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# AGRICULTURE IN A TURBULENT WORLD ECONOMY

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Edited by  
Allen Maunder, Institute of Agricultural Economics, University of  
Oxford, England  
and  
Ulf Renborg, Department of Economics and Statistics,  
Swedish University of Agricultural Sciences, Uppsala

INTERNATIONAL ASSOCIATION OF  
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INSTITUTE OF AGRICULTURAL ECONOMICS  
UNIVERSITY OF OXFORD

1986

Gower

JÓZEF ST ŽEGAR

*Peasant Farms in Economic and Social Crisis: The Case of  
Poland in the 1980s*

INTRODUCTION

Sudden changes of the external conditions which determine the decisions in farm management always exert an impact on the functioning and the behaviour of peasant farms. The economy of the latter is characterised by an important potential to bring into play specific mechanisms and/or processes of adjustment in the respective situations. This has been confirmed by substantial scientific research, performed for many years now, concerning the adjustment of peasant farms to major disturbances of a different nature, such as wars, economic crises and natural disasters. Particular cases of adjustment to such disturbances are of interest to researchers. As one such case one may recognise the adjustment processes of peasant farmers in Poland in the situation of the dramatic and extensive economic and social crisis in Poland in the beginning of the 1980s. The particular nature of this case appears to be determined principally by the fact that it concerns the conditions of a centrally planned economy, which has at its disposal an extensive array of instruments permitting steering of economic processes, including instruments which pertain to the relatively autonomous social and economic system of peasant farming. We are thus interested not only in the evaluation of the adjustment processes taking place in the peasant economy as such but also in an assessment of the effectiveness of actions taken by the Government for the former's possible correction. It is obvious at this point that an assessment of such phenomena must take into consideration the particular economic and social situation in the national economy as a whole.

THE SCALE OF THE CRISIS

The scale and graveness of the economic crisis in Poland is witnessed by the drop in the volume of the national income (in the Material Product System) in the 1981–2 period, compared to the pre-crisis level of 1978, of about one-fourth, an analogical decrease in industrial production of about 10 per cent and a decrease in the volume of the total agricultural

production of almost 10 per cent. The turning point of the decreasing tendencies took place in 1983. Nevertheless by the end of 1984 the national income created was still 15 per cent lower than the 1978 figure, while the national income distributed was almost 20 per cent lower. The total agricultural production of peasant farming by the end of 1984 was about 8 per cent lower compared to 1978, while industrial production regained its 1978 level.

The economic crisis in the years 1980–82 was without doubt aggravated by the concurrent social crisis and the phenomena accompanying it, such as strikes, a falling labour productivity, a deterioration of product quality etc. An important factor contributing to the crisis situation and making the recovery difficult, without any doubt, were the restrictions imposed on granting of credit and economic relations with Poland on the part of some countries for political considerations.

As an effect of the phenomena enumerated above, the possibilities of foreign trade, both on the export and the import side, were heavily constrained. The volume of imports which in 1980 dropped by 3.1 per cent compared with 1978, by 1982 dropped by 31.5 per cent. In 1983 it increased by 5.2 per cent and in 1984 by 9.0 per cent but remained nevertheless 20.3 per cent below the 1978 pre-crisis level. The drop in exports was smaller. In 1980 the volume of exports was 4.2 per cent lower compared with 1978, while in 1981 it dropped by 19 per cent compared to the previous year. In the next two years exports grew at the average rate of about 9.0 per cent.

When steering the economy out of the crisis the government chose a strategy of protecting consumption by the population at the expense of economic growth. The real/deflated level of consumption in 1984 was about 6 per cent lower than in 1978 and almost 11 per cent lower when compared with the 1980 level. This took place in line with a decrease in the share of accumulation in the national income distributed from 40 per cent in 1978 to 25.6 per cent in 1980 and approximately 21.5 per cent in the years 1982–4.

## THE CRISIS AND PEASANT FARMING

The general crisis experienced by the national economy strengthened the impact of factors of a structural nature causing stagnation of production in peasant farming. This refers first of all to the backward agrarian structure, the average area of a peasant farm being approximately 5.7 hectares but it also exposed the inadequate support which peasant farming is receiving from the non-farming sectors of the national economy, in particular from the industrial branches.

The impact of the general crisis on peasant farming found expression principally in the following areas:

1. The supply of production inputs for farming, both produced by the domestic industry and imported, dropped sharply. Particularly acute was the decrease in the volume of supply of concentrate

feedstuffs and mineral fertilizers and crop protection chemicals, of spare parts for tractors and agricultural machinery and of numerous farming tools. Thus, for example, the supply/sales of concentrate feedstuffs decreased from 4.4 m tons – this being the average level in the 1976–9 period, to 4.2 m tons in 1980 and 2.2 m tons in 1983, which means a drop of one half. One remarks at this point that these concentrate feedstuffs constituted in the second half of the 1970s approximately one-third of the total amount of concentrate feedstuffs used in peasant farms (Table 1).

2. A deterioration in the supply of both industrial origin durable goods and food products for the agricultural population. The decreasing industrial production constrained heavily the access of

Table 1 Selected statistics on peasant farms in Poland, 1978–1983

Item		1978	1980	1981	1982	1983
Total agricultural production <sup>a</sup>	%	115.0	100.0	106.9	105.0	107.6
Material inputs <sup>a</sup>	%	107.6	100.0	105.2	100.5	100.0
Production added <sup>a</sup>	%	127.7	100.0	109.5	111.6	118.6
Real incomes <sup>a</sup>	%	114.7	100.0	142.0	104.8	98.4
<i>in this earmarked for:</i>						
consumption		103.8	100.0	121.0	101.6	88.5
non-productive investment		100.8	100.0	92.3	85.0	97.5
productive investment		93.2	100.0	116.6	98.4	112.5
Share of crop production in total agricultural production	%	51.0	47.2	53.8	53.2	54.6
Number of cattle per 100 ha of agricultural land		67.0	65.2	62.0	64.3	64.6
<i>in this milk cows</i>		36.6	36.1	35.2	35.4	35.0
Number of swine per 100 ha of agricultural land		108.5	108.2	96.0	102.2	77.6
<i>Yields in tons per hectare:</i>						
Wheat, rye, barley and oats		2.63	2.31	2.50	2.52	2.62
potatoes		19.7	11.3	19.0	14.7	15.7
Sales of concentrate feedstuffs from state resources	m ton	4.9	4.2	3.9	2.0	2.2
Application of fertilizers per hectare of agricultural area	kg of NPK	152	152	156	152	138
Intermediate use of farm products as a percentage of the total production		37.4	40.2	37.7	37.5	36.0
Consumption by the farm family as a percentage of final production		19.5	23.0	20.0	22.3	20.8
Share of sales on the peasant market in the realization of the total production marketed	%	10.5	13.7	18.7	18.6	16.1

<sup>a</sup>Calculated on the basis of 1982 prices.

Source: *Statistical Yearbooks*, published by the Polish Central Statistical Office (Główny Urząd Statystyczny).

the farm/rural population to these goods. This resulted in a weakening of the economic motivations of producers and also caused a reverse in the secular trend towards limiting the autarky of peasant farms.

3. The disequilibrium on the market in general was further aggravated, this concerning as well the food products market, which resulted in the introduction by the Government of a system of rationing of numerous food products, such as meat, butter, sugar, oil and fats, and cereal products (but not bread). This caused an increased importance of trade on the free private markets. As the peasant population did not receive allotments of meat within the national rationing system, the effect was that the self-supply with meat for consumption increased in importance for the peasant population.
4. The process of inflationary changes taking place in the whole national economy was transferred to the farming sector through the prices of commodities and services purchased by farmers. The index of prices' growth in 1984 compared to 1978 was 375 per cent, while the price index of agricultural products was 340 per cent.
5. The manifestations of crisis both of an economic nature (such as perturbations on the food market) or of a social nature (social emotions in industrial plants) resulted in a more positive evaluation of farming as a mode of work and profession and this was true of the assessment by the farmers themselves. It is without doubt that the farmers felt less endangered by the manifestations of the crisis than the other groups of the society.

The crisis phenomena in agriculture were strongly aggravated by the particularly poor crops of 1980, a drop of production being experienced by all the major crops – grains, root crops, oil crops, hay. Poor crops, but on a smaller scale, were also experienced in 1982, principally root crops.

#### THE ADJUSTMENT OF PEASANT FARMING TO THE NEW PRODUCTION AND ECONOMIC CONDITIONS

In the assessment of the adjustment processes of peasant farming one should also take into consideration the decisions taken by the Government concerning this group of producers. Of particular importance here is the assumption of the rule of income parity. This began changes of prices in favour of farming, as an effect of which the index of the price scissors in the years 1980–1 was respectively 107.8 and 131.0 per cent but consequently as result of the general reform of prices in 1982 dropped to 70.3 per cent, 95.0 per cent in 1983 and 97.2 per cent in 1984. The income parity, favourable for farming in the years 1981–2, began to deteriorate in 1983.

We are stressing these changes in prices since in effect they were an obstacle to pro-productivity changes and adjustment processes in the peasant economy, such as may be expected in the conditions of

maintaining a disparity of incomes unfavourable for the peasant population.

An analysis of the development of peasant farming in the years 1978–84 confirms the thesis that in periods of threat, peasant farms aim at maintaining, or relatively minimising the drop in the consumption level achieved formerly. This is true of farms in all area groups since the indexes of change of consumption are quite identical<sup>1</sup>, while the indexes of change of incomes are more favourable for the groups of farms of bigger area. 'In defence' of the consumption level the peasant farms have manifested significant activity and started a number of mechanisms alleviating the impacts of deteriorating external conditions. We will turn our attention to the more important of these.

In the 1970s the production composition of peasant farming was artificially shaped through the considerable imports of grains and feeds. The drastic reduction of these imports disturbed these relations. Farms were forced to develop a new system of relations of production and balances. In order to achieve this, on one hand the livestock numbers were reduced, particularly that of swine and poultry, on the other, the production of grains was increased. One remarks at this point, that small farms reduced their livestock numbers more than the bigger farms, while the latter increased more the production of grains. In this respect the adjustment mechanisms in the scale of agriculture as a whole acted as expected, resulting in flows of grains between groups of farms. In contrast to swine stock numbers, cow numbers were rather stable. The breeding of cows is relatively little dependent on the supply of concentrate feedstuffs and moreover the purchase prices offered for milk were favourable<sup>2</sup>. In the composition of total crop production the share of products earmarked for intermediate use on the farms themselves increased from about 51 per cent in the 1976–9 period to as much as 71 per cent in 1980, to decrease to about 55 per cent in the following years. At the same time sales, particularly of grains, dropped by about one-half, when comparing 1981 with the average for the years 1976–9. It was the group of small farms which reduced the sales of grains the most, since livestock production was of the greatest importance for these considering the accruing incomes. In the years 1983–4 the sales of grains increased significantly, principally as result of relatively good crops but also due to price preferences in the procurements policy.

The disequilibrium on the agricultural and the food products markets resulted in a growth of prices in the peasant market places and a resultant growing volume of turnover there. These peasant market prices in the years 1980–2 were considerably higher than the official procurement prices, e.g. the prices of wheat and rye were 70 to 100 per cent higher, slaughter calves 25 to 30 per cent higher, and the prices of slaughter swine 20 to 50 per cent higher. In 1983 this difference was reduced with a tendency to return to the relationships of the second half of the 1970s. The demand for grains on the private peasant market was created principally by the group of small farms and by the landless breeders of

livestock. The supply of grains was increased on the other hand by the farms with a bigger area. The demand for meat on the peasant market was created mainly by the better-off groups of the non-agricultural population for which the allotments of meat products within the rationing system were insufficient.

The agricultural population, in protecting its own consumption increased the natural consumption of products from its own farm. This was true particularly of meat as this population group did not receive allotments of it within the rationing system. Thus the situation was that the non-agricultural population decreased consumption of meat by over 10 kg per caput, while the peasant population increased its consumption by almost 10 kg. The increment of meat consumption was almost identical for farms in all the area groups. At present the consumption of meat on farms with a bigger area, i.e. 10 hectares and over, is about 10 kg higher than the national average.

The peasant farms in defending their level of consumption skilfully manoeuvred the accumulation fund which became a residual position shaped by the changing incomes and the relatively stable consumption. Nevertheless in the group of farms, stronger economically in which the dilemma of consumption versus accumulation (and investment) was not so acute, as well as in the farms with a smaller area and weaker economically, the orientation towards investment, and thus securing further incomes, was strong. An important constraint in this respect without doubt was the insufficient supply of investment goods.

## CONCLUSION

1. Polish agriculture has been characterised for many years now by inadequate productivity and income creation. This has its source both in factors of a structural nature, i.e. a backward agrarian structure, poor links between agriculture and the industrial sector, but also in the State's economic policy, which consisted among other things of maintaining relatively low prices for food products and insufficient efforts to reduce the social costs of production. The crisis of the 1980s only strengthened these problems.
2. The impacts of the crisis are transferred to agriculture with some delay. The point is not so much in the supply of agriculture with production inputs but rather in the limited potential for structural transformations within the national economy as a whole, which will not favour structural change, including pro-productivity changes in farming. This is all the more important since we face not a situation of overproduction in Polish farming but quite the contrary. Further development of agriculture is closely dependent on the progress made in the non-agricultural branches of the economy, e.g. material inputs supply, transfer of labour, economic relations.
3. Peasant farming has manifested a considerable capacity for



adjustments to rapid changes in its economic environment. This capacity however concerned only the protection of its economic interests through self-defence mechanisms and the achievement within a short period of a new system of production as well as a skilful employment of the varied production characteristics of farms and the considerable level of self-supply both for production and for consumption purposes. Some symptoms were observed of adjustment of a long-term nature, particularly in farms with a bigger area.

4. The policy of the State, taking into consideration the social and the political aspects, was at times recognised as being too 'nervous', this being expressed for instance in rapid price changes, not linked with material and financial supply. This did not accelerate the processes of adjustment, neither in the short nor in the long term. One may expect change in this respect since this 'protective' policy by the State can no longer be continued. It will not however be possible, on the other hand, to return to a policy which would assume a considerable income disparity between the principal population groups.
5. Income parity will not be possible to maintain in the future without major transformations of peasant farming. Three directions of these transformations, linked to each other, appear justified, these being:
  - (a) an acceleration of the transformations of the agrarian structure;
  - (b) better equipment of peasant farms with advanced techniques;
  - (c) more rapid technological progress in farming, utilising the achievements of biotechnology, organic farming, etc.

## NOTES

<sup>1</sup>This observation is confirmed by data from a sample of about 2000 peasant farms performing voluntary agricultural bookkeeping for the Institute of Agricultural and Food economics. These farms were analysed according to 5 area groups, these being (in hectares): 1 to 3; 3 to 7; 7 to 10; 10 to 15 and 15 and over.

<sup>2</sup>An important consideration when introducing the relatively high increases of the procurement prices of milk was the aim to secure for the population a cheap, subsidised source of animal protein in a situation of reduced meat consumption.

## DISCUSSION OPENING – DUŠAN TOMIĆ

Our colleagues George Brinkman and Józef Żegar have, in fact, dealt with a similar topic – 'Some Lessons of the 1980s', from Canada and Poland respectively. Although the topic of these two reports is similar, there is a qualitative difference between the agricultures of the two countries.

In Canada there is a great deal of land per inhabitant, and great, modern agricultural commodity production is dominating, as well as firm orientation to the export of food products. But, in Poland, there are small individual properties as well as large socialist holdings, an unsatisfactory supply of agricultural products, a considerable import of food, and a slow

process of development of socialistic social-economic relations in the agriculture and in the villages.

Both reports analyse in an interesting way the situation and problems of the two countries in the 1980s. They have in common a short-term approach to some agricultural problems. There is, however, a question whether the critical situations can be solved by short-term actions. What agriculture really needs is a longer-term treatment.

The report of George Brinkman shows that the agriculture of Canada, highly intensified by capital, is not resistant to increasing uncertainty in development and disposal of agricultural production and to the changes in financial economic conditions.

In connection with this report, I would like to present two questions:

The first is concerned with the optimistic conclusion that Canadian farmers have great financial power and that they are among the best in the world. But analysis shows that Canadian agriculture is losing its material base and fails to keep pace with the rest of the economy. This is shown by the great variation of agricultural income, the considerable loss in the farmers' wealth (the capital value of a farm is declining) and by a weakening of the financial power of some more important lines such as wheat production. There is the question of whether the weakness of Canadian agriculture is growing in regard to future instability, if the trend of uncertainty and insecurity persists, connected with some other factors and negative climate conditions, if technological progress fails to make up for a slow increase of productivity and if the profitability of current production is endangered by high costs of expanded production.

The second question is concerned with the lessons. In the report only a short-term approach was used, so there the right lessons were not learned. I agree that credit policy, tax policy, organisation of the production management etc., are important elements of agro-economic policy, but the right solutions cannot be found there. In my opinion the main point should be the function of agriculture in the process of social reproduction. For the right solutions of the critical situations we need complex and long-term agro-economic policy. Accordingly, I believe there is a question about the following strategic lessons: (a) the future of Canadian agriculture and the long-term aims of its development; (b) offensive or restrictive agro-economic policy; (c) the efficiency of the production system and the development of primary agricultural production per unit of all inputs; (d) long-term settlement of social expenses of agricultural production; (e) the excessive industrialisation of agriculture and problems of it being provided with more capital than is really needed; (f) the economic position of agriculture and the economic relations between agriculture, manufacturing, trade and sale of agricultural food products; and (g) world food policy and the export orientation of Canadian agriculture, and its contribution to the world market.

In the second paper, Józef St Žegar discusses the dimensions of the crisis of the 1980s in the individual peasant farms in Poland. The situation is specific there because they deal with a poorly developed small farms

agriculture, which is now in the process of socialistic transformation. The general crisis in Poland is reflected very much in the agricultural situation in the country, as shown by the decrease of agricultural production and by farmers' discontent.

The paper deals with the crisis manifestations and agricultural disproportions using certain quantitative indicators. In spite of good climatic conditions in the last few years, a previous level of agricultural production and income has not yet been achieved. Analysis established the facts that bigger peasant farms adapted better to the crisis and that farmers had a better standard of feeding than other citizens.

In connection with the conclusions in this report, I would like to bring out two comments:

First, very slow structural transformation, low productivity and unsatisfactory generation of income are mentioned as the main causes of the agricultural crisis. But, in my opinion, one of the main causes of the crises is a wrong state agro-economic policy, which underestimated agriculture, so that the process of social-economic transformation is treated narrowly and partially. On one side they have carried out the policy of high standards of food consumption, especially of meat, and on the other they have completely neglected farmers and agriculture. It is the state policy which has serious weaknesses, because it has never followed, directed and improved the process of adaptation of agriculture to the new circumstances of development and to the needs of the Polish economy and society as a whole. So there is the question about formation and working out of the complex and long-term agro-economic policy of the social-economic transformation of Polish agriculture.

The second comment is that in the report there are no appropriate lessons to be learned for the present and the future of agriculture. Also, the problems are treated from the peasant farms' point of view, not from the general. In my opinion, important strategic lessons should serve as an example for what is to be done for agriculture to function more efficiently in the process of social reproduction and to be an important support in the building of socialism. The important strategic lessons should be concerned with the following complexes: (a) the strategy of long-term development of Poland and the position of agriculture; (b) the complex model of social-economic transformation of agriculture and the strategy of development of the agricultural state and private sector; (c) social-economic position and the organising of farmers on the basis of self-management (a farmer should be treated as a permanent support and an active subject of agriculture and co-operation with the social sector of the agriculture); (d) a differential approach to the types of peasant farms involving better stimulating of the development of agricultural production in small farms and farmyards; (e) the real aggregate demand for agricultural food products and long-term production orientation of agriculture; (f) establishing balance and inter-dependence between the structure of agricultural production and the structure of consumption of agricultural food products; (g) the increase of plant production is the

main problem, because it is the condition of cattle breeding; (h) the formation of an efficient agro-industrial complex on an economic basis between agriculture, industry, manufacturing, trade, sale and consumption of food products; (i) greater contribution of science to the direction of the developing process and social-economic changes in agriculture; and (j) public opinion and the citizens of Poland should have more understanding of agriculture, because it is a biological production which gives results after a long time period. Agriculture should be all society's concern.

#### GENERAL DISCUSSION – RAPPORTEUR: EIVIND ELSTRAND

It was stated from the floor that overproduction can cause severe problems for farmers and in particular, as in Finland, for young farmers who have high indebtedness and problems of liquidity. At an earlier date these problems might have been solved by an expansion of production, but now this solution is not possible because of the existence of individual production quotas. So far as Poland was concerned, it was felt that the problems of the private farms had been underestimated by the policy makers and that the private farms would be able to increase output if they received the necessary support.

Another speaker stated that in Poland agricultural production in 1984 was 4 per cent higher than before the crisis, while in the non-agricultural sectors it was 14 per cent lower. In a centrally planned economy the answer to the problem of how to avoid a crisis situation in agriculture is clear in principle but in practice one must be more pessimistic.

One speaker felt that more attention should be given to the economic aspects of increased productivity – not simply the technical aspects – and that advisory services should be trained to help here. This was particularly important at a time of surpluses and at both the micro and macro level.

Józef St Żegar restricted his reply to two areas. Firstly, he fully shared the opinion of Professor Tomic that one of the most important reasons for the unsatisfactory performance of Polish agriculture was the neglect of the role of the food sector in the total national economy. It was true that, on the whole, post-war economic policy was not oriented towards agricultural development, in spite of official declarations. In crisis conditions it became quite obvious how important was the role of agriculture. Despite this, however, the process of reorientation of the national economy, particularly the input industry, towards agriculture and food economy is encountering many obstacles both of a technical and a management nature.

Secondly, he could not fully agree with the opinion of Professor Westermarck that the main reason for the agricultural crisis was that the agrarian policy supported too strongly the socialised sector at the cost of the private one. It is true that the needs of the private sector were not

always fully appreciated; but one cannot limit the reasons to unsatisfactory aid allocation. The development of agriculture is determined by a whole set of factors: social, natural, technical, political and so on. It is very difficult to select the role.

George L. Brinkman replied to the various points and questions as follows:

What do you mean by equity? – Equity is the difference between the value of assets measured at current market value and liabilities. Equity represents net worth.

What is meant by quota costs? – Since quotas can be bought and sold between farmers in Canada, quota costs represent the amount a farmer must pay to buy the quota from another farmer. Quotas were allocated free to the producers of a commodity when the supply management systems were first developed, but now farmers wishing to start up or increase their production of quota commodities must buy the quota rights from other producers.

What alternative financing mechanisms, including leasing, are available to help improve farm survivability? – In Canada we have studied a large number of different financing mechanisms both to improve the stability of payment and to increase access to more and/or cheaper credit. Leasing is one alternative that holds promise for better financial solvency. Part-owning and part-leasing is growing faster than either full ownership or full tenancy. Better long-term leasing arrangements will need to be developed, however, for leasing to become the dominant form. It should also be noted that the recent tax provision for exemption of the first \$500,000 of capital gain per person from tax could provide some new opportunities for equity financing in agriculture. This tax provision could result in development funds being organised to own farm land for the tax free capital gains returns to the investors and thereby providing either leasing or joint ownership of farm land to farmers.

How can increased productivity at the micro level be reconciled with increasing supplies and decreasing prices at the macro level? – In Canada we face an export demand curve from many of our products that is much more elastic than our domestic demand curve. Furthermore U.S. supply and demand conditions essentially determine prices for beef, hogs, grains, oilseeds and, to some extent, fruits and vegetables. As a result, most of the benefits of research and increased productivity are passed on to the producer rather than the consumer. Agricultural research is therefore one of the most effective assistance measures to Canadian farmers that we can provide.

Have you included in your analysis possible changes to the forthcoming 1985 US farm bill? – US policies are very influential in affecting Canadian farmers because the US loan rate, in particular, serves as an international price floor for crop prices. The 1985 farm bill is not yet completed, but reductions in the loan rate are likely to cause further

decreases in international grain prices and worsen conditions further for Canadian producers.

Participants in the discussion included: Estaback, B. F. Stanton, P. A. Power, Rafschneider and N. Westermarck.