

## Twenty years of system transformation vs. European integration

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**Abstract.** This article is an attempt to look at the issues of correlation between the system transformation and the European integration from the perspective of agriculture and development of rural areas in Poland. These issues are presented in three parts. In the first part, the integration as an economic and social phenomenon is analyzed as well as the transformation of the economic and political system in Poland is characterized. In the second part, the experience of Polish agriculture in the conditions of a centrally planned economy as well as system transformation is analyzed, whereas in the final part – the influence of the European integration on agriculture during the period of around fifteen years as well as some development trends, which are being observed in present times.

**Key Words:** system transformation, European integration, agriculture in Poland, rural development.

### I. Integration process versus system transformation

**Integration: definition and conditions.** The word 'integration' is derived from Latin (*integratio*). It stands for integrating parts into one functional whole. In order to understand the essence of integration it is helpful to refer to the system. Ancient Greeks expressed the meaning of this notion in a very concise way, stating that *a whole is more than a simple sum of its components*. The above mentioned 'more' constitutes a new quality. It stands for the benefit which is revealed as a result of combining components into a defined whole, in which those components become correlated with one another. In the case of a car it is the ability to move independently.<sup>1</sup>

The complexity of a system is well illustrated by biology which is also helpful in explaining other qualities of it. It is noteworthy that between the organisms belonging to different species there is also a very frequent phenomenon called synergy since they do not live in isolation 'next to each other' but cooperate in making fuller use of the ecological niche, in which they exist.

Next feature of a living organism is the ability to adapt, that is to adjust to the changeable environment, as well as homeostasis, that is being equipped with defensive mechanisms which protect its identity against any accidental stimuli from the environment. Adaptation takes place when changes occur slowly but happen in the same direction, whereas homeostasis – if they are short-lived, act chaotically and with a lot of force<sup>2</sup>.

In theory of politics, integration defines the state and level of unification of the given social group as well as the whole society, which in spite of the fact that it consists of various social and professional groups, classes and social strata as well as is diversified

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<sup>1</sup> B. Gaziński, *Procesy integracyjne* [in:] *Podstawowe kategorie polityki*, ed. S. Opara, D. Radziszewska-Szczepaniak, A. Zukowski, Olsztyn 2005, pp. 198 -200.

<sup>2</sup> C.R.W. Spedding, *The study of Agricultural Systems* [in:] *The Biology of Agricultural Systems*, NY, San Francisco 1979, pp. 4 -16.

by religion, political views, ethnic relations, functions, is perceived as a whole. Integration also concerns the international and interstate bonds.

An example of reaching by the Polish society a high level of integration can be the phenomenon of 'Solidarity' at the beginning of the 1980s. Then it was also an example of political integration. In the international relations, integration manifests among other things by establishing organizations and international institutions such as the United Nations system, NATO and other defense structures, or Organization for Security and Co-operation in Europe.

An important reason and also frequently an initial condition for political integration is economic integration. Economic integration is the process of dynamic changes in the economy, which lead to establishing new structures (economic organisms) merged by a network of interrelations arising within the course of the abovementioned process.

The opponents seem to underestimate the notable benefits of the integration for the cooperating parties. They are reaped also then, when the partners show different levels of development and wealth. It is confirmed among other things by the theory of comparative costs, which was formulated by D. Ricardo in the XIXth century and belongs to the canons of the classical economics. It is stated in it that an international exchange allows the partners participating in it to reap notable benefits since each country specializes in production of those goods which manufactures relatively better and imports from abroad those goods the production of which seems to be less effective in that country<sup>3</sup>.

Depending on the political, economic, and cultural conditions as well as the diversification of the level of social and economic development as well as the hitherto experiences of partners, integration assumes various institutional and legal forms.

Integration is not always voluntary (although at present this model seems to prevail) – it also happens that it is forced from the outside. In the course of history many examples of military conquests have taken place, as a result of which not only the defeated were assimilated by the winners but also quite the opposite tended to happen that the winners were assimilated by the defeated. Correspondingly, it is possible to distinguish three basic types of integration depending on the character of the relations between the states:

- **Politically unequal integration**, when some partners are subordinated to the others (formerly: Council for Mutual Economic Assistance, colonial dependency).
- **Conventional integration of sovereign states** (e.g. EFTA, CEFTA, NAFTA).
- **Conventional agreement of states which voluntarily limit their sovereignty** for the sake of supranational institutions which represent them (e.g. the European Union).

Classifying the European Union into the third out of the above mentioned categories is connected with the political vision of united Europe, which was elaborated by Jean Monnet and Robert Schuman regarded as their founders. It also constitutes the unique feature of the institutional order of the Community in comparison with a state or typical international organization.

Depending on the advancement of economic integration, various forms of it can be distinguished:

- **Free trade zone** which stands for an agreement on abolishing in mutual trade: customs duties and other restrictions having similar effect to customs duties such as quotas or compensation fees. Partners remain free to maintain trade policy with the countries which do not belong to the zone.
- **Customs union** is usually the next stage of integration and is effected, when the partners forming the free trade zone adopt a uniform trade policy towards the countries, which do not belong to the zone (common customs tariff and trade regulations).
- **Economic union** results from the evolution of the customs union, the development of which demands unification and setting numerous detailed solutions within the scope of law, taxes as well as public finance, social issues and

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<sup>3</sup> A. Czarzyńska, K. Śledziowska, *Teoria integracji europejskiej*, Warszawa 2003.

other. More and more institutions are being established to fulfill the above mentioned tasks<sup>4</sup>.

Distinguishing a free trade zone from a customs union is by no means a theory which is far from the daily practice but is explicitly reflected in the history of the European Communities both the former and the recent ones.

Still in the 1950s when the future Rome Treaties were being negotiated seven states participated in them. Apart from "the sixth" of founders of the European Steel and Coal Community (established several years earlier by force of the Paris Treaty which came into force in 1952) there was also Great Britain among them. This country, however, withdrew from the negotiations when Henry Spaak, former Belgian Prime Minister, who chaired the negotiations demanded from the state delegations the government authorizations that they accept reaching the stage of a customs union as the purpose of economic integration.

The second example of similar character is Norway, the country connected with the states of the present European Union by the agreement on the European Economic Area (having features of a free trade zone). In this country membership was rejected twice in national referendums: for the first time in the period preceding the first enlargement of 1973 when Great Britain, Denmark and Ireland became members of the Communities and again prior to the enlargement of 1995, when Finland, Sweden and Austria obtained the membership status.

At present the European Union is on the stage of advanced economic union. By force of the solutions accepted in the Single European Act a single internal market was created which is characterized by four freedoms of transfer of: goods (removal of customs barriers), capital, services and people. A supplement of the processes of establishing the internal European market was the program of community's currency, which was provided for in the Treaty on the European Union and realized (the third stage of the so-called economic and currency union) by introducing the euro (in 1999 in a cashless form, in 2002 the euro replaced the national currencies in 12 states, which joined the 'Euroland')<sup>5</sup>.

For political reasons and as a result of the character the economic system which was imposed on Poland after the World War II, for the first decades Poland was not able to participate in those processes encompassing the democratic European nations.

A clear confirmation of this fact is the lack of any bilateral agreements between the People's Republic of Poland and the European Communities (mutual relations were regulated by international law as well as unilateral directives of the European Economic Community on the principles of trade and economic cooperation with the centrally planned economy states). The first agreement of this kind was signed only in September 1989, already in the period of government of the first post-war non-communist Prime Minister in the Central-Eastern Europe, Tadeusz Mazowiecki, was initiated not only a turning point in the relations with the democratic Europe but also a peaceful process of rejecting the whole political and economic system.

**Transformation.** The word 'transformation' is derived from Latin (*transformation*). It means a change and is used in various contexts of meaning. In recent 20 years it is widely spread to use the term the **system transformation**. It means that the changes taking place in the countries, which have set about reforms aiming at departure from the system of real socialism and initiating construction of democratic structures of a market economy state.

The scope of transformation seems to be a sensation due to the fact that such changes encompassing both the political system and the economy, have not taken place in the course of history yet. It is possible to point out some examples of transformation of political systems of countries which were ruled in an autocratic way: fascist Germany and Italy or Greece and Spain ruled by military regimes. In the above mentioned countries the fundamentals of market economy remained – indeed, the political changes

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<sup>4</sup> Z. Wysokińska, J. Witkowska, *Integracja europejska. Rozwój rynków*, Warszawa 1999.

<sup>5</sup> B. Gaziński, *Unia Europejska nie tylko dla początkujących*, Olsztyn 2002.

were accompanied by economic reforms but they did not change the fundamentals of the economic system.

Let us pay closer attention to the system transformation, undertaken in Poland and other countries, and its historical context. It is noteworthy that the first transformation of the political system in our country started in 1918. It meant the integration of the lands, which had belonged to the partitioners, into one organism of the independent Polish state. Its development was disturbed by the war just after barely more than 20 years.

In the years from 1944 to 1949 the other transformation was imposed on Poland. It covered the following areas:

a) *Political system:*

Parliamentary democracy of the interwar period was replaced by the system of the totalitarian state which defined itself as 'the dictatorship of the proletariat'.

b) *Economic system:*

- Market economy was replaced by centrally planned economy,
- Private property, which dominates in economy, was supplanted by nationalized property.

Thus, as it can be easily noticed, in 1989 the transformation was undertaken, which was directed in the opposite direction in comparison with the one from the 1940s:

a) *Political system:*

The state of that time was submitted to reconstruction including the formation of the system of parliamentary democracy,

b) *Economic system:*

- Centrally planned economy was replaced by market economy,
- The dominating in the economy nationalized economy was changed into private property.

From September 1939, when the peaceful development of the Polish state was disturbed, till September 1989, when the government of Tadeusz Mazowiecki – the first one in this part of Europe – initiated the program of system transformation, 50 years and around 15 days have passed. For the entire half a century our country developed according to the principles of a different, ineffective social and economic system. It is the underlying cause of the economic backwardness which is confirmed by the statistical data. It is estimated that in 1938 the national income in Poland was two-fold higher than in Greece. After 45 years of real socialism that indicator was reversed in favour of Greece. The relations referring to other European states were similar.

The strategic choice made by Poland in 1989 to change the inefficient system of real socialism into more effective system of market economy did not mean, though, as some people expected, a rapid increase of the pace of the economic development. The fall of the GDP per capita which was observed in the first years of transformation, stood for the costs of reconstruction of the political and economic system.

According to the statistics, in 1990 GDP per capita decreased by 8% in comparison with the year 1989, whereas in the next year - by following 7%. A considerable part of the population of the country felt a marked deterioration of the standard of living of a considerable part of population. In fact, however, the statistics painted an excessively gloomy picture of the situation in this way contributing to a rapid growth of disappointment and frustration in the society<sup>6</sup>. Several overlapping causes contributed to that fact:

- The so-called 'grey economy' was not included in the statistics, the example of which is the then developing street trade. According to the Hungarian estimates of that time its share in the economy was comparable with the fall in GDP which was observed in that country,
- The new economic system constrained the end of production of useless trash which increased the statistics of the national income (e.g. at the time of common pocket calculators which were imported from abroad, the domestic industry still manufactured mechanic calculating devices, the so-called 'kręciołki'),

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<sup>6</sup> D. Rosati, *Polska droga do rynku*, Warszawa 1998, ss. 99 – 134.

- The scope of wasting was considerably decreased. If in the cooperative blocks of flats warmth escaped through the draughty windows and walls which were not insulated, then again owing to the mining and heat engineering the national income increased,
- Inaccuracy in estimating the very statistical data since in the previous system a nationalized enterprise had stronger motivation to show higher results 'on paper' than in reality (bonuses for the management and the staff for exceeding the planned tasks). Meanwhile, a private enterprise could expect one clear prize for excellent results – higher taxes! The state 'on the paper' did not often meet the actual one, which was of much lower value.

It is noteworthy that the costs of transformation were not borne by everyone and that they were not evenly spread. Thus, not everyone felt the benefits or could participate in the opportunities created by the emerging new system. Paradoxically, the beneficiaries of the new system were in particular the people belonging to the former political establishment which easily got rid of its ideology, the support for which had most frequently only a declarative character, and still were the leaders in creating the fundamentals of capitalism. The act of granting property rights to the nomenclature contributed to that in a considerable way (that is the appropriation by the party and state elites of the national property) even prior to the formal fall of the real socialism as well as the subsequent so-called 'thick line' policy (abandoning decommunization). On the other hand, among the losers of that time were the employees of the big industrial plants which used to be the mainstay of 'Solidarity', whereas in the new circumstances experienced workforce reductions and even bankruptcy of their companies...

The deterioration of mood was influenced by the effect of demonstration by the growing rich beneficiaries of the changes, excessive expectations and forgetting the misery of life in the conditions of the real socialism. The memory of empty shop shelves of the 1980s tended to be veiled by the short-lived prosperity of 'the life on credit' in the times of Gierek<sup>7</sup>.

The lack of understanding for the ongoing transformation in the categories of system choice was clearly visible. People did not often realize the illusory nature of their expectations: that it would be possible to retain that what was deemed the positive side of the old system: stable employment, lack of unemployment (at least the official one since it occurred in a hidden form), social benefits which were provided for free or at reduced prices (it was expressed in the colloquial language: 'what is being given' at the shop or 'receive' a flat) and at the same time avoid the 'bad' sides of the new system: unemployment, higher risk of doing business or the 'rapacity' which was characteristic particularly for the first period of forming capitalism.

Meanwhile, the choice referred to the whole system, to both the 'good' sides of it as well as the negative ones. The Solidarity uprising of the 1980s deprived the hitherto authorities of the social mandate to continue exercising power - the demand for political transformation towards the full democratization of the state was explicitly expressed. In the economic sphere the postulates were not so radical – the expectations of that time seem to be expressed by the parole: 'socialism yes, distortions no'.

Socialism as a system did not appear as a consequence of a sovereign and at the same time wrong choice – it was imposed on the society. The decision on radical abandoning of that system, which was the right decision having no other alternative, was not made as a result of a referendum or following extensive social consultations, explaining the role of changes or the conditions of the new political and economic system. There were also inevitable mistakes, corruption, numerous examples of ineptitude, wrong legal solutions as well as the inefficiency of many offices, including the judiciary. All that contributed to the intensification of frustration and weakening of the sense of connection with own state. This explains the fact that the post-communist fractions soon regained influence. In Poland it took place in 1993 but it also happened in the most of the countries of the region.

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<sup>7</sup> J. Beksiak et.al., *Polska gospodarka w XX wieku*, Warszawa 1999.

However, those and other deficiencies cannot veil the historical dimension of the changes. The transformation of the political system led to the creation of a democratic state:

- The freedom of assembly and to carry out political activity were provided,
- Free elections were introduced,
- The legal system, including the constitution, were altered,
- New institutions were established, including: the office of the President and Senate, the Constitutional Tribunal, the Tribunal of State and the Chief Administrative Court,
- The fundamental human rights and citizen's rights, which in the socialist system existed only on the paper, started to be observed.

The transformation of the economic system occasioned the introduction of the market economy:

- The 'handmade' steering of the central plan was replaced by the regulation by the laws of the market,
- The financial system was changed (convertibility of zloty, independence of banks),
- The private sector became the dominating sector of the economy (property relations, participation in creating GDP and employment),
- The institutional and legal system was adapted to the needs of the reformed economy.

In order to illustrate the scale of change let us give some examples regarding the last of the above points. In the period of the socialist economy there was no law regulating the act of starting business - the interwar Trade Code turned out to be very helpful in the new circumstances! There were no statutory provisions regarding the collapse of companies – socialism simply did not admit such a possibility. There were also no legal bases for establishing foundations (such a law was adopted under the pressure of the initiators of a church foundation for the sake of Polish agriculture in the second half of 1980s).

The thorough reconstruction of the state is not the only result of the system transformation. It also contributed to the change of the geopolitical localization of Poland on the map of the world:

- Instead of three our country has seven states-neighbors,
- Poland met criteria and was accepted to such international institutions as: the International Monetary Fund, OECD and the Council of Europe,
- The participation in NATO and the European Union is of strategic importance for the future of the country.

The character of the system transformation and the problems connected with it are similar in all countries. In formal respect, it is finished in ten new member states as well as in Croatia and Macedonia, at least according to the so-called Copenhagen criteria adopted in the European Union. Still a lot remains to be done in Albania and other Balkan states. There is also a complicated situation in the Commonwealth of Independent States<sup>8</sup>.

Poland chose the way of a 'shock therapy' of economic reforms and is deemed a model example of success. Though there is still one thing which has been neglected – belonging to the few post-socialist countries, which till the present day were not able to deal with the problem of reprivatization, that is the law specifying the compensation for the nationalization of the private property, which was carried out against the law of that time. The transformation of the political system was carried out in a much less fortunate way. Poland, which initiated the transformation in the whole region, met the criteria of a democratic state later than Hungary, which joined the Council of Europe earlier than Poland.

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<sup>8</sup> *Globalizacja, integracja, transformacja. Główne problemy globalizacji, integracji europejskiej oraz transformacji politycznej Europy Środkowej i Wschodniej*, ed. R. Backer, J. Marszałek-Kawa, J. Modrzyńska, Toruń 2003.

## II. Agriculture during several decades of the former system and system transformation

One of the most important features of the socialist system was the domination of politics over the economy, hence individual political and economic periods overlap. The system of the socialist economy, in spite of the fact that its adaptability did not turn out to be sufficient for it to survive, demonstrated slow adaptation to the economic conditions and changeable political factors. From the year 1944 on (the beginning of imposition of the new system) till the year 1989 (departure from socialism was initiated), several periods characterized by explicit features can be distinguished:

**Implementation of the new system (1944 – December 1948).** During the still ongoing war it was the government-in-exile in London which was internationally recognized, whereas the new centre of power was deemed usurpal. 'The legalization' of the communist structure of power proceeded in stages: from the temporary acknowledgement of the opposition in the public life (the leader of the Polish Peasants' Party, Stanislaw Mikolajczyk, came to London and became a deputy prime minister in the new government) over gradual elimination of independent political fractions (a characteristic event was the escape of Mikolajczyk from Poland in 1947) till the establishment of homogeneous power. In December 1948 a unification congress was held. At that congress the Polish Socialist Party and Polish Workers' Party were united to establish the Polish United Workers' Party.

The interchange points in the economic policy of the period, that is the fight to take over power, were the decrees on: nationalization of the industry, agricultural reform (1944), 'battle for trade' (the struggle from the year 1947 to eliminate the private sector from trade, services and small-scale production) as well as the aspirations to introduce forcible collectivization of agriculture, which was decided on at the unification congress.

The issue of an agricultural reform bothered the Polish society already in the period of the Second Polish Republic. It was also present in the programs of the Polish Peasants' Party. However, the purpose of introducing the reform by the new authorities was political to a greater extent. It aimed to strengthen the position of the communist party in the rural areas. Moreover, as the later events showed, it turned out to be only a short-term step. The reform covered the farms and landed estates with the area exceeding 50 or 100 hectares depending on the location either on the 'old' or the 'new' lands (referred to as the regained lands). However, the allotments of land were very small. It often happened that on one farm abandoned by the German refugees were located two families. Correspondingly, one of the results of the agricultural reform, was the fragmentation of the agrarian structure which burdened the country over the next decades<sup>9</sup>.

**Stepped-up industrialization and forcible collectivization (December 1948 – October 1956).** Within the confines of the economic plan of the six-year plan, the only one having such a time perspective (the previous plan of the post-war reconstruction encompassed three years, whereas all the next ones were five-year plans), was adopted a different economic strategy of expansion of industry and collectivization of agriculture, which was a copy of Soviet solutions from the end of the 1920s and beginning of the 1930s.

According to the Marxist dual conception, which divided the economy into two departments – the sectors manufacturing the means of production and the sectors producing article of consumption, the emphasis was put on the development of the heavy industry.

The connection between fast industrialization and collectivization was not accidental – agriculture was treated as a 'suction pump'<sup>10</sup> which was supposed to supply industry with food and workforce. What is more, according to the adopted ideological

<sup>9</sup> W. Góra, *Reforma rolna PKWN*, Warszawa 1969.

<sup>10</sup> S. Swianiewicz, *Forced Labour and Economic Development. An Enquiry to Experiences of Soviet Industrialization*, Oxford 1965.

doctrine, there was an illusion that agriculture can be steered with the help of a central plan. The very existence of the peasant economy, that is thousands of relatively independent economic entities, did not match the logic of the system and the aspirations to subject all the forms of social, political and economic life to the control of one ruling centre, which was the communist party.

In its initial period, preceding the death of Stalin (1953), the collectivization of agriculture was carried out by means of the most brutal methods. The so-called propaganda brigades were sent to the country putting peasants under various kinds of pressure. Within the confines of the obligatory deliveries were applied such prices which barely covered the production costs. Those peasants who did not manage to deliver the quotas imposed on them quite frequently ended up in prison.

In particularly difficult situation were the owners of bigger farms (the so-called kulaks), who were burdened with progressively increasing, excessive taxes. From the year 1954 on when the corrections to the unrealistic tasks of the six-year plan were made, the signs of political 'thaw' were noticed and the burden of collectivization lessened.

**Temporary 'thaw' and stagnation of Gomulka's period (1956 – 1970).** The workers' rebellion in Poznan, which was bloodily suppressed by the militia and the army, did not go unnoticed. In October 1956, on the tide of the growing demand for changes, the power was taken over by Wladyslaw Gomulka, the leader of the Polish Workers' Party who was removed from power prior to the establishment of the Polish United Workers' Party.

The period of the political 'thaw' was accompanied by discussions about economic reforms (abandoned several years later). In agriculture the majority of the forcibly established production cooperatives were dissolved. It does not mean, however, that the existence of private sector in agriculture was accepted by Wladyslaw Gomulka. Being convinced of the superiority of the socialized sector (state farms, production cooperatives and later - already in the Gierek's period - collective farms of farmers' associations) over the private property, he claimed that a longer time perspective was necessary for that process to be accomplished. It was one of the reasons why in Poland there was no second wave of collectivization in the 1960, which took place in other socialist countries. As a result of the policy, run in a less drastic way but still very effectively in the states of the Soviet block, the private sector in agriculture was diminished to small house adjoining allotments<sup>11</sup>.

The fact that the peasant economy in Poland survived can be connected with two other factors: the strong position of the catholic church, which was not disintegrated in spite of the impediments and hostility of the authorities as well as the effectiveness of the peasant resistance (it was strengthened by the fact that socialized agriculture was treated as an alien formation, which was imposed from the 'East'). It was expressed in the fact of defining the production cooperatives as kolkhozes. By the way, that way of reference was not correct since in the USSR such cooperatives were referred to as sovkhazes, whereas kolkhozes were state farms.

**Gierek's period – credits and opening for the West (1970 – 1980).** Edward Gierek came to power as a result of the political consequences of the workers' riots which were bloodily crushed on the coast in December 1970. It was then when Wladyslaw Gomulka due to his 'health condition' stepped down from the position of the first Secretary of the Polish United Workers' Party.

Being a mining engineer by education who had worked in Belgian mines, Gierek gave the politics a different style than his predecessor. He enjoyed big authority among West European politicians for many years.

The initial years of Gierek's rule were a trial to introduce economic reforms. A large modernization and investment effort was made which was possible due to taking out Western loans. These credits were easily offered both from the public as well as

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<sup>11</sup> A. Jezierski, C. Leszczyńska, *Historia gospodarcza Polski*, Warszawa 1997.



private sources. The so-called strategy of "self-repayment" of credits was adopted, that is the assumption that the credits taken out on the account of investments were going to be paid back after launching them. A speculative solution was the introduction of the law which made it possible for the citizens to open bank accounts in convertible currencies (it should be added that the interest on such accounts was much more beneficial than on the accounts in zlotys). It was relatively easier than ever before to go abroad, including the capitalist countries.

After a couple of years it turned out, however, that the economic strategy failed because the economic and political system demanded more radical reforms, including the political ones.

Regarding the agriculture, there were many contradictions in Gierek's team. In the first years of the new rule several decisive steps were taken which were necessary for the agriculture. A pension system for individual farmers was introduced. Being employed on a farm, farmers obtained access to health care benefits on the same principles as the whole society. Moreover, the outdated system of obligatory deliveries was eliminated. The economic relations improved particularly in the first half of the 1970s. People had the impression that the life in the country was getting better.

The above mentioned does not mean, however, that the existence of the private sector was accepted in agriculture as a lasting element of the socialist economy. In the middle of the 1970s on the 15th Plenary Session of the Central Committee of the Polish United Workers' Party were adopted the documents which stated explicitly that the socialized agriculture was supposed to be the target model of the economy. These provisions did not only remain on the paper. Individual farmers were discriminated on in terms of access to production means. Investment outlays in the individual agriculture were even tenfold lower per hectare than in the socialized sector in spite of the fact that its economic effectiveness constituted approx. 70% of the effectiveness in the individual agriculture<sup>12</sup>.

Another important manifestation of hidden collectivization was the politics of taking over the land estates by the state for the purposes of the socialized sector (among other things in exchange for pensions). It was then, when the combined farms of farmers' circles were formed. Such a form had the worst results in the whole agriculture.

***The period of "Solidarity" establishment and agony of the system.*** The difficulties which were intensifying in the late 1970s forced the authorities to save the situation in a short-term way by taking subsequent loans. Accepting them was frequently connected with some political consequences. In particular, following the workers' riots in Ursus and Radom in 1976 the political opposition started to develop dynamically by acting to a greater extend in a semi-official way. The so-called clandestine publications became more and more widely available.

The above mentioned factors contributed to the so-called 'August events', that is long-lasting, coordinated strikes in the course of which famous '21 demands' were formulated and finalized with an agreement, on the basis of which the first non-party controlled trade union was established. That trade union was 'Solidarity'.

The experiment of the so-called 'Solidarity spring' was disturbed by the events of the martial law of December 1981. The authorities managed to regain the endangered positions. It did not manage, however, in spite of the reform attempts undertaken in an enigmatic way and divided in two stages, to control the economy. According to critics' opinion, it was becoming more and more of a 'bankruptcy estate'.

The agony of the system of the socialist economy in Poland took place in the period of Mikhail Gorbachev - for the first time, the USSR stopped being the obstacle to introducing more fundamental changes.

The agriculture of that decade was to some extent as much in need as the whole economy. Poland is the only country in this part of the world in which the food supplies were rationed for around fifteen years.

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<sup>12</sup> J. Kaliński, Z Landau, *Gospodarka Polski w XX wieku*, Warszawa 1999.

There was an important change to the legal system to which framers did not pay much attention since they were already taught by the experience of decades when the law and reality did not correspond. The stability of the peasant economy was guaranteed by law within the confines of the socialist economy<sup>13</sup>. This time it was not just an empty declaration. The period of either open or hidden collectivization became a history.

**Democratic changes of the so-called Spring time of Nations.** There is no clear date of the democratic breakthrough of the year 1989 which is assumed as the beginning of the new system because there was a sequence of events which contributed to the process of the departure from the 'real socialism' in favor of the structure of a market economy state.

- a) The agreement finishing the wave of strikes in 1988 led to the sessions of the 'Round Table' with the circles of the democratic opposition;
- b) The negotiations of the 'Round Table' ended in a compromise which among other things provided for the reactivation of 'Solidarity' as well as holding partially democratic Parliamentary elections;
- c) The elections of 4<sup>th</sup> June 1989 brought a devastating defeat to the governing people – the opposition won all the seats in the Senate (free elections) (only one senator – H. Stokłosa won as an independent candidate), the representatives of the opposition won all the provided seats in the Sejm (Polish Parliament) (famous photo with Lech Walesa);
- d) In September 1989, as a result of the June elections, the government of T. Mazowiecki was formed. In this way T. Mazowiecki became the first non-communist prime minister in this part of Europe;
- e) The new government adopted the program of reforms which provided for the transition to the market economy. The chief architect of the 'shock' reform package was Leszek Balcerowicz;

It is assumed that the historical date of the beginning of birth of the new, democratic state is 1<sup>st</sup> January 1990, when:

- The name of the state was changed from the People's Republic of Poland into the Republic of Poland, whereas as the sign of regained sovereignty a crown was placed on the head of the eagle – the Polish national emblem;
- The 'package' of essential reforms came into effect, among which the most groundbreaking was the introduction of zloty.

The changes to the economic and political system had a diverse influence on the agriculture. The introduction of prices set by the market caused that the shop shelves, which used to be empty in the 1980s, were filled with food. In the period of only several months, the food market went from the state of chronic shortages, characteristic for the whole decades of the previous system, to the state of balance or even surpluses (from now on a farmer had to make it clear how important sales is).

Undertaking the system transformation was connected with the need to make some institutional changes regarding the agriculture – as the first one was established Agricultural Market Agency and later Agricultural Property Agency of the State Treasury (later transformed into Agency of Land Estates) as well as Agency for Restructuring and Modernization of Agriculture.

The organization of the agricultural market changed considerably. In the period of real socialism these were the cooperatives which took an important part in purchasing agricultural produce, supplying the agriculture with the means of production, turnover of agricultural produce as well as in some sectors of food production (Communal Cooperatives 'Samopomoc Chłopska' or Local Dairy Cooperatives and Cooperatives of Farmers' Circles).

In the new economic conditions, a cooperative was classified as a form of private property. The tradition of the cooperative movement in the Polish country dates back to the XIXth century period of partitions. As a result of several decades of the system of

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<sup>13</sup> A. Jezierska, C. Leszczyńska, *Dzieje gospodarcze Polski w zarysie do 1989 roku*, Warszawa 1994.

planned economy, during which there were small opportunities for grass-roots organizations to exist, a certain 'generation gap' occurred.

The farmers running farms in the end of the 1980s and at the beginning of 1990s did not remember already the cooperative movement of the interwar period. Those forms which were familiar to them were treated with mistrust as imposed by the authorities. For this reason, the attempts to re-establish the cooperative movement in the country were only half successful.

The niche, which occurred as a result of collapse of the hitherto structure of purchase and supply of agriculture, was filled in by the private capital. Fairs, wholesale market as well as dynamically expanding chain of supermarkets started to be created. The negative consequence of that was the disadvantageous relation between the price paid to the farmer by the shop and the price of the ready-made products on the shop shelves.

The occupying relatively small area state farms were in the first years of transformation left to their own devices. They were particularly touched by the consequences of the inflation including high interest rates of loan, which was followed by the vivid process of their bankruptcy. The above mentioned had negative economic and social consequences in those parts of the country, where this form of ownership prevailed (in some voivodships of northern and western Poland they covered more than a half of the arable land), especially including the structural unemployment in the rural areas, which has not been overcome yet<sup>14</sup>.

Particularly important for the development of the country and agriculture was the self-government reform providing for the establishment of communes as independent economic entities, which by law became the owners of the communal property – the form of property which in the period of real socialism did not exist. The opportunity to undertake grass-roots initiatives of the local communities was restored. Non-governmental organizations, associations for local development, foundations and other forms of public activity were started. The Polish country started to join the process of changes, proceeding around the country, in a more and more dynamic way.

### **III. The international context, European integration and directions of changes**

A characteristic feature of the Polish agriculture within decades of the previous system was the domination of the private sector – out of the post-socialist countries only Poland and Slovenia stood out in this respect. Comparing the agrarian structure of Poland and Hungary on the eve of the system transformation a reversed pyramid of land ownership is obtained. In Poland privately held was approx. 80% of farmland, approx. 15% was owned by the state farms, whereas the rest, less than 5%, was used by farmers' production cooperatives. By contrast, in Hungary approx. 80% of farmland was occupied by production cooperatives, approx. 15% - by state farms, whereas the private sector made up only approx. 5% of land ownership (mainly house adjacent allotments).

Thus, Poland was in a relatively better situation than other countries of the region since the system changes referred only to part and not all of the farmland. However, a big modernization effort was necessary because agriculture did not meet European standards in terms of technology. There was also a lot to be done in food processing.

The beginning of the 1990s was the period of the biggest opening in foreign trade. The liberalization of food trade caused an influx of a wide stream of products from abroad which had not been sold on the Polish market before, such as drinks in plastic bottles (for some time even mineral water was imported from Belgium!), sliced ham, cheeses and other dairy products. Domestic industry took up the challenge of the foreign competition. Imported products, their packaging, way of processing and first of all the consumer relations became the material to think of and potentially copy since they were available for free and it was not necessary to do any market research<sup>15</sup>.

<sup>14</sup> E. Otołiński, *Procesy i formy przemian własnościowych w rolnictwie państwowym w Polsce* [in:] *Gospodarka Polski na przełomie wieków*, ed. Z. Dach, Kraków 2002, pp. 244 – 262.

<sup>15</sup> J. Siekierski, *Liberalizacja handlu polskimi artykułami rolno-spożywczymi w procesie integracji gospodarczej*

The modernization of the processing plants and farms was also accelerated by the new quality norms. Since the beginning of the 1990s the Government Plenipotentiary on the European Integration and Foreign Assistance (in 1996 transformed into the Office for the Committee of European Integration) was among other things obliged to monitor the new law in terms of its compatibility with the community *acquis communautaire*. The next factor was the influx of foreign capital. As a result, within around fifteen years, still before Poland formally joined the European Union, thorough changes were made to the whole branches of food processing, such as the brewing industry, dairy industry, meat industry to give the most important examples.

One of the consequences of the fall of socialism was a thorough change to the structure of Polish foreign trade, which also referred to the turnover of food. The dissolved Council of Mutual Economic Assistance was replaced by the European Community countries, whereas the main trade partner became Germany replacing the USSR – the main trade partner of the Peoples' Republic of Poland (Fig. 1). It is worth

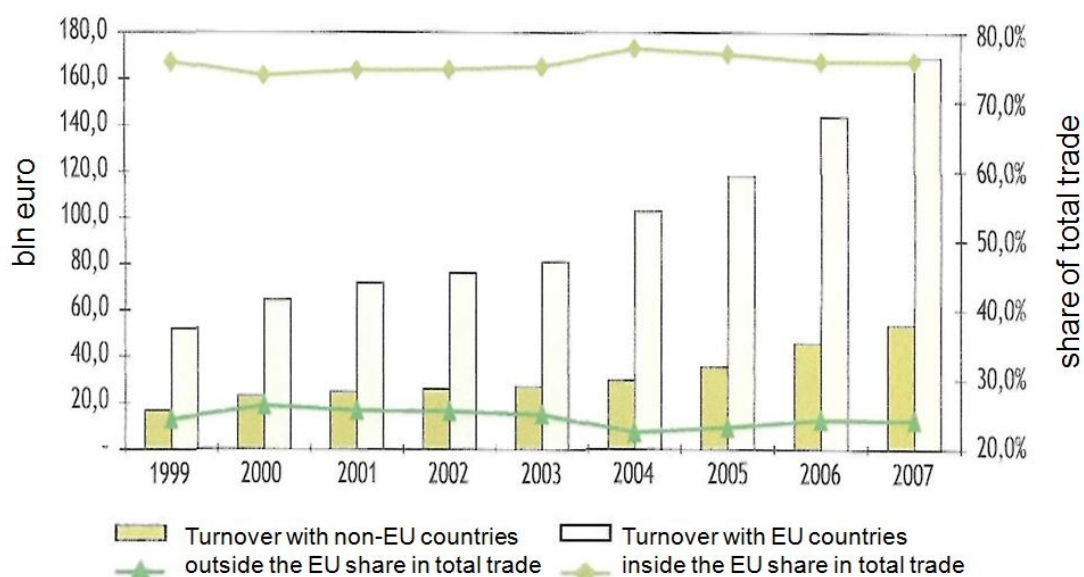


Figure 1. Value of international trade within the EU-27 and the Third Countries in 1999-2007. Source: Calculations based on the EUROSTAT data (2009).

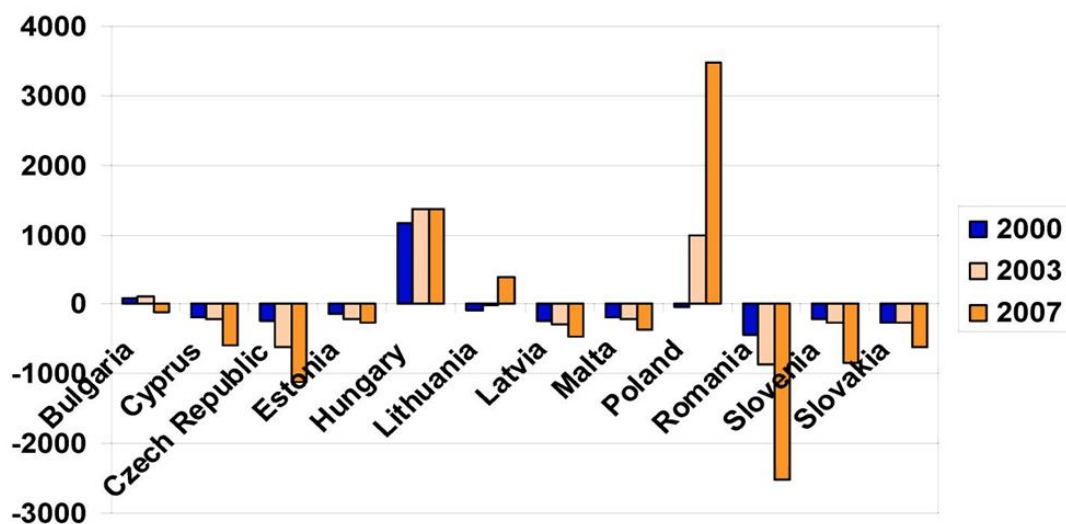
mentioning that Germany was Polish main trade partner prior to the World War II (there is one important difference, however, that at that time due to the aggressive German politics Poland and Germany had hostile relations, whereas at present the relations are peaceful. Poland and Germany have become cooperating neighbors which overcome past resentments).

The Polish trade with the European Communities was regulated by the provisions of the European Agreement (as the Agreement establishing the Association between the Republic of Poland and the European communities was popularly called). It was signed (along with Hungary and the former Czechoslovakia) on 16<sup>th</sup> December 1991 and came into effect in spring 1994. The part of the Agreement relating to the trade, Interim Agreement, came into effect already in the year 1992. It provided for establishing a free trade zone in mutual trade relations within the period of 10 years. It did not apply, however, to the agricultural produce.

An important provision was also the principle of asymmetry of mutual concessions in trade liberalization – their pace was supposed to be faster for the European Communities than for Poland. The paradox that against the expected results of the association treaty for many consecutive years the balance of the food turnover was negative for Poland, can be explained by series of factors.

[in:] *Gospodarka Polski na przełomie wieków*, ed. Z. Dach, Kraków 2002, p. 263 – 277.

The most important factor was the protection against import from the third countries on the Community borders (charging compensation fees which later on the basis of GATT agreement were converted into custom fees, bans on import and import quotas) and applying export subsidies. For instance, the last drove Poland out of the market of the Kaliningrad region of the Russian Federation, where since the beginning of the 1990s the export of Polish food was dynamically growing.



Source: Own composition based on EUROSTAT (2009)

Figure 2. Agri-food and beverages trade balance (million USD)

Thus, there is no wonder that in those years preceding Poland's accession to the European Union, farmers perceived the perspective of membership with mistrust and fears. Their daily experience showed that the European Union is a 'bad neighbor', which practices dumping (as the unfair practices in foreign trade were referred to already before the war). The confirmation of this fact is the quite spectacular example of Hungary which during the trade negotiations of the GATT Uruguay Round, in spite of having been granted the official status of candidate to the European Union, joined the so-called Cairns Group in which under the leadership of the USA played in the team against the European Communities (Fig. 2).

It was finally Poland's membership in the European Union which put an end to that clash of interests since Poland having been the 'third' country became the member of the European Union and found itself inside the area formed by it. However, the formal acknowledgement of membership was preceded by a positive balance in food trade because Poland, due to its potential, soon became the biggest net exporter of food exceeding Hungary in this way.

The European Communities reacted very fast to the fall of real socialism and the initiation of thorough changes. Already in the year 1989 the decision was taken to set up the aid program, PHARE (Poland Hungary Assistance for Restructuring their Economies), which was soon expanded onto other countries of the region, altogether including around fifteen countries. Designed to be a temporary assistance program it became the first pre-accession program on the final stage of its existence.

Admittedly, the agriculture made use of the PHARE means to a small extend but in 1999 to subsequent pre-accession programs were set up, SAPARD and ISPA, out of which the first one applied exclusively to the agriculture and was supposed to be a form of training preceding the act of providing the candidate countries with much wider range of programs and budget means, which became available from the moment of accession on<sup>16</sup> (Table 1).

<sup>16</sup> *Obszary wiejskie w Polsce a integracja z Unią Europejską*, ed. Cz. Sobków, Toruń 2002.

Table 1

The balance of financial flows between Poland and UE.  
1 May 2004 – 2008 (thousands of euros)

<i>Money Flow</i>	<i>May 2004</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>	<i>2008</i>	$\Sigma$
Resources obtained	2 416	4 018	5 052	7 622	7 396	26 505
	344	055	162	763	372	697
UE return	0	-22 969	-4 046	-45 064	-7 826	-79 906
UE collection	-1 318	-2 379	-2 552	-2 779	-3 402	-12 432
	980	385	450	298	108	221
BALANCE	1 097	1 615	2 495	4 798	3 986	13 993
	364	701	666	401	438	570

Source: Based on data from Ministrant of Finances, Warsaw.

The pre-accession negotiations lasted for over four and a half years because they started on 31 March 1998 and finished on 13 December 2002. Out of over 30 so-called 'negotiation fields' agriculture belonged to the most difficult ones. The difficult matters were decided upon only in the final stage which also applied to agriculture. It was the most difficult to reach a compromise on two issues: obtaining access to direct subsidies by Polish farmer and for foreigners – access to acquisition of land (the Jerzy Buzek's government set a proposal of quite long interim period of 18 years).

In the document 'Agenda 2000', announced by the European Commission in July 1997 and adopted on the 'summit' in Berlin in 1999, the standpoint was adopted that the new member states are not going to have any access to the direct payments till the end of the new budget period (2013). That standpoint was justified by the claim that the essence of the system of direct subsidies is to compensate for the income lost by the farmers as a result of decreasing the intervention prices (the reform of Common Agricultural Policy). In the candidate states these prices were lower than the Community ones. That is why, the farmers from the new member states are going to benefit from higher prices and there is no reason to provide them with the support in the form of direct subsidies.

Such a standpoint could not have been accepted by Polish negotiators (as well as by their colleagues from other candidate states). According to them, lack of direct subsidies was an open and evident discrimination because per hectare they would have received much smaller benefits than their counterparts from the 'old' Union. What is more, it is the Polish farmer not e.g. the Danish one who had to and still has to make a considerable modernization effort in order to meet the requirements of the single European market. Finally the dispute was finished in a compromise - it was established that the level of the direct payments for Polish farmers was going to rise systematically, reaching the level of 100% in the year 2013, the last year of the budget year.

The membership in the European Union meant not only obtaining access to the direct subsidies but also a range of other agriculture support programs, such as structural pension (for farmers in the pre-retirement age group who are going to make over their farms to their successors modernizing their farms), support for young farmers, purchase of machines and modernization of buildings, land forestation, ecological farming, development of farm tourism as well as employment outside the farms etc.

It should be also added that according to the changeable conceptions and reforms of the common agricultural policy (the development of the so-called second pillar) more and more means are allocated for the development of rural areas. The first years of membership (2004 – 2006) were a kind of a transition period, all the more that the membership fell on the incomplete second half of the budget period 2000-2006. Poland has already participated in working out the next budget for the seven-year period of 2007-2013 enjoying the rights of a fully-fledged member state (quite popular is the gesture made by the prime minister Kazimierz Marcinkiewicz showing his satisfaction with the establishments signed by the European leaders: 'yes, yes, yes').

**Some recent trends and conclusions.** The unprecedented enlargement of the European Union from 15 to 25 and then (following the accession of Bulgaria and Romania) to 27 member states (that is a numerical growth by 75%) stands for a new epoch in the European history, the epoch of overcoming the divisions persisting for the whole post-war half of the century. The employment in agriculture following the admission of new member states was more than doubled. The relation between the number of farmers and the number of consumers w the EU-15 in comparison with the EU-12 amounts to approx. 1 to 4 correspondingly (in order to maintain the same number of consumers in the 'new' Union it is necessary to employ four times as many people in agriculture).

Joining the Union has become, especially during the first years of membership, a strong development incentive taking into account the support for the agriculture from the community budget (the level of subsidies in the pre-membership period was at a much lower level than in the Union states). The means obtained for the agriculture from the union budget in recent years equal the outlays from the state budget (Table 2).

As it could have been expected the 'accession incentive' started to run out after several years. The price disparities started to even out. What is more, the gradual withdrawal of the Union from the direct intervention on the market makes the farmers more susceptible to the risk connected with price fluctuations. These prices are more frequently lower than the farmers expect. The positive side is the fact that a farmer is gradually going to get more and more freedom in making production decisions<sup>17</sup>.

Table 2

Expenditure on rural & agriculture 2005 – 2008 (thousands of PLN)

<i>Listing</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>	<i>2008</i>
I NATIONAL BUDGET	3 054 832	2 910 600	12110359	18 049 224
Agriculture	450 591	505 734	687 655	570 641
Rural development	1 344 004	1 307 769	9 004 750	15 289 423
Agricultural markets	587 588	181 357	1 226 102	1 379 655
Budgets of provincial governors	672 649	915 740	1 191 852	809 505
II UE RESOURCES	9 249 743	10 296 159	13278413	14 509 069
CAP & Common Fisheries Policy – aid other payments	5 029 376	8 578 870	9 712 480	12 876 425
PROW 2004-2006	1 750 890	-	1 752 917	-
SPO Rolny	1 123 401	1 579 274	1 773 392	1 632 644
SAPARD	1 154 053	-	-	-
PHARE	192 023	138015	39 624	-
Σ	12 304 575	13 206 759	25 388 772	32 558 293

Source: Based on data from Ministry of Finances, Warsaw (2009).

The changeable farming conditions resulting from the gradual reforms of the Common Agricultural Policy are the circumstances which Polish farmers should be accustomed to since they are hardened after decades of the politics of the socialist state which was reluctant to them, whereas later they lived in the conditions which were much closer to the principles of a market economy than the 'old' Union farmers for around fifteen years of the system transformation.

It is also worth paying attention to some trends which have been observed in recent years<sup>18</sup>:

1. the European integration has influenced the structure of household income sources in the way that in the farming households the incomes from farming stopped to be the most important position.

<sup>17</sup> B. Gaziński, *Polskie rolnictwo w Unii Europejskiej I niektóre doświadczenia pierwszego roku członkostwa*, „Biuletyn Instytutu Hodowli i Aklimatyzacji Roślin”, 242, 2006, pp. 3 – 14.

<sup>18</sup> Marta Zielińska, M. Nodzykowski, *Rolnictwo i rybołówstwo[in:] 5 lat Polski w Unii Europejskiej*, red. M. Kałużyńska, K. Smyk, J. Wiśniewski, Warszawa 2009, pp. 73 – 103.

2. in the rural areas more than half of the households, slightly more than 50%, do not obtain income from agriculture (Fig. 3);
3. the eternal Achilles' heel of the country, the proportion of the farming income has improved in comparison with the pre-accession period from 65% (2003) to 83% (2006);
4. for the first time a new phenomenon has become apparent – positive balance of migration between the rural areas and towns or cities;
5. during the period of membership a change of farmer's attitudes towards Poland's membership in the European Union has taken place. Prior to the accession they belonged to the most skeptical part of the society, whereas now the support is at a higher level than the whole society average;
6. the urgent issue to be solved is the reform of the insurance system for farmers (the KRUS), which has been put off by successive governments.

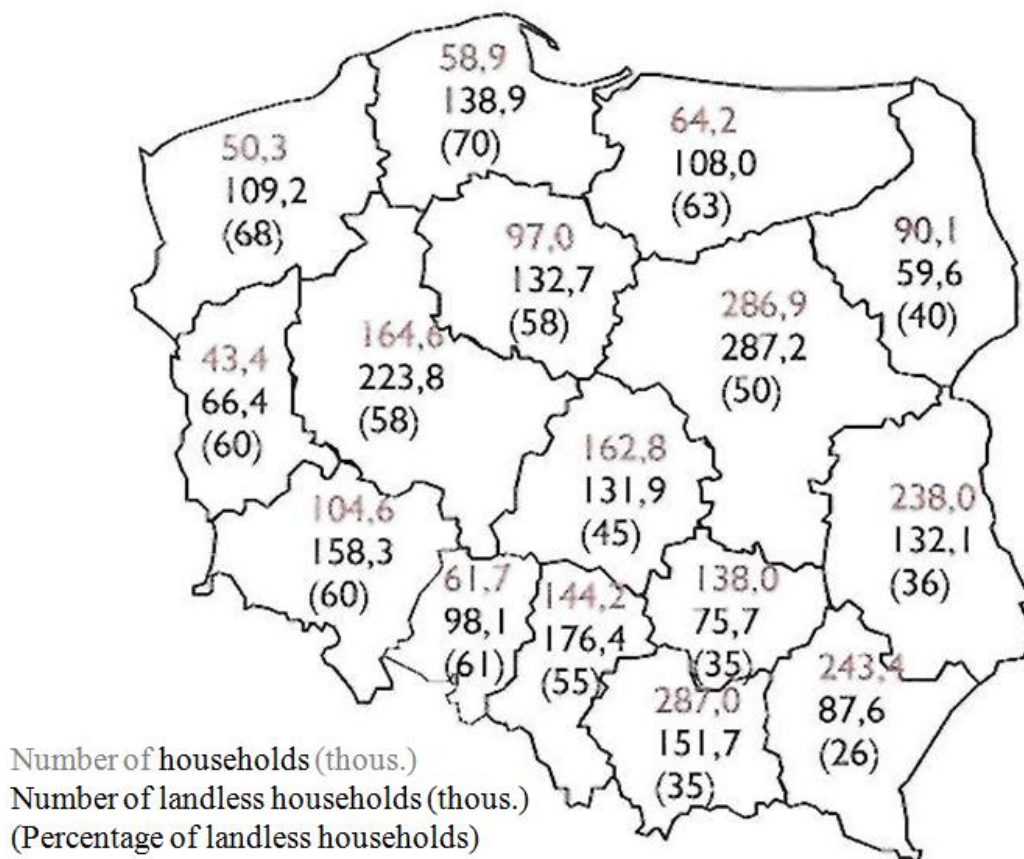


Figure 3. Households in rural areas related and unrelated to the individual user of the farm by provinces in 2002. Source: Polska wieś (2008)

The problems of the country and agriculture development are still going to be solved on the community level at least in the nearest years of the budget period of 2014 – 2020 (in the longer perspective it is difficult to make any forecasts since some critics call for the withdrawal from the common agricultural policy and its 'denationalization'). The discussion on this matter is only starting - it was initiated in April 2010 by Dacian Cioloș, the agricultural commissar of Romanian descent, whereas to a large extent in charge of the European budget is going to be Janusz Lewandowski, the budget commissar from Poland. In this way it is made clear how important the new member states are for the future of the European Union.

Considering challenges ahead, it has to be reminded that the enlargement process has not been finished yet - Croatia is the closest country to membership, whereas Macedonia has recently obtained the candidate status.



The having approx. 500 million citizens European Union is facing the need to find its place on the changeable political and economic map of the contemporary world, in which China (1.2 billion of people) and India aspire to the rank of the world powers. In terms of number of people the European Union ranks third quite considerably exceeding the United States. The European Communities since the period of their establishment in the 1950s, amounting to only 6 states, could never aspire to the role of the competitor of the USA. Today, however, when the number of the member states amounts to 27, it is not ungrounded to ask: 'Is it not just a matter of time for Europe to go out of the shadow of the USA?'. The answer to this question is going to depend on various factors. One of them will be the condition of the economy as well as the 'European model' of agriculture which is still being shaped, the other one will be the order which in the course of changes to the Union will be contributed by the new member states, including particularly Poland as the largest of them.

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