

# ***High Crop Prices: The Good, The Bad, and The Ugly***

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# ***High Crop Prices: The Short-Run***

- **Crop farmers become euphoric**
  - \$7/bu corn, \$14/bu soybeans, and \$1/lb cotton
  - Never thought they will see the day...
  - Paying bills—not a problem
- **Livestock/poultry/dairy producers, well...**
  - They didn't think they would see the day either!!
  - Had become accustomed to buying feed for well below the its cost of production
  - Put many out-of-business

# ***High Crop Prices: The Short-Run***

- **“Ingredient” demanders complain loudly**
  - Food sector threatens to, or raise, prices
  - Even though the farm ingredients’ share of food costs is often very small (bread, cereal...)
  - The impact on meat does not hit until months or years later
- **Rural communities and farmer trade areas**
  - Reminded of the impact of farmers having ready cash
  - Good time to be a John Deere or pickup dealer

# ***High Crop Prices: The Second Impact***

- **Farm resource and input prices sky rocket**
  - Seed, pesticide, fertilizer suppliers raise **prices** (and not just a little bit)
  - Land cash rents and land values increase at double digit rates per year
  - Returning to “previous” price levels would be a real problem
- **Livestock production is adjusted downward; prices and profits increase**
- **Now food prices are affected more directly**

# ***High Crop Prices: The Long-Run***

- **Both the crop and livestock production-sectors become more concentrated**
  - Many livestock/poulturies/dairies did not survive—fewer operations
  - Crop farmers who are already large-scale, well-capitalized, and now cash-rich, expand even faster
- **Crop producers here and abroad expand output like crazy**
  - Guess what happens then...

# ***High Crop Prices: The Long-Run***

- **Historically, crop prices plummet**
  - Land prices drop, sometimes by a lot
  - In the U.S., government usually comes to the rescue but does not make it *all* better, just better
  - Years of “excess” crop production and “low” prices return with a vengeance
- **Historically, but not always, right?**
- **Wrong: No exceptions so far**

# ***But Things Are Different This Time***

- **Could be...**
  - China could become an insatiable demander of US commodities; other countries too
  - World population is projected to double
  - Weather “abnormalities” could escalate, jeopardizing yields worldwide
  - Doubling of energy prices or other factors could limit use of agricultural inputs
  - Water shortages, etc., etc.
- **Could be, but a certainty—it is not**

## ***Things to Consider...***

- Repeat of ethanol grain demand growth over the next 5 years will not happen
- That essentially leaves exports as the source of U.S. demand growth, & implies...
  - Developing countries willingly source food needs outside their country
  - The U.S. will be the dominant provider of any increase that occurs
- And then there is the tendency to focus on demand growth and not supply potential



# ***Do Developing Countries Willingly Out-Source Food?***

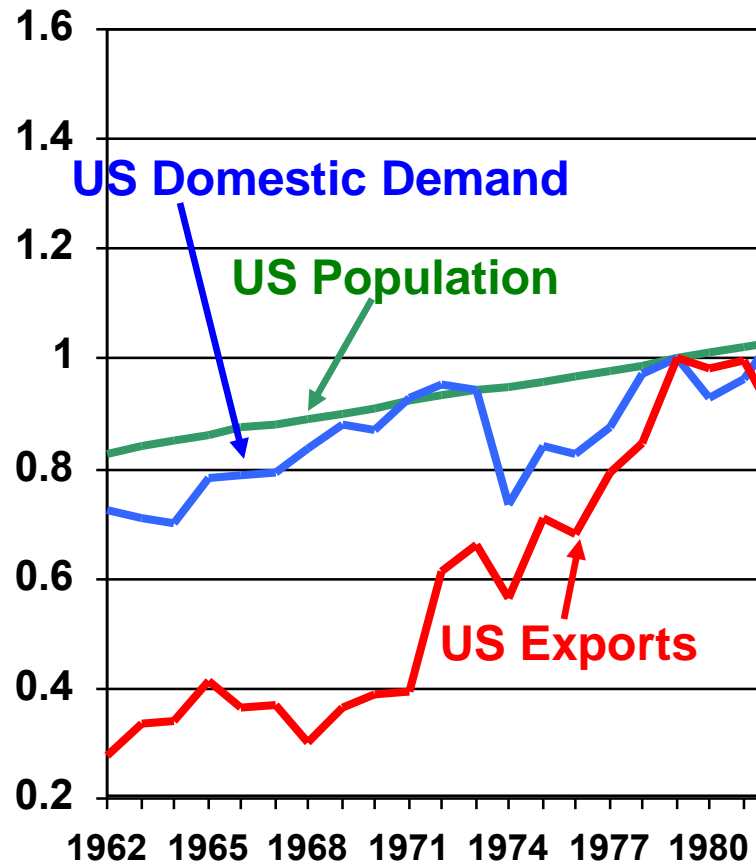
- **FOOD IS DIFFERENT**

- Food is a national security issue—just like military security is to the US. So ...
  - Countries want to domestically produce as much of their food staples as possible
  - Political considerations
    - Need to feed the population
    - Need to provide a living for millions in agriculture
    - Need an orderly exit of workers out of agriculture
- Food imports from outside countries
  - Often do not grow as fast as a straight economic analysis might suggest
  - Don't increase much when prices drop

# ***Would the U.S. Fare Well If Grain Export Demand Explodes?***

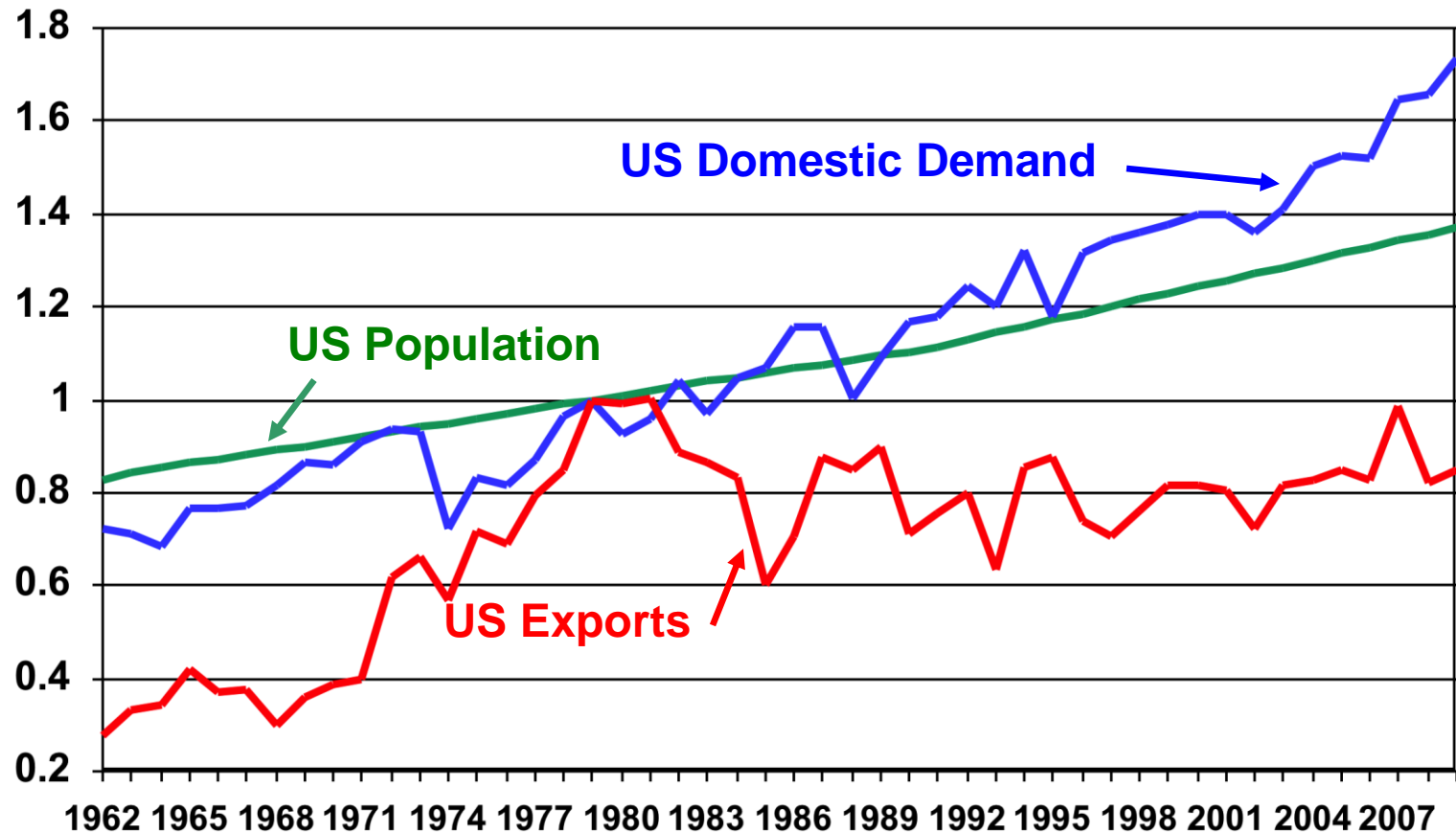
- The obvious answer would seem to be YES
- Look at soybean and cotton exports in recent years
- But has the reality of crop export growth over recent decades fallen short of expectations/reality/rhetoric?
- Well, let's go back a few decades and see

# ***Export Demand Did Explode in the 1970s***



Index of US Population, US Demand for 8 Crops and US Exports\* of 8 Crops  
1979=1.0

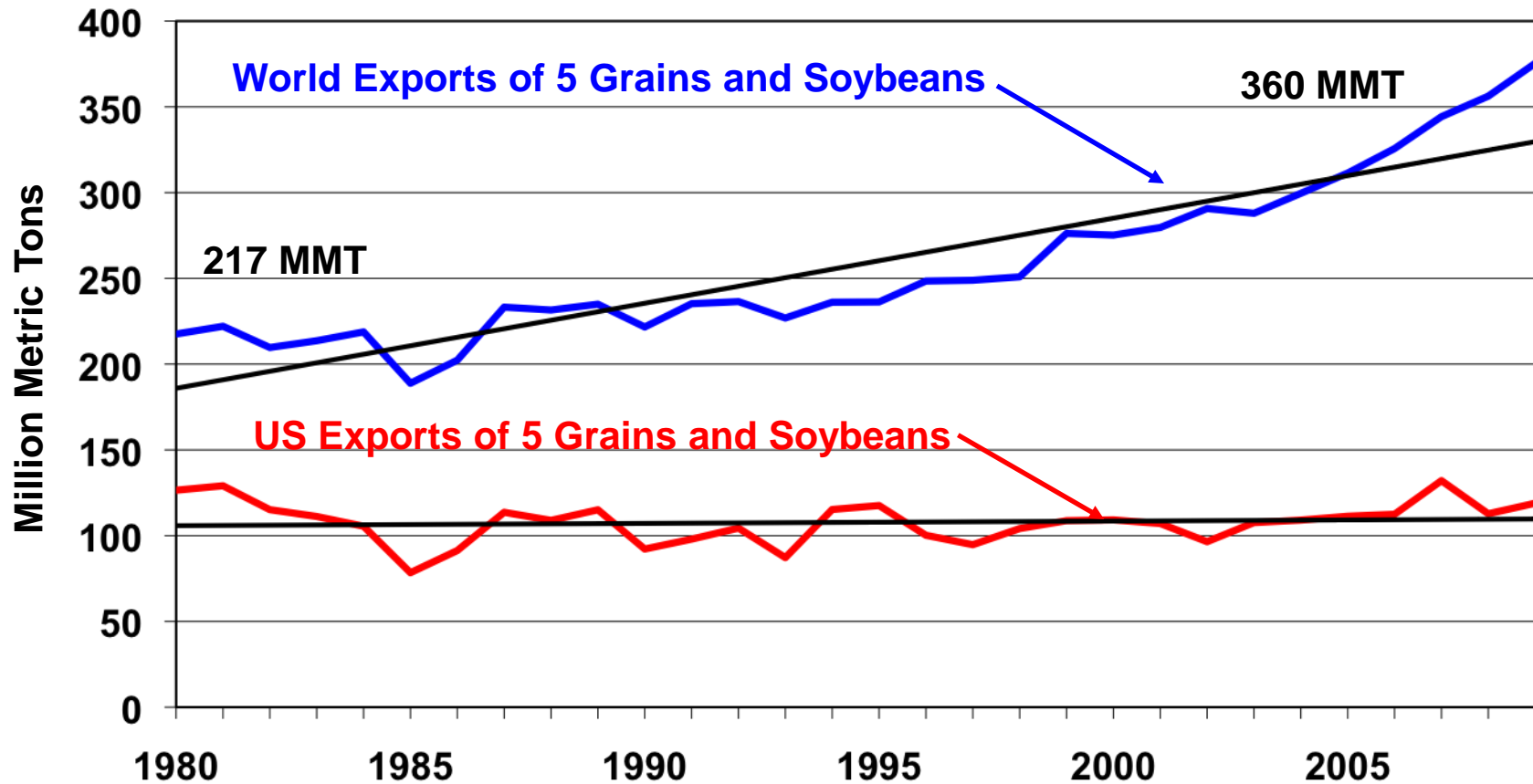
# ***The Following Decades...***



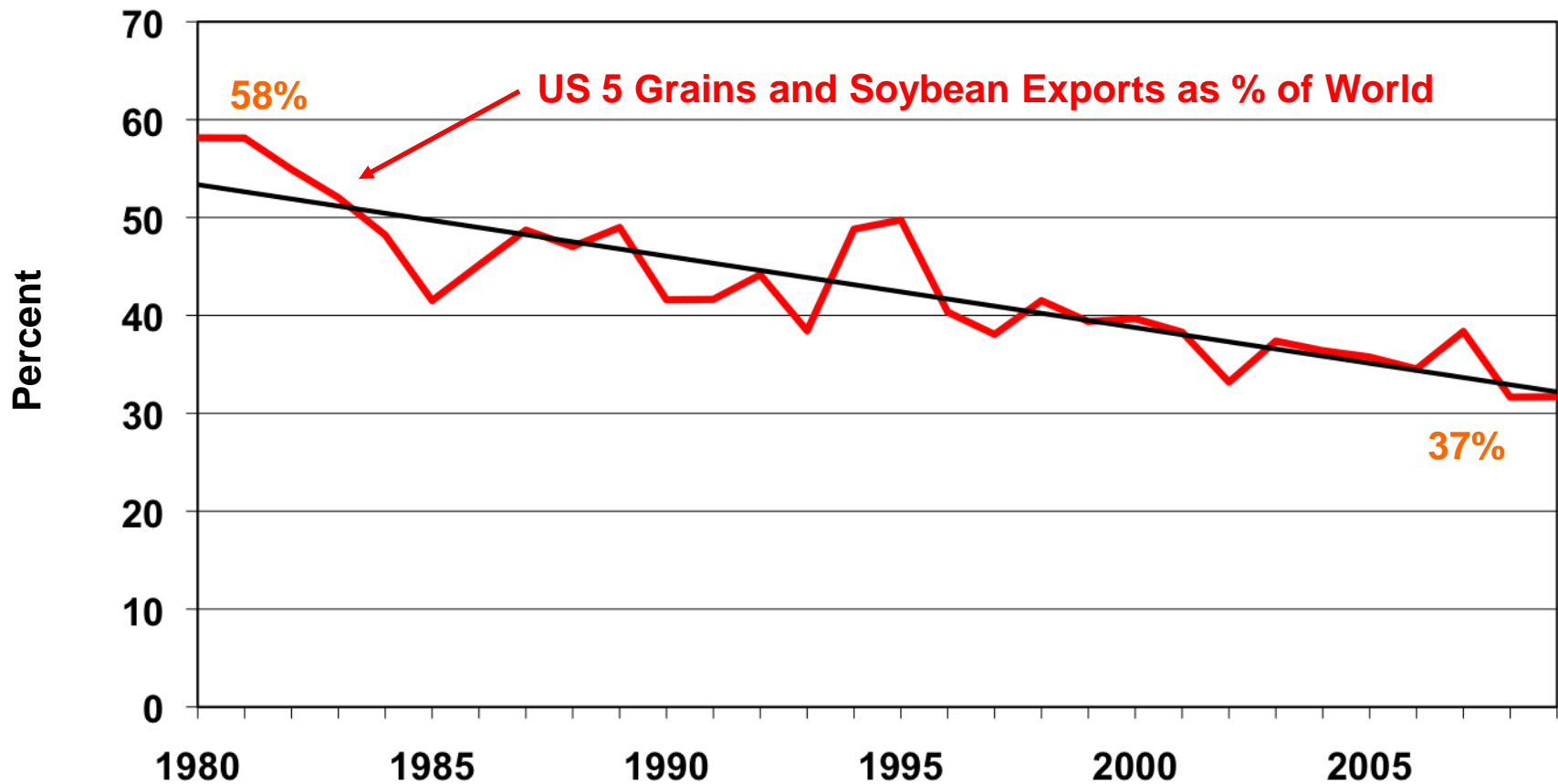
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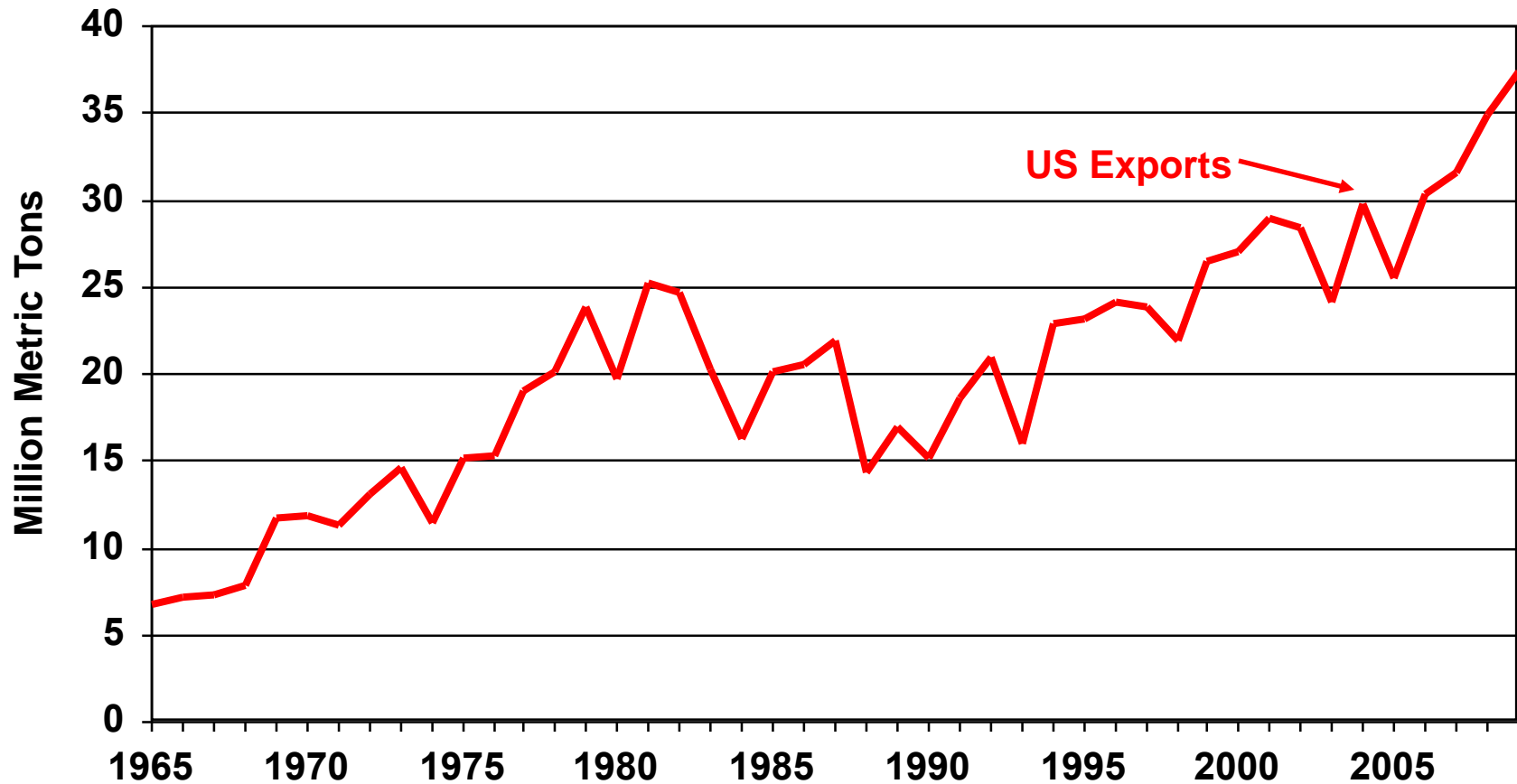
# ***US and World exports of 5 Grains and Soybeans, 1980-2010***



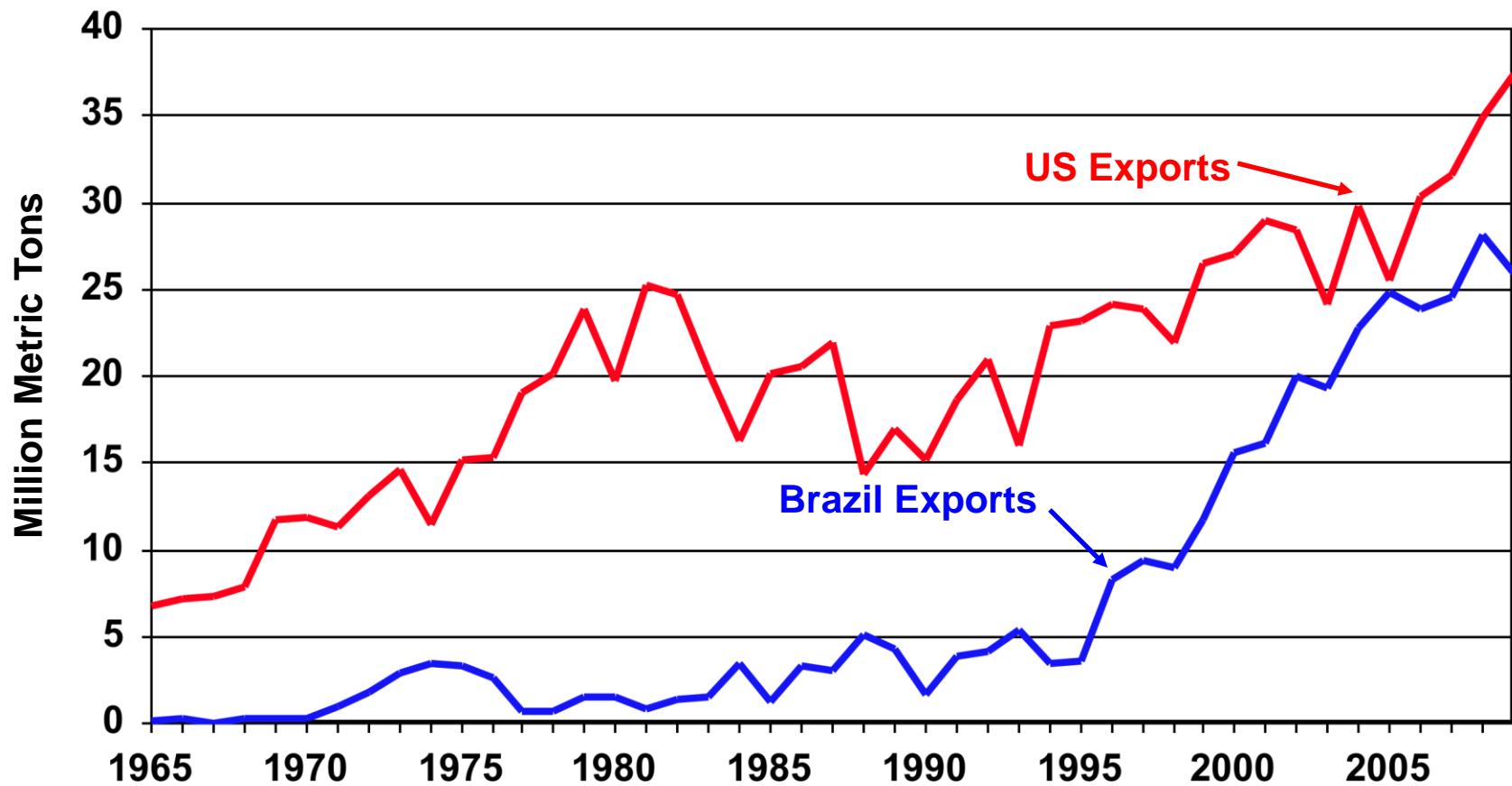
## ***US Percent of and World exports of 5 grains and soybeans, 1980-2010***



# ***US Soybean Exports Are Sure Enough Going Up***

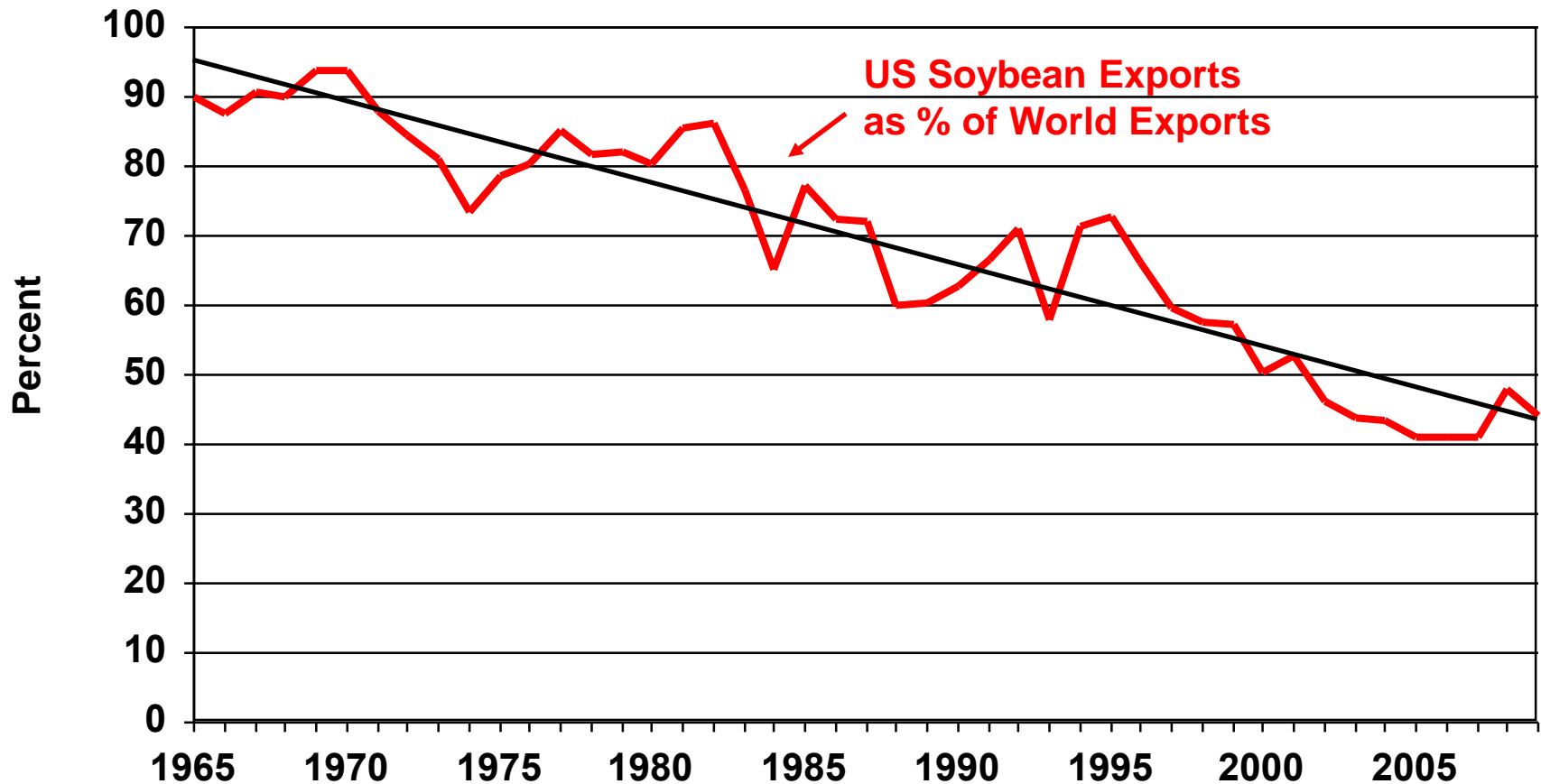


# ***But Brazil's Exports Have Gone Up by More...***

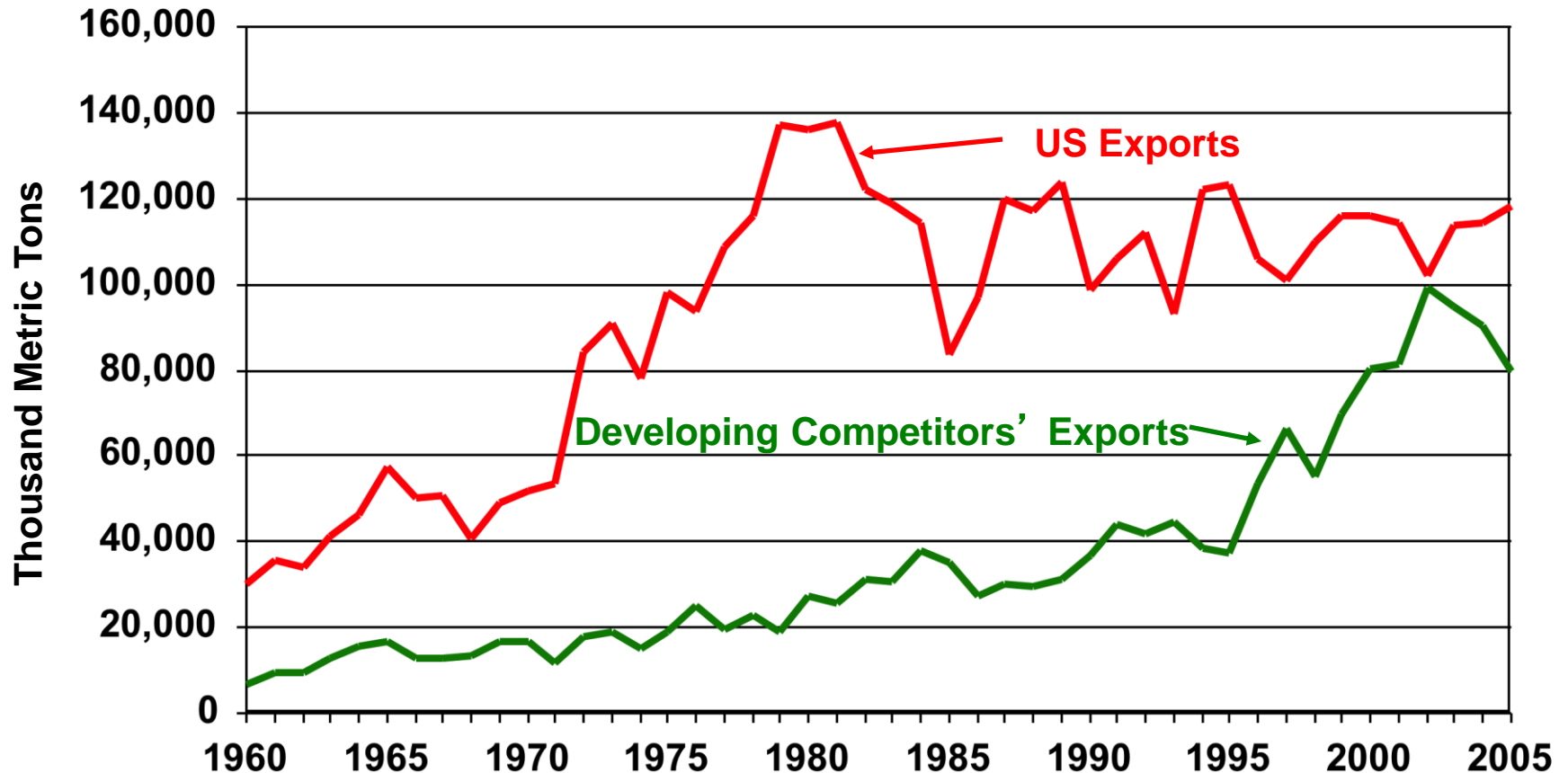




# ***So the US Share of World Exports Has Dropped Precipitously***



## ***Post-70s: Developing-Country Competitors Did Well***



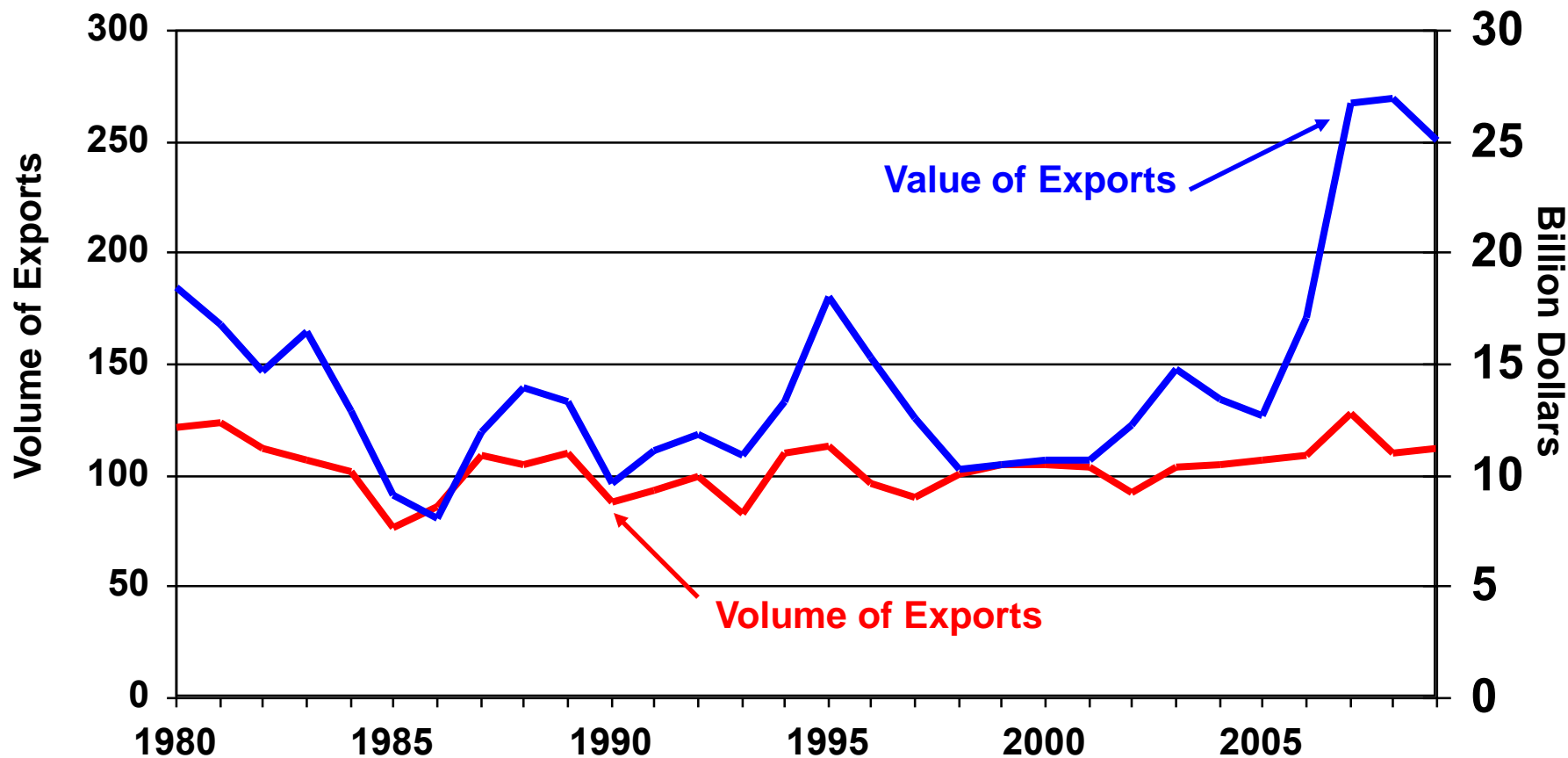
**Developing competitors: Argentina, Brazil, China, India, Pakistan, Thailand, Vietnam**

15 Crops: Wheat, Corn, Rice, Sorghum, Oats, Rye, Barley, Millet, Soybeans, Peanuts, Cottonseed, Rapeseed, Sunflower, Copra, and Palm Kernel

## ***Before We Leave Exports...***

- **Our President has set a goal of doubling the value of US exports in 5 years**
- **Our Sec. of Agr. says don't expect that from agriculture**
  - **Wise warning—In fact, odds are that agricultural export value will drop, not increase, in the next few years**
  - **Most of the mammoth increase in the value of exports over the last 3 years came from price not volume (will prices continue to grow?)**

# ***US Corn, Soybeans, and Wheat – Value and Volume of Exports***



# ***Finally, It's Easy to Underestimate Supply Growth***

- **Let' begin with the US:**
  - Investment in yield enhancing technology (300 bu./ac on best land in a few years?—national average a decade or two later??)
  - Potential conversion to cellulosic feedstocks for ethanol expansion
  - Conversion of Conservation Reserve Program Acreage and hay/pasture land to crop production

# ***It's Easy to Underestimate Supply Growth***

- **International supply growth—yield**
  - Development and adoption of drought/saline/disease resistant crops
  - Globalization of agribusiness: Near universal access to the new technologies world-wide
    - Narrowing of technology and yield differentials between the developed and developing world

# ***It's Easy to Under Estimate Supply Growth***

- International supply growth—acreage
  - **Long-run** land potentially available for major crops
    - Savannah land in Brazil (250 mil. ac. -- USDA says 350)
    - Savannah land in Venezuela, Guyana, and Peru (200 mil. ac.)
    - Land in former Soviet Union (100 mil. ac.)
    - Arid land in China's west (100 mil. ac. GMO wheat)
    - Savannah land in Sub-Saharan Africa (300 mil. ac. -- 10 percent of 3.1 bil. ac. of Savannah land)
- Supply growth has always caught and then surpassed demand growth (and it does not take long)

# ***Policy for All Seasons***

- **A policy that**
  - Protects farmers during “hard times”
  - Does not pile-on during the “good times”
    - **In contrast Direct Payments**
      - are paid even though prices are well north of all costs
      - but provide insufficient help when prices are depressed
    - **In contrast Revenue Insurance**
      - protect farmers’ “pure” profits when prices are really high
      - but when prices fall and remain below the cost of production, revenue insurance guarantee a percentage of those even-below-variable-cost prices
- **A policy that**
  - Helps ensure supply availability for domestic and export markets



# ***Policy for All Seasons***

- **Assume the unexpected will happen**
  - Random policy and weather events do occur—**Plan for them**
- **Establishment of Grain/Oilseed/Food Reserves**
  - Moderate impacts of random policy and weather events by providing stable supply until production recovers
  - Operated/overseen by a multinational commission
  - Stores strategically purchased reserves

# ***Policy for All Seasons***

- **Keep productive capacity well ahead of demand**
  - Public investment in yield enhancing technologies and practices
- **Provide means to hold arable land in rotating fallow during periods of overproduction**
  - This land could then quickly be returned to production in the case of a crisis

***Thank You***

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