

# Non-Trade Concerns in Agricultural and Environmental Economics: How J.R. Commons and Karl Polanyi can help us?

**Denis BARTHELEMY**  
Directeur de Recherche  
Département SAE2  
INRA, UR 1217, F-94205 Ivry-sur Seine  
barthelemy@ivry.inra.fr  
<http://www.ivry.inra.fr/mona/Membres.html>



**Martino NIEDDU**  
Maître de Conférences  
Laboratoire ESSAI/OMI  
Université de Reims  
57 bis rue Pierre Taittinger, 51096 Reims Cedex  
martino.nieddu@univ-reims.fr



## Introduction:

Some of conflict around agriculture in the World Trade Organisation is focused on Non Trade Concerns (NTCs). In the first section of this paper, we present how the OECD connects these NTCs to the notion of multifunctionality and tries to promote its own “positive” approach. In the second section, we use J.R. Commons’s conception to propose a specific interpretation of the OECD’s position. This position implicitly constitutes a particular institutionalist practise aimed to reduce the multifunctionality of agriculture, while proposing recourse to the market as an “organising social order”. But, in a Commonsian view, trade and non trade outputs result from the same institutional process, and therefore may not be analytically separated. In the third section, we use Polanyi’s framework to suggest that NTCs cannot be considered as “non economic” items, but belong to “substantive economy” where they take place with their own regulation, resource-allocation decisions, and non market price system and in opposition and complementarity to market economy.

## From agricultural market liberalisation to multifunctionality

1. In the 1980s states, apparently, gave a single goal to agricultural policy: liberalize trade in agricultural products, making a substantial and progressive reduction in support and protection (Daugbjerg and Studsgaard 2005). Since the early 1990s, societal objectives have started to be explicitly considered with measures like “greening the agricultural policy” in Industrial Societies (Larkin 1995; Laurent and Bowler 1997). Moreover, the 1994 Uruguay Round Agreement on Agriculture (URAA), article 20, encouraged WTO member countries to “take into account... non-trade concerns” and introduced the concept of multifunctionality. Multifunctionality means to produce several outputs at the same time. Thereby economists recognized that economic policies may include legitimate domestic objectives such as preserving family farms and rural landscapes or ensuring food safety, food security, and animal welfare.<sup>1</sup> These concerns reflect a fear that free market expansion and globalization may undermine the provision of valued non-market amenities and cultural traditions associated with agriculture.

2. The OECD (2001) defined agricultural multifunctionality and proposed a guideline to analyse it in a document prepared in close connection with members of the agricultural and environmental economics mainstream.<sup>2</sup> We wish to underline the two following points of this approach, which will subsequently be discussed.

a- The definition retained by OECD (2001, 14) lets it be known that societal objectives are treated “in the context of empirical works”, wherein multifunctionality seems to be a natural

and objective characteristic of certain economic activities, whose feature is jointness in production of commodities and non-commodities outputs. Therefore, sources of *legitimate jointness* are described as resulting from irreducible technological interdependencies, or the presence of non-allocable input or allocable fixed factors, what OECD calls multifunctionality's "positive definition". Other sources of jointness –social organisation, firm's boundaries, cultural tradition...- would be considered as "normative" ones, resulting from political choices and therefore less legitimate.

b- Jointness between production outputs induces market failures. The OECD's ideal multifunctional situation is that non-commodities outputs would be private goods, what would give rise to specific markets ensuring efficiency in resource uses. Unfortunately "bad market goods" do exist, for instance in case of "public goods". The OECD's problem becomes *how to minimize public intervention*, and "possible policy failures associated with incorrect estimation of the demand of public goods" (OECD 2001, 20).<sup>3</sup> To solve it, the OECD proposes to divide the different aspects of "bad market goods". In this manner, it attempts to find a way for marketing some of them, for instance by separating use values and non-use values of the same public good, in the hope that market exclusion mechanisms may be instituted.<sup>4</sup>

### **An implicit institutional constructivism**

3. The OECD-recommended method attempts to make agriculture *the least multifunctional* possible. Furthermore, we must point out that this method needs to use an underground institutionalist method (Barthélemy and Nieddu 2004). In this, we may recognise Commons's point of view, according to which markets are instituted. It allows us to criticize both sides of the position held by OECD and economic mainstream in this field.

a- The OECD's division between technical and political jointness is grounded in the belief that technical aspects could be considered by themselves determinant in the conception of something as a commodity. Commons's Reasonable Value is clearly built up in opposition to the mainstream conception of Natural Value. "...The ultimate unit of activity ... correlates law, economics and ethics" (Commons [1934] 1990, 58). Therefore the technical dimension of an economical object may not be considered independently from property definition.<sup>5</sup> Discussing materiality or immateriality of objects, Commons (652) lets us see that the later aspect does not have economic meaning without the collective (judicial) decision to connect it with property determination. To take a basic example, jointness between hog production and negative environmental externalities did not economically exist before social damage was politically and judicially recognized.

b- The relationship between private and public interest is not solely to be seen as an opposition. Although private interest may give rise to market individual efficiency, it always remains connected with collective efficiency. "Each economic transaction is a process of joint valuation by participants, wherein each is moved by diversity of interests, by dependence upon the others, and by the working rules which, for the time being, require conformity of transactions to collective action" (Commons [1934] 1990, 681). Market value can only appear after the market is instituted as the reasonable solution, given the context and time, to carry out the allocation of resources and goods among individual participants: "Commons viewed the choice of an appropriate institutional structure as the product of 'inescapable' societal value choices" (Schweikhardt 1988: 410). "...the will of the individual is the collective will in action. His private purposes are public purposes to the extent that 'the public' through the determining power of its instruments... bring the collective power to his aid..." (Commons [1924] 1995, 365). The OECD and mainstream neo-classical economists arguments look quite paradoxical in as much as they irreducibly oppose individual and public purposes, market and public goods, and promote the former when at the same time their propositions require collective action.

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4. The OECD and mainstream economic<sup>6</sup> position cannot be analyzed as a pure method of market coordination and allocation, but as a method which seeks to *institute* a specific economic regime of multifunctionality, even if not recognized: (a) it directs technologies and situations towards satisfying and reinforcing the separability of functions, and therefore the asserted distinction between natural and political jointness meets no legitimacy; (b) it separates the values of a single process in order to create separate markets as much as possible; but this operation demands collective choices, the criteria of which cannot solely be reduced to market efficiency.<sup>7</sup>

Coming back to the heart of the problem, how does one take into consideration the multiple functions of one single activity? We can see the will to separate is an attempt to deal with each function as if it were single. This is rooted in a specific and one-sided conception of the production process. Every production process takes place within a specific environment, and contributes to changing its state. The notion of “externality” is used in the peculiar cases where it is not possible to avoid the need of taking into account the consequences outside intention. But the use of the word “externality” already takes for granted that there is an “inside” of a process to produce a one-intended output (and therefore, unfortunately, in some cases a connection with the outside called externality), and gives us the conception of one single-output production process as being realistic. Nevertheless, in every case, whatever the intention may be, a new “state of things” is associated with every production activity.<sup>8</sup>

Agricultural multifunctionality is a good example in this field. It lets us see that there are two aspects, firstly that commodities and non trade outputs are associated, and secondly that they usually move in opposite direction, e.g., intensification of agricultural process associated with reduction of environment quality. The OECD and economist mainstream tries to avoid the debate by reducing the non trade outputs’ weight and disconnecting the relationship by erecting an absolute opposition between private and public goods. Through the Reasonable Value notion, Commons demonstrates that marketable outputs and public goods result from the same institutional process, and therefore may not be so completely opposed. Nevertheless, how does one take into account that both aspects are opposed and complementary at the same time? It is Polanyi’s approach which provides us with a way of confronting market rationality and non trade interest.

### **Trade and NTCs economic relationships in a synchronical approach**

5. In “The Great Transformation” Polanyi uses analytical structure of a “double movement”. “It can be personified as the action of two organizing principles in society...The one was the principle of economic liberalism, aiming at the establishment of a self-regulating market”, and leading to “laissez-faire and free trade”; “the other was the principle of social protection aiming at the conservation of man and nature as well as productive organization”, associated with “protective legislation, restrictive association, and others instruments of intervention” (Polanyi [1944] 1990, 138).

The Multifunctionality debate arises in circumstances where the intensification of agricultural process under market rationality meets the need to protect the environment, heritage value and food security. The latter concerns are part of what Polanyi calls “the principle of social protection aiming at the conservation of man and nature”, and the former are clearly connected with “economic liberalism”. Polanyi’s analytical structure is fitting to our subject.

6. How can both aspects be dealt with? Each of them is a valid “general purpose” in itself, according to Commons. Thereby they are in conflict without any “upper general purpose”

to conciliate them. Polanyi gives the basic analytical structure, and develops it mainly in a diachronical way: The first movement is the rise of the market toward a “self regulated market” illusion and the destruction of every kind of protection of nature and communities under “the trading class” action (Polanyi [1944] 1990, 138); the second movement is the fall of the pure market dream and the rise of protections claimed by the “working and landed classes” (138). Following in Polanyi’s wake, various authors studying multifunctionality are investigating the composition of social groups fighting for protection, for instance with studies on Social movements for sustainable agriculture in France (Barham 1996) or 21st-Century transnational Peasant Movements (Edelman 2005).

However, Polanyi suggests another way. In opposition to the economic principle of formal rationality, “a sequence of acts of economizing” (Polanyi 1957, 378), he creates the “substantive economy” concept, where economy is defined as “the instituted process or culturally patterned arrangements by which a given human group provisions itself as a going concern. The focus is on the provisioning of social reproduction and on the instrumentality of economic activity vis-à-vis the life process” (Stanfield 1989, 269). Formal economy allows only one kind of behaviour: maximise individual interest. In his substantive view of economic process, Polanyi introduces other economic ways of proceeding, such that each human being taking part in economic activity may have several behaviours.<sup>9</sup> This suggests synchronical analysis in which the double movement market/protection has to be viewed not as sequential but rather as simultaneous. Each class or group takes interest in the market (the trading class of course, but working or peasant classes also in virtue of labour division and of separation of production and consumption ) as well as in protection (tradesmen have families and need their future to be protected).<sup>10</sup>

7. The synchronical approach recognizes for the same people at the same moment in time that they are involved both in market relationships and in protective non market economic relationships. European agricultural multifunctionality policy provides us with a good example.<sup>11</sup>

Although the term Multifunctionality appeared in the 1990s, it was already in practice before. Common Agricultural Policy in European Union was grounded in the Rome Treaty (1957), in which article 39 of the latter stated various objectives. Among them we find, “to increase agricultural productivity by... the optimum utilisation of the factors of production” (§1.a) where terminology suggests developing market economy, whereas §1.b calls “to ensure a fair standard of living for the agricultural community” taking into account “the social structure of agriculture and from structural and natural disparities between the various agricultural regions” (2.a), a protective objective in favour of family farm which was predominant at this time. Paragraph 1.b is incongruous with paragraph 1.a which tend to promote competition inside agriculture, of course to the disadvantage of the family farm. This contradiction took concrete appearance with the Common Market Organisation, which instituted European common agricultural markets yet at the same time distorted its operating through the introduction of price supports aimed to preserve adequate income to family farms all over European territory.

As is well-known, these price supports gave rise to extra profits for larger farms and encouraged them to an endless intensification and rise of production, which in turn implied increasing support expenses and consequently dumping on the world market. At the same time, market forces engendered pressure to industrialize processes, which implied increasing pollution, and the loss of landscape heritage (King 2000). These were consequences opposed to what one could have hoped for of traditional family farms’ activities. Both aspects provoked reforms. In the first period (1984 – 1992) it was by a first step toward reduction of market price supports and financial compensation of farmers’ incomes, connected with some measures in favour of extensification and protection of

small farms and disadvantaged regions (Barthélemy and David 2001). In the second period (1999 – 2003) the need for a multifunctional policy was explicitly assumed and reforms went further toward the suppression of price supports and better connection with world market on the one hand, and on the other hand, to the organization of specific actions in favour of environment, landscape, etc. (Rural Development Regulation 1999).

Protective and restoring measures have taken two forms. Some of them are compulsory rules farmers adopt in counterpart to that which remains as direct subsidies (ecoconditionality of premiums). Others are proposed to farmers who may contract for specific actions. In this case they get remuneration, whose price “shall be... calculated on the basis of income foregone, additional costs resulting from the commitment given, and the need to provide an incentive” (UE Council Regulation n°1257/1999, art. 24). In both cases, protective measures (in the sense of Polanyi’s principle of protection aiming at the conservation of man and nature) give rise to defined payments. It means that farmers are involved in market economy where they have costs, produce commodities and get market prices for them. At the same time they are involved in a protective economy, where they also have costs or lose potential income, produce a certain state of things and therefore get non market price. Both economic insertions are connected since the level of global income depends on both income sources. Here, we have come back to the original debate: the economist mainstream tries to separate both aspects and reduce non market dimension to a marketable one. As shown, their attempt is hopeless for the state of environment, heritage, employment or food security is simultaneously distinct from and intrinsically connected with commodity production, even in the case where specific actions are conducted.

## Conclusion

Agricultural multifunctionality debate is of great interest because it echoes outside the realm of agriculture, in other fields of economic activities. Agricultural multifunctional policy is often considered as unfair support to farmers facing world market competition as well as an unjustified public charge. This is a one-sided sight. Despite some farmer lobbies exploiting the situation, supports or specific non market payments have been intended from their beginning to maintain a certain state of agriculture which would be altered by pure market action. Here, we encounter the kind of question Polanyi raised through substantive economy notion, in other words an economic system which deals with the livelihood of human beings. This implies eating today and preserving the situation for the future.

Synchronic analytical perspective means we have to deal with the market and non market economy together. This in turn implies two price regulation systems *which react upon each other*. In a sense we could speak of the mutual embeddedness of the market economy and the protective economy (for the latter we prefer the term “heritage economy”, Barthélemy, Nieddu and Vivien 2005). Such a situation has already informed economists thought, for example in the contribution of family economy or the protective regulation of market production and prices in diverse countries. We only underline the universality of this phenomenon, and the need to take it into account and adopt a holistic perspective. This can be attained only when we cease to accept the prevailing one-sided conception of economic production which omits the effect every production exerts on the state of the world.

## Notes

1. Some frequently cited multifunctions of agriculture are environmental and social: scenic vistas, traditional country life, wildlife habitat, small farm structure, flood control, cultural heritage, rural development and food security, rural income and employment, elimination of hunger, viability of rural, rural income and communities, secure food supply (Mullarkey et al. 2001)
2. The theoretical OECD framework fits into a neoclassical perspective, and extends in two directions: first towards imperfect information, and second, through its recognition of transaction costs, towards new institutionalist economics (NIE). Here we agree with Kaufman 2003 who, using Commons's view, states that many NIE economists "exaggerate the role played by transaction costs, contracting, and hold-up problems in matter of economic organization." (94)
3. "Even if some commodity outputs are positive externalities that cause market failures, government intervention is not necessarily the best option ... many options would require no or very limited government intervention such as to facilitate market creation" (OECD 2001: 20).
4. Use values represent the value associated with actual use, option value and quasi option of values, the value of having the ability to make choices in an uncertain future. Two non-use values, *existence values* and *bequest values* represent ecological values (the value that humans attach to the simple fact of a resource's existence without wishing to consume it and the value that humans attach to the possibility of preserving a resource for future generations) (OECD 2001: 80).
5. On the close connection between the technical and legal aspects which define economic goods, see also : Barthélemy, Boinon and Nieddu, 2003. On the fact that "Commons rejected both mechanical equilibrium and natural selection analogies" to argue in institutionalist point of view, see Rutherford 1994: 261 and 261-269, and also Atkinson and Reed 1990.
6. Lamb 2003 suggests that it is best to let market forces guide the evolution of agriculture. Schmitz and Moss 2005 argue that market incentives are more efficient ways to deal with non trade concerns.
- 7 We have seen the various values integrated in mainstream theory *to integrate futurity*. In the constraints of the present text, we are unable to discuss the notion of use value itself. Following Commons's interpretation of the classical literature, Stern 1999 shows that we have to make distinction between "exchange scarcity" and "use scarcity" (470).
8. Thomassin and Cloutier 2004 analyze the conflict resulting from environmental pollution as a by-product of swine production. We agree with them on their use of Commons's "strategic transaction" concept. Nevertheless producers of swine are *both* producers and residents and the problem is not only the conflict of interest among groups but also the conflict within the individuals themselves.
9. Polanyi said that no society could live unless it possessed an economy of some sort; but previous to our time no economy has ever existed that, even in principle, was controlled by markets (Lewis and Von Ende 1994). Polanyi and Arensberg [1957] 1965 conclude their preface of "Trade and Market" by saying: "let the reader judge ... the joint efforts of institutional economist and anthropologist in the other treatments of problems in different or alternative economic behaviours, motives, and systems in this book".
10. In opposition to Marx, Polanyi thought that a class interpretation of interests could not capture the multiple ways in which personal preferences and attitudes are formed (Block and Somers 1984). According to Barham 1996, this point is crucial to his understanding of how collective social protectionist action took place. Individual interests were formed in a variety of ways, expansion of the market economy affected groups within society in many different ways. Social groups that appeared to hold divergent interests on the surface could therefore eventually find it natural to cooperate. Also, Stanfield (1989, 275) : "... it is not valid to present the protective state interventions as resulting from a leftward ideological shift ... Very often the programs were enacted by those quite enamoured with a pro-market ideology. The comprehensive feature is not ideology or political power group but the necessity of countering the disruptions of the market process".
11. Japan (Simpson and Schoenbaum 2003), United States and many other countries (Prestegard 2004) develop the same kind of policies with slight differences. The European Union case is

easier to analyze since negotiations between country members necessitates providing explicit argumentations.

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