STATE INTERVENTIONISM IN AGRICULTURE – RATIONALE, GOALS, CONDITIONS

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Abstract: The paper presents justification of the state interventionism in agriculture. It discusses selected reasons, conditions and goals that have a determining influence on the state’s active involvement in the agricultural sector. Interventionism in agriculture is an element of the economic process that enables the agriculture to fulfil certain functions. Multifaceted analysis of the outcomes of intervening in agriculture has long been generating legitimate questions about the basis, effectiveness, form and scope of such measures. The paper presents the main arguments in favour of the need to continue an active and comprehensive state intervention in economic processes with regards to agriculture.

Keywords: government intervention, interventionism in agriculture.

1. Introduction

There is an established view in modern economic theory, that the market mechanism, despite its numerous unquestionable advantages, has a lot of flaws. Its imperfection is manifested, among other things, in socially unaccepted distribution of resources and income, as well as the tendency to ignore external costs and increase the gap in the pace of economic growth (Dacko, and Płonka, 2018). Consequently, it is considered to be the state’s task to take intervention measures to correct the shortcomings of market mechanisms, thus improving the efficiency of the economy at the level of the whole society, stabilising it and reducing extreme inequalities in the distribution of national product (Adamowicz, 2009).

Agriculture – a strategic sector of the economy in terms of the population’s food needs – is characterised by particularly high degree of intervention measures. As the first and weakest link in the food chain, it is among those economic sectors, which are particularly sensitive to the impact of external factors. The rationale for intervention in the socio-economic relations shaped by the market mechanism include: the specificity of the agricultural market,
its dependence on environmental conditions, agricultural crises (including shortages and overproduction), due to that dependence, agrarian considerations and disparity of income (Żmija, 2011).

There is still a lot of discussion and controversy among economists regarding agricultural policy. It is difficult to identify and estimate the costs and benefits of leaving agriculture to “its own devices”, as well as the costs and benefits of taking measures to correct its functioning (Dacko, and Płonka, 2018). Although the costs of interventionism in agriculture are huge, numerous countries worldwide resort to it. Its character, scope, as well as the forms of support, depend largely on the level of economic development of a given country, its goals and previous experiences, or conditions characteristic of this sector of the economy (Biernat-Jarka, 2011).

The aim of this paper was to justify the need for limiting the dominating role of the market mechanism in the agricultural sector. We have to bear in mind, that interventionism in agriculture is an element of the economic process. It allows the agriculture to fulfil certain functions and determines whether the expected economic results will be achieved in agriculture and in its economic environment. An appropriate agricultural policy, which creates favourable conditions for carrying on economic activity, increases the competitiveness of the whole sector, which can lead to improved macroeconomic situation. The paper discusses selected reasons, factors and goals, which have a determining influence on the state’s active policy in the agricultural sector.

2. Interventionism – genesis and definition

The first and the most popular forms of state (rulers’) intervention in the economy appeared in ancient Egypt, as early as in the second millennium BCE. In periods when crops were abundant, pharaohs gathered (stored) agricultural products, which were collected as ground rent, and sold the surplus in times of food shortages. Written records of such practices can be found in the Old Testament, in the words of Joseph directed to the pharaoh: “Let the Pharaoh proceed to appoint overseers over the land and take one-fifth of the produce of the land of Egypt during the seven plentiful years (...). That food shall be a reserve for the land against the seven years of famine that are to occur in the land of Egypt” (Book of Genesis 41:34-36). These measures ensured social peace in the country and development of a profitable trade with the neighbouring countries, thus securing a high position of the ruler, whose wisdom changed the fate of his subjects.

The concept of state interventionism has been known in the economics since the early 16th century, but the birth of modern interventionism dates to the 1920s. The author of the scientific concept of state interventionism was J.M. Keynes, who rejected “the traditional
bourgeois economists’ theses, that the free play of market forces can overcome any disturbance in the capitalist economy, any crises” (Begg, 1998). He maintained that a system of “state-supported” economy would eliminate crises and stimulate the economy by placing it on the path of development (Orłowska, and Pangsy-Kania, 2003). Since then, countries, especially economically developed ones, have been systematically expanding (and still expand) their influence on the processes of economic development and its stability, with the instruments and methods for regulating the economy undergoing constant evolution. There is still a need for an active state policy, as no economy has achieved sustainable growth, and there is no self-acting emergency mechanism that regulates economic disturbance and ensures that the economy stays on the path of development (Zagóra-Jonszta, 2006).

State interventionism, for at least 100 years, has been an inseparable feature of every market economy. The term derives from the French word interventionnisme and means an economic policy of a capitalist country, that aims to impact the economic development (Słownik Wyrazów Obcych, 1980). The market mechanism, in addition to all of its advantages, also has a range of shortcomings. The task of the state is to take such intervention measures that will correct the shortcomings of the market mechanisms in terms of improving the efficiency of the economy on the scale of the whole society, stabilising it and reducing extreme inequalities in the distribution of national income (Table 1).

Table 1.
Correcting the operation of market mechanisms

<table>
<thead>
<tr>
<th>Weakness of the “invisible hand of the market”</th>
<th>Government intervention</th>
<th>Examples of economic policy measures</th>
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</thead>
<tbody>
<tr>
<td>Inefficiency:</td>
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<tr>
<td>– imperfect competition, monopolies,</td>
<td>– intervention in the</td>
<td>– antitrust legislation,</td>
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<tr>
<td>– social, environmental and other costs,</td>
<td>– intervention that limits freedom of establishment,</td>
<td>– implementing environmental protection norms, technological norms,</td>
</tr>
<tr>
<td>– lack of interest in certain areas of activity among private companies</td>
<td>– subsiding activities in such areas, assigning them to public institutions</td>
<td>– public investments, building and financing infrastructure</td>
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<tr>
<td>Income inequality:</td>
<td>– redistribution of income</td>
<td>– tax progression, social benefits etc.</td>
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<td>– too large gaps in income and living conditions of the population</td>
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<tr>
<td>Instability of the economy:</td>
<td>– stabilising and stimulating impact</td>
<td>– regulation of the money supply, tax incentives etc.</td>
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<td>– economic fluctuations, slow pace of growth, unemployment</td>
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Source: own work based on (Adamowicz, 2009).

The literature offers a range of terms referring to state interventionism, but there are still difficulties with defining this concept. According to Nowicki (1988), state interventionism involves “capturing part of the value generated by society and earmarking it for purposes that are considered as appropriate”. Żuławska (1993) perceives it as “a state’s economic policy that aims to stimulate the correct development of the economy”. Federowicz (1970) defines interventionism as a state’s policy “that focuses on prevention of economic crises”.


The notion of state interventionism is often used interchangeably with the notion of the state’s involvement in the economy and the state’s intervention in, or regulation of, the economic sphere. A lot of discussion can be found in the literature about the legitimacy of using these different notions, referring to the role of state in the economy, but in practice, almost all of them are treated as synonyms.

3. Interventionism in agriculture

An active government policy in the agricultural sector is referred to in the Polish literature as interventionism in agriculture and/or agricultural policy (Przygodzka, 2006). According to Wilkin (1998), interventionism in agriculture is “a form of the state’s involvement in agriculture, aimed at correcting, supplementing, restraining or strengthening the market mechanism”. Tomczak (1994) defines interventionism in agriculture as “a basic, general and one of many instruments for implementing a specific economic policy towards farms, agriculture, agribusiness and the rural area”. He also describes agricultural policy as “a policy of the development of agriculture and rural areas”. According to Zegar (1998), agricultural policy involves “formulating goals and selecting (agriculture-related) means for accomplishing these goals in given conditions”. Thus, agricultural policy is a broader term, that encompasses interventionism. Nevertheless, these terms, although formally distinct, are used interchangeably in the literature.

State interventionism in agriculture is commonly used in numerous countries worldwide. It is a specific model of the state’s involvement as a response to the failures and external effects of the functioning of the market, whose negative outcomes manifest in agriculture and its environment (Figure 1). Its character, scope, as well as the forms of support, depend mainly on a given country’s level of economic development, and thus its budgetary capabilities, the goals set by the government, earlier experience in implementing support measures, as well as the conditions characteristic of this branch of the economy (Biernat-Jarka, 2011).
4. Rationale for state intervention in agriculture

The basic and the most emphasized reason for state intervention in agriculture is the environmental character of agricultural production. The dependence of production on the laws of nature, especially climatic conditions, has a significant impact on the structure, size and quality of the final production, which, in turn, translates into the volume of income achieved by farmers. The environmental conditions determine the length of the production cycle, which lasts even a few years from the investment to the first effects of production (especially with livestock production), and these effects are not easy to predict (Musiał, 1998). Moreover, the length of the production cycle creates a considerable time lag between the potential and actual demand. Thus, it is impossible to maintain price elasticity of demand, which, combined with inelastic demand for agricultural commodities, causes instability of the prices of these products, and consequently leads to a huge income disparity among agricultural producers (Biernat-Jarka, 2011). As a result, the biological aspect of agricultural production puts it at a disadvantage compared to other sectors of the national economy (Manteuffel, 1981).
Insufficient and unstable incomes of farmers are another, as stressed by economists (such as Stiglitz (1987), Wilkin (2003), Adamowicz (2009)), main reason for implementing an agricultural policy, especially in highly developed countries. According to Michalek (1989), this is because the demand for agricultural commodities in developed countries is relatively low, which has to do with the Engel’s law. As a result, the overproduction of agricultural commodities causes a slower increase in their prices, compared to the increase in the prices of other commodities, especially means of production, which is illustrated by the phenomenon of the opening of the price scissors. Moreover, Klauwe (1981) notes that the amplitude of short-term fluctuations in agricultural product prices, which is much larger compared to other branches of production, causes marked fluctuations in incomes and a lower absolute level of income per person working in agriculture, compared to those employed in other sectors of the economy. Of a similar opinion is Wilkin (2003), who points out that work productivity and the level of income per person employed in agriculture in most developed countries is lower, compared to other branches of the economy. Moreover, the free outflow of surplus labour force from agriculture and lower work productivity further exacerbates the problem of unfavourable economic situation of farmers. Studies by Western theoreticians, such as Harrisa (1949) and Irwina (2009), also confirm that this is the main reason for the necessity of taking intervention measures in agriculture.

An additional problem of today’s agriculture, as stressed by Czyżewski, Poczta and Wawrzyniak (2006), is depreciation of agriculture in redistribution of the value added, which benefits the intermediaries closest to the consumers. Indeed, the economic surplus generated in agriculture goes undeservedly to other economic sectors (Czyżewski, 2007). Therefore, the state should step into the sphere of inter-sectoral flows and transfer the value added that has been generated, but not realised by farmers (Kowalski and Rembisz, 2005).

Apart from the main environmental and economic rationale for state intervention in agriculture, another important argument is the need to support the services provided by agriculture in terms of public goods (Wilkin, 2003). They mainly involve appropriate shaping of the natural environment, maintenance of desirable landscape values and preservation of the cultural heritage. However, environmentally-friendly activities require certain sacrifices, e.g. the reduction or abandonment by farmers of the means of production, such as fertilisers or plant protection products, which should be compensated to agricultural producers (Chotkowski, 2009). Activities supporting the protection and preservation of environmental and cultural values are of essential importance to areas where agriculture is marginal, but which are attractive in terms of the environment, landscape and tourism. Regional development can be achieved by skilfully combining and sustaining agricultural functions with the protection of the environment and landscape (Musiał, 1998). Last, but not least, agriculture fulfils a lot of hard-to-overestimate tasks for the economy, the role of which is constantly evolving (Wilkin, 2005).
5. Goals of intervention policy in agriculture

Economists’ views on the goals of the state’s regulation of the economy vary, but with regards to agriculture, they are narrowed down and concretised (Kaja, 2001). The original reason for the state’s active involvement in agriculture was seeking to ensure an appropriate level of food production that would guarantee food safety. Famine, and later food shortages, have always been among the major problems faced by people, and until the second half of the 20th century, they did not spare Europe, the then richest continent, as well (Woś, and Zegar, 2002). The biological lack of alternatives to food consumption and the necessity of balancing nutritional needs with food production capabilities has been, and still is, a relevant rationale for agricultural policy. Today, however, given significant surpluses of agricultural products, the state’s intervention measures are mainly focused on (Figure 2):

- maintaining the physical and biological security of food, i.e. ensuring access to food at reasonable prices to all social groups,
- ensuring high quality of food, which does not have to be in conflict with quantity, if agricultural production complies with the principles of sustainable development,
- maintaining a wide range of food products, determined by a variety of produced raw materials, from which consumer food is currently produced (Musiał, 2009a, 2009b).

Second general goal of the state’s intervention in agriculture is the already mentioned need for protecting and supporting agricultural income. Maintaining and improving farmers’ economic status is commonly accepted in the majority of countries that pursue an agricultural policy (Przygodzka, 2006). The Organisation for Economic Cooperation and Development emphasizes, that even countries that limit their support to minimum, should take actions to improve the situations of farmers if agricultural income falls due to factors beyond the control of agricultural producers (OECD, 2002). Without a transfer of support measures to rural areas, agriculture that is in a poor financial situation is unable to ensure decent living conditions to farming families (Ciechomski, 1997). Therefore, the state should aim to increase and maintain the level of agricultural income (Ratajczak, 1993). According to Ciechomski (1997), a financial crisis affecting agricultural producers will inhibit structural transformations in agriculture, significantly reduce the demand on the domestic market, cause the opening of price scissors that will negatively affect farmers, increase unemployment rate in rural areas and significantly reduce capital accumulation for investment purposes, as well as biological and technical progress.
The third goal of agricultural policy relates to the state’s active influence on agricultural productivity. Almost all developed countries, especially the EU economies, strive to refocus interventionism from quantitative development towards economisation of production (Musiał, 1998). It involves supporting technological, technical and organisational progress in the broad sense, as well as initiatives to modernise and restructure agriculture (Sobiecki, 2015). This, in turn, leads to an increase in the scale of production aimed at decreasing production costs in agriculture and increasing the efficiency and competitiveness of the Polish agriculture and farmers on global markets (Wilkin, 1998).

The fourth goal of state interventionism in agriculture is to extend the existing functions of agriculture, which are limited to the production of food and raw materials for industry, to include new uses (Musiał, 2000). The government policy is focused on supporting alternatives to the overproducing agriculture of highly developed countries, as well as implementing and producing energy-generating raw materials (e.g. solid fuels, alcohols, biogas). Agriculture provides many products, from which technical oils, packaging or even construction materials can be produced. These renewable raw materials give hope for the future, given the depletion and fast increase in the prices of fossil fuels.

The fifth goal of supporting agriculture is to prevent the processes of soil and environmental degradation, as a result of farming, and to guarantee a rational use of soil as a special production factor and non-renewable component of national wealth (Ciechomski, 1997). Food overproduction in the open markets of the European Union created favourable conditions for

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**Figure 2.** Main goals of intervention policy in agriculture. Adapted from: “Uwarunkowania rozwoju polskiego rolnictwa w kontekście europejskim i globalnym. Implikacje teoretyczne i praktyczne” by J. Wilkin. Copyright 2009. PTE. Warszawa, and “Bariery przebudowy strukturalnej rolnictwa w regionach rozdrobnionych agrarnie” by W. Musiał. Copyright 2009. PTE. Warszawa.
carrying on agricultural activity that reduces negative effects in the sphere of environmental protection. This is because reduction of the overall level of production and its extensification facilitates farming that is more environmentally-friendly. Nevertheless, despite noticeable changes in this respect, a lot of contradictions between the economy and ecology, economic costs and environmental costs of the effects of farming still remain or even increase (Żmija, 2011). According to Czyżewski (2001), this conflict between the economic and environmental interests can be solved by finding a partial balance that corresponds to demand and supply proportions adjusted by a deliberate government policy that compensates the natural economic weakness of agriculture against the other non-agricultural uses of capital. However, it should be stressed that consumption of environmental resources, unbalanced exploitation of renewable resources or pollution of the environment with waste of not only agricultural origin have both a direct and long-term harmful effect on the human being (Ślusarz, 2005).

Another general goal of state intervention in agriculture is to actively support the socioeconomic development of rural areas and multifunctionality of the countryside and farms (Tomczak, 1994). This goal mainly focuses on solving social problems of rural areas, e.g. stimulating and supporting initiatives that involve using farms for non-agricultural economic activity (e.g. agritourism, handicraft). Engagement in these forms of activity in rural areas, which are based on accommodation, food and recreation provided by a farm and its environment, is a great chance for rural inhabitants to improve their living conditions and quality of life. This goal also involves sustaining the distinctiveness, identity (specificity) and cultural heritage of rural areas, as well as preserving traditions, which, though increasingly commercialised, are a valuable solution in converting non-economic functions of agriculture into strictly economic solutions. Moreover, countries usually support measures that aim to slow down the processes of abandonment of agricultural production or depopulation of rural areas, or to maintain a model of agriculture that is based on family farms. In Europe, agriculture still generates jobs that are essential for the economy and represents the way of life of a significant share of population, especially in poorer countries (Musiał, 2009a).

6. Conclusion

Dynamic changes in the economic conditions, which impact agriculture and its high sensitivity to microeconomic and macroeconomic imperfections of the market, are the main reasons for the state’s active intervention in this sector of the economy. Outright opponents to the need for intervention in agriculture are hard to find in the literature. As Wilkin (2003) notes, “in all countries, there is always some form of agricultural policy in place, and agriculture still remains the most important sphere of state interventionism in agriculture. So, no country leaves agriculture to the free play of market forces”. It is necessary to state that “supporting the
development of agriculture is not for the benefit of farmers alone (...) but it is necessary for the development of the whole economy and lies in the interest of the whole society” (Adamowicz, 2009). The differences in opinions concern the assessment of the scale, principles, methods and tools of intervention in agriculture. Almost 40 years ago, Klawe (1981) rightly pointed out that “usually, there is no doubt that state interventionism in agriculture is indispensable, but the government must act in a flexible way, depending on the changing conditions”. However, the state’s involvement in spontaneous market phenomena and processes should not replace the market mechanism. Despite its flaws, the latter should be treated as the basic factor regulating the economy. The state should only take corrective and complementary measures in those areas where it fails.

The Polish agriculture, which is currently a part of the agricultural structure of the Community, is subject to one of the most advanced forms of state’s impact on agriculture, i.e. the Common Agricultural Policy, which has been constantly changing since its creation. These changes concern the goals of intervention in the agricultural sector, seeking and improving the forms of state intervention and selection of the right tools for their implementation. The views about the shape of this policy, as expressed in numerous discussions, vary significantly. They are often incompatible and spark a lot of controversy. Despite the differences, there is an agreement on the fundamental assumptions that the Common Agricultural Policy should be adapted to the current conditions and needs, and its further reforms should take into account the emerging new paradigm of development, manifested in improved interactions between the human being’s activity as a food producer and the nature, resulting in a better management of limited natural resources.

References


