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Are we better off without government stocks overhanging the market?

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When I go out on speaking engagements, a common audience comment alludes to the fact that while prices during the last four years were extremely low, the year ending stocks did not seem excessively high. That got me wondering, were the crop prices of the last four years as bad as they seemed or do things in the past always seem better in hindsight? As a part of our ongoing examination of the impact of the 1996 Farm Bill on crop agriculture, we took a look at that question.

As we all know, season average corn prices during the last four years were significantly below the peak achieved during the 1995 crop year. In fact, it looks like the season average price of around $1.90 received by farmers for corn during the now ending 2001 crop year will be some 40 percent below what was received in the 1995 crop year. But where does that $1.90 stand compared to prices of the last three decades or so?

Looking at prices since 1973 tells the story and it ain’t pretty. Corn prices for the last four crop years, 1998 through 2001, are four of the six lowest season average prices in the last 29 years. The other two low price years were 1986 and 1987. But circumstances were considerably different in those years. Stock levels, then, really were large. The year 1986 ended with a 241 day supply of corn and 1987 with a 200 day supply. By way of contrast the year ending stocks for the last four years have been in the range of 60 to 71 days supply.

In other words, the price of corn was about $2.00 for both 1987 and 2001. However, the 1987 crop year ended with a 200 day supply of corn while 2001 is projected to end with a 60 day supply. Quite a contrast, huh?

Remember when “everybody” said that a major reason crop prices tended to be low was because government stocks “overhung” the market? Another piece of conventional wisdom bites the dust.

Actually it’s the absence of some of the trusty old farm program provisions that allowed this to happen. Again the data suggest that without a price support type loan rate program and with no threat of set-asides the next year and, relying on LDPs as a supplement to price, there is no incentive for the marketplace to bid up the price of crops unless adverse weather results in severely tightened supplies. While bad weather here or abroad may provide a respite from low prices, it’s surely not a long-term solution.

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