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Privatization in Polish Agriculture — Determinants and Effects ¹

THE OWNERSHIP STRUCTURE OF POLISH AGRICULTURE

Arable land in Poland covers 18.5 million hectares. At the beginning of 1992 the ownership structure of this land looked as follows ²:

- 72 per cent of the belonged to private farmers;
- 19 per cent constituted state farms;
- 4 per cent was controlled by the State Land Fund;
- 4 per cent was the property of about 2 thousand cooperative farms.

About 1 per cent of the land was split into small plots, covering less than 1 hectare, these plots belonged to some 1.7 million owners who were not included in the category of private farmers.

The State Land Fund was an institution which took over farms from elderly farmers in return for old age pensions. Some half of the land taken over by the Fund was then leased to private farmers and a small part of it was sold to those farmers wishing to increase the area of their land. The remaining land was handed down to state or cooperative farms, agriculture service organizations (*kółka rolnicze*) or used for other non-arable purposes.

The arable land belonged to the Fund consisted of heavily dispersed plots of less than 1 hectare. These plots were often located in the middle of private farms.

The average area of private farm was 6 hectares, a state farm covered

¹ A previous version of the paper was presented at the Conference 'Privatization — different levels, modes and spheres', London, 10–11 June 1994.

² *Rocznik Statystyczny (Statistical Yearbook) 1993*, GUS, Warszawa 1993, pp. LV and 325.

about 2 thousand hectares³. The average employment per 100 hectares being: 25 people for private farms, 13 people for cooperatives and 8 people for state farms⁴. Generally, agriculture employed (housewives included) 4.5 million people, which made up 27 per cent of the working population in Poland.

The privatization process of state arable land started at the end of 1991 when a respective law was passed in Parliament, which referred to the control over rural property within the State Treasury. The former law passed in 1990 concerned other branches of the economy, rather than agriculture, and appeared to be useless while privatizing state farms⁵. Thus, the turn of 1991/1992 is, in fact, the point when the privatization process started.

THE OWNERSHIP STRUCTURE OF ARABLE LAND IN DIFFERENT REGIONS OF POLAND

The data mentioned above do not say much about the real problems and conditions under which privatization is carried out in Poland. The problem which affects the process most is the specificity of ownership structures in different parts of the country. A good example being the comparison between the privatization process in the 21 provinces of Northern and Western Poland, where 33 per cent of the land was cultivated by state farms, and the privatization process in the 28 provinces in the Centre, East and South of the country, where only 4 per cent of land was cultivated by state farms⁶. Thus, theoretically privatization in the former region should be more difficult than in the latter one⁷. Surprisingly enough, the present situation is quite the opposite. The roots of this paradoxical phenomena are of a historical nature. Therefore some information on the history of Poland seems necessary here, for it is Poland history that influences, to a great extent, today's privatization process in Polish agriculture.

³ Olko-Bagińska Teresa, *Regionalne aspekty przekształceń własnościowych w rolnictwie*, [w:] *Przekształcenia polskiego rolnictwa (Regional Aspects of Ownership Transformations in Agriculture)*, [in:] *Transformations of Polish Agriculture*, MRiGŻ, Warszawa 1992, pp. 95–99.

⁴ *Rocznik Statystyczny 1993*, p. 319.

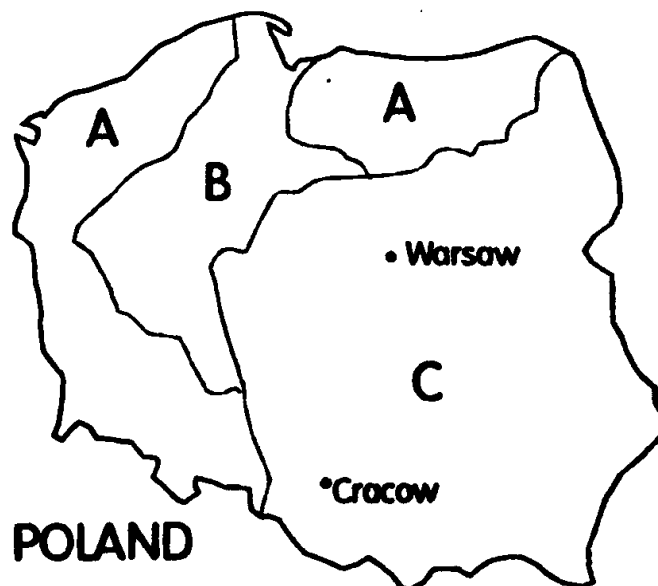
⁵ Korona Kazimierz, Pyrgies Józef, *Przegląd procesu prywatyzacji w rolnictwie*, [w:] *Przekształcenia polskiego rolnictwa* ([in:] *Transformations of Polish Agriculture*), p. 71.

⁶ Ziętara Wojciech, *Prywatyzacja rolnictwie*, [w:] *Przekształcenia polskiego rolnictwa* ([in:] *Transformations of Polish Agriculture*), p. 66.

⁷ Olko-Bagińska Teresa, *tamże*, pp. 109–110.

HISTORICAL DETERMINANTS IN THE TRANSFORMATION PROCESSES IN POLISH AGRICULTURE

The 21 provinces of Northern and Western Poland consist of two regions. Region 'A' (13 provinces) since the 13th century to the end of the World War II belonged to Brandenburg, and then to Prussia. Region 'B' (8 provinces) were captured by Prussia at the end of the 18th century to be kept by this country to the end of the Great War. That was for 120 years when Poland was partitioned by Russia, Prussia and Austria. Even these two groups of provinces differ in respect of arable land ownership. In region 'A' (13 provinces) state farms owned 40 per cent of the land, while a region 'B' (8 provinces) only 23 per cent of the land was owned by state farms. Moreover, it should be emphasized that in the region seized by Prussia peasants were granted land of their own and became freeholders at the beginning of the 19th century, half a century earlier than in Russian and Austrian sectors of partitioned Poland. Compared to Russian and Austrian sectors, farms in the Prussian sector were much bigger and farming methods were more advanced. Nowadays, only 4 per cent of the land in former Russian and Austrian sectors belongs to the state. Villages in these regions were poor and overpopulated, which made a remarkable number of peasants emigrate to Western Europe and America. The partition of Poland in the 18th century and the Jalta conference became purely historical determinants in the ownership structures of land in Poland. On the grounds of respective Jalta resolutions, almost all inhabitants of region 'A' (13 provinces) of Northern and Western Poland were expropriated and forced to emigrate to Germany. Deserted land waited for new owners. However, only a limited number of newcomers arrived. That is why, large state farms appeared to be the only solution to the problem.



A solution squared with the communist dogma of superiority of state ownership over its private counterpart. The settlers to this region from central Poland were also discouraged by the fear of a possible anti-communist war which could have resulted in the change of Jalta decisions concerning Polish borders. The return of former owners of the land would have meant the loss of the newly acquired farms, agreed in Jalta. The displacement of about 1.5 million Polish people to this region from eastern parts of pre-war Poland, taken by the Soviet Union after the war, did not help the situation either⁸.

Thus, both the partition of the country and the Jalta conference influenced the privatization process in contemporary Poland. Dominated by 'Solidarity' politicians, Parliament and the governments accepted the project of privatization. However, at the same time a law was passed according to which any foreigner wishing to purchase land had to first receive permission. Polish inventors were not competitive enough for overseas businessmen and the authorities wanted to prevent excessive land sales to foreigners. However, this law had its disadvantages, too. Namely, it put limits on the amount of foreign capital coming into Poland and slowed down the pace of ownership transformations.

A great number of Poles who used to live in eastern regions of pre-war Poland lost their property because of the displacement of this population. The 'Solidarity' governments undertook to compensate their loss. However, the declared claims go far beyond the financial resources of the state budget and thus they cannot be met now. Moreover, the sufferers generally refuse to accept the land of the former state farms in the north and west of Poland in return for the property they lost. They are mainly interested in financial compensation.

As difficult and complex seems to be the question of re-privatization in agriculture and other spheres of the Polish economy. No definite solutions have emerged so far from a five year long argument over this vital problem. The only exception was the law which required the restitution of the pre-war property to the Catholic Church. It has been calculated that if the Government wanted to compensate all those whose property was taken over by the state lawlessly it would cost several percent of the total present state budget of Poland. All those sufferers prefer money to other forms of compensation. The Polish Peasants Party, one of the two parties in Polish coalitional government, applied to Parliament for voting a referendum in which the whole society would choose the most favourable method of re-privatization. The referendum has not been passed.

The present government formed by the coalition of the peasants party and post-communist social democrats is in favour of the reprivatization of

⁸ Buszko Józef, *Historia Polski (History of Poland) 1864-1948*, Wyd. 11, Warszawa 1987, p. 416.

this property which was nationalized not in conformity with the regulations accepted by the communist authorities. The government wants to give the sufferers stock or bonds to buy shares in the privatized companies or property put for sale (auction) by local self-governments. The recompenses, according to the government, cannot be higher than 45 thousand USA dollars each, or sometimes slightly higher⁹. The alternative reprivatization draft does not put any limits on compensations to be paid in kind.

The problems of privatization would grow radically if all the laws passed by the former communist regime, according to which industry and agriculture were nationalized, were found to be illegal and thus overturned. According to these laws all the farms over 50 ha of arable land in the region 'C', and over 100 ha farms in Northern and Western Poland were broken up or nationalized. As a result 800 thousand farms were formed which on average covered the area of 6 ha. Over 200 thousand farms grew in size¹⁰. At the same time, over an area of about 12 per cent of arable land state farms were set up. The whole of industry, agriculture and food production, all companies employing over 50 workers per shift, did not escape nationalization either. Again, this calls for an urgent voting on the reprivatization law. Since property, burdened with the claims of its former owners, cannot be sold. That is why 15 times more land, that once belonged to state farms, is leased than sold.

Poland is the only country in the former eastern block where, under socialism over 3/4 of the arable land belonged to private farmers. In spite of the political and economic pressures between 1948–1955 aimed at the development of cooperative farms, most peasants remained indifferent and the proportion of privately owned land did not decrease to a noticeable extent. It is estimated that in 1947 about 87 per cent of arable land belonged to private farmers. Although the number of cooperative farms grew steadily, from 240 at the end of 1949 to 10 thousand in 1956, they covered hardly 10 per cent of the land and organized only about 200 thousand families. In 1956/57 most of these cooperatives were dissolved. The 1600 left associated of about 35 thousand members. Then a slow increase in the number of cooperatives was observed, up to 2000, covering about 1 million hectares, up until 1980. In the 1980s the number of cooperative farms decreases along with the surface area. In 1994 less than 4 per cent of arable land (623 thousand hectares) is cultivated by about 1650 cooperative farms (the average surface area of a farm = 350 ha). The food they produce is of a little importance for the Polish food industry. Much more essential are the farm service cooperative rendered to agriculture and the agriculture

⁹ Wielgo Marek, *Reprywatyzacja bonowa (Coupon Reprivatization)*, Gazeta Wyborcza, 1994, no. 105, p. 24.

¹⁰ Buszko Józef, *po.cit.*, pp. 418-421; Józef Paliwoda, *Zagadnienia prawne spółdzielni produkcji rolnej (Legal Problems of Agricultural Cooperative)*, Wrocław 1987, pp. 19–49.

supply/purchasing centers they run. However, private firms that control services and commerce in cities are becoming more and more competitive and important in rural areas as well.

Still another factor, which has already become a historical determinant as well, is the experience connected with investment credits. In the 1970s Poland received very large foreign loans. These loans were either wrongly invested or just consumed, but huge foreign debts become a remarkable financial burden for the Polish economy. That is why the present government does not want to devote any foreign loans to pay the expenses of transformations in the economy. On the other hand, a constant deficit in the state budget makes it impossible to finance this process of transformations from Polish financial resources. Not only state farms but large specialized private farms were affected as well. Their owners ran into debt at the end of the 1980s and then in 1990, when Balcerowicz's package of economic reforms came into force and credit interest went up rapidly, they all of a sudden faced bankruptcy¹¹. Also most of the service cooperatives and state farms, which got used to a constant inflow of revolving credits, were caught in this debt trap¹². The only agriculture units to survive this crisis relatively unhurt were self-subsistence farms which assigned most of their production to meet their own demand. Both the recent experiences and low profitability of agriculture supply made farmers limit production and kept them from taking possession of arable land from former state farms¹³.

THE CURRENT DETERMINANTS AND ADVANCEMENT IN THE PRIVATIZATION OF POLISH AGRICULTURE

An essential stimulus for privatization is the belief, shared by many politicians, that privatization is the only rational direction the Polish economic reforms should go in. This new trust in a positive interrelationship between private ownership and economic efficiency has replaced the old communist doctrine of economic perfection represented by social ownership. Sometimes these beliefs seem so persuasive as to gain the upper hand

¹¹ Okuniewski Józef, *Procesy przystosowawcze w rolnictwie i na wsi w latach 1990–1992* (Adaptational Processes in Agriculture and Rural Areas in the Years 1990–1992), *Wież i Rolnictwo*, 1993, no. 2, pp. 7–9; Górecki Jan, *Doświadczenia polskiego rolnictwa w warunkach gospodarki rynkowej* (The Experiences of Polish Agriculture under Market Economy Circumstances), *Wież i Państwo*, 1993, no. 2, pp. 104–105.

¹² Portalski Roman, *Oddłużanie spółdzielni* (Cleaning the Debts of Coops), *Praktyczne Vademecum Spółdzielczości*, 1994, no. 2 and 3, p. 36.

¹³ Bieńkowski Andrzej, *Urynkowanie — reakcja rolników indywidualnych* (Attitudes of Farmers towards the Market Economy), *Wież i Rolnictwo*, 1992, no. 3/4, pp. 62–67.

in economic calculations ¹⁴. Such attitudes may have stimulated some decisions concerning the transformation of state farms. In October 1991, Parliament decided to restructure all state farms irrespective of efficiency or economic form of particular farms. It was settled that state farms were to be taken over by a special State Treasury Agency within a period of two years. Three months later, the regulations were changed and the Agency was instructed to take possession of all state farms within half the time suggested earlier, i.e. the end of June 1993. So far (June 1994) the Agency ¹⁵:

- sold 2 per cent of the 4 million ha of arable land taken over from the state farms and State Land Fund;
- leased 36 per cent of the land belonging to the state,
- spent 60 per cent of its income covering only 25 per cent of state farms debt;
- deprived rural communities of a great number of jobs and thus contributed to rural unemployment causing it to be higher than in cities;
- sold only 1/4 of flats which once belonged to state farms, in spite of the fact that these flats were offered to the former employees at very low prices ¹⁶.

For the time being it is difficult to estimate the advantages and disadvantages of these decisions and decide which is less expensive: To support unprofitable and encumbered state farms or to pay unemployment benefit to those people who have lost and will not be able to find new jobs. The governments in post-socialist countries have to keep the balance between the radicalism of liberal economic reform and the limits of social consent. The results of the Parliamentary elections in Lithuanian and Poland in 1993 proved that social support for liberal privatization programmes is pretty unsound and the electorate themselves have reinstated parties which originate from former communist parties.

To be frank, the reformers themselves can be blamed for some of the failures. For example, it took four years for a 'Solidarity' parliament to prepare a proposal of necessary regulation connected with the institution of auctions. As a result, 'Solidarity' failed to use auctions as an effective form of selling public property. This legislative deficiency allowed situations when public property, priced by experts and put up for auction was not purchased, but soon afterwards it was bought at a price several times lower

¹⁴ Woś Augustyn, *Państwowa gospodarka rolna w okresie transformacji systemowej* (State Agricultural Economy in the Period of System Transformation), *Więś i Rolnictwo*, 1994, no. 2, pp. 29–30.

¹⁵ Naszkowska Krystyna, *Puścizna po pegeerach* (Heritage Left by State-farms), *Gazeta Wyborcza*, 1994, no. 123, p. 20.

¹⁶ *Sprawozdanie Agencji Własności Rolnej Skarbu Państwa za I kw. 1994* (The Report of the State's Treasury Agency of Agricultural Property for the 1st Quarter of the Year 1994), Warszawa 1994.

than the retainer price settled before the auction ¹⁷. This lack of necessary regulations has discouraged most of Polish society from supporting the privatization of: state, self government and cooperative property. Fortunately, the auction law has already been passed in parliament. Moreover, it is difficult to estimate to what extent the privatization process has taken the form of such a 'privatization through plunder'. Even though these procedures have accelerated the pace of privatization, any examples of those 'not quite proper transactions' lowered social acceptance for transformations in the economy and people's confidence in the honesty of politicians.

Analysis of the results of the privatization process from the beginning of 1992 till the end of March 1994 shows clearly the differences between regions of distinct history. Going back to the regions mentioned before, let us compare the acreages of purchased and leased land to that which still belongs to the state.

In the country as a whole 1.7 per cent of the state land was sold in the discussed period. However, in region 'B' 3.2 per cent was sold. A similar ratio is observed in leased land. In the country as a whole 28 per cent of land was leased compared with 45 per cent of land being leased in region 'B'. The least amount of land was purchased in region 'A' and lease in region 'C'. In different regions of the country, different acreages of land were put up for auction, which affected the proportion of to its purchase or leasing at particular stages of the discussed period. In 1993 over one third of the state land was put up for auction. However, this time less land was bought while the acreages of leased land went up. During the early period of 1994 less interest in both buying and leasing was recorded. Region 'C' being distinctive in this respect. Although this region showed the highest purchasing ratio at the beginning, now only a very limited amount of land was sold there. As far as leasing is concerned, it falls considerably in region 'A' keeps the same level in region 'C' and rises in region 'B'. The latter has always represented the highest ratio of leased land.

We can assume, that the process of privatization is supposed to be the most effective in region 'B'. Neither present nor earlier results enable a more detailed forecast. Integration of Poland with the European Community will certainly influence the process of privatization in agriculture. It will also affect food prices and is expected to change interest in the investment in food production. I think that the ownership transformation in the Polish economy after World War II and after 1989 were, to much to an extent, affected by politically rather than economically oriented decisions.

¹⁷ Sielanko Anna, *Małe zainteresowanie pensjonatami (Small Interest in Boarding-houses)*, Rzeczpospolita, 1994, no. 123, p. 19.