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# ALBANIA'S RADICAL AGRARIAN REFORM

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## ABSTRACT

*The agrarian reform in Albania included free distribution of land to rural households and the complete break up of the former collective and state farms. These key features of the Albanian reform are in sharp contrast with other Central and Eastern European countries. Our paper explains the choice of the Albanian agricultural privatization and land reform process and the radical decollectivization of the farms as caused by a combination of several factors, including changes in political institutions, the structure of the economy, the legal status of assets under privatization, farm productivity, and the pre-1945 land distribution.*

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# ALBANIA'S RADICAL AGRARIAN REFORM

## 1. INTRODUCTION

Albania's political and economic transformation started in 1991. The agrarian reform was on the top of the reform agenda because of the difficult food situation of the country and the importance of agriculture in the economy. Agriculture accounted for more than 50 percent of GDP and employed half of the country's labor force with 65 percent of the population being rural. Reforms in Albanian agriculture differ strikingly from those in other Central and Eastern European countries (CEECs)<sup>1</sup> with respect to (a) the privatization process that was chosen, and (b) the resulting farm restructuring.

Albania is the only country which distributed all collective farm land among the rural population. Most CEECs, even the Baltic countries which were part of the former Soviet Union, have restituted collective farm land to former owners (Table 1). Albania has also distributed most of its state farm land to the agricultural workers although the break up of the State Farms (SFs) was not as fast and radical as that of the Agricultural Production Cooperatives (APCs). In most other CEECs, state farm land is either restituted (e.g., Slovenia and the Baltic countries) or leased in attendance of being sold (Swinnen and Mathijs, 1997).

Farm restructuring is also more radical in Albania than in other CEECs. Albania, with 95 percent, has by far the highest decollectivization index (DI) calculated by Mathijs and Swinnen (1998) to measure the break up of collective and state farms (Table 1). Virtually all land is now being used by small individual farms, unlike in other CEECs where large-scale cooperatives, joint-stock companies, limited liability companies, etc., still occupy an important share of the land.

This paper discusses the determinants of the radical features of the agrarian reform in Albania. More specifically, it addresses two key questions: Why has Albania chosen free distribution of land to the rural population instead of land restitution, as was the case in most other CEECs? Why has reform in Albania resulted in such a radical decollectivization process, causing a complete break up of the collective farms, unlike most other CEECs?

The paper first presents an overview of the reforms and the evolution of property rights in the Albanian agriculture. The second part of the paper explains how a combination of economic, political, institutional and social factors has caused the radical reform policy choices and the dramatic impact on the structure of agriculture.

## 2. THE HISTORY OF PROPERTY RIGHTS IN AGRICULTURE

### 2.1. Land ownership prior to 1945

At the beginning of this century, the land ownership system in Albania was dominated by the "çiflig" land tenure system which was characteristic of the Ottoman Empire: peasants were obliged to contribute labor and produce either for a private landlord, for the state, or for religious institutions. This traditional form of tenancy changed little until the Communists abolished it in 1945.

After independence from the Turks in 1912, land distribution was very unequal. The vast majority of agricultural land was controlled by five families each owning about 60,000 hectares of farmland and forests. Further, the large estates were not substantially affected by two attempts at land reform before 1945 (Xhamara, 1995). Between 1925 and 1945, the concentration of land ownership was only affected by the development of an embryonic land market and the division of large estates through inheritance (Civici, 1994). Nevertheless, land ownership pattern remained very skewed, with 3 percent of the population owning 27 percent of the land. Moreover, this inequality was stronger in the most fertile and productive areas in the country. There, agriculture was still predominantly organized in large estates owned by a few landlords, the pre-Communist state and religious institutions. The majority of small and medium size landholders operated on less fertile holdings in the hills and mountains<sup>2</sup>.

## **2.2. Communist reforms in agriculture**

Immediately after World War II, the Communists introduced quick and radical land reforms. Land confiscated from large owners was distributed to landless families or to those who only possessed tiny plots. Owners of large- and medium-sized holdings were allowed to retain 5 hectares of arable land only.

Shortly after this, collectivization forced farmers to pool their recently acquired land and assets into APCs. A small plot, mostly in the form of private gardens, was still allowed for use by APC members but its size gradually contracted. Collectivization began on the coastal plain in 1946 and was extended into the hilly and mountainous areas by mid-1950s. SFs were established simultaneously. The final stage of collectivization began in 1965 and resulted in the nationalization of all land in 1976. By 1983, 78.4 percent of the agricultural land was being cultivated by the APCs, 21.1 percent by SFs, and a trivial 0.5 percent was left in private use (Pryor, 1992).

Throughout the process, agriculture was managed to achieve self-sufficiency with little regard to comparative advantage and efficiency. This led to severe constraints on productivity and development, resulting in serious food shortages and a steady deterioration in the living standards of the population.

## **2.3. The 1980s reforms: too little, too late**

During the 1980s, the economy was suffering the consequences of accumulated misallocations of resources and of large inefficiencies. The system's decay resulted in widespread shortages of basic food after 1985. Growing discontent among the population culminated in 1988 when thousands of Albanians climbed the walls of foreign embassies in Tirana, looking for a better future outside the country.

The government responded with a series of plenums of the Communist Party (CP), granting some degree of liberalization. The "New Economic Mechanism" called for self-administration and management of resources by individual production entities. Subsidies to state enterprises were reduced in an attempt to improve the allocation of resources and to induce better labor incentives. In agriculture, each rural family (member of the APCs) received "0.1-0.3 hectares of land, one cow, or ten heads of sheep and/or goats" (Civici, 1994). The state also re-established private marketing for most agricultural products.

Yet the efforts to reform in the late 1980s were superficial, based on CP directives but without a

proper legal basis. Uncertainty, especially regarding the rights over the distributed assets, led to confusion, hesitation, and fear for a reversal in policies. The measures also failed to improve efficiency or productivity in the collective and state farms. Farmers were more interested in extracting revenues from their private plots and livestock than in working for the APCs. The continuing disintegration of the agricultural sector resulted in a virtual collapse of the sector during 1990-91. By then, Albania was depending on food aid and the threat of shortages jeopardized the country's stability.

The agrarian reform was a source of intense political debates. Although, by 1991, all parties had accepted the need for private ownership and economic restructuring, main areas of controversy related to the speed of the process and to how radical the reforms should be. This debate reflected conflicts between the political demands of various interest groups which converged into two main streams: those who advocated the preservation of the previous structures with some degree of internal reorganization (i.e., the rural nomenklatura and the Communists), and those who opted for more fundamental changes through decollectivization (i.e., the anti-Communist opposition).

### **3. POLITICAL AND ECONOMIC DEVELOPMENTS SINCE 1990**

In December 1990, the combination of an unstable economic situation, increased political and social tensions, and the collapse of Communist regimes throughout CEECs induced student demonstrations in Tirana. Only three months later, the first opposition party, the Democratic Party (DP) captured a third of the Parliamentary seats in the first democratic elections. The ex-Communists, reorganized as the Socialist Party (SP), obtained the majority due to support from rural areas, organizational advantages and their control over information channels.

Political instability and public disorder remained, however. The combination of dramatic changes in other CEECs, the collapse of the economy, food shortages, spontaneous privatization in the rural areas, and strong opposition from the urban population forced the Socialist government to resign in June 1991. Subsequent coalition and caretaker governments could not prevent the further economic decline. From 1990 to mid-1992, overall output fell by 50 percent. The industrial sector collapsed and state owned enterprises closed down while awaiting privatization. Under the coalition government however, the basic laws on land reform, privatization and transformation of the APCs were passed.

In internationally supervised elections in March 1992, a democratic coalition of three opposition parties obtained 70 percent of the votes. The DP government that emerged from the elections, was reasonably stable in its early years. It restored public order and launched a "shock-therapy" economic reform program. In agriculture, policies to complete decollectivization and the liberalization of all agricultural input and product prices were initiated. The reforms resulted in strong output growth for several years after their initiation (Table 1). Until the end of 1996, Albania had the highest official growth rates in Eastern Europe and relatively low inflation.

Yet many problems were hidden by the apparent successes, such as growing problems of corruption, illegal transactions and power abuses. These undermined the development of credible and strong economic and political institutions and jeopardized the legitimacy of the state.

Consequently, the crash of vast money borrowing schemes in 1997, the so-called “Ponzi schemes”, triggered a general collapse of state institutions. Many Albanians saw their life savings disappear, triggering widespread anger and demonstrations against the government. This reaction was also due to: (a) the widespread perception of strong association between the ruling DP party and the bosses of the money borrowing schemes, (b) the accumulated discontent with ineffective and corrupt state administration, and (c) the DP’s authoritarian handling of the crisis.

The crisis resulted in complete anarchy with total absence of control by the state including the army and police force. After four months of political and social unrest, foreign mediation resulted in new elections in June 1997. The DP lost most of its seats and a new center-left coalition government took office to restore normality of public life and economic activity.

The events of 1997 had relatively little effect on agricultural reforms and performance. Agricultural output grew at a rate of almost 2 percent even while overall GDP fell by 7 percent (MoEDC, 1997). In addition, the new government expressed its commitment to private farming and its intention to carry on with enforcement and faster implementation of the previous administration’s reform strategy. An important element of the new government’s program is the removal of remaining obstacles for the development of land markets, such as faster land registration and special procedures for the sale of individual holdings even if the property has not been registered as required by existing law (GoA, 1997).

#### **4. POST-COMMUNIST REFORMS IN AGRICULTURE**

##### **4.1. The reforms<sup>3</sup>**

The Land Law of July 1991 specified that APC land was to be distributed for free and on an equal per capita basis to member families and other rural residents. The privatization of APCs proceeded very rapidly: almost 87 percent of collective farm land was distributed by October 1992 (Stanfield *et al.*, 1992). However, the process of land titling was much slower than the actual distribution of land. A number of other decrees on the distribution of other assets and the liquidation of the APCs supplemented the Land Law. Livestock, orchards, fruit-trees, etc., were also distributed to farm workers.

In SFs, the process differed somewhat from the APCs<sup>4</sup>. Only 50,000 hectares of SFs’ land were initially distributed among farm workers. Most of the remainder was pooled into joint ventures with foreign capital. According to official statistics, by August 1993, 78.8 percent of SF land had been distributed to former specialists and workers, or pooled into joint ventures (MAF, 1994). When many of these partnerships failed, the land was given to workers for cultivation with the state retaining ownership. In 1995, new legislation stipulated that “use rights” could be turned into “full ownership rights” on ex-joint venture land where disputes over the termination of joint-venture contracts had been cleared.

Initially, land transactions were prohibited<sup>5</sup>. Furthermore, in assigning land ownership or use, the Land Law did not recognize prior land ownership, its pre-collectivization size and boundaries. This caused strong opposition from the pre-1945 owners. They organized in the “Property with Justice” movement to increase their influence on political parties. In 1993, the government approved a law on the financial compensation of former landowners but the “Property with Justice” movement rejected the idea of compensation and insisted on full and

physical restitution of properties. Although this increased pressure on the government, the Land Law was not fundamentally changed. Instead, in 1995, a new law was passed which provides for ex-owners to receive physical compensation in seaside and tourist site properties<sup>6</sup>.

## **4.2. The reform outcomes**

The reforms in agriculture resulted in (a) a fully private production system, (b) a complete break up of the APCs and SFs, (c) fragmentation of land ownership and use, and (d) strong growth in agricultural output since 1992 (Table 1).

Despite the incomplete distribution of ownership titles, due to implementation problems, virtually all agricultural production in Albania is in private hands now. All APCs and most of the SFs have been completely broken up into individual farms. This process has caused an important fragmentation of land use. More than 95 percent of land is used by around 490,000 individual private farms in at least 1.9 million separate parcels, with an average of about 3.3 separately located parcels for each farm. The average farm size is 1.0 hectare, ranging between 1.3 hectares in valley and foothill regions to 0.8 hectares in the mountains (Grace, 1995).

Privatization and decollectivization caused considerable changes in incentive structures and in resource allocation. Agricultural output responded by increasing at an average annual rate of 10 percent for several consecutive years since the reform. This constitutes by far the largest growth rate among all CEECs (Table 1).

The remainder of this paper addresses two key aspects of Albania's agrarian reform: First, why has Albania preferred distribution of land to the rural population, instead of restituting it to former owners, as in most other CEECs? Second, why was farm restructuring so radical resulting in the complete break up of collective and state farms, unlike in most other CEECs?

## **5. AN EXPLANATION OF THE LAND REFORM CHOICE**

The choice of the Albanian land reform is determined by the interaction of social, political, economic and institutional factors. In general, besides the political and institutional changes since 1989, the pre-collectivization distribution of asset ownership, the asset ownership status on the eve of the current reforms, and the impact of decollectivization on the (rural) political equilibrium, have been important determinants of the land reform and decollectivization policies in CEECs (Swinnen, 1997). These factors have affected the political economy of the reform choice and constrained the governments in selecting among possible options.

### **5.1. Interest groups and reform options**

One can stylize the reform policy choice in Albania as a choice between the following options:

1. Minimal Reform Option (MRO), which implies more autonomy to enterprises but with only minimal restructuring and limited privatization of assets;
2. Social Equity Option (SEO), which consists of full distribution of assets' property rights to farm workers and rural households;
3. Historical Justice Option (HJO), with full restitution of assets' property rights to former owners.

The choice between these options has important efficiency and wealth distribution implications. In Albania, three interest groups are importantly and differently affected by the choice of the reform process<sup>7</sup>: (a) farm workers and rural families, (b) pre-1945 owners of land, and (c) the rural nomenklatura, i.e., former managers or Communist leaders who were in charge of the APCs and SFs.

The effect of the land reform on Albanian farm workers was substantial because of their extremely low incomes. The vested interest of former owners was high as well: they stood to gain or lose much because pre-1945 land ownership was very concentrated. Both groups preferred full transfer of property rights and decollectivization over the MRO. Only the rural nomenklatura supported the MRO, because more radical reforms would imply a loss in their economic, social, and political status.

The main debate within the decollectivization camp was how to privatize assets, mainly the land. Distributing land equally among farm workers (SEO) was preferred by those who actually farmed the land and by most other rural people (who made up 65 percent of the population). This SEO discriminated against pre-1945 large landowners and their heirs, who made up approximately 3 percent of the population and who were to receive only financial compensation. Large landowners preferred full and physical restitution of expropriated assets (HJO). This option would transfer large estates of some of the best land of the country to a few families and most rural households would end up without land. In addition to the large landlords, some small farmers owned land before 1945, mostly in less favored areas. However, the income difference from the SEO and HJO would be much smaller for these former small landowners, especially when transaction costs of submitting valid claims on former property are considered. Therefore, former owners of small properties were less supportive of the HJO.

Each group wanted the government to choose a reform policy with the most favorable income and wealth redistribution for themselves. They tried to influence the government's decision through political actions. The three groups had different comparative advantages in trying to influence the political decision-making process. Farm workers made up the majority of the population and, in an electoral system, the number of their votes represented a major power factor. Former landowners had a big stake on a per capita basis, and the benefits of restitution were very concentrated which increased their investment in political activities to influence the decision and reduced their political organization costs. Finally, the rural nomenklatura could rely on a well-established organizational and political network to influence the decisions. This organizational advantage was strongest in the beginning of the reforms, but eroded gradually.

## **5.2. The impact of political changes**

The SP government of early 1991 opted for the MRO which reflected its main objective of retaining control in rural areas by relying on the traditional structures of political, economic, and social organization - the APCs and SFs. If reforms were unavoidable, retaining control would be most effective, from the SP's point of view, if the reforms were organized while the Socialists were still in power. This would ensure that the rural nomenklatura was best positioned either to obstruct the reforms or to use them to turn political into economic power.

However, the lack of effective reforms caused a spontaneous break up of APCs during April-May 1991, reflecting the disbelief of farm workers in the future of structures that impoverished them. It is an interesting question whether this process was an ultimate reaction to the extreme



decline of the agricultural sector in 1989-1991 and the resulting food shortages, or whether it was a deliberate action to influence the political debate on the choice of a reform process.

The objective of the 1992 DP government was to decollectivize agriculture by implementing the Land Law. Distributing land on an equal per capita basis to farm workers and liquidating the APCs would destroy the basis for Communist support in the countryside and would ensure the support of a large part of the rural constituency (65 percent of the population) that had shown some reluctance to support the new political process and reform parties.

However, the questions of why Albania differed from most other CEECs in its land reform (choosing distribution instead of restitution) and the intensity of cooperative farm decollectivization can only partially be explained by the Albanian political developments. The full answer includes a series of other factors in which Albania differs from other CEECs.

### **5.3. The impact of the post-collectivization land ownership status**

A key difference between Albania and other CEECs is that agricultural land in Albania was formally state owned on the eve of the reforms. In most other CEECs, the land remained formally in private hands throughout the collectivization period, even if all effective decision-making authority was taken away. This legal factor played an important role in all CEECs: property rights to land formally still privately owned in 1989 have been returned to former owners (Swinnen, 1997). With land in state ownership, the Albanian government had more options than other CEEC governments.

### **5.4. The impact of the pre-collectivization land ownership distribution**

As in other CEECs, the reference date played an important role in Albania's restitution debate. In all CEECs restitution of land under the 1990s reforms is based on the ownership situation just before collectivization, but after the Communist-inspired land reforms (Swinnen, 1997). It is remarkable that in the Albanian debate, 1948 owners have been much less vocal than in many other CEECs and less opposed to distribution than Albania's pre-1945 owners. Why is this?

First, restitution based on 1948 ownership would have had results similar to the redistribution option. Most 1948 owners were to receive land under the distribution program because the structure of the APCs in terms of member families did not change much since 1948 due to restrictions in labor mobility. Moreover, in some cases, the area of land assigned to families under the land distribution program was larger than what they would have received under a restitution program. This was due partly to increases in arable land area and improvements in land quality resulting from state investments, and partly because restituted land would have to be divided among several heirs (The Albanian population has tripled since 1945).

Second, for the small landowners the marginal costs of lobbying and costs of submitting valid claims per hectare of land to be restituted (or to be compensated for) were high compared with the expected additional benefits.

Third, the 1946-1948 land reform was considered a Communist action and a first step towards collectivization. As such, claims for land received in the framework of Communist reforms were not considered legitimate.

These three reasons also explain the much more vigorous opposition to land distribution by the pre-1945 owners. They had much more to gain from restitution in comparison with what they receive under the actual reform program. They also felt as the legitimate owners of land that was violently taken away from them by the Communists.

## **5.5 Politics and equity**

The traditional political organization cost argument would predict that former owners would be much more influential on the decision-making level than would farm workers. Former owners have all the characteristics that reduce transaction costs in political organization: they are a much smaller group with highly concentrated benefits, compared with the enormous group of farm workers who have much more diluted benefits (Olson, 1965). Then why did the reformers in government choose land distribution over restitution? Why were the pre-1945 owners less influential than the peasants in determining the reform choice?

The most important explanation has to do with the reform impacts and the low income level of the farm workers. While the income effect of the land reform choice might have been smaller for farm workers than for pre-1945 owners, even a small plot of land had a big welfare impact on the former in a situation of very low incomes and low opportunity costs for their labor. Moreover, to poor farmers land represents a secure source of livelihood for their families. Because of its large impact on marginal welfare and on income security, the land reform choice strongly influenced peasants' political reactions. A vast number of people (50 percent of the labor force and 65 percent of the Albanian population) benefited to some extent from land distribution, and many of this group would have reacted vehemently against restitution to pre-1945 owners. Thus, the important marginal benefit effect of distribution reforms for the many peasants offsets the "land dilution effect". In combination with the vast differences in numbers, this more than offsets the concentration and organizational cost advantages.

Clearly, this political motivation for distribution is strongly related to equity concerns. In fact, social equity considerations would also motivate the government to choose land distribution as it clearly causes a much more equitable asset distribution in the Albanian society. Most people were strongly opposed to the restoration of a feudal structure in the best agricultural areas through restitution to the heirs of a handful of families.

## **5.6. Efficiency**

Efficiency considerations have to do both with the costs of reform implementation and with the effect of the resulting asset distribution on economic performance.

First, the implementation costs of distribution are lower, as land distribution is technically easier to implement than restitution to former owners, especially in the absence of adequate land maps indicating old property boundaries.

Second, with imperfect land and credit markets, low technology, and labor intensive production (Table 1), land distribution is probably also the most efficient procedure (Mathijs and Swinnen, 1998). With imperfect capital and land markets, the optimal land reform allocates land to the most efficient users. Assuming that the most efficient users are part of the current users because of human capital investments, this implies that the optimal land reform would allocate land to (part of) the current users. With low scale effects because of labor intensive technology, equal

distribution of land among current users is likely to be as efficient as any alternative reform policy in creating the most efficient initial asset distribution, especially if one includes organization and transaction costs of alternative reform processes, such as auctions.

Further, Stiglitz (1993) argues that equally distributed property rights have the potential to increase efficiency of the agricultural sector, by providing better incentives to labor and better credit arrangements for farmers who own land. This argument is especially relevant for Albania where agriculture is still a large share of the economy and where land reform has a strong effect on wealth distribution.

A negative effect of land distribution is its contribution to fragmentation of ownership and impact on production structures (see section 6). With declining scale economies, due to low technology production and increasing labor transaction costs, the potential negative impact of the break up of collective farms is relatively limited. The strong growth in Albanian agriculture since the initiation of the reforms (Table 1) suggests that any negative effect has been offset by improved resource allocation and labor effort. However, with imperfect land and credit markets and property rights, fragmentation may hamper future growth. Clear property rights, effective land and credit markets are prerequisites for sustaining agricultural growth. Problems in these markets may have contributed to lower growth rates in 1996.

In conclusion, land distribution was preferable to land restitution to former owners in Albania both for equity and efficiency reasons. Additional factors include the fact that all farm land was state-owned in Albania, the desperate income situation of collective farm workers, and the concentrated pre-collectivization land ownership. The combination of these economic, social, legal and historical factors make the Albanian case unique. These factors have affected the political calculations behind the reformers' government decision on land reform and therefore contribute to explain why Albania - in contrast to the other CEECs - has chosen land distribution over restitution.

## 6. AN EXPLANATION OF THE RADICAL DECOLLECTIVIZATION

While spontaneous privatization occurred to some extent in all CEECs, the extent to which this contributed to a complete break up of the collective farms in Albania is unique. In many CEECs, most farm workers did not leave the collective-under-transformation during the first years of transition (Swinnen and Mathijs, 1997).

The main reasons why decollectivization is more radical in Albania are the extreme inefficiencies of the APCs and the difficult income situation of their members. Albania had the lowest per capita income in Europe, and the APC members' incomes were even lower than average incomes in the economy. In addition, incomes from the APCs declined dramatically between 1989 and 1991 when agricultural output fell sharply and the sector virtually collapsed (Table 1). These developments induced a radical reaction from APC workers in an environment of reduced social control and political instability. The complete break up of the APCs and the shift to individual farms occurred despite problems associated with credit supply, lack of machinery, scale economies etc., which in many other CEECs discouraged individuals from leaving the cooperative. This reflects the low productivity of APCs and members' expectations of low incomes when remaining in the cooperative framework. This argument is consistent with the observation of strong output growth after the radical decollectivization.

Three other factors reduced the "exit costs" of decollectivization in Albania (the costs involved in leaving the collective farm and starting up an individual farm), and contributed to the decollectivization: (i) the very low state of technology on APCs, (ii) the fact that the reform provided for land to be distributed to rural workers and (iii) government regulations.

First, APCs were highly labor intensive and had a low level of agricultural technology and mechanization resulting in significant diseconomies of scale in the Albanian collective farms (Hatziprokopiou *et al*, 1996). This reduced the members' costs of withdrawing assets from the APCs and of starting up individual farms.

Second, land distribution to farm workers stimulates decollectivization compared to restitution. With restitution, an important share of the land typically ends up with outsiders, i.e., people with no experience in farming. Outsiders have less incentives to use the land and assets themselves and therefore to withdraw land from the collective farms. They have incomplete information and lack the necessary farming skills. If farm workers want to set up their individual farm, they need to contract with the new owners. However, they are typically at a transaction cost disadvantage compared to the managers of the collective farms in contracting with outside owners. This increases exit costs and constraints decollectivization. In contrast, the land distribution program provided farm workers with the choice of either contracting with the collectives or receding.

Finally, government regulations supplementing the Land Law and especially those enacted after March 1992 were aimed at complete decollectivization by reducing the transaction costs associated with the withdrawal of assets from the collectives. The distribution of ownership titles, relaxation of legal restrictions on property rights and decisions to write off accumulated APC debts, which were initially charged to members upon their leave, have all contributed to the process.

## CONCLUSIONS

Agricultural privatization in Albania consisted of distributing the land and most of the other assets to rural households and of the complete break up of the former structures of production. These key features of the Albanian reform are in sharp contrast with other CEECs where restitution of land was the most commonly chosen privatization process and where decollectivization was modest in the first years of transition.

We argue that these differences are caused by a combination of changes in the political institutions, the economic structure, the historical legal status of the assets under privatization and farm productivity. More specifically, the fact that all land was state owned, the large rural population share, and the very unequal pre-1945 land distribution have all affected the choice of the Albanian privatization process. Further, with low opportunity costs of agricultural labor and large uncertainties, the distribution of even small plots of land had large impacts on the marginal welfare and income security of farm workers. The size and intensity of this political constituency was more influential than the lobbying efforts of the very concentrated vested interests in favor of land restitution to pre-1945 owners.

The extremely low incomes of collective farm workers caused by extreme inefficiencies of APCs, and relatively low exit costs induced a radical decollectivization of collective farms in the environment of a dramatic collapse of agricultural production, food shortages, reduced social control, political instability, and uncertain land reform legislation that characterized the early 1990s.

### Notes:

1. CEECs include Albania, Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic and Slovenia.
2. At present, 44 percent of Albania's agricultural land is lowland, 18.5 percent is mountainous and 37.5 percent is hilly. Lowland and hillside area has doubled over the last fifty years due to state investments in drainage, land reclamation, and terracing. Hence, mountainous land made up a much higher share of the agricultural land in 1945 than it does today.
3. See Cungu & Swinnen (1997) for an extended account of the reform process.
4. See Cungu and Swinnen (1997) for an explanation of the differences in the privatization process between APCs and SFs.
5. Later acts provided for land renting and the creation of a land market. Yet, the effective functioning of these markets is inhibited by remaining uncertainties over property rights, mainly due to slow titling, perplexities with compensating former owners, and slow progress with land registration. Cungu and Swinnen (1997) provides a detailed discussion of these issues and of the relevant legal responses.
6. To this moment, no steps have been taken for the implementation of this law.
7. In fact, additional interest groups and internal heterogeneity exist within these three groups. For example, pre-1945 landowners included both large landlords and smaller farmers. Also, 1946-48 landowners were former owners too, but quite different from the pre-1945 landowners.

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**Table 1. Characteristics of the CEECs Agriculture and Reforms**

Country	<sup>1</sup> Collective Farm Land Privatization Method	<sup>2</sup> Decollectivization Index 1994 (%) <sup>a</sup>	<sup>3</sup> Agricultural	<sup>4</sup> Agr. Labor	<sup>5</sup> Average Annual Agricultural	
			Labor Productivity	Intensity	Output Change (% 1989-91 base period)	
			GAO/Labor Force 1989 (\$)	Labor/Land 1989	First 2 years <sup>b</sup> before the start of the reforms	First 4 years <sup>c</sup> after the start of the reforms
Albania	Distribution on equal per capita basis	95	431	0.63	-10.8	10.0
Bulgaria	Restitution to former owners	36	3749	0.13	-2.8	-8.2
Czech Republic	Restitution to former owners	20	8063	0.12	3.5 <sup>d</sup>	-0.9
Hungary	Restitution to former owners + distribution to farm workers + voucher privatization	13	6551	0.13	1.3	-7.8
Latvia	Restitution to former owners	80	---	---	---	---
Lithuania	Restitution to former owners	60	---	---	---	---
Poland	n.a.	n.a.	2389	0.26	2.8	-2.8
Romania	Restitution to former owners + distribution to farm workers	47	2239	0.20	-5.2	0.3
Slovak Republic	Restitution to former owners	5	5743	0.14	3.5 <sup>d</sup>	-6.2

Sources: <sup>1</sup>Swinnen and Mathijs (1997), <sup>2</sup>Mathijs and Swinnen (1998), <sup>3-4</sup>Macours and Swinnen (1997) and <sup>5</sup>own calculations based on FAO (1995).

<sup>a</sup> The 1994 DI measures the share of agricultural land used by state and collective farms in 1989 which was used by private and individual farms in 1994.

<sup>b</sup> 1987-1989 for Czech Republic, Hungary, Poland and Slovakia; 1989-1990 for Bulgaria and Romania; 1989-1991 for Albania.

<sup>c</sup> 1989-1993 for Czech Republic, Hungary, Poland and Slovakia; 1990-1994 for Bulgaria and Romania; 1991-1995 for Albania.

<sup>d</sup> Data for Czechoslovakia.