



Assessing land reallocation decisions during transition in Romania

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ARTICLE INFO

Article history:

Received 8 August 2008

Received in revised form 10 January 2009

Accepted 15 January 2009

Keywords:

Land reform

Farming associations

Land markets

Land leasing

Transition countries

Central and Eastern Europe

Romania

ABSTRACT

The post-socialist countries underwent dramatic changes in agricultural land ownership and production system. Former socialist collective farms have been dismantled, rural land has been privatized, and land markets have been formalized. Nevertheless, more than a decade later farming associations still persist in the choices that landowners make in terms of land reallocation despite collective action problems and the availability of leasing-out land as a close substitute. While the decision of farming the land individually has been well understood, there is less research on why landowners join farming associations rather than participate in land transactions. The paper examines this question using household survey data from the two largest agro-regions in Romania. I find that farming associations constitute a good land reallocation option for landowners that are resource constrained but are still willing and able to be engaged in farming. Associations provide security of tenure and capital access, allowing landowners to draw on the benefits of scale economies. Leasing-out is a viable alternative for younger landowners who can engage in non-farming activities and for older landowners with limited farming abilities.

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Introduction

The fall of the Berlin Wall, symbolizing the demise of communism, ushered a process of change unmatched in its scale and speed in economic and political history. The first and the most comprehensive institutional reforms in the early 1990s were implemented in the agricultural sector, signaling a major ideological change—the transfer of property rights in land from the state to the individuals. The social and economic changes generated by land reform were unprecedented in complexity and scale.

In Romania, the post-socialist land reform marked the beginning of a series of transformations in ownership structure. By 2005 almost 95% of land was used in individual farms as compared to only 9% in 1990 at the start of transition. Collective farms were dismantled, land was successfully restituted to former owners based on the 1940s land records, and state farms were slowly reorganized into large corporate farms. Almost overnight more than four million new landowners were created, establishing an unprecedented level of private property. However, the slow pace of implementing institutional reforms for the newly created small and medium farms resulted in extreme land fragmentation, limited access to markets and, in effect, strong challenges to transition from subsistence farming to more commercially oriented production.

Contrary to the expectations of transition policy makers, various forms of farming associations widely persisted throughout the former communist countries in the Central and Eastern European countries and the Commonwealth of Independent States following de-collectivization (Meurs, 2001; Verdery, 2003; Lerman et al., 2004; Sabates-Wheeler, 2005; Allina-Pisano, 2007). Individual farming emerged, but in general farms have been too small to take advantage of economies of scale (Slangen et al., 2004). At the same time, participation of landowners in land markets has been very limited (Vranken and Swinnen, 2006; Lerman and Shagaida, 2007; Swinnen and Vranken, 2007).

By 1993 more than 40% of land was voluntarily returned to associations in Romania, despite rapid de-collectivization and land titling (Brooks and Meurs, 1994). Similar outcomes were recorded in Bulgaria, where more than 40% of land is being farmed in associations (Lerman et al., 2004).

The reallocation of land in farming associations following de-collectivization and land restitution occurred despite the fact that this farming arrangement is widely criticized in the literature (Carter, 1984; Pollak, 1985; Ellickson, 1993) and instead individual farming is portrayed as panacea for the agricultural sector in the former socialist countries (World Bank, 2007). Hence, the reluctance of rural households to engage in individual farming was often dismissed as irrational, and ideologically motivated behavior (Meurs, 2001).

The persistence of associations is intriguing also because in the second half of the 1990s the opening up of land markets made way to alternative farming arrangements, such as leasing-out and sales.

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Land market institutionalization was viewed as the solution to the current level of low agricultural performance and the high degree of land fragmentation. As a result, policy makers assumed that small farmers would engage in land market transactions in order to consolidate scattered plots and to release assets to more productive users (Duncan and Prosterman, 2000).

The goal of this study is to explain the persistence of associations throughout the transition period. I examine factors associated with different land reallocation decisions in the two main agro-regions in Romania, the Western Plain (WP) and the Central Romanian Plain (CRP). Agro-regions are clusters of counties that have similar patterns of agricultural land use (arable land, pastures, vineyards, and orchards) (Sandu, 1999, p. 17).

The research question that shapes the analysis is: Why do landowners persist in joining associations in Romania, despite perceived collective action problems, and despite the availability of leasing-out as a close alternative for land reallocation? To fully answer this question, two accompanying questions need to be explored: (a) Why do households seek alternative farming strategies instead of farming the land individually? (b) What are the factors that affect landowners' choices between associations and leasing-out arrangements?

While some of these aspects were previously examined (Rizov et al., 2001; Sabates-Wheeler, 2005), there is limited research on the factors affecting the choice between associations and leasing-out, primarily because of data limitations. This analysis is based on a household survey in the two largest agricultural regions in Romania, conducted in 2006. I find that one of the main benefits from joining farming associations resides in the ability to consolidate land plots while maintaining full ownership of the land. The latter is an important aspect derived from the historical legacies of private property rights prior to collectivization, as suggested by the “collective memory” argument (Hann, 1993; Vidican, 2008). In addition, I find that leasing-out is a preferred farming alternative only for landowners that are older, capital constrained, and for landowners with non-farming income sources. This suggests that the larger socio-economic environment is critical for land reallocation decisions. Moreover, the results from this study show that in deciding to reallocate land between different farming arrangements the concepts of costs and benefits are much broader than at the first glance one may think. Hence, the findings confirm earlier explanations (Rizov et al., 2001; Sabates-Wheeler, 2005) and add additional nuances to understanding why some households seek alternative institutional arrangements rather than farm all land individually.

Institutional arrangements for farming

Romania was the last country in Eastern Europe to break away from its post-war era and to start implementing the transition reform programs in the 1990s. Since then, the structure and institutions that were established by the communist government have been dismantled. The post-socialist land reform, implemented in 1991, was unprecedented in the degree of institutional restructuring that took place. Private property rights were re-instated to the pre-1940s levels, former collective farms were dissolved or restructured into smaller formal associations, new endogenously formed informal associations were created, state farms were slowly privatized, and the former state owned channels for product collection and marketing, as well as the networks for input distribution, were broken down and in some cases private intermediaries surfaced. All these changes resulted in significant challenges for farmers and agricultural professionals alike. At least until mid-1990s, the outcome was a real “muddling through” in an environment marked by wide uncertainties in a constantly changing legal system.

The alternatives for land reallocation varied significantly over the years. Immediately after land reform farmers could choose between farming individually or in different forms of associations, while land markets were formalized only later. Table 1 shows land reallocation between different institutional arrangements between 1993 and 2005. These institutional alternatives can be viewed as a rearrangement of property rights over a spectrum of tenure forms. Despite the fact that the share of land farmed in associations (formal and informal) declined since earlier in the transition period, still by 2005, at least 5% of the land in private ownership is managed under this arrangement.

Such outcome is not unique to Romania. For example, Stark (1996), points to similar patterns in Hungary, Lerman et al. (1998) in Moldova, and Lerman et al. (2007) in Ukraine. In describing these arrangements Verdery (1999) used the term “fuzzy property rights” to portray the wide variation of property relations, which are blurred and ambiguous in terms of obligations and responsibilities associated with the restituted land.

Following restitution and the transfer of property rights from the state to individuals, an increasing number of landowners decided to farm the land themselves. Earlier research showed that households that are younger, more educated, and have a higher endowment with physical capital are more likely to engage in individual farming (Mathijs and Swinnen, 2001; Rizov et al., 2001; Sabates-Wheeler, 2005). In this analysis, individual farmers refer

Table 1
The pattern of land reallocation at the national level between 1993 and 2005.

| | 1993 | 1996 | 1999 | 2002 | 2005 |
|---|--------|--------|--------|--------|--------|
| Total arable land privately ^a farmed (1000 ha) | 11,006 | 11,539 | 11,921 | 13,931 | 13,907 |
| <i>Formal associations</i> | | | | | |
| Number | 4,266 | 3,759 | 3,573 | 2224 | 1614 |
| Agricultural land (% from total arable land) | 17.4 | 15.2 | 11.9 | 7.0 | 5.3 |
| Average size (ha) | 448 | 466 | 396 | 432 | 455 |
| <i>Informal associations</i> | | | | | |
| Number | 13,772 | 15,107 | 6,264 | n.a. | n.a. |
| Agricultural land (% from total arable land) | 16.0 | 12.5 | 7.3 | n.a. | n.a. |
| Average size (ha) | 128 | 95 | 139 | n.a. | n.a. |
| <i>Private individual farms</i> | | | | | |
| Number (100 ha) | 3,420 | 3,626 | 4,120 | 4,277 | 4,103 |
| Agricultural land (% from total arable land) | 66.6 | 72.3 | 78.7 | 55.3 | 65.4 |
| Average size per farmer (ha) | 2.1 | 2.3 | 2.3 | 1.7 | 2.2 |

n.a. = data not available from official statistics. Source: For 1993–1999, National Program for Agriculture and Rural Development 1999, Annex 34, Ministry of Agriculture and Food Newsletter (July 2000) in Aligica and Dabu (2003). For 2002, NIS (2002); for 2005, MARD (2007).

^a Private refers to land that is in private ownership (not in state or cooperative ownership), including land farmed by private individual farms, associations, and tenants (through leasing).

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