

Political competition and policy choices: the evidence from agricultural protection

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Abstract

This article investigates whether political competition plays an important role in determining the level of agricultural protection. In order to do so, we exploit variation in political and economic data from 74 developing and developed countries for the post-war period. We use two measures of political competition: one that captures the extent to which political power can be freely contested regardless of election results and one based on vote share at last parliamentary elections. Our results, based on static and dynamic panel estimators, show unambiguously that the higher the level of political competitions is, the higher the agricultural protection.

JEL classifications: D72, D78, F13, O13, P16

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1. Introduction

A large literature in political economy has now emerged, which studies the effect of political institutions on policy outcomes (for an overview see e.g. Persson and Tabellini, 2000). Attention has been paid to both developing theoretical understanding as well as to empirical analysis of the specific features of political system granting privileges to some groups and entailing systematic biases in aggregate spending. Much of the effort has been spent on documenting the relationship between democracy and economic outcomes (e.g., Giavazzi and Tabellini, 2005; Papaioannou and Siourounis, 2008; Persson and Tabellini, 2000; Persson and Tabellini, 2008; Przeworski et al., 2000; Rodrik and Wacziarg, 2005).

These studies have remarkably deepened our understanding of the sources of large cross-country differences in institutions and economic performance. However, this literature documents, by and large, the role of a broad cluster of democratic institutions leaving open the question on what specific institutional features are more important for the policy process of interest. Given the well-established theoretical arguments as well as heterogeneous effect of democracy observed in reality, there is a

need for more in-depth research studying what particular institutional arrangements determine policies of one sort or another (Acemoglu and Johnson, 2005).

Having this in mind, this article tries to investigate to what extent economic policy outcomes may depend on political competition, that is, the intensity of the challenge political parties face from each other (Roemer, 2006).¹ More specifically, our goal is to estimate the effect of political competition on the level of agricultural protection. Agriculture constitutes an interesting case for a variety of reasons. To start with, agricultural policy is often presented as a classic example of a policy that benefits narrowly defined interests of farmers (Persson and Tabellini, 2000). Nevertheless, the mechanism at work behind this systematic bias still needs better understanding. In addition, rightly or not, agricultural protection is often presented as a bone of contention in the WTO negotiations. While our aim is not to generalize the determinants of agricultural protection to other sectors, we believe that the study of sectoral protection provides an insight into the understanding of trade policy, which is concealed in the analysis of aggregate trade openness.

¹ Alternatively, political competition could be defined as the degree of control that masses have over political elite (Acemoglu and Robinson, 2006). Note that from both these perspectives, political competition could be seen as a form of constraint on political elites.

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By doing so, this article aims to contribute to the strand of the literature that tries to make progress in understanding the impact of political institutions on agricultural support. A growing number of recent articles have investigated how various aspects of political organization of a society affect agricultural policy outcomes (for an overview see Swinnen, 2010). These articles have examined agricultural protection from the point of view of the impact of democratic transitions (Olper et al., 2013), electoral rules (Olper and Raimondi, 2013), party ideology (Dutt and Mitra, 2010), or political liberties (Swinnen et al., 2000).

Our article differs from earlier studies in its focus on the role of political competition, an issue which has received relatively scarce attention (notable exceptions include Bates and Block, 2010; Gawande and Hoekman, 2010).² This may be of importance for at least three reasons. First, the existing studies document that agricultural protection depends on political regime and, especially, electoral rules (see, Olper et al., 2013; and Olper and Raimondi, 2013). More specifically, the level of protection increases with transitions to democracy and is higher under proportional representation. However, there is still a great deal of heterogeneity in the level of protection among democracies and among proportional systems which needs explanation. Given that elections are one of the main democratic institution, political competition may provide some interesting insights into the subject of this heterogeneity. Second, focusing on electoral rules (majoritarian vs. proportional) leaves out number of issues that may be of importance for policy choices. One of them is surely the distribution of political power within political elite and/or between the citizens and political elite, which will determine potential threat for current incumbents being replaced. Again, investigating the role of political competition may be informative in this respect. Finally, as argued in other studies, the impact of political institutions on agricultural policy may be transmitted through different channels depending on the structure of the economy (see e.g., Olper et al., 2013). It is important therefore to note that looking at political competition allows to take this potential heterogeneity into account. In developing countries political elites cannot please broad constituency without favoring agricultural interests. In developed countries, on the other hand, agricultural electorate, although being marginal, may be regarded as swing/pivotal voters. In consequence, in both these settings the presence of fierce political competition may result in an increased support for agriculture but for quite different reasons.

To study the impact of political competition on agricultural protection, we exploit both cross-country as well as within-country variation in the political and economic data from 74 countries for the period 1955–2005. Our results show that agricultural protection is positively correlated with political competition. As such, they are consistent with empirical and theoretical contributions to the political economy literature pointing to a positive association between political competi-

tion and government spending. Our findings are robust across different measures of political competition, to the usage of additional covariates and across various subsamples. Importantly, they remain qualitatively the same when we switch from fixed effects to dynamic panel models to address potential endogeneity problem due to time-varying unobservable factors. In the latter case however, our results for the measure of political competition based on election outcomes are slightly less robust.

2. Related literature

Although there exists a large literature dealing with agricultural protection (for an overview see de Gorter and Swinnen, 2002; Swinnen, 2010; and citations therein), to the best of our knowledge the link between political competition (i.e., the intensity of the challenge political parties face from each other; Roemer, 2006) and the level of agricultural protection is very poorly documented.³ This is somewhat surprising given a large political economy literature studying the link between political competition and public policies (see e.g., Besley and Case, 2003; Cox, 2008; Roemer, 2001, 2006). While the focus of this literature has not been on agricultural policy, its general predictions could be very useful to deepen our understanding of factors determining the level of protection in this particular sector. Below we briefly review a few theoretical contributions that may help to establish the link between political competition and agricultural protection. The arguments that we quote allow to hypothesize a positive relationship. This positive link could be expected both in developing and in developed countries but for quite different reasons.

Throughout our discussion we will assume that politicians and political parties are opportunistic and care only about winning upcoming elections. This in turn suggests that the objective of political parties is to maximize their seat share in the parliament. As far as voters are concerned, on the other hand, we assume that they make the decision about whom to support based on the policies proposed (and/or implemented before) by particular parties. The ultimate choice that voters make depends on the extent to which these policies are in line with voters' preferences and thus to what extent these policies allow to increase voters' expected utility.⁴

³ There is also relatively scarce evidence on the link between political competition and trade policy in general. One of the few exceptions include Hillman and Ursprung (1993) who study this relationship also in combination with multinational firms. There exist however, a number of contributions investigating the effect of democracy on trade (see e.g., Giavazzi and Tabellini, 2005; Milner and Kubota, 2005; O'Rourke and Taylor, 2007; among others). Although not directly, they could also be related to the analysis of political competition. Provided our focus, particularly interesting are findings by Persson (2005) who shows that democracies defined as parliamentary systems or with proportional electoral formula enact more open trade policy.

⁴ This is not to say that voters' decision is not driven by party ideology etc. but to emphasize that voters attach important weight to the fact whether politicians' proposals and actions please the electorate or not.

² For the importance of electoral channels in transmitting the interest of agricultural/rural population see also Varshney (1995) or Bates (2007).

In order to build the link between political competition and agricultural protection, it is important to understand in what circumstances and how winning an election may depend on the agricultural electorate. In this context, a key issue seems to be the size of agricultural population. Since the latter strongly varies between developing and developed countries, it is useful to keep the distinction between the way through which political competition affects agricultural protection in these two sets of countries.

As far as developing countries are concerned, a positive link between political competition and agricultural protection could be based on theoretical contributions to two important strands of the literature. First, it could be motivated by a theoretical analysis originating from early works by Chicago School representatives (see e.g., Becker, 1958; Stigler, 1972). This approach is based on the analogy between economic and political competition and argues that political parties cannot defy the majority wish, just as producers cannot deny consumers the products they desire, since this would reduce their returns.⁵ What follows, policy platforms may not neglect the preferences of the majority as this would mean losing a chance to please a broad constituency. Consequently, where agricultural population constitutes majority, political competition should shorten the odds on public policies favoring agricultural interests. The second reason why enhanced political competition is likely to increase agricultural protection in developing countries could be supported by a large literature building on the median voter theorem (Downs, 1957). From this perspective political competition should lead to policies that line up with the median voter's preferences. In countries where agricultural population constitutes the majority it is likely that median income will be close to agricultural income. According to this logic therefore, winning an election requires satisfying desires of agricultural voters. This in turn would result in higher agricultural protection.

Interestingly, the positive impact of political competition on agricultural protection can be expected not only in countries where agricultural electorate accounts for a majority of population, but also where agricultural electorate is only marginal. This reasoning is based on the new generation of political economy research, which shows that considering consequences of political competition tends to be more complex than earlier models predicted. Important theoretical contributions that model the (ideological) pork-barrel politics provide insights on incentives that politicians have to target narrow groups of high political clout (e.g., Dixit and Londregan, 1998; Lindbeck and Weibull, 1987). As shown both theoretically and empirically, in the presence of high level of political competition parties have more incentives to appeal to voters from outside their traditional electorate base. Consequently policy platforms may respond to desires of relatively small groups of pivotal voters (Besley et al., 2010; Lizzeri and Persico, 2005). This view suggests then that

in the presence of fierce political competition the level of agricultural protection can be high in developed countries, provided that agricultural electorate, although being marginal, could be regarded as swing/pivotal voters.

Finally, it is worth noting that political competition may be expected to increase the level of agricultural protection also on the grounds of two theories that not necessarily need to refer to the size of agricultural electorate. First, an interesting perspective comes out from work focusing on the process of political turnover and the so-called "replacement effect" (see e.g., Acemoglu and Robinson, 2000, 2006; Persson et al., 1997). These studies show that, depending on the risk of losing elections, political elites may have incentives to adopt socially inefficient policies. This may either be driven by the intensified rent-seeking behavior before being replaced in office or by willingness to make the governing for the opposition harder (e.g., by increasing the deficit). Given that trade openness is commonly asserted to be socially optimal (Wacziarg and Welch, 2008), this line of reasoning offers an additional explanation why one can observe inefficient policy (agricultural protectionism) to be pursued in the presence of fierce political competition. Second, yet another view is put by Persson et al. (2007) who show that government spending is higher in coalition governments than in a single-party government. The reason for this is the so-called "common pool problem" in fiscal policy manifesting itself by the fact that one party in coalition does not fully internalize the fiscal costs of spending (see also Bawn and Rosenbluth, 2006). This in turn, positively affects the size of public expenditure.⁶ This may point to a positive relationship between political competition and government spending, and thus agricultural protectionism, since higher political competition is likely to induce more fragmented party system and thus a coalition government.

As shown earlier, a positive link between political competition and agricultural policy could be established on several grounds. Before moving to verify whether these considerations find support in the data, it is useful to review the existing evidence. Some insights could be gained from the two recent studies by Gawande and Hoekman (2010) and Bates and Block (2010). The picture they paint is mixed, however. Based on a sample consisting of both developing and developed countries, Gawande and Hoekman document that higher agricultural protection is associated with greater electoral competition for the office of executive. As far as the political competition between parties is concerned, the results are more ambiguous. Countries with more comfortable majority of ruling party/coalition (i.e., lower political competition) are more likely to subsidize their exports and less likely to protect their domestic markets against import. Bates and Block (2010) on the other hand, focusing on

⁵ Note that this does not overrule the fact that public policies may also respond to desires of minorities (Stigler, 1972).

⁶ Having said that, it should be noted that there is also a substantial literature arguing that political competition should reduce government spending either through creation of strict constraints that limit the ability of political elites to extract rents (see e.g., Becker, 1983; Ferejohn, 1986) or through its negative effect on public funds devoted to secure and maintain power (Mulligan et al., 2004).

Sub-Saharan Africa, find no direct effect of electoral competition for the office of executive. However, with reference to Olson's theory of interest group, they argue that in the presence of electoral competition the lobbying disadvantage of the rural majority turns into political advantage.

Some evidence from studies that have identified specific institutional arrangements crucial for shaping agricultural policy outcomes is also worth mentioning here. To start with, Swinnen et al. (2001) use a long time series data for Belgium and show that agricultural protection follows only those democratic reforms that introduce important changes to the distribution of political power. To illustrate this, the authors show that enfranchisement of small farmers increased agricultural support. Although not directly, this evidence may point to a positive relationship between political competition and agricultural protection. Second, Olper et al. (2013) document that agricultural protection increases with transitions to democracy. Given the focus of our study, it is important to note that elections (and accompanying electoral competition) are one of the main political institutions in democratic regimes. Third, Olper and Raimondi (2011, 2013) uncover this relationship further and show that the level of protectionism is higher under proportional representation as compared to majoritarian electoral rules. This is of importance especially in the light of political science literature pointing to a positive relationship between proportional elections and fragmentation of political system (the so-called Duverger's law). Moreover, this result supports earlier findings pointing to a positive relationship between agricultural protection and multiparty democracies (Olper, 2001).

While all these studies deepen our understanding of the process of agricultural policy formation, they all seem to suggest that when investigating the effect of democracy on agricultural protection, important insights could be obtained from exploiting the variation in political structure within democracies. We believe that having a closer look at the issue of political competition could complement the existing literature in several ways. First, by highlighting the role of political competition we want to contribute to the strand of literature that tries to unbundle broad cluster of institutions hidden under "democracy." Second, in contrast to the existing studies (Gawande and Hoekman, 2010; Olper, 2001), our indicators of competition between political parties reach beyond the existence of pluralist party system and ruling party's seat share in the parliament. They also extend beyond an index of executive electoral competition used by Gawande and Hoekman (2010) and Bates and Block (2010) and take advantage of a much larger sample than most of the existing studies (see Bates and Block, 2010; Olper, 2001). Third, to have more robust evidence on political competition, we exploit both between- and within-country variation, which has an advantage over the simple OLS regression models (Olper, 2001). Importantly, except for using fixed effects regressions we also run General Methods of Moments dynamic panel models. Fourth, we aim at complementing studies that document the impact of electoral rules (Olper and Raimondi, 2011, 2013) by adding into perspective issues concerning the

distribution of political power, which might be crucial for policy outcomes (Acemoglu and Robinson, 2008; Swinnen et al., 2001). Note that this includes the potential fear of replacement coming from challenges from new groups (Acemoglu and Robinson, 2006) as well as political representation and bargaining in the legislature (Besley and Case, 2003). We believe that our measures of the degree of political competition allow to incorporate these issues into analysis much better than focusing on binary electoral rules feature. Finally, we also aim at highlighting whether the impact of political competition is heterogeneous across countries. To that end, we check how, if anything, the effect of political competition differs in various subsamples. Based on the theory presented and earlier studies pointing to essential differences between agricultural policies of developed and developing countries, we investigate whether political competition's effect differ between low- and high-income countries. Moreover, we focus on potential differences between single-party and coalition governments, which is due to Persson et al. (2007) who document heterogeneous effect of government structure on the level of public spending. To best of our knowledge, this article is the first to consider agricultural protection in this particular context.

3. Data and econometric approach

3.1. Data

We study the effect of political competition on agricultural protection in an unbalanced panel of 74 countries. We exploit the variation in political and economic data for the period 1955–2005. In order to accomplish it, we combine three different data sources, two data bases of the World Bank: the agricultural distortions database (Anderson and Valenzuela, 2008) and the Database of Political Institutions 2006 (Beck et al., 2001) as well as the widely used Polity IV data base (Marshall and Jaggers, 2005).

As regards our outcome variable, that is, agricultural protection, we use the nominal rate of assistance (NRA), which measures the total transfer to agriculture as a percentage of the undistorted unit value. The NRA is positive when agriculture is subsidized, negative when it is taxed, and 0 when net transfers are zero. Note that this variable is much more detailed than the commonly used trade openness measures either at aggregate (Wacziarg and Welch, 2008) or sectoral level (Giuliano et al., 2012). This measure is based on the Agricultural Distortions data base (see Anderson and Valenzuela, 2008 for details). Obviously, the NRA variable can capture only part of the several dimensions of agricultural policy. Moreover, as usual with this kind of variables, it is still an aggregate measure and thus may suffer from all sorts of problems related to the aggregation procedure (Aksoy, 2005). While these shortcomings should be kept in mind when interpreting the results, to best of our knowledge this is the best measure of agricultural protection available for so many countries, years, and, perhaps most importantly, policy

instruments from which the price distortions arise (Anderson et al., 2009).

Our key explanatory variable is a measure of political competition in a given country. Although there is no commonly agreed method of measuring political competition most authors refer to differences in seat or vote shares at last elections (see Besley and Case, 2003). Accordingly, we follow the existing empirical research in the way we define it. Our first measure of political competition focuses on realized political outcomes, that is, seat shares. It is an index equal to one minus a Herfindahl index calculated as the sum of the squared seat shares of all parties in the parliament.⁷ This variable ranges from 0 to 1 with higher values corresponding to higher level of political competition and comes from the DPI2006 data base (Beck et al., 2001). The main advantage of this measure is its availability for a long time series and a large number of countries which enables cross-national comparability. One problem with measures based on electoral results however, is that they might be jointly determined with (agricultural) policies implemented as parties may change their policy platforms to attract voters (Besley and Case, 2003). In order to attenuate this risk we use an econometric strategy based on fixed effects regressions as well as GMM dynamic panel models (see later).

We also adopt an alternative empirical approach and define the level of political competition in accordance with information available in the Polity IV data base. This data base provides insights on how competitive and regulated political participation is. Specifically, we use the index called *polcomp* ranging from 1 to 10, with 1 representing the least amount of political competitiveness and 10 the most competitiveness. This refers on the one hand, to the extent to which alternative preferences for policy and leadership can be pursued in the political arena and, on the other hand, to the extent to which there are binding rules on when, whether, and how political preferences are expressed (see Marshall and Jaggers, 2005 for details). We normalize this score to a 0–1 scale for greater comparability with measure based on DPI data set. These two measures of political competition are highly correlated, showing a cross-section correlation in the 1975–2005 equal to 0.62.⁸ It should be noted though that due to different rating schemes used for constructing these measures, cross-country comparability across the two sources is limited.⁹

⁷ For other papers that use similar approach, see for example, Skilling and Zeckhauser (2002) or Persson et al. (2007).

⁸ Depending on the time period the correlation coefficient ranges from 0.43 to 0.66.

⁹ Considerable differences between the two measures are especially visible for countries with *polity2* index below zero (i.e., those with weaker democratic institutions, see Marshall and Jaggers, 2005 for details), such as Morocco or Senegal, where political competition measured as $(1 - \text{Herfindahl index})$ is relatively higher than the rating from Polity IV. However, examples of few interesting discrepancies could also be spotted for some observations for the United States, Canada, or New Zealand. In these latter cases, we observe high scores from Polity IV together with relatively low score from DPI2006 (when elections were dominated by one party). This should be borne in mind when interpreting the obtained results.

Using Polity IV data set in addition to DPI data has several advantages. First, it covers a longer time period and thus allows to use more observations. DPI data base covers the period 1975–2005, whereas the Polity IV data base spans 1955–2005. Consequently, depending on the data set, we work with 1809 or 2732 observations. What is equally important we believe that these two measures may enable to distinguish between different shades of political competition. While the DPI measure is based on the realized political outcomes (and so it reflects the outcome of last elections), the Polity IV index is likely to capture more durable rules and norms that shape the process of political participation. In this context, the latter measure could be seen as this shade of political competition, which is an integral feature of an *open access order* as defined by North et al. (2009). The fact that the coefficient of variation in DPI measure is higher than the coefficient of variation for the Polity IV measure in 71% of countries in our sample supports this assumption. This characteristic of the Polity IV index is of importance also for our econometric estimations. Note that the relative stability of this measure gives some more credence to the fixed effects specifications which in such circumstances are more likely to deal with the potential problem of endogeneity. Furthermore, it should also be noted that political competition measure in the Polity IV data set, as opposed to that from the DPI data base, is available not only for democratic countries but also for autocracies. Therefore using this data set allows for greater variation in political institutions in the sample. This is important not only for methodological reasons (robustness of results), but also because institutional details seem to matter for both democratic as well as nondemocratic regimes (Besley and Kudamatsu, 2008). Finally, using Polity IV data set enables us to take advantage of other features of political system such as how competitive and open the recruitment of chief executives is; and to what extent the chief executive is constrained institutionally.¹⁰ Thanks to this we can test the robustness of our results to controlling for these two aspects. This is of importance since the political economy literature suggests that executive constraints can play an important role in conflict of interests between policy makers and citizens and thus the ultimate choice of policies (e.g., Acemoglu and Johnson, 2005). Having said that, it should be noted however, that the Polity IV measure could be criticized as being subjective and not necessarily well capturing constitutional constraints such as those coming from electoral rules (Glaeser et al., 2004). While this should be kept in mind when interpreting the results, we are not aware of any better political competition measure that would be available for such a number of countries/years.

As discussed by de Gorter and Swinnen (2002) or Swinnen (2010), there is an extensive literature, both theoretical and empirical, showing that agricultural policy may importantly depend on structural factors and resource endowments. Therefore,

¹⁰ These variables take values from 1 to 7 and from 1 to 8, respectively. The latter one corresponds to the procedural rules constraining state actions (Marshall and Jaggers, 2005).

Table 1
Agricultural protection and political competition

	NRA		
	N	Mean	SD
Distribution of political competition measure			
<i>Polity IV measure</i>			
First quartile	683	−19.51	29.13
Second quartile	683	−7.67	26.74
Third quartile	683	31.86	68.09
Fourth quartile	683	76.36	90.55
<i>DPI measure</i>			
First quartile	452	−15.76	32.09
Second quartile	452	11.12	42.91
Third quartile	452	44.68	66.34
Fourth quartile	453	49.54	83.27

Note: Own calculations.

throughout our analysis we control also for a number of variables capturing various socioeconomic aspects such as: GDP *per capita*, size of population, agricultural land *per capita*, and employment share of agriculture, all of which enter our regressions in logs. All these data come from the World Development Indicators data base, FAO sources, and national statistics. As a check, we also investigate whether our results are robust to the usage of additional covariates trying to account for general development in trade policy and various policy shocks.¹¹ To capture the former, we use trade to GDP ratio (from the Penn World Table) and an updated Sachs–Warner index of the openness (Wacziarg and Welch, 2008). To account for policy turbulences that may affect the level of agricultural prices we use two dummies: a dummy indicating the incidence of negative growth rate (based on the Penn World Table) and a dummy indicating whether a given country is involved in international conflict (based on the UCD/PRIO Armed Conflict Dataset Version 4–2008; Gleditsch et al., 2002). These two variables aim to capture the effect of economic and political crises, respectively. In some specifications we also use a variable capturing (log of) government expenditures (based on the Penn World Table) to control for the fact that agricultural support may be correlated with the general level of government spending.

Some basic associations between the main variables of interest are displayed in Tables 1 and 2 and Figs. 1a and b. Table 1 provides information on agricultural protectionism across subsequent quartiles of distributions of political competition measures. As indicated, the preliminary evidence tends to suggest that there is a positive correlation between political competition and agricultural protection. Further insights could be derived from Table 2 and Figs. 1a and b. The former reports descriptive statistics for all main variables used in the analysis. The statistics provided pertain to simple cross-sectional averages over the analyzed period. Figures 1a and b, on the other hand, presents the pattern of political competition measured as the average of political competition index from the Polity IV (DPI2006) data base in every five years intervals between 1955

and 2005 (1975 and 2005). The reported statistics as well as the patterns depicted in graphs suggest that political competition varies quite considerably both in time and across different institutional environments as captured by various subsamples. This in turn, may indicate that exploiting variation in political competition could add some new insights to the correlation between different institutional aspects and agricultural protection found in other articles. The next section presents econometric tools that we use to examine these issues.

3.2. Econometric approach

The main problem we face is that both public policy and political competition may be determined endogenously. Therefore, investigating causal relationship between political competition and the level of protectionism requires controlling for common variables affecting both of these phenomena. The easiest way to, at least partly, solve this problem is to control for country and time fixed effects. This allows to take out the effect of time invariant (potentially historical) factors and time effects, respectively, that are likely to capture country differences responsible for both policy and political institutions.

Accordingly, to examine the interplay of political competition and the level of agricultural protection we estimate regressions of the form

$$y_{it} = \beta z_{it} + \vartheta x_{it} + \delta_i + \varphi_t + \varepsilon_{it},$$

where y_{it} represents the NRA to agriculture in country i at time t ; z_{it} is our key regressor of interest, that is, our measure of political competition. As mentioned earlier, we consider two different measures for it, namely an index based on market concentration index applied to party politics (DPI measure) and an index characterizing regulation and competitiveness of political participation (Polity IV measure); x_{it} is a vector of covariates and δ_i and φ_t are country and year fixed effects, respectively. Most importantly, vector x_{it} controls for other characteristics of political institutions, namely constraints imposed on the executive as well as the competitiveness and openness of executive recruitment. We define them as component variables *exconst* and *exec* in Polity IV data base, respectively (for details see Marshall and Jagers, 2005).¹² This is done in order to see whether the effect of political competition is robust to controlling for other political institutions. Moreover, this may provide some insights on relative importance of different institutional arrangements. In addition, in order to control the traditional influences on agricultural protection we follow the existing studies and vector x_{it} includes also income *per capita*, total population, employment

¹² The Polity IV data base includes also other more disaggregated political institutions' variables labelled "component variables" (Marshall and Jagers, 2005). However, as shown by Treier and Jackman (2008) the coding and values of these variables depend on each other. Including them in regression as independent variables in turn, is likely to increase the risk of inferential error. In contrary, the so-called "concept variables" that we use, that is, *polcomp*, *exec*, and *exconst* can be considered conditionally independent.

¹¹ We thank an anonymous referee for pointing this to us.

Table 2
Descriptive statistics

	Obs.	Mean	SD	Min	Max	Obs.	Mean	SD	Min	Max	Obs.	Mean	SD	Min	Max
	Full sample					OECD					Non-OECD				
NRA	2,732	20.25	70.76	−93.11	455.19	896	68.61	87.54	−41.46	444.99	1,700	−6.68	35.44	−93.11	217.67
Political competition—Polity IV	2,732	0.60	0.40	0	1	896	0.94	0.19	0	1	1,700	0.41	0.36	0	1
Political competition—DPI2006	1,773	0.52	0.26	0	0.92	643	0.66	0.11	0	0.85	1,130	0.45	0.30	0	0.92
Executive recruitment	2,732	6.36	2.16	1	8	896	7.84	0.78	3	8	1,700	5.56	2.25	1	8
Executive constraints	2,732	4.83	2.31	1	7	896	6.64	1.19	1	7	1,700	3.84	2.15	1	7
Log of GDP per capita	2,626	7.63	1.69	4.44	10.59	889	9.54	0.65	7.35	10.59	1,700	6.63	1.12	4.44	9.59
Log of total population	2,537	9.89	1.28	7.18	14.09	870	9.80	1.23	7.94	12.60	1,666	9.93	1.30	7.18	14.09
Log of agricultural land per capita	2,537	1.88	4.41	0.03	43.96	870	2.44	7.05	0.03	43.96	1,666	1.58	1.88	0.37	12.95
Employment share of agricultural sector	2,537	39.46	29.22	1.48	92.64	870	12.64	13.38	1.65	77.97	1,666	53.46	25.20	1.48	92.64
	Coalition government					Single-party government									
NRA	759	42.86	77.96	−65.71	427.90	930	6.97	49.46	−93.11	226.43					
Political competition—Polity IV	759	0.80	0.28	0	1	930	0.54	0.40	0	1					
Political competition—DPI2006	759	0.68	0.15	0.10	0.92	924	0.37	0.26	0	0.92					
Executive recruitment	759	7.25	1.66	2	8	930	5.95	2.26	3	8					
Executive constraints	759	5.89	1.66	1	7	930	4.56	2.18	1	7					
Log of GDP per capita	759	8.27	1.67	4.50	10.59	930	7.43	1.66	4.54	10.52					
Log of total population	724	9.81	1.24	7.18	13.76	907	10.14	1.35	7.22	14.09					
Log of agricultural land per capita	724	1.46	4.19	0.03	34.65	907	1.76	3.48	0.03	30.71					
Employment share of agricultural sector	724	26.82	26.12	1.48	92.27	907	42.13	29.22	1.65	92.21					

Note: Simple averages. Observations pooled across countries and years. The maximum value for the full sample is different than that observed for the OECD/non-OECD subsamples as this value was observed before 1961 (in Switzerland), that is, before the OECD has been established.

share of agricultural sector, and agricultural land *per capita* (all in logs).

To check whether our results are not driven by observations for countries with high level of taxes on agricultural activities, we investigate whether our findings are robust to dropping countries or observations with nominal rate of protection below the first or fifth percentile value of NRA, depending on the specification.

As a further robustness check we experiment not only with annual panel but also with average rate of assistance over each legislative period. In addition, we construct also a panel, for which we take observation every election year.¹³ In order to correct the standard errors for potential correlation across observations both over time and within the same time period, all standard errors in the article are robust against arbitrary heteroskedasticity in the variance–covariance matrix, and they allow for clustering at the country level (Bertrand et al., 2004).

A potential concern with fixed effects estimations is that they take out only time-invariant unobservable factors. Endogeneity problem instead may be caused (also) by unobservable factors that vary over time. Therefore, with fixed effects regressions we may not necessarily estimate the casual effect of political competition on agricultural policy in the presence of time varying omitted variables. To deal with this issue we consider an alternative strategy and use the Generalized Method of Moments (GMM) estimator and estimate dynamic panel models (Arellano and Bond, 1991; Blundell and Bond, 1998). This is done for two main reasons. First, agricultural support may

exhibit strong persistence over time and thus dynamic models may be preferable to static ones. In such situation, GMM estimators are preferable to fixed effects estimates as the latter are not consistent (Wooldridge, 2002). Second, and perhaps more importantly, GMM models allow to endogenize political competition by building the set of instruments from past observations of the instrumented variable. To check whether we find broadly similar results using alternative models, we use both first-difference and system GMM estimators.¹⁴ As GMM dynamic panel models often suffer from the so-called “instrument proliferation bias” (see e.g., Roodman, 2009a) we also test the robustness of our findings to reducing the set of instruments.

As argued by Angrist and Pischke (2008), combining fixed effects models and dynamic panel models has an additional advantage since estimates from these two models could be treated as bounding the causal effect of interest. Therefore, while our models may fail to fully cope with endogeneity problems, we believe that they at least provide the range within which the true effect of political competition on agricultural protection should lie.

Finally, as already mentioned, based on various panel data estimations, we also check how, if anything, the influence of

¹³ This is done in order to overcome potential biases due to serial correlation introduced by averaging.

¹⁴ Before running System GMM we also check whether our key variables of interest (i.e., dependent variable and two political competition measures) are stationary. We do so using Im-Pesaran-Shin (Im et al., 2003) and Fisher-type (Choi, 2001) tests. These tests have been chosen as they fit our data characteristics and can be applied to unbalanced panels and panels with gaps, respectively. All the tests that we performed allow to firmly reject the null hypothesis that all panels contain a unit root in favor of the alternative that some series represent stationary processes. We thank an anonymous referee for suggesting this to us.

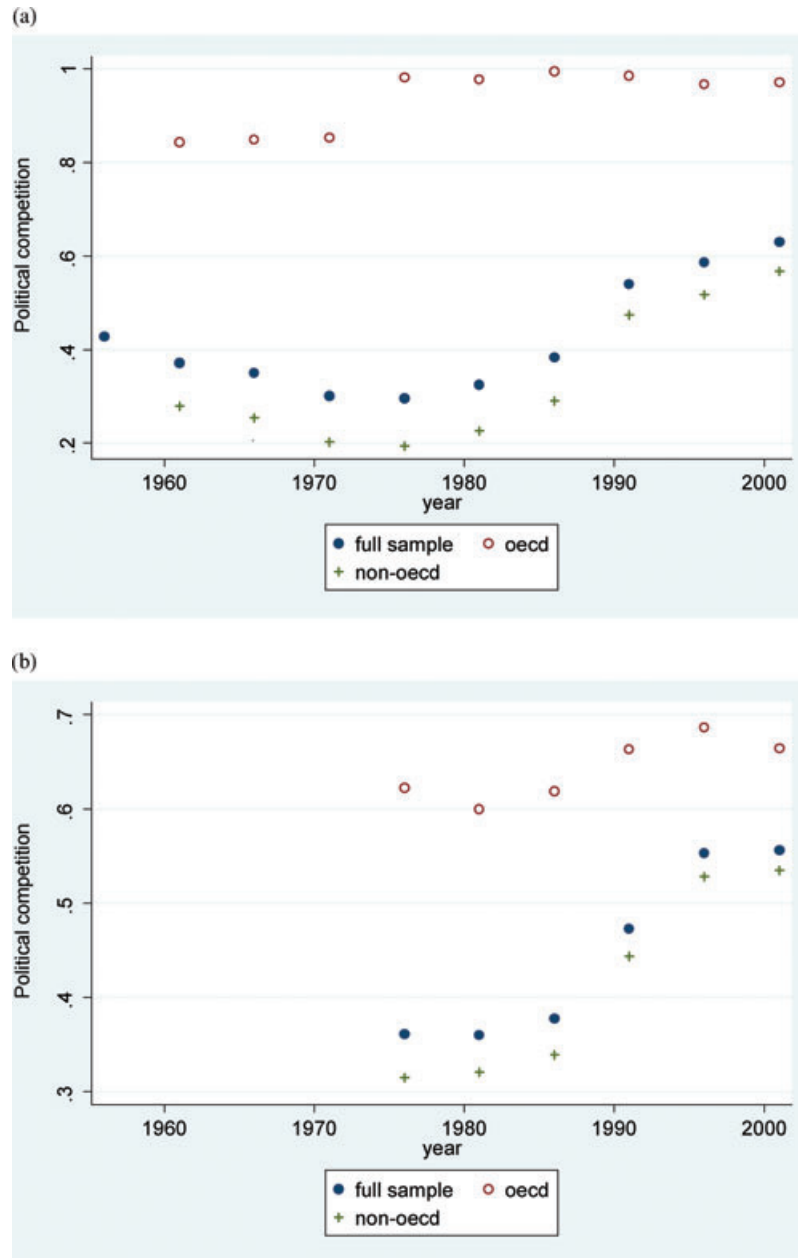


Fig. 1. (a) Political competition (Polity IV measure) over years and income levels. (b) Political competition (DPI2006 measure) over years and income levels.

political competition differs in various subsamples defined according to the structure of government (coalition vs. single-party) and the level of income (OECD vs. non-OECD). This investigation builds on findings by Persson et al. (2007) and statistics reported in Table 2. Based on that, it could be argued, for instance, that the political competition may exert particular pressure in countries with coalition rather than single-party governments since the voters can discriminate between the coalition parties at the polls. On the other hand, it could be argued that low-income countries are characterized by more political instability and that election outcomes have smaller influence on policies than the more durable institutions determining the competitive-

ness of political system in general, regardless of election results.

4. Results

Table 3 displays the results of our fixed-effects regressions where we use annual data.¹⁵ The left panel refers to political

¹⁵ We report here fixed effects rather than random effects estimates following Hausman specification tests that allow to reject (at 1% level) the hypothesis that our specification should be modeled by a random effects model. For example, as regards the models presented in Table 3, the relevant Hausman test statistics range between <123.50; 140.62> depending on the specification.

Table 3
Fixed effects regressions—full sample, annual data

<i>Dependent var.: NRA</i>	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	<i>Polity IV measure of political competition</i>				<i>DPI2006 measure of political competition</i>			
Political competition	30.22*** (9.13)	28.78*** (6.13)	33.55*** (8.14)	32.59*** (7.94)	34.14*** (10.5)	26.53*** (9.30)	17.40* (8.78)	16.52* (8.66)
Log GDP per capita		49.59*** (12.7)	49.92*** (12.9)	50.46*** (11.5)		52.36*** (14.7)	48.71*** (13.1)	51.43*** (12.8)
Log population		71.74* (40.5)	72.32* (40.7)	54.53 (37.6)		108.6** (42.1)	106.0** (41.7)	90.46** (42.7)
Log land per capita		−4.616 (28.7)	−2.626 (30.2)	−15.10 (28.9)		−16.48 (35.2)	−7.584 (37.2)	−18.01 (39.0)
Log share of Agr. Empl.		−17.21 (14.5)	−17.78 (14.4)	−20.84 (14.0)		−24.74 (17.5)	−25.50 (15.4)	−29.42** (13.8)
Executive recruitment			0.248 (1.63)	−0.0722 (1.53)			3.403* (1.85)	3.317* (1.86)
Executive constraint			−1.277 (1.94)	−1.104 (1.79)			0.521 (1.77)	0.733 (1.86)
Sachs–Warner dummy				19.69*** (4.44)				12.88** (5.01)
Log openness				0.509 (5.47)				1.581 (6.47)
Log govt. consumption				−6.023 (7.54)				3.065 (7.84)
Economic crisis				−0.523 (1.58)				0.141 (1.80)
Political crisis				4.362 (3.98)				1.586 (4.95)
Constant	−31.34 (19.0)	−964.4** (389)	−967.7** (390)	−764.0** (356)	4.544 (7.54)	−1462*** (447)	−1420*** (434)	−1308*** (441)
Observations	2732	2530	2530	2468	1809	1748	1714	1666
Number of countries	74	74	74	72	74	74	74	72
<i>R</i> -squared <i>within</i>	0.13	0.26	0.26	0.29	0.12	0.21	0.23	0.25

Note: Robust standard errors in parentheses. All regressions include time fixed effects as additional explanatory variables; robust standard errors clustered by country in parentheses.

*** $P < 0.01$, ** $P < 0.05$, * $P < 0.1$.

competition measure based on Polity IV data base, whereas the right one reports estimations for DPI measure. We start with basic specifications in columns (1) and (5). For both political competition measures the estimated coefficients are highly significant and positive suggesting that more intense political competition leads to higher agricultural protection. This result holds also in number of specifications with additional control variables including structural factors, resource endowments, and other institutional variables (columns 2, 3, 6, and 7). Importantly, the impact of political competition seems to dominate the role of constraints imposed on the executive or openness of executive recruitment (see columns (3) and (4)). Note that the former variable is concerned with the checks and balances on a leader, whereas the latter one informs how competitive and open the recruitment of chief executive is. These results seem to complement earlier findings of Gawande and Hoekman (2010) and Bates and Block (2010) who find a positive relationship of agricultural protection and electoral competition for the office of executive. It should also be noted that our results are consistent with previous findings showing that agricultural policy is positively correlated with the level of income, and negatively with both agricultural land *per capita* and the employment share

of agriculture (e.g., Olper, 2001; 2007). In columns (4) and (8) we further check the robustness of our results to inclusion of variables trying to account for developments in trade policy in general as well as for various policy shocks.¹⁶ Importantly, our findings remain unaffected.

One could argue that changes in political competition are mostly due to general developments under democracies, which could determine agricultural policy choices as showed by Olper et al. (2013). To take this concern into account, we estimate additional specifications (not reported here) in which we include interaction terms between time dummies and a democracy dummy. The latter is based on the Polity 2 score, measuring the degree of democracy (see Marshall and Jaggers 2005, for details).¹⁷ Our results are robust to such inclusion. This suggests that the impact of political competition remains fairly the same regardless of the fact whether we exploit variation in the full sample or only within democracies.

¹⁶ We thank an anonymous referee for suggesting this to us.

¹⁷ Following the literature, we create a discrete cut-off between democracies and autocracies with democracies being those with positive Polity2 score.

Table 4
Fixed effects regressions—restricted sample (without observations/countries with high taxes on agricultural activities)

Dependent variable: NRA	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	POLITY IV measure	DPI measure	POLITY IV measure	DPI measure	POLITY IV measure	DPI measure	POLITY IV measure	DPI measure
Political comp.	31.16*** (7.78)	15.68* (8.65)	30.77*** (8.04)	16.17* (8.90)	30.92*** (8.91)	21.20** (10.2)	26.29*** (9.71)	22.05* (11.9)
Log GDP per cap.	48.98*** (11.5)	50.38*** (13.1)	46.73*** (12.0)	50.87*** (13.8)	52.45*** (12.3)	51.89*** (13.6)	63.18*** (15.2)	59.87*** (17.0)
Log population	56.90 (37.6)	93.53** (43.0)	56.67 (37.5)	89.83** (43.3)	50.28 (37.8)	78.98* (45.7)	54.36 (40.0)	70.45 (46.9)
Log land per cap.	−14.25 (28.7)	−18.61 (38.6)	−14.55 (28.5)	−19.24 (38.9)	−15.73 (31.1)	−21.90 (44.1)	−4.316 (34.6)	−0.448 (49.3)
Log share Agr emp	−22.05 (13.9)	−32.22** (13.5)	−24.64* (14.0)	−37.58*** (13.0)	−26.17* (14.1)	−38.54*** (13.0)	−33.29** (15.3)	−45.55*** (12.3)
Executive recruit.	−0.373 (1.43)	2.980* (1.61)	−0.804 (1.44)	2.370 (1.58)	−0.536 (1.57)	3.456* (1.96)	0.704 (1.68)	5.155** (2.47)
Executive constr.	−0.928 (1.68)	0.733 (1.68)	−0.644 (1.69)	0.993 (1.69)	−0.759 (1.77)	0.425 (1.89)	−2.005 (1.73)	−1.216 (2.11)
Sachs–Warner	18.77*** (4.42)	11.66** (4.92)	17.80*** (4.46)	11.81** (5.09)	21.64*** (4.80)	13.72** (5.57)	25.96*** (5.86)	19.29*** (6.73)
Log openness	0.824 (5.63)	2.131 (6.59)	1.851 (6.25)	3.850 (7.03)	−0.267 (6.60)	3.718 (7.18)	7.653 (8.96)	4.003 (11.5)
Log govt. cons.	−8.590 (7.54)	−0.149 (7.21)	−9.349 (8.19)	−1.369 (7.95)	−9.202 (9.39)	−0.0136 (9.25)	−4.094 (10.7)	7.145 (10.8)
Constant	−765.2** (356)	−1315*** (445)	−741.0** (359)	−1275*** (451)	−720.9* (365)	−1206** (470)	−1062** (453)	−1208** (495)
Observations	2442	1649	2339	1584	2201	1491	1856	1255
No. of countries	72	72	72	72	64	64	55	55
R-squared	0.29	0.26	0.28	0.25	0.30	0.26	0.33	0.28

Note: All regressions include time fixed effects as additional explanatory variables; robust standard errors clustered by country. Columns (1) and (2) exclude observations for which NRA is smaller than the first percentile. Columns (3) and (4) exclude observations for which NRA is smaller than the fifth percentile. Columns (5) and (6) exclude countries for which NRA was smaller than first percentile in at least one year. Columns (7) and (8) exclude countries for which NRA was smaller than fifth percentile in at least one year.

*** $P < 0.01$, ** $P < 0.05$, * $P < 0.1$.

In Table 4 we investigate whether our results hold if we drop from the sample observations/countries with high taxes on agricultural activities.¹⁸ Regardless of the fact whether we drop observations/countries below the first or fifth percentile of NRA, political competition exerts a positive and statistically significant effect on agricultural protection.

Tables 5 and 6 further check the robustness of our analysis based on fixed effects models using as a dependent variable NRA but only in a elections' year panel and an average NRA to agriculture in interelection years, respectively. In general, both these exercises strengthen our earlier findings and point to a positive association between political competition and agricultural protection. What should be noted though, is that the evidence on the DPI measure of political competition in these additional regressions, although still positive, is slightly above the conventional statistical significance level.

We now move to present our findings based on GMM dynamic panel models. As mentioned earlier, they allow to endogenize political competition using lags as instruments and thus attenuate potential concerns with fixed effects specifications. The relevant results are reported in Tables 7 (Polity IV measure

of political competition) and 8 (DPI measure of political competition). We show models based on both first-difference GMM and system GMM estimators. What is important, we test the robustness of our findings to reducing number of instruments. While it is unclear how small should the set of instruments be, the rule of thumb is that it should not exceed the number of groups (Roodman, 2009b). As shown in Table 7, when we use Polity IV measure of political competition our results are very robust across various specifications¹⁹ and confirm earlier findings based on fixed effects models. More specifically, political competition exerts a positive effect on agricultural protection. This holds also when we additionally treat as endogenous the (log of) *share of agricultural employment* (columns 5 and 10).²⁰ Further, as expected and consistent with other studies, the

¹⁹ For all GMM models we report Hansen statistics (P values) and for system-GMM regressions we also report Difference in Hansen statistics (P values). In general, small P values suggest that instruments used are not valid. P values equal to (almost) one however should also be treated as problematic as they are likely result from the “instrument proliferation” problem (Roodman, 2009a). While the models presented in columns (1) and (6) in Table 7 (columns 1 and 4 in Table 8) are likely to suffer from instrument proliferation problem, the diagnostics for the other specifications are much more reassuring.

²⁰ We thank an anonymous referee for suggesting this to us.

¹⁸ We thank an anonymous referee for suggesting this to us.

Table 5

Political competition and agricultural protection—parliamentary election years subsample, dependent variable—NRA from the year that elections were held, fixed effects regressions

	<i>Polity IV measure of political competition</i>				<i>DPI2006 measure of political competition</i>			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Political competition	27.98*** (10.3)	24.60** (10.4)	27.72* (15.9)	30.09** (13.7)	34.73*** (9.38)	20.99** (10.2)	18.00* (10.5)	15.19 (9.34)
Log GDP per capita		36.27*** (12.9)	37.30*** (12.7)	43.29*** (12.2)		31.92** (13.8)	33.57** (13.2)	37.53*** (12.4)
Log population		72.48** (34.3)	73.27** (34.8)	64.92* (38.2)		78.12** (37.9)	79.64** (38.0)	68.91 (42.8)
Log land per capita		15.35 (44.5)	17.71 (44.7)	4.166 (46.0)		8.120 (50.6)	9.151 (50.6)	4.298 (53.4)
Log share of agr empl.		−0.785 (18.2)	−1.022 (17.6)	−5.003 (15.8)		4.016 (18.1)	−0.856 (17.2)	−1.023 (16.0)
Executive recruitment			1.772 (2.19)	1.752 (2.11)			1.432 (2.45)	0.906 (2.26)
Executive constraint			−2.446 (2.80)	−2.707 (2.97)			0.471 (1.98)	0.745 (2.34)
Sachs–Warner dummy				15.04** (5.97)				17.07*** (6.23)
Log openness				10.64 (7.07)				11.70 (8.18)
Economic crisis				8.001*** (2.77)				10.10*** (3.21)
Political crisis				2.427 (6.54)				−4.112 (8.50)
Log govt. consumption				15.39* (8.65)				17.60 (11.0)
Constant	−5.002 (13.2)	−999.4*** (344)	−1015*** (350)	−1051*** (388)	2.420 (4.91)	−1010** (399)	−1052** (400)	−1130** (461)
Observations	465	451	451	440	427	412	408	398
Number of countries	73	73	73	71	73	73	73	71
R-squared	0.24	0.28	0.29	0.35	0.26	0.29	0.29	0.36

Note: All regressions include time fixed effects as additional explanatory variables; robust standard errors clustered by country in parentheses.

*** $P < 0.01$, ** $P < 0.05$, * $P < 0.1$.

coefficient by lagged dependent variable is statistically significant showing that agricultural policy is strongly persistent over time. The results for the DPI measure of political competition are also in line with these findings but slightly less robust (see Table 8). Given the nature of this variable, except for the results based on annual sample, we report the results based on the sample restricted to years with parliamentary elections. This is done because the DPI variable is based on election outcomes and so it does not vary between elections. This, in turn, may affect the results from GMM models based on annual sample since they are based on first-differencing. In these additional specifications the effect of political competition is always positive but less robust than in previous regressions.

Finally, we investigate whether the effects of political competition are heterogeneous across countries (Table 9). According to the data displayed in Table 2 this may indeed take place. Moreover, the patterns depicted in Figs. 1a and b seem to suggest that there is considerable difference in variation in political competition between OECD and non-OECD countries. While looking at changes in political competition scores in these two groups of countries one may assume that in the OECD subsample agricultural policy might be driven especially by the

variation in political competition measured as “1 – Herfindahl index.” The Polity IV political competition score in this group on the other hand remains fairly stable. As far as the non-OECD sample is concerned, the visual inspection of the graph suggests that while both political competition measures vary substantially, changes in the Polity IV measure might be more influential. Table 9 reports basic regressions that aim at highlighting these issues (columns 1–4).²¹ The obtained results cautiously confirm the above-mentioned suppositions. The coefficient on DPI political competition in the OECD subsample is positive (moreover it increases in magnitude as compared to our full sample estimates, see column 6 in Table 3) but is just below the 10% significance level. The coefficient on Polity IV measure on the other hand is smaller and not distinguishable from zero. Taking into account that DPI measure is based on the concentration index applied to party politics, this tends to indicate that in developed countries agricultural policy responds

²¹ Here we rely only on fixed effects estimates as the number of groups for each subsample is relatively small (compared to number of time periods) and all the GMM models that we tried suffer from the “instrument proliferation problem” and thus they are hardly reliable.

Table 6
Political competition and agricultural protection—parliamentary election years subsample; dependent variable—average NRA in inter-election years, fixed effects regressions

	<i>Polity IV measure of political competition</i>				<i>DPI2006 measure of political competition</i>			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Political competition	31.09*** (8.50)	27.80*** (8.51)	25.42** (11.9)	27.37** (10.6)	29.20*** (7.84)	13.07 (8.43)	9.849 (8.39)	7.820 (7.94)
Log GDP per capita		27.71** (11.3)	27.83** (10.9)	33.51*** (10.5)		21.83* (11.2)	23.16** (10.2)	26.95*** (9.64)
Log population		71.28** (27.1)	71.41** (27.3)	62.72** (28.5)		89.77*** (31.5)	85.46*** (30.0)	79.14** (31.9)
Log land per capita		19.19 (34.4)	21.03 (34.4)	8.983 (36.3)		13.86 (38.9)	16.62 (37.6)	14.70 (38.8)
Log share of agr empl.		−4.784 (14.3)	−4.862 (13.8)	−7.348 (12.8)		1.098 (14.3)	−3.844 (13.2)	−3.333 (12.6)
Executive recruitment			2.016 (1.55)	1.644 (1.63)			1.091 (1.63)	0.395 (1.64)
Executive constraint			−1.325 (2.20)	−1.024 (2.28)			2.491 (1.71)	3.190* (1.90)
Sachs–Warner dummy				13.22*** (4.70)				14.13*** (5.11)
Log openness				7.961 (5.53)				12.71* (6.81)
Economic crisis				7.147** (2.82)				8.919*** (3.13)
Political crisis				4.010 (4.72)				−0.557 (5.82)
Log govt. consumption				3.887 (7.66)				8.776 (9.47)
Constant	−6.099 (8.18)	−923.9*** (273)	−928.9*** (274)	−945.8*** (288)	22.81*** (4.56)	−1068*** (322)	−1045*** (302)	−1101*** (325)
Observations	486	452	452	441	448	413	410	400
Number of countries	73	73	73	71	73	73	73	71
R-squared	0.22	0.27	0.27	0.33	0.20	0.25	0.26	0.33

Note: Robust standard errors clustered by country in parentheses. All regressions include time fixed effects as additional explanatory variables.

*** $P < 0.01$, ** $P < 0.05$, * $P < 0.1$.

predominantly to electoral competition and not to more general rules determining political organization of the society. Given that the share of agricultural electorate in total electorate in these countries is rather marginal, this result is consistent with theoretical predictions that policy is targeted at swing voters.²² As far as developing countries are concerned on the other hand, it seems that there agricultural policy is shaped predominantly by improvements in more durable rules that determine political participation and political competition. Taking into account that in these countries agricultural electorate constitutes absolute majority, the evidence provided tends to indicate that there a median voter model could find some support.

In the next columns we distinguish between countries with coalition and single-party government. Persson et al. (2007) develop a theoretical model and document that coalition governments tend to spend more than single-party ones. Data provided in Table 2 seem to confirm these findings showing that agricultural protection is higher in countries with coalitions

government. It is interesting therefore to note that electoral competition may matter not only when there is a coalition government (column 8) but also in the scenario with a single-party government (column 7). This means that electoral competition affects decisions regarding agricultural policy both inside the coalition governments as well as in the scenario where the political stage is divided between single-party government and opposition. This, in turn, gives some support to the idea that electoral competition is at work regardless of the fact that coalition governments are associated with higher spending and provides an independent determinant of agricultural protection. The impact of political competition defined as an index of political competitiveness (Polity IV measure) is slightly less robust (see columns 5 and 6).

5. Conclusions

In recent years political economy literature has been trying to deepen our understanding of the interplay of political institutions and policy choices. Aiming to contribute to this strand of the literature, in this article we investigate the relationship

²² In our sample the median (mean) employment share of agriculture in OECD countries is roughly 8% (13%), whereas in non-OECD countries it is roughly 58% (54%).

Table 7
GMM regression—Polity IV measure of political competition

Dependent var.: NRA	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	One-step first difference GMM					Two-step system GMM				
	Collapsed full instruments (3, 16)	Collapsed lag structure (3, 7)	Collapsed lag structure (3, 7)	Collapsed third-lag instruments (3, 8)	Collapsed lag structure (3, 8)	Collapsed full instruments (3, 13)	Collapsed lag structure (3, 13)	Collapsed lag structure (3, 10)	Collapsed third-lag instruments (3, 10)	Collapsed lag structure (3, 7)
Political competition	13.34*** (2.82)	5.229** (2.18)	4.768** (2.10)	4.283** (2.06)	8.567* (4.87)	15.17*** (4.35)	9.808*** (2.57)	9.190*** (2.85)	8.905*** (2.05)	9.660*** (2.53)
Lagged NRA	0.818*** (0.023)	0.932*** (0.028)	0.953*** (0.029)	0.965*** (0.030)	0.965*** (0.039)	0.803*** (0.049)	0.939*** (0.033)	0.940*** (0.035)	0.981*** (0.031)	0.940*** (0.040)
Log GDP per cap.	12.64*** (2.58)	6.928*** (1.76)	5.897*** (1.66)	5.301*** (1.64)	-3.563 (6.07)	11.35 (8.72)	0.813 (0.80)	0.779 (0.76)	0.215 (0.75)	0.199 (2.16)
Log population	20.16*** (7.40)	13.88*** (4.43)	12.45*** (4.00)	11.68*** (3.81)	40.60*** (12.9)	1.129 (2.03)	0.0376 (0.37)	0.0245 (0.37)	0.0889 (0.37)	-0.0435 (0.41)
Log land per cap.	1.653 (7.65)	1.654 (4.90)	1.819 (4.39)	1.878 (4.17)	5.897 (7.71)	-2.134** (0.89)	-0.905 (0.57)	-0.881 (0.59)	-0.505 (0.63)	-1.024* (0.61)
Log share of agr empl.	0.163 (2.76)	1.995 (1.61)	2.429 (1.49)	2.657* (1.43)	-33.07** (14.1)	15.95 (12.7)	2.295*** (0.88)	2.064** (0.90)	2.476*** (0.68)	1.117 (3.04)
Constant						-154.2 (124)	-19.84** (8.73)	-18.43** (8.54)	-14.55** (6.29)	-10.03 (24.1)
Observations	2383	2383	2383	2383	2383	2489	2489	2489	2489	2489
No. of countries	74	74	74	74	74	74	74	74	74	74
No. of instruments	140	76	58	50	65	143	73	67	53	66
Test for AR3 (<i>P</i> value)	0.127	0.122	0.121	0.120	0.106	0.0890	0.123	0.126	0.120	0.132
Hansen stat. (<i>P</i> value)	1.000	0.279	0.289	Exactly identified	0.492	1.000	0.140	0.0678	0.564	0.170
Difference Hansen test (<i>P</i> value)						1.000	0.799	0.216	0.564	0.218

Note: Robust standard errors clustered by country (incorporating Windmeijer correction) in parentheses. All regressions include time fixed effects as additional explanatory variables; columns (5) and (10) report the results for specifications where we also endogenize *log of employment share in agriculture*.
*** $P < 0.01$, ** $P < 0.05$, * $P < 0.1$.

between political competition and agricultural policy. In order to achieve it, we exploit variation in political and economic data from 74 countries for the post-war period. To address potential problem of endogeneity we use both fixed effects as well as GMM dynamic panel models. To proxy political competition we use two measures, one that captures more general rules that determine political participation and one that is based on vote share at last parliamentary elections. Our results show that political competition positively affects the level of agricultural protection. In general, these findings hold across different specifications and estimation techniques, as well as across different political competition proxies, although for the measure based on election outcomes, the results are somewhat less robust.

With this caveat in mind, it can be noted that our findings are in line with empirical and theoretical contributions to the political economy literature pointing to a positive association between political competition and government spending. While they hold for various subsamples, some heterogeneity with respect to these effects could be observed. In developing countries it is mainly a consequence of improvements in more durable rules that affect political competition and participation. In developed countries, on the other hand, electoral competition seems to be more important. This points toward hypothesis that agricultural policy could be explained by swing voters and

median voter models in developed and developing countries, respectively.

We also provide some evidence that political competition importantly complements other institutional aspects in determining public policy. First, we find that it seems to dominate the impact of constraints imposed on the executive. Second, we document that political competition matters both in scenarios with coalition governments as well as in scenarios where the political stage is divided between single-party government and opposition. This is important, since it indicates that political competition may affect the policy outcomes, regardless of the fact that coalition governments are associated with higher spending.

The obtained results have also some implications for further research. First, collating our results with findings by Besley et al. (2010), who document positive relationship between political competition and growth-promoting policies, rises an important question concerning the relationship between agricultural protection and growth.

Further, it is important to note that changes in agricultural protection, in whatever direction, mask subtle but important changes between taxation and subsidization. From this point of view a promising field of research could be to verify the hypothesis originating from Becker (1983) on the relationship between political competition, (agricultural) protection, and

Table 8
GMM regressions—DPI2006 measure of political competition

<i>Dependent var.: NRA</i>	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
	Two-step GMM			Two-step GMM				First-difference GMM			
	<i>Annual sample</i>			<i>Parliamentary elections' years subsample</i>							
	Collapsed full instruments	Collapsed lag structure (3, 18)	Collapsed lag structure (3, 12)	Collapsed full instruments	Collapsed lag structure (3, 16)	Collapsed lag structure (3, 10)	Collapsed lag structure (3, 8)	Collapsed lag structure (3, 10)	Collapsed lag structure (3, 10)	Collapsed lag structure (3, 5)	Collapsed lag structure (3, 8)
Political competition	24.67** (9.79)	10.33* (6.25)	10.28* (5.71)	21.11 (13.4)	26.29** (12.3)	25.62* (13.2)	16.68 (14.3)	21.42* (12.5)	45.28* (24.6)	35.40 (31.4)	10.16 (21.0)
Lagged NRA	0.752*** (0.030)	0.882*** (0.037)	0.902*** (0.053)	0.836*** (0.15)	0.922*** (0.13)	0.911*** (0.19)	0.908*** (0.19)	0.927*** (0.14)	0.831*** (0.19)	0.890** (0.38)	0.786*** (0.19)
Log GDP per capita	3.335 (4.90)	1.281 (1.03)	1.309 (2.87)	2.875 (7.96)	-0.136 (2.47)	0.320 (3.94)	1.316 (3.81)	-9.296 (10.9)	2.754 (10.1)	7.035 (17.0)	9.671 (8.67)
Log population	-1.599 (1.06)	-0.519 (0.34)	-0.478 (0.40)	-0.799 (2.03)	-0.397 (0.64)	-0.575 (0.96)	-0.751 (0.98)	-1.395 (1.92)	-53.71 (49.0)	-31.88 (66.1)	49.59 (40.8)
Log land per capita	-4.433*** (1.24)	-1.977** (0.83)	-1.893 (1.19)	-2.030 (3.86)	-0.0164 (2.36)	-0.726 (4.00)	-1.221 (3.82)	-1.375 (3.19)	-28.11 (44.3)	-10.25 (42.8)	-28.73 (40.7)
Log share of agr. empl.	1.152 (6.64)	0.638 (1.40)	1.160 (3.87)	2.290 (10.9)	0.545 (2.27)	0.108 (2.38)	0.579 (2.17)	-15.16 (17.4)	27.51 (18.3)	16.97 (24.8)	-18.06 (48.8)
Constant	-24.15 (64.8)	-11.25 (13.2)	-13.83 (32.3)	-30.65 (102)	-13.41 (22.8)	-11.90 (27.8)	-13.86 (26.5)	118.2 (144)			
Observations	1735	1735	1735	407	407	407	407	407	400	400	400
No. of countries	74	74	74	73	73	73	73	73	73	73	73
No. of instruments	108	68	66	108	64	52	48	60	49	39	50
test for AR3 (<i>P</i> value)	0.231	0.239	0.238	0.207	0.208	0.224	0.227	0.246	0.297	0.362	0.305
Hansen test (<i>P</i> value)	0.996	0.165	0.252	0.999	0.689	0.519	0.383	0.569	0.585	0.446	0.554
Difference Hansen test (<i>P</i> value)	1.000	0.542	0.784	0.552	0.407	0.137	0.229	0.413	-	-	-

Note: Robust standard errors clustered by country (incorporating Windmeijer correction) in parentheses. All regressions include time fixed effects as additional explanatory variables; columns (3), (8), and (11) report the results from specifications here we also endogenize *log of employment share in agriculture*.
****P* < 0.01, ***P* < 0.05, **P* < 0.1.

Table 9
Fixed effects estimates of political competition specification for various subsamples

<i>Dependent variable—nominal rate of assistance (NRA).</i>	(1)		(2)		(3)		(4)		(5)		(6)		(7)		(8)	
	<i>Polity IV political competition</i>		<i>DPI2006 political competition</i>		<i>Polity IV political competition</i>		<i>DPI2006 political competition</i>		<i>Polity IV political competition</i>		<i>DPI2006 political competition</i>		<i>Polity IV political competition</i>		<i>DPI2006 political competition</i>	
	<i>OECD</i>	<i>Non-OECD</i>	<i>OECD</i>	<i>Non-OECD</i>	<i>Single-party govt.</i>	<i>Coalition govt.</i>	<i>Single-party govt.</i>	<i>Coalition govt.</i>	<i>Single-party govt.</i>	<i>Coalition govt.</i>	<i>Single-party govt.</i>	<i>Coalition govt.</i>	<i>Single-party govt.</i>	<i>Coalition govt.</i>	<i>Single-party govt.</i>	<i>Coalition govt.</i>
Political competition	10.01 (19.6)	17.19*** (5.99)	44.50 (34.2)	10.05 (7.01)	37.08*** (8.03)	17.06 (14.3)	35.52*** (12.3)	34.24** (16.8)								
Observations	863	1666	617	1097	907	724	901	737								
Number of countries	26	58	26	55	65	63	65	63								
<i>R</i> -squared	0.35	0.37	0.38	0.33	0.40	0.27	0.37	0.28								

Robust standard errors in parentheses. All regressions include log of GDP *per capita*, log of population, log of agricultural land *per capita*, log of employment share of agriculture, and time fixed effects as additional explanatory variables; robust standard errors clustered by country in parentheses.
****P* < 0.01, ***P* < 0.05, **P* < 0.1.

deadweight cost of taxation/subsidization. Note that, in general, in developed countries agriculture is subsidized whereas in developing countries it is taxed. From this perspective, interesting insights could be provided by theoretical predictions made by Aidt (2003). According to this study, distributive programs that are inefficient are unlikely to be contested, which may explain that we do not observe reductions in agricultural production in developed countries. On the other hand, in developing

countries agricultural policy may be perceived as an inefficient source of taxes which in turn implies that political competition should increase agricultural protection (decrease agricultural taxation). Other areas which seem to be worth investigating in this context include the issue of rigidity of product and labor markets. As showed by Buti et al. (2010), governments introducing policy changes tend to be voted out of office in countries with rigid product and labor markets. This in turn may provide

politicians to behave strategically. Provided that agricultural sector is one of the most important stage for the restructuring process, this may prove to be an interesting line of research.

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