



# Payments for public goods: Rethinking what it is to be a good farmer

## Summary

**Engagement in sustainable farm practices and policy initiatives is not solely based on a rational financial calculation of costs versus benefits. Instead, farmer decisions are shaped by a range of other external and internal factors, such as farm type, and their values, beliefs and norms, including what other farmers are doing.** This makes the impact of any new policy interventions, such as shifting from direct payments towards payments for public goods hard to predict (at least in short to medium term), as participation in ecosystem markets may not be in keeping with farmers' own personal goals and values. A careful consideration of ways in which we can best encourage farmer engagement in any new policy initiatives (or the delivery of ecosystem services more generally) will, therefore, be an important step towards maximising the effectiveness of any changes in policy.

## Key policy messages

- **Message framing will be important.** While environmental values are an important component of a farmer's identity, a productivist mindset is often dominant. What this means is that farmers often have a strong preference to maximise the production of food to the best of their ability, even if it is financially optimal to do otherwise. Recognising this, we suggest that the success of new initiatives will be enhanced by giving farmers the opportunity to demonstrate their farming skill and framing the provision of ecosystem services in production terms. This will help engender a view amongst farmers that the production of environmental goods has similar value as the production of food.
- **Non-pecuniary as well as pecuniary benefits associated with food production are important drivers of behaviour.** Farmers often enjoy 'traditional' farm work associated with the production of food and while costs and returns are clearly important for farmers' decision making, the presence of nonpecuniary benefits associated with some farm tasks may make certain choices more attractive than others which may be more rewarding financially. This means that policy interventions looking to promote engagement in environmental initiatives are more likely to be successful if scheme requirements involve activities that are both familiar and enjoyable.
- **The behaviour of farmers is influenced by both intrinsic and extrinsic motivations.** Paying farmers for the provision of environmental public goods, while important, may also make it less likely that some environmental farm practices will be undertaken on a voluntary basis in future.

**As outlined below, there is considerable scope for employing non-monetary interventions as a supplement to incentive-based policy tools when it comes to encouraging pro-environmental behaviours.**

- **Integrating publicity for ‘green’ behaviours** into the design of agri-environmental schemes may incentivise shifts in behaviour without using monetary rewards.
- **Social norms can be used to good effect.** Many farmers engage in a wide variety of informal unfunded environmental practices. Simply making farmers more aware of this important work can encourage other farmers to engage in similar environmental farm practices in order to be seen as ‘fitting’ in.
- **Attach carefully crafted environmental labels to support payments (considering different labels across regions).** Attaching a strong environmental label (e.g. environmental protection or something more specific such as carbon sequestration, water conservation) can shift farmer behaviour towards those activities, irrespective of any restrictions placed on the support payment.
- **Where application costs are necessary, whenever possible integrate these at source** as opposed to segregating these is recommended.
- **Flexibility in contract design will be beneficial.** Farmers emphasise the importance of minimising red-tape, obtaining adequate financial compensation, and also maintaining flexibility in the design of ecosystem services contracts so that new schemes take account of both the wide variation in landscape features across farms and differences in overall farm structure.
- **Risk aversion can act as a barrier towards engaging with unfamiliar new interventions.** Adequate financial compensation and maintaining flexibility in contracts so that new schemes can adapt to changes in the cost of delivery of ecosystem services can lessen the perceived risks associated with engagement in ecosystem markets.

## The challenge

On average, farmers make more money from EU subsidies (around £3.5 billion annually) under the Common Agricultural Policy (CAP) than they do from farming. Indeed if we exclude these support payments, many farmers **lose money** from agriculture. Thus, the decision to withdraw from the EU leaves farmers in a precarious financial situation. This decision also has the potential for serious environmental consequences, given the important role that farmers play in environmental issues ranging from water quality and biodiversity conservation to climate change.

Fortunately Governments in each UK country are putting forward legislative frameworks to replace agricultural support e.g. England’s [Agricultural Bill 2019-2021](#).

However, considerable uncertainty still remains relating to the structure of any future support payments and perhaps most importantly the total levels of support that will be made available.

## What will these new policies look like?

The majority of existing payments from the EU to farmers, while subject to some environmental and other obligations (termed as cross compliance), are direct payments simply based on how much land is farmed. In addition to these direct payments, approximately 20% goes to support rural and environmental farm management schemes.

However, post-Brexit agriculture policies across the UK are moving, in varying extents, towards decoupling payments from the total land area farmed or historical production levels (the basis of current CAP payments) and paying farmers to produce public goods such as environmental improvements.

This approach has been broadly welcomed on all sides as it recognises the importance of farming not just for the production of food, but also for environmental issues.

## Payments for public goods

**Apart from issues surrounding the levels of financial support, there may be a number of sociocultural and psychological barriers to overcome if any new policy initiatives are to be successful in engaging large numbers of farmers.**

For instance, a shift towards a payments for public goods approach may not be in keeping with farmers' own conceptualisation of what it is to be a good farmer. Along these lines, our own previous research (along with many others it must be said) highlights how a **productivist mindset** is common.

This means farmers often strive to maximise output to the best of their ability even if it is financially optimal to do otherwise. Such behaviour is in keeping with their own identity and image of what it is to be a good farmer. This is understandable of course as for decades agricultural policy has encouraged the intensification of agriculture and linked support payments to production, irrespective of environmental harm.

Another related consideration is that for many farmers, the production of food is not just a way to make money, but a vocation that is valued in itself. In essence, as we have **illustrated** in previous work, while profitability is clearly important, farmers often trade off income to engage in farm work that may be more rewarding when one considers both non-pecuniary as well as pecuniary benefits.

It raises the question, at least in the short to medium term, as to whether farmers on the whole will derive the same intrinsic value from producing environmental public goods and services as they do from producing food. This is not to say that farmers don't care greatly about environmental issues.

Our own research suggests the opposite, but at the same time farmers make on-farm decisions based on a consideration of a **multitude of factors**. This makes policy intervention quite difficult to predict as participation in 'ecosystem' as opposed to more traditional markets may not just depend on the financial support available, but also to what extent the required behaviours are in keeping with farmers own personal goals and values.

A further often overlooked consideration is that paying farmers for environmental protection may crowd out (at least to some degree) intrinsic motivations for doing those same activities.

Such motivational crowding out has been shown to occur across a number settings. Perhaps the best known example is in the area of blood donations where it has been observed that paying people has often been found to lead to a reduction in volunteers.

Such 'backfire' is very unlikely to occur in a farming context but at the same time formalising the exchange between money and environmentally beneficial farm practices may make it less likely that some behaviours will be undertaken on a voluntary basis in future.



## How can we increase engagement with environmental initiatives?

**In research undertaken as part of the Global Food Security's 'Resilience of the UK Food System Programme' ([IKnowFood](#)), we sought to test the effectiveness of various non-monetary interventions (nudges) for encouraging pro-environmental behaviours.**

The use of nudges have come to the fore in the UK through the Behavioural Insights Team often referred to informally as the 'Nudge Unit'. This team has successfully used Nudge techniques to change people's behaviour in a variety of areas such as the payment of income taxes on time and the decision to invest in retirement saving schemes.

In the spirit of these nudge interventions, one **intervention** we identified, in partnership with **Championing the Farmed Environment**, with significant potential is simply providing farmers with an opportunity to demonstrate their 'green credentials' to the wider public.

The basic idea here is that the very many good things that farmers do for the environment are often hidden from public view and simply providing farmers with an opportunity to demonstrate their 'green credentials' (e.g. publicity or a non-monetary award scheme) to the wider public can significantly boost conservation efforts.

An additional nudge type intervention we found to be effective related to the use of message framing designed to encourage a desire to fit in (social norms). The idea here being simply that many farmers engage in a host of informal environmental practices without any policy support and merely providing this information to other farmers in an accessible manner can encourage others to engage in conservation practices. Paradoxically and perhaps even humorously, people (including ourselves) tend to underestimate the influence of such nudges on their own behaviour.



## Doing more with less: Reframing policy

**A further natural question we asked in our research is: whether we could improve engagement with agri-environmental policy initiatives without necessarily increasing the level of financial compensation?**

Our [research](#) suggests that we can. One illustration is through the use of labelling. Perhaps the most well-known example of the power of labelling in the UK is the [winter fuel payment](#). Despite the freedom of recipients to spend this support payment as they wished, recipients typically spent a much larger proportion of it on fuel than what would have occurred if the support payment was left unlabelled.

In a similar vein, our research illustrates that carefully crafting labels when it comes to any support payments for farmers (perhaps different labels across areas) may help to promote pro-environmental behaviours. As an example, we find attaching an 'environmental protection' as opposed to 'agricultural payment' label to a support payment can nudge farmers towards spending additional resources on environmental initiatives even when there are no restrictions attached to the support payment.

What this means in essence is that a simple and cost-effective 'nudge' to promote more sustainable or environmentally beneficial behaviours would be to name any support payment to include a label that promotes the kinds of behaviour (e.g. water conservation, carbon sequestration) that has the most environmental benefit.

Our research also highlights the importance of streamlining and simplifying the application process when it comes to encouraging farmer engagement in any new policy initiatives. Over and above reducing the administrative burden, we find that as a result of [loss aversion](#) *integrating* the application costs into the subsidy (i.e. taking it at source) rather than something that farmers have to pay separately to access, such as a payment to an agricultural advisor, would substantially increase the attractiveness of any policy initiative.

This idea is best demonstrated with an example: while both the following options lead to the same net financial position, the net utility or psychological value from receiving

- a)** a subsidy of £10,000 directly is significantly greater (and thus looks more attractive) than
- b)** if farmers were first presented with a subsidy of £11,000 along with having to make a subsequent payment of £1,000. This finding reflects a commonly observed phenomenon in the behavioural science literature, namely that losses loom (hurt us more) than equivalently sized gains (by a factor of 2-3 to 1).



## Scheme Contract Design

Farmers have long highlighted problematic features surrounding the design of agri-environmental schemes which have acted as barriers to uptake.

These include the level of “red-tape”, the lack of fit with existing farm management activities and insufficient financial rewards for some of the activities undertaken. The upside (if it can be characterised as such) associated with withdrawal from the EU is that in a post Brexit agricultural landscape, there will be an opportunity to redesign any new environmental policy initiatives in order to maximise the potential for engagement and overall effectiveness.

With this in mind, as part of the [Resilient Dairy Landscapes Project](#), farmers were probed as to what features they would most value in an ecosystem services delivery contract.

Some of the issues highlighted by farmers in qualitative interviews include the importance of simplifying the application, validation and evaluation process of new schemes. Farmers also stressed the importance of flexibility in design so that new schemes can take into consideration the wide variation in landscape features as well as differences across farms in terms of overall structure.

Farmers also highlighted the importance of receiving formal recognition for their work so that they feel that their commitments to environmental conservation are valued (adding further weight to the experimental results discussed earlier). A further point made by farmers related to the added benefit of incorporating flexibility in payments so that compensation can adapt to changes in the cost of delivery.

Such measures can be seen as reducing the perceived risk associated with engagement in new farm practices. Related to this point, farmers also outlined how financial support via grants/low interest credit to support larger environmental interventions (e.g. slurry storage) would be beneficial.

To conclude, while we emphasise that any new payments for public goods approach is to be welcomed, a careful consideration of ways in which we can best encourage farmer engagement in any new initiatives will be an important step towards ensuring their effectiveness in meeting environmental goals.

Finally, while beneficial, none of these suggested interventions or nudges should detract from the overall importance of providing financial supports when it comes to environmental initiatives.

**It is after all hard to be green when you are in the red.**



## Find out more

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