Supporting Farm Income and the Environment: Can a Single Program Do Both?

Can a single program provide income support similar to existing commodity programs and improve the environmental performance of U.S. farms? An integrated "green payment" program would attempt to do both—combining key elements of existing farm commodity and agricultural conservation programs. Although the idea is not exactly new—some existing programs do support income and encourage better environmental performance—most programs focus on commodity support or conservation and have a secondary or limited effect on the other. Existing farm commodity programs, for example, are intended to support farm families historically involved in the production of major field crops, but also link payments to environmental compliance requirements. To maintain eligibility for commodity program payments, producers must apply approved conservation systems on highly erodible cropland and refrain from draining wetlands for crop production. Perhaps the best existing example of a conservation program that also provides income support is the Conservation Security Program (CSP), administered by USDA's Natural Resources Conservation Service. Producers can receive "stewardship" payments based on past conservation efforts rather than current conservation costs. While only about 15 percent of program funds are devoted to stewardship payments, these payments could enhance farm income because they are not tied to the cost of adopting or maintaining conservation practices.

A more complete merger of the income support features of existing commodity programs and conservation payments—an integrated "green payment" program—could be pursued for a variety of reasons. As the importance of conservation programs in overall U.S. farm policy rises, for instance, green payments could be seen as a way to harness commodity program payments for environmental gain. One way to do that would be to raise the bar on environmental compliance. Additional compliance requirements could include soil conservation (on cropland that is not considered highly erodible), nutrient management, or pest management. With this approach, a green payment program would continue to focus on traditional recipients of commodity program payments.

Environmental performance or stewardship could also be seen as a primary basis for farm program payments. At present, about 25 percent of U.S. producers receive commodity program payments; these producers account for more than 80 percent of cropland and 65 percent of crop production (by value). If producer payments were based, instead, on some measure of environmental performance, income support could be available to a broader range of producers and could leverage a broader range of environmental gains when compared to an expansion of compliance requirements for traditional commodity programs.

Can green payments be an effective mechanism for delivering both income support and environmental gain? Because green payments, as we use the term in this report, would join two important aspects of U.S. agricultural policy, it is tempting to view them as a "win-win" proposition, perhaps

The Many Shades Of Green

The term “green payment” has been used in a number of different contexts to mean different things. As we use the term, a green payment is based on a (relatively) co-equal consideration of both income support and conservation (environmental) objectives. Many individuals and organizations concerned about farm policy in general and agricultural conservation policy in particular also use the term in this way. Others, however, view green payments as referring to any conservation or environmental payment, regardless of its relationship to income objectives. We refer to these as conservation payments. Still others view green payments as agricultural payments of any type that meet the criteria for inclusion in the World Trade Organization (WTO) “green box.” In this context, being green isn’t about environmental performance. Policies end up in the WTO green box if they have little or no impact on commodity prices or trade. These programs are given the *green light* to go forward under WTO rules, but are not considered within our usage unless they provide both income support and conservation assistance to farms.

increasing support of agricultural policy or even saving money. Inevitably, however, tradeoffs will arise. The portion of a green payment that producers use to pay conservation costs (e.g., adopting and maintaining conservation practices) will not support farm income. Income will be supported only to the extent that payments exceed conservation costs. The proportion of payments that would be used for conservation as opposed to income support is an important issue in green payment design.

An equally important question is whether farms that receive income support under existing commodity programs can also make cost-effective contributions to improving environmental quality. If farms historically eligible for commodity program payments would not otherwise be targeted for conservation payments, prioritizing farms for green payments could involve compromising income support objectives, conservation objectives, or both. While most farms could address one or more environmental issues or “resource concerns,” the potential for environmental gain can vary across farms depending on crops, production practices, climate, location, and other factors that ultimately determine the effect of agricultural production on the environment. If existing commodity program payments and opportunities for cost-effective conservation do not occur largely on the same farms, funds devoted to conservation on farms that receive commodity program payments are likely to produce some environmental gain, but would likely produce more environmental gain per dollar spent if applied elsewhere. Green payments could support income on farms where the potential for cost-effective environmental gain is high, but these farms may or may not be the farms that have traditionally received farm income support through commodity program payments.

Finally, the treatment of producers who have already achieved a relatively high level of environmental performance is an issue. Some have argued that excluding these producers would be inequitable and could create incentives to defer conservation action. If producers who have adopted conservation

Green Payments and the WTO

Would green payments be eligible for the WTO "green box?" The "green" in "green box" is an analogy to traffic lights: Green means go. In WTO parlance, a green box program does not distort trade or causes only minimal distortions and may be implemented freely by member nations. Some have argued that green payments would be a WTO green-box-compliant way to support farm income. An analysis of conservation policy options, developed by the Secretary of Agriculture in 2006, raises important questions about green payments and the green box (USDA, 2006).

WTO rules do allow "green box" options for both income support and conservation programs. Income support payments that are "decoupled" from (not dependent on) *current* production, prices, and input use can qualify for the green box. Working-land conservation programs can also qualify for green box status if payments are for a clearly defined conservation or environmental purpose and do not exceed the extra cost or lost income directly related to conservation activities. A number of U.S. conservation programs, including the Environmental Quality Incentives Programs, have been notified (reported) to WTO under these provisions. Eligible conservation programs generally provide partial reimbursement (cost-sharing) or incentive payments designed to be equal to or less than producer costs.

Would green payments satisfy green box requirements? If green payments were to be reported as conservation payments, they could qualify if producers are compensated only for their costs or income forgone. But that would preclude income support—payments would simply offset producer costs. If green payments were to be reported as decoupled income support, on the other hand, payments could not be dependent on current input uses. Changes in input uses, however, are often the means by which conservation payments leverage environmental gains, so removing requirements for such changes may diminish their environmental effectiveness. In short, a green payment program that provided both income support and environmental gains would not necessarily qualify as a green box program under WTO rules.

practices without government payments are excluded from conservation programs (for conservation work they have already completed), they may be discouraged from going forward with conservation work in the absence of payments. In the long run, moreover, payments that exclusively subsidize change in environmental performance will eventually result in a withdrawal of support from farms that have made a great deal of environmental improvement. If policymakers want to continue supporting these producers, these already established "good actors" would have to be eligible for ongoing payments.