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New Conservation Programs in the 2002 Farm Bill

The Farm Security and Rural Investment Act of 2002 (FSRIA) includes an unprecedented emphasis on conservation and environmental programs. Overall, the budget for conservation and environmental programs has increased by \$17.1 billion compared to the level of funding under the last farm bill (1996's FAIR Act). In the past, conservation programs were geared primarily toward land retirement—converting land to a long-term resource conserving use. By contrast, most of the new money authorized for conservation and environmental programs under FSRIA is aimed at providing incentive payments and cost-share assistance on working farmland.

The Conservation Security Program (CSP) is the most significant of the new conservation programs in FSRIA—with an estimated cost of \$2 billion. This program, put forth by Senator Tom Harkin (D-IA), will provide incentive payments for producers to implement, maintain, or improve resource-conserving practices on their farmland. This program will not be restricted to cropland. Grassland, improved pasture, prairie, and rangeland are also eligible to receive payments under this program (Title II, Subtitle A, Sec 1238A(b)(2)).

The stated objective of the CSP is "... to assist producers ... in promoting ... conservation and improvement of the quality of soil, water, air, energy, plant and animal life, and any other conservation purposes, as determined by the Secretary [of Agriculture]" (Sec 1238A(a)). To participate in the CSP, producers will develop a conservation security plan. This plan must identify

the designated land and resources to be conserved; describe the conservation practices to be implemented, maintained, or improved; and present a schedule for the adoption of these conservation practices.

A producer's conservation security plan will identify the producer's level of participation in the CSP. Participation will be at one of three levels (identified as Tier I, Tier II, and Tier III in the bill). Participation at a higher level (that is, in a higher tier) will result in a higher incentive payment. Tier I participation will involve a conservation security plan that addresses at least one significant resource of concern on the enrolled portion of the farm. (Note that the entire farm does not have to be enrolled at this level). Tier I plans will be for a term of 5 years. Tier II participation will involve a plan addressing at least one significant resource of concern for the entire agricultural operation. Tier II plans will be for a term of from 5 to 10 years. Tier III plans will be more complex, applying a "resource management system" that addresses all resources of concern for the entire agricultural operation.

The bill includes the following definition of a resource management system:

"... a system of conservation practices and management relating to land or water use that is designed to prevent resource degradation and permit sustained use of land, water, and other natural resources, as defined in accordance with the technical guide of the Natural Resources Conservation Service." (Sec 1238(11))

Additionally, the bill includes a list of practices that may be implemented or maintained under a conservation security plan. These include nutrient management; integrated pest management; water conservation and water quality



<http://www.agecon.msstate.edu/farmpolicy>

management; grazing, pasture, and rangeland management; strip cropping; cover cropping; and several others (Sec 1238A(d)(4)). This partial list gives some indication of the intended scope of the CSP legislation. Virtually any type of agricultural operation could potentially find some type of covered conservation practice to implement as part of a conservation security plan. This, along with the fact that the Secretary of Agriculture is directed not to employ an environmental bidding or ranking system, should ensure widespread participation in the CSP.

Payments to producers under the CSP will consist of two components: a base payment tied to the rental value of the land covered by the conservation security contract and a cost-share payment based on the cost of the conservation practices included in the plan. The base payment will be computed from an average national rental value for land in a specific use. The cost share component of the payment will be based on the average county cost of adopting or maintaining a specific conservation practice. At any level of participation in the CSP, the producer's payment will include 75% of the average practice cost (90% for beginning farmers). The amount of the base payment will vary depending on the level of program participation. Tier I participants will receive 5% of the base payment; tier II participants will receive 10% of the base; and tier III participants will receive 15% of the base. Each tier of participation will also fall under a different payment limitation: \$20,000 for tier I, \$35,000 for tier II, and \$45,000 for tier III.

Implementation of the CSP will begin in 2003. As that time approaches, more details will certainly become available regarding exactly what will constitute an acceptable conservation security plan as well as regarding the level of payments (that is, base payment rates and average costs for specific conservation practices). Producers should look for new developments related to this program and check with local NRCS and FSA officials later this year for additional details.

The Grasslands Reserve Program (GRP) is another new conservation program targeting working farmland—though this program is targeted exclusively at grasslands—including, according to the language of the bill, both native and improved pasture. The purpose of this program is to retain grassland in its current use. Land enrolled in the program can continue to be used for haying or grazing. About the only significant restrictions seem to be that land cannot be converted to cropland or to a non-agricultural use.

Land will be enrolled in the program through the use of long-term (10, 15, 20, or 30-year) rental agreements or easements. In areas where they are permitted, permanent easements will be used. Payments on land enrolled under long-term or permanent easements, will be based on the fair market value of the land minus its grazing value. This payment may be received in a lump sum or in up to 10

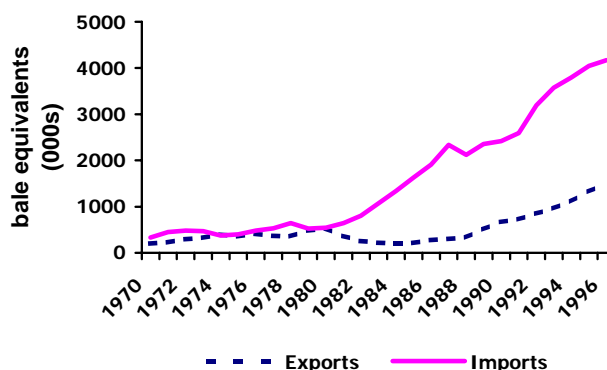
annual installments. Land enrolled under rental agreements will receive an annual payment calculated as 75% of the grazing value of the land. In addition to these payment, the GRP includes some funds to provide cost share assistance for grassland restoration.

The GRP seems to offer a great opportunity for grassland and pasture owners since a payment can be received essentially to continue the present management of the land. However, this will likely be a fairly small program, and competition for enrollment could be intense. Moreover, the bill includes language related to land eligibility and priority areas that would seem to favor western grasslands over the improved pastures of the Mid-South. For example, land eligibility requirements state that land must be "located in an area that has been historically dominated by grassland..." (Title II, Subtitle E, Sec1238N(c)(2)(A)). Depending on how this terminology is interpreted, it could exclude pasture acreage in row crop producing areas. The bottom line is that it is unclear how much GRP funding will be available for Southeastern states. ❖

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Impacts Of A Declining Textile And Apparel Industry In Mississippi And The United States

The textile industry has undergone tremendous adjustment in recent years. Once a vehicle for development, the textile industry has witnessed a rapid decline. As seen in the figure below, exports of textiles have increased since 1988, but imports of finished textile products have far outpaced exports.



The growth in textile exports has been focused in the areas of semi-processed yarns and fabrics, while apparel cutting, sewing, and finishing have been in decline. By contrast, import growth has been in finished goods.

The decline in apparel manufacturing has important implications for many, especially southern, states in the U.S. For example, for Mississippi in 1999, the apparel sector¹ had

¹ Apparel made from purchased materials, not including semi-processed or unfinished goods.

an industry output of \$1.4 billion and employed 14,240 people. For the U.S., this sector had an industry output of \$53.2 billion and employed 510,523 people.

Trade agreements such as NAFTA and the phase-out of the Multi-Fiber Arrangements in the World Trade Organization have led to structural adjustments whereby these labor intensive portions of the textile production system have gravitated to countries with relatively abundant labor supplies such as Mexico and Honduras and away from capital intensive countries such as the United States. Although these adjustments are arguably inevitable in the current economic environment, gauging the economic impacts of departure of these industries on individual states and the nation are important for policy-makers and businesses.

We use an input-output model of the economy (called IMPLAN) to estimate the economic impacts (both direct and multiplier effects) of the loss of the apparel industry to the state of Mississippi and the United States. These effects are under the assumption that semi-processed yarns and fabrics are still produced, but apparel finishing (cutting, sewing, and assembly) is lost to other nations.

The table below outlines the current situation and the economic loss associated with the departure of the apparel industry on Mississippi.

Mississippi

Category	Current Situation ^a	Economic Loss ^b
Industry Output	\$1.385 Billion	\$2.337 Billion
Employment	14,240	27,204
Employee Compensation	\$277.3 Million	\$582.4 Million
Owner Compensation	\$-0.2 Million	\$38.4 Million
Other Property Income	\$ 62.5 Million	\$207.0 Million
Indirect Business Tax	\$5.0 Million	\$46.5 Million
Total Value Added ^c	\$344.7 Million	\$874.3 Million

^a Current situation for the apparel industry

^b Loss from the apparel industry plus accumulate losses of related and secondary industries

^c Total Value Added is Employee Compensation + Owner Compensation + Other Property Income + Indirect Business Tax

Thus, it can be seen that departure of the apparel industry in Mississippi would result in a total economic loss of output from all industries equal to \$2.3 billion after accounting for multiplier effects, as well as \$874 million in total value added. Displaced workers represent about 3.6% of the labor force in Mississippi. From the state's perspective, loss of the apparel industry would result in a total loss in tax revenue of \$57.4 million, which is about 3% of the state tax revenue.

From the U.S. perspective, the changes are even more pronounced. As the following table shows, the complete departure of the apparel manufacturing industry would result in a \$81.4 billion dollar loss in total output to the United States and the loss of about 2.8 million jobs. In addition, this change would result in a decrease of about \$25 billion in federal tax revenue, and about \$12 billion in state and local tax revenue.

United States

Category	Current Situation ^a	Economic Loss ^b
Industry Output	\$53.22 Billion	\$81.44 Billion
Employment	510,523	2,829,321
Employee Compensation	\$12.31 Billion	\$86.24 Billion
Owner Compensation	\$0.29 Billion	\$9.66 Billion
Other Property Income	\$ 2.84 Billion	\$38.76 Billion
Indirect Business Tax	\$0.23 Billion	\$10.00 Billion
Total Value Added ^c	\$15.67 Billion	\$144.66 Billion

^a Current situation for the apparel industry

^b Loss from the apparel industry plus accumulate losses of related and secondary industries

^c Total Value Added is Employee Compensation + Owner Compensation + Other Property Income + Indirect Business Tax

This report illustrates the importance of the apparel manufacturing sectors to the Mississippi and U.S. economies. We have ignored potential losses to other textile sectors, which are undoubtedly going through adjustments as well. Further, we have not considered the potential job creation that has occurred as the textile industry has shifted to a greater use of technology. Nevertheless, these data clearly point out that the structural adjustments that are occurring within the textile industry are having an impact on the states that rely on these industries for employment and tax revenue. ❖

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**The 2002 Farm Bill
Title VI: Rural Development**

While discussions about the Farm Bill generally focus on agricultural support programs and rarely address other provisions of the bill that relate to rural America, FSRIA does provide funding for nine major programs in rural development and valued-added agriculture. Support for these programs is essential as rural America continues to experience dramatic changes. Changes of particular importance include these:

1. A widening economic, technological, and social divide between rural and urban America
2. Increasing number of state and national officials with limited agricultural experience

3. Declining numbers of farms and full-time farmers

These and other trends are requiring policy makers to allocate more resources for rural development to support farmers and rural citizens who must work full-time either off the farm or out of the local area to support their families. The following sections highlight major programs in the Rural Development Act, also known as Title VI of the Farm Bill.

The **Rural Community Advancement Program (RCAP)** is one of nine programs (bold items) that receive funding through Title VI. RCAP essentially serves as the vehicle for administering, coordinating, and implementing Title VI. Title VI receives funding in three main areas: 1) community facilities, 2) water and waste facilities, and 3) business assistance. In these areas, rural citizens can plan and apply for grants to support activities such as strategic planning, feasibility assessments, business analysis and development, and coordination activities with local, state, and federal agencies.



The **Comprehensive and Strategic Regional Development Planning and Implementation Program** focuses primarily on regional strategic planning and development. The regional planning component establishes a *Rural Strategic Investment Initiative* (RSI) to fund regional investment boards. These boards will assist rural citizens and organizations in planning and implementing comprehensive regional development strategies. RSI replaces the Empowerment Zone/Enterprise Community (EZEC), Rural Economic Area Partnership, and Rural Community Development Initiatives contained in the 1996 Farm Bill. Funding for RSI will come from the Commodity Credit Corporation (CCC), with no amount specified.

The program also provides \$30 million annually to create and support the Northern Great Plains Regional Authority and \$7 million annually to continue funding of the Delta Regional Authority. These authorities will plan and implement comprehensive rural development strategies for communities in their regions.

Funding for **Water and Waste Facilities** grants, in the past, could not exceed \$590 million annually. The 2002 Farm Bill removed this limitation. The bill authorizes a one-time notice of funding availability of \$360 million to reduce the backlog of grant and loan applications for water and waste disposal and for emergency community water. In

addition to this program, there are four targeted water and waste grants for rural communities, villages and Native Americans in Alaska and other states.

The first program is a \$51-million-per-year *Search Grants Initiative* to assist small communities (2,500 populations or less) in preparing feasibility and environmental studies required to meet water and waste environmental standards. Current funding for this program represents a three-fold increase over the 1996 level.

Second, *Nonprofit Organizations* can receive grants to capitalize revolving loans for water and waste disposal facilities. Nonprofits may also receive grants to help finance residential water well systems. Funding for this program is \$10 million per year, starting in FY 2003 and ending in FY 2007.

Third, to ensure that rural residents have safe and dependable drinking water, the bill authorizes \$15 million per year for 2003-07 to continue a *Rural Water Circuit Rider Program* to provide operational assistance to rural water systems. This program enhances similar efforts underway through departments of health in some states.

The fourth initiative provides \$30 million each in grants and loans for water systems in *Rural and Native Villages in Alaska* and for water and waste facilities for Native American communities.

The **Telecommunications Program** has \$100 million per year to help improve communication and access to information technologies in rural areas, using multiple programs to accomplish these objectives. The program allows the Secretary of Agriculture to make grants and loans to help rural communities construct facilities and provide distance learning and telemedicine services.

Communities may apply for grants, loans, and loan guarantees to improve access to *Broadband Telecommunications* services in rural areas. The program has \$100 million to support the construction, improvement, and purchase of equipment and facilities for broadband service in rural communities of 20,000 populations or less during 2002-07 fiscal years.

Communities may also apply for loan guarantees to deliver *Local Broadcast Television* station signals to satellite television subscribers in un-served and underserved local television markets. The program has \$80 million in available funds until December 31, 2006, with no fiscal year limitation.

Another aspect of improving telecommunication in rural areas is creating a *Telework* structure. Telework is a new program that pays the federal cost-share of establishing and operating a national rural telework institute. The rural telework initiative has \$30 million annually to support this effort, with grants not exceeding \$500,000.

The final component of improving telecommunication in rural areas is *E-commerce* (electronic commerce). This is a new program whose purpose is to expand and enhance e-

commerce practices and technology used by rural small businesses and enterprises. The 2002 Farm Bill authorizes \$60 million per year for this initiative.

In addition to water, wastewater, and telecommunication, the 2002 bill provides funding for other types of facilities and services. The **Community Facilities and Related Programs** provide funding for several new programs including the Rural Firefighters and Emergency Medical Personnel Training Program; Historic Barn Preservation grants to help states identify and preserve historic barns; and Community Facilities Grants to Tribal Colleges and Universities. However, the program has a few caveats. The 2002 bill reserves 10% of Community Facilities funds for child care until April 1 of each fiscal year. Second, community facilities projects funded by bonds are eligible for loan guarantees if permitted by IRS codes.

The previous programs help to improve local conditions by enhancing and expanding facilities and services in rural America. Improving local conditions is also good for economic development in rural America. The 2002 Farm Bill provides funding for two major programs that focus on enhancing and expanding entrepreneurship in rural areas.

First, the **General Business Assistance Program (GBSP)** uses two specific initiatives in fulfilling its mission. The *Rural Business Opportunity Grants Program* provides loans and grants to support rural business enterprises, rural cooperatives, and other rural development efforts. The program has \$15 million per year to support this effort. Second, the *Rural Business Investment Program* is new and designed to encourage and foster equity investments in rural and small businesses. The 2002 bill guarantees the equity capital raised by companies investing in these businesses and allows grants to pay for operational assistance to participating businesses. Total funding for the GBS Program is \$100 million during 2002-07.

Promoting Value-Added Agriculture is the second program aimed at enhancing and expanding entrepreneurship in rural America. The primary objective is to promote the further processing of food and fiber products grown in rural areas. To accomplish this, the 2002 bill relaxed the requirements to encourage greater participation of value-added producers, firms, and cooperatives in the Rural Business and Industry Loan Program. The program guarantees business and industry loans for more types of renewable energy systems such as wind energy systems and anaerobic digesters. Value-added agriculture businesses are also eligible to receive Rural Business Enterprise Grants.

An important aspect of the Promoting Value-Added Agriculture Program is the *Value-added Agricultural Product and Marketing Initiative*. Its purpose is to create a new Agriculture Innovation Center Demonstration Program to provide technical assistance, business and marketing planning, and other non-financial assistance to value-added businesses in rural areas. The 2002 bill authorizes \$40 million per year through October 1, 2006 to support this

effort and relaxed program requirements to encourage participation.

Within the value-added marketing initiative, there are two specific programs: *Farm Worker Training* and *Delta Region Assistance* efforts. This program is new and provides \$10 million per year to train farm workers in new technologies required for higher value crops. The Delta Region Assistance program has \$7 million to support animal nutrition, technology development, and value-added manufacturing in the region. This represents an expansion of the 1996 program that primarily focused on value-added business activities in the Delta region.

Finally, the 2002 Farm Bill provides for other types of state and regional development through the **National Rural Development Partnership (NRDP)** and the **Fund for Rural America (FRA) Programs**.

The new farm bill establishes NRDP as a federal program. NRDP evolved in the early 1990s to facilitate the coordination of USDA and other Federal and State programs affecting rural development efforts, but it never received authorization. The 2002 bill authorizes \$10 million per year to support this program.

The Fund for Rural America (FRA) program was not reauthorized in the 2002 Farm Bill; however, the bill continues funding for existing projects. FRA's initial purpose was to augment existing agricultural research and rural development funds with additional resources through this program. ❖

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Notes on the July Cattle Report

With the cattle market desperately seeking direction during a difficult summer, the release of the July *Cattle* inventory report by USDA did little to help the cause. It did not give strong signals for either expansion or contraction of the cowherd. Total numbers were down less than 1%. Numbers for major categories such as total cows, beef cows, beef replacement heifers and 2002 calf crop were basically unchanged. Initial market reaction was negative because numbers in many categories exceeded trade expectations.

It is clear that drought has delayed cow herd expansion. Leading cow-calf states in the Great Plains are experiencing their second year of drought. These major states have about 60% of their pasture rated as poor or very poor. This mid-year inventory report shows a significant decline in cow numbers in many of the Plains states, with most of these cattle likely going to slaughter.

The good news is that the supply of cattle destined for feedlots over the next 10 months should be declining, if herd replacements stay at current estimates. Numbers of calves and yearlings are both lower. Longer term, these figures indicate that it may be up to two more years before cow herd numbers can be increased significantly. ❖

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Upcoming Events

MSU Row Crop Field Day

August 8

Lee County Agri-Center – Verona, MS

Triennial Stocker Conference

August 9

Auburn University Hotel & Dixon Conference Center –
Auburn, AL

MSU Cotton Field Day

August 14

MSU Delta Research & Extension Center – Stoneville, MS

MSU Rice & Soybean Field Day

August 15

MSU Delta Research & Extension Center – Stoneville, MS

Southern Producers Replacement Heifer Sale

August 31

Jones County Arena – Laurel, MS

In Our Next Issue . . .

David Laughlin discusses policies and procedures related to the taxation of agricultural land in Mississippi.

John Anderson and Charlie Forrest examine the problems afflicting the cattle market for most of 2002 and discuss the market outlook for this fall.

Corey Miller describes the major provisions of the Forestry title of the 2002 Farm Bill.

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