

# DEMSTAR

Democracy, the State, and Administrative Reforms

The Political Economy of Agrarian  
Reform: Lithuania in comparative  
perspective

Lars Johannsen

with

Tom Y.K. Nielsen

DEMSTAR Research Report No. 8

September 2002

The Political Economy of Agrarian Reform:  
Lithuania in comparative perspective.

*Lars Johannsen*

*with*

*Tom Y. K. Nielsen*

**DEMSTAR Research Report No. 8**

Department of Political Science, University of Aarhus

September 2002  
[www.demstar.dk](http://www.demstar.dk)



## Table of Contents

Agrarian Reform in political economy perspective.....	7
Political economy of agrarian reform .....	9
Rationale and distributional aspects of agrarian reform.....	9
Rural and political actors.....	12
Agrarian reform in Lithuania.....	15
Early agrarian reforms: the interwar period and the communist collectivization .....	15
The post-communist agrarian reforms.....	16
The restitution process.....	17
Policy levers.....	18
The structural impact of agrarian reform on ownership and output .....	21
Adjustments of agrarian reforms and results.....	24
Interpreting the origins and the development of agrarian reform.....	25
Setting the scene: Independence and Sajudis lead reform .....	25
The 1992 elections and the return of LDDP .....	28
1996 and its aftermath: Completing the process.....	30
Conclusion and perspectives .....	32
Notes .....	35
References .....	37

## List of Figures

Figure 1. Completeness of market based reforms in rural development. 1997-1999.....	21
Figure 2. Share of agricultural area by type of holding .....	22
Figure 3. Share of total grain production by type of holding.....	24

## List of Tables

Table 1. Comparing restitution and distribution.....	9
Table 2. Laws and decisions to implement Land reform in Lithuania. ....	18
Table 3. Changes in producer support estimates for restitution countries (PSE). 1986-1999 .....	19
Table 4. Tariff barriers in agriculture 1998. ....	20
Table 5. Number of agricultural enterprises, private farms and plots (1989-1997). ....	23
Table 6. Average size of holding by type, 1986-1996 (ha). ....	23
Table 7. Meat production by type of holding. Ts tons. 1989-1997. ....	24
Table 8. Composition of the Lithuanian Parliament, 1990-2000.....	27
Table 9. Differences between independent farmers and agricultural workers. 1993.....	29

### **Agrarian Reform in political economy perspective**

What better than agrarian reform illuminates the institutionalization of private property rights and the attendant redistribution of wealth and resources in the transition to the market? Issues of commercialization, ownership rights and the structure of production in the rural sector are all related to financial development and economic growth (Byamugisha, 1999), and land reform is therefore bound to affect the distribution of resources and wealth within a society. Thus, agrarian reform policies and political developments are interwoven. That is, the economics of agrarian structures cannot be separated from the social and political organization or the historical context (El-Ghonemy, 1999, p. 3). Agrarian reform in a political economy perspective raises two central questions. First, how do agrarian reform policies evolve in response to the incentives of political actors, their strategies and choices? Second, how will the outcome of agrarian reform, its institutions and evolving structures affect the development and performance of the political and economic system? The first question is related to the policy level, whereas the second touches on long-term shifts in the social position of a group and ensuing changes in the political allegiances of that group. Lipset (1959, pp. 294-297) observed that governments can initiate a self-destructive process (or vice versa) by instituting reforms that target changes in the structural placement of social groups. This perspective implies that economic, social and political developments should be treated as interconnected factors because agrarian reform has distributional consequences that impel political actors to develop and implement strategies to defend their interests (Knight, 1992).<sup>1</sup>

However, while much of the political economy perspective focuses on the constellation of political actors, interests and resources in conjunction with the expected consequences of a chosen policy, the implicit perspective here also becomes one of the role of the state. A state capable of making and implementing policies, here referred to as state capacity (Kjær & Hansen, 2002), is also needed in a market economy (Sulieman, 1999). An analysis of the political economy offers explanations as to the choice of policy but it should not be overlooked that one aspect of the competition among political actors to form government is that executive power provide levers with respect to implementing a policy. Thus the capacity of a state to implement a policy concerns not only technical and administrative capacity and resources, but also the political will to speed up or delay implementation. Even if we know that technical and administrative aspects of state capacity enter the equation, influencing both policy formulation and implementation, we

nevertheless argue in the following that political economy analysis sees state capacity as conditioned by the strategies of political actors.

Like the two other Baltic States, Lithuania chose to base its agrarian reform policy on the principle of restitution. Lithuania is a particularly interesting and informative case not only because of its more agrarian economy,<sup>2</sup> but because the ethnic argument to secure indigenous control of the land seems to have been less prominent than in Estonia and Latvia.<sup>3</sup> Furthermore, given the early establishment of a political system with firmly based political parties, movements and organizations compared to Estonia and Latvia (Nørgaard and Johannsen, 1999, p. 94), we should expect Lithuanian politicians to be better able to express the interests of their constituencies. Moreover, the swing of the pendulum has produced clear majorities in the Lithuanian parliament. There is thus no question in the political context that the ability to make policy was present. Finally, Lerman (1999) finds Lithuania among the laggards in developing the agrarian sector during transition. While there is no question that agricultural transition and development depend on a host of factors, we nevertheless hypothesize that part of the explanation can be found in the political aspects of agrarian reform.

Specifically, we argue that the Lithuanian agrarian reform was by and large fuelled by political considerations, that is, political actors sought to defend and promote their own interests through the policy levers and reform elements available to them. In conjunction, we argue that the difficulties arising from price liberalization and initial uncertainties about access and ownership to land brought about a temporary rural opposition to the initiators of the reform. However, we also argue that agrarian reform has changed the political landscape of the rural areas, developing a hypothesis that the past years of reforms caused a realignment of rural constituencies. This in turn leads us to argue that the Lithuanian agrarian reforms have moved beyond the issue of land reform and that the present agenda will focus on other policy measures.

In the following we clarify the political economy of agrarian reform, comparing the political rationale for different types of land reform and linking these and other policy measures to the strategies of political interests. We then give a broad overview of how agrarian reform developed, tracking both policy developments and their impact upon the ownership structure. Next we seek to reconstruct the political strategies of agrarian reform. Finally, we discuss the sustainability of the reforms, new frontiers of agrarian policy and outline further research.

## Political economy of agrarian reform

Above we argued that agrarian reform has distributional consequences and is therefore likely to give rise to conflicts. Linking the different elements of agrarian reform to the political actors, a distinction between the temporary and long-term interests of rural constituencies and political parties can be developed.

### *Rationale and distributional aspects of agrarian reform.*

Even if no less than five different reform strategies can be distinguished, only the two dominant models are compared in Table 1. The restitution model, returning the land to those (or their heirs) whose land was nationalized during the process of collectivization, is the preferred choice among the Central and East European states. The model of distributing farmland to tenants dominates in the former Soviet Union, and only the Baltic States follow the path preferred in Central and Eastern Europe (Johannsen, 2001). This enables us, first, to establish a baseline for comparison, distinguishing between arguments and the conflicts associated with the reform strategies. Second, the group of countries that have chosen restitution can be established as a baseline for comparing the developments in Lithuania.

Table 1. Comparing restitution and distribution.

Type	Political rationale	Economic rationale	Conflicts
Restitution	Historical justice		Equality Choice of date Rules and limits of division Foreign ownership
Distribution	Equality	Food security of rural population through self-reliance	Historical justice Basis for distribution Foreign investment

With respect to the political arguments restitution can be described as 'turning back the clock' and distribution as 'resetting the clock.' While the main political argument for choosing distribution is equality, giving farm workers access to and ownership of the means of production, this goal can only be approached in the restitution process in as far as the previous ownership structure approximated equality. The conflicts emerging from the choice of either distribution or restitution are closely interwoven and to some extent symmetrical. Because the two reform options will benefit

different constituencies, it can be expected that policy positions will emerge concerning the type of reform chosen.

Distribution ensures food security for the rural population. Subsistence farming increased during transition in poverty stricken countries with low or declining incomes. However, concerning the much-heralded goal of increasing economic efficiency and restoring economic growth, neither restitution nor distribution as mechanisms of privatization is thought to achieve or guarantee results compared to a privatization scheme where farms are auctioned off. The political motives of historical justice and equality neither ensure viable farms, nor that beneficiaries possess the qualifications and entrepreneurial spirit required to undertake and develop individual farming. While the retention of skills is to some extent better insured by the distributive model, the often used 'number of years worked' basis for distribution allocates a disproportionately large part of the farmland and other assets to pensioners and the elderly, leaving less productive assets to young farmers capable of undertaking new ventures. Thus the successfulness of restitution and distribution depends on a functioning land market and institutions for the provision of capital, making a second round of allocation and consolidation into viable units necessary (Gorton, 2001). Despite the initial optimism reflected by the 'Washington Consensus', arguing that market-based and private family farms would be more efficient than the former state and collective farms, whether or not these had been transformed into privatized large-scale agrarian enterprises, has yet to be substantiated by firm empirical evidence (Spoor and Visser, 2001). That neither restitution nor distribution immediately leads to economic efficiency does not imply that economic arguments should be disregarded, nor that economic arguments have not been put forward for specific choices. It merely implies that economic arguments cannot be viewed independently of distributional consequences and policy positions.

Swinnen (1999) argued that historical justice may be the argument and restitution the principle, but the actual policy depends on the present-day web of political interests, interpretation of the pre-communist agrarian structure and the historical developments during WWII and communist reign. Hence in areas where many previous foreign owners fled during WWII, borders have been shifted or initial land reforms were instituted prior to the (full) communist take-over, or where the unequal pre-communist agrarian structure was based on a *latifundiae* structure, restitution has been the only available option to present-day residents and citizens. Ceilings have been imposed over how much land each individual could receive or specific reference dates set. In effect, once the choice concerning who will be eligible

to participate in the restitution process is resolved, a two-dimensional pattern of conflict appears within the restitution model. The first dimension concerns how much land each eligible participant can receive. The second concerns whether full property rights to restitution land are restored, that is, if restrictions on land use rights or the right to sell land are established.

That these two dimensions of conflict within the restitution model are laden with significant distributional consequences is evident when the hypothetical combination of severe restrictions on property rights with a low ceiling is compared to the combination with full property rights and no or at least a high ceiling. When the actual restitution policy is to be hammered out policy positions hence are likely to emerge and the use of ceilings and restrictions on property rights are but two of the tools that may be used.

Johannsen (2001) argues that agrarian reform also consists of establishing and implementing institutions to support the development of the rural economy and determine the level of support. With respect to institutional development we are here not concerned with the establishment of research and educational institutions (although such are important) but rather the development of market institutions, i.e. the development of effective land and capital markets and liberalization of prices and trade. Measuring market development and comparing the results with those achieved in other countries will provide one aspect of implementation and the extent to which government interferes.

During communism, the state interfered in the rural economy by using its monopoly on credit facilities. Prices were strictly controlled, as were trade and wage policies and the non-state agricultural sector, i.e. individual plots (Wegren, 1998). The development of the market has rendered some of these instruments obsolete. However, the market development has also given the state new policy levers through the budget, tax reforms and new types of credit instruments. Tariffs and barriers as protective instruments are relatively straightforward to interpret, and concerning transfers and credit policies these can offset the inherent taxation burden on the sector, which is considered 'normal' among OECD countries.

The Producer Support Estimate (PSE)<sup>4</sup> seeks to measure the support received by agriculture in percent of the value of agricultural production (farm gate prices). Urban-bias theory argues on the basis of studies in developing countries that the state drains resources from agriculture in order to appease the growing urban proletariat (Wegren, 1998). Urban-bias theory makes it clear that two opposite interests are formed, at least in the short term. In a similar fashion it is to be expected that resources will be drained from agriculture in the transition to market economy due to the price

liberalizations it entails. This expectation stems from the political necessity to appease the urban population and the necessity in many countries to achieve balanced budgets. Slower price liberalization for agricultural products than for input factors is one way to proceed. However, while this expectation is general, the direction and magnitude will depend on government interests and the political resources it commands.

### *Rural and political actors*

Given the distributional implications of agrarian reforms, policy positions are especially in a democracy likely to emerge, and the question becomes one of identifying the persons who have a stake in the issue. Furthermore, while it is evident that some of the stakeholders have objective and legitimate economic interests, the interests of political parties are less evident. In the following we will attempt to develop a distinction between the short term interests in winning the next election and the interest in advancing structural changes that in the long run will result in enduring shifts in the social positions and alignments of rural constituencies.

For the sake of simplicity we can assume two rural constituencies to advance their interests. The first group consists of those who expect to benefit from the restitution process and establish a private (family) farm, whereas the second group is made up of people who do not stand to benefit from restitution or will continue to work in an agricultural enterprise (former collective farm). Concerning rural interests Wegren (2000) in his analysis of Russia argues that these were unable to obtain state intervention to ameliorate the impact of price liberalization. This would not be surprising if the urban bias is applicable to all transition countries. Consequently both rural constituencies can be expected to unite to get government support to offset the effect of price liberalization in the short term. However, as increasing shares of agricultural products from the large enterprises find their way to the market these are even more vulnerable to price liberalization than the small family farms. The temporary alliance is therefore not evident in the long term. Both groups will be interested in developing collective support measures for agriculture, but given the heterogeneity in size and output structure between the two constituencies, differences are likely to emerge when it comes to specific support measures. Managers from the agricultural enterprises, no less keen to defend their turf than other farmers, will also seek to campaign against special privileges, i.e. credit-lines, tax-breaks and income support, for the family farmers, arguing that the difficulties of the agrarian enterprises stem from the very break-up into smaller units in the first place, and that the agricultural enterprises were forced to cede land to

the new farmers.<sup>5</sup> In the short term, however, the central issue is if the urban-bias produces a rural opposition to land reform, and if so, whether this opposition is temporary and fades as the changes in ownership structure bring realign rural interests.

Whether rural interests are in fact realigned because of the restitution process and the ownership issue is a most puzzling question. In the short term, both groups operate under a degree of uncertainty because they do not yet know the actual assignment of land to be privatized under the restitution program. The distributional conflict is symmetrical. The beneficiaries of restitution have an interest in achieving full restitution and property rights, and the agricultural enterprises the opposite. Managers of agricultural enterprises can, however, within the limits of the law seek to discourage entrepreneurial and productive members from withdrawing by impeding the registration and identification of members' assets (Mathijs & Swinnen, 1998, p. 14-15). As the changes in ownership structure become permanent, both groups will in the long run develop pervasive interests in developing effective land markets and rural financial institutions to raise capital for investments. However, this requires that the changes have become irreversible, that is, that opposition to the restitution program and market agriculture effectively cease to exist. Achieving this outcome becomes a question not only of mediating between the two groups, formulating restrictions on full restitution and property rights, but also whether the reforms can 'survive' the temporary alliance needed to offset price liberalization.

We turn to the strategies adopted by the political parties. Within political economics much ink has been spilled over political business cycles on the assumption that politicians only seek to maximize their chances of being reelected, offering a picture of the electorate as somewhat naïve and retrospective (Alt & Alesina, 1996, pp. 660-661). There is no question that political parties will seek to maximize the probability of reelection and that retrospective evaluation of government performance matters. However, when it comes to initiating reform policies entailing profound structural changes, we assume that politicians and electorate alike are able to undertake prospective evaluations. Furthermore, we assume that political actors are capable of looking beyond the horizon of the next election, and finally, we assume that ideology and the perception of a historical role also enter into the equation. Thus, while much of the analysis is based on the assumption of rational strategic actors, we concur with Offe (1996) that the sociological perspective must be taken into account. These assumptions lead to the following proposition about the strategy and interests of political actors.

In the original Rokkan-Lipset model cleavage structures existed before the introduction of mass politics and party systems (Flora with Kuhnle & Urwin, 1999, p. 34). However, the collapse of communism and the instant arrival of mass politics, i.e. meaningful elections on the basis of universal suffrage, opened a window of opportunity for political actors to advance reforms to change the structural foundations of society rapidly. The issue of agrarian reform therefore cannot escape the debate over whether reform should follow a radical (big bang) or more gradual strategy. The implicit rationale of the radical strategy is to introduce irreversible changes before a political backlash sets in. In this vein, Nørgaard (2000, p. 24-25) argues that the viability of radical reforms depends on demonstrating positive results before the next election. This perspective overlooks that long-term gains from structural changes can offset short-term losses. Furthermore, the argument ignores that political actors may be less preoccupied with the results of the coming election than fulfilling what they perceive as their historical roles. This implies that initiators of reform can gain a long-term advantage by seeking to transform the structural underpinnings of the political resources available. Their long-term goal is to attempt to realign social classes in the rural areas. Thus in socio-economic terms agrarian reform, and in particular the restoration of independent farming, is expected to produce new political allegiances as farmers will develop different values as they come to own the land they till.<sup>6</sup> If the long term gains are considered to be sufficiently large, either because they are likely to increase the future electoral base or because the initiator sees it as a historical mission, it implies that the short-term political costs, while not irrelevant, can be allowed to be large. This is, however, contingent upon an irreversible agrarian reform in the event that the next election is lost to the adversary. It may therefore be rational to initiate radical reform with high political costs, given that these costs cement the reform.

Assuming that two political actors have symmetrical interests, they will utilize the reform elements and levers discussed above to advance them. However, it is imperative to recall that political actors are conditioned and mediated by the development of democracy, and newly established institutional rules offer both resources and veto-points in the process of weighing the interests in play (El-Ghonemy, 1999). In order to analyse the political economy of agrarian reform we therefore have to examine the actual distribution of political resources within the system and the institutional setup of the system in its historical context. Furthermore, it is important to analyze the economic developments brought about by policy. These issues

are the focal points of our analysis of the agrarian reform and its structural outcome in Lithuania.

### **Agrarian reform in Lithuania**

Lithuania is not without experience in agrarian reform and in particular land reforms that have changed both the ownership structure and the rural economy. While it is possible to distinguish four different periods of reform, two are particularly relevant to the wave of reform that followed the collapse of communism and renewed independence. This section therefore tracks the historical preconditions before surveying the development of Lithuania's post-communist agrarian reform.

#### *Early agrarian reforms: the interwar period and the communist collectivization*

While the first reforms initiated in the early 19th century gradually emancipated the serfs and allowed them to buy land, it was the achievement of national independence in the aftermath of World War I that provided the opportunity to implement a radical land reform. This reform was intended to wrest control over the rural economy from the large estates, which is of particular relevance because the process of expropriation, compensation and redistribution succeeded in developing an egalitarian ownership structure. Between 1922 and 1930 almost 300 000 private farms averaging 15 ha had been established, and the large estates, which prior to the reforms had numbered around 1 000 of an average size of 2,400 ha, now totaled 443 averaging 247 ha (Meyers & Kazlauskiene, 1998, pp. 87-88).

The reform was based on the political desire to create an independent and indigenous class of farmers who in return were thought to support the new rule. It also prepared the ground for the successful development of the rural economy during the interwar period, and Lithuania became a large exporter of agricultural products (Nørgaard & Johannsen, 1999, pp. 41-42). Thus the interwar period and the first experience with independence came to be a focal point as a 'golden era' for independence-minded politicians at the end of Soviet rule. The egalitarian ownership structure also ensured that restitution would not be rife with inequities.

With the forced annexation of Lithuania by the Soviet Union a brutal process of collectivization began in the 1940s. The process started with the nationalization of land in 1940, was temporarily halted by the German invasion, only to resume in a yet more brutal manner and at a quicker pace once the German armies had been defeated. The brutality included large and more or less random deportations to Siberia and the forced collectivization was not only a reflection of communist ideology. It was also intended to

break the armed resistance to Soviet rule that drew support from the rural areas (ibid, p. 34). By the end of the 1950s armed resistance had come to an end and only a few family farms remained outside the collectives (Meyers and Kazlauskiene, 1998, p. 88). However, collectivization is not the only characteristic of communist agricultural policy. The policy levers applied by the state in the planned economy to control input and output prices interfered in the rural economy. Thus at the dawn of independence Lithuania's agrarian sector was based on a 'communist estate system' consisting of some 1 200 state and collective farms averaging more than 2,500 ha (Kazlauskiene & Meyers, 1996). The situation was exacerbated by the absence of market institutions, making the new reforms more complicated than those instituted in the interwar era.

### *The post-communist agrarian reforms*

Lithuanian post-communist agrarian reforms were initiated while the country was still part of the Soviet Union. Inspired by the developments of perestroika and under the impression of declining productivity and output in the economy at large, the 1989 *Peasant Farm Law* allowed for the establishment of family farms with inheritable land use rights. By January 1992 some 5,000 family farms, averaging 16.5 ha, tilled about 2.2 percent of available arable land. Considerable political capital was invested in these family farms as they were made eligible for government support and credit provisions. Operating under relatively favorable economic conditions, the family farms came to demonstrate the viability of independent farming in Lithuania (Kazlauskiene & Meyers, 1996). Unrelated to the establishment of family farms, an experiment to transform the collective farms was underway. At the initiative of some collective farms, new enterprises were formed, and in 20 cases properties were divided according to the age of workers, their wages and other criteria. It is quite evident, however, that this experiment formed the core of later distribution proposals. This experiment was abandoned with the adoption of the restitution policy (Kilius, 1996, p. 334).

Under the impression of increasing difficulties with food provisions and declining rural incomes, the second step in land reform was taken in 1990 when the size of permitted personal household plots was increased from 0.5 ha to 3 ha for employees at state and collective farms, and from 0.5 ha to 2 ha for non-agricultural rural employees. This later turned out to complicate the restitution process as the personal plots amounted for about 20 percent of total arable land in 1992 (Kazlauskiene & Meyers, 1996). To this should be added that the family farms established according to the *Peasant Farm Law* also occupied some of the land available for restitution. This corresponds to

Mathijs and Swinnen's (1998) estimate that respectively about 9, 21 and 69 percent of all arable land was privatized through the establishment of family farms, either by distribution (largely household plots) or through the restitution process.

Before independence 3 different rural constituencies are discernable. First, the state and collective farms are still the backbone of rural production. Second, the family farms that began as an experiment and proved to be viable units, and finally, the household plots that provided for subsistence farming and supplemented rural incomes whenever surplus production could be sold.

#### *The restitution process*

The second wave of reform was preceded by a series of laws passed after the declaration of independence in March 1990 (see Table 2). Already prior to achieving de facto independence in August 1991 restitution was adopted as the main principle of land reform. Then in the early summer of 1991 the laws on *Agricultural Companies, Procedure and Conditions of Restitution of Ownership Rights to Existing Real Property, Land Reform, and Privatization of Agricultural Enterprise Property* provided the necessary legal framework for restructuring state and collective farms and initiating the process of reestablishing private farming. Together with the later *Law on Land* passed in 1994, the basis for the development of a land market was now in place.

Although restitution was the basic principle, the body of laws also stipulated restrictions as to who could participate in the process, established an upper ceiling and certain restrictions on property rights. Only current citizens, former owners and their legal heirs<sup>7</sup> could participate in the restitution process, and a maximum of 80 ha, including 50 ha of arable land, was set as ceiling. While former owners had priority in acquiring land the government could satisfy the claimants both in kind or through compensation (Kazlauskiene & Meyers, 1996; Klimaoauskas & Kasnauskienė, 1996, p. 326). In the beginning, land acquired through restitution could not be sold or leased for a period of 5 years. Furthermore, a provision was later introduced specifying that landowners in the neighborhood of the new agricultural companies (the transformed collectives) be required to lease their land to these for as long as they remained in existence. This provision, which was revoked in 1997, affected about 9 000 restitution farms (Meyers and Kazlauskiene, 1998, p.105).

Rural dwellers and agricultural workers who were not eligible to participate in the restitution process could buy land from the state at predetermined prices. However, many and overlapping claims for restitution as well

as the insecurity felt by those who had obtained land use rights through the *Peasant Farm Law* or through the increased size of household plots complicated the implementation of the land reform and increased tensions during the first years. Also the former collectives, now transformed, operated under difficulties and uncertainties, not knowing the actual acreage of their holdings until after the process was completed.

Table 2. Laws and decisions to implement Land reform in Lithuania.

Year	Laws and decisions
1989	Law on Peasant Farming in the Socialist Republic of Lithuania
1990	Decision of the Supreme Court of the Republic of Lithuania, No. 541, On the Increase of Rural Population's Personal Plots
1991	Law on the Initial Privatisation of State Property, No. I-1115
1991	Law on Agricultural Companies, No. I-1222, amended 1993
1991	Law on Procedure and Conditions of Restitution of Ownership Rights to the Existing Real Property, No I-1454
1991	Law on Land Reform, No. I-1607
1991	Law on the Privatization of Agricultural Enterprise Property, No. I-1624
1992	Constitution § 47
1993	Law on Land Leasing, No. I-354
1994	The Law on Land of the Republic of Lithuania, No. I-446
1994	Law on the State Regulation of Economic Relations in Agriculture, No. I-734
1995	Law on Privatisation of State-owned and Municipal Property, No. I-1001
1996	The Law on Real Property Register of the Republic of Lithuania, No. I-1539
1997	The Law on Restoration of Citizens' Ownership Rights to the Existing Real Property of The Republic of Lithuania with amendments, No. VIII-359
1997	The Law on Land Reform of the Republic of Lithuania with amendment, No. VIII-370
1998	Law on amendment of the Law on Land Lease, No. VIII-679

Source: [http://www3.lrs.lt/pls/inter/w3\\_eng\\_h.home](http://www3.lrs.lt/pls/inter/w3_eng_h.home); <http://www.loc.gov/law/guide/lithuania.html>

### *Policy levers*

The land issue was not the only component of the emerging agricultural policy. When figures for the Producers Support Estimates (PSE) for Lithuania are compared with those of other countries who have used restitution as the principle mechanism (to varying degrees) and the OECD (see Table 3), it is clear that not only were significant resources drained from the agricultural sector in the Baltic States during the first years of reform, but that Lithuanian

agriculture and farmers were particularly hard hit. In the middle of the 1980s under Soviet rule, Baltic agriculture received approximately twice as much support as the OECD average, corresponding to roughly 80 percent of the value of production. By 1991, however, the figure was in the red for Lithuania as more than twice the value of agricultural production was drained from the rural economy.

This drain was by and large due to the lifting of price restrictions with respect to input factors, whereas the price ceilings for agricultural products were liberalized at a slower pace. Meyers and Kazlauskiene (1998, p. 101) report that the price ratio of fertilizer to wheat rose by 300 to 400 percent from 1990 to 1992 in all three Baltic countries, and the price ratio of diesel fuel to wheat by as much as 700 percent in Latvia and Lithuania. Despite these transfers from the rural to the urban economy, average households spent more than 60 percent of their income on food in 1992 and 1993, a dramatic increase from 38 percent in 1991 (OECD, 1998).

Table 3. Changes in producer support estimates for restitution countries (PSE). 1986-1999.

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Lithuania	79	77	80	75	72	-263	-124	-37	-15	0	4	7	20	21
Estonia	76	76	79	74	71	59	-97	-32	-10	0	7	5	20	15
Latvia	83	82	82	77	76	83	-101	-40	6	5	3	4	17	18
Czech Rep.				55	54	52	31	27	21	13	13	10	17	
Hungary				27	24	13	17	20	25	14	10	8	12	
Poland				9	-18	0	20	15	19	17	24	21	25	
Romania	48	54	51	46	28	15	8	16	19	10	12	3	25	20
Slovak R.	56	51	46	50	50	35	28	26	23	18	11	13	26	25
OECD	43	43	37	32	38	40	39	38	36	34	31	32	38	

Legend: PSE is defined as the annual monetary value of gross transfers from consumers and taxpayers to support agricultural producers caused by policy measures. At farm gate prices. 1998 predictions, 1999 estimates. The OECD does not include the Czech Republic, Hungary, Poland, Mexico and Korea.

Source: OECD (1999, 2000).

To the inventory of policy levers should be added the possibility of protecting domestic agricultural production from outside competition. Table 4 compares the tariff barriers of the three Baltic countries. The point here is not the extreme liberal trade regime conducted by Estonia compared to Latvia

and Lithuania. All three countries are in compliance with the WTO. The point is rather that even if Lithuania on average has lower tariff barriers than Latvia, the trade regime can be applied with much more discretion in Lithuania than in Latvia. Thus on selected agricultural products Lithuania can protect its farmers from competition using tariffs walls of up to 87 per cent. This gives rural interests an incentive to influence government and as the cabinet is allowed to introduce changes by decree, it is quite vulnerable lobbyism. This partly explains why Lithuania failed to comply with an IMF agreement in 1997 to cut agricultural tariffs even further (Nørgaard & Johannsen, 1999, pp. 135-136).

Table 4. Tariff barriers in agriculture 1998.

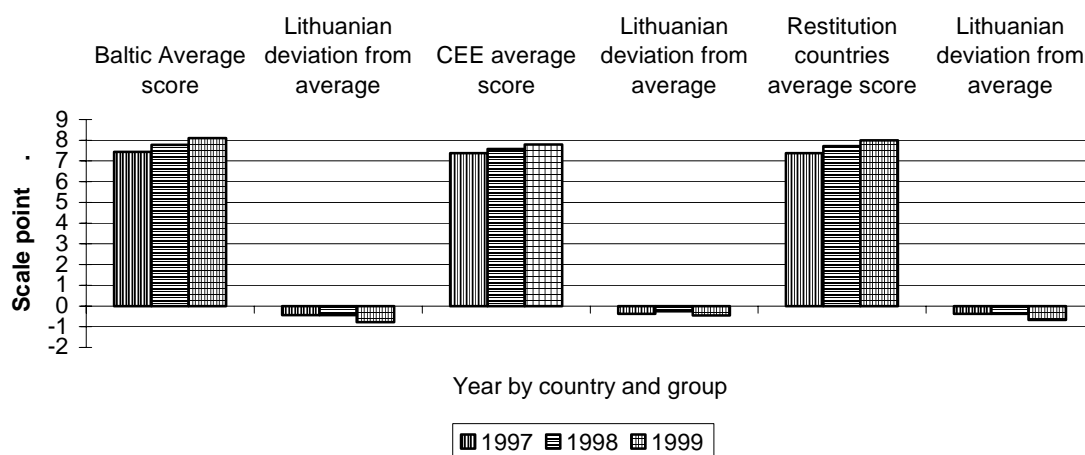
	Average	Range
Lithuania	9.5	0 – 87
Estonia	0	0 – 0
Latvia	14	0 – 45

Source: OECD 1999.

With respect to the process of implementing land and market reforms the World Bank (2000, pp. 42-43) has developed an index measuring the extent to which market reforms in 5 different areas have been completed. Unfortunately the World Bank Index is only available from 1997. Comparing Lithuania with other restitution countries, the CEE countries and the two other Baltic States provide a snapshot of the state of reforms by 1997. We have chosen to concentrate on three of the five areas.<sup>8</sup> First, the extents to which prices and markets have been liberalized. Second, the extent to which land reform and the subsequent farming structure are based on private ownership and active land markets. And third, whether the Soviet-type of rural financial system has been restructured and institutions for rural finance developed. In each instance the ratings run from 1 to 10, 1 indicating a centrally planned economy and 10 completed market reforms.

In general terms Lithuania ranked among the fastest reforming countries in 1997 compared to all the former communist countries (Csaki & Tuck, 2000), and does not lag much behind even though there is a clear trend in comparisons with the Baltic States (incl. Lithuania), the CEE countries and the restitution countries. For all years Lithuania has on average reformed at a slower pace compared to the reference groups.

Figure 1. Completeness of market based reforms in rural development. 1997-1999.



Legend: The total score is based on the scores of price and market, land reform and rural finance. The CEE group consists of Albania, Bulgaria, the Czech Republic, Hungary, Poland, Romania, Slovakia, and Slovenia. The restitution countries comprise Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Romania and Slovakia. For a classification of restitution countries, see Johannsen, 2001.

Source: World Bank 2000.

In all three indices used here Lithuania lags considerably behind in the development of rural finance, is not far behind on price and market liberalization and is almost on a par on land reform. In effect, when the development of land reform is considered alone, Lithuania occupied a middle position among the Baltic countries in 1997, its land reform being less completed compared to Latvia, but ahead of Estonia, where difficulties were encountered when large-scale farms were restructured.

### The structural impact of agrarian reform on ownership and output

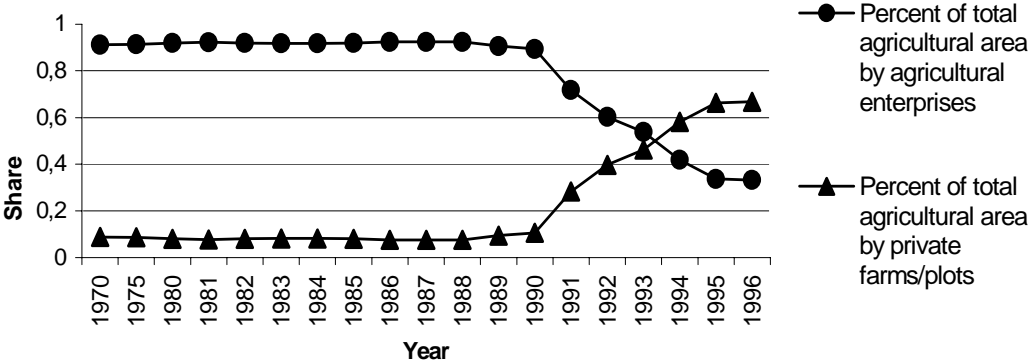
Despite lagging somewhat behind in market based rural development, the restitution process, the early establishment of family farms and the larger household plots have considerably changed the structure of Lithuania's agricultural sector. As evident from Figure 2, which depicts the share of agricultural area by type of holding, the share of individual farming rose from less than 10 percent during communism, reflecting the reliance on large collective farms and small household plots, to well over 60 percent in 1996. Individual farming rocketed in 1991 and 1992 when family farms were introduced and personal household plots enlarged, only to gain further momentum with the advancing restitution process over the next years. The trend levelled out from 1995 to 1996, showing only an incremental increase as the share of individual farming rose from 66.4 per cent to 66.8 percent of

the total agricultural area. Furthermore, the slower pace is also reflected in Table 4 that lists the number of agricultural enterprises and private farms. Here it is interesting to note that while the number of private farms has grown steadily over the years, it declined in 1997, whereas the number of agricultural enterprises more than tripled from 1991 to 1992, reflecting the early restructuring efforts.

As demonstrated in Table 6, the units of production are smaller than before reforms were initiated. Not only has the increase in number of agricultural enterprises led to an overall declining size, but in particular the new private farms are relatively small. Up until 1994 the average size of private farms continued to decline to the point where their economic viability became questionable (Klimaoauskas & Kasnauskienė, 1996, p. 324).<sup>9</sup> However, the reduction in the average size of agricultural enterprises from 1991 to 1992 cannot solely account for the increase in the number of enterprises.

A clear pattern emerges and it is consistent with the picture in Figure 2 and Table 5. The land reform process has to a remarkable degree followed the same trend as the post World War I reforms where the estates became fewer and smaller and agriculture came to rely increasingly on individual farming.

Figure 2. Share of agricultural area by type of holding.



Legend: Before 1980 fifth year observations, from 1980 yearly observations. Agricultural enterprises consist of state and collective farms, and private sector holdings consist of household plots and private farms.

Source: OECD 1998.

Table 5. Number of agricultural enterprises, private farms and plots (1989-1997).

	1989	1990	1991	1992	1993	1994	1995	1996	1997
Agricultural enterprises	1.186	1.212	1.219	4.279	3.483	2.880	2.611	2.328	n/a
Private farms/plots	n/a	n/a	n/a	439.053	430.037	449.676	434.806	410.304	386.148
-plots	n/a	n/a	n/a	413.138	403.977	396.710	378.412	342.654	327.598
-private farms	1.162	2.892	5.138	25.915	26.060	52.966	56.394	67.650	58.550

Source: OECD 1998.

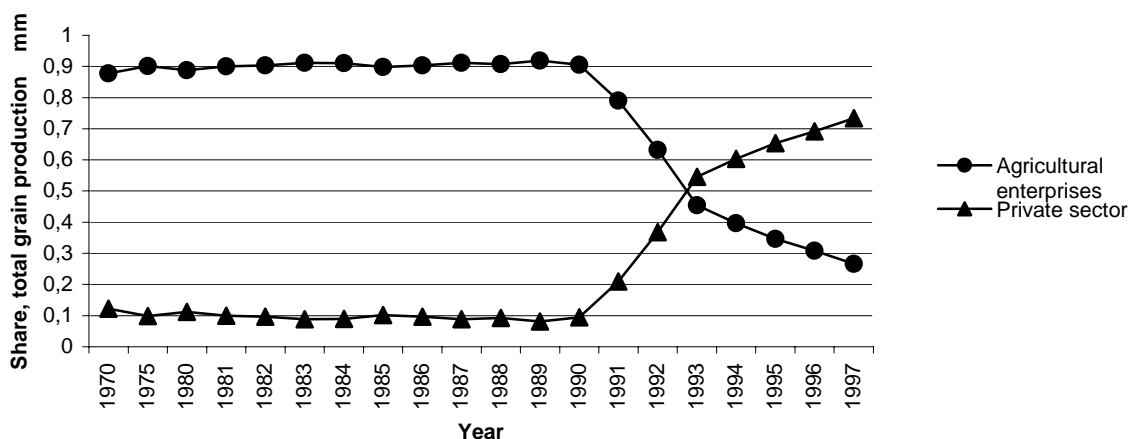
Table 6. Average size of holding by type, 1986-1996 (ha).

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Agricultural enterprises	2895	2881	2841	2594	2491	2040	398	385	334	270	330
Private farms	-	-	-	17	16.8	16.8	12.6	13.2	11.5	12.3	13.9

Source: OECD 1998.

The first seven years of post-communist agrarian reform have changed the structure of Lithuanian agriculture. The importance of the agricultural enterprises has declined and the private sector has surpassed them. Figure 3 shows that already by 1993 the private sector accounted for more than half of the grain produced. A similar picture can be constructed from Table 7. By 1994 more than half of the meat production came from individual farms, and not least the household plots. However, it is also evident from Table 7 that the output from commercial farms has collapsed. By 1997 meat from household plots accounted for approximately 40 percent of total production, and if the output from plots is discounted then commercial farming (agrarian enterprises and private farms) output had declined to no less than 28.6 percent in 1997 compared to 1989. Furthermore, when considering the level of producer support (see Table 3) is it perhaps no coincidence that the sharp reduction in meat production begins in 1992. Moreover, in their survey of the performance of agrarian enterprises in the Panevezys region Klimaoauskas and Kasnauskienė (1996) find that the process of subdividing the collectives into smaller units had dire consequences for productivity. An ill-considered distribution and division of production facilities is part of the explanation for the decrease in production.

Figure 3. Share of total grain production by type of holding.



Legend: Before 1980 fifth year observations, from 1980 yearly observations. Agricultural enterprises consist of state and collective farms, and private sector holdings of household plots and private farms.

Source: OECD 1998

Table 7. Meat production by type of holding. Ts tons. 1989-1997.

	1989	1990	1991	1992	1993	1994	1995	1996	1997
Agricultural enterprises	610.6	572.6	478.7	383.6	220.2	163.2	142.6	130.1	130.4
Private farms/plots	158.6	188.4	172.7	227.8	192.8	167.7	159.4	155.9	161.0
- plots	158.6	185.6	159.7	192.6	148.2	115.8	98.7	113.7	116.5
- private farms	0	2.8	13.0	35.2	44.6	51.9	60.7	42.2	44.5
Total	769.2	761.0	651.4	611.4	413.0	330.9	302.0	286.0	291.4

Source: OECD 1998.

### *Adjustments of agrarian reforms and results*

Early on the questions of economic viability led to measures to prevent further fragmentation. Compulsory infinite lease to agrarian enterprises could be seen in this light. Further, amendments to the Law on Land Reform adopted in 1993 circumscribed the division of land between several heirs (Klimaoauskas & Kasnauskienė, 1996, p. 335).

Overall, Lithuania's agrarian reforms can in hindsight be deemed successful if the political goal was to not only introduce private and individual farming but also to break-up the former collective farms, i.e. the communist estate economy, and through the restitution process fragment the land ownership structure. The success of the agrarian reforms is less evident in view of the collapse in production. In an already depressed economy sustaining a sharp downturn in overall GDP, the share of agriculture fell

even further, from about a quarter in 1990 to about 10 percent in 1997 (OECD, 1998).

Lithuania decided to implement restitution based land reform upon declaring independence and, as argued above, such a choice is less fuelled by economic than by political considerations. In the following, we seek to reinterpret the agrarian reforms in light of political aspects, that is, the development of new alliances and political positions to protect and promote political interests in agrarian reform.

### **Interpreting the origins and the development of agrarian reform**

Lithuanian independence did not come easily and followed a protracted conflict with Moscow. This conflict not only partly explains why radical reform measures were adopted, but also why the fundamental drive towards independent farming through restitution could not be stopped.

#### *Setting the scene: Independence and Sajudis lead reform*

In 1988 Lithuanian intellectuals and politicians established the Movement for Restructuring, later to be known under its Lithuanian short name 'Sajudis'. However, what had started as movement in support of Gorbachev's 'Perestroika' soon turned into a full-fledged independence movement. Ironically, the early rallies for independence, and in particular the forcible break-up of a demonstration in Vilnius on September 28, 1988, led to the demise of the hard-line communist leadership and the rise of Algirdas Brazauskas to the post of first secretary of the Lithuanian Communist Party, who successfully transformed the Communist Party into the Lithuanian Democratic Labour Party (LDDP)<sup>10</sup> (Vardys and Sedaitis, 1997, p. 101; 131-133). The LDDP became the Sajudis' chief opponent and won the elections in 1992 (see Table 8). Thus, in contrast to the two other Baltic States the Lithuanian Communist Party managed to survive the independence struggle and, despite a much-depleted membership, they remained the only disciplined political force in the country in possession of an infrastructure (buildings, local party organizations and newspapers). In contrast, the Sajudis had maintained its movement structure and only began establishing a firm party organization following the electoral defeat in 1992 (Vardys & Sedaitis, 1997, p. 193-194; Nørgaard & Johannsen, 1999, p. 87-94).

Following the declaration of independence on March 11, 1990 the Sajudis managed to reduce the conflict to being either a patriot or a communist. However, even if this description is at best a caricature, it is nevertheless evident that Brazauskas adhered to a less flamboyant and confrontational style than Landsbergis (the leader of Sajudis) in negotiations with Moscow.

Growing polarization between right and left wing forces inspired the Sajudis to use the symbols of the interwar republic. The 'golden era' became a focal point that was not only utilized throughout the Baltic States in the mass calendar demonstrations, for example commemorating the anniversary of the Molotov-Ribbentrop pact that preceded the Communist takeover in 1940, but also in the present attempt to restore and recreate a continuity with the past (ibid, pp. 53). The 'golden era' was used not only during the struggle for independence but was also invoked as a political symbol. For example, Landsbergis chose to call the 'state newspaper' *Lietuvos Aidas* after the newspaper used by President Smetona (the interwar strongman) as his official organ.

The decision to adopt restitution as the guiding principle for agrarian reform should be seen in this light. Lithuania had been occupied by the Soviet Union in 1940 and hence the interwar republic was to be restored. The 1990 declaration of independence did not establish a new republic but restored the old one, right down to reinstating Smetona's undemocratic 1938 constitution, minutes later followed by the adoption of a provisional constitution in the parliament's first sitting in 1990. Private ownership should therefore likewise be restored since the collectivization had taken place during the Soviet occupation. In this sense the past was utilized to select the political instruments.

The resolve to adopt restitution was also impelled by the Soviet crack-down in Vilnius on the night between 12 and 13 January, 1991. It coincided not only with the outbreak of the Gulf War, but was also part of an intensified political struggle in Lithuania, where the government had been brought down by a combination of power plays within the Sajudis leadership and food shortages and demonstrations. Lithuanian independence took its toll in blood and left 14 dead and hundreds of wounded. This only served to strengthen popular resolve. From thereon there could be no turning back and with the series of laws adopted during the remaining part of the 'phony independence' period in 1991 (until actual independence was achieved in August 1991), the Sajudis leadership developed the framework for agrarian reform.

Sajudis saw restitution as serving three interrelated goals. First, it provided continuity with the interwar republic and a radical break from communism. Second, it served the long-term goal of creating a class of independent landowners, and finally, it attacked the LDDP stronghold in the rural areas where the managers of the former state and collective farms were influential opinion leaders. Thus restitution and the break-up of collective farms provided the means to destroy part of the political infrastructure

of the LDDP in the rural areas. This process of fragmentation reached full force during 1991, and as evident from Tables 5 and 6 above the number of private farms had increased fivefold by 1992, and the average agricultural enterprise controlled less than 20 percent of previous holdings.

Table 8. Composition of the Lithuanian Parliament, 1990-2000.

Party	1990	1992	1996	2000
A. Brazauskas Social Democratic Coalition				51
<i>Lithuanian Democratic Labour Party (LDDP)</i> (1) (2)	46	73	12	
<i>Lithuanian Social Democratic Party (LSDP)</i> (2) (3)	9	8	12	
New Union-Social Liberals (NS)	-	-	-	29
Lithuanian Liberal Union (LLS)	-	-	1	34
Fatherland Union-Lithuanian Conservatives (TS-LK) (4)	58	28	70	9
Lithuanian Christian Democratic Union (LKDS) (5)	-	1	1	1
Lithuanian Peasants' Party (LVS)	-	-	1	4
Lithuanian Christian Democratic Party (LKDP) (5)	2	18	16	2
Lithuanian Centre Union (LCS)	-	2	14	2
Electoral Action of Lithuania's Poles (LLRA/LLS)	-	4	1	2
Lithuanian Communist Party-CPSU (LKP-TSKP)	7	-	-	-
Others	13	7	13	7
Total	135	141	141	141

Notes: (1) LDDP ran as the Reformed Communist Party in 1990. (2) Electoral alliance between LDDP and LSDP in 2000. (3) As the Social Democratic Coalition in 2000, including New Democracy Party and Union of the Russians of Lithuania. (4) Formerly Sajudis. (5) Merged Lithuanian Christian Democrats (LKD).

Source: <http://www.parties-and-elections.de/lithuania.html>.

However, the radical reform was based on political interests, disregarding economic efficiency. Many small farms had neither machinery nor livestock, and efficient agricultural enterprises were broken up without a view to creating new viable production units (Clark, 1995, p. 53). Together with the dramatically deteriorating economic situation and the drain of resources from the rural economy, this contributed greatly to the Sajudis' electoral defeat in 1992. In addition, even if the restitution process was set in motion immediately it could not possibly be completed by the elections. Thus in the autumn of 1992 no rural group could feel secure that their claim was valid.

### *The 1992 elections and the return of LDDP*

In the short term, the strategy of developing a class of independent farmers backfired on the Sajudis. Instead the uncertainty and economic hardships provided the impetus for a rural alliance between agricultural workers and the new farmers. Clark (*ibid*, p. 59-60) finds a strong correlation between class vote and the outcome of the 1992 elections. Moreover, even if the urban base of the right wing parties was less secure than the rural base of the political left, the critical shift toward the left came when the workers shifted allegiance to the LDDP in the autumn of 1992. Furthermore, there is also evidence of retrospective voting. Ališauskiene et al. (1993) show by categorizing respondents into four groups according to degree of optimism that the group of optimists, which had right wing inclinations, declined from 51 percent of the population in 1991 to about 14 percent in September 1992. In the same period the critical optimists with center-right leanings grew from 5 to 16 percent and the passive pessimists and pessimists, who were left wing, from 15 to 46 percent.

Not much evidence has so far been presented with respect to the development of a short-term rural alliance and changing patterns of allegiances. However, data from the 1993 New Baltic Barometer survey (see Table 9), the only year available, tell a revealing story of the differences between agricultural workers and independent farmers with respect to trust in political institutions, interest in politics and attitudes towards private and state responsibilities.

The results seem to indicate that the theoretical expectation of shifting allegiances is substantiated. Independent farmers are more inclined to agree with Sajudis's positions and the agricultural workers are closer to the political left.

Agricultural workers express more trust in the parliament, less trust in a strong leader and more interest in politics than independent farmers do. Their greater interest in politics and trust in parliament may to some extent be interpreted as a result of the LDDP having recently returned to power when the survey was conducted. Furthermore, the higher degree of trust in a strong leader exhibited by the independent farmers meshes well with the position advocated by the Sajudis during the constitutional struggle.<sup>11</sup> With respect to attitudes towards state and private responsibilities, it is worth noting that agricultural workers to a higher degree than independent farmers support state interference in the economy through ownership, job creation and price setting, and the creation of a state lead welfare state. This is supported by Taljunaite (1995), who reports that agricultural workers are

more prone than farmers to support state ownership of diverse institutions such as kindergartens, hospitals, banks, education and public transport.

Table 9. Differences between independent farmers and agricultural workers. 1993.

	Trust		Interest Politics	Private vs. State attitudes		
	Parlia- ment	Strong leader		Private vs. state owner- ship	Individual vs. state respon- sibility for jobs and price	Individual vs. state respon- sibility for individual welfare
Independent farmers	2.65	2.78	2.38	1.07	1.56	1.41
Agricultural workers	2.34	3.03	1.97	1.35	1.75	1.62

Note: For the two trust items high trust equals low score. For the 'interest in politics' low score equals high interests. For the private/individual vs. state attitudes low values is support for private/individual. The scores differ significantly at the 0.05 level.

Source: Calculated by the authors using NBB 1993 data.

The rural areas came out in support of the LDDP in the 1992 elections, but the data in Table 9 nevertheless paint a picture of an embryonic cleavage between workers employed by agrarian enterprises and independent farmers. If the Sajudis had a long-term goal of creating a class adhering to market and anti-statist values, Table 9 supports the proposition that such a class is indeed in the making. If the LDDP was to maintain an electoral base in agriculture it was therefore important not only to slow the restitution process but also to secure the survival of agricultural enterprises, not just in numbers, but ensuring that the agrarian enterprises would remain an attractive option for would-be independent farmers.

Having won the 1992 elections, one of the first acts of the new LDDP government was to issue a moratorium on further privatization and, in particular, on the implementation of the agrarian reform. The LDDP through its economic program wanted to ensure the survival of large state-owned enterprises and agricultural enterprises (Clark, 1995, pp. 53-55). The LDDP arguably not only exploited the growing dissatisfaction with economic hardships but also served the legitimate interests expressed by its constituency. It is not that the LDDP was against family farming, it did after all expend considerable political capital on the establishment of family farms from 1989 and onwards. It is more uncertain if the LDDP leadership preferred restitution as a vehicle. Early discussions around the time of the independence struggle seem to indicate that a distribution model was preferred

(Klimaoauskas & Kasnauskienė, 1996) and the experiment with distribution on behalf of some collectives also points in this direction. However, once the restitution process had been set in motion the LDDP was trapped. First, it could not be seen to renege on independence, and restitution did provide the historical link with Lithuania's successful reorientation (and independence) towards the West in the interwar years. Second, once restitution had been set in motion the LDDP could not be seen to take back the land. Finally, the restitution process would not lead to greater inequalities than the interwar reform, which had entailed the break-up of the large estates. The only option left was thus to limit the transfer of full property rights and to increase transaction costs for those who wanted to leave the agrarian enterprises.

The moratorium on further privatization significantly slowed the establishment of independent farms in 1993, but the process of restitution turned out to be irreversible. The number of independent farms doubled from 1993 to 1994 (see Table 5). However, the LDDP government also took steps to ensure that the transactions costs for would-be farmers were increased. The infinite lease of land to agricultural enterprises was one such step, but the LDDP also allowed local managers of agricultural enterprises to participate more directly in the privatization process. Sajudis had found that obstruction to farm restructuring in part came from the managers of agricultural enterprise and had therefore established the Municipal Agrarian Reform Services (MARS) in 1991, removing the managers from controlling positions in the reform process. In return, the LDDP reversed this pattern in 1993 and changed the role and composition of MARS to allow for more direct participation by the managers (Mathijs & Swinnen, 1998, p. 16).

Although the implementation of land market reforms lagged behind other restitution countries, the process was nevertheless almost completed by 1997. Hence, when the LDDP ended its term of office the uncertainty and the distinction between family farm establishments and restituted farms disappeared as both groups had secured property rights, even if the restitution farms still did not have full property rights. Moreover, the delay enabled the LDDP to carve out a role for the agrarian enterprises. However dominant private farming had become, the agrarian enterprises were still good for about one third of farm output.

#### *1996 and its aftermath: Completing the process*

The LDDP did not do well in the 1996 elections, winning little more than 8 percent of the seats in the new parliament. Instead the election proved to be another swing of the pendulum, providing the Conservative (TS-LK), the

reworked Sajudis, and their allies – the Christian Democrats (LKDP) – an absolute majority that swiftly reinstated full property rights to restitution land.

Clark (2000, pp. 141-142) argues that the LDDP's 1996 loss was caused not by rural support among core LDDP voters defecting to the right wing, but by increasing political apathy among supporters of the left. With a 72 percent turnout in 1992, the 1996 elections marked a new low as only 52 percent of the electorate cast their votes. The continued hardship within an agricultural sector barely beginning to restore growth is one factor, but as Clark (2000) argues, there was also a feeling of having been betrayed among LDDP supporters. The LDDP had championed a social profile in the 1992 elections but market reforms had still been implemented. Furthermore, although the urban bias was reduced by the end of the term, the drain from agriculture had continued throughout LDPP rule.

In 1997 the Conservatives removed the restriction on property rights by abolishing the infinite lease clause on land to agricultural enterprises. This took place already during the period of cohabitation, that is, while Brazauskas was still president. Brazauskas could have vetoed the amendments but that would have been a futile move because the Conservative coalition commanded an absolute parliamentary majority. In addition, research shows that the strength of the Lithuanian president, i.e. the success of legislative initiatives and the constructive veto, depends on relations between the presidency and the parliament (Talat-Kelpša, 2001, pp. 162-164). Thus in our case the various veto-points in the constitutional structure do not seem to have affected agrarian reform. This can be explained by the fact that during the decisive battles of agrarian reform parliament and the presidency was controlled by either the Sajudis or the LDDP.<sup>12</sup>

The new Conservative government also reorganized agrarian support. The LDDP government had managed to offset price distortions and balance the urban bias, chiefly by seeing to it that output related payments benefited commercial farming (read agrarian enterprises). While in office the conservative government changed the support system, raising market price support for common commodities, and to serve the needs of the new independent farmers what little general support was available was directed towards extending and upgrading agricultural schools.<sup>13</sup> Thus, while the overall land reform has been completed by the swing of the pendulum, the escape from transition constraints offer new possibilities to support agriculture and – as the different policy levers benefit different sectors and types of holding within agriculture – new venues for political battles open up.

## Conclusion and perspectives

We have argued that the agrarian reform instituted in Lithuania was politically motivated in the sense that the political actors, chiefly the Sajudis (later the Conservatives) and the LDDP, sought to promote and defend long-term political interests. We have also argued that by initiating a land reform with its attendant complexity and uncertainty in conjunction with an urban bias, the Sajudis designed their own electoral defeat in 1992. Finally, we have argued and presented evidence to support a thesis of re-alignment between the different social groups in the rural districts.

With respect to the first argument, the swing of the pendulum (both ways) secured independent farming. In the first phase, the Sajudis used restitution as vehicle to set in motion an irreversible process towards establishing independent farming, seeking to fulfill a historical role. Furthermore, the political infrastructure of the rural LDDP was hamstrung by fragmenting the agrarian enterprises. A path was created from which the LDDP could deviate only a little. Thus, in the second phase the LDDP had in effect restricted itself to a combination of delays and policy levers to increase the transactions costs for would-be farmers and limit the full transfer of property rights in order to keep the agrarian enterprises alive. However, full implementation of the market reform had to await the return of the Conservatives, who waived the restriction on property rights. In less than a decade the agrarian structure was changed. By 1998 it had come to encompass both independent farming as the dominant sector and a substantial sector of cooperatives. It is perhaps fitting for the new democracy that this was the result. Taljunaite (1995) found that roughly one quarter of Lithuanians thought that agrarian production should be private and one quarter that it should predominantly be in the hands of the state, but a slight majority (50.3 percent) believed that both the state, private individuals and companies should be involved in agrarian production.

With respect to the second argument the Sajudis strategy backfired on one crucial issue. The rural constituencies returned LDDP deputies in the 1992 elections. Even if the large drain of resources from agriculture reflected in the PSE figures was harder on the agrarian enterprises than on the new independent farmers and the subsistence farmers, an urban bias was pursued to appease the urban population (we must recall that food riots and demonstrations had already brought down one government). How conscious this policy was will have to be validated by further research, as part of the explanation (almost too simple) is that the Sajudis carried government responsibility for an economy in free fall and was charged with the task of turning it towards the market. It was in fact trapped by government

responsibility and the constraints of the transition. Thus, while it cannot be confirmed (with the present data structures), it seems evident that the drain and the uncertainty engendered by land reforms produced a temporary alliance in 1992 among rural groupings.

Finally, we presented a hypothesis about changing patterns of class alignment in the rural areas over the long term. Our expectation is that the new class of independent land owners and farmers will come to develop liberal values, while agricultural workers will support leftist notions. The limited data presented in this paper points in this direction. However, we should consider that once the agricultural enterprises have been fully transformed into private companies (be they cooperatives or stock companies) indirect ownership is at stake for the workers. How this will mediate the development of values requires further research.

Being a pilot study, the present paper has focused on how to develop and analyse the main directions in the development of the agrarian reform, and future research should thus seek to validate the hypotheses set out here. The framework of political economy allows us to address questions related to the issue of state capacity. The ability of the state to make and implement policy is thus contingent upon the interests of political actors. Political interest has been the motive behind both advancing and delaying reform.

However, the present analysis cannot address the issues of state capacity in full. Political will and interests do not matter much if the infrastructure needed to carry out reforms is not in place or is just being developed. Three lines of inquiry should be followed here. First, the extent to which the state possesses the technical and administrative capacity to carry out reform. Agrarian reform depends on a host of factors. Are institutions able to settle conflicts concerning different claims to land and is there an effective land market? Second, how have rural interests come to influence the process of policy making and implementation? We have already noted the political game concerning the establishment of MARS, and an implicit assumption therefore is that rural interests will seek to influence the institutions that implement policy. Furthermore, a general assumption of political consensus to improve state capacity by establishing new regulating and implementing agencies like MARS is not controversial. However, the present study gives rise to a hypothesis that the order and content constituting such functional state capacities should also be seen as political instruments to be used in the defence of political interest. MARS is an example of this and further studies should approach regulating and implementation agencies not only from political parties and rural interests perspectives, but also from the functional aspect of state capacity.

The pendulum is still swinging in Lithuania. We have here concentrated upon the battle over agrarian reform, but it should be noted that the pendulum swung once more in the 2000 elections, coming to rest at a center and center-left dominated parliament. It is too soon to tell how this majority will affect agricultural developments. However, as Lithuania prepares for EU accession it will no longer merely be a domestic engagement between actors and institutions.

## Notes

1. For an overview of the political economy perspective, see Alt & Alesina (1996). However, in their article it is interesting to note that, although it is also supposed to discuss the orthodoxy of the perspective, the new-left positions are conspicuously absent. Atkinson (1996) reflects that this may be a consequence of the development of political economics versus the older term political economy.
2. Agriculture is an important and complex sector in the Lithuanian economy. In 2000 agriculture accounted for 19% of total employment, 7% of GDP and 12% of export earnings (Lithuanian Department of Statistics).
3. With respect to Latvia, Mygind (1994, p. 219- 221) argues that agriculture was so rapidly privatized because nearly all farms worker were titular Latvians. See also Mathijs and Swinnen (1998, pp. 19-20) on Latvia restitution policy.
4. A number of different measures are available. However, we follow the recommendations of Gautam, Chaudhary, Prescott and Smith (1997, see in particular Table 2, p. 45) and use the PSE as it covers a larger range of policy measures towards the producer than alternative measures.
5. This strategy seems to have worked in Russia. See Barnes (1998) for the full story.
6. Assuming that political actors will want to maximise their electoral chances this line of thinking can be expressed in formal terms by two sets of probabilities (1)  $P_e + P_s$  (LR; FL) and (2)  $P_e + P_1$  (LR; FL), where  $P_e$  denotes the baseline probability of winning an election, and  $P_s$  (LR; FL) the short-term increase in probability of winning the next election, given the initiation of land reforms (LR) and the use of financial levers (FL). In similar terms  $P_1$  (LR; FL) denotes the increase in probability of winning future elections given the implementation of land reforms (LR) and the use of financial levers (FL). The political party will choose LR, and FL to maximize  $P_e + P_s$  (LR; FL) +  $P_e + P_1$  (LR; FL), and assuming that  $P_e$  is uncorrelated with LR and FL, it is constant and can be disregarded for simplicity. From these two sets of probabilities it appears that as long as  $P_1$  (LR; FL) >  $P_s$  (LR; FL), a successful implementation of agrarian reforms is in motion, bringing about a realignment of rural classes. This strategy will be fully sound and rational as long as it maximizes the sum of (1) and (2), irrespective of short-term gains and losses. However, for  $P_1$  (LR; FL) >  $P_s$  (LR; FL) requires that the agrarian reform is irrevocable even in the event of the loss of an election. Should irreversibility be the case  $P_s$  (LR; FL) can be allowed to become negative.
7. The deadline for applying for restitution was initially set to 31 December 1991, but extended to April 1992 as the list of entitled heirs came to include grandchildren (Kazlauskienė & Meyers, 1996). § 47 of the Constitution adopted in 1992 also stipulates that land can only be owned by citizens (and the state) of Lithuania.
8. We have in this context not considered the remaining two indicators, liberalization of the agro-processing industry and the development of public institutions focused on research and education to serve the need of private agriculture.

9. There is some disagreement concerning the average size of the family farms. The OECD data reported in Table 6 indicate an average size of 12.3 ha in 1995, while Klimaoauskas and Kasnauskienė (1996, p. 324) report the smaller number of 8.9 ha by January 1, 1995. They also find (*ibid.*, p. 324) that only 11 percent of family farms are larger than 20 ha.
10. First he divorced the Lithuanian Communist Party from the all-union Communist Party. After losing the March 1990 elections he reorganized the party as the LDDP in December 1990.
11. For an analysis of the constitutional struggle, see Nørgaard & Johannsen (1999, pp. 62-65).
12. Technically, the Sajudis never did hold the presidency. Under the provisional constitution of 1990 Landsbergis was Chairman of parliament. However, up until the adoption of the 1992 constitution he was able to use this platform as a *de facto* presidency.
13. In 1996 – the last year of the LDDP government, 125 mill. Litas was spent on research, development and agricultural schools, 19.2 percent or 24 mill. Litas on R&D. In 2000, the last year of the Conservative government, spending totalled 158 mill. Litas, 4 mill. Litas or 2.6 percent on R&D. (OECD 2002, PSE/CSE database).

## References

- Ališauskiene, Rasa, Rita Bajaruniene & Sersniova (1993). "Political Mood and Social-Political Attitudes in Lithuania", *Journal of Baltic Studies*, Vol. XXIV, No. 2, pp. 135-148.
- Alt, James E. & Alberto Alesina (1996). "Political Economy: An overview" pp. 645-674 in Robert E. Goodin & Hans-Dieter Klingemann (editors), *A New Handbook of Political Science*, Oxford: Oxford University Press.
- Atkinson, A. B. (1996). "Political Economy: Old and New", pp. 702-713 in Robert E. Goodin & Hans-Dieter Klingemann (editors), *A New Handbook of Political Science*, Oxford: Oxford University Press.
- Barnes, Andrew (1998). "What's the Difference? Industrial Privatization and Agricultural Land Reform in Russia, 1990-1996", *Europe-Asia Studies*, 50, 5, pp. 843-857.
- Byamugisha, Frank F. K. (1999). *The Effects of Land Registration on Financial Development and Economic Growth: A Theoretical and Conceptual Framework*, *Policy Research Working Paper*, 2240. Washington: The World Bank.
- Caski, Csaba & Laura Tuck (2000). "Rural Development Strategy: Eastern Europe and Central Asia", *World Bank Technical Paper*, 484, Washington: The World Bank.
- Clark, Terry (2000). "Privatization and Democratization in Lithuania: A Case Study of Who Benefits in Siauliai", *Policy Studies Journal*, 28, 1, pp. 134-151.
- Clark, Terry D. (1995). "The Lithuanian Political Party System: A Case Study of Democratic Consolidation", *East European Politics and Society*, 9, 1, pp. 41-62.
- El-Ghonemy, M. Riad (1999). "The Political Economy of Market-Based Land Reform", *Discussion Paper*, No. 104, Geneva: United Nations Research Institute for Social Development.
- Flora, Peter (Ed.) (1999). *State Formation, Nation-Building, and Mass Politics in Europe: The Theory of Stein Rokkan*, with Stein Kuhnle & Derek Urwin, New York: Oxford University Press.
- Gautam, Virender; Sudhir Chaudhary, James R. Prescott & Darnell B. Smith (1997). *Measurement of Government Intervention: A Comparison of Alternative Concepts*, Ames: Center for Agricultural and Rural Development, Iowa State University.
- Gorton, Matthew (2001). "Agricultural land reform in Moldova", *Land Use Policy*, 18, pp. 269-279.
- Johannsen, Lars (2001), "Principles and policies of agrarian reform in post-communist countries: the first building block for a comparative analysis

- of state capacity and political development", *Paper presented at the Demstar Workshop*, Femmøller, Denmark, June 2001.
- Kazlauskienė, Natalija & William H. Meyers (1996). "Land Policy and Economic Development in Lithuania", *Baltic Report 96-BR 24*, Ames, Iowa: Center for Agricultural and Rural Development, Iowa State University
- Kilius, Algirdas (1996). "Laičiai: Privatization of a kolhoz", pp. 333-344 in Niels Mygind & Peter Nørgaard Pedersen (Eds.), *Privatization and Financial Participation in the Baltic Countries: Case Studies*, Copenhagen: Center for East European Studies: Copenhagen Business School.
- Kjær, Mette & Ole Hersted Hansen (2002). "Conceptualizing State Capacity", with Jens Peter Frølund Thomsen, *Demstar Research Report, 6*, Aarhus: Department of Political Science, University of Aarhus.
- Klimanouskas, Enrikas & Gindra Kasnauskienė (1996). "Land reform in Lithuania: Results and Problems of Privatization", pp. 323-349 in Niels Mygind (Ed.), *Privatization and Financial Participation in The Baltic Countries*, Copenhagen: Copenhagen Business School: Center for East European Studies. [www.cds.dk/centres/cees/](http://www.cds.dk/centres/cees/).
- Knight, Jack (1992). *Institutions and Social Conflict*, Cambridge: Cambridge University Press.
- Lerman, Zvi (1999). "Agriculture in ECE and CIS: From Common Heritage to Divergence", *Land Policy Paper*, Washington: World Bank: Land Policy Network.
- Lipset, Seymour Martin (1981) [1959]. *Political Man: The Social Bases of Politics*, Expanded and updated edition, Baltimore: The Johns Hopkins University Press.
- Lithuanian Department of Statistics*; [http://www.std.lt/default\\_e.htm](http://www.std.lt/default_e.htm).
- Mathijs, Erik & Johan F. M. Swinnen (1998). "The Economic of Agricultural Decollectivization in East Central Europe and the Former Soviet Union", *Economic Development and Cultural Change*, 47, 1, pp. 1-26.
- Meyers, William H. & Natalija Kazlauskienė (1998). "Land reform in Estonia, Latvia, and Lithuania: a comparative analysis", pp. 87-108 in Stephen K. Wegren (Ed.), *Land Reform in the Former Soviet Union and Eastern Europe*, London: Routledge.
- Mygind, Niels (1994). "The Economic Transition in The Baltic Countries – Differences and Similarities", pp. 197-233 in Jan Åke Dellenbrant & Ole Nørgaard (Eds.), *The Politics of Transition in The Baltic States: Democratization and Economic Reform Policies*, Research Report, 2, Umeå: Umeå University, Department of Political Science.
- Nørgaard, Ole (2000). *Economic Institutions and Democratic Reform: A Comparative Analysis of Post-Communist Countries*, Cheltenham: Edward Elgar.

- Nørgaard, Ole & Lars Johannsen (1999). *The Baltic States After Independence*, with Mette Skak & Rene Hauge Sørensen, Second Edition, Cheltenham: Edward Elgar.
- OECD (1998). *CEEC's/NIS Agricultural Indicators Database*, Paris: OECD: Centre for Co-operation with Non-members.
- OECD (1999). *Agricultural policies in Emerging and Transitions Economies*, Vols. 1 and 2, Paris: OECD.
- OECD (2000). *Agricultural Policies in Emerging and Transition Economies*, OECD database 1990/1999.
- OECD (2002), *OECD PSE/CSE database* at [www.oecd.org](http://www.oecd.org).
- Offe, Claus (1996). "Political Economy: Sociological Perspectives", pp. 675-690 in Robert E. Goodin & Hans-Dieter Klingemann (Eds.), *A New Handbook of Political Science*, Oxford: Oxford University Press.
- Spoor, Max & Oane Visser (2001). "The State of Agrarian Reform in the Former Soviet Union", *Europe-Asia Studies*, 53, 6, pp. 885-901.
- Suleiman, Ezra (1999). "Bureaucracy and Democratic Consolidation: Lessons from Eastern Europe", pp. 141-167 in Lisa Anderson (Ed.), *Transitions to Democracy*, New York: Columbia University Press.
- Swinnen, Johan F. M. (1999). "The political economy of land reform in Central and Eastern Europe", *Economics of Transition*, 7, 3, pp. 637-664.
- Talat-Kelpsa, Laimondas (2001). "The Presidency and Democratic Consolidation in Lithuania", *Journal of Baltic Studies*, 32, 2, pp. 156-169.
- Taljunaite, Meilute (1995). "Shift in the Proportion of the Two Sectors: The Process of Privatization", pp. 23-34 in Meilute Taljunaite (Ed.), *Lithuanian Society in Social Transition*, Vilnius: Institute of Philosophy, Sociology and Law.
- Vardys, Stanley V. & Judith B. Sedaitis (1997). *Lithuania: The Rebel Nation*, Boulder: Westview Press.
- Wegren, Stephen K. (1998). *Agriculture and the State in Soviet and Post-Soviet Russia*, Pittsburgh: University of Pittsburg Press.
- Wegren, Stephen K. (2000). "State Withdrawal and the Impact of Marketization on Rural Russia", *Policy Studies Journal*, 28, 1, pp. 46-67.
- World Bank (2000). *Rural, Environment, And Social Development: Strategies for the Europe and Central Asia Region*, Prague: The World Bank.

#### Laws

[http://www3.lrs.lt/pls/inter/w3\\_eng\\_h.home](http://www3.lrs.lt/pls/inter/w3_eng_h.home).

<http://www.loc.gov/law/guide/lithuania.html>.