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Policies for sustainable food economies

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Rationale

The way the food system is **governed** also contributes to its **lack** of **sustainability** and **resilience**. Sustainable food economies need new policies that are **coherent** across different **levels** and **scales**, **reflexive** and **adaptive**, that is, that actively acknowledge and help solve unsustainable **lock-ins**.

Overview

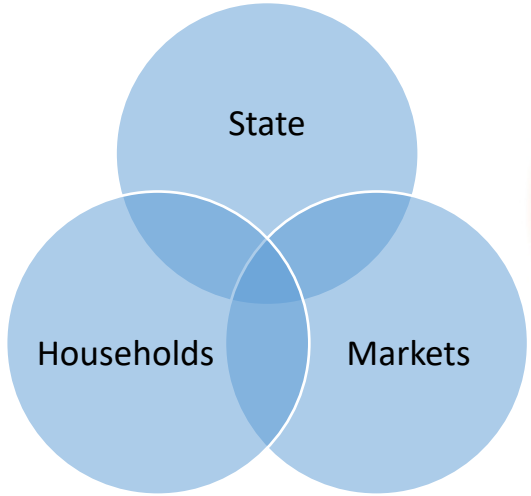
A priori

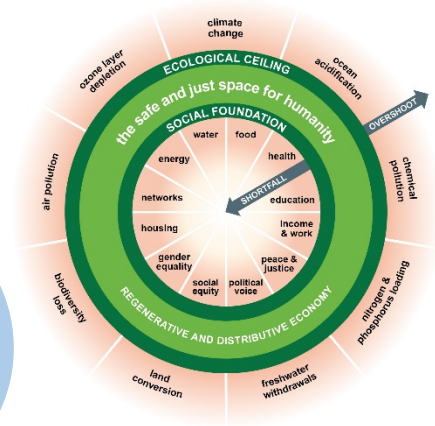
1. Theoretical considerations
2. The Common Agricultural Policy
3. Towards a Common Food Policy?

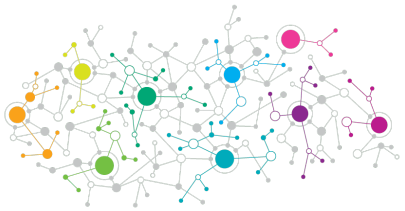
Level		Frequency (years)	Purpose
L1	Embeddedness: informal institutions, customs, traditions, norms religion	10^2 to 10^3	Often noncalculative; spontaneous (caveat: see discussion in text)
L2	Institutional environment: formal rules of the game—esp. property (polity, judiciary, bureaucracy)	10 to 10^2	Get the institutional environment right. 1st order economizing
L3	Governance: play of the game —esp. contract (aligning governance structures with transactions)	1 to 10	Get the governance structures right. 2nd order economizing
L4	Resource allocation and employment (prices and quantities; incentive alignment)	continuous	Get the marginal conditions right. 3rd order economizing

L1: social theory
L2: economics of property rights/positive political theory
L3: transaction cost economics
L4: neoclassical economics/agency theory

Figure 1. Economics of Institutions

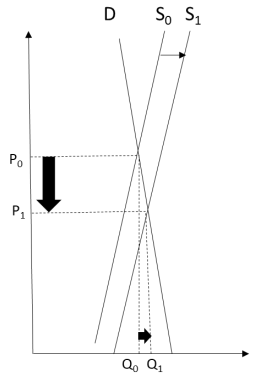






Markets

Markets



Source: Williamson, O.E., 2000, The New Institutional Economics: Taking Stock, Looking Ahead, JEL

Part 1: Theoretical considerations

Approaches to policy making

Economic approach:

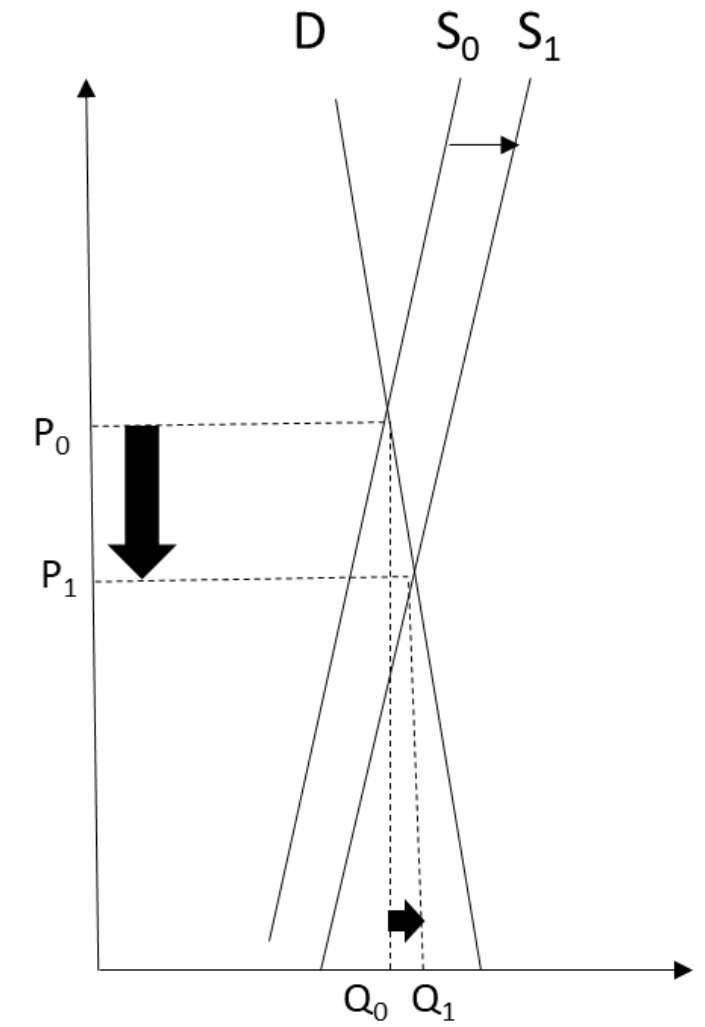
- Perfect market as ideal of the market economy
- Produces highest overall welfare
- Corrections may be needed because of unequal endowments and consequences
- Corrections through redistribution with minimal market distortion (lump sum)

Political approach:

- Groups have certain (financial and non-financial) interests
- Groups lobby for power
- Policy is based on relative power of lobby groups and their coalitions
- Politicians make choices to maximize re-election (so democratic procedures matter!)
- Iron triangle: politicians, administration & interest groups

Economic approach

- Price as signal for relative **scarcity** of a product
- Works when suppliers and buyers **reveal** their **preferences**
- Any **intervention** that distorts the price mechanism, distorts the functioning of the market, leading to an overall **loss** of welfare



Perfect competition

Four core assumptions:

1. Numerous buyers and sellers (atomicity)
2. Product homogeneity
3. Perfect information
4. Freedom of entry and exit

Additional assumptions:

5. Non-increasing returns to scale
6. Economically rational sellers and buyers
7. No transaction costs
8. No externalities
9. No public goods
10. Property rights assigned

Overview

Policy problem 1: Low and instable farmer incomes - returns for production factors and investment not appropriate for farmers

Policy problem 2: Resource overexploitation and pollution - nature is not sufficiently considered an actor, and thus not compensated

Policy problem 3: Inappropriate consumption - consumer is considered to be outside of value chains, taking ‘sovereign’ but ‘wrong’ decisions, leading to undesired outcomes

Problem 1: “Farmer squeeze”

- Too few suppliers of input & buyers too output exert market power
  - ➢No solid empirical evidence for misuses of market power; very context specific, anecdotal – market power is confused with power of the market
- Externalities not internalised by non-EU farmers
  - ➢WTO rules do not allow for consideration of production standards
- Transaction costs too high (uncertainty, perishability, coordination)
  - ➢Insufficient collaboration between farmers
- Economically irrational behaviour of farmers
  - ➢Reduced factor mobility (farming as way of life)

Problem 2: “Nature squeeze”

- Oversupply of negative externalities
  - No property rights assigned to nature (tragedy of the commons)
  - Insufficient internalisation of externalities (standards not high enough, no true cost accounting, insufficient environmental taxation and/or cap-and-trade mechanisms)
- Undersupply of public goods: no market
  - Ineffective schemes or insufficient uptake of schemes

Problem 3: “Consumer squeeze”

- Too few suppliers of input & buyers too output exert market power
  - No solid empirical evidence for misuses of market power; very context dependent, anecdotal
  - Increasing evidence of incluence of the “food environment”
- Economically irrational consumer behaviour
  - Increasing evidence of incluence of the “food environment” (influence of the choice architecture luring consumers into inappropriate choices)

Part 2: The Common Agricultural Policy

Problem 1: The farmer squeeze

- CAP uses mainly redistributive policies:
  - minimum prices for selected products before 1992 → direct income support
- CAP has several enabling policies, but with limited uptake:
  - stimulation of producer and branch organisations (but: double marginalisation; vertical coordination underplayed)
  - stimulation of innovation, diversification and differentiation (organic, GI, short supply chains)
  - capacity building (rural development programmes)
- Regulating policies of CAP are weak
  - unfair trading practices (vertical coordination underplayed)
  - market transparency

Problem 2: Nature squeeze

- Several enabling policies are used, but ineffective/insufficient
  - stimulation of agri-environmental programmes, organic
  - current CAP: greening / new CAP: ecoschemes
  - insufficient synergy with private sector initiatives (private standards)
- Regulating policies exist but are too weak or insufficiently enforced
  - environmental directives (Nitrate, Habitat, Birds, …)
  - production standards (IPM,…)

Problem 3: Consumer squeeze

- Limited amount of enabling policies:
  - stimulation of school fruit and milk
  - no incentivization of consumers (=national policy)
- Regulating policies
  - regulation of advertisement targeted at children (other aspects of food environment left untouched)

Part 3: Towards a Common Food Policy?

Framework: five principles for food system governance arrangements.

Principles	Challenges	Indicators
System-based problem framing	To deal with interlinked issues, drivers, and feedback loops	- beyond one dimensional problem definition - feed-back mechanisms - integrative narrative - room for reflexivity
Boundary-spanning structures	To organise connectivity across boundaries of sub-systems involved	- interactions across levels and sectors - spanning siloed governance structures - public-private partnerships
Adaptability	To respond flexibly to inherent uncertainties and volatility in non-linear systems	- monitoring systems - decentralisation and self-organisation - flexibility - learning while doing
Inclusiveness	To involve actors who are affected by the problem and the proposed policies	- involvement of marginalized voices - social differentiation amongst participants - involvement of local communities and networks
Transformative capacity	To overcome path dependencies and create adequate conditions to foster structural change	- addressing path dependencies and lock-ins - leadership - resources - political will

Source: Termeer et al. (2018)

Principle 1: System-based problem formulation

Acknowledge interconnectedness, as separate actions leads to ineffective outcomes, inconsistencies and even unintended consequences

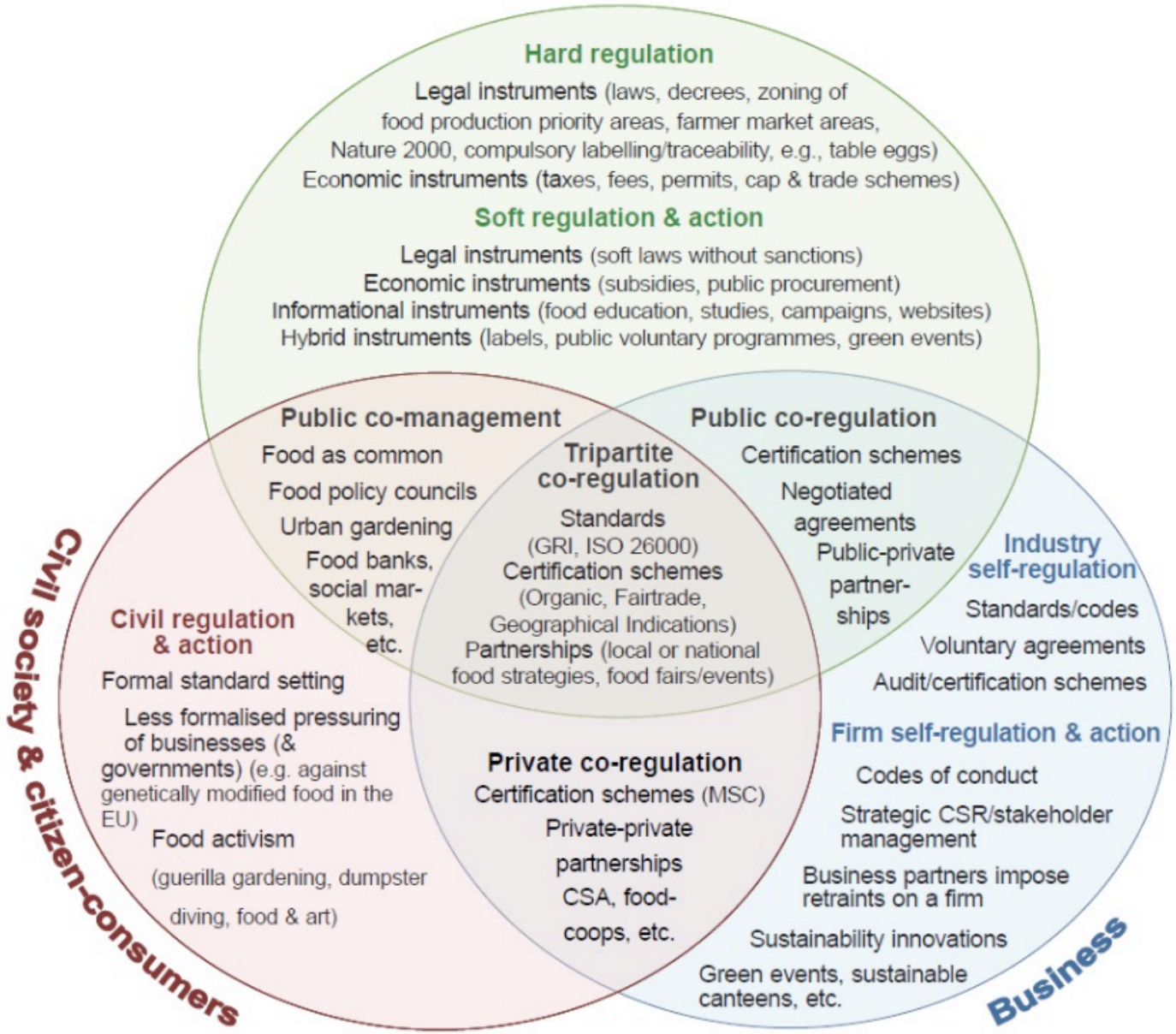
- Support to beef farmers ↔ recommendation to reduce beef consumption
- Leakage effects: support to farmers “leaks away” in the form of higher input and land prices
- Support for biomass for electricity ↔ soil organic matter
- Systems-based impact assessment of policies

Source: iPES Food, 2019

Principle 2: Boundary-spanning structures

Connect and coordinate silos within the policy arena but also in other arenas

- New CAP as joint responsibilty of DG AGRI, ENVI and SANTE
- Combine different logics: AGRI (sectoral), ENVU (territorial) and SANTE (consumer)
- Build on synergies of different actors (e.g., consider retail as partner instead of as enemy)



Source: Jackson et al. (2020)

Principle 3: Adaptability

Allow for decentralisation, self-organisation and flexibility

- Integrated approach towards regulations and farm inspections from different policy domains
- Reduce red tape (particularly monitoring and control schemes)
- Farmers do not take up measures as they contrain their flexibility (hedge rows, landscape elements)

Candel et al. (2020)

Principle 4: Inclusiveness

Involve actors who are affected by the problem and the proposed policies

- Address issue of (lack of) resources for lobbying and representation
- Include marginalised voices

Principle 5: Transformative capacity

Overcome path dependencies and lock-ins

- Find the right balance between protection (robustness) and innovation (adaptability and transformability)
- Too much resources for protection (existing paths) disincentivizes innovation and adaptation
- Requires more ambidexterity (ability to do both well) from policy makers but also from sector organisations

Untouched issues

- What kind of organisational form should be stimulated/discouraged? Family or corporate farming, small or large, individual or collective
- What kind of production practices should be stimulated/discouraged?
- What level of globalisation/localisation (so food self-sufficiency) should be pursued?
- …

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