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THE BRIEF: *“Markets often take care of the interactions between agriculture and the environment. However, markets are partially or totally inefficient when “public” goods are involved. How can we estimate the value of particular public goods, in order to distinguish primary and secondary concerns? This is a particular difficulty in Europe, where civil society groups tend to have widely divergent opinions on such topics. How can we devolve operating (regulatory and budgetary) competences among local, national and European levels? What should be the architecture for the various Single Farm Payments?”*

Summary

Agriculture has been multifunctional since it was first practiced, producing food, feed, fibre and fuel and power. So what is new (if anything) is the use of the term and concept to justify continued support for farmers and farming. The conventional argument in favour of such support is articulated in the brief – markets fail in the presence of externalities and/or public goods – so government (public) support/intervention is necessary to correct these failures.

Markets fail because property rights are ill-defined or unprotected, and/or because the transactions costs (associated with the necessary negotiations and exchange between provider and beneficiaries) exceed the net benefits (surplus) generated by resolving the failure. However, if the government intervention does not, either directly or indirectly, resolve the transactions cost or property right problems, there is no reason to suppose that the intervention can be any better than the failure it seeks to remedy. In particular, there is no reason to suppose that uniform payments to farmers or farms (as with the current Single Farm Payments) can possibly reconcile the different interests of the providers of CARE (conservation, amenity, recreation and environmental) goods and services, with the ‘consumers’, (the beneficiaries and valuers of the public goods or externalities) effective demands for these services. This ‘solution’ to the multifunctional problem, however targeted by compliance conditions, simply side-steps the fundamental problem; it does not solve it.

Introduction

The term “multifunctional” appears to have been recently relegated to a more minor role in the rhetoric surrounding the Common Agricultural Policy. The term appears only once throughout the European Commission’s [web pages](#) which ‘explain the Common Agricultural Policy’, under the heading ‘promoting sustainable agriculture in a global environment’, where it is noted that “during the coming years the CAP will change further in order to continue to: (*inter alia*) support the multifunctional role of farmers as suppliers of public goods to society.”

The conventional argument in favour of such support is articulated in the brief – markets fail in the presence of externalities and/or public goods – so government (public) support/intervention is necessary to correct these failures. The reasons why markets fail are:

- i) Property rights are ill-defined – it is not clear who owns pretty landscapes or diverse wildlife, and hence it is difficult to identify the appropriate bargains between those who are capable of providing these goods and services and those who value their provision;
- ii) Transaction costs are prohibitive – the time and effort needed to include all the beneficiaries in negotiations to determine how much particular provisions are worth, and to collect the subscriptions and organize for the delivery with the providers, are just too great to be worthwhile.

Nevertheless, it is argued that people do generally value these conservation, amenity, recreation and environmental goods and services (CARE), which may also include particular cultural activities and characteristics of an agrarian society. These are valuable and worth paying for, lest they decline or disappear. Therefore, the conventional argument continues, it is worth paying farmers a supplement on top of their market returns to encourage the provision of these CARE goods and services.

The nature of Care (multifunctional services)¹

Careful consideration of multifunctionality quickly reveals that both the supplies of and the demands for the variety of different functions which agriculture, land management and land use both does and could generate are:

- i) spatially differentiated and highly specific to local conditions and practices;
- ii) highly dependent on current personal preferences and future aspirations on both the supply and demand sides;
- iii) in a continual condition of change and adaptation over time.

3 policy implications follow immediately from this consideration:

¹ These arguments are developed in Harvey, 2003, “Agri-environmental relationships and Multifunctionality: Further Considerations”, *World Economy*, 26 (5), May, 705 – 725.

- i) Uniform payments, authorized at the European or even national levels, cannot possibly match willingness to pay for multifunctional products of farming with the differentiated costs of their provision;
- ii) Attempts to identify and measure the social value of these attributes of agriculture will always be highly contestable and heavily dependent on the particular and local conditions under which measurement is undertaken, however sophisticated applied economic analysis becomes;
- iii) Attempts to provide such ‘political administrative’ solutions to the problem run very high risks of both failing to resolve the transactions and property right issues (and hence failing to solve the problem at all) and also of generating additional transaction and property right problems of their own – a double jeopardy.

We are in danger of repeating the mistakes of the past, though in a different guise. We have found that our original concerns about the security of our food supplies and the incomes of our farmers led us to develop and pursue policies which generated unsalable surpluses and higher cost farming, with little real effect on farm incomes. Now, perhaps, we are in equal danger of developing policies to provide for Care of the countryside which turn out to be both excessive in the amount of Care provided and the cost of its delivery, or fail to provide enough Care or the right types and mixes of Care.

In short, the answers to the questions posed in the brief are:

- i) *How can we estimate the value of particular public goods, in order to distinguish primary and secondary concerns?* We cannot, with any degree of confidence, general acceptability or consistency over space and time. Such estimates as can be made, however carefully, will always be highly conditional on the location, context and populations surveyed or examined, and cannot be relied upon to provide reliable and robust estimates of the values of care through time, especially if the estimation technique does not actually require respondents or participants to meet their bids and pay the costs of provision;
- ii) *How can we devolve operating (regulatory and budgetary) competences among local, national and European levels?* Again, we cannot design any ‘planned’ or administrative provision of appropriate levels of multifunctionality effectively and efficiently. There is no systematic framework which allows for this possibility. Nevertheless, there is little if any justification for financial co-responsibility for the provision of Care across the EU as a whole. If the Single Farm Payment, with its condition that land be maintained in Good Agricultural and Environmental Condition, is to be justified as a Care payment – then it should be regionally and nationally differentiated, and paid for (very largely) by those who benefit from the Care provision – typically the nationals of the country concerned. Multifunctional (Care) delivery is clearly local – even administrative regions in Europe exhibit a range of different socio-natural environments and habitats, so the provision of Care, and the costs of delivery, varies even within regions. Although the relevant demand can only be identified for a particular and specific package of local Care, it may well be expressed by more than local inhabitants, and include demand from both nationals and others. There is no necessary correspondence between administrative regions and the ‘markets’ for care, so there is no obvious regulatory or budgetary competence at any specific level in Europe. However, at least for supply, the

implication is that the local level is likely to be the most competent for delivery – though not, necessarily, for specification and payment.

- iii) *What should be the architecture for the various Single Farm Payments?* Given the previous answers, there is NO architecture available for administered Single Farm Payments which can hope to provide appropriate (socially optimal or even consistently acceptable) multifunctionality. Even at the most basic level, any given Single farm payment, even if specific to a single farm, can only be a second-best answer to the problem of Care provision, since even a single farm is capable of providing a range of multi-functional services. Certainly, there is no reason to suspect that the payments will be the same for all farms, even within a given region. Nor is there any reason to suppose that the payments necessary to secure the appropriate provision of Care from any farm will bear any relationship at all to the levels of support provided to these farms under the previous systems of commodity market support.

An Answer to Multi-functionality – the provision of CARE

There are, in fact, two major issues here: first, the *Care problem*: how to develop socio-political processes and procedures to deal with multifunctional farming and the provision of CARE goods and services; second, the *Dependency problem*: how to get there from here (from a system which has delivered, and, by implication, promised to go on delivering support to European farmers because they are European farmers).

Consider the *Dependency problem* first (see Harvey, 2004²). Single Farm Payments are the (final?) incarnation of a history of farm support within the EU, and encapsulate the benefits of this support to the European farm sector. Elimination of this support would, especially if done overnight, cause substantial problems for the current farm population, and is, as a consequence, very difficult for European politicians to contemplate, and also potentially very inefficient in terms of the additional adaptation and adjustment costs which such elimination would generate. Since farmers have taken production and investment decisions on the assumption that such payments would continue, they need the capacity to adjust and adapt to conditions in which they no longer exist. In short, they need and deserve some compensation/adjustment assistance for removal of support.

The cleanest, easiest and most efficient and effective way of providing this assistance, as well as the appropriate signals for the necessary adjustment, is the lump sum payment (CAP Bond³). The SFP, given the inability of the European Government to issue a Bond (or borrow money for a lump-sum compensation payment), is perhaps the closest practical alternative to the CAP Bond. In this sense, the SFP is best seen as compensation for the reduction (and eventual elimination?) of commodity or area based support. To dress this payment up as a payment for multi-functionality (Care) is to thoroughly confuse the issue.

If the SFP is actually compensation for elimination of market support, then it is necessarily finite. Not only are the individual payments limited, but also they should only be allowed to continue for long enough to provide the necessary adjustment assistance towards a free market. There is no long-term case for continued compensation. European Agriculture is

² “Policy Dependency and Reform: Economic gains versus political pains”, *Agricultural Economics*, 31 (2-3), December, 2004, 265 - 275

³ A. Swinbank and R. Tranter (eds): [A Bond Scheme for CAP Reform](#), CABI, 2004

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not inherently disadvantaged relative to international competition, and is perfectly capable of surviving and prospering alongside imports from elsewhere. Although there is clearly some public sympathy for arguments in favour of self-sufficiency – that our own supplies of food are more reliable, more deserving of support, of better quality and provenance than competing sources from elsewhere – the idea of self-sufficiency is actually self-defeating. No individual household is content to be self-sufficient, for the simple reason that they can be much better off trading what they are relatively good at for goods and services which would otherwise be very expensive in time and effort for it to provide for itself. The same logic applies exactly to localities, regions and countries. No doubt, the larger the community considered – up to the scope of the present European Union – the more opportunities there are for profitable trade within the borders, and (possibly) the smaller the gains to be made from extending trade beyond the community boundaries. But, even at this level, trade is still more sensible and sustainable than self-sufficiency, especially in a world faced with the prospect of feeding another 3bn people within 40 years. As societies and their markets become richer and more sophisticated, there are increasing opportunities for people to express and exercise their own preferences for local products and services, and more niches in which these activities can flourish. There is no longer any justification for supposing that European agriculture needs special treatment or support simply because it produces food (or feed, fibre and fuel). This logic says clearly that the SFP (as compensation) should be phased out. Since the present policy is only legitimized to 2013, it makes some sense to terminate the SFP at that date.

What about the *CARE problem*? Markets deal with ‘multifunctionality’ in both supply and demand far more effectively than any administrative system yet devised or conceived – markets are simply fantastic at organizing effective exchange: at collecting widely different individual valuations of goods and services and transmitting these to an almost equally wide variety of actual and potential suppliers, and matching the one with the other. Market failure is, then, a serious problem. Except, that is, where it is these markets themselves which ‘decide’ that the additional satisfaction to be gained from dealing with these failures simply does not warrant the extra effort and cost involved in internalizing the externalities, and collective organization of public goods. In this sense, ‘market failure’ is the wrong label – the market doesn’t fail as such, it simply says that the effort to deal with the issues is not worthwhile. But, if the transactions costs can be reduced – encouraging those willing to pay for the various functions of farming to pay for the services of farmers and land users – then we could expect satisfactory quasi-market solutions.

How might we do this? By encouraging voluntary organizations (Conservation, Amenity and Recreation Trusts, CARTS⁴) to elicit and collect consumer and constituent willingness to pay for particular packages of multifunctionality in specific places, and for them to organize the delivery from farmers and land users. But, surely, this approach is already available? It is already being used, as a prime example, by the British Royal Society for the Protection of Birds, but not to a sufficient extent. Why not? For two major reasons: first, the free rider problem – too many people chose to free ride on the rather small provision generated by voluntary action; second, the Dependency problem (above) – people have got used to governments being the vehicle through which these problems are solved, and have yet to grow accustomed to thinking and acting for themselves through charitable trusts and voluntary action.

⁴ Dwyer, J.C. and Hodge, I, *Countryside in Trust*, Wiley, 1994.

The first of these problems is relatively simple to overcome – simply estimate the extent of the free-rider problem: is it likely to lead to a 50% underfunding, or 80% or 100%, of the CARE services? Then provide from the public purse a grant-in-aid payment to each of the trusts to make good the free-rider shortfall. The only administrative effort necessary would be an ombudsman/auditor function to make sure that the trusts so aided were legitimate Care providers. Incidentally, this approach could also be used to allow for the ‘merit’ good arguments in favour of support for multifunctionality⁵.

The second problem, dependency, is much more difficult, as any addict well knows. A radical solution might be to allow all voluntary contributions to be fully tax-deductible (to be allowed as deductions from tax owed), to encourage people to act for themselves, rather than relying on government to do the job. However, further consideration of this approach quickly leads to the obvious possibilities of ‘excessive’ voluntary contributions, merely to avoid paying any tax at all. Clearly there would need to be upper limits to tax deductibility, if this approach to government organization of collective good provision remains limited to multifunctional services, rather than extend to many other forms of present government activity.

Of course, this is a radical departure from our present systems of governance. It is clearly widely believed that ‘farming is different’, and is ‘more than economics’ – that it is far too important to be left entirely to the market. Farming is, according to this belief, necessarily and inherently political, demanding and requiring specific political treatment (and support) “reflecting the expectations of society as a whole”⁶. The problem can be re-stated as one of questioning the competence of our political systems to take collective decisions on our (the constituents) behalf. In so doing, it is clear that an alternative which offers release from the political straightjacket, or threatens to eliminate the politics, depending on one’s point of view, is likely to raise considerable opposition – we have grown dependent on our politics to take decisions for us when private action does not deliver what we want. And, because of this dependency, we do not easily appreciate or welcome suggestions that our reliance is misplaced and that there are potential alternatives. Fear or mistrust of novel ideas may also play a part in a natural antipathy towards radical suggestions.

Furthermore, it is clear that people, and even ‘countries’, show different levels of respect and trust for their present political machinery. Those who hold present political machines in high regard can see no point in questioning their ability to deliver and implement the ‘right and proper’ balance of multifunctional activities, structures, goods and services. These people, and countries, therefore, see no reason to question the capacity and competence of their political machinery, and see no reason why SFPs cannot and should not be used to pay farmers to deliver the Care that society wants, which, in turn, will be perfectly adequately determined and delivered through the conventional political machines. For such people, the conventional justification for continued SFPs, appropriately targeted and conditional on delivery of multi-functionality and Care, is more than adequate.

⁵ Merit goods are frequently confused with public goods, but are different. Merit goods (and services) are those which society judges to be too important to be left to the market to provide, since markets work according to willingness to pay, disadvantaging those who are poor and not able to pay. Classic examples are health and education, and (sometimes) access to justice.

⁶ As one discussant remarked.

Of course, these people (and countries) should rationally expect some opposition – which might well claim that the levels of care provision and the costs of delivery are not properly determined through the present political systems. Voters are too inclined to spend other peoples' money, political interest groups are more extreme in their views and demands than the general constituencies, small but coherent groups and organizations (farmers, wildlife enthusiasts) can be more politically influential than large and more incoherent groups (citizens, consumers, constituents), whose members are affected relatively marginally by any action or policy. Administrators are neither providers of care, nor direct beneficiaries of the provision. As such, they have little incentive or competence, other than bureaucratic efficiency and organization, to monitor constituents' demands for care and providers' capacities, especially at highly differentiated local levels.

Furthermore, it seems likely that the world faces the prospect of increasing real prices for both food and fuel, as it seeks to continue growth to feed a still growing population, and provide them with more decent standards of living. As this happens, so the appropriate trade-offs between care and production will change. Bureaucracies are not well known for responding effectively or rapidly to changing circumstances and priorities, running the substantial risk of delaying response and exacerbating inappropriate, and possibly counterproductive activities.

However, notwithstanding these arguments, there is little doubt that many countries will not be willing to release agricultural multi-functionality to the uncertain and apparently uncontrollable quasi-market place of competing trusts. Nevertheless, there can be little dispute that financial co-responsibility across the European Union for payment for care – the sole justification for the successors to SFPs – is no longer justified and should be eliminated, to bring the “CAP” into line with other European policies, which all require co-financing by member states⁷. The demand for care is largely (though not entirely) confined within national boundaries and does not (except in rare cases) extend throughout the Union. Even when it does, it also extends beyond the Union's boundaries. Member states should be largely left to their own devices to service their demand for care, subject only to the competition policies of the EU. There is very little justification for a Europe-wide policy on this provision, still less for European funding.

Conclusions

Farming has been multifunctional - producing many different things people want and are willing to pay for - ever since it was first practiced by our ancestors. Furthermore, markets are the best device we have yet invented to solve multifunctional problems – after all, what is more multifunctional than having a life or earning a living? Attempts to solve the problem of agricultural multifunctionality through administration and Government are very likely to produce both inefficient and ineffective answers.

Yet it seems likely that the Single Farm Payment will evolve into a targeted payment to farmers for their multifunctional services – their Care provision. As it does so, the

⁷ See Harvey, D. R., “The EU Budget and the CAP: An Agenda for the review?”, *EuroChoices*, 5 (1), 22 – 27, 2006. As a consequence of the elimination of financial co-responsibility, the UK would, of course, be expected to give up her claim to the special rebate.

justification for financial co-responsibility for the policy disappears – member states should pay for (and define, design and implement) their own Care programmes, as they see fit, since uniform, pan-European definition and design is necessarily and inherently beyond the competence of the European Union, simply because of the differentiated nature of Care provision and demand.

Once Care is made a national rather than an EU responsibility, there is no logical reason why individual member states should not be able to adopt different approaches and solutions, including the possibility of delegating organization of provision to Conservation, Amenity and Recreation Trusts (CARTs). Indeed, competition between member states over how to provide for appropriate levels of Care should be expected to identify those approaches and systems which are ‘best fitted’ to the local conditions and aspirations.

The EU role in such a system would then be confined to: regulating competition between member states, to ensure that states do not seek to distort competition in food, feed, fibre and fuel markets; promoting economic development, including rural development; promoting cohesion between regions; promoting R&D to develop and expand the potential of European agriculture and land as multi-productive resources.