

Land Reform and Rural Employment in Ukraine¹

"Cultivators of the earth are the most valuable citizens. They are the most vigorous, the most independent, the most virtuous and they are tied to their country and wedded to its liberty and interests by the most lasting bands."

–Thomas Jefferson

In Ukraine a debate around the land reform has lasted for more than 20 years and it is still not over. The issues involved in a discussion are so numerous that sometimes it seems that it is just impossible to consider all the effects the potential regulations and laws would have on different segments of economy. Most of the analytical literature about land reform in Ukraine is devoted to the analysis of productivity and growth in agriculture, increasing competitiveness of Ukraine by making agriculture more efficient, property rights and moratorium on land. All these topics are of great importance. Nevertheless, little attention is paid to the effects of land reform and changes in agricultural sector on the rural population, its employment and welfare. It may seem paradoxical but the policy makers talk much about producers of agricultural goods and less about people who live in villages and are actually those who will eventually benefit or lose from the reform.

In this essay I focus on rural employment tendencies in post-Soviet period of Ukraine and analyze possible influence current land reform would have on it. From early 1990s the employment in rural areas has been decreasing constantly and I reckon this trend will continue to persist in the future. Moreover, the creation of big agrohholdings does not promise to bring new jobs for rural residents. While most of the peasants who lose formal jobs survive on their family plots, this course of things is not going to sustain in the longer run.

During first decade of transition Ukrainian agricultural output fell substantially and has not recovered yet (See Figure 1). Moreover, the situation is dramatic in a sense that agriculture always constituted a large share of Ukrainian GDP (according to FAOUN around 15% on average, see Figure 2). With the decline of production in agriculture the employment has decreased as well. As Food and Agriculture Organization of the United Nations (FAOUN) reports, since 1990s there is a constant negative growth of labor force in agriculture (See Table 1). Though the overall population declines as well, the rate of reduction of rural labor is still higher. An interesting fact about the rural employment is that it has declined much during the last century for most of the developed countries.

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Table 2 shows evolution of farm employment in several OECD countries, such as Canada, France, Germany, Australia, New Zealand and USA. In all these countries farm employment as a share of total economic employment decreased by 5 times on average. There can be a variety of factors influencing such a trend, though I guess the major ones are the technological progress and liberalization of agricultural market which caused the reduction in labor demand by agricultural firms. With further economic development Ukraine will not escape this scenario. Indeed, from Figure 3 one may conclude that with the introduction of land reform in transition countries, Slovakia, Czech Republic and Hungary in particular, the labor use in agriculture declined a lot. Though Ukraine had not faced such great reduction of rural employment so far, other transition countries' experience predicts that the picture is going to deteriorate with the land reform.

Besides general fall in rural employment, land reform would bring big foreign "players" into Ukrainian agricultural sector. This process would be inevitable because the average Ukrainian farm is only 8-15% profitable and therefore, cannot simply afford to buy land. It is obvious that if there is a great investment opportunity and domestic producers can't use it and extend their production, foreign agrohholdings, who possess much more capital, would come to Ukrainian market. However, rural population will not necessarily gain from this process. The evidence suggests that rural residents, on the contrary, will suffer from such process as employment will actually decline further. According to O. Popova (2011) today in Ukraine for every 1000 hectares there are on average about 150 self-employed, 45 employees in small agro-firms and 29 people employed in medium and big agro-enterprises. But in large agrohholdings this statistic is about 10 employees or even less for every 1000 hectares.

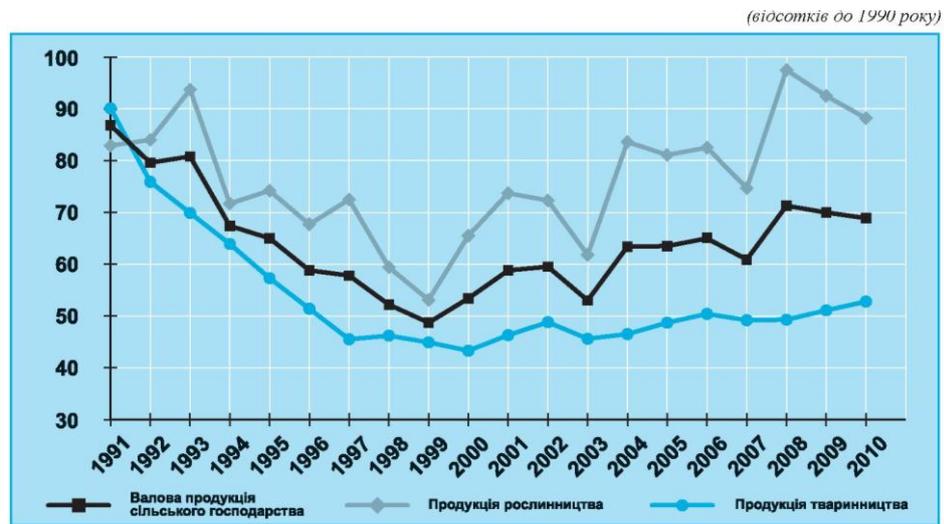
Ukrainian government guarantees every citizen a right for work. However, rural employment in Ukraine suffered a constant decline throughout last 20 years. Moreover, the situation is such that this trend is not likely to change in the near future. New big agrohholdings, which will inevitably come to Ukrainian agricultural market, will hire fewer workers and use more capital-intensive production technologies. This was true about other transition countries and Ukraine is not an exception. If one looks at the experience of Ukrainian neighbors with the land reform (Slovakia, Czech Republic and Hungary in particular), s/he can definitely see a negative impact of the reform on rural population employment. But to mitigate this unfavorable effect of the reform, the governments of these countries produced comprehensive programs for regional development. The problem of today's debate in Ukraine is that politicians do not estimate the consequences of their actions in the future: land reform will create the excess labor supply in rural areas which will bring to the agenda the problem of workers' migration from villages to the urban regions, lack of good infrastructure and, finally, the issue of training today's peasants to make them

high-skilled workers tomorrow. Thus, before Ukrainian parliament adopts any crucial legislation on land reform, the government should elaborate an exhaustive strategy for rural regions development. Otherwise, the support of land reform will never be achieved among population.

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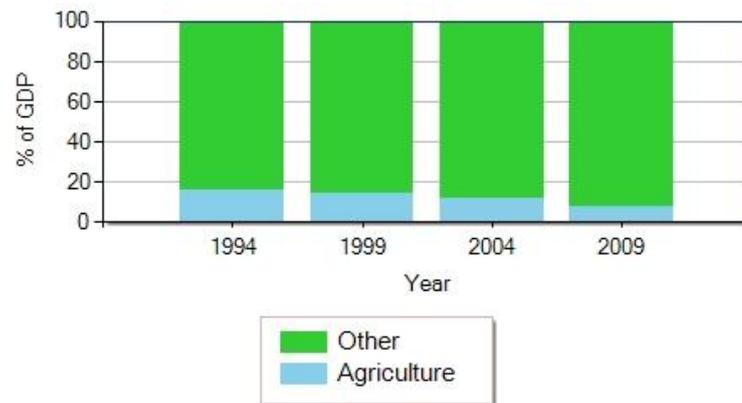
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Figure 1. Indices of agricultural production



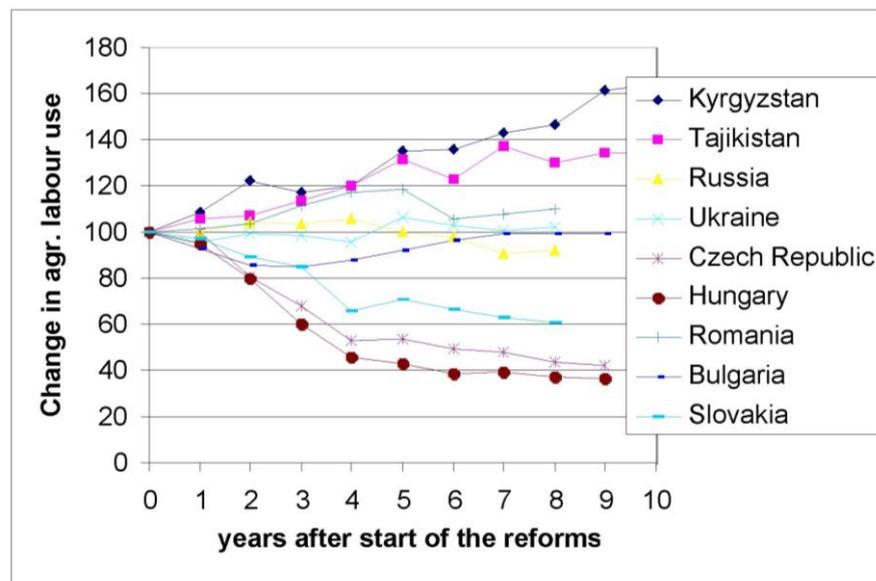
Source: Statistical Yearbook of Ukraine 2010, State Statistics Service of Ukraine.

Figure 2. Share of Agriculture value added in total GDP.



Source: Food and Agriculture Organization of the United Nations.

Figure 3. Change in agricultural labor use



Source: J. Swinnen, 2002.

Table 1. Evolution of population and labor force composition

	Share (%)				Annual growth rate (%)		
	1995	2000	2005	2010	1995-2000	2000-2005	2005-2010
Rural population (% of total population)	33.05	32.85	32.21	31.21	-0.12	-0.39	-0.63
Labor force in agriculture (% of total labor force)	16.89	14.43	12.24	10.34	-3.1	-3.24	-3.32
Females (% of labor force in agriculture)	37.42	33.02	29.92	27.45	-2.47	-1.95	-1.71

Source: Food and Agriculture Organization of the United Nations.

Table 2. Farm employment in selected OECD countries and Ukraine 1960-2010

		1960	1970	1980	1990	2000	2010*
Australia	Farm employment, m persons	1.2	1.0	0.9	0.9	0.9	0.8
	% of total economic employment	27.8	18.6	14.2	11.1	9.0	7.6
Canada	Farm employment, m persons	2.5	1.8	1.8	1.0	0.8	0.6
	% of total economic employment	38.0	20.6	14.5	6.9	4.7	3.4
France	Farm employment, m persons	10.1	6.9	4.4	3.1	2.0	1.3
	% of total economic employment	51.1	32.0	18.7	12.6	7.4	4.6
Germany	Farm employment, m persons	10.9	6.8	5.4	3.2	2.1	1.3
	% of total economic employment	31.1	19.1	14.5	7.9	5.1	3.3
New Zealand	Farm employment, m persons	0.3	0.3	0.3	0.3	0.3	0.3
	% of total economic employment	38.6	29.7	25.8	21.0	17.6	15.3
Ukraine	Farm employment, m persons					5.2	
	% of total economic employment					24.8	
USA	Farm employment, m persons	13.1	9.6	8.5	7.7	6.3	5.2
	% of total economic employment	17.3	10.7	7.6	5.9	4.3	3.2

Note: * - projections

Source :Food and Agriculture Organization of the United Nations, State Statistics Service of Ukraine.