



# State and Peasants in Post -Mao China: The Political Economy of Agriculture (1978-88)

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## Abstract

Rural reforms were instituted in the backdrop of strained peasant- party-state relations engendered by lack of improvement in peasants income/consumption, falling work incentives, increasing inefficiencies in agriculture, declining productivity, and increasing difficulties of the state in procurement of grains. Starting from the Third Plenum (1978) a slew of reform measures were undertaken to address these issues. As a result, the agricultural sector registered phenomenal and unprecedented high growth rates in terms of production, value of output and yields along with a much more balanced structure of output than in the past, and brought significant income and consumption gains to the peasantry during the first decade of post-Mao China. Based on policy analysis and literature on rural reforms, the paper argues that institutional transformation in agriculture from collective farming to household farming system helped peasants to incentivize production, and contributed to better allocative efficiency at the farm level. The changes in procurement policy incentivized peasants to produce more and sell more to the government. The relaxation in production planning helped peasants diversify agricultural produce and go for high value crops. While these policies brought unprecedented gains to peasants these had their flip side as well , as the very success of the policies brought in new problems for the government such as the financial burden of mandatory procurement , and dip in investment in agriculture following de-collectivization. While these signalled further reforms, rural reforms post 1978 cemented peasant-state relations.

Keywords: Rural Reforms, De-collectivization, Agricultural Growth, Peasants Incentives, Income, Procurement

## Introduction

Chinese countryside witnessed momentous changes during 1978-88 as China made a transition from the command economy framework of economic management to a one that was increasingly becoming market-driven. Accompanying this transition was a perceptible change in the ideological climate, according significance to private motives and market (both product and factors) for developing the socialist commodity economy. The premium on advancing the relations of production and its prioritization over the forces of production that characterized Maoist ideological/developmental perspective saw a distinct reversal as economic rationality ("economic in command"), law of values, efficiency in resource utilization and allocation, and the cruciality of 'material incentives' became new 'mantras' of the policymakers. For the first time, the logic

of 'privatization' was given space in the political economy to acquire material force and expression on the ground of the necessity to develop the forces of production. In the process Chinese countryside witnessed considerable expansion, deepening, diversification and growth of the rural economy. The agricultural sector registered phenomenal and unprecedented high growth rates in terms of production, value of output and yields along with a much more balanced structure of output than in the past. This paper focuses attention on the post Mao first decade of agriculture in the Chinese rural economy, as it is said to have paved way for a more comprehensive change is China's development strategy, as it 'provided the material basis for the economy to grow outside the planned system' (J. Lin 1997). This paper has two objectives: [1] it takes a look at the rural reforms having a bearing on the agricultural sector, and [2] studies the impact of these reforms on the performance of agricultural sector during the first decade of post Mao reforms beginning from the Third Plenum in 1978. Based on policy analysis and literature on rural reforms, the paper argues that institutional transformation in agriculture by way of a move away from collective farming to household farming system helped peasants to incentivize production, and contributed to better allocative efficiency at the farm level. The change in procurement policy by way of a significant raise in procurement prices – both quota and above quota incentivized peasants to produce more and sell more to the government. The relaxation in production planning by way abandoning 'grain self-sufficiency at all levels, helped peasants diversify agricultural produce and go for high value crops, thereby restoring balance in the structure of agricultural produce. While these policies brought unprecedented gains to peasants and were successful, these had their flip side as well, as the very success of the policies brought in new problems for the government such as the financial burden of mandatory procurement, and dip in investment in agriculture following de-collectivization. This paper has four sections: the first section locates agriculture in the Chinese development strategy and its condition on the eve of the Third Plenum. The second section deals with policies of rural reform having a bearing on agriculture and peasants during the first decade of post Mao reforms. The third section takes a look at the performance of agricultural sector during this period and seeks to provide an explanation for the same. The last section is conclusion that summaries the findings.

### **Agriculture on the eve of the Third Plenum**

China's development strategy adopted in 1950s contoured China's agricultural policies. The Development strategy was based on Industrial revolution paradigm. The imperatives of this paradigm were: high investments in heavy industries, extraction of investible resources from the rural economy through terms of trade setting in favour of industries, low wages for industrial workers, low priced food supply, and improvement in productivity of rural economy mainly through institutional reforms. In view of these imperatives, Chinese agriculture which was household based at the time of the socialist revolution was brought under collective farming system through past paced institutional changes, with some leeway for private domestic sidelines. To ensure low price, adequate supply of foodgrains Chinese government had instituted a mandatory low price quota- procurement policy, and it used 'price scissors' to transfer surpluses from rural economy to the urban-industrial sector. Further, the government encouraged rural industrialization under communes for labour accumulation for infrastructure development and for financing the modernization of agricultural development, with a view to obviate state's burden to finance agricultural development so that it could majorly focus on industrial development and security.

During the Cultural Revolution (CR) decade 1966-1976, steps were taken to strengthen the spirit of collectivism, which had taken a backslide during the recovery period post the disaster of the Great Leap Forward (GLF). First, the 'production responsibility system', which had made a come back in the aftermath of the GLF disaster, was done away with, and production teams were asked to take steps to increase economic equality. This meant time-rates were to be preferred over piece-rate in work points allocation; upper limits would be put on work point values; and personal consumption could be suppressed.

Second, those bases that had engendered 'capitalist tendencies' during the earlier phase of 'readjustment and recovery' were attacked. Household sidelines, rural fairs, private plots, piece-rate method of work point allocation – all of these came under attack and vilified.

Third, rural industrialization which had seen retrenchment during the earlier period was once again encouraged. During this period rural industrialization supported technological change in agriculture and also financed its growth. It helped generate substantial employment in agriculture, without decline in output per worker. In fact, according to Rawski output per worker increased by an estimated 10% (Rawski 1979).

Fourth, production planning once again returned in China. As a result, price instrument lost its incentivizing role. This showed in stagnation of procurement price. The price index of all farm products procured by the government increased from 162 to 168 only, an increase of merely 4%, that is less 4/10 of one percent per year (N Lardy 1983).

To ensure adequacy of foodgrain supply to urban dwellers without food imports, the government implemented the policy of 'grain first' and 'grain self sufficiency at all levels'. This was one of the main objectives of production planning. To enforce grain self sufficiency, inter alia, state substantially curtailed inter-provincial transfer of grains, insisted that all taxes be paid in food grains. This emphasis on grain self-sufficiency at all levels proved to be detrimental to the well-being of the peasants in regions which were not having comparative advantage in food grains production. It also caused serious misallocation of resources.

State's investment in agriculture and related sectors could not be sustained during the CR decade. The proportion of national investment going to agriculture and related sectors fell from a high of 21% in 1962 to 14.6% in 1965 to 10% in 1975 (Riskin 1987). The share of agriculture proper dropped even more sharply from 7.4% in 1962 to less than 1% in 1975, while that of water conservancy was halved from 12.2% to 6.6% in the same period (ibid). Riskin (1987) commented that 'all this occurred while agricultural priority was still formally at the core of development strategy'.

Despite a cut in state investment in agriculture, investment needs of agriculture sector could be fairly met during the CR decade because the communes helped by the success of rural industrialization were still able to generate internal accumulation at a fairly high rate. Annual accumulation constituted around 7% of the annual net incomes of the production teams, throughout 1965-75 (Ghosh 1987). Significant investment was also done through the process of labour accumulation at the commune level- that is contribution of labour by commune members towards farmland construction and water conservancy projects. In 1965 50 million persons were mobilized. This rose to 130 million in 1975.

During the CR period agriculture grew around average 4% per year. This surely outpaced the rate of population growth. Over a long period of time- But the benefits

of the growth did not accrue to the peasants. Indeed, over a long period of time there was only a nominal change in the standards of living of the peasants especially after 1957.

There was a very slow growth in per capita personal income of peasants. This was related to sharp rise in the non-labour production cost as percentage of gross value of farm output. This cost had gone up from 27.3% in 1965 to 35.7% in 1977 (Agricultural Year Book Compilation Commission 1981). The rise in production cost had two basic determinants: (1) the indirect tax in the form of increased sales of overpriced farm inputs by the state to the collective sector, and (2) increasing inefficiency in the use of inputs under production planning (N Lardy 1983). Both the determinants were related with the imperatives of industrialization. The first determinant was the result of deliberate 'price scissors' policy for extracting surplus from countryside. the second was related with production planning adopted to ensure that production /outputs matched the plan requirements of the state. In addition, there was inefficiency in the use of inputs, stemming from the focus of self-sufficiency of food grains at regional and local levels.

As a result of nominal increase or near stagnancy in the peasants standards of living, peasants had little incentive for diligent work. This got reflected in the decline of labour productivity. According to one estimate by Rawski, output per hour worked in agriculture fell between 15% to 36% in the 1957-75 period.

As a consequence of the conditions in which peasants found themselves there was strong temptation to manipulate and circumvent, if not openly sabotage, state's procurement policy. This resulted in state's failure or difficulties in extracting desired amounts of surplus from the peasants (Walker 1984). By late 1970s there was a national procurement sale deficit of 4.24 m tons per year compared to a surplus in 1953-57 of 4.96 tons (ibid).

### **State-peasant relationship**

Difficulties in procurement were a manifestation of a growing tension between the peasants and the party-state. Peasants were chaffing under several institutional restrictions. According to Nolan and White (Nolan 1987), peasants interest suffered due to three types of subordination: [1] to the priority of national (and regional) industrialization, through mandatory quotas, [2] to the primacy of accumulation over current consumption at national level, and [3] subordination of household to the collective accumulation, enforced by the production team.

Peasants also chaffed at various restrictions on their economic freedom. Peasants mobility to cities for better work was circumscribed by the household registration system, *hukou*. Private production on private plots was discouraged by various ways; household sidelines, a potentially helpful source of income, was not encouraged by the government by keeping private exchange under limit and through control of local markets. Peasants were under compulsion to grow low priced foodgrains rather than ecologically appropriate and profitable cash crops. There was even restrictions on private consumption. All these fueled discontent, lowered morale and dampened productivity (White 1993).

The living standards of the peasants had not changed much for the better after 1957. Between 1957 and 1975 the real per capita consumption rose by only 22.2% (Xue 1982). This was not a significant increase given the initial low levels of consumption (V. Lippit 1988). According to one estimate, 'poor' production brigades whose collective income was less than 50 yuan per capita constituted 42.8% of the total in 1976 (M. S. Lippit 1982). Income from collective labour was 57 yuan in 1957 and only 65 yuan in 1977 (V. Lippit 1988). One in ten peasant

households and in 200 counties per capita income in late 1970s was no higher than in 1949 (Official Report of NCNA November, 1980). The above figures indicate the poor conditions in which Chinese peasantry was living.

The institutions which were supposed to work for the well-being, ultimately turned into state's vehicles for facilitating surplus extraction from the countryside for industrial development. A comparison between urban-rural differences in income and consumption will make the point clear. This is an important comparison because at the start of the development sojourn given the fact that there was substantial urban-rural differences in income and consumption, the Maoist leadership had avowed to reduce it. According to Riskin the per capita consumption of agricultural and non-agricultural population grew at 1.1% and 2.0% respectively, and in 1975 the non-agricultural population enjoyed a level of per capita consumption which was about 2-6 times that of the agricultural population (Riskin 1987). According to Lardy, the system of rationing, procurement and import helped to protect or even improve urban food standards while rural consumption declined. According to Riskin, Rawski estimated that the urban-rural per capita income ratio in 1978 was 3.4:1, when subsidies in urban income is included, otherwise, without including subsidies, the ratio is 5.9:1 (Ibid). The World Bank estimate put the real per capita income growth between 1957 and 1979 at 2.9% for urban and 1.6% for the rural population. The short point, therefore is that the peasantry in China had a gnawing feeling that it had got a raw deal from the party-state as its income, consumptions and standards of living had not improved meaningfully over a long period of time despite their immense contribution to agricultural and non-agricultural developments, whereas the conditions of the urban population located in the industrial economy had improved markedly and more so in comparison with the peasants.

### **Reforms in agriculture**

In light of the failures in improving the living standards of the peasants even after 30 years of socialist revolution, and the imperatives to produce more and procure more from the countryside, the new post Mao leadership initiated a series of agricultural reforms. First, it replaced the policy of grain self sufficiency at all levels with a policy for diversified economy based on the principle of comparative advantage. This emphasis on grain self-sufficiency at all levels had proven to be detrimental to the well-being of the peasants in regions which were not having comparative advantage in food grains production. It also caused serious misallocation of resources. Second, in 1979 the government raised the procurement prices of farm produce- 20% increase for basic quota of grains and the above-quota price increase from 120% to 150% of the basic-quota price. This price raise was having after nearly ten years. Third, more freedom in decision making was given to production teams. Fourth, rural fairs, and private plots were allowed and expanded. Fifth, the government allowed 'Household Responsibility System' to replace collective farming. The 'household responsibility system', had been considered to be contrary to socialist principles of collective farming during the CR period. After Mao's death in 1976, it had secretly come up with blessing of local authorities in certain production teams. It was officially given permission in only poor agricultural regions in 1979, but it spread so fast that in 1981 the government gave it full official recognition. By 1983 all rural households had adopted HRS. In 1985 the government abandoned compulsory quota procurement, and entered into contract procurement, only to jettison it quickly when flooded with peasants offer to sale foodgrains at above-quota price.

## Agricultural performance in China 1978-88

As a result of these reform policies grain production and agricultural growth generally showed remarkable growth. The growth in grain output, however, was not a sustained one, but then compared to pre-reform period, it was impressive in the first decade. Most of the studies on agricultural development discern two distinct phases of agricultural development during 1978 and 1988 (Ash 1993). The first phase (1978-84) was characterized by institutional reforms and changes in price policies. The second phase (1984-88) was marked by China's attempt to make use of market in promoting agricultural growth. Moreover, the trends in production growth also differed markedly during the two phases. In the first phase (1978-84), the agricultural growth performance was dramatic and unprecedentedly high. The second phase (1984-88) witnessed a downward slide in agricultural performance after it had peaked in 1984.

The average annual growth rate of production of grain during 1978-84 was 4.95% much higher than the past growth rate of 3.51% during 1965-78 (J. Y. Lin 1994). What is remarkable about the growth performance during 1978-84 was the fact that it was achieved on a declining sown area. This implied that the superior performance was entirely due to increase in yield. Indeed, the average annual growth rate of yield was 6.04% compared to the earlier period's yield growth rate of 3.45%. The performance of economic crops (cotton, oil crops, jute, sugar crops, tobacco) was even better than that of grain during 1978-84 and undoubtedly far superior than the earlier record during 1965-78, in terms of both growth rate of yield and growth rates of output (State Statistical Bureau 1989).

In the second phase 1984-88, except for soybeans and sugar-beet, other crops (rice wheat, cotton, jute) had a negative growth rate as for them the growth rates of sown acreage were also negative. The crops having positive output growth rate, however, had rates substantially lower than achieved in the previous periods:- 1978-84 and 1965-78. The average annual output growth rates for fruits, meat and aquatic products were several times higher than the rates in the pre-reform periods (in the case of meat the output was better in 1978-84 phase than in 1984-88). On the whole in the second phase 1984-88, agriculture, measured in constant prices, grew at an average growth rate of 4.1% per year. (J. Y. Lin 1994, 50).

During the first phase 1978-84, output growth rate surpassed the long-term average in the pre-reform period. Compared with the average rates of 2.4%, 2.0% and 0.8% per year of grain, cotton and oil respectively, over the period 1952 to 1978, grain, cotton and oil crops-averaged 4.8%, 17.7% and 13.8% respectively during 1978-84. Given the sharp difference in the agricultural performance between the two phases the obvious question that arises is: what explains the dramatic performance in the first phase and the slow-down thereafter?

To be sure, the reform policies contributed to the dramatic growth in output in the first phase. But since reforms were carried out in three areas- prices, institutions and market-almost at the same time, it is difficult to disentangle the contribution of each reform on growth performance (J. Y. Lin 1994).

In explaining the performance we have to keep a few things in mind. One, that increases in grain (rice and potatoes) output was brought on a declining sown area and that of cotton, sugar crops and oil- crops on a rapidly increasing sown area. Second, that growth was achieved with relatively small additions to the stock of

fixed capital for use in agriculture proper (There was a sharp fall in the agricultural fixed capital to output ratio). Thirdly; the farm labour force grew up much more slowly than in the preceding period than the total work-force.

Stone (1985) has argued that "by far the most impressive source of growth has been the doubling in quantity and rise in the quality of chemical fertilizers between 1978-84". Given the fact that China had already created high level of irrigation, a doubling of fertilizer consumption, and an improvement in its quality is indeed a very plausible factor in explaining the spurt of production. But then, it must also be noted that increases in fertilizer consumption was more of an on-going trend dating back to pre-reform period when the output growth was definitely much lower than 1978-84. Surely, other factors, besides fertilizer consumption, may have played a role in the dramatic output performance of crop husbandry.

In this context, the reported growth of farm labour productivity assumes significance. After long years of stagnation under Maoist policies, farm output per worker (in real terms) reportedly grew by almost 60% during 1978 and 1984 (P.Nolan 1991). At one level, the labour exodus from agriculture following the adoption of HRS helped to increase labour productivity. But at another level the increase in labour productivity implied that the supply of labour in "efficiency units" had improved markedly and it was because of this that China witnessed a dramatic yield improvement during the first phase.

Since a number of factors impinge upon the intensity and quality of labour supply-such as institutional arrangements (including work organization); relative prices, the availability of market exchange opportunities (purchased with income) and other aspects of income distribution-it may be seen that the question of labour supply in "efficiency units" is basically one of labourers (peasants) work motivation and incentives. Rural reforms since 1978 had the effect of improving/strengthening the peasants work incentives and thus contributed to agricultural growth.

Improvements in the efficiency of resource allocation (at the macrolevel) and better utilization of the resources (at the micro-level) also contributed to the enhanced performance of the agricultural sector.

At the very beginning of the reforms, the policy makers conceded the loss of allocative efficiency inherent in the policy of self-sufficiency. Accordingly, a number of steps/measures were taken to encourage production based on the principles of comparative advantage. As a result, the cropping intensity and pattern changed significantly. For instance, cash crops acreage increased from 9.6% of the total sown acreage in 1978 to 13.4% in 1984. Much of the changes in the cropping pattern conformed to the regional comparative advantages. A substantial portion of this dramatic output surge, was thus, attributable to the principle of comparative.

The establishment of HRS contributed to allocative efficiency at the farm-level and was responsible for the better utilization of resources as the farming households now had a direct stake in raising productivity. One econometric analysis, reported in Lin (1994, 51) using provisional rural input output data covering the period 1970-87 and employing the production function approach found that of the 42.2% output growth in the cropping sector in 1978-84, about 48.6% can be attributed to productivity growth due to the reforms. Of the productivity growth, 96% is attributed to institutional changes from the production team system to household responsibility system and the remaining 4% is attributed to changes in cropping pattern and cropping intensity. These two last factors are related to reforms in the

role of markets and planning. The rise in state procurement prices also had a significant effect on output, but its effect was derived indirectly from the effect on input uses (J. Y. Lin 1994, 47).

Carl Riskin (1987, 298), however does not agree with the view that HRS was the single most important factor for the improved agricultural performance. He points out that the beginning of the spurt in agricultural growth preceded both the price changes and the more radical de-collectivization measures. Total agriculture output surged forward by 8.9% in 1978 and 8.6% in 1979. While the new prices took effect only with the summer of 1979, and in early 1980. Only 1% of farm households had adopted any form of HRS. Riskin therefore opines that the "acceleration of agricultural growth may have been a response as much to the general relaxation of state pressure on the peasants as to the specific policies to enhance incentives and it raises the question about the

attempts by some Chinese economists to argue that HRS alone explains the improvement' (Riskin 1987, 298).

In any case, even if we accept the finding reported by Lin about the contribution of institutional change in raising production, the impact of institutional reform had dissipated by the middle of 1980s.

After 1985 production of most crops displayed little positive growth. Several factors were responsible for this. Reforms introduced in the commercial planning in 1985, as China moved from mandatory quota procurement to contract procurement, was one of the major factors. First, the contract price, which was the weighted average of basic quota and above-quota prices, lowered the price margin paid to the farmers and secondly, the farmers suddenly faced unprecedented risks in producing for sale, as the government. (in the case of grain and oil crops) no longer promised to purchase unlimited quantities at favourable (to the peasants) prices. This was necessitated by the fact that government's financial burden due to mandatory procurement on raised prices without increase in food prices for urban consumers by way of government's food subsidies had risen from 5.6 billion yuan in 1978 to 32.1 billion yuan in 1984, representing 21% of the government's budget in that year (J. Lin 1997).

The newly opened free market channels were as yet underdeveloped. The prospects for selling on the market with profit were uncertain. Thus, the commercial reforms in 1985 by creating uncertainty affected the expected profits and the motivation for the peasants to produce more.

Chinese economists, according to Sicular (1992, 40), considered the rise in the input prices as another reason for the production slowdown. As Sicular (1992, 40) mentions, input prices started rising after the central government, in 1983 raised the planned prices for fuel and major fertilizers – diesel price rose by 70% between 1983-84, and urea by 20% between 1983-85.

The prices of inputs also increased on the newly created market for inputs (Riskin 1987). The rising cost of production it is argued affected peasants' incentives for enhanced production particularly in a situation where returns from other kinds of economic activities deemed to promise handsome gains.

For Betton M. Fleisher et al (1992) the fall in productivity after 1984 happened due to a number of institution-related factors such as the diseconomies of scale, multiple plots and fragmentation of output. The system of dividing each household's land among several plots, they argue, lowered productivity by limiting the scope of production economies that would have accrued if each family was allotted land in one large plot.

One may question whether there indeed existed unexploited economies associated with plot consolidation because as part of the process of agricultural



reforms peasants had gained the right to sublease land for cultivation. Thus, plot consolidation could theoretically have been effected if it were profitable. But as Belton Fleisher and Liu argue, there were several reasons why farm households were hesitant to take advantage of associated economies. Plot consolidation could have placed the farmers at somewhat greater risk in the case of localised disaster (in the form of hail, plant disease, in sects etc) in the absence of well-organized market for crop insurance. Therefore, multiple plots represented the best available means for households to avert risk of crop failures, even though aggregate output may be reduced.

Besides risk aversion, factors such as limited nature of land lease and labour market, inadequate access to credit to finance pre-harvest farm activities also came in the way of plot consolidation.

Another factor in the slowdown of agricultural growth was the declining investments in agriculture. State investment in the sector progressively declined. Agricultural share in state's capital construction investments was 10.5% during 1976-80 but it fell to mere 3.1% during 1986-89, the lowest share in the entire history of PRC (Ash 1993). Consequently, water and irrigation investment were curtailed, highway development lagged and there was only a modest progress in providing electricity to villages during 1980s.

Just as ominous was the decline in "collective" investments. With rising rural household incomes on the one hand, and growing financial strain on the government budget on account of various subsidies, on the other, the states agriculture investment policy became predicated on the assumption that private farm investment would make up for State's declining investment. With this perception, state tried to remove the hindrances such as short tenures of land allotment, in order to facilitate private investments for land improvement. But it elicited little private investment in agriculture- most of the investments went in for housing (which was the largest strictly privately owned household asset). The central government also tried to make the flourishing rural industries finance agriculture, but it was a poor substitute for state investment. The growth of rural industries was not uniform across the provinces. Development of rural industries was concentrated in the coastal-eastern regions. These were also the regions where agricultural growth was above the national average. Since the ability of the rural industries to finance agriculture depended on its profitability, it implied that regions with backward agriculture, where investments were most needed, were short of funds. Agriculturally developed regions that had relatively lesser investment needs had greater access to finances from rural industries. Obviously, making the development was not a satisfactory rural arrangement, but the best in the circumstances.

It may also be noted that the percentage of cultivated acreage hit by natural disaster was found to be higher during the reform decade than in pre 1978 reform period (J. Y. Lin 1994). According to Lin, the loss in yield by natural calamity was not less than (even more) 30% compared with normal years (J. Y. Lin 1994, 65). The point is that a dramatic reduction in investments in water control was probably one of the main reasons for the weakening of agriculture's resistance to natural disaster. Another probable cause was related with the fact the Household Responsibility System had weakened local authorities to mobilize farmers for disaster control. The individual household farms after the reforms were thus more susceptible to natural disaster than collective farms.

When we consider the two phases together and compare it with the decade of the cultural revolution decade there was a distinct step up in grain production in the post-Mao phase. Agriculture achieved higher productivity

through the efficiency gains through better allocation and use of resources – land, labour and capital. Peasants income which had stagnated over a long period of time saw a distinct enhancement, and peasants in many regions which had lived in hidden poverty came out of it due to change in government agricultural policy. Nominal net income per head of Chinese peasantry increased, on an average by 15% between 1978 and 1988, and in real terms by 13%, at 1978 constant price, and in current prices it increased from 133.57 yuan per head to 544.94 yuan per head (Kueh 1993). A better view of the benefits of growth can be seen from a comparison of peasants per capita net income before and after the reform. According to Lin (1994) the comparison shows that 65% of households in 1978 had per capita net income of less than 150 yuan, and only 2.4% had per capita net income of more than 300 yuan, but in 1988 only 2% of households had per capita income of less than 200 yuan, while more than 80% of households had per capita income higher than 300 yuan (J. Y. Lin 1994, 59). Not all of the peasants came from agriculture, but substantially from it. According to the estimate by Lin, 63.4% of the total income came from agriculture in 1988, while it was 85% in 1978, but since average per capita had increased from 133 yuan to 545 yuan, the peasants income from agriculture was significantly higher than in 1978 and was a function of higher production, productivity and better prices for agricultural produce (J. Y. Lin 1994, 56). There was also a substantial reduction in income-based poverty. According to one estimate by Riskin, quoted by Dreze and Sen (1989), the number of rural Chinese below the poverty line of 200 yuan in 1956 prices fell from 200 million in 1979 to 70 million in 1986. Sen considered this as 'a striking decline of which there are few parallels' (J Dreze, A.K.Sen 1989). At the same time the relative position of the peasants vis a vis urban industrial workers improved. As per Kueh's study of rural-urban differentials in personal consumption, peasants per capita increased much faster than that of urban residents (Kueh 1993). From 1978 to 1988 the gap in personal consumption narrowed down from 1:3.2 to 1:2.6 in favour of peasants (Kueh 1993).

### Concluding Remarks

The system of collective farming and monopolization of procurement and marketing by the government proved detrimental to peasants work incentives so much so that despite technological advancements and more intensive application of modern inputs in the 1960s and 1970s grain output barely kept pace with population growth and demand for foodgrains. In this backdrop, the introduction of HRS immensely improved peasants' incentives. As a result China witnessed unprecedented growth in grain production and agricultural sector as a whole between 1978 and 1984. But this gain in agricultural productivity, because of improved work incentive, due to institutional reform was a one-off gain. More of institutional reforms, however, were needed for strengthening the logic of privatization. After 1984 grain production stagnated for some years. It is only in 1989 that grain production reached 1984 level. The stagnation in grain production had many reasons, namely greater decline in investment, rising input costs and risks in raising production because of incompleteness of institutional and macro-policy reforms. Towards the end of 1985 the newly introduced contract procurement system was jettisoned and the compulsory quota procurement system was brought back with reduced procurement quantity and increased quantity purchased from market, even though, as Lin (1997) pointed out, the name 'contract' was not abolished. Quotas were allocated in proportion to cultivated land that each household under HRS operated. And in 1986 government once again increased procurement prices for grain and other products. On the whole during the

reform period, with major change in state's policy towards agriculture and peasantry, agriculture posted a remarkable growth rate, and peasants after more than a decade experienced improvement in income and consumption, which helped cement the peasant-state relations. At the same time, decollectivization while helping to remove institutional and motivational barriers to growth produced its own challenges and loss of certain advantages, which signaled the need for further reforms and fine tuning of the policies in so far as return to collective farming was no longer possible.

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