**Economic and Policy Conditions Necessary to Foster Sustainable Farming and Food Systems:**

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**We asked to address four areas:**

**(1) The economic and policy conditions necessary to foster sustainable food and farm systems.**

**(2) The policy lessons and models from Europe and other countries that might help the Committee frame issues.**

**(3) Alternative agriculture and the value chain—making alternative agriculture successful in today’s economic structure; and, if time permits.**

**(4) The financial aspects of sustainable practices in the Midwest.**

**We will attempt to do this by organizing my remarks and Power Point slides according to the following topical outline:**

**• Alternative visions agriculture**

**• Policy options to support the sustainable agriculture vision**

**• Economic and related conditions affecting farming and food systems**

**• Value chain issues in fostering ecological farming systems**

**• Economic competitiveness of ecological farming systems**

**• More on economics of organic agriculture**

**A list of the major articles and reports used in preparing these remarks appears at the end of this written testimony. Many other sources drawn on indirectly are listed in the respective reference sections of those articles and reports.**

**Policy proposals for a nation’s food and farming system always rest on some vision for the system, whether or not the analyst or advocate recognizes that vision explicitly. Although there are many competing visions for the future of agriculture at this time, most of the visions underlying proposals for a new farm—originally to be enacted into law in fit roughly into one of the following two categories:**

* **The global competitiveness vision—the recurring theme of policies proposed by those with this vision is maintaining and strengthening the competitiveness of agriculture in international markets. Individuals and organizations with this view have advocated agricultural policies intended to provide bases for successful resumption of World Trade.**

**Organization (WTO) negotiations under the current Doha Round. They also want agriculture to be on a strong footing to compete in an environment with reduced trade barriers and market distortions worldwide. This is an export-oriented vision, based on comparative advantage economic theory. Often implied in this vision is a agricultural system based on high-input, high-yield production of‘commodity’ crops.**

**The sustainable agriculture vision—This vision is more inward looking than the global competitiveness vision. The primary concerns of individuals and groups with this version are environmental quality, ecological sustainability, and the economic viability of small and moderate-sized family farms. Policy advocates with this vision are not anti-trade’, but they place greater emphasis on the ‘Jeffersonian’ idea of a nation populated by independent family farms and on natural resource use that is sustainable for the indefinite future. This vision has evolved in recent years to be very similar to the European Union multifunctionality view of agriculture healthy food has taken on much greater importance in this vision in recent years.**

* **Policy options to support the sustainable agriculture vision my concern in this presentation will be with the sustainable agriculture vision. This does not imply that policies cannot sometimes support both visions. Groups representing both of these alternative visions of agriculture have advocated similar reforms in the system of ‘commodity supports’ in the new farm bill. (It does not appear that those commodity program reforms will be adopted at this time, however).**
* **Policy options to support sustainable agriculture can be grouped in four categories:**

1. **Regulatory policies**
2. **Environmental compliance measures tied to agricultural and energy subsidies.**
3. **Environmental stewardship payments.**
4. **Markets for environmental services (‘payments for environmental services’)**

**We will briefly discuss each of these types of policies in terms of their roles in encouraging the adoption of more sustainable agricultural systems. Most of my focus will be on what it will take to induce more farmers to adopt biologically diverse farming systems—organic and other ecologically integrated systems.**

**The first step up from chemical intensive systems with little or no biological diversity are systems that incorporate somewhat more sustainable practices, such as reduced or minimum tillage or better fertilizer timing and placement. These practices can make particular farming systems—such as the Midwest corn/soybean system—more sustainable, or less unsustainable. However, it is very questionable whether systems that do not contain considerable biological diversity can keep agriculture in any given agro-climatic region truly ecologically sustainable over the long term. Therefore, I believe the challenge Systems Agricultural is to chart paths to achievement of whole systemschanges, in other words, transitions to much greater use of ecologically integrated systems.**

**Farmers weigh many *goals* in their choices of farming systems. However, especially relevant for policy analysis purposes are their net income (profit), risk reduction, and natural resource stewardship goals. Therefore, we need to keep those goals foremost in our minds as we assess different policy options. Various economic and related conditions—what I call contextual factors—condition the effectiveness of policy options. Foremost among these contextual factors are prices and access to markets, available technologies, the structure of agriculture, and the current stock of social and**

**human capital.**

**We probably now are at a juncture where we need to seriously consider the use of more regulations for control of some types of agricultural negative externalities. Failure**

* **The conceptual framework for analyzing the impacts of public policies on agricultural sustainability that we are using is depicted in Power Point slide number]to make large livestock systems pay their own costs of complying regulations was a major policy mistake, in my view. There may be other areas where we should also make somewhat greater use of regulations away from cost-share policies for nitrate contamination, and now relies on regulatory measures.**
* **Environmental compliance measures. The environmental cross-compliance provisions of the farm bill have been valuable for helping induce adoption of some agricultural *practices* that reduce negative externalities and enhance natural capital. However, they are not comprehensive enough to induce *system* changes that would retain or bring about much greater biodiversity. The partial, but important, ‘decoupling’ of commodity subsidies in the farms did facilitate a movement of farmers away from continuous corn, where that practice remained, to the already widely practiced corn/soybean system. Although hardly diverse, the corn/soybean system is much preferable ecologically to continuous corn. With very high corn prices the last couple of years, however, we have seen some movement back to corn-following-corn.**
* **There may be other ecological diversity minimums in other parts of the country that should be added to our Federal farm bill compliance provisions. Environmental stewardship payments. In contrast to regulatory measures, which are based on the ‘polluter pays’ principal, environmental stewardship payments, implicitly at least, are based on the ‘provider gets’ principal. In other works, providers of good environmental stewardship get rewarded. In reality, however, ‘good’ and ‘bad’ stewardship are really points along a continuum. Stated another way, the line that separates ‘positive’ from ‘negative’ externalities are subjective. Economics alone cannot specify that line. What deserves to be regulated and what deserves to be rewarded are up to societal decisions. Economics and other sciences, however, can help greatly in understanding the consequences of practical distinctions and associated policy responses.**

**The predominant approach to promoting greater ecological sustainability in agriculture up to now has consisted of environmental stewardship payments in various forms. The latest such stewardship payment program of conceptual significance is the Conservation Security Program (CSP), introduced as part the farm.**