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Economics, Policy, and Organic Agriculture

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In the last couple of decades, several social scientists have claimed that organic agriculture is a phenomenon so special, that special methods and theories are needed to explain the existence and subsequent evolution. It's crucial to examine the claim prior to policy recommendations. In the COP project, we have thus done so from the point of view of economic science.

Is organic agriculture special in an economic sense? The question can be divided into at least two sub-questions concerning agriculture in general and organic agriculture in particular:

- Is *agriculture* special? I.e. does agriculture fundamentally differ from other productive activities in society and hence imply special addressing concerning policies?
- Is *organic* agriculture special? I.e. are there any reasons to expect organic agents (including consumers) to act and react based on different mechanisms than agents related to agriculture in general?

Photo: Organic Denmark

Is agriculture special?

In the history of economic thought the answer has most often been affirmative. The affirmative answer was the key to the evolution of a special branch of economics under the headline "agricultural economics". Roughly speaking, the contributions in agricultural economics until the 1960s underlined two major characteristics:

- Agricultural production is special due to the obvious biological dependencies (including land as a necessary productive factor) for instance implying a long time-lag between the production decisions and the productive output. This implies a risk of what seems to be absurd responses to market signals (so-called pervert market reactions).
- Agriculturalists (farmers) are special agents first of all because they consider farming a way of living. The family is attached to the land/the place and the family labor force is rather fixed. This implies that the agriculturists do not react as capitalists aiming at optimizing pecuniary outcome but rather as agents optimizing family welfare.

Hence, focus was on special reactions from farmers (output reactions other than expected from general economics). Policy considerations among theorists were somehow limited; until around 1930 neoclassical economists in general had the same attitude towards social economy as meteorologists towards the weather: you can register how it evolves but you can't do anything to change it. However, the crisis of the early 1930s drew attention to policy considerations connected to crisis management. General macro policy considerations

Photo: Organic Denmark

did then influence agricultural economics and thus economic theoretical analysis of agricultural policy; but these considerations did only address the question of how to construct policies to counteract negative influence from general business cycles.

From the 1960s most economists conceptualized the agricultural problems (farmers realizing themselves in an increasing incomes squeeze) as temporary and caused by protectionism and outdated ways of production in the farming sector. Hence adequate policy would imply more effective (liberalized) markets and/or governmental programs giving incentives to technological innovations and modernization (i.e. industrialization) of farms. In other words, focus was only on the supply side and agricultural policy was subsequently only seen as a question of making supply side able to maximize quantity produced. In this line agricultural policies should be designed to assist farmers in switching to industrial technology and maximize output.

Satiety and the treadmill

However, a few agricultural economists contested the mainstream analysis and pointed out that demand-side should be included in the analysis too. This inclusion did reveal that the farmers' incomes problems couldn't be seen as temporary only. The argumentation was linked to satiety: In the rich part of the world consumers were unable to eat more; besides, the increase of population was almost zero. Linked to the limits of the human capacity to digest the implication was that effective demand was almost stable. An increase in output would then lead to a dramatic decrease in prices. It was also demonstrated that the provision of subsidies to farmers would increase agricultural output (by means of industrial technology) and hence further decrease market prices. The subsequent social trap was labeled as "the agricultural treadmill".

From these agricultural economists the policy recommendations were the opposite of the mainstream: slow down industrialization of farming and thus the speed of the agricultural treadmill. From such a policy society would benefit due to a decreasing amount of agricultural subsidies and a decreasing depreciation of environment.

Mainstream and pluralism

Roughly speaking, policy considerations within contemporary agricultural economics consist of two positions:

Mainstream:

Focus on supply side and conceptualizing farmers' incomes squeeze as temporary. Policy means are primarily seen as ways of making farmers more effective and/or making markets work more effective (liberalization).

Pluralistic:

Focus on both supply and demand side and conceptualizing farmers' incomes squeeze in industrial and postindustrial economies as permanent. Policy means are to some degree seen as ways of avoiding pacing the agricultural treadmill and to find alternative ways of agricultural revenue (multi functionality).

Is organic agriculture special?

In an immediate sense the answer is off course affirmative. Organic agriculture implies a certain technology relying more on biological mechanisms - which on the other hand is the original farming technology! From an economic point of view the question is whether the general lines of function (patterns of reaction among agents, sectoral evolution and development, etc) are special. New research suggests that the organic sector can only be conceptualized and understood in the general social context (time and space). If the organic sector is only analyzed isolated from the context and as something independent of general social context, it will lead to insufficient and in worst case wrong understandings of the sector and thus to inadequate policies.

Further reading

Organic Eprints

The Global Organic Food Market and Transformation

The Evolution of Organic Agriculture in Denmark

Internet links

Economics, Business and Politics website

DARCOF III website

Website for the research project "Comparetive Organic Policy (COP):

www.cop.elr.dk/uk