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## **EXPENDITURE ON ASIF IN THE YEARS 1991-2018 AS AN EXAMPLE OF THE REDISTRIBUTIVE FUNCTION OF POLAND'S AGRICULTURAL BUDGET**

Key words: budgetary expenditure, ASIF, agricultural sector, redistributive function

**ABSTRACT.** The aim of the paper was to indicate the size of expenditure on the Agricultural Social Insurance Fund (ASIF) on the background of changes that occurred in the agricultural budget, state budget and GDP in almost the entire period of adjustment of the Polish economy to market conditions. This period covers the years 1991-2018 and concerns budgetary expenditure supplementing the deficit, in particular the Pension Fund of ASIF as an example of the implementation of the redistributive function of the state budget. The study covered the share of expenditure on the agricultural sector in the total expenditure of the state budget and in the developed Gross Domestic Product, as a reference to the economic situation in the economy. The analyses showed that the share of budgetary expenditure on rural areas, agriculture and agricultural markets, in the analysed period, increased significantly after Poland's integration with the EU, which primarily constituted a pro-development impulse. Expenditure on ASIF benefits, in a way, reflect the satisfaction of social needs related to rural areas and agriculture. The share of social expenditure (on ASIF) in total state budget expenditure decreased at the same time. However, it is noticeable that the nominal volume of these expenditures slightly increased in relation to the stabilised level (ca. PLN 17.5 billion) from past years. The authors believe that this amount should not be lower, because the social insurance system of farmers has been effectively "sealed" and additionally there is an increase in pension benefits in the whole economy (within ZUS), which is also an indirect reason for their increase in ASIF.

### **INTRODUCTION**

Social security for farmers and their families in Poland has been in existence for a fairly short time, i.e. 30 years, compared to similar systems in more developed countries or in the Social Insurance Institution (ZUS). The establishment of ASIF (Agricultural Social Insurance Fund) allowed for previously dispersed duties in the field of agricultural social insurance to be taken over and for new tasks, which had not yet been performed by any insurance institution in Poland, to be undertaken [Prutis 1999]. At the same time, it should be noted that, for 15 years, significant financial resources from the European Union (EU) budget, under the Common Agricultural Policy (CAP), and from the national budget have been allotted to the agricultural sector in Poland, which will be discussed below. They are a part of public expenditure, through which the state implements specific

objectives in relation to the agricultural sector. They are connected with functions of the fiscal policy, i.e. the allocation, redistribution and stabilisation policy [Buchanan, Musgrave 1999, Owsiak 2016]. The implementation of the redistributive function is focused on agricultural income, which is clearly visible in light of ASIF, which turned out to be crucial, especially in the period of transformation of the Polish economy. The benefits paid by ASIF, in rural areas, were the basic social benefit supporting the existence not only of agricultural retired persons and pensioners, but also of whole peasant families [Wilkin 2010]. The accession of Poland to the European Union was of key importance for the change in the unfavourable income structure, where in an average household of farmers, social benefits, especially from ASIF, constituted a higher percentage of their total income than income from agricultural production (a retired person or pensioner living in such a household took over the role of main breadwinner, which concerned nearly 25% of agricultural holdings). It was a turning point – then, total expenditure on agriculture, agricultural markets and rural development, coming from national and EU funds, which can be considered pro-developmental for agriculture and agricultural holdings, dominated social expenditure of the agricultural budget. An important factor that should be signalled is the issue of the economic situation - changes related to GDP have a strong impact on agricultural income. On the one hand, in periods of economic downturn, social benefits become an important element of agricultural family income, which legitimizes the redistributive function of ASIF, on the other hand, in the phase of economic recovery the question arises as to what extent agricultural holdings consume the effects of this growth proportionally to other groups of society?

The article analyses the share of expenditure on the agricultural sector in total state budget expenditure and in the developed Gross Domestic Product as a reference to the economic situation in the economy. Expenditure on benefits from ASIF, in a way, reflect the fulfilment of social needs related to rural areas and agriculture. The level and share of expenditure on the agricultural sector in the state budget and GDP was analysed, taking into account expenditure on ASIF and funds from the Budget of European Funds (BEF). Then, attention was focused more closely on social issues related to the agricultural sector through the prism of expenditure on ASIF. Research concerns a long period, i.e. 28 years. The analysis of structure and dynamics was applied, and the source material was taken from the draft budget laws for the relevant years, which emphasizes the originality of the article.

#### THE AGRICULTURAL SECTOR IN THE EXPENDITURE OF THE STATE BUDGET IN POLAND IN THE YEARS 1991-2018

Analysing budget expenditure on the agricultural sector in Poland over a long period of time, both with regard to the level, and above all the share in the total expenditure of the state budget, it should be undoubtedly stated that the breakthrough in financing agriculture, rural development and agricultural markets was the integration of Poland with the EU. Therefore, it is worth tracing the financing of the agricultural sector in two almost equal sub-periods – until and after accession to the EU. It is not difficult to notice that during the first 13 years of the transformation of the Polish economy, support for the

agricultural sector was not a priority for decision-makers. Additionally, the market situation (liberalization of trade flows and uncontrolled import of especially food, growing unemployment, the slowdown of the economy after 1997, etc.) intensified the growing crisis and income inefficiency, and consequently the lack of financial impulse, especially for the restructuring of the title sector. It is not difficult to notice that the share of expenditure on the agricultural sector in total budgetary expenditure at that time was on average at a level of 2.87%. While it was slightly higher until 1997, due to the economic downturn, it significantly decreased, reaching less than 2% of total budgetary expenditure (Figure 1). It should be noted that such low expenditure on one of the most sensitive sectors in the economy (due to the criterion of food security) caused an avalanche of degrading effects, such as the growing civilizational distance between rural areas and agriculture, the deepening of income disparities, or the growing gap in the level of education between urban and rural areas. Thus, it can be concluded that during the first period of economic transformation, agriculture and rural areas were clearly marginalised.

As mentioned above, 2003 was the first year of significant “rebound”, triggering a sustained positive trend in the increase in budget expenditure on the agricultural sector. A clear increase in expenditure, supported by the stream of funds flowing from the CAP, which took place after EU accession, created an opportunity to implement two key, interlinked objectives: restructuring and modernising agricultural holdings, which was conducive to reproduction processes and the improvement of the income situation of farmers through a system of direct payments. Clear evidence of radical change in the financial situation of the agricultural sector was a three-fold increase in the share of expenditure on it (up to 6.7% of total budget expenditure) after only three years of functioning in integrated European structures. In subsequent years, this share was slightly lower, but still high enough to continue the wave of positive changes in Polish agriculture initiated in 2003. Additionally, it is worth noting that, although the stream of subsidies from the CAP “forced” increased national financing (measures related to pre-financing and co-financing

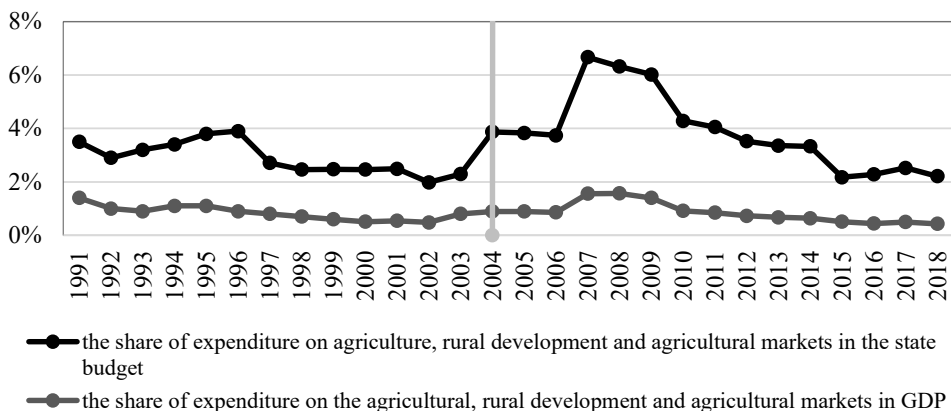


Figure 1. Share of expenditure on agriculture, rural development and agricultural markets in state budgets and GDP in 1991-2018

Source: own calculations based on [MF 1991-2018]

of CAP programmes required own contribution), since the beginning of EU integration, Poland has been a net beneficiary of this process, both in terms of total funds flowing into the Polish economy and transfers to the agricultural sector itself (in the last 15 years for every PLN 1 of paid contribution to the EU budget, on average there was a return of PLN 1.3 to the agricultural sector).

Another important and interesting phenomenon in the post-accession period were significantly higher dynamics of expenditure on agriculture, rural development and agricultural markets than total expenditure in the national budget. It should be noted that the latter are positively and strongly correlated with the general economic situation, and the period 2004–2009 was characterised by an upward phase of the economic cycle, thanks to which revenues to the budget grew to a greater extent than after 2009, when the global economic collapse took place, which was also felt in Poland through a weakening of growth processes. However, regardless of these objective, general economic phenomena, it should be stressed that, for the last 15 years, there has been a systematic increase in budgetary expenditure on the agricultural sector, supported by a stream of CAP funds, which permanently reversed negative tendencies marginalising the discussed sector in the developing economy. This confirms the thesis that “in wealthy economies, agriculture is shrinking, contributing less to GDP but not weakening” [Woś 2000]. However, it would not weaken if it could fulfil its basic function related to the provision of food to society or a number of functions related, for example, to the provision of public goods (environmental, cultural, etc.). It would be necessary to retransfer the economic surplus through a budgetary mechanism, which previously “leaked” to the non-agricultural environment, as a result of deficiencies occurring during agricultural production, inevitably related to the specificity of the land factor.

For the sake of order, it should be added that, in 2010, Bank Gospodarstwa Krajowego (BGK) started to service the created Budget of European Funds. This resulted in an accounting change involving the separation of fund streams (contributions to the EU fund and EU revenues), which was connected to the fact that this institution (BGK), on a national scale, handles financial settlements with the EU. Therefore, what seemed like a reduction of expenditure on agriculture, rural development and agricultural markets after 2010 was, in fact, misleading, as the funds flowing in from the EU to the agricultural sector, under the CAP, in subsequent years, were actually higher [Czyżewski, Matuszczak 2014].

#### REDISTRIBUTIVE FUNCTION AND AGRICULTURAL SOCIAL INSURANCE FUND<sup>1</sup>

Considering the redistributive function of budget expenditure on the agricultural sector, we can distinguish two of its objectives [Kulawik 2009; Juszczak et al. 2016]:

- An increase in the income of farmers’ households, and thus a reduction of farmers’ income disparity in relation to other socio-professional groups,
- A reduction of excessive income disparities within agricultural holdings.

<sup>1</sup> More on this subject: [Czyżewski et al. 2019].

As analyses show, the funds channelled from the state budget to ASIF certainly achieve both of the aforementioned objectives in relation to their beneficiaries living in rural areas. This, undoubtedly, social expenditure, which nominally consumes the most funds, in the analysed budgetary opinions, were repeatedly in competition with funds directed at development objectives of agriculture and agricultural holdings, for example related to their restructuring and modernisation. It should also be noted that this redistributive function primarily pursues a social objective in relation to those farmers and their families who own small and very small farms. Additionally, these are usually self-supply or semi-subsistence farms, which have little connection with the market and do not participate in horizontal or vertical integration processes. In periods of economic downturn, they become a “storehouse” for hidden unemployment, as mentioned above. Some economists believe that the funds flowing to these households, for ASIF benefits, may be treated as compensation for them, in exchange for maintaining a surplus labour force, precisely in conditions when there is no chance of employment for them on the labour market (often due to their low qualifications and/or immobility) [Czyżewski, Matuszczak 2015].

Analyses of draft budget acts indicate that, before Poland’s integration with the European Union, expenditure on the agricultural sector (agriculture, rural development and agricultural markets) together with funds allocated for ASIF in 1991 constituted only 3.8% of the total. In 1992, they significantly increased to a level of 9.5%, and, in 1993, they amounted to 9% of the total budgetary expenditure, and remained at a similar level in subsequent years (10.16% in 1998, 9.68% in 1999, 9.06% in 2000, 8.7% in 2001, 8.68% in 2002). It should be noted, however, that, in the pre-accession period, the relation between expenditure on agriculture, rural development and agricultural markets as well as ASIF, changed dynamically in favour of the latter. Since the beginning of the economic transformation, their share was significant, as social expenditure (on ASIF) was about 2.3 times higher than the funds allocated to the agriculture and food economy. The relationship between the redistributive function of the fiscal policy and the economic situation is evidenced by the relationship between 1998-2002, when there was a clear economic slowdown and the estimated number of hidden unemployed almost equalled the number officially registered in labour offices (about 3.7 million people). Already, in 1998, social expenditure (ASIF) accounted for 3.2 times the amount of expenditure directed to the agricultural sector. In 1999, it was over 4.1 times higher and, in 2002, the worst in terms of the economic situation, as much as 4.4 times higher [Czyżewski 1991-2018] (cf. Figure 2). As noted above, budget expenditure, on the one hand, serves to restructure and develop the agricultural sector and, on the other hand, like expenditure on ASIF, secure social issues of the rural population. With limited budgetary resources, these two objectives become, in a way, competitive of each other. It was pointed out that before Poland’s EU integration, in the face of economic stagnation, the socialisation of budget expenditure became a priority, which was unfortunately conducted at the expense of structural changes in the agricultural sector. In retrospect, one can partly justify the decision-makers - the growing deficit of the state budget forced a specific substitution of pro-development expenditure in favour of agriculture and rural areas with social expenditure. Growing expenditure on ASIF benefits was necessary as, on the one hand, it was a consequence of long-term neglect in the income policy of farmers, especially during the transformation

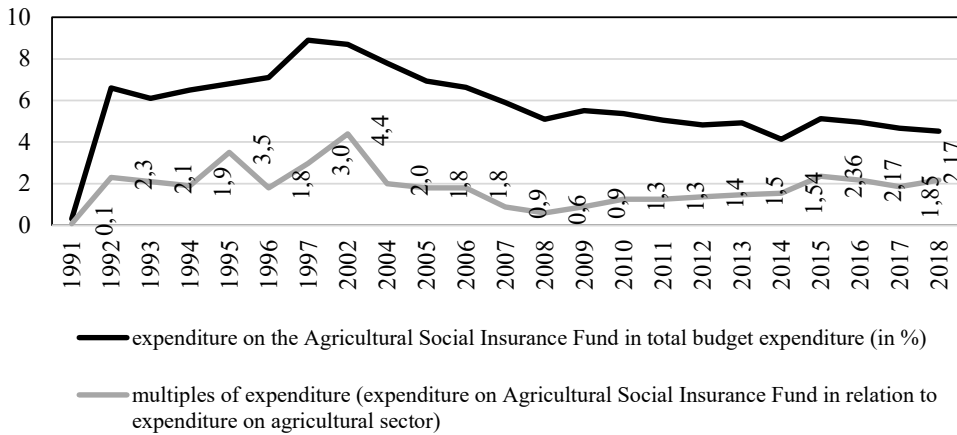


Figure 2. Share of expenditure on ASIF in total state budget expenditure in 1991-2018

Source: as in Figure 1

period, and, on the other hand, it resulted from the „leakage” of the ASIF system, which was not always used by those who were supposed to be served by the system. However, from the point of view of the economy, the lack of impulses, especially financial ones, as a result of income inefficiency of many agricultural holdings, resulted in social costs for the state budget concerning the abandonment of transformation and restructuring of the discussed sector. Therefore, the agricultural sector was found to be in a peculiar vicious circle – a lack of system support for agricultural production resulted, *inter alia*, in income inefficiency, involving the inability of restructuring agricultural holdings, which, in the next period, deepened inadequacy to market conditions and the growing need for social support due to insufficient income.

For the sake of creating a complete picture, it should also be added that, in 2018, expenditure on the agricultural sector constituted PLN 48.74 billion, i.e. 12.37% of the total budget, of which PLN 8.79 billion (2.21% of the share in the total budget) was allocated to the agricultural sector (without ASIF and EFB), PLN 17.94 billion (which constitutes 4.52% of the total budget), and PLN 22.01 billion came from the EFB. Thus, it is necessary to highlight that, on the basis of the abovementioned comparisons, the national agricultural budget gradually decreased for the last eight years, in the share formula, in relation to the total budget expenditure and GDP, thus failing to take advantage of the effects of GDP growth in Poland.

As far as budgetary expenditure on ASIF is concerned, as mentioned above, its share in the total budgetary expenditure of the state gradually decreased in the period under review. In 2018, it amounted to 4.52%, while in 1998, it amounted to 10.16%, so it decreased by more than half. The above also proves that the role of expenditure on ASIF in the agricultural budget of Poland, in the long term, is relatively declining. Thus, it may be assumed that the stimulation of economic functions of the agricultural budget of Poland has continuously been ongoing for several years. However, it is noted that the last years have brought a relative increase in the volume of expenditure on ASIF, which suggests

that this level has come close to a critical threshold of socially determined expenditure. Hence, growing expenditure on ASIF is today an objective phenomenon in the case of an increase in the parity of agricultural income and retirement benefits outside agriculture. It is hoped that it will not become a budgetary or social limitation of development possibilities of the agricultural sector in Poland. It is also worth stressing three more issues: first of all, the number of persons subject to social insurance for farmers, who simultaneously run non-agricultural economic activity since 1997, has tripled, which may indicate the multifunctional development of rural areas. Secondly, after 2005, the number of insured persons exceeded the number of ASIF beneficiaries. At the same time, two trends can be observed – the first one is that, since 1995, the number of ASIF beneficiaries has almost doubled, while the number of insured persons, after an increase in the years 1995-2006, has again been falling systematically. The basic factors influencing the number of insured persons and benefit recipients was the dynamics of the demographic structure of the population and the employment rate. For several years, the situation in this respect has been stable – the number of insured is slightly higher than the number of benefit recipients and they remain at a similar level. Thirdly, the level of self-financing of the social insurance system of farmers in Poland is 21-26%, which means that the state subsidises these insurances in 74-79% [Podstawka 2016]. A similar situation is also observed in other EU countries, where social insurance systems of farmers and their families have a longer tradition (e.g. in France or Germany). The above considerations, as well as experience of more developed countries, clearly indicate that the best model of supporting agriculture is a non-alternative, complementary, double-track of budget expenditure, both in the social and economic sphere related to production activity, so that the introduced reforms (e.g. within the CAP) are, on the one hand, economically effective and, on the other hand, socially adequate.

## SUMMARY

1. The system of agricultural social insurance implemented by ASIF was an important element of social policy towards rural areas and agriculture in the period of transformation of the Polish economy, thus fulfilling the redistributive objective of fiscal policy. It played an important and, in many cases, key role in sustaining incomes of agricultural holdings, especially in periods of economic downturn, when negative effects of the economy's transition to market tracks (high inflation, high registered and hidden unemployment) appeared.
2. The benefits flowing from ASIF have been and are an important influence on the budget of households of farmers and their families, as they constitute a permanent element of income and, in conditions of income depreciation of agricultural holdings, are also allocated for the purpose of simple reproduction, which often freezes possessed production structures.
3. The accession of Poland to the EU was a breakthrough moment for the conducted agricultural policy, first of all, due to the fact that the Polish agricultural sector was included in the orbit of the common agricultural policy of the EU and, what was connected with it, a change in the approach to financial support for the modernisation

and development of agriculture and rural areas. The stream of funds flowing from the CAP turned out to be so high that it significantly changed the continuing tendency in Poland to socialise expenditure from the agricultural budget.

4. It is noted that, in the analysed period, especially after Poland's accession to the EU, the significance of social expenditure (on ASIF) in agricultural budget expenditure was relatively weaker. In 2018, its share in the total budget amounted to 4.52%, while, in 1998, it was at a level of as much as 10.16%. In the years 1991-2018, the average annual share of expenditure on ASIF amounted to ca. 5%. At the same time, there is a slight, nominal increase in expenditure on ASIF, which, given Poland's economic growth in recent years and indexed pension benefits in the whole economy, only seems natural, considering the fact that the social insurance system for farmers has effectively been „sealed”.

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## WYDATKI NA KRUS W LATACH 1991-2018 JAKO PRZYKŁAD REDYSTRYBUCYJNEJ FUNKCJI BUDŻETU ROLNEGO POLSKI

Słowa kluczowe: wydatki budżetowe, KRUS, sektor rolny, funkcja redystrybucyjna

### ABSTRAKT

Celem artykułu jest wskazanie wielkości wydatków na Kasę Rolniczego Ubezpieczenia Społecznego (KRUS) na tle zmian, które nastąpiły w budżecie rolnym, budżecie państwa oraz w Produkcie Krajowym Brutto (PKB) w niemal całym okresie dostosowań gospodarki polskiej do warunków rynkowych. Okres ten obejmuje lata 1991-2018 oraz dotyczy wydatków budżetowych uzupełniających niedobór przede wszystkim Funduszu Emerytalno-Rentowego KRUS, jako przykład realizacji funkcji redystrybucyjnej budżetu państwa. Badaniu poddano udział wydatków na sektor rolny w wydatkach budżetu państwa ogółem oraz w wypracowywanym PKB, jako odniesienie do sytuacji koniunkturalnej w gospodarce. Na podstawie analiz wykazano, że udział wydatków budżetowych na wieś, rolnictwo i rynki rolne w badanym okresie wzrósł znacząco po integracji Polski z UE, co stanowiło przede wszystkim impuls prorozwojowy. Wydatki na świadczenia z KRUS w pewnym sensie odzwierciedlają zaspokojenie potrzeb społecznych związanych z wsią i rolnictwem. Udział wydatków społecznych (na KRUS) w ogóle wydatków budżetowych państwa w tym samym czasie malał. Jednak zauważalne jest, że nominalny wolumen tych wydatków nieznacznie wzrasta w stosunku do ustabilizowanego poziomu (ok. 17,5 mld zł) z przeszłych lat. Wnioskuje się, że wielkość ta nie powinna być już niższa, gdyż system ubezpieczeń społecznych rolników został skutecznie „uszczelniony”, a dodatkowo następuje wzrost świadczeń emerytalno-rentowych w całej gospodarce (w ramach ZUS), co jest pośrednią przesłanką do ich zwiększenia także w KRUS.

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