

## Environmental Effectiveness and Effects of Farm Policies

**David Blandford**  
**Penn State University**  
[dblandford@psu.edu](mailto:dblandford@psu.edu)

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### Issues addressed:

1. What is the relationship between existing agricultural policies in OECD countries and environmental quality?
2. Can existing policies be made more effective in achieving desired environmental outcomes?

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## Agricultural policies in OECD countries

- Primary focus is on price and income support for farmers
- Despite changes, 85% of the total support provided to producers in 2004-06 was linked to current production (OECD Secretariat)
- What are the implications of this linkage?

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## Impact of agricultural policies

1. Intensification → increased input use → greater demands on natural resources (e.g., land and water)
  - Subsidies for industrial inputs (e.g., agro-chemicals) most risky
  - But even without support we may have resource pressures and negative environmental outcomes due to market failure (e.g., Chesapeake Bay in the United States)

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## Impact of agricultural policies

2. Structural change
  - Increased price of land leads to further pressure to intensify by limiting expansion of scale
  - Pressure for structural change will occur even without support due to technological change and long-run decline in real output prices

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## Impact of agricultural policies

- Conclusion – difficult to generalize on the net environmental impact
- Depends on specific instruments (e.g., set-aside in the United States) and assumptions about what would have happened in the absence of the policy

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## Cross-compliance and support

- The “greening” of agricultural policy
- Reasons to believe that this will have limited effectiveness
- Tinbergen critique – need to match policy instruments to targets, instrument coordination

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## Cross-compliance and support: requirements

- Technical relationships must be thoroughly understood
- Incentive structure
- Compliance monitoring
- Penalties for non-compliance

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## Cross-compliance and support: issues in current programs

- Size of payments to individual farmers  $\neq$  value of environmental services
- Spatial distribution of payments  $\neq$  spatial distribution of environmental benefits
- Difficulty of addressing positive and negative externalities - unbundling
- Monitoring challenges
- Reluctance to impose penalties

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## Cross-compliance and support: evidence from the United States

- CC has reduced soil erosion, but only accounts for 25% of the total observed change
- And payments have been high (\$18 billion average in recent years)
- CC not effective in addressing some environmental issues (nutrient management) because of incomplete coverage
- Cost effectiveness of CC considerably less than targeted agri-environmental programs (e.g. EQIP) but these present political challenges

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## Conclusions

- Agricultural support mechanisms are relatively inefficient for achieving environmental aims
- CC can moderate negative effects/enhance positive effects but should be viewed as a transitional measure – more targeted policies needed
- An agri-environmental focus is not sufficient – land-use management is the issue
- Policy for environmental quality in rural areas should encompass all relevant sectors and decision makers and have a territorial focus

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