

Land Reform and Economic Development. Case Study on Romania

by

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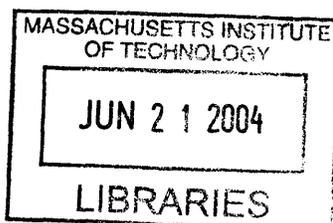
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ABSTRACT

Few social arrangements have affected so many people for so long in human history, as the laws and customs governing the ownership and use of land. Taking Romania as a case study, this thesis focuses on the institutional changes that accompany land reform (e.g., property rights, market services, rural financial services) and the role the state plays in the implementation process. The main hypothesis is that in developing countries, unsatisfactory forms of agrarian structure, and in particular the systems of land tenure, tend in a variety of ways to impede economic development.

The results of this study illustrate that in Romania improper implementation of land reform had negative effects on development – further deterioration in the standard of living for the rural population, decline in real productivity, and lower production. Hence, one main conclusion is that the distribution of property rights in land is a necessary but not a sufficient condition for creating the basis for development. Redistribution of property rights in land has to be complemented with technical advice and more integrated cross-sector policies such as easy access to credit and agricultural inputs, production and social infrastructure. State involvement is crucial for supporting these services.

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CHAPTER 1

1.1 Introduction

Few social arrangements have affected so many people for so long in human history, as the laws and customs governing the ownership and use of land. In a typical developing country, agriculture provides the largest source not only of income but also of employment. Hence, in the countries where land is a major asset for people and the product of land accounts for a significant share in the national income, land reform becomes an important issue. Generally, land reform refers to “the redistribution of property or rights in land for the benefit of the landless, tenants, and farm laborers” (Warriner, 1969). Often in the academic literature, the terms “land reform” and “agrarian reform” are used interchangeably. Adams (1995) argues that agrarian reform, a construct of the Cold War to counter “communist” land reform, embraces improvements in both land tenure and agricultural organization. Agrarian reform includes both the conditions for land tenure (like ownership, lease, etc.), known as reform of land ownership, and those aspects of land use (like farm size, supporting institutions, etc.) called land management reform (Kuhnen 1982). In this study, for convenience, I will use the concept of land reform in its broader context of the

agricultural reform, hence including the institutional changes related to land tenure, agricultural production, and commercialization.

Three major historical circumstances induce the establishment of land reform: revolutionary pressure, democratic change, and military force. In Romania, the 1990s land reform was implemented in the attempt to establish a democratic society by overthrowing the communist rule, and putting into place market-oriented institutions.

However, due to controversial agricultural policies as well as industrial policies, the initial goals of land reform were not achieved. It was proved that the macroeconomic environment was not supportive of the land reform. Due to the social pressures created by land restitution, the power of the rural elite was the driving force for land reform. Hence, the social pressure for an immediate change (leaving no time for consolidating the reform), coupled with tremendous institutional and financial constraints faced by the government, led to poor outcomes from land reform. To judge the value of land reform from an economic point of view one has to look both at the immediate effect on the value of the peasants' standard of living as well as the long-term effect on the productivity and growth potential of the economy.

According to these criteria in Romania, land reform resulted in a stronger deterioration in the level of living for the rural population, decline in real productivity, lower production, and overall negative contribution to the growth potential of the economy.

Hence, there are a few key conclusions that one can draw from this case. First, policymakers need to transfer the issue of land reform from the political arena to the economics and market context. Second, land redistribution and fragmentation, while necessary, it is not sufficient. It has to be complemented with technical advice and more integrated, cross-sector policies (such as production and social infrastructure, agro-economic land zoning, computerized property register, police and judiciary reform). Third, the much-talked about family farming cannot thrive by itself (especially within a supportive institutional setting) but has to be integrated within some collective experiences. Fourth, the short-term goals need to be replaced by long term planning. Creating conditions for long term planning would involve land taxation, land transactions, and adequate land valuation.

1.2 Research Question

This thesis questions whether land reform is to be considered a crucial policy for attaining sustainable economic development in countries where agriculture provides the livelihood for a significant share of the population. I will take Romania as a case study. It is important to mention that although the countries in Central and Eastern European (CEE) region were functioning 15 years ago under the same economic system, the experience of transition to a market economy was quite different. Therefore, one should not generalize from the Romanian case.

The focus of this thesis will be on the institutional changes that accompany the land reform (e.g., property rights, market services, rural financial services) and the role the state plays in the implementation process. The main hypothesis is that in developing countries, unsatisfactory forms of agrarian structure, and in particular the systems of land tenure, tend in a variety of ways to impede economic development. I intend to answer the following questions with respect to Romania: Is the distribution of property rights sufficient for achieving equal distribution of incomes and hence paving the way to development? Should agriculture function on the market forces mechanism? Additionally, I intend to draw some lessons from other countries that experienced ‘successful’¹ land reforms, with positive outcomes for the overall economic development (for example, Taiwan, Korea, Vietnam, China and Japan).

1.3 Thesis structure

Chapter 1 will present the research question and the methodology. Chapter 2 will continue with a brief literature review on the role of land reform in economic development. This section will cover the key debates in the field of development on the aspects of land reform, in countries where the agricultural resources are important assets for the livelihood of the people. Additionally I will go over the main theoretical aspects of property rights in land, as well as ways to promote collective action.

¹ I will define later in the study what I mean by “successful” in the case of land reform in transitional economies.

To understand the importance of land reform in transition countries, one needs to understand the common structure of the socialist agriculture that dominated these countries for decades. Hence, in chapter 3 I will provide a background description of the common heritage in former socialist countries – centrally planned agriculture with a sharply dualistic structure based on very large commercially oriented collective farms and very small subsistence oriented household plots. This chapter sets the stage for introducing the discussion on the agricultural transition in Romania, in the context of the overall reform programs. By doing this, I intend to present a critical analysis of the land reform from its social, economic as well as institutional perspectives.

Nevertheless, because learning from past experiences and from other countries can teach us important lessons, in chapter 4 I will provide a separate section of lessons to be learned from ‘successful’ land reforms implemented in other countries.

The study will conclude by suggesting a few policy alternatives for the current state of the Romanian land reform process, as well as opening up the way to further research on particular aspects that were outside the scope of this thesis.

1.4 Methodology

The empirical support of this thesis consists of secondary statistics provided by different statistical offices. Most of the data are obtained from the National Statistical Office for Romania, Food and Agriculture Organization (FAO), and United Nations. The statistical methods revolve around the descriptive analysis techniques. The main variables under study relate to records on land redistribution, incomes, agricultural output, productivity, technical endowment, and land prices.

The major challenge for studying the agricultural sector is finding an accurate measurement for the contribution of land reform to economic development. Because development is the result of a continuous interaction and coordination between all the economic sectors, and due to data limitations² in this sector, coming up with an instrument or a set of instruments becomes problematic. Koo (1968) claims that, for example, a generalized incentive effect, if it should prevail, is an extremely important step in fostering economic development but it is not subject to quantitative measurement. Instead, we could examine the flow of funds from agricultural to the nonagricultural sectors and the size of out-migration from farm as proxy variables of such changes in attitudes in the farming communities.

² In April 2004 the National Institute of Statistics in collaboration with the Ministry of Agriculture and Forestry from Romania, and Ministry of Agricultural Policies and ISTAT from Italy, finalized the PHARE project entitled "Synchronization of the Romanian agricultural statistics with the European System's standards. This project will hopefully contribute to gathering more detailed and comprehensive data at national and regional

While this indicator is very appealing for my purposes, more research is necessary to obtain adequate and detailed statistics. Therefore, the main indicators I will use in my analysis will focus on labor productivity, output, incomes, labor migration, employment, and foreign trade in agricultural products.

Employment is an important indicator for assessing social and economic sustainability in agriculture, but its statistical accuracy is heavily impeded. Therefore, its use becomes less reliable, especially in the case of agricultural sector. First, subsistence agriculture (as in the case of Romania) is mainly based on self-employment with no contracts (informal labor). Therefore, a large part of the active population in the rural areas never had a contract-based job and hence they are not recorded in the employment statistics. This leads to underestimation of the unemployment records since these people are not registered as jobless either, and in addition are not eligible for unemployment benefits. Hence, the evaluation of the labor market in agriculture should be made with caution because it hosts a large number of informal laborers.

The same is true of statistics related to incomes in rural areas. The data on earned incomes from agriculture are very vague because of the predominance of informal labor. Additionally, the traditional market for agricultural products in the rural areas leaves revenues from working the land unaccounted. Therefore, it is important to be aware that the unemployment statistics for the traditional sector tend to be underestimated, as well as the data on earned incomes.

level, compatible with the international statistics.
(<http://financiar.rol.ro/stiri/2004/04/135428.htm>)

Since it is beyond the scope of this study to develop more accurate statistics, I will still use the existing indicators. However, it is very important to be aware that the published data for unemployment are underestimated and hence the poverty rate too.

CHAPTER 2

Literature review

2.1 The role of land reform in economic development

Ever since at least the time of Ricardo, the theory of development had emphasized that agricultural progress contributes to the support of greater productivity throughout the economy. Greater agricultural productivity and output can contribute to an economy's development in the following ways: (1) by supplying foodstuffs and raw materials to other sectors in the economy; (2) by providing surplus of savings and taxes to support investment in agriculture and other sectors; (3) by selling for cash a 'marketable surplus' that will raise the demand for other products; (4) by relaxing the foreign exchange constraint by earning foreign exchange through exports or by saving foreign exchange through import substitution (Meier, 1995).

Additionally, one must view agriculture not merely as a source of surpluses to support industrialization, but also as a dynamic source of growth, employment, and better distribution of income. The lack of agricultural progress will cut short the industrial development – unless the economy is in the exceptional situation of being able to export manufactures for imports of foodstuffs and raw materials, which is not the case for most developing countries.

In these countries (among which Romania, too), agriculture is the main source of livelihood for its inhabitants having a long-established tradition in its economy. Generally, these countries are in their initial phases of industrialization and hence other sectors are not self-sufficient or able to generate enough surplus.

Riad el Ghonemy (1975) claims that in developing countries with defective agrarian structure, sustained economic development over a long period of time is not possible without substantial changes in the institutional structure in agriculture and without adequate emphasis on the welfare aspects of development. More importantly, such a transformation needs to ensure that the positive outcomes are effectively reaching other sectors as well (primarily, industry). Consequently, when discussing economic development, it is common to include a reference to the desirability of land reform, which lays the foundation for achieving this end.

The concept of land reform covers a set of measures designed to reform land tenure structure and related production and supporting services structures not only to eliminate obstacles to economic development but also to accelerate the process of development.

However, the ways and extent to which land reform will affect development are seldom researched and translated in empirically identifiable terms. One reason for the lack of these studies is perhaps that land reform has the nature of an innovation in the social order. It changes the organizational and structural framework within which economic activities occur, whereas existing economic theories usually assume that the institutional framework is to be held

stable so that analyses can be reduced to manageable proportions. Another reason for the difficulty in examining the changes which are likely to be brought forth by land reform in its functional and causal relationship with the process of development is that the growth models used by economists are often limited to mathematical models which exclude social organization, welfare aspects related to income redistribution and institutional forces (Lin, 1975).

Recognition of institutional reform as an important variable for economic development has been relatively slow in coming (Dovring, 1974). Even though countries in East Asia experienced significant growth as a result of land reform, only in early June 1970 was its importance brought to international attention through the conference on land reform held in Washington D.C., as a 'Spring Review' by the U.S. Agency for International Development. Such a shift in opinions reflects advances in comprehensive economic analysis relating to increased understanding of macro-economic relations such as rates of return to resources in social accounts, inter-sectoral linkages, and economic consequences stemming indirectly from the socio-political effects of institutional change.

The objectives of land reform have been generally recognized as being principally social and political. It was long and widely believed that such objectives were in conflict with the requirements of economic development. (Dovring, 1974). These political and social objectives have been variously listed as improving distributive justice, reducing concentration of economic and political power, increasing political participation, enhancing social stability, and

redesigning social power structures. The difficulty resided in reconciling these aims with those of maximizing production and the rate of growth in production.

One outcome of land reform is income redistribution and increases in individual welfare. Koo (1968) argues that land reform has the beneficial effect of creating institutional preconditions for economic development through the elimination of political and social tensions, which discourage long-term investment. The equal distribution of property rights for land creates a more egalitarian society and reduces social unrest. In addition, it ensures a way to achieve improved welfare and accumulation of surplus. The rapid growth of farm incomes and purchasing power among a broad range of farmers contributes to an increased demand impetus for industrialization efforts.

However, a redistribution of land may be a necessary but not a sufficient consideration for increasing output; it is conceivable that under certain circumstances it may even lead to a fall in output. First, redistributing land to the landless laborers, many of whom may have not been engaged for years in farming operations and may have lost skills in cultivation, is likely to lead to less efficient cultivation. Second, transferring land to small farmers may also have adverse effects on output, if small farmers do not have access to agricultural inputs or financial resources. However, it is to be expected that a more equitable distribution of inputs, marketing opportunities, and credit facilities would be facilitated by a more equitable and egalitarian distribution of land, which is the main source of economic power in the rural areas. To the above, Doving (1974) adds co-operation/collective action as another institutional change that can be

enhanced through land reform. He argues that in order for co-operation to succeed, the rural community should have a certain degree of distributive equity. However, as we will see later in the study, co-operation does not come by itself once land resources are distributed equally between users.

Another outcome of land reform is the disposition of funds acquired by the landowners after they sold their land (Koo, 1968). For instance, investment of such funds in industrial and urban development can foster industrialization. However, since land reform measures are part of the general economic and social policies of the government, the achievements cannot be fully attributable to land reform but are contingent upon the decisions taken on other economic and social policies.

A third and more important effect of the land reform is setting up an institutional and organizational structure for a sustainable development process. A carryover of this structure to other sectors and segments of the society is possibly the most significant long-term effect of land reform, establishing the preconditions for industrialization (Amsden, 1985, 1989). The institution of property rights has the primary role, as well as entrepreneurial initiatives stimulated by collective organizational behavior.

Discussions around the relationship between economies of scale, size of land holdings, and increased productivity are common in this area. The critique of socialist agriculture is mainly focused on the “excessively large” land holdings lacking efficiency and over-employing workers, and emphasizing quantity rather than quality requirements for the products. Hence, proponents of the market-

oriented economy emphasize small-scale farming for enhancing productivity and boosting profits.

2.2 The importance of property rights in land

In transitional economies, as well as in other developing countries, property rights are the most essential institutional arrangements creating the framework for a capitalist, market-based economy. In order to consider the role of property rights in general and land rights in particular, it is important to place these rights in the context of the overall institutional structure of the society and economy (Feder and Feeny, 1991).³

Property rights are an important class of institutional arrangements.⁴ In general, “property as a social institution implies a system of relations between individuals....it involves rights, duties, powers, privileges, forbearance, etc., of certain kinds” (Hallowell, 1943).

The existence of well-defined property rights seems an absolutely essential precondition for the proper functioning of a market economy. Well-defined property rights typically include the following elements: to every property

³ There are three basic categories of institutions: constitutional order, institutional arrangements, and normative behavioral codes. The constitutional order refers to the fundamental rules about how society is organized – the rules for making rules. Institutional arrangements are created within the rules specified by the constitutional order. These arrangements include laws, regulations, associations, contracts, and property rights in land. The third category, normative behavioral codes, refers to the cultural values which legitimize the arrangements and constrain behavior. The constitutional order and normative behavioral codes evolve slowly; the institutional arrangements may be more readily modified (Feder and Feeny, 1991: 136).

is assigned a 'well-defined owner(s)' with exclusive rights of ownership; to the owner of property goes the residual income accruing to the assets; the owner has the right to control or determine use of the existing assets, to restructure the property, and to sell or lease it. From the "theory of the firm" point of view (to be discussed more later), without well defined private ownership the firm will tend to operate badly. Similarly, I argue that any system without widespread well-defined property rights will tend to perform badly.

In the transitional economies literature, the issue of clearly defined property rights is related to the "soft budget" concept – since there are no clearly identified owners to pay for mistakes or bad luck, someone else pays, typically the state. When true property owners or residual claimants exist, it is ultimately they who are uniquely positioned, by having the rights and the incentives, to observe or to monitor input behavior; to negotiate and to enforce contracts on behalf of the firm; to hire and lay off workers; to sell off or buy property; and to take other decisions to increase the profitability of the firm. It is they who ultimately must pay for the mistakes or bad luck (Weitzman and Xu, 1993).

To understand land reform, we need to grasp the links between the institutions of property rights in land, power, and the authority of the State (Riad El-Ghonemy, 1990). In the case of land, when analysts refer to the necessity of developing property rights, they mean to divide the land into separate parcels and assign individual rights to hold, use, and transfer these parcels as individual

⁴ Institutional arrangements include the mechanisms for defining and enforcing property rights; that is, they include both the formal procedures and the social customs and attitudes concerning the legitimacy and recognition of those rights (Taylor 1988).

owners desire (subject to the general regulations of a jurisdiction regarding the use and transfer of land).

The institution of property rights is at the heart of the land tenure system. In the Western system of thought and historical tradition, the institution of private property rights is a foundation of capitalism and is considered to be essential to democracy (Riad El-Ghonemy, 1990). Having property title reduces private enforcement costs, provides security and collateral for long-term investment in land improvements, and promotes development of land markets. All these activities are wealth-enhancing (Alston et al., 1996).

The scope and content of property rights assignments over resources affect the way that people behave in a world of scarcity (Eurubotn and Pejovich, 1974). The volumes of goods that can be exchanged and their terms of trade must depend on the bundles of rights that can be transferred legally.

One set of advocates presumes that a central authority must assume continuing responsibility to make unitary decisions for a particular resource. Others presume that a central authority should parcel out ownership rights to the resource and then allow individuals to pursue their own self-interests within well-defined property rights.

Getting the institutions right is a time consuming, conflict invoking process. It is a process that requires reliable information about time and place variables as well as a broad repertoire of culturally acceptable rules. New institutional arrangements do not work in practice as they do in abstract models unless the

models are well specified and empirically valid and the participants in the field setting understand how to make the new rules work.

Ostrom (1986) defines institutions as sets of working rules used to determine who is eligible to make decisions in some areas, what actions are allowed or constrained, what procedures must be followed, what information must or must not be provided, and what payoffs will be assigned to individuals depending on their actions.

2.2.1 Property rights and incentives

Property rights provide the owners incentives to use land efficiently and to invest in land conservation and improvement. The way property rights are implemented induces or inhibits investment in improving productivity of the physical content of property (e.g., irrigation and soil improvement by applying fertilizers).

2.2.2 Property rights and asymmetric information

With more advanced stages of development and increased mobility of individuals and entrepreneurs, transactions among individuals who are not members of the same community become more frequent. As a result, the scope of asymmetric information, and hence land disputes, increases. The price of land will therefore not reflect the true value, and the extent of land transactions will be less than optimal.

Feder and Feeny (1991: 144) provide a clear explanation for the relation between land prices, property-rights, and land transactions. Accordingly, land prices cannot remain unaffected by increases in the risk of land loss, because as farmers reduce their demand for the fixed supply of land, an excess supply is created which drives down the equilibrium price. Land prices are thus shown to be inversely related to the degree of risk associated with land rights. The reduction in land values with increased risk diminishes further the supply of credit per unit of land.

2.2.3 Property rights and land markets

Land transactions generally increase the efficiency of resource allocation, as agents with high marginal productivity of land are induced to acquire land from agents with low marginal productivity. A functioning legal system and effective enforcement mechanisms are necessary as well for reducing information asymmetries.

2.2.4 Property rights and access to credit

The use of collateral on loans reduces uncertainty and moral hazard problems for creditors. Collateral is more valuable the more immobile and immune to damage it is, and land has traditionally been an ideal collateral asset in areas where land is scarce (Binswanger and Rosenzweig, 1986).

Land's usefulness as collateral is dependent on the absence of uncertainty and asymmetric information with regard to the rights (in particular transfer rights)

of the owner. The lender, for the same reasons, would like to be assured that the borrower has indeed the privilege to dispose of the land by sale or transfer of the use rights. Hence, the availability of land as collateral, and documentation of land rights which make such collateral credible, affect the willingness of creditors to give loans. It follows that the same institutional arrangements that increase incentives for productive use of land also facilitate a more efficient credit market.

2.2.5 Property rights and public resources

In the rural areas of many developing countries the institutional arrangements necessary to provide incentives and reduce uncertainty and asymmetric information are often not well developed or are largely absent. This is mainly due to the inadequacy of public resources leading to low land security. The administration dealing with land records may suffer from deficient technology (for example handwritten record retrieval methods when microcomputers would be much more efficient), insufficient labor resources, and inappropriate storage facilities. The judicial and policy systems may be understaffed and underpaid, which creates conditions for rent-seeking and for a slow process of property rights enforcement.

In some countries, the legal apparatus defining property rights may be excessively complex and may require various type of documents and affidavits which may be useful in an urban context but not in an agricultural context. The complexities increase the transaction costs associated with enhancing the security of property rights (for instance, requiring the experience of expensive

lawyers and demanding substantial time inputs from the farmers). This may create a stratification whereby wealthier and larger farmers find it easier and more worthwhile to finance these transaction costs (which tend to be relatively size-invariant), whereas smaller and poorer farmers would not undertake them.

The inadequacy of public sector resources for reducing uncertainty in property rights is aggravated by a public institutional framework that makes it difficult or impossible for private sector agents to substitute, if only in part, for the lack of public infrastructure.

2.3 Collective action

Previous policy experiences from other countries reveal that the distribution of property rights to land users and the transition to family farming is not sufficient for promoting development. Incorporating experiences of collective action is essential for a sustainable land reform, and securing future returns through efficient investments.

The neo-classical economic theory is based on an institutional regime of private property in which all goods and services are privately (individually) utilized or consumed. Only recently have serious attempts been made to extend the formal theoretical structure to include communal or collective ownership-consumption arrangements (Buchanan, 1965). Buchanan developed the theory of clubs, whose central question is that of determining the membership margin, the size of the most desirable cost and consumption sharing arrangement. An

economic theory of clubs can strictly apply only to the extent that the motivation for joining in sharing arrangements is itself economic; that is only if choices are made on the basis of costs and benefits of particular goods and services as these are confronted by the individual. The theory assumes that for any good and service, regardless of its ultimate place along the conceptual public-private spectrum, the utility that an individual receives from its consumption depends upon the number of other persons with whom he must share the benefits.

Organizing appropriators for collective action regarding a common property resource (CPR), like land, is usually an uncertain and complex undertaking. Uncertainty has many external sources: the quantity and timing of rainfall, the temperature and amount of sunlight, the presence or absence of disease-bearing vectors, and so on. However, the most important one and the one that can be brought under control is the market prices of various inputs and final products (Ostrom, 1990). Other sources of uncertainty are internal to CPR and the appropriators using the CPR, such as the lack of knowledge (or asymmetric information). The exact structure of the resource system itself – its boundaries and internal characteristics – must be established.

Collective action problems related to the provision of CPRs and appropriation from CPRs extend over time. Individuals attribute less value to benefits that they expect to receive in the distant future, and more value to those expected in the immediate future. In other words, individuals discount future benefits. Additionally, each individual must take into account the choices of others when assessing personal choices – “...when a number of individuals have

a common or collective interest – when they share a single purpose or objective – individual, unorganized action [either will] not be able to advance that common interest at all, or will not be able to advance that interest adequately” (Olson 1965, p.7).

At the most general level, the problem facing CPR appropriators is one of organizing: how to change the situation from one in which appropriators act independently to one in which they adopt coordinated strategies to obtain higher joint benefits or reduce their joint harm. Organizing is a process; an organization is the result of that process. An organization of individuals who constitute an ongoing enterprise is only one form of organization that can result from the process of organizing.

Almost the entire process of organization is accomplished by specifying a sequence of activities that must be carried out in a particular order. Because of the repeated situations involved in most organized processes, individuals can use contingent strategies in which cooperation will have a greater chance of evolving and surviving. Individuals frequently are willing to forgo immediate returns in order to gain larger joint benefits when they observe many others following the same strategy. Changing the positive and negative inducements associated with particular actions and outcomes and the levels and types of information available can also encourage coordination of activities.

There are two main theories that provide a framework for achieving collective action – the theory of the firm and the theory of the state.

2.3.1 The theory of the firm

According to this theory, an entrepreneur recognizes an opportunity to increase the return that can be achieved when individuals are potentially involved in an interdependent relationship. The entrepreneur then negotiates a series of contracts with various participants that specify how they are to act in a coordinated, rather than independent fashion. Each participant voluntarily chooses whether or not to join the firm, but gives to the entrepreneur discretion over some range of choices. The participants become the agents of the entrepreneur. After paying each of the agents, the entrepreneur retains residual profits (or absorbs losses). Consequently, the entrepreneur is highly motivated to organize the activity as efficient as possible. The entrepreneur attempts to craft contracts with agents that will induce them to act so as to increase the returns to the entrepreneur, and the entrepreneur monitors the participants.

2.3.2 The theory of the state

In the theory of the state, instead of the entrepreneur we have a ruler who recognizes that substantial benefits can be obtained by organizing some activities. If a ruler gains a monopoly on the use of force, the ruler can use coercion as the fundamental mechanism to organize a diversity of human activities that will produce collective benefits. The ruler obtains taxes, labor or other resources from subjects by threatening them with severe sanctions if they do not provide the resources. Rulers, like entrepreneurs, get to keep the residuals.

In both the theory of the firm and the theory of the state, the burden of organizing collective action is undertaken by one individual, whose returns are directly related to the surplus generated. Both involve an outsider taking primary responsibility for supplying the needed changes in institutional rules to coordinate activities. The entrepreneur or the ruler makes credible commitments to punish anyone who does not follow the rules of the firm or the state. Because they gain the residuals, it is in their interest to punish nonconformance to their rules if they are confronted with non-conformance. It is also in their interest to monitor the actions of agents and subjects to be sure they conform to prior agreements. Both theories thus address how a new institutional arrangement can come about, how credible commitments can be made, and why monitoring must be supplied.

Parallel questions have to do with the combinations of variables that will (1) increase the initial likelihood of self-organization, (2) enhance the capabilities of individuals to continue self-organized efforts over time, or (3) exceed the capacity of self-organization to solve CPR problems without external assistance of some form.

Collective action problems related to the provision of CPRs and appropriation from CPRs extend over time. Individuals attribute less value to benefits that they expect to receive in the distant future, and more value to those expected in the immediate future. In other words, individuals discount future benefits. Time horizons are affected by whether or not individuals expect that they or their children will be present to reap these benefits, as well as by opportunities they may have for more rapid return in other settings. In rural areas

in Romania this becomes a problem because the population is aging and there are no incentives for them to invest in future benefits. What is more feasible for their needs are short-term solutions that will provide them with immediate benefits. It is highly important to create incentives for the young generation to stay in the villages, so that they can create the base for more sustainable development policies. Collective action will be enhanced by these incentives. Policies for improving basic services, like education, health, and infrastructure are a first step for solving this problem. However, there a significant investment that needs to be made upfront, which I believe, will result from attracting entrepreneurial initiatives.

2.4 Policy example for collective action: township-village enterprises,

China

The township-village enterprises (TVEs) are one example of collective action in the rural setting, following land fragmentation due to land reform. They are often called “vaguely defined cooperatives,” performing extremely well in practice despite seeming not to be based on well defined property rights. A TVE is basically a communal organization very far removed from having well defined property rights (Weitzman and Xu, 1993). According to the official definition, TVEs are collectively owned enterprises located in townships or villages. More specifically, all the people in the township or village which “set up” the TVE own the firm collectively. The property rights of TVEs can only be executed

collectively through the representatives of the community. In practice, the most common case is that of a community government regarded as the “representative” of the people in the community, and thus being the de facto executive owner of the TVEs in the community.

Concerning the management of TVEs, it is typical that the control rights of TVEs are partly delegated to managers through a contract (officially it is called the management responsibility contract). In a typical case, employees of a TVE collectively sign a contract with the executive owner – the community government. Then, the manager of the TVE is determined jointly by the community government and the employees. Thus, the manager is a representative of the employees and of the government. The degree of community government’s role in the appointment of TVE managers varies from case to case, but it is rarely negligible.

The fast growth and high efficiency of the TVE sector has exerted deep influences on the state sector in two major aspects. First, the competition has forced state enterprises to work very hard to avoid making losses. Second, instead of being replaced by massive privatization (as in most East European countries’ strategies) the relative role of the state enterprises has been gradually reduced as they outcompeted and outgrown by the TVEs.

As far as the institution of property rights is concerned, the Chinese experience seems to have contradicted the conventional wisdom. Currently, no one can claim that the Chinese non-state sector enjoys clearly defined property rights (Li, 1996). Most of the non-state firms are collectives and other kinds of

non-private firms. The owners of these collective firms are often loosely specified. Moreover, in all cases, including private firms, the rights of these owners are ambiguously specified and poorly protected. Most surprisingly, many econometric analyses reveal that a firm's registered ownership form does not cause differences in the firm's productive efficiency (Svejnar, 1990, Weitzman and Xu, 1994).

It would be interesting to analyze this aspect in the case of Romania. As we will see later in the study, the property rights are not yet clearly defined. Hence a question that could be answered is whether a collective action such as TVEs would be likely to emerge within the current institutional structure.

In respect to the Chinese case, one criticism for TVEs is that they were not subjected to real competition by the government. Huang claims that domestic private firms were suppressed by the government support for TVEs. In consequence, TVEs were allowed to compete only with state owned enterprises that were highly deficient. In consequence, TVEs looked as if they were doing very well.

In Romania, the following forms of associations can be found operating in rural areas, according to Law No. 36/1991 (FAO, 2002):

- *Family associations* – the regrouping of owners coming from two or more families. They are based on word of mouth, written documents not being compulsory. Such associations are not judicial entities.

- *Agricultural companies* – registered in the courts as juridical entities, comprising of at least 10 landowner partners. The partners remain owners of their land, which is provided to the associations. The limits parcels are not marked on the land.
- *Commercial companies* – legal entities having land registered in their patrimony for productive purposes.

A next step in the study is to test the theoretical framework against the case of Romania. Many observers of the contemporary Romanian situation since 1989 agree on the fact that the country has peculiarities setting it apart from other Central and Eastern European countries. Romania is a large country by regional standards. It is second to Poland among the former communist satellites, generously endowed with natural resources, possessing a large stock of skilled labor and having a reasonably large market potential.

Additionally Romania is a good case study on the topic of land reform, because the country is transitioning from a totalitarian regime where the concept of property rights was not applied, to a democratic society that is constructed on the existence and functioning of property rights institutions. Hence, this would be the right moment to study how the reform of land redistribution and privatization contributes to increased productivity and equity. Romania is a developing country with considerable institutional and physical infrastructure which does provide a higher starting point (as compared with less developed countries). However, as we will see later in the paper, in many instances such infrastructure is not adequate, which makes the transition even more difficult.

Chapter 3 will provide a broad overview of the current conditions, as well as the role of agricultural sector in the overall economy and the way the institution of property rights in land functions. Such a background analysis will help us draw critical conclusions about the role land reform played in the Romanian economy.

CHAPTER 3

The Romanian Case

3.1 The post-communist reform process in Romania

Romania was the last country in Eastern Europe to brake away from its post war era, and to start implementing the transition reform programs in 1990s. Since then, the structure and institutions that were established by the communist government have been dismantled, in some cases partly and gradually (i.e. land reform, privatization) and in other cases quickly and hesitantly (i.e. price and trade liberalization). Inevitably, as in the case of other countries experiencing transition, the process resulted in social and economic hardships (i.e. surge in unemployment and poverty rates, sharp decline in production).

The starting point for the transition process in Romania was, in many respects, more difficult than in other countries in Central and Eastern Europe. Pre-transition policies had an excessive focus on heavy industry and large infrastructure projects that most of the time were not economically justified. Additionally, during the 1980s, the rapid repayment of the US\$11 billion foreign debt (20 to 30 percent of Gross Domestic Product - GDP) imposed severe strains on the population, with deep cuts in imports and a widening of the technological

gap (WB, 2001). Consequently, towards the end of 1980s the Romanian economy was on the verge of collapse.

The Romanian reform process begun in January 1990 and the stabilization program was implemented in mid 1990s. Put together in only few months, the first program of the Romanian government stated that the two main objectives –systemic transformation of the economy and of the institutional structures – were attainable in three years. This statement turned out to be way too optimistic (to say the least), reflecting an ad-hoc planning process.

Given the difficult communist legacy, and seeking to protect vested interests and to minimize the social costs associated with the transformation to a market economy, during the 1990s the Romanian authorities took a gradualist and piecemeal approach to reform. The imposition of hard budget constraints and privatization of state-owned enterprises was significantly delayed. While social concerns were understandable, this strategy failed to produce sustainable gains in either economic or social realm. Given the experiences of the last 14 years, the costs of a hesitant reform path have been higher than if a bolder approach to structural transformation had been adopted at the outset. Lack of political will to reform, and constrained institutional and governance capacity are at the root of Romania's less-than-satisfactory economic performance and worsened social conditions.

One of the first reforms undertaken during the transition period was the land reform (Law 18/1991), which marked the beginning of a whole series of policies that radically changed the socio-economic structure of the society.

Based on the current outcomes, one could claim that land reform in Romania is a never-ending story since this represents the fourth phase of such reform in modern history. More importantly, little progress was made in terms of its implementation; the 1991 land reform resulted in the same pattern of land redistribution as during 1940s, facing the same problems - low mechanization, low productivity.

3.2 The place of agricultural sector in the Romanian economy

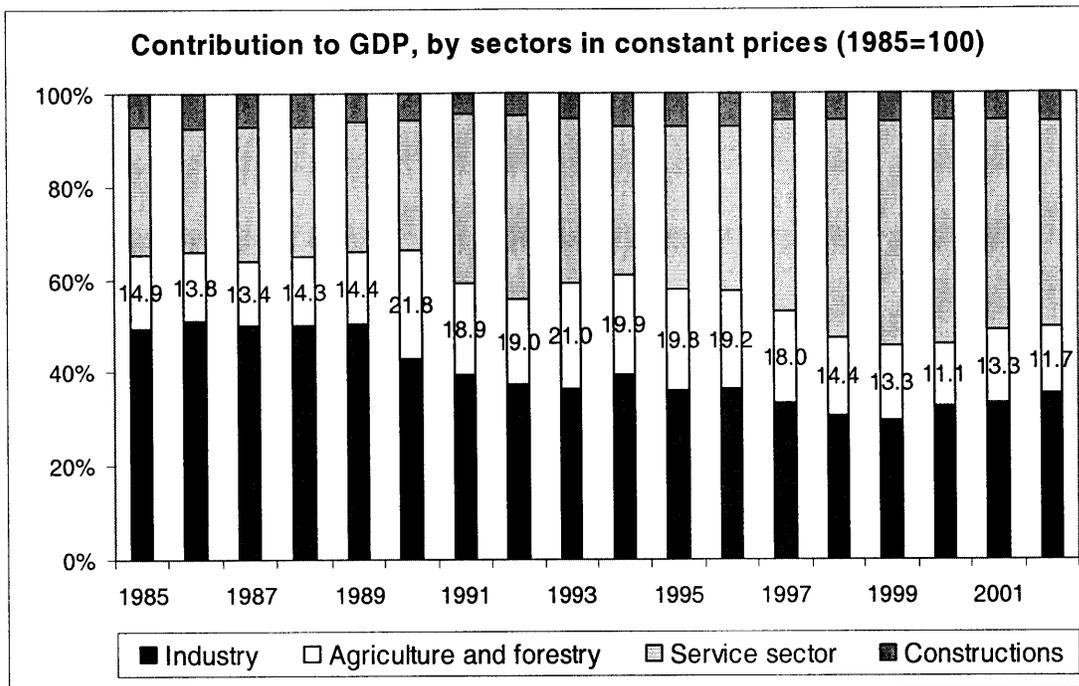
Prior to the Second World War Romania was a major agricultural producer in Europe. However, the forced industrialization during communist times has led to a loss of competitive advantage.

Agriculture is one of the main natural resources, which currently is underutilized. Two-thirds of Romania's agricultural area is agricultural land. More than 80 percent of the agricultural land is arable, rich in cernoziom, making most of the Romanian landscape suitable for growing cereals and other temperate-climate crops. In the plains, most of the land is used to grow maize, wheat, barley, sunflower and sugar beet. In hilly areas, alongside with maize there are orchards and vineyards, and in the river valleys vegetables and grown (notably potatoes, cabbage, and tomatoes). The large cereal sector supports a moderate livestock sector specializing in hog, poultry, and cattle breeding.

The agricultural sector in Romania contributes to about 12 percent of GDP, which is a significant share (Figure 1). The theory of development claims

that a developing country should aim to achieve three percent of agriculture in the economy, this being indicative of an efficient allocation of resources.

Figure 1: Contribution to GDP, by sectors (constant prices, 1985=100)



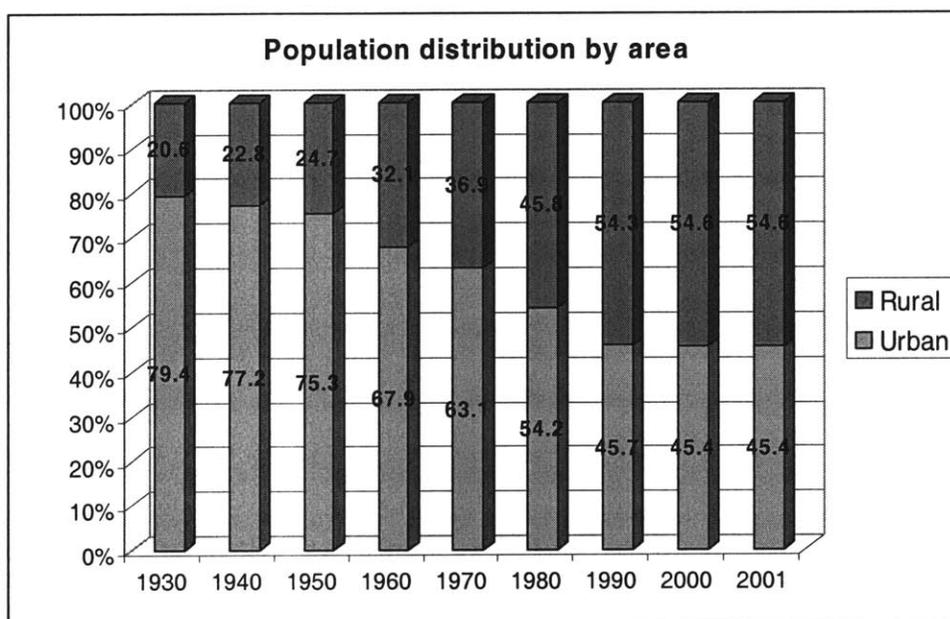
Source: National Commission of Statistics, Annual Report Romania, 2002 (own calculations)

Hence, the relatively high share of agriculture to GDP should not be considered an indicator of developed agriculture. On the contrary, the decreasing trend of agriculture in GDP that followed after 1994, together with the increasing trend of agriculture's share in total employment reveal the continuous decline of labor productivity in agriculture, estimated at 32 percent of national labor productivity (Popescu, 2001). In addition, the low share of agriculture in capital

investments and in the fixed assets reveals the precarious technical endowment and the labor-intensive character of production.⁵

Nevertheless, because of the high share of population dependent on agriculture (Figure 2), economic progress in the sector is important for jobs, earnings as well as food production and raw materials for industry.

Figure 2: Population distribution by area



Source: National Commission of Statistics, Annual Report Romania, 2002 (own calculations)

More than half of the population currently lives in rural areas⁶, agricultural earnings (from self-employment or non-paid family farming) being the main

⁵ The data source is National Commission of Statistics Romania, Statistical Annual Report 2002.

⁶ According to the Romanian Statistical Yearbook 2002, urban area includes only municipalities and towns. Following this definition, rural areas (communes and villages) is represented by total country area less urban area (municipalities and towns). According to OECD definition, a local community is considered rural is the population density is less than 150 inhabitants/km². Following this threshold, in 2001, 91 percent of all communities were considered rural, with 46 percent of the total country population (IAMO, 2004).

source of income. Moreover, according to IOMA (2004) the estimates of aggregate rural incomes indicate that there is a high reliance on social security payments, with over 19.6 percent of rural incomes being derived from this source.

In addition, food expenditures represent more than half of the household expenditures (for households of farmers even more than 70 percent), and thus food prices and domestic food supply are important policy priorities (Table 1). Not only does an improvement in agricultural production contribute significantly to the well-being of the population but, for most Eastern European countries, agricultural products are one of the few realistic export options in a competitive world market.

Table 1: Total households expenditures

	Total households		of which, households of:							
			Employees		Farmers		Unemployed		Pensioners	
	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001
Money expenditure of which for:	68.4	75	83.3	86.9	39.7	42.4	67.9	72.2	60.5	68
Purchasing consumed food and beverages	22	23.5	25	24.3	12.5	15.2	27.2	28.6	20.2	23.4
Purchasing non-food goods	17	17.1	19.1	19.1	13.8	12.8	15.6	15.6	15.3	15.3
Payment of services	14.3	15.1	16.4	17.1	6.7	5.4	14.6	15.9	13.8	14.3
Purchasing animals, poultry, fodder, buildings, lands	1.2	1.1	0.6	0.6	1.6	1.6	0.7	0.7	1.7	1.7
Taxes, fees, contributions, dues	6.1	13.3	12.5	21.5	1	1.9	3.7	7.6	2.2	7.6
Equivalent value of agricultural products/consumption from own resources	31.8	25	16.7	13.1	60.3	57.6	32.1	27.8	39.5	32

Source: National Commission of Statistics, Annual Report Romania, 2002

Data on rural and urban income comparisons reveal a mean monthly rural income of some 60.6 Euro, compared with a higher mean urban income of 76.9 Euro per month (Table 2).

Table 2: Monthly households incomes by urban and rural areas in Romania, 2001

	Total monthly households income		Monthly income per person	
	Euro	Ratio of urban/rural to total in %	Euro	Ratio of urban/rural to total in %
Urban households	217.4	108,5	76.9	110.7
Rural households	179.3	89.4	60.6	87.2
Total households	200.4	100.0	69.5	100.0

Source: IAMO (2004, 45)

Despite being poor, there is a significantly worse and more skewed distribution of incomes in rural areas (as compared to urban areas), with 41.5 percent in the rural households having an income of less than 53.8 Euro per month. In urban centers, the share of households with this level of income is 15.3 percent (Table 3).

Table 3: Distribution of households by monthly average income in urban and rural areas in Romania, 2001

Monthly average income in Euro	Total households	Urban	Rural
Less than 53.8	26.9%	15.3%	41.5%
53.8 – 115.3	30.6%	29.8%	31.6%
115.3 – 269.0	33.7%	42.6%	22.6%
269.0 – 442.6	6.6%	9.5%	2.9%
More than 442.6	2.2%	2.8%	1.4%
Total	100%	100%	100%

Source: IAMO (2004, 45)

Agricultural production system in Romania is subsistence based - most of the agricultural products are for household consumption and the majority of the rural population is self-employed or unpaid family workers (Table 4).

Table 4: Employment structure by professional status by areas in Romania, 2001

	National	Urban	Rural
Total employment, 000's	10,697	5,019	5,678
%			
Employee	55.8	89.5	25.9
Employer	1.2	2.1	0.5
Self-employed	23.6	6.2	39.1
Unpaid family worker	19.1	2.2	34.0
Member of an agr. Holding or of a co-operative	0.3	0.0	0.5

Source: IAMO, 2004

The transition to commercial based agriculture, western type of production and distribution, would be highly desirable for increasing the income base in rural areas. This becomes even more important as the country is preparing to join the European Union (EU) in 2007. With the increased openness of the economy, the competitive pressures on the Romanian agricultural sector have also increased.

Because of the large number of peasants, and the drastic measures applied in the rural areas by the communist elites⁷, agricultural sector was regarded as susceptible for social unrest as well as having strong potential for

⁷ One of these measures was the "systematization of the agriculture," which consisted of planned agro-industrial centers intended to brake-up the traditional socio-economic structures of the villages and improve political-ideological managerial control, as well as to achieve the ultimate equalization of village and city, of industrial worker and peasant (Van Meurs, 1999). In practice, the so-called second agrarian revolution proclaimed by 1979 turned into an economic and social disaster. In 1988, the Communist Party began erasing villages that considered uneconomic and transferring peasants to new apartment buildings in the designated agro-industrial centers. The apartment buildings not even lacked the most basic sanitary facilities, but also failed to offer peasants the garden plots they previously used to feed their families. Moreover, in order to sustain the austerity measures of paying off the foreign debt, Ceausescu took control also over the private production of the peasants. Hence, rather than improving the quality of rural life, and enhancing productivity, Ceausescu's campaign aggravated the food situation in the country and triggered protests and passive resistance.

political support.⁸ Therefore, the policies implemented immediately after the revolution tended to be less feasible in economic terms, and mainly socially equitable in respect to an equal redistribution of the land forcefully taken away by the Communist Party.

Due to lack of vision and long-term economic planning, the transition period was accompanied by an explosive increase in poverty. In the year 2000, the poverty rate has reached 44 percent of the population (according to the Government White Book). In the rural areas, the share was even higher, 57.4 percent.

Romanian agriculture, like the rest of the candidate countries for the EU accession, is currently based on the existence of a large number of small farms, the sum of which exceeds that of the EU Member States (EU-15) by approximately 30 percent. However, the land that is cultivated is slightly less than 40 percent of that of EU-15 (IAMO, 2004).

The present socio-economic situation in the agricultural sector is both the result of poor reform implementation during the 90s, as well as a consequence of several historical episodes of land reform. Therefore, the following sections will summarize the main events that shaped previous land reforms.

⁸ Among the candidate countries, the importance of agriculture in terms of employment is highest in Romania (one has to keep in mind that due to data collection inadequacies, these statistics are likely to be underestimated). With the exception of Bucharest, Central Romania is the region with the lowest share of agricultural employment; nevertheless, one in three persons is engaged in agriculture there.

3.3 The 1920 land reform⁹

Due to an increase in the rural population in the nineteenth century, family plots had become smaller and smaller: by the end of the century, 85 percent of peasants either had no land at all or had too little to feed their family (Table 5).

Table 5: Number and size of farms in Romania prior to World War I

Farm Size	Percentage of arable land	Percentage of farms
< 5 hectares	2.9	77.2
5 – 10 hectares	37.1	18.2
10 – 50 hectares	8.8	3.7
50 – 100 hectares	2.1	0.3
> 100 hectares	48.9	0.5

Source: Wim van Meurs (1999, 109-122).

Motivated by the need to prevent the peasants from becoming communists rather than by an urge to achieve socio-economic advancement, land reform became imperative even for the first post-war government. The land reform in 1918-1921 turned out to be the most radical in the region: large landowners were expropriated (and compensated) and 6 million hectares (i.e. one third of the arable land) were handed to 1.4 million peasants (who had to make payments for 25 years) or turned into community controlled pastures and forests. The amount of expropriations and compensation regulations differed across regions: they were more radical in Basarabia (the former Russian region) and Transylvania (the former Austro-Hungarian region), where the estates had been in the hands of non-Romanians.

⁹ The section relies on Wim van Meurs, "Land Reform in Romania – A Never-Ending

However, the former sharecroppers – now small landowners – failed to change agriculture: scattered plots were not consolidated, and investments in machinery and better farming models were never made.

All in all, the main motives behind the reforms were of a nation-building or social policy nature, to the detriment of economic rationale: redistribution of the land was made in order to solve the social problem of a growing land-less rural over-population by the eviction of the Hungarian rural elite and the creation of a larger loyal class of Romanian proprietors. This, however, was merely a temporary and short sighted solution to the peasant question, and did not encompass a strategy of economic modernization for how an agrarian sector absorbing 5-10 percent of the workforce could feed the national population and contribute to the trade balance of the country.

The struggle for political power in the enlarged Romanian state also played a significant role in the strategy of land reform. Under the circumstances of universal suffrage, the younger political leaders of the National Liberal and National Peasant parties needed a class of small proprietors as a constituency. At the same time, they had to break the political and economic hegemony of the large landowners united in the Conservative Party. At least in this respect the reform was successful: the Conservative Party of large landowners lost its constituency and its political power. Romanian, Russian (from Basarabia), and Hungarian (from Transylvania) large landowners are known to have protested against the nationalization of their estates and – even more vehemently – against the redistribution of land to smallholders and the landless rural population.

The distribution of small plots of land to the rural population proved to be only a temporary solution to the peasant question. Without investment in infrastructure and mechanization, and without a class of middle-sized farming enterprises, the redistributive land reform may have won the ruling National Party the support of the rural population, but it failed to address the issue of economic modernization. This was true then, as well as in 1864 (when the first land reform was implemented). The land was redistributed to the peasants but without facilitating access to the means of production, therefore increasing their dependency either on landlords, or the state.¹⁰ The precarious technical endowment in the agricultural sector, due to the low accumulation and capital investment, resulted in a stagnation of the average production per hectare during the next 20 years at about 900-1000 kg/ha of grains.

However, even during the 1920s, regional differences in the agricultural performance were evident. The most competitive exploitation of agricultural land was in the western region, Banat, which was highly capital intensive comparing with Western Europe at that time (France, Italy, etc.).

For comparison, Table 6 illustrates the active capital per hectare in agriculture in few European countries and in Romania between 1928-1929.

¹⁰ Otiman, Ion Paun. "Agricultura Romaniei. La cumpana dintre Secolul XX un secol al deznadejdii si secolul XXI un secol al sperantei", Agroprint, Timisoara, 2002

Table 6: Active capital in the agricultural sector (\$/ha)

	Capital	Ratio
Switzerland	7749	9.1
Norway	5446	6.4
Denmark	3248	3.8
Germany	2740	3.2
Czechoslovakia	2700	3.1
Poland	2253	2.6
Austria	1646	1.9
<i>Romania</i>	<i>856</i>	<i>1.0</i>

Source: Otiman (2002).

Hence, it can be argued that the reason for the decline in agricultural production is the extreme land fragmentation as well as the lack of technical endowment. Moreover, institutional factors that could regulate the economic, financial, and fiscal distortions in the system were inexistent.

3.4 Agricultural sector during the socialist regime

In 1990, Romania's institutional and organizational heritage in agriculture was the following; most land regardless of its legal ownership was cultivated collectively in large-scale collective and state farms that managed thousands of hectares and employed hundreds of member-workers; the commercial production from the collective and state sector was supplemented by subsistence-oriented individual agriculture based on rural household plots of less than one hectare, creating a distinctly dual agricultural structure; product markets and input supply channels were largely controlled by state organizations within an administrative command framework; production targets were set centrally;

and budget constraints to penalize the ones that underperformed, virtually did not exist (Lerman, 2001).¹¹

As in other Central and Eastern European countries, the communist takeover in Romania led once again to agricultural restructuring. First, all landowners over 50 hectares were evicted and their land was distributed to the landless and crofters in five hectare plots. Only one-quarter of the expropriated land remained in the hands of the state at this stage. In contrast to the previous land reforms, the reform law in 1945 involved not only the estates in Moldova and Valahia, but also this time the middle-size farms in Transylvania. The consequences for effective production, however, were similar: with only six percent of farms having more than 10 hectares after redistribution (and the standard plot having only five hectares), productivity declined dramatically. This time again, non-economic considerations were paramount: the distribution of the small plots was intended to win the rural population over to the new communist leaders while in the medium-term preparing the ground for collectivization as the five hectares was seldom enough to feed the peasant's family.

Prior to the communist regime, before 1945, Romania had a system of private property rights in land similar to most Western economies; they were exclusive, transferable, alienable, and enforceable, and were placed in the context of overall institutional structure of the society and economy. Communal property and state property co-existed with the private property. The property rights in land were guaranteed by constitutional order, institutional arrangement,

¹¹ However, I wonder what were the penalties or consequences for a cooperative that in one year did not reach its predetermined production quota. Discussions with the

and some customary order. Security and transferability of rights were ensured by the existence of land registration systems and property titling.

In March 1949 the Central Committee of the Romanian Communist Party ordered the collectivization of agriculture: the former royal estates, the estates of the monasteries, and some of the largest noble estates constituted the basis of the state farms. Thus, the state farms generally had the best land, the best equipment, and the largest plots. Consequently, agricultural workers on state farms were in many ways better off than their colleagues on collective farms: being workers rather than peasants, the employees of state farms did not have household plots, but only small gardens and they received an income similar to industrial wages.

The plots of the smallholders were merged into collective farms, peasant associations and co-operatives, which became the dominant form of agricultural production within two years. In 1962, the socialist restructuring of Romanian agriculture was declared complete with more than 80 percent of the agricultural land transferred to collective and state farms. By 1989, around 28 percent of the total agricultural land in the country was in the state sector, the collective farms accounted for around 65 percent while the rest was held in private use, usually mountain farms and in small personal allotment plots.¹²

authorities in the field might provide a clearer picture.

¹² It is important to mention that there are several reasons why the communist model for agriculture was considered to be inefficient, some of them being stronger than others. I could group them in two categories - macro and micro level conditions. The macro conditions were set by the command economy itself, which insulated the farms from market signals, imposed central targets as a substitute for consumer preferences, and allowed farms to function indefinitely under soft budget constraints without proper profit accountability. The micro level conditions refer to the exceptionally large firm sizes and

Private ownership of land was limited to garden plots and mountain meadows or other inaccessible regions inappropriate for collective farming. The garden or family plot was not only a constitutional right, but also a burden: the plots and the livestock on them had to be thoroughly registered. The duties in kind to the state were set so high that some peasants were forced to buy additional products to fulfill them.

Collectivization of ownership gave the authorities the power to reorganize the agricultural sector entirely.¹³ The communists introduced a more systematic approach to production. New crops were planted and by means of zoning, the authorities could ensure that they took advantage of local geography and local variations in the climate of the country as a whole. A second tendency was the application of economies of scale on all parts of production, with far greater use of agricultural machineries and greater domestic manufacture of inputs such as fertilizers, which had traditionally been imported. Hence, during this time, industries connected to agricultural production expanded as well (i.e. agricultural machineries, chemical industry). After the war, the Soviet Union by way of repatriations from Romania, confiscated many of the German-supplied tractors and so it was important to develop a domestic capacity for manufacturing agricultural machinery. Hence, the “Tractorul Brasov” plant became a renowned

collective organization of production (Cartwright, 2001). The excessive size was reflected not only in large land endowments, but also in the large number of workers employed (in absolute terms and per hectare of land). In addition, land was locked into fixed collective use patterns, and land transfers among users could be initiated only by central authorities (Lerman, 2001). This type of organization generates high transaction costs, including the cost of monitoring labor and various agency costs associated with hired management.

exporter of agricultural machineries in the region and beyond. Although the Romanian tractor plant took a number of years before it was fully operative, its production increased significantly in the years to follow. In 1938, the number of tractors in the country was 26,598, whilst in 1989 it had risen to 116,653. However, the mechanization of the agriculture was not done equally across different types of institutional arrangements; state farms benefited more as compared to collective farms.

Fertilizer use, which had been very low in peasant agriculture, increased significantly, and in 1970s, most fertilizers were supplied by the Romanian chemical industry itself (Cartwright, 2001).¹⁴ All the main inputs needed for effective farming were controlled by the state. As in so many parts of the Romanian economy, the relevant state enterprises were organized to service the large-scale operations. They provided fertilizers and herbicides in bulk, agricultural machineries were almost entirely in the hands of the machine tractor stations, and the state purchasing enterprises, such as ROMCEREAL, bought directly from the farms.

Up until late 1970s, Romanian economic policy was dominated by the imperative of rapid industrialization. After the war, agricultural workers constituted about three quarters of the working population, but only in the 1970s did the industrialization drive begin to absorb surplus rural labor in large quantities.

¹³ This section draws on A. L. Cartwright "The Return of the Peasant. Land Reform in the Post-Communist Romania", Ashgate Dartmouth, 2001

¹⁴ The total amount of fertilizers used in agricultural production increased from 5,900 tones in 1950 to 1.37 million tones in 1983 (Turnock 1991).

end of World War II when through nationalization and collectivization most of the land was concentrated in extremely large collective and state owned farms.

3.5 Land reform implementation in the post-communist period¹⁶

After December 1989, the Romanian government made efforts to re-establish a coherent legal and institutional framework for private property rights in land but the whole process was characterized by instability, incoherence and unjustified delays. The land reform has involved three distinct processes: de-collectivization and re-establishment of private property rights in land; privatization of state owned farms and concession of public land; the creation of new farming structures, including the restructuring of existing large-scale farms in line with the new ownership patterns and the principles of a market based economy.

As a result, land reform dramatically changed the agricultural landscape in Romania. Private property became predominant due to the application of Land Law No. 18/1991¹⁷ to the detriment of public property. Therefore, the former arrangements for input procurements, output marketing and credit mechanisms became unsuitable for a numerous and dispersed clientele (Chirca and Tesliuc, 1999).

¹⁶ In this section I do not intend to exhaust the overview all the aspects of the land reform, but to underline the main undertakings that are of interest for this paper. Law No. 18/1991 was the legal instrument based on which land reform was implemented in Romania.

¹⁷ The law is known as "Land Law", published in the "Official Gazette" (Monitorul Oficial) no. 37/1991 and republished in the "Official Gazette" no. 1/1998.

At the outset of transition¹⁸, 411 state farms and 6,000 producer cooperatives¹⁹ exploited almost all of the country's (arable) land resources. The 1991 land reform brought an unprecedented level of fragmentation of the land ownership, more severe than in 1948²⁰ (see Table 7). As a result of the application of the Law No.18/1991, the average number of parcels per owner is around 4 to 5, and the average area of a parcel is approximately 3,000 square meters (FAO, 2002). Because land fragmentation increases transaction costs in all market channels, both for inputs and outputs, the use of inputs, machinery services, and credit dropped severely.

Table 7: Land fragmentation in Romania: 1998 and 1948 compared (%)

	1948	1998
Under 1 hectare	36	45
1 - 2 hectares	27	24
Over 2 hectares	37	31
Total	100	100

Source: Chirca and Tesliuc (1999: 38)

Because of the extensive communist “suppression” and because people felt silenced and deprived for so long, in the initial phase, land privatization was rather a spontaneous process – former landowners made justice to themselves by taking back their land from the producer cooperatives. De facto, producer cooperatives were dismantled in 1990/91. In 1991, the legislative authorities had no option but to issue a land law that sanctioned the earlier spontaneous

¹⁸ In 1989, the figures are from the Statistical Yearbook 1990, published by the National Commission of Statistics, Romania.

¹⁹ Chirca and Tesliuc (1999).

repossession of the previous landholdings. It was then that producer cooperatives were dissolved 'de jure.' Concerned with the re-creation of "landed estates" the legislative placed a 10 hectares limit on the amount of land to be restituted. Also, landless households that used to work for cooperatives, or other landless rural inhabitants were granted ownership rights of up 0.5 hectares.

For comparative purposes, table 8 illustrates the average size of all farms as well as share of small and large farms in total land cultivated by EU candidate countries. It can be noticed that significant differences exist between them, but the small, subsistence farms are predominant (with the exception of Czech Republic), especially in Romania.

Table 8. Average size of all farms as well as share of small and large farms in total land cultivated by country

Country	Average farm size (ha)	Share of cultivated land in size group below 5 ha	Share of cultivated land in size group above 50 ha
Estonia	12	9%	56%
Latvia	12	9%	31%
Lithuania	4	31%	11%
Poland	8	16%	25%
Czech Republic	100	1%	93%
Slovakia	31	2%	96%
Hungary	4	18%	58%
Slovenia	6	46%	8%
Romania	2	58%	19%
Bulgaria	4	19%	75%
Total	5	27%	38%

Source: IAMO (2004, 13).

²⁰ "After the land reforms in 1948, 36 percent of the agricultural holdings were less than one hectares in size, 27 percent were between one and two hectares and 37 percent over two hectares" (Chirca and Tesliuc, 1999).

Apart from land, the production cooperatives had other assets such as buildings, equipment and livestock that were restituted, when possible, to their members. Among these, livestock was easily restituted. Some two million cattle were transferred from cooperatives to peasant households in 1991/92 (Chirca and Tesliuc, 1999). However, most of the stock was slaughtered in 1992: by the end of that year, the cattle herd in peasant households was almost back to its 1989 level. Equipment and buildings were, in most instances, auctioned. Some of the buildings were simply destroyed, and the construction materials distributed to the members. At the end of 1992, one could only see empty barns or other deserted buildings of the cooperatives, ghosts of a bygone past.

The following forms of land tenure replaced state cooperatives: a) commercial companies (accounting for 4,376 farms, using 13 percent of the agricultural land); b) individual farms/operating farms (4,170,000 farms, using 80 percent of the agricultural land); and c) other forms accounting for 6,494 units, using 6 percent of the agricultural land (IAMO, 2004).

Although initially conceived as a complete set of laws and regulations to secure land ownership and tenure (law on land restitution and cadastre, leasing law, law on land selling and intervention agency) the legal and institutional set up was rather devious with big gaps of three-four and even more years between different laws.²¹ Hence, it could be said that again, the Romanian land reform was focused more on social aspects of rural modernizations and political tactics,

²¹ Romanian land reform has started in 1991 with the land Law 18/1991. The Land Law has been amended and extended in 1997, 1999 and 2001. The legislation on land leasing was approved four years later (1994), and amended in 1998. The law on

rather than on the economic aspects. In this way, land reform failed to address the problem of how to create preconditions for a modernized and productive agricultural sector.

The initially declared land policy was not rapidly or easily transformed into a coherent set of laws and regulations due to strong policy controversies representing different interests and ideologies. It took more than ten years to have the complete set of laws and regulations to ensure the transferability of the private property rights in land.

It is important to note that despite the Front for National Salvation's (FSN)²² political dominance and the marginal role played by the peasantry in the framing of the land reform, the Land Law confers on the village authorities the right to decide who receives the land, where and how much land they will receive. By doing this, I believe that the governing party absolved itself of any accusations of acting in a authoritarian manner, both to the population and to the international 'audience' (i.e. World Bank, and IMF) who were pushing hard for decentralization of the economy.

However, in the transition economies, dominated for more than 50 years by central command, the administrative and managerial knowledge of the local authorities is minimal, at least in the initial phase of the reform process. In addition, in the very first years of transition, the legal and bureaucratic system was still highly concentrated at the central level. Hence, conferring power to the

cadastre and land registration was issued six years later in 1997 and amended in 2001 and the legislation of land market was issued eight years later in 1998.

²² FSN was the governing party at that time, established immediately after the revolution.

villages in administering the land reform from the very first days of the reform process proves a lack of understanding of the resulting consequences.

In addition, Law 18 created more absentee landowners than any other land reform in Romania's history. According to the Ministry of Agriculture, 43 percent of those who had property restored to them now live in towns, 39 percent live in villages but work in towns, leaving only 18 percent who actually own and work the land themselves.²³ In addition, taking the rural situation of 1949 as the norm for restitution, ignored the fact that many former landowners had died, moved to the city or emigrated. The question of how their heirs were to divide the restitution claim among themselves, was not regulated and generated conflicts between family members. According to OECD, disputes related to the implementation of Law 18 generated about one million court cases.

Given that there were more than six million new landowners, it would be natural to expect that there would be a vast amount of land transactions (buying and selling). However, as Cartwright (2001) mentions, the development of a state regulated land market was severely impaired by both legal restrictions and bureaucratic incapacity. Many owners did not receive their legal documents until years after the original settlement, having to get by in the meantime with a temporary 'statement' issued by the local mayor. In addition, the possession of the ownership certificates is also important as collateral in applying for loans to cover outlays on seeds, fertilizers, and machinery.

²³ "Adevarul", 23rd April 1993. According to information from the UK agricultural consultancy firm MASDAR, 60% of landowners no longer live in the rural areas. "Information Pack for Farming in Romania". Wokingham. December 1997.

Overall, the fundamental objectives of Law 18/1991 appeared divided between the need to compensate for wrongs committed under communism through the authoritarian rule of the state, and the need to establish the property basis for a modern rural economy. Hence, it is rather tempting to conclude that the difficulties that many private farmers have experienced since 1991 have been in large measure the result of this indecision.

3.6 The performance of the agricultural sector

The transition reform program implemented in the 1990s had significantly changed the structure of the economy and its degree of openness. The 1997 “shock therapy” program had important consequences for the import regime, including that of agricultural products. The government of Romania implemented a comprehensive agricultural policy reform, supported by World Bank Agricultural Sector Adjustment Loan (ASAL), which reversed the protective trend of Romanian agricultural trade policy towards trade liberalization.

Between 1991 and 2001, agriculture was the only sector in the economy, which showed an increase in labor productivity. At the first glance, one can claim that agriculture is highly efficient (less number of employees now produce relatively higher output). This result can also reinforce Schumpeter’s view – a continuous decline in output (recession) accompanied with persisting high unemployment (depression) will render a sufficient condition to enhance the efficiency of labor productivity in an economy (Tobin, 1983: 34). The core of

Schumpeter's assertion is based on the idea that when production units in an economy (say farms) fear for their own existence they do not keep excess workers. Instead, they encourage managers and production workers alike to increase efficiency – lower employment (minimize cost) and raise production. In this view, labor productivity is mostly perceived through the eyes of the producer and considers the individual merely as a factor of production, a worker.

Nevertheless, the above outcome – the higher labor productivity in the agricultural sector – can simply be due to the higher decline in the number of employees in the agricultural sector relative to the real agricultural output. This trend can be easily explained by the gradual privatization of agriculture (dismantling of the collective farms) and hence a reduction in “formal” employment. The people who worked previously on the collective farms are still working, but now they have their own family plots, and hence they are considered self-employed, but with no formal contract (simple farmers). It would be simply incomplete to claim that, there was an increase in labor productivity (and hence higher efficiency in the agricultural sector) since the excessive land fragmentation impeded mechanization, and relied heavily on the subsistence system of production.

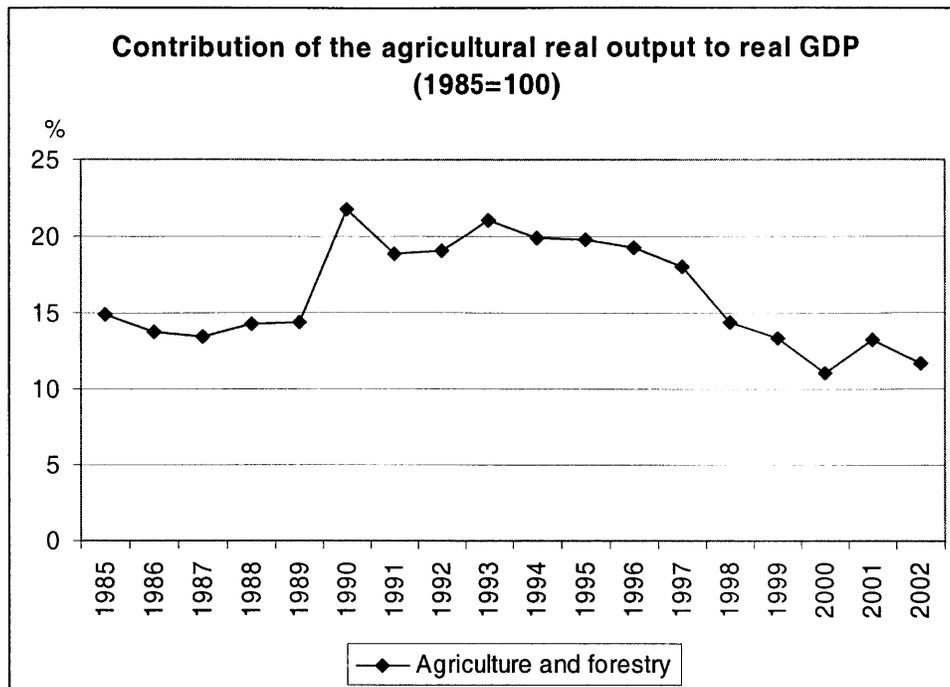
The reduction in output accompanied by an increase in unemployment is considered by many economists as a sufficient condition for a sign of robust economic growth. As Keynes pointed out, during an economic recession, nominal wages and prices do not adjust quickly to maintain the classical

equilibrium. In fact, in Romania, the general price level has increased.²⁴ In this respect, the conventional approach claims that such a condition will eventually lead to the expansion of output in the long run – producers have a window of opportunity to increase profits (lower wages accompanied by persistent inflation will provide ample opportunities to sell less by costly) and after some time these producers reinvest what they have gained through the macro-circular flow mechanism. In conclusion, they claim that in the long-run employment and output will increase and real income will eventually improve. The experience of Romania has so far disputed this claim.

A first look at Figure 3 illustrates that between 1985 and 1989 the contribution of agriculture to GDP was relatively stable. However, in 1990 a sharp increase is unprecedented but can be explained by two factors. First, the overall level of GDP declined, while the agricultural output increased or stayed the same between 1989-90. These two factors continued to influence the trend in the following years.

²⁴ During the transition period, an extreme uncertainty and large price increases are prevalent. Therefore, producers will attempt to protect themselves from the risk of losses attached to an underestimation of future inflation. They will do this by raising prices initially at a higher rate than they expected the rate of inflation.

Figure 3: Contribution of the agricultural real output to real GDP



Source: National Bank of Romania, Annual Report 2002 (own calculations)

However, in order to get a better understanding of agriculture's performance during the period of 1989-2002, we should divide the time interval into two time spans, pre and post 1989 (Table 9). It can be noticed that the contribution of agriculture to GDP (in real terms) is actually negative after 1989. Still, the share of agriculture in GDP remains significantly high, indicating a strong resistance to change and a slow adjustment to market mechanisms.

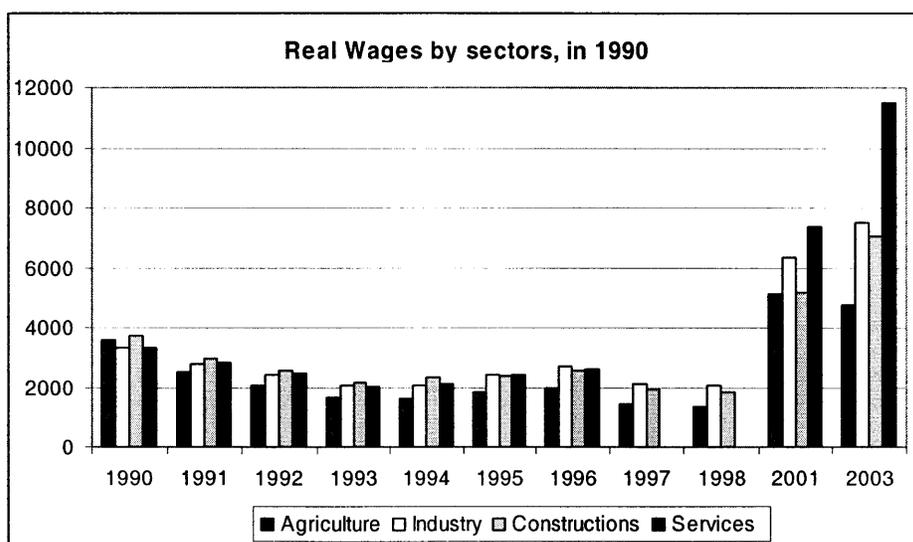
Table 9: Real agricultural output, real GDP, and contribution of agriculture to real GDP (percentage rage of change)

	1985-1988	1989-2002
Real agricultural output average %rch	-0.6	-3.8
Real GDP average %rch	-0.8	-0.8
Contribution of agriculture to real GDP average %rch	0.04	-1.3

Source: National Bank of Romania, 2002 (own calculations)

Additionally, while the labor productivity enhanced, on average, the real wage level declined. In real terms this is the sector with the sharpest decline in earned income (Figure 4).

Figure 4: Real wages by sectors



Source: National Commission of Statistics, Annual Report Romania, 2002 (own calculations)

Hence, ironically agriculture is the sector with the highest productivity and lowest incomes (and as noted earlier, the highest poverty rate). So maybe agriculture does indeed create surplus, which is drained out to other sectors, like industry. If this would be the case, according to the economic theory, we should

be able to observe an outward migration from rural areas to urban areas, increase in exports of agricultural products, and industrial expansion. However, the reverse is true – we can notice an increase in the in-migration in the rural areas despite the high poverty rate (Table10), the exports of agricultural products are very low, the imports increasing much faster, and there are no significant improvements in industry.

Table 10. Structure of urban and rural internal migration flows due to permanent residence change (rates per 1000 inhabitants).

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
From rural to urban	10.7	9.4	6.9	6.6	5.9	5.9	5.6	4.9	4.7	3.9
From urban to rural	2.5	3.8	3.4	4.7	5.8	6.7	7.9	7.7	8.3	8.1

Source: Maniu et al.(2002).

During the second half of the transition decade rural areas acted as an absorber of the excess industrial labor force and thus serving as a buffer in synchronizing the unbalanced speed of the declining industry versus the increasing service sector.

3.7 What went wrong?

The current state of agriculture indicates that the implementation of the land reform in 1991 was deficient. The brief historical review of land reform demonstrated that the policymakers did not learn from the past in any of these “episodes.” The same mistakes were made in the 1990s as in 1918-1920 and thereafter. Agriculture was erroneously considered a political instrument for

“silencing” the largest social group, the rural population. There was no effort for building a long-term viable agriculture, for modernizing and enhancing its capacity for profit making. From the very beginning, agriculture was not considered an important sector from economic, financial, and social point of view. This is the only way that one can explain why the most viable farms (ranging between 10-50 hectares) came to the policymakers’ interest only in 1999.

The following sections will discuss in greater detail the main problems that agriculture was facing after the implementation of land reform.

3.7.1 Excessive land fragmentation

Privatization of land resulted in Romania in breaking down the large collective farms (land fragmentation) and redistribution to the initial owners (before collectivization). The ‘evils’ of fragmentation²⁵ need no emphasis: waste of time and effort, and the impossibility of rational cultivation are obvious effects. Nonetheless, nobody can claim that consolidation of holdings is an easy reform to implement. The conservatism of the peasant is one obstacle, the inadequate institutional structure to carry out the process is another one, as well as the high cost per acre of surveying and exchanging many plots. To carry out the process of land consolidation in a successful way, it would need to be accompanied by general programs of agricultural and social development (ex. credit access, education).

²⁵ “Fragmentation has several causes. It originated in remote times from the traditional land layout, in which holdings were divided into several strips located in different parts of a village. In the course of time, these original strips have been divided and subdivided,

The new class of farmers, lacking modern agricultural knowledge and facing severe cost disadvantages due to their small-scale operations, switched their production mix away from modern toward traditional crops and reduced their market transactions to a minimum in favor of an autarchic production system.

3.7.2 Organizational history

The agricultural sector in Romania has literally no organizational history. Besides the collective farms coordinated by the central authority, there were no other forms of collective action or trace of entrepreneurial initiatives. Consequently, the transition to private property and individual land holdings was rather shocking for the existing institutional structure. Additionally, the lack of vision in planning and insufficient time to learn from the experiences of other countries, led to a chaotic institutional organization.

Nevertheless, still due to the tight communist rule, any sort of collective action was dismissed regardless of its economic rationale. Anecdotal evidence shows that even the EU program called CAP (Common Agricultural Policy), aimed at promoting sustainable organizations framework for rural development, was received with suspicion and reluctance in most of the areas because the acronyms were the same as for the communist collective farms – in Romanian, Cooperative Agricole de Productie (CAP).

as a result of the increase in farm population, and of inheritance laws which encourage the subdivision of land among the heirs.” United Nations (1951)

3.7.3 Land markets

The land market (an essential institution for land consolidation and creating a market-based agriculture) is not fully developed in Romania, largely due to the not yet completed land privatization. A significant drawback was the long delay in adopting the law for leasing and selling land, until 1998. Additionally, Law 54/1998 regarding the legal movement of land does not favor the development of the land market. Until 1998, informal family associations were the only land-pooling option for joint operation. This kind of association developed spontaneously in the wake of de-collectivization as a reaction to the mismatch between coordinated household access to land, labor, and capital.

The National Agency for Rural Development designated by Land Law 18/1991 to purchase land from new owners to use it for public purposes creating larger holdings through consolidation, was never established. Hence, the poor development of the land market delayed the process of agricultural development.

It should also be emphasized that statistics on land lease are very poor, almost nonexistent. Land prices in Romania are much lower as compared to other countries in the region; a price of 230-270 Euro/ha in the countryside and 2,100-2,300 Euro/ha within communities is common in Romania, whereas prices in Slovenia reach up to 25,000 Euro/ha (IARO, 2004). Land prices have impact on the structural development of agriculture. High prices positively influence access to credits, since land-owners have more collateral. Additionally, since land is the main asset for most of the rural families in Romania, an increase in

price would make it worthwhile for selling, and hence for land consolidation.²⁶ However, high prices also translate to a more expensive land consolidation process.

Nevertheless, the right to acquire arable land of up to 200 ha and the decrease in land prices are not conducive to creating an active land market. Additionally, land transactions are also limited by the high cost of notary fees and fiscal taxes, which are levied in addition to Cadastral and Agricultural Register taxes. Land leasing would be a way of increasing the size of farm holdings, but renting agricultural land is not yet popular in Romania. In the present circumstances, farmers would have to resist the difficulties of financing production and investments, as well as high taxes.

3.7.4 Property rights

The weak and almost nonexistent institutional structure had an extremely detrimental effect on the agricultural sustainability. Even to this date the redistribution of the property titles is not entirely finalized. This outcome is mostly due to administrative inefficiencies, which could be remedied by legislative actions. There are still landowners who did not receive the land title yet, or who are still struggling in land disputes.

²⁶ From talking to peasants in the rural areas, I learned that even if it is impossible to work the land (due to unavailability of capital), many households are reluctant to sell the small plots of land because the price is very low, and they are waiting for the time when land will be prices higher. For the majority, land is the only source of income in the rural areas.

3.7.5 Access to credit

Romania is the only country among the candidates to EU rated as having strongly inadequate financial services.²⁷ Hence, not surprisingly, another institutional impediment is the poor availability of credit for farmers. The banking system is adjusted to meet the credit needs of large industrial and commercial enterprises, and of agricultural production as far as it is organized in large estates. However, in Romania, the greater part of agricultural production is in the hands of individuals or families conducting small enterprises/farms with very limited capital. The long production period in agriculture also tends to eliminate the ordinary commercial banks as direct sources of credit to farmers. Consequently, the financing of small-scale agricultural production requires the provision of credit through special agencies. Shortage of credit may be a cause for subsistence agriculture – the lack of ready money in the hands of the farmer prevents investment in the farm. The organization of cooperatives for the improvement of marketing and for the provision of credit facilities forms the essential framework which small-scale farming needs, if it is to bring about better living standards and better methods of farming.

3.7.6 Prices for agricultural products

The uncoordinated price liberalization of the inputs and outputs related to agricultural production created serious distortions in the sector performance. There is a significant difference between the increase in prices for inputs in

²⁷ According to IOMA report, by the Country experts of the Network of Independent Agricultural Experts in the CEE Candidate Countries.

agriculture (i.e. raw materials, energy and services, machinery, materials) and the increase in prices for agricultural outputs (raw materials for industry, food products, intermediate agricultural products). Hence, besides the difficult access to market, it became harder for the farmers to recoup even the production cost. Additionally, analyzing the price indices, one can notice that the weak technical and economic performance of the industrial sector was transferred to agriculture, and ultimately to the consumers (Otiman, 2002). Overall, the prices of the industrial products used in agriculture increased more than 1,100 times between 1991-1998, while the prices of agricultural products increased only 450 times over the same time interval (Table 11).

Table 11. Price indices for industrial and agricultural products (1990=1)

	1991	1992	1993	1994	1995	1996	1997	1998
Tractors	12.5	21.3	62.2	114.5	170.9	428.4	881.6	1120.0
Agricultural machineries	14.4	24.5	41.0	88.9	137.8	275.7	731.9	1055.2
Chemical fertilizers	18.5	18.5	51.1	144.7	187.2	174.5	335.3	961.8
Energy	18.5	33.1	64.7	153.3	190.2	399.5	969.3	1120.6
Total industrial products	17.0	27.6	65.3	134.3	185.4	301.1	742.1	1105.3
Vegetal products	8.5	19.1	48.0	98.0	133.8	211.9	418.2	531.4
Animal products	5.1	10.8	41.8	98.8	120.9	184.9	342.2	395.3
Total agricultural products	6.4	14.0	44.2	98.4	125.9	195.4	371.6	448.0

Source: Otiman (2002:248)

3.7.7 Access to technological capital

While land and labor are abundantly available in agriculture in Romania (as well as in other CEE countries), capital is not. Most of the peasants had no means whatsoever to undertake farm work. According to World Bank survey in 1991, only 9 percent had anything resembling a tractor, 28 percent had either a

horse or a buffalo, and only 12 percent had a plow. The time of the land takeovers was dead winter and early spring –time to prepare the fields. But which peasant would have had seeds to plant?

Another reason for the slow development of the agricultural supportive services (technology, seeds, etc.) was the sluggish restructuring of the respective industries, which remained under the administration of the state. In my opinion this would represent a problem as long as the system is designed for the new market oriented institutional structure, based on property rights and small/medium entrepreneurs. However, the managerial system for the enterprises providing agricultural inputs and processing the outputs was still working on the premises of large farms and owners.

3.7.8 Human capital

The availability of human capital with adequate skills in rural areas constitutes another problem for agriculture to contribute to economic development. The age of the rural population, as well as limited access to education (especially vocational training) and health are major impediments to the long-term success of land reform.

The formal educational qualifications of the rural population in Romania are lower as compared to the national average. The percentage of the low educational level in the active rural population is 1.8 times higher than the respective share in the total population (IAMO, 2004: 63).

Table 12: Rural education level by age groups in Romania, 2001 (%)

	15-24	25-34	35-49	50-64	65 and over
Rural total	100	100	100	100	100
Higher education	0.7	2.5	3.0	2.4	0.3
Post high school and foreman education	1.1	1.6	2.0	2.1	0.4
High school (XI-XIII classes)	19.8	43.3	25.8	4.9	1.2
Vocational and apprenticeship education	24.4	29.7	31.2	12.6	2.3
VIII-X classes high school	45.4	20.0	31.8	42.6	28.6
Primary or less education	8.5	2.9	6.2	35.4	67.2

Source: IAMO (2004, 64).

Agricultural education and graduates at all levels hold a very low share in the Romanian educational system. In the past years, this trend is even more pronounced as the overall budget for education deteriorated, there is very little investment in the agricultural sector, and the future job prospects in this sector are very discouraging.

In general, the quality of rural education is reported to be lower than in towns due to difficulties attracting the best teachers, worse school equipment, less access to information technology, few special schools and finally, financing problems.

Because of all these obstacles presented in this chapter, agro-food production, while having a great potential for growth, is tragically low and so far has not succeeded to conform to the qualitative standards of the EU market. Taking as an example the dairy industry, in 2001 only 15 percent of the milk production was delivered to dairy plants (the lowest in Europe), a decline as compared to the previous years. Romania has the highest number of dairy

plants, employing the highest number of employees as compared to other candidate countries, but they collect the lowest amount of revenues (IAMO, p.116). The main reasons for enterprises not being able to comply with EU-standards are sanitary, veterinary rules, hygiene, and mainly quality of the products. As a result, 20 percent of enterprises will have to close down because of not being able to comply with EU standards. Moreover, 25 percent of agro-food enterprises will have to close down because of not being able to withstand EU competition.

CHAPTER 4

Lessons to learn

Land reform is one of the first policies implemented by countries with large agricultural resources, striving for development. Hence, this is not a new phenomenon and therefore it is possible to learn from other experiences and contexts for finding the right mix of policies.

Several countries in East Asia (such as Taiwan) considered land reform as the first step for laying out the foundation for development. In these countries land reform and the accompanying agricultural policies transformed the subsistence agriculture into surplus-generating commercial farming. This surplus enhanced the creation of a middle class of rural entrepreneurs who invested part of the profits in industries. Developing the links between input and output channels in the agricultural sector was highly beneficial for the sustainability of the agricultural sector as well as for future industrialization.

Even if the history of these regions (East Asia and Eastern Europe) are very different we can still find institutional similarities and we can draw lessons from them as far as the policymaking and vision attributed to the agricultural sector is concerned.

In general, in East Asia land reform entailed the transfer of rights to tenants without breaking-up operational holdings, focused on agricultural

research (e.g. higher-yielding crop varieties), increased application of chemical fertilizers, and a range of other activities and institutions that supported the above. Moreover, the parallel development of agriculture and industry was key for the country's sustained growth.

The accomplishments in Japan and Taiwan were the outgrowth of firm determination, adequate laws, and enforcement. Enforcement was made possible by assigning the task to agencies at different levels of government, including local land commissions of elected representatives of tenants, owners, and landlords with the duty of enforcing the program locally (Lin, 1975).

This process required a significant number of administrative trained staff. For instance, in Japan, a total of 400,000 persons at all government levels were required to purchase and transfer nearly two million hectares of cultivated land and make over four million lease contracts. Of the total personnel, 90 percent were required at the local level.

One characteristic of the land reform in China and North Vietnam is that the process was dependent on the genuine participation of the peasants in a way that was true of most land-reform programs in non-Communist countries, which begin and end with the transfer of land ownership (Moise, 1983).

The historic context is very different as compared to Romania since the main land reform carried out in 1940s started by the communist regime redistributing land to the peasants away from landlords, and later on taking it away into collective farms. Land reform in China, with the logo "land to the tiller", has contributed to sustainable economic growth due to the focus of the party on

empowering the peasants for investing in land and engaging them in profit generating activities.

In the following section I will summarize briefly the main policy approaches adopted by East Asian countries for land reform. I will focus mainly on Taiwan, its government being the most determined to incorporate land reform in the economic development plans. I will continue with China, Vietnam, and briefly Korea, where the most significant aspect of the policy was the focus on land use rights rather than land privatization (and hence redistribution).

4.1. Land Reform in Taiwan²⁸

First of all, as opposed to the Romanian case, clarity of policy objectives was a central goal of on agricultural change in Taiwan. The focus was clearly and unmistakably on efficiency as the standard against which to judge program success. Moreover, Taiwan's hard-nosed focus on increasing farmer income has been in marked contrast to that of Romania.

A second goal has been the creation of a flexible agriculture that could respond quickly to export demands. Third, the agricultural sector was designed as a resource-supplying sector. Agriculture was provided with labor-intensive technology and modern inputs while at the same time being squeezed heavily in net resource terms. Few countries have done both so skillfully. In most cases the

²⁸ In this section I will draw mainly from Falcon (1974) and Amsden (1985).

tendency has been to concentrate on the latter and ignore the former, with serious negative consequences for the economy as a whole.

However, the most important aspect of the land reform in Taiwan is the role played by the government – land reform was implemented, supervised, and supported heavily by the state. The state provided affordable loans, and agricultural inputs to the farmers. In 1965, government agencies or related credit institutions supplied 65 percent of all agricultural loans. Additionally, the state monopoly on fertilizers was perhaps the most important element both in stimulating production and in extracting the surplus from agriculture.

One other aspect that contributed to a successful land reform in Taiwan was the accurate land tenure data, which were non-existent in Romania. This reduced the time spent on land reallocation, as well as the conflicts over land. Additionally, it diminished and kept under control informal land transfers and created the framework for a functional land market.

Agriculture, in the case of Taiwan, was indeed a major resource contributor, but two other circumstances helped to make this role possible. First, the popular sentiment about agriculture was not a prerequisite for the government to remain in power (as it can be said about the Romanian case). Second, even though the sector was squeezed quite hard, agriculture was given a number of critical ingredients – improved health, and education facilities, improved rural communication, and modern technology – having an important impact on increasing productivity.

Overall, it becomes clear that in Taiwan, state action was the key to increasing agricultural output and to financing the growth of other services. Hence, fast growth and a transfer of agricultural resources to towns was not the outcome of free market forces and free trade, but it reflected the structure of ownership in the countryside and state management of almost every conceivable economic activity. However, the state was not supporting agriculture in a controlling manner. An important aspect of the strategy was the ingenious blending of public and private sector activities. The public sector acted mainly as planner and as a supplier and coordinator of key public goods. This has been coupled with extraordinary entrepreneurial capacity of the private sector to produce a partnership in which each side did what it could do best.

The division of planning activity between public and private sectors also evokes comment. The way centralized targets were formulated, discussed in terms of efficiency and consistency at all levels of government, and then iterated up and down the various levels of government contributed a lot to the successful implementation of the reform.

Moreover, the state invested heavily in building an institutional structure for technological up-grade in agriculture. A number of institutional innovations had an important bearing on agricultural development in Taiwan. The Farmer Associations were central in supplying modern inputs and credits, in providing marketing facilities, and in receiving and supplying relevant information for planning. These agricultural associations provided peasants with extension education, the cooperative purchase of fertilizers, warehousing, and other

services. They had broad-based support and were seen by the government as full partners in agricultural development. Additionally, the state supported the establishment of research agencies for enhancing agricultural production. In this way, the state set in motion the application of science to farming, which characterizes the rural economy of Taiwan today. Furthermore, raising of the educational level of the farmers has also brought about changes for those who chose to remain on the farms. For one thing, education makes them more receptive to new technology (e.g., the use of mechanical agricultural implements).

Fast growth and the transfer of agricultural resources to non-agricultural sectors and to urban areas, were neither the outcome of free market forces, nor the automatic result of purely technical phenomena – the green revolution. Rather, they reflected the structure of ownership in the countryside and state management of almost every conceivable economic activity. Additionally, the state monopoly on fertilizers was perhaps the most important element both in stimulating production and in extracting the surplus from agriculture.

CHAPTER 5

Conclusions

In 1934 the English historian R.W. Seton-Watson wrote that “two generations of peace and clean government might make of Romania an earthly paradise” (Seton-Watson, 1934). Unfortunately, neither peace nor clean government followed.

Moreover, at the beginning of the reform process, the Romanian Ministry of Agriculture rightly stressed that Romania could become self-sufficient in almost all its food requirements. He claimed that the soil quality and the amount of agricultural land can produce yields sufficient to feed twice the present population. However, after more than 13 years of reform, even the hopes that this will happen disappeared and Romania became a major importer of grains and food products.

Land reform is a major policy for any country endowed with agricultural land, where the majority of population is located in rural areas, farming being the main source of income. Additionally, land reform is a step-stone for successful industrialization in these countries. The surplus generated from agricultural development is the key resource for advancing growth in the industrial sector. Securing higher standards of living in rural areas, rather than using agricultural sector as a social buffer, ensures a uniform growth across the economy.

Barnejee (2001) claims that a successful land reform might start a country on what has been called a vicious cycle of poverty reduction: by making the farmer the tenant of the land, labor productivity is enhanced and hence income increases. A higher income allows the farmer to save and to invest more, raising his income even further, and so on.

A general implication of the land reform is that land redistribution comes with a multiplier effect that makes productivity much larger than other aspects influenced by reform. Moreover, in time, successful land reform can take other burdens away from the government, such as investment in health, education, or infrastructure.

However, I do believe that in the initial phase of the reform, the role of the government is crucial for launching development. For example, it may be easier to subsidize the accumulation of assets by poor people than to actually transfer assets to them. Subsidization can be accomplished by paying farmers higher than market returns on their products (or bank deposits) or by using public money to improve access to financial institutions.

In Romania, as in other Central and Eastern European countries, land reform was regarded as a symbol for breaking away from the communist system. The reform consisted of restituting land to the former owners and distributing land without payment to agricultural workers in the interest of social equity. Hence, land reform was mostly a political decision, and not necessarily a decision driven by rational economic considerations. Not surprisingly, its long-term economic outcomes are deceptive. Backwardness rather than modernization can best

describe today the agricultural sector in Romania. Poverty, unemployment, and youth out-migration are reflections of the social environment. Moreover, agricultural production is subsistence based, having no access to market channels domestically or internationally.

Whether a country adopts restitution to former owners or distribution to agricultural workers, the major determinants of a successful land reform remain the allocation strategy (plots or paper shares), the legal status of private ownership, and the transferability or tradability of use rights and property rights (Lerman, 2001). The Romanian reform was deficient in all these key strategic areas.

Conventional economists argue that the path to economic growth for developing countries is to shift the allocation of resources from agriculture to industry, and then to services. However, one cannot jump over any of these stages. For instance, what Taiwan's government understood, and Romania's did not, is that in order to make the transition from an agricultural-based economy to industrialization, the most important task is to create agricultural surplus. In contrast, the Romanian government decided to use the agricultural sector as a social safety net during the industrial restructuring. Such a policy prevented the economy from extracting agricultural surplus, and at the same time, missed the importance of the institutional structure that otherwise would have been created.

Hence, planning strategically and applying incentives for increase in productivity can make land reform much more likely to succeed. Institutions for property rights in land are crucial for development, but they are not sufficient. I

believe that adopting empowerment strategies is more important. Specifically, I argue that it is more effective to have the property title over a plot of land, and to lease the right to use the land to some other entity established as a collective organization. In this way the problem of excessive land fragmentation would be resolved, access to credit would be improved, and due to scale economies productivity will be enhanced.

One of the key problems with land reform in Romania was the fact that Law 18/1991 did not only distribute land to the villagers but it attempted to recreate the property regime that existed before collectivization.²⁹ Such an undertaking was problematic mainly because it created a lot of absentee landowners with no skills, interest, or resources to invest in agriculture. Therefore, in the absence of adequate land markets that would make possible the transfer of land from, lots of agricultural resources remained underexploited.

Another major cause for the failure of land reform in Romania is the minimum role played by the state in supplying means to acquire raw materials (i.e. fertilizers, seeds, pesticides, etc.), investing in modern technology, as well as offering affordable loans, and support the creation of an institutional framework in which agricultural sector can increase productivity and generate surplus.

One could argue that land reform illustrates that the government in Romania selected 'off the shelf' reforms derived from one set of assumptions at the same time they selected other reforms based upon quite different, or even

²⁹ Bulgaria, Slovakia, and the Czech Republic adopted the same approach, while Albania, Russia, and Armenia relied only on distributing the land without trying to recreate the pre-communist land ownership structure.

directly contradictory premises. Nevertheless, Romania combined historical justice with equity, while efficiency considerations played a less important role.

Therefore, integrating land issues into the broader development agenda of the government becomes a key requirement for sustainable development. The problem is not one of dividing the land so that everyone can have a piece. Rather, it is one of creating alternatives for developing new forms of employment. In this way society becomes dynamic and all people benefit by sharing increases in income and social benefits.

For land reform to contribute to: increasing output and productivity; generating savings and capital formation; increasing potential employment in agriculture; and promoting greater demand for consumer goods and services as well as acquisition of production inputs among the beneficiaries, it should not be limited to the distribution of property rights in land. In order to contribute to the process of economic development, land reform planning should include the synchronization of land redistribution with the provision of credit, marketing services, and development of managerial abilities of the new owners. The timing of building investment requirements and market orientation into the land reform is crucial in the achievement of its economic results.

Moreover, planning land reform is one thing, and achieving its objectives is another. As land reform ends most of the time as being basically politically charged, the political will and determination of the government for its rapid and complete implementation without using the law only for emotional political purposes (as was the case in Romania), is essential.

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