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## **SWISS AGRICULTURAL POLICY – TAKING MULTIFUNCTIONALITY TO THE EXTREME**

### *POLITYKA ROLNA SZWAJCARII, CZYLI SKRAJNA INTERPRETACJA WIELOFUNKCYJNOŚCI*

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*Słowa kluczowe: płatności bezpośrednie, Unia Europejska, wymogi wzajemnej zgodności, środowisko naturalne, ekonomika rolnictwa*

**Abstract.** The agricultural policy paradigm of multifunctionality reflects the claim that agricultural production is strongly linked with to a number of externalities. Swiss agricultural policy is a good example of this philosophy. The current reform of direct payments attempts to reimburse the positive externalities as directly as possible. Accordingly, in its research policy, the Swiss government supports research on agro-ecology and quality production much more than research on the sector competitiveness.

### **Introduction**

If we observe the historic development of agricultural policy in developed countries over the last 50 years, there is an interesting pattern. Almost everywhere, markets for agricultural food products have been liberalized. However, after the liberalization two different developments emerge. One of them is that farmers have to cope with liberalization induced lower and fluctuating prices. The prime example of such development is in New Zealand [Cloke et al. 1994], where productivity and international competitiveness of the country's farmers are, obviously, rated higher than the preservation of environmental resources and landscapes.

The other option has been pursued by the European Union. Market support measures have been replaced by direct payments. And, the justification of the direct payments has undergone a change from being a compensation for lower prices [Rabinowicz 1999] to being a reimbursement for the delivery of public goods [Jongeneel, Ge 2010]. By now, the concept of multifunctionality has increasingly been used to label a paradigm according to which liberalization does not automatically lead to societal welfare gains, but where public support for an economic sector can be helpful to support the provision of public amenities.

However, the European Union has certainly not fully succeeded in adapting its direct payments into a system of multifunctionality. Zahrt [2011] has expressed it very nicely: "The CAP has moved from harmful to wasteful subsidies, and the remaining challenge is to make these subsidies useful."

This paper claims that Switzerland has already largely succeeded in the latter and supports this argument in the following three Sections: Section 2 is a review of the theoretical concept of multifunctionality with special regard to the impact on agricultural policy. Section 3 depicts the operationalisation of multifunctionality concept in Swiss Agricultural Policy. Section 4 eventually shows how agricultural research in Switzerland reacts on the scope of agriculture-related public demands.

### **The concept of multifunctionality**

It was in a book by a German forestry policy researcher [Dietrich 1953] that the existence of jointness and externalities was perceived as being a constitutional element of an economic sector for the first time. Upon naming this notion the multifunctionality of forests, a new concept had entered economics. In the early 1990's, the term multifunctionality entered the political discussion [Harvey, Whitby 1988, French 1991, Bohman et al. 1999]. During this first phase of the multifunctionality debate, the particular view of each participating country led to quite different perspectives on the concept. Special historical and geographical backgrounds, the economic situation and social preferences as well as the influence of political pressure groups are reasons for a country to focus on certain non-commodity outputs, neglecting others [Kobayashi 2004].

When the European Commission increased the frequency of using the multifunctionality concept around 1996, it was to describe what was already provided by farmers and was in danger of being reduced as a result of a process of full market liberalisation. [Huylenbroeck, Durand 2003]. The ‘European model of agriculture’ (MEA) entered the dictionary of the Common Agricultural Policy (CAP) with the Agenda 2000 reform [Cardwell 2004, Explanatory Memorandum... 1998]. However, “it is an essential and normative concept” [The Model of... 2000], being based on the suggestion that European farming provides non-commodities, which are generally associated with positive attributes and may include food security, food safety, animal welfare, cultural landscape, biodiversity and rural development [Glebe 2003].

Mann and Wüstemann (2008) have emphasized that the concept of multifunctionality is in no way restricted to the sphere of agriculture. The general notion is that externalities are ubiquitous and take different forms, including psychological, human capital and social externalities. Every activity incurs a large number of those different externalities and it is, for several reasons, a hopeless attempt to internalize all of them.

While the concept applies for most, if not all economic sectors, nobody doubts that the farming sector is a very good example to illustrate this point. Therefore, the paradigm of multifunctionality opposes the neoclassical paradigm of agricultural policy. The latter supposes that, after a few externalities have been internalised, liberalisation leads to the maximization of social welfare. Under the assumption of multifunctionality, even the border protection may be justified because it incurs relatively low transaction costs, while (possibly) protecting a system with a large number of positive externalities [Vatn 2002].

This is not to argue that all externalities, in general, are sufficiently diffused and impossible to measure justifying ignoring their shape and scale. Usually, it will be advisable to find a healthy balance between the Tinbergen principle, where each political objective needs at least one political instrument and general measures, which protect the sector as a whole.

## The Swiss Agricultural Policy

Switzerland has not only been the first country to introduce the Cross Compliance, but this measure was also based on the outspoken will of its voters. In 1996, the bill to introduce direct payments for farmers was only agreed to in a referendum after the Cross Compliance has been added. Since then, farmers have to set aside seven per cent of their land under ecological programs, must have an even nitrogen balance and at least four different crops in their rotation to qualify for direct payments. Today, around 50,000 Swiss Francs revenues of the 250,000 Swiss Francs per average farm per year are the direct payments. The fact that, currently, the average farm income averages 55.000 Francs shows that the profitability of farming is strongly dependant on such public transfers.

The Swiss Agricultural Policy has been criticized for lacking details [Mann, Mack 2004]. While the constitution defines rather straightforward societal objectives like resource protection, landscape preservation, food security and biodiversity to which agriculture contributes, a large part of transfers were so-called “general”, per-hectare payments. The federal administration reacted to the objections by proposing amendments to the direct payment system, which are currently negotiated in the Parliament. The most important aspect of the current reform is not the new flow of public transfers, but the paradigm that money is only paid if public goods are delivered in turn. There are still payments for all agricultural land, but the labels show that the relation between political objectives and measures has been strengthened:

- 1 billion Francs are paid as food security payments, with increased rates for arable land
- 500 million Francs are paid as landscape payments, with a strong differentiation between valley and mountain areas and payments for Alpine summer farms.

The ecological effects of agriculture are more specifically targeted in the new system than before. The payments comprise:

- 300 million Francs for biodiversity payments, being paid for extensive grassland, for high-stem trees and for areas with high ecological quality;
- 300 million Francs for production system payments. Attempting to reimburse the positive effects of a system approach to agriculture, transfers are paid for animal-friendly buildings, for organic farms and for extensive grain production;
- 100 million Francs are planned to spend for landscape quality payments, specifically targeted for projects with an emphasis on improving the attractiveness of landscapes;
- 50 million Francs will be spent for resource efficiency payments, paid to farmers who apply innovations.

In addition to these two blocks, 300 additional million Francs are socially motivated buffer payments, and paid on a per-farm basis. The question whether a particular social policy for the farming sector can be justified has been answered positively because the existing social policy tools are not particularly well adapted to rural circumstances [Mann 2005]. It is planned that such payments decrease over time after the transfer between the old and the new system has been accomplished on the ground.

Many progressive elements of the new system, as developed by the administration, have already been lost in the political process so far, such as the restriction that young people entering the farm would not be eligible for buffer payments. It goes without saying that many critical questions can still be asked. To name an example: while it is very uncertain whether the political support for agriculture today contributes to food security in times of crisis [Mann 2008], the largest share of the budget are food security payments. However, no other country has yet taken the step of translating the paradigm of multifunctionality into the national support system for the farming sector. And, no other country has managed to show, in practice, that payments to farmers relate directly to societal objectives.

One critical comment may conclude this Section: It is probably valuable to have a small-structured farming system with strong incentives to „environmentalise” agriculture. But, it is not very inexpensive for a government to sustain such a system. The fact that the Swiss government is still able to spend more than three million Francs each year for agriculture is largely a result of the wealth of this country. The wealth of this country, in turn, is in some part due to its banking system with some criticism for being unethical. Thus, „dirty money” can well be spent for noble causes.

### **Agricultural Research in Switzerland**

Particularly for researchers, it is an interesting question whether an agricultural policy which is strongly dedicated to a multifunctional agriculture also translates into the scientific landscape. The good news is that it clearly does. The bad news for Agricultural Economists is that this is not to the advantage of their discipline.

As many countries, agricultural research in Switzerland takes place at universities and in federal research stations. However, the plural of “university” is not really justified, because apart from the University of Applied Science in Berne, which is not actively involved in scientific research, only the Federal University ETH in Zurich offers agricultural education. In the latter organization, there is only one professorship for Agricultural Economics (currently vacant). This one professorship of agricultural economics in the whole country is not only abysmal between the 90 AgEcon professors in Germany and the 130 AgEcon professors in Italy, it is also embedded in a very environmentalist structure: The chair of agricultural economics is embedded in the Institute of Environmental Decisions and in the Department of Environmental Systems. While these are just names, they match quite well the emphasis these units place on teaching and research, being far more concerned with agri-environmental policy than with, for example, productivity in hog production.

For the federal research station Agroscope, the situation is very similar. Agroscope, currently, coordinates one EU-research project in the 7<sup>th</sup> framework program which, tellingly, is in the field of biodiversity management. Of the approximately 100 research groups operating at six locations, social sciences dominate only two groups: in the station Tänikon in the Eastern part of the country, one of them on farm management (including the whole FADN data base), the other one on socioeconomics, both concerned with the sector modeling and rural sociology. Other groups (like “cheese quality” or “bees”) mirror the emphasis, which the Swiss government sets in the scope of its agriculture to a much better degree. Therefore, it is no surprise that there are currently plans to merge the two economic groups into one.

Economic comparisons [e.g. Gazzarin 2002] frequently show that Swiss farming is far less competitive than in any neighboring country. Putting it in an optimistic way, this may well indicate that intensive research on competitiveness eventually translates into the economic competitiveness of the farming sector. But, this is not the current focus of Swiss policy makers.

### **Conclusions**

Two opposed paradigms shape agricultural policies. One is the firm belief that total liberalization maximizes social welfare. The other is that the large number of externalities justifies some sort of ‘greening’ of agriculture through government intervention. Most countries, including the European Union, oscillate between the two poles. Switzerland represents a fine case study for pursuing a clear strategy of multifunctionality. The new system which currently introduces goal-specific payments certainly contributes to an increase in efficiency of the agricultural budget.

The strong emphasis on a sustainable and multifunctional agriculture may not only be criticized by mainstream economists because of the (alleged or real) welfare losses, it apparently does not benefit the role of their profession, either. There are few, if any, countries, in which the relative role of agricultural economics in agricultural research is as modest as in Switzerland.

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## Streszczenie

Paradygmat wielofunkcyjności w polityce rolnej odzwierciedla silne powiązania produkcji rolnej z wieloma czynnikami zewnętrznymi. Polityka rolna Szwajcarii jest dobrym przykładem takiej filozofii. Obecne reformy opłat bezpośrednich są próbą kompensowania pozytywnych powiązań z czynnikami zewnętrznymi w sposób jak najbardziej bezpośredni. W konsekwencji, w swojej polityce, rząd Szwajcarii wspiera badania w zakresie agroeologii i jakości produkcji o wiele bardziej niżeli badania nad konkurencyjnością sektora.

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