. Besides that, if land prices are falling and growing crops is not profitable, why would the heirs want to keep the land? They might want to keep the home place while selling the recently purchased land would not be a big deal.

As we look toward casting our votes in this election, the most important three words for farmers are profitability, profitability, profitability. What are the policy instruments that will allow the most efficient farmers to cover their costs of production?

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Harwood D. Schaffer is Research Assistant Professor, Retired; University of Tennessee; and Director of the Agricultural Policy Analysis Center (APAC). (865) 203-7848.
Daryll E. Ray is Professor Emeritus, University of Tennessee, and is the former Director of APAC.
Email: hdschaffer@utk.edu and dray@utk.edu; http://www.agpolicy.org.