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The Next Farm Bill: Is It Time for Conservation Payments?

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Over the last two years, Congress and farm groups have worked to find a policy formula that would be acceptable as a foundation for the next farm bill. Most ideas that have been floated—and that are finding some favor in the House of Representatives—largely continue the general thrust of current programs: some fixed payments, guaranteed minimum prices for farmers, and perhaps a new countercyclical program that would mostly duplicate the emergency market loss assistance payments available the past four years.

Critics point out that the only policy objective consistent with current programs is stabilization of national net farm income. Congress, it seems, wants to make sure that when income in the sector is low, payments compensate for the difference. This is truly a countercyclical policy. The problem is, only specific crop farmers (soybeans, wheat, cotton, rice, barley, grain sorghum, tobacco, peanuts, and sugar) and dairy farmers get payments. The rest of agriculture is shut out of the process. Furthermore, rural activists and taxpayer groups note that because there are no means tests for the government subsidies, the largest farms and the wealthiest farmers get the bulk of the aid.

Supporters of current programs counter that if our objective is to stabilize net farm income, then we need to support large farms (and sometimes wealthy farmers) because that is where most production occurs. Some supporters justify the status quo for aid distribution by reasoning that there are not enough funds to go around, and that independent farmers should resist the culture of dependency (on government aid) that farmers who produce subsidized crops have developed.

Finding a Farm Bill Objective

The heart of the disagreement over farm programs is a disagreement over what the programs are supposed to accomplish, beyond a political response to pressure groups. When asked what public policy objective is being met by current policy formulas, supporters answer “cheap food,” “help with risk management,” or “keeping people on the land.” But the food stamp program already provides access for most Americans to affordable food. And the federal crop insurance program has been greatly expanded in recent years, both in product offerings and in subsidies.

That leaves us with the objective of keeping people on the land. For what purpose? One reason is to maintain the vitality of rural communities. The other is to enhance environmental stewardship. Many argue that farm programs are a poor rural development tool because the economies of most rural communities are becoming less farm-dependent. The U.S. Department of Agriculture (USDA) states that only 45 rural counties can be classified as “farm dependent.” On the other hand, farm programs can be a good tool for delivering significant environmental benefits. The Conservation Reserve Program, for example, helps protect water quality and enhance wildlife habitat.

If Congress chooses to reorient farm programs to focus on enhanced environmental quality, as advocated by Senator Tom Harkin, it will have to address a number of issues.

What Environmental Goods Can Farmers Provide?

Farmers can provide some environmental goods without changing their current management practices. Other goods require a change in cropping patterns or management practices. Farmers in certain locations enhance the environment simply by being farmers. For example, in areas where undeveloped land (open space) is increasingly valued, many appreciate the service farmers provide in keeping land in production. Farmers who actively manage grassland with livestock grazing maintain the viability of the few remaining tall grass prairie regions.

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Conservation policy can create other environmental goods by encouraging farmers to change their management practices. Farmers could improve water quality if they lowered soil erosion rates through adoption of conservation tillage. Livestock producers could reduce nutrient loads in streams and lakes if they exerted greater control over manure, and crop farmers could do the same if they changed the way they applied fertilizer. Farmers could reduce pesticide residues in surface and groundwater if they limited applications to nonsensitive areas. Strategic retirement of land from production could enhance water quality. Retiring land around lakes and streams could lead to lower sediment and nutrient loads. Removing land from production could also create wildlife habitat. Farmers could enhance and protect aquatic life by improving water quality and by using buffer strips. In the West, where competition for water is fierce, farmers could provide habitat by allocating some irrigation water for in-stream use.

**WHAT IS THE VALUE OF ENVIRONMENTAL GOODS?**

The strongest argument for transforming farm program payments into conservation payments is that such a move could increase economic efficiency. Because environmental goods typically do not have a market value like corn and hogs, they may be undersupplied. Increasing the supply of environmental goods if the value of the goods supplied is greater than the cost of supplying them would increase society’s well-being. Therefore, a critical question for advocates of conservation payments is whether the public value of environmental goods supplied by farmers is greater than the cost of providing them. If it is, then this gives conservation payments a strong advantage over current program payments, which have no equivalent economic efficiency justification.

What do we know about the value of farmer-supplied environmental goods? Some local insight is provided by a recent study of the value of reducing nutrient runoff into Iowa’s Clear Lake (see the article on page 4). CARD researchers found that residents’ and visitors’ willingness to pay for improved water quality in the lake seems to be higher than the value of all cropland in Clear Lake’s watershed. This indicates that people greatly value clean water for recreational use.

The City of New York has embarked on an ambitious project to protect the quality of its drinking water by purchasing farmland easements in critical areas and by working with dairy farms to reduce nutrient runoff. This suggests that reductions in runoff from farms that degrade drinking water supplies also generate large benefits. More locally, Des Moines residents pay to reduce nitrate levels in their drinking water. The level of payments gives some indication of the monetary value that would be attached to having farmers in the watershed adopt practices that lead to cleaner water.

Many farmers in high-cost production regions are finding that conversion of cropland to hunting preserves is a profitable move. This indicates that the public’s willingness to pay for habitat that benefits game is quite high relative to the value of land in agricultural production. This is a situation where game species have a revealed “market price”: hunters’ willingness to travel to the preserves and pay an access fee. Of course, nongame species usually do not have such a revealed market price, but the power of groups fighting for preservation of endangered species shows that nongame wildlife clearly generates value.

The public value of reducing sedimentation of waterways has been estimated at one to two dollars per ton. While it may be difficult to justify land retirement based solely on the value of erosion reduction,
subsidies to encourage conservation tillage may be justified, and perhaps combining the value of erosion reduction with the value of wildlife habitat and a reduction in nutrient runoff may be adequate to justify retiring some acreage.

What these examples illustrate is that provision of some environmental goods from agriculture likely can be justified on an economic efficiency basis. However, economic reality dictates that as the quantity of supplied environmental goods increases, the willingness to pay for additional environmental goods decreases, and the cost of providing them increases. Thus, there clearly is an upper limit on the quantity of environmental goods from agriculture that can be justified on an economic efficiency basis. An illustration of this declining value in Iowa is the attention (and value) paid to the first 100 bald eagles that returned to Iowa waters compared to the attention that will be paid to the next 100.

An environmental good that is in high supply has relatively low marginal value.

**National Payments for Local Environmental Goods?**

With some exceptions, the beneficiaries of environmental goods supplied by agriculture typically live near the farmers supplying the goods. People living on the urban fringe benefit from farmers’ provision of open space. Local drinking water supplies are enhanced by conservation efforts in the local watershed. Users of lakes benefit from upstream conservation efforts. Two policy questions arise from the primacy of local benefits. First, how can the USDA run an efficient environmental program using national criteria and standards? The short answer is that it cannot. Luckily, nearly everyone now recognizes that environmental goods that are valued highly in Louisiana may not be valued highly in North Dakota. Local and state input into what environmental goods to purchase is critical for program success. The second question is, if environmental benefits are local, how can we justify taking federal tax dollars from people who live in Seattle, San Francisco, or Los Angeles and giving them to farmers who live in Iowa?

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satisfactorily answer this policy question, conservation payments would have to be distributed much more widely than are current farm program payments. Nearly every region in the country has farmers, and nearly every region’s farmers can supply local environmental benefits. Thus, federal funding of state and local conservation efforts that generate state and local benefits is a program approach that could work.

**Reconciling Income Support and Conservation Objectives**

Congress has repeatedly shown that it is willing to support the incomes of farmers who produce the eight program crops, as well as farmers who produce milk, sugar, peanuts, and tobacco. (These subsidized farmers produced 37 percent of the value of agricultural production and received 97 percent of federal subsidies in 1999.) Is it reasonable to expect Congress to reduce subsidies to these farmers and spread the federal support much more widely to all producers with conservation payments? It would be naïve to think so. These farmers have grown so dependent on easy federal support that suddenly cutting them off would cause too much political pain. Given the annual emergency that Congress has declared each of the past four years to justify an additional $25 billion in farm aid, it is simply not likely that Congress will abruptly switch gears. But it is just as clear that many in Congress have grown weary of continuing these annual emergency subsidies. Some are looking for a new approach. Perhaps a transition from federal subsidies to a user fee approach that takes on more importance, but perhaps not prime importance, would allow Congress, farmers, and the taxpaying public to explore the possibility of a new focus for farm policy.

**Time for a New Partnership?**

A new partnership between taxpayers and farmers whereby taxpayers support farm income and farmers do much more to enhance environmental quality is an old idea, but one whose time may be closer at hand because of dissatisfaction with current farm programs. Many in Congress are uneasy about this new partnership, viewing government procurement of environmental quality as just another burden that farmers would have to bear. But the continued increase in public demand for clean air and water, open space, and recreational opportunities makes agricultural conservation programs more attractive.

Ultimately, the farm bill is legislation based on political calculations. The political calculus over the last few years has resulted in billions of dollars in federal farm aid with few strings attached. Whether the calculus has changed enough to alter the course in farm policy depends on whether the political influence of those rural and urban constituencies that will benefit from increased on-farm conservation has grown enough relative to the influence of those who favor status quo farm programs.