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Agricultural Support in Russia from the Political Economy Perspective

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Abstract

The contribution summarizes two research papers that examine the mechanisms of Russian agriculture subsidization considering the incentives of the key stakeholders involved. We first put Russian agricultural support in an international context, briefly comparing it with the EU's Common Agricultural Policy and other countries' support systems. Then, using a unique dataset from the Russian Ministry of Agriculture and drawing on the political economy literature, we map the incentives of regional and federal governments in the distribution of targeted subsidies among the Russian regions. Results suggest that similar to the US and the EU, the regional and federal levels of the Russian government not only seek to boost agricultural development but also see subsidies as a tool for pursuing political goals. We conclude by discussing the implications of these results and the corresponding policy options.

Russian Agricultural Support in the Global Context

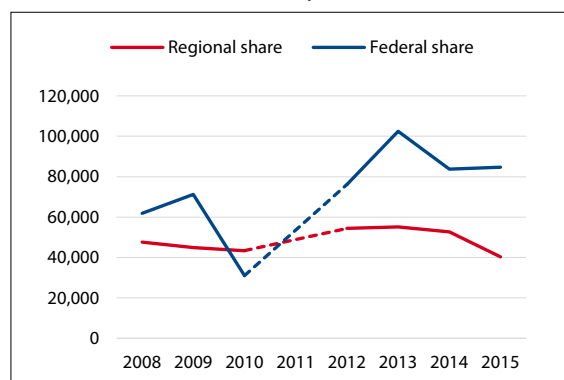
Aggressively pursuing the goal of food self-sufficiency, Russia allocates substantial budgetary resources to the agricultural sector. During the years 2017–2019, the state allocated an impressive 0.7% of GDP annually on average. To put this figure in a global perspective, Australia and Argentina each spent 0.1% per year during the same period. Even the EU, whose massive Common Agricultural Policy accounts for 34.5% of its budget, spent only 0.4% of EU GDP (EU, 2020). Thus, Russian agricultural policy generates comparatively large transfers of public funds to the agricultural sector. Moreover, unlike in other countries, a relatively small share (13%) of this support goes to rural infrastructure and extension services. This implies that agricultural producers should receive higher shares of direct support in Russia. Although the official goals of this support are to stimulate agricultural production and improve rural quality of life, it would be naïve to assume that state officials do not pursue other goals with these large transfers.

We observe substantial variation in levels of support across Russian regions, much of which cannot be explained by economic factors and distribution rules. Differences in subsidies per hectare can be as large as 20-fold. In addition, the composition of types of support (e.g., crops or livestock) varies substantially. Attempts to explain the differences using purely economic factors or fiscal distribution rules fail, indicating that there may be other drivers for these differences. Since agricultural subsidies essentially represent large transfers from the state to producers, we use the political economy literature to explain how Russian politicians may be using agricultural subsidies for rent-seeking and to maximize political support. Such an explanation requires understanding the Russian context, which features weak institutions and has a tendency toward centralization in inter-governmental relations.

Governance Centralization and Rural Politics

Centralization of Russian intergovernmental relations over the past two decades has facilitated the discretionary use of transfers like agricultural subsidies. Putin's regime has consolidated power at the federal level and stripped the regions of the bargaining power they enjoyed during the Yeltsin era. This has brought more clarity to the distribution rules of agricultural subsidies, which consist of federal and regional co-funding. The regions are relatively free to decide how they will distribute regional agricultural funding, but if they want to obtain federal co-funding, they must fulfill a number of federal requirements. In line with the general trend toward centralization, federal co-funding has gained in importance over time (see Figure 1). Although federal

Figure 1: Federal and Regional Shares of Agricultural Subsidies in 2010, Million RUB



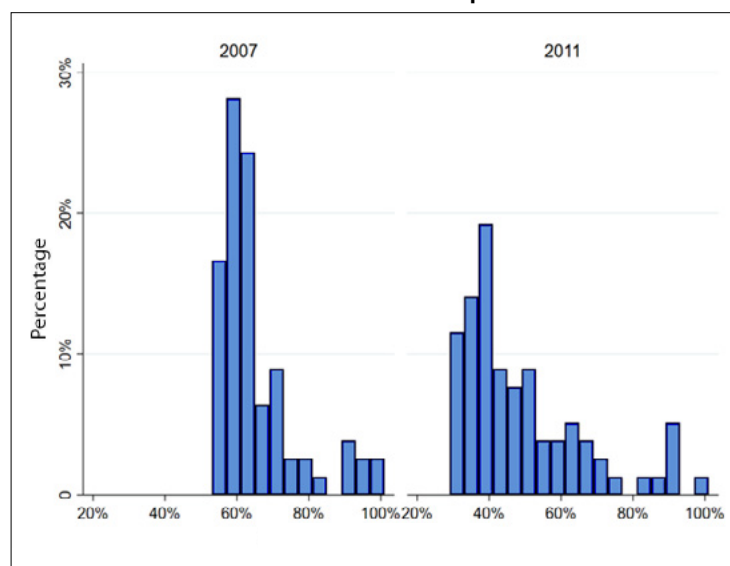
---Dashed Line Indicates Missing Observations for 2011
Source: Kvartiuk and Herzfeld (2021)

funds should be allocated based on distribution formulas, informal negotiations between the regions and the federal government are common. These negotiations occur in a covert and non-transparent way because there are no institutions to facilitate this process.

Party politics is one of the central tools that has been used by the Russian government to cement its incumbency. United Russia (UR), an incumbent party controlled by the president, dominated the 2007 and 2011 elections in every single region, albeit to varying degrees (see Figure 2). One of the key reasons this success was possible is because regional politicians were incentivized to mobilize voters for UR in exchange for remaining in power themselves. Under these pressures, regional politicians appealed to local elites to help them maximize political support. Large enterprises with many employees were especially interesting for regional politicians because voter mobilization and/or coercion predominantly happens in the workplace. Whether local politicians used “carrots” or “sticks” for voter mobilization largely seemed to depend on the level of regional democratization and the strength of local institutions. Western regions demonstrated more competitive political outcomes, whereas the North Caucasus and the oil-producing regions (e.g., Tiumen and Tatarstan) rely more on autocratic governance approaches and may have tended to use coercion rather than appeasement.

The rural population represents an attractive group of voters for redistributive politics for a number of reasons. First, rural inhabitants are substantially poorer on average. For instance, rural salaries were ca. 60% of the national average between 2015 and 2017. The political economy literature suggests that poorer populations are more susceptible to transfers. Second, agriculture is of central importance to local economic growth. Despite the fact that only 7% of the labor force was employed in agriculture in 2016, the rural economy depends heavily on agricultural production and related economic activities such as service and input delivery, processing, and trading. Thus, agricultural subsidies can disproportionately affect the voting behavior of rural residents. Finally, rural inhabitants may have less access to diverse media outlets and credible information, making them easy prey for state-backed propaganda, which—when combined with transfers—can make a difference in electoral outcomes.

Figure 2: Distribution of Votes for United Russia in 2007 and 2011 Elections within the Sample



Source: Kvartiuk and Herzfeld (2021)

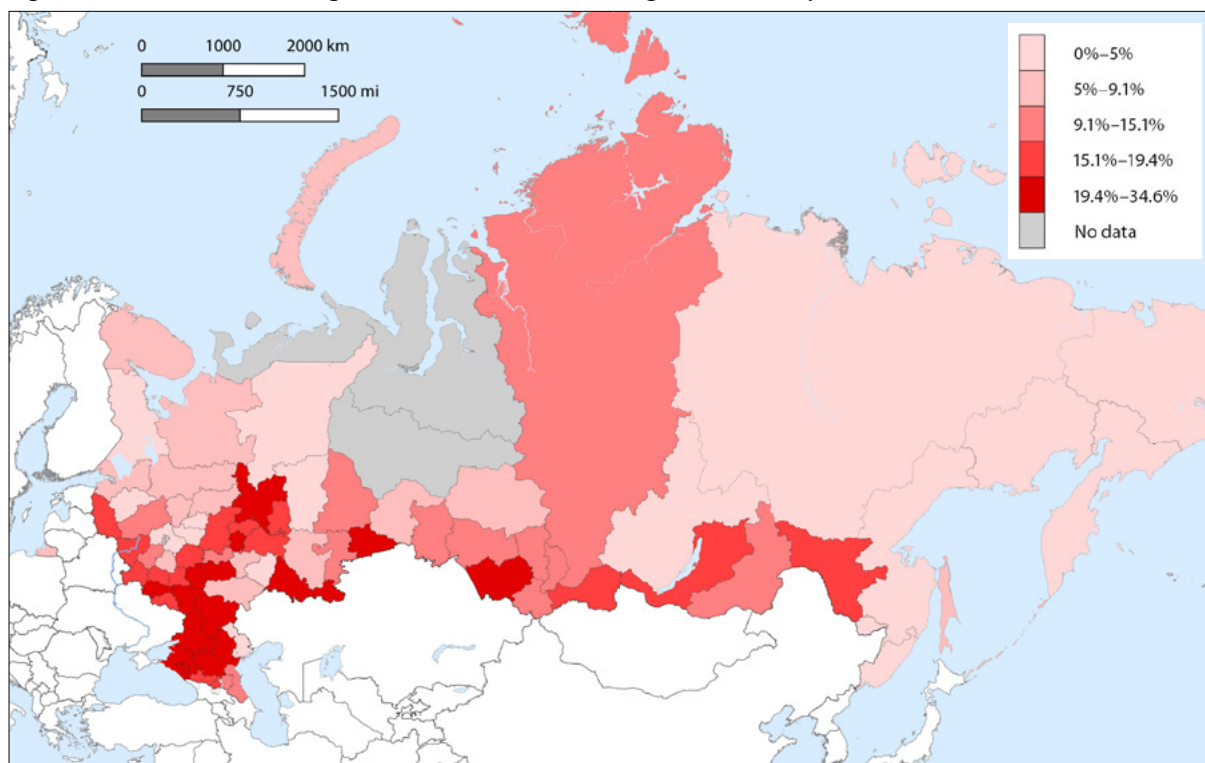
Regulatory Capture in Agricultural Subsidization

Before we explore the political incentives behind the distribution of agricultural subsidies, we analyze whether local elites can capture these funds. Since agricultural support is mainly a regional policy in Russia, it is natural to examine the incentives of local politicians. Importantly, members of regional parliaments (unlike their federal counterparts) are legally allowed to run businesses while in office (such individuals are commonly known as “moonlighting politicians”). This reality may allow members of parliament (MPs) to pursue their vested interests or cause them to be biased in their allocation and distribution of agricultural subsidies. Thus, we hypothesize that regional parliaments where more MPs operate agricultural enterprises will likely allocate more subsidies to the agricultural sector.

To test this hypothesis, we use a unique panel dataset from the Russian Ministry of Agriculture on agricultural subsidies from 2008 to 2015. We complement it with the registries of MPs in 78 Russian regions and map all the companies owned by local MPs using the “SPARK” database. Using official enterprise classification, we were able to calculate the share of MPs with agricultural enterprises and the number of agricultural enterprises per MP in any given parliament at a given point in time. Figure 3 demonstrates the prevalence of agricultural interest in regional parliaments across Russia. Apart from a cluster of regions in the North Caucasus where more than 30% of MPs have agricultural businesses, we observe substantial variation irrespective of how agriculturally oriented a given region is.

In addition, we mapped the share of companies owned by governors and ministers of agriculture during the period between 2008 and 2015. As a result, it was possible to use dynamic panel data models to econometrically model the relationship between the agricultural interest embedded in regional parliaments and the subsidies allocated.

Figure 3: Share of MPs in Regional Parliaments Who Had Agricultural Companies



Source: Kvartiuk and Herzfeld (2019)

The results of these estimates point in the direction of regulatory capture in the distribution of Russian agricultural subsidies. In particular, beyond the economic factors, we find that regional co-funding is higher in those regions where a higher proportion of MPs own agricultural companies or where more companies are registered per MP. Thus, regional politicians that moonlight at agricultural companies appear to be more incentivized to push for agricultural support in their regions. Interestingly, having a minister of agriculture who owns at least one company appears to be associated with more regional co-funding, but having a governor with an agricultural enterprise does not.

Redistributive Politics and Agricultural Subsidies

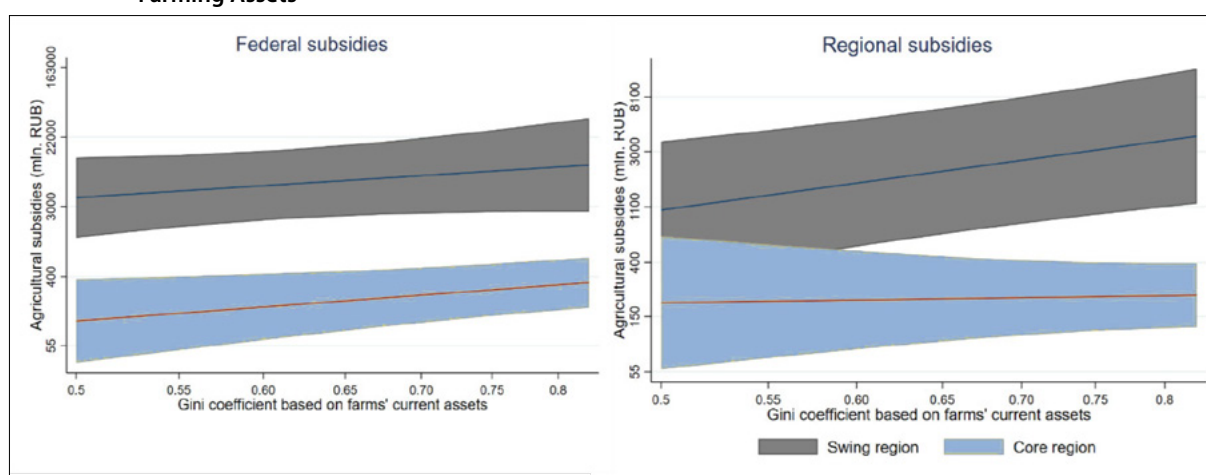
Besides being an object of direct rent-seeking, agricultural subsidies could be instrumentalized to maximize political support for the incumbent government. In particular, both levels of the government may strategically allocate and distribute subsidies to cement the power of UR. A number of scholars found that the federal government used inter-governmental transfers for the same purpose. Similar to agricultural subsidies, these are formula-based transfers that represent ca. 1% of GDP. Following this strand of literature, we address the debate about the strategy the incumbent government will assume to maximize political support. First, it could target loyal or core voters, rewarding them for their votes in the previous electoral cycle. Conversely, the government could direct the funding toward swing voters—those groups that could potentially vote for UR in the next elections. Moreover, the government may partner with large agricultural enterprises to mobilize voters. Because workplace coercion has been found to be the major strategy for voter mobilization in Russia, the government may direct the subsidies toward large farms with many employees in hopes of receiving higher support for UR in exchange.

We test these hypotheses using the same dataset on agricultural subsidies and complement it with data on the outcomes of federal and regional elections during the period between 2008 and 2015. To test whether swing or core voters were targeted, we constructed UR's winning margin with respect to the closest runner-up party. Low winning margins imply higher political competition and thus represent regions with predominantly swing voters. We assume that

core voters are represented in those regions with high margins of victory. In addition to political competition proxies, we also use a measure of large-scale farming within a region. In particular, we construct a Gini coefficient based on the current assets of all the farms within a given region in a given time within our panel. The source for our data was the “Spark” database. We used dynamic panel models with instrumental variables and error correction terms.

Results point in the direction of strategic redistribution using large farms as vote brokers. Econometric estimates suggest that both federal and regional governments direct larger agricultural subsidies to those regions where UR faced more competition in the last elections. This provides support for the swing voter hypothesis. Another important finding is that agricultural subsidies consistently go to the regions with large agricultural farms. Moreover, regional governments appear to allocate disproportionately more subsidies to large farms when political competition in their regions is high, i.e. when UR did not do well during the last elections (as illustrated by Figure 4). We see that at the federal level, the “swing region effect” is additive, whereas at the regional level it is multiplicative, as the slope of the relationship between large farming proxy and subsidies becomes steeper. This suggests that vote brokerage may be more relevant in the context of the allocation of regional subsidies.

Figure 4: Predicted Agricultural Subsidies for “Swing” and “Core” Regions Depending on the Concentration of Farming Assets



Source: Kvartiuk and Herzfeld (2021)

Conclusion

This contribution provides a short summary of two research papers on the political economy of agricultural subsidy distribution in Russia. As the differences between levels of regional subsidization can hardly be explained by economic factors, we investigate the incentives of the key stakeholders, treating agricultural subsidies as transfers. First, we find evidence for regulatory capture on the regional level because regional parliaments with higher shares of MPs who have agricultural companies tend to allocate more regional subsidies. Due to a lack of data, we cannot say whether MPs benefit directly from the subsidies or whether these “moonlighting politicians” have a bias toward supporting agriculture. Comparatively permissive laws related to combining political positions with running businesses at the regional level may facilitate rent-seeking.

Second, the incentives of the Russian government in distributing state subsidies appear to be aligned with the incumbent regime’s redistributive strategies for maximizing political support. We find that federal and regional governments allocate more agricultural subsidies to “swing regions”—that is, those regions where UR faced stronger competition in the last elections. This discretion when it comes to allocation may provide both levels of the government with the tools to mobilize rural voters. Moreover, these transfers may be made more effective if large agricultural enterprises are targeted as vote brokers.

Our findings are in line with the literature focusing on other non-agricultural sectors. Moreover, the Russian case is hardly unique, as similar effects have been found in other contexts, including the US and the EU. However, weak institutions in combination with authoritarian, centralized intergovernmental relations generate an especially fertile context for using agricultural subsidies in redistributive politics.

Please see overleaf for information about the authors, recommended reading, and references.

About the Authors

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Prof. Dr. *Thomas Herzfeld* has been Director at IAMO and Head of the Agricultural Policy Department since 2011 and teaches at the Martin Luther University of Halle-Wittenberg. He received his Ph.D. from the Christian Albrechts University in Kiel and completed his habilitation at the same university. Between 2007 and 2011 he worked as an assistant professor at Wageningen University. His research interests include agricultural policy, rural development, and institutional economics.

Recommended Reading

Kvartiuk, Vasyl, and Thomas Herzfeld. 2021. "Redistributive Politics in Russia: The Political Economy of Agricultural Subsidies." *Comparative Economic Studies*, 1–30. <https://doi.org/10.1057/s41294-020-00131-2>

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