

Józef Stanisław Zegar, Zbigniew Floriańczyk

Institute of Agriculture and Food Economics
Świętokrzyska 20, 00-950 Warsaw 1, Poland
zegar@ierigz.waw.pl
florianczyk@ierigz.waw.pl

Structure of the rural population incomes in Poland before and after the accession to the European Union

Abstract: *In the period of transformation significant changes in the structure of income sources of population in Poland have been observed. The most important ones are a fall in the share of salaries and an increased role of social transfers as a main source of incomes. These tendencies were especially visible in rural areas. Accession of Poland to the European Union creates through Common Agricultural Policy and regional policy new possibilities for overcoming income problems troubling rural population. Total transfers to Polish agricultural sector and rural areas within 2004–2006 under those titles would reach more than 10 billion €. To ensure maximum absorption of available funds, national development plans were elaborated. Authors argue that during the first years of membership there will be no significant changes in the rural population's income structure.*

Keywords: *rural population, income sources, Common Agricultural Policy, regional policy.*

Introduction

The subject of this paper is the problem of incomes of rural population in Poland during the transition period and after the accession to the European Union¹. Rural population in Poland constitute 38.2% of total population, significantly more than in Western European countries. Most of the rural population has a connection with agriculture by operating an agricultural holding, working in agriculture or having income from agriculture. A part of urban population is also engaged in agriculture but this is out of the scope of the paper.

We focus on the determination of grounds for the possible changes in the rural population income structure (sources of income). That would be done taking into consideration the historical tendencies in this domain and the promises generated by the mechanisms of the European Union policies.

¹ In this article we develop the discussion on one of the problems pointed out in: J. Zegar, Z. Floriańczyk (2003).

We formulate the proposition that European integration, and basically the mechanisms of Common Agricultural Policy and regional policy of the EU will create circumstances that may significantly improve incomes of rural population, however during the first years (2004–2006) without major changes in the structure of sources of incomes.

The systemic transformation that has started at the end of the eighties of the 20th century aggravated the historical economic problem of the agricultural population, compounded by the increase of the distance to the urban population in the income domain. There are a number of reasons of this situation. Firstly, a diminishing role of agriculture as a source of incomes, that is not a result of agricultural production stagnation but of the opened price scissors between agricultural product and agricultural input prices. Secondly, the liquidation of jobs in the rural areas in the national agricultural enterprises, in the sphere of the agricultural services, and in the industrial sector located in cities. In the latter case large factories at first offered their employees early retirement or sacked those from rural areas. Thirdly, the economic growth that is currently taking place after a regression during the first three years of the transformation is first of all observed in the service sector, mainly concentrated in the large agglomerations. Therefore, it is principally the townsfolk that take the advantage of the economic development. Rural population has lesser opportunities of participating in these profits because of the distance to the work places and lower education – especially in modern occupations. The economic (income) consequences resulting from those reasons were alleviated by the rising social transfers (mainly early retirement plans and pensions – either agricultural or employee, meaning persons previously employed in the state sector). However, these social transfers have certainly limitations associated with the charge on taxpayers. Economic activity is the ultimate basis for an income and that is why a high rate of employment and their efficiency form the sustainable conditions for the socially justified material aid.

In the transformation period a significant improvement in educational level of the rural population has occurred, especially concerning the younger generation. This raises the chances for employment. Simultaneously, rural areas are becoming more attractive as the investment locations, thus providing new work places. These are also formed by the development of technical infrastructure. In this respect the agricultural and regional policy of the EU plays a significant role, involving the use of the large-scale financial instruments. However, there is a need for efficient institutions that would allow for maximising the utilisation of the possibilities created by the EU mechanisms and, last but not least, an effective exploitation of the resources transferred through the EU budget.

Income sources of the rural population

Historical changes of the socio-economic structure play a significant role in shaping the structure of income sources of the agricultural households and the

rural population. Poland is not an exception from this pattern. However, having been buried under the socialist system of economic relations caused a sluggish process of agricultural restructuring and modernisation in terms of a free market economy. The subsequent transformation led in relatively short period of time to relations characteristic of a market economy, which affected significantly the tendencies in the domain of structure of population's income sources.

These tendencies are based on:

- fall of the work based incomes in the structure of the total incomes, and that mainly concerning population employed in the public sector²;
- higher incomes in private sector accompanied by significant fall of remuneration from a private farm;
- increase of non-salaried sources of incomes, mainly from retirement pay and pensions;
- relatively bigger changes in the rural against the urban population's structure concerning sources of incomes.

These tendencies are illustrated by the data shown in Table 1, pointing out to differences between the period before (1970–1988) and during the transition period (1988–2002).

Table 1. Structure of the total and rural population incomes according to the main sources of incomes in selected years a (%)

Specification	Total population				Rural population			
	1970	1978	1988	2002	1970	1978	1988	2002
Wages and salaries	50.4	49.9	45.4	32.3	54.3	52.0	47.1	31.1
* outside agriculture	31.7	35.7	34.8	28.0	18.0	21.8	22.9	20.7
- public sector	30.5	34.5	31.8	11.5	17.3	21.0	21.1	7.9
- private sector	1.2	1.3	3.0	16.5	0.7	0.8	1.7	12.8
* in agriculture	18.7	14.2	10.6	4.3	36.3	30.2	24.2	10.4
- public sector	2.0	2.9	2.4	0.1	3.3	5.0	4.3	0.2
- private sector	16.7	11.3	8.2	4.2	33.0	25.2	19.9	10.2
Social security benefits	7.5	11.5	18.0	28.0	4.1	8.3	17.1	28.0
* retirement pay	2.9	4.3	9.1	13.9	1.5	2.2	9.0	14.0
* pensions	3.7	6.4	7.3	9.2	2.2	5.4	6.8	9.8
Dependents	42.2	38.5	36.6	38.0	41.6	39.8	35.8	40.2

^a In 2002, without persons living off the property incomes (0.1%, of which rural population 0%) and persons with non determinate sources of incomes (1.6%, of which rural population 0.7%).

Source: Population and households. State and socio-economic structure, CSO, Warsaw 2003, 54–55, tab. I.

The salary-based income sources are connected with the labour market, that is, with the possibility of utilising labour force and remuneration for work. On the other hand the non-salaried sources depend on the systems of national social

² Most important factors driving this phenomenon are privatisation and economic failure of work intensive branches and large factories.

policies and especially on the degree of social solidarity. As mentioned above, the basis for the non-salaried sources of incomes is constituted by the effective and efficient work of the employed persons. In the last several years the share of persons depending on salaried incomes has dramatically dropped down. This problem must be overcome, for otherwise an improvement of incomes will not be possible. There is no possibility of maintaining a much lower, in comparison with the average for EU-15, economic activity of the population, which is now being observed in Poland. Moreover, Lisbon Strategy is concerned with the further improvement of the economic activity of the population – up to 70% in 2010³. This requirement must be applied to the rural areas, where there are more obstacles on the development path, including effective utilisation of labour force.

Table 2. Selected data on economic activity of Polish population in 2002

Specification	Total population	Of which rural population	
		In '000	In %
Total (in '000)	38 218	14 647	38.3
Economically active persons (in '000)	17 097	6 481	37.9
Activity rate (in %)	55.0	56.1	102.0
Employed persons (in '000)	13 722	5 366	39.1
Persons employed on private farms in agriculture (in '000)	2 383	2 245	94.2

Source: *Statistical Yearbook*, CSO, Warsaw 2003, 5–6, table 2; 16–18, table 9; 53, table 13(27).

Percentage of persons in working age in the rural areas is lower than on the average in the whole country (58.4% against 62.2%), with a little higher percentage of persons in the post working age (15.6% and 15.1%, respectively). Data from Table 2 show that private farming still plays an important role in provision of work places, the average for the country being equal 17.4% and for the rural areas 41.8% of the respective totals of working persons. These percentage rates are much higher than the shares of persons employed in private farms in the total number of persons with incomes depending on work (on the country level – 13%, and in the rural areas – 32.8%), indicating lower remuneration from work in agriculture than outside of it⁴. The structure of employment according to institutional sectors is significantly different for the urban and rural populations, owing to the fact that agriculture dominates in rural areas, as shown in Table 3⁵.

³ Current employment rate in Poland slightly exceeds 50%, while the average rate for the new members is around 57% and in the UE-15 countries it is at around 64%. (*Implementation of Lisbon...* 2004).

⁴ According to the data from the household budget surveys the remuneration from work in farmer households is by about 30% lower than in the households of employees (Zegar 2004).

⁵ There is a minor difference between Tables 2 and 3. The data in the first one come from the BAEL survey and refer to the IV quarter of 2002 r, and in the second one – from the national census carried out on 21 May – 8 June 2002.

Table 3. Structure of economically active population by sections of main employment a with respect to urban and rural areas in 2002 (%)

Specification	Poland	Urban	Rural
Total ('000)	13 218.3	8 139.9	5 078.4
Industry	19.0	20.2	17.2
Agriculture, hunting and forestry	17.0	2.2	40.8
Trade and repair	14.4	17.2	9.8
Public administration and defence, compulsory social security	6.9	8.3	4.7
Health and social work	6.9	8.8	4.0
Education	6.7	8.2	4.4
Transport, storage and communication	6.4	7.5	4.7
Construction	5.9	6.2	5.5
Real estate, renting and business activities	5.4	7.4	2.1

^a Only sections with more than 5% share in total employment

Source: *Economic activity of the population of Poland*, CSO, Warsaw 2003, 32.

According to these data there is no doubt that agriculture plays an important role in terms of establishment of possibilities for utilisation of rural labour force. It is still the work place for almost 3/5 of the rural population (forestry and hunting put apart), but for a significant share of the employed persons it does not provide satisfactory incomes. This share varies considerably between regions. The respective differentiation is shown in Table 4.

It turns out that agriculture constitutes an important element in the absorption of the labour inputs. This, however, does not necessarily, as it was stressed before, correspond to incomes. To achieve such correspondence efficient agricultural households are needed. Liquidation of the national agricultural sector in the period of transformation and the process of turning them into large private farms, accompanied by a deficiency in job numbers outside agriculture resulted in the large-scale unemployment in rural areas. High unemployment rates in the voivodships where previously state farms were mainly located (zachodnio-pomorskie, warmińsko-mazurskie, lubuskie, dolnośląskie, pomorskie) constitute an evidence. One of the most important factors in this case was that families previously depending on work in state farms were „attached“ to their dwellings.

Instruments of the European Union and the national programs of agriculture and rural development in the process of shaping the rural population's incomes

European Union exerts influence on the rural population's incomes mainly by the intermediary of the Common Agricultural Policy and the regional policy. The first one is focused on shaping the agricultural incomes – traditionally by determining the prices of the agricultural production, with the use of direct payments and by instruments that aim at improvement of the surroundings of farms

Table 4. Rural population aged 15 and more by economic activity and voivodships in 2002

Specification	Total ^a (‘000)	Economically active persons (‘000)			Inactive (‘000)	Activity rate in %	Employ- ment rate in %	Unemploy- ment rate in %
		Total	Employed	Un- employed				
POLAND	11 512.3	6 329.1	5 078.4	1 250.7	4 915.5	56.3	45.2	19.8
Dolnośląskie	665.0	356.0	257.9	98.1	297.3	54.5	39.5	27.6
Kujawsko- pomorskie	609.4	339.1	59.0	80.2	265.2	56.1	42.9	23.6
Lubelskie	932.7	24.0	448.0	76.0	395.0	57.0	48.8	14.5
Lubuskie	282.1	150.3	107.0	43.3	127.4	54.1	38.5	28.8
Łódzkie	737.2	431.3	367.2	64.1	301.6	58.8	50.1	14.9
Małopolskie	1 243.2	663.8	544.9	118.9	542.3	55.0	45.2	17.9
Mazowieckie	1 429.3	835.9	698.6	137.3	581.7	59.0	49.3	16.4
Opolskie	410.8	192.2	152.7	39.5	166.9	53.5	42.5	20.6
Podkarpackie	971.2	512.3	410.9	101.3	419.5	55.0	44.1	19.8
Podlaskie	396.2	216.2	189.6	26.6	160.9	57.3	50.3	12.3
Pomorskie	525.7	293.5	217.5	76.0	223.5	56.8	42.1	25.9
Śląskie	800.5	407.0	335.8	71.2	361.9	52.9	43.7	17.5
Świętokrzyskie	562.0	322.1	263.2	58.9	232.0	58.1	47.5	18.3
Warmińsko- mazurskie	437.6	233.6	159.9	73.7	194.1	54.6	37.4	31.6
Wielkopolskie	1 106.6	636.4	522.8	113.6	464.5	57.8	47.5	17.9
Zachodnio- pomorskie	402.8	215.3	143.4	71.9	181.7	54.2	36.1	33.4

^a including persons with undetermined relation to the labour market (267,700 persons)

Source: *Economic activity of the population of Poland*, CSO, Warsaw 2003, 82–89, tab. II.

and rural households. The last group of instruments has structural effects and belongs to regional policies. As far as the regional policy is designed to narrow down the differentiation in possibilities of development between regions, almost all activities under regional policy have at least an indirect impact on rural population incomes.

The CAP instruments could be divided into two groups. The first group of instruments bears direct impact on the agricultural incomes while the second group of instruments is designed to support the development of the rural areas. The instruments thus classified are referred to as two pillars of the CAP. The aims of the first pillar are fulfilled by supporting most of the agricultural product markets and by direct payments. The second pillar consists of the instruments that oblige farms to take up activities leading to structural changes, such as investments in agricultural holdings, setting-up of young farmers, vocational training, early retirement, care for the less-favoured areas and areas subject to

environmental constraints, agri-environment, improving processing and marketing of agricultural products, enhancing forestry and facilitating the development and the structural adjustment of the rural areas (EC 1999).

While the first pillar instruments are addressed at the larger farms, the instruments of the second pillar are more attractive to the smaller ones. The recently implemented CAP reform consists in replacement of the direct payments by a single payments scheme, significantly increasing the share of support that is not bound with agricultural production (EC 2003). In this manner that reform increases farms ability to adjust their production profile to the market demand.

The new members of the EU-25, subject to transition periods, will gradually approach the full level of support granted to farmers by the CAP. During the first years of the membership the distribution of direct payments in Poland will be implemented with the use of the so-called „mixed system“. This system divides direct payments into two groups. One of them is associated with the area of a farm, while the other one with the scale of production that is a subject of CAP direct support. The system facilitates the mechanisms of distribution of direct payments ensuring distributional effect analogous to the one under general rules of the CAP. Polish farms are granted with 3,010 million € in direct payments for the period 2004–2006 (*Information...* 2003). Besides 2,305 million € from the first pillar of CAP, this sum will consist of 564 million € transferred from the second pillar funds and the compulsory 141 million € from the national budget. Moreover, the total amount of direct payments can be extended with additional 1,916 million € from the national budget's resources.

One of the explanations for the two policies existing within CAP is the need to accelerate the structural processes in the new members' agricultural sector. Indeed, this problem is common mainly to Poland, Lithuania and Latvia. These Baltic region countries also feature very high rates of employment in agriculture. Simultaneously, in these countries agriculture plays a much bigger role in GDP formation than in most of the EU countries, while not guaranteeing „satisfactory“ incomes. Such a place of agriculture is due to a large number of small holdings, where – as it was presented for Poland – farming is an additional source of income.

One could assume that the first pillar instruments, as it has taken place in the EU-15, will affect mainly the incomes of the larger farms, while the subsistence farms would take advantage of the second pillar instruments (Floriańczyk 2002). From this point of view the transitional periods with lower level of the direct payments should prevent enormous income increase in the large farm sector (EC 2002). Important barriers to expansion of agriculture are constituted by limits on supported productions. Limitation of production by reducing the possibilities of fully use of productive resources can be recognised as the main development barrier for large farms.