

The Swedish Agricultural Policy Reform of 1990

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Introduction

- Unusual case
- Radical change
- Internal market deregulation
- Interrupted by accession to the EU

Swedish agricultural policy before the reform

- Predominantly price support
- Semi-annual price reviews/negotiations
 - agriculture and primary processing
- Border protection adjusted accordingly
- Mandatory intervention implemented by Market Regulation Associations
- Export subsidies
 - producer financed (livestock products)
 - various sources including the budget (grains)
- Milk and sugar quota
- Set-asides

Agricultural policy reform(s)

- Related reforms in agricultural sector
 - removal of milk quotas (1989)
 - reform of crop insurance
- Internal market deregulation
 - removal of price reviews
 - removal of market intervention and export subsidies
 - unchanged border protection

Agricultural policy reform(s) (cont.)

- Measures to ease the impact and facilitate adjustment
 - Transitory compensation payments
 - Guarantee against bankruptcies
 - Restructuring of land (decoupled payments) and milk pensions
- Accompanying measures
 - increased support to rural development
 - payments for environmental public goods etc.

Implementation

- Expected outcome
 - decline of prices
 - grains -20%
 - beef - 9%
 - pork -5%
 - milk -3%
 - considerable decapitalisation of asset values
- Application to the EU
- Different adjustment process

Impact of the reform

- Removal of MRA without disruptions
- Decline of prices
- Decline of production, halted later on
- 380 000 hectares removed from production but only 80 000 permanently
- Faster structural change
- Process clearly affected by EU expectations

Was the reform really radical?

- Institutional change
- Modest and temporary compensations, anti-bankruptcy measures
- Removal of farm income objective

Theoretical framework

- The most interesting question about the Swedish reform is WHY it was possible
- Pressure groups model most commonly used
 - opportunistic
 - black box
 - rational ignorance
- Ignores institutional constraints on politicians' behaviour

Theoretical framework (cont.)

- Legitimacy, bounded rationality, agricultural fundamentalism
- Approach followed in the analysis
 - explicit account of the underlying political process
 - partisan rather than opportunistic approach
 - focus on legitimacy and coalition formation

Political parties

- Strict proportionality, six political parties
- Social Democrats (SD): by far largest party, do not compete for farm votes
- Centre Party (CP) (former Peasant Federation) represents middle size farmers
- Two block competition within a multi-party system
- Traditional co-operation between SD and CP
- Farmers as a “median voter”
- Co-operation between SD and Liberals created a window of opportunity

Pressure groups

- Federation of Swedish Farmers (LRF)
- New strategy document 1988
 - Reform unavoidable (intense public debate, governmental reports)
 - Willingness to pay for Swedish quality
- Consumer delegation, created 1963, artificial consumer representation
- Mild opposition from LRF to reform proposal
- LRF not successful in blocking the reform

Legitimacy

- Food prices: high and rising in real terms
- Farm income vs. environment
- Increasing awareness of “faults” of the policy due to public debate
 - Political economy of food (Bolin et al 1984)
 - Open and public political debate
 - New stakeholders
 - Loss of agenda setting power by LFR
- Public opinion pools

Economic driving forces

- Well-known negative effects
- Key issues
 - Contribution of agricultural policy to fuelling inflation
 - Relevance of food security argument (“readiness”)
- Two important reports
 - Department of Finance
 - Defence Research Institute
- Agricultural policy seen as one of structural problems of the economy

Organisation of the work

- Initiated by the Ministry of Finance
- Staff recruited outside agricultural bureaucracy
- Novel organisation: Working Group on Food (seven MPs, within Ministry for Agriculture)
 - Limited access of LRF
 - LFR not allowed to submit a minority report

Organisation of the work (cont.)

- Strategy to achieve consensus about the impact of price support and avoid bias towards marginal changes
 - High input of knowledge (“study circle”)
 - Discussion on policy details postponed
- All MPs, including the agrarians, agreed that price support has negative effects

Why was the reform possible?

- Usual explanations (budget crisis and/or external pressures) do not apply
- Specific features of Swedish politics (“fix effect”)
 - Previous radical reform
 - Existence of Consumer delegation
- Conducive circumstances (“time effect”)
 - Window of opportunity due to changing pattern of co-operation
 - Linkage to other market-oriented reforms

Why was the reform possible? (cont.)

- Role of the legitimacy: even LFR accepted that policy has to be reformed
- Initiated by Ministry of Finance and managed by outsiders confirming Winters' observation that sectoral ministries are less willing to reform
- Skilful management of the drafting process
- Long-term changes of preferences
 - critical attitude towards the CAP after joining
 - support for removal of milk quotas in the EU

Lessons from implementation

- Possible to remove intervention without disruptions
- Spillover of market-oriented behaviour to other sectors