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Poland: Managed Food Supplies May Be Necessary To Realize Free Markets

America's political support for assistance to Poland now is tremendous. The public recognizes that the stakes are large. The transformation of Poland's centrally directed economy to a free market system will, if successful, be an example to other centrally planned countries and reinforce the movement away from communistic political systems.

In contrast, if Poland's efforts to establish a market-oriented economy falter, comparable opportunities in Poland may not appear for decades. Similar attempts in other countries could be aborted. Communism will appear more credible to many. And opportunities for expansion of international trade will be constrained.

The Presidential Mission to Poland of high U.S. government officials reflects a recognition of the critical nature of the changes in Poland and the importance of expeditiously seizing opportunities to assist.

Americans are willing to help Poland. However, a consensus on how to provide effective economic assistance is not at all evident. The traumatic transition from feudalism to capitalism in Western Europe occurred over a period of several centuries. The pace of the transition from communism, while now proceeding with precipitous speed, will generate continuing internal political tensions that will be difficult to contain.

The Polish economy is entering this transition following several years of near stagnant agricultural production. Food shelves have been depleted both because of scarce supplies and uncertainty about future supplies and prices.

In the interest of contributing to a dialogue that can lead to a consensus soon on how to assist in the transition, we offer six suggestions on the policies that should guide assistance for food and agriculture.

- *What happens to food prices is crucial. Continued escalation of food prices could easily undermine intermediate term support of the current Polish government and its efforts to develop a free market economy.*

As J. B. Penn states in the Fourth Quarter, 1989, issue of *CHOICES*, "Food is the element most critical to the success of the economic transformation..." It accounts for a large proportion of the typical family's budget and as Penn reminds us, it occupies a large amount of their time since lines to obtain desired groceries are pervasive and often long.

No modern society will permit widely fluctuating food prices. The Polish people are not likely to do so either, even if it occurs in the name of some day eliminating the lines at the meat counters.

- *Managed supplies may be a necessary step in the transition to free markets. If food prices are to be stabilized, the Polish government in the short run must have con-*

...trol of sufficient supplies to prevent escalation of prices. At the same time the government must be able to slow down the flow of supplies into the market or even withdraw supplies if necessary, in order to prevent large price declines.

The United States can help to accomplish both objectives. But to do so requires Congressional political will and a willingness by the Administration to devote the necessary administrative skills to accomplish the tasks.

The Polish and U.S. governments need to move simultaneously. Members of the Polish government need to agree on ranges within which prices would be allowed to fluctuate for farm commodities utilized in the major staples consumed by urban working families. This will not be an easy task. If the ranges are set too high, urban political support will be endangered. If the ranges are set too low, farmers will be discouraged and farm production increases in 1990 and beyond will be jeopardized.

For its part, the United States should assure the Polish government ample supplies of food in ways that make it possible for the Polish government to manage supplies so that the selected price ranges become reality. Rather than burden the Polish government with logistical and storage problems associated with irregular shipments, the United States should consider warehousing commodities in Western Europe in cooperation with other Western donors. This approach would facilitate being responsive in withholding supplies when prices weaken, but also responsive in moving supplies quickly when there is a need to dampen inflationary pressures.

In contrast to the approach outlined here, there is danger that both the Polish and American leaders will be so imbued with the euphoria of "free markets" rhetoric that they will overlook the importance of orderly and reasonably stable markets. Stability of prices requires control of supplies—ability to place supplies in markets to dampen price increases and ability to withdraw supplies from markets to avoid price declines that give producers the wrong signals.

- *It is time to design new and more flexible food aid arrangements.*

At one time it was common to provide food aid in exchange for currencies of recipient governments. This approach went out of vogue several years ago as amounts of U.S. owned local currencies accumulated to embarrassing levels in a number of countries. The United States now provides Development and Economic Support Fund Assistance on a grant basis to deeply indebted recipient nations. But we continue to provide concessional loans on a 40-year repayment basis in the case of food aid. Providing food aid on a loan basis to a government already deeply indebted is an anomaly that needs to be corrected.

- *Food aid should include more than food. Its objective should be to achieve Poland's long-term food security. The common image of U.S. food aid is a sack of flour, wheat, rice, powdered milk, or other typical farm prod-*

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ucts. The Polish situation requires a broader definition. Food aid should include farm inputs as well—fertilizer, pesticides, and animal feeds. These are the technical inputs that will be needed if Polish farmers are to be able to respond to the opportunities offered by a more market-oriented economy.

The food situation, price stability, and the political support a year from now for “free markets” and freely elected government in Poland are related very much to whether Polish farmers have a good harvest in 1990. Availability of these inputs will enhance the possibilities that the 1990 crop harvest is abundant and that production of poultry, dairy products and meat supplies expands in 1990. The relatively low level of current U.S. food stocks should facilitate the United States deciding to implement a food aid program that emphasizes Polish food security.

Polish farmers are, by and large, skillful husbandrymen who know what it takes to respond to market opportunities. But the invisible hand of the free market does not guarantee an effective supply response. It merely assures that farmers respond in a manner consistent with the economic environment they confront. If fertilizers, pesticides, and animal feeds are not available, the food supply will be unresponsive to even larger price incentives.

- *Poland in 1990 is neither the place nor the time to give priority to U.S. market promotion. U.S. food assistance*

Have You Read

Increasing Understanding of Public Problems and Policies—1989, the publication reporting the major discussions of the 39th national conference in the series? For many years the Farm Foundation has supported a national conference focused on policy issues with particular attention to education of the public about these issues. The 1989 conference was the 39th one in this tradition. Particular attention was focused in this conference on The Global (Trade) Environment for the U.S. Economy in the 1990s, Family Policy, Rural Development Policy, Public Policy Education, and Water Quality Policy. Copies are available without charge by writing to Farm Foundation, 1211 West 22nd Street, Oak Brook, IL 60521.

Tales of the Invisible Hand in Economics

“Behind the invisible hand there is a thumb on the scales.”

— Robert B. Seidman

“The trouble with the invisible hand is that it doesn’t have a head.”

— Kenneth Boulding

“It is as if the invisible hand suddenly became a foot and tried to kick me.”

— Clark Edwards

Contributed by William Kost, ERS/USDA.

over the years has reflected a variety of objectives.

A primary consideration has often been expansion of U.S. farm exports. For example, the timing of some food aid agreements, the kinds of commodities covered, and the amounts have on occasion been geared to U.S. domestic farm price conditions for the commodities and U.S. export objectives rather than to the needs of recipient countries.

U.S. commodity interests have long been concerned about U.S. assistance fostering increased farm production in the recipient countries. There is fear that imports from the United States will be displaced and or that the recipient country will export farm commodities in competition with U.S. supplies in international markets.

Poland in 1990 is not the place nor the time for these interests to influence the kinds, the amounts or the arrangements for food assistance. This is a time to set aside such short-term self-interest objectives, even though they are legitimate and appropriate in other situations. The geo-political stakes are too important to do otherwise.

- *U.S. costs of food aid appropriate to Poland's current needs may be high. But, if Poland's experiment with democratic government and “free markets” falter, the costs to Americans will be immensely greater and not measured in just dollars, but that too!*

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