

INTERVENTIONISM ON THE AGRICULTURAL LAND MARKET – A CRITICAL ANALYSIS

Jacek Maśniak

Warsaw University of Life Sciences – SGGW

Abstract. The aim of the article is the economic evaluation of the effects of interventionism on the agricultural land market in the light of the Austrian school of economics theories. The analysis refers mainly to the policy of forming the agricultural system, which constitutes a specialised type of a land allocation policy. The essence of the Austrian school economists' view on interventionism boils down to the fact that it introduces coercion in place of voluntary cooperation. This leads to the redistribution of wealth and a general decline in social productivity.

Key words: agricultural land market, interventionism, the Austrian school of economics

INTRODUCTION

Considerations concerning the structure of the economic system constitute the fundamental element of a social policy theory. The mainstream studies concerned with this issue postulate the formation of a mixed system, which assumes that the market mechanism is the primary regulator of economy, and the state corrects market failures. State actions aimed at eliminating failures connected with the functioning of the free market and supporting development processes are called interventionism. The theory of market failure acts as a basis for the formation of a strong conviction that an intensive state activity is needed in the area of agriculture. One of the main premises of agricultural interventionism points to the fact that agriculture uses a specific production factor, mainly land, which plays various social functions at the same time.

Although the interventionism doctrine is deeply rooted in contemporary economic and economic policy theory, it should also be noted that the considerable output of economic thought includes divergent views, which consider any forms of state intervention in the free market to be ineffective and harmful. The most interesting in this regard is

Corresponding author: Jacek Maśniak, Warsaw University of Life Sciences – SGGW, Faculty of Economic Sciences, Department of Economics and Economic Policy, Nowoursynowska 166, 02-787 Warszawa, Poland, e-mail: jacek_masniak@sggw.pl

© Copyright by Warsaw University of Life Sciences Press, Warsaw 2016

the Austrian school of economics, which has developed a highly insightful and carefully thought-out theory of social cooperation. In the light of this theory, the market order is much more effective and socially useful than the economic system that is planned and implemented by public authorities.

The aim of the article is to present an economic analysis of the effects of interventionism on the agricultural land market in the light of the Austrian school of economics theory. To achieve this, the following issues must be considered and explained:

- the causes and forms of interventionism with reference to the agriculture land market;
- the functioning of economic system in the Austrian school of economics theory;
- the effects of the actions taken by the state that have the greatest impact on land management and the evaluation of such effects from the perspective of an economic theory formed by the Austrian school.

The first stage of research concerns the causes and forms of state interventionism on the land market. It presents principles and instruments of the policy regulating the formation of the agricultural system, which constitutes a specialised type of a land allocation policy. Subsequently, it discusses the main ideas of the Austrian school of economics and evaluates the state agricultural policy from this perspective.

MATERIAL AND METHODS

The work is mainly theoretical and empirical research is only supplementary. The analysis of the selected issue related to the economic reality is conducted with reference to the Austrian school of economics. The research method is also borrowed from this school. It assumes that there are necessary interdependences between events that result from human actions. The task of economics is to discover such causal laws, and the only effective approach is an a priori-deductive approach using verbal logic. This methodological approach assumes that knowledge about economic reality, which is highly complex and determined by creative human actions, can be acquired only by way of theoretical considerations. On the basis of fundamental and undeniably true statements (axioms) other statements are posed by drawing logical conclusions.

Empirical data used in the work are used to describe the direction and scale of activities undertaken by the state with respect to the agricultural land market. Such information includes the review of legislature with an indication of the most important regulatory solutions and presents the degree of a controlled turnover in agricultural land. Empirical research uses data published in the reports on the activities of the Agricultural Property Agency in the years 2004–2013.

CAUSES AND FORMS OF INTERVENTIONISM ON THE AGRICULTURAL LAND MARKET

Highly developed economies, including the EU states, apply a very extensive and advanced interventionist policy with regard to agriculture. The practically applied economic policy related to agriculture finds its substantiation in numerous works of economists.

The main reason for such actions is said to be the fact that market mechanism does not guarantee an adequate allocation of resources and that the specific character of the agricultural sector requires institutional support. Wilkin [2003] follows Stiglitz [1987] in asserting that the main reasons behind state intervention in agriculture are as follows:

- incomplete and imperfect nature of markets which are connected with agriculture;
- necessity and usefulness of supplying agriculture with public goods;
- occurrence of the phenomenon of external costs and externalities;
- imperfect information;
- profitability problems in agriculture.

To justify the need for an active role of the state, a considerable focus is placed on the specificity of land, which is the primary factor used in agricultural production. It is accepted that in the presently developed sustainable agriculture model, land provides not only food and energy resources, but also renders services as an element of the natural environment. Such land related utilities, which are created spontaneously, i.e. without an additional capital or labour input, are public goods, and market mechanism usually does not ensure their optimal supply [Czyżewski and Czyżewski 2013].

The state policy influences the way in which the land is used by applying instruments which directly affect trading in agricultural land as well as instruments which intentionally stimulate changes in terms of land use. The area of an economic policy which is applied not only in relation to agriculture, but also to other sectors of economy, and which has a direct influence on the structure of production factors, is the pricing and incomes policy. By increasing or restricting the effectiveness of given production factors in their different applications it affects the distribution of income in the economy and, consequently, the allocation of economic resources. Other instruments directly affecting the disposal of land resources in the economy are also used as part of a sectoral policy connected with agriculture. The areas of state activity which have an impact on land management in Poland include in particular: spatial planning and land development, agricultural land and woodland protection, land consolidation and exchange, and restrictions on real property acquisition by foreigners.

A specialised type of a policy that has a strong influence on the agricultural land management is the agricultural land structuring policy. As in most European countries, the basis of the agricultural system in Poland is family farming. The most important acts governing the agricultural system in Poland are: Article 23 of the *Constitution of the Republic of Poland of 2 April 1997*, the *Act of 11 April 2003 on the Formation of the Agricultural System (AFAS)* and the *Act of 19 October 1991 on the Management of State Treasury Agricultural Land Property*. In accordance with these regulations a family farm means a farm run by an individual farmer, in which the total area of cultivated land does not exceed 300 ha.

An individual farmer means a natural person who is the owner or lessee of agricultural land of the total area of cultivated land not exceeding 300 ha, runs an agricultural farm personally, has agricultural qualifications and has resided for at least 5 years in the commune in which one of agricultural land properties comprising his farm is located.

The aim of a state intervention is to form the agricultural system by:

- improving the area structure of agricultural farms;
- preventing excessive concentration of agricultural property;

- ensuring that agricultural activity in agricultural farms is conducted by properly qualified persons.

The control over land market is exercised on behalf of the state by the Agricultural Property Agency (APA). For the purposes of direct intervention on the land market, APA has been given entitlements such as pre-emptive right and the right of land buy-out. Pre-emptive rights means that in the circumstances stipulated in the act the APA is entitled to take the place of the buyer and acquire agricultural property at the price and on the terms previously established by the buyer and the seller. The right of land buy-out is an entitlement similar to the pre-emptive right in terms of its effects. It allows the APA to acquire land property in the case of transfer of ownership agreements other than sale agreements, such as, e.g.: donation agreements, making contribution-in-kind of agricultural property in a commercial company or partnership, property division agreements, exchange of property. Exercising the pre-emptive right or the right of property buy-out, the APA can prevent the acquisition of agricultural property by natural persons who are not individual farmers and by legal entities.

In the period from 16 July 2003 to the end of 2014, acting pursuant to the act on the formation of the agricultural system, the APA exercised a pre-emptive right (right of buy-out) in 619 cases, and in 2014 it intervened in 9 cases. It expressed its willingness to acquire agricultural property of a total area of 14.9 K ha (Table). In 2014, this area amounted to 189 ha. The Agency acquired the ownership of only larger plots of land that could be used to enlarge individual farms.

Table. Agricultural land area taken over and sold by the APA

Agricultural land	To the end of 2014 (ha)	In 2014 (ha)
Taken over total	4 739 338	246 ^a
of which by AFAS	15 400	189
Sold total	2 608 473	120 552
of which by restricted tender	206 600	22 859

^a Land acquired on the basis of the statement, without formal written acceptance, on the basis of AFAS and the *Act of 19 October 1991 on the Management of the State Treasury Agricultural Land Property*.

Source: *Report on the activities of the Agricultural Property Agency regarding Agricultural Property Stock of the State Treasury in 2014* [2015].

The process of privatization conducted by the APA was initially connected with the need for the development of state-owned land. Since 16 July 2003 the act on the formation of the agricultural system that came into force set some additional tasks for the APA, the purpose of which is to promote family (individual) farms. The privileged position of this group of agricultural farms in relation to other land market players stems from the fact the APA does not have the right to apply restrictions in the form of the pre-emptive right or the right of land buy-out. Furthermore, individual farmers frequently have the exclusive right to acquire land sold by the APA by way of restricted tender.

Sale of land can be carried out by way of tender or without a tender procedure. In 2014, 80.7 K ha of land were sold to entitled entities. Restricted tender was organised mainly with respect to individual farmers. Since this entitlement came into force (June 1999), the land of the area of 206.6 K ha has been sold by way of tender. In 2014, 22.9 K ha were

sold by restricted tender, which constituted 59% of the land sold by tender in general and 23% of all land sold in that year by tender and without a tender procedure.

The essence of the formation of agricultural system policy is therefore that fact that the state uses such actions as pre-emption and buy-out to acquire land on the private market and then sells it to individual farmers on a preferential basis. It is therefore a policy of active impact on the private market in order to encourage the flow of land into family farms. The economic evaluation of the effects of such actions will be conducted based on the Austrian school of economics theory.

THE ECONOMIC SYSTEM OF THE AUSTRIAN SCHOOL AND CRITICISM OF INTERVENTIONISM

The economic theory of the Austrian school of economics places human action at the centre of attention. This approach to studying the reality was developed and systematised by von Mises, who is considered to be the most prominent Austrian school economist. His treatise on economics entitled *Human Action* [2007] is an insightful and systematized reflection on regularities and constraints which apply to people as individuals and society.

The research method of the Austrian school is formed on several basic principles:

1. Subjectivism and methodological individualism, i.e. a conviction that only individual human beings act, that is, get engaged in conscious activities, in order to achieve specific goals. “For a social collective has no existence and reality outside of the individual members’ actions. The life of a collective is lived in the actions of the individuals” [von Mises 2007]. Human preferences have a subjective character, and therefore the value of market goods is the result of personal judgment and individual choices. Man is able to act because he is capable of discovering causal relationships. Thanks to this, he can set objectives for himself, and then choose means to achieve those objectives (Fig.). The essence of human action is a creative approach, which means discovering new opportunities, continuous learning and gathering knowledge. Such a creative approach to the use of resources constitutes the essence of entrepreneurship. As a result of entrepreneurial actions man also discovers that social cooperation ensures more benefits than economic self-sufficiency. Management based on specialization and exchange can effectively overcome privation and it is beneficial for all involved.
2. Emphasizing the significance of limited knowledge and uncertainty in the management process. In such circumstances the most certain mechanism of obtaining knowledge is the free market. The prices of consumer goods reveal the most urgent, unsatisfied needs, while the prices of economic resources provide information on the availability of production factors. Then entrepreneurs seeking profit are motivated to meet consumers’ need as well as possible, at the same time minimising resource consumption. This process is the most effective when accompanied by the protection of personal property and individual freedom, hence any enforced cooperation through a system of “do’s” and “don’ts” limits productivity of the society and undermines its moral foundations.
3. The rejection of mathematical modelling as a method of gaining knowledge about socio-economic reality. Economic knowledge can be obtained only my way of verbal

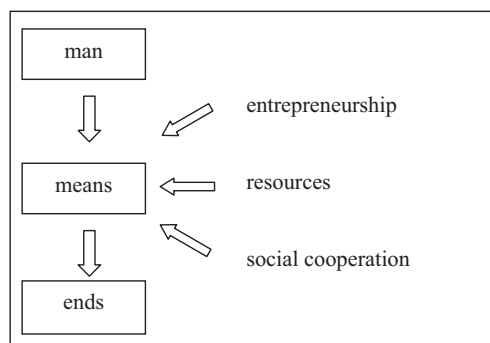


Fig. Diagram of human action

Source: Own elaboration on the basis of von Mises [2007].

explanation of causal relationships. Logical implications are formed on the basis of a priori true statements (e.g. that humans act).

An analysis of the effects of state intervention in the economy constitutes an important and well developed part of the Austrian school theory. Ludwig von Mises [2000] defines interventionism as a set of procedures hindering the functioning of market economy and destroying it as a result. In his view, it hinders production and limits the possibilities of satisfying needs since it forces producers and owners of production resources to use them in a manner different to a manner they would apply under pressure from the market. By destroying economic rationality, it does not make people richer, but in fact poorer. The harmful nature of a state intervention in the economy can be presented with regard to several basic aspects, which also refer to interventionism on the land market.

The first objection refers to the lack of representativeness in terms of state actions. Objectives set by people are individual in their nature, and furthermore, they are assigned a subjective meaning. Since economic resources are scarce, creating solutions that make it easier to meet some objectives must limit the possibilities of meeting other competitive objectives. Hence the questions whether it is possible to set general social objectives related to the management of scarce resources, such as land, which would unquestionably lead to an improvement in the situation of all society members and whether the establishment of a family farm as a fundamental form of land management is in the best interests of the whole society.

Representatives of the Austrian school claim that in the conditions of subjective multiplicities and changing ends, the best way of discovering social preferences is a voluntary cooperation of people who are equal under the law. By means of flexible market prices, scarce resources are directed to the production of the largest possible quantity of useful goods. In contrast, all forms of coercion in the management process generate profits for some participants at the expense of others. Hence interventionism is first and foremost regarded as the form of meeting group interests. In the case of the formation of the agricultural system policy, a social group benefiting from this policy undoubtedly includes individual farmers, as they are privileged in terms of gaining access to the land. Another social group gaining benefits are officials and politicians, as they are equipped with

means that are necessary to conduct this policy, and also the scope of their power is increased in the process.

The supporters of interventionism are generally known to claim that family farms provide goods of a public character, connected with sustainable development, protection of the environment and rural landscape, and traditional rural culture. However, it can be noted that such claims do not solve the problem of the optimal allocation of land but rather move it to another, more detailed level. All fundamental questions remain open, e.g. How many raw materials should be produced compared to ecological services; Which landscape is more valuable: traditional or modern; should cultural heritage be protected or should the environment be adapted to present and future needs of people; Where does the belief that family farms better fulfil this role come from.

There is also the question of the compensation of losses incurred by consumers on some markets, with increased profits made on other markets. However, in this area we can also notice that human needs are subjective and changing in their nature. This leads to a conclusion that any interpersonal comparisons are impossible to draw, and therefore there is no basis for arbitrary statement as to which goods are needed more by people.

In addition to the presented doubts, which appear when formulating social goals, the possibility of their effective realisation also raises objections. The Austrian school economists note that there are certain mechanisms incorporated in the state policy which by their very nature lead to poor performance, or in fact to the opposite effect than the one intended. People implementing state policies are subject to other stimuli than entrepreneurs and employees engaged in market activity. First of all, their personal incomes do not depend on the efficiency of performing public functions because they derive their profits not from the sale of services which are voluntarily purchased by other people on the market, but from obligatory levies imposed on the society. Therefore, they lack a financial incentive to serve the public in a competent way. This leads to a situation in which personal interest begins to dominate, and the realisation of social objectives is merely factitious. Furthermore, there are different criteria for selecting people who are to hold governmental functions and people engaged in the market activity. As Rothbard [2009] notes, “in the market, the fittest are those most able to serve the consumers; in government, the fittest are those most adept at wielding coercion and/or those most adroit at making demagogic appeals to the voting public”.

In addition to the lack of actual motivation to realise common goals, we can also notice the lack of sufficient knowledge that would allow an effective implementation of public schemes. As Hayek [1948] stresses, knowledge required for the functioning of the economic system is dispersed, changing and, what is particularly important, incomplete. This applies to both human needs and preferences as well as available resources. Frequently even the holders of such tacit knowledge are unaware of it. Consumer preferences are not only changeable by their nature, but also frequently become realised only at the moment of making a choice. The means of satisfying needs, on the other hand, are continuously multiplied and improved due to human creativity and entrepreneurship. The conditions in which the ‘discovery procedure’ is most effective are ensured by the economic freedom, according to which the system of market prices operates like a mechanism for transmitting information. In this context, the privileged access to land by a selected group of agricultural producers should be interpreted as an interference in the competition

process and the modification of the land allocation on the market. Land which is nationalised by exercising the pre-emptive right of the right of buy-out is sold by restricted tender to individual farmers. This is accompanied by a conviction that this group of producers is better able to satisfy the needs of the society. Its effectiveness is to be guaranteed by a proper area structure of agricultural farms, the lack of excessive concentration of land, and proper qualifications of people running farms. Those, however, are only the means, and not the goals of the state policy. The final goal should be an increased level of satisfaction in the society. However, where should those producers gain knowledge about how much should be produced, what and for whom? For example, should they produce more food or provide agritourism farm services? It turns out that the only instrument that can effectively direct the activities of agricultural producers is a system of flexible prices and economic freedom that have just been negated. Hence the final conclusion is that arbitrarily established social goals, already seeming unrepresentative in themselves, always encounter an informational barrier in the process of their realisation since ignoring market prices means foregoing a unique source of knowledge about the economic reality.

Another unintended result of interventionism is a progressive expansion of the government structures and bureaucratisation of the economy. This means that more and more resources and products are taken over by the public sector, and production in the private sector encounters growing difficulties.

Yet another element of criticism of interventionism is its instability. The supporters of the Austrian school of economics claim that in the long term interventionism leads to an economic and moral collapse of the society. It violates in a systematic way the principles of peaceful cooperation, which are based on universal equality under the law, respect for private property and individual freedom. Limitation of voluntary cooperation and privileges to selected individuals or entities will inevitably lead to the temptation to use state institutions to further the interests of a group. The competition between particular social groups in the process of gaining power and creating legal solutions that are favourable for them will result in a systematic increase in coercive measures applied by the state and, in consequence, a gradual restriction of economic freedom of the society. The problem of the increasing level of interventionism was noted by von Mises [2000], according to whom "Mankind has a choice only between the unhampered market economy, democracy, and freedom on the one side, and socialism and dictatorship on the other side. A third alternative – an interventionist compromise – is not feasible".

In agriculture, where interventionism is fairly advanced in comparison to other economic sectors, we can observe quite common demanding attitudes. Other social groups also strongly lobby for their interests. An escalation of such attitudes results in a decreasing involvement of the society in generating wealth and a growing competition when it comes to its distribution.

CONCLUSIONS

The Austrian school economists' view on the problem of interventionism boils down to the fact that it introduces coercion in place of voluntary cooperation. Since market exchanges are beneficial to both parties, individuals following their own interests must

at the same time generate benefits for others. The right to use force, however, destroys this relation, leading to the redistribution of wealth and a general drop in the society's productivity.

When evaluating state interventionism on the land market from the perspective of the Austrian school of economics, a few basic critical views should be formulated:

- The lack of representativeness of state actions. The interventionist policy is accompanied by a conviction that it seeks to achieve some common goals. The reality seems to be different as any intervention from the government prejudices the interests of some groups for the benefit of others. In the case of the policy concerning the formation of the agricultural system, the social groups benefiting from it are undoubtedly individual farmers, who are privileged in gaining access to land. Another social group deriving benefits are officials and politicians, as they are equipped with means that are necessary to conduct this policy and, furthermore, the scope of their power is increased in the process.
- The lack of efficiency and effectiveness of such measures. State actions interfere with the economic process and bring about a number of adverse effects, as a result of which the achieved state is less desirable than the previous one. Land which is nationalised by exercising the pre-emptive right of the right of buy-out is sold by restricted tender to individual farmers. Such a restriction of competition should be interpreted as an interference in the process of the market land allocation. Since the free market is the best way of discovering social preferences and at the same time it is the most effective way of motivating entrepreneurs and resource holders to maximise the production of useful goods, any intervention in the market must lead to a decline in social welfare. Another unintended result of interventionism is a progressive expansion of the government structures and bureaucratisation of the economy.
- Instability of the system based on interventionism. A systematic violation of property rights and introducing privileges for selected individuals must inevitably result in the temptation to use state institutions to further the interests of a group. In the long term such attitudes lead to a decreased productivity and an economic and moral collapse of the society.

REFERENCES

- Czyżewski, A., Czyżewski, B. (2013). Ziemia i jej renty w nowym paradygmacie rozwoju rolnictwa [Land and Land Annuities in a New Paradigm of Agricultural Development]. Retrieved from <http://www.pte.pl/kongres/referaty> (accessed: 14.12.2015).
- Hayek, F.A. (1948). *Individualism and Economic Order*. University of Chicago Press, Chicago.
- Constitution of the Republic of Poland of 2 April 1997 (Journal of Laws 1997 no 78 item 483).
- Mises von, L. (2000). *Interventionism [Interventionism: An Economic Analysis]*. Arcana, Kraków.
- Mises von, L. (2007). *Ludzkie działanie. Traktat o ekonomii [Human Action: A Treatise on Economics]*. Instytut Ludwiga von Misesa, Warszawa.
- Report on the activities of the Agricultural Property Agency regarding Agricultural Property Stock of the State Treasury in 2014, Warszawa 2015.
- Rothbard, M.N. (2009). *Interwencjonizm, czyli władza a rynek [Power and Market: Government and the Economy]*. Fijor Publishing, Warszawa.

- Stiglitz, J.E. (1987). Some Theoretical Aspects of Agricultural Policies. *The World Bank Research Observer*, 2, 1.
- Act of 19 October 1991 on the Management of State Treasury Agricultural Land Property (*Journal of Laws* 2012 item 1187).
- Act of 5 August 2015 on the Formation of the Agricultural System (*Journal of Laws* 2015 item 1433).
- Wilkin, J. (2003). Interwencjonizm państwowy w rolnictwie – dlaczego był, jest i będzie [State Interventionism in Agriculture – Why It Was, Is and Will Be]. [In:] A. Kowalski (Ed.), *Dostosowanie polskiego rynku rolnego do wymogów Unii Europejskiej [Adjusting Polish Agricultural Market to the Requirements of the European Union]*. SGH, IERiGŻ, ARR, Warszawa, 39–50.

INTERWENCJONIZM NA RYNKU ZIEMI ROLNICZEJ – ANALIZA KRYTYCZNA

Streszczenie. Celem artykułu jest ekonomiczna ocena skutków interwencjonizmu na rynku ziemi rolniczej w świetle teorii austriackiej szkoły ekonomii. Analiza odnosi się głównie do polityki kształtowania ustroju rolnego, która stanowi wyspecjalizowany rodzaj polityki w zakresie alokacji ziemi. Istota poglądu ekonomistów szkoły austriackiej na problem interwencjonizmu sprowadza się do tego, że wprowadza on przymus w miejsce dobrowolnej współpracy. Prowadzi to do redystrybucji bogactwa i ogólnego spadku produktywności społeczeństwa.

Słowa kluczowe: rynek ziemi rolniczej, interwencjonizm, austriacka szkoła ekonomii

Accepted for print: 22.06.2016

For citation: Maśniak J. (2016). Interventionism on the agricultural land market – a critical analysis. *Acta Sci. Pol., Oeconomia*, 15 (3), 45–54.