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Main problems of agriculture and rural areas in Poland in the period of transformation and integration with European Union

Abstract: *Problems currently observed in Polish agriculture have different origins. Some of them have an historical background, while others are related to systemic transformation and forthcoming accession to the European Union. Most of the problems are common for all the candidate countries and most of them are also observed in the developed economies. Identification of these problems is the main purpose of this article. Special attention is paid to natural, human and capital resources available in rural areas. Possible development paths are pointed out. The article also covers most of the opportunities that may help overcome rural development problems in Poland in the wake of forthcoming accession, and their limitations.*

Key words: *rural development, agricultural incomes, human capital, sustainable development, EU enlargement.*

Introduction

The aim of this elaboration is to present main problems of agricultural and rural areas in Poland. They are presented in the following order: historical problems, current problems that arose during the process of economic transformation, and problems that may appear as a result of the EU accession. In principle, historical problems are limited to the effects of the so-called real-socialist period. The year 1989 was selected as marking the beginning of the systemic transformation. That was when the Solidarity movement achieved electoral victory and created the first non-communist government under the leadership of Tadeusz Mazowiecki. It is also assumed that Poland will join the EU in May 2004.

The elaboration contains a general outline of certain, selected problems only. Taking into account their complex nature separate elaborations (of a research report character) would be necessary to present the features of each of them. Some of the problems introduced in the article are specific only for Poland,

while certain weaknesses are also present in other candidate countries. There are problems, though, which are common for the whole of the integrating Europe.

Historical problems

From an historical perspective, there are four key indications of peasant farming that were most important in the previous centuries. These were namely:

1. Low income of agricultural and rural population in comparison with incomes of urban population (Figure 1), combined with naturally deeper income differentiation in agriculture, which caused wider range of poverty in the countryside (in agriculture). Such a situation has been present since the 15th century, when the landed gentry were developing their farm economy, entailing the reduction of land possession by peasants farmers, and the drudgery was introduced. This resulted in the worsening of the living standards of peasant population. In the period of developing capitalism farmer incomes were choked by the worsening price relations and by agricultural overpopulation. A particularly difficult situation was observed among the unemployed rural population owning small plots or no land at all (Zegar 2000).
2. A persistent need of increase in agricultural production in order to satisfy growing demand for food and agricultural materials from the rapidly and dynamically developing cities and industry, and a persistent need of improving the level of incomes of agricultural population (the latter having turned out unfeasible, because increase of production simultaneously caused reduction of farm product prices). This problem was especially important in the period of centrally planned economy, when the demand for food was not fully satisfied. Before World War II – under the conditions of market economy – demand and supply were balanced by the price mechanism at a lower level of per capita consumption.
3. Utilization of resources, especially of labor, for the general economic development and improvement of the country's population incomes. The attempts

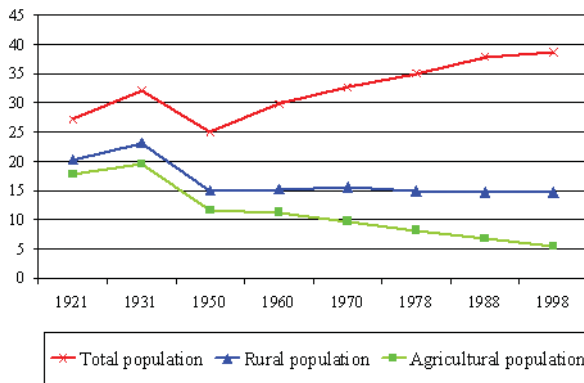


Figure 1. Rural and agricultural population in Poland

Source: *Statistical Yearbook of the Republic of Poland 2001*.

of reaching this objective were based on the two-sector model recommended for the early stages of development of industrial economies. It assumed the movement of labor from agriculture (Figure 2), featuring a lower level of labor productivity, towards industry, where there was higher labor productivity. Owing to this process the increase of welfare, creation of demand for agricultural products, and higher agricultural incomes were observed. The necessary condition was demand for labor outside of agriculture (Lewis and Jorgenson 1961; Schultz 1964; Kuznets 1996; Mellor and Johnston 1984). In case of limited external labor demand the model of intensive labor agriculture was recommended (Hayami and Ruttan 1985).

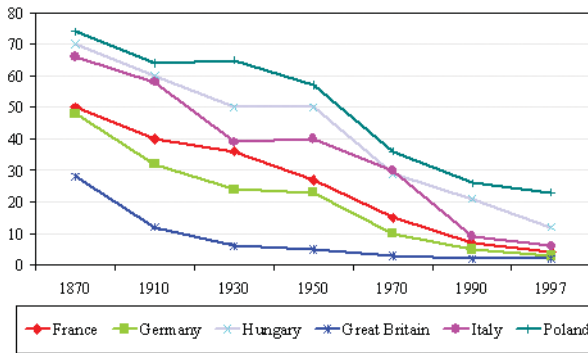


Figure 2. Employment in agriculture. Total employment in the country = 100
 Source: Based on *Statistical Yearbook of the Republic of Poland, 1990–2001*.

4. The backwardness of rural areas in terms of civilization was associated not so much with lower incomes, as with worse technical and social infrastructure (education, public services). High costs of infrastructure in rural areas made the main streams of investments go to urban areas. This, in turn, resulted in the deeper differences with respect to the civilization-related facilities between villages and cities. The relatively better living conditions in the cities caused an outflow of the better educated population from the rural areas and, consequently, lower quality of the educational and health care services.

The period of systemic transformation

Transformation changed fundamentally the conditions for agricultural development: abolition, on the one hand, of the phantom of the so-called socialization of agriculture, and offering of the large areas of land for the satisfaction of the needs of private farming deepened, on the other hand, the “historical” problems of agriculture and rural areas. The supply of land from the liquidated state farming enterprises was only to a small extent absorbed by the functioning peasant farmers. However, this supply of land allowed for creation of large, several-hundred-hectares or even larger, capitalist-type private farms. The situation in the domain of agricultural incomes – gross disposable income, according to terminology of national accounts, was most dramatic. These incomes dropped in real

terms by almost 2/3 during transformation (Table 1). Moreover, after the period of the so-called shock therapy, the agricultural incomes have still been falling in real terms. The primary reasons have been the worsening relation of farm prices along with simultaneous emergence of the demand barriers for agricultural products. This did not allow for the production increase to compensate for the effects of the previous phenomena. In addition, an increase in different burdens on agriculture took place, worsening the relation of gross disposable incomes to gross value added (for example: increase of insurance cost).

Table 1. Changes of real gross production, price scissors index, gross value added and disposable income and relation of gross disposable income to gross value added of the private farming sector in 1991–2002 (1991 = 100)

Year	Gross production ^a	Gross Value Added Created ^a	Price scissors indicator	Gross Value Added (GVA) Realized ^b	Gross Disposable Income (GDI)	GDI/GVA
1991	100.0	100.0	100.0	100.0	100.0	77.6
1992	91.8	87.2	86.4	103.5	107.0	81.5
1993	96.6	102.5	84.3	111.4	117.6	81.9
1994	88.8	83.4	91.8	112.0	116.3	80.5
1995	98.3	96.7	93.5	126.5	132.2	81.0
1996	99.5	97.1	89.7	117.6	120.3	79.4
1997	99.4	99.2	86.0	111.1	110.1	76.9
1998	105.9	105.1	78.6	101.9	101.2	77.0
1999	100.2	101.7	71.9	84.0	76.4	70.5
2000	94.8	92.6	74.1	79.3	66.4	65.0
2001	100.4	105.0	72.1	85.6	73.1	67.2
2002	98.5	105.1	65.5	77.7	67.3	67.0

^a Constant prices; ^b Value in current prices deflated with price index of goods and services purchased by farmers; ^c Own estimation.

Source: Own calculation based on data from the Central Statistical Office (GUS).

After: Zegar, 2003.

One could therefore argue in a justified manner that the problem of agricultural incomes deepened.

This fact had an impact on personal incomes of population involved in agriculture, because the decrease of agricultural incomes could not be compensated for by the appropriately rapid growth of incomes from social benefits and from the non-agricultural jobs.

Personal incomes of agricultural population per capita are by about 3 lower compared to the incomes of persons outside of agriculture. At the same time the differentiation of incomes in agriculture increased, along with the extent of poverty in the rural areas. The differentiation of incomes in agriculture comes in a natural way from the differences in the productive potential of the farms and the ability to utilize it. This applies in a particular manner to labor compensa-

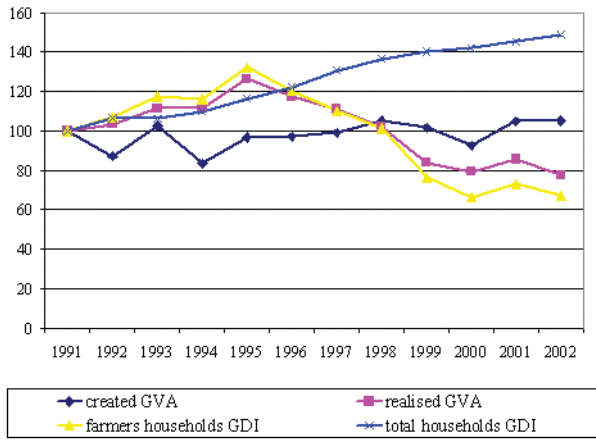


Figure 3. Changes of created and realized Gross Value Added and real disposable income in total household sector and farm households sector in years 1991–2002 (1991 = 100)
Source: Zegar, 2003.

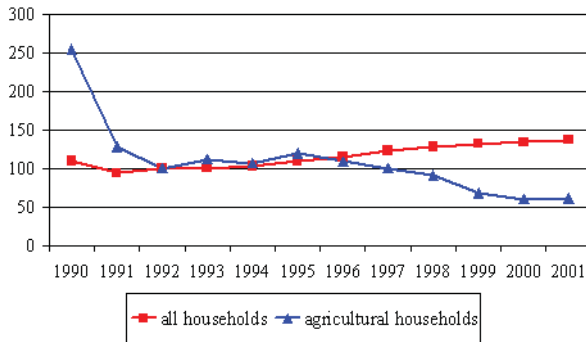


Figure 4. Dynamics of disposable incomes of the agricultural and all households (1992 = 100)
Source: Zegar, 2002, pp. 61–69.

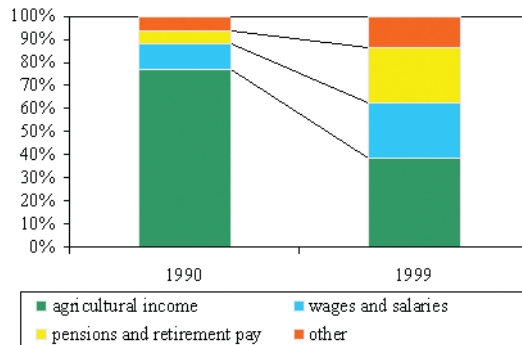


Figure 5. Structure of peasant households' personal incomes according to sources of origin in the years 1990 and 1999 (%)
Source: Zegar, 2002, Diagram 7, p. 78.

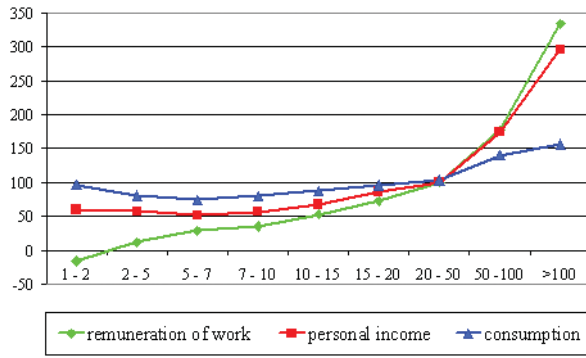


Figure 6. Differences in labor payment, personal income and consumption in population of farms with accountancy in 2001
Source: Zegar, 2003.

tion. Personal income originates also from different sources – besides agriculture – especially such as pensions, retirement pays, as well as wages and salaries earned outside own agricultural holding (Figure 5). This income in relation to one person is corrected by the number of family members. Consumption per capita shows smaller differences between agricultural households as a result of higher accumulation and investments in households with higher incomes and “consumption from capital” in the ones with lower incomes. These relations are presented in Figure 6, in which, in order to simplify the illustration, farm acreage is taken as the indicator of farm’s potential.

The extent of poverty among the farmer families in comparison with other socio-economic groups is presented in Table 2.

Table 2. Percentage of persons in households with poverty according to socio economic groups and different criteria of poverty in 2001

Socio-economic groups	Social minimum	Existence minimum	Relative poverty threshold	Official poverty threshold
Total	57.2	9.5	17.0	15.0
Employees	56.0	7.3	13.3	11.6
Farmers	71.2	12.6	26.5	22.9
- part time farmers	66.8	12.2	23.1	20.5
- self employed	44.5	5.1	10.0	8.5
Pensioners and disabled	51.1	8.8	15.3	13.5
Social benefit recipients	81.2	29.4	43.5	39.7

Source: *Living conditions...*, 2002, p. 202.

As far as agricultural production is concerned, the traditional deficit in this area was replaced by surpluses; the problem of production was replaced by the problem of sale (market-demand-driven). This problem appeared in spite of the *de facto* stagnation in agricultural production. The basic reasons for such a situation were: a decrease of consumption of food products (effect of annulment of subsi-

dies and of cheap-food-policy), rationalization and reduction of waste of the farm products, as well as a bigger increase of imports than of exports of agricultural products (appearance of a negative balance in foreign trade with agricultural goods) (Figure 7).

The level of utilization of the work force of agricultural and rural population worsened as a result of the general situation on the Polish labor market. The privatization and restructuring processes in non-agricultural firms, as well as liquidation and collapse of the state and cooperative farms caused the loss of around 1 million of work places in the rural areas. These were not replaced by the newly established private firms. On the other hand, urban areas generate a limited demand for labor offered by the rural population, as they struggle themselves with the problem of unemployment (at the end of 2002 the total number of unemployed exceeded 3 million people in Poland).

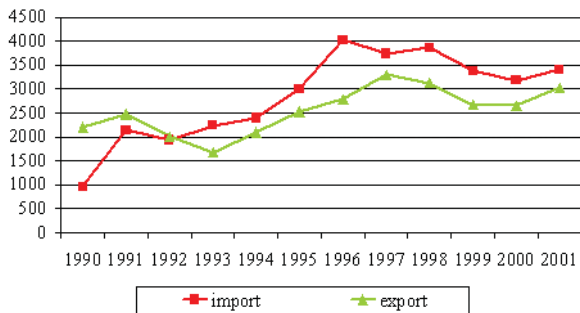


Figure 7. Import and export of agricultural products in Poland (mio USD)

Source: *Situation and Outlook...*, 2002.

The situation in agriculture has a strong impact on the entirety of the rural areas, although the position of agriculture in determining rural development is clearly diminishing. The process of transformation accelerated the latter phenomenon mainly through the development of different systems of social insurance and implementation of the idea of multifunctional development of rural areas. There has been a considerable progress in development of technical infrastructure, particularly in telecommunication; water and gas supply; sewage and liquid waste treatment. Only first steps have been made in the field of solid waste management.

However, in general, the development of villages remains far behind the development of cities, especially the larger agglomeration. The per capita personal income of the rural population, lower by as much as 30% than the income of urban population, the still difficult access of the rural population to such public goods as education, public health and cultural services, taken into account together with the model of consumption and the living standards promoted in the mass media, have a strong effect of demonstration, amplifying the feeling of depreciation among a large part of the rural population.

The process of transformation revealed new problems. We will limit ourselves in our considerations to the essential ones. The first one concerns competitiveness. In the previous political system this problem did not exist, mainly, though, because most of what agriculture produced was easily sold (with exception of fruits and vegetables). A new situation on the market, deep liberalization of foreign trade made farmers face a strong competition, not only on the foreign, but on the domestic market as well. The source of the problem lies in the fact that the effectiveness (productivity) of Polish agriculture is significantly lower than in the highly developed countries. Production is more fragmented (as the effect of agrarian dispersion and the weakly advanced processes of specialization and concentration) and producers of agricultural goods are at the stage of reestablishing their organizational structures. Similarly, we experience an inadequate infrastructure and institutional organization of the market, the support for agriculture being weaker than in the highly developed countries. One may say that the bases for competition are not equal.

Table 3. Producer Support Estimates by selected country in % of PSE

Country	1986–1988	1999–2001
European Union	42	36
Czech Republic (1)	38	19
Hungary (1)	17	18
Poland (1)	4	12
Slovak Republic (1)	35	20
OECD	38	33
Australia	9	5
United States	25	23

(1) Figures in second columns refer to the period 1991–1993

Source: *Agricultural policies...*, 2002.

The second source of difficulty is lack of stabilization of economic performance, causing excess fluctuations of production, which, in turn, brings down, in relative terms, the prices of agricultural products. Market institutions are undeveloped and the performance of agencies established for controlling main agricultural markets (like the Agricultural Market Agency, ARR) is ineffective. The uncertainty of economic circumstances (in addition to the natural uncertainty related to unpredictable climate and weather condition) has become one of the most important problems of agricultural entities and of their functioning.

Integration with the European Union

Integration of the Polish food and agriculture sector with the common EU market and the inclusion of Polish agriculture and rural areas into the Common Agricultural Policy (CAP) and the structural policy mechanisms create certain opportunities, which may help resolve the problems mentioned. At the same

time, these new conditions also bring in threats, or – to put things more mildly – additional uncertainty. It is certainly hard to predict precisely the results and effects of integration. This is why, for the purposes of this article, we will concentrate only on the “balance” of chances and threats (uncertainties) in reference to specific problems.

Concerning the income problem, integration with the EU appears to be more favorable than disadvantageous for Polish farmers. This opinion is associated with the planned coverage of Polish farmers by the direct payments, the price increases for some agricultural products, the stabilization of production and market conditions (limits and quotas), and the extension of the market for the labor-intensive so-called „boutique” products (exploitation of market niches). According to various analyses, due to the introduction of the instruments of CAP, the incomes of farmers in the acceding countries will rise above the average income observed in all sectors of the national economy (Tangerman 2001). It is, however, more realistic to expect a moderate increase of incomes due to an expected rise in agricultural prices and production costs (Floriańczyk et al. 2002).

A positive influence on incomes will be exerted by the implementation of the agro–environmental programs and the support for rural development in the framework of CAP and Structural Policy.

On the other hand, the most important threat is associated with the annulment of the possibility of improving incomes through production increase. Introduction of limits, production quotas and intensive competition on the agro–food market will create fundamental barriers to agricultural production increase. The inward opening of the Polish market will be accompanied by opening of the access to the EU-25 market, which is several times bigger. Inability of Polish producers to stand up to the new competitors will result in a higher negative trade balance of agro–food products with the EU countries. At the same time, though, the possibility of exploiting the market niches and the single, unified system of support for the export to third countries create the chances for achieving an altogether positive balance of trade. Moreover, the threat of production decrease appears to be realistic, if conditions for farm functioning and their entire environment are not harmonized. A yet different impact of direct payments on farm incomes may cause changes in farm structures, which would be not desirable from the public point of view. The recently functioning mechanism based on the scale of production, handicaps smaller farms. It also gives more incentives to the specialized, large-scale crop production farms, which is in contradiction with ecological prerequisites.

Concerning the problem of overproduction, the situation should improve due to introduction of quotas and limits on certain products. Yet, it is hard to unequivocally conclude on this issue.

Now, with respect to the use of supply of labor from the farming families we should expect positive changes as a result of:

- new stimulus for the labor-consuming ecological agriculture,
- transfers meant for the transformations in rural areas in the framework of programs of multifunctional development of rural areas,
- development of the agro-environmental programs.

As far as the problems of rural backwardness in terms of civilization are concerned, the balance between the possibilities and threats is definitely advantageous, mainly due to structural funds, initiation of implementation of the idea of SARD, and the necessity of introduction of ecological standards.

With regard to the problem of competitiveness, it is now hard to predict which factors will act in favor and which will be disadvantageous. On balance, integration should neither worsen nor improve the chances for better competitiveness of Polish agriculture.

Concerning the problem of stabilization of the economic and organizational environment one can look forward to an improvement. Implementation of the mechanisms of CAP in Polish agriculture will naturally (higher predictability of the circumstances of husbanding) drive in this direction.

The use of the chances, originating from integration with the EU, depends to a large extent on the administrative capacities of the acceding countries. Of crucial importance here are the transition periods and the abilities of using effectively the possibilities offered, especially the transfers related to EU accession. The example of the SAPARD program shows that effective use of EU resources is not easy at all. Certain problems appear in this relation, common for the countries aspiring to EU membership, associated with effective utilization of aid made available up to now. Later on this problem will get transformed into the problem of effective and efficient utilization of the instruments of CAP.

Conclusions

The countries of Central-Eastern Europe, and actually of whole extended European Union, will face in the nearest future new problems. These problems should be the subject of intensive studies, also in the framework of the research program of ERD, European Rural Development. We will shortly comment here on the five most important ones:

1. Main directions of development of European agriculture in the perspective of globalization and the ecological and socio-economic conditions. In particular, here belongs the question of the reasons for Polish agriculture to follow the way the West European countries had taken. The agriculture of the latter countries develops according to the rules established through industrialization, even if definitely gentler than in the case of American agriculture. This path of development of agriculture allowed for resolving the problem of pro-

duction deficits and assured sufficient supply of relatively cheap agro–food products for the growing population. It was realized through absorption of technical progress, specialization and concentration of production and migration of population from agriculture and countryside. Simultaneously, this process brought about new problems related to the natural and socio–cultural environments, overproduction, up to a worsening of taste and nutritional value of food products. An alternative for such agriculture is constituted by the socially sustainable agriculture, adapted to the currently observed developments in conditions for agricultural activity.

2. Allocation of agricultural production in united Europe. Significant differentiation of the natural and socio–economic circumstances of development will weigh on the shape of the new equilibrium in spatial distribution of agricultural production. The scope of the resulting re–allocation is not yet known and so are the social and economic consequences of possible changes. Taking into consideration the diversity of optima corresponding to the adopted economic and social criteria, one might expect that it would be necessary to formulate the rules of harmonization of Common Agricultural Policy and domestic policies.
3. Direction of CAP reform. We are all on the eve of an in–depth discussion concerning the changes in the Common Agricultural Policy, which can have essential significance for the acceding countries. Currently, CAP is – in an evident and understandable manner – totally subordinated to the general interest of the agricultural sectors of the EU countries. Meanwhile, Polish agriculture, for instance, lags by about 30–40 years in its development (having in mind the industrial model of agriculture) in relation to agriculture of Western Europe. It seems that the differences in the models (stages) of agricultural development of individual countries should be reflected in the modified CAP. There is also a need for a re–assessment of the model of European agriculture in the circumstances of the process of globalization.
4. Migration from agriculture and rural areas. One of the great problems of Polish agriculture and rural areas is excess labor. It seems that the historically taken way of resolving this problem through migration to cities would not be effective under the present circumstances, especially in the face of significant unemployment in towns. In this situation, side by side with implementation of the idea of multifunctional development of rural areas, it would be desirable to facilitate seasonal (periodical) foreign migration, this kind of movements having been, anyway, largely a usual practice in the second half of the 19th century. The knowledge on the possible demographic changes, including migration flows from and to the rural areas, as well as social and economic effects thereof, is as yet very limited. This defines, therefore, an important and interesting area for investigations.
5. The new possibilities of gaining incomes in connection with the CAP, structural funds, agro–environmental programs, and the multifunctional development of rural areas, as well as migration (including the inflow of the retired

and pensioner urbanites and residents from the cities) will certainly have a significant impact on the standards of living and differentiation among the rural households, and the new socio-economic order in the countryside. This problem certainly requires, as well, scientific recognition.

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