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# AN EXPLANATION OF LAND REFORM CHOICES IN CENTRAL AND EASTERN EUROPE

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## ABSTRACT

*In all Central and East European countries (CEECs) land reform was a key part of the overall agrarian reforms. Various land reform procedures have been chosen and the selected procedures were not the most efficient ones in several cases. The efficiency and distributional impacts depend on the privatization and land reform process. The paper therefore explains the choice of the land reform processes by analyzing their efficiency and distributional effects -- and how they differ between CEECs. It starts with an overview of the post-1989 land reforms in CEECs. The second section discusses the most efficient reform processes and compares these with the effectively chosen processes, identifying in which cases governments clearly have not chosen efficient land reforms. The third part indicates several key factors which have constrained CEEC governments in their choice of the land reform procedures and which have caused the choice of inefficient land reform process. Key factors are the history of the land ownership, including the postcollectivization ownership status, the ethnicity of precollectivization owners, and the equality of precollectivization asset distribution. These factors affect the distributional implications of the land reform, the (potential) conflict between efficiency, equity historical justice, and thus the political economy equilibrium. The last sections discuss two important issues in the CEEC land reforms: compensation of those who do not benefit from the reforms and the impact on effective property rights.*

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# AN EXPLANATION OF LAND REFORM CHOICES IN CENTRAL AND EASTERN EUROPE

## 1. Introduction

In all Central and East European countries (CEECs) land reform was a key part of the overall agrarian reforms. Various land reform procedures have been chosen and the selected procedures were not the most efficient ones in several cases (Brooks et al. 1991). This paper explains why this was the case. The paper explains why specific land reform processes were chosen by the governments of 13 Central and East European countries. These CEECs include nine “Central European countries (CECs)” (Albania, Bulgaria, Czech Republic, East Germany, Hungary, Poland, Romania, Slovakia, and Slovenia) and four “countries of the former Soviet Union (FSU)” (Latvia, Lithuania, Russia, and Ukraine).

Land reforms, and privatization in general, in CEEC agriculture have important effects on efficiency and on income distribution. In general, privatization will improve economic efficiency. Overwhelming empirical evidence from different cultures and political regimes suggests that secure and unrestricted private property rights of land and other productive assets are essential to ensure the most efficient form of agricultural production (Csaki and Lerman, 1995). Privatization and land reform also change the distribution of income, wealth and political influence. Many analyses of other land reforms (e.g. de Janvry, 1981; Allen, 1982; Hayami, 1991) or of institutional change in general (Bardhan, 1989) emphasize the prime importance of the distributional implications. In the case of CEEC land reforms, the distributional effects include two separate issues: the social (“equity”) considerations of the reforms and the legal (“historical justice”) demands of pre-collectivization land owners whose land was confiscated by the Communist regime or who were forced to participate in the collectivization.

The demand for historical justice and the demand for an equitable distribution of assets may conflict, depending on the pre-collectivization land distribution. Both objectives are consistent in e.g. Bulgaria where the pre-collectivization land distribution was rather egalitarian. However, in e.g. Albania, where pre-collectivization land distribution was more concentrated, “historical justice” and “social equity” were conflicting objectives in land privatization. Also, the land distribution was changed in all CEECs by various land reforms since the end of the 19th century, including those just after the Second World War, often causing conflicts between several groups of pre-collectivization land owners.

The efficiency and distributional impacts depend on the privatization and land reform *process* (Hillman, 1992). The paper therefore explains the choice of the land reform processes by analyzing their efficiency and distributional effects -- and how they differ between CEECs. I start with an overview of the post-1989 land reforms in CEECs. In the second part I discuss

the most efficient reform processes and compare these with the effectively chosen processes, identifying in which cases governments clearly have not chosen efficient land reforms. The third part indicates several key factors which have constrained CEEC governments in their choice of the land reform procedures and which have caused the choice of inefficient land reform process. Key factors are the history of the land ownership, including the postcollectivization ownership status, the ethnicity of precollectivization owners, and the equality of precollectivization asset distribution. These factors affect the distributional implications of the land reform, the (potential) conflict between efficiency, equity historical justice, and thus the political economy equilibrium. The last sections discuss two important issues in the CEEC land reforms: compensation of those who do not benefit from the reforms and the impact on effective property rights.

## 2. Observations

Table 1 summarizes observations on the land reform processes in CEECs.

- Restitution of farmland to former owners is the most important process of land reform (in terms of share of total agricultural land) in the CEECs. Typically, the reform laws specify that former owners are restituted the land in historical boundaries, if possible. Otherwise they receive property rights to a plot of land of comparable size and quality. With the exception of Poland and Albania, an important share of farmland is restituted to its former owners in all CEECs. And even in Albania collective farmland property rights have been restituted to former owners in some mountainous regions.
- In the FSU land is restituted to former owners in the Baltic countries only. Russian and Ukraine distribute land in two forms. The most important form is the distribution of collective and state farmland equally per capita among collective farm members or state farm employees in the form of paper shares or certificates.<sup>1</sup> Outsiders who are not entitled to land shares can receive land for private farming from a special state reserve established for this purpose (15-20% of TAL).
- There is an important difference in land reform procedures between collective farmland and state farmland in CEECs, but not in the FSU countries. In the latter collective and state farmland are treated the same in the reforms. In CEECs, *collective farmland* is mostly restituted to former owners. The main exceptions to restitution of collective farmland are in Hungary and in Albania. In Hungary, one third of collective farm land is auctioned for compensation bonds, and another one third is distributed among farm workers. Albania

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<sup>1</sup> The distribution of land shares does not imply physical allocation of land plots corresponding to the shares. Despite the allocation of land shares to the members, the land remains in joint cultivation pending further restructuring decision by the 'shareowners'. A shareowner who wishes to establish an independent farming operation (individually or with a group of coworkers) in principle is entitled to receive from the collectiv farm a physical plot of land corresponding to the land share (Lerman, 1997).

distributes its collective farm land among rural households. In the majority of CECs, *state farmland* is leased, pending sale of the land. For example, in East Germany nationalized land is managed by the Land Utilization and Administration Company (BVVG) and leased to former owners who lost their ownership titles and to legal entities. The main exceptions are the restitution of state farmland in Slovenia, and the distribution to farm workers in Albania.<sup>2</sup>

- Whereas land has mostly been restituted in-kind, this has not been the general rule for other assets. Nonland assets have been restituted in some countries, but in many cases were privatized using vouchers that could be turned into capital shares in the new cooperative farm or used for purchasing nonland assets for private use. The distribution of those vouchers was the subject of much debate. In general, the principle was that members (or their heirs) who had contributed land, labor, or other assets to the cooperative over the forty-five years of its existence should receive some share of the remaining assets. To implement this required an inventory of the cooperative's assets, their value, and a formula to determine the shares of each contributor. Both aspects posed great difficulties.<sup>3</sup>

### 3. Efficiency of Land Reforms

Mathijs and Swinnen (1997) conclude in their study on the efficiency of privatization and decollectivization policies in Central and Eastern European agriculture that there is no single optimal land reform procedure.<sup>4</sup> Instead, the efficiency of reforms depends on government information costs, on factor market imperfections, on the level of farm technology, and on reform implementation costs. In the absence of implementation costs and with perfect markets, any privatization procedure is optimal from an efficiency point of view because assets will invariably end up with the most efficient users. The procedures differ only in their income distributional implications.

However, CEECs are not characterized by perfect factor markets. Many imperfections in land and capital markets existed during transition. In the presence of land and capital market imperfections, the optimal privatization procedure is either to auction the land for vouchers which are distributed by the government among the population, or to lease the land at market

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<sup>2</sup> Initially, farm workers received privatization vouchers as state farms engaged in joint ventures. As most joint ventures failed, farm workers then received user rights, but ultimately were allocated full property rights.

<sup>3</sup> The solutions chosen have varied substantially in the CEECs: active members received only 20 percent of nonland assets in Slovenia, versus 40 percent in Hungary and 100 percent in Lithuania. In former Czechoslovakia, vouchers were distributed according to a 50/30/20 scheme: 50 percent for former landowners, 30 percent for former nonland assets (capital) owners, and 20 percent for labor contributors. In contrast, Bulgarian and Romanian labor contributors received 50 percent and 60 percent, respectively, of the nonland assets (Swinnen and Mathijs, 1997).

<sup>4</sup> I refer to Mathijs and Swinnen (1997) for a more elaborate discussion of the arguments summarized here.

prices (in which essentially user rights are auctioned), pending sales of the land. With these procedures land is more likely allocated to the most productive user, taking into account credit market imperfections which may prevent the most efficient users of the land from getting access to sufficient credit for purchasing the land.

With low farm technology and concentration of agricultural human capital in rural areas, physical distribution of land among the rural population may be more efficient than auctions with vouchers, if one takes into account the higher organization and implementation costs of auctions compared to land distribution in kind.<sup>5</sup> Furthermore, Stiglitz (1993) argues that the more equally distributed property rights are, the better society's incentive structure is likely to be. Incentive problems arise both in the capital market and in the labour market. Stiglitz argues that the labour incentive problem is more important and that unequal wealth (land) distribution induces inefficient labour contracts. This argument is especially relevant in countries where agriculture is still a large share of the economy and where land reform has a strong effect on total wealth distribution.

Restitution is in general not an efficient procedure of land reform. Furthermore, as non-land assets are typically not restituted, but privatized differently, this creates additional coordination problems for farms in getting access to the optimal production factor combination.

If we compare these arguments with the effectively chosen privatization procedures (table 1), we can conclude that:

- with some exceptions, CEC governments have chosen an inefficient land reform (i.e. restitution of collective farm land) for collective farm land which on average accounts for 70% of total agricultural land;
- the majority of the countries have chosen a more efficient procedure to privatize state farm land;
- a more efficient land reform procedure (than restitution) is used for a substantial part (30%) of the total land under privatization only in Albania, Poland, Hungary and Romania;
- only Albania and the Baltic countries have chosen the same land reform procedure for collective and state farm land.

These conclusions are remarkable and demand an explanation. They imply several important questions to be addressed:

- why was restitution of collective farm land chosen in so many countries, despite its inefficiency ?
- why was land reform of state farmland more efficient than of collective farmland?
- why have only the Baltic countries and Slovenia restituted state farm land ?

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<sup>5</sup> Distribution of land in shares (instead of in kind) in Russia and the Ukraine has other efficiency problems because the induced transfer of property rights to individual workers is incomplete, especially as it is combined with restrictions on the exchange of the land. Some of the property rights clearly remain with the management of the new large-scale farms (see further).

- why have Poland and Slovenia privatized their state farm land with different procedures despite a very similar pre-reform farm structure ?
- why has only Albania chosen for physical land distribution among the rural population ?
- why have Russia and Ukraine chosen for land distribution in shares ?

In the rest of this paper, I try to answer these questions by indicating several key factors which have constrained CEEC governments in their choice of the land reform procedures, and have caused the chosen reform procedures to diverge from the most efficient procedures. These factors include the postcollectivization land ownership status, the ethnicity of precollectivization ownership, and the equality of precollectivization land distribution. In doing so I attempt to provide an explanation for the choices of the different land reform procedures in CEECs.

The organization of my analysis is based on two general questions. First the paper explains why CEEC governments have chosen land restitution despite its inefficiency. Second, I discuss which factors have affected the choice of land distribution versus land leasing pending sale for the rest of the land.

#### **4. Postcollectivization Ownership Status and Land Restitution**

The most important causal factor of land restitution is the legal ownership status at the outset of the reforms: *agricultural assets which were still legally privately owned in 1989 have been restituted in all CEECs*. This factor is the main reason land is generally treated differently from nonland assets in privatization.

During collectivization, private farmers and landowners were forced to bring their assets into a collectively organized production unit. Many of the assets that the collective farm used were initially privately owned, but gradually most assets became collective property when the original assets (buildings, animals, machinery) were physically replaced by new assets. The main exception is land. Land could be changed quite dramatically in qualitative terms, because the collectivization process resulted in a consolidation of fields, in a new infrastructure, destruction of old buildings and roads and construction of new ones. Plots of land which prior to collectivization were adjacent to a road might now be in the middle of a vast grain field. Plots previously located close to villages might now be far away. Or plots that had little infrastructure might now have drainage and irrigation facilities, or even buildings on them.<sup>6</sup>

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<sup>6</sup> In general, these changes are more important when the land is situated in better agricultural areas. Plots in mountainous and agriculturally disadvantaged rural areas often have undergone less change. Change in quality and use of land affects the administrative difficulties in restituting land to previous owners. It also induces compensation claims. Non-landowning members and management of collective farms have claimed that they should be compensated if the quality of the land has been improved and the land is restituted to previous owners.

However, land as an 'area on the map' was not replaced, and that land remained legally privately owned throughout the Communist regime in many CEECs. Only in the FSU countries and in Albania land was legally nationalized. In Russia and Ukraine land nationalization took place soon after the 1917 Revolution. In the Baltic countries and Albania, land nationalization occurred after the Second World War.

As a consequence, many CEC governments could not use a process other than land restitution unless they first took away the legal ownership rights from the "former" -- but also "formal" or "legal" -- owners. Land reform in this case transfers effective property rights to those who possessed the (legal) ownership rights. In most other cases land reform concerns the transfer of both legal ownership rights and effective property rights to individuals or private institutions.

One can imagine that when ownership rights were still in private hands, the political costs of not restituting the land are considerably higher than when legal landownership was not private. First, opposition from the legal owners is likely to be stronger because of the legal status of the land. Second, a policy of nonrestitution would be inconsistent with the political and economic reforms. It would be quite ironic if private ownership rights, after surviving forty years of collectivization and state control, would be taken away by democratically elected governments supporting a market economy.

The principle that agricultural assets still formally privately owned should be restituted to their formal owners contributes to the explanation of several observations:

- *Differences between CEECs*

Where land is not restituted to former owners, the land was state-owned. In CEECs where collective farm land is not restituted (Albania, Russia and Ukraine) collective farmland was state-owned. There is only one, minor, exception to this general rule. This is in Romania, where the government has imposed a maximum limit of ten hectares on land to be restituted to former owners, and is distributing the rest of the land among farm workers.

- *Differences within CEECs*

Table 2 shows that in each of the CEECs former owners who always kept the legal title to the land were restituted property rights on the land, unlike other former owners. In Hungary, where only part of the collective farmland is restituted, the difference is due to legal ownership. Hungary is a special case because after 1968 people who were no longer active in the collective farm were forced to sell their land to the collective farm. Afterwards, Hungarian collective farms used a mixture of privately owned and collectively owned land. By the end of the 1980s, most of the land used by collective farms was owned by the collective farm. Only approximately one third of the land was still formally privately owned. This privately owned land is restituted to its owners, while land owned by the



collective farm is used partly for compensation through a voucher privatization scheme and partly for distribution among collective farm employees. Former owners who were forced to sell the land (at artificially low prices) are not restituted their land. Such former owners are compensated with vouchers, which they can use, among other things, to purchase land set aside for this purpose. The importance of the legal asset ownership was emphasized by the Hungarian Constitutional Court which ruled against treating land differently in privatization than other assets legally owned by the collectives or the State. Law proposals which included restitution of land to former owners of land sold to the collective farms were ruled unconstitutional by the Hungarian Constitutional Court, because they differentiated between land and other assets owned by collective farms (Mathijs, 1997).

- *Differences between collective and state farmland*

The post-collectivization ownership is also a determinant behind the widely observed difference between privatization policies for state farm land and collective farm land. In several CEECs collective farmland is restituted to former owners, but state farmland is privatized through different procedures.<sup>7</sup> A reason is the difference in legal ownership: state farms operated mainly on land legally owned by the state. In some cases the state farmland has been state-owned land before 1940, in other cases it was nationalized after the war (taken from foreign landowners or from the Church).

In fact in those CEECs where there is no difference in the post-collectivization ownership status between collective and state farmland, land reform processes are identical for state farmland and collective farmland. This is the case in Albania and the FSU countries where all land was state-owned.

- *The choice of the reference date for restitution*

The post-collectivization ownership factor also presents an explanation for the remarkable observation that land reforms implemented under Communist-dominated governments after World War II have been acknowledged as legal and the resulting land ownership has been used as basis for restitution in several CEECs. The reason is that these land reforms determined the 1989 legal ownership status.

In the 1930s and immediately after World War II, CEECs witnessed several (attempts of) land reforms, altering the land ownership patterns. In some cases the land reforms consisted of transferring land from one group of the population to another (e.g. from large landowners to peasants and landless agricultural workers). Other land reforms distributed land from foreign landowners or land owned by institutions such as the Catholic Church to

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<sup>7</sup> The activities of state farms are often different than of collective farms. For example, they include agricultural research stations, seed production farms, or intensive animal husbandry enterprises. For some intensive animal husbandry enterprises, the importance of the land is relatively limited compared to overall capital assets.

domestic peasants. Because of the pre-collectivization land reforms, some plots of land had more than one "previous owner". Hence, when the restitution of land was discussed, the choice of the reference date had important distributional implications.

In e.g. Romania, Hungary and former Czechoslovakia, current land restitution is (explicitly) not based on the 1945 ownership situation, but on the ownership situation which was strongly influenced by post-World War II land reforms (between 1945 and 1949), implemented by a government dominated by the Communist Party (CP). Despite the fact that many reformers claim that the political basis on which these land reforms were decided and implemented was undemocratic, they have chosen not to use the 1945 land ownership distribution, but rather a later date -- when the collectivization process was started -- as the basis for restitution. For example, in Czechoslovakia, between 1945 and 1948 many (especially large) landowners lost a major share of their land in the CP inspired land reform. Many Czechs claim that the 1946 elections won by the CP were manipulated. Still the Czech (reformers) government decided to use the February 1948 date as basis for restitution. Similarly, in Hungary 1948 and in Romania 1947 was taken as the reference date. Again, the legal post-collectivization ownership factor provides an explanation for this decision.

- *The difference between land and nonland assets*

The widely observed difference in privatization policies for land and nonland assets is due both to technical reasons (i.e. the physical availability for restitution) and to the (related) fact that most non-land assets were no longer legally privately owned, unlike the land. More specifically, in those countries where land is restituted in kind, this is not generally the case for other assets, virtually all of which were formally owned by the collective farm by 1989. Typically those assets are privatized through some kind of voucher distribution which can be turned into capital shares in the new cooperative farm or used for purchasing non-land assets for private use. The distribution of those vouchers was the subject of much debate as well, also reflecting political economy issues (see further).

In conclusion, the legal status of the land at the outset of the reforms has determined the restitution of collective farm land which was still legally owned. This explains the choice for restitution of collective farm land in Bulgaria, the Czech and Slovak Republics, East Germany, Romania, and why in Hungary part of the collective farm land is restituted. However it does not explain why Latvia, Lithuania, and Slovenia have chosen to restitute collective and state farm land to former owners because in these countries the restituted land was state-owned in 1989. Other factors which have been important are discussed in the next section.

## **5. History and Distributional Implications of Precollectivization Land Ownership**

### **5.1 Length of communist rule**

The most straightforward effect of the historical legacy of the land ownership is the lack of *demand* for land restitution in large parts of the FSU. Lerman (1997) states that nearly a century of Communism has washed away all traces of former land ownership and that very little tradition of private land ownership remains in most of the FSU. Voices for restitution or some form of compensation to former owners were raised only in the Baltics, in Western Ukraine, Moldova and Western Belarus. In those areas collectivization was imposed only after World War II. However in the rest of the FSU there was hardly any demand for restitution of land. Besides the impact on farm disruptions (see further) this lack of tradition of private ownership and demand for land restitution may also have contributed to the choice of share distribution rather than distribution-in-kind of land in Russia and the Ukraine.

Of the regions where land restitution was an issue, only the Baltic states adopted the policy of restitution and compensation of the former landowners. An important factor in their decision is the current ethnic population distribution in the Baltics and their strategy towards independence from Russia.

### **5.2 Ethnic groups and precollectivization land ownership**

Many CEECs have important ethnic minorities or have former owners no longer living in the country, often because the borders of the country changed after the Second World War, and former land owners emigrated following these border changes. The choice of privatization policy affects the future asset ownership distribution among ethnic groups, both *inside* and *outside* the country. Therefore, one can expect that the resulting choice will depend on the political rules, and more specifically, on how various ethnic groups have access to the political system (e.g. by voting rights) and how this affects the distribution of political benefits and costs for the government deciding the land reform procedure.

#### *Ethnic minorities and privatization*

The choice of the privatization process affects the distribution of (agricultural) assets between *ethnic groups within the country*. Intuitively, one would expect that this motivation would lead to the choice of a privatization policy which transfers property rights mostly to the ethnic majority. However, this need not be the case, because it depends on the influence of ethnic minorities on the political decision-making and how this affects the distribution of political gains and costs. I will illustrate this point with two examples. Land restitution in the Baltics is an example of a privatization choice being used against ethnic minorities. In the

second example, nonland asset privatization in Bulgaria, the privatization choice benefits ethnic minorities.

Rabinowicz (1997) shows how ethnic factors have had an important influence on privatization policies in the Baltics. In those countries, all land was nationalized after 1945 and reforms covered not only the internal conversion of a socialist economy towards a market economy, but also independence, in their separation from the Soviet Union. The independence problem was complicated by the large share of ethnic minorities, especially Russians, many of whom had immigrated after 1945. For example, in Latvia, ethnic non-Latvians make up 46 percent of the population (compared with only 12 percent in Lithuania). The major share of this group are Russians (34 percent of the Latvian population) who are mainly employed in industry.

In both Latvia and Lithuania the first privatization effort was under the Communist Party (CP) regime, which gave land on a usufruct basis to rural workers. However, after anti-Communist coalitions overwhelmingly defeated the CP in the 1990 elections, the new government implemented land restitution to former owners as a key strategy in securing independence, because former owners were all native Latvians and Lithuanians. As such, the restitution policy secured landownership in the hands of native citizens.

This emphasis on a radical and rapid agrarian reform is in stark contrast to the Latvian government's reluctance to privatize industry. Restitution of industrial capital to former (Latvian) owners was impossible, because most of the industry was built after 1945. Any other privatization policy was likely to give an important share of the capital stock to the management and employees of the industrial enterprises, many of whom are Russians. Thus, while ethnic motivations induced a fast privatization in agriculture, they had the opposite effect in industry.

Ethnic factors have further influenced the implementation of the restitution procedure. In Lithuania, rural opposition against the radical Sajudis government reforms was captured by the Lithuanian Democratic Labor Party (DLP -- including the majority of the ex-CP) which won the first election after independence in 1992 with more than 50 percent of the seats. Consequently, the Lithuanian DLP government reduced its commitment towards restitution and individual private farming. In contrast, the Latvian Democratic Labor Party was much less successful after independence. In both Latvia and Lithuania, the former Communist Party had split into a pro-independence and an anti-independence party. In Lithuania (with 12 percent non-Latvians) the majority of the CP sided with Brazauskas' pro-independence Lithuanian DLP. In contrast, the majority of the Communist Party members in Latvia were Russians who sided with the anti-independence Latvian DLP. This significantly reduced their authority after independence. Furthermore, in post-independence Latvia the Parliament decided that voting rights would be restricted to long-term residents who spoke the local language. This decision effectively excluded most of the ethnic non-Latvians, including Russians, from voting. As a

consequence, the Latvian DLP (including the majority of the ex-CP) won less than 1 percent of the votes in the June 1993 election. The Latvian government continued to pursue a radical agrarian reform policy, supporting individual private farming over other farm enterprises, giving it the highest priority and transformed collective and state farms the lowest priority in land use. In contrast, in 1993 Lithuania passed a regulation allowing for allocation of urban land to former owners of agricultural land willing to postpone their claims on agricultural land used by former collective farms.

In Bulgaria, most land was still formally privately owned and was restituted to the formal owners. An important consequence of this land restitution policy was a rather egalitarian distribution of land, except for the Turkish minority. This Turkish minority represents almost 10 percent of the population and is mainly employed in agriculture. They did not receive any land under the restitution program. Buckwell et al. (1994) argue that the allocation of 50 percent of nonland assets to labor contributors (which was higher than in several other CEECs and which benefited Turkish agricultural workers) was supposed to placate the Turkish minority. The political costs and benefits distribution has to be seen in light of the 1991 election results (Swinnen; 1994). Turkish minority interests were represented by the Movement for Rights and Freedoms (MRF), which obtained 10 percent of the seats in Parliament. This put the MRF in a strong position, as the rest of the seats were divided equally between the reformist Union of Democratic Forces (UDF) with 45 percent and the Bulgarian Socialist Party (BSP) with 45 percent. The MRF provided the crucial votes for the respective UDF- and BSP-dominated governments between 1991 and 1994. While it could not prevent the UDF government's choice of land restitution program, the MRF did win compensation in the form of generous nonland assets distribution to agricultural workers.<sup>8</sup> For the UDF government, the political costs in terms of allocating more nonland asset shares to labor than they preferred was more than offset by their political gains from pushing through the 1992 radical land reforms with MRF support.

In addition to the *choice* of reform policies, the reform *implementation* may also be influenced by ethnic issues in those cases where policies or the legal status of the assets did not allow for ethnic discrimination. For example, Jackson (1997) presents evidence that in the

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<sup>8</sup> There is an important additional (ethnic) reason why the MRF supported the UDF government's agricultural policy despite the fact that the MRF's view on agricultural privatization was closer to the BSP's. The BSP had attempted to gain support on the basis of nationalistic sentiments and had taken a very strong anti-Turkish position in previous years and in the election campaign. The result was that after the elections, it was unimaginable that the MRF would form an alliance with the BSP. Interestingly, the MRF stepped out of the UDF-MRF coalition after less than one year, effectively bringing down the government, partly because of increased opposition from the Turkish agricultural population to the agricultural reform implementation. After that, the MRF and the BSP entered into a 'devil's coalition' supporting the 1993-1994 Bulgarian government.

districts in Romania with a large Hungarian population the allocation of land titles in 1994 was significantly lower than in other districts.<sup>9</sup>

### *Foreigners and privatization*

Former owners who are not (or no longer) citizens of a country do not belong to the domestic political constituency. Hence, there are few political gains in restituting land to them. Moreover, given the nationalistic feelings that have emerged in most of the CEECs, opposition to such policies, and thus political costs, could be quite important in proposing land restitution to foreigners. This explains the observation that foreign former landowners have not been restituted land. In addition, governments have restricted land sales and even land rental to foreigners. Neither potential benefits from attracting foreign capital and knowledge nor pressure from foreign countries<sup>10</sup> has been strong enough to alter this position.

The concept of 'foreign owner' is not always defined in the same way. In many CEECs, only current citizens residing in the country have been restituted land. However, Slovenia has based its restitution policy on the citizenship of the land's owner in 1945. If this person was Slovenian and the heirs have a different citizenship, they are still restituted the land (Bojnec and Swinnen, 1997). A similar rule has been used in Latvia. The Latvian government restituted land to Swedish citizens of Latvian descent as part of its strategy to secure independence from Russia. Interestingly, the motive behind this seems to be consistent with the motive behind the general rule – national control over the land (Rabinowicz, 1997).

Ethnic arguments have played a role in the choice of which date to use as the basis for land restitution in former Czechoslovakia. The Christian Democratic parties proposed to shift the reference date for land restitution from 1948 to 1945. This would allow land confiscated from the Catholic Church between 1945 and 1948 to be restituted. However, there was little support for this proposal. One important reason was that it would also imply restituting land to two to three million heirs of Sudeten Germans who had emigrated in the wake of World War II and whose land had been confiscated (and also to Czechs and Slovaks who had collaborated with the Nazis during the war).

The comparison between land reform in Slovenia and in Poland provides interesting empirical evidence. Slovenia's pre-1989 farm structure was similar to Poland's (at least when compared with those of other CEECs). Both countries were characterized by the absence of

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<sup>9</sup> The average share of legal titles issued in September in 37 Romanian districts was 28.5 percent. In the 6 districts with an important share of Hungarian-speaking inhabitants, the average was 17.9 percent and all of those districts had fewer than 20 percent of titles issued. In contrast, the average was 30.6 percent in the other 31 districts, with only 3 out of 31 having fewer than 20 percent. (The difference was statistically significant at the 1 percent level).

<sup>10</sup> The Czech Republic and Slovenia were pressed by Germany and Italy, respectively, to reconstitute land to German and Italian former owners.

collective farms and the coexistence of many small private farmers and some large state farms. Both have transferred the state farmland into a state fund responsible for privatizing the land and managing its use during transition. However, while Poland is selling most of this land, Slovenia is restituting most of its state farmland to former owners. The main difference is that most of the former owners in Slovenia were Slovenian citizens, while in Poland the state farms are mostly located in West Poland and use land which before World War II was owned by Germans. This made restitution a non-issue in Poland. But also Slovenia is restricting restitution to domestic citizens. It excludes land formerly owned by Italian citizens from the restitution process.<sup>11</sup> So, both Poland's and Slovenia's privatization policies, while very different at first sight, follow the same rule of nonrestitution to foreigners.

The previous argument explains why the Polish government did not choose restitution of land. However, it is insufficient to explain why Slovenia chose to reconstitute state farmland -- an exceptional choice if one compares it to privatization of state farm land in other CEECs (see table 1). An additional factor is the land ownership distribution among domestic citizens prior to collectivization and/or nationalization.

### **5.3 Precollectivization concentration of land ownership**

Precollectivization land ownership distribution has determined to what extent the objectives of historical justice and social equity conflict or are consistent with one another. If precollectivization landownership was egalitarian, as in Bulgaria, restitution of land promotes historical justice as well as social equity. However, if it was more unequal, such as in Albania, historical justice and social equity are conflicting objectives. In the latter case, the choice between restitution and distribution of land thus becomes a choice between historical justice versus efficiency and equity.

In those cases where governments were not restricted in their land reform choice by the fact that land was still legally privately owned, CEC governments have typically opted for equity and efficiency over historical justice. The reason why governments have chosen for equity and efficiency over historical justice may be explained by the governments search for social and economic objectives. However, the rest of this section shows that political factors have also played an important role.

The most striking case of the impact of the precollectivization land concentration on the choice of land reform procedures is Albania (Cungu and Swinnen, 1997). Precollectivization land distribution was highly unequal. The land in the best agricultural regions of the country was owned by a few families. Restitution of land to former owners would therefore re-create a feudal ownership structure, with large landowners and their heirs

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<sup>11</sup> Under pressure from the Italian government, the Slovenian government is negotiating a possible compensation (in value) to the former owners.

making up 3% of the population. On the other hand, Albania was the poorest and the most rural economy of all CEECs, with 50% of its working population employed in agriculture. Especially collective farm workers were in a desperate income situation on the eve of the reforms.

Both former landowners and collective farm workers supported the anti-Communist coalition and demanded the break-up of the collective farms and full privatization of land and other farm assets. However, they differed strongly in their preference of the land reform procedure. An intensive debate erupted between two groups within the anti-Communist bloc. Most of the rural population were collective farm workers (and their household members). They demanded equal distribution of land among the rural households. In contrast, the former landowners demanded land restitution in-kind to the former owners.

The effect of the land reform on Albanian farm workers' welfare was substantial because of their extremely low incomes, and thus high marginal utility. The vested interests of former owners was high as well: they stood to gain or lose much because of the concentrated pre-1945 land ownership. Each group tried to influence the government's decision through political actions. Both groups had different comparative advantages in influencing political decision-making. Farm workers' households made up the majority of the votes, while the former landowners group had 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 more diluted benefits (Olson, 1965).

The government, dominated by the anti-Communist Social Democratic Party, chose to redistribute land to the rural population on an equal per capita basis, with partial financial compensation for former owners. Several factors combine to explain this choice. First, an important difference with other CEECs was that the Albanian government was not constrained in its reform choice to reconstitute or not by legal private land ownership because all agricultural land was nationalised during collectivization. Second, with a desperate income situation of Albanian collective farm workers in 1990, the distribution of even a small piece of land to farm workers had an important effect on their income and food security. Therefore, while in terms of absolute income there was a "dilution of benefits" with land distribution, this was much less the case in terms of welfare (including income and food security) effects. This important welfare impact - and the implied vehement political opposition against land restitution - of a vast number of voters more than offset the political organization cost advantages.<sup>12</sup> Third, clearly, the previous (political) argument is consistent with equity considerations in choosing land distribution. Fourth, land distribution is also preferable to restitution from an efficiency

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<sup>12</sup> In support of this argument is the observation that in some of the mountainous areas land restitution to former owners was preferred by the local population and found little opposition because it concerned small holdings. The government amended the land reform legislation to accommodate these locally approved restitutions (Cungu and Swinnen, 1997).



point of view with Albanian agriculture characterized by low technology and high labour intensive farming structures, and imperfect (or missing) capital markets. Furthermore, Stiglitz (1993) argues that the more equally distributed property rights are, the better society's incentive structure is likely to be. This argument is especially relevant in Albania where agriculture takes such a prominent role in the economy and the land reform has a dramatic effect on wealth distribution. The efficiency effects of this procedure are reflected in strong economic growth in agriculture following the land distribution. According to OECD (1996) data, gross agricultural output (GAO) in Albania increased with 70% between 1991 and 1995, more than in any other CEEC.

The same forces have probably also played an important role in Romania which also had a large rural population (22% of the labour force) and very low incomes in collective farms. Romania has effectively chosen a similar land reform outcome as Albania for its collective farmland, distributing an important share of its collective farmland to poor collective farm workers. Quite remarkably, Romania is the only CEEC which has (partially) "overruled" the demand for land restitution from individuals who still formally owned the land. By imposing a 10 hectare maximum for restitution, and distributing the remaining share of its collective farmland to poor collective farm workers it has combined the strong demand for full property rights restitution from those who still formally owned the land with equity and efficiency considerations. Because pre-collectivization land ownership in Romania was less concentrated than in Albania, an important share of the restituted land (with 10 hectare maximum) ended up with rural households. In combination with the distribution of the rest of the land to collective farm workers, land reform in Romania caused a fairly equitable distribution of land and welfare. From an efficiency point of view, the same arguments as in the Albanian case can be made, and it is remarkable that, besides Albania, the only other CEEC which has witnessed substantial growth in GAO over the 1991-1995 period is Romania.

Furthermore, the precollectivization land ownership distribution effect induced adjustments in the reform policies in CEECs where restitution was chosen because of legal ownership or ethnic factors. For example, in both Lithuania and Latvia, the reformers' governments chose for land restitution in historical boundaries in the 1990-1992 period. The motivation for this decision was to secure the reforms and the countries' independence (see the previous discussion on ethnicity). However, the privatization and decollectivization policies after 1992 have diverged substantially in Lithuania and Latvia. Why? One reason is their precollectivization land distributions. Lithuania had a rather uneven land distribution, while Latvia had a much more equal distribution. As a consequence, many workers in agricultural collectives in Lithuania did not receive land under restitution.<sup>13</sup> This increased opposition to

the reforms in the rural areas and has led, in turn, to much stronger support for the ex-CP in those areas than in rural Latvia, where most of the agricultural workers were restituted land. When the Lithuanian Democratic Labor Party (i.e., ex-CP) returned to power in 1992, it introduced measures to reduce the impacts of restitution and give rural workers more security in agricultural production by enhancing land leasing and transfer of land to rural workers and management.<sup>14</sup> While it did not change the process of restituting ownership titles, the Lithuanian government tried to limit the transfer of effective property rights to individuals outside the former collectives. This is in contrast with the Latvian government's continued support for restituting full property rights to former owners (Rabinowicz, 1997).

Precollectivization land distribution has influenced the choice of the date for determining rights to restitution in some CEECs. While the 1948 land distribution was relatively egalitarian in both Hungary and Czechoslovakia, this was not the case in the pre-war period, or even in 1945. In both countries, former owners who had lost land prior to 1948 have fought hard to obtain restitution or compensation, claiming that the 1945-1948 land reforms were inspired by the same Communist Party that afterwards collectivized agriculture, and therefore land distribution from the two periods should be equally regarded. Because of the large vested interests in this debate, political demand for pre-1948 restitution or compensation has been strong. In Hungary, the government has agreed to partially compensated owners who lost their land between 1939 and 1948 (and the Constitutional Court has insisted on this action - see above). In former Czechoslovakia, the date-for-restitution debate has centered mostly on restitution of former Catholic Church property, most of which was expropriated in 1946. The Christian Democratic parties have put strong pressure on the government to restitute former Church land. After the split of the country, the Meciar government agreed to restitution of former Church land in the Slovak Republic in exchange for political support for his minority government during a political crisis in 1993 (Lindemans, 1997).<sup>15</sup> However, one should keep in mind that an important factor in the 1945 - 1948 debate was the potential restitution of land to Sudeten Germans, which may be a more important factor in explaining the difference between the Czech and Slovak policies (see previous section). Initially the Czech government of Vaclav Klaus refused to change the policy. However, after Klaus lost his majority in the 1996 election, the Christian Democratic parties used their increased bargaining power to force Klaus' minority government into concessions on their demands for Church land restitution.

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<sup>13</sup> Many of the larger Lithuanian farmers ('kulaks') were deported to Siberia after 1945.

<sup>14</sup> The reason the Lithuanian DLP returned to power, while the Latvian DLP was wiped out, was likely influenced by this process, but the most important factor was ethnic differences in both cases (see above).

<sup>15</sup> The proposal was initially vetoed by the Slovak president, but a revised version was accepted.

Finally, why has Slovenia chosen to restitute state farm land? This was an exceptional choice if one compares it to privatization of state farm land in other CEECs (see table 1). In most CEECs collective farmland remained legally privately owned and state farms operated on state-owned land. Typically, prior to collectivization this land belonged either:

- already to the state;
- to individuals or families whose land was confiscated following World War II (foreigners or so-called "war criminals");
- to religious institutions;
- to large landowners who lost (part of) their land in the post-war (1945-1947) land reform;
- to middle-sized farmers (so-called "kulaks") which lost part of their land in the post-war land reform and in the collectivization.

The importance of this last group was more important in Slovenia than in other CEECs. In former Yugoslavia a 1945 land reform confiscated all land above 25 to 35 hectares of cultivated land per private farm holding or above 45 hectares of poor soil and forests. Later followed the collectivization process. While this collectivization process was abandoned in 1953, a simultaneous land reform further reduced the maximum size of private holdings to 10 hectares of cultivate land or 15 hectares of poor soil and forests. The rest of the land was consolidated into what later became state farmland. Therefore,

(a) an important share (larger than in other CEECs) of state farmland in Slovenia formerly belonged to medium-sized farms. Therefore the demand for certification from the farmer owners of small 10 medium sized farmland was much stronger with respect to state farmland in Slovenia;

(b) only a few large landowners and some large farms owned by monasteries and churches were to benefit from restitution. This was the most disputed part of the restitution legislation; and

(c) only a small part belonged to foreigners. They were excluded from restitution. These factors made privatization of state farmland in Slovenia different from other CEECS where it was mostly decided to lease (sell) state farmland.

The origin of the state farmland, and the resulting demand for restitution also plays a role in the privatization of state farmland in Romania: the majority of the state farmland (two-thirds) is land in "new" areas, i.e. land which was created for agricultural use by important land improvements and drainage investments in the Danube valley. This land is not privatized yet (and no decision has been made how to), in contrast to the rest of the state farmland.

## **6. Distribution versus Lease (Pending Sale) of Land**

So far, our analysis has been guided by the search for factors which have caused governments to choose land restitution to former owners. In discussing the various factors which have influenced the government in this reform choice, we have already explained other choices as well. A key question which has not yet been addressed is the choice between land distribution versus land lease (pending sales) for the land which was not restituted because of the factors discussed above. Table 3 presents a "stylized summary" of the land reform processes of the non-restituted land. It reveals some remarkable patterns:

- Physical land distribution is limited to collective farmland.<sup>16</sup>
- Leasing pending sales is limited to state farmland.
- Only in Hungary do we observe both processes,
- Share distribution is limited to Russia and Ukraine, but for both collective and state farm land.

In comparison with lease pending sales, equal land distribution-in-kind to the rural households provides more property rights security and clarity (at least in the short run). The reason is that such land distribution is relatively easy to implement, and that supervision and enforcement costs for the rural households are lower. Platteau (1993) and Binswanger and Rosenzweig (1986) convincingly argue that the poorest members of society are most concerned in holding a secure form of wealth and production assets, with important food security concerns. From this perspective, physical distribution is preferred by low income farm workers because it provides them with immediate and secure property rights on land. The main potential negative income effect is by losses in scale economies by the break-up of the farms accompanying the land distribution. Land distribution-in-kind to farm workers is more likely to cause a break up of the collective farms into individual farms because of transaction cost advantages in asset contracting by the former collective farm managers in case of land restitution to outsiders. The latter is the case when former owners are no longer active in agriculture and even more so when they left the rural areas (Mathijs and Swinnen, 1997). Like lease pending sale, land distribution in shares provides less security of property rights, but also has less disruptive effects on the farm structure than physical distribution of land.

The relative importance of the costs of disruption versus the benefits of land use security depends on the "ownership history" of the land, on the production systems (including factor intensity and technology), on government support, and on farm workers' income

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<sup>16</sup> The only exception is Albania. However, initially distribution of state farmland was limited to that part of the state farmland which historically belonged to collective farms which were in the last decades merged into state farms -- and which therefore had the same status as collective farmland. The rest of the state farmland was privatized differently initially, i.e. through a voucher privatization process. Only after the accompanying joint ventures strategy failed, were state farm employees given user rights and afterwards full property rights on the land (Cungu and Swinnen, 1997).

situation. In all these factors, collective and state farms differ typically. Typically, state farms were seen as model farms. They were allocated the best farmland and received more support from the government for investing in infrastructure and technology. As a consequence, state farms were typically more capital intensive than collective farms and their workers' income situation was better. In addition to salaries as employees, they received health insurance and additional benefits. In collective farms, farm workers' incomes were determined by shares in the farm profits. These differences between collective farm members and state farm members gradually became smaller in most CEECs. However, in the lowest income CEECs, Romania and Albania, the income differences were still relatively large at the eve of the reforms, and this contributes to explain why precisely in these low income countries physical distribution of (part of the) collective farm land was chosen. The very low income situation on the Romanian and Albanian collective farms was in contrast with the relatively better situation of workers on state farms in their own countries, but also with state farms in East Germany, Czech and Slovak Republic and Poland.

Furthermore, the fact that these state farms were more capital intensive, used better land, with better technology and were involved in activities with more scale effects, makes that land distribution would imply more costs of disruption than in the more labour intensive, low technology production on collective farms.

Another key difference is the origin of the land, which was explained in section 5.2. already. In general, the threat to security of property rights for land users was much stronger for collective farmland than for state farmland. This is because the demand for collective farmland restitution is either stronger, or less opposed, than that for state farmland restitution. The reasons have to do with the history of the landownership. State farmland was previously typically owned by foreigners, religious institutions, and large (feudal) landowners, state owned, or non existing.<sup>17</sup> In each of these cases either the effective demand is weak or the opposition to restitution is strong, providing more security of operation. This last factor may explain why in Hungary that part of the land which was not used for compensation purposes, was distributed to farm workers on collective farms, and leased, pending sales, for state farm land.

In conclusion, the stylized facts on physical distribution versus land lease pending sale in CEECs can be explained by the fact that the costs of disruption versus the benefits of land use security were lower for collective farm members than for state farm employees.

## **7. Land Reform and Compensation**

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<sup>17</sup> Two-thirds of Romanian state farms operate on land which was available for agricultural production through state investments in irrigation and drainage.

My analysis so far has indicated the importance of income distributional effects for the choice of the land reform process. The standard policy recommendation for efficiency improving reforms with important distributional implications is to provide compensation for the losers of the reforms by transferring income from the gainers. In my discussion so far I have indicated a few cases where compensation has indeed played an important role in the reform decision-making and implementation. For example, ethnic Turks in Bulgaria were compensated through preferential access to non-land assets, former owners in Albania through financial compensation, and farm workers in Lithuania through regulations which introduce barriers to remove assets from the farms -- and therewith limiting property rights transfers.

This section presents a more systematic discussion of how compensation for (negative) income distributional effects of the land reform has been introduced in the CEECs. Table 4 summarizes the main compensation procedures. In Albania and Hungary former owners were compensated for not being restituted land, while in Romania, Bulgaria, Lithuania, Slovenia and Slovakia, farm employees were compensated for land restitution to former owners, many of whom were no longer in agriculture. Compensation for former owners differs markedly between Albania and Hungary. In Hungary former owners received compensation bonds which they could use to buy land - or other assets. In Albania, former owners are denied access to land. Initially, they received (partial) financial compensation. However, under increasing pressure from the former owners, the Albanian government has recently introduced legislation to compensate them with urban or seaside real estate. A key difference between Hungary and Albania is the large rural population - requiring all the land for distributing even small plots per household.

Compensation of farm workers has typically taken the form of a combination of non-land assets and restrictions on the transfer of property rights to former owners. Farm workers ("labour contributions") receive 50%, 60% and 100% of non-land asset shares in Bulgaria, Romania, and Lithuania, respectively. The main problematic consequence of this rule is that this allocation based on years contributed to the collective farms tends to give a disproportionate share of assets to pensioners.

In many CEECs government which were forced to restitute farmland to former owners for the reasons discussed above have tried to restrict the transfer of effective property rights from the collective or state farms' management and employees to the former owners. The motivation for this could be either compensation for farm employees or to restrict the transfer of decision-making authority on farm assets to outsiders to limit disruptions in farm operations, or a combination of these motives.

The method by which limitations on the transfer of effective property rights were imposed, was both through the implementation of the reforms, and through legal amendments to the reform legislation. We discuss these in detail in the next section.

## 8. Land Reform and Effective Property Rights

The privatization policies have often not resulted in a full transfer of effective property rights to individuals (or private institutions). There are (at least) three reasons: the inherent incomplete transfer under some of the privatization policies, imperfections and obstructions at the policy implementation level, and legal initiatives limiting the effective transfer of property rights.

### *Property Rights and Privatization Policies*

The different privatization policies will not necessarily restore full property rights. Property rights are fully restored if all rights (user, income, and alienation rights) are given to the owners. Not all privatisation schemes fulfill these criteria. Farms created on a usufruct basis in the Baltic countries had no right to sell the land.<sup>18</sup>

Another example of incomplete property right is “restitution in comparable boundaries”. In case they have chosen for restitution of land, many CEEC governments have included specifications in the land law which allow to give a comparable piece of land (instead of the original plot in “historical boundaries”) if the new owner wanted to privately farm the land. This process transfers the rights to derive income from, but not the right to sell or to take the asset on which the formal ownership rights apply. The program does allow for obtaining an “equivalent” piece of land when the individual wants to retrieve its land from its use by the (reformed) collective farm. However, there are important transaction costs in this process of being assigned an “equivalent” or “comparable” plot of land. The plot has to be assigned by the management of the reformed farm. The claimant can go to court if he disagrees with the assignment. While “restitution in comparable boundaries” is often applied because of technical reasons, it has important impacts on the bargaining power between collective farm management and the person that wants to retrieve its land. In any case, in the presence of transaction costs, *a priori* property rights that are restituted are clearly incomplete in this process.

Similarly, the land distribution in shares in Russia and Ukraine results in imperfect transfers of property rights. The distribution of land shares does not imply physical allocation of land plots corresponding to the shares. Despite the allocation of land shares to the members, the land remains in joint cultivation pending further restructuring decision by the

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<sup>18</sup> Privatization in Latvia started during the Soviet period with the creation of private farms on a usufruct basis. Not all of these farmers were former owners, so they received somebody else’s land. When the next Latvian government decided to restitute agricultural land to former owners, conflicting claims on land were frequent, as well as conflicts between land claims and privatisation of farm enterprises. These conflicts increase the discretion of local administrations. Furthermore, the conflicting claims, court procedures and inherent uncertainty impede the progress in privatization and stimulate the decline of production (Rabinowicz, 1997).

‘shareowners’. A shareowner who wishes to establish an independent farming operation (individually or with a group of coworkers) in principle is entitled to receive from the collective farm a physical plot of land corresponding to the land share. Obviously, as with the restitution in comparable boundaries procedure this process implies important transaction costs resulting in imperfect property rights. These limitations on property rights distribution are reinforced with limitations or moratoria on buying, selling and mortgaging the land. Ukraine has a moratorium on buying and selling, and does not allow mortgaging. A 1994 presidential decree lifted such a moratorium in Russia, but much uncertainty remains with a pending land law which is supposed to define the final regulations (Lerman, 1997).

### *Implementation Problems and Obstruction*

Privatization implementation problems and obstructions have occurred both at the government level and at the farm level. The latter occurred because of local opposition to the privatization policies. Governments faced principal-agent problems vis-à-vis the implementing institution because important transaction costs in monitoring and controlling the reform implementation.

Another factor is when governments have intentionally slowed down and hindered the privatization implementation. Both de Janvry (1981 a) and Hayami (1991) argue that one of the most important factors in explaining worldwide land reform failures is that the ruling class, which opposes reforms, will concede to reform pressures for the sake of legitimating their dominance (i.e. de Janvry's "Conservative Model"). When political crises occur, the ruling order will "allow" land reforms to take place because the probability to remain in power without some reforms has declined and because the chance that without reforms a revolution will occur has increased. Allowing limited reforms are hoped to reduce the pressure for more substantial reforms. Hence, in this perspective, land reform programs are expected to be as limited as possible while achieving their political purpose. A typical way of achieving such objective is to deliberately choose a reform process with complex rules and insufficient means to execute it (see also Junguito, 1991).

Several CEEC agrarian reform processes are characterized (1) by large complexity and uncertainty, e.g. by including few details on how to implement and execute the law, and (2) by much discretion for local governments and collective farm management in the implementation. For example, before the first democratic elections in former Czechoslovakia, a coalition government of the CP and non-communists under Calfa, approved the first agricultural restitution law. There was little impact because the scale of the law was limited and there were no specifications on how the reform should be implemented (Lindemans, 1997). In Hungary, the last important measure taken by the CP before the April 1990 elections was the passage of a law to allow members of collective farms who had formally retained title to their land to withdraw it from communal cultivation and farm it privately. The law had little impact at that



point (although it would affect the future discussion and regulations) and can be seen as an attempt to influence rural voters in the upcoming elections (Mathijs, 1997).

In Bulgaria, the Lukanov government issued a decree in February 1990 allowing private farmers to lease up to 30 hectares of farm land with little effect. Bulgaria also had a law that permitted the conversion of state enterprises into so-called "private firms", which was rather actively used (Jackson, 1991). The hypothesis that this mainly benefit nomenklatura interests, is supported by the fact that one of the first things that Zhelyu Zhelev, a member of the anti-Communist coalition, did after his election as President in August 1990 was to suspend privatization. The 1991 land reform law, which was approved by a government coalition of (ex-)Communists and non-partisan experts, included restricted land restitution. The latter was initially vigorously opposed by the ex-Communists but approved under growing extra-parliamentary pressure. However, the law resulted in little as details on implementation and execution were missing. At the government level, publications of necessary supplementary regulations were continuously delayed and at the local level, collective managers and political agents obstructed the process (Swinnen, 1994).

Jackson (1997) suggests that the Romanian reform was to an important extent an attempt by the National Salvation Front (NSF) government to legitimize its dominant position after the 'revolution' and to win the rural electorate's support for the upcoming elections. The reform legislation gave important discretion to local authorities (often NSF allies) in implementation. On the other hand, the reform did have an important impact on land use and effective property rights in the Romanian countryside, including effective restitution to families of use rights to land – an important implication emphasized by Brooks and Meurs (1994).

### *Legal Initiatives to Restrict Property Rights Transfers*

In most CEECs, Socialist (ex-Communist) parties returned to power by the mid-1990s, either following new elections or when the initial anti-Communist coalitions broke down and became part of new coalition governments. In many CEECs amendments and adjustments of the reform laws were introduced after the ex-CP parties returned to power. These policy changes have, in general, not resulted in changes in the legal privatization process. Instead, the regulations and adjustments reduce or complicate the restitution of effective property rights on assets to former owners, and reduce the decollectivization impact. Examples are the increase of (opportunity) costs of submitting land claims, giving former collectives more rights and decision authority on the use of assets under privatization, and limiting new owners' rights in transferring and using the assets. For example, under pressure from former Communists, the Slovenian government has introduced the concept of "co-ownership of land" to give the former state farms more security of operation. In addition, it has introduced an "adjustment period" of several years during which the large scale state plantations (vineyards and orchards) can continue their operation on land destined for restitution without fear of being disrupted

(Bojnec and Swinnen, 1997). Similar options are proposed in the 1995 Bulgarian land law amendments, proposed by an ex-Communist Party government, and in recent Slovakian regulations, limiting new owners' rights to use and transfer the land, and shifting effective property rights on agricultural assets towards the management and employees of former collective farms (Hagedorn and Kabat, 1997). In Russia and Ukraine important restrictions on transfer of land reduce effective property rights (Lerman, 1997).

It is difficult to find hard evidence whether the objectives for the adjustments were economic (to improve the efficiency of the reform implementation or to reduce undesired farm fragmentation) or distributional (to increase rents for certain interest groups). But in all cases the adjustments had both distributional and efficiency consequences. For example, a regulation such as the Slovenian 'co-ownership' of land during an adjustment period prevented the breakup of plantations and orchards and provided incentives to the current management to maintain the crops. At the same time, it distributed rents from the new owners to the current management and farm workers. Similarly, share distribution of lands in Russia and Ukraine (instead of physical distribution) has a less disruptive impact on the farm structure and allows for a more gradual restructuring. However it also clearly distributes rents to the management of the new large-scale farms.

In general, the coincidence of many such changes with a shift of power, i.e., the return of former CP allies in government, suggests that at least part of the objectives were distributional.

## **10. Summary and Conclusion**

This paper summarizes the land reform procedures chosen in 13 Central and East European countries (CEECs). The land reform procedures on most of the land in CEECs are not efficient if one considers them as an unconstrained government choice problem. The inefficiencies of the land reform procedures are larger for collective farm land, which makes up the vast majority of the land in CEECs, than for state farm land.

The paper presents an explanation for the choice of the land reform procedures. In those CEECs where the government was "relatively" unconstrained in choosing a land reform policy, it has tended to choose a relatively efficient procedure. This explains the choice for lease, pending sale, of state farm land in the majority of CEECs. However, in many cases the choice of land reform procedures was constrained by several factors, especially in the case of collective farm land, preventing the government from selecting a more efficient procedure than land restitution.

Four historical-institutional factors have been important. First, the most important determinant has been the postcollectivization ownership status. All land that was legally privately owned in 1989 was restituted to its 'formal' owner. Second, the length of

communist rule and the (disappeared) tradition of private farming have affected the demand for restitution of land. Third, the land reform choice affects the asset distribution between ethnic groups. The choice of land reform (and privatization policy in general) therefore depends on how important the concentration of land ownership in an ethnic group's hands is for the ruling government and on the political influence of ethnic minorities. One general observation is that foreign owners are not restituted land and at best receive some compensation in value. Fourth, the precollectivization asset distribution determines the potential conflict between historical justice and social equity. The most important effect of this factor is the rural population's increased opposition to restitution in the case of an equal prereform land distribution.

In those CECs where restitution was not chosen because of postcollectivization ownership or ethnic factors, typically collective farmland was distributed (on an equal per capita basis) and state farmland leased (pending sales) program rather than restitution. The main reasons for this difference are the historical nature of the farmland, and higher incomes and more advanced technology in state farms.

CEEC governments have compensated losers from the reforms either through financial, voucher, or in-kind transfers, or through restrictions on the reform implementation. The return of ex-CPs to power in many CEECs resulted in amendments to reform laws, new regulations, and adjustments of incentives for reform implementation. These policy changes have, in general, not resulted in changes in the legal privatization process. Instead, the regulations and adjustments have reduced or complicated the transfer to individuals of effective property rights to assets and have reduced the impact of decollectivization. Examples are the increase of (opportunity) costs for submitting land claims, giving former collectives more rights and decision authority regarding the use of assets under privatization, and limiting new owners' rights in transferring and using the assets.

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**Table 1 : Most important land reform procedures in CEECs (\*)**

<i>COLLECTIVE FARMLAND</i>			<i>STATE FARMLAND</i> <sup>a</sup>	
	<i>Procedure</i>	<i>% of TAL</i>	<i>Procedure</i>	<i>% of TAL</i>
Albania	Distribution (physical)	76	Distribution (physical) <sup>b</sup>	24
Bulgaria	Restitution	72	Miscellaneous <sup>d</sup>	9
Czech Republic	Restitution	61	Sale (leasing <sup>c</sup> )	25
East Germany	Restitution	82	Sale (leasing <sup>c</sup> )	7
Hungary	Restitution + distribution (phys.) + sale for compensation bonds <sup>f</sup>	70	Sale for compensation bonds + sale (leasing <sup>c</sup> )	12
Latvia	Restitution	57	Restitution	38
Lithuania	Restitution	62	Restitution	30
Poland	-	4	Sale (leasing <sup>c</sup> )	19
Romania	Restitution + distribution (phys.)	58	Undecided <sup>e</sup> + Restitution	28
Russia	Distribution in shares <sup>g, h</sup>	40	Distribution in shares <sup>g</sup>	58
Slovakia	Restitution	71	Sale (leasing <sup>c</sup> )	15
Slovenia	-	0	Restitution	17
Ukraine	Distribution in shares <sup>g</sup>	n.a.	Distribution in shares <sup>g</sup>	n.a.

(\*) Special procedures for marginal amounts of land are not included in the table.

<sup>a</sup> Excluding research farms which are nowhere privatized.

<sup>b</sup> Farm workers received vouchers in newly established joint ventures. However, as most of these joint ventures failed, farm workers received first user rights and eventually full property rights.

<sup>c</sup> Land is leased to individuals or entities pending sale.

<sup>d</sup> In Bulgaria, the distinction between state and collective farms is more complicated than in other CEECs because the creation and later abolishment of the so-called Agro-Industrial Complexes. Part of the land classified under "state farmland" is restituted, because it was initially collective farmland and has a similar status; another part will not be privatized, and another part is the land on which large pig and poultry enterprises are built and which will be privatized separately.

<sup>e</sup> The Romanian government has not decided how to privatize the state farms, including the land, on two-thirds of the state farmland.

<sup>f</sup> Each of the land reform procedures applies to approximately one-third of the collective farmland.

<sup>g</sup> Distribution of collective and state farmland equally per capita among collective farm members or state farm employees in the form of paper shares or certificates. Outsiders who are not entitled to land shares can receive land for private farming from a special state reserve established for this purpose (15-20% of TAL).

<sup>h</sup> Private ownership is prohibited in 10 ethnic republics of the Russian Federation.

**Table 2: Entitlement basis for the restitution of property rights on land**

	<i>FORMER OWNERS</i>		<i>WORKERS</i>
	<i>Who always kept legal title to the land</i>	<i>Who lost their legal title to the land</i>	<i>(Who are not former owners)</i>
East Germany	yes	no	no
Czech Republic	yes	no	no
Slovakia	yes	no	no
Hungary	yes	partial and indirect	yes
Bulgaria	yes	-	no
Romania	yes	yes	yes
Slovenia	yes	-	no

**Table 3: Land distribution and land lease (pending sales) (\*)**

	<i>COLLECTIVE FARMLAND</i>		<i>STATE FARMLAND</i>	
	<i>Procedure</i>	<i>% of TAL</i>	<i>Procedure</i>	<i>% of TAL</i>
Albania	Distribution (Phys)	76	Distribution (Phys) (**)	24
Romania	Distribution (Phys)	15-30(*)		
Hungary	Distribution (Phys)	23 (*)	Sale (leasing <sup>C</sup> )	n.a.
East Germany			Sale (leasing <sup>C</sup> )	7
Czech Rep.			Sale (leasing <sup>C</sup> )	25
Slovakia			Sale (leasing <sup>C</sup> )	15
Poland			Sale (leasing <sup>C</sup> )	19
Russia	Distribution (Share)	58	Distribution (Share)	40
Ukraine	Distribution (Share)	n.a.	Distribution (Share)	n.a.

(\*) Own estimates

(\*\*) Initially distribution of state farmland was limited to that part of the state farmland which historically belonged to collective farms which were in the last decades merged into state farms -- and which therefore had the same status as collective farmland. The rest of the state farmland was privatized differently initially, i.e. through a voucher privatization process. Only after the accompanying joint ventures strategy failed, were state farm employees given user rights and afterwards full property rights on the land



**Table 4. Land Reform and Compensation**

<b>LAND REFORM</b>		<b>COMPENSATION</b>
		<b><u>Compensation to former owners</u></b>
Albania	Distribution	Financial (partial) and urban real estate
Hungary	Distribution	Compensation bonds (land)
		<b><u>Compensation to farm workers</u></b>
Romania	Restitution	- Land in-kind - Non-land assets (60%)
Bulgaria	Restitution	- Non-land assets (50%) - Property rights restrictions
Lithuania	Restitution	- Non-land assets (100%) - Property rights restrictions (*)
Slovakia	Restitution	- Property rights restrictions
Slovenia	Restitution	- Property rights restrictions

(\*) Including legislation to compensate former owners with urban real estate if they would postpone or cancel land claims.