

Is diversification desirable?

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Is diversification desirable?

- At farm level there is much evidence that diversification of economic activities is desirable
 - new sources of income can augment otherwise stagnating agrarian incomes.
 - farm households are less dependent on sectoral fluctuations.
 - job satisfaction on diversified farms is quite often higher than on specialized farms
 - Due to more frequent and intensive contacts with consumers / customers multifunctional farmers are better able to adapt to changing consumer and societal demands (active vs. passive/reluctant attitude)



Is diversification desirable?

- More interaction with local community and collaborations with local entrepreneurs → enhances social capital and strengthens local economy
- But ... very successful multifunctional farms that attract a lot of visitors are sometimes criticized / boycotted / hampered by (members of) the local community
- Multifunctional farms are confronted with competing policy objectives and have to deal with a high administrative burden



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Is diversification desirable?

■ Diversification at regional level

- Diversified regions can provide a desirable living and working environment due to the proximity of different products and services. This, in return, can maintain or improve the quality of life in rural regions.
- Greater regional diversity leads to greater regional economic stability as fluctuations in incomes and employment opportunities diminish because downturns in sectoral economies have a much less disastrous impact on a diversified economy than on a specialized one. A conclusion that was drawn as early as 1930 by McClaughlin (1930:133): "... *since no two businesses have exactly the same seasonal and cyclical swings, the more types of production and trade are represented, the more stable will be that community's business*".



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Is diversification desirable?

- Advantage of economies of scale: costs of joint production of different products and/or services are lower than the sum of specialized production of the same products and services
- But ... the assessment of performance (in terms of competitiveness and quality of life) generates a series of problems. Wine routes for instance are very successful. However, due to their success, land prices are increasing quickly and substantially. This implies that for some people it might become too expensive to continue living in the area. In short: new contradictions are emerging. An increase in the quality of life for some might imply a decrease for others.
- And ... from a 'district' or 'learning regions' perspective too much diversification may also be counterproductive in terms of innovation, regional competitiveness and economic development