

# **Swedish Agricultural Policy Reforms**

Ewa Rabinowicz  
Swedish Institute for Food and Agricultural Economics

Workshop on Agricultural Policy Reform and Adjustment  
Imperial College, Wye  
October 23-25, 2003

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Ewa Rabinowicz, Swedish Institute for Food and Agricultural Economics

## 1. Introduction

In a somewhat self-defeating manner, it could be asked, whether it is worthwhile to analyse the Swedish agricultural policy reform of 1990. In the end, almost everything had to be reversed after Sweden has joined the EU. However, it could be argued that the reform is still interesting. Radical attempts at reforming agricultural policy are rare and, hence, worth to be examined, and the reform was, indeed, very radical. All internal market regulations were abolished. Farmers were offered only a modest and temporary compensation. Analysing the Swedish reform of 1990, Daugbjerg, a Danish political scientist, observes that “compared to the EC and other Western countries the Swedes chose a radical solution. In the EC, question was not whether the EC should subsidise agriculture but how it should be done. In Sweden agriculture was deregulated” Daugbjerg (1998).

The fact that the Swedish government applied for the membership in the EU so soon after the reform has been decided, raises the question whether the possibility of joining the EU in the near future was not considered by the agriculture policy reformers. Sometimes it is even claimed by observers from the outside that the reform was intended to prepare Swedish agriculture for the expected future membership in the Union. It is obvious from the design of the reform, moving Swedish agricultural policy away from the CAP, that this was not the case. The fact that the reform was not adapted to the CAP is a clear indication that there is no causal link between the anticipated membership and the Swedish agricultural policy reform (Daugbjerg, 1998).

The paper aims at identifying driving forces that made such a radical reform possible, in particular the ambition is to set apart idiosyncrasies of Swedish politics and the factors that could be generalised to other countries. Because the membership in the EU distorted and eventually interrupted the implementation of the reform it is hardly meaningful to provide a detailed examination thereof. Only major features of the process will be analysed.

## 2. Methodological approach

Pressure group model is most commonly used to explain why governments do what they do in agriculture. According to pressure group theory, small effective groups are considered more important for domestic policy formation because their comparative advantage in controlling free riding outweighs the relatively small numbers of votes these groups may deliver in an election.

However, the opportunistic approach to policy formation neglects the issue of how democratic political institutions constrain elected politicians to align their behaviour with voters' interests, (Persson, Roland, and Tabellini 1997). In particular, it is difficult to identify plausible social mechanisms, through which small groups could compensate for their insignificant number of votes. Direct investments in political favours are considerably inhibited by political institutions of European society. Moreover, resources spent on lobbying by farmers are almost *negligible* in comparison to the large transfers generated by the agricultural policy (Kristofersson, 1994). If transfers to farmers were the result of successful lobbying, one would expect other special interest groups, especially in corporate societies where organised pressure groups abound, to follow the example especially since many of them are commanding substantially more resources than farmers do and could, therefore, afford to invest more. Other pressure groups seem, however, not to be able to secure comparable transfers.

Instead of spending on campaign contributions, pressure groups in Western Europe tend to appeal to the general public invoking such issues as equity and the wider social benefits of policies for which they seek support. Farmers' influence over agricultural policy has been channelled though a positive inclination of consumers and taxpayers. In particular, agricultural policy has been facilitated by pressure groups appealing to several consensus-generating causes (equity, food security, rural amenities, and environmental protection). However, it would be wrong to fully attribute support to agricultural policy to indoctrination by interest groups, as argued by Becker (1983). Preferences

change often due to other reasons than influence of pressure groups. Farmers have invented none of the consensus-generating arguments mentioned above. Without helpful influence of agrarian fundamentalism, they would never manage to gain as much support as they do. Rabinowicz (1993) attributed the fundamentalism to bounded rationality of the consumers arguing that agricultural policies are credited for positive effects they fail to deliver.

Political economy models explain policy formation in a black-box fashion relying on unobservable and somewhat illusory concept such as influence function and ignoring ideology and partisanship in voting. Because of this feature those models do not lend themselves easily to an analysis of a process of policy reform. Kristow et al (1992) claim that "the more context-specific the political outcome to be explained, the more crucial is a clear view of the decision process of the policy makers at the top". Following this argument, the analysis of agricultural policy reform in this paper will be based on *an explicit account of the underlying political process*. Moreover, the analysis will not be based on an opportunistic but on *partisan approach*. In partisan models (Hibbs, 1977) different political parties represent the interests of different constituencies and, when in office, follow policies that are favourable to their supporting groups. Existence of special interests parties in Sweden, such an agrarian party and a labour party, makes such an approach plausible for an analysis of Swedish politics. Moreover, changing patterns of co-operation in the parliament may be influenced by factors unrelated to farm interests and yet have important implications for the strategic position of farmers. This implies that it may be difficult to analyse agricultural policy in a partial setting.

The discussion above boils down to somewhat eclectic approach for the subsequent analysis focussing on legitimacy of the agricultural policy and putting major emphasis on the political process behind the policy reform, namely on coalition formation in the parliament, in particular on the role of ex-agrarian Centre Party.

### **3. Swedish economy in the pre-reform period**

A detailed account is beyond the scope and interest of this paper. In several aspects Swedish economy was experiencing a favourable development during late 80s. Economy was growing at about 3% per annum and unemployment was low. However, the economy was also exhibiting quite a few macroeconomic imbalances (persistent budget deficit, fast growing government debt and high level of inflation) as well as several structural problems. Kjell-Olof Feldt, minister of finance at the time argued (Sohlman, 2003), that due to those structural problems it was not possible to pursue meaningful stabilisation policy in Sweden. Mr Feldt emphasised strongly a need of structural reforms of the Swedish economy such as deregulation of credit market, major tax reform and reform of agricultural policy. Several market-oriented reforms have also taken place. Credit market was deregulated in 1985. After several years of negotiations, major tax reform was decided in 1990. Several product markets were deregulated as well.

Level of inflation is especially worth mentioning since the rate of inflation in Sweden tended systematically to be higher than inflation in countries competing with Swedish industry. The resulting appreciation of the real exchange rate and ensuing loss of competitiveness had been remedied by devaluations of nominal exchange rate of Swedish crown. The crown was devaluated on four occasions in the 70s and early 80s. By the end of the 80s, an almost universal consensus emerged that an accommodation policy of this type was detrimental for the Swedish economy in the long run and that Sweden should commit to a fix exchange rate. Accordingly, fighting inflation emerged as an important policy priority.

### **4. Swedish politics in the pre-reform period**

#### *4.1 Political parties*

A proportional electoral system is applied in Sweden following since 1971 the principle of strict proportionality. An electoral system of this kind tends to produce minority governments. Since 1971, Sweden has not had a majority government. At the time of agricultural policy reform, six parties were

represented in the parliament and Social Democrats were in power. Social Democratic Party, by far the largest party, has been the main actor in government formation in Sweden during the post war period. The Social Democrats do not compete for farm votes and have been emphasising consumer interests in the agricultural policy formation. It was a Social Democratic government that created the Consumer Delegation (compare below).

The Centre Party (until the 60s the Peasant Federation) represents middle size farmers. Large farmers and landowners tend to some extent vote for the Conservative Party. Declining number of farmers induce the Centre Party to take on other issues such as preservation of natural environment. Protection of farm interest has, however, remained the key priority. The remaining parties were (in order of size): Conservatives, Liberals, Left Party (ex-communists) and Environmental Party – The Greens.

Coalition politics in Sweden features a two-block competition within the multi-party system. Coalitions or even collaborations between socialist and non-socialist parties have been rare and have been confined to parties close to each other on the left/right scale. Due to its centrist position, the Centre Party has been an attractive (potential) co-operation partner for both political blocks. Until the 80s, the Centre Party (or its predecessor) was the only right-of-centre party the SAP could consider as a co-operation partner.

#### *4.2 Interest groups*

Swedish farmers are organised in the Federation of Swedish Farmers (LRF). LRF has strong ties with the Centre party. The centrist position of the party (compare above) has favoured farmers turning them into something of a “median voter“. LRF had always tended to strongly reject any ideas about agricultural policy reform. However, under the influence of a newly elected leader the organisation produced in 1988 a strategy document entitled “Change of Track” which endorsed a more market-oriented agriculture. The strategy document could be easily dismissed as a “lip service“. But this begs the question why Swedish farmers would consider it worthwhile, in contrast to their past behaviour and unlike their colleagues in other European countries and elsewhere, to pay such a service. Instead, the behaviour of LRF could be described as “conversion under threat“. LRF realised that some kind of agricultural policy reform was unavoidable and that farmers’ interests would be served better by participating in the process of change than by opposing it (Dockered, 2003). Moreover, LRF believed that Swedish consumers had a willingness to pay for higher quality, environmental friendliness and food safety and that Swedish agricultural products could be marketed as delivering those qualities, hence, surviving a more competitive environment (Dockered, op cit). The reason why LRF judged that reform of agricultural policy was to be expected was the ongoing intense criticism of the policy in the public debate (see section 6.2) as well as critical reports commissioned/produced by the government (see section 6.3) indicating that the government was interested in reform of the policy.

A unique feature of the Swedish system was the existence of consumers’ representation, the Consumer Delegation (CD), in agricultural policy matters. The CD was created in 1963 by a Social Democratic government with a clear intention of changing the balance of power between consumers and producers (Andersson, 1987). The CD was, however, an artificial representation of consumers. Members of the CD were always appointed by the government and consisted of representatives of labour unions, processing industry and trade. The CD had a small staff of own experts. Together with the LRF, the CD was participating in parliamentary committees on agricultural policy, in semi- annual price reviews that were organised as deliberations between the LRF and in the implementation of the policy.

## **5. Agriculture and agricultural policy prior to the reform**

### *5.1 Brief history of agricultural policy in Sweden*

It may be useful to put the reform decision of 1990 in a historical perspective by looking briefly how the policy had developed before. Agricultural policy decision of 1947 formalised instruments, mainly price support, introduced already in the 1930s. Income parity for farmers and food security (self-sufficiency in basic foods) became main policy objectives. Agricultural policy was re-examined by 1960 Committee on Agriculture reaching agricultural policy decision in 1967. The decision

emphasised the goal of efficiency in agriculture. The aim was to reduce self-sufficiency in agriculture to not less than 80 per cent (for defence reasons). Agricultural prices were to increase more slowly (“price pressure”) to push resources out agriculture. Pre-pension schemes and resettlement subsidies encouraged the mobility of agricultural labour.

The policy continued along these lines until 1971: real price to farmers decreased by 15%, milk production fell to the lowest level since WWII. The number of milk producers went down by 40 per cent. Between 1966 and 1971 agricultural labour (in man-hours) declined by 30%. Then the policy was reversed. Farm prices were allowed to increase again. New agricultural policy decision was taken in 1977 emphasising income distribution rather than efficiency and growth and making farm income the prime objective of agricultural policy. Existing arable land was to be kept in production and resulting surpluses were to be exported as grain rather than livestock products. Implementation of agricultural policy decision of 1977 resulted in growing surpluses of agricultural products and proved unsustainable. A new decision was taken in 1985. Food security was reinstated as a prime objective. Consumer objective was given equal status with farm income objective. Farm prices were no longer to be raised automatically as cost increased.

As it can be seen from the brief description above, Sweden had a history of radical policy reforms prior to 1990 decision but also of policy reversals. It is also interesting to note that radical policy of the 60s coincided with fast economic growth, labour shortages in industry and low world market prices for agricultural products. Social Democrats had a majority of their own. Policy reversal in the 70s corresponded to higher world market prices, concerns for global food security, slow economic growth and ensuing lower demand for labour. “Green wave” emerging in the wake of “Limits to growth” debate was also benefiting agriculture. Moreover, at the time 1977 policy decision was taken, the government consisted of a coalition of non-socialist parties and both Prime Minister and agricultural minister were ex-farmers. Generalising from past experiences, ideology, economics and politics appear jointly as factors driving development of agricultural policy in Sweden.

### *5.2 Main features of agricultural policy prior to the reform*

In short, agricultural policy in Sweden was predominantly based on price support, applied restrictively in the 60s, generously in the 70s and somewhat in between in the 80s. Structural policy played a relatively minor role. Domestic prices of agricultural commodities were determined by semi-annual price reviews based on negotiations/deliberations between LRF and the Consumer Delegation. Development of production cost index for agricultural inputs constituted a base for the negotiations but a strict cost-price formula was not longer applied. The negotiations covered even primary processing of agricultural products: dairies and slaughterhouses. Here, compensation claims rested on historical accounting costs.

Variable import levies were used to protect the agreed level of domestic prices at the border. Mandatory domestic market interventions were applied to all major agricultural commodities and were implemented by seven semi-public Marketing Associations, which were also in charge of exports and export subsidies. Export subsidies for livestock products were financed by producers through special levies, which were automatically raised in case outlays were increasing. In case of grains, however, export subsidies were financed from several sources including the government budget. A justification of using producer-financed export subsidies was the principle that income guarantees for farmers should, with exception of grains, only be extended to production for domestic market. Because of this feature, the Swedish policy was less prone to financial crises than the CAP. However, increasing grain surpluses and low world market prices in late 80s caused an increasing burden on the budget.

Sweden was also applying supply control measures for milk (quota introduced in about the same time as in the EU) and sugar. The sugar quota were based on acreage and corresponded to roughly 90% of domestic consumption in order to allow for import from developing countries. Set-aside schemes were in place for grains. Total level of support in Sweden, measured as PSE, was 1990 57%.

## 6. Driving forces behind the reform

### 6.1 Politics

Social-democratic party, which has been dominating the post war politics in Sweden, had traditionally collaborated with the ex- agrarian Centre Party, mostly from a position of a minority government, occasionally in the form of government coalition. Support for the agricultural policy was always a *sine qua non* condition for such a co-operation. In the 80s this traditional pattern of co-operation had changed, though. Several important compromises, most notably on the reform of the tax system, were reached with the Liberal Party. Being willing (and able) to choose other parties than the agrarians for an occasional support, Social-democrats were not forced to avoid agricultural policy reform. This political reorientation was probably an important precondition for the reform of 1990 since it implied a loss of strategic position of the agrarians/farmers. A possible exogenous factor underlying the coalition formation was an ideological reorientation of the Social Democratic Party in more market-oriented direction.

### 6.2 Values and legitimacy

Legitimacy of agricultural policy was declining during the 80s. Several factors have contributed to the decline: discontent with food prices, changing public preferences with respect to farm income vis a vis environment and increasing awareness among consumers and taxpayers about the impact of the policy.

Food prices are seldom an issue in industrialised countries, in particular in the EU (Buckwell, 1992). This was not the case in Sweden, however. Swedish consumers, on the other hand, had more causes to feel dissatisfaction. Food prices in Sweden were very high according to international standards. Comparisons of PPP indicated that Swedish food prices (1990) were 60 % above the EU level, whilst prices in general only 35-40% (Bolin, Swedenborg, 1992). Moreover, food prices were also rising in real terms during most of the 80s. This was partly due to gradual removal of food subsidies, which were introduced in the 70s. As a result consumers were exposed to increases of farm prices which have accumulated during several years but were hidden by subsidies, in a short time. The increase of real food prices resulted in visible signs of dissatisfaction such as consumers identifying high food prices as a pressing social problem in public opinion pools.

Farm income became less and less of an issue in the Swedish politics during the 80s. This was due to: small share of agriculture in the total employment (less than 3%), low dependence of farm households on incomes from agriculture and good opportunities to find job outside farming because of low unemployment. At the same time anxiety about the environment was gaining momentum. Unlike the 70s, agriculture was not longer seen as synonymous with natural resources conservation but increasingly blamed for loss of biodiversity, nitrogen leakages and residuals of pesticides in food etc. In these circumstances, policy focusing on farm incomes rather than on environment was perceived by the public to address wrong priorities.

An important factor contributing to fading legitimacy was an intense agricultural policy debate that took place in Sweden. Agricultural policy reform was put on the agenda by publishing a debate book "Political economy of food", Bolin et al (1984). The book challenged the popular, consensus-generating arguments for protection and argued for a complete liberalisation of agricultural trade. The book caused an outrage from farmers and generated an extensive public discussion, see Palmgren (1985) for an analysis. Most important features of this debate was that it was not restricted to the academia but to a large extent conducted on debate pages of leading daily newspapers and that it also involved new stakeholders. Government bodies outside the jurisdiction of agriculture, independent researchers, some of the political parties and others advanced reform proposals. Several books, reports, statements and articles were published. This implied that new stakeholders emerged on the arena and that traditional interest groups, specialised agricultural politicians and bureaucracy have lost their monopoly over agenda setting in agricultural policy matters.

Changes in public sentiments with respect to agriculture can be confirmed by looking at public opinion pools. LRF has been commissioning public opinion pools about public attitudes to farming for a long time (LFR, 2003). The respondents have been asked similar question since 1980. Hence, the answers can be used as an indication of changes in public opinion. Share of the respondents agreeing

with a statement that agriculture needs to be supported because, “in the long run it is cheaper to produce at home than to import” dropped considerably in late 80s and early 90s. Similarly, fewer respondents agreed that “ it is a waste of social resources not to cultivate the land”, or “ in a hungry world it is immoral for a country not to produce its own food.” Likewise, fewer people than before agreed that agriculture should be supported because it “generates employment”. The above mentioned changes in public opinion taken together point in the direction of a more critical public opinion which is concerned about high food prices and less susceptible to agricultural fundamentalism.

### *6.3 Driving forces behind the reform: Economic considerations*

Evaluating the performance of the agricultural policy it should be observed that Swedish agricultural policy was mainly based on price support. Agricultural policy of this type produces well-known drawbacks: low transfer efficiency with respect to farm income, capitalisation of the support in the asset values, uneven distribution of support favouring mainly large farms and fertile land etc. Lasting criticism of agricultural policy through the general debate (compare above) made the politicians aware of these drawbacks. A report published by the Department of Finance (Finansdepartamentet, 1988) concluded that agricultural high price policy was the reason the farm sector attracted resources that could be more efficiently used elsewhere. According to minister of finance, K-O Feldt (1991), the Department of Finance was not particularly concerned with the budgetary costs but with indirect impacts of agricultural policy that is welfare losses and inflation. Feldt and a group around him saw agricultural policy as one of structural problems of Swedish economy (Solman, 2003).

Looking at the malfunctioning of the Swedish agricultural policy, two important aspects should be specially emphasised, namely, impact of the policy on inflation and the relevance of the food security argument. As pointed out before, high level of inflationary pressure had become a major political concern in the Swedish economic policy at the time. Agricultural price negotiations resulting in an instant upward adjustment of food prices were seen as problematic not only because of the direct impact on the Consumer Price Index but also because they contributed to inflation expectations and to a perception of the inflation as something normal. Twice a year, once the negotiations were concluded, it was completely normal for all retailers to raise food prices of regulated commodities. Moreover, lack of the competition in primary processing, which was compensated for cost increases, was also seen as a factor contributing to fast increase of the production costs in those sectors.

Winters (1987) argues that policy statements should be seen as excuses rather than real objectives – if they really mattered the policy would have been different. However, food security objective in Sweden was more than just an excuse. Food security or “readiness” to use the official term was strongly linked to the policy of neutrality of Sweden. Readiness to assure adequate food supply in case of war or trade blockade was seen as important to enhance credibility of the neutrality. The readiness was operationalised as an ability to provide 3000 Kcal per person and day sustained up to three years, later on one year, in isolation. This in turn was translated to production objectives for main agricultural commodities. Fertilisers and pesticides were kept in storage for strategic reasons. However, the official defence scenario of Sweden, was rapidly losing its justification following the changes on the international scene in the 80s. As a “preamble“ to the agricultural policy reform the government commissioned, from National Defence Research Institute, an investigation about the appropriateness of the present agricultural policy with respect to food security requirements. (Molander, 1987). The results of the study indicated that the stated defence objective could be reached at a much lower level of self-sufficiency. The two reports mentioned above became central in the policy process (Daugbjerg, 1998).

## **7. Reform of 1990**

### *7.1 Other reforms related to agricultural sector*

Agricultural policy reform of 1990 was not an isolated incident. As pointed out before, the reform can be linked to structural reforms outside agriculture. In addition, several changes of regulations related to agriculture have taken place at about the same time. Most notably, milk quota system, introduced in 1984 was abolished in 1989. Moreover, crop insurance was reformed in 1987. The previous system, which had been operated by Board of Agriculture, a state authority, and relied heavily on government

subsidies, was transferred to an LRF-owned foundation. The foundation had also taken over the accumulated funds. Thereafter, the responsibility of the government was limited to coverage of total crop failures, defined as a situation when the value of the crop is lower than harvesting cost, and affecting large areas. The common denominator of all three reforms is market liberalisation.

### *7.2 Drafting the reform proposal*

The ministry of finance undoubtedly initiated the reform. Mr Solman, newly appointed secretary of state in the Ministry of Agriculture, who started the process, came directly from a position of a Budget Director in the Ministry of Finance.

In the past, all major revisions of agricultural policy were prepared by parliamentary committees working for several years to evaluate agricultural policy and draft reform proposal. Similar work in case of the 1990 reform was organised in a novel and unorthodox way, namely as a parliamentary Working Group under the Ministry of Agriculture. The working group consisted of seven MPs with Social Democrats, who were in power, holding two seats. Micheletti (1990) observes that the status of the group was unique. Firstly it was not a state commission and secondly, interest groups were given a minor role. The Working Group allowed LRF to participate only in some meetings. Furthermore, farmers were not allowed to submit minority statement. Contrary to previous praxis in similar circumstances, the secretary of the group was not recruited from agricultural bureaucracy. Instead, P. Molander who wrote the Defence Research Institute's report, mentioned above, was appointed.

Also the effort of preparing the draft was organised in an unorthodox way and based on a strategy aiming to achieve a consensus about the impact of the price support and to avoid a bias towards proposals implying only marginal improvement of the existing policy (Molander, 2003). To accomplish that objective members of the group were involved in an intensive study/seminar activity meeting once a week with various experts. 40 meetings were organised. Discussion on specific policy proposals was postponed. Moreover, the policy discussion started with a vision of an ideal policy. The question how the present policy should be changed to move closer to the identified ideal solution was raised first at the end. The leader of LFR ironically described the approach as a "study circle" (Molander op cit). The approach proved to be successful. Working Group agreed that high prices had negative and unintended consequences in the farming sector and that price support was capitalised, which in turn decreased incomes of young farmers. The working group concluded also that that was no income problem in agriculture, denouncing the specificity hypothesis. In academic circles, such views are commonplace but politicians not always realise or at least seldom admit that such statements may be true. Here, a group of MPs, from the left to the right and including a representative of agrarian Centre Party, endorsed the ideas.

Taking into account how radical the consequences of the reform were (compare below), the reaction of Farmers' Federation (LFR) was relatively mild. A question could be asked why Swedish farmers accepted the decision rather than taking to the streets. However, in the climate of consensual policy making that prevails in Sweden (Miles 2001) such an action would, probably, had been counter productive. Moreover, as pointed out before, LRF had already anticipated and accepted that agricultural policy was bound to change. At end of the process, LFR advanced an alternative reform proposal, implying smaller changes of the policy and a longer adjustment period. However, at this stage all the MPs in the group were so committed to the internal deregulation proposal that nobody, not even the Centre party has supported LRF.

Riksdag's Standing Committee on Agriculture made some alteration to the proposal of the parliamentary working group. Despite these alterations, the changes made by the parliament did not change the ultimate objective of the reform package, which was to achieve a complete internal deregulation within a five-year period. (OECD, 1995, p.52)

### 8.3 Short description of the reform

The reform aimed at “internal deregulation” of Swedish agriculture. Major features of the reform are described below. Level of border protection was left unchanged, referring to an expected lowering of tariffs as a result of the GATT negotiations.

#### *Changes in the market regulations*

Within a framework of unchanged level of border protection all internal market regulations were eliminated, in some case after a transition period. Marketing Associations ceased to exist. Export subsidies were to be abolished, again after a transition period. Semi-annual price reviews were terminated.

#### *Measures to ease the impact of the reform and facilitate adjustment to a new equilibrium*

Both social measures aiming directly at relieving impact on farm incomes and wealth and measures intending to facilitate exit of farm resources were included. The former included temporary, degressive compensatory payments on per acreage basis. The payment was relatively modest. The payments were to be paid during 4 years. A guarantee against bankruptcies was offered for farmers risking serious economic problems due to the reform. Farmers who had bought their properties after 1980 could sell them to the state if the farmer was risking a bankruptcy and was not able to sell the property on the open market. To facilitate removal/ transfer of land to alternative uses, farmers who durably removed land from production could collect whole compensation amount in one payment. The durable removal was defined as five years withdrawal from production. In addition, milk farmers between 60 and 65 were offered a pension. No other adjustment measures were envisioned. However, the policy document emphasised the need to use existing general policy, which in case of Sweden are extensive and ambitious, to facilitate the adjustment of farm sector. The measures that were mentioned were in particular labour market policies, start subsidy for new enterprises and education programmes (Jordbruksdepartementet, 1989).

#### *Accompanying measures*

Funds allocated to rural development were increased by 100 millions SEK. In addition an environmental support program was gradually introduced with an expected final budget of 250 millions SEK.

### **8. Expected outcome and implementation**

The removal of milk quota that has preceded the 1990 reform, has not resulted in any dramatic change of milk production, which rose by 0.4% 1990 and fell by 8% next year, contradicting the widespread belief that quota can never be removed without causing a supply explosion. However, at the time of the removal the 1990-reform was already in the pipe-line making farmers very pessimistic about the future. Therefore the quota became probably not binding.

The expected impact of the reform of 1990 was by no means insignificant. The Swedish agriculture, which was producing considerable surpluses of some commodities, was intended to adjust to the domestic market. By banning of export subsidies the reform was anticipated to have greatest impact on commodities produced in surplus at previous prices. The most affected commodity group was grains, where the surplus was about 25%. According to estimates made by Jonasson (1992) the grain prices were expected to fall by 20%, beef prices by 9%, pork by 5% and milk products by 3% when the reform was fully implemented. The reform was, moreover, expected to cause a substantial reduction of producer surplus and push the land values close to zero, with the exception of the fertile southern plains.

The implementation of the reform started in July 1991. Shortly after, the Swedish government applied for the membership in the EU. The fact that the reform was not adjusted to the CAP and its implementation would have induced significantly different type of adjustment than adjustment to the EU, made the whole situation very complicated. The difference was specially visible in case of grains which were expected to suffer from the removal of export subsidies, but which were highly competitive under EU-prices. The final political decision to join the Union was conditioned on a favourable outcome of the referendum. At the same time public opinion polls indicated a small and

unstable majority. Thus, an “yes-vote“ could not be taken for granted and the resulting situation could be described as genuine uncertainty. To begin with, the implementation of the reform proceeded, as if nothing had happened but the process became more and more difficult to sustain as the time passed and the negotiations proceeded quite quickly. Below, a short account of what happened to the reform process until the Swedish accession to the Union is presented below. (All factual information below is based on SOU 1994:119)

- Internal market regulations were removed. The intervention system for grains was, however, extended one year. This was motivated by the need to achieve stability until the membership issue is settled. The removal of the Market Regulation Associations proceeded without noticeable disruptions.
- Prices of agricultural products declined. Between 1989 and 1993 producer prices fell in nominal terms by almost 10%, which was equivalent to a real decline by 30.2%. Also food prices declined, however, only in real terms. The nominal price increase was 7%, in real terms prices fell by 17%.
- Production of agricultural products fell but not markedly. Milk declined to 92% of 1989 level in 1992 but then started to pick up again. Similar is the case for pork. Lower pork prices contributed to increased consumption and improved balance on the domestic market. The number of sheep and suckling cows increased considerably.
- 380 000 hectares of arable land was taken out from production (“restructured”) mainly at the beginning of the period. However, only 80 000 was estimated to be permanently transferred to alternative uses.
- Structural change in farming was speeded up, in particular during the first years of the reform. Number of farms declined from 98 600 in 1989 to 91 500 in 1993.
- Because compensation payments were still in place when Sweden joined the EU, farm incomes developed favourably. Anti-bankruptcy measures were not put to a test.

It is quite obvious that expectation of a possible future membership in the EU affected the implementation of the reform. This was, in particular, visible for land where not much of permanent restructuring had taken place and where farmers’ interest to sign for the program ceased with time. Moreover, increasing numbers of sheep and growing investments in milk production reflected concerns with possible future eligibility under EU agricultural policy regimes rather than current profitability. In short, the Swedish farmers simply decided to wait and see avoiding “irreversible“ decisions until the membership issue was settled.

## **9. Impact of the EU membership**

Because the accession to the EU has caused such an important impact on the process of implementation of the Swedish reform, it may be in place to shortly discuss the implication of the Swedish membership. Farm prices declined modestly, as the reform of 1990 had produced larger effects on prices than the EU accession. Also in the case of consumer prices agricultural policy reform and reduction of VAT on food had larger impact than the accession to the EU. On aggregate, production decisions of Swedish farmers have not been influenced significantly by the EU accession. Firstly, prices have not changed markedly. Secondly, agricultural production in the EU is governed by a number of supply management parameters (quotas, base acreage, number of animals eligible for support etc.) and Sweden managed to achieve the level of those parameters that were close to the historical production, land use etc.

Most visible effect of the accession can be seen in the primary food processing industry. According to the economic theory, high protection rates and small domestic markets with low competitive pressure are likely to result in low efficiency. Primary processing could be expected to exhibit both technical inefficiency and scale inefficiency. Empirical analyses of competitiveness of food processing industry in Sweden, which were made prior to the accession, confirmed this theoretical prediction. Especially slaughterhouses were identified as facing considerable difficulties (Hanf and Böckenhöff 1993). Systematic research on the impact of the accession on the efficiency in processing is not yet available. Causal observation confirms that the ex ante assessment of competitiveness was correct, especially in

case of meat co-ops. The major response to the increased competition was intensified merging activities (all meat co-ops merged to one) involving closing plant and reducing employment.

## **10. Analysis, discussion and final conclusions**

The analysis in preceding sections demonstrates quite clearly that the attempt to reform agricultural policy in Sweden was, in several aspects, very radical. The first radical element of the reform connects to the size of the income redistribution involved. Especially with respect to the issue of compensations, which were very modest, the Swedish reform represented a new and radical approach forgoing the principle of time-unlimited compensations for one time price change and focusing on social hardship rather than on the absolute size of the income loss. The underlying philosophy was that compensations/adjustment measures should be paid not because past policy automatically creates an entitlement for future support but because the society has an obligation, in agriculture and elsewhere, to abolish past policies under socially acceptable conditions. Linking transition support to the ability of farmers to cope with the policy change could be argued to constitute a valuable example to consider while designing adjustment measures.

The second radical feature of the reform relates to the speed and the shortness of the adjustment period involved. Compensations were not only temporary and degressive and but also to be paid during a *short* period of time. Thirdly, the reform constituted a radical simplification and an essential institutional change. The main emphasis of the Swedish reform was on removing some instruments not on making less use of them. The strategy behind this approach was to prevent the instruments from slipping back to use again, as it was the case of reform of 1967. The intervention buying was eliminated. Thus, the stabilisation of agricultural markets, commonly used as a justification for intervention in the sector in several countries, was left to the market institutions, some of them yet to develop. It was argued in the policy proposal (Jordbruksdepartamentet, 1989) that contractual arrangements between farmers and processing industry etc. will evolve and that this will contribute to the stability of agricultural markets. Finally, the official status of the farm income objective changed from being an objective *per se* to a precondition for achievement of other objectives. By adopting and consistently applying the principle that farming is no different than other sectors in the economy, the very foundations of agricultural policy were undermined.

Natural economic experiments are rare. It would have been fascinating to study the impact of the Swedish agricultural policy reform, fully implemented. This would have implied that most of the transitory measures, in particular, arable land payments, would have expired. Because of the accession to the EU, this has never occurred. Hence, the reform was never fully put into a test. In particular, anti-bankruptcy measures were not tested. Because the process has been interrupted the most interesting question about the reform appears to be why it was possible.

To start with, it is easy to eliminate some of the usual reasons. The reform was not a result of “management by crisis”, caused by external pressures or budgetary problems, as it seems to be the case with, for instance, reforms of the CAP (Petit et al 1986, Moyer and Josling 1990). Rather it seems motivated by efficiency considerations. The reform decision was taken ahead of the URAA and much in excess of the requirements to fulfil the obligations. Moreover, it was anticipated that a future GATT agreement will require additional adjustments. Albeit raising costs of export subsidies for grains constituted a burden to the budget, the problem could have been solved by less radical measures, for instance by setting more land aside.

Daugbjerg (op cit) claims that the reform can be explained by the absence of cohesion in the agricultural policy network, which in turn explains why Swedish agricultural state actors did not form a coalition with status quo minded farmers. Daugbjerg attributes the lack of the cohesion to the existence of the Consumer Delegation. Reviewing his work, Rabinowicz (2002) questioned whether networks could be seen as exogenous in the system pointing to the fact that the Consumer Delegation itself was a result of a policy decision. Instead, many factors seem to have contributed to the reform.

Those are listed below. In an analysis based on a case study it is, however, not possible to determine a relative strength of them.

To begin with, it could be noted that there are some specific features of Swedish politics/economy which make a radical reform more likely here. Sweden has had a long tradition of attaching at least some importance to other considerations than farm interests as evidenced by the existence of the Consumer Delegation and by the intentional import of a part of sugar consumption from developing countries. Moreover, as described earlier, a radical reform of agricultural policy had occurred also in the 60s. The 1967 reform was aiming at speeding up structural change. The logic of the reform was that a sizeable share of farm labour could be employed more gainfully elsewhere which would also improve the income of those remaining in the sector. Similar ideas were expressed in 1968 in the famous memorandum of Mansholt but were rejected in the EC (Neville-Rolfe, 1984).

It could be argued that both the existence of the Consumer Delegation and radical reforms are results of the fact that Swedish politics have been dominated by Social Democrats who do not rely on farm votes. However, Social Democrats were occasionally dependent on a support from a centrist agrarian party which benefited farmers. Weakening of the strategic position of the agrarians due to changing co-operation pattern in late 80s constituted a window of opportunity for a reform of agricultural policy.

Agricultural policy in Sweden was seen by the reformers coming from the Ministry of Finance as one of the structural problems of the Swedish economy. The reform can be directly linked with several other policy reforms, all of them in a market-oriented direction, within and outside agriculture. Those include removal of milk quota, reform of crop insurance system, tax reform, deregulation of credit market and several other commodity or service markets.

The cost of maintenance of an existing order is inversely related to the perceived legitimacy of the existing system (North, 1981). Declining legitimacy was doubtfully a major explanation why it was possible to reform the policy. Even the Federation of Swedish Farmers (LRF) accepted, albeit reluctantly, that agricultural policy had to be reformed. It seems highly probable that farmers would not give up that easy if the policy would have been more popular and the general public more sympathetically inclined. Moreover, all political parties, but the Greens who had remaining minor objections, even the agrarian Centre Party supported the main ideas. This indicates a belief by the politicians that the reform would be popular with voters. The loss of the legitimacy could be explained by the fact that the policy was repeatedly criticised in an open public debate involving numerous participants outside the traditional "iron triangle" of specialised politician, agricultural bureaucracy and pressure groups. Thereby, those groups have lost their agenda setting power. High and rising food prices contributed both to the consumer discontent with agricultural policy and to the concerns of policy makers about high inflationary pressures.

The reform was initiated by the Ministry of finance and managed by "outsiders" confirming an observation by A Winters (1995) that sectoral ministries will generally not be willing or able to run liberal trade policies. The clever organisation of the work on the reform and of the management of the process of arriving at the draft proposal which limited the access of pressure groups and implied an avoidance of early haggling about minor changes of the policy have certainly contributed to the success. Arriving at a consensus about "basic economics" of agricultural policy seems to have been important as well. The relevance of such a consensus should be seen in view of an investigation by Nilsson (1993), who has demonstrated that politicians often have wrong perceptions about how agricultural policy operates. Several members in both Standing Committee on Agriculture and Standing Committee on Finance of Swedish parliament believed, for instance, that lower grain prices would result in an *increased* application of fertiliser by farmers.

Even if some of the explanations above connect to idiosyncrasies of Swedish society it should be observed that Sweden has retained her liberal views on agricultural policies. After joining the EU, Sweden became one of the most ardent critics of the CAP. This indicates that the reform of 1990 was

not merely a result of favourable circumstances but that a long-term structural change in the societal preferences has taken place and that changes are also likely elsewhere. Several contributing factors could be distinguished. In particular, new stakeholders, especially environmentalists, have emerged and gained strength. A continuous decline in numbers of farmers has obvious implications for their political representation as well as for the relevance of farm incomes as a societal objective. Importance of farming for sustaining of rural regions has declined too. Much fewer of the consumers have relatives in the countryside implying a loss of a natural identification with farmers and agriculture.

As pointed out before, only limited lessons can be drawn from the implementation of the policy. Nevertheless some positive experiences can be identified. It was possible to remove several regulations and to *simplify* the agricultural policy considerably. In spite of somewhat sceptical attitude in advance, market agents managed to adjust smoothly. The new, market oriented system, became soon be quite popular. Spillovers of market oriented behaviour could be observed even in other parts of the food chain, which were only indirectly affected by the reform. Andersson (1992) observes that wholesalers changed their bargain strategy. Instead of accepting high food prices and bargain for various rebates (used in weekly advertisements campaigns) the level of prices became a subject for negotiations as well. This occurred when the semi-annual price reviews disappeared.

This paper focused on a case study of the reform of 1990. It is not easy to test a theory on a single case. Nevertheless, a short comment on the theory might be in place. Traditional pressure group model appears not to have much to offer when it comes to understanding agricultural policy reform(s) in Sweden. Without taking into account the legitimacy of the policy and within narrow framework which only focus on agricultural sector the reform appears incomprehensible.

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Personal communications:

Dockered Bo (leader of LRF), 2003

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