

EVALUATING LAND REFORM AND MARKET IN BULGARIA

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Abstract

The creation of a market economy, viewed from a polanyian perspective, requires the setting up of markets in areas characteristic of economic reproduction, such as land. The goal of this article is to contribute to the establishment of a mechanism that permits the evaluation of the effectiveness of economic policies of reform in a transitional period and, moreover, to assess the effectiveness of land reform in Bulgaria. It is observed that a breakdown exists between the setting up of formal market institutions and the creation of market relationships in the land sphere.

KEYWORDS: Economic Transition, Land Market, Institutional Change, Bulgaria.

JEL Classification: P20, P23, P32, Q15.

1. Introduction

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The expected outcome of the economic transition that has been unfolding in Bulgaria since 1989 is the construction of a market economy. Viewed from a polanyian perspective, the creation of a market economy requires the setting up of markets in those fields characteristic of economic reproduction, that is to say, labor, the means of production and land. The establishment of market relationships in the sphere of land also came about as a condition of the European Union in the negotiation process for the entry into the Community. However, the evaluation of economic policies of structural reform under transitional conditions is not a simple task. One approach consists of examining the degree of implementation of the typical formal institutions of a market economy. Nevertheless, from a polanyian point of view, the introduction of formal market institutions will not necessarily lead to the creation of market economies. One should not disregard the appearance, therefore, of forms of economic regulation different from those of the market.

This study expects to contribute to the establishment of a mechanism that permits the evaluation of the effectiveness of economic policies of the Bulgarian land reform in the context of transition, beyond merely analyzing formal changes. The second part describes the Polanyi's view on the significance and creation of the market economy. The third section presents a methodological framework that allows the interpretation of the construction of a market economy as a process of institutional change and the evaluation of the land reform. In the fourth section, the Bulgarian reform and its most important outcomes are analyzed. In the fifth part, the reforms are evaluated using the analytical mechanism described previously. Lastly, the work draws some conclusions.

2. The construction of a market economy according to Polanyi

2.1. The artificial nature of the market economy

In *The Great Transformation*, published in 1944, Polanyi analyzes the significance and process of creation of a market economy in England in the 19th century (Polanyi, 1957a). The analytic potential of this work is enormous and allows us to draw out useful categories in order to analyse this transformation in the transition economies of Eastern Europe.

According to Polanyi, the economic organization of a society is not necessarily articulated around markets. What is more, the presence of these does not imply the appearance of a market economy. In fact, in spite of the existence of

markets since antiquity, the market economy created in England in the 19th century was something completely new in the history of humanity. The transition from isolated markets to a market economy and from regulated markets to self-regulating markets is not a natural process; in fact, quite the opposite, “the effect of highly artificial stimulants administered to the social body in order to meet a situation which was created by the non less artificial phenomenon of the machine” (Polanyi, 1957a: 57). The rise of the market economy in England was associated with the expansion of the use of machinery in an agrarian and commercial society. In this society the merchant bought and sold commodities gaining a profit. The appearance of the industrial capitalist introduced fundamental differences: commodities were produced and then sold using machinery that needed labour and raw materials, therefore the elements of production needed to be purchased. From then on profit became the key element in the economic process and the survival of individuals depended on acquiring income on the market.

So, the original elements in this transformation are the appearance of profit as key determinant of economic relations and the dependence of the survival of individuals in their participation in the market. As Polanyi says, “the transformation implies a change in the motive of action on the part of members of the society: for the motive of subsistence that of gain must be substituted. All transactions are turned into money transactions, and these in turn require that a medium of exchange be introduced into every articulation of industrial life. All incomes must derive from the sale of something or other, and whatever the actual source of a person’s income, it must be regarded as resulting from a sale” (Polanyi, 1957a: 41).

Additionally, this system requires full autonomy in order to function. The market economy needs to be free from state intervention; what Polanyi calls self-regulating: “no less is implied in the simple term “market system”, by which we designate the institutional pattern described. But the most startling peculiarity of the system lies in the fact that, once it is established, it must be allowed to function without interference. Profits are no longer guaranteed, and merchants must make their profits on the market. Prices must be allowed to regulate by themselves. Such a self-regulating system of markets is what we mean by market economy” (Polanyi, 1957a: 41-42).

2.2. Mechanisms of integration and institutional models

The contingent character of the presence of markets is justified by the existence of principles of behaviour other than exchange: such as reciprocity or

redistribution¹. According to Polanyi, these principles or mechanisms of integration explain the organization of the economic systems.

The different forms of integration need concrete institutional support structures. Aggregates of individual behaviour alone do not create these structures by themselves. These behavioural models cannot develop without the institutional models facilitating their development. Reciprocity is supported by symmetry and redistribution by centrality. While society is organized under these conditions there is no room for individual economic motivation. According to Polanyi, all economic systems until the end of feudalism in Europe Western have been organized under these forms of integration.

The mechanism of integration that produces the development of markets is exchange. Like other forms of integration, exchange depends on an institutional model, the market, so as to function efficiently. Nevertheless, in this case a fundamental difference appears; the development of exchange is capable of creating the market as a specific institution dedicated to a single function, the very opposite to the models of centrality or symmetry.

2.3. *The market system*

For Polanyi, a market economy is an economic system governed, regulated and oriented exclusively by markets. The organization of the production and distribution of goods is the responsibility of this self-regulating mechanism. Self-regulation implies that all production is destined for sale on the market and that all income comes from there. Consequently, markets exist for every relevant element of the economy, for goods and for labour, land and money. In this system individuals behave guided by the motivation of private profit.

This system implies the existence of markets where the supply of available goods at a specific price will be equivalent to a demand of equal price. Also it supposes the presence of money, obtained on the market and that functions as a purchasing power. The role of prices in the market economy is fundamental. As indicated above, the market economy is formed by self-regulated markets and

¹ Reciprocity means the transfer of goods carried out through free gifts, with the expectation that other goods will be received some day, although not necessarily from the same person. In this case, neither individual profit nor remunerated labour is the reason for this behaviour. Reciprocity plays an important role in the family and contributes to assure the production and subsistence of the family. Redistribution involves collecting and distributing from a centre, according to custom, law or a central decision ad hoc. Redistribution especially concerns those who depend on the same leader and, consequently, has a territorial character. In *The Great Transformation* Polanyi defines another integration mechanism, householding. Nevertheless, later, in *The Economy as Instituted Process* (Polanyi, 1957b), this form is considered as kind of the reciprocity.

Polanyi adds specific component to this concept. It means that markets are guided by prices. The exchange on the market transforms the element exchanged into commodities. According to Polanyi, commodities are defined empirically, like objects produced for sale; the markets are also empirically defined as efficient contacts between buyers and sellers. Consequently, every element of the economy is considered produced for sale, only then is it submitted to the mechanism of supply and demand in interaction with price.

Polanyi emphasizes the fundamental point that labour, land and money are essential components of industry and they should be submitted to the market. These markets constitute the key elements of the economic system. Nevertheless, none of them has been produced for sale; therefore, it would be completely fictitious to describe them as commodities. Nevertheless, this fiction is indispensable to the existence of the market system. As Polanyi argues, "but the labor, land and money are obviously not commodities; the postulate that anything that is bought and sold must have been produced for sale is emphatically untrue in regard to them [...] Nevertheless, it is with the help of this fiction that the actual markets of labor, land and money are organized; they are being actually bought and sold on the market; their demand and supply are real magnitudes; and any measures and policies that would inhibit the formation of such markets would ipso facto endanger the self-regulation of the system" (Polanyi, 1957a: 72-73).

Lastly, markets constitute a market system when the transactions in one affect those in the others and all together provide, finally, a mechanism of society. Only when the interconnected markets form a complete system, that is to say, all the *inputs* are acquired on markets, all income comes from market sales, all the purchasing and sales are regulated by prices, then a self-regulating market system exists (Schainel y Neale, 2000).

3. Market economy and land marketization. A mechanism for evaluating land reforms based on the institutionalism of Polanyi

According to the orthodox approach, defended by authors such as Aslund (1994 and 1995), Brada (1993 and 1996), Lipton and Sachs (1990), Blanchard et al. (1991) or Fischer (1993), the dismantling of central planning and the creation of institutions characteristic of a market economy would cause the development

of such an economic system. However, this approach has been broadly questioned by authors like Andreff (1996, 1999 and 2003), Murrell (1992a, 1992b, 1993 and 1996), Roland (1993), Ellman (1994), Stark (1998a and 1998b) or Lavigne (1997), who have contributed to criticisms of the orthodox analysis from the perspective of transition being understood as an institutional change that has to do with the transformation of the behavior of economic agents.

From a polanyian perspective of transition (March and Sánchez, 2002 and De Arriba, 2003), this chain of causal relationships, which leads from the elimination of the institutions of central planning to the decentralization of decision-making, and from there to exchanges governed by profit and, finally, to the market, can certainly be challenged. In fact, there is the possibility that other forms of economic integration different from exchange, such as reciprocity and redistribution, may develop, which could create institutional models distinct from those of the market (Polanyi, 1957b). To determine the degree to which market structures have established themselves in the land, as well in each one of the relevant spheres, and to evaluate the effectiveness of the reforms, it is necessary to define what this concept of market consist of. The existence of markets requires the fulfillment of the following conditions (Polanyi, 1957a; March and Sánchez, 2002):

1. That the exchange be possible.
2. That the price be determined within the framework of exchange.
3. That the exchange be auto-regulated by price.
4. That this integration mechanism be dominant.

In transitional economies, such as Bulgaria's, obstacles to the creation of markets beyond the realization of changes in the formal institutions, such as decentralization, privatization or the lifting of price controls, do exist. The resistance to change shown by informal institutions as well as the reaction of agents toward the new institutional universe could explain these limits. As a consequence, the structural economic policies characteristic of a transitional process can generate a hybrid institutional framework resulting in a mixture of economic relationships. By evaluating the fulfillment of the above mentioned conditions, the effectiveness of economic policies of structural change under conditions of transition towards a market economy can be assessed. In order to evaluate the degree of implementation of the land market, specific validation criteria will be analyzed in relation to the four general conditions in this definition of markets.

4. Land reform in Bulgaria

4.1 *The process*

The key elements of land reform in Bulgaria have been the restitution of land and the liquidation of collective farms². According to official data, the ownership structure of the land inherited from socialism was characterized by state control of more than 80% of arable land and the domination of big collective farms, which occupied almost 60% of arable land (NSI). During the socialist period small personal plots occupied 13.1% of arable area, but only private rights of use were granted and no full ownership rights³. The initial perception was that, starting from the creation of favorable conditions for private initiative, a dynamic and transparent land market would develop⁴. The Law on Ownership and Use of Agrarian Land (Law on Land) of February 1991 is the basic law that regulates land reform and was approved by the government of the Socialist Party⁵. The law established restitution as the mechanism for land privatization⁶. In accordance with the law, former owners from the 1940's, prior to the collectivization, were entitled to receive land in the same quantity and quality as the land they had surrendered to the collective farms. Initially, the law included diverse restrictions on the full enjoyment of private rights of ownership regarding access, use or transfer of land⁷ (Law on Land). In 1991

² It should be appreciated that this study only analyses land reform with respect to agricultural land, leaving aside the study of the privatisation of forests and other uses land. On the privatisation of the forests in Bulgaria, see Cellarius (2004).

³ Members of cooperatives and state farm workers farmed these plots with the main objective of self-consumption.

⁴ In all the countries of Central and Eastern Europe land reform has been carried out with identical objectives, although with different strategies and results (EBRD, 2002; Lerman, Csaki and Feder, 2004; Heath, 2003; IAMO, 2004).

⁵ The first laws dedicated to land reform were two ordinances that appeared in 1989 authorizing a certain decentralization of agrarian production. On one hand, Ordinance 922 granted to individuals the right to rent collective farmland for private use. Starting from this point, some of these individuals organized more or less informal cooperatives. As well, this ordinance allowed the registration of new cooperatives as new legal entities (Dobрева and Kozhouharova, 1994). On the other hand, Ordinance 56 allowed the private economic activity of commercial companies and individuals, both in agriculture and in the economy as a whole. Both ordinances helped to create new agrarian structures outside the control of the State.

⁶ On the privatization of the Bulgarian economy, besides land privatization, see Koleva (2004).

⁷ The maximum surface area that one could possess was limited. The property could not be transferred during three years and later it could only be sold to neighbors, family, lessees or the State. Foreigners or companies with foreign partners could not own land. The agrarian land could not be dedicated to non-agrarian uses, while at the same the new owner was forced to cultivate under threat of sanction. On the other hand, the machinery and other assets remained under the control of the collective farms (Meurs and Begg, 1998). Later on, the law suffered numerous modifications.

the Law on Cooperatives was passed as well. This law allowed the transformation of the collective farms into new cooperatives, avoiding their break-up. According to this law, cooperatives would be forced to pay rent and dividends to their members (Law on Cooperatives)⁸.

After the arrival to power of the anticommunist coalition Union of Democratic Forces (UDF) in November 1991, the Law on Land suffered its first modification in April 1992 in an attempt to radicalize land reform⁹. The important difference was that now the restitution of land to the former owners, or their heirs, would be made in real or historical terms and not in ideal terms; that is to say, if the property existed or if it could be re-established within its previous limits, the restitution would consist of the delivery of that actual property. In these cases, the size, category, location and limits of the property had to be clearly specified (Law on Land). This requirement sought to impede the perpetuation of the old collective farms. After this modification, the members of these farms could not exchange their ownership interests for rights in a new cooperative. On the contrary, the old farms would be divided into parceled properties and only then could the new owners form a new cooperative (Dobrova and Kozhouharova, 1994). If the land was not returnable in real or historical terms, new comparable lands would be restored in similar quantity and quality, based on a land reassignment plan (Law on Land). At the end, this has been the dominant method. The land reassignment plans were developed according to the consolidation principle. That is to say, the owners would receive consolidated land in order to avoid, insofar as it was possible, the fragmentation of the land and to facilitate its cultivation.

Access to land was limited with respect to the maximum surface area of the new properties¹⁰, a limit that disappeared in 1997, as well as with respect to the possibility of access to land ownership by foreigners. The restrictions on land ownership by foreign citizens have been decreasing with regard to the original text of the Law on Land of 1991. At that time, foreigners could only acquire land through inheritance or restitution, although they had to transfer it during the following three years according to article 22 of the Bulgarian Constitution of 1991. However, beginning in 1998, foreign entities legally registered in Bulgaria could acquire agricultural land (Law on Land). Finally, in accordance with the conditions for joining the EU, on February 16, 2005 the National

⁸ On the de-collectivization during the first years, see Billaut (1996).

⁹ After this change, the land law was amended several times. The latest changes refer to the development of land transactions and the development of the land market.

¹⁰ During practically the whole restitution process, the maximum area that each new owner could possess was 20 Ha, or 30 Ha in the region of Dobrudza, that is to say, inside the limits set by the Law of Agrarian Reform of 1946.

Assembly approved a modification of the Constitution allowing land purchases by foreigners without limitation. However, a transition period for its application until 2014 has been established.

The restitution scheme for reassignment has been a slow process. First, the rights of ownership were granted in abstract, that is to say, the right to possess land of a certain area and category was formally recognized before the effective restitution took effect. The sub-division plan of the land for assisting the restitution by reassignment required the development of a new cadastre. Next, a sketch of each parcel had to be prepared by the Municipal Agrarian Commission and given to the new owner. After that, a notary sent a title deed for the property and, finally, the Agrarian Commission issued the permanent title of the property (Howe, 1998).

The owners of land are free to determine the use of the land on the condition that their use does not harm the land and is in accordance with the current sanitary and environmental regulations. Once the property rights have been totally restored, the new owners could carry out any transaction with the land, such as, sale or rent. According to the original text of the Law on Land Lease, limits existed as to the maximum surface area and the contract duration. Starting from 1999, all such limits have disappeared¹¹ (Law on Land Lease).

On the other hand, the Law on Land contemplated the liquidation of the collective farms and other similarly structured organizations, including the new cooperatives created by Ordinances n°922 and n°56 and the Law on Cooperatives of 1991. The objective was to avoid the perpetuation of these types of organizations in the Bulgarian countryside¹². The assets were distributed between the landowners and workers, in accordance with their contribution, although in many cases the owners received quickly devaluated monetary compensation.

4.2 The results

The restitution process, in spite of having encountered many difficulties¹³, is now considered to be concluded. According to the official data, in December 2000 the 99% of the land subject to restitution has been delivered to its owners,

¹¹ In 1999 the obligation of formalizing the title on the part of a notary was eliminated, the title sent by the Municipal Agrarian Commission now being sufficient. On the other hand, the Law on Land foresaw that the future owners could take temporary possession of an area of land similar to the reinstated piece while the property title was being formalized (Due and Schmidt, 1995).

¹² A new Law on Cooperatives was adopted in 1999. According to the new law, cooperatives have now to buy or lease land to expand.

¹³ On the difficulties of the restitution process, see Miller (2003).

who have received a state title equivalent to a final title deed. Just a quarter of this land was restored in real terms (Table 1). Land use in Bulgaria after the restitution process is indicated in Table 2. Half of the total area of the country, that is 5,782,461 Ha, is agricultural land while arable land is 3,238,782 Ha, 56% of agricultural land.

Table 1. Land Restitution, 1992-2000

	1992	1993	1994	1997	2000
Total land restored ¹ :	6.2	14.2	32.4	67	99
- within existing or past physical boundaries	5.69	12.07	15.17	18.9	26.4

¹ % of total land for restitution.

Source: NSI (different issues).

The restitution process has caused three fundamental transformations: privatization, duality and fragmentation. Although information on the new agrarian structures is imperfect due to the informal character of many of them, it is certain that private ownership has become the new dominant form, representing 81% of total agricultural land and 96% of arable land. Around 8.7 million plots exist in total and 5.1 million citizens, 65% of the Bulgarian population, are landowners (Kopeva, 2003). According to data from the Bulgarian office of the United Nations Development Program, 1.5 million families cultivate land, that is to say, half of all Bulgarian families (UNDP, 2004).

Table 2. Land Use (Ha)

	1998	2003
Total Agricultural Land (TAL):	5,923,603	5,782,461
A. Utilized Agricultural Area:	5,645,089	5,326,328
A.1. Arable land	3,392,126	3,238,782
- Fallow land ¹	127,953	455,798
A.2. Permanent crops, pastures, houses gardens < 1Ha	2,252,963	2,087,546
B. Land not cultivated temporally ²	278,514	456,133
Total abandoned land (2003): 911,931 (28% of Arable land)		

¹ Land which have no yield in the monitored year. Such area may only stay in this item 3 years at the most.

² More than 3 years.

Source: MAF (2004).

According to official data from the *Agricultural Census in Bulgaria'2003* of the Ministry of Agriculture¹⁴, 40.2% of utilized agricultural area is grouped into new cooperatives (Table 3). In spite of the liquidation of collective farms, cooperativism in the Bulgarian countryside has not disappeared, but it has rather developed under a new form. Several reasons account for this phenomenon, including psychological explanations such as risk aversion in a climate of economic uncertainty, or cultural explanations such as the habit of collectivism in Bulgaria. Moreover, the difficulties associated with the individual cultivation of land are diverse. Many new owners lack knowledge and experience and do not have the economic resources and the necessary machinery to work on their lands. Under these conditions many owners give the land to the cooperative in exchange for some type of rent. The equipment of the new cooperatives is provided by using some of the assets of the liquidated collective farms belonging to the new owners. Moreover the new cooperatives, using former political networks and traditional forms of organization to maintain the consolidation of contiguous plots and the access to large machinery and installations, offer organizational advantages to land owners (Meurs and Begg, 1998). A high proportion of the cooperatives organize their production structure based on the needs of members, such as personal consumption, food for livestock, mechanization services for personal farms,

¹⁴ The methodology of the Census defines a "agricultural holding" as an independent business farm meeting some minimal surface requirements. The census-covered Utilized Agricultural Area (UAA) does not include commons lands used by various farmers neither fallow land not cultivated more than a year. It is important to note that the surveyed holdings represent 2,910,000 Ha, half of UAA in the country.

warehouses, bakeries, etc. The rest orients its production in accordance with market conditions and seek to obtain revenues in order to undertake investments (OECD, 2000).

Table 3. Structure of the holdings and size of Utilized Agricultural Area (UAA), 2003.

Type of holding	Holdings		Total UAA		Average size
	Number	%	Ha	%	Ha
Holdings with UAA	668,000	100%	2,901,800	100.0%	4.3
Physical persons (not registered)	661,340	99%	877,000	30.2%	1.3
Sole traders	2,976	0.4%	340,500	11.7%	114.4
Cooperatives	1,992	0.3%	1,168,400	40.2%	586.5
Companies	1,339	0.2%	469,900	16.2%	350.9
Partnerships, etc.	353	-	46,000	1.6%	130.3
Number of surveyed holdings operating an agricultural business: 680,000					

Source: MAF (2004).

The second type of private agrarian structure is individual farming, representing 41.9% of the utilized agricultural area. More concretely, individuals own 30.2% of the land and sole traders 11.7% (Table 3). Almost all individual farms are very small farms of less than 1 Ha, where the land is cultivated with the objective of providing products for self-consumption and, if possible, some additional income.

Land restitution in Bulgaria has also generated unequal distribution of land. According to the data from the *Agricultural Census*, 96.8% of farms are small holdings (less than 5 Ha) and occupy 15.1% of the cultivated surface area. The remaining 3.2% are large farms of 5 Ha or more and they occupy 84.9% of the surface area. Only 0.75% of the farms is larger than 50 Ha and occupies 78.3% of the surface (Table 4).

The fragmentation of land in Bulgaria is a phenomenon that can be looked at in three ways. Firstly, it means the division of land into properties of reduced size. Secondly, it means the fragmentation of ownership rights, that is to say, the existence of several holders sharing the same ownership rights. Lastly, fragmentation has led to the division of properties into diverse and non-contiguous plots. According to the *Agricultural Census*, 78% of farms have an area smaller than 1 Ha (Table 4). Concerning the fragmentation of ownership rights, although the total number of restitution applications was 1.7 million, the

current number of owners is much larger due to the multiplicity of heirs, some 5.1 million. Finally, regarding fragmentation, there are now around 8.7 million plots. Also, the forecast is that the process of subdivision of the land into smaller and smaller plots will continue as partitions are made for inheritance purposes. This tendency contrasts with the high-priority objective of the Ministry of Agriculture to impel the process of land consolidation¹⁵.

Table 4. Number and size of farms in Bulgarian agriculture, 2003.

Size of holding (Ha)	Number of holdings	Area (Ha)
0.01-0.3	238,757	35,003
0.31-0.5	122,815	49,376
0.51-1	162,376	114,769
<i>Holdings of 0.01-1 Ha</i>	<i>78% of total</i>	<i>6.84% of total area</i>
1.01-2	86,647	118,143
2.01-5	40,879	120,637
<i>Holdings of 1.01-5 Ha</i>	<i>96.8% of total</i>	<i>15.1% of total area</i>
5.01-10	9,619	64,680
10.01-50	6,305	128,170
Above 50	5,057 (0.75% of total)	2,279,206 (78.3% of total area)
Total	672,455	2,909,988

Source: Own calculations from MAF (2005).

5. Evaluating the reforms

The objective of land reform is the setting up of market relationships in the land sphere. The mechanism defined in the third section allows for the evaluation of the effectiveness of the implemented policies, establishing the degree of fulfillment of the conditions of market creation.

The first condition requires that land exchange be possible. Any agent must be able to own land, without restrictions, and diverse forms of ownership must be achievable. The land has to be fully transferable. This condition requires that

¹⁵ At the moment, the government is working on the development of consolidation of lands through the creation of a National Land Company that would take charge of buying and selling land. The growth of farm structures devoted to self-consumption could limit the possibilities of this process. In fact, according to a study mentioned by UNDP (2004), small owners are not interested in participating in the consolidation.

full legal and economic ownership of land be guaranteed. The holder of the ownership rights must have the freedom to use, abuse, and usufruct on the land.

This condition relates to changes in the scope of the formal institutions; it specifically concerns land privatization. At the present time, the restitution process has been concluded, any economic agent has access to land ownership and their rights of ownership are guaranteed. The only existing restrictions make reference to the prohibition on acquiring land on the part of foreign citizens, but these limitations are being gradually eliminated¹⁶.

The second condition requires that the price of the land be determined within the framework of the exchange. It must only be the participants in the exchange and not any third-party, such as the State for example, which determines price. Price controls on land must be lifted. This condition has also been fulfilled in the Bulgarian case. In fact, at the beginning of the transition, the State abandoned, generally, the practice of administrative price fixing.

The third condition stipulates that the price auto-regulates exchanges, that is to say, that the offer-price-demand mechanism is in place. The price must operate as a regulator of the behavior of the economic agents in their decisions to offer and to demand land. From a formal point of view, freedom exists to transfer land by means of either sale or rent. However, this mechanism doesn't work.

The processes of land transfer have not been developed significantly in Bulgaria and prices are low. At this point, it is important distinguish between renting and selling of land. Land sales remain marginal and only renting has increased during transition. Especially active in renting are the cooperatives renting the land from their members, who receive rental payments. It is important to note that within the country regional differences do exist. For example, more transactions are observed in municipalities in the North East region such as Dobrich, Razgrad or Silistra, than in others. (Kopeva, 2003). Leases have experienced some development, although limited, especially after the Law on Land Lease of 1999 was reformed, which eliminated limits on contract duration and maximum surface area. In all cases, leases have certain prominent characteristics that discourage potential lessees, such as short terms leases or the payment of rent in kind¹⁷. Sales are very infrequent¹⁸ as owners prefer to rent the land rather than sell (Swinnen and Vranken, 2005). According

¹⁶ The reform of the Constitution will allow land acquisition on the part of foreigners in the future.

¹⁷ In Bulgaria, between 80% and 85% of the leases are paid in kind and only between 15% and 20% are paid in cash (IME, 2000).

¹⁸ Some of the increase in the number of sales registered in 2001 is the result of exchanges of land by the State Land Fund (UNDP, 2004).

to the results of an opinion poll carried out by UNDP (2004), only 0.2% of owners are willing to sell. They are mainly city inhabitants who have jobs and secure incomes from different activities. It seems to be the availability, and not the lack, of income that motivates an owner to sell. Especially in uncertain era, land ownership is perceived as a secure method for maintaining wealth (Howe, 1998). Finally, the expectation of increasing land prices in the future or other reasons of extra-economic character, like the owner's sentimental value to their family land (Dirimova, 2005), could explain the reluctance to sell.

In any case, not only in the example of sale but also of renting, the role of price as regulator in land supply and demand is very limited, that is to say, price hardly stimulates these exchanges at all. There are several causes that explain the underdevelopment of land transactions in Bulgaria. According to the study made by Swinnen and Vranken (2005), more than 90% of family farms and 76% of corporate farms are unable to rent more land should they wish to. For family farms, the greatest difficulties for renting are: first, the parcels are fragmented and small; second, they have no money to rent, while agriculture is also not profitable. Additionally, corporate farms indicate that land transaction is too expensive and that there is a lack of land to rent. Buying land, around 90% of family farms and 94% of corporate farms are unable to buy more even if they wanted. For family farms, the most important difficulties in buying are the same as those for renting, with the additional difficulty in determining price. Corporate farms find that the plots are small and fragmented, not finding householders willing to sell and also having difficulty in determining the price.

Land fragmentation is a central obstacle to the development of the land market. The dispersion of plots in a non-contiguous way reduces the value of land and hinders its sale as well as its rental. Furthermore, small plots can be cultivated during the owners' spare time and can generate rents in kind, which is highly appreciated by families. Moreover, the rent that an owner could obtain by leasing a small plot of land is as insignificant as the lessee's potential profits made by its cultivation. Neither do incentives exist to sell, since proceeds from sale are low and wouldn't compensate the owner for the loss of rents in kind from cultivation¹⁹. In addition, the owner would lose his relationship with the cooperative and moreover the sale would dismantle the network of subsistence in place in the land sphere.

Additionally, the shortage of financial resources, either personal or derived from the financial system, limits the possibilities for purchasing and working the land in Bulgaria. Under these conditions, the potential regulatory effect of land prices on the demand is limited. The credit shortage in the agrarian sector

¹⁹ In general, the prices are 10 times lower than in the European Union (UNDP, 2004).

can be explained by the low profitability of the sector and by the fact that land, in practice, is not accepted as collateral²⁰. Also, conditions for cultivating land have worsened considerably since the beginning of the transition period. In the measure that the value of land exists in the possibility of it being farmed, the difficulties in land cultivation operate as another limiting mechanism on the demand. The difficulties associated with working the land are diverse and are especially evident in the case of individual farms. In the first place, it has been pointed out previously that the shortage of financial resources hinders the acquisition of inputs and necessary machinery. Moreover, existing machinery is scarce, not prepared for the fragmentation of the fields and in need of repair²¹. Fertilizers and herbicides are usually expensive and poor quality. Other difficulties include the poor state of the roads, an underdeveloped communications infrastructure and deficiencies in electrical and water supply (Georgieva, 2000).

Lastly, difficulties in making a profit in the agricultural products market reduce the attractiveness of agriculture and, consequently, that of land. The agricultural products market has experienced a strong contraction in internal demand since the beginning of transition. At the same time, external demand has also decreased because of the contraction of external markets. Other difficulties arising from changes in the external sector are the liberalization of import controls since 1991 and the growth of illegal imports (Georgieva, 1999). Typical problems resulting from the privatization and restructuring of industries related to agriculture, that is to say, the industries supplying inputs to the agricultural and agro-alimentary sectors, are another cause of the sector's difficult position. At the same time, since price liberalization in 1991, the prices of agrarian inputs have increased in greater proportion to the prices of the final products on the market. According to data of the European Commission, taking 1990 as reference (1990=100), in 1998 prices for agricultural inputs were 67,730 while output prices were 42,749 (EC, 2002).

In this context, the non-cultivation of a large expanse of land is significant. Arable land that has been abandoned, without cultivation, represents a very large area. According to data from the Ministry of Agriculture, abandoned land is approximately a 30% of arable land (Table 2). Land abandonment is the

²⁰ Giovarelli (2000) offers a wide study on mortgages of agricultural lands.

²¹ The assets of the collective farms were not easily distributable among the small owners. On the other hand, on many occasions the equipment was transferred illegally. Often, agents different from the farmers purchased the assets. On other occasions, the assets were sold in pieces, for example, the roofs, the facilities and the materials sold separately, which made them lose their productive potential (Dobrova and Kozhouharova, 1994).

consequence of the conjunction of different forces, as discussed above, that explains the reluctance to transfer land and hampering its cultivation. Many of the new owners live in cities far from the land, developing other economic activities, or they are too old to cultivate it. According to data from the Bulgarian office of the United Nations Development Program, 77% of owners live far from farms and work in other sectors (UNDP, 2004). The data of the Ministry of Agriculture coming from Agricultural Census'2003, show that owners from 55 to 75 and older represents 66% of the total and owners up to 44 years old represents just 15% (MAF, 2005). It should also be noted that non-cultivation of land is not an exclusive phenomenon of small owners; a large amount of the land owned by larger farming operations lies abandoned²².

Also significant is the growth of subsisting farms in Bulgarian agriculture. According to a survey presented by Kopeva and Noev(2003), 65.5% of total individual farms produce only for self-consumption. The share of subsisting farms is 72.7% if we consider all the farms that consume 70% or more of their production. They are mainly small-scale farms. Even 69.3% of the farms with 1.5-5 Ha consume at least 70% of their output; the percentage is even higher for smaller farms (Table 5). Therefore, the great majority of individual farms generate little or no income. However, their importance is essential to satisfy the necessity of feeding families. Around half of the country's consumption of most of the essential foods comes from subsisting farming (Mishev et al., 1999).

Table 5. Distribution of individual farms according to size and self-consumption, 1998

Farms size (Ha)	% Farms Consuming <70% of Output	% Farms Consuming 70-100% of Output	% Farms Consuming 100% of Output
0.01-0.5	24.7	6.9	68.4
0.5-1.5	21.0	2.9	76.1
1.5-5.0	30.7	10.8	58.5
> 5.0	61.3	17.3	21.4
All Farms	27.3	7.2	65.5
Number of observations: 1,085			

Source: Kopeva and Noev (2003)

The farms larger than 1 Ha selling products on the local market are intensively worked and produce vegetables, fruits, tobacco or grapes, as well as cattle products on a small scale. The medium-sized farms, between 2 and 10 Ha, and the large ones of more than 10 Ha are specialized in cereals and industrial crops as well as cattle activities, and they use more machinery. Many of these farms

²² Vranken et al. (2004) underline that land co-ownership also explains their abandonment.

rent lands, employ workers and offer services to small farmers (Hanisch, 2003). On the other hand, it should be noted that some of the cooperatives also direct their activities towards the survival of their members, but these are not small farms. Regarding animal breeding farms, many of them are also oriented towards self-consumption. For example, according to the data of the *Agricultural Census'2003*, around 42% of the holdings keep pigs and 80% of farms have less than 2 pigs, usually for self-consumption. The large livestock farms with more than 100 pigs, which are operating commercially, breed 45% of the pigs in the country. Also, the 60% of the cattle and the 57% of the sheep are bred in herds of less than 10 animals (MAF, 2004).

The factors offering an explanation for the development of subsisting farming operations are numerous (Kostov and Lingard, 2002 and Mathijs and Noev, 2004). However, it is unquestionable that the expansion of subsisting farms constitutes a guarantee of survival for those low-income families facing the lack of alternative forms of employment or income in other sectors²³. At the same time, support networks have developed around these subsisting farms that embrace family and friends who are residents in the cities. In these cases, land is considered as an instrument for subsistence and not as a factor of production for saleable products. The importance of this activity reduces the potential regulatory effect of price on land offers.

The fourth condition requires that land exchange be the dominant form of integration, although other forms of integration could appear sporadically. As has already been stated, exchanges auto-regulated by price exist only occasionally, in the form of either sale or rent, except in some specific regions of Bulgaria. Therefore, the fourth condition has not been met.

6. Conclusions

Land restitution has been completed and property rights of land are fully guaranteed, that is to say, in Bulgaria land is now privatized. However, the strategies taken by owners regarding the use of land have limited the development of a land market. Therefore, it has been observed that a

²³ For an analysis of the positive economic effects of subsistence agriculture in both production and consumption terms, see Kostov and Lingard (2004).

breakdown exists between the setting up of formal market institutions, such as privatization and the lifting of price controls, and the creation of market relationships in the land sphere. The scarcity of land transactions hinders the creation of a land market. Demand for land hardly exists and the type of dominant agrarian structures limits both supply and demand. However, some phenomena contraries to development of land market like land abandonment and the growth of subsisting farming have developed after restitution.

The study of land reform has revealed that an analysis based on an evaluation of the transformations within the framework of the formal institutions is insufficient. An approach from the institutionalism of Polanyi allows us to go further, intensifying the analysis of the degree of creation of exchange relationships. This analysis has been made possible thanks to the definition of an evaluation mechanism of the economic policy reforms having as their objective the creation of a market economy in a transitional context.

Such a mechanism applied to land reform in Bulgaria permits us to draw the conclusion that, in accordance with the conditions of market creation, although the exchange is possible (first condition) and the price is determined within the sphere of the exchange (second condition), price is not functioning as a self-regulating mechanism of the exchanges in an widespread fashion (third and fourth conditions). As a consequence, the effectiveness of land reform in Bulgaria has been limited.

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