Critics Call For Short-Term Fixes On Food And Feed Prices

Will lawmakers be able to take 'the long look?'

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What would happen if corn prices dropped back to $2.00/bushel within the next few months?

It's not a likely to happen, but clearly, there are some who wish it would. Never mind the fact that the rising costs of fuel, fertilizer and rent would make it downright impossible for most folks to profitably produce corn at that price level.

In fact, some of the lawmakers who want to get rid of the current renewable fuels standard (RFS) seem to think that cheap corn is a panacea for the nation's economic ills. The RFS requires using up to 15 billion gallons of corn-based ethanol by 2015 and a total 36 billion gallons of other renewable fuels by 2022.

Led by Sen. Kay Bailey Hutchison (R-TX), a group of Senators called on the Environmental Protection Agency last week to waive federal mandates that require increasing levels of ethanol over the next 15 years. If only corn-based ethanol would go away, they argue that feed prices would drop, the livestock sector would be able to make more money and food prices would decline dramatically.

However, numerous others challenge those arguments. According to an April 10, 2008 report issued by the Agricultural and Food Policy Center at Texas A&M University, "relaxing the RFS does not result in significantly lower corn prices." The report goes on to state the current ethanol production infrastructure has grown in excess of the RFS and relaxing the standard would not cause a contraction in the industry.

A new Iowa State University study by Drs. Bruce Babcock and Lihong Lu McPhail, estimates the average price of corn, if the ethanol mandate was removed, would drop less than 30 cents – from $5.60 to $5.34. If the mandate and the 51 cent tax credit were both removed, annual average prices would drop from $5.60 to $4.83 – for a total of 77 cents.

Kansas State University economists think those estimates may be conservative in the short-run. Initially, the psychological impact on the market by such a large change in public policy would cause the long speculators to dump their contracts, points out Art Barnaby, KSU Professor of Agricultural Economics.

However, Barnaby says there are good reasons to believe the Iowa estimates may be close and the fall in corn prices may not be as severe as many analysts might forecast. Here are six reasons why:

1. The cost of fertilizer has doubled as have many other input costs that are Petroleum-based. Those higher input costs would have happened without regard to the corn price. Over the long run one can not drive price below the cost of production, so in the long run average corn price would have increased even without ethanol.

2. The weak dollar has made USA corn less expensive in international markets, and this has contributed to heavy export demand. The export market has supported higher grain prices independent of ethanol.

3. Poor growing conditions for wheat are largely responsible for higher wheat prices. New crop wheat prices have declined about $5 from their highs, so improved weather has eliminated "high" wheat prices. However, the corn price will put a "floor" under wheat prices.

4. Demand for feed has remained strong with distillers' grain providing more feed than originally anticipated.

5. Higher gasoline prices increases the demand for ethanol without the subsidies. If gasoline prices were to increase above $4, that would drag ethanol prices higher too.

6. With only 17 cents worth of wheat in a loaf of bread and 10 cents of corn in a box of corn flakes, it is difficult to buy the argument that ethanol is driving food prices. The argument that higher corn prices will cause meat prices to increase is a stronger argument because feed is a major cost of meat production. But even then, ethanol is only one of the factors causing higher food prices.

Higher gas prices ahead?

Others point out that removing ethanol from the equation will only allow oil prices to continue their upward climb and take food prices along for the ride. "With the average food item traveling more than 1500 miles before reaching the final consumer, it is no wonder that food costs are increasing when, looking back over the past seven years, gasoline prices have increased 198 percent," said National Farmers Union President Tom Buis during a recent congressional hearing.

Buis characterized efforts to reduce the current renewable fuels standard (RFS) as the single biggest mistake we could make in reducing energy and food costs.

"Reducing ethanol consumption would result in higher gasoline prices for consumers and disrupt our efforts to develop cellulosic ethanol in the future. Current ethanol production is lowering the price of gasoline at the pump by 50 cents per gallon," he added.

Still, some politicians are quick to point fingers and corn-based ethanol appears to be an easy target. In today's 24/7 news cycle and sound bite mentality, the finger pointing between Republicans and Democrats over who can fix high food and fuel prices is likely to continue.

The Long Look

It's unclear how many lawmakers will be willing to look years ahead and make difficult choices, as Former Secretary of Agriculture Henry A. Wallace was known for doing back in the 1930's when Rural America was undergoing challenges of a similar magnitude. Wallace was known for taking "The Long Look" in agricultural research and policy. His experiments with higher-yielding corn strains resulted in major improvements in plant genetics and he later developed the Hi-Bred Corn Company (now Pioneer) to take advantage of his discovery.

Wallace wrote at that time, "The revolution has not come yet, but I am certain that it will come within ten or fifteen years." His prediction was on target, as his biographers White and Maze explained: Less than 1 percent of corn planted in the Corn Belt was hybrid in 1933. Within ten years the percentage had risen to 78; by 1965 it was nearly 100.

Most industry analysts expect similar revolutionary breakthroughs to come in the development of renewable energy over the next decade. But it won't happen unless policymakers and the investment community are willing to put money into research, development and the infrastructure. Δ

Editor Sara Wyant publishes a weekly e-newsletter covering farm and rural policy called Agri-Pulse. For a four-week free trial, go to www.Agri-Pulse.com