Emerging patterns of restructured farm businesses in Eastern Germany

Wilson, Olivia, Lecturer in Geography, De Montfort University, 37 Lansdowne Road, Bedford MK40 2BZ, UK

ABSTRACT: This paper provides an overview of the process of restructuring farm businesses in the Former German Democratic Republic. It considers political, economic and social factors in the restructuring process, including the resolution of historical injustices and mediation between competing interest groups. It concludes that a large scale non-family business structure is emerging despite rather than because of government policy, and that restructuring has been not been achieved without social costs that must also be addressed.

Introduction

The aim of this paper is to provide an overview of the process of restructuring of farm businesses in the Former German Democratic Republic (FGDR) since unification of Germany in 1990. Although it will be some years before restructuring is completed, a picture of the new farm structure is now emerging. Restructuring is both a political, economic and social process. Restructuring is political in that clarification of property rights involves resolution of past injustices and mediation between competing claims (for unification has reopened many old wounds inflicted under the former regime). It is economic, in that restructuring must ensure the emergence of economically viable and competitive businesses. It is also social in that the well-being of the rural population is affected. Many former farm employees have lost their jobs, while surviving farmers have to learn how to operate in a market economy.

Unlike other East European countries that are also in the process of agricultural restructuring, the former state has no autonomy over the process. The key policies and laws that provide a framework for restructuring have been decided by the German federal government in Bonn in conjunction with the new Länder governments and within the context of the Common Agricultural Policy (CAP) of the European Union (EU). Restructuring has thus been influenced by wider considerations, such as the likely impact on the farm sectors of the old Länder and other member states of the EU. A further difference between FGDR and other East European states is that the former has enjoyed substantial financial backing from the federal government and the EU to support restructuring.

Patterns of former farm ownership and occupancy

Between 1945 and 1949, sweeping land reform in the then Soviet Occupation Zone resulted in the confiscation of 3.3 million ha. of agricultural and forested land out of a total land area of 9.5 million ha (Thöne 1993). All estates of over 100 ha. were confiscated without compensation, as were many smaller estates. Although about 2.1 million ha. were redistributed to over 500,000 individuals to form smallholdings, the expansion of private landownership proved short-lived. Following the creation of the GDR in October 1949 a period of collectivisation of farms was initiated (Bergmann 1992). Farmers were 'encouraged' to form farm cooperatives (“Landwirtschaftliche Produktionsgenossenschaften” or LPGs). The process of collectivisation continued throughout the 1950s until 1960 when LPGs covered over 80 percent of the agricultural land area (Thöne 1993). State farms (“Volkseigene Güter” or VEGs) were also established on land confiscated during the land reform. The amount of state owned land increased as further confiscations took place during the 1950s, including the lands of farmers who fled to the West (BMIB 1979, p. 451). LPGs were more than farm businesses. They provided a range of administrative, welfare and leisure services to their members, so that although over 800,000 workers (11 percent of the labour force) were employed in agriculture just prior to unification, many were employed in non-agricultural activ-
The restructuring of farm businesses

In June 1990 (before unification) the federal government passed an Agricultural Adjustment Act ("Landwirtschaftsanpassungsgesetz"), which set out the legal framework for the re-establishment of private ownership of agricultural land, and for the development of a viable and varied agricultural structure. Responsibility for state owned land was given to the Treuhandanstalt (THA), the agency set up to oversee the privatisation of all state-owned property (Wild and Jones 1994). The wording of the act suggested support for both the reestablishment of family farms and the continuation of farm cooperatives, albeit in modified form. However, there was a feeling among commentators that the federal government favoured family farming (Agra Europe 1991; Bergmann 1992). West Germany’s farm structure is dominated by small family farms, and federal agricultural policy has been geared towards their preservation. A large scale farm structure in the new Länder would be a threat to the West German farm lobby.

The LPG as a legal entity ceased to exist at the end of 1991, so all cooperatives had to be restructured or dissolved by this date (Agra Europe 1994). Former farmers and their heirs whose lands had been collectivised were entitled to reclaim their lands. About a quarter of LPGs were dissolved, either due to mutual agreement between members or because of bankruptcy. The majority were restructured into registered agricultural cooperatives or limited liability companies. The survival of so many ‘reformed cooperatives’ showed the reluctance, or inability, of farmers to set up their own businesses. However, survival was achieved at the cost of shedding labour. By early 1992 the agricultural workforce had fallen by more than 50 percent to 300,000, of which half were part time workers (Bergman 1992).

Much debate has centred on how state-owned agricultural land, most of which was confiscated, should be privatised, and what right former owners and their heirs should have to reclaim their lands. The unification treaty stated that landowners or their heirs whose lands were confiscated during the Soviet occupation of 1945 to 1949 were not entitled to reclaim their lands. However, those who were dispossessed of land after 1949 were given the right to claim restitution. Thus, about a third of state owned agricultural land is in the process of being returned to dispossessed owners. The remaining million hectares of state-owned land is to be privatised, but for political reasons this process is highly regulated. In November 1992 a programme for the leasing and privatisation of state land was agreed (Agra Europe 1994). Privatisation will take place in stages, with land initially being leased on 12 year terms. The THA created a separate agency in April 1993 to take responsibility for this process: the Land Settlement and Administration Company ("Bodenverwertungs- und -verwaltungsgesellschaft" or BVVG).

Applicants for state land were required to submit a farm development plan, and to undertake to farm the land themselves. If two or more applications of equal merit were lodged for the same land, priority was given to farmers restarting a farm business on their former lands (reinstated farmers or "Wiedereinrichter") and resident farmers who were starting a farm business for the first time ("Ortsansässiger Neueinrichter") over applications from farm cooperatives and companies, and from new farmers not resident in the area (e.g., West German farmers). The process by which this land is to be sold is set out in the Compensation and Indemnity Act ("Ausgleichs- und Entschädigungsgesetz") which was passed in September 1994. Persons or companies leasing state land at the beginning of October, 1996 will be given the opportunity to purchase up to half of their leased land on highly favourable terms, on condition that the land is not resold for 20 years (Klages and Klare 1995). They must purchase the rest of their leased land at market value and have until the year 2003 to make a decision.

This act also deals with the thorny issue of how to compensate former owners whose lands were dispossessed between 1945 and 1949. Two solutions are proposed. First, they are entitled to receive compensation based on the rateable value of their properties in 1935 (generally compensation will be calculated as being three times this value). Second, they may apply to purchase state land on the same favourable terms as the lessees, as it is anticipated that not all of the leased land will be bought by lessees. However, they have no right to purchase their former lands, and may not purchase land worth more than half the value of their compensation (Klages and Klare 1995).

The highly regulated way in which state lands are being privatised illustrates how the federal government is trying to mediate between different interest groups. On the one hand it has tried to be fair to farmers in FDODR who would not be able to compete on equal terms for state land on the free market with West German or foreign buyers. On the other hand it has tried to satisfy the demands of dispossessed landowners. In both cases, it appears to favour family farmers over non-family business forms. Moreover, the price of this highly regulated approach is that the restructuring process will be drawn out until at least the year 2004.

The establishment of viable and competitive farm businesses on private or state land requires capital investment, in land, buildings and equipment. Many reformed cooperatives inherited large debts from the socialist period which imposed a heavy financial