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## **PROCESS OF LAND REFORMS IN POLAND: EXPLANATION BY USING THEORIES OF INSTITUTIONAL CHANGE AND THEORIES OF POLITICAL BEHAVIOUR**

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### **ABSTRACT**

In this paper the attempt has been made to explain the process of land reforms in Poland from the institutional view by applying theories of institutional change and theories of political behaviour. The land reforms in transition period are generally considered, however some historical background is also provided.

The analysis uses the contribution of New Institutional Economics (NIE) and is based on: (i) strategic conflict and distribution, (ii) power resources of actors; (iii) role of “extracting bandits”, and (iv) difference between formal and effective property rights.

**Key words:** land reforms, Poland, new institutional economics, institutions, agricultural property

### **INTRODUCTION**

The process of land reforms in Poland can be better understood by the theoretical framework of institutional change and political behaviour by applying the approach of new institutional economics (NIE).

The significance of “indivisible hand of market” for the coordination of economic activities has been among fundamentals of the political economy for more than 200 years. What has been a new insight in recent development of economic theory is the “finding” that institutions matter. They are found in all areas of the economic and political life, at all levels of decision-making. They have been variously defined. According to

Douglass North, “institutions consist of a set of constraints on behaviour in the form of rules and regulations; a set of procedures to detect deviations from the rules and regulations; and, finally, a set of moral, ethical behavioural norms which define the contours that constrain the way in which the rules and regulations are specified and enforcement is carried out” [13] or they are the “rules of the game” [14]. The main point is the capacity of institutions to structure people’s behaviour in societies: “By ‘institutions’ we mean ... all the patterns of behavior into which individuals must fit under penalty of encountering organized resistance, and not only legal institutions, such as property of the contract, and the agencies for their production or enforcement”[18]. In this way, processes of social interaction are economized: by standardising actions and responses, resources otherwise required for case-to-case decisions are saved.

In institutional economics and most areas of social sciences “Institutions are the rules of a society or of organization that facilitate co-ordination among people by helping them from expectations which each person can reasonably hold in dealing with others (...) In the area of economic relations they have a crucial role in establishing expectations about the rights to use resources in economic activities and about the partitioning of the income streams resulting from economic activity” [5].

Some institutions are formalized in laws and regulations, while others are part of the culture and norms. They shape human behaviour, and determine economic performance and individual well-being.

In traditional analysis, the only institution is the market, all activities being coordinated by impersonal market forces. Mainstream economists in general do not think about institutions, but as far as they do, they remark them as “constraints” on free market that create inefficient “rigidity”. Neoclassical explanations assume that (subject to constraints) individuals always get what they want, i.e. all individual decision-makers are successful. According to North, “Neoclassical theory simply ignores the losers.” Furthermore, the long-run neoclassical economy is static, since there is no reason for a change in the endogenous variables (such as institutional constraints) once the optimum values of the institutional “constraints” have been successfully established.

An acceptable explanation of the evolution of institutions must be based on a theory which explicitly gives institutions a broader function than is allowed by seeing them as simply static constraints on the choices of any individual decision-maker. The author of this article perceives institutions as “enabling” devices rather than constraints.

Institutional change involves the replacement of one set of rules, expectations, and behaviours with another. Institutional change shapes the way societies evolve through time. Property rights are an example of a very important social institution shaping human interactions. They specify relations concerning the use of things among those who have various rights and those who have duties to honor the rights.

Three categories of theories of institutional change (economic, public choice, and distributional theories) can offer important conceptual foundations for studying the transformation of property rights [24].

The main hypothesis of the efficiency theories is that institutional change is an evolutionary process following a transaction cost minimizing route and enhancing the collective benefit of the society. As driving forces of institutional change are seen here changes in resource scarcities and competition between actors, who adjust to new scarcities by seeking efficient institutional solutions. Subsequently, institutional change results from cost-benefit comparison between different institutional arrangements [6]. Efficiency theories generally ignore the role of politics and policies in institutional change.

According to public choice theory of institutional change, political actors motivated by self-interest (to win elections, become leader of an association, etc.) offer institutional changes to clientele groups (ex. to economic actors or groups of citizens). Subsequently, institutional change is a political process that changes formal institutions mostly by legislation.

The main hypothesis of the distributional theory is that institutions reflect societies’ power structure. New institutional arrangements are the consequence of new power endowments resulting from repeated conflicts about the distribution of resources in the society. Distributional gains and losses of actors are relevant. Actors negotiate for institutional changes, but outcomes are not inevitably efficient. The main driving force of institutional changes is the power of the actors involved – new rules reflect power asymmetries. Institutions may change spontaneously and they are a by-product of strategic interaction.

This paper discusses various approaches to land reforms and develops the argument that there are strong empirical and theoretical grounds for supposing that inefficient policies and institutions are prevalent, and that they are selected because they serve the interests of social groups and politicians which hold political power, at the cost of the society at large.

### LAND REFORM CONCEPT

The definition of land reform is not simple due to dissimilarities in land types, farming systems, the history of land acquisition, general social and economic conditions and political objectives. However, clearness is important since some land reform policies are not in fact intended to change the distribution of land ownership and rural power. Land reform is generally accepted to mean: *the redistribution of property or rights in land for the benefit of the landless, tenants and farm labourers*. This narrow definition reduces land reform to its simplest element [23].

“Land reform” and “agrarian reform” are used interchangeably. Agrarian reform comprises improvements in both land occupancy and agricultural organisation. Its policy prescriptions forced governments to go beyond redistribution: they should also support other rural development measures, such as the improvement of farm credit, co-operatives for farm-input supply and marketing, as well as extension services to facilitate the productive use of the land reallocated. Whilst conceptually sound, the danger with these wider prescriptions is that they may discourage governments from doing anything until they can do everything [1].

Land reform relates to the remodelling of tenure rights and the redistribution of land, in directions consistent with the political imperatives underlying the reform. There is wide variation in the objectives, circumstances and conduct of land reform. Economic arguments supporting land redistribution focus on the diseconomies of large-scale enterprises and on the need to increase returns to land. However, decisions on whether to proceed with land reform are in effect political.

Four principal types of intervention by the state in the operation of the land market can be distinguished [1]:

1. **Land tenure reform** - designed to adjust or correct the common property rights between proprietors, in response to changing economic needs (e.g. an establishment of statutory committees or land boards to organise and supervise the use of common rights and other interests; the conversion of more informal tenancy into formal property rights; tenancy reform to adjust the terms of contract between landlord and tenant);
2. **External inducements** or “market-based” incentives - offered by government for social and economic reasons and leading to the restructuring of existing property rights or the creation of new ones (e.g. the distribution of public lands; state expenditure on land reclamation; state sponsored credits channelled by a land bank through co-operatives; support to institutions to administer the necessary land acquisition and distribution mechanisms);
3. **External controls** or prohibitions imposed by law on property rights, i.e. non-market measures (e.g. nationalisation and collectivisation; restitution; redistribution policies involving expropriation of land (with or without compensation) on grounds of excessive size, under-utilisation, ownership by absentee landlords and/or foreigners). Other external controls can act against redistribution (e.g. laws preventing land fragmentation below certain minimum or above certain maximum).
4. **Confirmation of title** to verify and secure land titles to those who have already a demonstrable claim reduces doubt and contention and so sets the foundations for development.

Economic reform programmes have created increasing interest in “market-based” land reforms. A free land market alone will not transfer land to smaller and poorer farmers, without grant financing in addition to, or instead of, credit. Given the budgetary constraints facing governments, settlement subsidies are often insufficient to place the rural poor on the first rung of the property-owning ladder.

In the former Communist bloc, land reform has a mixture of purposes: economic efficiency and the need to move to a market economy; to raise revenue from private property; the restitution of rights to former owners that were expropriated by the state; and social justice for farm workers. Even so, the problems of land redistribution in former communist states have much in common with classical land reform programmes, even to the extent that they are opposed by the former land-holding elites in the state bureaucracy.

An important component for land reform is genuine political commitment of the country's leadership and the administrative capacity to see the process through. Many supposed land reforms have faltered because they were opportunistically conceived in order to mobilise support at a critical time in the life of a government (or an aspiring government).

Inadequate administrative capacity for land reform is a persistent problem. Well-trained staff is essential to inform people of their entitlements and to facilitate the legal processes of land acquisition and distribution. Even quasi-market measures have high transaction costs. A related issue is that of adequate land valuation, survey and public land tenure records. Where these do not exist, or have been destroyed, landowners can easily frustrate the process of land acquisition. Finally, there is the issue of agricultural services to sustain the new farmers. For the majority of countries, land reform is an extremely difficult process to carry through requiring both centralised political power and a well-developed grassroots organisation.

## THE LAND REFORMS IN POLAND

### Pre-transition period

To explain the process of land reforms in Poland in the 1990s, the author of this paper starts with a historical illustration of the problem. Historical determinants existing at the starting point of the transition should be taken into consideration here, because of important differences between Poland and other Central and Eastern European countries (CEECs).

In Polish there is a distinction between the landowners (właściciele ziemscy) and the landed gentry (ziemiaństwo), the latter term being in use until 1945. Between the World War I and World War II (i.e. in interwar period) large estates were available to people of various social origins. Although landed property can be treated as a distinctive feature of a social class this does not mean that large estate owners belonged to the landed gentry, which was a sociocultural phenomenon rather than a political or economic term [17]. In the Polish-Lithuanian Commonwealth, the term most widely used was nobility (szlachta).

Inter-war Poland was a country of relatively high concentration of land property, but the proportions were not much different from other CEECs. The share of large private estates in the total area of Germany, Austria, Hungary, Spain was similar or even higher. With a considerable share of land in the hands of large landowners, the Polish peasant holdings were at the same time relatively fragmented. Rural overpopulation problem caused the growing tension among the landless peasant community. In fact, the economic and social aspects of Polish agriculture were then in conflict, so any policy had to be aimed at minimizing negative effects of the existing situation and the introduced changes.

Poland's first land reform law was passed on 10 July 1919 and took effect on 15 July 1920. Maximum holding size was set at between 60 and 180 ha in industrial areas and at 300 ha in the eastern provinces [8]. New land reform was voted in on 28 December 1925 but once again the reform was slowed down. Compensation regulations were rather moderate with the price of redistributed land limited to 50% its free market value.

The destruction of the large private estates in Poland reached the final stage in 1939. Those situated east of the Ribbentrop-Molotov line were taken over by the Soviet authorities. All their owners who survived were to be arrested and deported by Soviets. West of the Ribbentrop-Molotov line, the situation of landowners varied. In General Gouvernement, large private estates were left in the hands of their owners but the system of food requisitions and control was introduced. The western provinces were incorporated into the Reich. Polish landowners were gradually removed and their estates were expropriated by the German authorities.

Imposition of the Soviet model on the political, economic, and social aspects of Polish life was generally slower and less traumatic than in the other East European countries following World War II. Nevertheless, when the new Communist authorities were established by the Soviet Army in 1944, the fate of large private property in Poland was doomed. The Communists brought not only a program of nationalisation and expropriation, but also a "class hatred" for the landed gentry [17]. According to the land decree of 6 September 1944, large private estates above 50 ha were expropriated. Almost half of Poland's agricultural area was confiscated. Six million ha were distributed to 1,070 thousand families. One fifth (1,1 million ha) came from estates expropriated in the "old" territories and 4.9 million ha from German holdings in the "regained" territories [21]. The remaining land constituted the basis for state farms - State Agricultural Enterprises (PGR), which were formed mainly in former German territories. Some of the large Polish estates were not divided and remained in the hands of the government. Holding sizes were set as 100 ha of total area or 50 ha of agricultural area. No compensation was granted. Former owners had the right to a small independent farm outside the expropriated estate or to a small pension. The recipients of the land paid for it. It is worth stressing that those radical reforms were supported by the peasant parties. Polish landowners had to leave the county in which they lived and in the 1944-1946 period, many of them left Poland for good. They were also among the first victims of arrests by "public security". Pre-war landowners in Poland were evidently the losers of considered reforms. In spite of this some of them stayed

in country, following the motto: *“Good or bad, this is my homeland, we have to endure and believe in it”* [19]. For some time landowners were allowed to take a position on state farms, but at the end of the 1940s they were removed from them.

A brief liberalizing “thaw” in Eastern Europe followed the death of Stalin in early 1953. In Poland this event stirred ferment, calls for systemic reform. As a result of Polish worker protest against the regime, new leadership (with Gomulka as first secretary of the Communist Party) was established in October 1956. After 1956, the discrimination of the former landowners generally stopped. Gomulka's regime began auspiciously by returning most collective farmland to private ownership.

Polish land ownership during the Communist regime was unique because of the predominance of private property of land. Because of strong resistance from the peasants, process of collectivisation moved much more slowly than anticipated, and Polish agriculture was never fully collectivised. Enforced collectivisation in the 1950s failed: only 10% of the land was collectivised and most of it was later re-privatised. Even indirect pressure for collectivisation i.e. discrimination towards family farms in upstream (input supply) and downstream (processing and distribution) sectors, obligatory deliveries, land taxes did not induce substantial change in ownership structure. After the de-collectivisation of the 1950s, private agriculture remained predominant. In 1990, 77% of land was still in the hands of private farms (19%: state farms and 4%: agricultural co-operatives).

### **Political and institutional aspects of Polish agrarian reform in post-Communist period**

Generally, privatization in Poland was an intended process of institutional change resulting from a general urge for system change in the CEECs.

Each post-Communist country has a distinct socialist inheritance and this has determined the type of land reform attempted and the point from which development of the agricultural land market has proceeded. Poland was one of the leading countries in the transformation process having been a pioneer in undoing some socialist institutions during the 1980s and having a large residue of private agriculture.

As it was argued at the beginning of the paper, there are different aspects of land (agrarian) reform, including distributional ones. The main four objectives of land reform according to Hagedorn [6] are: (i) historical justice to original owners by restitution, (ii) employment by maintaining old structures, (iii) equity of resulting distribution of land ownership (iv) efficiency by forming new structures.

The choice of the agricultural privatisation process is sometimes presented as a choice requiring an important trade-off between economic efficiency objectives and income distribution. Income distribution includes social (equity) objectives, and legal (historical justice) demands [21]. The concern for “historical justice” that is compensation to former owners whose land and assets were confiscated by Communists and the “equitable” (fair) distribution of assets are objectives not independent of one another. They may conflict when the previous distribution of land was egalitarian (in Poland this was not the case). The other issue is the time that should be taken as a basis for compensation for or restitution of land. This results in the concern about the effects of wealth distribution.

Fairness, social justice, and democratic legitimacy are some principles of new democratic regimes. Redistribution policies that evidently violate them endanger the survival of the new system. Policies that can be presented as limiting historical injustices can be expected to have general approval. Land reform (reallocation of property rights) changes income distribution, wealth distribution and power distribution. It could influence the ability of current management to remain in charge of the transformed co-operative farm, affect the chances for current employees to become private individual farmer or to be employed at a private farm. Land reform influences the distribution of future incomes and economic rents (rent-seeking problem).

The reforms result in winners and losers. Several factors can determine if a person is going to win or to lose from the reforms, e.g. individual skills, social position under former regime, the amount of job rents, size of claims on past property.

The problem of the land reform in Poland was expected to be relatively easier than in other CEECs, at least when the relative amount of land being subject to possible privatisation was taken into consideration. The prevalence of private business in Polish agriculture created an initial economic institutional environment that was well adapted to individual farms emerging from de-collectivisation. Polish individual producers were expected to leave the state or co-operative farms to start a private family farm more easily than producers in other CEECs.

On the one hand, the arguments referred to the tradition of decision making autonomy, experience of investment planning and human capital. On the other hand they addressed the unique pre-reform structure and its influence on the institutional environment (these include informal institutions, such as “the attachment to the ground” and social status of the landowner-occupier). The lack of human capital together with informal institutions (customs, norms, social taboos) generally forms the most conservative factor in agrarian reform process [20].

The belief that the large private farm sector in Poland created favourable preconditions for de-collectivisation was sometimes countered by the argument that Polish farms had to operate in a state-controlled economy which induced non-market behaviour in the farmers characterised by an “acquired helplessness and dependence on the state” rather than profit-oriented risk-minimisation strategy, and thus encouraged reluctance to privatise [11]. Nevertheless, it seems reasonable to assume that the predominance and tradition of private farming in Poland created an institutional environment which was on the eve of the fall of the Communism.

### Strategic conflict and distribution

The author of this article believes that not enough has been done under institutional initiatives for land reform in Poland after 1990. There has been perceived a clear strategic conflict where political leaders and bureaucrats have been reluctant to privatise state land and have centralised the land transactions to protect interests of themselves or their voters.

Following legislative work initiated by the government, the parliament of the Republic of Poland adopted on October 19, 1991 the *Act on management of agricultural property of the State Treasury* [2]. The Act entrusted restructuring and privatisation in the state sector of agriculture to the Agricultural Property Agency of the State Treasury (APAST). The property entrusted to the Agency forms the Agricultural Property Stock of the State Treasury.

Officially, the privatisation of state farms began on January 1st, 1992. However, due to the lack of credits and low profitability in agriculture, there was little interest in purchasing the available state land from the agency. In fact, little progress has been made in privatising state farms in Poland from 1992 till present. By the end of 2002, APAST took over into the Agricultural Property Resource of State Treasury 4.7 million ha of land of which 3.76 million ha (80%) from liquidated state farms and 0.6 million ha (13%) from the National Land Fund ([table 1](#)). Only 27% of land under the supervision of Agency had been sold till the end of 2002. Approximately 2.5 million ha of land is currently being leased and slightly below 0.6 million ha awaits final management. Nearly half of the land is suitable for farming and would be managed through sale or lease.

**Table 1. Land taken over into Agricultural Property Stock of State Treasury and its redistribution as of the end of the year in 1992 - 2002 ('000 hectares)**

| Year                                  | 1992  | 1993  | 1994  | 1995  | 1996  | 1997  | 1998  | 1999  | 2000  | 2001  | 2002  |
|---------------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| <b>Total land taken over into APS</b> | 1 432 | 3 300 | 4 232 | 4 413 | 4 506 | 4 592 | 4 646 | 4 666 | 4 694 | 4 700 | 4 705 |
| in which from:                        |       |       |       |       |       |       |       |       |       |       |       |
| State Farms                           | 1 369 | 3 028 | 3 728 | 3 741 | 3 750 | 3 751 | 3 752 | 3 754 | 3 758 | 3 759 | 3 759 |
| National Land Fund                    | 59    | 260   | 436   | 538   | 570   | 579   | 594   | 602   | 608   | 608   | 608   |
| Others                                | 4     | 12    | 68    | 134   | 186   | 262   | 300   | 310   | 328   | 333   | 338   |
| <b>Land from APS</b>                  |       |       |       |       |       |       |       |       |       |       |       |
| 1) redistributed through:             |       |       |       |       |       |       |       |       |       |       |       |
| sale                                  | 10    | 59    | 124   | 240   | 432   | 581   | 728   | 846   | 967   | 1 114 | 1 272 |
| free of charge transfer               | 0     | 8     | 21    | 51    | 85    | 107   | 148   | 182   | 210   | 233   | 244   |
| bringing into company                 | 0     | 0     | 7     | 8     | 9     | 9     | 13    | 14    | 14    | 14    | 15    |
| 2) redistributed through:             |       |       |       |       |       |       |       |       |       |       |       |
| lease                                 | 49    | 900   | 1 981 | 2 744 | 2 928 | 2 890 | 2 810 | 2 695 | 2 619 | 2 508 | 2 408 |
| management, perpetual usufruct        | 0     | 2     | 20    | 41    | 65    | 107   | 122   | 123   | 122   | 116   | 111   |
| others                                |       |       |       |       |       |       |       |       | 41    | 51    | 66    |
| administration                        | 0     | 93    | 374   | 333   | 268   | 248   | 208   | 135   | 39    | 12    | 5     |
| 3) awaiting for disposal              | 1 373 | 2 238 | 1 705 | 996   | 719   | 650   | 617   | 671   | 682   | 652   | 584   |

Source: Agricultural Property Agency

At the beginning of the transformation, in regions with a considerable proportion of state farms, the land was to be used to establish new family farms. The creation of extremely large farms was to be avoided. There were few restrictions in the Polish land market, there was no upper limit on farm size, but the amount of land sold to foreigners was restricted. The restitution of the land was not considered, as it would in many cases involve giving land property rights to former German owners (as mentioned before, most Polish land was already owned by private farmers during the Communist period and prior to 1945 the regions, occupied afterwards by state farms, belonged to Germany. In 1944, immediately after the war, most Germans who had lived in these regions emigrated. The Polish Government confiscated their land. A part of this land was redistributed to peasant families but the majority constituted the basis of the state sector in agriculture). The vast majority of the Polish population opposed such policy, and it never became a serious issue in the privatisation discussions.

Economists have argued that restitution of land to former owners conflicts with efficiency. If all assets are privatised by sale, the problem of complementarity is easily solved since a potential buyer will try to assure himself a proper package. If some assets are restituted to "rightful owners", while others are distributed to present users, the result can easily be that land is privatised without machinery and vice versa, that livestock is privatised without resources for raising feed, etc.

In May 1991, the Government of Bielecki accepted a draft law on re-privatisation, which proposed the idea of restitution, but only for the assets which had been taken over by the state "illegally". The confiscation of land under the Decree on Agricultural Reform of 1944, which put a limit of 50 ha on landownership, and the transfer of land property rights from Germans to the Polish state in 1946 were considered legal policies. Restitution only covered the land that had been confiscated without any law as a legal basis and under compulsory state control.

About 8 million ha of agricultural land became Polish state property but only 1.2 million ha were considered to have been taken "illegally" (of the land confiscated, about 4.7 million ha were given away or sold to peasants and 3.3 million ha were given to state farms [9]). The draft law on restitution did not pass the Sejm before the elections of October 1991. Another draft law on restitution, with roughly the same proposals, was presented to Sejm in August 1992 by the Government of Suchocka. No legislation on re-privatisation for agriculture had been agreed till present.

However, in the meantime, the new question arose: the claims of former Polish landowners who were forced to leave their estates in regions lost by Poland after World War II (for example in present Ukraine). They demanded from the government compensations for lost land. In this case, the restitution would reflect historical justice but seems not to be socially and politically acceptable at this time. The Agricultural Property Agency (APA) is not interested in land redistribution through sale among others since the priority rights for claimants to obtain the land free of charge.

On July 16, 2003 the Act of 11<sup>th</sup> April, 2003 *on the Formation of Agricultural System* came into force [22]. The main regulations are as follows:

- The Agricultural Property Agency of the State Treasury has been transformed into the Agricultural Property Agency (APA);
- APA has pre-emption or priority rights for buying agricultural real estate on the free land market;
- The family farm must be managed by individual farmers. The total area of the family farm does not exceed 300 ha;
- The individual farmer is an owner or lessee of the family farm, managing the farm personally, having appropriate qualifications or agricultural experience, he must live in the area of commune (gmina) where at least one part of his farm property is located.

As we can see, the Act gives access to agricultural land property for present farmers or people who declare that they will work on it. The intention of legislators (lobbied by the Peasant Party) supports the slogan "*The land to those who work it*". This slogan does not receive unqualified support even from the labour theory of property (LTP). According to this theory, farmworkers, like all workers, should be self-managed, e.g., in family farms or worker co-operatives, so they will own the positive fruits of their labour and be liable for negative fruits of their labour. But it does not imply that they should own the land [3].

The new Act gives APA the right to purchase private farmland in some cases and suggests more control over the land market in Poland.

The term state ownership is merely a facade hiding the true owner, which is the political elite. Members of the political elite have the right to choose how to use state-owned resources, the right to allocate the flow of pecuniary and non-pecuniary income from those resources, and the right to control who has what access to those benefits. The presence of the public ownership gives the political power and wealth for political elites. A consequence of state ownership is the presence externalities; those who consume the good do not bear the entire costs of their consumption. Public decision makers do not capture the benefits of their decisions, either. Public decision makers have weak incentives to invest time and resources identifying the better uses for state-owned goods they control, and strong incentives to invest time and resources seeking beneficial trade-offs for themselves. Public decision makers' subjective perceptions of political reality may explain the allocation of state-owned resources. That is, inefficiencies in government have less to do with the professionalism, work habits and integrity of public decision makers than with the penalty/reward system arising from state ownership of goods [16].

The role of political leaders and bureaucrats in the process of land reform in Poland has not been very positive whether in the case of privatisation or restructuring of Polish agriculture. For example, many efforts were made to adopt the most recent law before the accession referendum "to buy" votes of farmers and their families and support from the peasant parties who were in opposition. Bureaucrats provided all their support to protect their own interests and interests of political leaders. Their role can be viewed just like what Hagedorn [5] called "bandits" while describing the political economy of transition states. Theories of self-interested governments in transition countries consider politicians and bureaucrats as "bandits" extracting the maximum resources from the public.

Literature [15, 10] distinguishes between governments that resemble stationary bandits or shepherds and those that resemble roving bandits or wolves. The stationary bandits have some incentive to invest in improvements, because they will reap some return from those improvements. The roving bandits will confiscate wealth with little regard for the future. The latter do not keep the long term interest of the societies that they govern in perspective, whereas the former reckon with the fact that their future is bound up with that of the flock. Thus, while both bandits feed from their flock, only the stationary ones have a motivation to nurture and protect the flock [10]. The author of this paper is convinced that in the process of land reforms in Poland rent-seeking politicians and bureaucrats were acting as roving bandits.

According to the Public Choice and Positive Political Theory approaches, political decisions regarding land reform policy (and the privatisation of agricultural assets) are explained in the context of the political influence of the rural electorate, and the specific features of the discussed choice alternatives (reform packages). Public Choice hypotheses about the actors' objectives concentrate on the aspect of defending political power, or following certain party ideologies [21]. The efficiency of reform policy has to be judged with respect to "The Pool of Alternatives" and the cost of carrying through and implementing them. In Poland, the political conflict over land reform and asset privatisation was obvious but not as strong as for example in Bulgaria, where each time the government was changed, and reform policies were altered [7].

Milczarek [12] found that in Poland the choice of the special method of privatization in agriculture was highly supported by managers of former state farms while individual farmers (and whole society) were not receiving special treatment for privatization of state farms. In contrast to managers, state farms workers have not had strong representatives in the Parliament and did not influence the chosen privatization strategy. Former agricultural managers controlled the privatisation process in the villages and clearly benefited from it.

### **Efficiency, rationality of behaviour and shared mental models**

One can expect from the land reform the efficiency by forming new structures. However, according to North [14] *"The main purpose of institution is to establish a stable (but not necessarily efficient) order in order to reduce insecurity in human interaction"*.

One of the key factors contributing to the relatively slow privatisation of Polish state farms was the low demand for state farm assets by private agricultural producers for two reasons: (i) low profitability in agriculture due to adverse developments in agricultural terms of trade while credit needed for investments was scarce and expensive, risky and difficult since weak credit institutions, (ii) regional differences in supply and demand for land.



The importance of economics and institutions in this process cannot be ignored. The author of this paper focused primarily on the political incentives (benefits and costs) for the government to break up state farms. The political costs of farm de-collectivisation were relatively low for two reasons [21]:

- While production decreases in state and collective farms during the de-collectivisation process, agricultural production is less affected on private farms. A large private sector plays the role of a buffer for food security (at present for unemployment). The loss of political support from consumers would have been lower in Poland than in other CEECs.
- Poland's economic and informal institutional environment, which was quite favourable to decollectivization decreased the political cost of de-collectivisation by making it easier for state farm employees or collective members to start independent family farms.

Political gains have been lower in Poland than in other CEECs. Since most of the Polish land was already owned by private farmers, the expected gain in support from new peasant landowners was low when compared with gains in other transforming countries. An additional factor was the absence of land restitution. Privatisation of land by its sale has generally a smaller impact on de-collectivisation than restitution, especially when a low demand for land retards the privatisation process.

In most CEECs collectivisation helped the Communist Party to strengthen its power in rural areas. Political organisations were built upon the collective production structure but not in Poland, where the Communist Party had initially failed to strengthen its support in rural areas. In 1949 the Communist Party re-organised the strong rural anti-Communist Polish Peasant Party and renamed it the United Peasant Party (UPP) with members loyal to the Communist party and became the most important organ in rural areas. UPP had responsibility for the collectivisation campaign.

Political development under Communist regime had an impact on post-Communist politics. In contrast to other CEECs, where agricultural collective enterprises remained local Communist support bases, in Poland private farmers strongly supported a former Communist-satellite party. As a result, a more radical de-collectivisation was of little use in the battle of the reformers against the Communists [21].

Moreover, little progress has been achieved since some rules were unclear, formal property rights not regulated (weak legal framework), and because of political instability. De-collectivization requires a tremendous change of production technology and a major restructuring of human capital.

Former state farms' workers in Poland were not able to take on new responsibilities. They possessed very narrow skills and limited knowledge needed to operate the farm. There was a lack of incentives to encourage individuals to set up their own farms (worsening terms of trade in agriculture, depressed farm incomes, production declines, decline in support for producers, etc). Mental models (informal institutions) became inappropriate after 1990. The state farms in the centrally planned system used to provide employment and flats for about 435 thousand workers (including their families they ensured subsistence to some 2 million people). Additionally, in many communes in the northern and western regions of Poland, the state farms made the socio-cultural infrastructure and decided about the standards of social security and cultural life of the inhabitants of the rural areas. Former state farms workers became visible losers due to restructuring of state farms – they often lost jobs and opportunities to find jobs in regions with very high unemployment rate in the western and northern part of Poland.

### **Formal and effective property rights**

In the process of recent land reforms in Poland a clear difference between formal and effective property rights can be noticed. Firstly, although labourers of former state farms were allowed by law to buy assets, they were not supported by the government in establishing new family farms. The government did not provide them with aid so that they could buy land, machines, seeds etc. The problem illustrates the following example: former miners, due to coal industry restructuring, were highly compensated while former state farm workers - nothing. Secondly, the new - Act on the Formation of Agricultural System limited the transferability of property rights.

Land reform often creates an exchange situation which is constrained by considerable transaction costs and by which formal rights to resources are distributed. In such a situation, the Distributive Bargaining Theory assumes that in the bargaining for economic rights: (i) market competition or rivalry between actors might not suffice to even out differentials in bargaining strength, (ii) actors with different endowments of bargaining-relevant resources face distributive conflicts and seek strategic advantage.

The processes of initial issuing of formal rights down to the moment of collective acceptance of new economic rights of action involve informal rules like ideology, reputation and leadership to organise collective action. Therefore, in rural societies, action rights may reflect rural authority relations, manipulation via asymmetric information, non-decision making, temporal vulnerability of producers, the threat of retaliation, or even naked force. The exchange of new agricultural property may be characterised by little competition and distributive conflicts about key resources. Actors may be distinguishable in terms of the resources they can put into play. Those and other examples from the country studies indicate the importance of analyzing property reform in transition as a process. A distinction must be drawn between formal and effective property rights in order to capture the dynamics and links between politics, implementation and private orderings, and the role of informal institutions alleviation of rent-seeking and corruption incentives in the agro-food chain and the respective bureaucracy. According to Fisher [12]:

*“A property right is a liberty or permit to enjoy benefits of wealth -- in its broadest sense -- while assuming the costs which those benefits entail... It will be observed that property rights, unlike wealth or benefits, are not physical objects nor events, but are abstract social relations. A property right is not a thing”.*

Most of the state farmland is in north and west Poland, while private family farms dominate in the other regions. As a consequence, the demand for privatised assets, including land, was regionally separated from supply. Together with the low demand for privatised assets because of low profitability and difficult access to credit, the latter explains the slow progress of state farm privatisation. On the other hand, even those workers of liquidated state farms who had formal land rights could not afford to cultivate it.

The condition of large-area farms established in result to the privatisation of former state farms is diversified. The results of farm surveys conducted since 1993 indicate growing effectiveness of such farms, with farms established by way of land purchase by a new user indicating the highest growth rates. Slower growth rates are noted in case of employee-owned companies and land leased from the Agricultural Property Agency.

### CONCLUDING REMARKS

1. Empirical evidence from Poland suggests that efficiency and competition have not been the main driving forces of land reforms if compared to “distribution and conflict” and “ideology and mental models”. Institutional competition and pre-institutional competition did not play a key role, neither at the central nor at the local level due to the lack of electoral control. Institutions are a by-product of conflict resolution.
2. The process of privatisation goes beyond merely establishing private property rights (“privatisation”). Property rights and duties do not apply to a physical object such as land, but to its benefit streams or cost components: differentiated ”property rights on nature components.”
3. Institutional change depends on shared mental models structuring peoples behaviour and stabilising actors’ expectations, and on learning processes. Poland has experienced a much longer period of transformation than other CEE countries. The Polish people have been essentially shaped by the reform movements which started long before 1989. Consequently, inconsistency of shared mental models was less relevant here than in other transforming countries. Nevertheless, according to the author of this paper, these models were inappropriate after 1990 considering dualistic structure of Polish agriculture with large farms (operating on formerly nationalised land) relying heavily on market and small family farms (with structure frozen by the socialist system) relying on self-sufficient farming.
4. There have been no expected results of the land reform such as: historical justice to original owners by restitution, employment by maintaining old structures, equity of resulting distribution of land ownership or efficiency by forming new structures. On the contrary, undesired outcomes of reforms such as: unequal distribution of land ownership and lacking diversity of new agricultural structures have been experienced. Privatisation of state-owned land has not been used for the structural improvement of the family farm sector in Poland.

### SUMMARY

In the post-war period no more than 25% of agricultural land in Poland was managed by the public agricultural sector. State-owned farms constituted the decisive majority of the sector. The tasks of ownership transformation in the agricultural sector owned by the State Treasury, pursuant to the Law, were entrusted to Agricultural Property Agency.

Privatisation process in the agricultural sector in Poland has not been finished yet. Still most of former state farms' land belongs to the state and the restructured farms are looking for perspectives for development and for changing their current ownership form. The reason for slow process of the restructuring of Poland's agriculture is that agriculture itself and its direct environment failed to develop adequate institutions, necessary for effective functioning within highly competitive environment.

The most visible element of restructuring is the polarisation of the area structure of farms. Additionally, the privatization process of state farms resulted in economic and social exclusion of a large part of population engaged in this sector of agriculture. On the other side, this process allowed a large part of former state farms managers (nomenclature) to become owners or leaseholders of sizable private farms (probably one can treat that as an emergence of new class of land owners). Institutional changes are by-products of conflicts among interests seeking distributional gains, so they can be explained by the distributional theory of institutional change.

In order to understand better the process of agrarian reforms in Poland we should further examine it applying the approach of new institutional economics. The author of this paper observed a number of lingering theoretical and empirical issues that need to be addressed.

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