

中國經濟研究叢書

Du Runsheng

Edited by

Thomas R. Gottschang

**Reform and Development
in Rural China**

*Studies on
the Chinese
Economy*

General Editors:
*Peter Nolan and
Dong Fureng*

REFORM AND DEVELOPMENT IN RURAL CHINA

STUDIES ON THE CHINESE ECONOMY

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Du Runsheng

Edited by

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Softcover reprint of the hardcover 1st edition 1995 978-0-333-61123-4

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First published in Great Britain 1995 by
THE MACMILLAN PRESS LTD
Houndmills, Basingstoke, Hampshire RG21 2XS
and London
Companies and representatives
throughout the world

A catalogue record for this book is available
from the British Library.

10 9 8 7 6 5 4 3
04 03 02 01 00 99 98

ISBN 978-1-349-23667-1 ISBN 978-1-349-23665-7 (eBook)
DOI 10.1007/978-1-349-23665-7

First published in the United States of America 1995 by
Scholarly and Reference Division,
ST. MARTIN'S PRESS, INC.,
175 Fifth Avenue,
New York, N.Y. 10010

ISBN 978-0-312-12282-9

Library of Congress Cataloging-in-Publication Data
Reform and development in rural China / Du Rensheng ; edited by
Thomas R. Gottschang.

p. cm. -- (Studies on the Chinese economy)

ISBN 978-0-312-12282-9

1. China—Economic policy—1976- I. Rural industries—China.

3. Agriculture—Economic aspects—China. I. Gottschang, Thomas R.

II. Title. III. Series.

HC427.92.T78 1995

338.951—dc20

94-12854

CIP

Contents

	<i>Preface</i>	ix
1	Introduction <i>Thomas R. Gottschang</i>	1
2	Agricultural Collectivization in China: Past and Present <i>Delivered to the Party School of the Communist Party of China Central Committee, 28 November 1980</i>	20
3	Developing the Rural Commodity Economy <i>Given at the Second National Study Class of Leading Cadres in Charge of Agriculture, 11 May 1981</i>	35
4	The Production Contract System is a New Development of the Rural Cooperative Economy <i>Delivered to the National Meeting of Agricultural Secretaries, 23 November 1982</i>	40
5	Rural Enterprises Must Develop Further <i>Delivered at the National Meeting on Rural Enterprise Work, 6 January 1984</i>	59
6	The Direction of Technological Transformation in Chinese Agriculture <i>Delivered at the National Conference on Exchanging Experiences in Popularizing Science and Technology in Agriculture and Forestry, 8 January 1984</i>	67
7	Specialization and Commercialization in Rural Production <i>Delivered at the National Conference on Rural Development Planning, 29 October 1984</i>	82

- 8 **Social Goals Related to Development of the Rural Commodity Economy** 94
Delivered at the National Conference on Rural Work, 20 December 1984
- 9 **Expanding the Market Regulation of Agricultural Products** 107
Delivered at the Communist Party Central School, 19 January 1985
- 10 **Intriguing Prospects for Research on Chinese Rural Problems** 115
Given to the Research Group on Chinese Rural Development, 16 April 1985
- 11 **The Grain Problem** 120
Given at the Eight Provinces Conference on the Grain Problem, 8 September 1985
- 12 **Rich First, Rich Later, and Prosperous All Together** 126
Given at the Conference on Rural Work of the Party Central Committee, 20 December 1985
- 13 **Relying on Science and Technology to Strengthen the Economic Position of Agriculture** 136
Given at the National Conference for Exchanging Experiences in Regional Science and Technology Work, 11 April 1986
- 14 **Water Control Work Must Stress Economic Benefits** 145
Given at the Conference on Rural Water Control Work, 6 June 1986
- 15 **Placing Agriculture in its Proper Position in the National Economy and Raising Rural Incomes** 151
November 1986
- 16 **Striving for Stable Growth of the Rural Economy** 161
Given at the Party Central Committee Conference on Rural Work, 12 November 1986

17	Embarking upon the Path of Seeking Economic Benefits through Reform <i>1 March 1987</i>	179
18	Reform and Development in Stock-Raising Areas <i>Given at the National Conference on Work in Stock-Raising Areas, 9 June 1987</i>	187
19	Discussion of an Outward-Oriented Development Strategy for the Coastal Areas <i>3 June 1987</i>	198
20	Reflections on the Development of Rural Cooperatives <i>Given at the first conference of the Agricultural Cooperativization Volume Editorial Committee, 12 December 1987</i>	207
	<i>Glossary</i>	219
	<i>Index</i>	223

Preface

This collection of speeches was assembled and prepared for publication under the auspices of Winrock International Institute for Agricultural Development at the request of Du Runsheng and the former Rural Development Research Center (RDRC) of the State Council, People's Republic of China. Discussions with the RDRC were carried out by James E. Nickum who served as the China representative of Winrock International in Beijing from March 1986 to June 1988. Chinese texts of the speeches and rough translations of about half of them were provided to Dr Nickum by the staff of the RDRC. With the assistance of J. Ray Bowen III, translations of the remaining speeches were commissioned in Beijing. Janet Sturgeon, Program Officer in charge of the Winrock International China Program, supervised the entire project and personally transported the Chinese texts and rough translations from Beijing to the United States in the summer of 1988. All of the translations were then checked against the Chinese texts and revised for linguistic and economic accuracy by the editor.

A NOTE ON THE TRANSLATIONS

In addition to the formidable problems of translating any Chinese text into English the speeches in this collection present special difficulties because they deal with complex economic concepts in the terminology of Chinese Marxist economics, which differs significantly from that of Western neoclassical economics. Wherever possible Chinese terms have been translated into corresponding English terms. In cases where the Chinese or Marxist term does not correspond to a term in neoclassical economics or to a unique translation, the English translation is accompanied by an explanation in parentheses or in a note. Frequently appearing terms that may be unfamiliar to non-Chinese readers are listed in the Glossary at the end of the volume.

The overall editorial approach has been to try to present Du Runsheng's ideas as they would be stated in standard English

while retaining as far as possible the original sentence structure and flavour of Mr Du's language. Sections of some speeches that were redundant or only tangentially related to the main topic have been deleted.

NOTES TO THE TEXT

The original copies of the speeches contained notes to the text which have been translated and included as endnotes to their respective chapters. Additional notes are identified as 'editor's notes'.

1 Introduction

Thomas R. Gottschang

In the decade of the 1980s all of the world's Marxist regimes except for North Korea abandoned the centrally planned economic model to undertake market-oriented reforms. In many countries these efforts seemed to lead more directly to chaos and confusion than to new economic vitality. Within this context the successes of China's rural economic reforms are particularly noteworthy. Despite difficulties China's reform programme brought about a new rural economic system based on the market and achieved tangible growth in production levels and in national living standards well before similar progress became apparent in the formerly socialist countries of Eastern Europe. As director of the State Council's Rural Development Research Center (RDRC) for much of the decade, Du Runsheng was a major voice for the rural reform programme and his views played an important part in the reform strategy. In addition to shedding light on the process of policy development and enunciation in China, his comments also contain valuable lessons concerning the difficult task of converting a centrally planned economy into a market-based system.

I. DU RUNSHENG: A BRIEF BIOGRAPHY¹

Du Runsheng was born on 8 August 1913 in Taigu County, Shanxi Province. He was educated at Beiping Normal University from 1932 to 1936. Mr Du began his long career in government work during the war against Japan when he served in the civil government of the Communist Party of China (CPC) as a member of the Government Committee of the Shanxi-Hebei-Shandong-Henan Border Region and as Vice-Governor of Taihang Prefecture, Shanxi Province. During the subsequent Civil War between the CPC and the Nationalist Party (Guomindang) from 1946 to 1949 he was Communist Party Secretary of the Fourth Prefecture in the Henan-Anhui-Jiangsu Region and Secretary General of the CPC Central Plains Bureau.

Mr Du's specialized involvement with the rural economy began in the period from 1949 to 1953 when he was Vice-Chairman of the Land Reform Committee under the Military and Political Commission of the Central-South Region and also Secretary General of the Central-South Bureau of the CPC Central Committee. From 1953 to 1956 he was Secretary General of the Communist Party's Department of Rural Work and Deputy Director of the State Council's Office of Agriculture and Forestry. From 1956 to 1979 Mr Du was Secretary General of the Chinese Academy of Sciences.

With the beginning of China's economic reform programme in 1979 Mr Du returned to the policy-making arena as Deputy Director of the State Agricultural Commission, in charge of policy research on rural economic reform. In 1982 the Rural Development Research Center (RDRC) of the State Council [*Guowuyuan nongcun fazhan yanjiu zhongxin*] was created and Mr Du became its first director. From 1982 until 1987 Mr Du was also Director of the Rural Policy Research Office of the Secretariat of the Central Committee of the CPC, a member of the Central Advisory Committee of the CPC, a representative to the National People's Congress and an adjunct professor at the Chinese People's University in Beijing.

During the 1980s the RDRC played a key role in the process of policy formulation for the rural economy. The main function of the Center was to coordinate the research efforts of the various ministries, government agencies, universities and research institutions that worked on rural development. The Center identified research topics required by the State Council for its deliberations, gathered research results on these topics and processed the information into policy recommendations for the State Council. The Center's research results appeared only in the form of documents issued by the State Council, the best known of which were the annual statements on rural reform policy entitled 'Document Number 1' that appeared in each year from 1983 to 1986.²

II. SIGNIFICANCE OF DU RUNSHENG'S SPEECHES

The speeches presented in this volume provide a look at the process of policy formulation and dissemination within the

Chinese Government and the Communist Party of China. As a leading government authority on the rural economy Mr Du was a major spokesman for the rural reform programme in the 1980s. Most of the speeches in this collection were delivered to groups of middle-level Party and government officials to explain the reform policies proposed by the central leadership.

The speeches also provide a record of the basic concepts that were the foundation of China's package of rural economic reform policies. Between 1979 and 1987 China's rural economy was transformed from a centrally planned collective system to one that retained collective ownership of major resources but relied on private management and market forces for most decisions about production and allocation of inputs and products. During these years the gross value of agricultural output rose at an average rate of 6.5 per cent a year while the agricultural labour force grew at an average annual rate of only 1.3 per cent and the area sown to crops actually declined by 2.4 per cent.³ At the same time the non-agricultural sectors of the rural economy expanded to become major elements of both the rural and national economies. By 1987 the number of workers employed in rural industry, construction, transportation and commerce accounted for almost a quarter of the total rural labour force, and rural industry supplied 24 per cent of the national gross value of industrial output.⁴

III. POLICY AND DEVELOPMENT IN CHINA'S RURAL ECONOMY: A BRIEF HISTORY

China's rural economic policies have changed with the shifting currents of national politics throughout the history of the People's Republic. These changes and their effects form the background to Du Runsheng's ideas and to his comments on rural development.

1. Land Reform and Gradual Socialization, 1950-5

In the early years of the People's Republic the Communist leadership followed a gradual, incremental course for transforming the rural economy into a socialist system. It was based

on the Party's own extensive experience dealing with farmers⁵ in liberated base areas during the War of Resistance against Japan and during the Civil War against the Nationalist Party and also on the writings and theories of Engels, Lenin and other early European socialist thinkers. A central emphasis in this strategy was on voluntary, evolutionary formation of increasingly advanced cooperative and collective farming organizations. At each stage policies were to be adopted that would help farmers understand that the next step would clearly be in their own best interests. The leaders recognized that such a process could not be carried out quickly and anticipated that the transition to full socialization of the rural economy might well require decades to complete.⁶

The first step in the rural socialization strategy was nationwide land reform which began with the promulgation of the Agrarian Reform Law in June 1950 and was completed early in 1953. The economic objective of land reform was to lay the foundation for expanding agricultural production under the new socialist administration. Rural households were classified as poor farmer, middle farmer, rich farmer, or landlord, the classifications being based on the amount of land they owned and the extent to which they hired labour in or out. Approximately 44 per cent of all cultivated land was transferred from landlord and rich farm families to poor farm households, who constituted a little over half of the agricultural population. The average size of poor farms, however, was still too small for prosperity, a third smaller than that of middle farmers and less than half the size of the average rich farm.⁷

The small size of the average farm created clear economic incentives for cooperation among farm families. Even before land reform was completed farm families were encouraged to work together in informal mutual aid teams for either part or all of the farming year. A more formal, larger form of cooperative, the lower-stage agricultural producer cooperative, also began to appear in 1952. The lower-stage cooperatives generally contained around 20 households which pooled their resources, with members receiving pay for their labour and rent for the assets they contributed, such as tools and draught animals. Although the cooperatives improved farm efficiency, they spread slowly and encountered numerous cases of bad behaviour by local cadres, some of whom forced reluctant

farmers to join or misused collective funds. In his speeches, Du Runsheng refers to such instances as 'leftist errors'.

With the completion of land reform the rate of growth of agricultural output slowed and the proportion of produce marketed declined as poor farmers gained control over their own harvests. In 1953, the first year of the First Five Year Plan, the state found itself unable to acquire as much grain in the rural market as it needed to supply to the cities. The problem was solved by introducing a compulsory-purchase quota system for grain, cotton and oil-bearing crops, known as 'planned purchase and supply'. A similar system called 'unified purchase and sale' was created for other major agricultural products in 1954.⁸ These systems increased the state's procurement of agricultural goods, but also led to further bureaucratic abuses and lowered farmers' incentives for production.⁹

2. Rapid Collectivization and the Great Leap Forward, 1955-61

By June 1955 only 64 per cent of farm households had joined any kind of cooperative and the slow growth of agricultural production was interfering with the progress of the First Five Year Plan. In the opinion of Mao Zedong faster agricultural development required faster cooperativization. On 31 July 1955 Mao proposed to accelerate the process to a rate that would incorporate all farm households into either lower or advanced agricultural producer cooperatives by 1960. At the local level, however, both officials and the poorer farmers believed they would benefit by moving directly to the stage of advanced cooperatives, which were collectives in which all assets were pooled and members received income based only on their contributions of labour. The pace of transformation, therefore, far exceeded Mao's expectations and within a single year 88 per cent of all rural households had joined advanced agricultural producer cooperatives and 9 per cent were in lower-stage cooperatives.

This 'high tide' of collectivization had two negative effects on production. First, in the rush to form collectives the rights of farmers to retain private plots and to be recompensed for their assets were often neglected, weakening the incentives to produce.¹¹ Second, collectivization allowed the central government

to make production decisions for the entire agricultural economy, which sometimes resulted in costly errors. A famous example occurred in 1956 when all cooperatives were required to purchase double-wheel double-share ploughs that were effective on some dry soils but useless in wet rice fields.¹²

The new collectives also had to address the complex problem of how to allocate income for labour performed in collective activities. The solution adopted at this time was for the production brigade – the basic production unit within the collective – to allocate workpoints to each member for each day of work performed. The collective's net income was distributed to its members according to the numbers of workpoints accumulated. Several fundamental difficulties were inherent in this system, including the questions of how labour was to be evaluated, what size unit workpoints should apply to, how tasks were assigned, how women's labour should be valued, how much credit to give for capital construction work, how administrative and management work should be valued and the care of elderly or disabled members.¹³

By 1957 Mao was thoroughly dissatisfied with the Soviet-style First Five Year Plan and its emphasis on heavy industry and central control. At his instigation the Second Five Year Plan was abandoned and the country embarked on an intensely ideological effort to bypass a decade or more of normal development by means of a 'Great Leap Forward'. The objective of the Great Leap Forward was to achieve unprecedented growth in productivity by relying on local initiative and voluntarism to restructure economic activity.

In the rural economy the central component of the Great Leap Forward was the formation of the 'people's communes'. People's communes were huge, fully socialized economic and administrative organizations created by combining rural collectives. They consisted of an average of some 5000 households each. Between April and December 1958 virtually all of China's countryside was converted into communes. The commune system had a three-tiered structure in which each commune was composed of around 18 or more rural collectives, which became known as 'production brigades', and each production brigade was made up of around four to six 'production teams', which contained some 30 or 40 households apiece.¹⁴ The economic purpose of the communes was to organize the rural labour

force into large-scale units in order to carry out agricultural capital-construction projects, like massive irrigation works, and to engage in self-sufficient rural industry to supplement the formal urban industrial sector.¹⁵

The organizational structure of the people's communes endured for over 20 years, but the immediate effect of the Great Leap Forward was extensive misallocation of rural resources. When the country was afflicted with three successive years of bad weather from 1959 to 1961, the result was widespread famine.¹⁶ As the dimensions of the catastrophe became evident to the central leadership and average annual per capita consumption of grain fell from 203 kilograms in 1957 to 159 kilograms in 1961, steps were taken to eliminate or moderate the more extreme collective aspects of the commune system. Inefficient rural industrial enterprises were closed, private plots were returned to households, rural markets were reopened and the administrative level where work was organized and income was distributed was shifted back down to the production brigades and production teams.¹⁷

3. Readjustment and Market Incentives, 1962–5

Although the structure of the commune system was retained in the years after the Great Leap Forward, the famine of 1959–61 caused the government to sharply revise the policies controlling agricultural organization and production, substantially decentralizing decision-making and restoring market incentives. Many of the key changes appeared in a document called 'Sixty Articles on the Communes', which was issued in mid-1961. The 'Sixty Articles' shifted the 'basic accounting unit', the level at which income and costs were calculated, down from the commune to the production team and greatly increased the authority of the team over its land and the labour of its members. The 'Sixty Articles' also specified that teams could contract specific functions to groups or households through 'responsibility systems' similar to those that became the centrepiece of rural reform in the 1980s.¹⁸

The average size of the communes was reduced by more than half, increasing their numbers from 24 000 in 1958 to 75 000 in 1962.¹⁹ Some of their authority was lost when production decision-making was shifted to the team level.²⁰ None

the less, the commune continued to play an important role because it combined the functions of the lowest level of rural government with those of the highest level of the agricultural collective system. As an administrative unit the commune was the site of hospitals, clinics and secondary schools, as well as local offices of state organizations like the People's Bank and supply and marketing cooperatives. In its economic role the commune organized and supervised large-scale infrastructure construction projects, particularly for water control, established industrial enterprises and owned and maintained heavy agricultural machinery which was rented to the brigades and teams. Many of the management functions of the production brigades were also transferred down to the production teams in this period, but they continued to run some enterprises and to be responsible for supervising the teams. They also operated basic social services like health clinics and primary schools and allocated such inputs as electric power, water and heavy machinery.²¹

Overall economic strategy was also altered in response to the agricultural crisis caused by the Great Leap Forward. In 1962 agriculture was made the top economic priority, followed by light industry and heavy industry. Capital construction and growth in heavy industry were sharply reduced and thousands of rural and urban factories were closed as resources were shifted back to agricultural production. Procurement prices for agricultural products were raised and state investment in agriculture was increased by over 50 per cent, as was investment in the agricultural machinery, chemical fertilizer and pesticide industries. By the mid-1960s the combination of policy changes and larger supplies of industrial inputs to agriculture revived the rural economy.²²

4. The Cultural Revolution and the Dazhai Model, 1966–76

The political upheavals of the Cultural Revolution decade did not directly alter the structure of the rural economic system, but the intense ideological atmosphere of the period caused a significant shift toward re-centralizing authority in the commune system, equalizing incomes, striving for local 'self-reliance' and restricting private and market activities.

These policies were exemplified by the Dazhai Production

Brigade of Shanxi Province, which in 1964 Mao had proclaimed the model to be emulated by rural units all over China. Located in a chronically poor mountainous region, Dazhai had dramatically increased its production of grain by relying on its members' efforts to terrace rocky hillsides and construct irrigation works. Dazhai had no private household plots and the allocation of workpoints for labour performed was determined communally, with the major emphasis placed on the worker's political attitudes and overall quality of work.²³ In the late 1960s some rural units adopted the Dazhai practices of eliminating private plots and shifting the unit of account up to the brigade level, but in most cases the results were negative and a new constitution adopted by the National People's Congress of 1975 affirmed the right of rural families to farm private plots and set the production team as the basic unit of account in the commune system.²⁴

An aspect of the Dazhai model that exerted a more pervasive influence was emphasis on grain production as the primary task of agriculture. This emphasis derived from the national policy of striving for national and regional self-sufficiency in food, which was interpreted as requiring individual localities to produce enough grain to meet their own needs regardless of their suitability for grain production. Although this policy was moderated by the efforts of Zhou Enlai and other pragmatic leaders in the early 1970s it was strengthened again along with the Dazhai model in 1975 and 1976 at the height of the influence of Mao's wife, Jiang Qing, and the other members of the leftist 'Gang of Four'.²⁵

IV. THE POST-MAO REFORMS

The death of Mao Zedong and the removal from power of the 'Gang of Four' in 1976 opened the door to fundamental changes in China's economic policies. Beginning with the Third Plenary Session of the Eleventh Party Central Committee in December 1978, a series of reforms were implemented in the rural economy. The reform measures were introduced piecemeal and gradually, first as limited experiments, then more widely as national policies.²⁶ They included three main components: Readjustment of the price structure, transfer of production management authority from the commune system to

individual households, and legalization and expansion of free markets.

The first step in the rural reforms consisted of increases in the prices paid to farmers for cotton, rapeseed, soybeans, animal husbandry products and aquatic products in early 1978. These changes were particularly significant because they altered the prices of agricultural products relative to each other in an attempt to affect output levels through market forces rather than simply by planning directives, as had been the practice since 1967.²⁷ In 1979 there were additional procurement price increases averaging about 22 per cent for 18 categories of major products, followed by further increases through the early 1980s. By 1981, procurement prices had risen an average of 42 per cent over their levels in 1977. This represented real gains in rural purchasing power because the prices of industrial products sold in the countryside rose by an average of only 3 per cent in the same period.²⁸

The most prominent aspect of the rural reforms was the organizational change from collective management of production through the commune system to production based on household management under the 'production responsibility system' (*shengchan zerenzhi*).²⁹ The responsibility system took many different forms, such as 'contracting production to the household' (*baochan dao hu*) and 'contracting work to the household' (*baogan dao hu*), but all shared three basic features. First, ownership of the land remained with the collective – the village (formerly the production team) – which was the unit that issued contracts. Second, the production contracts stated that the contracting household or group would produce a specific product and would deliver a set amount of the product to the collective at a set price. Output beyond this amount could be consumed, sold on the free market or sold to government procurement agencies at a premium price. Third, the contracting household or group made its own production decisions and controlled its own input costs.

Like the other elements of the reforms the shift from collective to household farming evolved gradually and unevenly. New practices were initiated by scattered local units in response to policy hints from the central government. Some of those that met with success were then ratified and publicized by the government.³⁰ In 1983 the Central Committee finally

announced in 'Document Number One' of that year that the basic form of production organization in agriculture was now the household responsibility system. This position was reaffirmed in 'Document Number One' of 1984.³¹ In 1983 and 1984 the commune structure itself was dissolved. The governmental functions of nearly all communes were converted to 'townships' (*xiang*) and were separated from the economic functions. Most of the production brigades were converted to 'villages' (*cun*) and many production teams were re-labelled 'cooperatives' (*hexuoshe*).³²

The third major element of the rural reform programme was the expansion and liberalization of free markets for rural products in both the countryside and the cities.³³ Prior to 1978, and particularly during the years of the Cultural Revolution, free markets, or 'rural fairs', existed only in the countryside and were generally limited to exchanges among farm households of goods produced in private plots. Informal farmer markets began to appear on the streets of Chinese cities in 1979 and grew with increasing speed in the early 1980s as official approval grew and became more explicit. According to official data in 1978 there were 33 302 free markets, all located in rural areas. In 1979 there were 2226 urban free markets and the number of rural markets grew to 36 767.³⁴

In 1985 the role of the free markets was greatly enhanced by the central government's decision to end the practice of centralized procurement and marketing for most agricultural products other than grain.³⁵ By 1987 the total number of markets reached 69 683, more than double the figure for 1978, and included nearly 11 000 in urban areas.³⁶ In 1987 the total value of transactions in the free markets was 115.79 billion³⁷ yuan, accounting for 20 per cent of the national volume of retail sales and the majority of sales of many goods including vegetables (90 per cent), fruit (98 per cent) and aquatic products (68 per cent).³⁸

The free markets played a key role in the expansion of the rural economy. By providing new marketing opportunities they allowed farm producers greater latitude in their choices of crops and other products, increasing the potential for specialization and improved productivity. They also generated prices that reflected conditions of supply and demand, eliciting greater production of goods in high demand, like aquatic

products, and providing target prices for commodities marketed by state agencies. The free markets also spawned regional and national wholesale markets that enlarged both the range of agricultural products available to consumers around the country and the overall demand for rural products.³⁹ In his speeches, Du Runsheng frequently and vigorously advocated the development of extensive market networks in order to stimulate specialization, technical progress and quality improvement.⁴⁰

By the end of 1987, when the last speech in this collection was delivered, China's rural economy still faced serious difficulties, notably inadequate government investment in rural infrastructure, inefficiency and corruption in the distribution systems for manufactured inputs, like diesel fuel, chemical fertilizers and pesticides, and the grain procurement system, which still required farmers to sell much of the grain they produced to state agencies at prices below the market level. Despite such formidable problems, however, the rural economy had achieved real progress toward many of the goals advocated by Du Runsheng in his speeches. Agricultural production was carried out primarily at the household level. Most products and many inputs were true commodities, exchanged through markets at prices that reflected real values. Marketing networks had expanded dramatically and had created new industries and new jobs in processing, transportation, storage and services. Labour productivity in agriculture had increased steadily, reflecting specialization and improvements in technology, and freeing growing numbers of rural workers for employment in the non-agricultural sectors of the rural economy.

V. CENTRAL THEMES IN DU RUNSHENG'S SPEECHES

The underlying theme throughout Du Runsheng's speeches is to emphasize the importance of adopting pragmatic policies that increase economic efficiency. He consistently stresses that policies should be flexible and that decisions should be based on local conditions rather than on rigid central guidelines. He describes the economy as a complex and dynamic organization that is constantly in a state of change. He favours a market system largely because he believes it is the best means of generating rapid progress toward a modern, strong economy.

While most of the measures he advocates rely primarily on market mechanisms Mr Du also stresses that an economically efficient process of evolution should guide the economy toward socialism. He points out that in the 1980s China had not yet reached a level of economic development that would allow adoption of a fully socialized economic system – in the words of Chinese Marxist theorists the country was still in the ‘primary stage of socialism’.⁴¹ Mr Du comments, however, that even in this early stage, socialized forms of organization are efficient for some production processes that require coordination and cooperation above the household level, such as cooperatives for large-scale farm operations and combined networks for processing and marketing of products like poultry and milk. Mr Du repeatedly remarks that with proper direction from the government, progress in economic development – in ‘strengthening the forces of production’ – will make it possible to voluntarily expand the socialized portions of the economy. In his view development by means of the market is not antithetical to achieving socialism but is actually a prerequisite for its success.

A few of the major issues addressed by Mr Du are briefly introduced below.

1. A Commodity Economy

The most basic of Mr Du’s proposals is for development of a commodity economy in China’s rural areas. A commodity economy is one in which goods are exchanged through markets at prices determined by the forces of supply and demand that accurately reflect the ‘law of value’. Before the reform programme a high proportion of agricultural products were not exchanged at all as local areas attempted to achieve self-sufficiency in food production.⁴² State agencies purchased most of the products that were exchanged and also allocated inputs like fuel, with prices of both inputs and products set at levels that often did not represent real economic costs or values. Mr Du points out that a commodity economy responds automatically to changes in market conditions and that it provides powerful incentives for producers both to raise productivity and to improve product quality.

2. Market Adjustment and Guidance Planning

While efficiency requires that the economy adjust itself by means of market forces, Mr Du states that the government should still control the direction of development by employing indirect 'economic levers' including taxation, government spending and credit. Such indirect instruments make use of market forces to pursue policy objectives more effectively and flexibly than administrative directives. Mr Du refers to the system as 'a commodity economy under the guidance of planning'.⁴³

3. Two-Tiered Management in Agriculture

Under the reforms farm production management was transferred to households and the communes were dissolved, but Du Runsheng emphasizes that collectives (villages) continued to play a key role as owners of the land and grantors of the contracts farm families signed for their land allocations. He describes the resulting system as 'two-tiered economic management', in which independent household operations functioned alongside the collective economy and within the collective administrative framework.⁴⁴

4. A Diversified Economy

Mr Du's speeches persistently call for increased diversity in products and also in forms of economic organization and management. He regards diversification of the rural production structure as essential for expanding specialization and productivity. Localities should exploit local resources and create the processing industries necessary to do so. He contends that there should also be diversity in management forms because of the wide disparities in levels of development and technology that exist in China as well as differences in the needs of various kinds of enterprises. In many cases – especially in farming – the individual household is most effective. In situations requiring larger operations households will find it advantageous to form cooperatives while other circumstances may best be handled by village collective management or by private management with hired labour.⁴⁵ Mr Du also notes that farms

and other production units should each adopt the 'appropriate scale' of management that best suits their individual situations.

5. Labour Transfer and Rural Enterprises

One of the points that appears most frequently in Mr Du's speeches is the need to shift labour out of agriculture into other sectors of the rural economy where productivity is higher. He argues that improvements in rural productivity and incomes have been seriously constrained by the concentration of the huge and growing rural labour force on China's limited and effectively fixed supply of arable land. Transferring labour off the land can increase productivity in two ways. First, labour productivity is lower in agriculture than in most of the sectors that have been stimulated by the expansion of market networks, such as processing industries, transportation and technical services. Workers who move from farming into one of these occupations become more productive. Second, raising productivity in agriculture requires adoption of modern farm machinery which cannot be cost effective as long as farms are supplied with an overabundance of very inexpensive labour. Finally, the more growth there is in the non-agricultural sectors of the rural economy the more income rural workers can garner from the value that is added to agricultural primary products as they move through the stages of processing, transportation, storage and retail marketing.⁴⁶

6. An Interdependent Economy

One of Mr Du's analytical strengths is his focus on the relationships and interdependence between the various elements of the economy. A central relationship is that between the urban industrial economy and the rural agricultural economy. Mr Du reminds his audience that while agricultural development requires the assistance of modern science and technology, supplied for the most part by urban industry, the urban economy is dependent on agriculture for food supplies and many industrial raw materials. In addition the urban industrial sector relies on the much larger rural population to provide markets for its growing output.⁴⁷ Mr Du also addresses the issue of the relationships between regions that develop rapidly and

those that lag behind. Citing historical evidence from other countries, he predicts that as advanced regional economies expand, emerging market opportunities will cause modern technology to spread into neighbouring poor areas.⁴⁸ He further notes that while income disparities widened under the reform policies of the 1980s, the higher incomes earned by more advanced or more fortunate groups helped to create the higher levels of production and economic interaction that caused real incomes to rise even in most areas that remained relatively poor.⁴⁹

VI. DU RUNSHENG'S LEGACY

Du Runsheng did not play an active role in rural policy formulation after the late 1980s, but the key themes advocated in his speeches continued to form the core of Chinese rural policy into the 1990s and the development trends he predicted accurately characterized growth in the rural economy. By the summer of 1993 China had come to be regarded as a major player in the international economy and a model for economic reform and development. The sophisticated and pragmatic analytical approach that Du Runsheng brought to the rural reform effort of the 1980s helped to lay a foundation of tangible success that contributed significantly to the overall strategy for the market-based transformation of the Chinese economy.

NOTES

1. In 1987 Mr Du was nominated for the General Foods World Food Prize by the Chinese Academy of Agricultural Sciences. Information on his life and career is drawn from the letter of nomination and the accompanying biographical data sheet.
2. Information on the Rural Development Research Center of the State Council came from the letter of nomination for the General Foods World Food Prize and also from an interview between representatives of Winrock International and representatives of the Rural Development Research Center in Beijing in March 1986.

3. *China Statistical Yearbook 1988* (Beijing: China Statistical Information and Consultancy Service Centre, 1988), pp. 35, 36, 124, 206.
4. *China Statistical Yearbook 1988*, pp. 27, 175, 178, 257.
5. *Farmer*: here and throughout the volume the term 'farmer' is used to correspond to the Chinese term *nongmin*, which does not have an exact English counterpart. *Nong min* means 'rural people' and refers to all rural residents, regardless of occupation. It has most commonly been translated as 'peasant', but in recent years the major official English-language publications in China, such as *China Daily* and *Beijing Review*, have adopted 'farmer' as the translation. In Du Runsheng's speeches the term usually refers to farmers.
6. The First Five Year Plan, implemented from 1953 to 1958 (although not published until 1955), stated that it would be 15 years before all farmers joined higher-stage cooperatives, still a level below the people's communes. Christopher Howe, *China's Economy: A Basic Guide* (New York: Basic Books, 1978), p. xxvi.
7. Carl Riskin, *China's Political Economy: The Quest for Development since 1949* (New York: Oxford University Press, 1987), pp. 48–50; Maurice Meisner, *Mao's China: A History of the People's Republic* (New York: The Free Press, 1977), pp. 100–10.
8. Riskin, op. cit., pp. 66–71.
9. Du Runsheng describes the unified purchase and marketing system and its negative effects on farm production incentives in Chapter 9, 'Expanding the Market Regulation of Agricultural Products'.
10. Riskin, op. cit., pp. 69–71, 81–9.
11. Du Runsheng comments repeatedly on the negative effect on farmers' morale of the excessively rapid move to full collectivization. See Chapter 2, 'Agricultural Collectivization in China: Past and Present'; Chapter 4, 'The Production Contract System is a New Development of the Rural Cooperative Economy'; and Chapter 20, 'Reflections on the Development of Rural Cooperatives.'
12. Nicholas R. Lardy, *Agriculture in China's Modern Economic Development* (Cambridge: Cambridge University Press, 1983), pp. 37–8.
13. Peter Nolan discusses the theoretical and practical difficulties of income distribution in the Chinese communes and in collective farms in general, in *The Political Economy of Collective Farms: An Analysis of China's Post-Mao Rural Reforms* (Boulder, Col.: Westview Press, 1988), pp. 41–6, 56–8. Justin Yifu Lin finds empirical evidence that difficulties in supervising labour and assigning work points were the main cause of labour inefficiency in the commune system, in his article, 'The Household Responsibility System in China's Agricultural Reform: A Theoretical and Empirical Study', *Economic Development and Cultural Change*, April 1988, pp. S199–S224. See also Riskin, op. cit., pp. 89–95. Du Runsheng addresses these issues in Chapter 4, 'The Production Contract System is a New Development of the Rural Cooperative Economy'.
14. Annual data on the numbers of people's communes, production brigades, production teams, and average number of households in each from 1958 to 1982 are given in *Statistical Yearbook of China 1983* (Hong Kong: Economic Information and Agency, 1983), p. 147.

15. Riskin, op. cit., pp. 86, 114–25. Meisner gives a detailed description of the Maoist ideology and objectives of the Great Leap Forward, (op. cit., pp. 204–25).
16. On the statistical record of the famine, see Judith Banister, *China's Changing Population* (Stanford, Cal.: Stanford University Press, 1987), pp. 85, 233–4. Official Chinese population data that reflect the effects of the famine appear in *China Statistical Yearbook 1988*, pp. 76, 83.
17. Riskin, op. cit., pp. 125–45.
18. Ibid., pp. 128–30, 170–2. Du Runsheng describes instances of 'contracting production to households' in the early 1960s in Chapter 2, 'Agricultural Collectivization in China: Past and Present'.
19. *Statistical Yearbook of China 1983*, p. 147.
20. Meisner, op. cit., pp. 274–8.
21. Riskin, op. cit., pp. 172–4.
22. Lardy, op. cit., pp. 43–4; Riskin, op. cit., pp. 148–53, 169.
23. Meisner, op. cit., p. 343; Lardy, op. cit., p. 46. The Dazhai wage system is described in action in a Chinese village by Anita Chan, Richard Madsen, and Jonathan Unger, *Chen Village: The Recent History of a Peasant Community in Mao's China* (Berkeley: University of California Press, 1984), pp. 90–3.
24. Meisner, op. cit., p. 378.
25. Lardy, op. cit., pp. 46–7, 137. The 'Gang of Four' were the Cultural Revolution leaders, Jiang Qing (Mao's wife), Wang Hongwen, Zhang Chunqiao, and Yao Wenyuan.
26. See Robert F. Ash, 'The Evolution of Agricultural Policy', *The China Quarterly*, no. 116 (December 1988), pp. 529–55.
27. Lardy, op. cit., pp. 88–92, 46–7.
28. Ibid., p. 89; Riskin, op. cit., p. 285.
29. Nolan, op. cit., pp. 82–3; Kathleen Hartford, 'Socialist Agriculture is Dead; Long Live Socialist Agriculture! Organizational Transformation in Rural China', in Elizabeth J. Perry and Christine Wong (eds), *The Political Economy of Reform in Post-Mao China* (Cambridge, Mass.: Harvard University Press, 1985), pp. 34–43.
30. Ash, op. cit., pp. 534–5, 538.
31. Riskin, op. cit., pp. 286–90.
32. Nolan, op. cit., pp. 84, 88; Riskin, op. cit., p. 299; Ash, op. cit., p. 539. The terminology for rural units after the dissolution of the commune system was not uniform or consistent.
33. Andrew Watson, 'The Reform of Agricultural Marketing in China Since 1978', *China Quarterly*, March 1988, pp. 1–28.
34. Ibid., p. 15.
35. Announced in 'Document Number One, 1985'. Ash, op. cit., p. 346.
36. *China Statistical Yearbook 1988*, p. 637.
37. Billion: throughout this volume the term 'billion' means one thousand million (1 000 000 000).
38. *China Statistical Yearbook 1988*, pp. 612, 622, 637.
39. Watson, op. cit., pp. 17–26.
40. See, for instance, Chapter 3, 'Developing the Rural Commodity Economy'; Chapter 7, 'Specialization and Commercialization in Rural

Production', Chapter 17, 'Embarking upon the Path of Seeking Economic Benefits through Reform'.

41. See Glossary.
42. In Chapter 3, 'Developing the Rural Commodity Economy', Mr Du says that in 1980 only about 15 per cent of grain output was marketed and only about 40 per cent of all agricultural products.
43. Chapter 3, 'Developing the Rural Commodity Economy'. See also Chapter 9, 'Expanding the Market Regulation of Agricultural Products'.
44. The term appears in Chapter 8, 'Social Goals Related to Development of the Rural Commodity Economy'. The concept is the major focus of Chapter 4, 'The Production Contract System is a New Development of the Rural Cooperative Economy'.
45. See particularly, Chapter 8, 'Social Goals Related to Development of the Rural Commodity Economy', and Chapter 16, 'Striving for Stable Growth of the Rural Economy'.
46. This issue is discussed in detail in Chapter 5, 'Rural Enterprises Must Develop Further'.
47. See Chapter 15, 'Placing Agriculture in its Proper Position in the National Economy and Raising Rural Incomes'.
48. See Chapter 13, 'Relying on Science and Technology to Strengthen the Economic Position of Agriculture', and Chapter 19, 'Discussion of an Outward-Oriented Development Strategy for the Coastal Areas'.
49. See Chapter 8, 'Social Goals Related to Development of the Rural Commodity Economy', and Chapter 12, 'Rich First, Rich Later, and Prosperous All Together'.

2 Agricultural Collectivization in China: Past and Present

'Woguo nongye jitihua de guoqu yu xianzai.'

A speech delivered to the Party School
of the Communist Party of China (CPC)
Central Committee, 28 November 1980

I

The People's Republic was established over 30 years ago and collectivization has existed for 24 years. Generally speaking it has been basically successful but there are also shortcomings. The responsibility system in agricultural production¹ is only now being put into effect and this fact itself shows that we have traversed a tortuous path. We are now increasingly coming to realize how certain 'left' things in the past shackled the development of the forces of production. The pace of future progress will depend to a great extent on how rapidly we are able to rid ourselves of these 'left' things. This will not be easy for 'left' things still occurred after the smashing of the 'Gang of Four'² and the basic change in policy did not take place until the Third Plenum of the Eleventh Central Committee convened in December 1978.³ The Central Committee issued two documents on agriculture⁴ and recently has also issued Document No. 75,⁵ further liberating our thought and promoting the reform of the rural economy.

For some people these events have caused a so-called 'crisis of confidence'. They ask: Does Marxism–Leninism really work? Does socialism work? Was China's socialist transformation of agriculture correct? Their meaning is that the work of the past has failed. In fact the events of the past and the present will prove that what has failed is not Marxism–Leninism and certainly not socialism. Upholding Marxism–Leninism and

socialism has been successful in history and in experience. The failures have been the 'left' and 'right' things which repeatedly obstructed us and caused us to suffer severe setbacks. In the long view of history such difficulties are not surprising and they represent an opportunity for study and progress in raising the level of Marxism–Leninism of the entire Party and keeping our nation on the socialist road. The question is, are we clear-headed about this? Have we focused our study, summarized our experiences and drawn all the relevant lessons? Do we have the courage to raise questions, think about problems and do something new?

II

Marxism–Leninism pointed out early on that in countries with a large number of farmer proprietors the proletariat, after seizing power, should lead the farmers on the path to co-operativization. Even if a country was very backward it did not have to go through the process of the bitter class divisions of capitalism before turning to socialist revolution. Dogmatists in the past argued that backward countries could not advance directly to socialism but this point of view was mistaken. Chairman Mao was completely correct when he proposed that the socialist transformation of agriculture⁶ in China should be carried out after land reform. A modern socialist economy could not conceivably be built on the basis of the small-farmer economy which was the source of poverty.

Socialist transformation had to be carried out – the question was how to lead it. Here there was a contradiction: socialism should be built on the basis of large-scale production by advanced, mature productive forces, but our economic base was extremely backward. This situation was brilliantly described by Chairman Mao at the Second Plenum of the CPC Central Committee in March 1949. He said that only about 10 per cent of China's economy was modernized and industrial while the remaining 90 per cent was still a backward agrarian and handicraft economy little different from that of antiquity. For this 90 per cent of the economy to realize socialist modernization it would have to go through a long transitional period and would require certain preconditions. These included maintaining a

favourable worker–farmer alliance, observing the principle of voluntary participation, selecting economic forms for the transition from private to collective which were appropriate to conditions in the rural areas, speeding up national industrialization and carrying out a step-by-step technical transformation of agriculture.

The Second Plenum of the Seventh Central Committee therefore assumed that after the CPC's securing power nationally there would be a relatively long period in which the five different economic forms would coexist.⁷ The Party's general line for the transitional period,⁸ proposed in 1953, stipulated that the socialist transformation of agriculture and handicrafts would be completed over a period of three five-year plans or slightly longer.

The first resolution on mutual cooperation⁹ was formulated in accordance with this intention. Chairman Mao said that after land reform the farmers¹⁰ had two enthusiasms: mutual cooperation and the development of the individual economy. In carrying out cooperativization we were to pay attention to preserving this enthusiasm for the individual economy, which might continue for a long time and should not be dampened too soon. The 100 000 primary cooperatives set up in 1955 were handled very well and at that time a standard was set: cooperatives had to surpass the level of local prosperous middle farmers. This group of cooperatives, therefore, was extraordinarily attractive and in a number of places they were created spontaneously by local farmers.

How should the next step be handled? At that time there were some people who argued that the original plan should still be followed, that it should not be changed just because 100 000 cooperatives had been established successfully. The private, collective and state-managed economies should coexist for a dozen years or so. During this time the dominant position of the socialist component of the economy would be secured in order to ensure adequate supplies of necessities to the cities and to establish its leading position in the market. Farmers who were unwilling at first to participate in cooperatives should not be rushed into compulsory enrolment but should be allowed time on their own land for further reflection. As for the forms of cooperativization, a relatively long period of time should be spent in the semi-socialist primary

agricultural producers' cooperatives (APCs). The movement to higher levels of public ownership should not be forced.

The semi-socialist primary cooperatives recognized private ownership, the holding of land shares and distribution of income according to shares, and the private monetary value of large farm implements, horses and mules. According to Marxism the wealth of small farmers should never be expropriated by violent means, whether compensation is given or not.¹¹ Once cooperatives increased production and income a good many times – ten times or more – by relying on their own accumulated resources and the state's help, then farmers' own few possessions would be insignificant in relation to the new socialized forces of production and they would willingly become wholehearted supporters of socialism. To proclaim uncompensated public ownership at a time when the power of the cooperative economy was extremely weak and production still had to rely on assets originally owned by individual farmers would create serious problems for our 500 million comrades. To continue the primary APCs for a little while longer would merely mean distributing dividends for the land and giving cash payments for large livestock which, while no great thing for the country, would be a matter of great personal benefit to the farmers. In addition, whatever happened, the practice of spreading cooperativization from one point to an entire area should be upheld.

During each five-year plan (FYP) one-third of the cooperativization programme should be carried out, completing the process at the end of the Third FYP. The First FYP would be key. If it was done well it could serve as an attractive example. Moreover this kind of incremental method would allow us to analyse thoroughly the variety of experiences encountered in organizing the collective economy and creating economic forms suited to different local production levels. Only in this way could cadres be adequately trained and the level of leadership raised. If this approach was not followed the quality of cooperativization could not be guaranteed, especially in certain backward areas where low cultural levels might require the training of cadres and resolution of cultural problems to take a decade or more.

Unfortunately this view was criticized and rejected. It was said that it underestimated the vast reservoir of enthusiasm for

socialism among the farmers and that this was 'right-wing opportunism'. Its proponents were accused of lagging behind – 'walking like women with bound feet' – instead of standing in front and leading the movement. Thus the criticism of right-wing conservatism arose along with the high tide of the cooperativization movement. Before the end of 1956 wholesale cooperativization had been realized. This was not simply primary cooperativization but advanced cooperativization.¹² In terms of policy promises were not kept. For the most part there was no compensation to farmers for the value of the land, animals and tools that they contributed to the cooperatives. When land reform occurred the farmers were favourably impressed. This time the impression was not so good.

At this point the success of wholesale cooperativization was overestimated and this assessment formed the theoretical basis which subsequently prompted the movement for people's communes. The idea was that if the farmers of China had such great enthusiasm for socialism that they could achieve the miracle of complete collectivization in only three years, then what couldn't they do? The emergence of the 'Great Leap Forward' came to be regarded as historically necessary. 'The people have much more courage and the land can produce much more' – the idea of one *mu* of land [.067 hectare] producing ten thousand kilograms of grain became credible.

The 'Great Leap Forward' began with agriculture. The people's commune movement and the 'Great Leap Forward' led to production declines for several years and it was only after five years that production was restored to its previous level.

III

Recently in our work we have encountered the issue of contracting production to households [*baochan dao hu*]. This too is a legacy of the cooperativization movement of the past. Contracting production to households has occurred four times in rural China. The first time was around 1957 when farmers in some localities set up advanced cooperatives and proclaimed public ownership of the means of production but did not form partnerships or unify management. Instead they handed over a certain amount of their products to the cooperative and kept

the excess. This was called 'contracting production to households'. Later we discovered this and considered it to be a spontaneous tendency of prosperous middle farmers who were wavering on socialism. Consequently, at the inception of the great debate over the two roads¹³ this method was 'refuted'.

The second occurrence was during the three years of hardship from 1959 to 1961,¹⁴ when farmers again spontaneously contracted production to households. At that time some leading comrades saw that, if we wanted to raise production, approaches like 'eating from one big pot' [see Glossary] and 'sloganeering' were completely useless. When comrades from the Southern Office of the CPC Central Committee made an inspection visit to Longsheng in Guangxi they found there the practice of contracting production to households. They analysed its different forms and how to understand their essential principle of 'four items', namely the 'four unifications' of production plans, means of production, labour power and allocation. They reported the situation to Chairman Mao, who personally approved it, saying that the analysis they made was Marxist-Leninist and that the suggestions made after the analysis were also Marxist-Leninist. There is documentary evidence that at about the same time this method was also used in Anhui Province on experimental consolidated responsibility plots. The method was also supported by Comrade Deng Zihui,¹⁵ leader of the Central Committee's Rural Work Department, who believed that the responsibility plots were a useful form. Thus, in this instance as in the previous case, the masses' actions received the support of leading cadres. None the less, at the Tenth Plenum of the CPC Eighth Central Committee, convened in September 1962,¹⁶ contracting production to households was criticized as a tendency to return to individualized farming.

Contracting production to households appeared for the third time in 1964. At that time it did not happen on a large scale, but in hardship areas like Guizhou and Gansu where the lives of the ordinary people were difficult, farmers in many different places spontaneously set up systems contracting production to households. Recently in Guizhou a village was discovered which had been using the system for over ten years. It was relatively prosperous and the entire village had kept the system secret. It was only when the Central Committee promulgated

documents formally approving contracting production to households that they told us they had already been doing it for more than ten years.

The fourth occurrence is this occasion, when contracting production to households has appeared again. We can predict that if it is once more criticized and banned it will return for a fifth time. Contracting production to households is something prompted by economic laws. It can be guided but it cannot be blocked.

Institutions like the people's communes were too advanced for the historical stage of development at the time when they were established. Prior to that time the higher-level cooperatives in some areas had also advanced prematurely. All the places that set them up too early found that they were impracticable because the relations of production were not consistent with the forces of production and so contracting production to households appeared. Some of the places that initially moved too fast retreated to 'three-level ownership based on the team'.¹⁷ They then caught up in their work, placed more emphasis on raising the forces of production and consolidated their organizations. Quite a few of the communes and teams had this kind of experience.

These are still the conditions under which China's agriculture must advance toward modernization. The crucial point is that the relations of production must be consistent with the forces of production. Development will be hindered when the relations of production either lag behind or advance beyond the development stage of the forces of production.

IV

Why did 'left' errors appear so many times in the process of cooperativization? When we examine a major socio-historical event it is not sufficient to simply attribute it to the ideological motives of a single individual. We must study the historical and social causes that produced the event. If collectivization proceeds too rapidly in a backward country that lacks the preconditions for industrialization this will result in egalitarianism of the small producer (small-farmer socialism). Egalitarian ideas are inherent in the small-producer origins of the

cadres and generate utopian socialism. The farmers do not know what socialism is and their field of vision is limited by the natural economy. Hence at an extremely low level of economic development, where there are no new productive forces to provide leverage, when the leadership calls for greater speed in setting up socialism it is possible for egalitarianism to appear at the lower levels and even to become an egalitarian storm.

How should we assess China's farmers? We must consider the farmers to have been completely revolutionary in the democratic revolution. Chen Duxiu¹⁸ did not understand this and thus made mistakes. As for dealing with the farmers in the socialist period the following two attitudes are unrealistic. On the one hand it is rash to demand that they act like natural communists, ever enlarging the scope of their social units and raising the degree of public ownership, even to the point of eliminating commodity exchange and distribution according to work. On the other hand it is also damaging to regard the farmers' unwillingness to operate in this fashion and their desire instead to have a few small freedoms like private plots and family sidelines as being caused by the spontaneous capitalist tendencies of the small producer. Small producers do have spontaneous capitalist tendencies which must be given guidance, but it is wrong to oppose things which socialist policies permit, on the grounds that they are capitalist.

V

While maintaining the general orientation of collectivization, a diversity of economic and managerial forms should be preserved. A country as large as ours has some economically developed areas like the large cities and their suburbs, the Pearl River delta, the Yangzi Valley delta, the Lake Dongting region, the Jiangnan and Chengdu valleys, the Jiaodong region and the north-eastern grain base, which have been the first to carry out agricultural mechanization and electrification. There are also backward regions which resemble primitive economies where even commodity exchange practices have not yet taken shape. Because of these great disparities in productive forces a diversity of management forms in the collective economy is

unavoidable. There is high-level mechanization and semi-mechanization. There are some 'systems with three heads' – the heads of horses, people and ploughs. A few areas employ slash and burn cultivation where the farmer starts a fire and then plants seeds with a knife or a stick.

When the forces of production are this uneven application of a single rule would necessarily fail. Of course all these forms are changing and developing and will not remain at one level, but the process cannot be uniform. Hence we believe that the degree of public ownership of the means of production, the scale of organization, the forms of labour organization and the methods of income allocation should be worked out to suit local conditions. Different models should be adopted for different levels of productive forces so that they will be able to move forward at different times and on different foundations. The compulsory application of one model everywhere has not worked in the past and will not work in the future.

VI

Central Committee Document No. 75 demands that more work be done in hardship areas. There are about a dozen of these hardship areas including the Loess Plateau, the Yungui Plateau, the Hebei-Shandong-Henan-Anhui border region, the Henan-Shaanxi mountain region, Inner Mongolia and southern Xinjiang. In these areas cooperativization has not followed the path of progressive transition for many years. It is characteristic of these areas not only that they are poor but also that the masses lack faith in the collective economy. If their confidence is to be restored we must first of all economically resolve their 'warm and full problem' – the problem of having enough to eat and wear – and transform the 'three depends', that is the situation where eating depends on reselling, production depends on loans and living depends on relief.

The productive forces in these areas have not only failed to develop they have actually declined. First, the soil has become progressively impoverished and fertility has been reduced because there has not been enough fertilizer. Second, the numbers of draught animals, a major means of production in the rural areas, still have not been restored to the 1956 level.¹⁹

Third, the labourers' enthusiasm is low and falling. The majority of the cooperatives have not been handled well. They have been regarded for years as cases of capitalist mischief-making and work teams are continually being sent down to 'check up' on them, but all the checking has failed to produce a single result. In the countryside in these areas today few people work but many receive allocations. Furthermore there is a lack of democracy so that allocation and work are all decided by a minority which inevitably includes people who use their power for their own ends. The masses labour for a year but what they get is not enough to support themselves, so where is their enthusiasm supposed to come from?

More than a little state money has been spent to change the face of poverty. For example on the Loess Plateau the state has helped to repair irrigation systems but a number of projects have cost more than they have earned. Units have been given tractors that have gathered dust in sheds. Commune and team enterprises were set up and then came 'first equalize, then transfer'²⁰ – assets were transferred without compensation and products were distributed without regard to contribution.

The collective economy is intended to liberate the forces of production but if it is handled badly, with 'everyone eating from one big pot', then it will have the opposite effect and become a shackle on the forces of production. Thus the ordinary people in these areas have welcomed contracting production to households. It rouses people's enthusiasm for work and when the fields are cultivated properly the problem of eking out a living is solved. In addition it can also serve as a way to lead the farmers to resume their transition to large-scale socialist production.

VII

In areas where the collective economy has been successfully established we are still far from a mature experience in combining collective and individual interests. These communes and teams should also progressively implement the contract responsibility system. Quite a few places in recent years have experimented with bidding and contracting various sidelines to specialized households and specialized groups. Pig raising,

for example, when done collectively used to require eight people to feed the pigs when in fact three were enough. Now it is simply contracted to a family which in Hunan is called 'one family management'. Some of these families contract for as many as 500 pigs.

All sorts of sidelines can be contracted out, like fruit trees and brick kilns, as well as machinery maintenance and tractor operation. The product value and expenses are specified in the contract. Overproduction is rewarded and underproduction is fined. This method can also be used for growing crops and contracting out cultivation of responsibility fields. Generally when sidelines are contracted fields are not, and vice versa. This is called specialized contracting [*zhuan ye cheng bao*]. Management is unified and specializations are contracted. This solves the problem of 'sloganeering' in farm work and promotes the development of sidelines.

Specialized contracting allows capable workers, competent craftsmen and all sorts of able people to use their abilities to the full and also helps to spread scientific techniques. In the past the state spent quite a lot of money and made great efforts to do this but to no avail. Now economic forces do it, a good thing that is rapidly becoming widespread. After the production of cotton was contracted out, the sale of books dealing with the science and technology of planting cotton rapidly rose. Therefore Document No. 75 affirms that developed areas should move in the direction of the specialized contract responsibility system linking payment to output.

VIII

The question of the rural economic structure: our polity is a proletarian dictatorship, that is, a people's democratic dictatorship. We must give full play to popular democracy which first of all means that economic democracy should be guaranteed by seeing that the direct producers – the labourers – have direct management authority in the basic economic units. If workers and farmers can only manage the economy through their elected representatives and cannot directly participate in management this democracy is not complete. Hence worker and farmer enterprises should enact new democratic management

systems. In addition we should consider separating the state from economic organizations. Economic organizations should do independent accounting and form essentially voluntary economic links and combinations where some are linked and combined and others are only linked but not combined. We cannot expect to proceed as we intended to in the past with production teams making the transition to brigade ownership, brigades making the transition to commune ownership and commune ownership making the further transition to ownership by the whole people.

NOTES

[Unless identified as 'editor's notes', all notes were supplied with the original text.]

1. The responsibility system in agricultural production: there are many forms most of which can be classified by whether or not they are linked to output. Of those not linked to output the primary form at this time is contracting small jobs with compensation based on standard quotas, also known as quota contracting. Generally this consists of contracting farm work to groups or individuals according to farming seasons. When their jobs are completed they are paid by the production team in accordance with quota regulations depending on quality, quantity and time spent. The primary form linked to output is contracting production to groups. In general the contract specifies land, labour power, farm animals and tools for an operational group, and specifies standards for output, work and production expenses to fulfil the contract. After these responsibilities are carried out part of the contracted output is sent up to the production team for unified allocation and the production team pays production expenses and workpoints in accordance with the standards agreed upon. In addition to contracting production to groups some places give production contracts to labourers or to farm households while other places have adopted a form in which management responsibility for fields is assigned to individuals who are compensated according to output. There are also different land contracting methods: in areas where the division of labour for production is not very advanced and cultivation is the primary activity, the land is generally divided and contracted out on an average per capita basis. There is also a method of contracting fields for growing grain rations on a per capita basis and a method of contracting responsibility fields according to labour power. In places where there is a clear division of labour and production tasks are

relatively numerous there have appeared methods of contracting production according to the specialized division of labour. In addition some places have begun to adopt a work contract system which the masses call 'the big contracting of work to households' [*da baogan dao hu*], in which the workpoint allocation system is eliminated and the households, working within the conditions agreed upon beforehand with the collective, get to keep all that they make and the surplus product, except for a fixed amount in kind or in cash that serves as a collective contribution to guarantee fulfilment of the duty to sell products to the state.

2. 'Gang of Four': Jiang Qing (wife of Mao Zedong), Wang Hongwen, Zhang Chunqiao, Yao Wenyuan. Prominent leaders during the Cultural Revolution who were elected to the Politburo in 1973 and espoused 'leftist' policies. They were blamed for some of the excesses of the Cultural Revolution and were all arrested after the death of Mao Zedong in the fall of 1976. [Editor's note.]
3. The Third Plenum of the Eleventh Party Central Committee: held in Beijing from 12 to 18 December 1978. This meeting basically eliminated the long-standing severe 'left' errors and corrected the guiding ideology of the Party, reestablishing the Marxist line in ideology, politics and organization. The meeting shifted the focus of all Party work onto socialist modernization, which was a major turning point of profound significance in the history of the Party after 1949.
4. Two documents on agriculture: 'The Decision of the CPC Central Committee on Some Questions Related to Speeding Up Agrarian Development (draft)' and 'Regulations Regarding Work on Rural People's Communes (preliminary draft)'. After these two documents were adopted in principle at the Third Plenum of the Eleventh Central Committee in December 1978, they were sent to every province, autonomous region and municipality for discussion and trial implementation. The former was formally adopted by the Fourth Plenum of the Eleventh Central Committee in September 1979 and was subsequently promulgated and enforced.
5. Document No. 75: CPC Central Committee Document No. 75 of 1980, 'Several Questions Concerning Further Strengthening and Perfecting of the Responsibility System in Agricultural Production'.
6. The socialist transformation of agriculture: the transformation of the relations of production under the dictatorship of the proletariat whereby the small-farmer economy is changed step by step into a socialist collective economy. In China this was to be realized through the establishment and development of various organizations of mutual cooperation. By 1956, 96.3 per cent of all farm households were participating in agricultural producers' cooperatives and the task of the socialist transformation of agriculture had been basically completed.
7. The five economic forms: the five different economic elements which existed in China's national economy after the establishment of the people's democratic dictatorship, the confiscation of bureaucratic capital and the completion of land reform: the socialist state-managed economy, the private capitalist economy, the individual economy of

- the farmers and artisans, the cooperative economy, and the state capitalist economy.
8. The general line for the transitional period: the general line laid down by the CPC for the transitional period from the establishment of the People's Republic of China until the basic completion of the socialist transformation of private ownership of the means of production. In essence it was that the Party's general line and general task in the transitional period were to realize over a relatively long period the step-by-step socialist industrialization of the country as well as the step-by-step socialist transformation of its agriculture, handicraft industries and capitalist industry and commerce.
 9. The first resolution on mutual cooperation: 'The Decision Concerning the Mutual Cooperation of Agricultural Producers (draft)' was formulated by the Central Committee of the CPC in December 1951. The draft resolution stipulated the concrete forms and relevant general rules for agricultural mutual cooperation and after a trial period it was partially revised and then formally adopted by the CPC Central Committee on 15 February 1953.
 10. '*Nong min*' literally means 'agriculture people', but refers to all people who live in rural areas (*nong cun*). It has often been translated as 'peasant'. In the speeches of this volume the term nearly always refers to farmers and is therefore translated as 'farmer'. [Editor's note.]
 11. See F. Engels, 'The Peasant Question in France and Germany' (1894), in *Selected Works of Marx and Engels* (Chinese edition) (Beijing: Renmin Chubanshe, 1972), vol. iv, p. 310.
 12. Advanced cooperativization: the universal change of primary agricultural producer's cooperatives into advanced agricultural producer's cooperatives. The differences between the two were that the primary cooperative members' land holdings were treated as shares when they entered the cooperative and the draught animals and large-scale farm implements remained privately owned though used in a unified fashion by the cooperative. In addition to distribution according to work the members also received compensation for their land and other means of production. In the advanced cooperatives land was collective property and other large-scale means of production were also treated as belonging to the collective so that when cooperative members participated in collective work the form of distribution was only workpoints distributed according to work performed.
 13. The great debate over the two roads: the great debate that unfolded on the basis of the August 1958 'Directive of the Central Committee of the CPC on Carrying Out the First Large-Scale Socialist Education of the Entire Rural Population', which dealt with such questions as the advantages of cooperativization, the unified purchase and sale of grain and other produce, worker-farmer relations, the elimination of counterrevolutionaries and the observance of law. The document pointed out that the essence of this great debate was the fundamental question of the two roads, capitalist and socialist.
 14. The three years of hardship: 1959 to 1961, when China's national economy experienced severe economic difficulties because of the

- mistakes of the Great Leap Forward and the Anti-Rightist Campaign along with natural disasters.
15. Deng Zihui (1896–1972) was born in Longyan County, Fujian Province. He was an early leader of the rural movement led by the CPC. He made great contributions in setting up the western Fujian revolutionary base area and in rural work. After Liberation he served as vice-chairman of the State Planning Commission and department head of the Central Committee's Department of Agrarian Work. After the socialist transformation of China's agriculture Deng Zihui argued that a production responsibility system should be set up for agriculture.
 16. The Tenth Plenum of the CPC Eighth Central Committee: convened in Beijing from 24 to 27 September 1964. This meeting came to mistaken conclusions about the questions of classes and class struggle during the socialist period and magnified and intensified the class struggles which continued to exist in certain spheres in socialist society. On the agrarian question it mistakenly criticized forms of the responsibility system, like contracting production to households, as capitalist.
 17. 'Three-level ownership based on the team': three-level collective ownership of the means of production and the product, divided between the commune, production brigade and production team. The system was based on ownership at the production-team level.
 18. Chen Duxiu was one of China's first communist leaders. He co-founded the CPC in 1921. Meisner, *op. cit.*, p. 15. [Editor's note.]
 19. This statement refers to the situation in 1980. By late 1981 the number of draught animals reached 54.71 million, which exceeded the figure for 1956.
 20. 'First equalize then transfer': this is the short form of 'egalitarianism and uncompensated transfer'. It refers to the mistaken work method that appeared in the initial stage of the movement for people's communes in rural China which repudiated all economic differences in the communes, especially in the original advanced cooperatives of the communes. It repudiated the principles of distribution according to work and the exchange of equal values, transferred without compensation all the collective economic organizations' means of production, products, labour power and funds, and carried out absolute egalitarianism in the distribution of the products for individual consumption.

3 Developing the Rural Commodity Economy

Fazhan nongcun shangpin jingji.'

Selections from a talk given at the Second National Study Class of Leading Cadres in Charge of Agriculture, 11 May 1981

I would like to suggest that as we introduce the responsibility system in agricultural production we must also develop a diversified economy. When joined together these two elements will give great impetus to commodity production in rural areas and to development of a socialist commodity economy. A very large proportion of rural China is still a kind of self-sufficient or partially self-sufficient natural economy. Converting the natural agricultural economy into a commercial agricultural economy is a prerequisite for national economic modernization and full development of China's productive forces.

A commodity economy existed in the period of slave society and also in feudal society but it was only under capitalist society that it reached its full and universal development. In the period of socialist society commodities cannot be eliminated during the primary stage of communism because of limited progress in economic development. What we are now creating is a commodity economy with planning – a commodity economy under the guidance of planning.

In China the relative importance of the natural economy is still very large. In 1980 only 15 per cent of total grain output was marketed and only about 40 per cent of the total exchange value of agricultural products was available for exchange. These are not large numbers. If little is sold then little can be bought. When farmers' ability to purchase production materials is inadequate their ability to expand reproduction¹ is small. Currently the rural areas provide only 30 per cent of the funds they use for simple reproduction and expansion of reproduction while relying on other sources for the remaining 70 per cent. Of this amount only 10 per cent is used to expand

reproduction. Thus the rural areas cannot escape the cycle of simple reproduction.

Following Liberation, industry and the urban population expanded greatly causing rapid growth in the market demand for agricultural products. Communications and the commercial network experienced corresponding massive expansion. Thus the present conditions and requirements for developing a commodity economy are very different from those of the period just after Liberation. In this sort of situation the rate of disintegration and transformation of the natural economy should have speeded up but instead it made very slow progress. Why was this? In addition to several objective factors such as the large population, scarce land, insufficient funds and the low level of progress in mechanization there were also several key subjective factors.

One problem was that the cities were not receiving enough grain to keep up with the pace of urban and industrial development. Under this pressure many comrades misinterpreted the policy of 'all round development with grain as the key link'. They focused only on grain and promoted a unitary economy. Moreover they opposed adjusting cultivation practices in response to local conditions and they resisted efforts to create a diversified economy especially in non-agricultural sectors. At one time this opposition reached a point where the commodity economy was equated with capitalism. Private plots, household sidelines like raising poultry, and rural trade fairs were all seen as capitalist. Everything that was related to the commodity economy was capitalist.

The second reason for the lack of progress in economic transformation was that certain management practices within the collective economy, such as the workpoint system, were advantageous for consolidation of the natural economy and disadvantageous for development of the commodity economy. People did not work enthusiastically at production or at creating value because as long as they received workpoints they had food to eat. This did nothing for the development of a commodity economy.

Another problem was that 'collective labour' was made the main symbol of socialism. In order to ensure collective production and restrict the free flow of labour all farmers were made dependent on workpoints for their income. Labour could

only be exchanged within the collective and there were no direct exchanges with the market.

These three problems delayed the disintegration of the natural economy and retarded the impetus of transformation toward a commodity economy. Since the Third Plenary Session of the Eleventh Party Central Committee, however, we have been taking steps to remove these obstacles.

If we are to create the conditions for development of a commodity economy we must ensure that all cadres recognize the necessity of developing a socialist commodity economy. This problem of recognition has definitely not been resolved. Cadres must recognize that we are at a stage in which the economy is underdeveloped and even though we have established a socialist system we still cannot abolish commodities. As long as the products of society can only be exchanged on the basis of equal value then we cannot implement a satisfactory, uniform, national system of distribution according to work, much less one of distribution according to need. Labourers, especially farmers, still must exchange goods with society by means of commodity exchange. Thus rather than abolishing the commodity economy we must give it planned guidance and planned control.

Only by developing a commodity economy can accumulation in the rural areas increase. In a country where 80 per cent of the population is rural we cannot hope that funds for agricultural development will come from other sectors of the economy. Funds accumulated in industry must be used for industrial development. Agricultural modernization depends on progress in industry. If there is no industrial development there can be no modernization of agriculture. Industry also depends on agriculture to supply commodity grain and raw materials for light industry. Over 70 per cent of the raw materials used in light industry are supplied by agriculture. Growth in the quantity of agricultural commodities will enable the speed of industrial development to increase, ensuring prosperity in the national economy. Growth in rural-urban exchange will cause the amount of industrial materials supplied to the countryside from the cities to expand. This will steadily increase the supply of new production materials in the rural areas and stimulate basic construction.

Only with the development of a socialist commodity economy

can the income and purchasing power of the farmers be raised. The circulation of commodities will introduce modern technology and scientific culture into the countryside. Only then can the farmers' level of culture, intelligence and knowledge increase. It is very difficult to bring about cultural change if there is no economic change. In primitive natural communities there is little difference in people's development abilities. This situation can only change when the commodity economy is fully developed and each person is involved in the commodity market. For example, if a family acquires a radio it will change. Its members can be in touch with the entire world. Similarly if they get a bicycle they can go farther and travel faster. Seeing more movies, subscribing to more newspapers and attending more schools will invariably benefit individual development. As modern facilities become more widely available farmers will be able to develop their different individual abilities. Some will become technical experts and others will become management experts. Step by step they will become farmers who are equipped with solid scientific knowledge.

Another important reason for the development of a commodity economy is the need to absorb surplus labour power. China's rural areas currently have a labour force of over 300 million, about half of which is surplus. Labour density is very high and efficiency is low. Since Liberation the labour force has grown by 130 million and there has been an increase in mechanical power of 200 million horsepower. Labour productivity, however, has risen by barely 2 per cent. This is a very serious problem. If labour does not leave the land then the land does not need machines. But if there are no machines it is not possible to truly liberate the labour force or to consolidate the collective economy. Machines will only be used once enough workers have left agriculture for the labour force to be clearly inadequate for management of the land. And the use of machines will only be worthwhile when the income produced by the machines exceeds the income produced by the labour force they replaced. Otherwise it is not worthwhile and will not lead to advances in production.

In short, after implementing the responsibility system we find ourselves facing a problem in the relationship between agriculture and commerce, a problem in the circulation of commodities and a problem in utilizing market mechanisms.

Now we must give top priority to examining and resolving these problems.

NOTE

1. **Reproduction** [*zaishengchan*]: 'The endless repetition and constant renewal of the production process. The social reproduction process includes the four links of production, exchange, distribution and consumption.' See Glossary. **[Editor's note.]**

4 The Production Contract System is a New Development of the Rural Cooperative Economy

'Lianchan chengbaozhi shi nongcun hezuo jingji de xin fazhan.'

Selections from a speech delivered to the National Meeting of Agricultural Secretaries on 23 November 1982. Full text published in *Renmin Ribao (People's Daily)*, 7 March 1983, p. 5

The restructuring of China's rural economy based on the introduction of the production responsibility system [*shengchan zirenzhi*] has now been under way for over four years. Experience has shown that the production contract responsibility system [*lianchan chengbao zirenzhi*] is extremely adaptable, that it has achieved demonstrable economic benefits and that it is warmly welcomed by the farmers. There are some comrades who have harboured doubts: is this kind of model consistent with the principles of socialism? Is it consistent with the goal of agricultural modernization? The experiences of the last few years provide fairly clear answers to these questions.

I. THE PURPOSE OF INTRODUCING THE PRODUCTION RESPONSIBILITY SYSTEM IS TO IMPROVE THE COOPERATIVE ECONOMY AND TO FOLLOW CHINA'S OWN DEVELOPMENT PATH

First we want to affirm that for the Party to lead the farmers into socialism by means of the cooperative system after the labouring class seized power was entirely correct and the only

way to proceed. The socialist transformation of agriculture which China has carried out since the 1950s has been basically successful. It transferred the basic means of production to public ownership, abolished the system of exploitation, ensured supplies of agricultural products for the essential needs of rural and urban people, and supported the establishment of industry. These are all universally recognized as major achievements. But our work has deficiencies and even mistakes and a newly established socialist system must constantly improve and refine itself. The reason that the Party Central Committee has introduced the responsibility system in agricultural production since the Third Plenary Session of the Eleventh Central Committee is to eliminate deficiencies, correct mistakes, perfect the cooperative economy and open up a socialist path that is in keeping with China's national conditions in order to achieve a still greater victory.

Why do we want to implement the cooperative system? China is a country with a great many farmers. Farmers are allies of the working class. They are both workers and small proprietors. According to the basic principles of Marxism, in order to improve the economic position of the farmers and to improve the backward position of the agricultural economy it is necessary to change the small-proprietor system to a public-ownership system. However, the small-proprietor system cannot be abolished by using coercive measures or by decree. It is necessary to adopt a step-by-step transitional economic approach to find some intermediate transitional link. The cooperative system is just such a suitable link.

First, through the cooperative system the farmers combine their labour on the basis of voluntary participation and mutual benefit, changing naturally to the system of public ownership of the basic means of production and improving their own economic positions without suffering the polarization of capitalism.

Second, the cooperative system can gather funds, create new socialized production methods and establish the material base for a socialist public-ownership system with the support of large-scale socialist industry. At the same time it can also fully develop the production capabilities of the original relationships of production.

Third, through the cooperative system it is possible to bring agriculture, the basic sector of the national economy, gradually

into the realm of state economic planning. At the same time it allows farmers to retain their own decision-making power and integrates state planning guidance with management by the farmers.

It is clear from these three points that the cooperative system is a transitional economic form that can serve as a link between past and future, weed out the old to bring in the new, integrate the interests of the individual with those of the whole and coordinate the public and private sectors. Lenin said: 'We need to find a measure in which individual interest is subordinated to the common good. The cooperative system can supply this measure.'¹

The emergence of the cooperative system has deep economic causes. It has existed under different kinds of social and economic systems but it has never taken a single fixed form and could never do so. The particular form it takes is determined by location, time and circumstances. The cooperative system first appeared in capitalist society. It was an economic alliance of small producers for the purpose of self-protection and countering the process of capitalist annexation. Marx and Engels considered that in a country with numerous farmers the cooperative system could be used to establish socialism in the rural areas once the proletariat had come to power and the state controlled all large-scale means of production. They raised various tentative ideas on how to implement the cooperative system but never limited the concept to a single form. On the contrary they consistently encouraged all revolutionaries to create, explore and devise different kinds of measures to suit local conditions.²

Our efforts to implement cooperativization have gone through a long period of explorations and trials which still continue.

During the war the liberated areas created supply and marketing cooperatives, work-exchange teams³ and mutual-aid teams all of which were successful. All of them were characterized by the fact that they did not disturb the private-ownership system of the working people and only unified certain elements.

In the early 1950s, on the basis of experiences in such places as Shanxi and the Northeast, we set up elementary agricultural producers' cooperatives. The farmers combined labour and unified economic management on the basis of private

ownership rights. They received shares for their land and cattle which earned dividends but payment for labour was the largest portion of income. At the same time assistance was provided to households with difficulties. This kind of cooperative could be accepted by all sorts of farmers. At that time the Party Central Committee and Comrade Mao Zedong evaluated it positively. Due to limitations in the economic conditions and the cultural level of the masses, however, most small-scale cooperatives were handled well but most large-scale ones were not very successful. These cooperatives were not in operation very long. No more than 15 per cent of farm households had joined when there was a comprehensive push forward and within the space of little more than half a year they were converted to higher-level cooperatives which in turn were very quickly converted into people's communes.

Evaluation of the people's communes should be divided into the early period and the later period. The beginning period was bogged down in 'left' mistakes. The first was the comprehensive move to public ownership. Not only were the basic means of production shifted to public ownership but household sidelines were also abolished. The second was creation of a supply system that denied the law of value and commodity exchange. Both of these measures went beyond the historical stage. The additional measures of communal canteens, gratuitous egalitarianism and indiscriminate transfer of labour power brought about a 'communist wind' and an 'indiscriminate transfer of resources wind' which for a time ruined production. This kind of approach was very harmful but it did not last long. Under the leadership of the Party Central Committee and Comrade Mao Zedong it was quickly corrected. Beginning in 1960 we changed to the new system of 'three levels of ownership based on the team', which was very useful in stabilizing the rural situation. This brief exercise made us all understand that socialism cannot bypass the stage of distribution according to work and that to arbitrarily change the relations of production separately from the level of development of the forces of production can cause damage. During the ten years of turmoil the 'Gang of Four' advocated all sorts of ultra-left policies which caused some areas to suffer losses, but in most areas they met with resistance from the masses and leading cadres and did not cause widespread disasters.

In the structure of 'three-level ownership with the team as the base' which was implemented by the people's communes the team was indeed a high-level cooperative form but there was too much 'three-level ownership' and excessive 'integration of government with the commune'.⁴ The cooperative production teams successfully accumulated funds, initiated new productive forces and trained a group of cadres in economic management. Of over 5 million production teams probably between 10 per cent and 20 per cent were handled well and provide some valuable experiences for future cooperativization efforts. Of the rest some were not handled well and some were handled very badly. Why were they handled badly? The reason was that they implemented an excessively unified and centralized system. Unified refers to a single national model. Centralized refers to excessively centralized economic management and allocation of labour. We now see that this kind of over-centralized method impeded the full exercise of the farmers' independent initiative in economic management and affected the individual material benefits of the farmers. Corrupt practices like 'eating from one big pot' [see Glossary] and egalitarianism appeared in quite a few places, hindering the development of productive forces.

Some people have the mistaken idea that even without any advances in technology a system of collective ownership and coordination of labour will be superior to the individual economy. In reality this is not at all the case. If the household natural economy is simply merged together and control of labour is centralized but there is no appropriate system to elicit more labour and generate more income even the benefits of the original small farmer's intensive cultivation cannot be preserved and the forces of production may stagnate or even decline. People also have another mistaken idea which is that egalitarian distribution is a system that is more fair and more in keeping with the spirit of socialism. In reality it is just the opposite. Egalitarian distribution inevitably turns into 'eating from one big pot' and over the course of time new inequities may emerge with some people owning the labour of others.

In the past the system of evaluating work and recording workpoints in the great majority of communes and teams consisted only of recording, not evaluating. Men received ten

points where women received eight and it made no difference whether the work was done well or badly. The needs of highly centralized economic management caused the numbers of cadres to greatly increase. The pay they received and their official business allowances all depended on recorded workpoints and those with the wrong attitude often took advantage of opportunities to record more. There were also some households that received grain rations but underpaid the grain fund or did not pay it at all, bringing about 'overspending households' [*chaozhihu*] and 'empty point households' [*kongfenhu*].⁵ All social responsibilities became workpoint deductions, taking up about 20 per cent to 30 per cent of the total number of workpoints. Management expenses ceaselessly expanded, some of them rational and some irrational. The irrational part even included uncompensated ownership of other people's labour.

For more than 20 years we tried to resolve these contradictions by means of methods like rectification [*zheng feng*], checking up on communes [*zheng she*] and the four clean-ups [*si qing*]⁶ but we were not able to prescribe the right medicine for the illness and therefore our efforts produced little effect. The farmer masses who suffered the consequences of these corrupt practices attempted repeatedly during the more than 20 years of cooperativization to get rid of them by adopting their own production-contract methods, such as the system of 'three contracts and one prize'.⁷ They received the support of a number of leading cadres, but every time they were met with unjustified criticism and were unable to continue.

II. IN WHAT WAYS HAS THE PRODUCTION CONTRACT RESPONSIBILITY SYSTEM IMPROVED THE COOPERATIVE SYSTEM?

1. It has integrated centralized and decentralized management. The production contract system takes public land and other means of production and contracts them out to be managed by farm households or small groups, according to mutually agreed upon conditions. Matters that cannot be handled by individual households or small groups are taken care of by the cooperative organization. Thus the unified and the separate are combined and integrated.

This system absorbs the good points of the advanced cooperatives and corrects their failings. It also breaks through the limitations of the household economy while retaining its strengths. The advantages of public ownership and the independent adaptability and initiative of the farmers can all develop at the same time.

2. It incorporates both specialization and unity. As the commercial economy develops there has been corresponding expansion of specialization in production. Some farm families have become double-occupation households [*jianye hu*] or specialized households [*zhuanye hu*].⁸ As the division of labour increases there is an increased need for productive social connections including production linkages and pre-production and post-production service linkages. These connections can be at a fairly high level of public ownership and they can also be connections that do not affect ownership rights. Linkages of increased depth and breadth are formed at numerous administrative levels based on the fundamental labour ties of the various kinds of producers. These developments diversify the cooperative economic structure and link it more closely to the national socialist economic system.
3. It integrates unified accounting with distribution by contract [*baogan fenpei*]. The more the specialized division of labour develops within the cooperative economy the more it is necessary to think about how to preserve a balance between the benefits received by producers in different sectors so as to ensure that the principle of more income for more work and less income for less work is reflected among the members of a given unit. In addition there must be unified planning with due consideration for all concerned, in distribution between consumption and accumulation as well as between the state, the collective and the individual. This requires integrated accounting with norms that are allowed to vary within established limits.

At the same time the method of distribution by contract has been adopted for each contracting unit in order to encourage the farmers to be concerned with production by directly expressing the connection between rights, responsibilities and

returns. In the words of the farmers, distribution by contract means: 'Ensure enough for the state (the responsibility to sell to the state), retain enough for the collective (communal reserves) and the remainder is all our own.' It eliminates the daily administrative chores of assigning tasks, evaluating work and recording workpoints. It has 'direct benefits, clear responsibilities, simple and convenient methods'. This is the most important system of distribution in today's cooperative economy. Naturally there are some things that cannot be contracted and require different methods.

Clearly the creation of a cooperative economy characterized by the production contract responsibility system and integrating centralized management and decentralized management improves the cooperative system by retaining the positive results of past cooperativization and removing some of its deficiencies. It is indisputably socialist in character when viewed from the standpoint of the entire cooperative economic structure and its relationship to the national economy. It is obviously incorrect to doubt its socialist character merely on the basis of the decentralized labour practices of household contracting and superficial similarities with the individual economy.

III. CHARACTERISTICS OF HOUSEHOLD FARMING AND ITS ROLE IN THE CURRENT PERIOD

The question of how to handle economic management correctly at the household level during the process of cooperativization is a problem of great significance. Small-scale household farming has a long history in China. China's historical feudal system was different from the large manor systems of some other countries. In China the landlord economy broke up the land into small pieces which were rented to farmers for cultivation. This was called tenant farming. There were also owner-cultivators who owned and worked small pieces of land. The common characteristic of these two kinds of farmers was that the manager and the producer were combined in a single household. This scattered and fragmented agricultural economy constituted the foundation of feudal rule. For a long time it stagnated at the level of a backward natural economy. There was little development of productive forces and the farmers

were mired in poverty. On the other hand we can see that the farmers possessed the tenacity to struggle for life under extremely adverse conditions. For ages they endured incessant natural disasters, man-made catastrophes and exorbitant taxes and levies. They suffered devastation a thousand times and a thousand times they recovered.

After Liberation this tragic history was brought to an end. Land reform was carried out, the bonds of feudalism were removed and the small-farmer economy entered a realm of free development under a system of pure private ownership. But by its basic nature the small private ownership system was not compatible with the trend toward modern development in agriculture. The hope of perpetually preserving a small private-ownership system under the conditions of a commodity economy was nothing more than a retrospective fantasy of the small producers. It would either be eliminated by the capitalist economy or else it would be transformed into socialism through cooperativization under the leadership of the working class. There was no third possibility. History determined that the Chinese farmers chose the latter route.

But cooperativization itself is an objective historical process. It is a process of transition from one economic form to another that gradually brings about the socialization of labour and the means of production. The length of this process is determined by many different conditions. It cannot be completed in a single stroke. Given China's imbalanced economic development the emergence and formation of the new cooperative mode of production unquestionably necessitated a long and varied period of transition from the original mode of production. During this process household farming could not simply be eliminated in one morning. For a certain period of time it was necessary to make use of it, to reform its content and to develop its potential. In this way we could take full advantage of the large quantities of productive resources scattered among individual households as well as the traditional skills accumulated among the people and mobilize the initiative and enthusiasm of those directly engaged in economic operations.

A basic principle of Marxism is that: 'Every time there is a change in the system of ownership relations it is a necessary result of the development of new productive forces which are not compatible with the old system of ownership relations.'⁹ The usefulness of an old production relationship will not be

exhausted until it has realized the full capacity of its productive forces. This is the case with household farming.

The experiences of all the socialist countries in the world show that over a very long historical period it is necessary to retain at least a small amount of the household private economy to serve as a supplement to socialism. In fact the farmer masses of China still demand that household farming be utilized in the collective economy. The method of contracting production to households [*baochan dao hu*] of the late 1950s was an attempt by the masses to bring about this desire. At that time this method had numerous deficiencies but after many years of practical experience it has finally found a rational form that embodies its essence in the production contract system. The rationality of the production contract system is that it develops the useful aspects of the small private-ownership system within its narrow and limited nature and discards those aspects which are not useful. It leaves room for future development through the use of science and technology while still retaining the advantages of the household economy.

The nature of today's household economy has undergone a fundamental change. It is a household economy that exists under the public ownership of land, that is restricted in many respects by the collective economy, that is one economic management layer in the cooperative economy and that is an organic component of the entire socialist economy. It is not the post-land reform individual economy and it is definitely not the small-farmer economy of the old society but rather it is a new type of household economy.

After the growth and development of the commodity economy there may be a small number of individual producers who are separated from the original collective economy but they will either retain their links with the socialist economy or form new joint economic organizations. Thus these individual producers are not small private individual households in the original sense of the old days.

IV. CAN THE HOUSEHOLD PRODUCTION CONTRACT RESPONSIBILITY SYSTEM IMPEDE AGRICULTURAL MODERNIZATION?

Household farming has long been considered to be incompatible with modern, large-scale production. Here we must

first clarify one concept, namely the relationship between agricultural modernization and the scale of cultivation and management.

What is modern agriculture? It is agriculture that is armed with modern scientific technology and makes use of highly intensive farming and highly socialized production. Undoubtedly there is a certain dependent relationship between modernization and the scale of land management. Large-scale production must utilize mechanical and natural forces in place of human power at compatible levels. It is also a general rule that large-scale production – whether capitalist or socialist – is superior to the small-farmer economy.

But the scale of production cannot be determined just by looking at land area. Lenin once said: 'A reduction in farm acreage during the intensification of agriculture very often implies an increase in the scale of production and not a decrease.' He also said: 'The principal line in the development of capitalist agriculture is changing the economy that is still small-scale in terms of land area into one that is large in terms of scale of production, development of animal husbandry, amount of fertilizer use and degree of mechanization.'¹⁰ Clearly the scale of production is not equivalent to the amount of land under cultivation. What matters is the degree of the organic composition of capital¹¹ and the level of farming intensity.

The experience of the contemporary world also demonstrates that modernization can be carried out by units ranging from one hectare in size to over a thousand hectares and from household farming to farming with hired labour to collective farming. Household farming is definitely not incompatible with modernization. Naturally different areas require different scales of production to achieve optimum economic benefits. Measures must be suited to local conditions.

Given the conditions in China it is likely that the future form of management in agriculture will be neither large-area extensive farming nor large-area intensive farming but intensive farming on a moderate scale. The individual units will be small-scale but the totality will be large-scale. Because China has a large population, relatively little cultivated land, a vast area and great disparities in regional economic development, a relatively long period of time will be required to carry out

the complete technological transformation of agriculture. Technological transformation is constrained by several factors including the energy problem, the transportation problem and the surplus labour problem.

China has extensive hilly and mountainous areas, irrigated fields in varied landforms and complicated cropping systems and cultivation techniques including triple-cropping, double-cropping, intercropping and interplanting. For many reasons it is necessary to take the path of intensive farming and place top priority on increasing land productivity. Consequently, at present we must develop the benefits of the intensive and meticulous cultivation practised by small-scale farming. In the future, as the level of mechanization rises and surplus labour moves to non-agricultural industries, the scale of farming can expand but dissimilar areas with different combinations of machinery will still have different scales of operation. For instance, on large plains with scarce population and plentiful land the scale of operations may be somewhat larger while in other areas it may be a bit smaller.

It is important that methods of concentrating land and organizing mechanical services all be based on forms developed by the masses through experience. The collective-ownership system provides an excellent basis for deployment of machinery and services. It can avoid the contradictions that arose in Japan and the Western European countries because of the system of private land ownership. We are gaining valuable insights from the households and groups specializing in land management and the contract alliances for machinery services that are currently emerging all over China. We now know that it is definitely not unrealistic to conceive of implementing contract management while still retaining unified disposition of machinery and land according to a rational land programme.

People worry that the household-style contract economy may encourage a private-ownership, conservative outlook among the farmers. This is by no means a groundless concern but it is necessary to look at another, more important aspect of the matter. Today's farmers are not the same as in the past. They have already become new-style labourers under the socialist cooperative system. The farmers accept the contract system because they want to get rid of 'eating from one big pot' and 'foolish commands' [*xiazhihui*] and establish a better and more

perfect socialist economy. It is a condition of decisive significance that today's farmers already live in the midst of a socialist environment that is growing stronger every day.

The socialist economy is completely dominant in China. Although new advanced technology is still not abundant in Chinese agriculture, none the less, during the more than 30 years of energetic building since Liberation the material prerequisites for the development of socialist productive forces have been established in the rural areas. Socialism has been formed in the countryside for the first time and has opened new horizons for the farmers. They now know from actual experience that they can raise output with the help of new means of production, new cultivation technology and new scientific knowledge. For instance, on the North China Plain an output of 100 kilograms of grain per *mu* [0.1647 acre] used to be considered a high yield but now anything less than 200 kilograms is considered low.

They also realize that there are many things that cannot be handled by individual households and that it is necessary to work together and follow the route of cooperativization. They therefore unanimously support the Party Central Committee's two basic policies of maintaining public ownership of land and other major means of production and retaining the essential function of centralized management by communes and brigades. At one time a small number of farmers and even some cadres formed the mistaken idea that the responsibility system actually meant dividing up the land for individual farming, but they now understand that this was an error.

We can see now that the masses will readily take on such functions as communal construction of water conservancy projects, breeding new seeds, prevention and control of plant pests and diseases, unified planning of cropping systems and cultivation and maintenance of accumulation funds. Moreover, their roles in these matters are now regularized by means of contracts. At the same time it is evident that a certain essential degree of centralized management is still in the common interest of the farmers. The masses 'desire contracts and fear individual farming'. The farmers demand that there be both unity and separation. 'Unity' is the degree of unity that is appropriate for the economy. What they fear is unification to the extent of 'eating from one big pot'. The Party accurately

reflected this desire of the farmers in the Report of the Twelfth Party Congress [1–11 September 1982] when it stated that we definitely cannot take the road back to the old society.

In the future there will be a more mature division of labour and production, a large amount of labour will move away from the land, land management will become more concentrated, there will be more accumulation of funds and mechanization will not only achieve acceptable technological standards but will also become economically efficient. At that time the masses will demand that the contract system adapt and improve itself in response to these changes. There are some communes and brigades with relatively high levels of modernization and farming intensity that took care to preserve and develop the usefulness of the large-scale production facilities which they already had at the time when they adopted the responsibility system. For instance, some of them have made good use of the method of 'unified management, specialized contracts and distribution by contract'. China's rural areas have over 200 million horsepower of farm machinery, very large-scale water control facilities and communal property worth over 100 billion yuan. We must improve our care and utilization of these valuable assets. The reform process must take into account the characteristics of different communes and brigades. It is not possible to 'cut with one knife' [use one method for all situations]. On the other hand nor can we allow this to prevent the advance of reform. The purpose of the reforms is to resolve the problem of farmer initiative. The use of advanced technology can be fully developed only if there is enthusiasm for it among the farmers. Otherwise even if we have advanced technology it will not be possible to disseminate it. Advanced technology does not necessarily mean advanced production.

In sum we do not claim that the small-farmer economy is universally superior and we do not advocate retaining it forever. We advocate moving toward modern large-scale production but we must distinguish between the small-farmer economy and small-scale farming based on household contracts. A small-farmer economy is characteristically a natural economy of individual isolated units. In China's cooperative economy, even though the scale of the contracting units may be small, none the less if they utilize modern scientific technology, implement intensive farming and bring about the socialization of

production on the basis of the division of labour and production then the economy may be considered large and modern.

V. DO METHODS SUCH AS DISTRIBUTION BY CONTRACT [*BAOGAN FENPEI*] AND SHARING OUT BONUS FUNDS VIOLATE THE PRINCIPLES OF PUBLIC OWNERSHIP OF THE MEANS OF PRODUCTION AND DISTRIBUTION ACCORDING TO WORK?

We must uphold the socialist principles of public ownership and distribution according to work. However, we cannot rigidly adhere to an imaginary 'rational' formula that is independent of the state of economic development and the unique material conditions of each specific time and place. In different countries the process of implementing the principles of public ownership and distribution according to work will go through different stages of historical and economic development. It is not always possible for the people to bring them about of their own free will.

Typically the fullest form of these two principles can only come about after social production has developed to a high degree. Thus in underdeveloped socialist countries there will inevitably be vestiges of the old social relationships left over to varying degrees in all aspects of economic life. For instance, public ownership in China currently falls into two categories: ownership by the whole people and collective (cooperative) ownership. In addition we also retain individual ownership and many different forms of collective ownership. All of the world's socialist countries retain some elements of the individual economy and at least preserve household sideline production.

The nature of a nation's social system is usually determined by the economic form that holds the dominant and guiding position. The composition of a national economy is not simply limited to one certain type of component but includes many kinds of components, some major and some supplementary, with the dominant form controlling all the other forms. The Report of the Twelfth Party Congress clearly calls for upholding the leadership of the state-run economy while at the same time allowing a variety of economic forms to exist. This is

appropriate for the basic conditions we face in China. We have learned from our former one-sided pursuit of the goal of 'one large two public'¹² [communes that are large in size and collective in nature] that we cannot insist on blindly submitting to abstract concepts and blueprints.

When discussing how to deal with small farmers after the seizure of power by the proletariat, Engels wrote in 'The Peasant Question in France and Germany': 'First we have to turn their private production and private possessions into cooperative production and cooperative possessions, not through the use of force, but rather by means of example and by supplying social assistance for this purpose.' When he discussed specific cooperative forms he introduced the plan put forth by the Danish Socialists: 'The peasants of a village or parish . . . should pool their land to form a single big farm, cultivate it through communal efforts, and distribute the yield in proportion to land, funds and labour contributed.'¹³ Engels did not reject the use of this kind of cooperative, even though land and funds remained privately owned but rather recommended it as a viable form. China's primary agricultural producers' cooperatives of the 1950s were organized along similar lines. At that time, in documents on mutual aid and cooperation, the Party Central Committee acknowledged the positive role of this model in the cooperativization movement.

Today we are implementing the production contract system on the foundation of public ownership of land and the other basic means of production. Farmers can invest in the land and can also purchase a portion of the means of production. Some of the means of production are publicly owned and publicly used, some are publicly owned and privately used, some are privately owned and privately used, some are privately owned and publicly used. This 'impure' ownership structure is welcomed by the farmers, brings about excellent economic results and helps to increase social productive forces. What is wrong with that?

The same principle applies to distribution according to work. The basic idea of distribution according to work is that a given quantity of work will receive a commensurate level of payment. But for a variety of reasons it is not possible to make the level of remuneration correspond exactly to the level of work, they can only be made roughly equivalent. This point must be clearly

explained to the farmers so that they understand that they cannot haggle over every cent.

On the other hand, however, we absolutely must not obscure the current policy, which is that we will definitely uphold distribution according to work and that we cannot practise egalitarianism. Egalitarianism violates the principle of distribution according to work. For instance, in the period of the people's communes an egalitarian ration system was implemented. It benefited lazy people and harmed industrious people and was obviously a failure. Calculating pay according to labour norms is fine in theory but in reality there exist many very difficult problems, from determining the norms to checking up on the calculations. Labour norms can only be a standard for reference. They cannot be precise and there are few who continue to insist on them.

In reality the method of 'evaluating work and allotting workpoints' [*pinggong jifen*] was universally adopted. Points were determined on a per capita basis, pay was calculated according to points, those who worked more did not receive more and those who received more definitely did not work more. This method did not escape the fundamental flaws of egalitarianism. Moreover, over the years the fact that everyone depended on earning workpoints to get paid and make a living affected the rational flow of labour power, encouraged the trend toward mono-culture in agriculture and reduced the growth of farm employment opportunities.

Today's production contract system implements distribution according to contract [*baogan fenpei*]: 'Ensure enough for the state, retain enough for the collective and the remainder is all our own.' What is referred to here as 'the remainder' includes the return to the farmers' own invested funds. In terms of form we certainly cannot say that it is distribution according to work in its purest sense. However, for a person to receive more in return for more labour and more inputs, when the inputs are the embodied labour of the same individual, is not the same as capital, which is the expropriated surplus labour of other people. In terms of real results this is a labour-payment system that is actually closer to the principle of distribution according to work than egalitarian methods of distribution and it is more appropriate for the current level of the productive forces in China's rural areas.

NOTES

1. V. I. Lenin, 'On the Cooperative System', *Selected Works of Lenin* (Chinese) (Renmin Chubanshe, 1972), vol. 4, p. 682.
2. F. Engels, 'The Peasant Question in France and Germany', *Selected Works of Marx and Engels* (Chinese) (Renmin Chubanshe, 1972), vol. 4, p. 297.
3. Work-exchange teams: a kind of labour mutual-aid organization that existed in the past in rural China. They were usually organized by several farm households and allocated the use of labour and draught animals on the principle of the exchange of equal values. In the anti-Japanese base areas and the liberated areas there was great development of work-exchange teams. Some even purchased draught animals communally and managed certain sidelines communally.
4. 'Integrate government and commune' [*zheng she heyi*]: from their establishment in 1958 until the amendment of the Constitution of the PRC in 1982 the rural people's communes were the basic units of society and also the basic units of state power in the rural areas.
5. 'Overspending households' and 'empty point households': in the rural collective economic organizations when the distribution accounts were settled at the end of the year the amount that some members received was not enough to equal their advance payments and so they became overspending households. For this reason the income received from the collective by some other households could not be completely fulfilled so they became 'empty point households'.
6. Four clean-ups: this was the Socialist Education Movement, 1963 to May 1966. It was a movement to clean up politics, economics, organizations, and thought.
7. 'Three contracts and one prize' [*san bao yi jiang*]: work contracts, production contracts and cost contracts, with rewards for overproduction.
8. Specialized households [*zhuan ye hu*]: rural households that base their activities on commercial production or exchange, operate with the household as the unit and engage in specialized production or management. They include contract-specialized households that contract for collective production projects and independently managed specialized households that develop on the basis of household sideline activities. This is a new phenomenon that appeared after the implementation of the household production contract responsibility system in the rural areas. In this kind of household the main labour force or the largest amount of labour is engaged in some sort of specialized production, specialized income is the most important source of household income and the commodity ratio of the specialized products is relatively high. In the early 1980s households that were lower than specialized households but higher than average households in these respects were called strong point households [*zhongdian hu*].
9. F. Engels, 'Principles of Communism' (1847), in *Selected Works of Marx and Engels* (Chinese) (Renmin Chubanshe, 1972), vol. 1, p. 218.
10. V. I. Lenin, 'New Data on Patterns of Capitalist Development in Agriculture', in *Collected Works of Lenin* (Chinese) (Renmin Chubanshe, 1958), vol. 22, pp. 58-9, 65.

11. 'Organic composition of capital': the term used by Marx for the ratio of 'fixed capital', or non-labour costs of production, to 'total capital', meaning non-labour costs of production plus labour costs of production. See Paul R. Gregory and Robert C. Stuart, *Comparative Economic Systems*, third edition (Boston: Houghton Mifflin, 1985), pp. 74–5. [Editor's note.]
12. 'One large two public' [*yi da er gong*]: this is Mao Zedong's summary of the characteristics of the people's communes. 'One: they are large. Two: they are public.' Large refers to the organization and scale of economic management of the people's communes. Public refers to the high degree of public ownership of the means of production.
13. F. Engels, 'The Peasant Question in France and Germany', p. 310.

5 Rural Enterprises Must Develop Further

'Shedui qiye hai yao jinyibu fazhan.'

A speech delivered at the National Meeting on
Rural Enterprise¹ Work on 6 January 1984.

Text published in *Zhongguo shedui qiye bao*
(*Chinese Rural Enterprise Journal*), 27 January 1984, p. 1

Comrade Deng Xiaoping once said: 'What is the standard for evaluating whether our work is good or bad? There are three criteria: 1. Has it helped to establish socialism with Chinese characteristics? 2. Has it helped the nation to grow and flourish? 3. Has it helped the people to become happy and prosperous?'² The situation we face as we build socialism today is not the same as 20 or 30 years ago. At that time we simply wanted to create a socialist system and establish a social foundation. Today when we say 'establish socialism' we mean that we want to develop productive forces to a high level, to increase productivity and to achieve a prosperous people and a strong nation.

In China's population of one billion people, 800 million are farmers. If the 800 million farmers do not achieve prosperity it will be very difficult for the nation to modernize. The destiny of the 800 million farmers is also the destiny of the nation. The prospects of the 800 million farmers are also the prospects of the nation. In the last few years the lives of the farmers have improved very rapidly. Last year average rural income may have exceeded 300 yuan per person. But this is still far short of our goal of reaching a relatively prosperous level³ by the end of this century. In order to achieve an average gross national product (GNP) of \$800 (US) per capita for the entire population, the national average for farmers should be about 1000 yuan renminbi [Rmb – Chinese currency]. If we want the farmers to become prosperous we must allow some to become affluent before the others. Only after a portion of the farmers have first become well-off can we achieve prosperity for all.

Let us consider how the farmers may most quickly become

prosperous. As a general principle we should take all possible steps to develop commodity production. Long experience has shown that if the several hundred million rural labourers are all crowded onto the cultivated land the value created by each labourer is not enough to make up for his or her own consumption. Without commodity production there is no purchasing power. Without purchasing power agricultural production cannot be expanded and there is no market for industrial output.

Investing a little more, adding a little more machinery, completing a little more water conservancy, will still not enable the countryside to free itself. Why? Because investment, machinery purchases and water-control repairs will not resolve the rural problems of surplus labour, inadequate purchasing power and insufficient accumulation of funds. On the contrary, in the absence of purchasing power large additions of machinery would merely increase the farmers' debts. Industrial construction funds are in very short supply in China and for that reason public financial support for the rural areas is very limited. If the support is decreased it is like 'trying to put out a burning cart of firewood with a cup of water'. If it is increased it is unlikely to continue. In 1978 we made a plan for mechanization. Afterwards it was deemed unsuitable. It also became unsuitable to carry out water control as before. In 1979 we raised the procurement prices of agricultural products but the retail prices did not move and assistance was required from the public budget. This kind of price subsidy cannot continue. Those of us who are engaged in rural work should be well aware of the meaning of these experiences: we cannot rely on the national budget for support.

Is there a better experience? Yes. It is to engage in diversified economic management. If we want the rural areas to become prosperous then we must implement a diversified economy and take the road of integrated economic management of agriculture, industry and commerce with comprehensive development of agriculture, forestry, animal husbandry, sideline industries and fisheries. There are no arguments about developing forestry, animal husbandry and fishery within a diversified economy. The main dispute is whether or not rural areas can develop industry. This is a new matter.

In the past, industrialization in the capitalist countries caused

industry to be gradually concentrated in the cities, and what we call capitalist industrialization was based on industry in large urban areas. Industry grew in response to market development and therefore had to be concentrated to become economically beneficial. Thus in the capitalist experience industrialization was characteristically large-scale and highly concentrated while the rural areas became markets supplying cheap labour and primary products. In this way throughout the early and middle periods of capitalist industrialization the rural economy remained destitute and stunted. Only afterwards did capital shift toward the rural areas under the prompting of the market law of profit, finally bringing about gradual modernization in the countryside.

How are we socialist countries to deal with this problem? According to socialist theory we should progressively eliminate the difference between city and countryside, minimize the disparity between industry and agriculture and avoid excessive concentration of industry. In practice, however, we have not entirely avoided these dangers. This may have been due to a tactical error. It was definitely not unavoidable because socialist society has the conditions to consciously work out plans for development and adjust them as necessary.

In China, in the early years of the People's Republic, Chairman Mao called for simultaneous development of large, medium and small enterprises as well as rural enterprises. In the late 1960s and early 1970s all the countries of Eastern Europe coincidentally began to advocate integration of agriculture, industry and commerce. We can see here a tendency: after learning the lessons of a phase of practical experience socialist countries find themselves returning to the views advocated by Marx and Engels. Marx criticized the capitalist policy of separating agriculture from industry.

In the last several years, following the guidelines of the Central Committee, we have been urging the rural areas to undertake comprehensive development. Industry should be developed by big cities, by middle-sized cities and also by small market towns. It should be carried out by the public sector and by the collective sector. Household industries and individual handicraft industries should all expand. A variety of economic forms should exist simultaneously under the leadership of the socialist sector. This approach will allow centralization

and decentralization, major sectors and supplementary sectors, big enterprises and little enterprises to exist at the same time. Once the countryside has developed a variety of industries including industrial and service trades, transportation and construction, it will then be possible to mobilize large amounts of labour to create value, to develop the commodity economy and to open up new sources of funds through the commodity economy.

The distribution of the rural labour force will change substantially. Roughly 30 per cent of rural workers will engage in agriculture, 40 per cent will work in the industrial and service trades in small market towns, 20 per cent will pursue various other occupations in the rural areas and about 10 per cent will go into big factories in large cities. By deploying the labour force over this broad range of occupations the rural areas will be able to achieve full employment. In addition it will be possible for the value created by each person to exceed consumption. The entire society will then have more surplus products, the entire nation will have more accumulation and this will prompt advances in culture and education.

Rural industry will allow us to increase the value added to agricultural products and enlarge farmers' incomes. When a factory is established in a particular location it not only produces profit itself but even more importantly it stimulates the economy of a large area. It is not an isolated effect but rather a chain reaction. In a number of new industrial districts not only are there more industries, hotels and restaurants but postal and government services have also grown several fold. Clearly this is a positive development.

So just what are people worried about? Their concerns are summed up in the phrases, 'blind development', 'squeezing out the large with the small', 'duplication of projects', 'squandering natural resources'. Are these concerns justified? To some extent they are. We need not deny that in the past there were times when we made these mistakes. This happened at least twice: the first time was in 1958 when we simultaneously developed large, medium and small enterprises, propagated the 'five small industries'⁴ and at the same time engaged in some redundant projects and some cases of blind development. The other time was in 1978 when we advocated a great expansion of rural industry. Many communes and brigades wanted to

operate each kind of industry for themselves and set up their own repair workshops and machinery factories. The sites of many tractor repair and parts factories even today are still marked by piles of abandoned machinery, a source of considerable criticism among the farmers.

These were both instances in which correct guiding principles were implemented with mistaken methods. The principle of simultaneous development of large, medium and small enterprises was not at all incorrect. It was the method of employing a mass movement that was mistaken. Industry is not something that can be carried out with a headlong rush into mass action. For instance, during the 'Great Cultural Revolution' large-scale industry was placed in a state of semi-paralysis, causing shortages of goods on the market. In response to this situation local small-scale industries emerged to help supply the demands of the market. For this they should have been cited for meritorious service, not chastised. Today few of these factories remain and they have all changed production and been regulated. Since at that time they were needed and afterwards they were regulated there is no need to further reproach them.

How then can we avoid blind development? How can we avoid having large enterprises squeezed out by the small? We must provide clear answers to these questions. In the first place we have to see if a particular enterprise is needed or if it is superfluous. If there is a need for it then it is not blind development. If it is superfluous then it is blind development. It is necessary to evaluate the market and the returns. Production of substandard and useless products should die out. On the other hand, if a small enterprise is an indispensable part of the economic structure and possesses genuine economic benefit then it is a manifestation of healthy circulation in the economy despite the fact that it is the product of specialized development. Without it economic equilibrium would be destroyed. For instance, a small enterprise that makes inefficient use of energy resources may none the less achieve the smallest, most economic level of waste for the economy as a whole. Therefore we should not jump to the conclusion that this is a case of large enterprises being squeezed out by small ones that are competing for energy and materials.

Small chemical fertilizer plants use much more energy than large ones but they are indispensable to agricultural production.

There is still a market for their products and a future for them in making compound fertilizers. Each locality requires a small-scale plant to dispense compound fertilizer appropriate to local soil conditions. Larger plants would be responsible for too large an area. Only small-scale plants are suitable for the regional character of agriculture. In the future the nitrogen, phosphate and potassium produced by large fertilizer factories will be made into compound fertilizer by small fertilizer plants which will be highly beneficial and useful to society. Thus the issue of size must be considered in relation to the entire economic structure.

On this basis I think that there are two points that must be particularly stressed if we are to avoid blind efforts:

1. From now on we must emphasize development of factories that are 'small and specialized' and 'specialized and excellent'. Only with 'specialization' can there be 'excellence'. The clear trend in economic development is to combine concentration and dispersion, large-scale enterprises and small-scale enterprises. In the United States, the country that places greatest stress on concentration, 60 per cent to 70 per cent of the components and spare parts for the automobile industry are produced in small factories. Moreover, the factories are not all combined in trusts but rather have contract relationships based on serial production and commodity exchange. We must vigorously address the problem of integrating the concept of 'small and specialized' operations with large, medium and small enterprises. This problem will become increasingly important in the future. We must first emphasize that there is not enough specialization but superior technology is even more important and we must maintain ceaseless technological progress.
2. We should fully exploit the advantages of enterprises that use local materials and processing. We should regard rural industry as an extension of agriculture and look upon it as a result of the rural division of labour following the disintegration of the agricultural household natural economy. If there is no processing of agricultural products there could be a return to the natural economy. If products do not sell well, why should production be expanded?

Processing enables milk powder from cows raised in the Northeast [Manchuria] to be purchased as far away as Yunnan. Without processing the farmers would do better not to raise cows and to return to self-sufficiency.

Only with industry is it possible to bring about the thorough disintegration of the natural economy. For this reason we advocate development of the food-processing industry, the animal-feed industry, the construction industry and the power industry. We suggest beginning with these four industries but of course there are many others as well. In developing livestock raising it is not economical to feed grain directly to animals but if an intermediate feed-processing industry is created the economy will then be stimulated. Without industrial processing, specialized households would just have to turn back to household sideline industries. Without a system of pre-production and post-production services, today's agriculture cannot become a commodity economy. Rural enterprises that use local materials, local production and local processing should be encouraged to form an economic foundation through their own efforts.

To the conditions of 'small and specialized', local procurement of materials and retaining traditional local advantages we should also add retaining the advantages of collective enterprises. Collective enterprises are not 'iron rice bowls',⁵ they do not 'eat from one big pot' and they are highly adaptable. Management costs are low, labour costs are low and the scale is not large. 'A small boat is easy to turn.' They can always succeed by following the Suzhou local saying: 'If you lack it, we have it; if you have it, ours are better; if yours are better, ours are cheaper; if yours are cheaper, we will make something else.' Rather than acting as small enterprises that squeeze out large ones, they instead are small enterprises that supplement large ones. With this approach we do not have to fear blind development and we need not always oppose small industry on the grounds of blind development.

We cannot run welfare factories. What is a welfare factory? It is one in which the welfare burden is too heavy, which manages too many offices, dining halls and a whole set of living facilities. Collective enterprises can engage in both industry and agriculture, and stop production during the agricultural

busy season. Aside from certain technicians, workers can rotate in and out of agriculture as required. For instance, in operating a coal mine it is easy to rotate jobs – work in small coal pits, work in lime kilns, all those jobs with a high risk of occupational diseases – all can be rotated, resulting in good prospects for the workers, effective work and good management.

Chinese agriculture can be compared to an aircraft and the production responsibility system to a motor. Before taking off it is necessary to make use of several booster engines. One is rural enterprise. One is the supply and marketing system. One is the credit system. By relying on these three ‘booster engines’ agriculture will be able to take off through its own efforts. Rural enterprises have 47.5 billion yuan in assets. The supply and marketing system has 25 billion yuan in its own funds. The Agricultural Bank has 20 billion yuan in liquid funds and may increase credit by 10 billion yuan a year, which will come to 100 billion yuan in 10 years. Added together the power of these three institutions far exceeds the national annual investment in agriculture of several billion yuan. We should therefore join these three forces together, put them to work and bring them to life.

NOTES

1. ‘Rural enterprise’ [*shedui qiye*]: refers to enterprises operated by the two upper levels of the rural commune system, the people’s commune [*renmin gongshe*] and the production brigade [*shengchan dadui*]. [Editor’s note.]
2. Deng Xiaoping, ‘All Work Must Help Establish Socialism with Chinese Characteristics’, in *Jianshe you Zhongguo tese shehuizhuyi* [Establish socialism with Chinese characteristics] (Renmin Chubanshe, 1984), p. 12.
3. ‘Relatively prosperous level’ [*xiaokang shuiping*]: set at \$800 (US) per capita gross national product by the year 2000.
4. ‘The five small industries’ [*wuxiao gongye*]: locally funded and operated enterprises producing iron and steel, coal, chemical fertilizer, cement, and hydroelectricity.
5. ‘Iron rice bowl’: a job that guarantees income regardless of effort or production. [Editor’s note.]

6 The Direction of Technological Transformation in Chinese Agriculture

'Woguo nongye jishu gaizao di quxiang.'

A speech delivered at the National Conference on Exchanging Experiences in Popularizing Science and Technology in Agriculture and Forestry, on 8 January 1984. Published in *Hongqi (Red Flag)*, 16 July 1984, pp. 16–22

The Party Central Committee has stated that in developing agriculture we must rely on both policy and science. To rely on policy does not mean to rely solely on the responsibility system. We should adopt any measures that can stimulate the positive socialist nature of the working people and advance the development of rural productive forces. These measures should all be incorporated into the policy of the Party and government and should help to bring it to fruition.

Policy relates to all aspects of social life and is perpetually in the process of development. Every period must have its policies. If correct policies are not being carried out then mistaken policies are being implemented. Major policies must be stable and not change during a given period. If the situation changes in the next period then a new policy should be substituted and stability should again endure for that period. It is an endless cycle.

Production is movement of matter – a process of transforming matter and energy – and it requires certain definite material conditions. People cannot engage in production without material and material cannot generate production without people. The force of production is a combination of several kinds of factors: first there must be the producer then the producer

must master science and technology. Therefore, in addition to relying on policy we also must rely on science and technology.

Agriculture was the earliest form of production developed by humanity. The first requirement of human existence was to solve the problem of eating. To begin with, people gathered the fruits and seeds of wild plants and captured wild animals and fish. After a long period of development they learned to grow crops and domesticate animals. In China crop seeds that are several thousand years old have been discovered in ancient tombs, showing that the history of cultivation is very long.

Plants and animals are living organisms and in the past it was extremely difficult to carry out scientific research on them. For this reason, although agriculture emerged very early it remained for a long time at the level of simple experience and lacked a foundation of scientific theory. Industry appeared relatively late but its technological development progressed by leaps and bounds because it was not based on organic production and was therefore relatively easy to control. Once the sciences of physics, chemistry and mechanics had developed, industry became modernized while agriculture lagged behind.

Lenin said that technological achievements 'should first be used to transform agriculture which belongs to the whole people, which employs the largest number of people and which has the most backward production'.¹ The task of our generation is to use technological progress to convert agricultural production from traditional methods based on simple experience into an agriculture based on a foundation of modern science and technology. This is what we mean by technological transformation in agriculture.

In China this task was addressed early and has achieved considerable success. However, as of today the features of traditional agriculture still have not been fundamentally transformed. The process of transition toward modern agriculture has accelerated during the more than thirty years of effort since 1949, particularly in the last few years. The most important manifestation of this progress is that the farmers have begun to demand scientific knowledge directly. They urgently seek to raise their experience up to the level of science. Engels once said: 'When society has a need for technology this kind of need can advance science more than ten universities.'² The events of the last few years have proved that

when science is mastered by the masses it can bring about unprecedented advances in social production. The era of progress in agricultural technology has arrived and we have to consider how to carry it out in the best and most effective way. If we fail to respond to this problem we will fall behind the times and behind reality.

Currently there are people both inside and outside China who believe that the country's greatest difficulty lies in agriculture. There are some who believe that a miracle in the area of birth control is the only way out of China's problem of scarce land, large population and relatively limited resources. Since they also realize that birth control is even more difficult to manage than agriculture they are pessimistic about China's future. We believe that this point of view is mistaken. These people do not understand the boundless power of policy, science and technology. Although the land is limited there are broad prospects for raising its productivity. Throughout history humanity has not simply relied on the charity of nature to get through life. From time immemorial people have devoted their efforts to making use of natural forces to improve the conditions of existence and have not merely accepted what was available. The ability of humanity to utilize the forces of nature has grown along with the development of science and technology.

Everyone says that today people have great difficulties, but are our present difficulties as great as those of our ancestors? In humanity's earliest time, one day there would be something to eat and the next day there might be nothing. At that time there were very few people although resources were extremely plentiful and there was no land problem at all. The reason is that the people of that time had no science and technology and were completely dominated by nature, while the people of today have mastered science and technology and can make better use of natural forces.

What about the future? Life can definitely be better than it is today if we steadily improve the socialist system, develop science and technology, and enable the forces of production to continue to grow. As for China, the place with the greatest number of people is not necessarily the place with the greatest difficulties. In China's south-eastern coastal region the population is densest and arable land is most scarce, but yields are high and life in those areas is considered good. So the

pessimistic argument is unfounded. We can be confident that by relying on policy, science and technology we will continue to vigorously develop agriculture.

There are innumerable problems that must be examined and resolved in order to carry out the scientific renovation of agricultural technology. From the point of view of leadership, what problems should we pay particular attention to?

I. SCIENCE AND TECHNOLOGY MUST BE USED TO PROMOTE INTENSIVE CULTIVATION AND INTENSIFIED FARM MANAGEMENT

Chinese agriculture must choose the path of intensive farming and reject the approach of extensive cultivation and rapacious management. The former path will concentrate on science and increase production by scientific means. The latter path would only respond to the pressure of the difficulties of feeding the growing population by further expanding the area under cultivation. However, there is very little reclaimable wasteland left in China. Aside from scattered bits in China proper, the largest areas are in Xinjiang and the Northeast [Manchuria], which together have a total of no more than 13 million hectares of reclaimable land, thus there is very little room for expansion.

To extend the area under cultivation it would be necessary to open up wilderness areas in the mountains, to destroy grasslands in order to grow grain and to reclaim land from lakes by building dikes. The results would be excessive felling of trees in forests, shrinking vegetation cover and soil erosion, all of which have already reached impermissible levels. If this kind of trend is allowed to continue it will certainly take us a step closer to destruction of the ecological balance which is the foundation of our existence. If we think only of today and disregard tomorrow we will bequeath disaster to our descendants.

We must regard the principle of 'working out measures to suit local conditions' [*yin di zhi yi*] as a national policy and strictly adhere to it. The work of the last few years in regional agricultural planning and in surveying agricultural natural resources will provide a scientific basis for allocating the nation's production on the basis of 'working out measures to suit local

conditions'. This work should be accelerated. The purpose is to place the different kinds of production in the most appropriate locations. If an area is suitable for forestry then it should engage in forestry. If it is suitable for animal husbandry it should engage in animal husbandry. If it is suitable for fishing it should engage in fishing. We should correct past inappropriate expansions of cultivated area. We should convert land that is unsuitable for cultivation back to forests, livestock-raising areas and fisheries and reduce the proportion of cultivated area.

How, then, is the food problem to be dealt with? The only feasible route left to us is to practise meticulous and intensive farming on the limited cultivated land. Only one-third of China's current cultivated land is truly high-yield. The remaining two-thirds consist entirely of medium and low-yield land. There is no question that we must emphasize raising yields per unit of area, increasing inputs and practising scientific cultivation in growing grain, economic crops, trees and grass.

The reform of the rural economic system in which we are currently engaged has already generated enthusiasm among the farmers. Where should that enthusiasm now be directed? It should be directed in an economically beneficial direction, toward practising intensified farming. If we do not provide guidance the farmers could return to the old path. Extensive development by means of traditional agriculture requires little or no investment and therefore can be carried out with nothing more than labour. Intensive farming, intensive development, meticulous cultivation and scientific cultivation are not simple. They not only require some mastery of science and technology, they also require a certain amount of investment. Thus we must not only advocate intensified farming, we must also take steps to create the conditions it requires. If we do not do so it will only be possible to go in the old direction of extensive farming.

II. MAKE THE TRADITIONAL EXPERIENCE OF INTENSIVE CULTIVATION MODERN AND SCIENTIFIC

China was one of the earliest countries in the world to originate agriculture. Traditional Chinese agriculture still has vigour

and vitality today and its essence is meticulous and intensive cultivation. It incorporates selection and breeding of improved seeds, crop rotation, intercropping, preservation of soil moisture in dryland farming, preservation of all kinds of plants, field management, construction of water-control projects and many kinds of management and multi-purpose systems. A major advantage of this body of traditional experience is that it helps to protect the ecological environment by emphasizing biological measures, minimizing energy inputs and fully utilizing the natural energy cycle. However, traditional agricultural experience is limited and dependent on circumstances in many respects. Only by providing it with a scientific foundation can it be changed into modern intensive farming.

For instance, using organic fertilizer or planting green manure crops can improve the structure of the soil and even resolve the deficiencies of phosphate and potash fertilizers while also avoiding the harm done by the 'petroleum agriculture' that exists in other countries. We must try to find a way to make coordinated use of chemical fertilizer and organic fertilizer.

Another example is China's rich resource of plant and animal species and varieties. Survey findings show that China's cultivated and wild species account for one-eighth of the world's total resource of biological species. Breeding can produce improved varieties of plants with greatly increased photosynthesis efficiency, resistance to disease, ability to adapt to adverse circumstances and energy-transformation efficiency. This is a very worthwhile expenditure of knowledge and labour.

Chinese agriculture has historically raised many kinds of crops and livestock, but it has failed to establish a system for dealing with science. Now we must strengthen scientific research and ensure continuing breeding innovations by drawing on our rich supply of native varieties along with superior foreign varieties to develop new strains of crops and livestock. Some pure native species should also be preserved in order to prevent key native varieties from becoming mixed with foreign breeds.

Once we have made advances through scientific methods in the use of organic fertilizer and breeding improved varieties we will be able to move ahead in intensive agriculture and raise the effectiveness and productivity of land use. Our labour resources are very plentiful and because we have an advantage in this respect we can make use of some new technologies that

require both intensive knowledge and intensive labour. These technologies cannot be used by many of the technologically advanced countries because they do not have enough labour.

III. INTEGRATE BIOLOGICAL TECHNOLOGY WITH ENGINEERING TECHNOLOGY

In modern agriculture appropriate industrial inputs are indispensable. Indeed, at one time people thought agricultural modernization consisted only of mechanization, the use of chemicals and increased irrigation. This approach focused only on adding new industrial inputs from outside agriculture and overlooked the potential for making integrated use of natural mechanisms through scientific knowledge of biology and ecology. On the other hand there was also a period when quite a few comrades advocated ecological and organic agriculture and looked down on the use of chemical fertilizer, construction of water-control projects and mechanization. These two approaches both have valid aspects and they are both one-sided. We must heed the correct elements of both points of view and not emphasize one while neglecting the other.

Agriculture is not a closed system. There are losses in the cycle of converting matter and energy that must be replenished. The people of ancient times ate what they received from the land and returned material to the land in the form of nightsoil. Today a growing proportion of the population lives in cities, requiring increasingly large quantities of grain, lumber and other agricultural products to be moved in from the countryside each year. Much of the material residues of the agricultural products that are consumed in the cities cannot be returned to the countryside. There are also several hundred million tons of organic matter from stalks that are used for cooking fuel that do not return to the soil. Farm animals eat grass and the portion of energy they expend in living also cannot return to the soil. Thus from the point of view of the energy cycle each year agriculture has a negative expenditure of energy, an energy deficit.

In order to increase agricultural yields it is necessary to increase the amount of inputs that are replaced. In the past, traditional agriculture used only organic fertilizer and yields

generally did not exceed 100 kilograms per *mu* (.067 hectare). Modern agricultural yields are seven or eight times greater than those of ancient agriculture. According to estimates by some scientists in countries like the United States, 50 per cent of the increase in grain yields comes from the use of chemical fertilizer and substituting inorganic material for organic material.

Thus chemical fertilizer, pesticides, irrigation and machinery are indispensable. We hope in the future to be able to maintain the supply of chemical fertilizer at over 100 million tons a year and to increase the irrigated area from about 46 million hectares to about 56 million hectares. Naturally in areas that lack water we must raise the yields of dryland farming. In the provinces of the north-west that practise dryland agriculture there are cases of yields of over 250 kilograms per *mu*.

There has been some dispute over whether or not China should pursue mechanization, but the experiences of the last several years have answered this question. Between 1978 and 1983 the total power of agricultural machinery increased by 85.38 million horsepower. The number of large and medium-sized tractors grew from 557 000 to 840 000, while the number of small tractors increased even faster, from 1.37 million to 2.75 million. Today, in the provinces of Anhui, Guangdong, Henan, Fujian, Guangxi, Qinghai and Ningxia, tractors purchased by individual farmers account for over half the total. In addition to tractors farmers have also purchased large quantities of trucks, processing machinery and irrigation machinery. This phenomenon objectively shows that the rural areas require mechanization.

Not only can mechanization replace human and animal power and increase labour efficiency, it can also increase production and harvests in ways that are impossible for human labour. For example, mechanized sowing and harvesting can save time, help farmers keep up with the seasons and reduce risk. The use of a machine to spread a thin coating on the soil can increase labour productivity by dozens of times and is very much welcomed by the farmers. Seed-selection machines can economize on seeds by ensuring a high sprouting rate. The most appropriate way to improve cold, waterlogged fields is to use a tunnelling machine to dig underground tunnels, a task that would be difficult to accomplish with human labour. We

can see then that the mechanization approach to modernization is not contradictory to the approach of biological technology but that they are mutually complementary.

What can we say about past efforts at mechanization? There have been both achievements and valuable lessons. What are the lessons? There are three important ones: the first regards the practice of calculating only the extent to which machinery can save labour and raise labour productivity, while neglecting to calculate economic benefits and overall results. We can now see that this kind of evaluation is inadequate. It is also necessary to assess the possibilities for relocating displaced workers. Can they earn money elsewhere and will the money they earn be enough to offset the increased costs of the machinery? If not, then we should see whether or not these machines have some other benefit that can make up the difference. Machines that are not profitable cannot be maintained.

The second lesson is that mechanization in China cannot work unless it is coordinated with the development of a diversified economy. In the previous period we overemphasized returning the labour force to the fields, thereby limiting economic diversification. This caused farm incomes to decline, making machinery purchases dependent on borrowing money. Without a diversified economy a great portion of the labour force was under-utilized with the result that mechanization could not increase labour productivity and economic benefits to levels as high as they should have reached. Chinese farmers produce one thousand kilograms of grain per worker while farmers in some other countries produce hundreds of thousands of kilograms. Under the conditions that exist in China mechanization can only succeed if it develops in coordination with diversification of the economy. What we need is not merely mechanization of agriculture but mechanization of the rural areas. Why is mechanization successful in some places where population is dense and land is scarce? The reason is that in those places the diversified economy is well developed, income levels are high and mechanization has been well coordinated with the diversified economy.

The third lesson is that we must regard agricultural machines as commodities, that we should exchange them as commodities and that we must respect the users' right of choice. Formerly mechanization was simply regarded as a task and neither the

farmers nor the state worked out the costs and benefits. There is no question that when the national budget is in good shape it should provide financial support for the technical transformation of agriculture, but to achieve efficiency agricultural machines should still be exchanged as commodities through the interaction of buyers and sellers.

It is also necessary to provide services on a commercial basis, such as spare parts supply, and maintenance and repair services. Any factory that provides good service and builds a record of trustworthiness can compete and capture part of the market. Since these services will be provided on the basis of commodity exchange they will be compatible with different economic management forms including collective units and individuals. Agricultural machinery services can be provided by joint organizations and also by specialized households, by large collectives and also by collectives as small as several individuals. Whether they are collective, individual or state-run units, they should all act as service enterprises and avoid any trace of coercion or commandism. We cannot improve economic efficiency unless we eliminate the ills of 'official business' [*guanshi*] and 'official operations' [*guanban*].

IV. USE SCIENCE AND TECHNOLOGY TO PROMOTE COMPREHENSIVE RURAL DEVELOPMENT

The Party Central Committee has called for rural areas to develop all aspects of agriculture, forestry, animal husbandry, sideline production and fishery and to engage in comprehensive management of agriculture, industry and commerce. This policy, along with the responsibility system, has caused rapid changes to appear in the rural areas, demonstrating its importance and validity.

In addition to focusing on grain production and the needs of crop cultivation, science and technology should also stress research on development of sectors such as forestry, animal husbandry, fishery, township enterprises, transportation and storage. They should help the rural areas develop new industries that will promote cyclical and comprehensive utilization of rural resources and agricultural by-products. Attaining the nation's goals for the year 2000 depends on the extent to

which the diversified economy is developed. The first priority must be to ensure grain production and reach an annual output level of between 450 million and 500 million tons of grain. In order for the farmers to become prosperous, however, it is also necessary to increase the comprehensive utilization of agricultural resources and to accelerate comprehensive development of a wide variety of industries.

Agriculture inherently requires comprehensive development. Agriculture is a whole comprised of interdependent relationships among the different factors of nature. First there are agriculture, forestry and animal husbandry, three inseparable parts which must be developed simultaneously. To pursue only one of these would lead to disaster which we cannot allow to happen. In addition, we advocate that the rural areas should operate more industry. The original self-sufficient and partially self-sufficient rural economy cannot satisfy the needs of society. It must change toward large-scale commodity production to provide society with more surplus products that can be exchanged for other required products. In order to become commodities, products must go through the stages of processing, storage, transportation and marketing. We advocate that township enterprises take the products that the rural areas cannot themselves consume and turn them into commodities through these stages. After the primary products have been processed they will increase in value and with transportation they can be marketed in all corners of the land.

Our ancestors had experience in comprehensive utilization. We should strive to transform traditional methods into new methods by means of science and technology. For instance, the Lake Tai region possesses an abundance of both water and land, making it possible to raise pigs, silkworms, chickens and ducks and to cultivate aquatic plants and mulberry trees. These production activities combine to form a cyclical system which utilizes the different resources one by one. It is also a quintessential example of China's agricultural tradition and deserves to be carried on and enhanced. Another example of cyclical utilization is that many places use straw to feed livestock, excrement from the livestock produces methane gas, the methane gas supplies energy and the residue is used as fertilizer. Introduction of a modern processing industry would raise the efficiency of this cycle.

If we increase cyclical and comprehensive utilization and expand the scope of processing we can increase land productivity by ten or a hundred times. From now on we should encourage this aspect of technical research and reward practical results with material support.

V. WE MUST EMBRACE THE NEW TECHNOLOGICAL REVOLUTION

Around the world today the advanced industrial countries are all engaged in adjusting the structures of industry and technology in order to prepare to incorporate technological innovations from micro-electronics, new materials, new energy sources and biological engineering. These new technologies can be extremely useful for industrial production and can also exert great influence on the development of agricultural production. This is a challenge that we cannot ignore. Our new agronomy must take the innovative technologies and novel achievements of all disciplines and put them to use within agriculture in order to raise our intensive and meticulous farming to a new level. The relevance of genetic-engineering research is most immediate and warrants our most energetic preparations and efforts to catch up with the leaders in the field.

Historically China contributed four great inventions to science and technology [paper-making, printing with movable type, gunpowder, the magnetic compass], but in the modern period, at the very time when other countries were experiencing the Industrial Revolution, the government of the Qing Dynasty (1644–1911) closed the country to international commerce and consequently lost the opportunity to remain abreast of the new technology. Following the Second World War, science and technology again made great advances all over the world. In 1956 we began trying to catch up but afterwards the effort slackened and soon the 'Great Cultural Revolution' brought it to a complete halt. Today the world is engaged in a new technological revolution and this time we cannot allow further mistakes.

Despite modern advances agriculture will still have to employ

basic technologies such as chemical fertilizer, machinery, water control, transportation, cultivation and breeding. We should not think that the original nature of agriculture will disappear and that we can quickly move to producing agricultural products in industrial fashion, raising all our crops inside rooms on nutrient liquids controlled only by computer. I believe that agriculture cannot be eliminated. The great majority of crops will still have to depend on natural growth, on photosynthesis, on chlorophyll to transform solar energy, and on the land. In certain desert regions, barren areas and high and frigid areas it may be possible and necessary to implement factory-style production of some vegetables but in general large-scale cultivation will continue to rely on the soil.

New technology can help us use natural forces more effectively but it cannot take the place of natural forces. For example, while the uses of genetic engineering have gone far beyond what was formerly imagined, still in the end it merely makes use of natural laws and mechanisms. What this means is that mastering current technology today and applying new technology tomorrow are the same in the sense that we are always working with natural forces and the laws of biology. The purpose of today's work is to build a foundation for the future. Tomorrow's progress will develop on the basis of today's progress. We want to make a planned, concerted effort to catch up with the tide of technological progress, not to eliminate agriculture but to revolutionize agricultural production by arming it with modern science.

The most important preparation for the technological revolution is to train qualified personnel. We must have good schools and good training courses. We should increase the training of rural local cadres and technical personnel in specialized households and we can also select some people who are relatively well-educated and send them to universities for directed training. When scientific technology is introduced in the countryside we will then be able to organize the masses to teach themselves and study on their own and we will see the emergence of rural technical personnel. The first prerequisite of the new era is a cohort of properly trained personnel. If we have the qualified personnel we can keep up with everything else.

VI. SCIENCE AND TECHNOLOGY SHOULD BE USED TO HELP STABILIZE THE NEW PRODUCTION RELATIONSHIPS AND THE PRODUCTION CONTRACT SYSTEM

During the last few years of reform in the rural collective economy the emphasis has been on implementing the production contract responsibility system. Why call for science and technology to help stabilize and improve this production relationship? Because of the continuing problem of the small and narrow scale of household farming. Today each family farms seven or eight *mu* of land. In the future, part of the rural population will leave the land to find jobs in other sectors and the land will become concentrated in the hands of specialized farming households with each household's land possibly increasing to 20 or 30 *mu*. Is it possible to implement modernization at this scale of operation?

The experiences of other countries indicate that the scale required for modernization depends on progress in science and technology and the socialization of production. Agricultural progress in the nineteenth century depended primarily on mechanization. After the 1930s progress was also achieved through chemical engineering, biological engineering, scientific management and scientific cultivation. These advances made high yields possible even on small-scale farms. Because we have relatively little arable land family farms can only modernize by engaging in scientific farming, intensive cultivation and small but specialized and socialized production. The greater the progress of science and technology the more successful this approach will be.

In sum, the task of technological transformation in a country as large as China is difficult, complex and extremely important. We need further research into major questions regarding the technological transformation of Chinese agriculture, such as the scale of transformation, the direction it should take, its goals and speed and where to place emphasis in different kinds of areas. I hope that more comrades will bring up valuable research results and significant suggestions about this important problem in order to help carry out the task of transforming China's agricultural technology more effectively and completing it more quickly.

NOTES

1. V. I. Lenin, 'Speech to the First All-Russian Congress of Land Departments, Poor Peasants' Committees and Communes', in *Collected Works of Lenin* (Chinese) (Renmin Chubanshe, 1956), vol. 28, p. 324.
2. F. Engels, 'Engels to H. Starkenburg', in *Selected Works of Marx and Engels* (Chinese) (Renmin Chubanshe, 1972), vol. 4, p. 505.

7 Specialization and Commercialization in Rural Production

'Nongcun shengchan zhuan'yehua, shangpinhua wenti.'

A speech delivered at the National Conference
on Rural Development Planning,
29 October 1984

Reform of the economic system is gradually unfolding following the Third Plenary Session of the Party's Twelfth Central Committee. The Plenary Session set explicit tasks for rural reform that coincide with the trend of development, namely that rural production will advance toward the goals of specialization, commercialization and modernization. Reform efforts will proceed on three fronts: reform of the rural economic system, reform of the rural production structure and reform of agricultural technology. During the last few years the emphasis has been on reform of the system. The next few years will focus on reform of the production structure and the needs of specialization and commercialization. Systemic reform will continue and technological reform will also be addressed. Our policies on technology and the economy must allow for a continuously changing situation. Our thinking cannot stagnate and our work must be intensified.

I. AGRICULTURE IS THE FOUNDATION OF THE NATIONAL ECONOMY

We must all clearly recognize and understand the concept that agriculture is the foundation of the national economy. It is an indisputable fact that, as a country with a population of one billion people, we have to rely on ourselves to solve our food problem. There are currently about 200 million tons of commodity grain on the international market. China has a

larger population than any other country and if we were to have a shortfall in grain of 20 per cent we would need between 80 and 100 million tons. There is nowhere that such a large amount could be purchased and if it was purchased it could not be transported. The situation is the same for cotton and pork. Unless there is a miracle in world agriculture it will be very difficult to change this supply and demand situation within the next 50 to 100 years.

China's 800 million farmers make up 80 per cent of the total population and constitute a great market for our industry. Our industrial development will be limited unless it is based on the domestic market and first of all on the rural market. Some Third World nations have promoted industry in a few big cities while neglecting the rural areas, resulting in unbalanced development. Their industrial products are not competitive except for some mineral and primary goods that have international markets. And because of weak market formation in the rural areas domestic sales of the industrial products of their own people are also poor. This is a lesson that we should remember.

These 800 million farmers constitute a great consumer market but if much of the rural population goes into industry will this market disappear? Will it no longer be true that agriculture is the foundation of the national economy? No. Although rural people will switch to other sectors the majority of them will remain in the countryside and they will still consume.¹ As a result, newly opened rural industries and the 'third sector' [services]² will all want to increase their purchases of production materials. Progress in mechanization, chemical use, electrification and scientific methods will mean progress in the organic composition³ of agricultural production and this will expand the market for industrial production materials. In the future agriculture will continue to develop, increased inputs will be required and more industrial materials will be needed. Thus there is no question that the rural areas will continue to be industry's most reliable and largest market. In addition, the raw materials required by many urban factories come from the countryside and the textile and light industries that are based on China's own raw materials are the foundation of China's industrial capital accumulation. The 'third sector' is also inseparable from agriculture. Thus we can affirm that

agriculture is the foundation of the national economy from beginning to end.

It is time for us to take a broader view of agriculture. When we talk about agriculture we are speaking either of traditional agriculture or of agriculture that makes use of current modern technology. We should also consider the possibilities presented to agriculture by the newly emerging technologies. Agriculture was the earliest form of production developed by humanity, but compared with industry its technological progress was extremely slow. Industry used science and technology to create huge amounts of wealth from the earth's mineral resources. In a sense agriculture is still untouched land waiting for scientific development. If the achievements of physics, chemistry, biology and the other technical sciences are comprehensively applied to developing and utilizing land they will bring about a new industrial revolution by creating new industries and materials that have never before been used. This prospect is recognized by people in the developed countries who consider bioengineering to be the focal point of the new technological revolution.

It is a shame that there are many people in our country who underestimate agriculture and even want to leave careers in agriculture. Anyone of lofty ideals should promote the cause of rural undertakings, perform their duties vigorously and never regard rural work as insignificant or unprofitable. The time has arrived when this kind of short-sighted and shallow view must be cast aside.

II. COMMERCIALIZATION OF RURAL PRODUCTION

The resolution of the Third Plenary Session of the Twelfth Central Committee affirmed that our socialist economy is a planned commodity economy. This conclusion was reached only after years of experience and at great cost. It is particularly important for agriculture because the potential scope of activities for regulation by the market is much greater in rural areas than in urban industry. We must prepare for the profound changes and pervasive effects that will result from shifting agricultural production into the orbit of the socialist commodity economy.

Development of a commodity economy also means development of productive forces. This was the case for former societies and it will continue to be true for a long period in socialist society. China's rural areas have implemented the socialist system but socialization of the forces of production is inadequate and most areas are still at the stage of manual labour. If we want to create genuinely advanced and socialized productive forces we cannot rely solely on investment by the state. These are not problems that can be truly solved by one or two discrete investments. For example, mechanization of agriculture does not just mean going out and buying a bunch of machines and considering the job done. Technological transformation is not just a technological problem it is also an economic problem. It is necessary to raise the economic level of the entire society before we can lay the foundation for development. In order to raise the level of the forces of production we need a vigorous economic-development mechanism, which is precisely what a commodity economy can provide for us.

In addition to the commodity economy and commodity exchange we are also committed to the exchange of labour at equal values. Now that socialism has abolished the system of exploitation, the meaning of exchange at equal values is that people who work well will earn more income, will have more purchasing power and will have more opportunities to expand production and improve their lives. Commodity production stimulates the market, provides an incentive for expanding production and forms a self-adjusting economic mechanism. People can work and produce voluntarily without administrative supervision or coercion.

In the last few years the development of production has surpassed our expectations and has caused a change in our thinking. We formerly believed that adjustment by the market was incompatible with planning. We now see that in the current situation it is both possible and necessary to carry out planned management while also relying on adjustment by the market. Adjustment by the market needs the guidance of planning while planning must follow the law of value. Opposite approaches can help to transform conditions in the process of development.

A commodity economy can only create the conditions for its own extinction after it has reached full development. To

prevent it from developing or to eliminate it artificially would be impossible or harmful. Goods cannot fully lose their commercial nature until such a time as society has a great abundance of products and labour is no longer the indispensable means of earning a living and the first demand in life. When this situation occurs people will be able to receive consumer goods from society according to need and break away from occupational limitations to pursue comprehensive personal development. Only at that time can all social production be completely and perfectly arranged through planning. Today we do not have the conditions to implement that kind of perfect planned economy. The law of value is still in effect. Therefore it is necessary to make appropriate use of the regulating mechanism of the market. We should pay more attention to using price policy in guiding rural production and make price policy the main economic lever for guiding the national economy, supplementing it with other policy instruments, such as taxation and credit.

It is well known that in the last few years our price policies have played a key role in adjusting production of cotton, grain and oil-bearing crops. If the supply of rapeseed oil increases it falls again as soon as the price is reduced. If the supply of cotton falls, as soon as the price rises there is more. As far as the broad masses of the farmers are concerned it is only natural that production demands profits. We cannot go against this kind of economic behaviour, we can only adapt to it.

To make farmers' economic interests conform with the interests of the whole we must adjust them by means of economic instruments. When we are studying various production figures we should be sure to consider the economic problems and changes in farmers' incomes that lie behind the figures. We should help farmers to introduce economic accounting and to convert from the former supply-type production to management-type production. In the past they were only required to meet planned output levels and did not care whether their products were good or bad or whether or not they could be marketed. All that counted was quantity while quality was ignored. This is one of the malpractices engendered by the old price system which now must be changed. It cannot accurately reflect the relationship between social demand and production and prevents timely changes in production structure in response to consumer demand.

Once production is linked to the market it is directed by the relationship between supply and demand. Conceptually we must acknowledge that prices change in response to market changes and that price stability does not mean price freezes. There are always some products whose prices must change. From now on we will progressively release products so that they can enter the market. Farmers who produce these products will have to regulate production themselves on the basis of market information and will retain their own profits and bear their own risks.

Changes in prices may cause fluctuations in production but that is no cause for concern. As long as the currency put into circulation is in balance with the growth of production, changes in prices reflect the need for rational adjustments in the commodity production structure. What we seek is steady improvement in the overall level of production. Annual fluctuations caused by natural conditions and changes in market supply and demand are unavoidable. Rational prices can help adjust the structure of production and redistribute labour, funds and land. In doing so they help to raise the level of technology, productivity, product quality and the entire level of social production.

III. REFORM OF THE RURAL PRODUCTION STRUCTURE

Commercialization of rural production is not merely a problem of circulation, it is also interdependently linked to the problems of specialization and socialization of production. As soon as commodity production develops it will inevitably bring about specialization. Specialization helps in the effective utilization of funds and equipment, improvement in the level of technology and reduction of costs, thus accelerating further advances in the development of commodity production. Once specialization develops to a certain point it can cause a transformation in the structure of social industry.

The rural economy has three levels of structure: One is the crop-cultivation structure, which includes production of grain, economic crops, fodder and gardening. The second is the agricultural structure, divided into agriculture, forestry, animal husbandry and fisheries. The third is the rural sectoral structure, which is divided into agriculture, industry and the

various service trades. There is still another kind of structure which is a result of the development of a commodity economy. This is the chain of different specialized processes that a product goes through from the time it is produced until it is consumed, such as production, supply and marketing, science and technology, storage, processing and transportation.

Specialization in the division of labour indicates expansion of the scale of production and more rational and efficient utilization of the factors of production under the new social conditions. This is accompanied by expansion of the scale of exchange and alterations in the structure of consumption. Consumption creates new market demands and the market demands in turn accelerate changes in production structure and technological progress. In this way there is unending cyclical stimulation of economic development.

An example can be seen in chicken raising, which can be transformed from a household-sideline style of operation into a socialized sequence of specialized production links including hatching, raising chicks, fattening, processing, cold storage, transporting and marketing. These links both differentiate the producers of commodities from each other and make them dependent on each other, so they are at once specialized and united. The large numbers of specialized households that are emerging in China's rural areas will inevitably have to organize economic alliances for supply, marketing and processing links. If they remain independent and do not develop alliances they will eventually be limited in their opportunities for new development. Organization is a social necessity. If combinations are not formed the demand will be met by operations in which labour is hired privately. There is nothing to fear in a little private hiring of labour but we should affirm that our guiding orientation is still to take the path of the cooperative economy.

In a country as big as China, an attempt to universally commercialize production all at once is likely to produce many failures and few successes. Economic development trends indicate that an effective way to begin is to start out with commercialization in small regions and towns (formerly called commodity production bases). In each area, select several superior products on the basis of local resources and talent and organize the necessary pre-production and post-production services as well as the services needed during production. In

order to carry out the tasks of developing rural commercialization and specialization that were put forward by the Third Plenum we must work out the details of development product by product, problem by problem, place by place. This will require measures such as the construction of relevant infrastructure including transportation and energy facilities, and helping specialized households to organize economic alliances.

Transformation of the rural production structure requires separating the different kinds of production that are carried on together in the household and making them into independent social productive sectors. This will transform the production structure from a partially self-sufficient economy into a commodity economy and from a household economy into a social economy. For example, animal husbandry formerly existed only in the form of very small-scale family sideline operations and most of it may well continue to exist in this form for a fairly long period of time. However, large-scale animal husbandry will also develop steadily because of changes in the consumption demands of both rural and urban dwellers, the development of grain production and increased socialization of production. Other industries will similarly follow the trend of changing from small-scale production to large-scale production.

In reforming the rural production structure we should pay particular attention to the development of rural industry. Sectors that formerly produced only primary products should diversify and develop toward more advanced processing. The experiences of some areas with relatively well-developed economies prove the truth of the phrase, 'without industry there is no prosperity'. When we define our industrial development strategy we should be sure to emphasize small-scale industry in the rural areas using the rural labour force and local materials in order to reduce the pressure on the big cities.

There are some people who oppose development of industry in rural areas on the grounds that concentrations of large industry can bring about greater economic benefits. This view is a result of considering individual unit benefits in isolation from the overall benefits. They do not recognize that developing medium and small-sized towns, absorbing a large amount of surplus labour and introducing new processing industries

will contribute greatly to prosperity in the rural areas and in the entire national economy. Furthermore, large industries need to be supplemented by more numerous medium and small industries. The developed countries of the world all have large contingents of small-scale industries and even household factories clustered around big enterprises, helping to achieve greater economic benefits.

There are also people who worry that since the reform programme has stimulated urban enterprises, rural enterprises may atrophy. If we take a broader view we can see that the imbalance in development merely shows that there are places where industrialization has not yet reached saturation and there is still ample room for development of township enterprises [*xiangzhen qiye*].⁴ Naturally some enterprises may be eliminated but generally speaking new enterprises will outnumber those that die. There are times when elimination is a good thing because through competition for survival and development it can force rural enterprises onto the path of economic accounting and technological transformation. We should also remember that there are some industries in which township enterprises occupy a naturally advantageous position because they rely on local materials. Rural industries such as processing of local agricultural products, production of building materials, small mines and small energy plants will not only survive but may well experience new development.

When we say that 'without industry there is no prosperity' we should add that 'relying on agriculture can also lead to prosperity'. The historical experience of many years shows that operating a single-product economy results in poverty. If we take a new approach and establish a new production structure integrating agriculture, forestry, animal husbandry and processing, farmers' earnings will increase and they too will become prosperous. Forestry has great potential that can be tapped, and gardening, 'three-dimensional agriculture' and the courtyard economy can earn over 1000 yuan per *mu*. There are soil resources everywhere that people can get to work on.

Animal husbandry is particularly worthy of attention. Not only can development of animal husbandry use up surplus grain, it can also create new products and new incomes. The difficulty in developing animal husbandry is that it is constrained by both the level of grain production and the level

of consumption. In order to break through the grain constraint it is necessary to ensure that grain output grows steadily. It is not impossible that in the future there may be between 125 million tons and 150 million tons of grain available for animal feed each year. The only way to break through the constraint imposed by the level of consumption is to reduce costs in order to supply more inexpensive meat, poultry and eggs at prices consumers can bear.

The experiences of some places demonstrate effective methods for handling the feed problem. If the feed industry is well managed the price of feed is reduced and new sources of feed are opened up. High-protein feed can save 50 to 100 kilograms of grain in raising a pig, and a lean-meat variety pig can still get enough protein to grow to a weight of 85 kilograms in six months. Straw, chaff and tree leaves can be combined to make a nutrient culture for producing mushrooms. The nutrient material can then be converted by microorganism engineering into a bacteria and chaff animal feed. Through further microorganism engineering, pig manure can be used to simultaneously raise earthworms and operate methane gas generating pits, completing a cyclical food chain. If these methods are disseminated and supplemented with an integrated network of slaughterhouses, processing plants and storage facilities, great results can be achieved.

Currently there are some animal husbandry areas where grass is scarce and livestock is numerous. In the future, animal husbandry areas can do the breeding while the fattening process can be located in agricultural areas. Cattle and sheep produced in Inner Mongolia can be fattened, slaughtered and processed in the mixed agriculture and livestock regions of the Hetao area (in the Great Bend of the Huanghe [Yellow] River), Hebei and Liaoning. Agricultural areas may also begin a hay-growing industry to produce more profitable animal feed. This is a form of regional division of labour.

Structural adjustment involves a problem with grain, which is 'the foundation of the foundation'. We do not just want the grain supply to remain steady, we also want to make every effort to ensure that it steadily increases. Currently there are some places where grain is not selling well. This is a temporary phenomenon that is caused by relative oversupply due to a low level of consumption, and reflects an imbalance between the

structure of production and the structure of consumption. If we look a step into the future we can see that as soon as the livestock industry has expanded the grain supply will no longer be in excess.

The development of grain production is intimately interrelated with market demand. China has made it through the period of struggling to meet basic food and clothing requirements and we can now satisfy our grain needs. However, if we do not expand market capacity the marketing of grain will be limited and the market price may fall, making grain production unprofitable for farmers and causing an automatic decline in production.

Price stimulation that is divorced from the level of consumption can only increase government subsidies and cannot sustain vigour in grain production. The fundamental way to resolve the problem of grain production is to shift from reliance on government subsidies to stimulating market demand. The key to stimulating market demand is to develop the livestock industry, transform the structure of production and initiate a consumer market. This is the insight we have gained from the commodity economy. In China's current situation the level of demand cannot rise very quickly, therefore in developing grain production we must pay attention to improving economic results, increasing productivity, energetically lowering production costs and producing more inexpensive grain.

Energetically reducing grain production costs does not mean that we can neglect price adjustment. As inputs for grain production rise there will also be a relative increase in costs. If the situation does not allow prices to be raised we can at least increase the difference between the prices of animal feed and food grain and handle them separately. If high-quality food grain has a high price it will induce more production of japonica rice and high-protein hard-grained wheat. Corn is primarily used in animal feed and in industrial grain uses. We should maintain an appropriate ratio of corn to fine grain [wheat and rice] and establish a rational price relationship that is beneficial to grain transformation and appropriate to new patterns of food consumption.

Another major problem with grain production is its regional distribution. It is necessary to take account of the conditions

in different regions, particularly with regard to transportation. In many places that are deficient in grain it is very difficult to transfer grain in because of poor transportation facilities and high transportation costs. There are other places where grain is plentiful but cannot be shipped out. We should balance grain production among regions and set up commodity grain production bases according to the regional breakdown of the market, being careful to keep transportation distances as short as possible.

Places that are both deficient in grain and have trouble importing it must increase the proportion that they supply for themselves. Places that have plentiful grain but cannot ship it out must concentrate on improving local transportation facilities. Places that are deficient in grain but have good transportation, such as Guangdong and Fujian, can change their cultivation structure to take advantage of local conditions and employ a better selection of crops. For the country as a whole we must work to resolve transportation problems and increase the market turnover rate of grain in all areas.

NOTES

1. 'Consume' here refers to use of goods for both individual consumption and production. See Glossary. [Editor's note.]
2. 'The third sector' [*di san changye*]: services – third after the two 'material' production sectors, agriculture and industry. Prior to the reform programme the service sector was de-emphasized and was not included in national income accounts. [Editor's note.]
3. 'Organic composition' refers to the 'organic composition of capital'. See Glossary. [Editor's note.]
4. 'Township enterprises' [*xiangzhen qiye*]: literally, 'village and town enterprise'. This term generally replaced *shedui qiye* ('commune and brigade enterprise'), after the communes were largely dismantled in 1983 and 1984. Both terms effectively mean rural enterprises owned and operated at the county level and below. [Editor's note.]

8 Social Goals Related to Development of the Rural Commodity Economy

*'Guan yu fazhan nongcun shangpin jingji de jige
shehui mubiao.'*

A speech delivered at the National Conference
on Rural Work, convened by the Party
Central Committee, 20 December 1984.

Published in *Hongqi (Red Flag)*, 16 April 1985, pp. 14-19

The rural situation is improving year by year. The enthusiasm of the masses is rising, all aspects of agricultural production are growing and there is particularly rapid development of the commodity economy. The task we now face is to sustain this momentum.

As in other matters there are two different aspects of the commodity economy. On the one hand, development of the commodity economy will push forward development of the forces of production. In order to complete the construction of socialism it is necessary to develop a socialist commodity economy. On the other hand, development of the commodity economy also creates contradictions and requires that we make appropriate adjustments in many relationships such as the relationship between rural and urban areas, the economic relations between regions and the relationship between the commodity economy and the cooperative economy. Lack of attention to adjusting these relationships can result in overall imbalance and even deviation from the socialist orientation. For this reason it is necessary to decide on several key social goals.

I. WE MUST INTEGRATE THE RURAL AND URBAN AREAS FOR MUTUAL PROSPERITY

A phenomenon that has appeared in many capitalist countries and even in some Third World countries is that development of a commodity economy brings about excessive prosperity in the cities while the rural areas remain poor for a long time. The functioning of the law of the market initially causes funds and talented people to flow from the countryside into the cities until there is a reduction in the rural labour force and the supply and demand relationship for agricultural products becomes strained. It is only after this point that funds and talent from the cities return to the countryside. In the meantime it is necessary to go through a long and painful process. How can this be avoided in a socialist country?

Comrade Mao Zedong long ago argued that agriculture should be the foundation of the economy while industry should take the lead. Later he also argued that the priority sequence in planning should be agriculture first, light industry second and heavy industry third. In spite of this, rural development in China has been slow for many years. As a result of the 'scissors differential'¹ in the prices of industrial and agricultural products, rural funds continue to move into the cities and the disparity between the incomes of rural and urban people is relatively large. There are very few intellectuals in the rural areas, especially higher-level intellectuals, and middle-school graduates who get into universities also move to big cities. Therefore the transfer of technology from cities to the countryside is very difficult and there are few channels for transferring funds, so that progress can only be carried out with the assistance of bank loans and financial allocations from the state.

If we know about the 'scissors differential' why don't we get rid of it as soon as possible? The existence of the 'scissors differential' generally cannot be changed by human will. Technological innovation and labour productivity increase much faster in urban industry than in the countryside. Therefore the 'scissors differential' will continue to exist whenever there is technological innovation. Furthermore, industrialization in China relies on accumulation of the country's own funds not only in industry but also in agriculture. In order for the state to maintain a proper proportionate relationship between

accumulation and consumption it cannot increase the prices of agricultural products too rapidly. In a developing socialist country it is necessary at certain times to collect a portion of farmers' incomes for building socialist industrialization. It is also necessary, however, not to exceed the allowable limits and take too much accumulation from farmers. This can create rural poverty and threaten the stability of the alliance between workers and farmers.

During the last five years we have emphasized protection of agricultural production and have allowed farmers to build up their strength. We have raised the prices of agricultural products, allowed the rural areas to retain certain accumulated funds, increased the supply of production materials and particularly implemented the production responsibility system. These measures have stimulated the enthusiasm of the farmers with the result that in the last few years a situation of mutual prosperity in urban and rural areas has emerged. This does not mean, however, that the possibility of growing differences between rural and urban areas has been eliminated. We are currently engaged in reform of the urban economy and creating a planned commodity economy in order to make use of the law of value to promote good enterprises and eliminate backward ones. In this kind of situation it is possible that the original rural-urban technological gap may increase, placing the rural areas at a competitive disadvantage. How can we prevent this gap from expanding? Obviously we cannot rely solely on prices because the prices of agricultural products cannot be raised limitlessly. It is also not realistic to demand large increases in state investment in agriculture because the state's financial capacity is limited.

If we want to reduce the disparity between rural and urban areas we must satisfy the following two conditions.

1. Labour Productivity in Agriculture must be Greatly Increased

Currently China's total annual grain output is 400 million tons, which ranks first in the world, but average output per labourer is only 1.2 tons, which is very low. In the United States the grain produced by one agricultural worker can support 52 people, while we still lag far behind. If productivity is too low it is difficult to increase per capita income.

2. The Proportion of the Rural Population that is not Employed in Agriculture should Increase and the Proportion of the Agricultural Population should Decrease

The Party Central Committee pointed out long ago that with 300 million labourers all concentrated in the fields it would be impossible for the 800 million farmers to prosper. But for many years a good method of changing this situation was not found. The experiences of the last few years have furnished a solution. It is to develop a diversified economy and take the path of comprehensive development.

Rational industrial policies are necessary for the development of a commodity economy. The composition of rural industry should include the second and third sectors in addition to primary products. The second sector includes processing industries and the third sector is composed of the service industries. In China there are many people, land is scarce and we cannot allow large numbers of farmers to move into the cities. The only solution is to bring about full employment by locally expanding production, absorbing excess labour and making transfers so that workers leave the land but not the countryside. In the last few years China's non-agricultural rural population has increased to nearly 100 million and in 1984 the output value of township enterprises was nearly 150 billion yuan. This is a most encouraging change that has laid the foundation for the establishment of a new rural production structure and has opened up the prospect of mutual rural-urban prosperity.

The second sector in the rural areas can be broadly divided into two categories: processing industries for agricultural and sideline products, and ordinary industry.

i. Processing industries for agricultural and sideline products. The primary and final processing of agricultural and sideline products, including grain, cotton, oil crops, animal-husbandry products, aquatic products, fruit, vegetables, sugar, hemp, tobacco and silk, all used to be concentrated in cities, but from now on the emphasis in new development will be to locate processing in the rural areas. Processing that cannot be done by individuals will be handled by collectives. Those that cannot be managed by collectives will be done by localities. And those

that cannot be handled at the local level will be managed by the state.

Some comrades hold the short-sighted view that processing agricultural products is not worth doing because it is not very profitable. In the future there will be increasingly important reasons for expanding agricultural-product processing. Chinese agriculture advanced beyond the primitive level to the stage of intensive cultivation at a very early date, but generally speaking it is still at the level of self-sufficiency or semi-self-sufficiency with a low proportion of commodity products. It is now necessary and possible to intensify farming, to strive for greater output by increasing inputs, to engage in large-scale commodity production and to break out of the stage of self-sufficiency. Large-scale commodity production depends on a large market and therefore processing of agricultural products is a key requirement. Only processing can bring about new product characteristics and expand the scale and scope of supply. For example, if milk is not processed it can only be supplied to the local area and no additional milk cows will be raised. A dairy-product plant expands the size of the market that can be supplied. At this stage an entire series of industries that serve the processing of all products – including storage, packaging and transportation – can all develop at the same time.

We can predict that in the future agriculture will enter a new stage, namely the stage of intelligence agriculture [*zhili nongye*]. By using the newest scientific results of genetic engineering it will become possible to create new species of animals and plants to meet the needs of humanity. These species will have strong resistance traits and various superior qualities. At that time there will be an earthshaking change in agricultural production.

For a long time the results of science and technology primarily contributed to industry and were not particularly useful for agriculture. Microelectronic technology, microorganism technology, mathematics, physics, chemistry and the various frontier sciences produced many new technologies and new materials that were not transferred to agriculture. Since the 1970s the transfer process has accelerated and some years from now a breakthrough can definitely occur. We can be sure that with the addition of scientific processing, farming and aquatic cultivation will become a completely new industry with greatly expanded scale and output value. The era of wasteless agriculture will soon arrive.

ii. Ordinary industries. This kind of industry, which is currently concentrated in the cities, also can and must be developed in the rural areas. It was mentioned above that in a commodity economy good enterprises will succeed and bad ones will be eliminated. Can rural industries avoid this fate? Under the conditions of the law of value it cannot be avoided. However, the commodity economy also has another function which is to disseminate technology. Since economic development is uneven there is a tendency for technology to shift from advanced areas to backward areas, with advanced areas retaining third-generation production technology and transferring out the first and second generations. The two processes of elimination and transfer exist at the same time. In China's rural areas labour is plentiful and wages are relatively low. There are some urban industries, particularly labour-intensive industries, that can be successfully transferred to the countryside. Here the first step is to make labour-intensive products and then move on to more advanced products.

Some comrades do not entirely approve of operating industry in rural areas. One of their major reasons is that rural industry is small-scale and has a low level of technology. However, industry always has large, medium and small-scale elements. It is not possible to have only large industry without small or small without large. An enterprise that is small and specialized is not necessarily backward in its technology. The small mining and building-materials industries in particular can fully utilize local materials and labour. There is no need to worry about their future prospects. Another objection to rural industry is that the economic benefits are not high. The problem here is in the criteria that are used to evaluate economic benefits. If we only look at one criterion the economic benefit may not be as large as in urban industry, but in terms of the entire society the economic benefit of an arrangement that provides employment for several hundred million workers and resolves a historically difficult problem must be considered very great!

In addition to the relationship entailing exchanging industrial and agricultural products between the cities and the countryside there must also be economic linkages in the second and third sectors. This kind of relationship will promote the transfer of technology, the exchange of skilled personnel, the circulation of funds and the development of small cities and towns. It will bring about a relatively balanced distribution

of industry and agriculture with rural and urban areas mutually supporting each other, developing together and prospering together.

II. COORDINATE DEVELOPMENT OF THE COMMODITY ECONOMY WITH DEVELOPMENT OF THE COOPERATIVE ECONOMY

How will rural people be affected by development of the commodity economy? The household production contract system and two-tiered economic management have been implemented in the last few years restoring household farming alongside collective farming. The results have been very good and this approach should be continued for a long time. The essence of household farming is that farmers carry out their activities as relatively independent commodity producers. Independence and the right to make their own decisions stimulate them to expand production and achieve prosperity through their labour. This has become an important factor of social production and has accelerated the process of rural development. It is the most profound and tremendous change that has occurred in the rural areas.

Some people say that this situation may create polarization but we believe that it will not because our commodity exchange is socialist. There is no exploiting class in the market and there is no surrendering of the means of production. There are only proletarians offering for sale the special commodity of labour. Our commodity exchange is exchange of labour for equal value and is fundamentally consistent with the basic principle of more income for more work. Therefore today's commodity exchange is not only different from that in a capitalist society it is also different from that during the few years after land reform in the initial period of the People's Republic. This is because we have already carried out the transformation to socialism and have established socialist public benefits.

Currently there are some individual businesses and their numbers may increase further in the future. They are controlled and restricted by the socialist system and they serve as a necessary supplement to the socialist economy. Their incomes may increase but the socialist central component of the

economy will increase even more rapidly. Their existence and development cannot affect the basic economic structure. The crucial question lies in how to bring them into the orbit of socialism after the commodity economy has developed. We must steadfastly keep to the cooperative road and never take the road of capitalism.

The goals we seek in developing commodity production are identical to those of perfecting the cooperative system and the processes are also identical. How can we say the goals are identical? Because the objective of both is to develop the forces of production. In our past experience, when a collectivized system with a high level of public ownership was imposed on the farmers it inevitably became 'eating from one big pot'. On the other hand, by the same logic, once the productive forces have developed and have provided the material prerequisites for the cooperative economy we must then take active measures to refine the cooperative system. This is the work that lies ahead of us.

If we do not take up the task of perfecting the cooperative system at the right time we could fall behind the masses. At a certain stage in the development of the commodity economy by the farmer masses they will encounter limitations in developing individual and household economies and will require expanded scales of management and certain kinds of social services. In this situation the commodity economy can produce two different trends. One trend is unification and cooperation, but if this trend is not guided it can engender the other trend, which is to concentrate the means of production in the hands of big families while small families have to attach themselves to big families in order to survive. The latter trend has not yet appeared but this possibility must be recognized.

It is not good either to be too hasty nor to lag behind the demands of the masses. The earliest unified demands of the farmers are for joint [*lianhe*] supply and marketing. Afterwards come demands for combined services in areas such as processing, water control and agricultural machinery. In the 1950s cooperativization originally began with supply and marketing. Afterwards cooperative production was initiated too hastily.

Now we have turned around and again must emphasize the organization of voluntary alliances by farmers in supply and marketing links, processing links and other technical-service

links. We should make use of existing cooperative organizations that have already undergone reform, such as regional cooperative organizations, and improve the quality of agricultural production links so as to promote mutual development among the farmers.

On the other hand new combinations should be developed in response to the trend toward specialization. We should pay attention to the cooperative economic forms created by the farmers themselves in the last few years. They have established cooperatively managed organizations based on the household economy by gathering the various factors of production through the system of stock shares. The means of production, funds and labour accumulation are all converted into money values and the converted values are used to allocate shares. Distribution of income is primarily according to labour and also allows for distribution of profits according to stock shares. The advantage of this kind of method is that it does not affect the current property rights of the farmers but it can create new social forces of production and accumulate publicly owned property. Although sharing out funds as dividends is not distribution according to labour, none the less it helps to develop the forces of production. It also uses the principle of voluntary participation to resolve the problems of scale of management and accumulation of funds by the farmers. This system can therefore be recommended because the advantages are large and the disadvantages small. It can also be used in the countryside for factories, road repairs, warehouse construction, feed lots and other enterprises. However, we must firmly oppose the use of coercion. Any good thing can become bad if the wrong methods are used.

Each kind of cooperative organization should have its own regulations. For the time being we should not make uniform regulations for the entire country. Measures should be formulated from the bottom up according to local conditions. This is a new approach: first diversity later standardization.

III. MUTUAL ECONOMIC ASSISTANCE BETWEEN REGIONS

Inevitably the speed of economic development under the stimulus of the commodity economy may be faster in some

regions than in others with some reaching prosperity earlier and others unable to move ahead as rapidly. Our ultimate goal is common prosperity and the elimination of poverty. We should encourage advanced areas and at the same time take special measures to help backward areas.

In mountainous regions where there is insufficient grain the major sources of income are from lumber, medicinal materials and special local products, all of which were too tightly controlled in the past. For this reason the Party Central Committee and the State Council have decided that while it is necessary to control the cutting of lumber in mountainous areas it is also necessary to open up the lumber market and to allow dynamic development of production to blossom by permitting these areas to exploit their superior resources.

Funds and technology are concentrated in the eastern part of China while natural resources are most abundant in the western part. For this reason we should promote 'mutual assistance between East and West', voluntary establishment of horizontal relationships and organizations to develop the community for the benefit of both sides. We have already begun to do this. The state should adopt policies to encourage the transfer of funds and technology to backward areas.

We must skilfully utilize funds that already exist for developing backward areas, have key-point areas organize 'project technology', and form associations for funding, technology and talented personnel. Projects that are started should be completed and efforts should not be dispersed. When backward areas make choices concerning production structure they should first select labour-intensive industries such as mining, highway construction and initial processing of local special products. Many areas have sent people to observe the very successful operations of township industries in Suzhou and Foshan but after they returned they still did not know what to do. Experience shows that projects that go beyond the current stage of development have a very low rate of success. In Zuoyun County, Yanbei District, Shanxi Province, emphasis on opening small coal pits has caused the economy to take off and in Wenzhou District, Zhejiang Province, a leap in household industry has vigorously promoted the rural economy. Both places have succeeded because local advantages were fully exploited. Other poor mountainous regions must also choose

their industrial structures carefully and should not simply try to imitate developed areas.

In the relatively developed areas agriculture should open up to the outside, introduce foreign investment and technology and carry out technological transformation. Areas that have the necessary conditions should establish commodity export bases. Regions such as the Zhujiang [Pearl River] delta, the Changjiang [Yangtze River] delta, the Jiaodong Peninsula, the Liaodong Peninsula [Liaoning Province], Beijing, Tianjin and Tangshan should turn to the international market and gradually establish an industrial structure combining trade, industry and agriculture. They should organize exports according to the demands of the international market, thereby promoting the processing industry for agricultural products. They should organize production in agriculture, forestry, animal husbandry and fishing according to the demands of the processing industry, thereby promoting commercialization and modernization of the rural economy. These areas can simultaneously import technology from abroad and create internal linkages. They can process primary products from the interior while at the same time transferring successfully tested technology to backward areas to accelerate their rate of development. The suburban areas of some big cities may also follow this route.

While one market for Chinese agriculture is the urban market and another is the international market we still must expand the market in the countryside itself. Accelerating development of backward areas implies expanding the capacity of the market, which can also become a new means of furthering development in the advanced areas. In the countryside there are already 100 million people who have shifted to non-agricultural sectors and have become commodity consumers. This number could double as township enterprises develop in backward areas.

IV. ADJUST THE STRUCTURE OF PRODUCTION TO MEET THE REQUIREMENTS OF MARKET CONSUMPTION AND ACHIEVE COMPREHENSIVE ECONOMIC BENEFITS

In the past the rural areas practised a sort of product economy which was characterized by unified purchasing and marketing, product supply and distribution in kind. This system played a

positive role in periods when there were shortages of products but with the passage of time it also gave rise to many abuses. The amount that farmers produced depended on the amount purchased by the state and the amount that the state received was the amount that it distributed. Both were unrelated to consumer needs in the market and were determined by the economic behaviour of the state. This kind of practice caused the operation of the economy to steadily become more and more rigid. Thus it was imperative to reform the system of unified purchase and marketing and to restore the commodity economy. This is the second great change in the rural areas following implementation of the production responsibility system.

Production and consumption are two interdependent links in the circulation process. Products only become commodities when they enter circulation and commodities can only create the conditions for reproduction when they enter the consumption process. Expanded reproduction depends on continuously expanded consumption. Our work in the past was relatively simple, 'urging the farmers to cultivate, to harvest and to sell'. Now we must master complex market changes and organize commodity production.

Production and consumption can never reach absolute balance in a society with a commodity economy. There are not only regional imbalances but also imbalances over time. Sometimes supply exceeds demand and there is a buyers' market. Sometimes supply falls short of demand and there is a sellers' market. One moment there is a bit too much the next a bit too little. In the past, state-run enterprises failed to react sensitively to market changes and had to employ the method of 'rushing when there is too little and cutting back when there is too much', which not only drew great objections from the masses but also caused low economic benefits and created social waste. From now on production must be directly linked to consumption by market mechanisms and producers must arrange production on the basis of market information. The period of merely supplying what is produced will gradually change into a period of producing what is needed.

For a long time agriculture has been in a primarily self-sufficient stage with large amounts of labour concentrated on the land and very high production costs. Agricultural products

and commodities have mainly been marketed in the cities but the purchasing power of the cities themselves was not high so there were often contradictions. In the last few years the state has used financial subsidies to support procurement by the policy of buying from the countryside at high prices and selling in the cities at low prices. In other words agricultural production depends to a great extent on financial subsidies for impetus. Henceforth the price system will be reformed and production will be driven and adjusted by the demands of social consumption through the regulating function of the market.

Currently the national average availability of grain is 400 kilograms per person per year and we seem to be reaching the point where it is difficult to sell grain. In terms of the long-term supply and demand relationship the amount of grain at this point is definitely not excessive. In Beijing, Tianjin and Shanghai the average consumption of grain is 450 kilograms per person including 150 kilograms directly consumed and 300 kilograms in processed foods. If this level is extended to the entire country it will still only be mediocre by world standards. The current so-called grain surplus is only a surplus under the present supply and demand situation that is characterized by a low level of consumption. For this reason grain production must not slacken. However, in stressing grain production we cannot rely on simply urging cultivation and harvesting but rather should turn to expanding the consumer market.

NOTE

1. 'Scissors differential' [*jiandaocha*]: the tendency for prices of industrial products to rise faster than those of agricultural products. See Glossary. [Editor's note.]

9 Expanding the Market Regulation of Agricultural Products

'Kuoda nongchanpin de shichang tiaojie.'

A speech delivered at the Communist Party
Central School, 19 January 1985

In the late 1950s the countryside was dominated by two systems: the 'people's commune system' and 'unified purchasing and marketing'. The people's commune system changed the position of farmers as independent commodity producers and after losing management autonomy farmers were not enthusiastic about production. The unified purchasing and marketing system monopolized the market. Exchanges of all the country's important agricultural products took place only through state-managed channels. When goods were plentiful more was sold when they were scarce less was sold. Consumption was controlled by issuing certificates and tickets, as many as twenty or thirty kinds. To be sure, at that time unified purchasing and marketing had a positive historical role. It was particularly good for socialist transformation, for guaranteeing supplies for the cities, for accumulating construction funds and most directly for stabilizing commodity prices. But many flaws appeared as this system was employed over a long period.

The greatest flaw was that it dampened the farmers' enthusiasm for production. As producers the farmers did not produce in order to sell commodities but rather produced in order to fulfil the plan and their assignments. If production is for the purpose of producing commodities then the hope of selling for a good price and receiving more profit can stimulate production. Under unified purchasing and marketing, however, it is only possible to sell to the state at regulated prices. Freezing prices actually meant that the farmers paid taxes in the form of prices and as a result the motivating force for production and management was weakened.

A unified price set by the state was very likely to differ from the true value and if it did not change for a long time the discrepancy could become quite large. Freezing prices also froze the mobility of labour. How much money should a farmer's work for one day be worth? Formerly it was said to be six *mao* and later it was said to be eight *mao* [one *mao* = .1 yuan]. In reality it might be from one to two yuan in the north-west while in the coastal regions workers couldn't be found for less than five yuan a day. With a single price for each kind of agricultural product throughout the country farmers had no way of selectively allocating their labour and society lost many development opportunities.

The most difficult thing to control is the relationship between supply and demand. If production is only carried out according to prices set by the state it usually brings about numerous shortages and surpluses. Prices are not just the sum of costs and profit. A price can only be rational when it also reflects society's true level of demand according to the relationship between supply and demand in the market. It is unrealistic to rely on just one central agency, a price bureau, to resolve this problem. The consequence of this practice is that money is not able to perform its function fully, particularly its function as a standard of value. It cannot truly serve as a common denominator, it cannot become a proper indicator of market information and it cannot reflect accurate price information.

Currently farmers generally lose over 20 yuan raising a pig and so they feel that selling pigs is not as good as selling grain. They therefore consider it useless to raise pigs even when they have grain they cannot sell. This is because the money price does not tell farmers whether or not the commodity they produce needs development. They do not receive accurate signals. In reality pork is very scarce, particularly lean pork, but farmers do not know this and so a shortage of pork has developed. This shows that we have not paid attention to using the market to adjust this mechanism. Price formation and market adjustment are in fact inseparable but we insist on forcing them apart.

Another failing of unified purchasing and marketing is that it has separated production from consumption, production from demand and the economic benefits of the unit from

those of society. Exchange should be a multi-channelled network which circulates information and builds an intimate connection between consumers and producers. Producers can automatically adjust production and correct mistakes on the basis of information supplied by the various market channels. When we have this kind of mechanism our economy will be invigorated. In the past, farm production had to wait for mandatory plans from the government and received only one kind of signal. This signal was often incorrect or out of date, which therefore impeded the rationalization of the structure of production, development of the commodity economy and the expansion of productive forces. For instance, for many years the information we sent the farmers had only one point, which was to produce more grain and to 'take grain as the key link'. This caused the 800 million farmers to concentrate on crop cultivation, especially on grain production. With so much labour concentrated in this sector average per capita output, income and productivity fell lower and lower. The structure of the productive sectors in China's countryside was not rationally adjusted for a long time. Forestry, animal husbandry and aquatic production became underdeveloped while the rural service trades and commerce were almost at a standstill.

Of course these failings do not exist only in China. All the socialist countries have travelled this tortuous route. After the revolution succeeded in the Soviet Union, Wartime Communism¹ was implemented immediately, which meant that all materials were concentrated in the hands of the state and were allocated by the state and commodity exchange was completely eliminated. At that time there was the necessity of war, and also that was what people thought socialism should be like. It was thought that communism should eliminate commodities and money. But Lenin discovered very quickly that this was a serious mistake. In 'Discussing the Grain Tax' Lenin advocated the resumption of commodity exchange, saying that it was the only measure that could unite the farmers, the only measure that the farmers would accept and the only measure that socialism could choose. He advocated supply and marketing cooperatives as the form of organization for commodity exchange in the countryside and called for civilized commerce.

The Soviet Union's New Economic Policy² permitted market adjustment and integrated it with planned regulation. After

the New Economic Policy was introduced the rural areas developed and production of food grain increased greatly. However, because of chronically slow development of industry combined with encirclement by imperialism and the destruction of war there were shortages of light industrial products and the rouble depreciated. The farmers saw that the money was losing its value and so did not sell grain. The Soviet Communist Party concluded that this kind of economic policy caused the spontaneity of the farmers to become problematic and implemented a major reversal. The New Economic Policy was terminated and a system of obligatory sales of agricultural products was adopted.³ At the same time the collective farm system was introduced. These methods had historical uses in a particular historical period. They coped with the Second World War and achieved the great victory of eliminating Hitler, but they also had obvious flaws.

The rural reform that China began at the Third Plenum of the Eleventh Central Committee has accomplished at least the following things. First, it has raised the prices of agricultural products and brought prices closer to values. Secondly, it has reformed the people's commune system and implemented the production contract system. This has given management autonomy to farmers and has placed them in the position of commodity producers. Thirdly, it has begun to experiment with market regulation, opened up farm-produce markets and lifted controls on several dozen kinds of commodities. The several products that have not been released are divided into the two categories of unified purchase and free purchase and sale. For example, grain in excess of that required for unified purchase can be disposed of freely. Previously this was not allowed. The results of these reforms are that they have stimulated development of the productive forces and restored momentum to the commodity economy.

We should be aware, however, that while the reforms of the last few years have changed the basic rural microeconomic structure, we must now reform the macroeconomic structure, that is, the state system for managing the rural economy. It is most important to reform the system of unified purchase and distribution, which has a negative effect on development of the rural commodity economy, and expand market regulation of the economy under the guidance of planning. Reform of

the unified purchasing and marketing system is a system-engineering project. In the network of benefit relationships the producer is at one end and the consumer is at the other. In between there is intervention by state-owned enterprises and local public finance. The unified purchasing and marketing system and the price system are not only instruments of commodity exchange, they are also tools for redistributing national income. The benefit relationships they involve are very complex. People living in cities and the countryside are in different circumstances and receive different benefits and losses. State-run enterprises that have long held monopoly positions in such goods as grain, non-staple foods and forest products, may lose income because of the opening of the market and multiple management channels. This can undoubtedly cause some resistance to reform of the unified purchasing and allocation system.

This is a deeper reform because it goes beyond the countryside and penetrates into the realm of the national economy and the realm of circulation. Circulation links production and consumption and its reform will certainly bring about adjustment of the structure of production and consumption. Production can create new consumption and consumption itself stimulates production. Thus this reform can generate a mechanism for automatic development, automatic readjustment, automatic rectification and automatic modification in China's rural economy. The government's economic behaviour will be based on this foundation and it should adapt to it, lead it and strengthen its development. This is in fact a transformation of our macro-management system.

Reforming the unified allocation and purchasing system and expanding regulation through the market can advance the improvement of rural economic conditions. To begin with it will cause a shift in emphasis from quantity to quality. The policy of unified purchasing and marketing causes people to pay attention only to the quantity of products and not to quality. Quality progressively deteriorates and many advantages of science and technology are not applied. For instance, in raising hogs we need to improve quality and turn fat-meat hogs into lean-meat hogs. This requires high-protein feed, which increases production costs. But now when live hogs are purchased the procurement price is the same for fat hogs as for lean hogs. If

we rely on the market for adjustment and allow prices to fluctuate good pork will earn higher prices and inferior pork will earn lower prices. More people will raise lean-meat hogs if lean meat can be sold at a higher price. If this is not the case and income depends only on quantity with no relationship to quality then economic development will not be aided.

Another example is wool. Because only quantity is demanded and quality is not mentioned there are some farmers who mix sand into the wool. Factories do not like to use this kind of wool so they let it accumulate in their warehouses while importing wool from abroad. The places that are beginning to make profits do not care about those that are losing money while those that are losing money ignore those that are making profits. If we restore regulation through the market, divide wool into several quality grades and set prices according to quality, this kind of situation could not occur.

To ignore the quality of products is not acceptable and can create waste particularly in the case of fresh or living produce. Guangdong has now released controls on vegetables. Formerly consumers who bought one *jin* [.5 kilogram] of vegetables would only be able to eat six *liang* [1 *liang* = .1 *jin*] but now they can eat 9 *liang*. Although the price has risen the spoiled portion of the vegetables has decreased. By adopting this method state subsidies are reduced, consumers can buy better vegetables, farmers can sell at higher prices and all three parties are satisfied. Regulation through the market should be increasingly used for goods like vegetables, fresh fish and pork to make producers emphasize product quality.

Once regulation through the market has been implemented farmers can receive accurate information, enabling them to adjust their production behaviour promptly and automatically. The government's economic behaviour can also become scientific. Through this one method it can guide production and consumption and avoid issuing confusing orders. Thus we should become adept at using the mechanism of market regulation.

Although the scope of market regulation of agricultural products will expand somewhat we definitely will not let it drift out of control. We will use powerful state regulatory instruments including taxation, public finance and credit to influence market regulation. While we definitely do not renounce these

instruments, this kind of regulatory measure must conform to the law of value and for this reason the state must have a good grasp on commodities. What kind of grasp? A firm grasp through the contract system which will replace the unified purchase and allocation system. Using the contract system means referring to market prices and consulting with farmers on an equal basis, signing purchase and marketing contracts, using contracts to direct production and conducting a dialogue with the farmers through contracts. Places that have the necessary conditions may also establish producers' and consumers' associations to bring producers and consumers into direct dialogue.

Although some degree of blindness will inevitably emerge after implementation of regulation through the market, the way to overcome it is not to return to the natural economy or unified purchasing and marketing but rather to strengthen planned guidance. All our comrades who do rural work should understand that regulation through the market originates in the commodity nature of production and the commodity nature of production necessitates regulation through the market. This cannot be avoided by socialism and since it cannot be done away with we should make it work for us.

NOTES

1. **Wartime Communism:** the Soviet economic policy practised from 1918 to 1920, when the Soviet Union was confronted with foreign armed intervention and internal conflict. It had the following main provisions: (i) surplus grain was collected, the monopoly on grain was strengthened and private sales were forbidden; (ii) all crafts and commerce were nationalized and there was strict supervision over distribution of products; (iii) private sale of goods for everyday consumption was forbidden; (iv) major consumption products were rationed according to the principle, 'no labour no food', and all people of all classes did voluntary labour. This policy played an important historical role in the winning of the civil war. After the war the New Economic Policy was introduced in 1921.
2. **New Economic Policy:** the economic policy implemented in the Soviet Union in 1921 when the civil war was over and the wartime economy was changing to peacetime construction. The main provisions were: (i) replacement of the surplus grain procurement system with grain

- taxes; (ii) farmers were allowed to deal freely with surplus grain after they had paid taxes; (iii) development of commerce was encouraged; (iv) the private economy was allowed to exist to some extent; (v) state capitalism was developed through concessions and leasing.
3. **Obligatory Sales of Agricultural Products:** the system for purchasing agricultural and animal-husbandry products that was employed in the Soviet Union from 1933 to 1957. The system had purchasing and tax-collection aspects. It stipulated that collective farms, private farmers and other producers were obliged to make sales and deliveries of products in quantities and at prices set by the state. The agricultural and animal husbandry products included cereals, potatoes, vegetables, sunflower seeds, meat, milk, eggs and wool. In the beginning the amount of agricultural products purchased was based on area cultivated and animal husbandry deliveries were based on the number of animals raised. Beginning in 1940, animal husbandry deliveries were based on land area (including area cultivated, grassland and grazing land). Beginning in 1958, a procurement purchasing system was implemented.

10 Intriguing Prospects for Research on Chinese Rural Problems

'Yanjiu zhongguo nongcun wenti de qianjing shi yourende.'

Selections from a talk given to the Research Group on Chinese Rural Development, 16 April 1985

We all want to vigorously improve the conditions of the 800 million farmers, help them become prosperous and explore a route for rural development in China. I hope that from now on you will devote yourselves to the study of rural development problems. The study of rural problems is very worthwhile and its prospects are intriguing. We should make use of advanced research methods, make a systematic study of the countryside, employ comprehensive multidisciplinary research, put together 'hybrid' multidisciplinary projects and thus combine the work of different groups into a single research programme.

China's rural problems are among the greatest difficulties in the world. The situation we face is that our population is too large, our resources are inadequate and our development base is backward. Under these conditions we must draw the greatest possible benefits from our limited resources. We must do as much as possible with our limited money and we must make our vast population a power for production rather than merely a force for consumption. The implications of this challenge are extremely broad.

We must solve the problems of food, clothing and development. Many of the world's economists predict that China will not be able to solve the food problem, and that if the food problem is solved we still will not be able to solve the clothing problem, and that if the clothing problem is solved we still will not be able to carry out development. It is not at all easy for a population of one billion people without development funds

to raise its level of culture and education and it is even more difficult to attain a modern, civilized life. This has always been their appraisal of China. The entire world is watching the Chinese Communist Party to see whether or not we are able to deal with these problems. We will definitely resolve all of these problems and we will resolve them well.

What problems do people generally want to solve in this area? They may be summarized as follows.

One problem is the relationship between society and the individual. In the past this problem has not been handled well in the Soviet Union and certain other socialist countries. They do not have famine or unemployment but they do not provide enough opportunities for individual initiative, individual freedom and the development of individual ability.

Another problem is the relationship between cities and the countryside. Throughout the world industrial development also means urban development. Once the cities have developed the countryside remains backward for a long period, which causes the urban population to expand and creates many difficulties. This problem currently exists in many Third World countries. The labour force in the cities cannot be absorbed and slum areas expand, while the labour supply in the countryside is inadequate and agriculture is thoroughly depressed, creating an economic imbalance.

Still another problem is the imbalance between economic growth and social development. This is an even more widespread structural flaw. Industrial growth is very rapid but it is not matched by social development or by the amount of benefits received by the majority of people. One sided development creates numerous new contradictions and conflicts, harming society as a whole and preventing complete social development.

Currently all the countries in the world are interested in these three problems. The purpose of our research is to solve problems that are of concern to the entire world, including those mentioned above, and also to take full advantage of the strengths of socialism. Although we are backward in many respects our research work can play a leading role. In a certain sense, resolving these long-standing problems not only solves problems in China but also provides solutions for world problems. The contradictions in China's economic development

have obvious peculiarities, but resolving China's contradictions will have universal significance.

The changes of the last few years have made us realize that the rural socialist model is not unitary but is in fact pluralistic. In the past the countries that adopted socialism early followed the Soviet model, as did most of the Third World countries that had successful revolutions. As a result there are other people who have been made even poorer than we are. Comrade [Deng] Xiaoping said to a group of Tanzanians: 'We will adhere to socialism. The question is, in what way should we adhere to socialism? Poverty is not socialism. Socialism will eliminate poverty.'¹ There will be a new structure for collectivization and planning in Chinese agriculture. In this way we can provide some experience for liberating the forces of production in Third World and Socialist countries. This experience of ours, however, will not constitute a uniform model that will restrict other people, but rather should be used to stimulate other people to create solutions for their own conditions. If we ourselves create one model and then do not allow other people to make other kinds of models then Marxism will cease to develop.

The problems mentioned above are all in the realm of society. Today the development of human society also demands that we consider another problem, namely the relationship between humanity and nature. Human existence should not destroy the natural chain of life and the biosphere. We absolutely cannot forget or neglect the fact that maintaining a healthy cycle in nature also protects the safety of humanity. We should adopt the practice of combining the social sciences and the natural sciences in our research and invite natural scientists to participate. Currently the deserts of the entire world are expanding and China is in an unfavourable situation. In the Himalayan Mountains and the Gobi Desert there is usually little rain. In addition, behind them there is the great desert of the Middle East. Thus we are in great danger and could suffer a disaster at any time.

Is it possible for us to find good solutions to these problems? Objectively speaking the possibilities are very good. The most important thing is that our country is led by the Communist Party and has a people's regime. Even though our knowledge and experience are deficient our greatest strong-point is that

we do not treat mistaken ideas as correct. Mistakes are treated as mistakes and are corrected as soon as they happen, while correct things are maintained. This is a guarantee. Moreover, we are currently in the 1980s and the entire world and the accumulated body of scientific knowledge is different from that of the past. China's socialist economy has established a foundation and has undergone both positive and negative experiences. There are some world experiences from which we can draw lessons. As long as we study well we can handle the situation well. Our goal of transforming the countryside against this new historical background is no wild dream. It will be realized within a time period that will be neither very short nor very long. From the latter part of this century to the middle of the next century most of the path we are taking and the results it achieves will be clearly seen and will be widely acknowledged. At that time – just as we studied the experiences of the October Revolution soon after it occurred – people will look to see how China initiated change, how China began to reform and how China used the truth of Marxism–Leninism and combined it with Chinese circumstances.

Historically science is always most dynamic in periods of change. The Spring and Autumn and Warring States periods² produced the situation of 'a hundred schools of thought contending'. In all the countries of the world every period of transformation, every era of cultural renaissance, democratic revolution and social reform was a time when people of talent emerged. If the era requires genius it creates genius. This is the meaning of the saying, 'the times produce their heroes'. Although our economic development base is lacking, none the less our era of transformation provides soil in which science can grow and flourish. Is it then possible for our research work to advance faster than the growth of the economy? Because the factors influencing economic development are very complex it is difficult for economic development to transcend the current stage and impossible to easily surpass the world level. However, the initiative for research should move ahead of economic development and it can in particular be faster in certain fields. Since scientific research and economic development will probably not advance at the same pace it is possible that research work can lead the way for economic development. No one should belittle this possibility for we have our

own strengths in this area. These great difficulties that are confronting us demand answers and force us to take action. Perhaps not everyone has realized it yet but this itself is a great advantage.

Naturally, in order for our research level to advance more rapidly than economic growth, social science itself must achieve some reforms. We must find a way to use social science research to make the most of social forces. At the same time that we are reforming the objective world we must also reform ourselves.

NOTES

1. Deng Xiaoping, *Jianshe you zhongguo tese shehuizhuyi* (Establish Socialism with Chinese Characteristics), revised edition (People's Publishing House, 1987), p. 103.
2. Spring and Autumn and Warring States periods: the period in Chinese history from 770 BC to 221 BC.

11 The Grain Problem

'Guanyu liangshi wenti.'

A talk given at the Eight Provinces Conference
on the Grain Problem, 8 September 1985

I would like to bring up two issues for you to think about concerning the grain problem.

I. EVALUATING THE GRAIN SITUATION

Under the conditions of the last several years our practical grain-producing capacity is about 400 million tons a year. This is the highest grain-production level that has been attained since the founding of the People's Republic. Year-to-year fluctuations are unavoidable because there are so many variables that are beyond human control. For instance, none of the countries of the world – even modern, economically developed countries – have good methods for dealing with natural disasters like floods, drought, prolonged wet weather, low temperatures, plant diseases and insect pests. The climatic conditions in China are less stable than in Europe and the United States, a problem that cannot be solved in this century. When we refer to stable production, therefore, we are speaking in relative not absolute terms.

Grain also faces problems with market conditions, with the balance between supply and demand. Since demand is related to both price and income we cannot simply calculate an average amount of grain consumed per person. To begin with there are more agricultural products than just grain and they can be substituted for each other. People may eat more meat and less grain. In addition, quantities consumed are not fixed. When the price of grain is high less will be eaten and when it is low more will be eaten. This is the reason why our practice of supplying grain at a fixed price for several decades caused many people to stop worrying about economizing on grain.

Prices regulate both consumption and production. High prices can stimulate production and reduce demand, and

conversely if selling prices are too low they can easily cause shortages. Currently the low purchasing price for grain stimulates consumption and is inappropriate for China's grain deficit situation because it restrains production. The excessively low purchasing prices have caused people in some areas to feel that buying grain is better than growing grain. In some areas of the north-west it is cheaper to buy grain than to produce it. Another shortcoming of supplying grain at a fixed price is that grain circulation is obstructed. In Guangdong for instance, the farmers grow bananas instead of grain because the income from bananas is higher. If the price of grain was regulated through the market then 'when the water rose the boat would go up' – grain from other places would flow toward Guangdong. But if grain is supplied at a fixed price in Guangdong there will be no inflow of grain. Thus the sequence of changes in production and demand is not constant because their interrelated factors are constantly shifting. Prices can either stimulate or inhibit both production and consumption.

Prices themselves are also influenced by the supply and demand relationship. If supply does not meet demand prices rise, and when supply exceeds demand prices fall. The two are always in a situation of mutual influence and feedback. In the past we completely monopolized grain by means of 'the three unifications' – unified prices, unified production and unified consumption – and the supply and demand balance was somewhat easier to calculate. Now, however, after opening up a little and rapidly putting into effect the law of the market and the law of value this balance is very difficult to calculate because there are many factors that are hard to predict.

There is a cycle in grain harvests, with good years, bad years and average years. Some people say that each cycle lasts five years and some say four years, but no matter how long it is there exists a cyclical problem. Now a market cycle may also emerge. For this reason we should not regard annual grain fluctuations as extraordinary events. We can only try our best to maintain a level of grain production close to the level previously attained, but we cannot maintain a specific quantity. A glance at the table of annual grain output shows that fluctuations in production are unavoidable. We cannot force it to be constant, we can only try to find a way to make it more stable.

We still face the problem that a large proportion of the rural labour force cannot move away from the countryside and in most areas industry and sideline production are still not well developed. If labour does not shift to other sectors what can farmers do if they do not farm? Naturally if prices were higher farmers' enthusiasm for growing grain would increase. We should not worry about the farmers growing more cash crops because this is generally governed by the supply and demand relationship. Sometimes there is a buyers' market and at other times a sellers' market. For agricultural products, market demands outweigh other considerations. Once the non-agricultural population has greatly increased it will provide a new impetus for grain production. At that time we may see a new high tide of grain production. Both quantity and quality will be demanded and there may be foreign demand along with domestic demand.

This year grain production declined and in some places farmers actually displayed little enthusiasm for growing grain. These phenomena deserve our serious attention. But paying serious attention is completely different from panic. The former is a scientific attitude while the latter is self-generated psychological pressure. We want to avoid hysterical reactions such as saying that an increase is a tremendous amount or a decline is a drastic reduction. There are problems but they are definitely not disastrous. Of course, in the final analysis, grain is China's number one problem and we cannot treat it lightly.

Our estimate of the grain situation is extremely important. At times, because we did not have a firm grasp on the situation we made a 30 per cent problem into 70 per cent. Our current methods of 'two kinds of prices',¹ 'three levels of public finance'² and 'one part fixed one part flexible',³ can easily complicate matters and 30 per cent problems may often be turned into 70 per cent. I hope, therefore, that all of you will diligently research ways to evaluate the grain situation.

II. REFORM OF THE GRAIN MANAGEMENT SYSTEM

There is no government in the world that does not pay close attention to grain and regard it as a major problem of vital importance to the national economy and the people's livelihood.

But each of the world's more than 100 countries has its own measures for dealing with the issue. What method should we adopt to alleviate China's inadequate grain supply? To solve this problem we should divide it into two parts: one part is that the government should control a portion of the commodity grain to serve as a basis for ensuring equilibrium of supply and demand in the market; the second part is to further raise the farmers' enthusiasm for production. There is no question that resolving either of these two problems requires that we persevere in reform and not return to the old path. Persevering in reform means recognizing the function of the law of value, using price signals to guide production and consumption and letting the market mechanism balance supply and demand while the government influences the market through economic measures.

While following this path we should reduce administrative intervention as much as possible. In the past we used too much administrative intervention and actually aggravated material shortages and surpluses. Unified purchase and marketing was employed for several decades and the farmers eventually came to regard it as a tax by the state. Originally the government could use the price function for many purposes but the unified purchase and marketing system fixed prices and limited their role. The disputes about grain each year always amounted to no more than one side wanting to receive a bit more and the other side wanting to sell a bit less, or one side wanting to market a bit less and the other side wanting to supply a bit more. Arguments have come and gone but we have never found a good solution. We can say that in the past the unified purchase and marketing system had many benefits and few shortcomings but that now there are more shortcomings than benefits. We should persevere in following the path of freeing prices, drawing the market mechanism into grain supply and demand, forming market prices and forming price differentials among regions and product varieties.

We should clarify and strengthen the orientation of reform in the grain purchasing and marketing system and work out transitional measures that are both vigorous and cautious. Whenever you want to change a system you must be careful about some of the people who have vested interests in it. For example, it will not be easy to change the practice of supplying

food grain at low prices to cities and towns. We should implement the transition gradually and minimize the serious pains as much as possible. The transition measures that we adopt will include allowing different areas to advance unevenly. In this way some transitional methods that would be difficult to adopt for the entire country can be worked out by individual localities.

Regulation through the market can also produce a variety of new problems. For instance incorrect prices may cause production to decline and supply and demand cannot entirely coincide with plans. In behaving according to the law of value farmers will only concern themselves with prices. All we can do about this is to provide careful guidance. We cannot resort to coercive administrative measures or advocate turning back to unified allocation and purchasing as soon as problems appear. This would be like Lord She's love of dragons.⁴ We should bear in mind that control always requires more control and monopoly always requires more monopoly. We should fully prepare ourselves to understand the problems of commodity production and pay particular attention to studying the market, the supply and demand relationship and the multiple function of prices. If we fail to recognize this multiple function our estimates will often be inconsistent with reality. While we focus on adjustments in one direction problems will unexpectedly emerge in another.

In summary, we should address the grain problem by vigorously increasing production while at the same time guiding consumption. Expanding production alone is not enough. The production target that we have set is 400 kilograms of grain per person. This is, therefore, the equilibrium point of our current production capacity and consumption demand. Assuming that there are 73 million hectares of grain fields an average of 400 kilograms of grain per capita means that each *mu* of cultivated land must produce 450 kilograms of grain, which is extremely difficult. How can we guide consumption? The most effective way is to adjust it by using prices, so prices have to be freed gradually. At the same time we should think about the incomes of consumers. Aside from those with low incomes who receive welfare subsidies, people should regulate their consumption according to their own incomes. When the market mechanism is substituted for planned allocation and

the fixed-price system naturally it will be necessary to make adjustments through macro-controls. The market will regulate production and the state will regulate the market.

NOTES

1. Prices set by the state and market prices.
2. National, provincial and county finance.
3. One part fixed, one part flexible [*si yi kuai, huo yi kuai*]: after reforming the unified allocation and purchasing system, a two-tier system for purchasing grain was implemented, in which one part is purchased by the state at fixed prices through contracts and the remainder is freely sold at market prices. People generally refer to the portion under state contract as 'one part fixed [dead]' [*si yi kuai*], and the portion sold at market prices as 'one part flexible [alive]' [*huo yi kuai*].
4. Lord She's love of dragons: according to legend there was once a man named Lord She who was so fond of dragons that he adorned his house and possessions with drawings and carvings of dragons. But when a real dragon heard of his infatuation and paid him a visit he was frightened out of his wits.

12 Rich First, Rich Later, and Prosperous All Together

'Xian fu hou fu he gongtong fuyu.'

Selections from a talk given at the Conference on Rural Work of the Party Central Committee, 20 December 1985. Published in *Renmin Ribao* (*People's Daily*), 27 January 1986, pp. 1-2

I. MAINTAIN THE POLICY OF ALLOWING SOME PEOPLE TO GET RICH FIRST

1. Prosperity for all has always been an objective of our party's struggles. We have learned from more than thirty years of experience, however, that it is unrealistic to expect to bring about universal prosperity in the sense of bringing all the people to the same level of prosperity at the same time and in the same place. Egalitarian distribution methods and 'taking from the rich to help the poor' not only do not achieve the objective of common prosperity, they inevitably lead to universal poverty. The experiences of the contemporary communist movement have shown that after the proletariat has seized power in developing countries, establishing and perfecting a system of public ownership and distribution according to work requires a sequence of stages. It is not possible to establish a pure socialist society and eliminate differences in social distribution within a short period of time.

Since the Third Plenary Session of the Party's Eleventh Central Committee, in the spirit of seeking truth from facts, our party has adopted a new policy, advocated on behalf of the Central Committee by Comrade Deng Xiaoping, of allowing some areas and some people to increase their incomes and achieve prosperous lives through hard work before others. Afterwards the transmitting and stimulating functions of the

economy will cause more and more people and areas to take the road of prosperity. This new policy was first implemented in the rural areas and in light of the real achievements of the last few years it is outstandingly successful.

During the 25 years before the Third Plenary Session of the Party's Eleventh Central Committee the annual per capita net income of Chinese farmers only increased by 70 yuan, from 64 yuan in 1954 to 134 yuan in 1978. After implementing the new policy the per capita net income of Chinese farmers increased by 221 yuan in six years. The proportion of low-income households declined and the proportion of high-income households rose. In 1978, 85 per cent of the population received per capita incomes of less than 200 yuan but by 1984 this figure had fallen to 14 per cent. In 1978 only 0.6 per cent of the population received net per capita incomes of over 500 yuan and by 1984 the number had increased to 18 per cent. This shows that there is steady and healthy progress in the level of prosperity throughout the countryside. The results of real experience show that the policy of allowing some people to become prosperous first through hard work is entirely correct, that it is beneficial both for economic development and for realizing the objective of prosperity for all, and that it must be steadily maintained for a long time.

We must acknowledge that there are differences in the degree to which farmers' incomes have risen. According to the calculations of the State Statistical Bureau, in 1978 high-income households received 1.9 times as much income as low-income households. By 1984 this disparity had increased to 2.6 times as much.

2. There are objective reasons for the emergence of disparities in individual incomes during the process of economic growth. China's socialist public-ownership system provides all workers with the basic conditions for earning a living and opportunities for development. It can ensure progress in development of the social economy toward the goal of prosperity for all and can avoid the polarization that is generated in commodity economies under private-ownership systems. However, since society still distributes income on the basis of the principle of allocating pay according to work performed the existence of differences in peoples' working skills and

management abilities will inevitably result in differences in income. This kind of disparity will continue to exist for a long period until society implements a system of distribution according to need.

China presently has a structure in which public ownership of the means of production holds the dominant position and many economic forms coexist. In particular, the individual economy is allowed to exist and there are differences in both the number and the quality of production tools that individual farmers own or utilize. Moreover, because the quality and quantities of natural resources available to different kinds of production units are not even, the disparities in resource development and exploitation between the different industries will widen even more with technological progress and the accumulation of funds.

During the process of economic growth there is ceaseless alternation between equilibrium and instability in supply and demand, creating a great many opportunities to make choices concerning market profits and making it relatively easy for managers who are good at taking advantage of these opportunities to earn extra-normal profits and achieve high incomes. These income disparities created by differences in circumstances are difficult to avoid. If we want to encourage development of the commodity economy we can only recognize these differences in benefits and adopt appropriate measures to regulate them and keep them within reasonable limits. To negate the differences would be the same as negating development itself.

In addition, during the process of developing the commodity economy there may also be some people who will seek out loopholes, utilize illegal business methods to get rich, appropriate public property, plunder wealth and harm the interests of producers or consumers. These people, who are few in number but receive excessively high incomes, have already aroused strong social discontent. Although this is also a phenomenon that is difficult to avoid in the historical process of developing the commodity economy it is none the less necessary and possible to control and restrain it through legal and taxation measures.

3. China is a vast country and economic development is very uneven in different areas so that there has naturally formed

within the country a sort of terracing of economic and technological forces. The west and the frontier regions are richly endowed with natural resources but for various historical reasons they are basically still in the stage of awaiting exploitation. Most areas in the interior are at the intermediate level of economic development. In comparison, some of the coastal areas possess relatively advanced technology and relatively solid economic strength and have the necessary conditions to adopt advanced international production and management technology and to develop a step before the others. Afterwards the transmitting and driving functions of the economy will cause the focus of economic development to shift toward the interior and western regions.

We recognize that there are some areas that have experienced late economic development where it is possible to utilize rich local resources combined with imported advanced technology to create local economic successes, and that certain areas may experience leaps in economic development. But in terms of the country as a whole the major development trend of the next few decades will be the steady progression of economic development from east to west. Because the prices of primary products are relatively low while the prices of processed goods are high it is currently still not possible to form an average profit-rate structure. And the developed eastern areas where the processing industries are concentrated create a better environment for accumulating funds. These wide discrepancies in distribution of benefits that are caused by regional imbalances in economic development can certainly be adjusted by the state through the use of macro-economic regulating methods but we must recognize that this kind of disparity is also an inevitable phenomenon in the process of developing a commodity economy.

This definitely does not mean that there are no opportunities for development in the former two kinds of areas. Imbalances between regional economies and mutual dependence between areas in supply and demand present opportunities to open up mutually beneficial market relationships. These regions merely need to take full advantage of such opportunities and establish economic-growth zones by concentrating together their limited labour, material resources and funds in order to fully exploit their local strengths. They can then create some

of the fundamental conditions required for the shift in national economic-development strategy and at the same time improve the positions of their own regional economies.

II. THE CONTROVERSY OVER EFFICIENCY AND FAIRNESS

4. The controversy over economic efficiency and social fairness has existed in the Western nations for many years. Social fairness refers to equalizing the incomes of the members of society. Economic efficiency refers to organizing key factors of production and patterns of activity in the economy in ways that are conducive to economic development. It is on the basis of economic efficiency that the market provides rewards to commodity producers who invest their funds, labour and technology. These rewards constitute people's incomes. Generally speaking if we want to promote increases in economic efficiency it is necessary to maintain disparities in rewards, while if we want to equalize incomes then society cannot maintain a high level of efficiency.

The contradictions between production and distribution and between efficiency and fairness cannot be fundamentally resolved under the capitalist system because the means of production are individually owned and the practice of distributing rewards through interest and profits is premised on the exploitation of wage labour by capital. Our socialist nation supplies ample conditions for harmonizing the contradictions between efficiency and fairness on the basis of public ownership. By using appropriate distribution and redistribution policies the people's government can achieve the greatest possible equality with the smallest possible loss of efficiency. Economic reform itself will create the necessary conditions for realizing this kind of plan.

5. In the past we mistakenly regarded social fairness as absolute equality and departed from economic efficiency in trying to achieve it. We adopted egalitarian administrative measures and sacrificed efficiency as the cost of maintaining fairness. We denied the development of a commodity economy under

socialist conditions, denied the objective law that income distribution is regulated by the market, carried out compulsory intervention through non-economic measures, severed the relationship between fairness and efficiency and destroyed the possibilities for equality and efficiency to help each other forward in a socialist society.

These compulsory intervention methods also encouraged small-farmer egalitarian social consciousness. This kind of mentality is still a major ideological obstacle to the development of a commodity economy. It causes some people to ignore the general increase in living standards and their own improved conditions and instead to demand an urgent end to the income disparities that have grown relatively wider at the same time and for which there is no clear solution. There are some people whose lives have improved greatly over the past but who none the less still feel that they have fallen behind some other people or that the improvements in some other people's lives have been even greater. They use a few atypical cases as targets of accusations and condemn the policy of allowing some people to prosper first. This is a current trend of thought that we should strive to overcome.

III. CREATING THE NECESSARY CONDITIONS FOR ACHIEVING UNIVERSAL PROSPERITY

6. The necessary conditions for achieving universal prosperity can only be created with economic efficiency. We must implement suitable controls over income disparities but we must be even more careful to protect the development of productive forces and to recognize the independent material interests of workers and the positive function of income differences in developing the forces of production. We should not interfere too much with differences in incomes that are brought about by differences in the individual abilities of producers. We should only employ appropriate adjustments within the limits of controlling social consumption funds aimed at certain excessively unfair situations and certain special consumer items. High incomes brought about by differences in possession of funds and resources can be adjusted by means of progressive income taxes and taxes on resources and assets.

As for managers who make high incomes by taking advantage of defects in the market or errors in the process of changing the course of the economic system, we must make adjustments through taxation and at the same time create market-management regulations to plug the loopholes as quickly as possible. We definitely must strengthen the legal system in order to firmly punish according to law those who break the law and violate discipline to obtain exorbitant profits. Party members and cadres in the countryside who actively lead the masses to achieve prosperity together should be commended. Party members and cadres who lead the way in achieving prosperity through hard work should be protected. And those who use their power for private gain and adopt illegal methods to get rich should be dealt with according to the law.

We will maintain the policy of allowing some people to get rich first through their own hard work and will not change it for a long time. At the same time we should create a good atmosphere for encouraging the farmers to invest in developing production, guard against excesses in consumption and commercial speculation and establish the fundamental conditions required for stable development. As economic development has accelerated the social division of labour large numbers of specialized households have sprung up in the countryside. We should give them protection, encouragement and support and allow them to become prosperous before others by relying on advanced scientific technology and management methods.

The phenomenon that appears in the countryside of people who build up 'big houses' [rich and influential families] is entirely different from allowing some people to prosper first through hard work. Sacrificing the development opportunities of the masses in order first to assist rich families is definitely not consistent with Party policy and cannot be considered normal practice.

7. China has the necessary basic conditions to prevent polarization and to guarantee that we will follow the path of common prosperity. In the countryside, maintaining public ownership of the basic means of production and perfecting and developing the cooperative economy are the key conditions

that fundamentally provide equal development opportunities to all workers. Experience shows that in places where the cooperative economy is fully developed the scope of farmers' prosperity is relatively broad and progress is relatively fast.

The major driving force of the cooperative economy is the demand from the farmers for development of commodity production, from which comes the demand for pre-production and post-production services and then the demand for an expanded scale of business operations. We should therefore adapt to the development needs of the commodity economy in dissimilar areas, start with services and establish and strengthen various forms of economic coalitions suitable for each area's situation, based on the foundation of household management.

However, the cooperative system definitely cannot eliminate differences in the degree and speed of prosperity. Within cooperatives that employ collective unified management the system of distribution according to work naturally preserves differences in income. Within cooperatives that have two tiers of economic management the differences that exist in production conditions between farm households make differences in prosperity levels even more difficult to avoid. The differences between cooperative organizations in means of production, level of economic management and geographic conditions are another major factor creating disparities in farm household incomes.

Thus the cooperative economic system only embodies common prosperity in the sense that there is common development and class polarization is avoided, but it does not by any means imply that prosperity is achieved for everyone at the same time and the same level. Therefore we should actively improve and develop the cooperative system but also guard against absolute egalitarianism and avoid taking the old road of 'eating from one big pot' and 'turning everything over to one big pile'. In this way we can maintain the intrinsic unity of having some people prosper first and achieving prosperity for all.

8. If we want to help people on low incomes to achieve prosperity we must think of ways to enhance their qualities, raise their educational level and train their production skills and

management abilities to help them adapt to the development needs of a commodity economy. Even more importantly, we must open up channels, develop a diversified economy and consider transferring rural labour as the fundamental necessary condition for realizing the long-term strategic goal of prosperity for all. In particular, while guaranteeing that the labour requirements of agriculture will be satisfied, we must adopt feasible measures to accelerate the transfer of rural labour from within agriculture to the second and third sectors and from the countryside to the cities and towns. Labour force circulation includes circulation between sectors and regions as well as between different urban and rural social levels. Allowing circulation of the labour force not only helps create equal opportunities, it also encourages the people's desire for improvement and is beneficial for raising economic efficiency. This is another source of untapped potential in our present society.

Generally speaking we can only create the material foundation necessary for universal prosperity by guaranteeing stable growth of the gross national product. If we want to eliminate all differences we cannot think only of distribution but must pay even more attention to production. The responsibility of rural reform is to create a favourable economic environment for development of rural productive forces and above all favourable market conditions. But if technology does not advance, if the scale of management is too small and if labour productivity does not rise, then this kind of market condition cannot bring about an advantageous situation for economic development.

The basic point of view of Marxism is that distribution is determined by production, distribution relationships are determined by production relationships and distribution is itself a product of production. Therefore when we talk about the goal of prosperity for all we must talk about developing the forces of production. Society's level of material prosperity determines the total amount that the people can distribute as income. Prosperity for all can only be successfully realized once production has become highly advanced, there is a maximum wealth of social products and the system of public ownership has been perfected.

To achieve the goal of prosperity for all we must vigorously

develop the rural forces of social production and the cooperative economy step by step according to the demands of development and the wishes of the masses. This is a very long process of economic development but it is also an inevitable historical journey.

13 Relying on Science and Technology to Strengthen the Economic Position of Agriculture

'Yikao kexue jishu zengqiang nongye jingji diwei.'

A talk given at the National Conference for Exchanging Experiences in Regional Science and Technology Work, 11 April 1986. Published in *Renmin Ribao (People's Daily)*, 11 April 1986, p. 5

This year Document Number One of the Party Central Committee¹ stresses that it is necessary to emphasize the work of technological transformation in the countryside and to rely on science and technology to increase rural production and farmers' incomes. Why should this area be emphasized? Because economic development in the countryside will become increasingly constrained by relative shortages of natural resources. In absolute quantities China's natural resources rank among the most abundant in the world but in per capita terms they are well below the world average. With one billion people to feed and clothe and 800 million farmers who need to raise their living standards such a small amount of natural resources per capita is clearly a critical scarcity.

Of course there is no absolute criterion for the concept of 'critical scarcity'. Severe shortages can be alleviated or even turned into abundance by improving the way in which natural resources are utilized. Steadily increasing the financial support for agriculture and relying on technological progress to raise the resource utilization ratio in rural production can overcome the difficulties of relative shortages and open up broad prospects for the future. Many countries that have succeeded in modernizing agriculture have taken this approach. We

should not only follow this route but we should do it well. The key lies in emphasizing the role of scientific and technological progress in promoting the development of the rural economy. The aim of our current reform is to infuse new vitality into the economic system. But it is impossible to sustain long-term economic development by relying solely on such vitality without the necessary material conditions and progress in science and technology. Reform of the economic system must be continued and the role of science and technology in promoting rural economic development should be strengthened. This is the central point of this year's Document Number One.

I. ADAPTING TO COMMODITY PRODUCTION REQUIRES DISSEMINATION OF SCIENTIFIC AND TECHNOLOGICAL ACHIEVEMENTS

In the history of economic development around the world it seems that advanced science and technology have always spread to backward areas only after they have brought great benefits to economically developed areas and the benefits received by industry have far exceeded those received by agriculture. Agriculture emerged several thousand years ago and rural civilization existed well before the appearance of urban civilization. Industry only began to contribute to the development of urban civilization a little over three centuries ago. Now, however, rural civilization lags far behind urban civilization and there are great disparities between the two in scientific and technological levels.

The course of history shows that there is a close relationship between the dissemination of advanced technology and the development of a commodity economy. As a commodity economy develops science is transformed into technology, technology is transformed into productive forces and productive forces spread to underdeveloped areas from developed areas and to underdeveloped sectors from developed sectors. Sectors that earn more profits and enterprises that have more accumulation are better able to employ advanced technology. Conversely sectors and enterprises that earn less profit and have less accumulation experience more difficulties in utilizing advanced technology. The inability to employ advanced technology leads

to declining profits and accumulation, creating a vicious circle. The backwardness of science and technology in the countryside is precisely a reflection of this kind of situation.

The fact that advanced areas and sectors receive greater benefits cannot be changed. Is it, however, a permanent and unchanging situation that the backward will always remain backward and the advanced will always be advanced? No. Science and technology will inevitably spread to backward regions from advanced regions. This is also a requirement for development of the commodity economy. Science and technology will always expand into new areas brimming with vitality and regions that originally were backward provide exactly this kind of opportunity. Examples of science and technology spreading from advanced areas to backward ones include the United States replacing the European countries as the leader in science and technology, Japan's vigorous economic recovery after the Second World War and the achievements of certain countries and regions in attaining the middle level of development or making remarkable progress in certain industries. Two laws can be discerned here: One is that the development of science and technology depends on the economic foundation. The more advanced a region the more rapidly they will develop. The second is that advanced technology will shift from developed areas to underdeveloped areas and from advanced sectors to backward sectors.

From the first law we see the basic conditions necessary for the development of science and technology. However, if we were merely to recognize these conditions and then go into a state of inertia that would not be Marxism but fatalism. We must also recognize the second law and utilize it to push forward the economic development of underdeveloped areas, particularly the development of agriculture, because it is the occupation on which the largest number of labourers depend for a living and because economically it is also a thoroughly backward sector.

II. SELECT PRIORITIES RATIONALLY AND PAY ATTENTION TO REAL BENEFITS

To accelerate the transfer of science and technology to the countryside what is important is not how many tasks are

proposed or how good the intentions are. The important thing is to thoroughly understand which production links and economic projects can be improved by scientific and technological inputs and can become driving forces for agricultural development, and which technologies are both relatively advanced and also suitable for the existing economic and social conditions. Given the current conditions in China's countryside we can move ahead on several fronts.

First, raw materials: cotton, hemp, silk, sugar, fruits, animal-husbandry products and aquatic products are all in favourable price positions and the market demand for them is quite high. They are essential to light industry and the textile industry and so the state must devote a portion of its financial resources to supporting their production. These products urgently need advanced technology and deserve particular attention.

Second, agricultural products that earn relatively large amounts of foreign exchange: over 40 major products are in this category and minor items include local specialties from every locality. Each locality should fully develop its comparative strengths in these products.

Third, township enterprises: these are the most profitable sectors in the countryside and they urgently need to expand production and improve quality in order to remain competitive. Township enterprises are collective economic units that are solely responsible for their own profits and losses and that are motivated to seek technological progress by their pursuit of profits. The 'Spark Plan'² organized by the State Science and Technology Commission is a response to this need. It is the growth point of rural economic development and in the future it will achieve great results.

Fourth, the various kinds of intensified management units in the countryside: some indications of this trend have already appeared along the south-east coast and in the suburbs of large cities which are ahead of the rest of the country in developing commodity production. Production associations with a high level of socialization may also emerge in the future. These will be rural enterprises on a moderate scale, formed by the mutual combination of many specialized households. This kind of production association will have a relatively high accumulation of fixed assets and is precisely the sort of entity that readily absorbs new technology. For instance, in the villages of

the south-east coastal region large cultivating households will appear, each planting 30 or 40 *mu* of land. They will develop production and raise their economic benefits primarily by increasing inputs of machinery, chemical fertilizer and new technology rather than by increasing labour. Their fixed-asset accumulation level will rise year by year while labour inputs will correspondingly decline, which means that development of production will rely primarily on technological progress.

Fifth, certain types of low-cost, high-profit goods: expanding production technology incurs higher production costs which must also be discussed. In modern agriculture the lowest costs are achieved with improved varieties which raise productivity by improving biological quality. The costs of raising improved varieties of crops and livestock are not exorbitant and they are also relatively easy for farmers to accept. Raising improved varieties can be very profitable in our socialist system because the state bears the largest part of the expenses of breeding and the costs of production are low. China has a long history of developing improved varieties through selective breeding and a rich variety of species, so we can quickly master modern breeding technology. There are boundless prospects if we take full advantage of these strengths and persist in the work of improving varieties.

III. RELY ON SCIENCE AND TECHNOLOGY TO RAISE THE RELATIVE RETURNS TO AGRICULTURE

The trend of continuously falling relative returns to agriculture is practically a world phenomenon. If one yuan is invested in agriculture the return does not equal that in industry and the input of one person's work in agriculture does not produce as much as in industry. Therefore farmers always want to get out of agriculture and do not want to increase investment in land. Last year, in some areas, enthusiasm for growing grain diminished. The farmers did not want to put funds into the land and were not only unwilling to buy chemical fertilizer but in some places did not even apply organic manure. Some also did not want to raise pigs. Herein lies an economic law: that once income standards reach a certain level workers can exercise choice between different opportunities to earn money

and can even choose between labour and leisure. The many possibilities workers now face in their production input choices is a phenomenon of social progress and shows that our economic level has risen quite rapidly in the last few years.

Currently, cultivating grain crops earns the lowest relative profits in the rural areas. Grain is a paradoxical kind of commodity: it is a necessity of life with an obvious high use value but its exchange value is not high. The quantity of grain consumed is very large and since it affects the national economy and the livelihood of the people its price cannot be too high. There is not a single country whose government does not pay close attention to grain production and implement policies to protect it in order to stabilize basic living standards. On the one hand they safeguard the interests of producers by guaranteeing that the income farmers receive from growing grain can be higher than production costs. On the other hand they employ grain subsidies and store up grain to guard consumers against excessive pressure from price increases.

China cannot be the exception in this. We provide a subsidy of 0.1 yuan per half kilogram of grain. Farmers sell grain at a high price while urban residents buy grain at a low price. The disparity in price necessitates the state subsidy. Even with the subsidy, however, growing grain is still unprofitable compared with other things. An annual output of 750 kilograms from one *mu* of land is a very high level but at 0.4 yuan per kilogram it will bring in only 300 yuan and after all input costs except labour are deducted the tiller receives only about 180 yuan. If the two seasons require 100 days of labour then each day of labour only earns 1.8 yuan, while in many places almost any kind of work earns more. If the price was set at an average of 0.3 yuan per kilogram it would be even less worthwhile.

The farmers were happy with the price increase in 1979.³ Now the prices of other things have also risen, production costs have increased and relative returns have fallen. Is it possible to raise the price of grain again? Increasing the price of grain is likely to influence the prices of a great many products and to create problems with income levels and with society's degree of psychological endurance. And the state is unable to increase grain prices by further raising the public subsidy. So it seems that we must primarily rely on advanced science and technology to turn low-income agriculture into highly profitable agriculture.

Another job that needs to be done is to extend the production process of agricultural products by introducing advanced technology for initial processing, full processing and comprehensive utilization. At the same time this will help shift the rural labour force into processing and increasing the value of agricultural products. In this way the surplus rural labour force can become an economic advantage, there will be new methods of utilizing resources and farm incomes will increase. In the United States only 2 million workers are engaged in cultivation and breeding while pre-production and post-production services and processing employ 20 million workers. If we steadily develop these sectors in the countryside we will be able to solve many of our current problems.

IV. ACT ACCORDING TO THE LAWS OF NATURE AND ECONOMICS

The most important distinguishing feature about agriculture in comparison with industry is that it faces the double risk of being influenced by both natural conditions and economic conditions. Chinese agriculture is still based to a great extent on experience and in many places the technology level is nearly the same as it was a thousand years ago. Individual households cannot cope with natural hazards and it would be impossible to withstand natural disasters without advanced technology and solid infrastructure. During the agricultural production process there are long periods of relative inactivity, for funds and labour, and money is lost if they are not handled well. When inputs to the land reach a certain stage diminishing returns will set in if there is no advance in technology, and further inputs will become progressively less worthwhile.

We have expended great efforts to restore salinated land. This has produced results in a small portion of these areas but in the great majority of places there is still no change. Currently we cannot spend the money to restore large areas. Is it possible to change our course and think of a way to deal with this problem? We can find crop varieties that are relatively suitable for this sort of harsh environment in order to expand somewhat the usable land area in our country of 9.6 million square kilometers. There is evidence in nature to support this

idea: there have long been salt-resistant plants on ocean beaches. Plants that live in deserts have very strong drought-resisting properties, and penguins and shrimps multiply and thrive in the bitter cold of Antarctica. These examples show that many species can change in order to adapt to their environments. Modern science and technology, particularly the development of genetic engineering, have provided possibilities for utilizing the adaptive properties of various species. If research in this area is strengthened we can make great breakthroughs in overcoming natural limitations.

China's cultivated land is currently divided into three classes, high, medium and low, of which medium and low-yield fields account for two-thirds of the total. It is very difficult to transform low-yield fields into high-yield fields. Finding a good planting programme is a very important task. In the past we erred by not trusting the traditional experience or the decisions of the farmers and we issued arbitrary and impractical orders. However, the experiences of the farmers are those of small producers and have limitations. In order to make farming plans that utilize and adapt to the environment on a relatively large scale we must rely on modern science and technology and not on farmers' experience alone. For example, in seeking out a good cultivation programme based on existing levels of cultivated land and technology, computers can be used to carry out analysis and comparisons, calculate the shadow prices of all the basic factors of production and put forth the possible choices of each plan through optimization programming. This kind of modern scientific decision-making far surpasses traditional farming methods.

Introducing modern science and technology into the rural areas and gradually eliminating the technological gap between the cities and the countryside is clearly an important historical mission of the leading scientific and technological organizations and of the numerous scientific and technological personnel. The farmers must look to the scientific and technological circles to help them imagine things that are beyond their imagination and achieve things that they cannot manage. To this end comrades engaged in science and technology and in disseminating technology must understand more about economic and social conditions and be economic-minded as well as knowledgeable about technology.

NOTES

1. 'Plan on Rural Work in 1986 from the Communist Party of China Central Committee and the State Council'.
2. 'Spark Plan' [*xinghuo jihua*]: since 1985 the State Science and Technology Commission has paid particular attention to assisting a group of 'quick result' projects which closely integrate science and technology with the economy and therefore are suitable to serve as models to be popularized among township enterprises. These are technical development projects that commercialize science and technology in a short time and are appropriate for the technological level of small and medium-sized enterprises. This plan is called 'the technology development plan for promoting local economic expansion', and it is also called the 'Spark Plan'.
3. In 1979 the State Council decided to raise the purchase prices of 18 agricultural and sideline products by an average of 24.8 per cent. The products were grain, oil and oil seeds, cotton, live pigs, beef cattle, mutton, fresh eggs, aquatic products, beets, sugar cane, hemp, ramie, castor oil, silkworm cocoons, lumber from the south, bamboo and cattle hides. At the same time the producer price of plastic sheeting was lowered in a few regions and a ceiling was placed on the price of diesel fuel used in agriculture.

14 Water Control Work Must Stress Economic Benefits

'Shuili gongzuo yao zhuzhong jingji xiaoyi.'

A speech given at the Conference on Rural
Water Control Work, 6 June 1986

Our former achievements in water control work are obvious and they have been evident in the development of agricultural production during the last few years. Without the prior construction of hydraulic infrastructure agricultural production could not have grown so rapidly in this period. The resurgence in construction of irrigation works this past winter and spring was a response to the urgent demands of the masses following the Central Government's return to stressing agriculture and grain production. It reminded us that when the masses make demands we cannot lag behind them but must strengthen our leadership.

From now on rural work will hinge on two issues. The first is making good use of surplus rural labour. After implementing the responsibility system a large part of the rural labour force has become surplus and if it is not used well it will become a negative factor. How can it be used? As we raise the economic benefits of agriculture we should at the same time shift more labour to non-agricultural occupations, expand the scope of employment, increase farm incomes and use industry to assist agriculture. The second issue is to increase inputs, most importantly for use in improving farmland. Land is the basic requirement for agriculture but currently about 460000 hectares of cultivated land is being lost each year to capital construction. How can this land be replaced? On the one hand we should open up about 3.3 million hectares of wasteland. In addition we should improve a portion of the existing farmland, seashore and low-yield fields (including fields with

cold-water incursion and saline-alkaline land) and expand the irrigated area, all of which add up to about 3.3 million hectares.

Water control is essential to both of these tasks. Our cultivated land is scarce and we must find ways to raise the productivity of the land, which requires increasing inputs, such as increased application of chemical and organic fertilizer and substituting machinery for labour. In order to transform chemical and organic fertilizers into carbohydrates water is required, either in the form of natural precipitation or as artificially directed water. China's rainfall distribution is extremely uneven both temporally and spatially, similar to Africa and unlike Europe and America. For this reason, since ancient times Chinese agriculture has intercepted and stored natural precipitation in order to put it to rational man-made uses. Historically commodity grain bases have emerged where water control has been developed.

Thus we definitely must carry out water control but our methods need to be reformed. Here we should stress one problem, which is that water control work must switch its orientation to striving for economic benefits. Implementing water-saving agriculture should become the direction of reform in water control work. While we cannot neglect water control we must also eliminate water waste, uneconomical water use and methods that do not stress economic benefits. In particular we must do away with the mentality of 'drinking from one big pot'.¹ There are currently many problems in water control work that must be solved, such as attention from the leadership, funding inputs, pay of management personnel, basic-level water control organizations, and problems in engineering technology, but we cannot forget the overall guiding objective of raising the economic benefits of water control.

In the past we treated water simply as an unlimited natural resource. Now, however, this viewpoint of an unlimited and free supply is no longer tenable because water is a scarce resource in China, particularly in North China. Beijing's water is in extremely short supply and Tianjin has long been short of water. Shanxi has been a water-deficient area throughout history and now it must engage in coal mining and electric power generation, both of which are water-consuming industries. If this is the situation in the north what is it like in southern

China? While not the same as in the north, industrial water use is growing very rapidly.

Although China is a water-deficient country, what people currently talk most about are the farmland crisis and the forest crisis, while few people mention the water crisis. In reality the water crisis is not just potential but is actually happening. One third of our cities have insufficient water and in the countryside millions of people have difficulties obtaining drinking water. The national average total supply of water per person each year is 2700 cubic metres, which is only one-fourth of the world average. The amount of water actually used in the United States already exceeds 2300 cubic metres per person per year. In the Hai and Huai River basins of North China the supply of water per capita is even less, amounting to only a few hundred cubic meters. By the end of this century, when our water requirements are projected to exceed 600 billion cubic meters, our water account will go into the red. We have still not raised this problem to a high policy level and so we must now adopt a set of appropriate policies to use economic levers and technological measures to conserve water.

The first consideration in water control projects is that investment must stress economic benefits. We should not engage in worthless or low-return projects. Work on partially completed projects should only be continued if they will produce high returns. Those that are worthless or offering low returns should be abandoned. Secondly, after water control projects have been constructed we must use them to promote economic benefits and not merely build them and ignore them. One of our failings in the past was to have people managing the construction of a project but no one to manage its operation.

The most important condition for economizing on water use is that there should be a charge for the use of water. The purpose of this charge is not egalitarian. The objective of collecting water fees is to promote economical and rational use of water, not merely to make up for inadequate project expenditures. Only by charging for water use can we put an end to 'drinking from one big pot'. It is estimated that the rate of water-use efficiency in agriculture is only 30 or 40 per cent, while 60 to 70 per cent is wasted. This estimate might be

too severe. Some places do a bit better, such as the 'three buried' projects in southern Jiangsu where irrigation, drainage and water-table control works are all underground. There are also places that use pipelines to move water and quite a few that line their canals. We should vigorously promote these good techniques.

Water conservation work must first begin with rural water control, which should set an example. First we must resume land levelling. Secondly we should steadily develop sprinkler and drip irrigation so as to reduce the need for land levelling. In India there is a method called seepage irrigation, with tile or pottery jars buried in the ground. This technique is appropriate and saves money. We can study it and experiment with it. The sprinkler irrigation and drip irrigation of Shashiyou in Hebei and of Zigui in Hubei are also feasible.

Third, we should develop a system for measuring soil moisture and irrigate according to the scientific data provided by the measuring tests, raising different irrigation demands for different crops.

Fourth, we should determine cropping and production structures that are appropriate for local conditions. For example, there are currently some places that are experimenting with dry-sown rice, which economizes on water use.

Fifth, we must make use of cooperative organizations in water management, water control and water utilization. This means cooperative construction and management of water control projects. We cannot rely solely on state organs but should establish water control bodies among the masses, like those that Shanxi Province had in the past. Organizations at every level and particularly the water control departments should increase organization and support for the use of cooperative forms of autonomous water control and management by the masses.

Sixth, we must prevent pollution. Pollution is even more dangerous when water is scarce. When good water changes into poisonous water it becomes not only useless but even harmful. If industrial and mining enterprises pollute the environment they are simply destroying their own defences. The township enterprises that dot the countryside must pay even more attention to protecting the environment. They

cannot be allowed to pollute first and clean up later. They must control pollution before going into operation so that from the beginning they are not allowed to become sources of pollution.

Finally, we must oppose and prevent the use of water for private purposes and resolutely put an end to this trend. In addition we must establish laws and a water administration to help raise the economic benefits of water use.

It is not enough just to economize on water use, we must also open up new sources and build needed reservoirs and water control projects. First, however, we must focus on the potential benefits in existing projects and on increasing those benefits. There are places, such as parts of the Hexi (Gansu) Corridor and some parts of Xinjiang, where there is no water and therefore no agriculture, and that cannot start up industries or build residential areas. For this reason we should open up some additional water control projects. Labour is currently inexpensive in rural China and we should take advantage of this opportunity to carry out some labour accumulation² (of course we should also pay a portion as wage compensation) and build some national and local projects, such as reclaiming sea-coast areas, building water-diversion projects and water-storage projects, rehabilitating reservoirs and dredging rivers. Building projects also provide employment opportunities for farmers and, even though it is short-term employment, even three months a year is a good thing. We should study the changes in the labour market and do more with the current excess labour. A few years from now, when the commodity economy is widely developed, there will be many outlets for labour, and labour accumulation will be difficult to carry out. In the past, equipment was the most expensive part of constructing water control projects but in the future labour will be the most expensive.

In sum, we definitely must regard water as something that has a cost and that has value. We must establish a compensation system that distinguishes between situations according to the scope and timing of benefits and make our water control work steadily shift to the track of seeking benefits. And we must carry out water-conserving agriculture in order to achieve our goal of sustainable use of our water resources.

NOTES

1. 'Drinking from one big pot' [*he daguo shui*]: this is a pun on the phrase, 'eating from one big pot' [*chi daguo fan*], a common expression for excessively egalitarian distribution. [Editor's note.]
2. Labour accumulation: building capital construction projects that embody the labour used to create them. [Editor's note.]

15 Placing Agriculture in its Proper Position in the National Economy and Raising Rural Incomes

*'Baizheng nongye zai guominjingji zhong de diwei yu
tigao nongmin shouru wenti.'*

November 1986

The decline in grain production in 1985 was mainly caused by price fluctuations and serious natural disasters, but some places also experienced a weakening in farmers' interest in farming, reflecting a deeper problem. This point deserves our serious attention.

I

Why were the farmers in some areas unenthusiastic about farming? The reason is that in these areas rural industry and sideline production are developing rapidly, alternative opportunities for using inputs of labour and agricultural funds have increased greatly and returns to agriculture have fallen in relation to those of industry and sideline activities. Farmers have consequently become less interested in allocating inputs to agriculture, especially to grain production. The decline in farm incomes is not just a local problem. It is a signal that reflects a disparity between the positions of industry and agriculture that exists throughout the entire national economy.

During the process of developing toward modernization it is a rational phenomenon for the share of a country's national economy that consists of the value of industrial output to grow, while the relative shares consisting of the value of agricultural

output and agricultural income in national income consequently decline. Generally speaking the larger the share of agriculture in the gross national product the more backward a country is, while a declining share for agriculture is one of the signs of a country that is moving toward modernization.

However, the share consisting of the value of agricultural production in the gross national product is one thing, the fundamental position of agriculture in the national economy is another thing and the individual farm income level is yet another thing. When the entire national economy has achieved modernization agriculture will receive support from industry, raising labour productivity and strengthening the fundamental position of agriculture. Farm incomes should then rise and should increasingly approach the income level of urban residents. If the value of the proportion of agricultural output declines, however, and the rate of increase of farm incomes also falls, it shows that the economic position of agriculture has diminished and because of this the foundation of the entire national economy will weaken. This should be avoided. Protecting the economic position of agriculture, raising farm incomes and bringing the income levels of rural and urban residents steadily closer together should become important objectives in the long-range development strategy for the rural economy.

Judging from the experiences of various countries, the 'status differential' between the economic positions of agriculture and industry generally forms three kinds of changing patterns.

In the first kind, as industry develops the proportion consisting of the value of agricultural production declines, employment in non-agricultural sectors grows, the agricultural population declines, rural incomes rise and the disparities between industrial and agricultural profits and incomes tend to narrow. This kind of situation has emerged in only a few small economically developed countries.

In the second kind, the share consisting of the value of agricultural production declines but the agricultural population does not decline and rural incomes rise at a very slow pace. In the past, China was in this kind of situation. The proportion of China's industrial output rose steadily to over 60 per cent of gross national product, but the industrial population increased relatively slowly while the proportion of the agricultural

population in the total population consistently remained over 80 per cent and showed no signs of falling. The proportionate distribution of the key production factors, farmland and labour, was out of balance, with each person utilizing a little over one *mu* [.067 hectare] of cultivated land to grow food. Agricultural development stagnated and the lives of the farmers were difficult. This is an abnormal phenomenon. After 1980, with the implementation of new rural policies, there have been great changes in the situation. The agricultural population has rapidly shifted toward non-agricultural industries and by the end of 1985 over 60 million farmers were engaged in non-agricultural production. The average annual per capita income of farmers has risen from 80 or 90 yuan to nearly 400 yuan. However, fluctuations have appeared this year and it is still unclear whether or not it will be possible to maintain this kind of momentum. If we want to maintain stable momentum in development it is necessary to create new conditions.

In the third kind of pattern the proportion consisting of the value of agricultural production declines, the agricultural population is greatly reduced and farm incomes increase, but a certain discrepancy still remains between industry and agriculture. The majority of the economically developed countries are in this kind of situation. Most of these countries are free-market economies and in theory the profit rates in industry and agriculture should tend toward average levels and the disparity between industry and agriculture should be steadily eliminated. In reality, however, industrial profits are higher than agricultural profits and at times there is a wide gap between them. The agricultural portion of the population in the United States has now declined to 3.5 or 4 per cent and although American agriculture has a very high organic composition¹ the income difference between industry and agriculture is still substantial. It has been calculated that the farmer receives only 40 cents of each dollar's worth of food sold in the United States. This illustrates the point that the earnings from primary agricultural products are very low. Statistics show that if the income of industrial workers is taken as 100, the incomes of farmers are 88 in New Zealand, 77 in Denmark, 56 in the United States, 44 in the Federal Republic of Germany, 36 in France and 34 in Japan. Thus we can see that in each of these developed countries the difference

between industrial and agricultural incomes is still quite large. Why does this phenomenon occur? It is caused by the characteristics that agriculture possesses as a form of biological production.

One is that agriculture has a strong seasonal character and the natural production and labour processes are not uniform. The machinery and equipment utilized in dissimilar production processes cannot be used for other purposes, causing the utilization rate of fixed assets to be much lower than in industry. Most agricultural machinery is used for only a little over two months per year and some is used for only about a dozen days. Industrial production proceeds year-round in all seasons.

The second characteristic is that technological progress is slower in agriculture than in industry. In agriculture there is a trend toward diminishing returns to land under a given set of technological conditions.² In order to raise the productivity of agricultural labour it is necessary to increase material inputs, such as machinery and chemical fertilizer, and reduce the consumption of living labour.³ In agriculture, however, the rate of growth of material inputs generally does not result in synchronized or leading growth in production. If there is no new progress in technology then when material inputs reach a certain limit the rate of growth of agricultural production will slow down, causing production costs to rise and the profits of agricultural products to fall. This kind of situation occurs relatively rarely in industrial production. For this reason people are usually willing to invest funds and technology in industry and not in agriculture, thereby affecting scientific and technological progress in agriculture.

The third characteristic is that agriculture is constrained by various natural conditions and entails relatively large risks. For example there are some parts of China where disasters occur every few years, causing the farmers to lose all or most of that year's inputs.

One of the most important conditions is that the consumption elasticity of agricultural products is relatively small. If there is a small increase in the supply of agricultural products they cannot all be consumed, while a slight decrease creates shortages and constraints. Furthermore, agricultural products have a long production period and once a crop is planted it is impossible to change products for that year. And when

supply in the market is greater than demand crises occur in which agriculture is hampered by low prices.

Thus a balance between production and marketing is very important, but it is also very difficult to achieve. If equilibrium is reached in the aggregate there may still be local imbalances. For example, the aggregate production of grain in China is definitely not excessive but in 1984 some local areas appeared to have surpluses because grain in the Northeast could not get to Fujian, and although Hunan is close to Guizhou it was very difficult to transport grain there. It is not sufficient, therefore, to only look at the aggregate balance. We must also look at the degree to which a unified national market has been formed, the commodity-turnover situation and consumer purchasing power. For the world as a whole there is inadequate grain and in Africa there are 100 million people who do not have enough to eat, yet in the United States there is a surplus crisis and farms are going bankrupt one after another. Grain is a staple food for which there are no substitutes. Most of the proteins and hydrocarbons that are required by the human body are provided by grains, and meat production also consumes large quantities of grain. Without grain there would be chaos. This forces the governments of all countries to adopt special measures to protect grain production.

In summary, it is a normal and regular phenomenon for agriculture's share in the gross social product to decline. It is a good thing and not a bad thing. However, if the profit rate in agriculture cannot grow at the same time or grows very slowly and if the gap between the incomes of urban and rural residents does not steadily decrease but instead grows steadily larger, then this is abnormal.

This is not merely a problem of agriculture itself, it is also a problem of the entire national economy. In the long run the development of China's industry can only be adequately based on the domestic market, of which the rural market is a major part. It is necessary to create demand in the rural areas in order to stimulate the supply of industrial goods. In China there are currently shortages of some products while others cannot be sold, most of them middle-grade or low-grade goods. If the incomes of the 800 million farmers fail to rise and their purchasing power remains low there will be no market for large quantities of industrial goods, especially those middle-grade

and low-grade goods. This would be detrimental to the development of both industry and commerce. For this reason protecting a steady rise in rural incomes is also protecting development of the national economy.

II

How, then, can we protect the status of the agricultural economy and raise rural incomes?

1. Reform of the rural economic system must be completed as early as possible and it should be converted into a socialist commodity economy so as to strengthen the vitality of the agricultural economy, improve its self-accumulation and increase its ability to utilize modern technology.
2. We must transform the rural production structure, changing unitary operations to diversified operations, combining agriculture with forestry, animal husbandry, industry and commerce, absorbing large amounts of surplus labour and opening up employment opportunities in many sectors.
3. At the same time that labour is being shifted, we should energetically open up farmland, increase material inputs, improve agricultural production conditions and take the path of intensive farming.

These three methods are interrelated and inseparable. National financial support is a necessary precondition for agricultural development. Look at the situation in developed countries. In the United States agriculture only supplies 4 per cent of national income but the government allocates 9 per cent of its expenditures to agricultural subsidies. In the Federal Republic of Germany agricultural taxes constitute 1.7 per cent of total taxes but investment in agriculture accounts for 7 per cent of the national budget. The Western European Economic Community used 7 per cent of its budget to subsidize agricultural products in the period between 1973 and 1983. In the last few

years Japan has spent 1000 billion yen subsidizing agriculture although the return from agriculture has been miniscule.

The experience of each country shows that agriculture cannot develop without the assistance of society and the support of the state. This is not only because agricultural products are related to the people's livelihood but also because the countryside is a vast market for industrial goods and must be supported. Because agriculture has biological production characteristics a certain degree of exchange at unequal values between industry and agriculture cannot be eliminated through market competition. We can only rely on government expenditures to make up the benefits that agricultural production has difficulty obtaining through market exchange.

In the past the scissors differential¹ in prices between industrial and agricultural goods in China was quite large. After 1979 readjustments were made and it was reduced to less than 9.8 per cent per year. In recent years, however, there has been a tendency for the narrowed scissors differential to widen once again as a result of rising prices for the agricultural means of production as well as other complicated causes in the national economic structure. For this reason we must protect the prices of agricultural products if we want to help stimulate agricultural production. However, if there is an excessive rise in prices beyond what consumers can endure it can easily lead to social disorder. One method of creating a balance is to give consumers subsidies through prices, but this invariably increases the burden on the state budget. For the long term it is more important to increase funding of inputs, to further improve the conditions for agricultural production, to make more economically rational use of agricultural resources and to raise the productivity of labour and land so that those who remain working in agriculture have good prospects for making profits and are happy to work the land. This will also free agriculture from its backward state as rapidly as possible and give it the ability to develop itself. In the last few years China's investment in industry has increased annually while investment in agriculture has decreased annually. This cannot be considered rational.

There are currently 7 million hectares of high-yield farmland in the entire country. We must strive for high and stable yields and find ways to compensate for the several hundred

thousand hectares of farmland that are taken up each year for urban, industrial and transportation construction. It is also necessary to invest in knowledge and to develop science and technology. These matters cannot all be settled by the farmers alone and require coordinated arrangements by the state.

According to the experience of history agricultural production – particularly grain production – can only achieve better economic benefits when scale of production, fixed assets and labour inputs are all in balance. China has many people, little land and inadequate fixed assets and still relies mainly on human labour and animal power. When there is excess labour, however, increasing machinery inputs can only raise costs and cannot increase production. For this reason a prerequisite for intensified operation of farmland is to transfer rural labour into non-agricultural production sectors. In thirty years China's urban industries have absorbed only 100 million labourers. It is apparent that it will only be possible to shift large numbers of surplus rural labourers by developing township enterprises. This will also enable industry to raise the productivity of land and labour by supporting agriculture at the district level, advancing the transformation of agricultural technology and increasing fixed-asset inputs.

Why should profits created by township enterprises be supplied to farmers? Since objectively speaking there exist price differentials between industrial and agricultural products and because land is a scarce resource, those who engage in agriculture make involuntary contributions to those who work in industry in such areas as food supply, social welfare, construction and improvement of the living environment. Those who work in industry, therefore, also have an obligation to subsidize agriculture. Naturally, subsidization of agriculture by industry can gradually become a kind of resource readjustment and a mechanism for the flow of resources. It is still unclear how this mechanism should be formed, but eventually we will find a way – first within the scope of the townships and villages – to readjust the gap in economic status between industry and agriculture.

With the reforms of the last few years and the introduction of land contracting, household farming has emerged as the major management form and land utilization has become dispersed. But we cannot talk about expanding the scale of

management until we have adequately resolved the problem of transferring labour.

The scale of management can be expanded by forming associations based on household operations and can also be developed within the scope of a single household. What is important is that we should not rashly change the household management form and should not repeat the practice of 'putting things in big heaps'. In most areas household management is better suited to the circumstances of agricultural production and has strong abilities to react to contingencies in natural conditions. The design of agricultural machinery must now be adapted to the conditions of household production. For example, with a complete set of agricultural machines that can be operated by one person a household with two labourers can cultivate a relatively large amount of land without hiring any workers. In addition, it is possible to raise output by substituting production materials created by modern industry, like chemical fertilizer and pesticides, for farmland. At the same time we can also expand specialization and the division of labour by means of pre-production, mid-production and post-production services. This approach frees household management from the limitations of the old small-farmer economy and maintains its economic status in modern agriculture.

In the rural areas of developed countries, the great majority of farms are household operations. Even though the technological level of Chinese agriculture is backward and the various conditions mentioned above are not yet available, there is already evidence of the superiority of household management. As soon as its power, responsibility and advantages were transformed, it made the best possible use of the tradition of intensive and meticulous farming to lower management expenses, reduce costs and raise output. We must therefore affirm household management and not rashly change it. This is in accordance with the wishes of the farmers.

But we must also make sure that the farmers understand the following points: Things that cannot be handled by a single household must be taken care of by forming associations. There are some matters involving contradictions between individuals and society that also require regulation through associations. Joint risk-bearing should be organized for some management risks. Associations are also required for developing the

commodity economy, specialization and socialization of production. In most areas associations should first be created in the pre-production and post-production service links. They should take many forms and not be restricted to one type. In addition, in 15 per cent of the country's townships and villages, collective management still occupies the dominant position within the two-tiered management system. By using industry to subsidize agriculture they have operated a group of cooperative farms and have instilled new vigour into grain production. This should also be allowed to exist. We should permit numerous forms to develop jointly.

We should adopt economic policies to encourage people with more than one job to transfer their contracted fields, while at the same time political and cooperative organizations in townships and villages should establish sound land-management systems to curb the illegal occupation and further segmentation of farmland. Rural families that are unable to cultivate land should be persuaded by reasoning to either return or transfer their contracted fields. There must be ways to attend to their difficulties and to make compensated transfers.

NOTES

1. Organic composition: the Marxist term for the ratio of non-labour costs to total costs (see Glossary). A high organic composition means a high ratio of investment and current inputs to labour and implies high labour productivity. [Editor's note.]
2. Diminishing returns to land: if investment in land is continued beyond a certain limit there is a tendency for the additional return to begin to decline and eventually for the return to each unit of investment to change from increase to decrease. This law assumes fixed technological conditions.
3. Living labour: in Marxist economics 'living labour' is distinguished from 'embodied labour', which is the value imparted to goods by labour. See R. D. Wolff and S. A. Resnick, *Economics: Marxian versus Neoclassical* (Baltimore: Johns Hopkins University Press, 1987), pp. 158-63. [Editor's note.]
4. Scissors differential: see Glossary. [Editor's note.]

16 Striving for Stable Growth of the Rural Economy

'Zhengqu nongcun jingji de wending zengzhang.'

A speech given at the Party Central Committee Conference on Rural Work, 12 November 1986

I

The reforms of the last few years have brought great development to the rural economy. The situation has consistently been good and inspiring changes have taken place one after another. Beginning this year some new features are appearing in rural economic development. The main one is that rural structural reform is shifting from breakthroughs to deeper reform, and economic development is shifting from extraordinary growth to normal growth. These two changes have placed new demands on all aspects of our work.

With respect to the situation of the rural economy in 1986 the relevant departments estimate that grain production has increased by over 10 million tons and the gross value of agricultural output, calculated in comparable prices,¹ grew by 4.3 per cent over the previous year. This can be considered 'smooth and stable growth'. The Rural Survey Team of the State Statistical Bureau predicts that annual per capita net income for farmers is around 425 yuan, an increase of about 7 per cent over last year. Compared with the last few years the rate of growth has slowed down.

How should we regard these changes? In the last few years the value of agricultural output has increased by nearly 10 per cent a year and farm net incomes have increased by over 10 per cent a year. This not only exceeds the normal rate in the 30 years since the establishment of the People's Republic of China, it is also greater than the normal rate of growth in

agriculture in any major country since the Second World War. This extremely high rate of growth is a result of the new economic policies that have generated a concentrated outburst of long-suppressed productive forces. In the period between 1979 and 1984 the state raised the purchasing prices of farm produce and introduced the production contract responsibility system, which sparked unprecedented enthusiasm for production among the farmers. At the same time the Party's policies encouraged comprehensive development of agriculture, forestry, animal husbandry and fisheries and promoted operations that combine agriculture, industry and commerce.

In 1985 an overall reform of the unified purchasing and marketing system was begun and pork, vegetables and other non-staple food items entered the market. In that year, aside from grain sales, the cash income of each farmer from agricultural, forestry, animal-husbandry and fishery products rose by 22.5 per cent. The newly increased amount accounted for 43.9 per cent of the entire year's growth in farm per capita cash incomes. This, combined with the growth in non-agricultural production, counteracted the negative effects of a decline in grain output in 1985 and sustained a high rate of growth in the rural economy.

Maximum growth cannot be sustained for a long period of time. Changes have occurred in the economic conditions on which growth depends and the extremely rapid growth in farm incomes will consequently slow down. This kind of change, however, does not mean a shift to slow development but rather to sustained stable growth. The development potential of China's rural economy is still just beginning to unfold. The establishment and improvement of the new economic system will inevitably accelerate further development of the rural forces of production. Currently in China the levels of consumption and supply of agricultural products are both still very low. In the future the quantity demanded in the market will grow continuously, giving a tremendous push to development of the rural economy.

Our unshakable objectives are to deepen the reforms, create the conditions for new development, achieve comprehensive, stable growth of the rural economy and make the income level of rural residents gradually approach that of urban residents.

II

Agriculture is a biological production sector with high risks and low returns to assets. During the process of economic development the great majority of the world's countries experience the phenomenon of declining relative returns to agriculture. It is particularly difficult to maintain profitability in grain production. This is always an important problem. We must therefore emphasize agriculture, strengthen its fundamental position, increase inputs and have the state implement certain kinds of protective policies. In all the countries of the world where agriculture is developed it is placed in a protected position and priority is given to the objective of bringing the incomes of rural residents close to those of urban residents. Most of these countries pursue agricultural policies of price protection, price subsidies and financial support for production, particularly for grain.

During two periods – the first 20-some years after the founding of the People's Republic and the last six years – growth and decline in Chinese agriculture was closely correlated with growth and decline in the entire national economy. When agriculture was developing and supplied relatively large amounts of food and industrial raw materials, the urban economy was stable and thriving. The demands of the cities and the countryside mutually stimulate each other's production, generating movement toward prosperity. Urban autarky and rural self-sufficiency only lead to stagnation. The facts prove that affirmation of the fundamental position of agriculture is a necessary condition for development of the national economy.

III

If agriculture is to climb a new ladder it must shift to a production structure that can fully mobilize rural resources and produce comprehensive economic results.

China has a special national condition: the population is vast while arable land and other resources are scarce. Over the last thirty years the rural proportion of the population has not declined in step with the progress of industrialization. The

share held by the value of industrial output in the gross value of industrial and agricultural output rose from around 40 per cent in 1952 to about 70 per cent in 1985. Agriculture's share (including that of industries at the village level and below) in the gross value of industrial and agricultural output has fallen to 31.8 per cent, but the proportion of the rural population is still over 80 per cent, a situation similar to that of typical low-income countries. This has become a particular point of difficulty for Chinese rural areas in banishing poverty and making the transition to development. One reason the former people's communes did not produce good economic results was that labour productivity declined through imbalanced allocations of land and labour. The forces of production have grown since the reforms, but if the excessive labour force remains concentrated on the limited cultivated land, the problem of declining labour productivity will not only reemerge, it will also encourage a trend toward dividing up the land and smaller-scale management, which would be detrimental to the modernization and intensification of agriculture.

The slow pace of transferring agricultural labour to other sectors is partly due to inadequate industrial development. Large industries have developed but development of small industries and the service trades is insufficient. Big cities have developed but development of small cities and towns is inadequate. Enterprises owned by the whole people have developed but development of collective enterprises is inadequate. Currently, to absorb one labourer in a big city requires that inputs of fixed assets be increased by 10 000 yuan and public facilities and welfare by 5000 yuan. It is estimated that by the year 2000 the rural labour force will grow to over 400 million, at least half of whom must transfer into other sectors, and while large-scale industry will be further developed it will be impossible for the big cities to absorb so many rural workers.

In the last few years there has been a change in the policy of rural-urban separation that prevented industry from going down into the countryside. Township enterprises employing tens of millions of people have been initiated, clearly demonstrating the enormous potential that exists in the countryside for the development of collective small-scale industry and small cities and towns. Furthermore, wherever township enterprises

develop, the level of prosperity of the farmers rises and agricultural production develops as well. Thus we can kill two birds with one stone by using this approach to resolve the problems of both employment and development in China's rural areas.

IV

While stressing that prosperity cannot exist without industry, we should not go to the opposite extreme of saying that farmers must be poor and should therefore 'delay agricultural development and wait for industry'. Consider, for instance, the following two kinds of areas. One kind is an area in which the economy is entirely backward and transportation, energy, technology and culture are all inadequate for the development of industry. If the people believe that there can be no prosperity without industry and passively wait for industry they will become poorer the longer they wait. On the other hand, if they make the most of local advantages, such as developing gathering or handicraft industries, opening up mines, cultivating grass and trees, or developing animal husbandry, then they can at least cast off poverty as quickly as possible.

The other kind of area is one that is suited to farming and has advantages for farming but lacks advantages for operating ordinary industry. With the support of national policies this kind of area should engage primarily in cultivation and animal husbandry supplemented by processing industries (mainly processing agricultural and sideline products). The 'cultivation-husbandry-processing' route can transfer labour out of agriculture and also transform low-income agriculture into high-income agriculture. Thus we can see that prosperity can also be achieved by farming.

The guiding principle should be to undertake whatever the conditions permit to be developed. Grain, industrial crops, gardening crops, forestry, animal husbandry, aquatic production, gathering, processing, transportation, construction, commerce, services and labour export can all be developed according to local conditions. The resources of mountains, water, fields, forests and mines can all be utilized. As long as there are products, sales and incomes, they can absorb rural

employment and even if the benefits are initially not large it is still much better than passively waiting and doing nothing.

V

Once urban and rural residents move beyond the stage of having adequate food and clothing they will become more selective in their consumption of agricultural products and they will certainly raise demands for variety in animal-husbandry products, garden products and technical-crop products. These products have high commodity rates, high market consumption elasticities, good processing and comprehensive utilization results and generate relatively high cash incomes. During the process of reform they will enter the market early because their market conditions and start-up conditions are all relatively good. For this reason, while we definitely must not relax the emphasis on grain production we must also continue the guiding policy of developing a diversified economy.

There are broad opportunities for the development of the products named above but at any given time there are usually certain constraints that require analysis and policy decisions. Animal husbandry is still a backward sector and its share in the value of agricultural output should be raised. It would be appropriate for it to eventually reach around 30 per cent. The factors constraining its development are citizens' purchasing power on the demand side and fodder and grain output on the supply side. Of the approximately 400 kilograms of grain nationally available per person each year the largest part is directly consumed as food and only a very small proportion is available for fodder. In order to break through this constraint it is necessary to establish a fodder supply system and a corresponding animal-husbandry structure that are suited to the conditions of China's rural resources. Scientific research should be strengthened to develop new sources of fodder that economize on grain. For example, a multi-stage agricultural sideline production cycle could process feed cakes from rice by-products. We should also cultivate high-nutrition, high-quality forage grass, improve the quality of straw, make better use of aquatic resources and develop micro and unicellular fodder like algae and bacteria. In the meantime we should increase

the proportion of grass-eating animals like cattle and sheep and of aquatic creatures like fish.

This same kind of reasoning also applies to gardening. China's rural areas have diverse climate conditions, clear traditional advantages in garden production and great potential for development. There are great hopes that gardening will form a new sector for generating income as supplies to cities are ensured. The initial constraint is the stability of demand. In addition, fruits and vegetables all have problems of seasonal surpluses. The trend of development is to gradually bring about regionalization of production and to stabilize the relationship between supply and demand.

VI

During the historical period of commodity production only adjustment through the market can cause the factors of production to flow toward beneficial uses and form a production structure that will increase comprehensive benefits to society. Therefore after farm managerial autonomy has been established rural reform will then move on to the realm of circulation. The real situation shows that when reform enters this stage it can no longer advance in a straight line as it has done for the past few years. The reasons for this are that: (i) reform of the economic system involves major readjustments in the economic relationships of all members of society and must occur simultaneously in cities and in the countryside; (ii) the rural economy must go through a process of development in making the transition from a semi-self-sufficient, semi-natural economy to a socialist commodity economy; (iii) in readjusting economic relationships among the people it is necessary to consider the tolerances of the different elements of society and to maintain the normal social functions of the economy; (iv) restoring and developing the economy is an extremely arduous task for the state. Development requires that inputs be increased while reform also requires financial support. Therefore after successfully achieving strategic breakthroughs the reform will be faced with an arduous, complicated and exhaustive campaign.

We have not adequately prepared our thinking about this

aspect of reform and therefore some perplexing relapses have occurred. For instance certain products have been freed from control and then again restricted, and in some regions there have emerged blockades of products and sectoral monopolies. We only began to recognize the causes of these phenomena after more than a year of experience.

VII

In the 30 years prior to the reforms, unified purchasing and marketing developed into a fairly complete economic system. It was not only a system for exchanging products but also an income distribution system. Urban residents obtained food products at low prices and factories obtained raw materials at low prices which enabled industry to maintain low wages, low costs and high profits, part of which went to the state as tax and management revenues.

The unified purchasing and marketing system also included a series of measures that constituted a distribution system embedded within the exchange system. These measures included restrictions on the flow of agricultural labour, single-unit monopoly management, closed markets, restrictions on interregional trade, the commodity rationing system and strict prohibitions on long-distance trade. Farmers sold agricultural products in place of paying taxes and workers received welfare and subsidies through rationed commodities. The state obtained development funds while maintaining social stability and a balance between different interests. Thus unified purchasing and marketing was linked together in a single vast system with the price and wage structure and the commercial network.

Unified purchasing and marketing undoubtedly made great contributions but they came at the expense of harming economic benefits in many respects. It suppressed the formation of a commodity exchange market, causing society to lose the fundamental tool for rational distribution of agricultural resources, and the long period of procurement at low prices also crushed the farmers' enthusiasm for production. It was difficult to maintain the system of unified purchasing and marketing any longer. The necessity of reform did not come from

anyone's momentary impulse but from historical changes produced by actual economic conditions.

After an assault was launched on the unified purchasing and marketing system it became possible to make progress in developing a commodity economy. Since this involved major changes in the fundamental interests of many groups there were inevitably difficulties, which were aggravated by the fact that the reforms did not proceed at the same pace in the cities and in the countryside. Had there been no reform, however, the difficulties would have been even greater and more numerous.

Agricultural products other than food grain have gradually been freed from the old system but reform of the grain procurement system has had to proceed by an indirect route. For grain circulation it was necessary to adopt a 'double-track system' as a transitional policy measure: one track uses contracts to fix orders; the other track uses non-contract, negotiated market purchases. We will eventually approach our goals by gradually improving contracts, expanding negotiated purchases and reducing contract purchases.

VIII

Reform in the realm of circulation has encountered a number of difficulties but the creative spirit engendered in the masses by the reform has enabled us to break down the obstacles. Reform in state-operated commerce and in the supply and marketing cooperatives has begun to achieve results. As the commodity economy develops and the role of the market mechanism expands farmers are voluntarily entering the field of circulation and responding creatively to development opportunities. Numerous specialized markets are emerging throughout the country. Various types of newly-opened circulation channels, production and marketing-service cooperatives, agricultural-industrial-commercial associations, diversified service companies and trade centres, have all initiated operations. Organizations like specialized farm producer societies and specialized production and marketing-service cooperatives have already expanded from a few scattered points to a vast area. Trade between local governments also serves as a

circulation channel that has invigorated interregional market exchange. New supply and marketing organizations operated by villages are beginning to participate in the market and a group of transportation and marketing specialized households that have the conditions required for development are emerging from farmer transportation teams. These masses-style circulation service organizations produce higher returns than the state commercial units and also facilitate macro-adjustment by the state by reducing the erosion of intermediate benefits, automatically arranging supply and demand prices, developing horizontal linkages, optimizing economic combinations and reducing management links. An important task of the reform is to help these organizations consolidate and grow.

IX

The rural reforms, like a military operation, must seize opportunities to expand the fruits of victory while consolidating the positions already attained.

The production contract system for land still has many problems that are far from completely resolved. The Central Committee has formulated a policy of long-term fixed land contracts with the objectives of consolidating the contract economy, encouraging farmers to invest in the land and engendering long-term economic behaviour. However, since the policy of '15-year fixed land contracts' was promulgated the farmers have shown much less interest in investing in the land than in housing. Right now farmers are pondering this kind of question: will more inputs be profitable or unprofitable and who will receive the benefits in the future? We must reaffirm the policy of guaranteeing long-term management contracts or else agriculture will not have the necessary foundation for further sustained growth. Other problems, such as how to reach an appropriate scale of operation, how to effectively operate a service system on the basis of household management, and issues of contracting water surface, mountains and forests, urgently await the lessons of useful experiences from all quarters.

It is still necessary to refine the township enterprise system. Currently township enterprises everywhere complain that they

lack energy, materials, information and funds, and yet within the boundaries of a single county or township there will be numerous factories of the same kind all with insufficient inputs and all operating below capacity. Why can't we try out a joint-stock system to form management entities with more real strength? Within enterprises it is necessary to further improve the management contract system by giving autonomy to enterprise managers so as to truly link the remuneration of individuals to management results (including profit level and capital conservation and expansion).

The flows of the various factors of production are indispensable for adjusting production among different sectors and they are also effective means of accumulating and distributing social resources and optimizing production combinations. Opening a financial market will be an important breakthrough in the future. This is a necessary step which must follow the opening of the product market. The amount of funds on deposit in the rural areas is substantial and the main source of rural funding should be the financial market. We should reform the existing financial organizations so that they can fully develop their functions and guide development of popular credit organizations in order to promote horizontal flows of funds, perfect the channels of investment and overcome the barriers to fund raising.

Rural labour-force flows are relatively smooth. Now it is necessary to create the conditions required to attract intellectuals to the countryside, to contract for township enterprises and initiate all kinds of service industries. Their legal income and social status should be guaranteed.

X

The former system was over-centralized and therefore the reforms of the last few years began by releasing power and relinquishing profits. But reform of the economic system cannot be limited to this approach. In order to continuously expand the forces of production it is necessary to establish more effective new economic combinations based on various economic units that have become autonomous. The process of change in rural society during the last few years has shown

that the farmers are enthusiastic both about developing the individual economy and about uniting for common development. The former kind of enthusiasm has been liberated after being suppressed for many years and it is now in the process of fully unfolding its tremendous productive potential.

Several places have reported that the farmers became fearful when they heard the term 'cooperation'. They mainly feared a revival of the erroneous practices of the period of collectivization and communization. They feared a return to the old road. The reason the farmers do not welcome the old road is not that they do not welcome the principles of the cooperative system but rather that they do not welcome distortions of the cooperative principles. In the past the most important manifestation of this kind of distortion was mixing up the development of cooperation with expropriation of farmers' property, which dampened the socialist enthusiasm of the farmers.

The cooperative route was originally designed by Marxism-Leninism as the route for the socialist transformation of agriculture after the working class had seized the political power of the state in a country with great numbers of small farmers. The reason why Engels, in 'The Peasant Question in France and Germany', and Lenin, in 'On the Cooperative System', used the concept of 'changing small private ownership to cooperative ownership' was to prevent expropriation of the farmers' property. It was to confirm the farmers' independent property rights and other individual economic benefits and not to directly implement fully socialized ownership. It was to guide the farmers to join together under this premise and rely on joint labour to gradually accumulate common property, develop new social forces of production and create the material foundation for socialism. It was not to expand the public-ownership system by expropriating the property they had pieced together.

During the period of the people's communes this problem was not handled well and in the eyes of the farmers the property which they had originally owned was not transferred to collective ownership but was turned over to 'the big pile'. Public property belonged to the public, not to themselves, and they did not comprehend that they owned a share of it. All farmers were turned into 'rural propertyless wage labourers' who could only obtain their livelihoods by earning workpoints through

farm work while other avenues of industry and commerce were closed to them. Under these circumstances farmers could not sustain the enthusiasm that was aroused following land reform and the creation of mutual aid groups and elementary cooperatives, and the progress of the rural forces of production slowed down.

Following the Third Plenary Session of the Eleventh Party Central Committee, household management has been restored through production contracts. The farmers make their own management decisions and hand over to the collective accumulation a portion of their annually increasing total output and surplus output calculated according to the stipulations of the contract. The portion they retain for themselves increases each year and some of it becomes new investment. The development of new productive forces through the mutual growth of collective property and farmers' new privately owned property is a remarkable characteristic of the two-tiered management cooperative system.

Totally contrary to the comments of certain foreign scholars, the mainstream of China's rural reform is neither a redivision of former collective property nor a reestablishment of rural private ownership but is merely an alteration of the existing form of ownership rights which has completed the separation of farmland ownership rights from management rights (the rights to possession, use and income). It is only possible for collective land to generate income when it is combined with farm households' major means of production on the basis of contracts. At the same time the farmers have begun to form various kinds of economic associations based on their own property, creating a lively situation in which everyone participates in developing the economy.

XI

In light of the development trends of the last few years it is apparent that with the opening up of the commodity economy the rural economy can no longer rely on a single cooperative form as it did in the past. It is already impossible to use the original meaning of the cooperative system to generalize about the diversified forms of economic associations created by the

masses and it is also impossible to define the new economic forms by means of the few existing concepts of ownership. We should make new assessments and summations of the innovative experiences of the economic associations.

After going through the reforms the rural areas still retain regional cooperatives managed by farmers. Land and other means of production are publicly owned and they also practise household contract management. Farmers are in the position of relatively independent commodity producers and obtain income from labour by exchanging commodities through the market. This is different from the former distribution system in which remuneration was received according to workpoints, and it has the advantage that it can motivate the farmers to constantly assimilate scientific and technological achievements, improve management and strive for better economic results. There are a few cooperatives that still retain the original method of calculating remuneration according to quotas but they have all adopted the contract system. The major function of rural cooperative organizations is to provide production services to contractor households. Funding for services comes first from the money turned over by farm households and secondly from the earnings of collective enterprises. In addition, the village cooperative organizations are also the foundation of the villages' autonomous society and economy.

In the last few years China's rural economy has broken out of a uniform management pattern and has changed into a diversified economy that includes the second and third sectors,² thereby increasing the money incomes of farmers and opening up new sources of income. In order to surmount difficulties in areas such as funding, technology and market contacts, sooner or later the farmers in these fields of commodity production have formed various kinds of economic associations so as to strengthen their own economic positions. This has caused the forms of rural mutual-aid and cooperative organizations, originally restricted only to land management, to emerge in new economic realms and to develop in different ways and on larger scales.

In order to meet the needs of commodity production the farmers developed specialized service cooperatives of different sizes and functions to solve problems in the areas of supply and marketing, credit and processing. These were the economic

forms that the farmers developed first when they entered the realm of circulation.

Collective township enterprises are another kind of economic association of farmers engaged in industry. Products that are suitable for dispersed production or certain processing links are distributed to households, but operations like purchasing and distribution of raw materials, marketing of products, organization of the production process and coordination and management are unified and integrated. Enterprises that are equipped with new machinery, require collective division of labour and receive funding from the collective can organize labour in a factory fashion and distribute earnings as dividends according to investment, while distributing income primarily according to labour.

This kind of small-scale economic association is the fastest developing, the most numerous and draws the greatest attention. Quite a few are made up of relatives and close friends, many are associations centred on specialized households and they all have the objective of jointly developing certain products. These associations are formed entirely voluntarily, their leaders are trusted by all and they rely on their own leaders to handle matters. They are like primary schools for rural areas that lack a tradition of cooperatives. Although their scale of operation is currently not large, economic progress will inevitably bring them tremendous development and vitality.

There are also forms of associations developing every day that break out of the boundaries of the ownership system, such as joint-stock entities, combinations of industry and agriculture, combinations of production, supply and marketing, production combined with science and technology, urban-rural industrial enterprise groups and companies with mutual investment by enterprises with different forms of ownership. Within state farms there are also new forms of associations, including family farms that are responsible for their own profits and losses, processing factories jointly operated by supply and marketing cooperatives and farm households, leasing systems, linked household systems and joint public-private operations.

It is clear that China's rural economic associations are about to move ahead to a brand new, unprecedented situation. As for policy support, perhaps there may be some special emphasis but they must each be allowed to play their own roles and

develop in their own ways. This approach is conducive to providing the masses with more opportunities for choice and creating more learning opportunities for directors and it is also conducive to gradually forming a rural socialist system that is economically beneficial and moves toward common social prosperity through diversified development.

In summary, the guidelines in dealing with issues of rural economic associations should be: (i) the objective is to advance development of the commodity economy; (ii) it must be recognized that farmers are commodity producers who have the right to personal interests and to make their own decisions, and moreover that coordinating their interests with collective interests is to move toward common prosperity; (iii) it is important to recognize the diversification of economic and development forms, to allow the coexistence of diverse economic components while accepting the leading role of the public-owned economy and to respect the choices of the masses.

XII

Grain production is the problem that is of greatest concern to everyone. This is because it is the foundation of the foundation. Developing grain production is extremely difficult and it cannot be taken lightly. We must ensure that by the end of this century we reach our national annual target of 400 kilograms of grain per person and we must prevent the reemergence of a situation of long-term fluctuations. To do this we must: (i) rely on correct price policies; (ii) rely on increasing inputs (including technology inputs); (iii) rely on social production methods that are appropriate for a situation in which the forces of production are developing.

Quite a few comrades are aware that incomes from grain have declined, and believe that the solution cannot be to just wait for an increase in prices but rather that the scale of production should be increased, that there should be an appropriate concentration of land and that inputs should be increased so as to raise labour productivity to make up for losses caused by low prices. From the theoretical point of view this is correct but putting this approach into practice would involve too many factors. We must study its feasibility

according to local conditions and afterwards map out steps for implementing these measures. Generally speaking the full benefits of concentrating farmland can only be achieved by utilizing machinery for cultivation and reducing labour inputs. In most parts of China, however, the population is large and land is scarce. In these areas concentrating the land and substituting machinery for labour would require a solution to the problem of transferring the labour force at the same time. The approach can be tried out in places where a large part of the labour force has already transferred out of agriculture, such as the Two Deltas (the Pearl River Delta and the Yangtze River Delta) and a few big cities.

What are the actual results of concentrating farmland? This is also a question that deserves serious attention. In Suzhou Municipality there are 120 units that have adopted an efficient scale of agriculture: 62 per cent of these are household farms with an average of 1.8 hectares per labourer; 11 per cent are cooperative farms with an average of 2.7 hectares per labourer; 13 per cent are village-run farms with 1.7 hectares per labourer. There are also a small number of farms run by factories or jointly operated by townships and villages. The latter two types of farms were nearly all set up under direct intervention by the township government and the collective and they are relatively stable. This is because the townships and villages safeguard high farm incomes through the method of using industry to subsidize agriculture, providing agricultural-machinery services, plant-protection services and fertilizer subsidies with money from public funds. Incomes for the former two types of farms, however, come primarily from working the land. Grain prices tend to be low and service systems are unstable because investment is required to provide services and the few isolated clients are insufficient to offset the investment and earn a profit. Service systems cannot be guaranteed until there is specialization on a regional basis.

Under normal conditions expansion of scale causes average output per unit of labour to rise while average output per unit of land declines. This kind of phenomenon appears normal if it is analysed according to the theory of economies of scale, and it is worthwhile in regions where land is plentiful and extensive operations are common. In China there are not many regions like this. What we hope for is to raise the output per

unit and to ensure the targeted overall level of supply. It is evident that large-scale management is intimately related to the social production structure, to the process of specialization and socialization, to the establishment of the services system, to the price level and so on and it cannot simply be handled as an isolated problem. For this reason, right now we can only experiment with it in places where the industrial economy is well developed and a large part of the labour force has shifted into other sectors. More external preconditions will have to be created if large-scale management is to expand.

Right now the main focus of our work should be to stabilize household contract management, fully organize pre-production and post-production services and strengthen the two-tier system of management. In places where the necessary conditions exist we also want to encourage the concentration of farmland in the hands of skilled farmers through proper measures and gradually develop appropriate scales of operation.

NOTES

1. 'Comparable prices': prices adjusted to allow for inflation. According to the State Statistical Bureau, 'Statistics at comparable prices are obtained by: (1) multiplying the amount of products by their constant prices, or (2) conversion by using price indexes.' State Statistical Bureau of the People's Republic of China, *China Statistical Yearbook 1988* (English) (Beijing: China Statistical Information and Consultancy Centre, 1988), p. 921. [Editor's note.]
2. 'The second and third sectors': industry and services. The first sector is agriculture. [Editor's note.]

17 Embarking upon the Path of Seeking Economic Benefits through Reform

'Tongguo gaige zoushang jiangqiu jingji xiaoyi de guidao.'

1 March 1987

We are facing the important task of deepening the rural reforms. This is because the rural reforms are touching deeper layers of economic life and the achievements of the last few years require constant refinement, consolidation and improvement. In particular the reforms must be deepened in order for rural economic development to make the transition to a stage of continual growth in economic benefits.

A series of conditions are required for rural economic development to switch to the track of striving for economic benefits. The main ones are: first, a rationalized structure of production; secondly, optimized composition of the rural economy; thirdly, rapid development of market mechanisms.

I. GRADUALLY RATIONALIZE THE STRUCTURE OF PRODUCTION

In a commodity economy a rational structure of production is able to respond flexibly and sensitively to market demands. When production deviates from demand and does not make satisfactory marketable goods, overstocking can easily occur and economic benefits decline. In order to meet the demands of the market, commodity producers must be able to adjust themselves, to automatically modify the variety, quality, quantity and input-output ratio of commodities and to consolidate and improve their own ability to compete in the market.

During the last few years we have learned quite a few lessons as we have closely followed trends and changes in market demands. In 1984 when it became difficult to sell grain people said, 'Develop economic crops; it does not matter if grain production falls a bit.' As a result the cultivation of grain was neglected. Afterwards, when grain was again emphasized, people said there was too much cotton and called for reductions in the area planted to cotton. Consequently in some cotton producing districts the decrease was too great and it was necessary to raise cotton prices in order to stabilize the amount of land used for cotton.

Farmers take their commands from prices and information on prices is constantly changing. Price changes in one year will invariably lead to changes in farmers' input behaviour in the following year. Therefore adjustment of the production structure cannot rely solely on government orders. If we want to make the structure of production conform to macroeconomic demands it is necessary to have appropriate price policies and other economic measures. As we deepen the reforms we want to make progress toward resolving the problem of how to avoid drastic fluctuations in production.

Leading bodies above the county level must recognize that readjustment of the structure of production is both regional and inter-regional. Before you start producing something in your area you should carry out surveys to clearly determine market capacity and your own competitiveness. If the farmers in one region stop producing a certain good that does not necessarily mean that other places should also give it up. Production can shift in response to changes in the economic levels of different regions. When production of a good ceases in a high-wage region it can be taken over by a low-wage region. This is a normal phenomenon: what is not profitable for you is profitable for someone else. Sugarcane, for example, is no longer grown in the Pearl River Delta but it can still be grown in Guangxi. Currently technicians from western areas are moving to the east while skilled craft workers from eastern areas are moving west. This shows that the economy is in the midst of transformation with active flows of labour and technology. These flows are prompted by market laws and if appropriately guided will contribute to readjustment of the structure of production.

A major objective of readjusting the structure of production is to greatly expand employment opportunities for farmers. China's land and labour resources are imbalanced and it will not be possible to implement a rational scale of farm management until much of the agricultural labour force shifts off the land through development of non-agricultural industries. Most of the workers who shift out of agriculture will not be able to go into the big cities, so we should adopt the strategy of developing colonies of enterprises in small cities and towns. Township enterprises in developed areas should renovate their technology, but they should make the best possible use of the advantages of low wages and by no means give up labour-intensive production. Labor can be substituted for capital in activities such as handicrafts, gathering, fish and poultry breeding, gardening, primary processing of agricultural products, mining and construction. These activities are therefore suitable for rural areas and some can be conducted on a household basis.

Another basic requirement for readjusting the structure of production in the countryside is to increase the value of agricultural products through extensive processing. This will substantially mitigate the contradictions of low prices for agricultural products while contributing in many ways to sustained development of the rural economy.

II. GRADUALLY OPTIMIZE THE COMPOSITION OF THE RURAL ECONOMY

Contracting production to households has played a great historical role. It should remain unchanged for a long time and fully develop its potential. However, the usefulness of contracting production to households will slowly weaken if we do not improve the organization of production. For this reason there is an inexorable trend toward organizing larger scales of operation. This trend may be manifested either according to socialist principles, in the form of two-tiered operations, or in the form of farmers attaching themselves to big households. Over time the latter form would have a negative effect on income distribution which would dampen the initiative and enthusiasm of large numbers of farmers. Following the

introduction of contracting production to households the farmers were eager for the old economic organizations to provide pre-production and post-production services. In other words they demanded that services be socialized, so we should make sure that economic service organizations satisfy this demand.

In the land-contracting system there must, of course, be a relationship of certain rights and obligations between the two parties. Currently, however, the legal position of the unit that issues the contract is not clearly defined. Originally the production contract system was one in which the household got to keep whatever was left after turning over a sufficient amount to the state and to the collective. Now the collective has disappeared and the household keeps everything that is left after turning over the agreed amount to the state. This problem must be properly resolved. Currently Nanhai County in Guangdong Province is preparing to set up cooperative management bodies in each natural village to act as contract-issuing units. The brigade level is preparing to change into economic alliances and the township level will be called integrated agricultural-industrial-commercial companies. There are great differences in the situations of different localities and therefore we must handle this issue on the basis of local conditions. Generally speaking we want to build grassroots organizations and establish two-tiered management associations. Of course these will be voluntary associations based on household management and individual interests rather than once again 'handing everything over to the big pile'.

Land in the countryside has a social welfare quality. It provides a kind of occupational security. Before farmers find more secure occupations they will not readily give up contracted land. Over the long term there is a danger that the scale of land management could become more fragmented and smaller. In order to resolve this difficulty we must first strengthen the farmers' sense of confidence in the stability of the policies and repeatedly make clear to them the long-term nature of the contract system. As long as they want to cultivate the land and do it well they will be allowed to have long-term contracts which can be extended beyond 15 years. Secondly, since the land is publicly owned the collectives that hold the rights of land ownership must increase the amount of public accumulation and use it to run service facilities. Thirdly, the collectives

must retain the right to reallocate contracted land. Land is contracted in order to have it farmed and fields should be taken back from people who do not cultivate them. Economic penalties should be imposed on people who contract land and then let it lie fallow, while people who improve the quality of the land should receive economic compensation when the contract relationship is changed. We may be able to overcome the difficulty in getting people to give up contracted land and its welfare benefit by encouraging compensated transfer of contracts. These problems have yet to be settled in legal form.

Shifting the labour force out of agriculture and bringing about an appropriate scale of farm management are mutual preconditions. If there is no transfer of labour people certainly will not be willing to give up land. But we should recognize the possibility that even if a large part of the labour force is transferred people working in industry or commerce still may not be willing to hand over their land. We must study ways to deal with this problem and carry out experiments as soon as possible. Most areas can establish unified services under the premise that the current scale of farm household operations will be maintained. Areas that have the necessary preconditions can also experiment with various forms of cooperative farms and big specialized cultivating households.

Aside from village and township cooperative organizations we must also establish intermediate economic organizations between the state and the farmers. These organizations should be somewhat larger than units at the village and township level. Modernization cannot move forward without this sort of intermediate economic organization serving to coordinate economic activity and to provide linkages between the investments of large numbers of producers. Intermediate economic organizations have already emerged in a number of places. For example, there are large-scale poultry centres that operate various kinds of chicken farms, breeding farms and hatcheries. They distribute chicks to farmers to be raised, then after receiving the chickens back carry out centralized slaughtering, processing, warehousing, distribution and marketing. This is not for a single village, but for a large area. Supply and marketing cooperatives have also served as intermediate economic organizations in quite a few places.

The main function of intermediate economic organizations

is to serve producers, not to seek profit. They are different from profit-making economic entities in two respects. First, they are responsible for adjusting economic benefits and carrying out internal exchanges according to contract prices. When they make profits they can distribute a portion of their income to producers of primary products to support them in developing production. Secondly, they help the farmers reduce risk. In the minds of the farmers risk is a more serious concern than the price problem. When products are scarce everyone rushes to purchase them but when they are too abundant they rot in the fields. Intermediate economic organizations can dissipate or share much of the risk. They can form a stable contract relationship with the farmers and they can retain a little of each year's profits to establish a disaster fund. The disaster fund can be used to buy crops from farmers in years when excess supply causes prices to be low and makes marketing difficult. Intermediate economic organizations can also cut down on transaction costs. Finally, intermediate economic organizations can serve as a channel for transmitting government policies and reflecting farmers' demands.

III. PROMOTE RAPID DEVELOPMENT OF MARKET MECHANISMS

Most commodity markets are still hampered by barriers, frictions and distortions that must be corrected. In addition there must also be markets for the factors of production, without which there will be no way for the planned market mechanism to regulate production. Circulation of the factors of production requires corresponding markets for funds and labour services. In the financial market, in addition to private traditional-style banks and private financial enterprises, other institutions should be invigorated and interest rates should be allowed to float. We should move ahead in reforming credit cooperatives. We can experiment with gathering funds from among the people and among enterprises by measures like issuing stock shares and bonds.

We should adopt policies that will encourage circulation of the labour force. If the labour force does not circulate it cannot be effectively combined with resources and technology nor

can effective economic organizations be formed. In the countryside, during the last few years, millions of people have flowed to township enterprises proving that it is both necessary and correct to allow the labour force to circulate. However, labour circulation currently lacks an essential safeguard because the cities are not truly open. The big cities certainly should not receive additional large inflows of labour, but an environment conducive to mobility should be formed in small cities and towns. A fund can be established in each small city and town by collecting various fees, land-use taxes and residence taxes. This money can be used to build housing and facilities that can be rented to farmers. We must also begin to send technicians to the countryside under contract.

In the market there is still a lack of commercial organizations that take responsibility for society, for producers and for consumers and that concern themselves with economic and social benefits. By reforming state-run commercial agencies and supply and marketing cooperatives we want to encourage farmers to form commercial organizations that will be able to share risk with farmers, reduce the costs of circulation, stabilize the market and reflect the guidance of national plans in market activity. Commercial organizations of this kind, along with improved market-transaction laws, will greatly reduce opportunities for speculation and profiteering, reduce risk for farm production and enable stable profits to emerge.

Reform is a gradual, long-term process, not a single breakthrough or success. Reform affects the pattern of benefit distribution and if adjustments are not carried out properly they can cause resistance. In the past we consistently followed the approach of complete unification and monopoly and oversimplified allocation of benefits, so that on the surface there were no contradictions while in reality there was an enormous contradiction. This was that all enthusiasm was stifled and the economy did not develop. Now every agency has its own interests. Formerly the interests of state-run commercial units were identical to those of the state, but now they have to consider both the interests of the state and the interests of the unit itself. With all agencies pursuing their own interests there are contradictions but there are also incentives and if the appropriate adjustments are made enthusiasm can be aroused on all sides. We must choose our steps carefully and not act

imprudently. Using this kind of reasoning we can divide agricultural products into three modes of exchange: one mode is completely free, one mode is the 'two-tier system' and one mode is not open. This approach will help to readjust benefit relationships in a dispersed, step-by-step and gradual fashion that will reduce resistance to the reforms.

In order to adjust the benefit relationships for all we must also establish democratic channels of dialogue with different channels of dialogue for people with different interests. By stating interests publicly and placing them on the table for discussion people from all groups can be united and the reforms can be gradually pushed forward.

18 Reform and Development in Stock-Raising Areas

'Muqu de gaige he fazhan.'

A speech given at the closing session of the National Conference on Work in Stock-Raising Areas, Beijing, 9 June 1987

I

China's stock-raising areas currently face two problems: one is reform, the other is development. The two must be addressed together. Reform will be carried out during development and reform will open up the road for development.

In the last thirty-some years the economy of the stock-raising areas has experienced three stages of development. In the few years before 1957 the rate of economic development was relatively fast because the policy of mutual-aid teams and supply and marketing organizations based on private ownership conformed fairly well to reality in the stock-raising areas and there were improvements in the conditions of production. By 1957 the number of livestock had grown by 74.4 per cent from 1949, an average annual growth rate of 7.2 per cent. Afterwards the people's communes were created, livestock were 'turned over to the big pile' [collectivized] and everyone 'ate from one big pot'. In addition, unified purchasing and marketing was implemented for livestock products and there was the experience of the ten years of chaos [the Cultural Revolution Decade]. These events caused the economy of the livestock-raising areas to fall into a state of stagnation. Since the Third Plenary Session of the Eleventh Party Central Committee the livestock-raising areas have established the production responsibility system during economic reform, and while maintaining public ownership of pastures, have

implemented contract production based on household management, evaluation of livestock and household ownership and husbandry. Experience shows that the results of the reforms are good. In the livestock-raising areas and the areas where livestock raising is mixed with farming the total output value of animal husbandry has grown rapidly and the commodity rate and the rate of animal delivery have also increased. The livestock-product processing industry, the feed industry and tertiary industries have begun to develop and there have been remarkable improvements in the lives of the herding people.

Why did 'one big pot' fail while the production responsibility system is succeeding? It is because our entire nation is still in the primary stage of socialism and the mode of production in the livestock-raising areas has not been greatly changed. Since the levels of scientific technology and industry are not high, large-scale transition to public ownership with highly centralized management is not beneficial to developing the existing social forces of production. We must, therefore, use reform to create an environment that is conducive to economic development.

It is necessary to deepen the reforms and emphasis should be placed on solving the following two problems. First, on a stable foundation of household management, united service organizations should be established to resolve problems that cannot be handled well by individual households. Some problems have already emerged, such as mixed herding, degeneration of improved breeds, improper use of collective pastures, relaxed social control, deteriorating science and technology and damage to some public facilities. Of course these are not at all consequences of the reforms but are, rather, indications that the reforms are not yet deep enough. Reform is a powerful force for social progress and we should not only maintain the progressive elements that already exist but should make even better use of science and technology, create even better breeds, carry out animal disease prevention, engage in grasslands construction and protect the ecological environment. In order to do these things it is necessary to rely on solid social strength. The solution and a necessary step of the reform is to optimize the composition of the economy, basing it on the foundation of household management.

Currently some areas have strengthened the 'four stations'

[grassland management stations, livestock veterinary stations, livestock breeding stations, economic management stations] at the township level and have created service associations. Some places have created herding–industrial–commercial associations to take care of production, supply and marketing. Some places operate specialized livestock farms or household mutual-aid herding associations and some have created mutual-aid associations between farmers and herders. There are many different forms of operation all based on household management. If this approach is followed everywhere comprehensive benefits can be achieved simultaneously in the three areas of economic growth, social stability and ecological balance. Right now it is even more important to establish and expand good organizations at the township level and to strengthen the ‘four stations’ service system. These organizations should serve the following functions:

- (1) Directing overall coordination of such matters as controlling the composition of herds, resolving the contradiction between raising grass and livestock and coordinating methods of integrating herding with farming.
- (2) Becoming a link between herding households and the market, serving as a bridge between production and the demands of the market.
- (3) Managing grasslands and constructing and making rational use of pastures.
- (4) Organizing various kinds of social services, especially scientific and technological services.
- (5) Raising funds and using them rationally.

The purchasing power of herding people has risen greatly. Now that they have savings, how should they use them? The savings should be used to develop the livestock-raising economy, to improve the conditions of production, to improve pastures, to improve livestock breeds and to develop public construction. However, these things cannot be arranged in a coordinated way by individual herding households. Once these organizations have been established and completed they can give some guidance to the progress of herding households under the principle of voluntary participation.

Secondly, unified purchase and marketing in the livestock raising areas should gradually be replaced with a commercial system that is conducive to development of the livestock economy. It is neither possible nor appropriate for the government to rely on administrative measures to issue commands directly to herding people about what and how much to produce. Economic activity should instead be adjusted through the market by the relationship between production and market demand. It is therefore absolutely necessary to establish a planned market-adjustment mechanism in the livestock-raising areas. When producers have the power to make their own management decisions, receive the benefits themselves and bear the risks themselves, and when there is also market exchange, they will all compete to increase the value and number of livestock products, reduce costs and improve production technology in order to attain profitable positions. This kind of situation does not yet exist. In some regions the circulation of livestock products is still too rigid. If the market is not opened up to create numerous channels of circulation its development can be seriously retarded and economic reform in the livestock-raising areas may also be ruined.

II

Production in the livestock-raising areas must gradually make the transition to intensified herding operations. Most of the livestock-raising areas in China are still in a condition of nomadic or semi-nomadic grazing, which is natural herding that relies on nature for fodder. Why has this situation continued for generation after generation? Because in earlier times the population was small and the vast grasslands formed a closed natural circulation system, which could maintain ecological balance with very little loss of energy. During the last 200 years, because of population growth, agricultural development has occupied a portion of the grasslands, causing the grassland area to shrink, particularly the high-quality grassland area, aggravating the seasonal imbalance in the supply of grass.

Under these conditions, with herding people relying solely on animal husbandry to support themselves, overgrazing and

deterioration of the grasslands was inevitable. Deterioration of the grasslands means that energy is lost that is not replenished. Currently a part of the energy that leaves the grasslands each year does not return, causing the following kind of cycle to emerge: the grasslands become smaller, livestock numbers increase, the grasslands deteriorate, the physical condition of the livestock weakens, the mortality rate grows and production declines. In reality the seasonal balance is being achieved by relying on the annual deaths of a portion of the livestock rather than by increasing the supply of fodder. In the last thirty-some years the quantity of livestock that have died is almost equal to the quantity marketed. The basic character of the natural style of herding causes all the problems that everyone has spoken about, such as emphasizing raising animals while neglecting cultivation of grass, emphasizing herd size while neglecting quality, striving only for numbers of livestock while commodity rates remain low and raising inputs while products stay low.

In situations where the contradiction between raising livestock and growing grass becomes daily more pressing, the traditional, ancient form of animal husbandry has already reached the limit of its expansion. The reforms have stimulated the herding people to raise more animals, but this destroys the grasslands that are the foundation of their existence. Historically, herding people who engaged in animal-husbandry production had higher incomes than farmers, but now the rate of growth of their incomes has declined and there are some places where the net incomes of herding people are lower than those of farmers. This kind of situation cannot be allowed to go on unchanged. It is possible to achieve some results by raising prices, but, after a little time, as soon as relative prices change relative benefits will fall again so this cannot be a fundamental solution.

Our position is that in livestock areas animal husbandry should be dominant and grass production should take the lead. We firmly oppose eliminating grassland to grow grain and changing from animal husbandry to farming in livestock areas. If grassland is turned into grain fields the output is only about 50 to 60 *jin* [.5 kilogram] per *mu* and the grass is also lost so it is equivalent to turning the grassland into desert. Most provinces and regions plan to take a portion of the land

that is not suitable for growing grain and return it to animal husbandry. We must emphasize that it should not revert to natural grazing, but should be converted to cultivating grass for fodder. If grass is cultivated in livestock regions and mixed livestock and farming regions they can maintain a beneficial cycle in the ecological system and cope with harmful conditions such as severe cold, sandstorms, inadequate rainfall and water shortages. Cultivating grass to raise livestock produces larger incomes than growing grain and achieves rational input-output ratios. This fact has been apparent for several hundred years and has been particularly demonstrated by the history of the last few years. The position that animal husbandry should be dominant has been further affirmed since the Third Plenum of the Party's Eleventh Central Committee.

However, confirming the dominant position of the livestock industry is not the same thing as strengthening the economic position of animal husbandry. If we do not change the backward mode of production and management in the livestock industry its economic position will continue to weaken and it will constantly face the threat of grassland deterioration caused by the plundering style of herding. On the other hand, if we change the form of management it will be possible for the animal-husbandry industry to develop to a new stage and to achieve new economic benefits, thereby strengthening its economic position, improving the lives of herding people and developing the economies of the livestock-raising areas. We must promptly take steps to convert from the extensive natural mode of management to an intensive, technologically advanced mode of management with high-quality grass and fine animals and to bring about coordinated development of grass cultivation and animal husbandry. This should be specified as the goal of the development strategy for the livestock areas.

Several development goals can be set for different stages of the transformation to modern intensive management, depending on the actual production conditions and levels of economic development of different areas:

- (1) Fence in a portion of the pasture lands in order to be able to control grazing and rotational pasturing, to increase the grass-production rate of the grasslands, to protect the grasslands and to maintain a balance

- between raising livestock and growing grass. This objective should be carried out in most areas.
- (2) Establish some man-made or partially man-made pastures to supply energy, raise grass quality, establish a fodder industry and develop grass production.
 - (3) Resolve seasonal shortages of fodder by integrating farming with herding.
 - (4) Fully utilize science and technology particularly for improving breeds, raising the rate at which grass is transformed into livestock, raising productivity for livestock products and raising the commodity rate.
 - (5) Adopt an appropriate scale of operation and mechanization to raise labour productivity.
 - (6) Socialize production services and establish a production, supply, marketing and processing system to increase the commercialization of production.

These goals cannot be realized all at once. There should be an overall plan which is to be carried out under the individual administration of each region. In each region some places should act earlier and others later. Those that have the necessary conditions should take action first, those with inadequate conditions should act later. Progress should not be uniform and we must not rush into this headlong. Each of these programmes requires certain inputs. Each region should first rely on its own accumulation for inputs and the government should provide support when necessary. We must discuss the allocation of inputs so that programmes are integrated and completed. If inputs are just distributed equally nothing can be accomplished.

The first group of regions to introduce man-made pastures and intensified management should be regions with good rainfall, good land and convenient communications, where it is relatively easy to start a commodity economy. These places should begin to accumulate funds and experience in order to create the necessary conditions.

In some grasslands that are extremely cold or very wild and where communications are poor it is important to emphasize protection of the existing productive capacity of the pastures. This can be achieved by controlling herds, expanding facilities for storing hay, fencing pastures for rotational grazing, adjusting

the scale of grazing according to the seasons, changing breeding locations and retaining female animals in the winter and spring so as to raise more and sell more in the summer and autumn. In some places it is also possible to plant grass and shrubs to halt desertification. In these areas we must place greater emphasis on developing communications and commerce, training cadres and improving the environment for production and management.

Livestock areas are located in remote regions where the development process has not progressed as far as in interior regions. This kind of imbalance in development has historical causes and is unavoidable. Fundamental change can only come about after shifts in the development strategy of the entire country. Before this happens, however, we should not wait idly but should take advantage of every opportunity to promote development and use local advantages to create development centres and growth points.

We should pay particular attention to market opportunities. For example, the domestic supply of wool is currently insufficient and prices are expected to rise. How can this opportunity be used for development? There can be different answers. One answer is to follow the old practice of implementing a monopoly through unified purchasing and quotas. Another answer is to open up the market and develop commodity exchange on the basis of coordinating the interests of all concerned, or at least to adopt some transitional measures to move toward the goal of opening up. There is still another answer, which is to simply open up and retrench if it doesn't work out. This would result in numerous policy changes. Which of these three methods is best? It is obvious that the second method is best and that the other two could cause us to miss development opportunities.

Another example is that skilled craftsmen from the east are currently moving to the west, a trend that reflects the transfer of technology from advanced areas to backward areas. The traditional technologies of these skilled craftsmen are no longer employed in their home areas, but are useful in less developed regions where they may be used to operate handicraft industries, to run small workshops, service industries and horticulture and to train apprentices. By making it convenient for them to offer their services the livestock areas can stimulate

the introduction of new industries and begin to change the single-product economic structure.

III

Development of the livestock industry is closely related to the development of other industries. In order to develop animal husbandry, livestock areas must have industry to supply new means of production, as well as transportation, energy and service industries to guarantee an expanded cycle of reproduction. Thus, great improvements can only be achieved through comprehensive development. There are three aspects to this issue:

- (1) There should be comprehensive development in the livestock areas themselves. They should engage not only in the livestock industry, but also in industries such as processing livestock products, commerce, construction, transportation, mining, gathering, tourism, services, forestry and horticulture. As a precondition they must construct the necessary infrastructure, particularly for energy and communications. The livestock areas should also establish their own integrated systems of production, supply, marketing, industry and commerce. Processing of animal products should be mainly at the primary level and need not be too high for them to be able to cooperate with other sectors to supply raw materials to the processing industry. If the livestock areas themselves carry out higher-level, refined processing the results will not be as good as if they supply roughly processed raw materials, which can still reduce the volume transported and increase the value added.
- (2) In areas where livestock raising and farming are mixed and the two forms of production are integrated we should make use of the advantages of integration to move ahead in modernizing the livestock industry and form a symbiotic production sector of grass, grain and livestock. Part of the farmland can be transferred to

cultivating grass and raising livestock, and livestock can be used to promote agriculture while agriculture is used to promote livestock.

- (3) Agriculture, livestock raising and industry should be integrated at the higher administrative levels of provinces and autonomous regions. We stated above that we do not approve of destroying grass to plant grain, but we also cannot neglect grain. Currently the development of livestock areas is directly or indirectly limited to some degree by problems with grain. As the population has grown, grain supplies have been insufficient and grain has been transported from over a thousand *li* [500 kilometers] away, increasing the burden on the state budget. The grain subsidy has further depleted the state budget and inputs to the livestock regions have necessarily declined. A modernized livestock industry must have a reliable grain supply to increase the turnover rate. For this reason it is essential to achieve intra-regional and inter-regional balance by establishing commodity grain bases in selected areas in the north-west, such as the Xinjiang Basin, Qian Tao, Hou Tao, the Hexi [Gansu] Corridor, Chaidamu and other small irrigated regions that are already developed. In addition, mixed farming and livestock areas with relatively abundant farmland can experiment with using a portion of the farmland to grow forage grass so as to reduce the need to use grain as fodder. We should increase production by vigorously developing dryland farming, grain and grass rotation and integrated agriculture and animal husbandry. There are already over 80 million *mu* [5.3 million hectares] of irrigated land in Inner Mongolia, Ningxia, Gansu, Tibet, Qinghai and Xinjiang. The average per person is over 1 *mu*, which is as large as the national average and should be better utilized. There are also over 40 million *mu* of low-output farmland in Xinjiang, Qinghai, Gansu, Ningxia and Tibet that can be improved and that have great potential. In general, preventing the opening up of grasslands and strengthening the development of farmlands are mutually interdependent.

IV

China's livestock areas now face great prospects for development.

- (1) There is increased demand in both the domestic and international markets. Economic growth has brought about higher incomes and new consumer desires for higher quality and greater quantities of livestock products.
- (2) China's industry is relatively developed and will experience even greater development after the reforms. It will increase accumulation in the national income, which can be used to strengthen construction in the livestock-raising areas. Some of the livestock areas have rich mineral resources such as oil and coal. Exploitation of these resources can bring about overall regional development and expand employment. Township enterprises that emphasize processing of livestock products can absorb labour into industry and the services and can accelerate mechanization of the livestock areas.
- (3) With the reforms, there have appeared diverse economic and management forms. There are now many sources of investment funds and wider scope for utilizing talent and technology.
- (4) The minority peoples in the stock-raising areas have their own strong-points – especially their long history of expertise in herding and animal husbandry – which can be used to the best advantage with scientific methods. In addition, the minority regions have preserved many plant and animal species such as the yak, the Tibetan goat and the camel, that can be used to breed new varieties that are resistant to drought and cold and are also of commercial quality.

We firmly believe that under the guidance of correct policy and with the support of the state all nationalities will work together to achieve development, progress and prosperity in the new socialist livestock areas.

19 Discussion of an Outward-Oriented Development Strategy for the Coastal Areas

'Lun yanhai diqu waixiangxing fazhan zhanlue.'

3 June 1987

I. AN OUTWARD-ORIENTED STRATEGY

In accordance with the policy of opening up to the outside world, China will gradually implement an outward-oriented development strategy in the coastal areas. A labour force that is both low in cost and high in quality will be trained from China's rich labour resources and will work in township enterprises to produce labour-intensive products for external exchange. By importing raw materials and exporting finished products China will earn processing fees and will export labour in the form of products. This will enable China to enter the international economic cycle and speed up its own development.

This strategy reflects the objective trend of China's economic development. In the last few years there has been rapid progress in promoting township enterprises and agricultural products that earn foreign exchange. Development of an outward-oriented economy has already been initiated in rural areas on the Guangdong coast by introducing a system that combines trade, industry and agriculture.

Dilemmas have repeatedly emerged in the course of economic development and many people have reflected on them and proposed suggestions. The State Statistical Bureau has commented that exporting agricultural and sideline products places them in two markets, causing their prices to rise and aggravating domestic shortages of these goods. Because the

products are of low quality and have low prices, however, foreign-exchange earnings can only be increased by expanding the amount that is exported. The Bureau suggests that this dilemma should be solved by modernizing agriculture and developing processing industries in order to earn foreign exchange by producing high-quality products with high value added.

A researcher in the State Planning Commission has proposed making use of China's cheap and abundant labour resources to produce labour-intensive products for export and entering the international economic cycle by importing raw materials and exporting processed products. This would alleviate the dual problem of the large amount of labour that has shifted out of agriculture and shortages of natural resources and funds. This suggestion has received due attention.

The outward-oriented strategy combines the open-door policy with utilization of China's rich labour resources. In view of all aspects of the current situation the time is ripe for pursuing this strategy.

II. NECESSITY

China's labour force comes first on the list of the country's rich resources. Making the best possible use of the large population must be considered an issue of strategic importance. A large amount of surplus labour is stagnating in the countryside and will become a heavy burden if it is not distributed in a more rational production structure. It will be difficult for China to become a modern society while carrying such a heavy burden. On the other hand, effective use of the advantages of the labour force can ensure prosperity for China. This has been demonstrated in the municipality of Suzhou, where GNP per capita rose to over \$1000 (US) after the surplus labour force was shifted into secondary and tertiary industries. But we are bound to encounter all kinds of difficulties and problems in organizing such a large transfer of labour on a scale that is without precedent in any country in the world.

It has been shown that, for certain kinds of production, township enterprises can become essential supplements to large-scale industry. For example, township enterprises already

produce 50 per cent of all building materials. There are no serious contradictions in this sector because rock and coal are plentiful. The same is true for certain small commodities. But the problem of competition for raw materials between township enterprises and big industry may emerge in some manufacturing sectors which require supplies of materials such as wool, cotton, steel and lumber. Furthermore, township enterprises are most numerous in the developed areas of the south-east, which account for 60 per cent of the national total. The western regions have developed slowly and the flow of products from the east into the markets of the west has restrained the growth of enterprises in the west.

We must seek employment opportunities for the surplus rural labour force, but the process of transferring labour is restricted by limited supplies of natural resources and funds. This is a serious contradiction. By converting some enterprises to export-oriented production we can help alleviate this contradiction and transform the burden of excess population into an asset.

There is clearly an inevitable trend in current world development toward continual strengthening of international economic relationships. All countries, whether socialist or capitalist, can use such relations to expand the markets for their products, take full advantage of the possibilities of international specialization and accelerate their own development. It is both necessary and beneficial for China to adopt an open-door policy, integrate the export-oriented and domestic-oriented patterns of production and use them to supplement each other. By entering the world economy Chinese enterprises will also find opportunities to improve themselves and to acquire knowledge so as to narrow the technological gap between themselves and foreign enterprises, particularly in the sale of commodities and in the operation and management of enterprises. We can begin to achieve the desired results by first conducting fairly large-scale experiments in selected coastal areas.

In the coastal regions the population is large, land is scarce and resources are irrationally distributed, but there are great difficulties in readjustment. Farmers are reluctant to grow grain because the real costs of production have been rising continuously and it is not profitable. If the outward-oriented strategy is implemented they can export processed products and local

specialities to earn foreign exchange which they can use to buy grain. They can also buy grain from inland areas on the basis of mutual benefit to substitute for imports and to reduce the pressure to grow grain. Economic crops can be grown according to local conditions to be processed for export. This will consolidate the incomes of people who specialize in processing, and promote agricultural modernization and appropriate scale management.

China's recent rapid economic growth has led to increased consumption. The import of large quantities of raw materials has widened the foreign-exchange gap, making it necessary to export even more primary products. But the cost of exchanging primary products for foreign exchange is greater than that of finished products and in addition international prices have fallen, causing a relative decline in the level of foreign exchange received and increases in export subsidies. The country now faces a fairly large foreign-trade deficit. It can obtain additional foreign loans, but eventually the debts will rise to the point where debt-service payments will cancel out the inflow of foreign money. If we take advantage of this period when the economic production structure of the world is being reorganized, to shift part of the manufacturing industry of the coastal areas into the international cycle of production and consumption, expand exports and increase earnings of foreign exchange, it will provide strong support for the policies of reducing the scale of domestic investment and controlling the growth of consumption.

III. FEASIBILITY

We must discuss and assess whether or not an outward-oriented strategy is feasible. Feasibility is not simply decided by us alone but is also determined by the international market. Can the international market accommodate labour-intensive products? If it can, how large a share? Labor-intensiveness is a relative concept that goes through historical changes according to time and place. All kinds of production that use relatively large inputs of labour at relatively low cost can be referred to as labour-intensive, not just handicraft industries. Generally speaking, all countries with large populations and little land and capital must go through a period in which there are many

labour-intensive enterprises as they are making the transition from agricultural economies to industrial economies. Japan, South Korea, Singapore and China's Taiwan have all experienced this kind of period. A few Latin American countries tried to leap over this stage and go directly into capital-intensive industry but they have encountered all kinds of difficulties. Our own pursuit, for too long a time, of a strategy biased toward heavy industry has contributed to the disharmony between urban and rural development and to unevenness in development.

Do labour-intensive products have a share of the international market? Human consumption always encompasses many different levels. Differences in incomes, tastes and times lead to a tendency toward diversity in demands. For instance, in developed countries with high income levels, cotton, silk and flax fabrics all sell well. Formerly clothes were all produced in batches but now there is a trend toward making clothes according to a person's specific measurements. In food products people demand national characteristics and non-polluting items. All these are labour-intensive products. There are also some links among high technology products, such as some automobile spare parts, which are produced by labour-intensive methods.

Some developed countries are tending toward capital-intensiveness because of changes in the cost of labour inputs and are leaving the production and marketing of labour-intensive goods to developing countries. China's share in the international market is very disproportionate to its productive capacity. Our import and export trade volume accounts for only about 18 per cent of GNP, which is a very low starting point. But China is a vast country with a huge population. It is not very dependent on the international market and the trade volume of the country as a whole cannot rise too high. In the coastal areas, however, trade should account for a larger proportion. This means that they still have considerable potential.

If the world economy experiences another recession the market will be stagnant for both high-technology and labour-intensive products and, relatively speaking, the market share of the latter may expand. If a partial, short-term recession occurs it will leave more openings that can be entered. An

initial goal can be to fill places in markets from which other countries have withdrawn.

How about domestic conditions? First, labour resources are plentiful and their price is low. Although quality is somewhat deficient it can be improved. Secondly, and most important, there must be a good economic mechanism, particularly in the foreign trade system. We are deepening the reforms precisely in order to create this kind of mechanism. Thirdly, there is actual experience with real operations and the conditions definitely exist to acquire funding and technology. In the last few years some areas have moved forward and the results have been good. As for the problem of funds, it is not difficult to quickly enliven the financial market and improve the environment for investment.

This is a description of the domestic and international feasibility of the strategy. On the negative side there are still some great uncertainties. There should be realistic estimates of the difficulties and problems. For example, linking production directly to the international economy will cause commodity prices and foreign-exchange rates to fluctuate out of harmony with our present economic structure. Dividing areas arbitrarily and applying preferential policies to some will inevitably cause friction and distort economic relations between the two types of regions and markets. And the international economic market may experience violent fluctuations for which we are not prepared. Even more importantly, we need a process for raising the level of technology and the level of management in enterprises. At this time we cannot clearly anticipate the consequences of problems such as these. There must be experiments, exploration and pioneering before we can settle on definite answers and solutions.

Why have the coastal areas been chosen as the place to begin pursuing the outward-oriented strategy? First, it is because of their geographic location. Secondly, it is because of their practical experience. The third and most important reason is that in the coastal areas township industries are relatively well developed, the educational level of the farmers is high, the managerial abilities of the officials are fairly strong and there have already been good achievements in earning foreign exchange through exports, which will provide liquid funds for getting started. The fourth reason is that there are several big

ports in these areas which can be fully utilized to provide services and reduce the costs of trade. For example, Shanghai has the greatest experience in trade and has traditions, talents and networks of connections that radiate into both the domestic and foreign spheres. We must strive to take full advantage of this potential. The fifth reason is that there is political significance in choosing the coastal region. If we make the whole region a model of a modern society and increase the income levels of between 50 million and 200 million people to approach those of Hong Kong and Taiwan it will help to persuade those who doubt that China can be unified because of economic disparities.

Why have the township enterprises been chosen? The main reason is that the labour-intensive sector of the township enterprises is very capable of seizing markets, it has an efficient mechanism and it can truly take full responsibility for its profits and losses. From the very beginning township enterprises have been regulated by the market and have been fully aware of the necessity to compete in order to survive. Labor-intensive production is not rigid and township enterprises, like small ships that can turn easily, have strong abilities to make necessary changes and respond flexibly to the market. Of course we do not mean to say that big state-owned enterprises, and enterprises in other areas, do not possess outward-oriented functions. All enterprises that are suitable for outward-oriented production should be encouraged.

IV. TWO POLICY OBJECTIVES

A series of policies and measures should be adopted to ensure implementation of the outward-oriented strategy. The following two points map out the guiding objectives for these policies.

1. **Stress Reform to Promote Development**

We must rely on a new economic mechanism to implement the outward-oriented strategy. If the old system were used to engage in large-scale international trade it would inevitably produce heavy losses. It is therefore necessary to deepen the reforms so as to enable every township enterprise to be

independent in management, accept full responsibility for its profits and losses and constantly improve its competitiveness. We cannot develop the labour-intensive manufacturing industry by depending on the government to allocate funds for a large group of new enterprises and we certainly cannot blindly expand the scope of capital construction. The first step is still policy encouragement. The characteristics of labour-intensive manufacturing are that the enterprises are small in scale, the products are highly differentiated and the market capacity is highly elastic. Enterprises must rely on small but continuous innovations in products and technology to protect their competitive positions. They must be pushed into the international market to bear directly the pressure of competition and to seek survival and development amid its dangers. We must therefore cultivate independent management in enterprises so that they can deal with foreigners and take direct responsibility for import and export decisions. It is necessary to allow the rational transfer of factors of production among enterprises to improve the efficiency of capital utilization. Reform of the township enterprise system should take this point as its chief policy objective.

The main requirement for reform of the foreign trade system is to create an import-export environment in which firms are free to make their own choices. This kind of environment will induce some enterprises to shift from a domestic orientation to an outward orientation, expand exports and earn more added value. It will encourage firms to develop foreign connections and create unified systems for supply, marketing and services. It will help to develop diverse intermediate commercial organizations and allow foreign businesses to register and operate legally. Foreign-trade departments should separate administration from business, the foreign-trade corporations should give up their monopoly positions and administrative departments should improve their macroeconomic adjustment functions.

2. Import in order to Export and Use Imports to Promote Exports and Accelerate Growth of the Outward-Oriented Sector

The main point of the outward-oriented strategy is to develop enterprises that earn foreign exchange and to take the spiral

development path of exporting, then importing, then expanding exports. Large amounts of imports require large amounts of exports. It is not possible to import much and export little and it is even more impossible to only import while exporting nothing. The approach of importing raw materials and processing them for domestic consumption would raise serious contradictions and must be avoided.

Currently the foreign-exchange market still cannot be opened up and there are disparities in market quotations of foreign-exchange rates. Holding foreign exchange is equivalent to having extra real purchasing power. Since the demand for foreign exchange is greater than the supply it is temporarily necessary to administer its management and distribution. One appropriate way to ensure it is properly allocated would be for designated areas to implement a contract system for utilizing the Central Government's foreign exchange. A market could also be opened, under bank supervision, in which foreign-exchange shortages could be adjusted through trading. This would enable firms to calculate the real foreign-exchange costs when they purchase imported goods and materials and to economize on the use of foreign exchange. In order to limit the importing of raw materials to be processed for domestic consumption we could collect a tax on raw materials when they are imported and give tax rebates on products when they are exported. We must improve the environment for investment and boldly absorb foreign capital for operating factories and processing foreign inputs.

Converting the domestic-oriented economy into an outward-oriented economy is a very difficult process. The government should work out policies that will make enterprises feel it is more profitable to export than to sell in the domestic market, and encourage them to change their orientation. Special financial structures are needed to guarantee the supply of working funds. In order to prepare for international market fluctuations, localities and firms should jointly accumulate risk funds.

20 Reflections on the Development of Rural Cooperatives

Fazhan nongcun hezuo shiye de silu.'

A speech given at the conclusion of the first conference of the Agricultural Cooperativization Volume Editorial Committee, 12 December 1987

In a situation where there are thousands of strands and loose ends we should follow the ideological road where practice is the standard for judging truth. At this meeting everyone has done a good job by following this path, keeping an open mind and speaking freely. Today, in keeping with this ideological approach, I would like to say a few words about my thoughts on the development of rural cooperatives in order to stimulate further discussion.

I. TREAT THE FARMERS CORRECTLY

A. China's farmers were the most reliable allies of the Chinese proletariat during the period of the democratic revolution. How should they be treated during the period of socialist revolution and socialist construction? In the past our analysis of the farmers stressed their dual nature as both labourers and petty proprietors. As labourers they incline toward socialism; as petty proprietors they incline toward capitalism. Farmers thus stand at the crossroads and can either go with us toward socialism or go in the opposite direction toward capitalism. This assessment is not really in doubt. The question is how we connect it to China's actual situation.

At first we overestimated the pro-capitalist petty-proprietor aspect and worried that the farmers would constantly generate capitalism. We believed that polarization would appear on a large scale in the countryside within a few years after land

reform and that we should therefore seize the opportunity to carry out a rapid cooperativization movement. But then, after a few years, it was believed that a great socialist storm had arrived, and the farmers' enthusiasm for socialism was greatly overestimated. During the subsequent transition from cooperativization to people's communes we even believed that China's farmers were more advanced than Europe's proletariat and that they would readily accept communes that were 'large in size and collective in nature' and would achieve communism sooner. During the initial period of the advanced cooperatives and people's communes, however, low morale appeared among the farmers and was criticized as a capitalist tendency. These two views were clearly inconsistent and uncoordinated. Looking back at the situation of that time we can see that the farmers were dividing up tiny pieces of land and were still at the stage of self-sufficient production, trying to solve the problem of obtaining enough to eat and wear. In fact neither tendency was evident and it was incorrect to emphasize either one.

B. In accordance with the theoretical conclusion that China is in the primary stage of socialism¹ another question worth considering is how to assess the role of different economic elements, in particular how to evaluate the role of the individual economy in the development of production. Historically we have underestimated the role of the private economy in agricultural production, believing it to be representative of past economic forms and asserting that the cooperative economy should replace it as soon as possible. We believed that as soon as the farmers entered collective economic organizations there would be great changes in productive efficiency so that, even though the social forces of production were still at a low level, planned economic direction could be carried out and China's food problem could be solved simply by concentrating the original means of production, applying labour collectively and enlarging the scale of management. 'If the problems are not worked out by hundreds of millions of farmers how can they all be resolved?' This point of view is not without merit. We should give due recognition to the large water-conservancy projects, the levelling of fields and the collective enterprises that were carried out during the period of

the communes. Generally speaking, however, although we expended a great deal of energy and engaged in cooperativization for several decades the economic results were far from ideal and the superior collective economy we hoped for did not appear because of unripe conditions, inappropriate methods and the malady of 'eating from one big pot'.

Experience clearly shows that the socialist public-ownership system should not be equated with the ancient public-ownership system. Socialist public ownership must be based on new socialized forces of production, while the ancient public-ownership system was precisely the product of a low level of productive forces. At that time, when agriculture was basically powered by human labour and production was limited, distribution had to be equal. In a situation where the land was tilled by traditional methods, increases in scale normally meant decreases in results. The formation of socialist public ownership is a process of economic development and accumulation and cannot be achieved by political movements. In a few areas of China, after the communes were established, the collective economy was consolidated and even achieved new development because labour was shifted, diversified management was expanded and collective industry was promoted, causing a relatively good allocation of resources and rapid introduction of modernized factors of production. But in areas that lacked these conditions consolidation was difficult.

C. The individual economy's fundamental tendency toward polarization has been demonstrated by past capitalist societies. After capitalist industry fully developed, however, the cost of labour rose and great changes took place in the structure of employment. There was a shift from extensive cultivation to intensified management once a full range of agricultural machines and tools had been invented, and inputs like chemical fertilizer made it possible to substitute machinery for labour and to use chemical materials to make full use of the land's potential. At the appropriate scale, self-management and self-cultivation proved to be more profitable than operating with hired labour. This is why household-managed farms still exist in great numbers in some developed countries. In the realm of agriculture the scale of household management has expanded continuously, but the number of hired workers has

not at all kept pace with the increase. At this time a large part of the population is leaving the land to seek higher incomes, attracted by industry or better employment opportunities. Agriculture accounts for decreasing shares of national economies and agricultural populations are declining. Although incessant changes in the markets have led to continual crises in agriculture and caused some farms to go bankrupt and others to constantly expand their scale of operation, the primary form of agricultural production has not shifted to agribusiness or to farms owned by capitalists and operated by hired labour. Polarization has not eliminated the individual family farm. Of course, the family farm is now commercialized, specialized and modernized and is no longer in the mode of production of the primary stage of capitalism. The next step in farm development will be determined by future changes in historical conditions.

D. The experience of the socialist countries shows that once the working class has seized power, industry, commerce and transportation are placed under public ownership and public finance and the means of regulating credit are also seized. In this kind of situation it is unavoidable that the individual economy and even a small number of privately operated businesses will continue to exist, but they do not constitute a threat of capitalist restoration. On the contrary, a certain amount of individual labour and private enterprise are a necessary supplement to the socialist economy. During the primary stage of socialism farmers serve as labourers and carry out production for which they possess the relevant labour resources. Although this mode of production is technologically backward and inputs are inadequate, the earnings of labour are directly linked to the results of production and there is the irreplaceable benefit of high labour morale. If they are allowed to unite spontaneously in appropriate forms of organization then the level of socialization of production and services will continually rise and earnings will improve. If not, there will be persistent contradictions between small-scale operations and the national economy. If we use macroeconomic regulatory measures to limit certain non-labour incomes then they will be free to develop and will spontaneously be drawn into the socialist system.

E. According to Marxism–Leninism cooperation is the appropriate form for leading the farmers into socialism. The basic meaning of cooperation is cooperation between small producers. Cooperation includes such features as private ownership of property by producers and a strict ban on coerced confiscations. The methods employed in the cooperative economy are exemplary and attractive. We allow the individual economy to exist in order to develop the production of commodities and thereby stimulate the full development of commodity exchange, promote specialization and socialization in production and generate demand for appropriate-scale operations and cooperation. The cooperative economy will only succeed if we make the best use of the situation to promote it. We cannot argue that public ownership is all that is necessary and that the method used is not important. If elimination of the individual economy is regarded as a precondition for establishment of the collective economy and is carried out all at once it can easily lead to the expropriation of farm property, which violates the principles of Marxism. Marx and Engels opposed not only uncompensated expropriation, but also compensated expropriation. Since farmers are labourers, a blow against the farmers amounts to a blow against the forces of production, which damages the cause of socialism.

Engels said that the idea of the change from individual private ownership to cooperative holdings is to allow the preservation of individual property ownership rights while in reality control of the property and its operation is exercised to an agreed upon degree by the cooperative. In this way new public property will be created naturally through cooperation. Ownership rights and relationships of the two types of property are different. The former is still owned by individual members of society, who can take away their share when they leave the cooperative. The latter is indivisible property that cannot be removed from public ownership and public enjoyment. Public property is the fruit of common labour and would be difficult to produce with individual labour. As the amount of publicly-owned property grows the common use of property becomes universally accepted and habitual and as production develops and incomes rise the property originally owned by individuals becomes relatively less important. At this time and not before, the socialist system can convince the farmers on the basis of

facts. The experience of the last few years demonstrates that the collective and individual economies can be joined together in one structure. Individual operations can be combined with unified operations to consolidate and strengthen socialist relations by unifying the new socialized productive forces created by labour.

From now on, therefore, development of the cooperative economy must focus on properly handling the question of private and public property and on properly resolving conflicts between development of the individual economy and development of the collective economy. We should change the ways in which we think about these relationships. Under the conditions of socialism we must not regard individual use of the means of production by farm labourers as a basis for the development of capitalism, but rather as a necessary supplemental form and as the rear-guard of socialism. The difference between these roles is determined by whether or not the working class has firmly seized state power and whether or not the policies for dealing with them are correct.

F. Reviewing our history in light of the preceding views, I believe that it was correct to advocate cooperativization after land reform and that all forms of cooperation should have been tried, including mutual-aid teams, land-share cooperatives and advanced cooperatives. But it was not correct to be impatient to expand the area covered and to use rash measures to eliminate the individual economy. After land reform it was possible and necessary to encourage cooperation, establish models for the farmers, select a few transitional forms acceptable to the farmers and take sufficient time to attract the farmers to spontaneous and voluntary entry into socialism.

From today's perspective the fundamental thinking in the early decision to set up the first mutual-aid cooperatives, made under the guidance of Chairman Mao himself, was correct. Why was this decision not fully carried out? This question awaits study by ourselves and future generations. We must consider the situation of that time. First, in order to bring about socialism it was necessary to transform not only the bourgeoisie, but also the petty bourgeoisie. Secondly, after industrialization began, the most pressing task was to resolve the food-supply problem, which required that small-scale production be transformed

rapidly into large-scale production. There was unanimous agreement on these two points. Although there were debates at that time they only concerned the pace of the transformation—whether to go faster or slower. As soon as the pace quickened all the policies ratified by the decision on mutual-aid cooperatives were nullified and things were pushed in the opposite direction.

We should recognize that in the long course of historical progress it is hard to avoid following a somewhat tortuous route.

II. THE NEED FOR APPROPRIATE DEVELOPMENT OF THE COMMODITY ECONOMY

G. Everyone says that we should uphold the principle of voluntary participation. How can we do so? I believe the basic point is that we must be in accord with – not divorced from – the economic demands of the masses, especially the demand for development of the commodity economy.

Documents of the Central Committee point out that the socialist commodity economy cannot be bypassed. The commodity economy makes it possible for labour to be exchanged and production to be regulated through markets. It enables the state to control the market in accordance with the plan and it allows the market to guide production. The most incisive point that Lenin made in 'On the Grain Tax' was his acknowledgement that there was only one form of commodity exchange that was acceptable for the farmers at that time. On this basis he had the courage to propose the New Economic Policy,² which was founded on real economic relations. 'On Cooperation', which was dictated just before his death, was based on the experience of carrying out the New Economic Policy and suggested that in a commodity economy it is relatively natural for farmers to organize into cooperatives. The experience of that time further confirmed that all production will belong to the category of the commodity economy during the entire socialist stage of history. This is the theoretical premise of our reform.

Proceeding from this premise we proposed to reform the economic structure and shift from a centralized planned

economy to a planned socialist commodity economy. The core issues were to recognize the law of value and to utilize the market mechanism. With this fairly suitable economic background it was also necessary to promote microeconomic reform. In the last few years rural reform has led the way and the point of entry has been to use the household contract system to draw in the cooperative system.

The reason we have placed the right of self-management at the level of the family farm is that it is a characteristic of agricultural production and is determined by the level of development of the social forces of production. When most management is carried out by farm households they can conveniently make effective use of resources and develop commodity production. As the commodity economy develops further and farmers are drawn into market competition they will feel the need to avoid risks and reduce competition and will seek mutual cooperation and unity. Currently farmers commonly demand that collectives provide them with services. This is a demand to transform a cooperative economic organization to suit the needs of the commodity economy. The production contract system will provide unified services on the basis of household operation. In addition, it will also more broadly combine specialized economic cooperation and organizations.

H. The vigour of the microeconomy since the reforms has been due to three conditions. The first is the right to self-management and the ability to assume sole responsibility for profits and losses and to participate in market competition, not only to engage independently in commodity exchange, but also to have the right to handle transfers of factors of production. The second is the ability to compete. Under the pressure of market competition producers exert themselves to improve management, reduce costs, seek technological advances and encourage innovation in order to improve their own economic positions. The third condition is diversified economic organizations. In order to protect and strengthen their economic positions, deal with risk, regulate behaviour and open up market opportunities, farmers spontaneously make demands for cooperation and associations. But in situations where the forces of production have developed unevenly the

masses can have the opportunity for free choice only if there is a diversity of organizational forms that will guarantee their voluntary involvement.

In recent years various non-agricultural trades and professions have adopted the contract system of operation and separated the right of ownership from the right of management, so that enterprises are guaranteed an appropriate independent status. At the same time the opening of markets for the factors of production has made it possible for funds and labour to flow horizontally between enterprises. Once fixed assets have been converted into shares they can be divided and transferred between enterprises. Share owners simply receive a return according to their share rights and do not interfere with operations. This system is a fundamental change from the previous relationship of direct government management and responsibility for profits and losses. The basic systems are still public ownership, collective ownership and individual ownership, but the property rights of these three forms also overlap, allowing for improved economic combinations to increase economic results.

III. PROCEEDING FROM CHINESE CONDITIONS

I. Every socialist country shares the common goal of achieving socialism, but the specific path it takes will differ according to its own national conditions. This is also true of the development of cooperation. China's main national condition is that the level of cultural and economic development is still at the primary stage of socialism. The capitalist commodity economy had not fully evolved before Liberation and therefore there was no historic tradition of cooperation and the farmers had no experience with cooperatives. Since ancient times there were only a few communal activities for social security within the sphere of local society, such as charitable granaries³ and 'tuition plots'.⁴

The cooperative movement in the capitalist countries was one of the earliest results of the theories of utopian socialism. Subsequently, utopian socialism was rejected in practice but cooperation remained and after the Second World War it developed rapidly under the stimulation of the commodity

economy. When we entered into socialism, however, we treated the commodity economy as the opposite of the planned economy and took a negative attitude toward it. Inhibiting development of the commodity economy also inhibited the motive force of the cooperative economy, which is one reason why the cooperative economy failed to be consolidated for a long time after it was established. Now we should make up for this.

The most difficult problem cooperation has to deal with is regulating internal economic benefit relationships in such a way as to achieve optimal results. This requires an entire management system and large numbers of management personnel will only emerge when economic and cultural backgrounds reach a certain level and market training is available. At the same time the superiority of the cooperative system for the individual can only be achieved by evaluating economic results using objective standards that are formed in market exchanges. From now on cooperation must be closely tied to the demands of developing production. Cooperation should be developed and perfected wherever it is required for production, but it absolutely should not be introduced simply for its own sake. In addition, we must find a convenient way for the masses to train themselves voluntarily in democratic management.

J. Another important national condition is the nature of the rural employment problem. For historical reasons the development of industry in China did not follow the natural sequence of light industry first and heavy industry later. Instead, resources were first concentrated in the development of heavy industry and funds were acquired from the primitive accumulation of agriculture rather than from the development of light industry. As time passed, agricultural modernization was constrained by inadequate funds and excess labour.

Can industry now transfer funds to agriculture? This is problematic because industry itself is not yet fully developed and its performance is less than satisfactory. We would like to carry out large-scale technical transformation of agriculture immediately, but state funding is limited. For this reason intensive farming can only be fully implemented in some areas, while in most of the country elements of modern technology

will be introduced in varying degrees but traditional agriculture will continue to exist for a long time. Agriculture in these areas will consist predominantly of small-scale, fragmented, labour-intensive production and any new movements for uniform standardization would be completely unacceptable.

For the country as a whole we should stress the stabilization of family operations. Given its large population and scarce arable land, China must transfer surplus labour out of agriculture, mechanize cultivation and achieve an appropriate scale of operation before agricultural production can expand. An appropriate scale of operation generally entails lower labour costs and improved labour productivity. As long as a large surplus of labour remains on the land, any attempt to eliminate farm household operations and enlarge the scale of production by means of cooperative forms will make it difficult to guarantee favourable economic results.

On the other hand, cooperatives and other forms of services should be organized whenever larger-scale management is more efficient than single family operations. Township enterprises currently employ about 80 million workers. A large number of these workers have transferred from agriculture to non-agricultural industries, which constitutes progress toward adopting the forms that will bring about appropriate scales of operation. Where the necessary conditions exist, such opportunities should not be missed or agriculture will atrophy. In places where the conditions are not right, however, we should not press the issue. Diverse forms should exist, including cooperative farms, contracts for large households and contracts by groups of households for compensated services.

In short, a correct approach to implementing cooperation must be premised on a clear understanding of national conditions. Only in this way can we arrive at truth based on reality and avoid pursuing subjective desires.

NOTES

1. 'The primary stage of socialism': see Glossary. [Editor's note.]
2. New Economic Policy: Soviet economic strategy from 1921 to 1927. Its

goal was to rebuild the economy after the destruction of the Russian Civil War and the over-centralized economic strategy of 'war communism' (1917–20). It used the market as the main mechanism of allocation and returned part of the economy to private ownership. P. R. Gregory and R. C. Stuart, *Comparative Economic Systems*, third edition (Boston: Houghton Mifflin, 1989), p. 186. [Editor's note.]

3. Public granaries that set aside grain for years of poor harvest and potential famine.
4. Public plots that were communally cultivated to generate income to fund schools.

Glossary

accumulation [*jilei*]: ‘That part of national income used to increase fixed capital assets (productive, and non-productive), working capital, and material reserves’ . . . Thus, accumulation is fairly similar to the Western concept of “net investment” . . .’ Carl Riskin, *China’s Political Economy: The Quest for Development since 1949* (New York: Oxford University Press, 1987), p. 145.

comparable prices [*kebi jiage*]: prices adjusted to allow for inflation. According to the State Statistical Bureau, ‘Statistics at comparable prices are obtained by: (1) multiplying the amount of products by their constant prices, or (2) conversion by using price indexes.’ State Statistical Bureau of the People’s Republic of China, *China Statistical Yearbook 1988* (English) (Beijing: China Statistical Information and Consultancy Centre, 1988), p. 921.

consumption/consume [*xiao fei*]: in Western (neoclassical) economics consumption refers to the purchase and use of final products by people for non-productive purposes. In Chinese terminology it refers to ‘material goods used to satisfy the production or living needs of people. It includes both production consumption and individual consumption.’ *Zhengzhi jingjixue xiao cidian* (Little dictionary of political economy), edited by Jilin University Department of Economics Reference Room (Changchun: Jilin Renmin Chubanshe, 1980), p. 496.

distribution according to work [*anlao fenpei*]: often translated as: ‘to each according to his work’.

distribution based on contracting tasks or distribution by contract [*baogan fenpei*]: Distribution based on the practice of contracting tasks to households [*baogan daohu*]. See Chapter 2, note 1. Also, Kathleen Hartford, ‘Socialist Agriculture is Dead; Long Live Socialist Agriculture! Organizational Transformation in Rural China’, in Elizabeth J. Perry and Christine Wong (eds), *The Political Economy of Reform in Post-Mao China* (Cambridge, MA: Harvard University Press, 1985), pp. 34–43; and Riskin, *op. cit.*, pp. 284–290.

eating from one big pot [*chi daguofan*]: dividing the income of the collective equally among its members, regardless of their work. The term refers to a lack of individual motivation to increase output.

expanded reproduction [*kuoda zaishengchan*]: ‘The production cycle on an enlarged scale. It is also the expansion of the scale of production from the original base of production by means of increasing investment and increasing labor power. Under the conditions of capitalism it manifests

itself as the accumulation of capital, and it is also the expansion of reproduction by means of capital. Expansion of reproduction by adding investment to the original productive base is called extensive expansion of reproduction [*waiyande kouda zaishengchan*]. If there is no increase in investment and labor, but the production cycle is expanded to a larger scale by means of advances in production technology, improvements in management, and increases in the productive labor rate, it is called intensive expansion of reproduction [*neihande kuoda zaishengchan*].' – *Zhengzhi jingjixue xiao cidian*, p. 190.
See reproduction.

farmer [*nong min*]: '*nong min*' literally means 'agriculture people', but the term refers not only to farmers, but to all people who live in the rural areas (*nong cun*) whatever their occupations. It has often been translated as 'peasant', but in recent years the major official English-language publications in China, such as *China Daily* and *Beijing Review*, have adopted 'farmer' as the translation. 'Farmer' is used in this volume, since Du Runsheng is usually referring to farmers when he uses the term.

labour accumulation [*laodong jilei*]: building capital construction projects that then embody the labour used to create them.

living labour: In Marxist economics, 'living labour' – equivalent to 'labour' in neoclassical economic terminology – is distinguished from 'embodied labour', which is the value of goods, imparted to them by labour. See Richard D. Wolff and Stephen A. Resnick, *Economics: Marxian versus Neoclassical* (Baltimore: Johns Hopkins University Press, 1987), pp. 158–163.

mu: measure of land area. Equals .067 hectare, or .1647 acre.

organic composition of capital: defined by Marx as 'the ratio of fixed to total (fixed plus variable) capital', where 'fixed capital' includes all non-labour costs of production, and 'variable capital' consists of direct labour costs of production, or wages. Paul R. Gregory and Robert C. Stuart, *Comparative Economic Systems*, third edition (Boston: Houghton Mifflin, 1989), pp. 74–75.

peasant: see farmer.

primary stage of socialism [*shehuizhuyi chujī jieduan*]: a period in which the major means of production are owned by the state and collectives, but the economy is not yet mature enough to operate efficiently under full socialization. In order to develop the forces of production the economy continues to rely on commodity production and market exchange according to the law of value. Limited capitalism, entrepreneurship and private management are allowed to exist. See Zhao Ai and Wu Ming, 'Ten Theoretical Questions Facing Reform', *Beijing Review*, vol. 31, no. 34, 22–8 August 1988, p. 24.

production contract responsibility system [*lianchan chengbao zerenzhi*]: literally, 'linked to production contract responsibility system'. Interchangeable with **production contract system**.

production contract system [*lianchan chengbao zhi*]: literally, 'linked to production contract system'.

reproduction [*zaishengchan*]: 'The endless repetition and constant renewal of the production process. The social reproduction process includes the four links of production, exchange, distribution, and consumption; regardless of what kind of social form the production process has, it must continuously go through the same stages. Within this process, production is the starting point, consumption is the ending point, and exchange and distribution are the intermediate links that connect production and consumption.' Thus consumption and the development of consumer demand are determined by production. 'Reproduction is divided into simple reproduction [*jiandan zaishengchan*] and expanded reproduction [*kuoda zaishengchan*]. Simple reproduction is the foundation and starting point of expanded reproduction.' – *Zhengzhi jingjixue xiao cidian*, pp. 181–2.

See **expanded reproduction**, **simple reproduction**.

scissors differential [*jiandaocha*]: the tendency for prices of industrial products to rise faster than those of agricultural products, with the result that there is a decline over time in the amount of industrial products that can be paid for with a given amount of an agricultural good. (See *Zhengzhi jingjixue xiao cidian*, pp. 579–80.)

simple reproduction [*jiandan zaishengchan*]: 'Reproduction with no increase in investment, which goes on repeating at the original scale.' *Zhengzhi jingjixue xiao cidian*, p. 626.

See **reproduction**.

Third Plenum of the Eleventh Party Central Committee: 'Held in Beijing from 12 to 18 December 1978. This meeting basically eliminated the long-standing severe "left" errors and corrected the guiding ideology of the Party, reestablishing the Marxist line in ideology, politics, and organization. The meeting shifted the focus of all Party work onto socialist modernization, which was a major turning point of profound significance in the history of the Party after 1949.' (Chapter 2, note 3.) 'This meeting is generally regarded as having initiated the economic reform programme. (Riskin, *op. cit.*, p. 284.)

third sector [*di san changye*]: services. ('The first sector is agriculture and the second is industry.)

township [*xiang*]: a rural administrative unit below the county [*xian*] and

above the village [*cun*]. The *xiang* was generally replaced by the people's commune from 1958 to 1983 and was restored when the communes were dissolved in 1983.

township enterprises [*xiangzhen qiye*]: literally, 'village and town enterprise'. This term generally replaced *shedui qiye* ('commune and brigade enterprise') after the communes were dismantled in 1983 and 1984. Both terms refer to rural enterprises owned and operated at the county level and below.

Index

- accounting
 - economic, 86, 90
 - independent, 31
 - unified, 46
- accumulation, 46, 62, 95–6, 137–8, 193, 197, 209
 - capital, 83
 - labour, 102, 149
 - of fixed assets, 139–40
 - of funds, 52–3, 60, 95, 102, 128
 - primitive, 216
 - public, 182
 - in rural areas, 37, 156, 173
- Africa, 146, 155
- Agrarian Reform Law, 4
- agriculture, 4, 5, 8, 11, 15, 26, 56, 60–1, 65, 76–7, 90, 104–5, 116–17, 142, 177, 196
 - by products of, 76
 - capitalist, 50
 - Chinese traditional, 68, 70–4, 77, 98, 142, 146, 209, 217
 - development of, 66–7, 84, 138, 154, 156, 165, 170;
 - extensive, 71: intensive, 70, 72, 209
 - ecological, 73
 - energy cycle and, 73
 - factory-style production in, 79
 - as foundation of national economy, 82–4, 95
 - industrial inputs to, 8, 73, 83, 158
 - influence on urban economy, 99–100, 155, 163
 - mechanization of, 27, 75–6, 80, 85, 159
 - modern, definition of, 50
 - modernization of, 37–8, 40, 48, 80, 199; and household farming, 49–53
 - organic, 73
 - origins of, 68
 - position of in national economy, 152
 - production costs in, 140
 - returns to, 140, 151, 154, 163
 - socialist transformation of, 20–2, 41, 172
 - structure of, 87
 - technological transformation of, 22, 51, 68–70, 76, 78–80, 84, 98, 136–7, 139, 141–2, 154, 216–17
 - in the United States, 74, 153, 156
 - yields in, 73
 - see also* gross national product
- agronomy, 78
- alliances,
 - contract, 51
 - economic, 88–9, 182
 - voluntary, 101
- Anhui, 1, 25, 28, 74
- animal husbandry, 50, 60, 71, 76–7, 87, 89–91, 97, 104, 109, 139, 156, 162, 165–6, 188, 190–2, 195–7
 - see also* livestock, stock-raising
- Anti-Rightist Campaign, 33
- appropriate scale
 - of management, 15, 183, 201, 209
 - of operation, 170, 178, 193, 211, 217
- aquatic products, 10, 11, 77, 97, 98, 109, 139, 144, 165, 167
- aquatic resources, 166
- Ash, Robert F., 18
- associations, 103, 159–60, 214
 - agricultural–industrial–commercial, 169
 - consumers', 113
 - economic, 173–6
 - herding–industrial–commercial, 189
 - management, 182
 - mutual-aid, 189
 - producers', 113, 139
 - service, 189

- bamboo, 144
 bananas, 121
 Banister, Judith, 18
 banks, 206
 Agricultural, 66
 loans, 95
 People's, 8
 private traditional-style, 184
 basic accounting unit, *see* unit of account
 beets, 144
 Beijing, 2, 104, 106, 146
 birth control, 69
 bonds, 184
 brick kilns, 30
 bureaucratic abuses, 5

 cadres, 37, 45, 52
 bad behaviour by, 4
 leading, 25, 43, 45
 local, 27, 132
 training of, 79, 194; and
 cooperativization, 23, 44
 camels, 197
 capitalism, 21, 35-6, 41-2, 100-1,
 207, 210, 212
 capitalist tendencies of farmers, 27,
 208
 cash crops, 122
 see also economic crops
 cattle, 43, 91, 144, 167
 Central Committee of the
 Communist Party of China
 (CPC), 10, 20, 25, 28, 33, 43,
 52, 55, 61, 67, 76, 97, 103,
 126, 136, 170, 213
 Rural Work Department of, 25
 Second Plenum of the Seventh,
 21-2
 Southern Office of, 25
 Tenth Plenum of the Eighth, 25,
 34
 Third Plenum of the Eleventh,
 9, 20, 32, 37, 41, 110, 126,
 173, 187, 192
 Third Plenum of the Twelfth,
 82, 84
 Chaidamu, 196
 Chan, Anita, 18

 Changjiang delta, 104
 see Yangtze River delta; Yangzi
 River delta
 charitable granaries, 215, 218
 Chen Duxiu, 27, 34
 Chengdu, 27
 chicken raising, 77, 88, 183
 cities, 5, 11, 22, 27, 36-7, 61-2, 73,
 83, 89, 95, 97, 99, 104, 106-7,
 111, 116, 124, 134, 139, 143,
 147, 163-4, 166-7, 169, 177,
 181, 185
 climate, 120, 167
 coastal regions, 69, 108, 129, 140,
 198-204
 coercion, 41, 76, 85, 102, 124,
 211
 collective economy, 14, 23, 28-9,
 32, 36, 38, 80, 209, 211-12
 diversity of management forms
 in, 27
 household farming in, 49
 collectivization, 5-7, 17, 20, 24,
 26-7, 117, 172
 combinations, economic, 31, 88,
 102, 170-1, 175, 215
 see also alliances, associations
 commandism, 76
 see also coercion
 commerce, 3, 38, 60-1, 76, 109,
 156, 162, 165, 173, 183,
 194-5, 210
 international, 78
 state-operated, 169, 185
 commercialization, 82, 84, 87-9,
 104, 193
 commercial organizations, 185,
 205
 commodity economy, 13-14, 48-9,
 62, 65, 84-5, 88-9, 92, 94-106,
 109-10, 127-38, 149, 156, 160,
 167, 169, 173, 176, 179, 193,
 213-16
 capitalist, 215
 definition of, 13
 planned, 84
 rural, development of, 35-9
 socialist, 35, 37, 84, 94, 100, 156,
 167, 213, 214

- commodity export bases, 104
- commune system, 17, 57, 58
 achievements of, 208–9
 decline in farmer enthusiasm
 under, 172–3
 dissolution of, 11
 formation of, 6–8, 24, 26, 43
 industry in, 62
 ‘left’ mistakes in early period of,
 43
 later period, 43–5
 production contract
 responsibility
 system and, 29, 52–3
see also three-level ownership
 based on the team
- Communist Party
 of China (CPC), 1–4, 20–2, 40,
 52, 67, 94, 107, 116–17, 126,
 132, 161–2
 Soviet, 110
- comparable prices, 161, 178
- competition
 market, 76, 83, 90, 96, 139, 157,
 179–80, 190, 204–5, 214
 for raw materials, 200
- comprehensive development, 60–1,
 77, 97, 162, 195
- constitution, 9
- contract responsibility system,
see production contract
 responsibility system
- contracting production to the
 household, *see* production
 contract responsibility system
- contracting work to the household,
 10, 32
see also production contract
 responsibility system
- cooperation
 among farm households, 4, 22,
 55, 172, 211–14
 above the household level, 13,
 101, 211
 and national conditions, 215–17
- cooperative economy, 23, 40–2,
 46–7, 49, 51, 53, 88, 94,
 101, 132–3, 135, 172–3, 208,
 211–16
- cooperative movement in capitalist
 countries, 215
- cooperative system, *see* cooperative
 economy
- cooperatives, 11, 13–14, 102, 133,
 160, 173–5, 183, 207, 211,
 213
 agricultural producer, 5;
 advanced, 4, 5, 17, 24, 33,
 34, 46, 208, 212; primary, 5,
 22–3, 33, 42–3, 55
 credit, 184
 farms, 160, 177, 183, 217
 marketing-service, 169
 regional organizations of, 102–74
 supply and marketing, 8, 42,
 109, 169, 175, 183, 185
 in water management, 148
- corn, 92
- corruption, 12
- cotton, 5, 10, 30, 83, 86, 97, 139,
 180, 200, 202
- courtyard economy, 90
- CPC, *see* Communist Party of China
- credit, 66
 cooperatives, 174, 184
 organizations, popular, 171
 as policy instrument, 14, 86, 112,
 210
- crops
 improved varieties of, 72, 140
see under individual names
- cultivation, 36, 47, 50–2, 76, 79,
 87, 93, 109, 142–3, 165, 180,
 191–2
 aquatic, 98
 extensive, 70, 209
 history of, 68
 intensive, 44, 51, 71–2, 80, 98,
 209
 scientific, 71, 80
 slash and burn, 28
- Cultural Revolution, 8–9, 11, 18,
 32, 63, 78, 187
- culture
 advances in, 62, 118
 level of, 23, 38, 43, 116, 165,
 215–16
 scientific, 38

- Dazhai Model, 8–9, 18
 Dazhai Production Brigade,
see Dazhai Model
- 'Decision Concerning the Mutual
 Cooperation of Agricultural
 Producers (*draft*)' [1951],
see first resolution on mutual
 cooperation
- 'Decision of the CPC Central
 Committee on Some
 Questions Related to Speeding
 Up Agrarian Development
 (*draft*)' [1978], 32
- democracy, 186
 economic, 30
 lack of, 29
 in management, 216
- Deng Xiaoping, 59, 117, 126
 Deng Zihui, 25, 34
 Denmark, 153
 deserts, 73, 117, 143, 191, 194
 diesel fuel, 12, 144
- 'Directive of the Central
 Committee of the CPC on
 Carrying Out the First Large-
 Scale Socialist Education of
 the Entire Rural Population',
 33
- disasters, natural, 48, 117, 120, 142,
 151, 154
- distribution of income, 17, 181
 according to need, 37, 128
 according to shares, 23, 102
 according to work, 27, 33, 37, 43,
 54–6, 102, 126–7, 133, 174
 in capitalism, 130
 by contract, 46–7, 53, 56
 egalitarian, 34, 44, 126, 130–1,
 209
 in kind, 104
 in Marxism, 134
 by the unified purchasing and
 marketing system, 168
 in the workpoint system, 57
- Document Number One, 2, 11,
 136–7
- Document Number 75 [of 1980],
 20, 28, 30, 32
- Dongting Lake, 27
- double-occupation households, 46
 draught animals, 4, 28, 33–4, 57
 'drinking from one big pot',
 146–7, 150
 dryland farming, 72, 74, 196
 duck raising, 77
- Du Runsheng
 brief biography, 1–2
 significance of speeches, 2–3
 central themes in speeches,
 12–16
- earthworm raising, 91
 'eating from one big pot', 25, 29,
 44, 51, 52, 101, 133, 209
 ecology, 70, 72–3, 188–90, 192
 economic benefits, 40, 50, 75,
 89–90, 99, 105, 108, 140,
 145–9, 158, 168, 172, 179, 184,
 192
 economic crops, 71, 87, 180, 201
see also cash crops
- economic development, 6, 13–14,
 20, 26–7, 35, 43–4, 47, 52, 54,
 64, 85, 88–9, 94, 103, 111–12,
 116, 118, 127–35, 137, 198,
 205–6
 in agriculture, 5, 15, 37, 48–50,
 68, 71, 77–8, 138–9, 145,
 153, 156, 163
 in industry, 36–7, 68, 83, 89,
 116, 155, 164, 216
 regional differences in, 14, 48,
 50, 90, 99, 102, 104, 128–30,
 202
 rural, 82, 89, 95, 100, 115,
 136–7, 152, 161–7, 179, 181,
 187–97, 209–10
- economic structure, 63–4, 101,
 157, 203, 213
 cooperative, 46–7
 of livestock areas, 195
 rural, 30, 87–8, 110
- economic system, 42, 168
 reform of, 1, 71, 82, 132, 137,
 156, 162, 167, 171
 rural, 8
 socialist, 13, 46
see also cooperative system

- education, 62, 116, 133, 203
- efficiency and fairness, controversy over, 130-1
- egalitarianism, 26-7, 34, 43-4, 56, 126, 131, 147, 150
- eggs, 91, 114, 144
- elasticity
 of consumption of agricultural products, 154, 166
 of market capacity, 205
- electric power, 8, 66, 146
- employment, rural, 62, 145, 149, 166, 200, 209, 216
 agricultural, 56, 68
 non-agricultural, 3, 12, 97, 99, 142, 152, 156, 164-5, 181, 197, 210, 217
- Engels, Frederick, 4, 42, 55, 61, 68, 172, 211
- enterprises, 30, 76, 96, 137, 148, 164, 171, 181, 202-3, 215
 collective, 65-6, 174-5
 rural, 7, 8, 29, 61-6, 90, 99, 102
 state-owned, 105, 111
 township, 76-7, 90, 97, 104, 139, 148, 158, 164, 170-1, 185, 197-200, 204-5, 217
- Europe, 120, 138, 146, 208
 Eastern, 1, 61
 Western, 51, 156
- exports, 104, 139, 198-206
 of labour, 165, 198
 subsidies of, 201
- expropriation of farmers' property, 23, 56, 172, 211
- farmer
 as translation of *nongmin*, 17
- feed, animal, 65, 91-2, 111, 166, 188
 see also fodder
- fertilizer, 28, 50, 146
 chemical, 8, 12, 63-4, 72-4, 79, 140, 154, 159, 209
 organic, 72-3, 77
- feudal society, 35, 47-8
- financial market, 171, 184, 203
- fish, 112, 167
 breeding, 181
- fisheries, 60, 76, 87, 104, 162
- First Five Year Plan, 5-6
- first resolution on mutual cooperation, 22, 33
- 'five small industries', 62, 66
- flax, 202
- fodder, 87, 166, 190-3, 196
 see also feed, animal
- foreign exchange, 139, 198-9, 201, 203, 205-6
- foreign scholars, 115-16, 173
- foreign trade, 122, 201, 203, 205
 volume as share of GNP, 202
 see also international trade; international markets
- forestry, 60, 71, 76-7, 87, 90, 104, 109, 156, 162, 165, 195
- Foshan, 103
- 'four clean-ups' (Socialist Education Movement), 45, 57
- France, 153
- free purchase and sale, 110
- fruit, 11, 97, 139, 167
 trees, 30
- Fujian, 74, 93, 155
- Gang of Four, 9, 18, 20, 32, 43
- Gansu, 25, 149, 196
- gardening, 87, 90, 165, 167, 181
- genetic engineering, 78-9, 98, 143
- Germany, 153, 156
- goat, Tibetan, 197
- Gobi Desert, 117
- grain, 35, 45, 65, 82-3, 97, 108, 110-11, 140, 177, 195-6
 consumption, 7
 costs of producing, 92, 200
 demand for, 37, 73, 90, 92, 201
 as the primary task of
 agriculture, 9, 36, 91, 109
 procurement system, 5, 12, 113-14, 169
 production of, 9, 24, 52, 74-7, 86-7, 89, 91, 96, 106, 120-4, 140-1, 145-6, 151, 155, 158, 160-3, 165-6, 176, 180
 purchasing system, 121, 125

- regional distribution of, 27, 70-1, 92-3, 103, 191-2
- state subsidy of, 92
- grass
 - cultivation for fodder, 71, 165-6, 190-6
 - in energy cycle, 73
 - and livestock, 91, 167, 189
- grasslands
 - and ecological balance, 70
 - construction of pastures in, 193
 - deterioration of, 190-2
 - management of, 188-96
 - oppose turning into grain fields, 191
 - use of fences in, 192-3
- great debate over the two roads, 25, 33
- Great Leap Forward, 5-8, 24
- green manure crops, 72
- gross national product (GNP), 134
 - per capita, 59, 199
 - share of agriculture in value of, 152, 155
 - share of industry in value of, 152
- gross value of agricultural output, 3, 161
- gross value of industrial and agricultural output, 164
 - share of agricultural output in, 164
 - share of industrial output in, 3, 164
- Guangdong, 74, 93, 112, 121, 182, 198
- Guangxi, 25, 74, 180
- guidance planning
 - and the commodity economy, 35, 37
 - and the cooperative system, 41
 - market adjustment and, 14, 85, 110, 113
 - and reform, 185
- Guizhou, 25, 155
- Hai River, 147
- handicraft industry, 61, 165, 181, 194, 201
- hardship areas, 25, 28
- Hartford, Kathleen, 18
- Hebei, 1, 28, 91, 148
- hemp, 97, 139
- Henan-Shaanxi mountain region, 28
- Hetao, 91
- Hexi Corridor (Gansu), 149, 196
- hides, cattle, 144
- highway construction, 103
- Himalayan Mountains, 117
- history, socialist stage of, 213
- Hong Kong, 204
- horticulture, 194-5
- Hou Tao, 196
- Howe, Christopher, 17
- Huai River, 147
- Huanghe (Yellow) River, 91
- Hubei, 148
- Hunan, 30, 155
- hydraulic infrastructure, *see* irrigation, water control
- imports, 129, 201, 205-6
- incentives, 185
 - for cooperation, 4
 - market, 7
 - for production, 5, 13, 85
- Industrial Revolution, the, 78
- industry, 36, 37, 145
 - building materials, 90, 99, 200
 - capital-intensive, 202
 - in capitalist countries, 60-1
 - construction, 62, 65, 103, 165, 181, 195
 - development of, 68, 83, 137, 152, 155-6, 164, 194-5, 201-2, 205, 216
 - disparities with agriculture, 61, 151, 153-4, 157-8
 - and exports, 201, 203
 - heavy, 6, 8
 - integration with agriculture, 61
 - household, 103
 - labour-intensive, 99, 181, 198-9, 201-2, 204-5
 - light, 37, 83, 139
 - mistakes in development of, 62-3
 - and pollution, 148-9

- processing, 12–15, 64–5, 74,
 77–8, 88–91, 97–8, 101,
 103–4, 129, 142, 165–6,
 174–5, 181, 183, 188, 193,
 195, 197–9, 201, 206
 rural, 3, 7, 62–5, 76–7, 89–91,
 97–9, 103–4, 151, 153, 175,
 199–200
 subsidizing agriculture, 158–60,
 177, 197, 216
 urban, 15, 95, 158
see also gross national product
 infrastructure, 8, 12, 89, 142, 145,
 195
 Inner Mongolia, 28, 91, 196
 integrated economic management,
 60
 intelligence agriculture, 98
 interest rates, 130, 184
 intermediate economic
 organizations, 183–4
 international trade, 204
 investment, 147, 175, 177, 183,
 197, 201, 203
 in agriculture, 8, 60, 71, 140,
 156, 173
 foreign, 104, 206
 by the state, 8, 12, 66, 85, 96,
 156
 irrigation, 7, 51, 73, 74, 145–9
 at Dazhai, 9
 on Loess Plateau, 29
 in north-west China, Inner
 Mongolia, Tibet, 196
see also water control
 Japan, 51, 138, 153, 157, 202
 Jianghan, 27
 Jiang Qing, 18
 Jiaodong, 27, 104
 joint-stock system, 171, 175
see also stock share system
 land reform, 4–5, 21–2, 24, 48,
 100, 173, 212
 land
 area, 50, 142
 concentration of, 51, 53, 80,
 176–8
 cultivated, 3, 70
 reclamation of, 70, 149
 social welfare quality of, 182
 Lardy, Nicholas R., 17, 18
 Latin America, 202
 law of the market, 95, 121
 law of value, 13, 43, 85–6, 96, 99,
 113, 121, 123–4, 214
 'left'
 errors, 26, 45
 mistakes, 43
 things, 20, 21
see also leftist errors
 leftist errors, 5
 Lenin, V. I., 4, 42, 50, 109, 172, 213
 Liaodong Peninsula, 104
 Liaoning, 91, 104
 lime kilns, 66
 Lin, Justin Yifu, 17
 livestock, 23, 65, 71, 77, 91–2,
 187–97
 improved varieties of, 72, 140, 193
*see also under names of individual
 species*; animal husbandry;
 stock-raising
 Loess Plateau, 28–9
 Longsheng, 25
 Lord She's love of dragons, 124,
 125
 lumber, 73, 103, 200
 machinery, 175
 agricultural, 8, 15, 30, 51, 53, 60,
 74–6, 79, 101, 140, 146,
 154, 158, 177, 209; as
 commodities, 75–6; design
 of, 159
 factories, 63
 macroeconomic regulation, 110–11,
 125, 129, 170, 180, 205, 210
 macroeconomic structure, 110–11
 Madsen, Richard, 18
 management contract system, in
 enterprises, 171
 Manchuria, *see* Northeast China
 Mao Zedong, 5–6, 9, 21–2, 25, 43,
 61, 95, 212
 market mechanisms, 13, 38, 105,
 123–4, 169, 179, 184, 214

- markets
 free, 10–12, 153
 international, 82–3, 104, 197,
 201–2, 205–6
- Marxism–Leninism, 20–1, 118, 172,
 211
- meat production, 91, 111–12, 155
- medicinal materials, 103
- Meisner, Maurice, 17, 18
- methane gas, 77, 91
- micro-organism engineering, 91
- mining, 66, 99, 103, 146, 181, 195
- mountainous regions, poor, 9, 28,
 103
- mulberry trees, 77
- mutual aid teams, 4, 42, 187, 212
- mutton, 144
- Nanhai County, 182
- national goals for the year 2000,
 76–7
- National People's Congress, 9
- natural communist, 27
- natural economy, 27, 35–7, 44, 47,
 53, 64–5, 113, 167
- nature and humanity, 69, 117
- New Economic Policy, 109–10,
 113–14, 213, 217–18
- New Zealand, 153
- Ningxia, 74, 196
- Nolan, Peter, 17, 18
- Northeast China, 27, 42, 65, 70,
 255
- Northwest China, 74, 108, 121, 196
- obligatory sales of agricultural
 products, in the Soviet Union,
 110, 114
- oil crops, 5, 86, 97
- organic composition of capital, 50,
 83, 153
- outward-oriented development
 strategy, 198–206
- ownership, 48, 174–5
 collective, 3, 10, 26, 31, 43–4,
 51, 54, 172
 individual, 54, 211
 private, 23, 42, 48–9, 51, 127,
 187–8, 211
- public, 23–4, 27–8, 41, 43, 46,
 49, 52, 54–5, 126–8, 130,
 132, 134, 174, 182, 188,
 209–11, 215
- rights, 43, 46, 173, 215
 by the whole people, 54
- Party Central Committee, *see*
 Communist Party of China
 Central Committee
- Pearl River delta, 27, 177, 180
see Zhujiang delta
- peasants, *see* farmers
- people's communes, *see* commune
 system
- pig raising, 29, 77, 91, 108, 140
- planned purchase and supply, 5
- plastic sheeting, 144
- pollution, 148–9
- poor areas, 16, 165
see mountainous areas, poor
- population, 50, 69–70, 82–3,
 115, 127, 163, 177, 190, 196,
 199–200, 202, 217
- rural, 4, 15, 37, 59, 80, 83, 97,
 152–3, 164, 210
- urban, 36, 73, 116, 122, 152
- pork, 83, 108, 112, 162
- poultry, 13, 36, 91, 181, 183
- prices, 8–13, 60, 91–2, 95–6,
 106–8, 113, 120, 129, 139,
 141, 151, 155, 157–8, 162–3,
 168, 170, 177–8, 180–1, 184,
 191, 194, 198–9, 201, 203
- fixed multiple function of, 87,
 108, 120–3
- policies regarding, 86, 110, 124,
 176
- shadow, 143
- system, 106, 111, 125
- two kinds of, 122, 125
- primary stage of communism, 35
see primary stage of socialism
- primary stage of socialism, 13, 188,
 208, 210, 215
see primary stage of communism
- processing, *see* industry, processing
- production contract responsibility
 system, 10–1, 20, 29–30, 35,

- 38, 40-1, 45-7, 49, 51-3,
55-6, 66-7, 76, 80, 96, 100,
105, 110, 113, 145, 158, 160,
162, 173-4, 178, 214-15, 217
description of, 10, 45, 31-2
earlier occurrences of, 7, 24-6,
34, 45, 49
land transfer under, 160, 183
in livestock raising areas, 187-8
problems of, 170, 181-3
responsibility fields, 30, 31
responsibility plots, 25
role of collectives in, 14, 181-3
sideline production in, 30
production contract system,
 see production contract
 responsibility system
production responsibility system,
 see production contract
 responsibility system
profits, 61-2, 75, 86-7, 92, 102,
107-8, 112, 128-30, 132,
137-41, 152-5, 157-8, 168,
170-1, 175, 177, 180, 184-5,
190, 200, 204-6, 209, 214-15
programming, optimization, 143
public finance, three levels of, 122,
125
- Qian Tao, 196
Qing Dynasty, 78
Qinghai, 74, 196
- rainfall, distribution of, 117, 146
ramic, 144
rapeseed, 10, 86
recession, in the world economy,
202-3
'Regulations Regarding Work on
Rural People's Communes
(*preliminary draft*)' [1978], 32
reproduction, 105
 expanded, 105, 195
 simple, 35-6
responsibility system, *see* production
 contract responsibility system
rice, 6, 166
 dry-sown, 148
 japonica, 92
 right-wing opportunism, 24
Riskin, Carl, 17, 18
Rural Development Research
 Center (RDRC), 1, 2
rural people's communes, *see*
 commune system
rural reform, accomplishments of,
110
- science and technology, 15, 30,
49, 68-80, 84, 88, 98, 111,
136-43, 188, 193
 historical contributions of China,
 78
scissors differential, 95, 106, 157
Second Five Year Plan, 6
second sector, *see* industry
seed selection and breeding, 72
services, 12, 15, 51, 76, 83, 165,
177-8, 184, 189, 204-5, 210,
214, 217
 production, 65, 88, 101, 133,
 142, 159, 174, 182-3, 193,
 195, 197
- Shanghai, 106, 204
Shanxi, 1, 9, 42, 103, 146, 148
Shashi, 148
silkworms, 77, 144
'Sixty Articles on the Communes', 7
slash-and-burn cultivation, 28
sloganeering, 25, 30
Socialist Education Movement,
 see four clean-ups
socialist transformation of
 agriculture, 21
 definition of, 32
Spark Plan, 139, 144
specialized households, 29-30, 46,
57, 76, 79, 80, 89, 132, 139,
170, 175, 183
speculation and profiteering, 132,
185
State Council, 2, 103, 144
State Statistical Bureau, 127, 198
 Rural Survey Team of, 161
steel, 200
stock-raising areas, 187-97
 see also animal husbandry,
 livestock

- stock share system, 102, 184
see also joint-stock system
 subsidies, 92, 106, 112, 124,
 141, 156-7, 163, 168, 177, 201
 sugar, 97, 139
 cane, 144, 180
 supply and marketing cooperatives,
 101
 advocated by Lenin, 109
 in the commune system, 8
 during the war with Japan, 42
 reform in, 169-70, 174-5, 183,
 185, 189
 Suzhou, 65, 103, 177, 199
- Tai, Lake, 77
 Taiwan, 202, 204
 Tangshan, 104
 third sector, the, 83, 97, 99, 134, 174
see also services
 three-level ownership based on the
 team, 26, 34, 43-4
see also commune system
 three years of hardship, 25, 33
 Tianjin, 104, 106, 146
 Tibet, 196-7
 tobacco, 97
 transitional period, Party's general
 line for the, 22, 33
 tuition plots, 215, 218
 two-tiered (economic)
 management, *see* production
 contract responsibility system
- Unger, Jonathan, 18
 unit of account, 7
 utopian socialism, 27, 215
- Wang Hongwen, 18
 Wartime Communism, 109, 113
 water control, 8, 53, 60, 72-3, 79,
 101, 145-9
see also irrigation
 Watson, Andrew, 18
 Wenzhou, 103
 wheat, 92
 wool, 112, 194, 200
 work exchange teams, 42, 57
 workpoint system, 6, 9, 18, 31, 33,
 36, 47, 56, 172, 174
 gender disparities in, 44-5
 inefficiencies of, 44-5, 56
- Xinjiang, 28, 70, 149, 196
- yak, 197
 Yanbei District, 103
 Yangtze River delta, 177
see Changjiang delta; Yangzi
 River delta
 Yangzi River delta, 27
see Changjian delta; Yantze River
 delta
- Yao Wenyuan, 18
 Yellow River, *see* Huanghe River
 Yungui Plateau, 28
 Yunnan, 65
- Zhang Chunqiao, 18
 Zhejiang, 103
 Zhou Enlai, 9
 Zhujiang delta, 104
see Pearl River delta
 Zigui, 148
 Zuoyun County, 103