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PolicyPennings by Dr. Daryll E. Ray

Not all environmental programs may be WTO-compliant

When the 1985 Farm Bill was being debated, farmers were told that the drop in grain and seed exports was the result of the Congress setting the loan rate too high and pricing US farmers out of the world market. The solution was to reduce loan rate levels for program crops, making US exports more competitive in export markets. It was argued that lower loan rates would allow the US to regain dominance in the bulk agricultural export market, reducing US grain stockpiles and bringing about higher prices.

The message was, "'Don't worry, Be happy.' Trust us and things will work out fine." Two years later, exports had not regained their 1979-1981 highs and US agriculture was in the midst of a serious "farm crisis."

The story was not too different during the debate on the 1996 Farm Bill. This time the solution was a combination of decoupled payments and the implementation of Loan Deficiency Payments (LDP). The decoupled payments were supposed to allow farmers to leave a portion of their land unplanted during times of low prices with LDPs allowing the US to recapture export markets (the same song we heard 11 years earlier) while compensating farmers in the unexpected case of sub-loan-rate market prices.

The message was, "'Don't worry, Be happy.' Trust us and things will work out fine." Two years later Congress was voting on massive emergency payments—a process that continued through the 2001 crop year.

Given this history we are more than a bit skeptical when we hear policy makers advocating solutions to the "farm problem" that sound all for the world like the ones we heard in 1985 and 1996, all with the strains of Bobby McFerrin singing "Don't worry, Be happy" in the background. For us the argument that farmers have nothing to worry about from the US World Trade Organization (WTO) offer to reduce amber box payments by 60 percent from $19.1 billion to $7.6 billion is worrisome.

The advocates of these cuts argue that all it takes is a bit of sleight of hand to shift the payments out of the amber box and into the green box, thus providing farmers with the same amount of money they previously received. We have two problems with this line of argument.

First, there is no guarantee that farmers in the relatively level areas of Illinois and Iowa who face $1.85 corn prices will qualify for many conservation payments. If the conservation payments are targeted toward remediating environmental problems, then the distribution of the new—green box—payments could be quite different from the distribution of the current—amber box—payments.

This could have serious consequences for farmers in areas with lower priority environmental problems. While our readers know that we have raised serious questions about the use of LDPs and other amber box payments, we find it disingenuous for advocates of the proposed WTO amber box cuts to imply that farmers—especially those in the major production areas—will be unaffected by the shift from amber box to green box payments.

Second, in a paper titled, "U.S. environmental programs and Green Box provisions under the WTO Agreement on Agriculture," David Blandford, an agricultural economist from Penn State argues that payments "made under environmental programs are restricted to providing compensation for the additional costs incurred or income foregone in meeting program standards or conditions" (emphasis added). This hardly sounds like the kind of rules that will provide income to farmers who experience low prices. This article is available on the internet: http://agecon.lib.umn.edu/cgi-bin/pdf_view.pl?paperid=21467&ftype=.pdf.

In every day terms it sounds like compensation will be limited to (1) the additional out-of-pocket expenses that a farmer incurs in meeting environmental objectives, or (2) any income loss that results from environmental remediation efforts. Environmental activities like no-till cultivation that farmers have already adopted are unlikely to meet the above requirements. Similarly, any environmental measures that increase production are unlikely to qualify for green box payments.

Traditional farm programs and environmental programs are designed to meet two different needs and substituting one for the other is unlikely to have desirable results.

Environmental programs are necessary because without them soil and water conservation and the prevention of nitrogen-laden water flowing into the Mississippi River basin are unpriced goods. Corn pays the same whether or not the farmer engages in environmentally friendly cultivation practices.

Likewise, traditional farm programs have been designed to overcome a market failure. In this case, the market failure is the lack of timely response on the part of producers and consumers to changes in farm commodity prices.

A program that compensates farmers for engaging in environmentally friendly production systems in all likelihood will do little toward increasing the price responsiveness of producers and consumers.

Farmers may want to be skeptical when they hear arguments that suggest a wholesale shift in payments from the amber to the green box.

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