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NEW ECONOMIC-FINANCIAL SYSTEM IN STATE AGRICULTURAL FARMS
- ASSUMPTIONS AND EFFECTS

1. Theoretical prerequisites of economic reforms in state agricultural farms

State agricultural farms, in their over thirty-year long history often experienced a negative impact of the system of central commands and centralized allocations of the means of production, which had been in force till 1981. Apart from allocations of the means of production /being, in fact, free of charge/, there was also a system of subsidies. Permanent ineffectiveness of the economic mechanism operating in such conditions gave rise to tendencies towards creating spontaneously "submechanisms" allowing for more or less effective economic activity. Their extreme expression were informal lobbies, corruption, protection of narrowly-conceived interests, and voluntarism.

The year 1981 seems to have brought the final discrediting of the former system of commands and centralized allocations. It witnessed unprecedented dislocations in the national economy. There was very rapidly formed a different economic mechanism: a free market mechanism with striking signs of speculation.

Thus, the economic reform in state agricultural farms /and outside them/ should eliminate, first of all, the above mentioned negative phenomena, restore the planned character of economic management through bringing the plan's tasks closer to realities of the economy on the one hand and through launching the economic instruments of the plan's execution on the other hand. It should promote the conducting of a real and not simulated economic calculus in enterprises and, in this way, promote more effective utilization of the factors of production, which represents the main goal of any economic reform.

Determinants of accomplishing socio-economic goals in state agricultural farms inherent in the socio-economic system.

The new economic-financial system represents an attempt at abandoning the earlier system of commands and centralized allocations. Generally, the changes envisaged by it may be considered convergent with solutions applied in other spheres of the national economy within the framework of the general economic reform. The basis of the new system, taking its concrete form in detailed solutions, was to be provided by the principles of autonomy, self-management, and self-financing of enterprises commonly known today. The following assumptions were made while accepting new economic solutions:

- assuring stabilization of private farms' development /which would, among others, eliminate the pressure exerted on state agricultural farms to take over privately-owned land and even create a possibility of getting rid of lands on which effective agricultural activity as conducted by state farms was impossible/;
- affording more profitable conditions for agricultural production and observing a principle that any growth in production costs will be compensated by increase in prices of state purchasing of agricultural produce /which would allow to abandon the system of subsidies, grants, discounts etc./;
- creating conditions for autonomous formation of economically justified production structure.

The new system introduced a principle that enterprises would fully autonomously shape their organization, directions and structure of production, as well as plan their economic-financial activity. The annual economic-financial plan autonomously elaborated by enterprises and taking into account the assumptions of a long-term plan, capital equipment of the enterprise, and its real production and economic situation provides a basis for current management of the enterprise. The planning is carried out at the level of plants with the plan of a multi-plant enterprise constituting a sum of plants' plans. The law of the economic reform envisages that the plan after its initial analysis by employees' self-management will be checked by the bank

financing a given enterprise, and next approved by the self-management organ.

The new economic system also envisages that the entire economic-financial activity of the enterprise will be conducted on the basis of the economic calculus. The changes in the field of financing the enterprise's operations aim at attaining a self-financing ability by the enterprise. Consequently, there were restricted possibilities of obtaining subsidies /which are to be fully abolished in the future/, and it was decided that state agricultural farms would be able to benefit from bank credits on the same terms as the entire agricultural sector. Principles of taxation were unified as well.

In relation to investments there was accepted a principle that enterprises themselves would make decisions in this field carrying simultaneously responsibility for all effects of the investment process. The aim of this decision was to enhance the interest taken by enterprises in proper preparation of investments, and in their effective and punctual completion. All investments are financed from the enterprise's development fund and /for the first time in state agricultural farms/ from long-term bank credits with the terms on which investments credits are granted being the same for all sectors of agriculture.

The final financial result of the enterprise's activity assumes a form of either profit or loss.

The system envisages that the enterprise's activity will be evaluated every five years /but in justified cases it may be done earlier/. The attained financial result is to be a basic criterion in such evaluation.

2. System determinants of accomplishment of socio-economic goals in state agricultural farms

The above review of principles along which the state agricultural sector is to function, enriched by new principles of wages, allows to formulate an opinion that they correspond to postulates of raising the effectiveness of agricultural economy formulated earlier on. There arises a question, however, to what extent they were verified in practice. We shall try to answer this question on the basis of questionnaire surveys conducted

in selected state agricultural farms in Lodz macroregion in 1982, 1983, and 1984.

The problems connected with the functioning of state agricultural farms will be analyzed in three main spheres:

- A. organizational,
- B. regulatory,
- C. motivational.

A. Organizational aspects of state agricultural farms' functioning

Introduction of new economic-financial solutions in state agricultural farms involved a necessity of effecting changes in relationships between the enterprise and its founding organ. From the organizational point of view, enterprises were subordinated to the provincial organs of state administration.

This change exerted a favourable influence on operational conditions of state agricultural farms in agricultural regions. Within the new organizational set-up, the position held by state agricultural farms in relation to other enterprises operating in a given region was consolidated. Owing to this solution, they enjoy among others an easier access to the means of production which are rationed.

The situation of agricultural enterprises looks different, however, in industrial centres where they hold a weaker position in relation to regional industrial potentates.

Even though the relations of state agricultural farms with their founding organs preserved their formal-bureaucratic character, they are no longer troublesome for enterprises. The founding organ is responsible for formal acceptance of enterprises' economic plans and for performance of restricted control functions. The most important changes from the enterprise's point of view took place in the planning process. Before the reform was introduced, the normal procedure had been as follows: the Ministry of Agriculture through Amalgamations would transfer to subordinated units planning commands interfering directly in structure and dynamics of both crop and animal production. They would be frequently changed during a year, and in this situation the margin of freedom possessed by enterprises was practically insignificant.

Since 1981, the analyzed state agricultural farms have been elaborating their plans autonomously. Plans are made at the level of plants, and an exception here is the investment plan, which is elaborated at the enterprise's level. This creates prerequisites for rationalization of the economic activity in state agricultural enterprises, which becomes more elastic and better adapted to market requirements. Unfortunately, these positive prerequisites in the present pricing and procurement situation do not bear positive effects. Plans are, to a large extent, a fiction and little attention is attached to them in enterprises. They are treated as a formal basis for acceptance of their intentions by the Provincial Council and the bank. One can get an impression that partners in the process of planning: plants, enterprise, provincial council, and bank concluded a silent agreement that for the sake of real economic processes they will not be attaching too much attention to provisions of the plan. Although the hitherto planning practice is advantageous for enterprises, it tends to undermine feasibility and sense of planning.

In as much as the character of new relationships between enterprises and their founding organs may be assessed positively, a similar opinion can hardly be formulated in relation to associations of producers. It is true that these associations are an effect of voluntary decisions of enterprises but they were established alongside principles of conformity and attachment to the old tradition of membership in economic amalgamations. Another thing is that enterprises were looking forward to facilitated access to industrial supplies, investments, and credits but they tended to be skeptical as regards capabilities of associations in solving these problems. These apprehensions were to be soon confirmed in practice. At present, there prevails a view that in its present form the association is an unnecessary economic unit. Membership in associations would be advantageous for enterprises if they grouped apart from agricultural units also enterprises providing services for agriculture, construction units etc. In controversial issues, associations should represent interests of enterprises.

The economic reform has closely linked state agricultural farms with the financing bank creating a qualitatively new si-

tuation for both partners. The bank was to become a guarantor of rationalization of enterprises' economic activity. The economic calculus as a basis of economic policy of both partners was to play a decisive role. However, the practice of the last few years has already revealed many alarming phenomena. For enterprise dependent, to a bigger extent, on a bank credit, the bank has become a typically monopolistic organization in the field of financial services. Relationships between the bank and the enterprise gradually lose the character of economic partnership replaced by appearing bureaucratic tendencies. Banks apply permanently "financial dictatorship" /they impose terms of cooperation, employ blackmail with regard to granting credits etc./. In this situation, the bank becomes the enterprise's superior and it forces out terms concerning, for example, size of granted credits or interest rates. Discretionary and formalistic approach to the credit-granting is strongly criticized. Banks usurp a right for themselves to give advice and recommendations, which often collide with criteria of economic choice. It has become necessary to break the monopoly held by the so-called Bank of Food Economy in financial services provided for state agricultural farms. This should lead to a situation in which enterprises would be treated as a real partner in their contacts with the bank, and would have a possibility of conducting authentic negotiations about credit terms.

The economic reform has not brought any more important changes in relationships of state agricultural farms with different units providing services for agriculture. A little has changed in the system and conditions in which production, trade, and investment services are provided for agricultural farms. In the analyzed state agricultural farms, there can be observed a very pronounced trend towards a possibly fullest solving of the above problems on their own. The appearance of this trend has been due, on the one hand, to constantly growing costs of agricultural services accompanying their declining quality while, on the other hand, it is due to a largely negative evaluation of contacts with units providing services. Also in this sphere, just like in contacts with the bank, there exists a monopoly for services, which allows these units to impose prices, time and volume of deliveries etc. being favourable for them.

This monopoly in the field of trading organizations could be abolished if state agricultural farms were allowed to sell their products on a wider scale in the free market. It would be especially beneficial for supply of big urban agglomerations with products provided by state agricultural farms operating in a given area.

The freedom of operation of organizational structures in state agricultural farms obtained in 1981 led to dissolution of a considerable part of big agricultural complexes and agricultural enterprises operating on bigger acreage. In this way, there has been substantially increased the number of plants operating along principles of full internal self-financing. A certain number of these plants separated themselves and began to function as autonomous enterprises, while another part of them changed their range of activity and acreage adjusting themselves to new local conditions. These processes are continued today and they tend to increase the number of agricultural plants. Simultaneously, there are taking place quite radical changes in the system of management in state farms. Decisions concerning such basic economic issues as elaboration of plans, conclusion of contracts, covering financial obligations, contracting credits have been transferred to plants. In this way, the range of powers and functions of enterprises' directors have been changed as well. In the present conditions, they should focus their efforts on current coordination, stimulate development processes and perform general supervision over activities of plants. On the negative side, there appear trends towards stricter administrative subordination of plants to the management of state agricultural farms. This is promoted by concentration of all investment decisions at the level of the enterprise, and instances can be observed when management of the enterprise interferes into the planning process in plants. Moreover, profits and wage fund are accounted at the enterprise's level, which is favourable for weaker plants and weakens the motivational system.

Despite these alarming phenomena restricting plants' autonomy, it should be noted that the present organizational structure in state farms constitutes a marked progress on the way to implementation of the principle of full economic self-accounting.

The next step on this way should be transformation of plants into enterprises wherever it is possible for technical and organizational reasons. This would pave the way for reducing a negative correlation between size of the enterprise and its effectiveness observed in the state sector.

B. Instruments of regulation of economic processes in state farms

The reformed economic-financial system is based on principles of autonomy and self-financing of enterprises.

The most essential factor determining the economic situation of state agricultural farms in recent time have been prices. These farms in various spheres of their activity meet, in fact, all kinds of prices existing at present. It exerts a specific influence on their revenues and, namely, while selling their products they are allowed to charge official prices almost exclusively. In this way, they are deprived of a possibility - accessible to a significant part of industrial enterprises - of maximizing their revenues from sales by manipulating prices. Accordingly, the enterprise may maximize its profits in practice through raising the volume of sold production and improving its quality or through undertaking measures aimed at changing production structure /this is more difficult in agriculture owing to a specific character of production in this sector/.

Although official prices are not directly determined by state agricultural farms, it should not be forgotten that their growth is also a result of pressures exerted by state farms, which determine, to a significant degree, marginal costs of agricultural production. In the period under survey, the state purchasing prices were very favourable for state farms. They were increased twice, which became a factor improving radically the financial situation of enterprises.

The solutions adopted by the new economic system were to strengthen the interest taken by enterprises in the cost side of their activity. According to the Consultative Economic Council, state farms recorded a relatively bigger drop in their material costs in relation to indices of production dynamics. This might testify to a certain degree of progress in rationalization

of their activity. This opinion was not confirmed, however, by our studies. Despite the fact that costs were growing more slowly than production in terms of value /at current prices/, unit production costs rose at the same time. It was caused both by growth of prices of supplies, wages, and by the initial /in the financial year 1981/1982 sharp drop and later slight growth or stabilization of production in material terms. It should be underlined, however, that in spite of major reservations made in relation to the present pricing policy, prices become, to an ever growing extent, a parameter in choosing the structure of production in the analyzed enterprises.

The financial burdens of state farms constitute a disputable element of their economic-financial system as well. Some claim that they are much higher than those carried by private farms. When analyzing this problem, it should be remembered that these disproportions are largely a result of specific characteristics of both types of farms as regards utilization of labour. A predominant part of the financial burden of state farms is connected with labour employment. On the other hand, as regards typical forms of financial burdens /such as tax on land, land rent or its equivalent, etc./ state farms are in a much more advantageous position. Thus, for example, in the analyzed enterprises in conditions created by the new system, the remaining financial burden /not connected with the employment factor/ ranged from 5.3 per cent to almost 12 per cent of the entire financial burden. While evaluating the system of financial burdens, the enterprises were pointing at still insufficient differentiation of tax on land rates /all the more so as it is commonly treated as the main instrument equalizing differences in conditions of production/, and the necessity of restoring its economic functions.

The controversial tax on the so-called fund of professional activation estimated according to an average wage per one employee creates antistimuli to reducing employment volume, and hence it cannot perform positive regulatory functions in this field.

The next factor exerting its influence on the final financial result are various forms of increasing the financial accumulation, and especially subsidies. Here the first year of

the new system's operation saw major changes. The subsidizing of production was largely restricted. It seemed that it would be further decreased in the next year, which would contribute to fuller implementation of the principle of enterprises' self-financing, but the practice proved to be different. Although subsidies in total revenues are today smaller than before the financial year 1981/1982, in the financial year 1982/1983 the subsidies for production activity in the analyzed enterprises grew two or three times in relation to the year ago. Their share in revenues of enterprises rose as well.

The regulatory instruments such as: the principles of launching and financing investment projects, the principles of financing working capital, the system of funds deserve a positive estimation in the opinion of the enterprises' management. They contribute to enhanced responsibility of enterprises for their decisions, they increase their autonomy, and allow for elastic responding to current economic needs.

On the other hand, analysis of functioning of the category of profit as a microeconomic criterion of choice and simultaneously a basis for evaluation of activity of the state agricultural farm in the present economic conditions arouses definite doubts and reservations.

First, in certain circumstances evaluation of financial results scored by enterprises solely on the basis of this criterion /without a detailed analysis of the sources of profit/ may lead to false conclusions concerning the real effectiveness of their economic activity. What we mean here is a possibility of appearing factors being independent of enterprises /rise in the state prices of purchasing agricultural products, subsidies, incomplete accounting of inputs, etc./ raising their revenues even when production measured in material terms drops at the same time. This phenomenon was most pronounced especially in the first year of the reform, but it continues to be actual today as well.

Second, there may appear in practice /as it has been confirmed by our studies/ a contradiction between desire of enterprises /plants/ to maximize their profit, microrationality of management of the factors of production and socially desirable structure of production. With the existing price relations,

a consistent orientation of enterprises at profit would imply a necessity of withdrawing or substantially restricting production lines considered to be deficit or bringing poor profits /many analyzed plants pointed here mainly at breeding of slaughter cattle and partly hogs/. At the same time, this production area is most necessary for the society, while enterprises often have appropriate capacities for conducting it.

For profit to be used as a criterion of choice by state farms it is necessary to fulfil many conditions such as making appropriate allowances in the system's solutions for objective differentiation of production conditions, bringing about appropriate relations between factors of production and prices of agricultural produce, as well as obtaining appropriate relations of prices within the framework of this production. It is also necessary to take into account a specific nature of agricultural production with its strong dependence on atmospheric conditions and the ensuing risk for production effects.

C. Motivational system

There prevails an opinion that solutions in this sphere constitute the weakest link in the new principles, while simultaneously it is recognized that deep changes are necessary here. The wage of an agricultural worker in the state farm is composed of several elements: basic wage /or piecework wage/, monthly efficiency bonus /which may reach up to 20 per cent of a basic wage/, and different fringe benefits, as well as an annual premium paid from the employees' fund. To this there must be added benefits in kind.

The present wage system is quite expanded and it is characterized with a big restricting of the motivational function of wages in favour of the socio-welfare function. Its main shortcomings, in our opinion, include:

/1/ absence of mechanism ensuring correlation between production growth in material terms and wage dynamics - the latter is growing faster and, moreover, there are observed quite often situations when respective indices of dynamics show opposite trends of changes. Of course, this discrepancy between growth of wages and growth of production in terms

of value does not exist or it is much smaller but this is mainly a result of the impact exerted by purchasing prices on the value of production and sales;

- /2/ another aspect of this problem is very weak influence of elements dependent on efficiency of work on total wages /this relationship was undermined in the first year during which the new system was in operation/ - in the analyzed enterprises it ranged e.g. from 30 to 45 per cent;
- /3/ relative predominance of annual premiums for material stimulation purposes;
- /4/ excessive expansion of the wage system.

Propositions aiming at improvement of the motivational system envisage the following solutions:

- enhancing the role of basic wage with simultaneous reduction of the number of obligatory benefits and premiums;
- extension of application of the piece-rate /and sometimes of commissioned/ wage system with restriction to the indispensable minimum of the time-premium /hourly/ wage system;
- expansion of enterprises' autonomy and rights to conduct an active internal wage policy in particular plants.

Solutions adopted in the decree regulating wage principles do not fully correspond to our postulates. Some doubts are aroused by preservation of premium automatism, small range of piece-rate tasks, too small scope of current stimulation of employees. The degree of such stimulation might be increased at the cost of annual premiums, which do not provide a good motivational instrument as they are paid out with considerable delay in relation to the time in which work was done.

Improvements in the motivational system in the analyzed enterprises /with the exception of one enterprise, in which no changes were effected/ consisted in attempts at increasing differentiation of wages, expanding the premium system, among others, through introduction of individual premium indicators and creation of the premium fund remaining at the disposal of plants' managers, and expansion of the scope of piece work.

Effectiveness of the modernized motivational system is undetermined by the principle of accounting profits at the level of the enterprise applied in all the analyzed enterprises, which

causes that economic effects obtained by a given plant exert only an indirect influence on wages of its employees. A negative influence on this system is exerted also by factors, which are independent of the enterprise e.g. situation in the local labour market, rapid growth of prices, and generally bad market situation.

3. Conclusions

Introduction of the new system started the process of rationalization of economic management and activity in state agricultural farms. It found its expression in the deepening of the economic calculus, improvement of their organization, equipping the decision-making process with greater elasticity. However, it failed to produce the expected improvement in effectiveness of the economic management in this sector. Neither were all the problems solved satisfactorily. Operation of the motivational system, tax system, profit measure, and certain aspects of organizational ties arouse our reservations.

There appeared, moreover, negative phenomena restricting freedom of the economic calculus. An example here might be increase of subsidies in the last year of the reform.

It is, however, in the social interest that positive trends should be continued and mechanism of the reform in state agricultural farms further improved.

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Nowy system ekonomiczno-finansowy w państwowych gospodarstwach
rolnych - założenia i efekty

Autorzy mimo, że podejmują analizę funkcjonowania państwowych przedsiębiorstw rolnych, tj. przedsiębiorstw działających w daleko odmiennej sferze niż przedsiębiorstwa przemysłowe, to jednak w istocie analizują te same problemy, które są podjęte w innych opracowaniach zamieszczonych w tym zbiorze a dotyczących przedsiębiorstwa. Zajmują się Oni problematyką organizacyjnych zmian w systemie państwowych przedsiębiorstw rolnych, instrumentami sterowania procesami gospodarczymi, systemem motywacyjnym. Akcentując, że r. 1981 przyniósł ostateczną dyskredytację bezpośrednich mechanizmów i centralnej alokacji i jednocześnie stworzył - teoretycznie - przesłanki poprawy racjonalności gospodarowania. Odwołując się do wyników badań empirycznych własnych i innych ośrodków naukowych oraz piśmiennictwa wykazują jednakowoż słabości wielu rozwiązań, których usunięcie warunkuje postęp w efektywności gospodarowania.