



Promoting change or preserving the status quo? The consequences of dominating local politics by agricultural interests



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ABSTRACT

Though there is a vibrant debate about the determinants of structural change in the agricultural sector, the broad consensus is that it is mainly driven by economic environment and farmers' characteristics. In this paper, we show that the pattern of farm exits can also be importantly shaped by rural politics. Using municipality-level data for Poland and the period 1996–2010, we find a persistent correlation between the outflow from farming and the distribution of political power at the local level. Our results suggest that in municipalities where local governments were captured by agricultural interests there were fewer exits from farming and the land consolidation process was slower. While we cannot rule out that some omitted factors might be responsible for the documented statistical association, our findings are robust across different specifications and to focusing attention on various subsamples.

1. Introduction

As commonly argued, in most societies economic growth is accompanied by many important changes. In particular, a transition process from a traditional/rural economy toward an industrial/urban economy has been emphasised (see e.g. Kuznets, 1966; or, for a succinct overview of the literature, Matsuyama, 2008). This phenomenon is expected as a result of either the changing marginal rate of substitution between different goods (related to Engel's law) or differential productivity growth across sectors (Acemoglu, 2009). Regardless of the underlying factors however, shifts in output and employment away from agriculture toward non-agricultural activities have been frequently named as important characteristics of economic development and regional convergence (see e.g. Winters et al., 2010; Caselli and Coleman, 2001).

This reallocation of labour and capital toward manufacturing and/or services obviously implies considerable adjustments in agrarian structures of countries undergoing these processes (Chavas, 2001). A notable effect related to these changes involves a gradual disappearance of farm businesses, especially the small scale ones, and the release of resources for those who stay allowing them to enlarge their holdings (Eastwood et al., 2010). Indeed, structural change in agricultural sector is often associated with the decreasing number of farms, land concentration and increasing commercialisation of agricultural production (Davidova, 2011).

That said, the existing empirical evidence shows that countries display a substantial heterogeneity in the patterns of adjustments in

their agricultural structures (for the evidence on transition economies in Europe and Asia see, for example, Swinnen et al., 2005; and Spoor, 2009). In fact, although the time trend toward a smaller share of agriculture in the economy is commonly observed, both the composition of production and employment in rural areas and the evolving farm size distribution vary to a significant extent both across time and across countries (Piet et al., 2012).

To improve our understanding of these phenomena, there has been a lot of research investigating various factors which drive the scope and speed of structural change in agriculture. Most often the literature has focused on economic environment and farmers' characteristics, acknowledging in addition that technological improvements and farm-support programmes importantly contribute to this process (see e.g. Chavas, 2001; Breustedt and Glauben, 2007; Zimmermann and Heckeley, 2013; Landi et al., 2016).

While our purpose is not to challenge these explanations, in this paper we try to complement them with a different perspective. In particular, we investigate to what extent the outflow from farming depends on the distribution of political power at the local level. This focus can be motivated as follows. Structural change, while involving considerable adjustments in the allocation of resources, will likely create social tensions. This is because the changes not only create new opportunities, but also destroy some productive relationships and, in effect, may endanger some individual livelihoods (Kuznets, 1966). Natural conflicts that this may create will be solved in the political processes. The latter in turn, will be determined by the distribution of political power. Accordingly, the pattern of structural change in

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agriculture might be importantly shaped by farmers' political influences.

Looking at the relationship between structural change and rural politics is not new. Many studies in rural sociology or political economy of agrarian change have convincingly argued that rural development should be seen from the angle of power struggle between competing views and multiple interests around local economy (see e.g. Akram-Lodhi and Kay, 2009; Bernstein, 2010; Woods, 2008). To best of our knowledge however, this paper is the first to support these ideas with quantitative evidence. In particular, we are not aware of other studies which would document a statistical association between the pace of structural change and the extent to which local politics is captured by agricultural interests. Further, our focus is on the restructuring process which took place in Central and Eastern Europe after the collapse of the communist dictatorship. Interestingly, despite the dynamic changes characterising the transition period from a centrally planned economy to a market economy, the issue of power struggles in the context of structural change in agricultural sector has been relatively unexplored (notable exception includes, for example, Gorlach et al., 2008).

Our focus is on Poland and the period 1996–2010. Placing the analysis in this particular setting provides three important advantages. First, Poland seems to be a natural context to study structural change as agrarian overpopulation and high dependence on agriculture have been often argued to be the most important reasons for the low productivity in Polish rural areas. As a result, structural change has long been on the policy agenda and commonly advocated as a necessary condition to unlock the potential of these areas and to boost their development (Goraj, 2005; Wilkin, 2007; RDP, 2010). Second, the period under study is marked by a very profound economic adjustments following the collapse of the communist dictatorship and the introduction of a market economy. In consequence, in our analysis we cover the time when dynamic responses to new incentives alternated with the costs that the ongoing restructuring generated (see e.g. Kornai, 2006; Hellman, 1998). Thanks to this, we can study how this mixture of opportunities and threats affected farmers' political attitude to structural change in agriculture. Third, during the analysed period, Polish municipalities varied to a significant extent with respect to the distribution of political power between different groups. What follows, in some municipalities we observe farmers' representatives to dominate municipality councils, whereas in others their representation in the council is much weaker.¹ This allows us to take advantage of this variation to examine whether or not political representation of agricultural interests affected the speed of structural change.

The remainder of the paper is organised as follows. Section 2 presents a brief review of the relevant literature. Section 3 provides some background information on administrative division in Poland and changes that have taken place in Polish rural areas during the early transition period. It also provides some insights on farmer's political behaviour in that time. Section 4 discusses the data and our empirical strategy whereas Section 5 presents our results. Finally Section 6 presents the discussion of our findings and offers some concluding remarks.

2. Literature review

2.1. Economic factors supporting structural change

While there have been many studies concerned with structural change in agricultural sector and factors which are likely to affect its pace and direction, a large part of the literature has been predominantly occupied with investigating the role of economic environment and farmers' characteristics (for an overview of this strand of the literature see Chavas, 2001; Eastwood et al., 2010 or Piet et al., 2012). For

example, it has been argued that exits from farming are more likely to be observed among older farmers since farms are often closed down as farmers retire and do not have a successor (see e.g. Gale, 2003; Zimmermann and Heckeleei, 2013; Landi et al., 2016). Similarly, the restructuring process is positively affected by technological improvements (Chavas, 2001). This is because technical innovations induce the change in production factors and require financial resources for investments, which, especially in the presence of credit constraints, can be more easily acquired by larger farms. Further, it is widely recognised that structural change is affected by non-agricultural job opportunities. The existing evidence however is inconclusive on whether it should encourage or discourage farm exits (Weiss, 1999; Kimhi, 2000; Goetz and Debertain, 2001; Breustedt and Glauben, 2007).² The existing studies seem to also suggest that larger farms are less likely to quit than small-scale farms, presumably due to greater sunk costs and higher productivity related to the presence of some economies of scale (Ahearn et al., 2005; Hoppe and Korb, 2006; Huettel and Margarian, 2009). In addition, there seems to be a general consensus that structural change is slowed down by farm-support policies although the effects of public policies may not be trivial and depend on the instrument choice (Goetz and Debertain, 2001; Ahearn et al., 2005; Key and Roberts, 2006; Breustedt and Glauben, 2007).

2.2. The role of rural politics

While the explanations provided in the studies mentioned above definitely improve our understanding of different patterns of restructuring in agricultural sector, at some point they seem to be seriously incomplete. This is because they largely ignore the fact that structural change could be endogenous to special interests of groups which are affected by the ongoing processes (see e.g. Akram-Lodhi and Kay, 2009; Bernstein, 2010). This is the more important given the fact that structural change often undermines local livelihoods and economies (see e.g. Edelman and Haugerud, 2005; EU, 2016). In consequence, it is unlikely to evolve uncontested. To the contrary, it is reasonable to assume that social groups that may lose from the ongoing changes will try to oppose them (Hillman, 2010). Exerting pressure on politicians or capturing the control over the government with own representatives, as suggested by the political rent seeking theory, provide natural ways to achieve it (Buchanan et al., 1980).

In this paper we try to further develop the understanding of these phenomena and test whether structural change in agricultural sector is affected by the extent to which local government is captured by farmers' interests. Adopting this particular focus can be motivated as follows. As widely recognised, local government is often of first-order importance for the performance of rural areas (see e.g. Douglas, 2005; Pemberton and Goodwin, 2010). This is because it directly or indirectly determines the allocation of local resources and assets and decides about the way in which they can be mobilised. Further, local government is commonly believed to be more responsive to meeting needs and preferences of citizens than upper tiers of government. Equally important, local government often acts as "a vehicle of policy, programme administration and resource allocation for so-called higher levels of government (Douglas, 2016, p. 601)". Indeed, while national reforms set the general framework for various social and economic processes, at sub-national level they can be often fine tuned to the local circumstances (see e.g. Albertus, 2015).

That said, local governments are widely portrayed as being particularly prone to capture by local elites (for a review of the existing arguments see, for example, Bardhan and Mookherjee, 2000 and

¹ Please note that in our study we focus on the *de iure* influence and not on the *de facto* influence. This obviously should be kept in mind while interpreting our results.

² On the one hand access to off-farm jobs may facilitate farm exits as those who decide to quit from farming can find employment in other sectors. On the other hand though, non-farm income can be used to accumulate capital for farm investments, or serve as a complementary source to farm income if the non-agricultural job opportunities are perceived as highly unstable or are dominated by offers for unskilled workers.

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