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Cooperative Extension

Institute of Agriculture & Natural Resources
Department of Agricultural Economics
University of Nebraska – Lincoln

Importance of "Who Pays" as an Environmental Policy Variable

Market Report	Yr Ago	4 Wks Ago	8/8/03
Livestock and Products, ***Average Prices for Week Ending***			
Slaughter Steers, Ch. 204, 1100-1300 lb Omaha, cwt	$62.13	$75.20	$80.49
Feeder Steers, Med. Frame, 600-650 lb Dodge City, KS, cwt	82.46	*	*
Feeder Steers, Med. Frame 600-650 lb, Nebraska Auction Wght. Avg	89.06	*	100.49
Carcass Price, Ch. 1-3, 550-700 lb Cent. US, Equiv. Index Value, cwt	97.10	117.86	126.64
Hogs, US 1-2, 220-230 lb Sioux Falls, SD, cwt	34.00	42.50	40.75
Feeder Pigs, US 1-2, 40-45 lb Sioux Falls, SD, hd	*	*	*
Vacuum Packed Pork Loins, Wholesale, 13-19 lb, 1/4" Trim, Cent. US, cwt	107.34	109.05	104.77
Slaughter Lambs, Ch. & Pr., 115-125 lb Sioux Falls, SD, cwt	81.62	90.12	*
Carcass Lambs, Ch. & Pr., 1-4, 55-65 lb FOB Midwest, cwt	162.45	193.45	180.40
Crops, ***Cash Truck Prices for Date Shown***			
Wheat, No. 1, H.W. Omaha, bu	3.87	3.11	3.56
Corn, No. 2, Yellow Omaha, bu	2.37	2.07	2.02
Soybeans, No. 1, Yellow Omaha, bu	5.34	5.98	5.24
Grain Sorghum, No. 2, Yellow Kansas City, cwt	4.43	3.63	3.88
Oats, No. 2, Heavy Minneapolis, MN , bu	1.92	1.54	1.56
Hay, ***First Day of Week Pile Prices***			
Alfalfa, Sm. Square, RFV 150 or better Platte Valley, ton	105.00	115.00	117.50
Alfalfa, Lg. Round, Good Northeast Nebraska, ton	92.50	70.00	61.25
Prairie, Sm. Square, Good Northeast Nebraska, ton	117.50	*	*

* No market.

Environmental goods and services often have characteristics which make it necessary to publicly provide them at no direct cost to the users or beneficiaries. With environmental goods and services, or more generally public goods, charging people for the product in a private market context is usually inefficient because of low marginal costs, and often not possible because those who don't pay for the good cannot be excluded from its benefits. As a result, historically most environmental goods have been publicly provided via public investment, law, regulatory action or some combination of regulatory and investment programs.

During the first two decades of the environmental movement private investments to secure environmental improvements were virtually unknown. Private entities invested in efforts to induce the government to regulate and/or invest in environmental quality, but direct private provision of environmental goods was rare. This began to change in the 1990's as Nature Conservancy, the Audubon Society and others begin to make wider use of private resource ownership as a means of meeting environmental objectives. A continuation of this trend may prove helpful in securing a long-term management agreement for the Platte River. Recent survey results suggest that those who generally oppose allocating more water to endangered species would find such actions much more acceptable if fewer state funds and more private contributions from environmental interests were used to cover the costs of meeting endangered species needs.

A recent survey of citizens in Nebraska, Colorado and Wyoming found that the most important factor in determining the level of political support for a wide range of Platte River policy options was who pays (Supalla, et al. 2002). For both agricultural and environmental interests, who pays was more than twice as important as how much was invested or how the habitat needs were met. Agricultural interests were much more likely to support a given policy if it included substantial cost shares from the federal government and from private environmental interests, but

little if any contribution from the states (Table 1). Environmental interests also supported the idea of minimal contributions from the states and expressed a surprising level of support for including some private contributions from environmental groups. It is important to note that who pays was an important factor in determining policy support even though it would not materially change the financial cost to the individual survey respondents. The financial well being of agriculturalists in the Platte Valley, for example, would not be materially different if the costs of a habitat enhancement program were paid by taxpayers at the state or federal level, or by private environmental interests, yet there was a strong preference for imposing most of the costs on the federal government and private parties. The interesting question is why?

The study did not explore the reasons for this finding, so we can only speculate. Two explanations come to mind. The first may be a strongly held principle which holds that those who benefit ought to pay. Because the benefits of endangered species protection accrue to national if not international interests, it follows from this principle that there should be little, if any contribution to costs from state government. A second possible explanation is the "put your money where your mouth is" principle. Because the scientific evidence of need is confusing and conflicting, many participants in the policy debate have been very dubious of claims made by environmental interests seeking endangered species protection. Requests to protect endangered species become much more credible if those making the requests are proposing to pay at least a significant part of the cost.

These survey results suggest that we may not have been paying enough attention to "who pays" in formulating environmental policy for the Platte and perhaps for other applications as well. Consensus support for environmental policies should not be expected unless the proposed actions are credibly perceived to make a positive difference and have equitably distributed costs. With endangered species programs this may require that we do a better job of matching who pays with who benefits. Some observers may justifiably argue that those who have negatively affected wildlife habitat should pay to correct it, irrespective of who benefits. But, if this perspective results in little corrective action everyone loses.

References:

Supalla, R. J., B. Klaus, O. Yeboah and J. Allen. 2000. "Game Theory as a Watershed Management Tool: a Case Study of the Middle Platte Ecosystem." A project completion report for work supported by the United States Environmental Protection Agency, Randy Bruins, Project Officer (USEPA).

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Table 1. Level of Support for Alternative Payment Policies[a]

Payment Policy	Agricultural Interests	Environmental Interests	All Interest Groups
	----- % of Respondents who Support the Policy -----		
Federal 100%	**40.3**	**43.5**	**42.0**
Federal 50%, Private 50%	**62.6**	**48.2**	**54.9**
Federal 50%, States 50% distributed equally	**12.7**	**55.0**	**35.3**
Federal 50%, States 50% distributed proportional to water use[b]	**20.5**	**75.0**	**49.7**
Federal 1/3, Private 1/3, State 1/3 distributed proportional to water use[b]	**49.2**	**22.6**	**35.0**

[a] Includes respondents from all Platte Basin states, Colorado, Nebraska and Wyoming.
[b] Proportional to each states historical withdrawals from the Platte.