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Environmental Issues in the 1995 Farm Bill
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Background
The perception is growing that U.S. agricultural policy has reached a major turning point. Increased trade opportunities with GATT, a continued decline in rural population, increased budgetary (fiscal) pressure, and growing environmental concerns are among the primary reasons. Because of these trends, nontraditional interest groups representing urban and environmental interests will play an increasingly important role in shaping future farm legislation. Urban interests see farm program payments as a source of scarce funding for their programs. Environmental groups are increasing their demands as recognition grows that policies for price stabilization and income maintenance affect the environmental performance of agriculture. The involvement of environmental groups in shaping agricultural policy is not new. It began in earnest with the new conservation title in the Food Security Act (FSA) of 1985, and continued with the Food, Agriculture, Conservation, and Trade Act (FACTA) of 1990. Concurrent with the growing environmental orientation of agricultural policies were attempts to make the farming sector more efficient by reducing the influence of farm programs on farmer decisions.

Potential conflicts between the producer and consumer welfare effects of commodity programs and the environmental performance of agriculture, as well as conflicts among the individual attributes (indicators) of environmental performance, such as soil, water, and air quality, and biodiversity, make integrated economic and environmental management and policy assessment difficult. Piecemeal policies that focus on a single indicator, while ignoring the fact that ecosystems are highly interrelated, are inadequate. Total environmental performance is best judged by a vector of indicators including soil erosion, agricultural chemical and nutrient concentrations in water, CO₂ and other greenhouse gas emissions, wildlife habitat and other ecological factors, and biodiversity.

Key Issues
To maintain a leadership role in this evolutionary era and retain the competitive edge in the increasingly free global market, consideration of innovative policies that improve economic efficiency, environmental performance, and reduce budget costs becomes increasingly important. Key issues in the upcoming policy debate will include 1) the formulation of a new CRP policy; 2) the formulation of how to more directly link farm payments to desired environmental outcomes; 3) the perennial problem of integrating crop insurance and disaster relief programs; and 4) consideration of the impacts of agriculture on global environmental issues such as ozone depletion and global climate change (GCC). The GCC initiative addresses climate modification through agricultural and forest production changes.

The two main farm policy instruments that yield environmental benefits, CRP and Conservation Compliance, will be scrutinized to determine if they are the best tools available for delivering environmental protection. The basic question of how to target payments to obtain desired environmental benefits more directly than under current Conservation Compliance and CRP policies will be an important issue in upcoming discussions. The federal disaster relief and flood assistance programs have become practically an entitlement rather than a source of temporary relief for stricken farmers. The feasibility of replacing ad hoc disaster assistance with a more revitalized crop insurance and/or revenue assurance program will be an important issue to consider. Alternatives to a policy of complete levee rebuilding should be assessed for environmental and economic impacts. Already many farmers in the Midwest are finding the Wetlands Reserve Program a viable alternative to recultivation of land susceptible to flooding.

Policy Options
1. Commodity Programs and Deficiency Payments
Current programs are criticized on many levels. An efficiency drawback is that the link between consumer demand and production decisions is weakened by subsidizing only program crops. An equity issue arises because the primary beneficiaries of the programs are large farmers. Current programs can also discourage the adoption of environmentally-friendly agricultural practices, such as certain crop rotations. In addition, commodity programs are a major crop rotations. In addition, new commodity programs will likely aim at "commodity decoupling" and "green recoupling."
Selected policy alternatives to accomplish this reorientation are:

- Introduce a revitalized crop insurance or revenue assurance/insurance program in lieu of commodity programs and deficiency payments.
- Add a "Green Flex" option that provides an additional 10 percent "paid" flex acres tied to the adoption of cropping practices that decrease environmental impacts. Examples include crop rotations with hay and small grains, strip intercropping, and integrated pest management.
- Allow participating farmers to use acreage set-asides for environmentally beneficial activities without losing their program base.

2. CRP Policy Options
CRP contracts begin expiring in the fall of 1995. Upon expiration, annual rental payments will cease and farmers holding these contracts will no longer be under obligation to maintain conservation practices on their CRP acres. In addition to the environmental consequences of the end of CRP are the budgetary impacts. Furthermore, because of its limited environmental objective, CRP has had less impact on other important environmental performance indicators, such as water quality, air quality, preservation of biodiversity, and wildlife habitat protection. Therefore, the options for extending CRP are based on different means of selective renewal of contracts. Options for addressing CRP are:

- The government could purchase easements to cropping rights from farmers on environmentally sensitive lands. The optimal policy tool may include several types of agreements, including both long and short term purchases depending on the costs and benefits obtained. The government could allow some productive use of the CRP land which would lower the easement purchase cost. By ranking land in terms of environmental benefits, the public should receive the maximum environmental benefit for the funding Congress is able to provide.
- Renew a fixed percentage (e.g., 50 percent) of the contracts. The contracts that would be renewed would be those that offer the largest environmental benefits as judged by the vector of environmental indicators.
- Combine CRP, Wetlands Reserve Program, and Water Quality Incentive Program to develop a comprehensive soil, water, air, and ecosystem protection program targeted to the most environmentally sensitive croplands.

3. Green Payments
Green payments programs in lieu of current commodity program payments have aroused increasing attention. It is important, however, to point out that most green payment schemes fundamentally change the program relationship between the government and farmers. The fundamental difference is that green payment programs would be directed to only those producers who adopt environmentally-friendly practices. Revenue-neutral green payment schemes would also tax those producers who do not adopt such practices. Such revenue-neutral schemes would be grounded with the "polluter pays" principle rather than having taxpayers pay for environmental cleanup. A potential side benefit of eliminating deficiency payments would be additional production flexibility in agriculture caused by increasing the role that market forces play in farmers' production decisions. Of course, inflexible green payment schemes could be devised that were even more restrictive than current deficiency payment programs, in which case production flexibility could actually decrease. There are several green payment program options, including:

- Super Compliance that extends current compliance provisions to include water quality and ecological indicators.
- Mandatory controls favoring crop rotations and management practices that are economically and environmentally sustainable.
- Mandated total farm plans requiring farmers to limit soil losses, and nutrients and chemicals contamination of various media (groundwater, surface water, and air). Such a program would be an evolution of current Conservation Compliance plans.
- Taxes on selected chemical and nutrient inputs to encourage adoption of input-saving technologies.
- Subsidization of systems to organize cooperation among producers in watersheds. Such systems could target stream quality and could include educational programs, incentive payments, and taxes.