



# Heterogeneity in interventions in village committee and farmland circulation: Intermediary versus regulatory effects

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## ABSTRACT

Through comparing the intermediary regulatory effects, this paper investigates the effects of the village committee on farmer households' participation in farmland circulation based on rural household survey data from Jiangsu and Jiangxi collected in 2014. Our results indicate that farmers' lack of trust in the village committee probably weakens the intermediary effect, and so reduces the possibility of households' participating in renting lands. In addition, farmland circulation information provided by the village committee can promote farmland circulation in terms of renting out lands, but it demonstrates a "discriminatory" effect on households' renting decisions as the significant effect can only be found for participants who are renting large-scale farmlands. Furthermore, the regulatory effect induced by the village committee tends to reduce households' participation in farmland circulation with respect to both renting and renting out the lands. Finally, the "heterogeneous" regulatory effect is inclined to distort the household's expectations of risk from participating in farmland circulation.

## 1. Introduction

A period of rapid and profound development has triggered corresponding restructuring in rural China (Long et al., 2016). However, the tendency toward de-agriculturalization, a preference for the cultivation of non-grain crops, and the abandonment and subsequent disuse of rural farmland have all brought about various challenges for successful rural development (Long et al., 2011; Long et al., 2012; Long, 2014; Song and Liu, 2014). In light of these new difficulties, much rural restructuring has occurred, a major component of which has been the revamping of rural farmlands (Zhang et al., 2016). On the one hand, farmland resources are very scarce in China, according to the report issued by the Ministry of Land and Resources of China (MLRC, 2009), and China's farmland resources continue to decrease with the expansion of cities and the concurrent increase in demand for industrial land. There were 121.71 million ha of farmland in China at the end of 2008, as indicated by Long et al. (2016), and China's farmland resources have reduced by 11.48 million ha from 2000 to 2008. In addition, though the Household Contract Responsibility System has brought about intensive and large-scale changes to strengthen the management of farmland in recent years, the fragmentation of these farmlands and their operations has not yet been fully addressed. On the other hand, the scope of Chinese land abandonment which has been observed in recent years has

not been fully taken into account either. Liu and Li (2006) revealed that the area of land abandoned accounts for about 2/3 of the total farmland area from 26 provinces, and Li et al. (2014) found that about 15% of land was abandoned in south China. This contradiction in farmland use could be attributed to both the absence of land transfer markets and the imperfect land property rights system (Qian et al., 2016).

Rural contracted land use can be reallocated among different management organizations through land transfer (Long et al., 2016), which has been viewed as a policy tool to achieve agriculture modernization. In particular, to achieve the effective allocation of agricultural resources, the setup and development of rental markets for arable land transfer is regarded as the most practical and the most widespread approach (Binswanger and Rosenzweig, 1986; Yao, 1999; Otsuka, 2007; Huang and Wang, 2008; Huang et al., 2012). As a transition economy, China provides us with a unique case for studying land reform and the development of the land rental market. Since the late 1980s,<sup>1</sup> the central government has adopted a gradual land institution reform to guarantee the smooth development of the transfer market for contracted rural lands (Huang and Wang, 2008; Ye et al., 2010). Through the implementation of these reforms in rural areas, village committees have been endowed with more control and independence in rural land restructuring, especially with regard to organizing rural land transfers in order to compensate for a lack of government supervision

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<sup>1</sup> Farmland transfer is short for rural land contracting and management rights transfer in following sections. Farmland circulation market is a type of land rental market in the unique Chinese context.

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(Zhang et al., 2009; Long et al., 2016; Tu and Long, 2017). However, the impact of village committees' intervention on rural land transfers is ambiguous due to their following dual roles: to promote land transfer among the villagers by providing information, referred to as the intermediary role, and to hinder the automatic transfer by imposing too much governance on land property (Wen, 2010), which can be defined as the regulatory role. Although the implementation of the reform has resulted in tremendous achievements, the dual responsibilities, land transfer promoting and land property regulating taken by the village committee lead to uncertainty regarding the impact of the village community's intervention on promoting the development of the rural land transfer market. Therefore, to smoothly promote the reform of the rural land rental market, it is important and necessary to understand the mechanisms behind the contradictory dual effects of village committees on farmland transfer, and so to clarify the actual role of the village committees in organizing farmland transfers.

The contribution of this paper is three-fold. Firstly, we investigate the mechanism through which the interventions of village committees function regarding rural land transfer by introducing and clarifying the intermediary effect and regulatory effect. This provides a deeper insight for explaining the actual role taken by the rural village committees in farmland transfer. Secondly, our study examines the heterogeneity of effects of village committees' intervention across groups with different transfer scales. The results show that the village committees are likely to conduct "discriminative" interventions when they organize the rural land transfer since the village committees pay more attention to households with larger transfer scales. This may help to revise, or promote the follow-up implementation of land transfer policy by revealing the work focus of the village committees when they arrange the rural land transfer. Our third contribution is that we take into account the possible unobserved heterogeneity regarding the effect of explanatory variables from one household to another and generate two proxies: "number of agricultural machinery asset" and "off-farm labor force", as two random parameter variables to capture the effects which vary between decision-makers rather than being fixed.

The rest of the paper is arranged as follows: Section 2 analyzes the effect of the village committee on the household's farmland transfer decision from the view of transaction cost and concludes the theoretical hypothesis. Section 3 introduces the survey data and variables. Section 5 examines the regulatory role and intermediary role of the village committee on farmland transfer and, finally, Section 5 concludes.

## 2. Conceptual framework

The conceptual framework for the impacts of village committee's interventions on farmland transfer is based on transaction cost analysis (as shown in Fig. 1). We start our analysis by presenting two functions of village committees in arranging rural households' land transfer activities: regulatory and intermediary roles, which have a trade-off in the intervention effects. Subsequently, we explain how the interventions imposed by the village committees may affect households' decisions regarding land transfer participation by capturing and identifying the routes through which the regulatory and intermediary effects increase or decrease the transaction costs of households.

Reference State Power and Village Cadres in Contemporary China: the case of rural land transfer in Shandong province

### 2.1. Village committee's effect on farmland transfer

Farmland transfer is achieved through the transaction of farmland use rights. This means that the degree to which the costs occurred in the transfer process tends to affect the occurrence of transactions, and the degree of success of the farmland transfer. The village committee is the villagers' autonomous organization, which is considered as a mass organization of self-government, farmers' autonomous self-management, self-education and self-service. It affects rural households' farmland

transfer decisions directly or indirectly by influencing their transaction costs related to farmland transfer. How the village committee affects rural households' land transfer decision-making is analyzed in the remainder of this section?

#### (a) Village committee's regulatory effect on farmland transfer

The village committee is a basic, rural, mass, self-governing organization that can provide self-management, self-education and self-service for villagers.<sup>2</sup> Rural and suburban land belongs to village collectives and is managed by the village committee (Lichtenberg and Ding, 2008). Therefore, village committees have the authority to allocate land to alternative uses such as farming, construction, housing, public works, and village enterprises (Ho, 2001; Ho and Lin, 2003). Statistical analysis by Zou and Zou (2014) has shown that the approval of village committees is required for land transfer. The village committee has incentives to regulate farmland transfer. First of all, according to "The Organic Law on the Village Committee of the People's Republic of China"<sup>3</sup>; the village committee delegates the rural grass-roots political power, providing and maintaining the rules of farmland use rights transfer (Chen, 2011; Tu and Long, 2017). Second, the village committee members, the so-called village cadres, are motivated to monitor land transfers for their own benefit as regulating the farmland transfer provides them with rent-seeking opportunities (Johnson, 1995; Tao and Xu, 2007). Therefore, the village committee has the power and incentives to control farmland transfer. On the basis of different regulation objectives in farmland transfer, the village committees have to regulate, on the one hand, the behavior of farm households regarding farmland transfer and, on the other, certain uses of the transferred farmland. The former type of regulation means that villagers are required to obtain approval from the village committee when they want to conduct a farmland transfer, while the latter implies that the uses of the transferred farmland are limited and decided by the village committee.

#### (b) Village committee's intermediary effect on farmland transfer

Encouraged and supported by local government, village committees have a direct incentive to play an intermediary role in farmland transfer. In the literature on land transfer, it has been pointed out that the village committee plays the most important role as transaction intermediaries so as to organize and coordinate farmers to facilitate land transfer. The intermediary role is as follows: First, the village committee can provide farmland transfer information about both the supply and demand side. The village committee can publish information on the demand side through a variety of ways (such as releasing announcements). At the same time, villages who want to rent or rent out farmland can obtain the relevant information from the village committee. It is said that the lack of information about land supply and demand, along with poor knowledge of national policies, can be obstacles to land transfer. Hence, accurate information disseminated by the village committee can help remove obstacles and enhance land transfers (Chen, 2011). Second, the village committee's intermediary role is to transfer the farmland transfer type from the decentralized pattern to the centralized one. In practice, through the centralized transfer organized by the village committees based on the trust towards village committee, the transfer contracts signed between villagers who are renting or renting out farmland are witnessed by the village committee, which is likely to supervise the behavior of villagers who are participating in farmland transfer, thereby reducing the likelihood of defaulting (Rao et al., 2017).

### 2.2. Comparison based on transaction costs: intermediary effect vs. regulatory effect

We compare the regulatory effect and intermediary effect based on a

<sup>2</sup> See the second provision of "The Organic Law on the Village Committee of People's Republic of China".

<sup>3</sup> See the eighth provision of "The Organic Law on the Village Committee of People's Republic of China".

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