

Policy Pennings by Dr. Daryll E. Ray

Adam Smith and CRP

Four major grain-related organizations sent out a press release on December 14, 2004, arguing that “substantial changes are needed in the future direction of the Conservation Reserve Program (CRP) 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... The National Grain and Feed Association (NGFA), National Oilseed Processors Association (NOPA), North American Export Grain Association (NAEGA) and North American Millers Association (NAMA) said there is ‘compelling evidence’ that USDA should **not** [emphasis in original] simply reenroll the 16.1 million acres represented by CRP contracts scheduled to expire in 2007 and 6.1 million acres in 2008.”

This proposal comes from the organizations that have a direct financial interest in having more low-cost grains and oilseeds to crush, mill, process, and export. The more bushels they can push through the system, the more money they make. They submitted their comments to the United States Department of Agriculture (USDA) in response to that agency’s requests for comments on long-term CRP policy.

Their proposal reminds me of the place in the writings of Adam Smith, the first modern economist, where he talks of the three original orders of every civilized society. The first order is those who live by rent, the landlords and country gentlemen of the late eighteenth century. The second order is those who live by wages, the laborer, worker and tiller. The third order is those who live by profit. Smith argues that the interests of the first two orders are “inseparably connected with the general interest of the society.”

He then explains that “[t]he interest of this third order, therefore, has not the same connection with the general interest of the society as that of the other two.” As a result, Smith is skeptical of public policy proposals that come from this order. In particular he says, “The proposal of any new law or regulation of commerce which comes from this order, ought always 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 with the most suspicious attention. It comes from an order of men, whose interest is never exactly the same with that of the public...” (Adam Smith, “Wealth of Nations,” last paragraph, Book I, Chapter XI).

In our view, this is good advice to heed in this case because clearly the financial interests of the four major grain-related organizations are not the same as those of the farmers who produce the grains and oilseeds these folks process. Therefore we ought to “long and carefully” examine this proposal by the four major grain-related organizations. We ought to look both at the legitimate issues they identify and the issues where their self-interest may get in the way of long-term CRP policy goals.

One of the areas where we think the four organizations are on target is the need to focus on the environmental benefits of CRP. Certainly their suggestion that more attention ought to be given to the use of CRP for “filter strips, buffers and the most environmentally sensitive

lands” makes sense. In addition to careful chemical use, filter strips and buffers are a sensible way of reducing the amount of farm chemicals that make their way into our streams and rivers. This is one more way that we can work to ensure improved water quality. This refocus could involve a redistribution of some acres within the program. However, we are concerned about their goal of reducing the total acreage under CRP.

We also think that attention to air and water borne soil erosion is an important part of the CRP mandate. By taking highly erodible land (HEL) out of production we preserve a valuable resource while at the same time ensuring cleaner air and water. The less soil that washes off our nation’s fields, the less siltation problems the folks downstream have to face.

But as we focus on the environmental benefits we need to remember that the CRP, as it was originally conceived, was a two pronged effort. One prong was environmental and the other was a long-term land retirement program designed as a means of reducing the amount of “overproduction” that had driven down commodity prices. Rather than “paying farmers not to farm” (remember those accusations?), CRP was designed so that the public would reap some environmental benefits while at the same time helping the crop sector balance out production so farmers could receive a reasonable price for the crops they produce.

The four major grain-related organizations seem unconcerned about the second reason why the CRP was put into place. But this is not surprising because these are many of the same groups that were responsible for the now discredited 1994 study that argued that if the US did away with setasides and produced full-out, we would force our export competitors to cut back on their acreage and fuel an export-based prosperity for crop agriculture.

What did result from the adoption of the proposals of these groups in 1996 was a dramatic fall in commodity prices and record farm payments. In some years, under the policies they helped craft, government payments accounted for nearly half of net farm income. With today’s cash corn prices in central Illinois in the \$1.80 range and cash soybean prices in the \$5.25 range, we wonder why farmers would be interested in adding 8-15 million acres to our crop base?

While Adam Smith is best remembered for his “invisible hand” remark, he also had sage advice concerning the need to suspiciously examine any proposal that comes from groups with vested interests. And vested interests abound.

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