understanding collective action:

**TOWARD AN ECONOMICS OF THE RURAL THIRD SECTOR**

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This paper addresses the role of standard theories of the third sector and collective action in explaining the motivations to form such organizations in rural settings. In many countries of the world, the development of rural areas is actively supported by third sector organizations (TSOs) in the broad sense of the term, i.e., organizations representing neither for-profit firms nor governmental agencies. The key examples of these organizations include local community organizations, mutual self-help groups, rural and agricultural cooperatives, rural partnerships, and nongovernmental organizations (NGOs). TSOs affect the development of rural areas and agrofood chains in a variety of ways, e.g. by enhancing farmers’ market power (Hueth and Marcoul 2003), articulating the political interests of rural populations (OECD 2006), promoting the development of rural diversification (Renting et al. 2003; van der Ploeg et al. 2000), and delivering various rural services on a mutual self-help basis (Uphoff, 1993). In developed countries, the role of rural TSOs has been enhanced by the shift ‘from government to governance’ involving the increasing transfer of responsibilities from the state to the private for-profit and third sectors (Goodwin, 1998). In developing countries, the importance of the rural third sector has been appreciated primarily as a result of the relatively low effectiveness of both state-led and market-led policies of agricultural and rural development (Kydd and Dorward, 2004).

However, in spite of the generally recognized importance of the third sector in rural development (OECD, 2006; Uphoff, 1993), economists have not yet examined whether rurality can represent a distinct theoretical reason for the existence of rural TSOs (e.g., Olson, 1965; Ostrom, 1990). The standard economic theories emphasize the role of the third sector in public goods provision (Weisbrod, 1991), gaining consumers’ trust (Hansmann, 1987), ensuring better consumer control (Ben-Ner, 1986), and serving as an outlet for ideological entrepreneurship (Rose-Ackerman, 1996). Even though these standard theories have been basically disinterested in rural development, they can potentially yield important insights about the operation of the rural third sector. Therefore, this paper’s objective is to call attention to the need for expanding our understanding of the rural third sector by re-examining the general economic theories of this institutional arrangement. The paper achieves this objective by developing the basic elements of a research program on the economic theory of the rural third sector.

The proposed research program fully shares the bottom-line implication of the standard economic theories of the third sector that the operation of for-profit firms is subject to limitations creating a niche for TSOs. In line with this inference, this paper explores the relevance of rurality as a possible distinct theoretical rationale for the third sector by asking whether rurality implies any limitations on the operation of for-profit firms in such a way as to give rise to TSOs. It is argued that the organization of agricultural production and unique characteristics of rural areas are causally responsible for the emergence of at least some forms of rural TSOs. Rural areas in both developed and developing countries have a number of socio-economic characteristics that reduce the return on for-profit firms’ investment (e.g., low population density and per capita incomes, poor infrastructure, etc.) Additionally, potential hold-up problems in the contractual relationships of farmers with often powerful processors result in severely constraining farmers’ ability to buy inputs and sell outputs in the marketplace is severely constrained (Kydd and Dorward, 2004). The lower return on investment weakens the incentives of for-profit firms to operate in rural areas. This means, in turn, that rural dwellers may be dissatisfied with the levels of consumption goods and services delivered to them by for-profit firms. In this situation, rural inhabitants will discover that the
only way to respond to this mismatch between demand and supply is to organize TSOs delivering those goods and services that are not profitable enough to for-profit firms.

Agricultural cooperatives, a form of rural TSOs, are also formed for sector-specific reasons (Valentinov, 2007). We also argue that multifunctionality is a characteristic of agriculture that provides yet another sector-specific motivation for the formation of rural TSOs. Another sector-specific rationale refers to the dominant type of government-third sector relations. The contemporary European rural development is arguably marked by complementary government-third sector relations particularly in view of the ‘new rural paradigm’ involving the transfer of responsibilities from government to the private for-profit and third sectors (OECD 2006).

Illustrative examples from the United Kingdom, the Netherlands and Greece support our main hypothesis. Furthermore, we examine available preliminary empirical evidence from the perspective of standard economic theories of the third sector. Thus, the paper contributes to the third sector literature by identifying industry-specific rationales for TSOs, and to the rural development literature by highlighting the significance of rural TSOs for the development of rural areas.

References:


