

# The Influence of State Paternalism on the Operating Results of Peasant (private) Farms in the Regions of the North

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## ABSTRACT

State paternalism, as a manifestation of state policy in relation to agriculture as a whole and peasant (private) farms (hereinafter referred to as peasant private farms - PPF) in particular, is an integral element of the modern society and having a number of specific features in the conditions of the northern territories. Paradox is that the recent observed closer attention to regulation of agricultural production is not manifested in the corresponding increase in the productive efficiency of the PPF. The hypothesis of the study lies in the fact that the insufficient effectiveness of state support results not only from the non-conformance between the scale and measures of state support to needs and expectations of farmers, but also distinctive features of economic managements in the conditions of the northern territories. This article is devoted to the study of the measure of the influence of state support on the conditions and results of peasant private farms. As the main methods of research, we used: empirical methods, statistical methods, regression analysis method, interview method. In the course of the research, representatives of regional authorities, local self-government, heads of the PPF of the district were interviewed. The undertaken survey made it possible to identify the features of implementation of the state program to support agricultural production in the North, the factors preventing from the sustainable development of peasant farms. As a result of the study, we compiled the hierarchical system of equations for multiple linear regression of the dependence of the results of economic activities of farmers in the northern territories on financial measures of the state influence on the peasant farms activities. These results can be used when developing the supporting measures for peasant private farms and making the decisions on introduction of amendments into regional programs on developing the agro-industrial complex.

**Keywords:** *State program, Agriculture, Agro-industrial complex, Peasant (farm) economy, Farmer, State paternalism, State support.*

## 1. INTRODUCTION

The peasant (private) farms of the northern territories, as an element of diversification of economy management forms in rural regions carry out the important functions - facilitate assurance of food security, employment of population, the full use of the resource potential of regions. For this purpose, they get all factors caused by the environment: the severity of climate, non-development of transport infrastructure, non-sufficiency of labor resources, etc. All these circumstances highlight the need to show contradictions, develop and implement

optimal decisions on their elimination. The main role in this issue belongs to the state. It is state paternalism that capable of creating conditions for the sustainable development of small forms of economic management in the northern rural territories. The state program on the development of agro-industrial complex, which is put in practise, makes provisions for different approaches to promote the development of agriculture, including Peasant private farms with additional regional programs oriented to adaptation of federal measures to the conditions of the economic management territory. In reality, we observe accumulation of contradictions, as evidenced by surveyed heads of peasant private farms.

Thereby, the slowdown in growth of economic activity indices of PPF, and on some sectors reduction in these indices, is observed.

The dependences revealed during the study will give the opportunity to increase the efficiency of state measures for supporting the development of PPF, enhancing their contribution to food assurance of the population of the northern territories.

Showing up the factors preventing from the beneficial effect of state policy in relation to peasant private farms and the degree of dependence of functional results of these organizations against regulatory measures was the purpose of our study.

## 2. LITERATURE REVIEW

Thinkers have been interested in questions of state paternalism since ancient times. Confucius identified the state with the family and defined the state as the vocation of rulers to take care about people as about their families. Who better than the power institutions to ensure such care owing to the availability of appropriate resources, opportunities for "harmonious interaction with modern forms of democracy and civil society, protected from recurrences of nationalism" (Rubinstein A.Ya. Gorodetsky A.E. [1]).

Paternalistic interrelations between the power and people have mutual nature: on the part of state bodies in relation to population, they have the care nature, on the part of population - expectation of supportive relationship (Zozulina M. R. [2]). Moreover, the level of paternalism trends to change with the social development from "old" to "new" and varies with circumstances from "hard" to "soft" (Kapelyushnikov. R.I. [3]. "Old", "hard" paternalism is characterized by restriction of individual freedom, ignoring their preferences (Klein D. B. [4]). In modern conditions, the authors trend towards "soft", as most fully conforming with market principles of farm management. The state must promote the development of individuals without limitation of their freedom and actions of market self-regulation mechanisms (Berezuev E. A. [5], Ptitsyna D. D., Kostina O. V. [6], Ariely D. [7], Mitchell G. [8], Migunov R. A. [9]). Among the "new", "soft" paternalism, it is necessary to make distinctions between "asymmetric" paternalism - acting on semi-rational people and "libertarian" paternalism - when the actions of power stimulate the individual to act in a certain way, but the final decision remains with the individual (Camerer C., Issacharoff S., Loewenstein G., O'Donoghue T., Rabin M. [10], Sunstein C., Thaler R. [11], Loewenstein G., Haisley E. [12]).

Agriculture, an industry subject to special risks, is characterized by its own kind of paternalism - "rural" paternalism when rural commodity producers expect support not only from the authorities, but also from economic structures (Kapelyushnikov. R. I. [3]. Specifics

of state support are also influenced by regional features caused by natural and climatic factors, conventional trends of farming, resource provision of the region, etc. (Voronina Ya.V. [13]).

The results of state support for the agricultural sector are in direct dependence on the applied stimulation methods. Analyzing the methods of state regulation of agriculture, Kiselev S.V. with the team of authors expressed an opinion concerning the need to move from supporting the production to supporting the production factors, as well as reducing the bureaucratic procedures and ensuring the automatism in solving major problems of rural commodity producers [14]. The results of researches on grant support to peasant farms carried out by R.T. Latypov Maleikin G.P., Ruchkin A.V. showed the non-conformity between the scope of devoted funds and the needs for them, as well as the presence of disproportions in their distribution [15]. The presence of interrelation between the supporting measures for technical re-equipment of peasant private farms and the state of technical park was established by S.N. Sazonov. [16]. Distribution of produced agricultural products is an important component in providing the population with food, and for this reason, it should be covered by state support on the part of both regional authorities and local self-government bodies (Department of Economic Development of the Khanty-Mansi Autonomous Okrug-Yugra [17]).

The choice of implemented support measures should be accompanied by an objective assessment of their effectiveness. The assessment model proposed and used by K. Cobl to assess the level of government support in individual OECD countries includes four independent variables: agricultural production index; value added indicator; assessment of support as a percentage of the gross income of rural producers; the nominal protection factor of consumer rights [17]. The methodology taking into account criteria for qualitative and quantitative assessment is contained in the recommendations for the EAEU countries of the Eurasian Economic Commission "On the methodology for assessing the effectiveness of measures of state regulation of the agri-food market and support for the agro-industrial complex."

The importance of agriculture as a whole and small forms of farming for the northern territories is caused by the possibility, through diversification of organizational forms of agricultural production, to meet the needs of citizens living in this territory for fresh food, to increase the employment of the population, incl. engaged in traditional crafts, to form conditions preventing monopolization of the market by individual suppliers of products, to stabilize food prices (Ivanov VA [18], Kabir L.S., Luzhkina I.M., Kudryavtseva L.N. [19]).

In addition to restrictions for functioning the agricultural production, such as climatic conditions, soil composition, vegetation period (Pilyasov A.N.,

Zamyatina N.Yu. [20]), nevertheless, the Northern Territories also have certain opportunities favourable for farming: predominance of natural hayfields and grazing lands as part of farmland, significant fish resources, the possibility to use the potential of indigenous small-numbered peoples of the North, etc. (Ivanov V.A. [18]).

The above-mentioned restrictions on agricultural production in the North also cause the need for more close attention from the authorities and should be taken into account when choosing measures of state support (Ivanov V.A. [18], Kabir L.S., Luzhkina I.M., Kudryavtseva L.N. [19]). In this matter, one should use successful practices of countries with a highly-developed system of state support, such as the United States (Neil D. Hamilton [21]) and countries that are in conditions comparable to those in Russia, in particular, Finland (Ivanov V.A. [18]).

In our opinion, insufficient attention is paid to specifics of state support for peasant farms of northern Russia as well as factors affecting the choice of forms and methods of such support.

The electronic library of scientific publications eLIBRARY.RU was used to assess the level of reference of authors to the topic of state support for peasant farms of the North. As a result of the request including the phrase "state support of peasant farms / farmers of the North", only one variant was proposed in which the author pointed out in the title the name of the northern region, while without the word "North" or the name of the northern region, 64 variants were proposed. Where from we can make a conclusion of insufficient highlighting the issues of state support of peasant farms of the northern territories.

### **3. DATA AND METHODS**

As the main method of research, we used the multifactorial correlation and regression analysis which was carried out according to indices of the Far North regions and similar territories. The researches were carried out in terms of the 21 northern region for 2018.

To create the information base, the following references were used:

- site of the Federal Tax Service about the total quantity of peasant farms, as well as the quantity of newly registered ones and the quantity of excluded from the Unified State Register of Self-Employed Persons;
- site of the Ministry of Agriculture of the Russian Federation about the scope of special forms of state support of agro-industrial complex;
- site of the Unified inter-institutional information and statistical system about particular conditions and results of functioning the peasant farms.

The software system Statistica was used for drawing up the regression model. Generation of equations of multiple linear regression was carried out in four stages:

1) the selection of indices for 2018 that characterize the functioning of peasant farms of the research territory as well as indices possibly affecting the operating results of analyzed farms. In our forecasts, we were mastered by the results of a series of interview carried out with representatives of peasant farms, public sectors of the Khanty-Mansiysk Autonomous District - Yugra;

2) selection of the final dependent indicator reflecting the results of the activity of PPF - incomes of individual entrepreneurs and PPF that pay the unified agricultural tax. This indicator has not only a microeconomic aspect, reflecting both production activity and implementation, but also a macroeconomic one, as a contribution to the formation of regional budgets of the studied area.

3) consistent generation of multiple linear regression equations. At the initial step, independent indicators were selected that have the high level of relationship with the final dependent indicator. Then the independent variables included in the regression equation were used as dependent variables for which separate regression equations were compiled with their own set of independent variables.

The independent variables were those that had the significant level of correlation with the dependent variables and the insignificant level of cross-correlation (to eliminate the effect of multicollinearity) based on the compiled correlation matrix.

4) selection of significant regression equations that satisfy the criteria: Fisher's criterion, coefficient of determination, p-criterion and Darbin-Watson criterion. For further research, the regression equations were selected that have the highest coefficient of determination and allow to form a hierarchical set of regression equations.

### **4. RESULTS**

#### ***4.1. The main trends in the functioning of peasant private farms in the northern territories***

Over the years of supporting the development of peasant private farms, a fairly large experience has been accumulated in the application of regulatory measures, which in recent years has a tendency to increase (only for 2017-2020. The RF Government Regulation No. 717 dated 14.07.2012 "Concerning the State Program for Development of Agriculture and Regulation of Agricultural Commodity Markets" was subjected to 20 revisions, in 2015, 2016 - none). Such extension of rural paternalism must drive the improvement of indices of their activities. However, during the recent years, there is

the trend of growth rate reduction of the most indices, while on some indices - the trend of decrease (table 1). One of the possible reasons for such situation lies in reduction of scopes of subsidies going from federal and regional budgets as part of the government program for the development of agriculture.

Distinctive features of the implemented government program of Yugra "Development of agro-industrial complex" (hereinafter -State program) are the following:

1. The higher supporting share in costs of produced products. As per Yugra, the share of state support in unit of produced products is 18-23%, on average in Russia 5-8%<sup>1</sup>.
2. The high share of participation of regional budget within devoted funds for assignment of state support - 66.6% against 16.9% on average in Russia [22].
3. Reducing the availability of small managing forms to measures of state support. In 2019, the access to different forms of support had about 30% of representatives of small and medium-sized business in the agricultural sector of Yugra. By the year 2030, the state program plans to bring this index to 80% [23]. As a result of adjustment in terms of the requirement for the constant growth of livestock inventory and conditions of compartment, only those producers who have 100 and more conventional heads of the breeding stock of any and all agricultural animals can count on support. As a result, a part of the farms passed out of existence.

Implementing the State Program in Ugra is faced with contradictions associated with both the federal economic policy and the specifics of the State Program, as well as with regional features:

1. The problem lies in the low quality of accounting policy in peasant private farms which does not allow, firstly, to objectively substantiate the need for financing, and, secondly, to effectively distribute financial resources of the farm.
2. The low level of knowledge and experience in farming. The lack of regulatory restrictions leads to

widespread practice of farming by persons without special education. According to the data of the All-Russian agricultural census of 2016, the share of heads of peasant farms in Ugra with the higher agricultural education was 4.4%, which is significantly lower than the national indicator of 15.4%. The same situation as per the availability of secondary vocational education - 4.2% in the Khanty-Mansi Autonomous Okrug and 11.5% in the Russian Federation. The results of comparing the duration of work experience in agriculture show that the share of representatives of small and medium-sized businesses with more than 21 years of experience in Ugra is 11.5%, while in Russia this figure is 39.3% [24].

3. The low level of information literacy and availability of information resources. The implementability by farmers of their own rights is limited by the access to information and the ability to interpret it correctly.
4. Complicated procedure for justifying the need to amend regulatory documents. That does not allow to promptly respond to contradictions during the implementation of the state program. "Previously, the regulatory impact report includes 15 sheets, now at least 75 sheets".

Problems faced by representatives of peasant private farms:

1. The absence of integrated approach to the implementation of support programs for rural producers. The government subsidy program for agricultural machinery manufacturers can reduce expenses for purchasing the equipment, but the absence of sufficient after-sales service reduces the effectiveness of this support measure.
2. The absence of flexibility in the procedure for providing state support and ability to quickly adapt to changing conditions. Hence the exclusion of an individual approach to recipients of support measures, for whom receiving a subsidy is a source of covering loan obligations. Regulations as per terms of granting subsidies are not consistent with the completion schedule

**Table 1.** Change of conditions and results of functioning the peasant farms in the Far North regions and similar territories, %

Name of indices	2015	2016	2017	2018
Growth rate of subsidies to support agriculture, %	no data	102.96	68.43	85.41
Agricultural production index in peasant farms and individual entrepreneurs	104.39	111.74	102.00	100.58
Growth rate of the number of PPF	110.45	108.99	102.12	95.23

Compiled by: Providing recipients of state support funds. [Electronic resource]. URL: <https://mcx.gov.ru/activity/state-support/funding/info-arkhiv1275/> (date of treatment 10/22/2020); Unified inter-institutional information and statistical system. URL:<https://fedstat.ru/indicator/59001#>

<sup>1</sup> From interview with the representative of regional authorities (14 years in duties).

of credit obligations. Relating to recovery of expenses of modernization, the developed measures do not adequately take into account the increase in the cost of equipment as a result of an increase in its process-ability. "At the same time, there are no effective mechanisms to recover expenses to agricultural producers for modernization in the district," says Alexander Bekker, chairman of the Association of Peasant Farms and Agricultural Cooperatives in Ugra [25].

3. The increase of tax burden. Since 2019, agricultural producers have become VAT payers. This innovation threatens with a sharp increase in the tax burden and a rise in prices for farm products.

4. The added complexity of the procedure for sales of products with appearance of distribution channels due to the limited decision-making capabilities of their regional divisions. The growing acuteness of the problem is evidenced by the fact that now nine percent of trade chain operators occupy 79% of the sales area. The share of retail markets and fairs in the retail turnover remains about three percent.

5. Difficulties in relationships with credit institutions. Representatives of agricultural production traditionally belong to high-risk borrowers due to their high dependence on weather conditions. And in the North conditions, risk of lending to such clients increases many times over. Previously functioning regional banks, being partly controlled by regional authorities, took into account this specificity of farming and developed effective mechanisms for interaction with local producers. The problems of fund raising appeared as a result of displacement of regional credit institutions by interregional ones whose activity depends on instructions composed by the central office.

6. Weak opportunities for cooperation of representatives of small and medium-sized business. This is associated with the large distances between farms and the underdevelopment of the road network. The mean density of public hard-surfaced roads in the Far North regions and similar territories was at the end of 2018 55.7 km of roads per 1000 km<sup>2</sup> of the territory. On the other hand, the same indicator on the rest territory of Russia is 61.5km of roads per 1000 km<sup>2</sup> of the territory.

7. The issues of development and approval of sanitary protective areas whose availability is the condition of the project design and building licensing for facilities of agricultural purposes. Difficulties arise due to the fact that the majority of family farms historically perform their activities closer to social infrastructure and market outlets - within the boundaries of settlements.

8. The issues as a result of implementing the state information system "Mercury" which is intended to ensure the relocation transparency of agricultural products from production to implementation. In order to operate with this system, it is necessary to have relevant

skills and access to the Internet. Now the large settlements of Ugra are sufficiently well covered by Internet services, which cannot be said about rural areas. Partly, the percentage of rural population coverage with the Internet is characterized by the share of population using the Internet for receiving the state and municipal services. In the northern regions, the value of this indicator in 2018 was inferior to this indicator in the rest of Russia and amounted to 55.5 and 61.8%, respectively.

9. The lack of free premises and land plots for farming in municipal governments. Preparation of new plots for economic activities requires significant costs due to the rather high swampiness of the area and seasonal flooding of rivers.

10. The high cost of renting retail space in the North compared to other territories of Russia. The average rental price for retail space in northern cities is by 16.5% higher than an average for Russia. As a result, the generated sales costs, together with the aforementioned significant costs of agricultural production, do not promote ensuring the return on investment in doing business in agriculture.

11. The insufficiency and the absence of operational efficiency in access to information about the rights that participants of peasant farms have and the obligations that are laid by the current legislation, for which reason the farmers suffer heavily in paying penalties for late payments to the budget (in foreign countries, these losses reach 40% of own funds, in Russia - 76% [14]). Example - the system of fee collection from heavy duty vehicles "Platon", after whose implementation some farms were accumulated with penalty fees due to insufficient information availability.

12. The problem of engagement of labor forces. Yugra is characterized by the lower level of involving the working-age population in work in peasant farms, which is caused by the absence of the prestige value of "farmer" status, low social possibilities in rural regions, the lower income level compared to the main oil-and-gas sector. For example, according to the results of all-Russia agricultural tabulation of census data in 2016, the share of employees involved in peasant farms is only 0.18% of the total number of employed in the economy of Yugra. An average of the Russian Federation, this index is 0.5%.

The low level of competition on the resource market for production of agricultural products and the availability of economical and administrative barriers in certain sectors of agricultural production, revealed according to results of a survey of entrepreneurs carried out by the Department of economic development in 2019. According to respondents, among economic barriers dominate: the need for significant primary capital investments with long pay-back time of these investments; the limited availability of financial resources and the higher expenses of fund raising for

potential participants compared to economic entities operating on the market under consideration.

Among main administrative barriers, the following were mentioned: the complexity in obtaining the access to land plots; in obtaining benefits for certain business entities; the complexity of access to procurements of companies with state participation. Moreover, according to respondents, the level and quantity of administrative barriers over the past three years at least did not change. According to the survey results in order to assess the activities of the authority bodies on the markets of agricultural products, the third part of respondents answered that the authority bodies do not take any activity but their participation is necessary.

**4.2. Forming the model**

The carried out correlation and regression analysis of conditions and results of economy management of peasant farms in the Far North regions and similar regions allowed us to form the list of equations of multiple linear regression that are in the hierarchic relationship between themselves (figure 1). The found interrelation between indices demonstrates indirect influence of state support by means of different kinds of

subsidies to the amount of incomes of self-employed persons and peasant farms. Incomes of self-employed persons and peasant farms by 88.1% are directly determined by the effect of costs of livestock and crop production. Moreover, the growth of the income amount from the increase of costs of crop production exceeds the impact on incomes of production costs of livestock products. Whereas, the cost of livestock products by 82.8% depends on the joint effect of overall production of milk and scopes of cattle breeding. The increase in the second of mentioned indicators allows to achieve the higher effect on the costs of produced livestock products than the increase in first indicator.

Production costs for crop products by 73.8% is defined by the size of cultivated area of potatoes and amount of precipitation in July. The determining factor in formation of costs of crop products is the cultivated area for potatoes.

**5. CONCLUSION**

Thus, according to the results of the study, the following conclusions can be drawn.

First, by now in the northern regions, there is the tendency for reduction of the number of peasant farms,

x1 - annual income amount of self-employed persons and peasant farms paying the unified agricultural tax, ths. rub. x1 = 141.4198 + 0.2539x2 + 0.4858x3		x2 - the cost of produced livestock products in actual prices x2 = 19.7089 + 51.7149x4 + 163.9777x5		x3 - the cost of the produced crop production in actual prices x3 = -1099.85 + 1611.25x6 + 14.74x7	
x4 - volume of milk production x4 = 3.4978 + 9x10-8x8 + 7x10-8x9		x5 - volume of raising of cattle in live weight x5 = 1.9545 + 0.0084x10 - 0.4174x11		x6 - cultivated area for potatoes x6 = -0.0428 + 3x10-9x12 + 5x10-9x13	
x8 - the amount of subsidies for provision with housing for citizens living and working in rural areas	x9 - the amount of subsidies for rendering decoupled support for crop farmers	x10 - peasant farms that ceased operations during the reporting period x10 = 32.4846 + 2x10-7x14 + 7x10-7x15		x11 - anomaly of the average monthly temperature in January	x12 - subsidies for assistance to targets of the regional development programs for agro-industrial complex
		x14 - subsidies and other inter-budget transfers to support the agricultural sector	x15 - subsidies for the sustainable development of rural territories		
				x13 - other inter-budget transfers for refunding a part of interest charges on investment credits (loans) in the agro-industrial complex	x7 - average precipitation in July

**Figure 1** Hierarchic dependence between indices of results and conditions for functioning the peasant farms.

the decrease in the growth rate of production indicators in farms of this type. Such tendency may lead to the decrease in the provision of the local population with fresh food, inc. purchased provision under a municipal order for schools and kindergartens.

Secondly, the factors hindering the farming were identified, which are partly caused by the state policy in the agricultural sector, insufficient coverage by the implemented state program for supporting the agro-industrial complex of problems faced by farmers: insufficient measures in the field of technical support of peasant private farms, difficulties with sales of agricultural products, difficulties in attracting borrowed funds and labor resources, the increase in the diversion of funds as a result of changes in the taxation of rural producers, as a result of innovations in information support for the transportation and sales of agricultural products.

Thirdly, difficulties in the implementation of government support measures are due, in part, to the quality of arranging the management processes in peasant farms, namely, insufficient attention to the issues of accounting and reporting, low information literacy of farmers.

Fourth, the level of dependence of incomes of peasant farms on the amount of subsidies allocated within the framework of the ongoing state program for supporting the agro-industrial complex has been established.

The above results expand the understanding of the conditions of state paternalism in relation to peasant private farms in the regions of the North, characterized by the presence of processes and phenomena that impede the successful implementation of support, lack of flexibility, complexity, adaptation to the interests of farmers. The practical significance of the work lies in the possibility of using the results of the study in the development of a state program for supporting peasant farms.

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