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Staff Paper

Issues and Alternatives in the 1995 Farm Bill
Debate: The Conservation Reserve Program

By

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The Conservation Reserve Program

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6 pages

Abstract

The future of the Conservation Reserve Program (CRP) will be a pivotal issue in the 1995 farm bill debate. Established under the Food Security Act of 1985, the original objectives of the CRP were to provide a voluntary form of supply control and to reduce soil erosion by retiring highly erodible land on a long-term basis. The latter objective was expanded in 1990 to include retirement of lands for the purpose of protecting water quality.

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ISSUES AND ALTERNATIVES IN THE 1995 FARM BILL DEBATE: THE CONSERVATION RESERVE PROGRAM

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Staff Paper 94-51

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The future of the Conservation Reserve Program (CRP) will be a pivotal issue in the 1995 farm bill debate. Established under the Food Security Act of 1985, the original objectives of the CRP were to provide a voluntary form of supply control and to reduce soil erosion by retiring highly erodible land on a long-term basis. The latter objective was expanded in 1990 to include retirement of lands for the purpose of protecting water quality.

The first set of CRP contracts will expire in 1995, with the majority of acreage leaving the CRP in 1996 and 1997. Many people are concerned about the impact of the expiration of these contracts on both commodity prices and on the environment. Extending these contracts or bringing additional land into the CRP, however, will require new taxpayer funding. This money could only come from either new sources -- a highly unlikely possibility -- or from another federal program. If the money comes from another program, it would probably come from a reduction in other agricultural programs. Because changes in the CRP could impact crop and livestock prices, deficiency payments, farm income, and the environment, all Michigan farmers will be affected by the future of the CRP, regardless of whether they are currently enrolled in the CRP.

A Brief History of the Conservation Reserve Program

In the early 1980s, land in agricultural production reached the highest level of the post-World War II period. Government expenditures on farm programs were headed for record-breaking levels. At the same time, concerns arose about the environmental impact of production on highly erodible lands. In such a context, it made little sense for USDA programs to provide deficiency payments to grow crops on these lands, particularly since farm program costs were spiraling upwards. For these reasons, a consensus was reached to establish the Conservation Reserve Program in the 1985 farm bill.

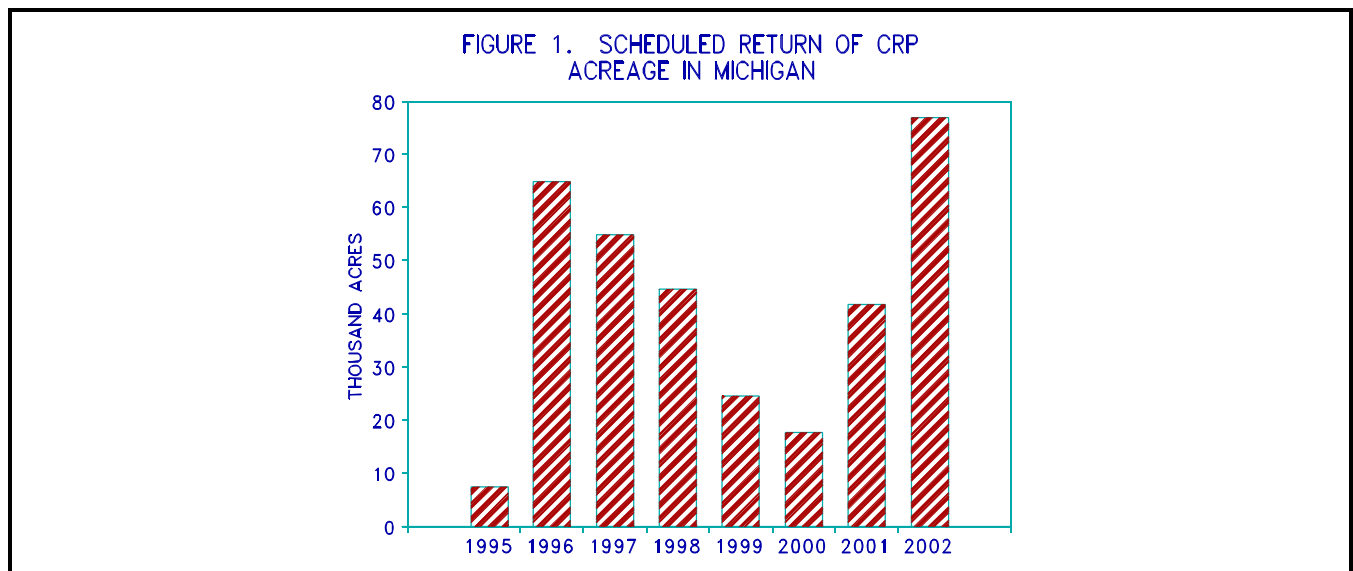
The CRP was initially targeted at highly erodible lands, and farmers were permitted to bid to enroll acreage in the CRP. When the CRP was established, it was thought that only the most erosive cropland would be enrolled and that stringent conservation compliance standards would prevent most of the CRP land from ever returning to crop production. Thus, land was selected for the CRP if it met the erosion eligibility criteria and the farmer's bid price was below a pre-determined bid price per acre. Because the eligibility standards were expanded, only about one-third of the current CRP land is extremely erodible. Also, conservation compliance standards are not as strict as originally proposed. Therefore, most CRP land could be returned to production with minimal compliance costs.

The 1990 farm bill extended the CRP enrollment period through 1995 and revised the CRP eligibility criteria to focus on water quality, wildlife habitat and other environmental concerns. Since 1990 there have been three signups and an additional 2.5 million acres have been enrolled to the CRP. Nearly 15 percent of these acres came from watersheds in the Chesapeake Bay, Long Island Sound, and the Great Lakes region. Only 2 percent of the CRP acreage enrolled prior to 1990 was located in these regions.

There are now 36.4 million acres enrolled in the CRP throughout the nation by over 535,000 land owners. Most of the CRP lands are in the Great Plains. Annual rental payments exceed \$1.7 billion dollars. Michigan has 8,039 CRP contracts, accounting for 332,853 acres that will receive \$206 million dollars in payments during the life of these contracts. Michigan's CRP payments rank twenty-fifth among the 50 states. Table 1 shows Michigan's CRP contracts and payments by county. The largest share of CRP contracts will expire between 1996 and 1998, with contracts on 164,000 acres of land in Michigan expiring during these years (Figure 1). Contracts on 28 million acres of land will expire nationwide during the same period.

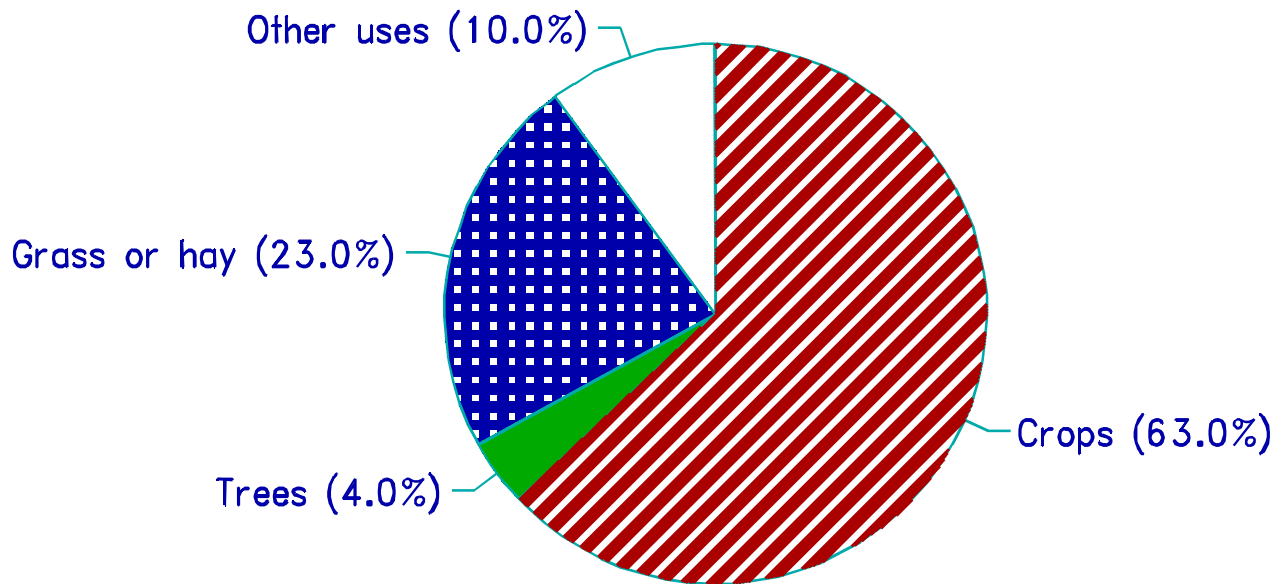
Option 1: No Extension of CRP Contracts

There have been several national surveys of CRP contract holders' anticipated use of CRP land after the contracts expire. These surveys suggest that contract holders intend to return 63 percent of their enrolled land to crop production and keep 23 percent in grass for hay production or grazing livestock. Four percent of the acreage would remain in trees for commercial wood production, 2 percent would be kept in wildlife uses and 3 percent would be kept in grass or trees with no commercial use. Three percent of contract holders plan to sell their land, and the remaining 2 percent planned other uses or were undecided on future use (Figure 2).



Studies suggest that if all CRP acres are returned to their previous uses, crop prices will decrease if the CRP is not extended. For example, a recent study by Texas A&M University researchers estimated that the market price for corn would be \$2.53 in the year 2000 if the CRP is retained, but would decrease to \$2.28 if the CRP were eliminated. The market price of wheat was estimated to be \$4.21 in 2000 if the CRP is continued, compared to \$3.05 if CRP is eliminated. This study assumed that 75 percent of the land enrolled in the CRP would return to crop production if the program is eliminated. If fewer lands were returned to crop production (such as the 63 percent indicated above), the impact on farm prices will be smaller, particularly if set-aside requirements are increased.

FIGURE 2. EXPECTED USE OF CRP LAND AT EXPIRATION OF CONTRACT



Other studies suggest that net income from livestock would increase due to lower feed prices. Livestock and hay producers would probably see increased competition from the 23 percent of CRP land that would be returned to hay or grazing uses.

The CRP is estimated to have reduced soil erosion by 672 million tons, or nearly 30 percent of the total estimated erosion in the United States. Michigan is estimated to have erosion reductions of 3.2 million tons per year due to the CRP. In addition, there have been conservation and environmental benefits from improved wildlife habitat and reduced pesticide contamination of surface and groundwater associated with the CRP contracts. These benefits could be reduced dramatically if CRP land returns to crop production.

On the other hand, there have been some negative economic impacts for local communities as farmers purchased less seed, fertilizer, and machinery because land was idled through CRP contracts. There may be increased economic activity in these industries if cropland returns to production after the CRP contracts expire.

Option 2: Partial Extension of Existing CRP Contracts

The impacts discussed above will be diminished with partial extension of existing CRP contracts. The impact on prices and farm income will depend, in part, on the set-aside requirements established for land returning to the commodity programs. Moreover, any extension of contracts will require new funding. Under the existing budget

rules, these funds would probably come from a reduction of commodity program benefits for all commodity program participants.

There is some consideration being given to the option of allowing low-intensity use of CRP land, such as grazing, in return for lower rental payments. Such an option could result in increased competition for livestock producers as CRP land is shifted to such uses, but the budget cost of the CRP would be reduced.

Another alternative would be to tailor an extended CRP to match the provisions of the Clean Water Act so that the CRP could be used to support "best management practices" required under a reauthorization of the Clean Water Act. Such an approach could provide farmers with a source of funding for implementing pollution run-off controls that may be required by the Clean Water Act.

An extension of the CRP may be accompanied by additional requirements of stewardship and conservation as well as selection of those CRP contracts which provide the greatest off-farm environmental benefits. The emphasis on a wider range of environmental benefits stems from an increasing public demand for improved environmental quality and from recently completed trade agreements that discourage agricultural subsidies based on production and supply control, but permit direct income subsidies to farmers based on the adoption of environmental practices.

Option 3: A Re-targeted (Leaner and Meaner) CRP

Despite the apparent success of the CRP, the program has many critics. Criticisms of the CRP include the cost of the program, the targeting of the program largely at soil erosion rather than at a wider range of environmental problems, and the nature of the program.

Criticisms of the program's cost focus on both the total program cost (\$1.8 billion annually) and on the fact that in some parts of the country -- particularly the arid regions of the Great Plains -- the CRP rental rates were 200 to 300 percent higher than local cash rental rates. Some critics suggest that CRP funds would be better spent on purchasing permanent conservation easements on critical lands.

Other critics allege that the CRP places too much emphasis to soil erosion problems and fails to adequately address off-farm water quality problems. They argue that the twin goals of supply control and environmental protection are incompatible and that the program should focus on attaining increased off-farm environmental protection. Any effort to widen the environmental focus of the CRP would have to expand both the types of land and the types of commodities eligible for enrollment in the program.

The third criticism is that the money would be better spent influencing how farmers farm and not which lands they farm -- at least if the goal is the protection of the environment. These critics would prefer to use conservation dollars for cost-sharing of improved farm management systems.

In response to these criticisms, the CRP could be designed to be "leaner and meaner" with fewer acres enrolled and a more direct targeting of the program at off-farm environmental problems. This alternative could include land not currently eligible for the CRP and might allow parts of fields to be enrolled in the CRP as filter strips rather than requiring the enrollment of entire fields as is done under the existing program.

One result of redesigning the CRP is that more Michigan cropland would be eligible under a redesigned CRP, particularly if the enrollment criteria included factors such as potential pesticide loadings, nitrogen leaching or run-off rates, use of filter strips, protection of wildlife habitat, or proximity to population centers. Studies have concluded that more acreage would be eligible in Michigan under a redesigned program that maximizes environmental benefits per dollar rather than under a program that maximizes the soil erosion reduction per dollar. Much

of this acreage would be in non-program crops, thereby allowing a wider range of farming enterprises to be eligible under a redesigned CRP.

A decision to target contract renewals would probably result in a smaller impact on crop prices than if the CRP were terminated. The impact on budget cost would depend on the acreage accepted under such a program and the payments made for environmental protection practices.

Deciding the Future of the Conservation Reserve Program

The fate of Conservation Reserve Program and other farm programs will depend on the political circumstances surrounding the farm bill debate. Though some observers believe the debate will be less favorable for agriculture than the past, programs protecting environmental quality will probably receive as favorable a treatment as budget constraints allow. Many environmental groups are willing to support some form of Conservation Reserve Program, and farm organizations may find that a continuation of the alliance started in 1985 will be necessary for passage of the 1995 farm bill. While this situation suggests that coalitions between agricultural interests and environmental groups could obtain an extension of the CRP in some form, budgetary constraints loom large. If continued reductions in the USDA budget are required, all agricultural programs -- including the CRP -- will be under continued pressure to justify their existence.

Table 1. Conservation Reserve Program Contracts and Payments in Michigan.

	Number of Contracts	Total Enrolled Acres	Cropland Base Acres	Non-Base Acres	Total Value of Contracts	Avg Value of Contracts	CRP Payments 1,991	CRP as % of ASCS Payments 1991	Reduction in Annual Payments as Contracts Expire					Total
									1996	1997	1998	1999	2000	1996 - 2008
Michigan	8,039	332,853	185,995	146,65	205,945,931	25,618	12,834,459	8.05	389.71	3,725,333	3,181,727	2,677,255	1,584,030	19,650,377
Alcona	29	1,214	515	698	511,700	17,645	48,830	23.30	0	15,199	15,252	16,436	1,300	48,187
Allegan	114	4,481	2,757	1,723	2,770,304	24,301	229,375	6.61	4,158	135,170	42,633	22,872	0	259,215
Alpena	20	480	229	250	196,134	9,807	5,838	1.24	0	3,251	2,956	1,288	0	17,790
Antrim	26	981	269	710	404,518	15,558	41,858	11.15	0	26,384	1,548	3,996	1,116	39,143
Arenac	216	8,505	3,876	4,628	5,287,234	24,478	370,988	29.46	0	86,344	83,677	99,266	25,049	497,845
Barry	470	19,034	10,237	8,797	12,035,882	25,608	807,076	29.35	53,521	370,109	192,855	116,274	44,046	1,116,941
Bay	123	4,296	2,069	2,226	2,876,233	23,384	191,684	11.12	1,806	37,334	77,213	38,837	10,033	276,028
Benzie	1	10	3	6	4,450	4,450	450	0.48	0	400	0	0	0	400
Berrien	140	4,457	2,006	2,450	2,950,000	21,071	226,077	22.73	8,626	90,841	45,167	32,247	20,240	273,925
Branch	419	19,976	13,296	6,679	13,051,291	31,149	1,018,770	20.72	12,010	170,680	147,952	290,374	318,746	1,255,547
Calhoun	332	13,972	8,530	5,441	8,643,534	26,035	569,684	13.12	55,839	319,319	104,199	37,335	53,594	816,549
Cass	109	4,006	2,154	1,852	2,639,487	24,215	211,044	7.56	5,302	58,055	42,141	69,203	43,641	256,430
Charlevoix	6	255	70	184	102,836	17,139	5,041	2.82	0	1,600	4,006	0	0	9,132
Cheboyga	15	500	267	231	197,714	13,181	11,636	16.69	0	6,765	3,880	7,008	0	18,528
Chippewa	2	70	7	62	8,424	4,212	0	0.00	0	0	0	0	0	842
Clare	57	2,233	853	1,379	874,591	15,344	40,181	10.07	0	2,976	14,917	16,888	0	82,333
Clinton	251	8,666	4,836	3,627	5,326,000	21,219	274,182	7.87	25,258	130,881	67,303	35,702	13,280	501,469
Delta	4	186	9	176	41,490	10,373	1,491	1.89	0	1,335	0	0	0	3,637
Dickinson	6	328	136	190	109,085	18,181	7,308	13.31	0	0	0	5,932	0	10,501
Eaton	250	13,262	7,297	5,964	8,819,323	35,277	574,008	17.44	4,714	114,803	177,578	76,085	91,406	827,986
Emmet	9	351	176	175	139,329	15,481	8,406	8.66	627	3,870	2,768	0	0	12,301
Genesee	22	1,036	785	249	628,026	28,547	10,101	0.50	0	0	4,404	4,378	1,318	59,740
Gladwin	123	4,951	2,943	2,007	2,489,259	20,238	122,949	16.77	900	25,982	16,816	20,745	24,415	232,248
Grand	23	931	577	353	354,664	15,420	3,317	0.89	0	2,639	0	0	0	31,665
Gratiot	367	12,306	4,886	7,419	8,886,794	24,215	444,146	12.91	1,188	112,821	70,022	71,272	149,671	863,906
Hillsdale	780	35,022	22,809	12,212	23,502,162	30,131	1,699,388	32.92	41,339	650,571	404,964	330,787	175,596	2,285,950
Houghton	9	439	272	165	114,519	12,724	692	0.63	180	511	0	0	0	11,298
Huron	335	16,339	11,351	4,987	11,305,506	33,748	833,199	10.81	3,342	60,777	174,035	168,466	190,791	1,103,356
Ingham	3	97	57	39	61,506	20,502	3,599	0.12	0	0	0	0	0	4,896
Ionia	237	10,557	6,753	3,804	6,396,321	26,989	315,399	8.96	1,068	48,241	105,153	80,590	25,709	603,924
Iosco	41	2,304	1,552	751	1,304,269	31,811	102,352	18.73	31,070	32,676	21,175	1,183	10,626	122,803
Iron	2	30	4	26	12,386	6,193	622	1.87	0	212	0	850	0	1,062
Isabella	198	10,255	5,303	4,952	5,818,714	29,387	368,195	15.49	1,590	71,085	153,329	56,231	23,488	536,136
Jackson	131	4,481	2,526	1,952	2,612,542	19,943	149,488	4.57	2,740	70,337	51,301	41,712	19,390	242,539
Kalamazo	33	1,231	746	484	718,132	21,762	49,402	2.17	0	19,639	14,092	3,590	11,188	68,741
Kalkaska	10	690	134	555	285,767	28,577	25,014	12.78	0	23,482	3,872	0	0	27,354

(Continued)	Number of Contracts	Total Enrolled Acres	Cropland Base Acres	Non-Base Acres	Total Value of Contracts	Avg Value of Contracts	CRP Payments 1,991	CRP as % of ASCS Payments 1991	Reduction in Annual Payments as Contracts Expire					Total 1996 - 2008
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Kent	74	3,783	2,724	1,059	2,532,961	34,229	89,717	3.64	520	25,040	24,946	31,833	8,076	241,543
Lake	22	1,126	494	631	355,559	16,162	9,659	12.41	224	1,771	7,136	1,420	584	34,504
Lapeer	85	4,210	2,677	1,597	2,414,440	28,405	97,340	3.72	1,240	34,812	26,875	26,304	0	231,497
Leelanau	9	250	133	116	111,640	12,404	9,996	5.41	228	6,728	3,040	0	0	9,996
Lenawee	590	25,299	13,037	12,261	17,963,474	30,447	885,771	14.27	7,350	149,395	295,559	342,523	13,117	1,715,223
Livingston	25	1,104	609	495	681,486	27,259	60,917	3.53	0	11,654	18,439	30,792	2,964	65,483
Mackinac	1	7	0	5	2,787	2,787	231	0.63	0	231	0	0	0	231
Macomb	2	30	12	17	17,620	8,810	2,300	0.36	0	0	750	912	0	1,662
Manistee	4	114	37	76	44,233	11,058	2,680	1.57	1,880	0	400	0	0	4,061
Mason	14	456	253	202	170,833	12,202	16,063	2.76	0	7,983	2,173	0	0	15,997
Mecosta	236	8,785	3,625	5,158	3,672,326	15,561	202,801	19.18	11,587	41,122	40,089	59,071	23,296	344,175
Menomine	15	746	103	642	183,201	12,213	7,949	1.70	1,483	3,392	0	375	2,700	17,884
Midland	60	2,065	805	1,259	1,643,368	27,389	73,724	8.59	3,414	17,217	12,360	14,227	16,147	150,136
Missaukee	35	1,216	521	694	390,605	11,160	12,297	1.77	2,568	296	3,184	1,684	3,968	37,441
Monroe	27	528	152	375	373,315	13,826	18,107	0.78	0	9,085	3,458	4,816	2,191	34,408
Montcalm	368	12,914	7,460	5,453	7,186,105	19,527	458,587	13.76	12,797	103,047	101,620	152,021	59,899	693,341
Montmore	5	108	76	31	46,139	9,228	3,784	2.68	0	540	3,244	0	0	4,240
Muskegon	14	526	250	275	283,610	20,258	11,998	1.84	4,200	2,464	432	2,260	0	27,698
Newaygo	60	1,399	586	811	580,037	9,667	34,445	3.19	990	12,704	9,339	9,605	7,548	52,125
Oakland	1	63	43	19	42,593	42,593	0	0.00	0	0	0	0	0	4,101
Oceana	18	1,110	394	715	663,076	36,838	8,470	1.98	0	1,214	5,008	2,248	0	62,643
Ogemaw	2	68	41	26	28,142	14,071	1,899	0.48	0	1,899	770	0	0	2,669
Osceola	87	3,223	755	2,468	1,100,812	12,653	52,408	8.21	628	34,387	9,012	4,922	1,120	106,127
Oscoda	1	22	7	14	9,527	9,527	851	1.11	0	0	0	851	0	851
Otsego	13	555	37	517	215,531	16,579	8,191	4.77	383	4,328	12,622	360	1,560	20,425
Ottawa	74	3,011	2,048	962	1,894,118	25,596	120,155	6.07	9,866	44,465	20,122	25,620	16,626	180,461
Presque	26	741	219	521	312,806	12,031	15,728	12.08	0	6,574	7,811	2,364	908	28,726
Saginaw	119	3,234	1,006	2,228	2,474,503	20,794	104,322	3.21	0	32,133	12,121	34,536	0	234,477
St. Clair	33	1,538	843	694	796,330	24,131	58,326	3.83	6,278	31,893	12,624	7,374	0	76,186
St. Joseph	138	5,529	3,430	2,098	3,752,300	27,191	346,273	7.90	7,288	82,937	66,584	86,377	54,838	347,897
Sanialc	486	22,957	12,588	10,368	13,780,798	28,356	795,224	12.15	53,189	268,113	334,614	64,811	24,711	1,350,109
Shiawassee	60	2,223	1,073	1,149	1,143,707	19,062	47,367	2.01	3,731	9,566	19,350	15,102	0	110,616
Tuscola	228	8,821	5,493	3,327	5,426,119	23,799	266,662	6.33	0	42,676	45,098	47,531	66,214	530,433
Van Buren	114	4,716	2,748	1,968	2,909,589	25,523	146,629	9.16	600	17,043	11,171	35,458	22,848	277,810
Washtena	53	1,453	1,015	437	907,197	17,117	70,595	2.66	3,598	26,337	18,130	10,688	0	81,000
Wexford	27	994	411	582	354,909	13,145	21,204	10.02	400	0	8,444	11,624	0	33,854

Source: Environmental Working Group.