

Problems of land ownership in post-socialist countries: using the example of Georgia

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The question of recognition of agriculture as the main priority in economic development and improving wealth was set out by physiocratic school in second half of XVII century. For F. Quesnay the main source of wealth was work in agriculture. Quesnay in his article "Grains" (1757) noted that the wealth of reproductive agriculture is the basis of other forms of wealth, provides employment, contributes to the national prosperity, development of trade and industry and improvement of people's well-being.

The representative of the classical school of economy William Petty had drawn attention to 2 factors of wealth-work and land. He noted that "trade is important but it can not maximise the welfare, national enrichment is possible only with production".

In Georgia the prioritization is given to development of agriculture as to one of the most important economic sector. Agriculture is key economic sector, and its development should bring riches and economic development to Georgia. Georgia has a great agricultural potential, but that is not utilized sufficiently. The country has the real opportunity to increase agricultural production, and the most pressing task is the full realization of potential, which will result in agriculture development.

The main emphasis in Georgian economic development strategy is made on agriculture development. The State tries to make more sustainable agriculture development with different State programmes and assistance. Land reform has gained urgency in sector developing process, and this accompanies local self-government reform. This involves transferring the State lands to self-governments, that is a mandatory measure for regional development. The land reform needs the evaluation of land resources, to establish a real price, ensuring variable ownership relations and to make the land market work. Farmland are the main part of agriculture lands (arable lands, meadows and pastures, permanent crops and so on). Land as resource should be considered not as the source of income from primary and secondary markets, but as the resource, using which the food safety and agriculture sustainable development should be maximum provided. According to National Statistics Office of Georgia, in 2012 the agriculture

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land of Georgia is 2 389 286 hectares, from which 966 765 hectares are privately owned, 133 645 hectares are lands in municipal ownership, and 1 288 878 hectares are state-owned lands.

An agriculture product according to data of the third quarter of 2013 is 9.4 % of gross domestic product in Georgia. Since 2009 this industry is growing, but its share in total amount of gross domestic product has increased. A large segment of the population works in agriculture, and agriculture land prices differ in types. So it is problematic to analyze impact of land market trends on development of agriculture industry. Ownership of the assets and question of private ownership are particularly interesting and relevant for post-socialist countries, as formation of ownership accompanies the change of political and economic system by transferring the state property into private one, and that can be seen as one of the main central event in economic policy of post-Soviet countries.

Among these countries Georgia is not an exception and formation the state ownership as private ownership is in process here, among them transferring the land assets into private ownership is particularly relevant, accordingly this issue determines strategic development of agriculture.

Society has demand on implementation of private ownership, and right to freely and peacefully own, use and disposal. This demonstrates us the relevance of ownership both in Georgia and in the world.

A large segment of Georgian property still remains under public ownership, as we have noted land resource and particularly agriculture lands are clearly shown.

Divisions among their owners (State, municipal, private) by ownership formation and opportunities for free economic function. Using the examples of study of Georgian agriculture lands, it is possible to research general economic patterns and show their impact both on functioning of free market and free proprietorship and generally on country's economy.

On this basis, the purpose of the study is to assess the strategy of agriculture development and land as private property, based on the analysis of agricultural lands. To establish a link between private ownership and agriculture on the fund of agricultural land, to determine the ways of

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increasing economic efficiency based on the study of their comparison, in terms of increasing the economic efficiency and setting up the private ownership of land .

In the light of these goals we can demonstrate the objectives of the study as follows:

- Rationales for the role of private ownership of land;
- Assess of relationship between private and public ownership;
- Assess of importance of land ownership in improving the profitability of agriculture;
- Researching the land market and liquidity of economic assets;
- Carrying out analysis of interference based on setting up the state ownership as private ownership and private deals (analysis of primary and secondary markets).

Methods of research: we have used methods of analysis, comparison and synthesis; empirical method for scientific analysis of results obtained through process of practical work and self-monitoring. We have used the official data of Service Agency of the Ministry of Finance, www.eauction.ge, and Department of Property Management and Privatization of Ministry of Economy and Sustainable Development; we also carried out empirical testing of results over theories and hypotheses.

A lot of researches and analytical studies on private ownership have been published, that explains this issue mainly at the international theoretical level or gives us theoretical and practical conclusion based on example of any other country's particular problem. In recent years, focus has been mainly on property rights, and now it is the main scope of researchers, politicians and public sector both on international and country level. So using these works we will try to meet the study goals and achieve the objectives.

For the last two years 19 346 hectares of agricultural land was transferred into private ownership using the market mechanisms, and the sum received after privatization is 21.49 million GEL. The fund of agricultural lands that is subject to privatization (arable lands, meadows, permanent crops) is 1 209 000 hectares, from which 40% still remains

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under public ownership (1 796 000 hectares are pastures, mainly subjects to privatization, to self-governments). Economic assets are in a worse situation, where great resource of assets are still state owned and should be transferred into private ownership. So at a pace of land privatization building of ownership will not be possible minimum for the next 20 years. And if private ownership is unable, it means that economic capacity is not fully realized, assets are not included in free economic turnover; accordingly economic freedom is incomplete and potential of economic growth is not fully used.

There is a great economic factor – “expectation factor”, which would hamper the development of land secondary market as long as there will be public ownership.

According to the strategy, the main goal of economic activity must be: to increase the assets prices (land) from unreal up to real mark for well-being in a shorter time period, to increase the productivity and competitiveness by greater investments, strengthening of social justice. Strategic policy for agriculture and economy should follow up on all three demands, that will be rational and acceptable.

Feedback between lands and rising prices might seem paradoxical, in the case of transforming public ownership to private, the price in market will be larger than is state sells today or was sold for last 10 years. And the price will be formed as soon as there will be no expectation of the purchase of state property, or when permanent supplying of agricultural lands assets from State as the main owner on the market will be over. In fact Georgia has no situation, based on market principle and necessary for real estate market, and not taking it into account was methodologically misleading.

If supply is excess on balanced market, naturally the price goes down, but we have not had even this market, that means that we are afraid to fall down from the tree, on which we have not climbed yet.

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Since the start of the reforms (1990 years) up to now only the State has a great fund of lands, part of which was alienated and another part was alienated at a very low price. And that pieces of land which were alienated have a low price because of competition between state and private market and the owner prefers not to sell the land at this price and retain them as it costs money. So his minimum price is $(X+)$, when the State sells land at X price.

So there is a hermeneutic cycle and it is necessary to break it, and do it where it is justified and profitable both in economic and legal terms.

The study has showed us that there is a useful way out of this dilemma and it is rightly and legally to transfer the lands to the citizens for free.

Why the lands should be transferred to citizens for free?

1. This is the resource (almost 50% of total amount), which is absolutely excluded from public welfare, so it is not profitable and benefits derived from it are almost “0” until it remains in state hands.
2. Country’s public land is sold, it is sold at a low price – 0.05-0.10 GEL for 1 square meter (approximately 4-7 cents, sometimes 48 GEL for 10 000 square meters) and its provision is so large that is 50% of total land. This makes the price kept low, and if the price begins rising, the state-owned land is supplied to the market or the price is neither rising nor on privately owned land.
3. To which is it sold-citizens? 61% of them are below the poverty line and 31 % are around the poverty line. 0.05-0.10 GEL is cheap for the market, where the most of citizens are available to buy it even at that price. So it comes out that peasant (farmer) must have minimum 10 000 GEL, and where he should take money? He can’t obtain credit as no one will give you even 5 GEL for the land valued at 10tetri, and farmer won’t take credit because he will also have to make investments in it. If he lends money from the neighbors or relatives, he will be

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able to buy it, but when everybody needs no buy land it is impossible, as if you loan money to your neighbor, you will stay without land or something necessary for you, because this money is minimum needed and is not saving. Money which was to be in circulation in agriculture. But this is not the main point. Even if he buys it, money will be lost from farmer's pocket or from agriculture and will be transferred somewhere else. Whether and when it will be returned this is the question..This was the fund in agriculture and was to make direct or indirect investments in this sector (he would buy tomatoes, tomato seller should buy crops, crops seller would pay combine owner and so on – circulation).

Until the State will finish the sale, at least 500 million GEL should be received from agriculture or more if price will rise. And if we take into account 500 million multiplier, it will bring the substantial losses of investments funds.

4. We understand that until the State sells lands, needless to say about development of secondary market (there will be a lack of capacity in agriculture, its expansion will be impossible, no investments will be made in it. It will not be competitive and profitable without healthy market). As innovations and new technologies will not be acceptable without investments.
5. The most popular and the cheapest crop require 1800 GEL on 1hectare. It is a price of processing without any innovations and which needs 5-9 months. There is no economic benefit. If a farmer has 13 hectares in the village and family of 3persons with their needs, 9 months- from harvest to harvest, some funds would be also allocated for these needs and as a result how much these will expenses rise?

1 hectare of land costs 0.10 GEL and its production cycle costs 40 GEL on the same area. Who will invest it?

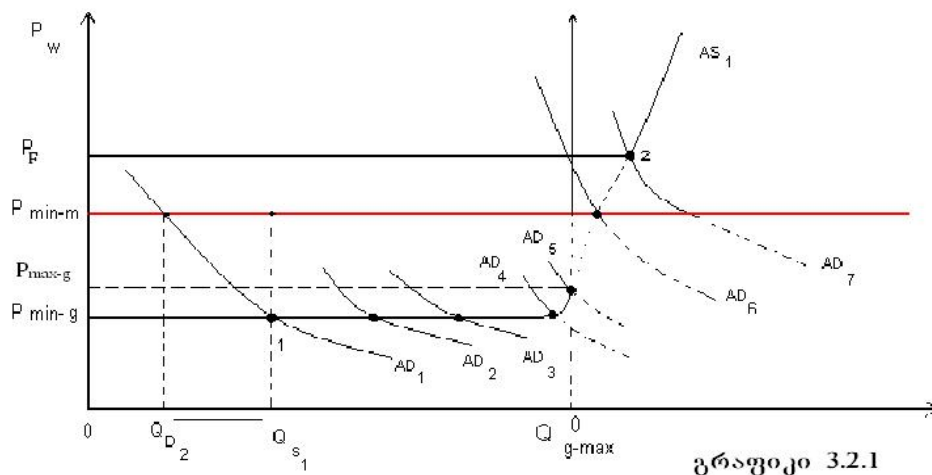
You will receive maximum 5 GEL for the land valued at 10tetri on condition that he will refund 7tetri (it is interesting, will he have return more than 2 GEL?) Simply - $(7-5=2)$. It will be like swimming under water at 100 m depth, but in this case there is no enough oxygen for farmers.

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Why assets (land) market in Georgia is not developed and why land is so cheap (0.10-0.11 GEL for 1 square meter)? So there is a split market with 2 different costs, demands and supply.

Let's discuss that on the basis of graphical analysis (see timetable 3.2.1). There is a number of assets on horizontal line and the price on vertical line. $P_{\min-m}$ is a price below which private actors refuse to sell assets (land) and $P_{\min-g}$ is a price below which the State refuse to sell. We think that $P_{\min-g} > P_{\min-m}$, as cost of private actor will be more than cost of State. But we also note that there is some minimum below which even the State does not sell its property. That price one the timetable is marked as $P_{\min-g}$.



გრაფიკი 3.2.1

After the fall of communist regime, governments in former Soviet republics put up for sale huge amount of lands (assets, property). That had led to decreasing costs and brought to minimum, below which the State itself refused to sell lands (assets) As soon as prices will rise as a result of demand, excess supply on primary market reduces the prices, that has an impact on private market prices. This process is of a permanent nature and curve of supply for long-term period is in line with P_{\min} .

AD_1 curve shows the general demand on agricultural lands (assets) is a curve of general supply. Initial balance is demonstrated on timetable in "1" point. In this point the seller of lands

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(assets) on “primary market” and “forced market” is the State and private or “secondary market” ($P_{\min-g} - P_{\min-m}$) is excluded from process. If at first balance is striking in point “1”, where supply and demand are equal, so excess supply of land (assets) for privatization/sale is a $Q_{S1} - Q_{D1}$ section.

Every next movement of **AD** curve to the right will cause excess supply on market that retains the price on permanent $P_{\min-g}$ level. This process would continue until state- owned lands will not be exhausted or until Q_{g-max} .

The curve of general supply in last segment of depletion of state property will be rising and then there will be no transaction on the purchase and sale until $P_{\min-m}$, as there is no “primary market”. Accordingly, any demand on land will provoke the raise of price above, to free P_{F2} new balanced point. We have called rising prices on land **from $P_{\min-m}$ to P_F - “free jump of liquidity”**.

After the price of land (assets) exceeds the critical level, that is necessary for **“free liquidity”**, economy becomes free and self-sustaining.

It must be noted that until the state owned lands will not be exhausted, in the functioning of “primary market” Q_{g-max} is going to 0, after the state-owned lands will be exhausted, Q_{g-max} becomes zero and on free **“secondary market”** countdown of supply and demand starts from 0 point.

Real market price of assets is key to free development of private property and its “secondary market”.

We believe that the state property must be formed as private property as soon as possible to support the economic freedom and diversification of property will be the most effective protection mechanism, and the State shall ensure to redistribute the assets between private owners.

Mainly in post-Soviet countries including Georgia, there is no exact information about relation between state and private property, accordingly there is no information about formation of private ownership, on which stage is it and when the process of formation will be over.

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