

10. Rural Organization

The village is the fundamental unit of rural society today, as it has been for centuries. However, the Chinese village was swept by two dramatic revolutions during the second half of the twentieth century. The first, during the 1950s, converted every village into an agricultural collective and mobilized hundreds of millions of farmers to build a socialist countryside. The second revolution, just as dramatic and consequential as the first, dissolved the collectives and vaulted much of the countryside into a modernizing and marketizing economy after 1979. Both these revolutions imprinted their features on the Chinese countryside—superimposed on the traditional village—and both left pervasive legacies. Today, some argue that a third revolution is taking place in the Chinese countryside. On one hand, massive out-migration has drained the countryside of many of its young people; on the other hand, an unprecedented level of attention from the national government has led to a substantial infusion of resources, designed to build a “New Socialist Countryside.”

In this chapter, we examine the dramatic changes in rural organization that have helped make the Chinese countryside what it is today. We examine, in section 10.1, the traditional, organic organization of Chinese rural life. Section 10.2 looks at the rural collectives: the nature and distinctive features of the collectives; the process of organizational change; and their dissolution. Section 10.3 examines the second revolution in the Chinese countryside. It stresses the fact that the impact on agricultural production was unambiguously positive, but that the failure to find alternatives to the collectives provided led to a decline in the supply of public goods, with effects on rural health and education. Section 10.4 looks at the (mostly) top-down innovations that over the last ten years have sought to reconstruct the rural public goods regime. Section 10.5 examines the shift in overall policy toward agriculture that provides more resources to the village. Section 10.6 examines the slow emergence of rural land markets. Although the rural economy is a market economy, substantial limitations still exist, particularly on land markets.

10.1 The Chinese Village

Nearly every Chinese farmer lives in a village, which has been the dominant form of rural organization for as long as records exist. By one count, there are 3.8 million villages and hamlets in China. In the developed areas around large cities, and especially along the coast, what were originally separate villages now merge into a dense landscape of suburban industrialization and urban sprawl. In remote areas, village size dwindles, and settlements may consist of only five or six houses, and there are a few areas where

farmers live in individual farmsteads. Especially in the south, some villages are composed entirely of households with the same surname, known as single lineage villages. The national government promotes the idea of the administrative village, which should have a “village committee” to serve as a rudimentary institution of self-governance, and to carry on some of the functions of the agricultural collectives that were dismantled in the early 1980s. At year-end 2012, there were 588,000 of these administrative villages. Administrative villages may incorporate several natural villages or hamlets, and there are also villages where no village committees function.

Villages vary enormously in their level of modernization and connection to the outside world (MOA 2004: 5, 275-76). In the more prosperous areas, houses of reinforced concrete, usually two stories high, have become the norm and now account for half of rural housing. The remainder is predominantly wood and brick, and about ten percent is still built of clay or rammed earth. The countryside has been connected rapidly to modern communications networks: almost all villages now have landlines and cell-phone coverage, and average two mobile phones per household. However, outside the prosperous coastal deltas, many villages still have limited modern infrastructure. Running water and improved household cooking facilities (gas or electric stoves) are available to a minority, and the majority cook either with coal, or with straw or twigs gathered from the fields or forests. Interiors are dark and smoky, and indoor air is polluted. Every part of rural China has been affected by the impact of modern technologies and the modernizing Chinese state, but traditional technologies have not disappeared.

The dominant activity in nearly all villages is farming. When villagers need to carry out other tasks, they generally go to nearby market towns. The market town hosts a regular periodic rural market. Once or twice a week, or perhaps every ten days, farmers come from surrounding villages to sell produce, buy and sell livestock, and purchase other producer or consumer goods. The entire Chinese countryside has long been loosely organized into “standard market areas,” consisting of a market town and the surrounding villages from which the market is easily accessible within a day’s walk. The market town is the primary interface between the villager and the larger economic and cultural worlds. Today, it is usually the seat of the township government, of which there were 33,162 total at the end of 2012 (counting “towns” at the township level). Before the world of mass emigration and cell phones, the standard market area corresponded to the boundaries of the world an average villager would experience on a regular basis, including virtually all the individuals with which the villager had regular face-to-face contact.

10.2 Agricultural Collectives

After 1949, the government of the People's Republic superimposed a new organizational structure on traditional rural society. The socialist organizations did not do away with the traditional rural organizations, but the existing institutions were gradually forced into new molds and given new functions by the Chinese state. The most fundamental change was the organization of farmers into collectives, which took over responsibility for agricultural production from individual households. From the mid-1950s to the early 1980s, the collectives were the dominant rural institution. Until the state suddenly changed course and allowed the collectives to disband in the early 1980s, the collectives were the main instrument for the state's intrusive and transformative approach to rural life.

During the hey-day of the socialist economy, planners required rural institutions that would allow the government to procure a steady supply of agricultural produce at a low relative price. The entire socialist development strategy was predicated on the state's ability to mobilize resources for industrial investment. In order for the state to control those resources, it had to be able to extract resources from the countryside. The state imposed a direct agricultural tax on cropland, but much more important was the implicit tax the state imposed in the form of compulsory delivery at low, state-set prices of agricultural produce, especially grain. Already in the early 1950s, the state required farmers to sell grain and cotton, the two most important marketed crops, to the government at fixed prices. Thus, while the primary role of the rural collectives was to organize agricultural production, they were also designed to facilitate the extraction of agricultural surpluses from the countryside. At the same time, the entire Chinese leadership, from Mao Zedong down, was committed to using rural organizations to transform the nature of rural life. Mao famously said that Chinese peasants were "poor and blank," meaning that they could be remade into exemplary socialist citizens. Rural collectives were seen as a cheap and effective way to provide new social services and improved production inputs. Thus, the rural institutions created by collectivization were multi-functional. In addition to their purely economic functions, they were inevitably instruments for the extension of state political control into the countryside. After 1970, the initiation of government birth limitation policies extended some political control over reproductive behavior as well. Collectives helped the government maintain tabs on rural residents, and provided a convenient conduit for economic and political innovations that the government was promoting in the countryside.

10.2.1 Features of the Agricultural Collectives

The primary function of the collectives was agricultural production, however, and there were three basic definitional characteristics of the collectives:

1. The land was pooled and worked in common. Collectives differed from farmers' coops in other economies because of this basic characteristic: Cooperation was not restricted to marketing or service delivery, but rather included farming itself. Ownership of the land was transferred to "the collective," meaning the residents of a given village. Individual farm households kept ownership of their homes and a few farm animals, and also retained control of "private plots" (which ranged from 3% to 10% of cultivated area). All other productive assets were owned by the collective.

2. The collective served as the basic accounting unit. The collective itself purchased agricultural inputs (often on credit), coordinated farm tasks, and sold output after the harvest. Each able-bodied worker was assigned a daily job by the collective, and labor was coordinated. With the income derived from sale of the harvest, the collective paid off debts incurred to buy inputs, and set aside money in a number of collectively controlled funds. Only after these costs were paid and set-asides were deducted did the collective calculate the available net income and distribute it to households. Households received income both in kind (as food grain) and in cash. The most important collective funds that were set aside were the accumulation (or investment) fund and the public welfare fund.

The size of this basic accounting unit fluctuated over time, as the collectives were gradually adapted to the traditional social structures of the Chinese countryside. In the 1950s, farmers were organized into Agricultural Producers Cooperatives (APCs), which was about the size of a large village, on average. During the Great Leap Forward, in 1958, the size of the accounting unit jumped up to a much larger unit, the commune, which often had 5,000 or more households (See Table 10.1). This huge and unwieldy organization helped lead the countryside to disaster, and in the immediate wake of the Great Leap Forward, three important changes were made. First, the commune itself was adjusted so that it typically corresponded with a market town and a standard marketing area. Second, the accounting unit was dropped all the way down to a group even smaller than the old APCs had been. This was the "team," a relatively small group of about 30-40 households that corresponded to a small village or hamlet, or a neighborhood of a larger village. The team became the primary accounting unit between 1962 and 1981. Finally, this whole structure was organized into a three-level hierarchy, consisting of commune, brigade (large village), and team. The commune and the brigade carried out most non-agricultural functions, including development of industry and quasi-

governmental jobs such as health and welfare, education, and public safety. This basic configuration lasted until the early 1980s.

3. Net income was distributed to households on the basis of work points.

Individuals earned work points for the tasks or days of work done. These work points were entered into ledgers over the course of the year. At the end of the year, after the harvest was in, the total net income of the collective was computed and divided by the total number of work points earned during the year. Only then did the collective

Natural Units	1956-58	1958-59	1962-1981	1982-Present
Standard Marketing Area – Market Town		*** Commune (over 5,000 Households)	Commune (2,000 Hh.)	Township (3,000 Hh.) Government & Econ. Corporation
Large Village	*** Collectives (100-250 Hh.)		Brigade (200 Hh.)	Village
Small Village or Neighborhood	Teams		*** Teams (c. 30 Hh.)	
Household	Household	Household	Household	*** Household

members learn the value of a work point. In 1978, according to household surveys, average distributed collective income amounted to 88.5 yuan per person (a little over \$50 at the prevailing exchange rate). However, most of this was received in the form of distributed grain: only 25.5 yuan (\$15), less than a third of the total, was in cash. Besides collective distributed income, households also earned income from their private plots. In 1978, private activity generated 36 yuan (mostly in cash), primarily from the sale of crops and animals raised on private plots. In addition, households received an average 9 yuan mostly cash “other” income, including remittances from relatives. Thus, even under the collectives, households received most of their money income from household activities, but relied on the collectives for their supplies of staple foods.

The work point system gave the collective enormous control over the distribution of income. There was, however, substantial experimentation with different methods of

assigning work points, searching for methods that would effectively motivate workers, minimize monitoring costs, and yet be consistent with socialist ideals. During the Cultural Revolution, collectives were pressured to use the “Dazhai system,” under which each worker evaluated his own work contribution in front of village meetings, and then invited public comment and criticism. In most places, most of the time, though, work points were assigned more routinely for tasks or days of labor. Most collectives were too close to subsistence levels and too aware of their economic vulnerability to be willing to indulge in much utopian experimentation. Perhaps more important, the work point system gave the collective the ability to tax itself to finance various activities that were not directly productive. By assigning work points to the local teacher and paramedic, for example, the collective could ensure that they received a share of the community’s income.

10.2.2 Discussion of Collectives

In principle, the collectives could have been market-oriented cooperatives, responding to price and other economic signals. In practice, though, the practical decision-making autonomy of the collectives was severely restricted. Collectives were required to deliver grain to the state, and they were also an attractive instrument for government officials to achieve their goals. Collectives were used to attain three types of objectives: economic, social and political.

The primary economic objective, not surprisingly, was organizing agricultural production. In this task, it is clear that the collectives failed. The collectives created incentives for farmers to show up for work every morning (otherwise no work points would be received), but it was more difficult to motivate farmers to work hard throughout the day. It was difficult for collectives to coordinate tasks among forty or fifty households, especially since tasks were spatially separate and had to be expertly timed through the seasons. Long-term face-to-face relations could ensure that the most important tasks got done in a reasonably effective way, but they could not provide the most efficient forms of work organization. There are no economies of scale in most types of agricultural production in China, so collectives were unable to improve efficiency by organizing larger units.

However, the collectives were able to mobilize resources, and so increase the total inputs available for production. In the early years, traditional graves that had taken up farmland were plowed under, and scattered fields were consolidated. In this way, the collectives augmented the effective land supply. The collectives mobilized and rewarded labor during the agricultural off-season. Construction projects, large and small, were undertaken during the winter. During the 1970s, a hundred million workers (30% of the

rural labor force) were mobilized for a few weeks of slack season construction each year, primarily building and repairing irrigation systems. During the 1920s, the average farmer had actually worked only 160 days per year; but by the late 1970s the average farmer was working 200 to 275 days per year (Vermeer: 157).

Collectives were also a convenient way to organize non-agricultural activities. Productive services were provided by rural credit cooperatives (RCCs), and the supply and marketing cooperatives (SMCs). Each of these would typically have a branch in the commune headquarters (the market town), integrated into the commune structure. The RCCs collected household savings and provided liquidity to agricultural trade. The SMCs supplied most of the modern agricultural inputs that were required as agriculture developed, and purchased most of the farmers' marketed surplus. The collectives also have an important role developing rural industries, especially after 1970 (Chapter 12).

The social functions of the collectives included the provision of social services--especially education and health--as well as insurance against risk. The work point system made it extremely convenient for the collective to tax its own members to provide social services. All that was required was a decision to award work points to the local teacher or medic. By the mid-1970s, such a system had created a network of rudimentary social services (discussed below). The system paid for 1.2 million rural teachers, for example, and pushed the number of children in schools up to unprecedented levels. The collectives were also a mechanism to buffer risk. Within a given collective, households were less subject to risk, because the collective guaranteed access to land, and provided modest welfare payments in the event of extreme need. In 1979, some 15 million households received some kind of relief, either from the state or the collective, although the collective contribution only averaged 3 yuan per household (SSB 1984, p. 94). Many other households "owed" the collective for staple foods distributed, and many poor collectives were in arrears to the government. A basic safety net had been created.

Finally, the collectives inevitably had political functions as well. The collectives were a channel for education and indoctrination. Collective registration was used to control migration, and prevent population movements that were not approved by the government. After 1970, the collective system was used to implement controls on fertility, and restrict births in the countryside. Although it was primarily part of the three-level collective structure, the commune functioned part-time as the lowest level of government in the countryside.

The collectives were an inefficient way to organize agricultural production. However, they seemed to be quite adequate for organizing much of the rest of rural social and economic life. Particularly after the harsh lessons of the Great Leap Forward, the rural collective system between about 1962 and 1982 settled down into a reasonably

stable configuration. As Figure 10.1 showed, the three-level collective system of commune, brigade, and team adapted reasonably well to traditional forms. The commune headquarters was built in the market town, and the team was transformed into a sub-village unit. As such, it was of moderate size, consisting of individuals who could know each other well on a face-to-face basis. In 1978, the average team had 167 men, women, and children. The team specialized in agriculture, and was of manageable size, much smaller, for example, than a Soviet collective farm or the APCs or communes of the 1950s. Most of the non-agricultural functions--both economic and non-economic--were taken over by the brigade and commune. Thus, the three-level collective system also represented a reasonably effective division of labor among organizational forms. It persisted in this form for about twenty years, until the dramatic changes of the early 1980s.

10.2.3 The Agricultural Policy Environment of the Collectives: “Grain First”

In practice, agricultural collectives were rarely, if ever, given sufficient autonomy to respond to market incentives. Collectives were generally forced to respond to pressures to give priority to grain production. “Grain First” policies were exemplified by the slogan “take grain as the key link” (*yiliang weigang*) which characterized policy during most of the collective period, but especially during the Cultural Revolution. The emphasis on grain production can be seen as a consequence of the overall development strategy. Strategy emphasized compulsory procurement of grain from the peasantry at a low price. The state-set low price of grain, combined with compulsory targets for delivery of grain, served as an implicit tax, making the peasantry indirectly pay much of the cost of the industrialization drive. However, precisely because grain prices were low, peasants had few economic incentives to grow grain for sale. Once their own subsistence needs were met, peasant households would have preferred to pursue more lucrative undertakings (economic crops or household sideline activities) on which the state did not impose such onerous hidden taxes. But the Chinese government was unwilling to allow such a diversion of peasant energies, at least until their need for grain supplies for the cities had been met. As a result, the collective system was used to apply extra-economic pressure on peasant households to meet or exceed their grain procurement targets. The effect of this pressure in retarding agricultural growth was significant, and the costs great (Lardy 1983).

---The emphasis on quantitative targets, instead of on prices and markets meant that peasant households were unable to devise their own maximization strategies, shifting resources among competing alternative uses. This was particularly true when acreage targets were used to reinforce procurement quotas. The collectives had little autonomy to decide how much land would be used for various kinds of crops.

---The emphasis on output quantity meant that many collectives were forced to maximize grain output even when this did not increase income. Areas that were well suited for grain were pressured to grow more than was consistent with income maximization. For example, in the rich Yangtze Delta, collectives were forced to grow three crops of rice per year, employing more and more labor-intensive production strategies, transplanting seedling, and increase fertilizer and irrigation inputs. The additional inputs cost more than the value of the additional grain produced (Wiens 1982).

---Grain First policies stressed grain self-sufficiency everywhere, especially during the Cultural Revolution. Areas that were not well suited to grain were pressured to grow grain anyway. The result was a loss of opportunities for regional specialization, and a decline in inter-regional shipments of grain.

Grain First policies implemented through the collectives did succeed in increasing grain output, but often at the expense of other products. Total grain output grew at 2.2% annually between 1955-57 and 1977-79 (averaging over three years to reduce the impact of weather). That was slightly faster than population growth, so output per capita increased 0.2% per year. Grain availability increased somewhat more, because grain imports began after the Great Leap Forward, lowering the procurement burden on China's peasants, and allowing them to retain and consume more grain. However, growth of cotton and oilseed output--the two most important crops after grain--was considerably slower. Cotton output grew 1.5% and oilseed output only 0.5% annually over this period, both less than population growth. Per capita production of oilseeds was 28% lower in 1977-79 than in 1955-57. Rural household per capita consumption of poultry, eggs and fish also declined, although higher meat consumption may have compensated.

A paradoxical result of the Grain First policy was that a uniform national policy led to a wide range of local outcomes. Some regions did well, particularly if they fell into the group well suited for grain production which were designated "high and stable yield areas." Those areas accounted for a large share of grain procurements, and they received priority access to modern inputs such as fertilizer, machinery, and electricity. These areas were able to reap the benefits of the agricultural "green revolution" (discussed in Chapter 11) and experienced substantially improved living standards. Other areas, which did not have a comparative advantage in grain production, were forced to strive for grain self-sufficiency. By the time they produced enough to be self-sufficient, little or no land was left over for other crops, so they grew only grain. Regions that initially had a comparative advantage in grain production, on the other hand, were able to expand production with Green Revolution techniques and then divert some of their land to cash crops to raise incomes. These effects sometimes produced perverse

“reverse specialization” under which localities were growing more of the crops in which they had the least comparative advantage.

10.3 The Second Revolution in the Countryside: Rural Reforms 1979-1984

After 1978, the relaxation of policy in the countryside led to explosive changes, described in Chapter 4. The Third Plenum in December 1978 made relatively modest changes in rural policy that touched off major changes. Indeed, only two new policies were adopted: (1) an across-the-board increase in agricultural procurement prices; and (2) a re-affirmation of the right to self-management of collectives. Individual farming was explicitly condemned. With higher grain procurement prices, it became less necessary to coerce grain surpluses out of the peasantry with extra-economic means. Policy-makers gradually reduced their emphasis on the grain first policy, even stepping up grain imports for a few years in order to allow new patterns of specialization to emerge in the countryside. With higher prices and less extra-economic compulsion, decision-making autonomy for the collectives came closer to being a reality.

An unanticipated consequence of the expanded autonomy of collectives soon emerged, however. In some areas, collectives began experimenting with more radical reforms in the way that work points were allocated. Instead of allocating work points for inputs (for labor days or reputation or effort), some collectives began allocating work points for output, linking the remuneration of a given work group or household to the output of a specific plot of land. Some went even further and simply contracted pieces of collective land to individual households to cultivate. Such experiments clearly tested the limits of the collective system as it had been practiced up to that time. During 1978 and 1979, peasant experiments with individual household agriculture were tolerated and protected in the provinces of Sichuan and Anhui. These were provinces that had suffered greatly during the Great Leap Forward, and by the late 1970s were governed by close associates of Deng Xiaoping--Zhao Ziyang and Wan Li respectively. After successful experiments, the provincial leader Zhao Ziyang was promoted to national Premier and, not surprisingly, expanded the boundaries of permissible local policy and experimentation. The most radical policies were initially limited to relatively poor and remote areas, and grain surplus areas were kept on a tight leash to stabilize all-important government procurements. As success emerged in poor areas, the scope of permissive policies was steadily increased.

By 1981-82, a nationally defined program of contracting land to households, known as “household contracting” or the “household responsibility system” emerged as the clearly preferred organizational system. By the end of 1982, more than 90% of

China's agricultural households had returned to some form of household farming. Initially, land was contracted to households for one year, or even for a single harvest cycle. Quickly, however, it was seen that contracts should be longer to be most effective, and most collectives moved to three-year contracts. These were soon succeeded by five, fifteen, and then, in many areas, fifty-year contracts to the land. What happened next was quite dramatic.

10.3.1 Production Surges in the Wake of Rural Organizational Change

The growth of grain production accelerated dramatically. This was particularly striking, since the stress on grain had been relaxed, in order to give households some slack to find a more efficient mix of output. Despite the reduced emphasis, grain output growth between 1977-79 and 1983-85 jumped to 4.1% annually, from the previous 2.2%. From previous peaks just over 300 million tons per year, the annual harvest surged to the tremendous bumper harvest in 1984 of 407 million tons. For the first time in years there was enough grain to go around, and China was even a net grain exporter in 1985 for the first time since the GLF.

The acceleration of grain output growth was the key, given the centrality of grain to the Chinese diet at this time. Nevertheless, output growth was actually greater in virtually every other sector of agriculture. Cotton and oilseed production grew at 15% and 16% per year respectively. Meat production surged, growing at just below 10% per year. Still more remarkably, these gains occurred in the context of a shift towards a less labor-intensive agriculture. Left to themselves, farm households showed that they valued their labor time more highly than collective planners had. With greater freedom to allocate labor, farmers worked harder, but shorter hours, and shifted cultivation toward crops with lower labor requirements, even though those were sometimes lower value per unit of land. Sorghum, millet, and sugar beets all showed large increases in relative share: these are all slow-growing, relatively low value crops that require modest labor inputs. Labor inputs to the main staple crops declined as well, after having increased steadily for twenty years under the collectives (Table 10.2). People were simply working harder on their own farms. This then allowed them to free up family members to move into non-agricultural activities (Chapter 12). Rural reforms showed that it was possible to produce more with less input, once the incentive and policy environment was set right. (Much later, in the 2000s, as emigration and scientific advances changed agricultural technology more fundamentally, further dramatic reductions in labor inputs per unit of land developed; see Table 10.2 and discussion in Chapter 11).

Table 10.2: Labor Days Per Hectare

1953	1978	1985	—	2004	2010
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rice	250	421	328	---	178	117
cotton	300	908	643	---	n.a.	n.a.
wheat	120	461	218	---	122	85

Source: Taylor; Li

Rural change was rapid, because the household responsibility system was adopted quickly. But other aspects of the rural system changed more slowly. The state continued to procure most of the grain crop. There was a movement toward use of multi-tier prices, with the state paying a near-market-price premium for procurements above the minimum compulsory quota. Meanwhile, free markets grew outside the state apparatus. But the government maintained systematic control over key elements of the marketing system, particularly over cotton, staple grains, and fertilizer, well into the 1990s. In fact, it was not until 2000 that the government finally freed up the price of cotton, and allowed textile mills to purchase cotton directly from farmers.

10.3.2 The Side-Effect of Reform: Rural Public Services Decline

The success of reforms in agricultural production demonstrated conclusively that rural collectives were less efficient in agriculture than household farms. But in the provision of social services, the collapse of collectives left a void in the countryside. Rural collectives were important in health care and education, and after their elimination the supply of both declined. Here we concentrate on the rural health care system, but the process was similar, though less dire, with respect to primary education. The rural collectives were key components in the creation of an impressive system of base-level health care delivery in rural areas. The successes in improving life expectancy and basic health conditions, described in Chapter 9, were made possible by an unprecedented system of organizations that provided basic health services to most of China's villages. The level of care provided was, of course, primitive, but it had a large impact on overall health. This was because the system provided three critical components: first, it provided an efficient way to invest in preventive (as opposed to curative) health care; second, it provided basic treatment for simple illnesses and injuries; third, it provided, at least in some regions, a system of referrals to higher-level medical services. Thus, basic health care was brought to most villages for the first time. Simple as those services were, they were effective in providing elementary sanitation and protection against the most prevalent infectious diseases. In addition, the ability to mobilize large numbers of people was used in campaigns against public health threats as well: for example, a campaign was waged against the snails that infested flooded rice fields, and carried the debilitating disease schistosomiasis.

The attention given to rural health care had even increased during the Cultural Revolution. Mao Zedong had proclaimed in June 1965 that “the focus of health care work should shift to rural areas,” and this was one of the few areas where Maoist slogans corresponded to genuine positive outcomes. By the mid-1970s, a network of medical services had been created in the countryside. A nationwide system of paramedics was developed. These paramedics were part-time medical workers who continued to farm as well. Brigade-level “barefoot doctors” typically participated in a six-week training course at the county town, their only medical training: There were 1.5 million barefoot doctors in China by the mid-1970s. Even more lightly trained team paramedics, who might have only taken a simple first aid and sanitation course, numbered another 3.3 million. With a total army of rural paramedics of 4.8 million, each of China’s million or so large villages had access to 4 or 5 part-time paramedics.

These paramedics, at both the brigade and team levels, were paid in work points. In practice, therefore, they were compensated by a tax on the output of the local community, since assigning work points to paramedics meant that the value of the work points assigned for farm work was reduced. In turn, their services were generally provided free to community residents. Most Chinese farmers were thus covered by a rudimentary system of medical insurance, called “cooperative health services.” For simple complaints, they could turn to their local paramedic. If the ailment was more serious, they could be referred to the hospital in the commune or county town. By rough estimates, some 70-80% of the rural population was covered by cooperative health services at the end of the 1970s.

With de-collectivization in the 1980s, the flow of resources into this system collapsed. The production teams were no longer assigning work points, so there was no method at hand for compensating health workers. Some communities wrote land contracts in which households paid “rent” to the community to support social services; and communities with profitable township and village enterprises could fund health services out of those revenues. However, only a small proportion of communities could fund health services publicly in this way. The number of paramedics dropped dramatically, to less than a quarter of the 1970s peak. The total number of rural hospital beds stagnated, with the result that the number of hospital beds per thousand rural residents, after reaching a peak of 1.5 in 1985, began a long, steady decline to 0.72 in 2003 (Zhang and Kanbur 2005; NBS Rural Survey 2004, 215). Without resources, the insurance system of “cooperative health services” collapsed. From coverage of 70-80% of the rural population, cooperative insurance dropped to cover less than 10% of the population by the mid-1980s. The Ministry of Health has carried out a large-scale survey of health care availability every five years since 1993, which showed that 80% of rural

people had no health insurance whatsoever. In 1998, rural residents paid for 87% of their health care expenses themselves. This contrasts sharply with urban residents, who paid for 44% of their own health care expenses (Kanbur and Zhang 2005: 193). As a result, 46% of rural residents responding to a recent survey reported that they had not sought medical care in a recent case of need because of the cost.

Several times during the 1980s and 1990s, the central government talked of rebuilding the system of rural cooperative health care, but policies were not well designed, efforts were inconsistent, and funding was inadequate. Then, in 2003, a previously unknown, highly infectious, and often fatal disease—Severe Acute Respiratory Syndrome, or SARS—spread rapidly through China. The disease quickly leapt from Guangdong Province to most of China's largest cities, including Beijing, causing near panic. Rural migrants left the cities by the millions, in some cases bringing the disease with them. As these fleeing migrants melted back into their home villages, China's leaders faced the reality that there was no rural health care system to take care of these returnees. If the disease were to take root in the Chinese countryside, there were no health care facilities adequate administer care, institute quarantines or even track the spread of the infection. As it turned out, the new disease suddenly lost potency in the summer season, and for unknown reasons faded away as quickly as it had come. However, this near-miss strengthened the resolve of policy-makers to rebuild China's shattered rural health system.

10.4 Reconstructing the Rural Public Goods Regime

Important steps have been taken to rebuild public services in the Chinese countryside, finally providing an organizational replacement for the collective system. These steps gained momentum with the inclusion of the “New Socialist Village” concept in the 11th Five Year Plan (2006-2010).

Progress has been most evident in health care and education (See Chapter 19). Trial implementation of a rural “New Cooperative Medical System” (NCMS) began in 2003, and then expanded over the next few years such that it currently covers virtually everybody in the Chinese countryside. The NCMS is an insurance program that provides coverage for serious diseases or injuries, and is subsidized by upper levels of government (typically local governments in the case of Eastern China; national government in the case of Western China). Initially the program was quite modest: participants contributed 10 yuan per family member, and the government contributed 20 yuan. However, the ramp-up has been sustained and rapid: by 2013 the government contribution had increased to 280 yuan per participant, compared to 50 per person from the household. It

has been a remarkable achievement, and the proportion of medical payments that comes directly from the pocket of rural households will have declined significantly (document).

The rapid achievements of the program have inevitably brought shortcomings to light as progress has been less rapid in other areas. First, the investment in supply of basic level health facilities has not been as rapid, so patients often have to go to larger hospitals in bigger towns or cities; and salaries of medical professionals continue to lag behind. Moreover, the insurance features of the NCMS were structured to provide the greatest protection in the mid-range of health events: a serious illness or injury is much less devastating, but there are still caps on total payments that limit the insurance impact. If care requires *less* than a threshold amount, it is also not reimbursed. These problems indicate clear directions for further improvement and investment in public health.

Similar patterns are evident with respect to elementary and middle-school education. For decades, policies called for universal elementary education, but without the resources or the organizational commitment to actually achieve it. As the New Socialist Village policy was rolled out, though, money finally became available for expanding educational coverage. After 2006, local governments were expected to make compulsory education free in the countryside: direct payment of fees and books was instituted. Per-student governmental funding increased from around 100 RMB per student in 2006 to 500 (for elementary) and 700 (for middle school) students. Enrollment rates are now closed to 99% for elementary school. Students from poor families are encouraged to attend boarding schools in townships or county towns, and their living expenses are partly or fully paid by the government.

This last feature illustrates another characteristic of the Socialist New Village program: it is designed to concentrate activities in a smaller number of modernized towns. Leaving home for full-time boarding school can be a hardship for your children. Careful management of land and quasi-urban procedures to develop villages are an integral part of the Socialist New Village program. Moreover, local officials have strong incentives to concentrate population to free up land for development. The Socialist New Village program often involves construction of dense blocks of multi-story homes. Although they give more physical amenities, these new housing schemes are not always welcomed by village residents, who consider them ugly and overly uniform. The program is especially controversial in Tibet and other areas on China's periphery, where rural people are used to combining agriculture and herding, and do not like being cooped up in dense concrete villages. These features illustrate the fact that the Socialist New Village program is a top-down program, imposed on rural people for their benefit as defined by the government.

10.5 Reconstructing the Agricultural Policy Matrix

A series of major policy changes toward agriculture have been adopted since 2005-6 that have been encapsulated in the slogan “give more, take less, and enliven.” The “socialist new village” is just one of these. Overall, the slogan means that government should give more support to agriculture, lower the direct and indirect tax burden on agriculture, and carry out policies to improve the rural market system. These policies mark a further step in the economic relationship between the government and farmers, which has now undergone a nearly 180 degree change. During the collective era, government policy was primarily extractive, designed to draw cheap food surpluses from the countryside; reforms actually began with the agreement of the government to extract less from farmers, and the reform era in general marked a substantial moderation of government extraction. After about 2005, policy shifted again such that the government no longer extracts resources from farmers and instead injects a substantial volume of resources into agriculture. (The total effect of this shift, based on prices, is shown in Figure 10.1). The social service portion of this policy change was described in the previous section.

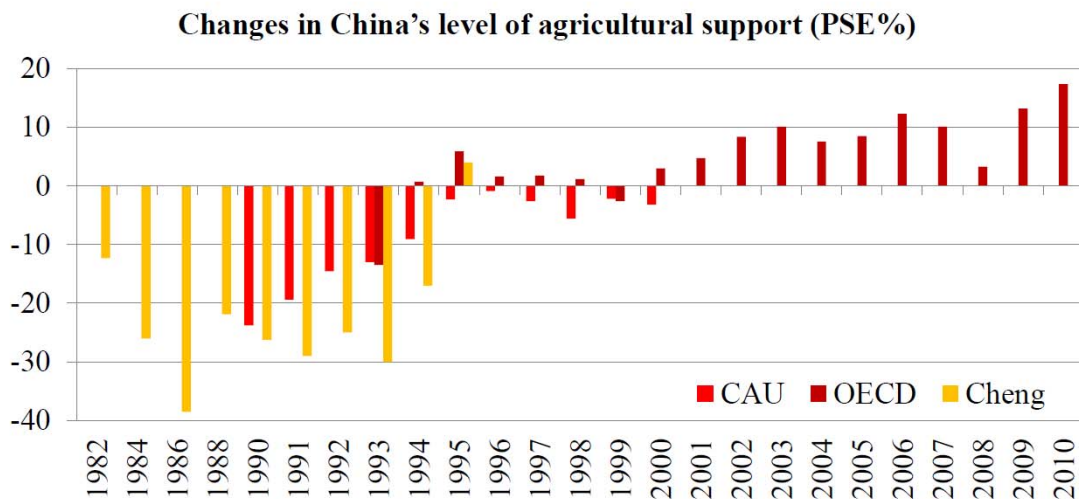


Figure 10.1 Changes in Agricultural Support (Producer Subsidy Equivalents)

With respect to agriculture, we see this shift in the abolition of the agriculture tax (“take less”) and the introduction of a substantial range of direct subsidies (“give more”). The agriculture tax was eliminated between 2003 and 2005, directly increasing agricultural incomes by about 3-5% (verify figure). While the agriculture tax was not the only tax on farmers, it was the largest single taxation item. At around the same time, a range of subsidies were introduced for grain farmers. Perhaps ironically, one of the main motivations for these subsidies was worries about the impact of WTO membership on

China's agriculture. Given China's limited land endowment, it was feared that agriculture would be hurt by grain imports, and the WTO has elaborate rules on agricultural subsidization. Those rules forbid price subsidies on agricultural output, but allow subsidies that go directly to farmers based on amount of land or subsidize agricultural research or modern inputs. China quickly adopted a range of generally compliant subsidies, including payments directly to grain producers and subsidies to inputs. By 2012, the four main subsidies totaled 166 billion yuan, or about 650 RMB per farm worker. These changes have a significant overall impact.

In order to accommodate this dramatic shift in the relationship between agriculture and the rest of the economy, China's fiscal system has been quite fundamentally restructured (Chapter 19). At the local level, government has become *much* more dependent on budgetary transfers from higher levels. County governments now receive most of their funding from upper levels, and township budgets are increasingly being integrated into county-level budgets. Top-down budgeting has combined with planned quasi-urbanization of villages to mark a significant change in rural institutions. Villages, with their elements of self-government, are less important in the overall mix; county governments with mandates from the national government, are increasingly important. Rural people are much better off, but may feel that they have less control over their own lives.

10.6 The Emergence of Rural Land Markets

The gradualist approach to reform in rural areas, and the “fuzziness” of property rights in land resulted in the very slow growth of rural land markets. As late as the early 1990s, a detailed survey of North China villages revealed that only 3% of land was rented in or out by farmers, and the market for short-term day workers had also developed very slowly (Benjamin and Brandt). Uncertainty about policy and property rights protection in case of disputes slowed market development. Perhaps equally significant was that local government and Party cadres had a vested interest in maintaining some kind of collective ownership stake in the land, including the option of redistributing land on occasion. Farmers might hesitate to challenge cadre interests by renting land in or out on a large scale. Finally, there were no careful land registries to support complex transactions. During the late 1990s, as Chinese government policy swung to become more favorable to migration, and to comprehensive marketization, policy-makers began to be concerned with improving the efficiency and volume of land markets. This concern culminated in the adoption of a “Rural Land Contracting Law” in 2003. The basic purpose of the law was to make rural land property rights more clear and absolute, in order to facilitate the development of land markets. Villages were instructed to sign new land contracts with 30-year lease terms. The boundaries of lands were to be demarcated

more precisely, and the process of rebuilding land registries to be accelerated. Several basic forms of land use rights transfer, including sale, lease and subcontract were given sanction and specific legal form. To implement these changes, the government set off a “second round of land contracting,” which was underway in nearly all Chinese villages by the end of 2003. However, as late as 2013, none of these initiatives had unambiguously come to fruition. New initiatives were announced at the November 2013 Third Plenum, but their scope is also not completely clear.

There is no doubt that there has been substantial development of short-term land markets, particularly in developed coastal regions. In three highly commercialized Zhejiang counties between 25% and 33% of land was already rented out in 2001. In Zhejiang province as a whole, a larger survey reported the proportion of land rented out increased from 11.5% in March 2001 to 22.8% at the end of 2003. In the Pearl River Delta, 19% of land is rented out (CASS Rural 2004; 2005). Consolidation of plots will certainly be required in pursuit of economies of scale; as more of the young people leave the land; and as farmers specialize in particular market crops. The explicit government legal support of land rights and transactions makes property rights more secure, relieves worries, and fosters this development.

Overall, the development of land markets follows a principle shaping much of China’s transition strategy. Beginning with product markets, reforms only gradually worked down to the more fundamental, and more sensitive, areas of land, labor, capital and finance. In China’s countryside, the transition to competitive product markets is essentially complete, but the development of a healthy and thriving land market has really just begun since the turn of the millennium. This incipient reform promises a new stage of rural change and reconstruction. Dramatic changes in rural land property rights, combined with large-scale out-migration portend a third wave of rapid, even revolutionary, change and restructuring in the Chinese countryside.

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