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THE CHANGING ROLE OF CENTRAL PLANNING TOWARD

THE PRIVATE FARMING SECTOR IN POLAND

by

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Introduction

The role of central planning in Polish agriculture has always been different from the one in the non-agricultural sectors of the national economy. The main reason is the dominance of privately owned land. Private farming contributes around 80 percent of total agricultural output. Self-financing and autonomous in the decision-making process in individual farms have made the difference. Given these circumstances the central planning process in agriculture couldn't be identified as a very direct steering of production in the private farms. However, this is true in the non-agricultural sectors of national economy where the production goals and the production resources would be allocated to the firms through the central plan. In non-agricultural sectors of national economy, the central planning has often been identified with the central management of the state owned firms. The Central Planner has conducted almost the same role as executive directors in a typical Western company in these cases.

The market economy parameters like prices, profit, and interest rates have played very passive regulative roles. The Central Planner and policy-making people have been convinced that they are able to control these parameters in order to achieve objectives of the central plan. This has been the way the State has control over production and the agricultural market. Through the decades of administrative allocation of production objectives and resources, the Central Planner has grown accustomed to the situation where the

direct determination of prices is an absolute attribute of the socialist state.¹ This job is too difficult to be done properly while ignoring markets which would serve verification of those decisions. In fact, the mistakes made in price regulation have been accumulated creating distortions in the performance of the whole economy. The Central Planner could not create economic parameters as effective as market could, especially it is true for the industrial sectors. It is not possible to handle the amount of information needed to control and monitor the economic performance of each firm.

As far as the private farming of Polish agriculture is concerned, the central planning system has not meant the central management of each farm. Market has played more active role in allocating resources. Market here has been important sources to provide the objective economic parameters like prices. However, the central planner has controlled economic parameters which have played active roles in the decision-making process of independent farms. The objectives and assumptions of the central plan have played the leading roles in creating the real conditions of the input supply market and farm output market. In this paper we attempt to investigate the changing role of central planning in the private sector of Polish agriculture in recent years, especially after the implementation of the market oriented economic reform. The role and functions of central planning toward this sector of agriculture have been unique among centrally planned economies.

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As has already been mentioned, a dominant role in Polish agriculture is played by the private farming. These farms have always been independent. The free marketing of their products has been allowed most of the time. The

restrictions have been only related to the limited accessibility to means of production. The purchase of farm inputs and equipment has been related with the output sale. Farmers couldn't obtain some supply of inputs, for instance, coal and some types of mineral fertilizers, unless they sold to the state-owned market institution certain farm products at the purchasing prices set by the government. The similar constraints have been imposed by the contracting system. These two cases were treated as direct administrative methods of central plan implementation. However, it would not be appropriate to call them as government direct interventions in the production development of agriculture. A list of direct administrative involvements in economic performance of private farming sector can be presented here.² For instance, these include interest rate and the strict regulation of farm credit. There have also been some hidden restrictions in farm land trading and ownerships. These have been related to the changing goals of current economic policies and the changing plans to expand the socialized sector further in agriculture. These government involvements can be regarded as direct methods of implementation of the objectives of Central Plan. Beside these the central planner almost directly conditioned production and economic environment affecting economic performance of private agriculture. Most agricultural products have been purchased and processed by the state and cooperative owned enterprises. These firms, most of them monopolistic nature, have been governed in a directed-order system. They had to meet the planned targets transmitted to them directly as a command from the planner. These enterprises, especially procurement organizations, however, have not been able to transmit these planned targets to the private farms in the same way. They have had to act in a different way from the agents in the rest of the national

economy. They have faced independent and self-financing private farms. Free market of farm products also existed with free prices. These had impacts on the way central plan targets have been executed in the private farming sector of Polish agriculture. Under these conditions procurement prices have been influenced by supply-demand rules. The procurement prices couldn't only reflect the intention to meet the targets of central plan. In practice, however, the central bureaucracy implemented the farm price policy ignoring market forces and deteriorating the operating environment of the private farmers. Besides the price policy, the fiscal policy toward private farmers has been a subject of central administrative regulation.

Through the control and formulation of farm output prices and the direct control over procurement organization, food processing firms and food retailers, the central planner has had an influence on decision-making process of private farming. The demand for food and other commodities has been conditioned by those channels. The central planner has controlled although not so effectively the level of wages and salaries as well as the rate of employment. The majority of national labor force (about 70 percent of total employment) is employed by the state-owned firms or state-controlled (cooperative firm for instance) firms, organizations and institutions. The Central Planner in fact has created out of agriculture job opportunities by controlling investments. It is the central planner's decision to oversee national income related with savings/investments and consumption.

Almost the same situation as described above, was observed on the side of the supply market. The Central Planner easily transmitted the planned targets to the state monopolistic producers of means of production and inputs for farming. The level and structure of production as well as the prices for farm

inputs have been directly determined by the Central Planner following the central plan targets and goals of economic policy. The shares of private business in farm input production, the impact of equipment and current inputs for farming were not substantial to play any role under the price regulation upon this market. The formulation of prices by the central planner for farm supply materials has been based on cost of production of monopolistic manufacturers. In order to hold the cost of agricultural production low, the prices of some critical inputs like mineral fertilizers have been subsidized. Hence, most of the prices were subject to administrative regulations resulting in the deterioration of the operating environment for private farmers. However, this was considered as a way of transmission of planned targets to private farming.

In conclusion, the Central Planner controlled the operating environment of private agriculture prior to the economic reform. The Central Planner was able to provide any amounts of means of production or the incentives to meet the planned targets. This was a part of the central plan for the national economy. The composition of planned targets was based upon a kind of consensus among interest groups representing different sectors of economy. The Agricultural lobby has usually not been so influential to the Central Planner's decision to improve the operating environment for private farming sector. The needs in the production of this sector of agriculture have been considered last in the list of planning procedure, since the priority has been given to the industrial development. Also the presence of private agriculture in a socialist country had always been an open question for discussion. Only in 1982 the Civil Code was revised to read that "the Polish People's Republic guarantees the ownership and full protection of private agriculture, which

represents a permanent and equal component of socio-economic structure of Polish People's Republic". In this system of central planning, the government also has taken the responsibility of developing technical and social infrastructure, social institutions, and agricultural education and extension systems.

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In the central planning system toward private agriculture, a specific role has been assigned to farm prices. The prices for private farmers had different economic meaning from the firms and organization found on the input and output sides of farm products. For private farms, prices received and paid are exogenous parameters affecting their resource use efficiency, supply response, and incomes. The prices, on the other hand, haven't played the same role for the state-owned and controlled firms producing farm inputs as well as purchasing and processing farm output products. The structure and the level of production in the industries producing equipment and farm inputs have been set by predetermined plans. The development of the industries in question has been determined by the fact that the allocation of investment and means of production to this sector is a subject of decision under the central plan. The prices had impacts upon neither economic performance nor profitability, because profit was not a main goal to achieve for the industries. The task was to fulfill assigned planned targets. In theory the achievement of this task has always been associated with the minimization of the cost of production. These industries serving agriculture were operated within the system which was characterized by considerable centralization of economic decisions. The function of the system has based to a large extent on the instructions from the planning center and to a lesser extent on the economic

incentives for the enterprises to become more effective in carrying out the plans.³

The same can be said about the state-owned and cooperative organizations purchasing products from the private farms as well as about food processing firms. In the financial system where a certain percentage of profit is added to the purchase cost, these organizations were only interested in the purchase of the planned amount of farm products. There is no real competition in the farm output markets among the state buyers of farm products.

Under this system of regulation and implementation of centrally planned targets, there was no feedback from economic performance of private farming sector to its economic partners which were the firms and organizations operating in the supply and farm output market. The linkage between the latter and the private farming was established not through markets but through the central planning. Market didn't play an active regulative role in adjusting mutual performance of both parties.

Also, only indirectly through the central plan, the domestic farm markets were linked to the world markets for the agricultural and food products as well as to world markets for equipment and inputs for farming. Therefore, the prices in the world market had no impacts on the level and structure of prices on domestic farm market. Likewise, domestic farm output and farm supply prices had nothing to do with world prices in question. Therefore, with the existence of an administratively regulated exchange rate, no one, for instance, was able to calculate the effectiveness of farm exports. All parameters like prices used for this purpose were not objective because they were administratively created and not verified by markets.

The market had not played an active role in controlling the economic performance of private agriculture because prices were not derived from the markets. The market played almost no role in price formation in the farm supply market and relatively modest role in the farm-output market. In order to move from this system to the system based on free market regulation in agriculture, a considerable number of market institutions have to be established. Here it has to be determined what should be marketed and what must be regulated by the plan. In the price system under central planning there was no direct links among food prices, farm product prices, and farm input prices. The extended system of subsidies and other fiscal regulation was another source of further deterioration in this system. Subsidies were to fulfill social and political objectives under the central plan.

Since prices were subject to administrative regulation, the lack of equilibrium, especially in the supply market was observed. The demand exceeded supply because the control over demand for input was very difficult and unrealistic. The industries producing farm inputs have been always getting the remaining part of national investment. So called "producer market" or "seller market" was the permanent feature in farm supply markets. The production of many machines, equipment, and current inputs for farming were highly monopolized. Under these conditions, the high costs of production of farm inputs were observed extensively. To avoid high farm product prices as a result of high prices of farm inputs, the system of subsidies was introduced. This was supposed to help maintain the real standard of living of Polish population since food comprises almost 50 percent of consumers' total expenditures. However, this subsidy became a burden for the national economy.

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As it can be noticed, in the conditions described above, the impact of central planning upon the production in the private sector of agriculture in Poland had an indirect nature. It could be called an indicative type of planning. To some extent, one might agree that the process of implementation of central plan's targets was similar to the government intervention in market economies. The resemblance is, however, not big, since the government in the market economies only intervene or correct the impacts of prices and other market parameters instead of replacing the whole system by the central plan.

Since private farming was independent in its decision-making, the targets of the central plan concerning the production in this sector should be predictions rather than obligatory orders to accomplish. However, in practice the Central Planner treated this part of the economy in the same way as the plan for the rest of economy ignoring existing differences between private farms and state-owned firms. The targets of the plan like the amount of grain, meat, and other farm products to purchase on the procurement state prices were distributed and assigned among local administrators and procurement organizations. In order to meet the received planned targets, these organizations attempted to induce the farmer decision. In practice, this has often involved some direct administrative methods of enforcement like the contracts associated with farmers' rights to purchase scarce farm inputs with better access to some cheaper credits.

The role of central planning and the way the economy is governed have been changed during the economic reform implementation. The biggest changes have occurred in the non-agricultural part of the national economy. Market rule regulations instead of instructions from the economic center have been introduced. The direct government involvement in economy has been limited

drastically. This is true especially in inter-firm financing rules and firms' decision-making. The means of production and resources are still owned by the state and society, but the firms are becoming more free in choosing the way of utilizing these resources. The process of privatization and attraction of foreign capital is also underway.

However, the implementation of market oriented economic reform has not changed the way the private farms are functioning, but it may change and improve the operating environment for this sector of agriculture. Particularly the change should be observed in farm price setting system. Also the organizations purchasing and processing farm products as well as the industrial enterprises producing farm inputs are becoming independent, self-financing and self-governing. The central plan targets are not anymore obligatory (order type) tasks for them. The same is true for farm banks. All these farm marketing companies, industrial firms producing farm inputs, banks, and private farms, despite the differences of ownership status, are now becoming independent agents in free market games.

The Polish economy is approaching the type of economy observed in countries with market economies. However, the process of the transition is not smooth. For instance, the existence of disequilibria in the farm supply markets like the shortage of different types of machinery, equipment, and current farm inputs as well as the insufficiently developed market institutions limit the speed of transition.⁴ The rapid implementation of free market rules and the introduction of free market prices for farm inputs create dramatically high increment of prices. The cost effect of this price hike in the private farming would be significant. The rise of production cost in private farming sector would result in further inflation. Private farming

sector of agriculture is not, in current conditions, able to compensate the cost-effect due to the increase in input prices by the improvement in productivity growth.

The problem is that under the old system where each instruction from the economic center was transmitted to the industries, the firms producing farm inputs were not especially interested in cost-reduction performance. Also the very limited import of the means of production for farming did not force the industrial firms, mostly monopolistic enterprises, to produce at the lowest possible cost. There was no competitive environment for making any efforts to improve productivity to cut costs of production down. Existence of expanded system of subsidies made situation even worse. It is not an easy task to change their long-time behavior. Hence, the cost of production of farm inputs is still high and what is more important, the supply of these inputs is still short. Under such circumstances, the substitution of market system for the centrally planned system doesn't necessarily mean less expensive and bigger production of the inputs for the farming sector. Market rules haven't yet been founded well, so monopolistic industrial producers of farm inputs are taking advantage of the existence of disequilibria by rising prices while not increasing their production of these inputs. The Central Planner, still tries to keep control over the situation by introducing direct governmental contracts and special order, tax deductions and subsidies. Still the domestic farm supply market is not directly linked with the world market because of foreign debt.

The situation on the output side of farm market is different. The existence of almost 2.8 million private farms and several thousand socialized farms creates the situation where features of farm output market seem close to

the characteristics of "competitive market" in the market economy. Since the demonopsonization of procurement organization is now in progress, the introduction of market rules here seems to be less difficult compared to the input side. In summary, under conditions described above, the free market principles are placed on a hard test. On the other hand, the central planning is facing an even harder test after losing the strong direct controls over economic performance of private farming.

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It is obvious that the role of central planning in a national economy as a whole has to be changed while the economic reform is being implemented. The process of change in this respect is now underway. However, it will be difficult to refer to a clearly defined concept of the future role of central plan in a market regulated economy in the socialist framework. So far all economic reforms have targeted to improve the methods of planning and the methods of implementation in the real national economy. There have been no questions asked about the role of the central plan in the regulation of economic performance and the development of national economy. The poor performance of national economy and the failure to achieve central plan's objectives have not been related to the central planning system itself.

The failure has been associated with the poor methodology in building the central plan and the inefficient instruments for the implementation of central plan's objectives. For the first time, the issues of the central planning system with respect to the free market system have been put forward to public and political discussion. As far as the national economy and the non-agricultural sectors are concerned, the issue is how to combine the central planning with the free market system. We do not, however, intend to explore

this problem. Our focus is on the future role of central plan in the private sector of Polish agriculture. Our intention is just to highlight some important issues for this sector of the economy concerning the economic reform.

The first suggestion is related to the new roles of central plan toward the private farming. It might be crucial to reduce and limit the roles of central plan in the regulation and control of economic performance of the private farming. The existence of independent farms and the relatively well-developed farm markets, especially output side, impose almost immediately limits on the prerogatives of the central planner in determining economic parameters such as farm prices. Some different methods of state intervention which are similar to those utilized in market economies need to be introduced.

This might imply that the role of Annual Central Plan for the private farming should be altered. The Annual Central Plan for this sector should be nothing but predictions. The plan should serve as a production outlook. The assessment of the current production and economic performance of private agriculture should not be used as a base for the direct order decision which used to give strong regulations on markets. Only a few cases with the large discrepancy between the actual development of farming and the annual plan prediction should call for the government intervention. This intervention should not be meant to be the substitution for the free market system or should not limit the market's activities.

There has been some progress observed in expanding the roles of the market system in controlling economic performance of private farming sector. The process of moving from administratively regulated farm prices to the prices based on supply-demand relationship is underway. This would lead to

the more flexible and effective allocation of resources and to the better adjustment in production composition in response to the changes in demand. Considering the limited roles of central plan in agriculture, this means that the central planner is free from detail work which is associated with the preparation of annual plan and its implementation. The central planner instead can concentrate more on the preparation of long-term plans.

The central planner is not capable of foreseeing everything and cannot play the same role as markets in the control of economic performance of agriculture. This is not a question of precision of the planning methodology. The necessity of detailed plans leads to the bureaucratic planning which creates a number of distortions in agriculture.⁵ The continuous practice of "perfecting the planning methods" had made bureaucrats believe that they were playing an important role as pseudo-markets in the control of economic development and economic performance in agriculture as well as in national economy. The work was time consuming and hard, but not inevitable when markets would have done the job better.

As far as current performance and one year plans are concerned, the market system should work well and can replace most of what was regulated by the central plan. This argument might require, however, a precise definition of annual central plan. This is important in order not to allow the expansion of its definition by ambitious bureaucrats. Otherwise, this would give room to again transform the planning into a "hand driven" management of everything at all levels in agriculture. In so-called "bureaucratic planning", the focus of bureaucrats' attention is on the control of the current economic performance by creating economic parameters, and by replacing the functions of the market. Updating annual outlooks and monitoring of economic and

production performance should be the main activities of the central planner as far as the short-term plan is concerned.

The central plan must concern itself with more long-run issues.⁶ The activities of the central planner should involve the study of long-term conditions of agricultural development and the identification of the development projects which exceed the scope of the single enterprises. The central plan is applicable and can be effective in the determination of the long-term conditions of agricultural development. The long-term plan includes the investment allocation plan. The prerogatives of the central plan in investment allocation in agriculture should be limited only to the large investment projects for the improvement of technical infrastructure and to the structural investment in the industries producing farm inputs.

In long-term planning the plans should also include the formulation of the basic targets of social welfare in agriculture. A number of alternative approaches, in the framework of national economy, have to be identified to accomplish the planned targets. The national plan is assumed to form some preferences over certain interest groups in the national economy.⁷ In particular, the long-term central plan is assumed to constitute the base for testing the consistency of realization of individual interests of different lobbying groups with those of the society as a whole. In this context, agriculture in economic development should be a subject of long-term plans.

ENDNOTES

¹A. Wos, "Theoretical Problems of Adjustment Process Regulation in Agriculture," Problems of Agricultural Economics 1988 (special issue in English), Economics of Polish Agriculture, selected papers, pp. 4-15.

²A. Wos, "The Reforming of the Agricultural Policy in Poland," International Conference of Agricultural Economics, Invited Papers, Buenos Aires, Argentina, paper 21.

³Ibid.

⁴V. Ruttan, "The Gap--American Professor on Polish Agriculture," Zycie Gospodarcze (Economic Life) (1988) No. 50, December.

⁵A. Wos, "Theoretical Problems of Adjustment Process Regulation in Agriculture," Problems of Agricultural Economics 1988 (special issue in English), Economics of Polish Agriculture, selected papers, pp. 4-15.

⁶Ibid.

⁷T. Roe and E. Yeldan, "An Open Economy of Political Influence and Competition Among Rent Seeking Groups," University of Minnesota, 1988.