APAC Agricultural Policy Analysis Center
The University of Tennessee

PolicyPennings by Dr. Daryll E. Ray

$1.63 corn: Does that market signal mean we need fewer CRP acres?

With 22.2 million acres enrolled in the Conservation Reserve Program (CRP) up for renewal in 2007 and 2008, the USDA requested comments on long-term policy for the program. The decisions made in the program review could well determine the role and direction of the CRP for the next decade.

As we noted in last week's column, the four major grain-related organizations (National Grain and Feed Association, National Oilseed Processors Association, North American Export Grain Association, and North American Millers Association) sent their response to USDA asserting that "substantial changes are needed in the future direction of the…CRP." Put in plain English, they are arguing that the CRP "be significantly downsized."

More than two centuries ago, Adam Smith, the father of modern economics, argued that any public policy prescriptions, like the grain-related organizations' CRP proposals, that are formulated by merchants and manufacturers "ought to be listened to with great precaution, and ought never to be adopted till after having been long and carefully examined, not only with the most scrupulous, but the most suspicious attention." He asserted that their interests are "never exactly the same [as] that of the public."

With that in mind, let us look at the rationale these four organizations give to justify their call for an overall reduction in acreage enrolled in the CRP. They argue that this released acreage is needed "if U.S. agriculture is to capture growth opportunities and sustain the growing demand for grains and oilseeds from the ethanol, livestock and poultry sectors." On the face of it, this sounds quite reasonable. Who could argue that U.S. farmers would not want to "capture growth opportunities"?

But let's look at the situation a little more closely. It is true that over the last decade domestic feed demand for corn has increased by over 60% and the same demand for soybean meal has increased by over 25%. At the same time the expected 2004-05 stocks-to-use ratio for corn sits at 17.0% with a bushel of corn in Martin County, Minnesota selling for $1.635. That same bushel on December 21, 2004 could also receive an LDP of $0.17. The expected 2004-05 stocks-to-use ratio for soybeans is pegged at an unusual high of 16.4% and a bushel of soybeans sells for $5.375, $0.455 above the loan rate. And one could easily argue that it is at that level only out of concern about the impact of Asian Soybean Rust in South America this winter and in the U.S. next summer.

If price signals are the measure by which the market determines whether or not there is the need for additional resources to be brought into production, the signal these prices are giving is not for additional acreage. That is not to say that some livestock and poultry producers would not like to have access to large amounts of subsidized, below the cost of production corn and soybeans. They would. But it does suggest that farmers don't need more acreage to "capture [the] growth opportunities and sustain the growing demand for grains and oilseeds from the…livestock and poultry sectors." At $1.635 corn, they can hardly afford much more of that kind of prosperity and neither can the taxpayers.

The growing demand for ethanol presents a slightly different picture. Let us take a moment and remember why it is that we have a growing ethanol industry in the U.S. Ethanol plants are going up all across the corn belt because farmers have fought for legislation and have invested their money in these facilities in an attempt to sop up some of the excess production that has driven corn prices into the basement. These facilities are rising up out of the corn fields of this nation because we have a corn supply so large that it will not sustain prices at a profitable level.

To turn around then and argue that the growing ethanol demand means that we need to bring extra acreage into production flies in the face of logic. We have these plants because we have more corn than we know what to do with and farmers built them looking for a value-added process to increase their farm gate revenue stream.

What seems clear to us is that long-term ability to satisfy "the growing demand" for corn and soybean products is not the problem. But short-term availability due to annual variations in production could be. Given this, it may well be that the four organizations could best help ensure sustained-availability of grain and oilseeds for the ethanol and livestock sectors by lobbying for a reserve stock program.

In addition to better addressing the dependability of grain and oilseeds for demanders, the average annual treasury outlay for a reserve stock program would be well under the additional loan deficiency and counter-cyclical payments that would result from unleashing millions of CRP acres.

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