

## FACTORS SHAPING INTERVENTIONAL POLICY IN AGRICULTURAL SECTOR

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**Abstract.** The aim of the article was to present the role and importance of agricultural policy as a form of interventionism in the market mechanism. It also identifies the important role of cooperatives in agriculture. The reason for the discussions that have been conducted for years on the subject of state interventionism in the agriculture of countries with market economies is the need to evaluate solutions being used around the world. In a market economy, agricultural policy is a form of state intervention in the functioning of the market mechanism for the purpose of its improvement, particularly in the areas where it fails to function properly. This results from the essence of interventionism.

**Keywords:** agriculture, agricultural policy, Common Agricultural Policy, globalization.

### Introduction

In the European literature we come across various concepts concerning the sphere of food production and consumption: agricultural policy, policy of the formation and development of the food and agricultural industry, food policy, food consumption rationalisation policy, food and agricultural policy. Each of the aforementioned policies refers to a different social-economic sphere, although the borders between them are difficult to determine precisely. Agricultural policy refers to the vision of the economic activity of agriculture and farmers that is ascribed to agriculture and farmers by state authorities. It is worth mentioning that there are no countries that restrict agricultural policy only to the production of agricultural products and food produced in the sphere of agriculture. This determines the level of income of agriculture, and its most important quality is the intention of ensuring the country's self-sufficiency in terms of the supply of safe food, so even the most developed countries in the world support both farmers and agriculture. Food policy is of huge importance for people, because food satisfies one of the basic biological needs [1].

### Research Problem

Because of its specific characteristics, resulting from the seasonality of production, dispersion, and the combination of the functions of the producer and consumer (which is a characteristic feature of the family type of land management), agriculture is often subject to interventions by the state [2; 3]. Traditions of agricultural policy have lasted for many centuries. It is understood most frequently as the activity of the state aimed at creating conditions for the development of food production and the proper storage and distribution of food.

The European Union and the United States are the biggest agricultural producers in the world. Phenomena concerning production, prices, export and import in these two critical areas, as well as agricultural policy being carried out there, are of huge importance for the global situation in the fields of production, consumption and agricultural trade. The United States and the European Union have largely different natural, social, economic and cultural conditions for the development of agriculture. Traditions in the field of state interventionism in agriculture and the attitude of the authorities and society to the liberalisation of trade are also different [4].

Frequent changes affect not only internal, but also external conditions of the development of agriculture in all countries of the world, including the European Union. Currently, globalisation processes are the most important determining factor of changes in the agriculture of these lands, including Poland and Latvia. This is because globalisation determines a new economic order based on the dominance of the market mechanism on a supranational scale. This new order leads to certain consequences that affect the entire world economy, each national economy separately, and particular sectors (including agriculture), business entities, societies and individuals [5]. The globalisation process also involves the decreasing role of the state in the conducting of economic policy. In the majority of developed countries this means serious limitations in the programming of agriculture support policy. At the same time, the globalisation process imposes the need for catching up with

competitors on the international level in conditions of varied levels of technological development and in various natural conditions [6].

The accession of Poland, Latvia and other states to the European Union at that or subsequent times contributed to the stabilisation of agricultural policy in individual countries and the common prevention of some adverse consequences of the globalisation process (e.g., the prevention of food safety threats). At the same time it ensured easier access to the EU interventional instruments that the Community has worked out over many years. According to the provisions of the Treaty of Rome, governing bodies of the EU may determine all necessary means in order to achieve the goals of the Common Agricultural Policy.

The aim of the article was to present the role and importance of agricultural policy as a form of interventionism in the market mechanism. This paper is monographic in its character. Analyzing experiences, tendencies of Polish agriculture, the following methods were used: systematic, comparative, logical analysis and synthesis. The table-descriptive form of presentation of the subject has been employed.

### **Circumstances of interventional policy in the agricultural sector**

The reason for the discussions that have been conducted for years on the subject of state interventionism in agriculture of the countries with market economies is the need to evaluate solutions being used around the world. Economists' opinions on this issue are different. This results mainly from the low effectiveness of the applied forms of interventionism, which are based mainly on market interventions and the regulation of agricultural prices that do not fulfil the original goals any longer. The primary criticism refers to the issue of income in agriculture, which is still smaller than in non-agricultural sectors in spite of numerous protective measures of the state. Even in the countries where agriculture is modern, highly productive and competitive (e.g., in the United States or in the EU countries), it depends on support from the state. Subsidies constitute a burden for taxpayers, who have to pay more for food. Moreover, activities of this kind lead to income diversification among farmers, because supplementary funds are usually received by more affluent farms. Activities such as the control of production based on the limitations of the allowed area of cultivation, management of the supply of agricultural products, the introduction of guaranteed prices, or the dumping of agricultural products abroad are examples of "wrong economy". In spite of costly long-term intervention of the state in agriculture, a number of important problems for agricultural procedures and consumers have not been solved. On the other hand, the effectiveness of agricultural policy is proved by the fact that, thanks to interventions of the state in this branch of the economy undertaken by a majority of countries with market economies in the post-war period, the dispersed structure of agriculture has been transformed into a smoothly operating branch of economy that fully satisfies food-related needs [7].

Like the entire economy, agriculture is not static; it is subject to continuous transformations. On the other hand, according to Pohorille [8], the development of interventionism in the field of agriculture is not an exceptional phenomenon, because interventionism results from the same reasons that caused an expansion of the economic role of the state in all spheres of life. The issue of interventionism in agriculture can be considered in two aspects. On the one hand, the need for state intervention results from the lack of balance between agriculture, where the rule of free competition prevails, and industry controlled by industrial barons. On the other hand, the essence of the problem boils down to the situation when the losses and benefits accompanying the economic growth process are distributed unevenly.

According to Timmer [3], agriculture in a market economy requires interventions of the state because it is a naturally a weaker partner than other fields of non-agricultural production. What makes it different from them lies both in the sphere of decision-making and in characteristics describing the production function of farms, such as: seasonality, dispersion, risk and uncertainty, as well as the joint occurrence of functions of the producer and the consumer, which are characteristic features of the family-type form of land management.

The reasons for an intervention depend on the specific characteristics of agricultural production, which concern particular factors of production, the condition of agriculture, and the time of

production. The primary specific characteristics of agriculture and agricultural production that imply the need for an active policy of the state in the agricultural sector are presented in Table 1.

Table 1

**Basic specific characteristics of agriculture and agricultural production that imply the need for an active policy of the state in the agricultural sector**

Specification	Characteristics
Production factor (capital)	<ul style="list-style-type: none"> <li>- different internal structure of capital</li> <li>- necessary media and road infrastructure</li> <li>- free circulation of capital and seasonality of expenses and income</li> </ul>
Production factor (labour)	<ul style="list-style-type: none"> <li>- dispersed workforce</li> <li>- atomised and dispersed economic entities</li> <li>- cyclic system of production</li> <li>- limited possibilities of human interference</li> <li>- seasonality of production and supply</li> </ul>
Production factor (land)	<ul style="list-style-type: none"> <li>- natural circumstances of production</li> <li>- prolonged process of restoration of production efficiency of soil</li> <li>- varied quality of land</li> <li>- spatial variability of natural conditions</li> <li>- bipolar distribution in environmental protection</li> <li>- instability of weather conditions</li> <li>- protection of biotopes</li> </ul>
Production and product and agricultural market	<ul style="list-style-type: none"> <li>- higher flexibility of supply than production</li> <li>- low flexibility of production and supply of primary products</li> <li>- dependence on the environment, e.g. trade or processing industry</li> <li>- use of intermediary forms</li> <li>- production decisions based on prices from previous years</li> </ul>

*Source: [7].*

The goals that are to be fulfilled by the interventionism of the state in agriculture depend on the degree of growth of the economy in particular countries. Here, we can mention the factors such as acceleration of the development of the agricultural sector, its modernisation and self-sufficiency, the ensuring of the food safety of the country or its food production self-sufficiency, decrease in the costs of production in agriculture and improvement of competitiveness, protection of land and other resources engaged in agriculture, stabilisation of agricultural prices through the use of a relevant pricing policy, ensuring of satisfactory incomes for farmers, protection or support of some forms of agriculture, e.g. family farms or ecological farms, or the prevention of the process of de-population of agricultural areas [4].

State interventionism in agriculture is based on the involvement of some state-owned entities in the shaping of parameters such as agricultural prices, taxes, loans, donations, etc. Interventionism is undoubtedly one of the basic instruments for the fulfilment of a specific policy of development of rural areas and agriculture. The reasons for the use of intervention should be sought mainly in the high degree of risk associated with agricultural activity and the low effectiveness of the prevention of this risk. On the other hand, intervention in agriculture can be attributed to the occurrence of external costs and effects in this branch of economy. They justify the subsidisation of new technologies that allow many farmers to achieve economies of scale [9].

Agricultural policies of modern states are based on various paradigms. Some states implement development strategies using approaches and concepts of several various paradigms at once. Usually, we distinguish four paradigms of the agricultural policy in industrialised states: 1) dependent agriculture paradigm, also called state-dependent paradigm, 2) competitive agriculture paradigm, 3) multifunctional agriculture paradigm, d) global agriculture paradigm [10] (Table 2).

The adaptation of Polish agriculture and rural areas to the standards of highly developed European countries can be fulfilled as a result of the acceleration of two parallel processes that are harmonised with each other. The first of these processes is the modernisation of agriculture, which means an active policy in favour of structural changes, mainly the agrarian and social-professional structure of rural

populations. The second process is the multifunctional development of rural areas, concerning the creation of new steady jobs connected with small-scale production, or services in branches encompassing the agricultural environment or the benefits of rural areas [10].

Table 2

### Agricultural policy paradigms

Paradigms	Characteristics of agriculture	Policy priorities
Dependent agriculture (state-dependent)	Chronically low incomes in the sector, imperfect and unstable agricultural markets, yield volatility, difficulties in achieving market equilibrium, the lack of ability to compete without state aid	Direct and indirect support of agricultural incomes, market price support, protectionist trade policy, supply control measures, ensuring an adequate level of agricultural production
Competitive agriculture	Agriculture is not fundamentally different from other sectors of the economy, thus, it does not require special treatment, farming can provide average or above-average incomes without state intervention	Liberalization of agricultural and trade policies, intervention limited to safety net measures to be applied in crisis situations, market and free trade considered as a means for ensuring food security
Multifunctional agriculture	Agriculture provides not only food, but also a range of other goods and services of social importance (protection of the environment, management of natural resources, the preservation of the vitality of rural areas/rural cultural heritage, maintaining rural landscapes), but they are not rewarded by the market. Farm incomes are too low to ensure sustainable development of rural areas	Support for all relevant functions of agriculture, measures directed towards sustainable rural development, in particular remuneration of farmers and rural areas inhabitants for the delivery of public goods; investments in technical and social infrastructure in rural areas
Global agriculture	Consumer-oriented agriculture, agricultural sector is only one element (among many others) in global food chain, state intervention in agricultural markets is not desirable	Market-based approach to agricultural policy, definition of food quality and food safety standards, providing an appropriate legal framework for contractual relations between actors of the food chain

Source: [12].

The ongoing fulfilment of the stage of intense modernisation of agriculture and multifunctional development of rural areas by Poland forces us to answer the question as to what extent the state and its interventionist policy should play an active part in these changes. The programme of state aid in this area is particularly important; actually, it is various forms of aid addressed to farms that will determine the course of transformations in the agrarian field and decide which farms and in what regions will find their future in the production of agricultural products, which of them will lose, and which of them will withdraw from the market and engage in non-agricultural activity or become dependent on social aid.

The dilemma of whether the state should intervene must be replaced with the question of how and when to intervene. State interventionism should be understood as a policy that encompasses long-term goals oriented towards motivation in decision-making processes and connected with strategic changes. It cannot be connected with the unplanned ad hoc allocation of financial means [13]. Direct untargeted intervention in the sphere of agriculture should not take place at all, because the essence of such a mechanism does not lead to the implementation of any strategic goals, and implies only social functions.

State intervention proceeds from the maintenance of income aimed at the diminishing of poverty to the active stimulation of transformation processes and the support of modernisation mechanisms. However, it is obvious that even such tasks of state interventionism will have a favourable impact on

the income of rural population, as the acceleration of structural changes brought about by various forms of targeted aid for agriculture and the support of alternative types of work undertaken by farmers help improve the level of such income.

The difference is that the maintenance of the level of farmers' income through subsidies, supplementary funds, etc. is a passive mechanism bearing the characteristics of social aid aimed at the diminishing of poverty in agriculture. On the other hand, the mechanism of intervention based on forms of aid addressed to those who meet strictly defined requirements determined by the state and conforming to strategic goals fulfils an active function: it influences the decisions of agricultural producers concerning the scale and direction of production, and imposes adaptation processes on their farms. The increase of farmers' income resulting from such a mechanism is a desirable symptom of ongoing changes that are supposed to establish an efficient market economy [11].

Sharing the opinion of Rembisz and Stańko [6], we cannot determine and define clearly what the ultimate goal of intervention is. According to these authors, interventions in the agricultural market are undertaken mainly for income purposes, but stabilisation is also a significant factor here.

Justifying interventionism from the perspective of income, we must stress that it is aimed at maintaining income above the level resulting from the market regulations. This results from the lack of consent to the level of income determined by the market situation on the part of farmers as well as trade union and political organisations representing their interests. On the basis of the EU experiences, we can say that not all methods of intervention lead to the reduction of income differences in agriculture and towards other branches of economy. Any methods of intervention through the market or price, such as intervention buying, supplements to the buying price, or direct supplementary payments supporting production cannot solve the income problem because they favour bigger producers who are connected more strongly with the market. Even simplified payments in the form of transfers for one hectare are not the best solution, even though they decrease costs and increase the freedom of choice of production. This fact was taken into account in the reform of the Common Agricultural Policy, where support was separated from the size and type of production and possessed resources in favour of individual payments per farm and support for non-agricultural development of rural areas.

Considering the processes of transformation of the agricultural sector in Poland, we must take account of the fact that its reconstruction is one of the more important elements of the transformation of the Polish economy. It should create conditions for harmonious co-existence of all links of this sector in its adaptation to the needs of the modern economy that constitutes a foundation for social development. In addition, the transformation of the agricultural sector takes place in conditions of limited self-investment ability, which is related mainly to macroeconomic factors such as the barrier of demand for agricultural food products, the decrease of the population's real income, the increase in food prices, and the decrease in the profitability of the production of raw food products. The lack of farmers' own funds in the agricultural sector reduces the possibility for investments and, frequently, the financing of current activity. The acquisition of bank loans is limited by many barriers; the most important of them include the absence of creditworthiness, the insufficiently prepared conception and organisation of an investment, or the limited amount of funds that can be engaged in long-term bank loans by economically weak banks serving the agricultural sector.

Due to the aforementioned circumstances and limitations of the financial independence and efficiency of the agricultural sector in the transformation process, public funds are used mainly for breaking the barriers of access to bank loans, increasing the offer of preferential bank loans, grants for the development of rural technical infrastructure and for the dissemination of biological, scientific and technological progress, financing activities that stabilise the agricultural market and protect agricultural income and finance training courses, and advisory services and searches for methods of solving complex production, technological and organisational problems.

## Conclusions

Agricultural interventionism has existed and will probably exist for a long time. Depending on the various types of natural and economic conditions, particularly on the level of the economic development of each country at a given time and the role and importance of agriculture in their

economies, we can observe differences in agricultural policy being applied in various countries. More developed countries will try to bring about liberalisation of the agricultural food trade because they are able to win competition on the global market. Poorer countries will want to protect their market, or – if they form an association – the market of the economic association to which they belong.

This can be proved, for instance, by the fact that, in contrast to the EU, the United States has opted for the liberalisation of agricultural trade and the reduction of support for agriculture for a long time. However, this situation is changing. In the majority of highly developed countries we can observe a high level of agricultural protectionism, and this situation is very unlikely to change in the next few years.

The scope of land laws in the USA was much more extensive than in the EU during the earlier programming period; apart from agricultural production, it also covered the issues of food supply, production of bioenergy, risk management, support of R&D activities and, similarly to the EU, environment protection and the development of rural areas. In the most recent programming period (2014-2020), the Common Agricultural Policy is also aimed at reaching goals similar to those adopted in the United States. In the EU agricultural policy we can observe an evolutionary transition from dependence to the paradigm of multifunctionality. Former ideological foundations have been redefined, and instruments have been adjusted to the new social, economic and political circumstances.

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