

Public goods and agriculture in Scotland

Background

The agricultural sector is supported through public funding to a much greater degree than other economic sectors. The original aim of the Common Agricultural Policy to increase European food production has been long achieved however, it remains primarily an economic subsidy to the farming community. This has left it without a clear purpose and increasingly calls are being made to divert funding to other purposes.

One commonly used justification is that support to agriculture encourages the production of public goods. Since public goods are not rewarded by the market, there may be a shortfall in their production compared to public demand and government intervention may be needed to ensure their supply.¹ However, it is important that there is clarity firstly on the definition of the public goods for which



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intervention is needed and secondly on what type of intervention is most likely to ensure their production.

Facts and Figures

- Public goods as defined by economic theory² are non-excludable (people cannot be prevented from enjoying the good) and non-rival (one person's consumption of the good does not reduce the amount available for others).
- Private goods are rival and excludable e.g. food or timber can be bought and sold and once it has been consumed it cannot be used by others.
- An EU study³ identified the main environmental public goods produced by agriculture as: agricultural landscapes, farmland biodiversity, water quality and availability, soil functionality, climate stability, air quality, resistance to flooding and resistance to fire.
- Access to a decent food supply, rural vitality and animal health and welfare are identified as areas for which public intervention is justified though they may not be strict public goods. In addition, public access and recreational facilities could have some public good characteristics depending on the circumstances.

Classification of goods according to their degree of publicness

Degree of Publicness			
Low	Medium		High
Private Good	Club Goods	Impure Public Good	Pure Public Good
Rival	Non-rival for a small user group	Non-rival	Non-rival
Excludable	Excludable	Excludable only at high costs	Non-excludable
Excludable and rival.	Excludable, but subject to congestion as the number of users increase.	Exclusion - even if technically feasible - is costly, therefore there is a high risk of congestion.	Exclusion technically impossible. Very high degree of non-rivalry in consumption, with a certain degree of congestion possible.
Examples: <ul style="list-style-type: none"> Wheat Timber 	Examples: <ul style="list-style-type: none"> Private parks Golf course 	Examples: <ul style="list-style-type: none"> Public access to farmland Landscapes and landscape features 	Examples: <ul style="list-style-type: none"> Stable climate Air of high quality Biodiversity Non-use values of landscape

Source: Cooper, T, Hart, K. and Baldock, D. (2009) The Provision of Public Goods Through Agriculture in the European Union, Report prepared for DG Agriculture and Rural Development, IEEP

Scottish Environment LINK's views

The public goods provided by Scottish agriculture come in a number of forms from ecosystem services such as resilience to flooding or provision of clean water to physical entities such as particular species, habitats or landscapes. Food is a private good. This does not mean that the Government should not take action to ensure that everyone has access to a decent food supply. However, support to increase agricultural production cannot be justified on the basis that this provides public goods.

There will be variation between farming types in terms of their importance for producing public goods. Factors such as location, agricultural systems and previous farming practice are important. Some types of farming are more suited to providing market goods and will need less public support whereas High Nature Value farming systems are currently under-rewarded for the public goods they provide.

We also need to be clear about who should pay for environmental management. In the case of avoiding harm, the polluter pays principle suggests that the

onus should be on the land manager. For positive management, however, it is fair to expect support for management activities.

LINK believes that farming is not like any other economic sector. Agricultural activities cover the majority of the Scottish landscape and thus a good quality environment is dependent on appropriate land management. Equally, agriculture depends on maintaining the quality of the soil, water and biodiversity upon which production depends. LINK believes that all agricultural support should be directed towards the provision of public goods which would otherwise not be supplied by the market. Basic support should be available for low-level environmental measures applicable to all farmland. Higher level targeted agri-environment payments together with support for HNV and organic farming systems should be available on top of basic support. Unless agriculture support is better targeted to specific aims, LINK believes it will not be justifiable in the long term.

Notes

1. Moxey, A., Robinson, R. and Swales, V. The Role of the Public Sector in Realising the Benefits of Scotland's Rural Land: Rural Land Use Study Project 3
2. Samuelson, P. A. (1954) The pure theory of public expenditure, *Review of Economics and Statistics*, vol. 36 pp. 387-389; Samuelson, P. A. (1955) A diagrammatic exposition of a theory of public expenditure, *Review of Economics and Statistics*, vol 37 pp. 350-356
3. Cooper, T, Hart, K. and Baldock, D. (2009) The Provision of Public Goods Through Agriculture in the European Union, Report prepared for DG Agriculture and Rural Development, IEEP

The **file note** series is an initiative from Scottish Environment LINK to highlight and encourage debate of high priority topics of particular relevance to Scotland's land use. Published by Scottish Environment LINK, May 2011.

Scottish Environment LINK is a Scottish Charity, No SC000296 and a Scottish Company Limited by guarantee and without a share capital, Company No SC250899. LINK is funded by member body subscriptions and grants from SNH, Scottish Government and the Esmée Fairbairn Foundation.

Design by Lynx Graphic Design

