

Historic landmarks in the development of Agricultural Land Market in Poland after the year 1989

Edward Majewski

*Department of Business Economics and Management
Warsaw University of Life Sciences*

Abstract: For a number of decades in the second half of the XXth century, agricultural land has been divided in Poland between three sectors: family, state owned and cooperative farms, with a dominating share of private, individual farmers in land use. As a result, ownership structure of agricultural land in Poland is quite unique among the former socialist Central and East European countries.

Until the year 1989, when the transformation to a market economy was initiated, the land market in Poland was almost non-existent. The State Land Fund (SLF), an institution created in 1944 was for decades a substitute to land market. Originally, the Fund was responsible for the implementation of the land reform. After nationalization or confiscation of real estates, state farms have been established on a larger part of agricultural land under Fund's management. The rest has been divided between former farm workers and small farmers owning less than 5 hectares of land.

Keywords: Agricultural Land Market, development in Poland,

After the completion of the reform, with the SLF's participation as a representative of the state in governing state-owned agricultural land, in the following periods a few attempts made to move some of the private land to so called "socialist type of ownership" undertaken by former socialist governments (mainly in the fifties and seventies) have largely failed. Although there were some transfers of agricultural land to state or cooperative farms due to incentives (e.g. pensions) for farmers quitting farming and reassigning their land to the State Land Fund, the size of the private sector in Polish agriculture remained fairly stable. Transfers of land between private farmers in the pre-transition period were strongly limited to a small number of sale or lease transactions, mainly between neighbors. In the "socialist era." agricultural policy favoring state and cooperative large scale farming discouraged private farmers from enlarging individual farms. The lack of industrial jobs and limited housing in cities resulted in a small migration from rural to urban areas and further contributed to conserving the farm structure in Poland (*table 1*).

Table 1. Structure of agricultural land use in Poland (1970–2005)

Year	1970	1975	1980	1985	1990	1995	2000	2005
Total area of land in agricultural use [mln ha]	19,5	19,2	18,9	18,8	18,7	17,4	17,8	15,9
Public sector [%]	19,0	21,0	22,8	23,5	18,5	8,8	7,8	5,0
Private sector [%]	81,0	79,0	77,2	76,5	81,5	91,2	92,2	95,0
Average size of family farm [ha]*		5,6	5,7	6,0	6,3	6,7		

* for farms more than 1 hectare of total area of land
Source:

In the period analyzed two basic features of changes in the farm structure should be underlined:

- the diminishing share of private sector and a slow, but steady increase in the average family farm size in the period 1970–1985. This proves that some transfer of land between farms actually took place. However, the scale of land transfers and implications for the farm structure were limited.
- the rapid increase of the share of private sector after 1990 resulting from privatization of the state owned land.

The year 1989, the beginning of the transformation to the market economy, can be considered as the first landmark in the more recent history of the Polish agricultural sector.

1989/1990 Transition to the market economy

Agriculture was one of the first sectors of the Polish economy to experience the effects of economic transformation. Almost full market liberalization resulted in increases of prices of inputs, largely due to the removal of subsidies to costs of agricultural inputs, as well as to the freeing of energy prices, earlier kept at a level below costs of energy production. Other factors, such as increased imports of agricultural and food products competing successfully with domestic production or rapid increase of interest rates above growing

inflation led to a significant decrease of real agricultural incomes and put a large number of farms into critical financial situation.

The implications of deterioration of farmer's incomes and changes in the macroeconomic environment for the land market in the first years of transformation were twofold:

- real demand for agricultural land was small, despite the willingness of a large number of farmers to expand their holdings. This was mainly due to low incomes from farming, cash flow problems farmers were facing and high interest rates, because of inflation, making any investments in agricultural production hardly profitable.
- on the supply side, agricultural land became available, at least in regions of Poland with a high share of state farms in the agricultural land use, because privatization of state farms was one of the first political decisions in the beginning of the 90. In 1991 the State Property Agency (APA), replacing former State Land Fund was established to administer the privatization processes in agriculture.

In consequence, the share of private sector in the land use noticeably changed in the first five years of economic transformation due to the primary state farms lease transactions in the privatization process, whilst in the family farms sector a continuation of the long-term trend of slow increase of the share of larger farms could be observed, as shown in *table 1*.

1994/1995 – visible signs of a land market being established

Since the mid 1990s, agricultural policy in Poland has undergone further changes due to the preparations for accession to the EU. Positive price trends and improved productivity, resulting from increased inputs due to better terms of trade and technological advancements, had a strong impact on growing farm incomes. New financial support measures which re-established subsidizing of the agricultural production, including preferential interest rates for bank loans, after the almost complete removal of subsidies in the beginning of transformation period, have pumped into the farming sector additional funds available for investments.

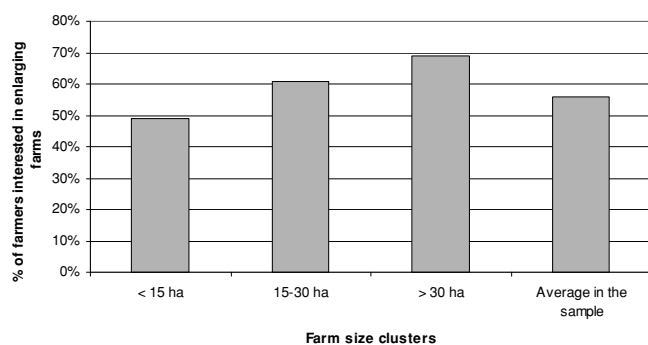


Fig. 1. Farmers declaring interest in enlarging farm size in the year 1995 (sample of 655 family, commercial farms) Source: Own research

The recovery of the sector from a transition crisis as well as improving profitability of agricultural production resulted in a growing demand for agricultural land.

In a study conducted in 1995 almost 57% of commercial, family farmers from the surveyed sample of 655 farms declared their interest in enlarging farm size (*figure 1*).

Farmers from the smallest farm size cluster (below 15 hectares) were less interested in farm enlargement, while willingness to increase farm size was growing among owners of larger farms. This shows one of the features of the agricultural sector in Poland – progressing polarization within the farm structure: the number of small farms is relatively stable and large, commercial family farms grow in terms of the number and share in the land use. Middle-size farms slowly lose their dominating position as too small to provide a sufficient income and too large for being semi-subsistence and allowing farmers and their family members for non-farm jobs and additional income sources.

Another study conducted in 2000 leads to similar observations and conclusions (*table 2*).

Table 2. Willingness to change farm size in the sample of family, commercial farms [2000]

Farm size clusters	Number of farmers willing to enlarge farms	Average farm size [ha]	Declared, mean scale of changes		Average, potential farm size if increased as declared by farmers [ha]
			[ha]	% of existing area	
7-10	26	8,7	14,3	163,9	23
10-15	84	12,5	15,4	123,4	27,8
15-25	116	19,5	20,6	105,4	40,1
25-40	99	31,3	25,3	81	56,6
40-75	49	53	40,81	77,1	93,8
>75	13	144,1	121,3	84,2	265,4
Average	387	28,7	26,2	91	54,9

Source: Kubis, 2002

In a sample of 721 farmers randomly selected from different regions of the country where agriculture is an important branch of the regions' economy, 387 farmers (53,6% of the total sample) representing different farm size clusters were interested in buying or leasing more land. The scale of declared changes in the area of agricultural land was greatest in smaller farms (up to 163,9% of the existing area in 7–10 hectares farms). However, smaller percentage-wise changes would lead to significant increase of farm size in larger farms, showing a potential for the polarization process. Although the results of the survey show only the intent of farmers and in many situations declarations of an interest are not turned into factual decisions (e.g. because of limited availability of land for lease or purchase) national statistics prove the trend, indicating a steady concentration of land which takes place in the last decade (*table 3*).

After years of relative stability 1994 was the turning point when growth in the number of larger farms began. More

Table 3. Changes in the structure of family farms in Poland in the period 1990–2005

Years	Total number of farms ['000]	Farm size clusters [ha]				
		1–2	2–5	5–10	10–15	>15
share in the total number of farms [%]						
1990	2137,5	17,7	35,1	29,8	11,3	6,1
1993	2148,8	17,9	35,3	29,6	11,2	6
1994	1967,3	19,2	33,7	27,6	11,4	8,1
2000	1880,9	23,8	32,6	23,8	9,9	9,9
2005	1786,7	25,0	32,8	21,7	9,4	11,1
share in the land use [%]						
1990	2137,5	4,2	18,7	34,5	22,4	20,2
1993	2148,8	4,3	18,9	34,5	22,3	20,2
1994	1967,3	4	16,2	28,6	20	31,2
2000	1880,9	4,8	14,7	23,6	16,6	40,3
2005	1786,7	3,7	11,1	17,1	12,9	55,1

Source: *Gradziuk, 2005.*

importantly, larger farms significantly increased their share in the use of agricultural land. Farms of the size greater than 10 hectares operated in total about 42% of agricultural land in the year 1990, 51% in the year 1994, and in the year 2005 their share reached 68%. Increased transfers of land between farms of different size in the family farms sector are not the only indication of the land market being established and operational (in the analyzed period share of land used by smaller farms steadily diminished). Also in the former state farms sector rapid changes resulting with a growing turnover of land could be observed.

Formal and legal preparations to the restructuring of the state owned land which took place in the first years of the transition period allowed, after completion, to start the privatization process. In the beginning, mostly in the period 1993–1995, land leasing was the preferred form of acquiring land which belonged previously to state farms, due to low capital requirements [*Ciodyk, Zagorski 2007*]. In the following years purchases of state land became favored, as illustrated in *figures 2 and 3*.

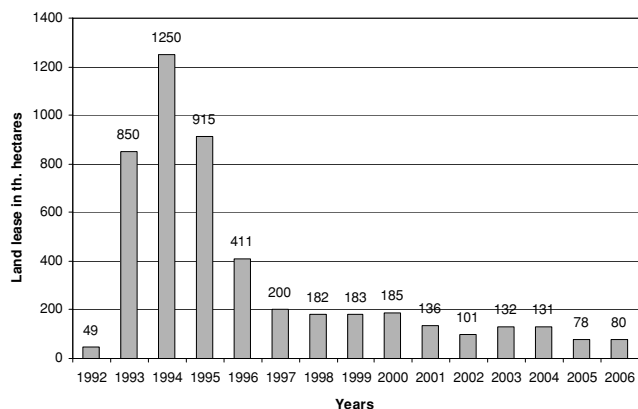


Figure 2. Leasing of state farms land in the years 1992–2006. Source: *Ciodyk, Zagorski 2007*

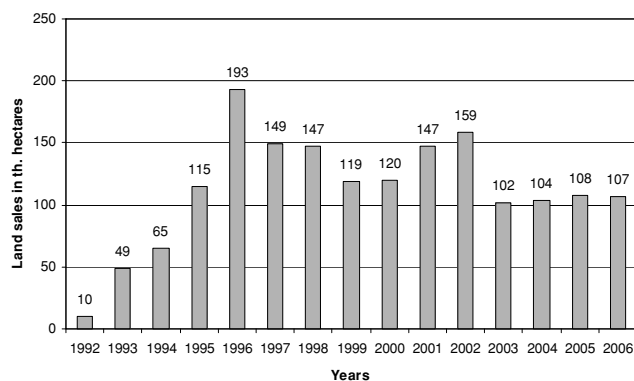


Figure 3. Purchases of state farms land by private farmers in the years 1992–2006. Source: *Ciodyk, Zagorski 2007*

2004 – EU accession and Land Market mechanisms functioning

Since 1994 a visible, high turnover of land and evolving farm structures clearly indicate that land market in Poland has been established. The year 2004 and the inclusion of Polish Agriculture in the Common Agricultural Policy brought a new feature into this market. Significantly reduced

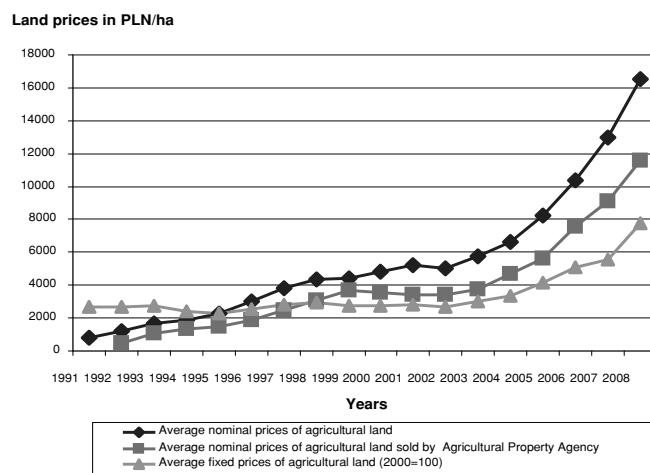


Figure 4. Agricultural land prices in Poland in the period 1991–2008

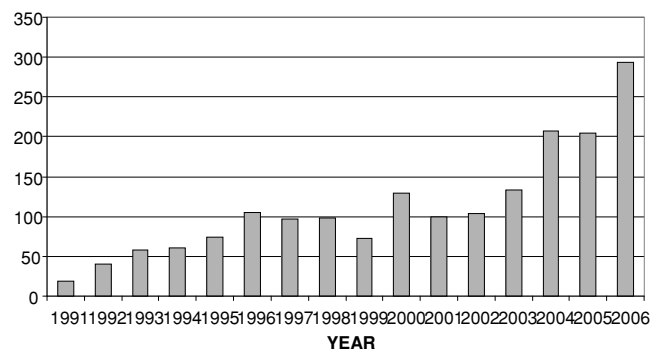


Figure 5. Land lease costs in PLN/ha in Poland in the years 1991–2006 nominal

supply of land, after privatization of former state farms has been almost completed, and growing profitability of farming due to direct payments and favourable price trends, which made investment in agricultural land more attractive, resulted with a rapid increase of land prices, as well as land leasing costs (figures 4 and 5).

Concluding remarks

In Polish agriculture, three sectors coexisted for decades until the year 1989, in which the economic transformation to the market economy has been initiated: state, co-operative and family farms. Farm structure in the period before the transition was relatively stable and the land market was practically non-existent. Political and economic changes in Poland enabled the establishment of a land market. Its development can be linked to three major "landmarks" which had a significant impact on the supply and the demand for land and a pattern of structural changes in the farming sector. One of the basic economic consequences is, that price of land became a monetary indicator of the value of the key production factor in agriculture.

There were several factors facilitating creation of the market in the first years of transformation, such as the political decision to privatize state owned land and strong expansion in the sector of family farming in order to increase family incomes and to benefit from the economies of scale.

Economic growth in Poland and introduction of the Common Agricultural Policy in Polish agriculture in the year 2004 brought more incentives for changes influencing turnover of land and causing strong increases of land prices. Among economic factors such could be mentioned as, having an impact on the supply of land, rapidly diminishing unemployment and more off-farm opportunities, which made possessing the agricultural land and farming less attractive for farmers seeking for non-agricultural income sources and

(or) for potential successors. In a direct or indirect way also some of the CAP measures (e.g. early retirement schemes) contributed to the land supply. On the other hand, farm expansion strategies realized by a large number of farmers [Majewski, Sulewski, 2007] and improving financial situation of farming and urban population created strong and growing demand for land, both for agricultural and non-farming use. The supply and demand situation on the Polish land market explains, to a large extent high equilibrium land prices. However, observations of developments on the Polish land market in the post-accession period, and a pattern of changes in land prices, supports strongly the hypothesis that "the increase in the value of assets used in agricultural production is considered to be one of the major outflows from government support payments" [Wesselink et al., 1999] leading to the capitalization of benefits from subsidies.

The rapid increase of land prices in last years is can be also attributed to an effect of the "paradox of value". Apart of growing use of the agricultural land for recreation purposes (hobby farming) and housing in rural areas in the neighborhood of large agglomerations, land is also treated as a lucrative asset.

Summing up, the creation of land market in Poland after the transformation to the market economy has been initiated and further developments on this market clearly indicate linkages with the political and economic changes which occurred in the analyzed period. Growing turnover of land, to a large extent due to the privatization of former state farms, as well as much stronger demand for agricultural land than the supply, results in price increases. This proves that land market became operational. The data show significant changes in the farm structure leading to a growing share of large, commercial farms in the land use reminding a pattern of structural changes in the most developed European countries. In the near future, stronger demand for agricultural land, also for non-agricultural purposes, and further transfers of land enlarging size of Polish farms and deepening an existing polarization of the farm structure can be foreseen.