

Existing Conservation and Income Support Programs: Different Purposes, Different Payments, Different Producers

Existing conservation and farm commodity programs have different purposes, which lead to fundamental differences in how the two types of programs are structured and administered. Commodity-based income support is intended to support farm families historically involved in the production of targeted crops by enhancing the incomes of eligible producers, primarily the producers of major field crops—corn, wheat, soybeans, cotton, and rice. Historically, producers with larger production received larger payments. Since 1996, some (but not all) commodity program payments have been based on historical crop acres and yields rather than current acres and yields. The change was designed to reduce the effect of commodity payments on production decisions and avoid stimulating overproduction. Even so, producers who farm highly productive land (with a history of high yields) that is eligible for commodity payments (by virtue of a history of program crop production) will tend to reap the largest payments. For more details, see www.ers.usda.gov/Briefing/FarmPolicy/DirectPayments.htm/.

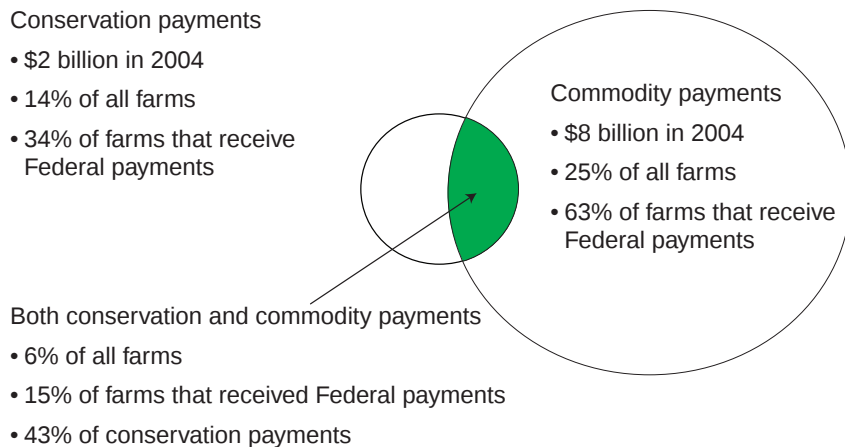
Conservation payments, on the other hand, are designed to prompt change in land use or production practices to have a beneficial environmental effect. Conservation payments are available to a wider range of producers—nearly all crop and livestock producers are eligible for at least one conservation program. While conservation programs seek to change production practices, the level of production may or may not be affected. Land retirement is likely to affect production, although how much depends on the quality of the land retired and the extent to which other land is converted to crop production (sometimes referred to as “slippage”). But, many conservation practices have little or no impact on production levels. Producers who install terraces to reduce soil erosion, for example, are likely to see little change in production, at least in the short term. Most conservation payments are limited to the amount necessary to prompt adoption of new practices, perhaps covering only a portion of the producer’s cost through cost-sharing. Some programs use competitive bidding among producers to stretch program budgets.

About 40 percent of U.S. farms, representing 60 percent of all agricultural production (by value), receive some type of government payment. Of that 40 percent, 15 percent—about 6 percent of all U.S. farms—received both commodity (income support) and conservation payments in 2004 (fig. 1). Since 2002, conservation program funding has increased considerably, particularly through working land programs like the NRCS Environmental Quality Incentives Program (EQIP). Because actual payments to farmers often come several years after EQIP enrollment (as specified conservation work is completed), it is likely that the number of farms receiving both commodity and conservation payments will also increase in coming years. In 2004, however, less than half of conservation payments (43 percent) went to farms that also received commodity payments, so a large share of additional conservation payments could also flow to farms that do not receive commodity payments, including many specialty crop and livestock farms.

Differences in the distribution of commodity and conservation payments across farm types and regions in the United States are striking. Most commodity program payments go to large, commercial farms, while most conservation payments go to rural residence farms¹ (fig. 2). Commodity payments are concentrated in areas where production of program crop

Figure 1

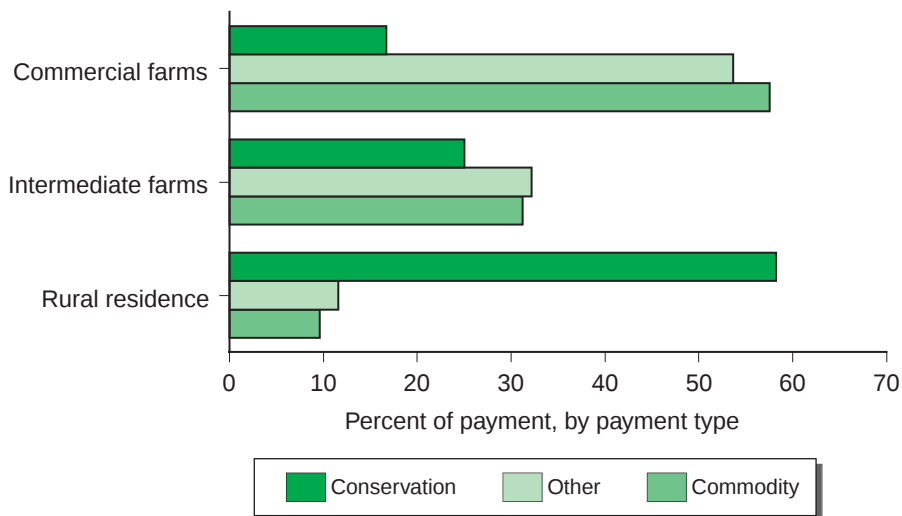
Overlap between income and conservation payment recipients is small



Source: USDA, Agricultural Resource Management Survey data, 2004.

Figure 2

Distribution of Federal agricultural payments by collapsed ERS farm typology¹



Note: Other payments are largely ad hoc agricultural disaster payments.

¹Collapsed ERS farm typology divides farms into three groups: (1) commercial farms are large with sales above \$250,000; (2) intermediate farms have sales below \$250,000 and the operator reports farming as his or her major occupation; and (3) rural residence farms have gross sales below \$250,000 where farming is considered a secondary occupation or activity.

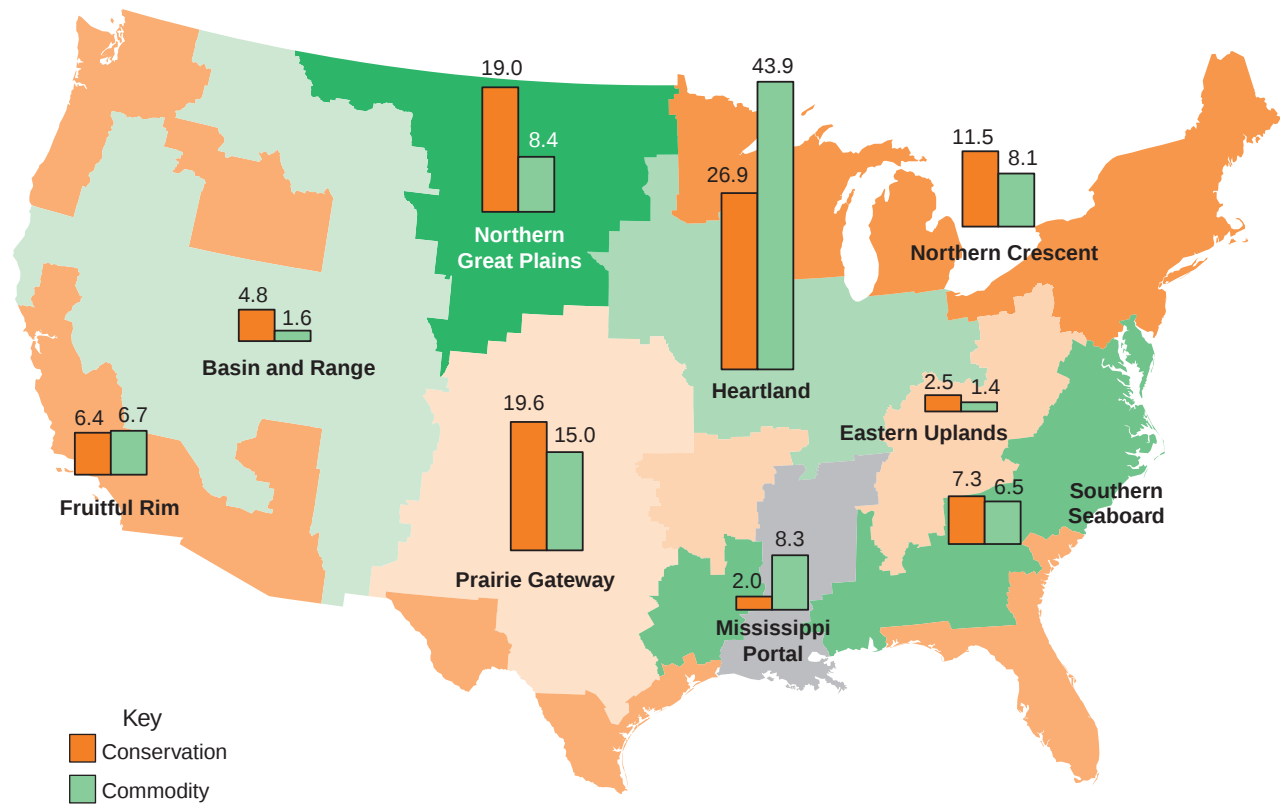
Source: USDA, Agricultural Resource Management Survey data, 2004.

¹Commercial farms are large family farms with sales above \$250,000 per year and some nonfamily farms organized as cooperatives or nonfamily corporations. Intermediate farms have annual sales below \$250,000 and the operator reports farming as his or her major occupation. Rural residence farms have annual sales below \$250,000 where farming is considered a secondary activity both in terms of resources invested in the farm and the amount of income it contributes to the farm household.

commodities is prevalent—the Corn Belt, Northern Plains, and the Mississippi Delta (fig. 3). Conservation payments tend to be concentrated in some areas of the Northern Great Plains, Prairie Gateway, Northern Crescent, and Basin and Range regions (fig. 3).

To some extent, the minimal overlap between conservation and commodity payments means that environmental and income support priorities are leading these programs to focus on different producers in different regions. The existing distribution of conservation payments largely reflects a historical reliance on land retirement to attain conservation goals. Rural residence farms are more likely than other farms to retire land from crop production through government programs such as the Conservation Reserve Program (CRP), but less likely to receive farm income support payments. It is possible that these farms are more likely to be located on CRP-eligible land, although existing data are not sufficient to test this possibility. Another possible—but untested—explanation is that these farms are more willing than other farms to give up crop production (e.g., some producers may have decided to retire or seek other employment given the opportunity to enroll land in CRP). In any case, high levels of CRP participation are responsible for the fact that a large share of conservation payments flow to rural-residence farms.

Figure 3
Regional shares of commodity and conservation payments (percent of national total)¹



¹ERS farm resource regions are explained in *Farm Resource Regions*, AIB760. <http://www.ers.usda.gov/Publications/AIB760/>.
Source: USDA, Agricultural Resource Management Survey data, 2004.

In recent years, conservation program funding has risen rapidly, largely through increased funding for working land programs, primarily EQIP. As the proportion of conservation dollars spent through EQIP rises, a larger proportion of conservation dollars may also go to commercial and intermediate farms, although existing data are not sufficient to draw a strong conclusion on this point. Even if a larger proportion of EQIP funding does go to commercial and intermediate farms, however, 60 percent of funding for EQIP must, by statute, address livestock-related issues. Livestock farms are less likely than crop farms to receive payments through existing commodity programs. It is not clear how EQIP money would be distributed without the 60-percent requirement.