

Challenges Of The Land Reform In The Former Communist States Of Central And Eastern Europe

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Abstract: - As it is well known, after the collapse of the totalitarian regimes in Central and Eastern Europe, the economic development of the former communist states in the region was subject to a series of systemic transformation. One of the most important was the large-scale abandonment of state ownership in the agricultural sector, a transformation that was essential for boosting economic development. Our article aims to present the land property privatization process in the former communist countries of Central and Eastern Europe, pointing out the obstacles which hindered this action and represented barriers of the reform process. By using a comparative approach, the paper will also underline the main challenges in the land privatization process: state owned land reserves, farm restructuring, land transaction, mortgage, role of public and private sector.

Key-Words: - Land reform, former communist states, agricultural sector, land property privatization

JEL Classification: - N, O, Q, L51, N54, O18

1. Introduction - Brief historical context of the evolution of the former communist states in Europe

After decades of Soviet political and economic domination, the countries in Central and Eastern Europe had the historic opportunity to return to political democracy and economic freedom, a process following which, against the background of the collapse and dismantling of the power and influence pole represented by the former USSR, they began their way towards economic restructuring and political reform.

Regarding these ample transformations, the scholarly literature (Boone et al., 1998) considers that the collapse of communism in Central and Eastern Europe was the most important historical event after the end of the Second World War.

The path from totalitarianism to democracy and from a closed, state-planned and autarchic economy towards a functional market economy was difficult and lengthy and its degree of success depended on the success of structural reforms, but also on the commitment of political actors and of the civil society in these countries.

The first step in the changing of the economic development paradigm of the former communist states was the privatization of non-viable industrial enterprises (whose survival was not due to economic

performance, but to public subsidies received from the state), coupled with the land ownership reform, with the dissolution of the various forms of collective ownership in the rural area and the return of the land to the former owners.

At political level, the process of democratic transformation and economic liberalization was doubled by the efforts made by all these states for the integration into the European Union.

As certain analysts have shown (McCollum & Gentle-Marsh, 1998), the “guiding light” for the post-socialist transition process and the privatization reform in the former communist countries was the European reintegration, an objective that laid down the milestones for the ample political and social transformation process triggered by the collapse of the communist regimes in Europe. In fact, the European Union accession process was seen in these states as a symbol for achieving political freedom and economic prosperity, since the European Union itself was conceived based on the principle of using economic leverage in order to create stability and social welfare in the region.

In fact, the specialized literature (Anderson et al, 2001) considers that the desire to return to Europe, from an economic and political point of view, was one of the dominant leitmotifs of the transition processes in the countries of Central and Eastern Europe, with the perspective of being a full EU member, as well as an institutional component of a single political and economic area representing a major objective of the reform in these states.

2. Land ownership reform in the rural area of Central and Eastern European former communist countries

The shift from a planned economy to a functional market economy could not have been achieved without the privatization and reform of land ownership in the rural area, which was affected the most by nationalization and collectivization.

In the post-communist period, all Central and Eastern European states, with the exception of Poland and Hungary, engaged in some form of restitution of agricultural land property rights to the former owners.

These countries can be divided into three categories (as illustrated in Figure 1): (1) the countries which reestablished the ownership rights of the persons whose land had not been expropriated, and which also restituted a much smaller share of the land held by the state, (2) the countries which granted compensations to former owners and which provided or sold the land to the former agricultural workers, and (3), the countries which restituted agricultural land to former owners only.

Figure 1: The land ownership reform in the former communist countries in Europe

RESTITUTION OF PROPERTY RIGHTS	COMPENSATIONS TO FORMER OWNERS	NO RESTITUTION OF LAND PROPERTY
<p>THE CZECH REPUBLIC – the reestablishment of the property rights held prior to the expropriation;</p> <p>SLOVAKIA – distinction between “entitled” owners and “associations”;</p> <p>ROMANIA, BULGARIA, ESTONIA, LITHUANIA, LATVIA – <i>restitutio in integrum</i>.</p>	<p>HUNGARY – the compensations to former owners were preferred to direct restitution.</p>	<p>POLAND – there was no restitution, as Poland was the only communist country in Europe where collectivization did not take place.</p>

Source: The author’s own synthesis based on the specialized literature consulted.

The Czech Republic, Slovakia, Poland and Slovenia did not expropriate all the agricultural land in the communist period. In Poland and Slovenia, private small farms continued to function throughout the communist regime.

In the Czech Republic, the collectivization of agriculture began in 1948, but individual land ownership was not entirely abolished. Nevertheless, use rights were assigned to the state and to agricultural cooperatives and, under political pressure, many owners simply gave their agricultural land to the state. According to the cadastre records in the Czech Republic, before the beginning of the post-communist agrarian reform, 68% of the agricultural land belonged to state-owned cooperatives and only 28% to individual households.

The Czech agrarian reform consisted not so much in the transfer of ownership over the collective land held by the former cooperatives, but in the reestablishment of the supremacy of the property right of the users of agricultural land (the official legal restitution to former owners). The former owners of the land expropriated by the state during the communist period were able to claim land or assets or to opt for receiving compensations. By 1998, the land property restitution process was almost complete in the Czech Republic, with 80% of the agricultural land being, at that time, privately owned, and over 90% of the restitution cases being legally settled. Some analysts (Giovarelli & Bledsoe, 2001) consider that there still remains one unresolved structural issue, namely that of the potential groups of claimants (resulting from the mass migration of the communist period), who were not able to claim restitution in accordance with the 1991 legislation and whose processes remained pending on the dockets of the courts of law.

In Slovakia, the land property restitution process was, up to a point, congruent with that in the Czech Republic. After the dissolution of Czechoslovakia, the Slovak authorities claimed that the agricultural policies of the former union had failed to take into account the different conditions existing in the two republics, and that, in fact they had been devised for the Czech Republic. As a result, a new land ownership reform was applied which led, by the end of 1992, to the creation of a multitude of family farms with a property size of less than one hectare. In Slovakia, the land property restitution process took into account two types of beneficiaries. The first were the “entitled persons,” the target beneficiaries of the restitution process. The “entitled persons” were the citizens of Slovakia with a permanent residence in the country and whose land and buildings had been physically (not only legally) transferred to state property or to the property of a legal person between 25 February 1948 and 1 January 1990. The second were the “persons with a potential right,” who were natural or legal persons (including the state), who were in possession of the land in question. In order to receive that land in private ownership, they had to submit a request to the Slovak Land Office by 31 January 1993. At present, the land property restitution process in Slovakia is almost completed. The problems that affect the completion of this process include the failure to update the property registrations from the years of the socialist regime.

In Slovenia, the small farms belonging to single owners also survived during the communist period, even under the unfavorable regulatory and political measures, such as the constitutional restrictions related to the maximum size of the farm. In the communist period, Slovenian agriculture was not efficiently collectivized and, as a result, state farms only held a small part of the agricultural land. The land restitution process in Slovenia was completed in 1991, through the granting of compensations to the former owners expropriated by the Yugoslavian government after the Second World War.

Thus, in accordance with the Law on De-etatization of 1991, the land formerly held by the state and belonging to agricultural companies became state property and was transferred to the management of the Fund for agricultural land and forests. So far, only 40% of this land has been returned to the rightful owners, due to pending litigations and the numerous legal complications. For instance, the managers of agricultural companies opposed the allocation of land to the land fund, and refused to analyze the claims of former owners. The latter referred to the courts of law, but the litigations extended and many claims remain, to the day, unresolved.

In post-communist Hungary, the land reform process was based on the compensation of former owners, rather than on restitution, and workers who did not own land in the state farms and cooperatives were granted small-size land plots, on request. According to national statistics, 50% of the country’s land territory was subject to compensation requests and over 2.1 million new land units were created in this process.

Compensation laws adopted between 1991 and 1997 provided for the granting of compensation bonds to the persons whose assets (including land) had been seized during the communist regime, as well as to persons who had been subject to political and racial discrimination in the former political regime. These bonds could be used for bidding for the purchase of the land held by production cooperatives and state farms in auctions organized by the state. As a result of this process, one third of the land of the former cooperatives was purchased using compensation bonds, one third remained the property of the former members of the dissolved cooperatives, and one third was redistributed to the members of the former cooperatives who had not owned

land before the collectivization. The compensation process ended in 1997 and 90% of the land was in this way allocated to private ownership. However, as this was a lengthy process, agricultural development was affected (Mathijs, 1997).

Moreover, in Hungary, the new owners who purchased land by means of the compensation bonds were not, in many cases, persons engaged in agriculture and did not live in the rural area. As a result, they did not become involved in agricultural activities and preferred to lease the land to be used by corporate farms and individual farmers.

Romania, Estonia, Lithuania, Latvia and Bulgaria returned the land to the former owners. In these countries, the land had been expropriated from the former owners during the collectivization process in the communist period. The majority of the new owners who received land were not, at the time of the restitution, involved in agricultural activities in the former cooperatives. Each of these countries now faces a unique set of problems related to the restitution process.

In Estonia (as well as in Latvia and Lithuania), the agrarian reform process began in 1989. This process attempted to reestablish the property structures existing before the communist period and to return agricultural land to the former owners or their heirs. The fact that in all these countries there were cases of multiple successions created serious problems related to the co-ownership of the agricultural structure. The process was complicated by the large number of restitution requests. Furthermore, the rural infrastructure was abandoned during the communist period: new cadastral limits had to be drawn, along with the reconstruction of the electricity and water service infrastructure, a process which further complicated the restitution process. Many initial requests were withdrawn when city inhabitants understood that agricultural practice meant moving to an environment with problematic infrastructure.

Of the total number of claims submitted during the land restitution process in Estonia, only approximately 25% of the agricultural land returned to individual owners, while for 75% of the agricultural land there were no claimants or previous owners. Over 30% of the land was left uncultivated.

In Romania, the Law on the restitution of agricultural land was adopted in February 1991. Its entry into force led to the dissolution of 3,700 collective farms and to the restitution of the related land to the former owners.

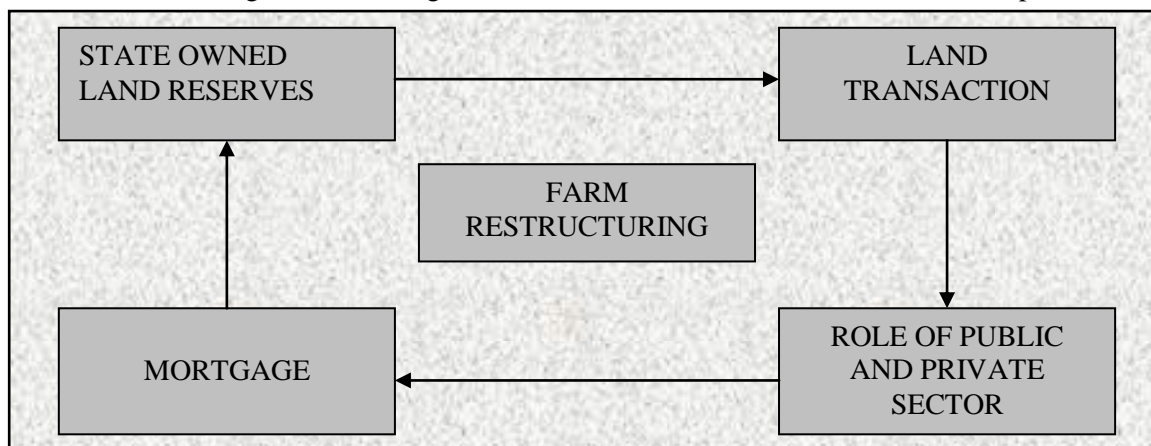
According to official statistics, up to 10 hectares of arable land and one hectare of forest land were restituted to each family. Nevertheless, the law did not apply to 30% of the agricultural land in Romania, the state's justification for this decision being the necessity to ensure food security. This provision was only repealed in January 2000, when Romania adopted a law that for the first time allowed the restitution of state agricultural land with an area of 50 hectares of arable land and 10 hectares of forest land per family. The same law also states that the original land plots of owners should be returned, where possible, and, if not possible, that a financial compensation should be granted. According to national statistics, of the 4.3 million claimants, 3.3 million received an "ownership title." Certain analysts (Zvi, 2000) consider, however, that one problem of the restitution process was the long duration and the excessive bureaucracy, which entailed the slow reinstatement of former owners, against the backdrop of deficient delineation of land plots and lack of clarity in the legislation.

In Bulgaria, according to national statistics, over 90% of the agricultural land was returned to former owners. Nevertheless, it has to be noted that official statistics refer to the fact that the restitution process was completed on paper, in the sense that all eligible land was included in a local restitution plan. Based on this plan, each owner received a writ according to which a land plot would be restituted (based on cadastral measurements and legal decisions). Bulgaria is an example of a country where the land reform process took place with great shortcomings, because the legislation on land restitution was repeatedly amended, causing confusion and implementation difficulties. The legislators sought to be as correct as possible in the restitution process and, therefore, they repeatedly amended the law and the land subdivision regulations. As a result, a series of litigations that affected the restitution process and, for each of them there was an owner whose reinstatement was delayed.

3. Main challenges of the land reform in Eastern Europe

Following the issues previously exposed related to land reform and land market efforts in the Eastern European countries, we identified a series of challenges that represented barriers of the reform process (see Figure 2).

Figure 2: Challenges of the land reform in Central and Eastern Europe



Source: The author's synthesis based on the cited specialized literature.

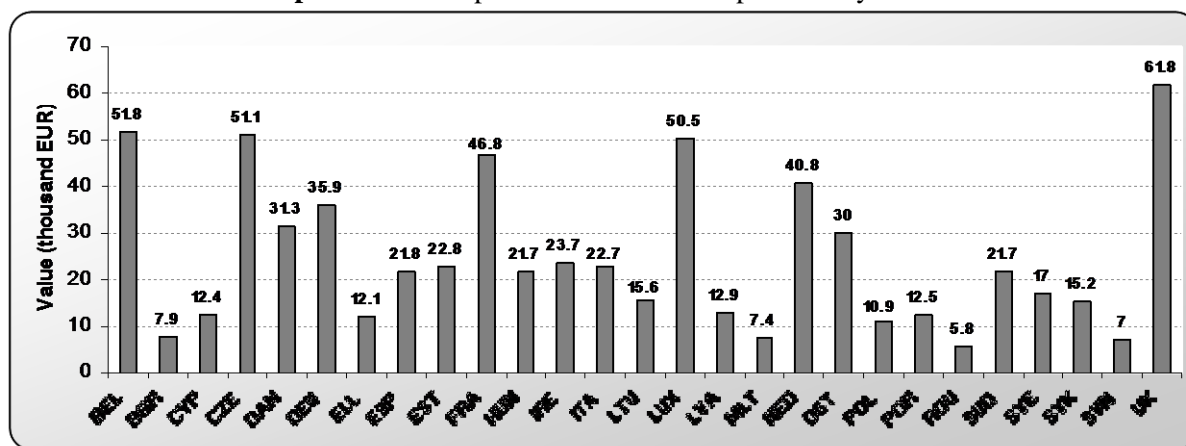
3.1. Land privatization

In the Eastern European countries analyzed (The Czech Republic, Slovakia, Romania, Bulgaria, Estonia, Lithuania, Latvia, Hungary and Poland) all the privatization issues are related to the restitution process primarily. Potential claims of former owners, conflicting laws regarding the restitution process, and unclaimed land have all slowed down the privatization process. As some analysis have shown (Hagedorn, 2004) in former communist countries of Central and Eastern Europe, the restitution of land to original owners in historical boundaries was initiated by means of bureaucratic procedure, but the process proceeded only slowly and was frequently modified by changing governments.

3.2. Farm restructuring

Lack of farm reorganization is still an impediment to market development in many Eastern European countries (some of them EU countries) that restituted agricultural land to its former owners. Hence, in our opinion, for all the analyzed countries, access to agricultural land is a precondition to economic growth. Land reform process affected average farm development in some of the analyzed countries, since, according to the European Commission database (Farm Accounting Data Network, 2013), farms in Bulgaria, Slovakia, Slovenia and Romania registered the lowest income in 2011 (As illustrated in Graph 1).

Graph 1: The European farm net income per country in 2011



Source: European Commission Database - Farm Accounting Data Network (2013).

According to a recent report (DG Agriculture and Rural Development, 2012), farms in Bulgaria and Romania display the lowest value of total assets, as they tend to be smaller¹ than the EU average size (see Table 1) and oriented toward less capital intensive type of farming.

Table 1: Farm size in Eastern European Countries

COUNTRY	AVERAGE FARM SIZE
Bulgaria	29 ha
Czech Republic	232 ha
Estonia	131 ha
Hungary	53 ha
Latvia	65 ha
Lithuania	50 ha
Poland	18 ha
Romania	12 ha
Slovakia	575 ha

Source: DG Agriculture and Rural Development – *EU farms economics*, 2012

In some of the analyzed countries the difficulties of the land reform have generated a poor development of the agricultural farms. For instance, in Romania, the Farm Net Value Added (FNVA)² is (according to DG Agricultural and Rural Development data for 2012) of 5,800 euro, far below the EU-28 average (22,700 euro). However, in this respect it should be mentioned that FNVA fails to account for differences in farm size, type of farming or structural decline in the labor force in agriculture. In this respect, FNVA is typically expressed per annual work unit (AWU), which is nothing less than a measure of partial labor productivity. From this perspective, Bulgaria, Romania and Slovakia displayed the lowest FNVA per AWU (3,800 euro, 3,650 euro and 1,600 euro, respectively) as their agriculture has remained largely oriented towards less productive types of farming, namely mixed farming and other permanent crops. Note also that within EU-15, FNVA per AWU was below the EU-27 average only in Greece and Portugal - two member states where a large number of small farms prevails.

3.3. Land transaction

In all analyzed countries, presently, the legal framework for land transactions is adequate and the impediments to transactions relate to administrative process and market imperfections. The most common legal restriction is the prohibition on foreign ownership of agricultural land that occurs not just in the Eastern European countries, but in many countries throughout the world.

3.4. Mortgage

In all the Eastern European countries analyzed mortgage of agricultural land is a legal right, but few landowners are using land as security for loans in the Eastern European countries. In fact, in our opinion, mortgage lending to any great extent will not occur until agricultural land will significantly increase the market value and foreclosure procedures will become reasonably quick and effective.

3.5. Role of public and private sector

¹ The average EU farm size is of about 39 ha.

² Farm net value added (FNVA) is equal to gross farm income minus costs of depreciation. It is used to remunerate the fixed factors of production (work, land and capital), whether they are external or family factors. As a result, agricultural holdings can be compared regardless of the family/non-family nature of the factors of production employed.

In all analyzed countries there are a variety of measures that could be undertaken to help create and strengthen the private sector institutions that participate in and support healthy land markets. In some countries (Lithuania³ and Slovenia) a large private farm sector, but more thought should be given as to how to quantitatively ascertain the progress of such programs. During privatization process of agricultural land in all Eastern and Central European former communist countries, the public authorities have initiated the restitution of property by a diversity of legal procedures, as shown in Box 1.

Box 1: Differences in public procedures related to restitution of agricultural land

STATES	PROCEDURES
Baltic States (Estonia, Latvia, Lithuania)	Restitution to former owners with exception of ethnic Russians;
Romania	Restitution to former owners and per-family distribution of some land, exception land expropriated prior to 1947;
Hungary	Voucher privatization by which 2/3 of the land owned by the collective were distributed;
Czech Republic	Collectivized land was returned to the original owners, but land formerly owned by the Catholic Church was not restituted;
Poland	Because most of the nationalized land was belonging to the German ethnics it was not restituted to them and state owned land has been leased or sold.

Source: The author's synthesis based on the cited specialized literature.

Note: Our analysis concluded that in some countries the privatization policy affects the distribution of assets between ethnic or religious groups. As a consequence, most of these countries did not restate land to foreigners (living inside the country or abroad) and the public authorities have additionally restricted sales or renting to them.

4. Conclusions

In all Eastern European countries subjected to our analysis, after the collapse of communist regimes, the necessity to privatize land and move toward a market economy was undisputed. All the analyzed countries, except Poland and Hungary, have engaged in some form of restitution of land rights to former owners.

These countries can be divided into three categories: those that re-established the ownership rights of individuals whose land had not been expropriated, and also restituted a much smaller portion of land that had been held by the state, countries that compensated former owners, and provided or sold land to former farm workers and countries that restituted land to former owners only. In some countries, Lithuania, Slovenia, Romania, Latvia and Poland, there is a large private farm sector and a much smaller cooperative or state farm sector. In each of the countries, the clear policy of the government has been to encourage and maintain small private farming units. Some of the former communist countries from Eastern Europe have significant restitution problems. In many cases the restitution process is incomplete, and, without title of property for land, no purchase or sale of land can occur.

Even in those cases when the restitution process was complete (e.g. Bulgaria⁴), the many claims to land caused insecure land tenure, not only for the land owners themselves, but also for the neighboring land owners. In addition, there was little incentive to sell land, because the land tax was forgiven on restituted land for 5 years. At this time, while land tenure is legally secure, landowners do not have confidence in the security of their rights because the restitution law has changed so many times.

³ Lithuania has a particular situation since, while it still has large amounts of state-owned land, the land is leased primarily to private farmers. The key factors leading to the relative smallness of the agricultural company sector have been government policy to transfer land (through restitution and leasing of state land) to individuals, coupled with the prohibition in the Constitution on ownership of agricultural land by legal entities.

⁴ In Bulgaria the restitution process was completed in 2000.

In our opinion, in all analyzed countries the restitution of agricultural land has created small land plots and spatially dispersed land and, as a consequence, these countries have struggled with how to encourage land consolidation without over-interfering with the market. State involvement is often not welcomed because countries in transition are moving away from State involvement in agricultural land.

At the same time, very small or dispersed land holdings can make it difficult to reach a level of livelihood seen in Western Europe. In some of the analyzed countries the difficulties of the land reform have determined a poor development of the agricultural farms as their agriculture has remained largely oriented towards less productive types of farming, namely mixed farming and other permanent crops.

Furthermore, in our opinion, farm size in a market economy is an economic variable that reflects market signals. In this respect, in all analyzed countries providing a legal and policy framework in which individual farmers can adjust farm size to respond to market signals is crucial. Thus, the policy and legal framework should not only allow, but also encourage farm reorganization into units of whatever size is chosen by farmers.

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