Classical and neoclassical economic theory: fundamentals of regulation for the agricultural sector

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Abstract. The work is devoted to the complex issues of the influence of the theoretical assumptions of classical and neoclassical economic theory on the sustainable development of the agricultural sector. The purpose of the work is to substantiate the scientific theoretical foundations of classical and neoclassical economic theory as the basis for regulating the agricultural sector. The methodological basis of the study is an integrated approach, in which the approaches of classical and neoclassical economic theory to the regulation of the agricultural sector are considered. The scientific foundations of classical economic theory are studied from the point of view of three concepts: "economic man", "natural order", and equilibrium economics. It is shown that from the point of view of the economic theory classics, the market appears to be a self-regulating mechanism that leads to maximum efficiency in production and allocation of goods, the concept: the state is a "night watchman". The scientific foundations of neoclassical economic theory are investigated from two major methodological bases: the marginalism principle and descriptive models of economic behavior of people. The automatic mechanism of the best use of market resources is shown and, according to neoclassical theories, the competitive market, without government intervention, is able to lead to the best equilibrium results. Recommendations are given for improving market relations to ensure the economic growth of the agricultural sector in terms of intracompany and intersectoral competition.

1 Introduction

The long-term stable, sustainable development of the agro-industrial complex largely depends on the scientific concept of economic policy and methods of its implementation in real economic practice. This paper presents the main aspects of classical and neoclassical economic theory as a basis for regulating the agricultural sector. In agriculture, these issues have become somewhat widespread from the point of view of studying various aspects:

– The main concepts of the classical theory representatives: W. Petty [44], P. Boisguilbert [37], F. Quesnay [43], A. Smith [19], D. Ricardo [30] and neoclassical economic theory: W.S. Jevons [39], A. Marshall [34], A. Pigou [46], K. Menger [18], E. Boehm-Bawerk [31], L. Walras [47];

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The purpose of the work is to substantiate the scientific theoretical foundations of classical and neoclassical economic theory as the basis for regulating the agricultural sector.

Objectives:
1. To explore the scientific foundations of classical economic theory.
2. To determine the essence of the state economic policy from the classics of economic theory.
3. To explore the scientific foundations of neoclassical economic theory.
4. To make recommendations for improving market relations to ensure the economic growth of the agricultural sector.

2 Materials and Methods of research

The methodological basis of the study is an integrated approach, in which the approaches of classical and neoclassical economic theory to the regulation of the agricultural sector are considered.

3 Research results and their discussion

3.1 The scientific foundations of classical economic theory are the free market ideology

The main concept of classical economic theory representatives (W. Petty [44], P. Boisguilbert [37], F. Quesnay [43], A. Smith [19], D. Ricardo [30]) is a justification of the principle of enterprise freedom based on three provisions:
- the concept of an "economic man" who makes separate decisions about participation in economic activities based on freedom, rationality, stability, and preference exogeneity. Under such conditions, the desire for the benefit of one person is limited only by the desire for the benefit of others; maximum well-being in society can be achieved only in conditions of freedom of choice for each economic agent. The task of the state is only to create conditions for the free choice of each person;
- the concept of "natural order", which asserts that despite the selfishness of human nature, agents can cooperate with each other for common benefit, therefore, there are mechanisms in society that ensure such mutually beneficial cooperation. Such mechanisms, conditions that ensure maximum well-being in classical society, are called the "natural order", which must be ensured through the active development of "exchange" relations. At the same time, the exchange is carried out independently through the relationship of some economic agents (egoists) with others (egoists). In such conditions, exchange is a natural
phenomenon that occurs spontaneously, naturally, as a result of mass selective, symmetrical exchanges between people – thus, unlimited "economic agents" independently come to social well-being;

- concepts of an equilibrium economy: provisions on the existence of a single and Pareto optimal equilibrium in a competitive market in a market economy. In the conditions of the market system existence, the competition mechanism forces each manufacturer to agree with the prices of other manufacturers and, thus, offer the lowest prices per unit of production. Otherwise, the manufacturer who offered a high price will not be able to find demand for his products and will go bankrupt. A similar mechanism applies to buyers. Thus, the mechanism of market and competition disciplines the participants, does not allow them to unite for the sake of collusion, etc., and leads to the effectiveness of both the production of goods and the allocation of resources. This phenomenon has been called "Say's law" [20]: the process of producing goods creates such a stream of income, exactly equal to the value of the goods produced, i.e. supply creates demand (∑S = ∑D).

Thus, the concepts of "economic man" and "natural order" presuppose maximum freedom of action of economic agents with minimal interference in the market mechanism, i.e. minimal state participation. The concept of an equilibrium economy shows that the market "with an invisible hand" directs human selfishness to maximize public welfare, competition equalizes supply and demand, providing society with the maximum necessary amount of goods.

In such conditions, the market economy not only contributes to the maximum efficiency of production and allocation (distribution) of goods, but also automatically comes to an equilibrium state (self-regulates). If prices exceed the equilibrium level, then the increased supply will reduce them to an equilibrium level, if prices are below the equilibrium level, then some producers will leave the market, production will decrease, and prices will rise to an equilibrium level. Thus, competition always returns to an equilibrium situation in the market.

In the long term, such an equilibrium can be developed at an ever-increasing level, which will lead to the creation of a system of ever-increasing wealth of the nation:

- the price mechanism and the competition system allow agents seeking profit to find the most affordable (cheap) resources for their production;
- producers accumulate capital to expand production, which increases their productivity and the wealth of the whole society.

Thus, in the concept of classical theory representatives, the market appears as a self-regulating mechanism that leads to maximum efficiency in production and allocation of goods. State intervention in this part is necessary only to protect such a "natural order" and "freedoms" of a person, i.e. it should be minimal to ensure stable long-term economic development of the country – the concept: the state is a "night watchman".

3.2 The economic policy of the state in the classics of economic theory

In the main works of economic theory classics, the minimum functions of the state are reduced to the following:

- maintaining law and order within the country;
- ensuring the external security of the state;
- the financial and economic policy of the state in terms of ensuring the state budget, servicing the public debt and taxation.

From the point of view of classical school representatives, the provision of the state budget should begin with the definition of the expenditure part (defense, administration of justice, public works, and public institutions). The state should be unburdensome for society, i.e. only those expenses that meet the interests of the whole society are recognized as possible.
The next function of the state is the disposal of public debt, which, from the point of view of classical school representatives, arise in wartime, and in peacetime, increased debts and interest on them create an additional burden, which leads to an increase in taxation of society by the state. Accordingly, government expenses paid from public debt are essentially unproductive expenses related to the withdrawal of funds from the private sector and the accumulation of debts in the public sector. Thus, public debt leads to a weakening of the state and its growth in the long term cannot be fairly paid, which leads to a decrease in the economic system efficiency. Only in wartime government debts can be economically justified, since they hinder the creation of new capital and the economy efficiency to a lesser extent than tax increases.

The tax policy of the state is of particular importance to representatives of the classical school of economic theory. Taxes in the works of A. Smith [19] are perceived as payments necessary for the enhancement of public welfare and the development of agents. In this part, the basic principles of tax policy (universality, fairness, convenience, certainty, sufficiency, momentariness) were developed, which reflect both the duty of citizens to the state and the duty of the state to taxpayers. The fiscal policy of the state in a free market economy performs an exclusively fiscal function, being a financial, but not a regulatory instrument from the point of view of the classics of economic theory.

3.3 The scientific foundations of the neoclassical school of economic theory are analysis and synthesis

The neoclassical economic theory (W.S. Jevons [39], A. Marshall [34], A. Pigou [46], K. Menger [18], E. Boehm-Bawerk [31], L. Walras [47]) revised all the basic definitions of economics and proceeded from two important methodological foundations:
- The marginalism principle is the study of commodity-money relations between economic agents from the position of marginal increments;
- Descriptive models of human economic behavior: a study of the behavior of economic agents from the point of view of producers and consumers.

The neoclassicists formulated a new subject of economic theory. If the classics in their works proceeded from the fact that the main issue is the growth of social wealth (the essence is per capita GDP), then representatives of the neoclassical school showed that there are not one, but several ways to use the same resources (for example, capital and labor), therefore, there are several options for using existing factors of production. Accordingly, the task of theory is to choose the right option, that is, the problem of rational choice arises – the main subject in the neoclassical school of economic theory.

Representatives of the school showed how the automatic mechanism of the best use of market resources (the "invisible hand", market self-regulation) works. The concept of supply and demand, developed by A. Marshall [34] considers together all the parameters of market equilibrium – price, demand, and supply, which, on the one hand, through a mechanism equalize supply and demand through prices, on the other hand, the supply and demand ratios determine price movement (see Fig. 1). Thus, in the theories of the classics, supply and demand act as equal elements of the market economy mechanism: a special mechanism that allows to compare the beneficial effect of a product with the costs associated with its production. The price in this concept ensures that the interests of producers and consumers coincide and that supply and demand are equal.
Fig. 1. Market equilibrium: a – short-term competitive equilibrium for the company; b - short-term competitive equilibrium for the industry, where, MC – marginal costs; ATC – average total costs; MR – marginal revenue; S – supply; D – demand; P – price; Q – quantity of products.

Further development of these concepts in the works of L. Walras [47] showed that production costs, incomes, consumer prices, demand, supply, production volumes, and purchase sizes are determined in the market jointly and simultaneously, through the main mechanism for achieving general equilibrium – prices, i.e. the volume of supply is always equal to the volume of demand. Thus, the market is independently able to achieve an optimal allocation of resources and achieve general well-being, from the point of view of the economic theory of well-being of V. Pareto [33].

In this regard, the main question for neoclassics is what is the role of the state? According to the concepts of V. Pareto, A. Marshall, and L. Walras, market equilibrium establishes a Pareto-optimal state, i.e. the market, without the help of the state, it is able to ensure that equilibrium is achieved with the maximum well-being of society. Consequently, any government intervention in the market mechanism is meaningless and the market system is capable of restoring market equilibrium at the maximum level of production and consumption (see Fig. 2).

Fig. 2. Market equilibrium: c – the classical model of national equilibrium, where, AS – aggregate supply; AD – aggregate demand; E – equilibrium point; P – price; Q – quantity of products.
Thus, according to neoclassical theories, the competitive market, without government intervention, is able to lead to the best equilibrium results.

3.4 Improving market relations to ensure the economic growth of the agricultural sector

The need to build high-quality institutions of market regulation in agriculture is a self-evident factor. Competition in the market and for market segments is the core of the mechanism that contributes to improving the economic efficiency of farming and promotes innovation. Nevertheless, not all competition has a beneficial effect on the growth of the industry (since unfair competition from large agricultural holdings leads to the fact that other economic agents have narrowed opportunities for access to the product sales sector), and competitive relations themselves are not always reproduced by the forces of market participants.

The main distribution channels of agricultural products and food (retail chains, collective farm markets, processing enterprises, resellers) cannot solve the problem of ensuring access of small and medium-sized enterprises to the market. Nevertheless, due to the lack of worthwhile alternatives, such farms are forced to deliver their products through such channels, often with reduced economic efficiency for themselves. For the development of internal competition in agriculture, it is necessary to direct efforts not to limit the activities of retail chains (as large sales markets for the largest agricultural holdings) or to try to "squeeze" small and medium-sized agricultural producers and farmers there, but to develop additional tools to ensure access to sales markets for such small and medium-sized producers. Moreover, such channels should ensure direct interaction between the agricultural producer and his client. To develop internal competition, it is necessary to prescribe a number of formal rules for the formation and development of such sales channels for agricultural products and food in the country as: ecobases, electronic trade in products according to the rules of B2B (business to business) and B2C (business to consumer), vending, direct deliveries to specialized retail chains, creation of local outbound trade networks (car shops). A separate direction in the development of internal competition in the agricultural sector may be the development of cooperation and cooperative markets. In Russian conditions, this issue requires an integrated approach with the development of a set of rules governing the activities of such collective farms. There is also a need for purposeful activity by the state and society to eliminate restrictions on cooperative activities from informal norms. The creation of civilized rules for the sale of their products to small and medium-sized agricultural enterprises will create conditions for the development of competition within agriculture and will form, among other things, conditions for the development of the market pricing institution.

The intersectoral competition between the agricultural sector and industry ultimately leads to the formation of an unfavorable price environment for agricultural producers (the term was called "price disparity"). In these conditions, it is necessary for the state to actively participate in building rules aimed at regulating natural monopolies (transition, where possible, to market pricing principles; abandonment of price and tariff regulation in competitive markets; development of market infrastructure; reduction of barriers to entry into the industry, etc.).

At various stages of the agri-food economy evolution, the institutional environment of sustainable economic growth in agriculture was characterized by a different combination of dominant market and complementary state institutions. At the early initial stage of this evolution, the population's food needs were not saturated, demand was highly elastic and responsive to market signals. Under these conditions, the institutional environment that ensures economic development and economic growth was represented mainly by dominant market institutions (institute of competition, Institute of entrepreneurship, institute of market
price coordination, etc.). Over time, in developed countries, the institutions of market self-regulation of the agrarian economy began to fail, which manifested in the increasing volatility of economic growth indicators. The economic growth of agriculture, which is at the second stage of the agro-food market development, is possible only with the active participation of complementary institutions of state regulation in the system of dominant institutions of the market system. At the same time, it is necessary to outline the minimum necessary boundaries of state regulation of the agri-food market to avoid prolonged periods of relative overproduction in agriculture, which is the purpose of further research.

4 Conclusions

1. The scientific foundations of classical economic theory are studied from the point of view of three concepts: "economic man", "natural order", and equilibrium economics. It is shown that from the point of view of the economic theory classics, the market appears to be a self-regulating mechanism that leads to maximum efficiency in production and allocation of goods.

2. The essence of the state economic policy is defined by the classics of economic theory: minimal participation with the following main functions: maintaining law and order within the country; ensuring the external security of the state; financial economic policy of the state in terms of ensuring the state budget, servicing public debt, and taxation. State intervention should be minimal to ensure stable long-term economic development of the country – the concept: the state is a "night watchman".

3. The scientific foundations of neoclassical economic theory are investigated from two major methodological bases: the marginalism principle and descriptive models of economic behavior of people. The main subject of neoclassical theory is the solution of the rational choice problem. The automatic mechanism of the best use of market resources is shown and, according to neoclassical theories, the competitive market, without government intervention, is able to lead to the best equilibrium results.

4. Recommendations are given for improving market relations to ensure the economic growth of the agricultural sector. In terms of internal competition, there is a need to develop additional tools to ensure access to sales markets for such small and medium-sized manufacturers: eco-bazaars, electronic trading of products according to the rules of B2B (business to business) and B2C (business to consumer), vending, direct deliveries to specialized retail chains, creation of local outbound trade networks (car shops), cooperative markets. In terms of intersectoral competition: transition, where possible, to market pricing principles; abandonment of price and tariff regulation in competitive markets; development of market infrastructure; reduction of barriers to entry into the industry.

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