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The House and Senate Visions of a CRP Renewal: An Appraisal of the Likely Efficiency Gains
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Analysts who have studied how to increase the efficiency of the CRP agree that one simple step can result in dramatic gains: enroll only land with high environmental benefit-to-cost ratios. Too much of current CRP land was brought in with very low ratios, either because the contract rental rates were set too high, or the land offered too few environmental benefits.

The House and Senate versions of a CRP renewal offer fundamentally different rules concerning payment rates and land eligibility. These rules will have a dramatic effect on the program's future efficiency. The House places a maximum payment cap at 75 percent of current CRP rental rates. If all current CRP contracts were renewed at this lower rate, then efficiency would indeed increase by 25 percent. But not all CRP contracts rental rates are too high. Farmers who do not receive excessive payments will simply not renew their contracts at the lower rate. Perhaps less than 40 percent of CRP land suitable for growing corn and less than 80 percent of wheat land in the CRP would be enrolled if the House payment cap is adopted. Renewal rates would be even lower if current strong grain prices continue for the next year or two. By itself, this drop in enrollment would not be cause for concern if the land that returns to production is not environmentally fragile. But a large proportion of the most environmentally sensitive CRP land went into the program at quite reasonable rental rates. The inflexibility of the 75 percent payment cap would mean that most of this land would return to production. Much of the remaining land in the program would offer relatively few environmental benefits. Thus, even though the payment limit would decrease the per-acre cost of enrolled land, the average environmental benefit could decrease even more, thereby decreasing the efficiency of the program. Much of this decrease could be counteracted if the Secretary of Agriculture were free to replace current CRP land that has low benefit-to-cost ratios with new land that offers high ratios. But the House bill forbids the enrollment of land that is not already in CRP.

The Senate also recognizes that some CRP rental rates need to be lowered. In an attempt to ensure that they are not lowered too much, the Senate sets a minimum payment rate of 80 percent of current rates for renewed contracts. This rule would limit efficiency gains if grain prices were at the levels they were when the original contracts were signed. But stronger prices translate into higher cash rents from farming which implies that many contracts would not be renewed if rental rates are substantially reduced. The Senate gives the Secretary of Agriculture flexibility in deciding which land to enroll. If a current parcel of CRP land offers too few environmental benefits to justify enrollment at 80 percent of the current payment rate, then that parcel would not necessarily have to be renewed. Another parcel, not necessarily in the current CRP, that offers greater environmental benefits per dollar cost could be renewed.

The flexibility in the Senate bill could lead to a far more efficient CRP than either the current provisions or the House version. At the Senate funding level for 2002 ($974 million), which is approximately 50 percent of the current CRP budget, the new CRP could contain one of the following: 62 percent of current acreage (22.5 million acres); 94 percent of current water erosion benefits (18.5 million acres); or 100 percent of current wind erosion benefits (20.4 million acres). These estimates probably understate the efficiency gains because they are based on the assumptions of no downward adjustment in bid rates and no new land. Many CRP proponents want to bring large amounts of riparian land into CRP for its water quality and wildlife benefits. We estimate that for $1.022 billion, all the highly erosive lands (greater than 20 tons per acre) currently in CRP and all of the nation's cropland within 80 feet of a river or lake could be enrolled. This would result in a highly efficient, 21 million acre program.

If Ethanol Demand Changes, What Happens To Farm Prices?
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The near future of ethanol production in Iowa appears to be on safer footing than it was just a few weeks ago, but nothing is certain given the political volatility in Washington. The latest incident that posed a threat to the ethanol industry was an action taken by the House Ways and Means Committee. It passed a provision that would remove the 5.4 cents per gallon tax break for ethanol blended fuel. The reason stated for taking this action is that the tax break was estimated to cost the treasury $2.5 billion dollars in lost tax revenue.