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Contemporary Chinese Rural Reform



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Foreword One to the Chinese Edition (2001)

At a time when Wu Xiang's *Contemporary Chinese Rural Reforms* is about to come out, I would first like to express my congratulations for the publication of the book. This book discusses 20 years of rural reform history in contemporary China. I believe that this period in time is extremely worth studying and that it is an important part of the history of contemporary Chinese reforms. Without an analysis into this part of history, it would be impossible to fully comprehend the progress of China's reforms in the last two decades. Currently, there are some people who hold a very incorrect view of historical research, treating with indifference the importance and necessity of learning lessons from past historical experiences. Some, in fact, purposely wish for people to forget about the past. By doing this, mistakes made in history will be repeated again. Of course, the main purpose of studying history is to look forward into the future, but it is also vital to often look back in order to accomplish the task of marching onwards. Looking behind us is for the purpose of forging ahead. In writing this book of retrospection and discourse on 20 years of rural reform history in our country, Wu Xiang's objective is indeed to continue pushing for China's reform and development.

I did not have enough time to read through this entire manuscript, and Wu Xiang appreciates that I am tasked with research on other issues at this time and he did not request for me to completely finish. Rather, he asked that I mainly look through the first three chapters. Doing so has evoked many memories and associated thoughts regarding those past events.

When I began analyzing economic problems, I also started with the topic of rural reforms in China. After joining the Revolution, I was involved mostly with work in the Communist Youth League for 7 years. When the Party Central Committee put forth the "Decision on Investigation and Research" in the fall of 1941, it required people to carry out this work, and with that, I was "transported" to the Shaanxi-Gansu-Ningxia Border Region Problems Research Center of the No. 4 Northwest Bureau of the CPC Central Committee to conduct research. The research task assigned to me by the No. 4 Bureau was land problems.

My first book was also about rural reform. In the beginning of 1942, I joined a task group at the Northwest Bureau and traveled to the new districts of Suide and Mizhi in the Shaanxi-Gansu-Ningxia Border Region, and the investigation results were presented in a book that I coauthored with Chai Shufan and Peng Ping, titled *A Preliminary Study of Suide-Mizhi Land Problems*. This book was published in Yan'an in 1942 and was republished by the People's Publishing House in 1978 in Beijing. It was basically an informative piece, with some analysis and insight, but it cannot be called a book of scientific theory.

I planned for my first scientific theory work to also be about land problems, an idea that sprang to mind after reading Lenin's *The Development of Capitalism in Russia* and Kautsky's *The Agrarian Question* during my time in Yan'an. For this endeavor, I heavily studied the sixth article "Transformation of Surplus-Profit into Ground Rent" in Marx's *Capital, Volume III*, and collected materials on land problems in old China and liberated areas, as well as the works of scholars who discussed questions about old China's rural areas. I also taught ground rent theory to a few young individuals in the Publicity Department, hoping to groom them to become assistants in writing the book. At the time, I treated this idea with careful consideration and had already completed some preliminary research and a writing plan. After seeing Stalin's *Economic Problems of Socialism in the USSR* in 1952, I believed that researching the topic of socialist economic problems was more important and therefore felt determined to give up the original writing plan and change my topic to studying "The Socialist Part of Political Economics." I persisted in researching this field for over 40 years, continuing into the present. Even so, I have maintained my interest in studying rural reforms.

Lately, I have given some serious thought to China's rural reforms, and I believe they may be divided into four periods.

The first period was the rural reforms from the times of democratic revolution, starting after the establishment of the Communist Party of China, in the 1920s. The goal and general content of the reforms was to realize the concept of "land to the tiller." The objectives of rural reforms from this period were only completed in the 1950s, after the founding of the People's Republic of China, and lasted for 30 years. Due to changes in the entire political trend, we may then divide the rural reforms of this period into the following several stages: (a) the peasant movement under military warlords and the rule of the Nationalist Party, (b) the land revolution that resulted from confiscating land in the Soviet areas, (c) the reduction of rent and interest rates during the War of Resistance Against Japan, and (d) the land reforms during the first few years of the War of Liberation and the founding of the People's Republic of China.

The second period came after completing land reforms and was a socialist transformation of agriculture with the goal of achieving agricultural cooperation. This type of mutual aid relationship among farmers dates back to China's ancient agricultural history. They also existed in Jiangxi, Fujian, and the Shaanxi-Gansu-Ningxia area. While I was doing rural surveying at the Northwest Bureau, we discovered a few villages in Fu County (which has now been renamed Fu¹) and

¹ The first "Fu" is the character 鄯 (fū), a Chinese surname; the second "Fu" is the character 富 (fù), meaning "wealthy."

Ganquan County that preserved the old system of regularized land redistribution prior to and after the Communist Party had arrived in Northern Shaanxi. At that time, I also knew from my reading of foreign texts that regularized land redistribution was a classic method of rural commune operations, but I was hesitant to determine that rural China also contained ancient traces of such communes. I had also never seen anyone write these types of articles in China and was therefore more uncertain about making such a judgment about rural China while holding few materials. The Border Region Issues Research Office once produced a compilation of materials on rural mutual aid and cooperation, and I did not have the courage to write down our discoveries even in this small handbook. The Party wanted to develop this type of mutual cooperation as the starting point of organizing farmers and gradually realizing the collectivization of agriculture. Mao Zedong had written the article “Get Organized!” in 1943. I never studiously analyzed this piece of work. It seems clear today that back then, I should have engaged in wide-scope, in-depth scientific investigations of the old system of China’s original mutual cooperation.

I believe that as remnants of ancient rural communes, the mutual aid between farmers that existed before the founding of the CPC had its roots in a backward agricultural production system and the impoverished lives of farmers. Although there are many connections between that type of mutual aid and the mutual aid and cooperation that formed under the premise of organizing farmers to push socialism forward in China, the two are still fundamentally different. The second type of rural mutual aid and cooperation began as early as the War of Resistance Against Japan period and developed in some former revolutionary base areas. But the new period of rural reforms began after the completion of nationwide land reforms, specifically starting in 1951 and ending in 1956. That period was very short, lasting only 5 years.

The third period consists of the 22 years between 1956 and 1978. It is hard to capture the essence of those times, firstly because it is debatable whether or not we can label those years as rural reform. From the angle of social progress, the CPC did indeed do many things in rural China at the time, but it neither had a correct direction and clear objectives, nor did it make any real achievements, and it was not called “rural reform” then. The changes in the relations between rural production and the superstructure above it produced various demands and various explanations, and they all lived under the slogans of socialism and communism. The words “rural reform” were never used; instead, there were labels such as “Party line,” “great leap forward,” “organization of the people’s communes,” “rural socialist education movement,” and even “the Great Proletarian Cultural Revolution.” Major discussions in that era surrounded the topics of the people’s communes being “large in size and collective in nature,” especially when compared to previous rural cooperatives; the “transition from socialism to communism”; and getting rid of “bourgeois rights.” Therefore, on a textual level, we can only put this period into the scope of “rural reform.” But what were the actual “reforms” in this 22-year period? What were its actual goals? What were the actual campaigns and activities? The goals listed on the surface may not coincide with the actual direction of pursuit, so how can we talk about the substance of that kind of “reform” in a way that

matches its reality? These are all problems waiting to be solved. And what can we say about the results of that period's "rural reform"? History has revealed that agricultural production stagnated, that rural political life was repressed and stifled while undergoing more frequent chaos, and that the lives of farmers generally experienced poverty and hardship. I do not think that the term "leftism" is enough to capture the guiding ideology at the time, but I have yet to find the answer for how to clearly explain those times.

This period of history was very long. If we can agree that the former period between the founding of the CPC and the completion of land reforms was 30 years, then the period following it was also a long 22 years. In the previous 30 years, rural China was transformed, and in the 22 years afterward, there were also many changes. However, the several divided stages of rural reform in the 30 years were consequences of changes in the military and political relations of the CPC and KMT with Japanese Imperialism, while developments within the second period of 22 years were stirred up by internal conflict within the CPC and changes of Mao Zedong's thoughts.

To help describe the changes during the third period, I would like to use a certain language for the time being, specifically to use "forward" for all developments towards the direction of larger in size and more public in nature and "backward" for developments in the other direction (using these terms is simply for convenience and does not imply that "forward" means progress or that "backward" means regression). Using these concepts, we can say that the changes within those 22 years consisted of, first, small steps "forward" in 1956 and 1957, followed by a big step "forward" in 1958; after the peak of development "forward" in 1959, going "backward" came under consideration, but after the Lushan Meeting, which set off an internal anti-Left Opportunism struggle, developments did not go "backward" and in fact continued along the tracks of 1958, maintaining the trend of going "forward." This further burdened the grain crisis that was already rising in the countryside. By 1960, under the worsening conditions of the crisis, 1961 brought forth a necessary reflection about stepping "backward"; during the first half of 1962, people who were aware of the reality in the country attempted to come forth with solutions, but they were rejected by Mao Zedong. In the summer of 1962, at the Beidaihe Meeting and the eighth session of the 10th Plenary Session that following autumn, Mao Zedong proposed "class struggle as the key link" and shortly afterwards began the socialism education campaign in the countryside, in which he also proposed to punish the "capitalist roaders." In 1961, although production relations were not required to continue going "forward," the superstructure moved "forward" to a large degree. The result of these developments ended with the 10-year-long "Great Proletarian Cultural Revolution." In sum, production relations reached their peak in 1958, while political aspects reached a high point during the "Cultural Revolution." It was only until the "Gang of Four" fell to pieces did things begin to turn around.

The fourth period started from the 1978 Central Working Conference and the Third Plenary Session of the 11th CPC Central Committee. The Central Working Conference was fully prepared for convening the Third Plenum that year. During

the Third Plenum, two agriculture-related documents were issued, which changed the direction of the third period and corrected the errors made in rural work, allowing the situation in the countryside to improve. However, the emphasis behind rejecting the “two whatevers” policy at the Third Plenum was vindication of the Tiananmen Incident and miscarriages in social justice issues, while many people were apprehensive about implementing new experiments such as the fixing of farm output quotas for each household. Therefore, the two agriculture-related documents issued at the Third Plenum of the 11th Central Committee still included the following words: “No fixing of farm output quotas for each household, no dividing land and laboring individually.” The Third Plenum did establish the ideological line of emancipating the mind and seeking truth from the facts; it also did eliminate the biggest obstacle in rural reform. The agriculture-related documents contained many relatively good regulations, but they were not just thorough enough.

During this period, Anhui took the first step forward in 1977 under Wan Li’s leadership. In 1980, after Wan Li became member in charge of rural affairs at the Central Committee Secretariat, he pushed the household responsibility system towards the rest of the country again. As Cadre Wan Li’s assistant in this particular reform, Cadre Wu Xiang completed a large amount of research work. This book can be said to be the result of a long-term research and investigation, with a lot of effort and careful thinking put into it. This is not an ordinary piece of scholarly work, but rather, a historical memoir of a reformer’s personal experiences. It offers reliable historical facts, reflects the twists and turns and complicated paradoxes of that period of rural reform, and analyzes the lessons that were learned as well as future problems to come. Needless to say, this is a worthwhile book for the reader, and afterwards, the reader will have had much to gain.

The achievements made in this fourth period of reform were extremely important. They raised the enthusiasm of the rural population and quickly increased agricultural productivity, which, in 1979, 1980, and 1981, was equivalent to the total productivity of the 24 years between 1952 and 1976. Agricultural development also sped up, and rural areas as a whole emerged with a blessed new phenomenon. It was precisely because the actual practices produced unquestionable and such obvious results that those who had doubted or opposed the reform were no longer able to maintain their positions. Without this major development in the agricultural economy, our country may not have been able to realize fixed outputs for each household and the debate over whether to implement it or not may have gone on endlessly. Putting the concept to practice proved that there was scientific truth behind the reform path that rural China had chosen. Its effects on erecting the success of China’s overall reforms also cannot be underestimated. All things are most difficult in the beginning. The first three chapters of Wu Xiang’s book discuss the entire process of how this “difficult beginning” was conquered and how its power was slowly exerted.

After experiencing four periods of rural reform, might China have a fifth? I have been considering this question for a long time. This thought has existed now for 20 years, from 1978 when Anhui began implementing fixed outputs per household

until now. In these last 20 years, China's entire socioeconomic situation has changed dramatically, and one of the most important changes is the creation of a socialist market economic system. Rural China in the present day is also very different from that of the early 1980s, and some places may have changed down to its roots. New agriculture, new farmers, and a new countryside have appeared in those areas. I believe that places where the rural situation has experienced major changes will have further demands for setting new goals and completing new tasks. Rural development in China is very unbalanced, with most places remaining in the fourth period of reform, unready at the moment to propose objectives for the new era. On the other hand, rural reform in economically developed areas perhaps had to begin to study the possibility of entering a new fifth period.

I joined the Revolution not long after the War of Resistance Against Japan and only began to be engaged in China's rural reform from 1941, the fourth year into the war, after I was stationed at the revolutionary base of Shaanxi-Gansu-Ningxia. After the victory of the war, I participated in several phases of rural land reform work in North Beiping or Beijing, Jinsui,² West Hebei, middle Hebei, and Bohai in Shandong. Wu Xiang is close to my age, also participated in rural reform work both during the War of Resistance Against Japan and after its victory, and presumably has a lot of insights on the first period of reform. We did not know each other at the time, nor did we talk about the rural reform problems of those times at a later date.

During the second period of China's rural reform, I did not join the grassroots socialism transformation campaign, and I only gained indirectly the knowledge of that time period from other sources. But I do have some opinions on the China's rural reforms from that period, and they consist of some fundamental viewpoints. On those issues, Mao Zedong and Liu Shaoqi had many sharp disagreements, and though I did not lean towards one or the other at the time, I later was more inclined towards Liu Shaoqi's perspective.

I came into contact with many complex situations during the 22 years in the third period of China's rural reform, so my thoughts on the issues are also quite disarrayed.

I was not familiar with the countryside during the "Great Leap Forward," but a few things deserve some reflective contemplation.

The first thing happened in the summer of 1958 when I visited the rice fields of Tianjin station and Baimao, Changshu, Jiangsu Province, that supposedly could yield thousands of *jin*³ of pounds of rice per *mu*.⁴ I arrived in Tianjin in the evening, and upon arriving at the "high-yield field," the scene, an area of only one *mu* or so, was lit up like daylight. Dozens of machines were set up in the rice field and blew wind in between the lines of crop stems. I could see that it was impossible to

² A vast area covers northwest Shanxi Province (Jin) and southeast Suiyuan (Sui). Suiyuan was a province of the Republic of China but was abolished in 1954 after the founding of PRC with its territory incorporated into today's Hebei Province and Inner Mongolian Autonomous Region.

³ Traditional unit of weight, equivalent to 0.5 kg.

⁴ Traditional unit of area, equivalent to 0.0667 ha.

promote this type of high-yield field and it had no real economic significance. But I did not dare speculate that it was a fake scene. Therefore, I carried a sense of half-belief and half-doubt with me. As a result of being caged by “believing the Party, believing the people,” belief had outweighed doubt.

The second incident also occurred in the summer of 1958 when I accompanied Nie Rongzhen to Mao Zedong’s room by the swimming pool inside Zhongnanhai to report on the inventions of farmers in various provinces and municipalities across the nation. That day, I gave Mao Zedong an account of some contents from a report by the Shandong Provincial Party Committee uncritically; looking back, it now seems absurd. The report to the central government introduced a farmer in Shandong who ran an experiment by picking an apple that was growing on the tree, processing the stem part with a simple treatment, and then sticking it in a pumpkin that was not yet ripe. This pumpkin grew very large, and subsequently, the apple also grew very large. I had described such an obviously fictitious story to the leader at the highest level. To this day, I still feel embarrassed about what I did.

The third incident was when I joined the mobilization efforts for a competition of high production hosted by the China Association for Science and Technology and participated by agricultural scientific workers and farmers who achieved record-breaking output. In that competition, the per *mu* yield of wheat was raised to 30,000 *jin*. I did not think this goal was a sober one and wanted to adjust it, believing that a steady 10,000 *jin* of wheat per *mu* was enough and that 30,000 was far too high. As the saying goes, this was certainly the pot calling the kettle black.

Those times were the extent of my first direct contact with rural China during the Great Leap Forward.

The second time that I went in contact with rural work was in January 1961. At that point, the rural crisis had developed to a degree where it could no longer move forward. Mao Zedong did not give any instructions, only formed three teams to investigate the rural areas of Zhejiang, Guangdong, and Hunan in depth. It was only until later that everyone understood it was an effort to change directions. I was part of a big group in the Hunan team that went to the Anhua County to do field investigations for 3 months. That time, I really gained a true and direct understanding of many situations in the countryside and reported these realities to the central government, especially demands from the masses to dissolve rural public canteens. The materials were printed and issued at meetings in Guangzhou and Beijing and contributed to the central government’s decision to abolish rural public canteens. This was another case.

The third time was from 1964 to 1965 when I participated in rural social education, which was under very unique circumstances. It was then that Liu Shaoqi wanted to establish a “mobile team” that he could use at any time and I was appointed deputy team leader. Therefore, my tasks in the social education campaign were unrelated to class struggle in the countryside, but I was still involved in this issue and could be said to have been sufficiently “leftist.”

The fourth time was between 1969 and 1972 during the “Cultural Revolution” when I worked at the “May 7th Cadre School” in Ningxia for nearly 3 years. I came to understand the state of certain situations in that time, but since I was not allowed

to have any type of working relationship with the farmers, I did not report any findings to the top.

I formed a connection with the countryside with different identities and methods four times and discovered the truth behind many situations. However, I still have never actually worked in the countryside or rather never held a post in leading rural work, and therefore, I do not have a solid understanding of rural affairs. That is why I did not fully understand and was slow to realize much of rural China's problems. I was also unfamiliar with the issues that Wu Xiang encountered during the second and third periods of rural reform, but I do know that he was in direct contact with what was happening in those times, remains highly interested in it, and has much more rooted knowledge of those periods than I do. Though this book is concerned with the fourth period of rural reform, it touches on several related subjects from previous periods. Unfortunately, I still have not had a chance to discuss all this in depth with him, even though I would like to solicit his guidance for many questions in my own research. Lately, I have been writing "historical notes" on the progression from "the theory of new democratic society to the primary stage of socialism," which involves the historical realities and accompanying perspectives from the second and third periods of China's rural reform. I would like to hear his opinions. I believe that the results of such a conversation would have enormous benefits.

Wu Xiang and I met during the Third Plenum of the 11th Central Committee and quickly became good friends afterwards. He had always been engaged in China's rural reform research and wrote several publications on the topic, making him one of China's most seasoned experts on rural reform. For myself, I want to research everything about rural reform, whether from a historical angle or from reality. Compared to Wu Xiang, I inevitably have more interest in the physical problems at hand. But in the 20 years since the Third Plenum, I was constantly busy with other work and my opportunities to visit the countryside were few, in addition to the fact that I am growing older year after year, so chances to participate in rural activities are limited. Although Wu Xiang is not much younger than me, his health is in better conditions, and he has already laid a foundation as an expert in rural affairs from spending a large amount of time in the countryside. That is why much of my knowledge of rural China has been gained through Wu Xiang. From him, not only can I catch a glimpse of the rural phenomena resulting from physical observations and studies, but I am also able to hear his opinions on many related issues. He and I were able to visit some places together as well, such as his hometown south Anhui Province, Wenzhou in Zhejiang Province, Jinan in Shandong Province, Guangzhou in the south, and Yunnan and Guizhou provinces in the southwest. These were all chances to learn from him. He is not only my "one subject teacher" and "one truth teacher" (expanded from the phrase "one word teacher"), but also my "many subjects teacher" and "many truths teacher," someone whose lessons in situations and philosophies have granted me great benefits.

Another thing, I often go to visit Cadre Wan Li. Neither of our hearing is very good anymore, which means that we use Wu Xiang's ears and mouths to communicate, since they are quite familiar with each other.

Today, I am not only writing the preface for Wu Xiang's book but also writing of our friendship. Since the book and its author cannot be separated anyway, I think that doing this is appropriate.

The name of this book is very good. There were serious errors in the guiding principles that followed the founding of the nation, causing China's economic stagnation, political chaos, a destitute culture, and a distressed life for people. For 22 long years, our nation was trapped in a severe crisis. Over the past 20 years, China emerged steadily as an important nation in Asia and around the world. The historical turning point came because the Third Plenary Session of the 11th Central Committee in 1978 and the Central Working Conference that prepared for the Third Plenum established "practice is the sole criterion of truth" as the ideological and political lines, because Deng Xiaoping's call to "emancipate the mind, seek truth from facts, and look ahead in unity" was carried out, and because new situations were analyzed, new problems solved, reforms promoted, and opening up expanded. The reform and opening indeed began at the root of achievements made in rural reform. Twenty years ago, China was still an agrarian society to a large degree, but developments in agriculture and town-village enterprises brought about by rural reforms had a major impact on the development of the entire country and pushed forth reform and innovation in China's economic system. From the angle of market economics, rural reform greatly expanded China's market demands at the time and encouraged the formation of market economy in that way. Twenty years later, despite the undeniable transformation of the countryside, the population in the countryside still accounts for a big proportion. The countryside has major potential in market demands, so in order to develop China's economy, farmers' purchasing power must greatly increase. Therefore, we need to recognize the importance of rural reform as we once did. This is an inspiration that we can draw from Wu Xiang's book.

I hope that Wu Xiang will write yet another new book on rural reform based on new research. I think that the topic of rural reform is an endless pursuit, worthy of one book after another. In April 1986, Wu Xiang wrote a book called *On China's Rural Reform*, for which I wrote a preface. Since then, 12 years has passed, and I have celebrated my 83rd birthday. Wu Xiang is also close to 80. I hope that after a few years, I will still have the opportunity to write a few sentences for yet another new book of his.

Chinese Academy of Social Sciences
November 8, 1998

Yu Guangyuan

Foreword Two to the Chinese Edition (2001)

Wu Xiang, the author of the book, has had work experience in the world of journalism and is a skilled writer. While posted in Shanxi and Anhui, he witnessed successive changes of different types of rural economic systems in China, from rural cooperative to the people's communes to the household responsibility system. He personally experienced these changes, then settled into rural population work at the central level, and continued to collect data for research and investigation, ultimately producing a systematic explanation for the cause and results of China's rural reform. The vicissitudes of this institution that impacted hundreds of millions of lives can be considered a significant world event. For one who lived through this event, to seize an opportune moment to record it and add to the reserves of human treasures and our houses of knowledge is a worthy cause to advocate.

This book also provides raw data about rural reforms. One example is: the realization of the fixed output quotas for each household (called the household responsibility contract system today), and advancing it from the demand of the masses to a legal policy under the Party and government cost a particularly high price and also took a long time. Why? For the younger generation, this subject is particularly difficult to comprehend.

In a backward agricultural country, for the working class, to gain political power and determine how to develop towards socialism requires a relatively long period of transition. This stage is to prepare the conditions for socialism, but between the development of productivity and the eradication of class and ownership reform, which should be the priority task? Should there be a new stage of democratic construction allowing for the simultaneous development of a variety of economies? Should we encourage farmers' enthusiasm to develop individual economy? What is the most suitable speed for advancing rural cooperatives? There were divergences in all these aspects. How to treat fixed output quotas per household was yet another issue that invited endless debate. The result was an understanding that at least from the 1950s and into the late 1970s, fixed output quotas per household were prohibited. This was once the consensus within the Party, which consequently became a high-level decision that could not be undone.

In studying its origins, there are perhaps a few points to highlight.

First, from the county level and above, leaders who advocated the fixed output quota system were far and few in-between, while the main principles of the Party were that the minority followed the majority, lower levels conceded to higher levels, and the entire Party obeyed the Central Party Committee. For Party members and cadres, it was necessary to carry out these principles.

Second, Mao Zedong's leadership position and his ideologies as the theoretical foundation of the Party came about through long-term practice and examination during China's revolution. They held an indisputable authority and legality, and Mao's attitude towards the fixed output quota per household system was a firm opposition.

Third, and a very important point, was that Mao Zedong's disapproval of this notion was not purely based on his own judgments, but was grounded in a classical understanding of Marxist-Leninism. Fixed output per household is a small-scale peasant economy which preserves individual farming, and the small-scale peasant economy would then be the breeding grounds for capitalism. Private ownership of this type of economy would inevitably perish, and those pieces of land in the countryside would be occupied by capitalism if socialism did not take control. At that time, this position was unquestionable.

Fourth, the few people in favor of the fixed quota system were confronted with the pressure of suffering public criticism in the form of the mass movement, so they usually had no intent to argue because no individual would choose to be against Chairman Mao and the Central Committee of the CPC. Therefore, other than a small handful of people, most were forced to conduct a review of their mistakes, and this further strengthened the mainstream position that "fixing farm output quotas for each household is advocating taking the capitalist road."

Fifth, when mainstream knowledge rejects non-mainstream knowledge to an extreme and "leftist" policies that exceeded the current stage of development were selected, the Great Leap Forward and people's communes immersed China's countryside into dire situation where food and clothing were hard to secure. It was in those times that farmers spontaneously engaged in the practice of fixed output per household. Because this relieved them of starvation, people from all four corners of the country began to mimic it, despite the repeated prohibitions. In the early 1980s when the country opened its doors, information from outside lands was confirmed, Western capitalist countries began agricultural modernization, and for the majority, the main unit of the agricultural economy was still the family farm. There was mobile agricultural machinery for household use, and new development of the tertiary industry could provide farming services. The family's farmland increased from tens of hectares to thousands of hectares, even without hired labor. "Small-scale peasant economy" disappeared, while the family farm was still flourishing. At the same time, a number of cooperative service industries grew on top of the foundation of the family farm, lengthening the agricultural industry chain, increasing added value, saving transaction costs, and expanding market shares. This information from foreign countries was obtained only in China's post-war peace period and became an important supplementation to our original knowledge of history and economics. The history of logic reminds us that

family farms can indeed modernize and agricultural laborers can take their assets into cooperatives, perhaps as a feasible step to attract farmers towards the transition to socialism. This also helped provide evidence for supporting the household responsibility system.

That era of history has taught us the lesson of how imperative it is to protect the views of the minority. In the work of controversial issues, individual understanding is restricted by certain historical conditions and there is always a certain limitation, so relying on the knowledge of others to supplement and perfect one's views is a must. As high-level leaders, there are only benefits to be gained from listening to the voices on the fringe with a fair attitude.

We claim stability for the household responsibility system today, but it is certainly not forever. How the situation will change and when it will change cannot be said right now. People who hold reservations about, or are even opposed to, the current policy today had to be allowed to express their views and carry out free discussions. I remember that at the beginning of the reform, I went to the group of leading comrades in the Central Committee at the time and suggested two principles: One was to respect the people's choices, for example, in some places, alternatives to fixed output quotas for each household had to be allowed experimentation; and the other was that if cadres were opposed to the new system, they may retain their opinions but could never again enforce criticism and denounce, so that they would ultimately overcome the old methods of writing them off as worthless. The leaders of the Central Committee completely agreed with these views.

Looking back, this created positive significance. In the future, new developments brought on by the science and technology revolution will bring new changes throughout the production structure. To maintain the harmonious coexistence of man and the natural environment, the agriculture sector must take advantage of all natural science achievements, explore new paths towards sustainable development, and optimize the way resources are utilized. With this trend, changes that occur in the production organization will also be natural. When considering major problems of the future, we must leave room in the present for unexpected changes in possibilities. Being content with the stationary nature of one's thinking will result in falling behind.

As the starting point of rural reform, the household contract management played an unexpected role in promoting the acceleration of China's modernization process. As I have already mentioned, this is significant on the scale of world events, and one book after another had to be written to carry out research and summarize this story. This book of Comrade Wu has its unique features, whether it is from the angle of observation or the information collected within, so I think it is worthy of recommendation and I also believe that it piques the interest of the reader.

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Du Runsheng

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Introduction: Major Historical Changes and Severe Challenges

Since the 1980s, the world event that has garnered the most attention from people has been the rise of China. The “sleeping lion of the East” as once claimed by Napoleon has awakened in high spirits and erected itself in the East, overlooking the world. The world has also taken notice of her rise and remains half surprised, half skeptical.

A history of 5000 years long has been a source of pride in the minds of Chinese people. Although time has been saturated with countless memories of slavery, oppression, suffering, famine, and death, an ancient civilization that has experienced many wars and disasters but still continues on today is a rare phenomenon in the world. A unique geographic environment has created a China isolated from the West; the peasant family economic structure as a result of the combination of a unique agriculture and cottage industry, as well as a Confucian culture different from the Western tradition, and a feudal patriarchal system have all caused long-term economic stagnation in China’s feudal society and both unrest and astonishing stability in its political cycle.

China’s long period of feudalism was at times strong and solid and at other times weak and broken, but it was an autocratic feudal empire in its essence. Whether it was the desert camels on the Silk Road, religious exchanges since the Han and Tang Dynasties, or Zheng He’s huge fleet traveling out to sea, there always existed economic and cultural exchanges. But nothing could touch the overweening self-centered mentality of China’s rulers, and in China’s extremely stable social structure, self-sustaining legal institution, and traditional culture, no substantial changes occurred whatsoever. When the Western world entered the industrial civilization period, a China that had been the leading nation in culture and technology had been left behind and began to sink.

In 1840, the cannons of the Opium War blasted open China’s locked doors, marking the start of China’s contemporary history. Imperial powers came one after another, competing to carve up territory, paying a huge indemnity in blackmail, and causing China to drop into a miserable valley of semi-colonialism and semi-feudalism. One volume of China’s modern history is the history of the humiliation of the Chinese nation, a history of the blood and tears of the Chinese people.

However, the Chinese people never yielded and never ceased to fight against the aggression and oppression of imperialism and feudalism. From the Opium War onwards, there followed experiences from the Taiping Rebellion, the Sino-French War, the Sino-Japanese War of 1894–1895, the Reform of One Hundred Days,⁵ the Boxer Rebellion in 1900, and the Xinhai (1911) Revolution⁶ to the May 4th Movement in 1919, the Northern Expedition (1926–1928), the Second Chinese Revolutionary War (1927–1937),⁷ the War of Resistance Against Japan (1937–1945), and the War of Liberation (1945–1950), all of which witness countless people of compassion, honest patriots, and intellectual elites searching for national independence, people’s liberation, national prosperity, and common prosperity through continuous tenacious struggles, and some even having sacrificed their lives. This chapter of history contained many songs of praises and tears.

In 1911, the Xinhai Revolution led by Sun Yat-sen overthrew the rule of several thousand years of feudal autocratic monarchy in China. Sun Yat-sen lived in an era of social changes, when the Chinese nation was bridled with crises and difficulties, and the rapid development of the world economy compared to China’s stagnant and backward agricultural society formed a glaring contrast. Through observing new trends of development in Western economies and China’s specific national conditions, Sun Yat-sen adopted advanced Western thought and was the first to call out the slogan “rejuvenate China,” creating a modern democratic national revolution in its truest sense and opening the gates for Chinese progress and removing any hope for stability in the traditional rule and order. However, the tragic situation of the Xinhai Revolution failed to change the deep-rooted nature of Chinese society and the intense suffering of the people. As a great thinker, statesman, and revolutionary, Sun Yat-sen was constantly attempting to sum up his experiences and lessons and make persistent efforts towards his goals. He was painfully aware that the success or failure of the revolution depended heavily on “calling upon the masses,” mobilizing and relying on them. In his later years, he resolutely reorganized the Republican Party (KMT) and implemented the three policies of in allying with Russia, allying with the Communist Party, and helping the farms, which gave a new interpretation to the Three Principles of the People⁸ and launched the Northern Expedition. Until the end of his life, he continued to repeat: “The revolution has not yet succeeded; the comrades still have to work hard.”

The work of the democratic revolution that Sun Yat-sen left behind was picked up and completed by the Communist Party of China. The Party, established in 1921, overcame a rightist movement in the early days of its founding and three “leftist” mistakes. By summing up the frustrations and failures, the combination of the scientific Marxist doctrine and China’s practical experiences in the revolution formed a correct guiding ideology that the Party could own, which was Mao

⁵ It only lasted 103 days from June 11 to Sept. 21, 1898.

⁶ Also known as the Republican Revolution.

⁷ Also known as the Agrarian Revolution.

⁸ Nationalism, democracy, and the people’s livelihood.

Zedong's thought. A unique revolutionary road was then paved, encircling cities from countryside and finally seizing the cities. Under extremely difficult conditions, the Red Army was led to conquer a march 25,000 *li*⁹ long, hauling over snow-capped mountains and vast grasslands, producing revolutionary ranks that outlast beatings and show a national spirit unyielding and of indomitable perseverance. Surviving the Northern Expedition, the Second Chinese Revolutionary War, the War of Resistance, and the War of Liberation, with 28 years of extremely hard and bitter battles and sacrifices, the leadership of the Communist Party of China overthrew the three massive mountains of imperialism, feudalism, and bureaucratic capitalism, thus establishing the People's Republic of China and achieving a hitherto unknown Chinese nation of solidarity and unity. On October 1, 1949, in Tiananmen Square in Beijing, Mao Zedong solemnly declared to the world: "The Chinese people have stood up! From now on, China will stand facing the world and truly exercise its sovereignty in international exchanges."

The beginnings of a new socialist China were covered with cuts and bruises, left poor and blank. However, the Western powers' attempts to curb and blockade did not stop her pace; "Big brother Soviet Union" tore up the contract, withdrew the expert, and that also did not change her determination of industrialization and modernization, while leaders grew to earn their pride from the collection of victories, which was also not conducive to the development of playing a Chinese strategic advantage. The subjective daydream against the tradition of seeking truth from facts and a self-closed system of planned economy threw China into dire straits again. Continuous political campaigns developed into 10 years of chaos known as the "Cultural Revolution," when right was confounded with wrong, the team members confused with the enemies, production stagnated, and all business withering. The national economy was on the brink of collapse, and the ideal of common prosperity had become the reality of widespread poverty. "Where is China going?" again became the focus of concern for the nation's people.

As the problems and difficulties piled up in mountains of chaos, and amidst the confusion, Deng Xiaoping who has "thrice fallen, thrice rehabilitated" was again taking a leadership post under the people's strong request. He said what no one had dared to say before him: "Poverty is not socialism." He addressed the real anxiety that was buried deep in every person's heart: "...they are not clear about what capitalism is and what socialism is."¹⁰ He waved high the flag of Mao Zedong's thought, but also firmly criticized serious mistakes made in Mao's later years; he advocated that experimental practice was the sole criterion for testing the truth, abolished the slogan "class struggle is the key link," and began to comprehensively bring order out of chaos by drafting a new plan for carrying out reform. He said that whether or not Chinese society would be stable, whether or not the Chinese economy could develop, first depended on the countryside's development and improvement in the lives of rural people. "[Countryside] is where 80 percent of

⁹ Traditional Chinese unit of length equivalent to 0.5 km.

¹⁰ *Selected Works of Deng Xiaoping, Volume III*, People's Publishing House, 1993, p. 227.

China's population lives. An unstable situation in the countryside would lead to an unstable political situation throughout the country. If the peasants did not shake off poverty, it would mean that China remained poor."¹¹ He led the exploration of the theory of building socialism with Chinese characteristics and found a correct breakthrough in reform and opening up of China, the implementation of the household responsibility contract system in rural areas, thus opening a long-term asphyxiated stagnation, creating full vigor and vitality in the new period.

In September 1997, Jiang Zemin pointed out at the 15th National Congress that: "The past century has witnessed the Chinese people undergo three tremendous historic changes on their road to advancement and the births of Sun Yat-sen, Mao Zedong, and Deng Xiaoping, three great men who stood at the forefront of the times."

Over 20 years has passed since the reform, and opening up was officially initiated at the end of 1978 during the Third Plenary Session of the 11th CPC Central Committee. Just in terms of the development speed, range, and influence, the last 20 years of progressive reform has been unprecedented in China's long history and even more so since the establishment of New China. In all aspects of the economy and society, achievements made by the Chinese attracted people's attention, and some ingrained ideas and modes of social organization are currently changing. The contrast of the before and after is so strong and so distinctive that nobody can ignore China's existence, China's development, and China's impact. Former US Secretary of State Dr. Henry Alfred Kissinger once said, "China will increasingly become the key to stability in Asia and to world peace."¹² With the passing of time, this point will be admitted by more and more people.

In a country with such vast expanse, such a dense population, and imbalanced economic development, reforms will inevitably encounter difficulties rarely seen in other countries, and China will have to pay greater efforts and sacrifices than other countries. Reform comes from walking through rainstorms, and practically every step forward is different in nature and different in degree from the previous. It is impossible not to experience twists and turns, not to make errors, not to have inconsistencies, or not to create negative side effects. And furthermore, the problems that arise from reform tend to be even greater and more complex than those that have already been resolved, such as the successive problems like "difficult to buy" and "difficult to sell," rising prices, inflation, farming land reduction, the loss in the state-owned enterprises, unfair distribution, a widening gap between the rich and poor, environmental pollution, ecological destruction, trading power for money, bureaucratic corruption, the deterioration of public security, and so on. Discussions abounded in numerous directions and all kinds of opinions were held.

Just as Charles Dickens wrote in *A Tale of Two Cities* in the eighteenth century, "It was the best of times, it was the worst of times, it was the age of wisdom, it was

¹¹ *Selected Works of Deng Xiaoping, Volume III*, People's Publishing House, 1993, p. 237.

¹² March 1, 1996. *Washington Post*.

the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of Light, it was the season of Darkness, it was the spring of hope, it was the winter of despair, . . . we were all going direct to Heaven, we were all going direct the other way. . . .” How certain problems related to the reform and how they were to be solved produced many varying views and attitudes. Precisely because the process of reform is one of continuous conflicts and solutions, and precisely because some deeper-level conflicts require sustained efforts over a long stretch of time, what people often feel mostly are confusion and contradictions born out of difficulties, and it becomes less easy to see the substantial changes brought by reform. Perhaps this is the message behind the old saying “The true face of Lushan is lost to my sight, for it is right in this mountain that I reside.”

Speaking from the deepest feelings of the majority of Chinese people, the biggest change since the reform and opening up was abandoning the problem of shortages and fear of no food and clothing. The products became rich in variety and the market prospered. The feature of the planned economy was serious long-term shortage in nearly everything, and ration tickets were required for purchasing goods. There were stamps for grains, cloth, oil, and even soap and matches. It was a ration tickets economy, an economy of standing in the waiting line. Chinese people all know that since ancient times, the security of food and shelter has been a persistent problem at all levels of society. On the eve of reform in 1978, the whole country had a rural population of 250 million in half starvation mode. After implementing the household responsibility system, there were major successive surges in the amount of grains. In 1984, total grain output reached over 400 million tons, averaging at over 400 kg per person, which was closer to the international average level. This meant that the problems of food and clothing shortage received a preliminary dose of relief within the country’s borders. Even in spite of unsteady grain production in the future, the overall increase could accommodate the needs of population growth and industrial development, and the number of people who lacked basic security began to dwindle—the situation was greatly improved. Throughout history, farmers in North China lived “half a year of bran and vegetables instead of grains,” while many places in the south commonly had sweet potato as a staple. Rural reform swiftly allowed China to enter a stage where basic securities could be guaranteed, and the composition and quality of foodstuffs were also noticeably improved. In terms of per capita consumption, from 1978 to 1984, grains increased from 145.46 to 249.65 kg; vegetable oil, from 1.6 to 4.66 kg; pork, from 7.67 to 10.23 kg; beef and mutton, from 0.75 to 1.23 kg; domestic poultry, from 0.44 to 1.35 kg; fresh eggs, from 1.97 to 3.88 kg; and aquatic products, from 3.5 to 4.32 kg.¹³ Such big increases in the 6 years far exceeded those in the twenty odd years of social cooperatives and people’s communes. According to the World Bank’s data of 1983, the intake of calories per person per day of urban and rural residents in China reached 2630 cal compared to 2311 cal in 1978, with protein and fat increased by 12 and 17 g. By the start of the 1990s, the nutritional level of Chinese people was higher than that of typical low-income

¹³ *China Statistical Yearbook 1994*. Chinese Statistical Press, 1995, p. 283.

countries. A farmer in Henan said, "In every dynasty through history, when were farmers able to eat three meals of white noodles in a day? We are able to eat that now." If not for generations of poverty and people who have struggled in hunger, it is difficult to appreciate the joy and pride within this statement. Deng Xiaoping said before that no matter what happens in the world, as long as the people can fill up their stomachs, then all other problems will be easy to solve. China's reform selected an apt breakthrough point. The biggest change was the first solution to the majority of people's most pressing problems, so as to mobilize the enthusiasm of hundreds of millions and form a solid foundation for reform.

For foreign countries observing China, people's most prominent impression is often the sustained high-speed economic growth. Formerly being bullied, being pinned as the "Sick Man of East Asia," China in less than 20 years became a giant that could not be ignored. The national economy was like a rolling snowball, making huge spurts of progress and increasing the overall strength of the country. From 1978 to 1997, the population increased by 0.28 times, while the gross national product, calculated at comparable prices, increased by 2.48 times, reaching 7.5 trillion yuan, pushing China's position in global ranks to third place from the previous after the 100th. From 1979 to 1994, the total volume of foreign trade shot up from 20 billion yuan to 237 billion yuan, which was a tenfold increase. Investment in fixed assets, industrial and agricultural production, the income of both urban and rural populations, and market consumption demands also grew with exceptional vigor. The total production amount of various important products jumped to the top of international ranks, and they included grains, cotton, aquatic products, meat products, coal, steel, and so on. Color televisions, refrigerators, washing machines, and program-controlled telephones started to enter thousands of households; residential constructions maintained their grand scale, and from the viewpoint of foreigners in China, construction sites were everywhere. Prior to the reform, farmers lived in mostly low huts that were dark and humid, and people and animals crowded together. The reform brought about a nationwide wave of building houses, and every year 5 % of farmers constructed new homes. Construction areas reached over 400 million square meters, and in 1990, average per person living area in the country was 16 square meters, twice that of 1978. The quality of homes continuously improved as adobe houses were replaced by brick houses, then by apartment buildings, and later by villa style houses. Even today, different regions are still undergoing different levels of advancement in this area. China's population of 1.2 billion, a total figure that continues to rise, is shocking for anyone; based on a per capita comparison, it is still equivalent to the level of backward developing nations. In 1997, the GDP per capita in China was only over 700 US dollars, and even in 1999, it was only over 800 US dollars. Despite total amount of products ranking first in the world, the per capita figures were very low, incomparable with many developed countries, and also lower than those of some developing countries. We cannot forget that even though China's development was very rapid for nearly 20 years, its foundation is weak, and it is a large country, weak and poor.

In reality, since China's reform and opening up, institutional and structural changes have had the most substantial and far-reaching significance, particularly

the shift from a planned economy system to a market economy system and from a closed-off, one-dimensional agricultural society to a pluralistic modern society. Rural reform broke through the dual structure of urban-rural separation; the rise of rural town-village enterprises greatly transformed the national industrial structure. The 14th National Congress of the CPC established the main objectives of the socialist market economy, promoted institutional reforms in fiscal services, taxation, finance, foreign trade, foreign exchange, economic planning, investment, pricing, currency circulation, etc., and strengthened the foundational role of the market in resource allocation. A rough framework for the macroeconomic regulation system was materializing. The 15th National Congress emphasized that the simultaneous development of the public ownership system as the core pillar, alongside a diversified ownership economy, would be the basic economic system underpinning China's socialist system in its primary stages. Marketization of the national economy and an increase in the degree of socialization helped the gradual formation of a situation where a comprehensive, multidimensional, and wide breadth of sectors opened up, thereby deepening the ties between China's domestic market economy and the world economy, accelerating the pace of globalization of the domestic market, and ultimately helping the China of Asia become the China of the world.

The Asian financial crisis that shook up the global economy clearly demonstrated that socialist China is a responsible great power, a great power that believes in carrying out and maintaining strategic peaceful friendships. China has already cast off its former political stance and the ideological thinking that divided itself against its enemies in the Cold War period. In its place instead is the pursuit of economic development, as the country strives for a peaceful global environment, fully improving economic conditions and people's livelihood and ensuring basic securities such as food and clothing, as well as wealth for its citizens. It may be safely affirmed that China's reform and opening up will compete to become increasingly more intense and it will accelerate the pace of progress in a wider domestic and foreign environment.

Since ancient times, China has been an agricultural society and farmers have been the heart of the Chinese people. Through the 2000 years of Chinese feudal dynasties, the society, be in its fall or rise, peace or chaos, was all closely related with the issue of farmers. In modern times, with the invasion of imperialist powers, China was bit by bit reduced to a semi-colonial and semi-feudal society. Although its subsistence farming economy bore the brunt of the impact, it continued to be the foundation of the national economy. Chinese farmers, as 80 % of the total population, are simultaneously a heavy burden for the country on its path towards modernization and a great potential pool of human resources. Solving the problem of the peasant is the main key to solving the conflict within China's revolution and consequent construction. Chinese farmers are limited by this history and the backwardness of small-scale production, but they also possess the spirit of creativity and tenacity. The interweaving paradox of passivity and positivity, of resistance and power, forms the basis of the severity, the complexity, and the unique significance behind the problem of Chinese farmers. Their problems have strung together politics, economy, and culture, thus becoming the foundation and the center of

socialism with Chinese characteristics, as well as the band that links China's history with its present reality and its future.

The birth of new socialist China was the result of summarizing numerous lessons of failure and aptly addressing peasant issues. New China's modernization not long after its beginning encountered major setbacks, which in the essence and main aspects can be traced back to the peasant issue. In other words, the interests of farmers were harmed, and their enthusiasm was dampened.

The success of China's rural reform was another instance of gathering lessons learned through mistakes and properly dealing with issues related to farmers. The emergence of the household responsibility contract system was the grand creation of Chinese farmers under the leadership of the Party, and it symbolized a new development in our country's practice of Marxist's theory of cooperatives doctrine. The choice of rural reform as a breakthrough point was undoubtedly suitable for China's basic domestic conditions. In the ossified planned economic system, farmers were the most repressed, suffered from most damages, demanded the most from reforms, and had the most urgent aspirations; the countryside had only the "communal rice bowl" system, not the "iron rice bowl." Their economic relationships were relatively simplistic and were the weak link to the old system. Farmers had repeatedly tried to explore the household responsibility system and had rich historic experiences. Once there was a breakthrough, others quickly began to imitate, once again creating a situation where the countryside encircled the cities. The rural bases of the Revolutionary War period were scattered and fragmented for quite a long time; the breakthrough in rural areas during the period of opening up and reforms was then like the mouth of a river, moving at a pace that could not be halted. It was like a tidal wave that freed and developed the forces of production, becoming the most important driving force behind all the changes and progress of the following 20 years in China.

After the focus of the reform shifted towards the cities, there were many forces of opposition, and each step forward became increasingly difficult. Town-village enterprises suddenly sprang forth and opened up a new path for China's industrialization that suited its domestic conditions. In the last 20 years, over 70 % of the growth in the national economy was driven by town-village enterprises. Their fast growth powerfully impacted the traditional highly centralized planned economic system and promoted marketization of the rural economy as well as the entire national economy, effectively proving that socialism can also engage in a market economy and was even better and more efficient than a planned economy. This provided rich practical experiences for deepening reform and for establishing a new market economic system. Rural reform demonstrated its advanced nature in the overall environment of China's economic system reform, and the household responsibility contract system took the first decisive step. The rapid blossoming of town-village enterprises and the market economic system in rural areas were developing far ahead of their times. The concentrated efforts accelerated the transformation of the old system into the new, effectively pushing and guiding the then dual-track system onto the tracks of the socialist market economic system.

In the 1990s, the reform and opening up process entered a new stage of overall advancement, but it also faced more critical challenges. A series of deep-seated

conflicts that had accumulated could no longer be neglected. Among them, the most prominent problem was employment among the surplus labor, which was connected to practically everything else. The pressure of employment in China's population is the most severe in the world. State-owned enterprises traditionally used a policy scheme of low wages and high employment, with an emphasis on people over actual work, and had low efficiency rates. Now, in a period of transition and in the attempt to speed up, they had to cut people and improve efficiency. Many industrial enterprises were shut down, stopped operating, merged, were transferred, or became bankrupt, resulting in a sharp increase in laid-off workers. Technological progress destroyed old jobs more than it created new ones so that the number of state-owned enterprises in proportion to the employment population rapidly declined, causing the employment trends to grow more severe. At the same time, the town-village enterprise system was undergoing a process of upgrading and regeneration, so its ability to absorb labor also significantly decreased. The rural population remained at about 860 million, and surplus labor was above 110 million. The basis of agriculture was still weak, but the burden on farmers was continuously growing. The central government gave repeated orders and injunctions to reduce these burdens but had little success. In recent years, the wave of rural labor migration seems to have died down. However, the conflicts have not been eased because more workers are being laid off and rural citizens entering the city are experiencing more difficulties. The dormant conflicts lurking in the countryside never garner as much attention as problems in the cities. The peasant problem remains a historically unchanged and most important comprehensive restraining factor in China's domestic affairs that touches on the most wide-ranging set of issues. How to develop and utilize rural labor resources in China, and turn this heavy burden into tremendous wealth, is still the most daunting issue of China's future and destiny.

We have bid farewell to the twentieth century, and entering the twenty-first century means the opening of another 1000 years. China's modernization efforts are currently confronted with rare opportunities and challenges. For more than 2000 years, from the Qin and Han dynasties up to now, the basic mode of production, lifestyle, and way of thinking for the farmers that represent the overwhelming majority of the Chinese population have not changed much or at least have not undergone substantive changes. Strictly speaking, they only started embarking on the path towards modernity in the last 20 years. The achievements of the reform have attracted worldwide attention, but industrialization, which is the foundation of modernization, has not been fully realized, particularly in rural areas. Other than developed coastal areas, China is still mostly sustained by a traditional agricultural economy and society. The industrialization and urbanization of rural areas have just begun, and some places have not yet been relieved of poverty. As China continues relying mainly on cheap labor, land, energy, and mineral resources for its own development and for creating its future, while believing that this is the modernization of the times, a new technological revolution and industrial revolution have already emerged in the world, and some developed countries are striding forward towards the era of a knowledge economy. Knowledge, intelligence, and information

technology have penetrated all aspects of the economy and society, revolutionizing people's mode of production, lifestyle, and mentality, allowing the history of human civilization to move towards an even brighter future in the postindustrial era. These trends have presented opportunities that China has never seen before, but the accompanying challenges are also very demanding. If the conceptual understanding of this reality is hazy and the necessary mental preparation and appropriate policies are absent, then the developed countries with whom China has spent 20 years on closing the gap might extend the distance again in the next dozens of years. China might fall even farther behind this time. Conversely, as long as China seizes opportunities, acknowledges that modernization in the present day has exceeded its original meaning, firmly grasps the strategy of rejuvenating the country through science and education, focuses on the cultivation of talents and the improvement of people's character, and continues to make efforts and perform solid work, it is possible to proceed with determination, to catch up from behind, to realize the great revival of the Chinese nation, and to make its due contribution to humanity.

In recounting a distant history so long gone and viewing the prospects of its future, 20 years only seems to be one "moment." But this "moment" was a critical time in which the old Chinese nation that had belonged to a closed-off traditional agricultural society unfolded into an open and pluralistic modern society. The transformation seemed so sharp and colorful that one cannot help but ruminate on its story.

Chapter 1

How Anhui Became a Breakthrough Point in Rural Reform

1.1 Disaster Zone of “Leftist” Mistakes

China’s reform began in the countryside, and reform in the countryside began in Anhui Province. It began there not by chance but because of the result of multiple interacting factors. Among them, the following three were most important: (1) Anhui suffered the most from the tosses and turns of “leftist” mistakes, leaving it a disaster zone; (2) early on in the 1960s, Anhui experimented with a province-wide “responsibility fields” system, which was essentially the household responsibility system; and (3) at that time, there was a class of Provincial Party Committee leaders brave enough to pioneer, forge ahead in unity, and seek truth from the facts. The last point was most pertinent because rural reform, and thus the household responsibility system, was the creation of farmers’ practical experiments, but it could not be detached from Party leaders either. Whether the leaders were correct in their judgments and stood firm directly impacted whether the farmers’ creations would be protected, whether they could grow and become a success, or die and fail. The deciding factor that resulted in Anhui taking the lead in rural reform was the Anhui Provincial Party Committee, which had an open understanding of the reform and was highly conscious of and confident in implementing the correct path and plans of the central government. This created a budding start for the reform that quickly grew into a strong “small climate.”

Anhui is located in the lush Jianghuai region, with climate conditions suitable for agricultural development. In ancient times, it was once one of the concentrated areas of grain production. After the Yellow River merged into Huai River, large amounts of sediment silted up in Huai River and its many adjoining rivulets, causing several disastrous situations for the Huai River reaches. With light rain, there were little disasters, and with heavy rain, there were major disasters. With no rain, there was drought, while problems brought on by waterlogging occurred nearly every year and later grew more serious. There were three major floods in

1921, 1931, and 1950, turning areas north of the Huai River into a land abundant with lakes and rivers. A large number of farmers became destitute and homeless, and their pangs of hunger and cold were in full cry. In 1950, New China had just been established. While a thousand issues waited to be dealt with, Mao Zedong resolutely called for “Huai River to be harnessed” and immediately began to wage a loud battle against controlling the river. However, similar to natural disasters, mistakes and losses caused by “leftist” errors were unrelenting in its spread into various regions and ultimately affected the entire province, the entire country. It is not difficult to imagine the consequences of these man-made disasters burdening areas that were already afflicted with frequent catastrophes.

1.1.1 Fengyang, an Epitome of Anhui

In terms of the detriment caused by “leftist” mistakes, it can be said that Anhui was an epitome of the country and Fengyang was an epitome of Anhui. A careful study of the classic case of Fengyang can provide a full understanding as to why “leftist” mistakes made in Anhui were particularly significant. In December 1989, what is now known as China Agriculture Press published a book titled *30 Years in the Village*.¹ A monograph nearing one million words, this was a research project established through consultation by the “China’s Rural Development Problems Research Team” and the Chuxian Prefectural Committee of the CPC. It is a historical documentation of Fengyang’s economic and social development in the period after the founding of New China. About a dozen comrades spent 3 years in conducting a large-scale investigation and research, using reliable first-hand materials ranging from the official files of the Party and governmental organs, cross-section surveys, special topic interviews, and informal discussion records. Everything from major events to minute details that occurred in the 35 years between 1949 and 1983—involving a population of 460,000 and an area of 1.4 million acres of arable land—was documented. The project documented the evolution in various aspects of the relations between peasants and cadres, between the community and the government, as well as between the implementation of and changes in many rural policies and regulations. Detailed and systematic, this book is a valuable piece of historical documentation of China’s rural issues, as it reflected the original and most authentic truths from that part of the past. Below are some important content quoted from the book.

Fengyang is located on the south bank of the middle reaches of Huai River, in the northeastern part of Anhui. It is 74 km long from east to west and 50 km wide from north to south. To its north is the Huai River Plain, with endless mountains in the south, and a landscape of rolling hills in the central area. Fengyang was the hometown of Emperor Zhu Yuanzhang, founder of the Ming Dynasty, and thus is

¹ Original Chinese title is 《乡村三十年》.

the origin of its historical distinction. The name of the county, which was personally chosen by the emperor, literally means “land of the flying dragon and soaring phoenix.” In the second year of Hongwu reign, the emperor envisioned establishing a “central metropolis” in Fengyang. He built the city wall and moat, built palaces, and established the ancestral shrine, but the plans were canceled after 4 years. However, the relics of the capital, the Ming Tombs, and the Longxing Temple remain standing to this day. Among these symbols of the ancient past, the capital drum tower is most characteristic. It is a palatial style tower, divided into two stories. The upper story was destroyed by fire among battle, and now only the base remains—it is extremely majestic. There are three circular arched passageways each on the eastern and western sides of the tower, with the middle passageway standing at 5.5 m and 5 m wide. Engraved above the white onyx passageway are the four Chinese characters “*wan shi gen ben*,” meaning “the essence of eternity”—a phrase that garners admiration and inexorably leads people towards deeper thoughts. Fengyang, in all its glory and brilliance, nonetheless cannot cover up its humiliation and disasters. A Fengyang dogged by bad luck later turned into 10 years of 9 shortages, with a particularly high number of poor peasant beggars. It became known as the flower-drum town where people “carried the flower-drum on its back to all four corners of the country.” The *Fengyang County Journal* once stated, “The people are living difficult lives, in hunger and in the cold. Rejected by those in other places, they must suffer by themselves.” Only until the founding of New China did the people of Fengyang finally turn over a new leaf, especially after land reforms were instituted. It was the first time their days were lived without worrying about food and shelter.

However, historical development is full of twists and turns. Although in the early days of China’s liberation Fengyang was not well off, it was still filled with hope and joy. Barely a few years passed before that period was replaced once again by disappointment and pain. On the road to building socialism, the people of Fengyang were like the rest of the country, exploring, experimenting, and contributing hard work and massive sacrifices. “Leftist” mistakes did not transform these efforts into shared wealth for a new society and its citizens, but on the contrary, they were turned into a destructive force that harmed farmers’ benefits, the country’s benefits, and ruined the reputation of the socialist system. The “Great Leap Forward” was in fact a destruction of agricultural production, and the “people’s communes” did not build a “golden bridge” to the heaven. Instead, they made the people of Fengyang pick up their beggar’s baskets once more.

The period of primary agricultural cooperativization emphasized two types of enthusiasm for work in farmers, collective enthusiasm and personal enthusiasm. Land, livestock, and large farm tools were allowed to be stock dividends when farmers joined the cooperative. In general, the situation nationwide was relatively healthy, and agricultural production did indeed grow. Fengyang was no exception. In 1954, its first advanced agricultural cooperative emerged, and in the periods following 1955, large groups of primary cooperatives transformed into advanced cooperatives. When land dividends were no longer allowed, problems gradually rose to the surface. When a member of a cooperative joined an advanced

cooperative, the land under his ownership was subsequently owned by the cooperative and managed collectively. Members only received labor compensation, not land compensation. All unregistered cemeteries and wastelands now also belonged to the cooperative. According to the number of permanent residents in a household, each member was given land that was 1–5 % of the total area, and this land was called the household plot. In the past, each town and village was responsible for an agriculture tax that was uniformly paid to the cooperative. Members' livestock were added to the cooperative and discounted based on the animal's denture conditions and weight. They were also collectively used. Large farm tools and transportation tools were discounted and then thrown into the cooperative, while members themselves only owned small farm tools. Seeds, grass, and cattle feed were divided by *mu*, discounted together with the farm animal proceeds and credited to the member's account. Some places did not provide sufficiently detailed ideological guidance for these methods, which left farmers with many anxieties. Those with relatively more and better quality production materials were worried that canceling land dividends would result in less income; some widows or destitute households could only offer weak labor or could not offer labor at all and were worried that they would not be given work after entering a larger cooperative and would thus be unable to attend to their daily needs; a small number of elderly people worried that they would not have a place to be buried after they died; some members of the CPC worried that the transition to a larger cooperative would mean that they could not become cadres or that even if they could, they would not be able to handle the work. In 1956, a total of 1268 agricultural cooperatives were organized out of 39,200 rural households, a population of 356,674, and 1,655,678 *mu* of arable land. Among them, there were 57 advanced cooperatives whose members constituted 49.1 % of all households in Fengyang and 49.3 % of the county's population, which was nearly half of the total. A waterlogging disaster occurred that same year, so the production rates of 14 advanced cooperatives increased by 10–30 %, 24.6 % of the total; the production rates of 7 cooperatives remained flat, representing 12.35 %; 16 advanced cooperatives experienced a 10–30 % decrease in production, making up 28.1 % of all cooperatives; 16 cooperatives had a decreased production rate of 30–50 %, constituting 28.1 %; and 4 of the cooperatives, or 6.9 %, had a decreased production rate of 50 % or above. The overall performance was not much different from that of primary cooperatives. Winter of 1956, however, revealed a new record-breaking high for advanced cooperatives. By 1957, 97.3 % of all rural households and 97.5 % of the entire population had entered into advanced cooperatives. Leadership was strengthened and a comprehensive plan was developed on paper, but in reality, it was forced orders, suppression, and trickery, partly mobilizing and partly pulling on the metaphorical leashes of stubborn cows. Some cadres said, "Members who joined the cooperatives are like those eating a watermelon. As long as the watermelon was 70 % ripe, it was fine. Otherwise, even if their lips were rubbed rotten, it would not do." Some farmers who refused to join the cooperatives were even beaten. Because of the large scope of these cooperatives, cadres lacked the necessary experience and caused chaos within management. Production was not egalitarian, distribution was illogical, and accounts were not made public. Many

conflicts and continuous disputes occurred between cadres and members of the cooperatives; between poor farmers and mid- to upper-class farmers; between cadres themselves; between the country, collective, and individual; between male and female members of the cooperative (due to having the same amount of labor but different compensations); and between weak laborers and strong laborers. Since accounts were not clear and changed hands frequently, the discounted properties and goods that entered the cooperative would have already been disguised, taken away, and disappeared into thin air.

1.1.2 Charter of the People’s Communes and Rise of the “Five Winds”

On August 17, 1958, Fengyang County began its experiment with organizing people’s communes. By the end of September, the process was completed. Even before the Planning Department of the County Party Committee had made any announcements, every village and cooperative requested big communes.² Some wanted one commune for each village while others wanted one commune for the entire county. Everyone applied to organize a public commune, and there were also many who wanted to immediately implement a wage system.

Not long after the public commune was set up, the “Fengyang County People’s Commune (Cooperative Union) Pilot Charter (Draft)” was formulated and published. The main contents were as follows:

“This public commune (cooperative union) will organize public communes in the whole county to become a cooperatives federation under the leadership of the Communist Party, and gradually establish one single commune for the whole county as one political-social entity.

This public commune (cooperative union) will gradually change the collective ownership system into ownership by the people.

This public commune’s distribution principle will use the basic level commune as an individual accounting unit and a “need-based distribution” semi-supply system and “labor-based distribution” semi-wage system will be implemented upon the condition that production and members’ quality of living continuously improve. With the development of production, the supply is to be added gradually, and when the agricultural and industrial products are abundant, replace the socialist labor-based supply system entirely with the communist need-based supply system.

This public commune (cooperative union) will implement militarized organization, battle-like action, collectivized living, and democratized management.

Former landlords, wealthy peasants, counter-revolutionaries, bad ones, and rightists can be absorbed into the commune as members or as replacement members, based on their performance and the status of their reform through labor. Those who have not been reformed may be allowed to enter as non-commune members and partake in strictly supervised labor, may not participate in wage evaluations on

² *Fengyang County People’s Communes and Cooperatives Pilot Briefing*, Issue No. 1.

the economic level, may not receive any benefits from the supply system, and may not be hired for any post in the commune on the political level.

The commune collectively owns all the land, barren hills, rivers, lakes, woods, and bamboo groves within its range. The draft stock, large farm tools, transportation tools and other production materials of the commune members will all be discounted, entered into the commune, and registered under the member's name. They may not be sold or destroyed prior to being processed.

Each basic level commune must turn over 30–50 % of the public accumulation (including common reserve funds and public welfare funds) to the cooperative union for its use, while 60 % will be controlled and used by the basic unit communes.

Houses of the commune members are entirely owned by the members, members own all the daily use items in each of their families.

Members must frequently receive education on working with enthusiasm and loyalty to build socialism, and complying with the labor discipline. However, resting times for members must also be guaranteed. In general, everyone should complete 10 hours of labor, 2 hours of studying, 4 hours of eating and resting, and 8 hours of sleep. During busy seasons, members may labor for 12 hours.”

In the process of establishing public communes, some basic level communes were caught secretly dividing food; others had public accumulations that wilted down to an empty account; in some communes, men and women lived separate communal lives and were not allowed to return home; many cadres bemoaned, “Our skills are low, solutions are few; we cannot manage the communes well, and in fact cannot manage them at all.” Labor, distribution, and consumption all became disordered. Xiaoxihe Village pointed out the “five undivided” as follows:

1. Labor or no labor, all will eat—the good and bad are undivided.
2. More labor does not mean more earnings—the weak and strong are undivided.
3. No price adjustments for grains, no adjustments for stock, farm tools, seeds, and no adjustments for labor—the rich and the poor are undivided.
4. One portion of rice and three meals for each person—large and small portions are undivided.
5. Small farm tools, small vegetable gardens, chickens, and ducks collectively belong to the commune and members may use them collectively—the public and private are undivided.

There were also the “six sames,” eat the same, wear the same, use the same, live the same, do the same, and be taken care of the same. Such methods and other similar ones had grave consequences. Wealthy communes protested, as did those who made up stronger labor brigades. Sluggard, sly, and dependent mentalities emerged, causing divisions among what was produced, with no respect for order in terms of eating meals and using daily items. The collective spirit was not cared after, public property was not cherished, and from this emerged the “five winds,” namely, the problems of Communism, exaggeration, forceful orders, blindly commanding production, and giving cadres special treatment. These problems were rampant for a brief period and then subsequently intensified.

The wind of Communism blew at every level, with each sweep more extreme than the previous, one right after another. Some were confused and mystified, unable to comprehend the idea that “in people’s communes, there is no difference between you, me, or him.” Nothing was left untouched, from big forces like labor, farm animals, land, and equipment, down to the small, such as pots, bowls, ladles, and spoons. Some had turned to pulling ox, raking harrow, searching for plows, switching grains, collecting livestock and poultry, deducting payments, pulling down houses, and merging hamlets—everything had become a mess. Some larger production brigades made the excuse that “the individual serves the collective and the small collective serves the big collective” and stole the credit that belonged to smaller production brigades and commune members. The Shanhe Production Brigade carried out the five “centralized” as follows:

1. Among the pigs, 125 heads of piglets were grouped together from small brigades and individual commune members, in order to form a pig market of ten thousand.
2. Among the chickens, every household or every working unit had to provide two chickens, each to organize a chicken ranch of ten thousand.
3. Among the ducks, the large production brigades suddenly took unified action one morning, caught 350 ducks that were raised among the masses, and rushed the ducks up the mountainside to collectively raise them. Since it was hot and the water was scant in those days, in less than a month, all the ducks died or were stolen and eaten.
4. Bathrooms were centralized, as small private toilets were torn from the masses to build one or a few toilets covering the whole village, and queues would form or it would be very crowded; some were relatively far away from the village, and not used for half a year.
5. Taro seeds were collectively grown and quickly rotted. In addition, the private plots of commune members were repeatedly confiscated, sometimes returned to them and sometimes returned and then taken again. There was harvesting that was not followed by tilling the land, and most areas became barren.³

Under the controlled “leftist” principle of “large in size, collective in nature, and all belonging to the public,” some cadres went so far in developing the “Communist wind” that they began to arbitrarily search through people’s things. The Shanhe Brigade of the Xiaoxihe Commune organized a “Mining for Potential Professional Team” that investigated and ransacked every household in every village, without leaving a single one untouched. Some households were searched up to four times. If the members were even somewhat unsatisfied, the cadres would scold, “What is yours? Only the teeth in your mouth are yours!” They were armed with iron bars, flipping through trunks and tipping over cupboards, causing trouble everywhere. Whatever they found, they would eat; whatever they liked, they would take. The Red Flag Brigade of the Fucheng Commune took the grains, vegetables, and

³“Report to Prefectural Party Committee from Fengyang County of the CPC”.

firewood of all the commune members and turned them into the “three collectives.” In the end, some brigades did not even let members’ families turn on their stoves as small pans were confiscated, turning the three collectives into “four collectives.” The most severe phenomena included pulling down houses and merging hamlets. The Xiaoxihe Commune had seven large production brigades, altogether 25 hamlets, without a single resident, only overgrown with weeds. Daying Production Team of the Shima Brigade merged together five hamlets in which men and women, young and old all lived together. The Qiaoshan Brigade had 31 villages. The general secretary of the brigade Mei Shuhua forced the masses to merge six hamlets within half a day. 300 individual houses were taken down, leaving commune members homeless. There was an outflow of 100 people. After everyone was centralized, 40 people in 14 households lived in a house with only three connected rooms. At night, the main door would be locked, and civilian soldiers stood on guard with beating sticks. People would have to go to the restroom in the same place.⁴

Zhao Conghua, head of the county at the time who was mistakenly categorized as a “right-leaning opportunist,” said, “Merging small hamlets into bigger ones is just like when the Japs ‘swept’ over during the War of Resistance Against Japan, resulting in barren land and people becoming destitute and homeless. The uncle and his brother’s wife shared a room, and they could even hear each other pee. Some women would start to cry just at the mention of merging.”⁵

The wind of exaggeration and resorting to deceit was blowing like never before. Total grain output in 1958 was 75 million kilograms, but was reported as 202.5 million kilograms; the entire county only had 1.412 million *mu* of land to cultivate, but by 1960, the total area of land reported for spring harvesting was 1.848 million *mu*; in 1961, flue cured tobacco was planted across 57,388 *mu*, but 137,400 *mu* was reported, which was over double the real figure; and that year, only 43,000 pigs were born, but 166,000 were reported, an excess of 120,000. Water works covered a land area of 50 million cubic meters, but was reported as 210 million cubic meters. Forestation efforts were even more inflated. In a period of 3 years, the entire county only planted trees covering the area of 132,000 *mu*, but it was reported that 720,000 *mu* of unfertile hills had been greened. Some public communes took the big trees owned by commune members and planted them along public roads. Many of them did not survive, while other places were plucked dry, and laborers were harassed and money wasted. The County Party Committee expected each public commune to report figures for the day every afternoon at 4 P.M. This was mandatory. Public communes had to ask the large brigades for output progress reports before 4 P.M. everyday, and thus, large brigades had to ask smaller production teams for updates on production by noon. The members of those production teams had not even finished their work in the fields by then—what figures or numbers could they report? But if they did not provide an update, they would be punished. There was no choice but to falsify their reports. Some gave a false report first and then attempted

⁴ Ibid.

⁵ Fengyang County Party Committee, “Zhao Conghua Anti-Party Crime Materials”, October 1959.

to make it up in reality, but labor efforts were limited; how could they compensate for the extra figures they provided everyday? Therefore, the numbers grew increasingly inaccurate and the overestimations grew larger and larger.⁶

Due to the sweeping winds of Communism and exaggeration, the winds of forceful orders, blindly commanding production, and giving cadres special treatment increasingly grew stronger. Without any compensation, labor was regulated to be like large formation combat, often working overtime and the labor intensity was increased arbitrarily. The large public canteens were particularly problematic; it was a place where the abhorrent behaviors of lower-level cadres were displayed in even clearer light. They hogged food and took extras, wantonly suppressed and deprived farmers until finally the canteen could not go on any longer and had to be disbanded. However, the power of “leftist” ideology had not been cured at its roots. Those at the top were well off, those at the bottom were left with nothing, and every level was overburdened with additional weight. High targets, high estimated yields, high levies, selling over the real amount of grains—these problems were all closely related to each other. Land area was overreported and output value was overestimates. These mistakes were not reported to leaders to make corrections, and at the same time, pressure was building at every level to find ways to purchase the grains that were reported. From the winter of 1959 to the spring of 1960, when the whole county was experiencing extreme grain shortage, endemic diseases, and population outflow, it was still believed that the lack of food was an ideological problem, not a problem in reality. Each commune was then asked to report three times each day the amount of grains entering storage; estimations were reported in the morning, work done in the field was reported at noon, and actual results were reported at night. The situation on the ground was never examined. Black and white became indiscriminate. When sales went up, there were compliments, while the occurrence of low sales or no sales resulted in criticism and punishment. People were forced to sell seeds and buy grain rations, and if they could not obtain food, fault was cast on the strange spells of capitalism. A countywide meeting was then held for cadre leaders of production teams and above, where political struggles were made for false reports and harsh punishments were doled out. If they weren’t harsh enough, there would be accusations of being “right-leaning.” Afterwards, there was a succession of public commune meetings, large production brigade meetings, and small production team meetings, even a meeting on the eve of Chinese New Year, in total lasting about 40 days. The requirement was that only the County Party Committee could give permission to conclude the meetings. After they ended, the cadres who sold the fewest amount of grains would be obligated to stay and continue to reflect on the struggles. The cadres were criticized to a point of hopelessness and eventually had no choice but to search through commune members’ cases and drawers and take their food.⁷

⁶“Investigation Materials from Secretary of the Fengyang County Party Committee Zhao Yushu Representing Fengyang County at the Five Level Cadres Enlarged Session”.

⁷Chen Genya, “Report Regarding Fengyang’s Problems”.

“Leftist” mistakes resulted in the frenzy of the “five winds” that reversed and wreaked havoc on agricultural productivity, most glaringly reflected in the following:

1. Labor decreased and the land became barren. In 1958, the entire county’s labor force was 158,272, but at the beginning of 1961, it had fallen to 109,025, a decrease of 52,247 (including deaths, outflow population, and those who relocated), which was 56 % of the original labor population.
2. Livestock and farm animals died, while farm tools were lost or broken. In 1958, there were 37,619 heads of livestock, which decreased by 36.6 % in 2 years, resulting in only 13,763. The remaining 28,178 livestock were deprived of grass and feed and became emaciated due to poor management. Large amounts of farm tools were damaged. Originally in 1958, the whole county had plows, floats, drills, and vehicles, totaling a number of 32,822 various equipments and tools. In 2 years, there were only 14,077 tools, 34.5 % of the original, with a total value of 700,000 yuan.
3. Production decreased and costs increased. In 1960, the climate in Fengyang was neither overflowed with rain nor too dry, but various types of crops were dropping to an astonishing degree. Total food production was 49,520,550 kg, a 63.5 % decrease from 135,805,000 kg in 1957; pig breeding decreased by 43.4 % and poultry also declined to alarming proportions.⁸ At the same time, costs and expenditures increased year by year. For example, there was a reform for farm tools in 1959 where 72 rice transplant machines were suddenly made, but none of them could be used. Each one costs 70 yuan to build, and 5040 yuan in total was wasted for these efforts. Blind orders from the top created so much waste that there were too many cases to mention.
4. Starvation, groups of people migrating outward, epidemic diseases, and death. 97.8 % of peasants in the county received their meals in the public canteen when it was still operating and food was consistently free. But because the canteen lacked regulations, any possibility of order was consumed by chaos. The young and strong ate quickly and took in more viscous foods, while the old and weak ate slowly and ate softer, more liquid-based foods. Many people were worried about the amount of food available at the canteen and were afraid that there would not be enough to go around. They developed a mindset shrouded in fear. After the canteen was discontinued, food shortage began to worsen on a daily basis, so people used melons and vegetables as substitution. This was a trend in which all parts of the county baked, sun-dried, or stir-fried the 1,964,226 total kilograms of vegetables, taro leaves, and other substitute foods, resulting in an average of 18.15 kg per person. The county established a harvesting command unit and gathered over 2600 people from 8 villages to tread up the mountains and pitch camps to collect pueraria roots, orinus, “yellow dog egg,” and other wild starches. At the beginning of spring, the County Party Committee stated, “Both

⁸ Ibid.

front and back must be united, men and women, young and old must all take action. Each person must complete 75 kilograms.”⁹ Due to the growing mass hunger, a large portion of the population left and migrated outwards, carrying flower drums on their backs as they left their hometown. The former Party secretary of the Xiaoxihe Public Commune, Li Qingyi, secretly set up a labor reform team at the Randeng Reservoir and gathered those who returned from other places, namely, cadres who were labeled by their errors, petty thieves, and other types of commune members who had “fallen behind.” They performed compulsory guarded labor in day time. If it was not done well, food rations would be deducted, some handcuffed and locked away in jailhouses. Illnesses and deaths were gone unreported. Family members were not informed, and some were randomly buried. According to Li Qingyi’s confession, 30 people died. The degree to which people’s lives were treated as games makes one’s hair stand on end. The rate of illness throughout the county continuously increased. From 1959 to 1960, the diseased population had reached 102,994 people, 37.7 % of the entire countryside. Edema was most common, as well as women with uterine prolapse and amenorrhea. Death rates in the population were shocking. Within 2 years, 60,245 people had died, which stood for 17.7 % of the total rural population. Many among them died of unnatural causes, resulting in a greater proportion of elderly people and orphaned children. The initial statistics showed that 1580 elderly people and 2289 young children were left behind in the entire county.¹⁰ The most malevolent of all were the “four no’s” that some places implemented for dealing with deaths: one, no burials less than one meter deep (since crops had to be planted on top); two, no crying; three, no burials by the roadside; and four, no mourning.

All of these descriptions are real events that happened in regions of Anhui Province to varying degrees. Whether the 3 years (1959–1961) of difficulties were “70 % natural disaster, 30 % man-made disaster,” or the other way around, anyone would be able to draw a clear conclusion.

In the 1960s when responsibility fields appeared, the people of Fengyang were able to catch their breath, but not long afterwards, “leftist” mistakes developed even further into the “Four Clean-ups,” “Learning from Dazhai,”¹¹ and the “Cultural Revolution.” The bitterness grew more entrenched, justifying the endless number of people flooding out of Fengyang. From the spring to winter of 1967, even without complete figures, there were at least over 18,000 people who left Fengyang, most of which went to Nanjing and northern areas of Jiangsu Province. By March 1969, 37 % of rural households and 23 % of the whole population were drifting migrants, including those from the three provinces of Anhui, Jiangsu, and Zhejiang. Even into

⁹ See “Fengyang Self-Help Production Work Summary.”

¹⁰ Ibid.

¹¹ “Learning from Dazhai” in agriculture was a campaign organized by Mao Zedong in the early 1960s. The campaign encouraged peasants from all over People’s Republic of China to learn from the example of the farmers of Dazhai, Shanxi by practicing self-sacrifice and political activity.

the 1970s, the problem with migrant populations was a serious problem. During Chinese New Year of 1970, in all of Fengyang County, 4000 of the floating population did not return (though this was normally the time for migrants to return home); in early 1974, one of the large production brigades, which originally had a total of 1119 people, had 900 who left and became panhandlers in other places. Therefore, Fengyang became well known far and near as town of the flower drums. The popular lines of lyrics of the flower-drum song was:

To speak of Fengyang, to talk of Fengyang, Fengyang was once a good place. Since the giving birth to the first Ming Emperor, nine years out of ten were in famine. Big families sold land, small families sold kids, and I having no kids to sell, roam around with my flower-drum.

1.1.3 A True Account of Xiaogang Village

It is necessary to describe Xiaogang Village here because it occupies an important position in the history of agricultural reform. The events of Xiaogang Village have been documented in many books and magazines, but arguably the most authentic, moving, and historically valuable material is an investigative report dated December 20, 1979, completed under the Policy Research Office of Fengyang County. It was titled “A Tonic Worth Every Drop—Investigation of the Xiaogang Production Brigade’s ‘Household Responsibility System’ of Liyuan Commune in Fengyang County.” The author was Wu Tingmei, a cadre at the Fengyang County Party Committee Office at the time, and who later became secretary of the county. Below is a summary introduction.

Xiaogang Production Brigade was formerly a village. Before cooperativization, there were a total of 34 households, 175 people, 30 heads of cattle, and 1100 *mu* of farmland. The enthusiasm of farmers rose and production developed quickly. In a normal year, the total grain production of the whole village was around 180,000–190,000 *jin*. In an especially good year, output could reach up to 200,000 *jin*. Families that consisted of the lower middle peasant class were neatly structured. At the time, there were six members of a family, three laborers, and one head of cattle that would cultivate over 40 *mu* of land. The most that was ever harvested in 1 year was 30 piculs of rice (6000 *jin*), 6 piculs of wheat (1500 *jin*), 3 piculs of sorghum (600 *jin*), 30 loads of taro (600 *jin* of grain), over 2 piculs of beans (over 500 *jin*), and a total of over 9200 *jin* in harvested goods, equaling an average of 1500 *jin* per person. At that time, no one was migrating out of the village, and people looked down upon the idea of becoming a beggar in another place. In 1955, during the period of establishing primary communes, Xiaogang Village did not participate. In 1956, it directly joined an advanced commune, and the cadre who had mobilized everyone said it was as if they had taken only one step to reach “heaven.” There were decent results in the first year after joining the commune. The entire production brigade harvested 165,000 *jin* of food. At 600 *jin* of grains per person, the remaining 40,000 some *jin* were sold to the state. This was the first and

last time in a period of 30 years that Xiaogang Production Brigade would make contributions to the country after the cooperatives were established.

In 1957, the anti-rightist movement arrived in Xiaogang. When “debating the superiority of socialism,” if anyone had uttered a single “no,” they would have to go through a harsh round of criticism and don the hat of “anti-socialist.” It did not matter whether that person was a poor peasant or a tenant farmer. From that point on, there was silence on the political front. Whatever the top demanded, the bottom would do. That winter, Xiaogang Brigade began eating state-supplied grains.

In 1958, all types of odd phenomena occurred in the countryside and Xiaogang was no exception. Production commands made on a whim were becoming severe, such as carrying out “ten *li* of taro ridges, five *li* of sweet cauliflower, and a thousand *mu* of rice patties.” The result was “Ten *li* of taro ridges became a vast area of dead grass, five *li* of sweet cauliflower and five *li* of vegetables did not even cover half the ‘dirt pot’, a thousand *mu* of rice patties did not harvest much grains.” The abandoned taro ridges sitting on the peak from 20 years ago is still there today. The “five winds” blew stronger and created a serious detriment to production forces. By 1960, there were only ten households, 39 people, one and a half carts drawn by cattle, and a little over 100 *mu* of farmland left in Xiaogang. According to statistics, in those 3 years, 60 people died purely from starvation (also referred to as “unnatural death”). Six entire households disappeared. 76 people turned their backs towards the village and left in order to find a road to survival. The village was in ruins everywhere and wild weeds grew in clusters. Many people who are alive today and can recall those times would shiver at the miserable scenes, and they just cannot believe such kinds of horrors should have occurred in the 10 years after the Party took power. The winds of the “responsibility fields” swept over Xiaogang in 1962, but it was a spent force. What commune members once called the “life-saving fields” were later criticized as “fields of a dethroned monarch restored.” Nevertheless, commune members still attempted to use the “responsibility fields” system, planted wheat, but rounded up in “large shares” during harvesting seasons. Some snatched, some stolen, and the end result was 965 *jin*, with 2400 *jin* of seeds unplanted. 900 *jin* of seeds were saved, and each person only received one and a half *jin* of wheat. From then on, the Xiaogang Production Brigade heralded the idea of “planting 20 (*jin*), harvesting 18 (*jin*), foregoing the sickle, and using the hands.” In the following years, there was some peace and stability, but as soon as production began to rise, the “Cultural Revolution” unraveled itself onto Xiaogang in 1966. The commune members were divided into two large groups and wore “red armbands” to demonstrate rebellion.

In the 10-year-long turmoil, Xiaogang’s production rates had severely fallen behind and people were living very destitute lives. Despite this, “capitalism” was still disparaged. Commune member Yan Jinchang had a family of seven and in 1975 had grown ginger on two-thirds of the land around his house, with a third of the land left over for chili peppers and leeks. Their one dozen or so persimmon trees were well kept. The children were not allowed to pick them. In the following autumn, the persimmons were baked and sold in batches and raised two pigs. Their annual income was about 800–900 yuan. These earnings mostly went to

buying food for the family at the small market, to avoid dragging along their sons and daughters to Jiangsu and Zhejiang to “check households” (referring to begging, also called “counting doors” at the time) in the countryside during the dead of winter. These types of families that relied on their own labor and hard work were the so-called *nouveau riche* of those who decided upon the “capitalist road.” They were successful to the point where it was not necessary to beg for food. However, Yan Jinchang’s conditions were becoming conspicuous in Xiaogang. He was publicly criticized by the large production brigade and the public commune three or four times, to which he angrily spat, “Only if we all starve together can we be equal.” Under the destruction of an extreme “leftist” path, Xiaogang certainly reached “equality,” all 20 households of the production brigade, whether large or small, migrated away; those who were able to run away did run away to go beg for food.

The Xiaogang Production Brigade did not have a single landlord or wealthy peasant. Everyone migrated away to become beggars, and there was not much opposition in terms of class relations. But the unique influence of the “Cultural Revolution”—years of relentless political campaigns, endless tightening of the grips on obeying “plans” and “paths,” “big criticisms that encouraged high labor rates”—ultimately exacerbated class struggles. Cadres of the production brigade were exchanged one after another as if thrown through a revolving door. The whole brigade had 17 male laborers, and 15 had once been brigade leader or deputy brigade leader. Each family in the twenty households had been cadres at one point. “Counting the figures, switching brigade leaders” had become a normal pattern. Those at the upper level suppressed those at the lower level, and those at the lower level tried to manipulate those at the top. The consequence of back and forth struggles was spiritual division, barren land, poverty-stricken commune members, and emptiness in the collective.

Despite the devastation caused by the wrong line of thinking within Xiaogang Production Brigade, the masses were still full of gratitude towards the Party. Almost everyone claimed in unison, “In our conscience, we still owe the government for the last few years.” There was indeed some truth in this. In the 7 years between 1962 and 1978, the annual distribution of rations per person for the whole brigade was only 100–200 *jin*. Therefore, production and people’s livelihoods mainly depended on relief aid from the government. For advanced production brigades, the country loaned 15,632.28 yuan and invested 2425 yuan without any conditions attached; in the 13 years, the 156 months, from 1966 to 1978, people depended on supplied grains from the government for 87 months. In total, upwards of 228,000 *jin* of grains were consumed. This represented 65 % of the total production in those 13 years and 79 % of total grain rations; survival and relief funds for the communes were over 15,000 yuan, equivalent to 54 % of the members’ total allocations; various types of supplied seeds were over 65,000 *jin* in total. All of the ten cattle were purchased using money from the government. Rakes and other tools used in the past were also provided by the government. “Farmers plow the fields, the country gives money; if we lack food and clothes, the government will give aid”—these phrases are most appropriately used here.

The masses were grateful for the government’s support, and they constantly held it at heart. However, when they reflect back on this period, they cannot forget the other sentiments either. Many older commune members exclaimed, “We are all people of the fields, and we have worked for a lifetime on farmland. Seeing such a long-term shortage of crops brings the heart to a boil. We feel ashamed for not giving a single gram of grain, yet year after year, we eat the food given by the country. We know how to harvest more grains, but ‘policies’ don’t allow it!” This captures the complex emotions at the time, which was a concoction of indebted gratefulness and bitter sorrow. The people of the Xiaogang Production Brigade lived in this type of contradictory mentality throughout the 20 years that passed.

From 1956 to 1978, because of the ceaseless disturbances caused by “leftist” mistakes, Fengyang became the famous “three dependencies” county (production depended on loans, food depended on buybacks, and living depended on relief aid). In a period of 23 years, the county sold 480 million kilograms of grains to the country, while state-purchased grains totaled 670 million kilograms. The buybacks were equivalent to consuming more than 200 million kilograms of grain supplied by the government. Relief funds in the form of state loans, unpaid investment, and preordered deposits totaled 16,426 yuan. Even so, agricultural production remained stagnant, and farmers were still bound by the problems of food and clothing. It was not accidental that Fengyang later became the cradle of fixed labor to each household, and the fact that Xiaogang was its starting point.

1.2 The Life-Saving and Short-Lived “Responsibility Fields”

1.2.1 The Origin of “Responsibility Fields”

The time between 1959 and 1961 was often called the 3 years of difficulty. The “Great Leap Forward” of 1958 and “leftist” mistakes in the people’s communes cut agricultural production to an extreme degree. The proportions of the national economy were imbalanced, market supply was very tight, and the people had suffered seriously. Not only did living standards fall, but there were also illnesses due to poor nutrition, floating populations, and unnatural deaths cropping up frequently in many places. One of the provinces where these issues were most prominent was Anhui. In the mid-1950s, the system of fixed output quotas for each household appeared in the Wuhu area and then reappeared in the form of “responsibility fields.”

The implementation of “responsibility fields” within the province at the time cannot be separated from the encouragement and support provided by First Secretary of the Anhui Provincial Party Committee, Zeng Xisheng.

Zeng Xisheng is a legendary figure. In 1922, he joined the Socialist Youth League, was admitted into Whampoa Military Academy in 1924, and participated

in the Northern Expedition in 1927 where he joined the Communist Party and engaged in intelligence work. He was particularly adept at decoding enemy messages and consistently performed outstanding service, earning him high compliments from Mao Zedong. Mao had said before, “Now that the Long March has the second bureau, it is as if we are walking the roads at night with a lantern”; “Without Zeng Xisheng’s second bureau, there would be no Red Guards”; “Zeng Xisheng is an expert in making glass cups, so our battle with Chiang Kai-shek is like looking straight into a glass cup hiding a treasure. We will indeed be able to win.”

After the liberation, Zeng was assigned to the post as First Secretary of Anhui Provincial Party Committee, and, yet, that was when he encountered the most difficult “decoding” problem. He had won the trust and esteem of Mao Zedong, and, in the same vein, Zeng was extremely loyal to Mao Zedong and admired him greatly. In 1958, during the “Great Leap Forward,” Zeng was also passionate about advancing the set of “leftist” ideologies, but after all, he had a high sense of responsibility as a member of the Communist Party and absorbed the views of the masses. He saw the serious harm caused by “leftist” errors, astutely summed up such experiences, and took steps to correct them. In confronting the stark reality of the rural Anhui at the time, the Provincial Party Committee believed that in order to restore and increase agricultural production, altering the operation and management system and strengthening labor force for the responsibility production system were of first priority. Without the responsibility system, production could not improve. Towards the end of 1960, small contracted output units were being used. Labor was carefully assessed and recorded, and a reward system for exceeding baseline points had some positive effects on production rates. From then on, the Provincial Party Committee went one step further to find ways to stimulate more enthusiasm in farmers. In the nick of time, they discovered a powerfully convincing case.

There was a 73-year-old farmer named Liu Qinglan in the Wangzhuang Production Team under the Miaoguang Brigade in the Chulan Commune of Su County. His son had a lung disease and everyone persuaded him to enter the local nursing home. He explained to the commune’s Party Committee that the country was experiencing hardships and he could not depend on it for food just yet. He had to earn his keep by doing whatever his strength allowed. In 1959, he took his son up to the mountains, simultaneously treating his illness and reclaiming wasteland for crop cultivation. In the second year, he harvested 1650 kg of foodstuffs. Aside from relieving his son’s and his own threats of not being able to survive, he also provided the team with 900 kg of grains and 60 yuan in cash. Old Liu’s advice was to leave the fields to member communes; otherwise, the work division would be disorderly and production rates would not go up. This advice caught the attention of Zeng Xisheng.

On February 14, 1961, Zeng Xisheng discussed the agenda of “assigning farmland based on baseline labor points and contracting labor to households based on actual grain production and recorded labor” at the Anhui Provincial Party Committee Secretariat Meeting. In reality, this was the core concept of fixed production output per household. Those present at the meeting expressed approval but also felt that it was risky. They advised beginning with experimenting on a small scale,

specifically with a pilot in the 28 households of the Nanxin Zhuang Production Team under the Jing’gang Brigade of the Jiaoshushan Commune in Hefei City. To avoid being mistakenly labeled as promoting individual labor, the “five unifications” would still be followed, namely, “unified planning (referring to production index and crop arrangements), unified distribution (fixed output per household), unified farm labor and technical labor, unified water use and management, and unified efforts in preventing disasters.” Emphasis was laid on dividing and contracting labor based on these five principles. The basic method was the following: in the fixed production output per household system, award compensation would be calculated by the scale of farm work to labor ratio, named the “field management responsibility system with incentives,” or otherwise known as the “responsibility fields.” After its implementation, the enthusiasm of commune members went up, and it was agreed that a bud of hope had emerged. On March 6, the Provincial Party Committee Secretariat discussed the progress made in the Nanxin Zhuang pilot and decided to expand the experiment. On March 7, Zeng Xisheng attended a working meeting in Guangzhou, organized by the central government, and he introduced Nanxin Zhuang’s results within the East China Group, drawing attention and dialogue from the leaders of neighboring provinces. Later, he made a report to Mao Zedong, who said, “You are experimenting. If it does not go well, make a summary review and engage in reflection. If it is successful, and can add 10 billion *jin* of food to overall output, then it will be a huge event!” Zeng Xisheng immediately passed on Mao Zedong’s words to the Anhui Provincial Party Committee and said, “We have approval from the highest authority. We can go forward.” With that, the Party Committee then notified each region, city, and county committee that it was time to “systematically implement [the responsibility fields] with a plan and on a comprehensive scale.” Zeng Xisheng explained the results and spirit of the Guangzhou Meeting to the Anhui Provincial Party Standing Committee on March 28, particularly pointing out that Mao Zedong had noted the new system had to be experimented within a small range. Zeng thus asked the general office of the Provincial Party Committee to telephone each region and halt implementation. However, 39.2 % of the production brigades in the province were already using the responsibility fields method and were furthering its development. This system largely increased the eagerness of farmers, increased the number of livestock and farm tools, while crops were sufficient and managed very closely and grew well. The entire landscape was one of a major harvest. Farmers called the responsibility fields “life-saving fields” because the system had such an extremely noticeable effect on restoring and developing agricultural production, stabilizing the rural situation, activating the market, and improving urban supply. After deeper investigations and further research, the Provincial Party Committee decided to continue implementing the new system after all. Zeng Xisheng clearly pointed out, “Some cadres were doubtful about whether the direction of this method would be correct. I believe that there is nothing wrong about it because the heart of this solution is a responsibility system. It does not change the system of ownership. Whatever is produced is still handed to the large brigades to be uniformly distributed, and the method of distribution and forms of labor are the same as before. They indeed do

not change. If anything has changed, it would be the way of contracting labor to households.” “Implementing this method also will not weaken the essence of socialism. What is the essence of socialism? Is socialism only about everyone coming together to work on one field? Of course it is not. Socialist collective labor is not about avoiding work division. What can be decentralized has to be decentralized, and what needs to be centralized can be centralized. Decentralization and centralization unite contradictory opposites.” “In sum, the goal of proposing this solution is to strengthen the responsibility system. The responsibility system is still needed in Communism.” Of course, the focus of the debate on “responsibility fields” was “individual work in separate fields,” whether or not “polarization” would form and especially whether this method would make commune members grow more selfish.

1.2.2 Defense and Criticism of the “Responsibility Fields”

On July 24, 1961, Anhui Province gave an expert analysis titled the “Report on Implementing the Field Management Responsibility System with Incentives” to the central government, the Chairman, and the East China Bureau:

1. “Is this method individual labor?” The report claims:

“We once believed that fixed production per field and fixed responsibility per person, and that calculating award compensation based on production amount, would become individual labor; but on the contrary, this hypothesis is not correct because it does not go against the fundamental principles of the collective economy.

“In the past, fixed output and tasks were calculated from a set framework for production. Indeed they did not correspond to the fields, and commune members did not fully understand their responsibilities in the fixed output system. They said, ‘Labor, like a bundle of firewood, would be contracted to a group, and the leader of the production team would shoulder it alone.’ Now, contracted production would be based on fixed output per area of land, which not only guarantees greater accuracy but also gives commune members a better sense of what they must be accountable for. They say, ‘Now, each person has responsibility, and a load of one thousand *jin* will be carried by all.’ The explanation is clear. The total fixed output for a production team is determined by the completion of fixed production rates from each individual area of land. We must rely on the ability of the masses to accomplish this, similar to industrial production. After a production task at a factory is established, it must then be divided into a work section, a workshop, a production machine, and it must rely on each worker’s sense of responsibility. Otherwise, general production tasks become empty talk. Therefore, we believe that the fixed production per field and fixed labor per person systems should not at all be seen as the same as individual labor.

“As for field management labor contracted to households, it is used because this kind of farm work is comparatively more complex, trivial, and suitable for decentralized labor. A single contract will be given to one household in order to delimit the croplands under the field management responsibility system. This method not only eliminates the frequent need for small farm work to be distributed and evaluated on a points scale, but also reduces the problem of idleness among laborers. In addition, each person will be assigned individual responsibility for a specific cropland in the field management system. This is exactly the same as fixing the technical level of workers in textile factories according to the amount of spindle and number of looms. Therefore, it can be understood that this is a feasible option even under collective ownership. This option also has two other advantages, one, it will create better cooperation and work division between the commune members who are contracted to field management labor and the commune members who perform major farm work, and there will be mutual supervision and a guarantee for the quality of rural life; second, it allows the auxiliary labor in a household assigned to field management to participate in production, changing the previous deficiency of only permitting able-bodied and semi-able-bodied persons to participate in production.

“As for calculating award compensation based on production amount, this is only to make compensation more rational and does not change the essence of contracting production to the team. The previous method of awarding overproduction or cutting compensation for under-production was based on the amount of farming (work points) done by commune members. This system only emphasized the amount of farm work, not the quality or results, thereby creating an increase in the work points of commune members, but also a disregard for quality. Major farm work is now contracted to task groups, minor farm work is contracted to households, and award compensation is calculated by the amount of farm work to actual labor ratio. The production amount becomes the standard for calculating award compensation, which addresses the above-mentioned problem of commune members striving only for work points and ignoring the underlying value of their labor. This approach is similar to that of paying system in coal mining, which is to raise the daily wage of the worker when he exceeds his assigned workload and to cut the wage if he fails to finish the work. All in all, the field management responsibility system with incentives method is only a type of management method in a socialist collective economy. It does not change the ownership of the means of production because the land, livestock, and large farm equipment and tools are still collectively owned; it does not change the allocation method of product revenues since products within the fixed output quota system are still uniformly distributed by the brigade, and commune members still receive payment according to their labor; it does not change the nature of collective labor since this not only demonstrates that major farm work is completed together, but even that minor farm work is also done by contracting production tasks, so it is still a part of the collective production process. This type of collective production and individual division of labor exists in any socialist production unit. Therefore, we say that this method is not one of working alone.”

2. Will this approach result in polarization? The report claims:

“We also once assumed that with the implementation of this method, there would be a stronger labor force and stronger households, more work points, more instances of overproduction, and life will become increasingly better. However, there are households in hardship that perform less labor or have weak labor, they will earn less work points with less overproduction, and quality of life will become worse and worse, resulting in polarization. But analyzing this in turn, such concerns can be disregarded for these reasons.

“First, the new approach has not changed the collective ownership nature of the means of production, and has not changed the uniform allocation of products, so if the previous style of contracting labor and production did not produce polarization, then to the same end, new approach also will not produce polarization.

“Second, the income gap between members will not expand due to this trend. Although many stronger laborers and stronger households will earn more work points and overproduction may also be more likely to increase, these phenomena will not increase infinitely since labor will be set according to the brigade’s estimation of production needs, so a certain limit will exist; as long as the fixed production rate is appropriate and not too low, then overproduction will also be limited for those with contracted field management responsibility croplands. For households experiencing hardships with a weaker labor force, although their income will be less than those who work more and work harder, it will not be less than their previous income since contracted field management labor is in accordance with each person’s own capabilities. These weaker households will receive additional care, such as aiding sideline production (e.g., breeding pigs, chickens, raising geese, ducks, etc.), and be contracted to fields that are physically closer or easier to work on; at the same time, production rates will be set lower than that of the general field management responsibility croplands. Therefore, even though overproduction may be less than what stronger laborers create, it will not be too much lower.

“Three, for those households in difficulty that cannot sustain their livelihoods even after receiving the benefits mentioned above, subsidies will be given from public welfare funds, and aid will be given from relief funds, so as to guarantee productivity.

“Therefore, it can be said with certainty that this approach will not cause polarization. Of course in the process of experimentation, there will be some aspects that do not provide sufficient care to weaker households. This cannot be seen as an innate problem of the system, but rather as variation in how certain cadres apply the method.”

3. Will this approach aggravate the selfishness of commune members? The analysis of the report is as follows.

“We believe that selfishness in communes members is reflected in nothing more than two aspects, one is greed for income, and the other is the mentality of private ownership of land. As for the problem of selfishness in terms of income, commune

members answered very clearly, ‘We had this kind of selfishness in the past, and we currently still do, but the difference is that it was hidden in the dark before. For example, many people labored passively, fought over work points, did not care for the quality of farm work, and did not care for the quality of the crops. This kind of selfishness was very poisonous to production. Now, our selfishness is out in the open. Everyone wants to be responsible for healthy croplands and strive for surplus grains. This kind of selfishness is inseparable from responsibility and it is of great benefit to production.’ This kind of open selfishness only requires correct guidance, and a constant effort to strengthen socialist and collective education, in order to enable everyone to better combine an enthusiastic attitude towards labor with greater enthusiasm for socialism. The way we see it, the new approach will not trigger the privatization of land either. First, since the number of croplands contracted to each commune member will depend on the abilities of each household, not based on the individual, and since the field management responsibility croplands will be rotated and adjusted according to each other’s labor output, commune members will not view the land they work on as their own private property. Second, commune members contracted to responsibility fields will only be in charge of minor farm labor, and major farm labor will still be done collectively. Third, commune members only have operational authority over the responsibility fields, not ownership. This is similar to machines in a factory or weapons in the military; each person only manages them. This will increase the care that commune members will give to their croplands, but it will not feed the private ownership mentality.

“Of course in the process of experimentation, some member communes will request better quality croplands, elbow through and push others aside, or produce less than what is required, but these would be the consequences of insufficient campaigning and education, not a result of the new approach planting selfishness in the hearts of farmers. The problems are very evident, and the pilots so far have produced good results in over 90 % of the cases. The negative side effects mentioned above are uncommon and can be rectified.”

Based on the analysis of the above three problems, the report logically concludes, “In sum, we believe that the field management responsibility system with incentives method is suitable for the current level of development in productivity and for the level of political consciousness among the masses. It fits the unique feature of the current manual labor dominant agricultural production system. As long as there is correct implementation, this method can play a positive role in organizing labor and promoting enthusiasm for production.”

Before long, however, in the early days of 1962, the Central Committee of the CPC held an enlarged session work meeting (otherwise known as the “Seven Thousand People Conference”) in which an Anhui representative reported serious problems in rural Anhui caused by the “wind of Communism.” The “responsibility fields” were accused of as being “a mistake made in the wrong direction.” Following this, Zeng Xisheng and others in the Anhui Provincial Party Committee who were actively carrying out the responsibility fields system were criticized, revoked from their positions, and transferred.

After this core group was reshuffled, the new Anhui Provincial Party Committee held several meetings in which members voiced harsh disapproval of the “responsibility fields.” In a report to the Central Party Committee and to Mao Zedong, they pointed out, “Anhui’s ‘responsibility fields’ method was brought about in 1959 under the severe circumstances of ‘hunger, illness, departure, shortages, and death’ . At the time, the Provincial Party Committee was confounded in the face of difficulties, critically ill patients, and thus selected the widespread implementation of the ‘responsibility fields’ approach to cater to a portion of farmers’ tendencies to labor alone.”

The report continued, “The trend of contracting output to households will necessarily result in dividing land among households, and commune members will see their contracted land as private assets where they will plant boundaries, inserted trademarks, with each person using their own abacus and planning production. Farm work arrangements cannot be unified this way. In terms of allocation, grains are divided and then collected from each household, so the products would come under the household’s control and the production brigades would have to go door to door urging each household to give their share of grains. However, since contracted production was relatively low, some commune members were unsatisfied and gave less to the collective. Uniform allocation was then impossible to guarantee. In the end, fixed farm output quotas per household caused a lot of conflicts between the collective and individual, contributed to the selfishness of members, weakened the concept of collectivism, and caused the collective economy to collapse.”

In the previous time period, it was strongly believed that the “responsibility fields” system does not mean dividing land and laboring individually will not produce polarization and will not exacerbate the selfishness of commune members; these three points were specifically refuted one by one in the report and the criticisms were magnified.

“The Provincial Party Committee once made a defense claiming, ‘Responsibility fields’ is a type of management responsibility system that will not destroy the collective economy and will not move it towards individual labor. However, the reality is in fact the opposite. First, contracted output per household is actually dividing the collective to each household, with households that have more and stronger labor receiving more croplands, and households with less and weaker labor receiving less croplands. This increases difficulties for military households, families of revolutionary martyrs, industrial worker families, cadre families, and other households in hardship. There are many military and industrial worker families in the province that have written letters to family members in other places to come home and help with rural labor because or else day to day living was very challenging. Although farmers felt more responsibility towards the fields they were contracted to, they no longer felt responsible for the cattle and farm tools owned by the group. Is this the true concept of responsibility in a collective production system? Second, after implementing the ‘responsibility fields’, each family and each household became a single production unit. Regardless of

production or allocation, the superior nature of the collective economy dissipated. Commune members’ food and cash income were not dependent on the collective, and even if the production brigades managed to uniformly allocate parts of it, the proportion was not big. Third, after implementing the ‘responsibility fields’, the masses reflected, ‘Self motives are growing, and people’s heart is not united.’ The air of socialism and collectivism in the countryside was weak. A portion of lower-level cadres and stronger members of the labor force took advantage of dividing fields by bullying households. They only cared about personal interests, disregarded the collective income, and did not care to complete the national procurement tasks. Some commune members said, ‘With the responsibility fields system, those with longer arms gather more harvest, those with shorter arms gather nothing. If the collective is not thriving, then the country also will not.’ There were even some lower-level cadres who simply did not tend to their work and did not participate in meetings, letting organization at the grassroots level sink into an idle state.

“Therefore it is clear that ‘responsibility fields’ is not a collective production responsibility system. It is not a matter of the management and administration approach, but rather an affront to the foundations of the collective economy and it encourages embarking down the path towards individual labor.”

Thirty years have passed and history has fairly concluded which report of the two was right and which was wrong. Even though the yearlong experimentation with the “responsibility fields” rapidly changed the landscape of rural China and a forced correction of the system was met with resistance, most cadres and commune members still could not accept this method. Authorities in the reorganized Anhui Provincial Party Committee listened to the strong opinions of those below and could not help but express, “We must be cautious in correcting the ‘responsibility fields’, we must respect the view of the masses, and if the masses do not wish to change, then we should not push them.” Some conscientious cadres were willing to take a risk on the “responsibility fields” and boldly defended it.

1.2.3 Two Letters Sent to Mao Zedong

Around the same time as the Anhui Provincial Party Committee was attempting to correct the responsibility fields system, Publicity Director Qian Rangneng of the Taihu County Party Committee of the CPC sent Mao Zedong the “Report on Recommending the Responsibility Fields Approach” in October 1962. There was a clear contrast of the production between before implementing “responsibility fields” in Taihu County and afterwards. Qian Rangneng confirmed that this approach was an “innovation of the farmers, and one that is appropriate for the inevitable trend of rural productivity at present.” He said, “In March 1961, as soon as we began to use the responsibility fields system, those who left for work in other places came back, those who were employed as workers in small township factories

and craftsmen came back (whereas in the past, they could not even be invited back). Those who drifted into government agencies and families with industrial workers also returned. Fathers would ask for help to write letters to sons, wives would write to husbands, and younger brothers would try to rally their older brothers. We were busy without a moment's rest and the atmosphere was lively and extraordinary. This was truly an event worth celebrating." "Last winter in the countryside, I saw many young girls who married into Xuqiao of Susong County return home every three to five days. I asked why, and their mothers and fathers said, 'They don't eat well over there, so we ask them to come back home to have more meals, and they take back with them eight or ten *jin* of food. Ah, it is worrisome that those over there aren't using the responsibility fields!' Whether in the countryside or traveling on the steamship, or waiting at a rest stop, the logic behind many farmers' understanding of the responsibility fields was the complete opposite of what I had heard in the provincial capital or read in official documents. There were many miracles, many things that had never been seen and never been heard of before. For those who do not support the responsibility fields, I would like to invite them here to see the actual results. I believe there is much wisdom to be gained."

Qian Rangneng provided large amounts of data proving that the "responsibility fields" were making an immense impact on the development of production. In the 3 years of difficulty, the rural areas of Taihu County experienced problems with infertile croplands, many people's fleeing away, hunger, disease, and death—not a single disaster was avoided and the conditions for production were extremely poor. In 1961, within 1 year, food problems were basically solved. Despite encountering 105 days of drought and windstorm disasters later in the year, total grain output still grew by more than 1 % compared to 1960. "This was such a fast change. Exactly what was behind it? In the words of the farmers, 'Just that the responsibility fields are good.'"

He even took one step further in analyzing the superior nature of the "responsibility fields." "Under the collective ownership system, the main puzzle was how to turn collective interest into the farmer's personal interest. The responsibility fields have completely solved this issue well." "If the goal of 'each person caring about production, each person's responsibility is clear' cannot be achieved, then labor productivity will be unlikely to increase. Labor productivity is the main and most important condition for ensuring victory of the new social institution. Therefore, to improve labor productivity, we must first improve enthusiasm for labor within people, so that everyone cares about their tasks and can define their responsibilities." "The farmers nowadays are still farmers. What they hate the most, what gives them the biggest headache, are complicated and troublesome things. What they welcome are the simplest and most common things, whatever is easiest to operate." "The easiest thing that brings general content to farmers is fixed output per field and fixed responsibilities per person. Only in this way can farmers understand with ease each farm task they are supposed to do. It is all connected to their personal interest and they are able to see the cash right away. The old method mainly relied on work points, actual production was not related to work in the field, and the responsibilities were not given directly to individuals. That is why

recording points based on labor was not truly successful. If the old method of recording work points was used in collective team production nowadays, other than a small number of groups with concerted efforts to maintain historical habits, the resulting phenomenon on average would be laborers caring only about the amount of work and the number of work points earned. Quality would not be guaranteed. However many ideas you have, however much you rack your brains, free production, inspection upon delivery, and mutual supervision are all useless in the face of numerous residual resistance from small production teams and their relationship with the great forces of inertia and conservatism. At the same time, calculating work points on the basis of work completed is complicated in and of itself. First is the error of timing, particularly reflected in farmers losing sleep when there is a lot of work to be done. Second is when work evaluation is poorly done, there are either disputes or fights, and it is difficult to overcome the equalitarianism felt between the commune members. Next is the tedious philosophy. With dozens of procedures, some small groups became confused and the result would be a muddled account.” Last, he earnestly said, “I worry very much that the Provincial Party Committee’s decision in 1962 to turn around most of the responsibility fields will not be feasible here based on the current situation. Farmers will not believe empty talk, and unless you can show them a way that is better than theirs, I do not think they will change their mind, other than out of coercion.” “According to our survey, over 80 % and even upwards of 90 % of farmers want to protect the responsibility fields system. The citizens and masses standing on the 90 % side share the same breath, but certainly this is not Tailism! I am afraid that if 80 % to 90 % of the farmers are unwilling to follow our lead, then this is not Marxism either!”

After Mao Zedong reviewed Qian Rangneng’s report, it was approved and circulated to the representatives at the meeting in Beidaihe. Mao ordered the general office of the CPC Central Committee to send native Taihu cadres down to corroborate the contents of the report. The investigators saw and heard firsthand that the elders of their hometown had solved the problems of food and warmth through implementing the “responsibility fields.” This eroded the original suspicion of the “responsibility fields” and turned the cadres in favor of the approach instead. Later, in the anti-rightist struggles and the “Cultural Revolution,” Qian Rangneng and the comrades who surveyed Taihu County were relentlessly criticized and attacked and were not redressed until the fall of the “Gang of Four.”

In July 1962, the Party Committee of Fuli District in Su County also wrote to Chairman Mao Zedong, stating, “We are all members of the Communist Party”; “truthful reflection of any situation is part of the glorious mission of Communist Party members”; “[we are] determined to lay our hearts bare to speak, so please kindly come investigate.” They raised examples of ten major advantages of the “responsibility fields” and continued to claim, “After engaging in discussions back and forth, all of our comrades believe that it is difficult to find a simpler, more effective method, and one more easily accepted by the broad masses in increasing production, than the responsibility fields. Therefore, we wholly believe that this is a comparatively good method.” “The direction is not wrong, and there is no danger of restoring capitalism.”

Even so, the new Provincial Party Committee continued to act in accordance with the central government and officially published the Resolution Regarding Correcting the Responsibility Fields, which pointed out, “The implementation of the ‘responsibility fields’ approach in most areas of my province is opposite of the instructions for correcting the basic accounting unit problem in people’s communes, as laid out in the 60 Regulations of the CPC Central Committee. This approach provokes the individual enthusiasm of farmers, guides farmers to labor alone, and the result is bound to weaken and collapse the collective economy, eventually sending society down the path of capitalism. The direction of this approach is wrong and is out of line with the fundamental interests of the majority of farmers, and must be resolutely rectified.”

After the resolution was issued, there was step-by-step communication and implementation, and scathing critiques were carried out. However, “responsibility fields” were etched into the depths of the farmers’ hearts and many opposed and were resentful. Things did not progress smoothly. By August 1962, only 36,595 production brigades made alterations, which was 12.2 % of all brigades in the province. In the same month, Mao Zedong held a central government-level working meeting in Beidaihe, and the 10th Plenary Session of the 8th CPC Central Committee was convened. There was criticism towards the “three waves of black winds,” namely “the wind of individualism,” the “wind of reversing verdicts,” and the “wind of obscurity.” Mao emphasized that class struggle had to be discussed and presented at the forefront “year after year, month after month, and day after day.” He also criticized the household responsibility system for being the fuse that revived the importance of reminding the nation of class struggles. It became one of the main contents of the meeting.

From mid-October to mid-November that year, Anhui Province held a session of 13 meetings to convey and implement Mao Zedong’s statements. From then on, the “responsibility fields” once again received punitive attacks and then was completely overturned before long.

Implementation of the “responsibility fields” in rural areas of Anhui also attracted the attention of some leaders and related departments in the central government. In June 1962, Li Fuchun, a member of the Political Bureau of the Central Committee, wrote to Liu Shaoqi, Deng Xiaoping, and various comrades in the Secretariat, reflecting upon his trip to Anhui. “On the 16th of this month, I passed through the Guandian Public Commune of Jiashan County in Chuxian’s special zone in Anhui Province and made conversation with some members of the Chezhan and Qiuying production brigades upon seeing them harvest wheat. They said that this year’s harvest is better than last year’s, life is better than last year’s, and there were no endemic diseases or incidences of people fleeing from famine.” “These two brigades had already divided land to households, contracted production to each family, and contracted responsibility to each field. After asking a few farmers, they all said that contracting production quotas to individual households was a good thing.”

Mao Zedong’s secretary Tian Jiaying also sent two comrades down to Wuwei County in Anhui to investigate the fixed output per household situation. After the

investigation, they believed, “Fixing production quotas to each household is certainly useful and necessary for the crisis encountered by the collective economy and for quickly recovering agricultural production.”

On May 7, 1962, Minister Deng Zihui of the Rural Work Ministry of the Central Committee sent people to Dangtu County and Su County twice to survey the rural situation, which further confirmed the advantages of the “responsibility fields.” This led to a report to the Party Central Committee titled “On the Opinions of Several Policy Issues in Rural People’s Communes,” which claimed, “The danger of individual production is that the individual economy will become the main social institution, resulting in exploitation, labor class disparity, and ultimately leading to the capitalist road. If we can maintain the collective economy as the core of the rural social institution, keep the power in our hands, and ensure that the backbone of the national economy, such as industry, transportation, finance and trade enterprises, are owned by all the people, then under these conditions it is none but beneficial to allow commune members to operate on small business of privatization within a certain range.” He later recommended the “responsibility fields” once again to Mao Zedong at the meeting in Beidaihe, but received severe criticism.

Although farmers in Anhui sincerely supported “responsibility fields” and although many comrades from the central level down to the local Party organizations continuously debated, wrote letters, and presented advice, the “responsibility fields” system was nonetheless forced to change. But it became deeply rooted in the minds of Anhui farmers and sowed the seeds for the bold and creative exploration of reforming rural relations of production.

1.3 Wan Li and the “Six Guidelines of the Anhui Provincial Party Committee”

1.3.1 Wan Li Takes Office

In June 1977, Wan Li was appointed First Secretary of the Anhui Provincial Committee of the CPC after its new reorganization following the plunge of the “Gang of Four.” As a highly influential man in the tidal wave of rural reform, Wan Li arrived in Anhui and found it to be a backwards and mostly agricultural province that was left destitute and broken after a long period of “leftist” errors and 10 years of chaos and repeated struggles from the “Cultural Revolution.” The “Gang of Four” was particularly tough on implementing “Learning from Dazhai” in Anhui. “Leftist” errors on the policy level, and coercion and blind order-giving were particularly serious, leaving an especially dense atmosphere of criticism and struggles. The actual living standards of farmers were in large decline. There were over 287,000 production brigades in 1977, and only 12 % were able to maintain basic sustenance. 67 % had a per capita annual income of less than 60 yuan, and 25 %

received less than 40 yuan every year. Most farmers did not have enough to eat or to keep warm, and many people were still combating starvation.

In the 10 years of chaos, the “Gang of Four” confused truth with falsehood, made perverse acts against history, and brewed a contentious mess. At the beginning of 1975, Deng Xiaoping presided over the Central Committee and immediately started an overhaul. He appointed Wan Li as the new Railway Minister in order to help rebuild the country’s paralyzed railway transportation system. Wan Li succeeded in carrying out this assignment with extraordinary courage, and in a sweeping style, he quickly reversed the state of confusion and ensured the safety, punctuality, and smooth operation of railway trains. Unfortunately, this did not last long as Deng Xiaoping was brought down again in the so-called “wind of anti-rightist tendencies”, and Wan Li was also consequently knocked down as part of the “reactionary go-getters.”

Following the collapse of the “Gang of Four,” more provincial and ministerial level cadres were liberated and once again resumed their leadership posts. Wan Li was originally assigned to be second-in-command to a senior comrade in Hubei Province. At the time, Deng Xiaoping’s leadership role was not yet officially announced, but he already began participating in some major activities and decision-making processes in the central government. Wan Li visited Deng Xiaoping to say goodbye after receiving the appointment, and when informed of this matter, Deng suggested reassigning Wan Li to take office in Anhui, because Anhui was a “big mess” and Wan Li was an expert in managing and solving “big messes.” Before Wan Li left for Anhui, the highest figure of authority in the Party Central Committee at the time, Hua Guofeng, also asked to speak with him privately and expressed high expectations for him to improve Anhui’s severe situation.

Could Wan Li be successful in carrying out this assignment too?

Despite being wronged twice, Wan Li did not lose his fearless courage and charisma in politics. After arriving in Anhui, he worked quickly to uncover what the agents of the “Gang of Four” had been hiding for eight months. He took decisive measures to prevent the interference of factionalism, properly handled the most pressing problems, and then reformed the prefecture- and county-level leadership to achieve stability and unity. Wan Li’s solution was simple yet clever. He used his triple identities, as first secretary, director of the revolutionary committee, and military political commissar, to notify through the newly established provincial Party committee leadership that the “Cultural Revolution” had ended; the historical task of the army’s “support of the left” had been successfully completed. Each unit in each department of each area had to organize the masses to send military representatives back to their base camps in a grand and honorary manner. All of them returned home within 3 days. Suggestions and comments about the military representatives could be submitted to the provincial Party committee. Afterwards, the fact would be sent off by the provincial Party committee and processed by each troop separately. Wan Li made lightning-fast decisions, came up with solutions that solved fundamental problems, kicked out the platform from underneath the perplexing factionalist struggles, and gave employment positions back to a large

number of cadres who were shut away. Many obstacles were removed and the province established a new order with overall stable conditions. But from the outlook of Anhui and even from the entire country, there were still mountains of problems and difficulties. Where is the way out after 10 years of chaos? Hundreds of millions of citizens were impatiently standing in this long-awaited sea of expectation and hope.

Wan Li was from Dongping County in Shandong Province, born on December 1, 1916. His father served as an army officer in the Yan Xishan military troop and was killed in the early period of the War of Resistance Against Japan; his mother was a hardworking and virtuous woman who relied on laboring for others by doing needlework and washing clothes in order to raise Wan Li and his two younger sisters. In the summer of 1936, Wan Li graduated from Qufu Normal University in Shandong where he adopted Marxist doctrines and became a member of the Communist Party in secret. Upon returning to Dongping, he became an elementary school teacher and participated in underground Party work. Throughout the War of Resistance Against Japan and War of Liberation, he lived, worked, and fought in the Hebei-Shandong-Henan rural base areas, and he took leadership positions in the county, prefectural, and district Party committees. He dealt with farmers all day long, became familiar with them, and developed tender feelings towards them.

After the founding of New China, he left the countryside and found work in the city to manage industrial enterprises, urban construction, and railway transportation and was no longer involved in rural work. He deeply felt the need to learn and relearn and thus personally traveled to the countryside and did survey among farmers. He traveled with light luggage and few attendants, made no notices, and simply left when he wanted to leave. He dove directly into the grassroots, into the households of farmers, and, upon discovering some problems, would then go to the county- or prefecture-level government departments to exchange views and discuss potential solutions. Sometimes, local leaders would rush to report matters to him, but he would have already done the investigation and moved on to somewhere else. In a little over 3 months, he visited nearly every prefecture and county in Anhui Province without holding big meetings and without giving any gestures or slogans. He only looked around, asked questions, and listened. The more he was aware of, the more heavyhearted and full of deep shame he felt. Wan Li exclaimed, "I cannot believe that after 30 years of socialism, ordinary people are still this impoverished!" He was a strong man drilled out of the struggles of the revolution, but in the Dabie Mountains in Jinzhai County, inside the downtrodden house of a Red Army martyr's family, he saw the hollow bottom of the rice jar, the old and young wrapped in padded jacket with rips revealing the cotton, shivering in the cold wind, and he could not help but shed tears. In a thatched shed on the Yangtze-Huai River Plains, he saw that farmers cooked sweet potato noodles and carrot seeds that produced black paste of foul smell, leaving disgust in his heart. On the road, he asked a farmer carrying a load of daily goods what his needs were. The farmer patted his own stomach and said, "Nothing else besides a full stomach." Wan Li asked again what the farmer needed, and the farmer again patted his stomach and said, "To store less dried taro (sweet potato) in here." After this

encounter, Wan Li sighed, "Look how great our farmers are! Their expectations are so low, but even their most basic needs have not been met." In the well-known flower-drum town of Fengyang, Wan Li and some local cadres had an informal roundtable to discuss how to solve the problem of farmers migrating outward to go become beggars. Someone said, "Some farmers here have a habit of going begging for food." Wan Li could not resist interrupting him and angrily replied, "Begging is not a matter of 'habit'! How can you speak like that! I don't believe anyone would still go begging if there were grains and dumplings to eat!" In all he had seen and heard in those 3 months, the most profound and prominent point was the single word, "poor." Yet behind this was the word "left." Wan Li visited Jinqiao Commune in Dingyuan County, where the Honggang Brigade was considered a top-notch example of "Learning from Dazhai" in the province. Crops were growing moderately well, but upon more careful inspection, apparently "Learning from Dazhai" meant big groups pushing forward heavy work. Private plots were abolished, engaging in family sideline production was not allowed, "approximate labor" was promoted, and more emphasis was given to calculating political accounts than to economic accounts. Quality crops came from using fertilizer, which was done as an artificial display for those up above. Productivity was not low, but the costs were very high, and farmers' lives were generally worse off than those in other brigades. The policy was "leftist," and reality was even more "left." The number of people in the "Learning from Dazhai" work teams of some production brigades would be more than the total number of households in the brigade. Each household had a designated person to manage this campaign. The leader of the work team fiercely said, "If you are here to spread capitalism, we are here with the dictatorship of the proletariat's knife. Our right hands hold the knife of the proletariat dictatorship, and our left hands hold the whip of the proletariat dictatorship to slash down all things capitalist, and to chase you up the road towards socialism!" Wan Li painfully discovered that the ideal of shared wealth he spent his own life fighting for had in fact turned into the reality of widespread poverty. He finally acknowledged that "class struggle as the key link" could not build socialism and that sacrificing farmers' interests for industrialization and modernization could not either build socialism. The long-term practice of the set of "leftist" methods was actually depriving and suppressing farmers. After Dazhai had been deemed the primary role model for continuing the revolution under the proletariat dictatorship, the Learning from Dazhai campaign in the agriculture sector had become synonymous with "class struggle" and "struggle of the two roads." It had become a political struggle of adjusting the mentality of grassroots level cadres, attacking the peasant masses, and destroying agricultural production. Wan Li thus decided that the countryside would have no way out without reform. Changing the policy, thoroughly correcting "leftist" errors, and setting a new rural policy agenda would be necessary and nonnegotiable.

Around the same time, Wan Li received a report from the Chuxian Prefectural Party committee. As someone who had always disliked hearing reports that only emphasized the good and concealed troubles, and hated "fake, big, empty" word games, this report made him sink into deep thought as he read it over and over

again. The report mentioned how the “Gang of Four” and its agents distorted the Party’s socialist economic policies and attempted to spread the fallacy that as long as “the route was right, then there is no fear of overdoing the policy.” They deemed the ideology of “the commune, the production brigade and the production teams own all, with production teams as the base” as outdated and unfashionable; they made adhering to the principle of distribution according to work become stigmatized as “strengthening bourgeois rights”; they criticized commune members’ small amount of production from private plots and family sideline business based on policy requirements as “transfusing capitalism with oxygen”; they criticized the agenda of building society through diligence and thrift as “only calculating economic accounts, not political accounts”; and they criticized various types of operations that developed a sense of the collective as being “ruled by money.” Such interpretations confused people and caused some senior cadres to become afraid of discussing policies and new cadres afraid of adopting policies. There was discussion of work division but no policy analysis, and when inspecting production, there was no reference to policies. The operation and management of communes and brigades was disorderly, while commune members shouldered heavy responsibilities and labor without receiving much in return. Allocated goods could not be exchanged for cash, and the remuneration of farmers was far too low, all causing a serious detriment to their motivation to work. Wan Li repeatedly mulled over this question: Was the situation in Chuxian a common case? Would implementing rural economic policies meet the requirements of the majority of farmers and bring order out from chaos?

1.3.2 Investigation, Research, and Formulating the “Six Guidelines of the Anhui Provincial Party Committee”

In order to better understand the situation at the time and to deliver a comprehensive report, the Provincial Party Committee organized the Agriculture Committee and others to make a special investigation by analyzing typical cases and holding report meetings on policy investigation at the subregional level. On the basis of multidimensional surveying and collecting a large amount of materials, the Provincial Party Standing Committee held a meeting to approve and pass the “Decisions on Several Matters Concerning Current Rural Economic Policies (Draft)” (later referred to as the “Six Guidelines of the Anhui Provincial Party Committee”), which emphasized that the core of rural work was production; respect must be given to the autonomous power of production brigades; farmers must be allowed to establish proper family sideline businesses, and products could be sold at the market; production brigades should implement the responsibility system, and farm work that could be done by select individuals can be contracted to the individual. Wan Li and Gu Zhuoxin, the second-in-charge who was newly transferred to Anhui Provincial Party Committee, and Zhao Shouyi, third-in-charge, as

well as Wang Guangyu, a deputy secretary in charge of agriculture, and Yuan Zhen, general secretary of Provincial Party Committee, together formed a solid force under the unity of a collective leadership. They carefully studied Anhui's basic conditions and came to a full consensus. The most striking point was that the pernicious influence of the "Gang of Four" was deeply etched into the countryside. They undermined the policies of the Party, did not care about life or death, and made the Party become severely divorced from the masses. Therefore, only through implementing rural economic policies and combining criticisms of the "Gang of Four" with solving practical problems in the rural areas could the local leadership expose this complex and difficult situation and mobilize farmers' enthusiasm.

Although the policy document had already gone through full deliberation and many modifications, Wan Li, Gu Zhuoxin, Zhao Shouyi, and several other major leaders still did not feel assured, so they went to the countryside together and invited representatives of communes, production brigades, small production teams, and middle- and lower-class peasants to attend an open forum. They personally sought advice from the farmers, took notes, and made edits to the policy document with their ears open. The key provisions of the document were formulated more properly and improved upon. In mid-November, the top heads of each department at the county and prefectural (municipal) and provincial levels of the Party committee gathered for a province-wide rural work conference.

At the very start of the meeting, Wan Li said, "Anhui is an agricultural province, so if agriculture does not become better, then this poses a major problem. If even food and clothing cannot be guaranteed, then there is even less of a chance for the Four Modernizations." "Promoting rural mechanization is completely correct, but the most important production force is people. At its roots, agriculture depends on the two hands of a farmer and the mentality that supports those hands. Mobilizing the people's enthusiasm depends on policy. If the policy is right, then farmers will be eager, and if the policy is not right, then farmers will not be eager. In these years, there were so many things that went wrong at the policy level." "China's revolution begins in the countryside and the farmers support us. The mother sends her son to become a soldier and join the revolution. Why? First, it is for political liberation and to overthrow the pressure of the 'three mountains', and second, it is to improve quality of living. Now that we enter the cities, some people have forgotten that their mothers are the peasant masses." "This meeting is for thinking what the farmers are thinking and worrying about what the farmers are worrying about, ultimately to study how to create policies that will advance agriculture." The participants of the meeting had not heard such a speech in years and found it to be rejuvenating. Now in higher spirits, the officials once again opened up the draft for serious discussion, revised it repeatedly, and, finally, unanimously issued it as an official document of the Provincial Party Committee that was to be implemented in every region of Anhui.

Once the document was met by the masses, it immediately aroused strong responses and resulted in events that were rarely seen in the past. Some brigades asked households to send a representative to the announcement meeting. When members heard it was about a new policy, everyone fought to join in. There were

not enough seats in the house so everyone had to convene in the courtyard. Some were not satiated by listening once, so they asked the announcer to repeat it a second time, and then a third time, before happily exclaiming, “It is as if the Provincial Party Committee had visited our village. Every regulation is a reflection of what is in our hearts!” A 60-year-old peasant in Quanjiao County heard from others about the content of the “Six Guidelines.” In disbelief, he traveled for several dozen miles to confirm with the County Party Committee had announced, and upon learning that it was true, he clapped his hands and cried, “This is it!”

1.3.3 Must Be Responsible for the People of Our Province

However, the late 1970s was still of the period of popularizing the idea of “class struggle as the key link.” For the majority of cadres, the influence of the “left” had not been cleared. Some people became anxious and upset after seeing the draft of the “Six Guidelines” and suspected perhaps the Provincial Party Committee made an error. “How can production be at the center? Where has the key link gone? Are they not afraid that this will be condemned as the idea of paying attention to productivity only?”

Sure enough, criticism arrived. Chen Yonggui had began to speak against it.

Since 1970, when Xiyang established itself as a Dazhai model county, the campaign escalated from “Learning from Dazhai in agriculture” to a “universal Dazhai county.” By the early days of 1978, according to statistics, 723 counties had been constructed around the Dazhai model, representing nearly one third of the country. But agricultural production had not improved, and there were still false reports of production output. The wind of coercion was becoming more and more serious again. In the “popularizing Dazhai counties” movement, many places mimicked Xiyang’s experiences in a “large work force promoting large work” and labeling “five types of people,” creating yet another high peak in arbitrary struggles and criticisms. Li County announced that it was an advanced county and number one in promoting the Dazhai style in Gansu Province in 1975, but was exposed as a “fake model” in 1978. Taking the label of “Learning from Dazhai” in vain, Li County subjected people to blind and biased commands, ruined the labor organization and the rotation system for crops, and destroyed forests and pastures, resulting in a decrease in production and shoveling great difficulties over the masses. Xiangxiang County in Hunan Province, Xunyi County in Sha’anxi, and other places also revealed a serious violation of the law and discipline. They beat and scolded people and forced random penalties and punishments. Xunyi County had a population of only 200,000 people. There were as many as 751 cadres at all levels who were mistreating people, among which there were three from the County Party Standing Committee, 24 commune leader cadres, 67 general cadres, 88 cadres from the branch secretary, and 564 other grassroots cadres. Over 1000 people were physically beaten.

The main leaders in the County Party Committee, especially first-in-command Liu Shurun, held many wrong understandings and wrong practices towards

problems involving the philosophy of conflict, mass dictatorship, and the transformation of small production. Under the local leadership's influence, some cadres thought that "the deaths of a few were irrelevant in Learning from Dazhai in agriculture," or "even if we do not beat the good man, how can we not beat the bad man?"; "beating, scolding, and punishing is adhering to the class struggle philosophy" and is part of the "transformation of small production"; "not beating or scolding" means to uphold the creed of the 'old right', giving the good person with no principles control"; and so on. These beliefs seriously undermined the socialist legal system.

In the fall of 1977, Beijing simultaneously held two meetings on agriculture. One was attended by persons in charge of agriculture in each province and included the Minister of Agriculture. The central issue was how to quicken the pace of major production, emphasize Learning from Dazhai, and accelerate mechanization in rural areas. The other meeting comprised of lower-level participants. Only middle-ranking cadres from a portion of provinces gathered for a forum about the country's rural situation. They exchanged experiences, but the reflections were more practical and profound. These participants believed that the situation in the countryside was grim, that telling flamboyant lies was commonplace, and that farmers were living in poverty, with a growing number of places unable to guarantee food and clothing. Some advanced models with notoriety were actually "high-yield impoverished brigades." Therefore, a pressing matter of the moment was to adjust the policy and let farmers recuperate and regain strength. Someone introduced the practices in Anhui and drew the attention of the concerned officials. Later, *People's Daily* sent reporter Yao Liwen to write a news report—"The Birth of a Provincial Party Committee Document," which was published on February 3, 1978 and was prominently featured on the front page. The editor's notes pointed out, "The Anhui Provincial Party Committee delved deep into reality, paid attention to their investigations, and followed the mass line, conscientiously implementing the Party's policy. They are a good role model for recovering and carrying forward the healthy traditions of the Party." At the same time, a supplementary commentator's article was published, "Respect for the Autonomy of the Production Team." These reports played a positive role in helping people understand the truth of the situation in rural areas and in awakening them from the confusion and chaos caused by the "Gang of Four."

Prior to this, Chen Yonggui had become sensitive to the fact that newspapers began losing interest in the "Learning from Dazhai in agriculture" and "popularizing Dazhai counties" movements, and some reports were even with tongue in cheek of implications of disrespect. He expressed several times, "There are too many negative ideas being disseminated!" After seeing the "Six Guidelines" of Anhui, he finally could no longer stand it and angrily said, "What implementation of policies? Every line is rejecting and criticizing the 'Dazhai experience'!" He maintained that Anhui's "Six Guidelines" were directed against the "Learning from Dazhai in Agriculture" campaign and must be refuted. Although times had changed and it was difficult for him to issue orders through Xinhua News Agency or *People's Daily* in Shanxi, his words were still final. During the Spring Festival period in

1978, Chen Yonggui returned to Shanxi and, through careful consideration, drew up a dozen topics that he wanted the provincial newspaper to publish as a dozen commentaries. This was his so-called “cannonball” tactic. The first piece, titled “How Xiyang Mobilized Socialist Enthusiasm in Farmers,” thoroughly described the basic lessons of Dazhai, did not mention Anhui, and was in reality a critique against the “Six Guidelines” for “taking pleasure in giving favors and making frivolous talk” because it did not conform to the policy of “grasping the key link to govern the country.” This commentary first appeared in *Shanxi Daily* and was then issued by Xinhua News Agency. *People’s Daily* reprinted it on April 21 and the oncoming force was quite fierce.

The basic spirit behind the “Six Guidelines” of the Anhui Provincial Party Committee was to emancipate the mind and seek truth from facts, beginning with the present conditions in Anhui at the time. It was to let farmer recover and build up strength and use policies to actively mobilize them. Although every regulation in the document could be traced back to the “60 Regulations” of people’s communes, Hua Guofeng still held tightly to the top priority of propelling the nationwide “Learning from Dazhai” movement towards a new peak. Therefore, the emergence of the “Six Guidelines” was not only seen by Chen Yonggui as “anti-Dazhai” and “cutting the red flag” but was also viewed by Hua Guofeng as intolerable. In the winter of 1977, Hua Guofeng continued to emphasize at a meeting of popularizing Dazhai counties that whether it was a tenacious hold on Learning from Dazhai or a rejection of it, it was “the big fierce battle of the proletariat against the bourgeoisie,” and “emulating Dazhai is the most important essence in accelerating the development of agriculture in our country.” The meeting also stressed that “realization of transitioning the basic accounting unit from the production team to the brigade” is a further step towards exerting the superiority of the people’s communes. It is the way forward and represents a major trend. Party committees at all levels should take on a positive and enthusiastic attitude, do work in a meticulous manner, and, in the light of its growing popularization, make the best use of the situation and strive to create opportunistic conditions for gradual transition towards making the brigade the basic accounting unit.

As Wan Li saw it, Document No. 49 was inevitable because it was the product of maintaining the “Two Whatever’s” principle. In spite of this, his determination to implement the “Six Guidelines” did not waver. He believed that the damage caused by the “Gang of Four” and “leftist” forces in the “Learning from Dazhai” campaign were not the same thing. A simple equal sign could not be drawn between the two. In the previous years, many “leftist” incidents in the countryside were exacerbated by the “Learning from Dazhai” campaign, creating adversity for farmers and could not continue to be promoted. The “Six Guidelines” emphasized respecting the autonomous rights of production brigades and the document was exactly the opposite of the spirit in Document No. 49 which promoted the transition to large brigades. This was a crucial problem affecting the core of rural work at the time. As long as production brigades retained autonomy, blind and chaotic commanding would be controlled, and there would be a larger margin in production output. It turned out that the “Six Guidelines” only mentioned autonomy in the form of

respecting the production team in one sentence regarding strengthening operation and management. Throughout the investigations, Wan Li felt that this issue was too important and suggested to make clarifications to emphasize that autonomy of the production brigades included, autonomy in production, autonomy in allocation, and autonomy in labor force, etc. Wan Li once said in a discussion, “Respecting the autonomy of the production brigade is in essence respecting reality, respecting the masses, promoting democracy and opposing arbitrary bureaucratic orders. Planting crops and farming in general is about what suits the local conditions and doing the right thing at the right time. Different types of areas, different communes, brigades, this side of the slope or that side, this piece of land or that piece of land is suitable for planting what, how to plant it, when to plant it—in addressing all these questions, we should proceed from reality, adopt the theory of materialism and not idealism. Who knows the actual situation the best? Of course it is the production brigade cadres and commune members dealing with the land and crops every day. They have the right to speak, and their views had to be respected. In the end, respecting their autonomy is an issue of how to treat people, and it is a debate about the principle of viewing the masses as heroes or fools. The lack of respect for the autonomy of the production brigade is the root of many mistakes that were made in our rural work in the past. The lessons of history have burned far too deep.”¹²

In March 1978, the Central Party Committee decided to hold a popularizing Dazhai counties forum. According to the notice, the head of each provincial committee should have attended, but Wan Li did not go and sent Zhao Shou as the representative instead. Before Zhao Shou departed, Wan Li said to him, when you get there, only listen and pay attention, do not say anything. Farmers in Anhui cannot embrace the Dazhai model. We cannot emulate it and cannot afford to. Of course we cannot openly reject it either. Just don’t speak, don’t say a word, and there will be no need to convey any messages once you return either. We cannot just take cues from the leadership. We must be responsible for the people in our province. We should do within our power what we should and can do and continue to resolutely implement the “Six Guidelines.”

This was the first attempt made on a provincial scale to bring order out of chaos. The agenda of class struggle as the key link was abandoned, and the agenda of production as the core was upheld.

1.3.4 The Power of Policy

After the “Six Guidelines” were issued, production brigades seized back their autonomy and mobilized the eagerness of farmers; farmers then followed the principles promoted by the “Six Guidelines” to develop and break through the rigid ideological framework of “commune, production brigade and production

¹² See *Wan Li Anthology*, 1996 Edition, p. 104. The People’s Publishing House.

teams own all, with production teams as the base.” The method of paying remuneration according to output was created, while work contracted to the group was developed into fixed farm output quotas for each team and then developed further into contracting responsibility to the group. This was known as the lump-sum responsibility system.

In the spring of 1978, the Weiyang Production Team of the Lidu Production Brigade in Yachen Commune, Lai’an County, strengthened its production responsibility system by establishing a yield-associated production responsibility system for task groups in order to overcome the drawbacks of mass production. This was done through consulting the experiences of the “three contracts (contracting work, contracting production, and contracting costs), one reward (bonus for overproduction)” system used by advanced brigades. It was a suggestion well received by those in leadership positions in the brigades and communes, those who then discussed and designed the solution of “farm tasks divided among groups, output fixed to teams, output as the basis of work points, and uniform allocation.” The production team was divided into two farm task groups, for which labor, land, production output, work points, rewards and punishment, and leadership were the “six fixed” responsibilities. The overall production plans, crop rotation, economic accounting, distribution of benefits, and other factors constituted the “eight unities.” The Weiyang Production Team’s practices won praise and attention from the Lai’an County and Chuxian Prefecture Party committees. During springtime of the following year, over half of Lai’an County’s production brigades had established the responsibility system of fixing output quotas to each task group.

The Qian’ni Production Brigade of Bashan Lake Commune in Fengyang County also implemented the “farm tasks divided among groups, output fixed to teams, and output as the basis of work points” responsibility system. Most of the croplands aside from rice paddies were contracted to the group and the results were very positive. During wheat harvesting season that year, the number of groups in the production team that were contracted to fixed farm output quotas had grown to 38. The basic approach was to “divide farm tasks among groups, use production as the basis for calculating work points, reward overproduction, and compensate for underproduction; give full rewards as well as full compensation for losses.” This method was widely welcomed and popularized.

In the beginning of 1979, as Fengyang County was in the process of implementing the “Six Guidelines,” it studied agriculture-related documents produced by the 11th Third Plenary Session and conscientiously summed up the experiences and lessons of agricultural production since the era of cooperatives began. Both the masses and cadres opened up their mentality, sought truth from the facts, and analyzed the true state of agricultural production in each of Fengyang’s historical stages. Fengyang decided to adjust the relations of production and implement the “lump-sum responsibility system” within task groups. The specific methods were as follows:

1. Divide work among groups appropriately. Aim for whatever is in favor of production and is conducive to the principles of unity. Divide the production

team into several task groups and democratically elect a production leader, a bookkeeper, and a custodian. The size of a task group will generally be five or six households.

2. Appropriately deal with production materials. Cultivated land, cattle, and farm tools are to be distributed according to certain standards and to be used by task groups only.
3. Appropriately deal with responsibility contracts. The production team should reasonably distribute state-issued production plans, purchase tasks of agricultural and sideline business products, public accumulation and reserves of each type to each task group based on land area. After contracting responsibilities to each task group, the team and groups will sign a contract, make three copies, and report to the production brigade and commune for supervisory approval. Of the county's 3710 production teams, 3098 implemented the lump-sum responsibility system, 83.5 % of the total.

Commune Secretary of the Chuxian Prefectural Party Committee organized a local meeting at the Yuelin Production Brigade, which had been the first to implement the lump-sum responsibility system. This meeting was unique in that the leader did not make any reports and local leaders did not make introductions either. Participants who arrived could freely pace around and observe whichever households they wanted to see, and they could ask whatever they wanted to ask. In the end, everyone said that the new system was both easy and produced good results. A phrase here and a phrase there drew together a jingle, "Lump-sum, lump-sum, straightforward and no roundabouts. Enough to give to the country, enough to save for the collective, the rest is our own to keep." From then on, the name of the lump-sum responsibility system resonated even louder.

The farmers felt that the biggest obstacle of the people's commune system was the "blind commanding" of production, which they were intimately familiar with, as well as the "headlong mass action" in management and the "big-pot" distribution method. Farmers had a deep-seated hatred for equalitarianism, for treating those who did well and did poorly the same, those who worked more and work less the same, and even those who worked and did not work at all the same. Before the 11th Third Plenary Session, many places in the countryside had already initiated the responsibility system at various levels, and they were similar versions of contracting work to the group, contracting production to the team, and contracting responsibility to the group. One production team was divided into numerous task groups, and one team leader became numerous group leaders. Task groups would vie over the best group leaders, and no one would want the group leaders that members were not satisfied with, which meant that these leaders became isolated. Some leaders then had no choice but to write self-criticisms and express that they would be better in the future and that they would not hog food or take advantages. Only in this way would they be accepted back into the group. This was essentially a case of farmers—under the pretense of not being allowed to implement the "household responsibility system"—strongly demanding a resolution to the conflicts caused by mistakes made in equalitarianism. It was a peaceful

“seizing of power” from grassroots cadres who were greedy and lazy. From contracting work to the group to gradually contracting responsibility or tasks to the group, the contracted output responsibility system was a new breakthrough in agricultural operation and management.

Why was this the case? For a long time, the form of calculating remuneration in rural people’s communes was through work points. Work points themselves did not have a fixed value, and the range was determined by production achievements accrued at the end of the year. Because of the decentralized nature and complexity of agricultural production, in addition to the fact that cadres at the grassroots level had different cultural backgrounds and management abilities, using administrative measures to organize rural households to work together, it became difficult to avoid empty talk and little accomplishment. This was worsened by the fact that as one person doled out tasks, the collective had to labor. “Producing labor in one line, and working the fields in one group” was positively overwhelmed by strength in numbers, full of vigor and vitality, but in fact, work efficiency was very low and there was no guarantee for the quality of farm work. “No one moved unless the team leader yelled instructions and no one would start work unless everyone was present.” “When the cadres turned around, the sly ones stood still, and the honest ones were too angry to work.” There was attendance, but no energy. “When it was the busy season with plenty of work to do, there were few people, so the harvesting season would be wasted; when it was the slack season with less work, there were more people and everyone dawdled on the job.” During the initial phase of establishing cooperatives, the method for measuring labor rate was adjusted several times in order to improve labor management, but it never departed from work evaluation points, and these work points never accurately reflected the quantity and quality of actual labor. During the period of advanced people’s communes, contracted labor, contracted output, and contracted costs, as well as the overproduction award and penalty system of “three contracts to one award” were commonly implemented, but these practices of gradual improvement were not consolidated and pushed forward. Following the establishment of communes, especially in the 10 years of chaos where the system was swept away by political winds, work evaluation points were replaced by the “political labor” and “approximate labor” promoted through the Dazhai movement. Production quota management was ridiculed as “tedious philosophy,” and the previous “three contracts to one award” system was even less appropriate in the eyes of some. Therefore, throughout the whole period of the people’s communes, productivity in the countryside was generally very low. Even in advanced production brigades with relatively high output and high mechanization levels of around 20 %, farmers still were not wearing smiles on their faces. Investment was high, costs were high, management was mishandled, and waste was severe, so an increase in output did not translate to an increase in harvest. Some had even become “impoverished high output brigades,” and “satisfactory output, shocking costs, sorrowful allocation” became a portrayal of reality. As for the “three dependencies,” brigades in which “production depended on loans, eating depended on grains resold by the state to the production place, and life depended on welfare,” the situation was even worse.

The “Six Guidelines” thus created an exuberant new atmosphere in rural Anhui and farmers’ enthusiasm grew exponentially. Operation and management were generally strengthened, and the agricultural production responsibility system developed swiftly. Wan Li pointed out several times that as long as production, harvest, and contribution could be increased, whichever type of responsibility system was used would be a good method. First, experiment for 1 year and then summarize conclusions at the end. The zeal for reform was 100 % at every level. From then on, everyone began to embark on a new path of development.

1.3.5 Written Comments Prepared for the 11th Third Plenary Session

After the autumn of 1978, Wan Li received a circular to attend a central government working meeting. This meeting was for the preparation of the CPC 11th Third Plenary Session. Wan Li took it very seriously and from beginning to end requested Zhou Yueli and others to gather for a panel discussion, which later took the form of an official written comment. It included problems regarding the people’s commune system, Learning from Dazhai, the transition in agriculture, agro-industrial joint enterprises, labor rate calculations, agricultural mechanization, procurement policies for agricultural by-products, and many others. It admonished the formality and falsehoods within the “Learning from Dazhai Campaign in Agriculture”; the “big-pot” system and equalitarianism of the labor rate calculations; pointed out that a blind “poverty transition. . . would inevitably result in killing pigs and cutting trees, destroying productivity, and would backset agricultural production. The truth of these matters existed not only in the past, but also exists now.” Most symbolic of Wan Li’s ideas for comprehensive reform is an extract from the paragraph on the people’s commune system,

“The current people’s commune system is one of “government administration with commune management,” but in reality, it is the integration of three, “Party, government, and society.” Twenty years of practical experiences have shown that this kind of “government administration with commune management” system has brought about many serious problems.

“First, on the surface level, the Party’s leadership of the people’s communes seems to have strengthened, but in reality, the three institutions of “Party, government, and society” have become one. Efforts cannot be concentrated on seizing the Party’s work, nor can they be concentrated on production, often resulting in the phenomenon of caring for one and neglecting the other. For example, since the appearance of political campaigns, the campaigns became the sole concern, while production and the management of people’s communes were ignored. . . .

“Second, due to the integration of Party, government, and society, the power of the Party and government of the commune as well as of the production management are within the grasp of the secretary of the Party committee alone. Power is too

centralized, which easily results in taking advantage of personnel authority, and to manage and commend production based on executive orders and the wills of senior officials. In many places, there were obstacles such as equalitarianism and indiscriminate transfer of resources, coercive orders, the blind commanding of production, and formalism, which are all largely related to the current institutional system.

“Third, the people’s communes form a collective economic organization based on interaction and mutual benefits among commune members, so in the first place it should give free rein to the spirit of the masses being masters in their own house. Developing the leadership abilities of the commune committees, which are created out of the general assembly of members, is actually a use of the Party’s political leadership in place of the committee’s leadership, which is not conducive to the development of production.

“Based on the reasons described above, by drawing on the positive experiences of the management system in the period of cooperatives, and with reference to arranging state-owned enterprises as only economic units instead of government agencies, we propose a suitable reform of the integrated “government administration with commune management” system by implementing the principle of “separating politics and communes.” Currently established communes can be considered units for establishing villages, with big communes setting up big villages and small communes setting up smaller villages. . . .”¹³

Prior to the 11th Third Plenary Session, the written comments sent to the central government included the suggestion of abolishing the people’s communes. This implied that Wan Li’s thoughts on rural reform had developed since the previous year when he formulated the “Six Guidelines” in which he emphasized the autonomous rights of production brigades. However, this meeting had more urgent matters to address, and agriculture-related issues were not fully examined. Wan Li had made a speech in the small group, and some views in the written comments were added to the resolution regarding rural issues, although his most important suggestion did not receive much notice. The meeting document clearly mentioned “Two No’s,” “No dividing land and laboring individually. No household responsibility system.” This presented a new obstacle determining whether or not rural reform could make a breakthrough in its most crucial setback. Therefore, in 1979, the year after the 11th Third Plenary Session, contracting output to households was still not permitted; contracting output to groups, however, was ambiguous and somewhere in between permissible and impermissible.

¹³ See *Wan Li’s Discussion on Rural Reform and Development*, pp. 20–21. China Democratic Legal Press, 1996.

1.4 The Difficult First Step

1.4.1 *Borrowing Land to Tide Over a Lean Year Brought Out the Household Responsibility Contract System*

The hundreds of millions of farmers that were the core of agricultural production practices were courageous for breaking through old conventions and being the first in rural experimentations. In the spring of 1978, impoverished, starved, and burdened with the atmosphere of death, the massive countryside of Anhui Province had changed its direction under the guidance of the “Six Guidelines of the Provincial Party Committee.” Production brigades had mastered their sense of autonomy, and the enthusiasm of farmers was running high. Anhui had even made on-the-ground practical breakthroughs in some of the specific provisions of the “Six Guidelines” by creating a contracted production payment method. Various forms of contracted and combined production methods subsequently mushroomed and flourished. In the noon season (summer), crops were doing well and people were filled with confidence. All were striving for a good harvest. Who could have predicted that the climate would give an unusually severe drought? In the summer and autumn, all the rivulets of the Yangtze River and Huai River that bordered the inlands dried up. Farmers were very worried. Cadre officials were also extremely anxious. By September, production output had become a foregone conclusion. Wan Li decisively claimed that everyone must face reality squarely, that a reduction in production was just that, and there need not be self-destructive guilt. In times of difficulty, it was necessary to depart from convention, or otherwise even heavier losses would be suffered. The Anhui Provincial Party Committee decided to “lend land” to farmers in order to deal with the drought. All the soil that the collective could not cultivate would be lent to commune farmers to grow wheat and vegetables. Commune members were encouraged to plant, sow, and gather whatever each person had, under the condition that it would not harm the soil and water and worsen the drought. The government did not collect grain taxes, and it did not send down central procurement missions, a policy which strengthened the eagerness of farmers to help themselves and find relief from the drought. At this time, the heated debate of the “standard of truth” was spreading like fire throughout the country, contributing to the further emancipation of the minds of rural cadres and peasants. Shan’an District of Feixi County confronted a so-called impermissible zone and arrived at the “fixed farm output quotas for each household” method.

On the night of September 1, 1978 in Shan’an District of Feixi County, 23 Party members from the Huanghua Production Brigade from the Shishu Commune gathered for an enlarged meeting of the Provincial Party Committee to discuss instructions for “borrowing land to grow wheat” and to implement measures for conquering the drought while conserving cropland and seeds. Someone at the meeting quietly said, “There is only one way to survive this year of famine.” Party Committee Secretary Tang Maolin, who attended the meeting, asked, “How?” That person replied, “Just do what we did in 1961.” Tang Maolin was

bold and daring. He even had the nickname “Big Brave Tang,” but as soon as he heard anything about “the ways of 1961,” he could not help but feel a wave of reticence wash over. “Really? Fixing output quotas to each household?” But there truly was no other way out, and by one wave of Big Brave Tang’s hand, it was decided that they would “experiment.” Each labor unit was contracted to five *mu* of wheat and five fractions of rapeseed field; 100 kg of wheat per *mu*, 50 kg of rapeseed per *mu*; seeds and fertilizer cost five yuan per *mu*; for every 50 kg of overproduction per *mu*, there would be a reward of 30 kg of food, and the same in penalties for a 50 kg per *mu* reduction in production.

On September 18, Tang Maolin gathered the Party secretaries of three communes and the Party branch secretaries of nine production teams from the Huanghua Production Brigade to promote and extend the well-known “borrowing land” method of Huanghua. Soon, the frenzy of “fixed output per household” began to stir. Based on combining water, drought lands, and hillock areas, Huanghua Production Brigade contracted 1420 *mu* out of 1700 *mu* of land within 2 days, and with that, the optimism of farmers burst through like a volcano. The land was dry and oxen could not pull the plow, but commune members dug day and night with a spade, hit with their hammers, and traveled miles to dig wells to fetch water and wheat. A miracle then happened. The autumn harvesting plan for the entire district was overfulfilled.

On September 20, Wan Li received an anonymous letter denouncing Tang Maolin as “the ghost of Zeng Xisheng.” At the same time, good news arrived in the district: three communes had finished sowing wheat and rapeseeds ahead of time, which would have been impossible in any way had they followed the old system used in the people’s communes.

Wan Li closely followed the emergence and growing momentum of the “fixing output per household” method. He was oriented towards the practical, and his actions would always proceed from reality. Nothing in the provisions of the “Six Guidelines of the Provincial Committee” tied back his hands and feet. He asked the cadres of the provincial agriculture committee to make some investigations, while he himself repeatedly expressed on various occasions, whatever solution can increase production, increase harvest, and increase contributions is a good solution.

1.4.2 Can People’s Daily Provide Your Food?

In 1979, fixed output quotas per household could only be quietly and remotely done in places where the “heaven is high and the emperor is far away.” Since few people knew about its progress, there were not any major protests. Feixi was adjacent to the provincial capital, Hefei, and since the range of implementing fixed output per household in Shan’nan was quite large, many discussions among provincial authorities were triggered. Some good-hearted comrades thought that Feixi was right under the nose of the provincial government, so to blatantly defy central regulations could provoke a schism if the method was not stopped and dealt with. Some even

questioned, “Where does the Provincial Party Committee want to lead the masses?” These bold views were presented in such a sharp manner because the 11th Third Plenary Session issued a draft agriculture document specifying the “Two No’s” (no dividing land for individual labor, no fixing output quotas per household).

Wan Li stressed the need to understand the main spirit of the Third Plenary Session, to emancipate the mind, seek truth from facts, and not become wedged within individual provisions. He said, “The basic spirit of the central government is to accelerate the development of production. It is not the “Two No’s.” If everything was done according to every sentence of the document, then what is the point of having leaders? This is not organizational discipline, this is being irresponsible.” Nonetheless, the central government’s regulations were clearly established and could not be taken lightly. On February 2, Wan Li sent Zhou Yueli and Liu Jiarui of the Provincial Agriculture Committee to form a task group with 12 other cadres for the purpose of preaching the two documents of the 11th Third Plenary Session to the cadres and masses of Shan’nan Commune in Feixi County. The cadres and masses began a heated discussion. During this dialogue, the masses generally requested using the fixed output per household system. Not only did the people embrace it, but so did Party members and cadres; not only was it supported by the strong laborers but also by weaker ones. Even the “five guarantees households”¹⁴ showed approval.

After listening to the report, Wan Li held another standing committee meeting on February 7 that was specifically devoted to resolving this issue. Most people believed they should support the farmers but also feared directly contradicting central government regulations and were therefore somewhat hesitant. When morning came, the meeting was still not finished and continued into the afternoon. Wan Li invited Wang Guangyu to introduce the stories and lessons from the years when “responsibility fields” were implemented, and Wang concluded with his personal opinion, “The household responsibility system was criticized for the last dozens of years, to the point where many cadres are now afraid of it. As soon as fixing output to households is mentioned, the color drains from their faces. However, what was criticized in the past may actually be right. Some parts may have been mistakes, but they must be tested and practiced for further proof. I openly advocate experimenting with the household responsibility system in Shan’nan Commune, initially on a small scale so that the benefits can outweigh the disadvantages. No advertising, no promoting, no newspapers. We can make conclusions after autumn. If the experiment turns out to be successful, that would be best, but if it fails, then it is still not a big deal; if we slip down the road of capitalism, it is still not the end because we will have a way to return.” Under the direction of Wan Li, the Provincial Party Committee decided to officially designate Shan’nan Commune as the pilot for the household responsibility system, but without any publicity, promotions, and newspaper headlines.

¹⁴The aged, the infirm, old widows, and orphans were taken care of by the people’s communes in five ways—food, clothing, medical care, housing, and burial expenses.

Although this was a small matter, its part in the process of rural reform cannot be underestimated. Even under the conditions of those times, Wan Li was able to designate a commune as the official pilot of the household responsibility system on behalf of the Provincial Party Committee. One cannot help but respect Wan Li's political courage and vision for the future.

As soon as the problems in Shan'an, Feixi County, were dealt with, a storm that began with "Zhang Hao's letter" came sweeping in. Between March 12 and 24 that year, the National Agriculture Committee held a forum in Beijing for the representatives of agriculture work departments from seven provinces across the country. The issue of responsibility systems became the topic of intense disputes. Anhui representative Zhou Yueli held different opinions than that of the meeting summary. Specifically, he believed that all types of responsibility systems should be allowed to be pilots, so that comparisons could be made in practice, and fixing output to each household should be seen as one of several types of responsibility systems. The two sides bickered on. At this time, the March 15 front-page headline of *People's Daily* was a letter from the now reader named Zhang Hao, who attacked contracting production to the group. Based on this, the editor's note further highlighted, "The people's communes must now continue to steadily implement the ideology of 'commune, production brigade and production teams own all, with production teams as the base'," "We cannot regress from the production team as the base for dividing land and contracting production to the group. Places where dividing land and contracting production to the group have already occurred should correctly implement the Party's policies, and resolutely rectify their mistakes." Such a harsh and condescending tone naturally had an underlying motive, and it was later revealed that the comments were written according to the instructions of the new vice premier of the State Council and head of the Agriculture Committee, Wang Renzhong, who replaced vice premier Chen Yonggui at the editorial department of the newspaper. At that time, the shadow of the "Two Whatever's" still lingered, and a majority of officials still felt the aftershock. Then, a letter from an ordinary reader stirred up confusion in the nation's countryside, causing some places to feel scared and at a loss for what to do.

However, the times after the Third Plenary Session were indeed not the same as before, and the demand to "resolutely correct mistakes" was met with resistance in many places. It more or less hit a wall in Anhui. As soon as Wan Li heard the news broadcast that day, he immediately made eight emergency calls to every prefecture and county under the authority of the Provincial Party Committee and requested to each place that whichever responsibility system they were using, everyone had to stay determined and steady, and concentrate efforts on production for the spring harvest. In the morning the next day, he went to stabilize the emotional states of the cadres and masses in Quanjiao County, Dingyuan County, and Jiashan County in Eastern Anhui. As he had repeatedly said before, "The newspaper is a 'public bus' and is free to express many different views. Other readers write letters, and you can as well. The views that accord with the fundamental interests of the people must come from practice and experimentation, and people must not back down when they see a letter from reader and an editor's note." He emphasized, "Major work for

the spring harvest has already started, and policies cannot be changed back and forth. Whatever we set our sights on, we must be determined to do the work for. We can review the lessons learned and experiences gained after autumn.” He also said, “If there is a reduction in output following autumn and farmers go hungry, will you look towards your Provincial Party Committee or *People’s Daily*? Can *People’s Daily* provide your food?” The night Wan Li arrived at Jiashan, he received a phone call from Beijing that was transferred several times before reaching him. Secretary of the Prefectural Party Committee, Wang Yuzhao, and others were reporting their work progress to Wan Li at the time, including topics such as how to steady the emotions of the cadres and masses, but they could all sense the importance of this call and waited inside. It was from Wang Renzhong, who asked whether Zhou Yueli’s comments were representative of the Anhui Provincial Party Committee. Wan Li responded that since Zhou Yueli was sent by them, and since the comments were already reviewed by the Provincial Party Committee, they advised also that since labor for the spring harvest had already begun, it was too late to change whatever responsibility system was being used and that conclusions can be made after the fall. Wan Renzhong expressed agreement. The conversation on both sides ended in a friendly way with mutual tacit understanding. Perhaps because of strong reactions from all over the country, after half a month, *People’s Daily* also published one letter each from Xin Sheng and Lu Jiafeng from Anhui, conceding in the editor’s note that “some suggestions were not accurate enough” in the comments from the previous issue and that greater attention will be paid to making corrections in the future. The editor’s note further stated, “It does not matter what form or method of labor compensation is used. Do not change it hastily for the sake of maintaining stability in production.” The storm finally calmed, but not without some major losses in agricultural production in many areas. Counties throughout Anhui were relatively stable, although there were some damages as well. Huoqiu County was one such place that swayed back and forth in their methods, delayed time for farm work, and lost more than 50 million kilograms of grain in production.

In the spring of 1979, the breeze of the 11th Third Plenary Session of the CPC blew across the nation. The mentality behind rural areas in Anhui grew livelier, the enthusiasm of farmers ballooned, and the creativity of individual peasants gave them more advantages out in the fields. Many things were new and groundbreaking, with Fengyang County being particularly appreciative of the lump-sum contract system. This troubled town of the flower drum was now a vibrant scene of prosperity.

But Anhui still felt great amounts of pressure from the outside world. In many villages, at road sides, and on hilly slopes and the edges of fields in the areas bordering Jiangsu and Anhui, people made big banners in bold brushstrokes to protest, and some of them would scream through high-decibel loud speakers, “Resolutely resist Anhui’s wind of laboring individually!” “Firmly oppose restoration and retrogression!” “Resolutely eliminate the evil of ‘three freedoms’¹⁵ and one

¹⁵ Referring to the freedom of usury, hiring labor, land sale, and private enterprise.

contract, and the four major freedoms!” The guiding mentality of many rural cadres became volatile again and even settled into fear. Some officials who advocated for “contracting production to the group” and the “lump-sum responsibility contract system” now changed their minds, and those who originally did not agree began to sound accusatory: No more three and a half levels of accounting.¹⁶ Wan Li decisively replied, What’s bad about three and a half? Why are there only three levels instead of four? I think five is better yet! If each household does the accounting, then we will be more budget-conscious, and a rise in production will come much faster.

These words from Wan Li seeped into the hearts of the people. From the farmers’ point of view, groups were better than teams, and households were better than groups. Production contracted to the group could remove the obstacles of the “big-pot” distribution system and the “two-pot meal.” Contracting production to each household was best, but contracting work to households was even better. It was better than anything else. They were just afraid to say so.

In mid-July of 1979, Deng Xiaoping arrived in Southern Anhui and ascended Yellow Mountain for the first time. He went by foot at the age of 78. After coming back down, he went to Nanjing where the commander of the military district was about to present a report. Deng excitedly claimed, “You don’t need to make a report for now, let me tell you about Yellow Mountain.” “Without going to Yellow Mountain, you cannot know the greatness of our motherland, the grandeur of the valleys and rivers. Each of you should climb to the top of the mountain and have a look.” In his entire lifetime, Deng Xiaoping rarely toured famous scenic spots, but then again, this time he was not purely paying a visit but was expressing approval and support for Anhui’s work in rural reform breakthroughs. Deng’s strategic thinking of letting some regions get rich first was mentioned for the first time at the welcoming ceremony at the bottom of Yellow Mountain when he visited. Perhaps he had discovered some clues within Anhui’s innovations in the countryside.

1.4.3 Two Conversations on Contracting Production to Each Household

Although Shan’nan Commune was the official pilot of the household responsibility system, some leaders in the Feixi County Party Committee still could not make sense of it. A senior secretary angrily said, “Chairman Mao has only been dead three years, and things have changed when his remains are scarcely cold yet. How can we be worthy of this elderly figure? How can we be responsible to the Party and the country? If the old cows could speak, even they would go to the central government to tattle.” In July, the County Party Committee decided to correct the

¹⁶The three levels refer to the prefecture, county and commune levels, and the half the brigade.

fixed output per household method, using Agriculture Document No. 46 issued by the central government for support. Many grassroots level cadres and peasants demanded to know, “Is increasing production and increasing food violating the law?” “Is using practice as the sole criterion for testing the truth in the country advocated or not?” Cadres in a portion of districts and communes took a tough approach towards correctly carrying out the Party’s instructions, while commune members decided to stop working, tilling the land, and collecting harvest as their way of protesting. Under the determined opposition of the masses, the County Party Committee had no choice but to issue Document No. 50 on August 8 to retract the “decision” made by Document No. 46. A cadre in charge of related matters from the Provincial Party Committee later said, “We experimented with the fixed output per household system for one year, and we were blindly fearful for one year, we delayed matters for one year, and were passive for one year; the masses, however, resisted for one year, worked for one year, and increased production in one year.”

Guo Chongyi, counselor of the Advisory Office of the Anhui Provincial Government and member of the National League for Democracy, was misrepresented as a counterrevolutionary for exposing the false reports of grain output of grassroots rural areas in the 1950s and was sentenced to 12 years of prison. In 1962, he was rehabilitated after the “Seven Thousand People Conference” and returned to join the labor force. He was relatively familiar with Feixi and highly praised the farmers for using the fixed output per household system. After seeing that the new agriculture document of the central government contained provisions “prohibiting fixed output per household,” he was afraid of any subsequent controversy and thus went to the Shan’nan area for a detailed investigation. Upon this visit, he wrote a “Report Regarding a Tour of the Noon Season’s Major Harvest in Feixi.” Braving the risk of falling from a heat stroke, he personally delivered this report to Beijing in early July, not expecting an economics editor to reprimand him upon first delivery to a major newspaper.

This editor asked, “Have you seen the Agriculture ‘Decision’ from the Party’s 11th Third Plenary Session?”

“I’ve seen it.”

“Did you see ‘no contracting production to households, no dividing land and laboring individually’?”

“I’ve also seen that.”

“Then why did you still suggest dividing production by households?” The editor’s tone was stern.

“I don’t believe that the ‘Two No’s’ are the underlying spirit of the Agriculture ‘Decision’; speeding up the development of agricultural production is the main issue of the document.”

Without waiting for Guo to finish, the editor returned the report to him and said, “Our approach and decision to establish agricultural cooperatives is correct. Problems in production are caused by the poor management of grassroots cadres and low awareness among farmers.”

He felt they did not share a common language and thus said goodbye.

Fortunately, his good friend Cai Shumin was very concerned about production in Anhui. Cai was from Xiao County and once served as chief of the West Anhui Military District Liaison and later went abroad as a foreign envoy, but he never forgot about the troubles of his friends back home. Following Cai's recommendation, Guo went to the Institute of Agricultural Economics and found director Wang Gengjin, who warmly welcomed him and gave Guo's report to a Comrade Chen who was then instructed to transfer it to the hands of Hu Yaobang, and asked him to also send a copy to Wan Li upon returning to Anhui. Wan Li was very happy to see this report and gave it additional praise at the standing committee meeting and requested it to be published as comments in the 18th issue of the Provincial Party Committee General Office's *Policy Research* journal. In October and December of that year, Guo Chongyi also delivered two other reports that explained the benefits of contracting production to each household.

Wan Li himself was even more worried about Shan'nán and Feixi and, thus, went to investigate in person on May 21 and December 13. The purpose of the first visit was mainly to help local cadres disarm any remaining concerns and encourage them to work boldly and not be afraid. He said, "You are running a pilot experiment here, and the Provincial Party Committee is aware of this. It was I who gave them the nod of approval. We will make conclusions in autumn." Wan Li also asked for details regarding procurement tasks, accumulation, animal husbandry, water conservancy construction, the five guarantees for households in difficulty, and so on. The second time he visited was after the harvest. Below is a record of his conversation with Party Secretary Tang Maolin:

Wan: "I have come here to ask you a few questions, so please answer."

Tang: "Secretary Wang, I will tell you as much as I know."

Wan: "Some comrades reflected that contracting production to households in the Shan'nán District is 'undermining morale', 'destroying the Great Wall'. How do you respond to this?"

Tang: "This concern is unnecessary! There are 14 servicemen in the Shan'nán District and the District Party Committee sent a letter to every one of them describing the major harvest that occurred after using the contracted production to households system in their villages. At the same time, we told them, 'The responsibility fields' at home were very well looked after, rewards were in surplus and losses were diminished. Work points were given with careful consideration and distribution was in cash. Households in general difficulty were given one thousand work points, and military households were given an extra one hundred fifty to two hundred yuan in cash every year."

Wan: "So you are not 'undermining morale' and 'destroying the Great Wall', but rather consolidating national defense then!"

Tang: "Yes!"

Wan: "Let me ask you a second question: The workers at Hefei Steel (Hefei Iron and Steel Corporation) do not want to work there anymore and want to come home to work the fields. What do you think has to be done?"

Tang: "This is not the case! Liulaojia Production Brigade has an individual named Xiong Zuhua who is from an industrial worker family, one person taking

care of four children. Before using contracted production per household, they earned around one hundred fifty yuan every year, but afterwards, basic rations were around four hundred twenty *jin*, with an overproduction of one thousand six hundred fifty *jin*. They also raised a large pig of over two hundred kilograms, as well as seven geese. In the past, costs were overrun every year, but life was eased this year and nothing was overspent.”

Wan: “Then it is not that workers want to return home, it is that they want to double their income!”

Tang: “Yes, similar to double income!”

Wan: “Let me ask you a third question: Families of martyred soldiers, military families, five guarantees families, and other households in difficulty are not being cared for. How do you think this should be solved?”

Tang: “We are taking care of them, even better than before! We set up a pilot at Jin’niu Commune and gave five guarantees families seven hundred *jin* of food rations every year, one thousand *jin* of straw, and five *jin* of cooking oil. Life expenses are all inclusive, including fifty yuan to pocket as extra cash. This has been promoted throughout the whole district. As for the families of martyred soldiers and military families, they are now much better off than the period of ‘big talk but no action’. At that time, the value of work points was very low, not surpassing twenty-five yuan every year, but now, it is worth over four to five times as much.”

Wan: “Now let me ask you a fourth question: Are there facilities that cause destruction in water conservancy?”

Tang: “Previously in the times of agricultural collectives, there was the phenomenon of fighting over water and fertilizers. After contracting production to households, we did indeed discover three households in the Liqiao Production Brigade fighting over water, but the situation stabilized once the pool was divided. The leaders were the key factor. The pool now has a specific person to uniformly make distributions, and there is unified management system so that water conservancy facilities are in good condition.”

Wan: “Let me ask you a fifth question: How can the farm cattle and farm tools be well protected?”

Tang: “Cattles, plows, and rakes are all uniformly discounted, and fall under the management of households. There will be compensation for any losses. During the times of ‘big talk but no action’, production brigades supposedly managed these materials, but in reality, there was no management in the true sense of the concept. Each household is now better at managing these items compared to the previous period and the sense of responsibility has grown stronger.”

Wan: “Now, let me ask you a final question: Can impoverished brigades in those that ‘contract production to households’ receive harvest this year?”

Tang: “They can!”

Wan: “Give me a good example!”

Tang: “After the Wawu Production Team of the Hong’guang Production Brigade began implementing contracted production to households, Wang Guangzhu from the Hong’guang Production Team produced more than 20,000 *jin* of grains in only one year.”

Wan Li at last happily declared, “A worthwhile trip. A worthwhile trip! It seems that being scared of this or that was not necessary. All things can be resolved!” As he walked out the door, he bid farewell to Tang Maolin, “Good then, I’ll go have a look at your threshing floor!”

By borrowing land to grow wheat, Shan’nan Commune broke through a “prohibited zone” and implemented contracting production to households on a major scale. Of the district’s 1006 production brigades, 77.3 % of them began to use the new method, one after another. The result of this bold experiment was a big harvest during the year of the great drought. In 1979, the total grain output in the whole region reached 10,050,000 kg, which was 7,180,000 kg more compared to the historically highest recorded annual wheat output, equivalent to double in increased production. 4,900,000 kg were sold to the state, which was twice the amount of grains that were sold in the entire year of 1978.

After several bouts of wind and rain, the situation in rural Anhui improved. All 289,000 production brigades in the province generally established responsibility systems. 38.4 % did not use the contracted production method compared to the 61.1 % that did. Among these, 22.9 % used contracting production to the group, and 10 % contracted production to the household or contracted labor to households. Other methods of contracted production were used by 11.3 % of the brigades. Reality was the best evidence for showing that there was no choice but to establish responsibility systems because contracted production produced better results than not using it; contracted production to households was better than contracted production to groups, and this was becoming a relatively obvious trend.

That year, Anhui encountered a severe drought but it in fact captured close to the same amount of harvest crop of a normal year. Things were much better than expected.

1.4.4 Contracting Labor to Households in Xiaogang Village

Xiaogang Village was the poorest production brigade in the Liyuan Commune of Fengyang County, which was already introduced in the first part of this chapter. On a cold winter night in December 1978, deputy brigade leader Yan Junchang and accountant Yan Lihui decided at the latter’s home that one head from each household would need to form a meeting together. There were a total of 20 people, 18 heads of households plus two cadres. Their names were Guan Yanzhu, Guan Youde, Yan Lifu, Yan Lihua, Yan Guochang, Yan Likun, Yan Jinchang, Yan Jiazhi, Guan Youzhang, Yan Xuechang, Han Guoyun, Guan Youjiang, Yan Lixue, Yan Junchang, Yan Meichang, Yan Hongchang, Yan Fuchang, Yan Jiaqi, Yan Guopin, and Guan Yousheng.

Everyone decided that they would first divide land to each household and no one was allowed to reveal this to outsiders; second, guarantee a sufficient amount of cooking oil to sell to the state, whatever had to be given to the country would be given to the country, and whatever had to be provided to the collective would be

given to the collective; no one was allowed to be a coward. If word about their plan got out, the cadres would be arrested. They must send food to the cadres in jail even if it meant resorting to begging, and all the members of the commune would collectively raise the cadres' children until they were 18. There was no looking back. Under a dim lantern, a contract was written and passed with a show of hands. The 20 people who attended this meeting solemnly pressed down 17 fingerprints, each under his own name, along with three personal seals to demonstrate honor and agreement. This material still exists today in the National Museum of Chinese History, under the collection number GB54563, and has long since become a precious historical relic.¹⁷

Even up to the present day, related publications, books, periodicals, and television series have portrayed this sober and stirring scene in Xiaogang Village as the starting point of the nascent beginnings of rural reform in China. In reality, at the time, events similar to what happened in Xiaogang could have been seen dozens or even several dozens of times throughout the countryside. Lai'an County, not far from Fengyang, was carrying out contracted production to the group in 1978 in as many as seven or eight villages, including Xiaoying and Qianying, both of which even used contracted production to households. Secretary of the County Party Committee, Wang Yamei, took the risk of authorizing this and gave his support and encouragement in secret. It also did not take long for Secretary Chen Tingyuan of the Fengyang County Party Committee to discover Xiaogang's secret, but he remained silent as well and adopted the tactic of concealing the truth while being open to the facts in order to give whatever protection he could. Shan'nán District of Feixi implemented contracting production to households earlier than Xiaogang. Its range and influence was also larger, so why did Xiaogang become viewed as the starting point of rural reform? Mainly, contracted production to households was similar to contracted labor to households, but they were not entirely the same. They shared the basic concept of being contracting to households, but contracted labor was more thorough and complete. Its benefits were more direct, its method was simpler, and it received more approval from farmers. Normally speaking, contracted production to households included contracted labor to household, and was designated the label "double contracts," but this later changed as Fengyang made further improvements. At the same time, the system of contracting production to households experienced some twists and turns in Shan'nán. Therefore, by these factors, Fengyang became well known and more crucially, the hometown of contracted labor. Xiaogang was first in spurring the evolution of contracted labor to the group into contracted labor to households and it naturally became a venerated place for people.

¹⁷ The authenticity of this document has been questioned. The research analysis in Ling Zhijun's *History is No Longer Hovering* proves that the facts are true, but the original version could have been lost and was later copied. See the book (The People's Publishing House, 1997 Edition), pp. 8–10.

The second half of Wu Tingmei's article, which was quoted in the first part of this chapter, can describe the story behind Xiaogang's use of contracting labor to households most clearly:

In spring of 1978, when Fengyang County fully promoted contracting labor to households and contracting labor in general, Xiaogang Village was also prepared to implement the responsibility system, but because it was far too poor, the spirits of the people were scattered. Initially, 195 people of the 20 households in the entire brigade were split into four task groups, but it was not successful; later, they were split into eight groups, but were still not successful. This is when they began to discretely contract production to households. The 517 *mu* of land within the brigade were divided into households based on head count; 10 cattle were divided into one for every two households; the national agricultural and subsidiary products sales tasks, loan repayment tasks, accumulated public funds and each type of personnel subsidy were contracted as labor to each household, also based on the number of people. After contracting labor was complete, whatever was left could be kept as one's own. Although they knew that only 'contracted labor to groups' was allowed and 'contracted labor to households' was prohibited, they also believed that in this impoverished piece of land, only by following the way of the latter would there be motivation to work and to produce quality work. In the end, that is what they did. And they survived.¹⁸

What were the actual results? Let the facts reply: That year, the entire production brigade produced 132,370 *jin* of grain, equivalent to the sum of the total between 1966 and 1970. Total oil plants production was 35,200 *jin*. The masses said that they had not gathered such abundant amounts of peanuts and sesame seeds in all the last 20 years. Household sideline business also greatly developed. 135 heads of pigs were bred, exceeding that of any other year in history. The procurement task of the entire year was 2800 *jin*, compared to the last 23 years when not a single grain was given to the state and everyone survived off on subsidies. That year, 24,995 *jin* of grain were sold to the state, seven times over the quota. The commune members were also prepared to sell 5000 *jin* of dried taro. The oil purchase task was 300 *jin*. In the past, this corresponding line in the statistical table would always be blank. That year, 24,933 *jin* of peanuts and sesame seeds were sold to the state, which was more than 80 times over the quota requirement. It was the first time that 800 yuan of loan repayment was given back to the state and 35 large pigs were sold off too. The production brigade kept grain reserves of over 1000 *jin* and a public reserve fund of over 150 yuan. That year, cotton sales tasks were not completed. The commune members said with guilt, "Next year, we will certainly make up for it."

"Contracting labor to households" was initiated by the masses in a surreptitious manner and no one made loud conclusions about it. Certainly, no one spread related news. Any occasional mention of Xiaogang as an example to follow in materials organized in the county was quickly removed. But the account of what happened there was still quickly disseminated in particularly poor areas. Some called this kind of dissemination the "force of attraction," while others called it "influence." In Liyuan Commune and other production brigades whose situations were similar to that of Xiaogang, it had become the center of discussions among the masses. They

¹⁸ "A Tonic Worth Every Drop—Investigation of the Xiaogang Production Brigade's 'Household Responsibility System' of Liyuan Commune in Fengyang County".

said, “We have the same government leader, so if Xiaogang can do it, why are we told we cannot?” Despite the repeated injunctions and severe lectures prohibiting contracting labor to households, once autumn arrived that year, other places began to copy Xiaogang by “concealing the truth from the high level of governance and carrying out the new method secretly.” The masses sectioned off the fields overnight and divided off the cattle and went down to grow wheat at the sound of the rooster’s crow. We asked the farmers in these areas, “Are you not afraid of drawing negative opinions by making divisions like this?” They said, “Oh! Who dares to do this openly under the spotlight? But this place of ours is poor, so as long as this is somewhat permitted, then it does not matter if we take a beating!”

Under these circumstances, some cadres began to complain about Xiaogang. They said that it is all because of Xiaogang’s “influence”; without Xiaogang, not a trifling thing would have happened here. The reality was that Xiaogang did affect these areas, but it never went to promote itself, and moreover had no right to give orders to other places. How could it impact so many places, while many other places could not “influence” Xiaogang?

Wan Li thought about contracting production to households a lot and reported to major leaders in the Party Central Committee then, and though he did not receive clear affirmation, he also was not forbidden from conducting a pilot experiment.

Wan Li’s suggestion to the central government on revisions for formulating contracted production to household was not adopted. He continued to bring up the issue again and again at other central level meetings. In the beginning of December, he spoke at the Anhui Province Military District Representatives Meeting and pointed out, “How to properly view contracted production to households will require at least a further exploration of the subject. There is no need to go numb with fear at the sound of these words.” “It still belongs under the general production responsibility system, and it is for the sake of socialism, not capitalism.”¹⁹ On November 25, he made a report on the Provincial People’s Congress. Since it was a grand meeting outside the Party, he carefully chose the words “to fix quota to the field, to contract responsibility to the household” instead of “contract production to household” and emphasized, “The reality has proved that to responsibility contract to household is only a responsibility system under the leadership of the production brigade. It has nothing to do with changing the ownership, definitely different from dividing the land and laboring individually.” This part of the speech was earnestly discussed at the standing committee, prior to the meeting. Afterwards, it was repeatedly considered in the standing committee before being publicized in the provincial newspaper. Following closely after that, between January 2 and 11, 1980, a Provincial Party Committee Enlarged Meeting was held for the Secretary of the County Party Committee and the heads of each department, specifically for solving the problem of cadres’ understanding of contracting production to households. At the start of the meeting, Wan Li only gave a three- to five-minute opening remark before handing each person “a draft summary of meeting minutes”

¹⁹ *Wan Li Anthology*, 1996 Edition, pp. 121–122. People’s Publishing House.

and asked everyone to discuss revisions for the draft and to use democratic thinking and an open mentality in order to take in the benefit of mutual discussion. He said, "Everyone must speak freely when talking about this problem and it is fine to oppose or support it. In any case, everyone has their own practical experiences, and whatever lessons we draw out of the masses must then go back to them. After experimenting, we must experiment some more, and practice repeatedly. From the looks of things now, depending on the state of central policies and ideology, simply bringing order out of chaos is not enough because the vitality of those policies have yet been fully expressed. Asking the central government to hand over a lot of money is also impossible. Our province is poor and must rely on policy to mobilize the enthusiasm of the masses." At the meeting, an air of democracy filled the space and each group engaged in passionate debate over the draft summary and a variety of opinions made their way onto the bulletin board. Some people pointed out, "The draft meeting minutes summary is simply restoring a declaration, we must find out who penned it." Others said, "It does not matter which official is big and whose mouth is big, things will still be decided by the Provincial Party Committee in the end, and discussion is useless." These were all posted up, and of course, more revisions and supplementary opinions resulted in more active conversations. The amendments became increasingly specific and realistic. After repeated discussions and revisions, leader cadres at every level finally reached a consensus and created the conditions for carrying out various forms of contracted labor throughout the province, with contracting production to households as the core pillar.

It was at this meeting that Wan Li explicitly said in public for the first time, "Contracting production to households is not laboring individually. It is another form of the responsibility system. Our comrades are still hold varying perspectives on whether the method of 'contracted production to households' is a form of the responsibility system. Some comrades admit that this method has noticeably lifted the long-term backwardness and low-production of the reform, but worry about its contradiction with the policy of the central government. As a matter of fact, this is conducting the decisions of the central government according to the actual condition. It shares the same basic spirit as the agriculture document of the central government."

It was also at this meeting that Wan Li received materials for the first time from Chen Tingyuan regarding increased production from Xiaogang's implementation of contracting labor to households. He read it in one breath and repeatedly said, "Good, good!" Not long after the meeting, on an early morning one day when the snow had ceased but northern winds still howled with a bone-chilling cold, Wan Li arrived at the home of the first production brigade that secretly used the household responsibility contract system in Fengyang County—the Xiaogang Production Brigade of Liyuan Commune. He treaded through the mud, went from door to door, and upon arriving at the Guan Youjiang family, a family with many people and weak labor, Wan Li saw an unexpected storage of thousands of *jin* of food. He sincerely praised, "Well! This village known for begging will not go hungry again!" He then walked into the home of Yan Hongchang, who complained to Wan Li, "Some people say that Xiaogang's 'contracted labor to households' system is 'pulling the wheels of history in reverse', and 'digging a corner of a socialist wall'." Wan Li was angered by this but still calmly replied, "Whoever says this, I

will ask him if he has a better solution to make farmers wealthy. If so, then we will follow his way. If there is no better solution, then whoever says you are ‘pulling the wheels in reverse’, ‘digging a corner of the wall’, and not allowing you to work, you can allow me to handle.” Wan Li visited several dozen households and arrived at Yan Junchang’s home last. By now, everyone in the entire village had gathered there, including an old woman who caught up, even as she limped with every step. Yan Junchang carried out a plate of freshly roasted peanuts and offered them to Wan Li and his group. Wan Li politely shook his head, “No, no!”

“They’re free!” Yan Junchang cheerfully chimed. Everyone present burst into laughter.

An elderly woman spoke next. “Secretary Wan, before, we could not give you anything to eat even if we wanted to, but now, there’s more to go around so we don’t care anymore.”

“Good, then!” Wan Li nodded, “I will tell these achievements made through ‘contracting labor’ to the members of the standing committee and let them have a taste!” Wan Li toured Fengyang, Dingyuan, Jiashan, and other counties for four or five days before returning to the provincial capital. At the Provincial Standing Committee Meeting, he dumped a pack of peanuts on the conference table with a loud splash and said with delight, “Let us eat peanuts first before we begin the meeting!”

Towards the end of February 1980, Wan Li was posted in Beijing and became a member of the newly founded Central Party Committee Secretariat. He served in Anhui for more than two and a half years and was completely absorbed into investigating problems in rural areas and examining rural policy studies. He had taken the first difficult step in rural reform, which can be roughly divided into three parts:

The first part, in the winter of 1977, was “grasping the key link to govern the country” by continuing to advance the “poverty transition” of Dazhai and other “leftist” mistakes, bracing himself to formulate the “Six Guidelines of the Provincial Party Committee,” emphasizing the autonomous rights of production brigades, and persisting in setting production as the heart of the compass, and thus making Anhui the earliest in bringing order out of chaos on a provincial level.

The second part was boldly steering away from the convention of the “commune, production brigade, and production teams own all, with production teams as the base” when the “Two Whatever’s” were still prevailing and staying firmly supportive of farmers’ innovations by implementing contracted output and contracted production to the group.

The third part was, under the clear regulations of the “Two No’s” in the new agriculture document, adeptly holding onto the underlying essence of the reform document instead of clinging on to individual words and phrases and through enormous political courage, affirming contracted production to households as an official pilot program and shouldering the risks of forcing open rural reform.

Deng Xiaopeng said before, China’s reform began with rural reform, and rural reform began in Anhui. Wan Li was active in this. Although those first 2 years of

change in Anhui was only a prelude to rural reform on the whole, it had demonstrated the difficulty and complexity in a reform so immense.

The reform required the faith, courage, boldness, and determination of leaders, and even more so, there had to be a stance, perspective, and method for Marxism. This was what Mao Zedong had emphasized very early on as the mass line method, which was drawing out from the masses and diving back into them; an insistence of first becoming the students of the masses and then the master of the masses; an insistence on practice, understanding, and more practice; an insistence on using practice to prove what was correct, correcting practice as proof of what was wrong; and ceaselessly aiming for breakthroughs, improvement, development, and creation.

In the 1980s, as one of the leaders of the country and the Party, Wan Li was in charge of rural work on a national scale. Under the guidance and support of Comrade Deng Xiaoping, Wan Li assisted the joint efforts of major leaders in the central government by advancing the enterprise of reform and opening up towards a new phase in the process. He obtained achievements that have attracted worldwide attention. In his own view, the beneficial practical experience and mentality gained from working in Anhui can be said to have had a deepening, developmental, and extended effect on the success he obtained later on.

Rural reform was the most urgent need of the general peasant population. The household responsibility contract system was created by farmers through their practice, but also cannot be separated from Party leaders. Whether the Party's leadership was firm and correct directly affected whether farmers' innovations were protected or suppressed, grew and succeeded, or were defeated. This was true for a county, as it was true for a province. The deciding factor that made Anhui Province the first breakthrough point in rural reform was its Provincial Party Committee's ability to carry out the sense of self-consciousness and firmness in the path, plans, and policies of the central government, thereby germinating a seed of reform that was able to grow healthily in a "local climate."

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Chapter 2

Nationwide Introduction of the Household Responsibility Contract System (1979–1984)

2.1 The “Open Road vs. Log Bridge” Conflict

In the winter of 1977, Anhui Province began implementing the “Six Guidelines of the Provincial Communist Party Committee,” rousing the entire province like churning waves and causing major changes in the countryside.

2.1.1 *A Historical Turning Point in the Reform and Opening Up*

The Third Plenary Session of the 11th Central Committee of the Chinese Communist Party was held at the end of 1978, marking an important transition point in the history of the CPC, as people often compare it to the Zunyi Conference. The Enlarged Meeting of the Political Bureau of the Central Committee held during the Long March of 1935 corrected the erroneous path of Wang Ming’s “leftist” ideological inclinations at a critical juncture. This established Mao Zedong’s leadership position, thus rescued the Party and the Red Army, prevented China’s revolution from colliding into obstacles, and ultimately guided the revolution onto the road of success. Facing 10 years of accumulated turmoil, including the extended period of wrong “leftist” ideology and the Cultural Revolution, the Third Plenary Session of the 11th Central Committee of the CPC resolutely abolished the slogan of “class struggle as the key link” and decided to turn the Party’s focus onto constructing modern socialism, thereby putting forth a new policy towards reform and opening up. China, who boasted a glorious ancient civilization, would rise again, move towards revival, and begin a period of vigor and vitality.

Prior to the Third Plenary Session, the Central Working Conference convened for preparation work. The meeting was hosted by Hua Guofeng, and the original

topic of discussion was meant to address issues of national economic planning and agriculture in 1979 and 1980, with the objective of passing of the “Decision of the CPC Central Committee on Accelerating the Development of Agriculture (Draft) (Draft)” and revising the “Regulations on the Work in the Rural People’s Communes (Draft for Trial Use)” (or the Sixty Articles for Agriculture). Because food shortage became an urgent crisis, agriculture problems had to be addressed with serious consideration. Hua Guofeng, representing the Standing Committee of the Political Bureau of the CPC Central Committee, was the first to raise the idea of nudging the gravity of the Party’s work towards modernization, as a precursor to discussing other problems. This was a central theme that quickly became the guiding ideology of the conference.

Shifting the Party’s priorities was originally an idea proposed by Deng Xiaoping in September 1978. Hua Guofeng later accepted this, and it was he who also hoped that the entire nation would put forth great efforts in increasing production and achieve the various plans he formulated. However, his personal belief still persisted alongside the ideology of the “Two Whatever’s” (“We will resolutely uphold whatever policy decisions Chairman Mao made, and unswervingly follow whatever instructions Chairman Mao gave”), which stood in direct confrontation with changing focus of the Party’s work; a simultaneous coexistence was impossible.

After months of debates over standards and criteria, people began to understand more clearly that to persist in implementing Mao Zedong’s “Two Whatever’s” was to cling to his past mistakes, to continue echoing class struggle as the key link, to persist in the theory of continuing the revolution under the proletarian dictatorship, and to continue believing that the result of the Cultural Revolution was of utmost importance. Therefore, without rectifying the mentality of the “two whatever’s,” it would have been unfeasible to change the direction of the Party’s plans. China would not have found a way out.

At the start of the Third Plenary Session, Chen Yun proposed six major left-over political issues such as Peng Dehuai’s rehabilitation, which were influential and took on a wide scope of content. Without solving the unsettled grudges in people’s hearts, shifting the focus of the Party’s political work would be empty talk. This speech created a strong reaction, stirring debate among many of the older comrades at the conference. The discussions were heated, while the general atmosphere was intense and lively, so the original topic had to be set aside, which led to a dissection of general policy issues first. Most conference participants harshly criticized the “two whatever’s” principle and the standards of practice at the time, especially pointing out that the “two whatever’s” deviated from the Party’s practical and realistic line of reasoning. A month into the session, cries for reform grew more and more thunderous. Eventually, Wang Dongxing produced a written examination of his own mistakes, and Hua Guofeng examined the problems of the “two whatever’s” at the conference. Their decisions to criticize previous norms came with extreme reluctance, but the reality indicated that the new standard of practice was successful. The “two whatever’s” ultimately failed, and the biggest obstacle in the reform and opening up was cleared away. At the conclusion of the conference, Deng Xiaoping made an important speech titled “Emancipate the Mind, Seek Truth

from Facts, and Unite as One in Looking to the Future,” summarizing the major strides that were made in ideology, providing a clear compass for the Third Plenary Session.

Therefore, by earnestly proposing the tasks and basic principles of reforms, the Third Plenary Session became a historical turning point in the construction of modern socialism in New China. The official conference communiqué mentioned, “Carrying out the four modernizations requires great growth in the productive forces, which in turn requires diverse changes in those aspects of the relations of production and the superstructure not in harmony with the growth of the productive forces, and requires changes in all methods of management, actions and thinking which stand in the way of such growth.” The communiqué also aimed at criticizing an overcentralization of power in China’s economic management system and proposed the “Four Necessities” as reform guidance, “It is necessary to boldly shift the guidance from the leadership to lower levels so that the local authorities and industrial and agricultural enterprises will have greater power of decision in management under the guidance of unified state planning; it is necessary to simplify bodies at various levels charged with economic administration and transfer most of their functions to such enterprises as specialized companies or complexes; it is necessary to act firmly in line with economic law, attach importance to the role of the law of value, consciously combine ideological and political work with economic methods and give full play to the enthusiasm of cadres and workers for production; it is necessary, under the centralized leadership of the Party, to tackle conscientiously the failure to make a distinction between the Party, the government and the enterprise and to put a stop to the substitution of Party for government and the substitution of government for enterprise administration, to institute a division of responsibilities among different levels, types of work and individuals, increase the authority and responsibility of administrative bodies and managerial personnel, reduce the number of meetings and amount of paper work to raise work efficiency, and conscientiously adopt the practices of examination, reward and punishment, promotion and demotion.” In reality, these became the embryonic outline of the reform plans.

Following the change of focus at the conference, documents regarding agricultural problems also lost their function. The original draft document was entirely incorrect, from the guiding ideology, and analysis of the situation, to specific policy measures. The most urgent matter of the moment was to cease a series of “leftist” policies encouraged by “Learning from Dazhai” and restore effective policies from the past, but this method was not approved simply upon amending the foundations of the original drafts. The original draft manuscript emphasized that “Learning from Dazhai” was the way to speed up agriculture and mechanization and even to persist in a “pauper’s transition to higher stages of collectivization,” retract small plots of land allocated to communes for private use, and cancel rural market trading and its set extremely “leftist” approaches. These could not be completely overturned to start anew right away. Mao Zedong once claimed that the road out of an agriculture-based society was mechanization, and the realization of this dream had been anticipated to come true in 1980. But it was already the end of 1978; with

only 2 years left, how could Mao's objective be reached? The agriculture minister at the time opposed this nearly unthinkable target, but others emphasized that it was Chairman Mao's last wish and thus had to be honored and written in the plan regardless of how difficult it would be to achieve.

A foreign friend with good relations to China once asked the then agriculture minister, "What is your country's standard for mechanization?" The minister understood that the other party did not appreciate lofty empty words, and so, after deliberating for a while, he truthfully replied, "About 70 % of all farmland is to be ploughed by tractors." The friend then asked, "Would seeding, fertilization, and harvesting also require machinery?" The minister only smiled bitterly. In reality, even this single goal of using tractors to plough farmland could not be achieved. In light of this situation, the conference produced a different group of individuals to draft a new document. They were required to be open minded and produce a document that everyone could accept—one that was based on summarizing past experiences and lessons. The end result was the "Decision of the CPC Central Committee on Accelerating the Development of Agriculture (Draft)," and the "Sixty Articles for Agriculture" was also modified. From a Marxist's viewpoint, this "Decision (Draft)" summarized the two sides of positive and negative experiences in agricultural production since the founding of the nation. It condemned the existing "leftist" errors on the long-standing battlefield of agriculture, specifically pointing out, "In general, the speed of development in China's agriculture in the last 20 years has been slow, which is sharply contradicted to the development and needs of the people, to the development of the 'Four Modernizations'." Thus, the severity and urgency of agricultural problems were truthfully placed in front of the Party and the whole nation, awaking everyone from the illusory "joys of spring" and the "excellent situation."

The "Decision (Draft)" focused on seven main lessons, which in reality were all admonitions of mistakes in "leftist" ideology. In summary, "leftist" ideology violated the laws of nature and the rules of economics by stripping the autonomy of production teams and farmers, which then had a negative impact on their enthusiasm to work.

The "Decision (Draft)" proposed 25 agricultural policies and measures to increase production. It highlighted the necessity of mobilizing the enthusiasm of hundreds of millions of farmers; the economy had to be fully concerned about the people's material benefits, and their democratic rights in politics must be guaranteed. The main regulations were the following:

To protect the ownership and autonomy of production teams; no work units or individual is allowed to occupy or invoke free labor, land, livestock, machinery, capital, products, and materials.

To recover commune members' household plots, household livestock, family sideline production, and the rural market trade; encourage and support the household sideline production of farmers; and increase personal income.

To increase state purchase price of grain by 20 % from the summer of 1978 and add 50 % to portions purchased beyond the state quota. The purchasing price of cotton, oil-bearing crops, sugar crops, livestock products, aquatic products, and

forest products must also receive gradual corresponding increases in accordance with different conditions.

To rapidly increase supplies of fertilizers and pesticides, agricultural plastic, and other agricultural industrial production to ensure product quality, reduce sales price on the basis of cost reduction, and generally grant farmers the benefits of cost reduction.

To pay close attention to grain production, as well as cotton, oil-bearing crops, sugar crops, and other cash crops, and make great efforts in forestry, animal husbandry, sideline production, and fishery to simultaneously develop food supplies and the economy (focus on the five industries of agriculture, forestry, husbandry, sideline production, and fishery).

To encourage the development of commune and brigade-run enterprises; the state should implement a low tax or tax exemption policy according to the specific situation.

To make efforts in implementing the policy of family plan, decrease the national population growth rate year by year to 5 % in 1985. These specific policies—allowing farmers to recuperate and build up strength, boosting their motivation, and promoting the development of agricultural production and rural economic prosperity—all played a significant and positive role, especially in light of the document being largely unknown as successfully correcting “leftist” mistakes. Even so, it still could not completely dismiss the historical inertia of “leftist” ideology. The document proposed redressing problems of equalitarianism in resource allocation and stipulated “Three Permits,” “Dividing labor by recording output quota is permitted; dividing labor by recording time is permitted; contracting labor to task groups, linking together labor compensation to output and rewarding overproduction is permitted; all are on the premise of the production team’s calculation and distribution as a whole.” However, immediately following these came other equally as clear regulations, “No dividing farmland and laboring individually, no household responsibility system.” It was clear that “leftist” thinking was deeply ingrained and could not be swept out in one single motion. The reform had just begun, still fraught with difficulties, but the ice was broken and there was finally sight of open road.

2.1.2 A New Conflict and Struggle

Spring 1979 was the first spring since the reform and opening up. Winds were mild and the sun was bright, not unlike that of years past. Peasants and cadres in the countryside especially welcomed this wave of warmth and comfort. The central leadership proposed new policies, and there seemed to be better prospects for the future; the “two whatever’s” were deemed a mistake and no longer supported; “Learning from Dazhai” was no longer emphasized, and the anxieties of a “pauper’s transition to higher stages of collectivization” finally dissipated. However, the system of “commune, production brigade and production teams own all, with production teams as the base” was still an inviolably sacred concept. The

household responsibility system was absolutely not allowed; even if this was attempted and made a breakthrough, it would continue to be labeled as a serious defect in the country's direction and development pathway.

This stringent concept inevitably caused the birth of a new conflict and struggle.

Farmers are realists, and if allowed to make a choice, they will undoubtedly choose the option that is visible and tangible, of direct interest to their needs. The government document stipulated three "permitted" methods of agricultural production, yet most farmers turned a deaf ear to the first two "permits" and were jubilant to embrace the last "also permitted," which indicated a much more significant innovation in policy-making. As the document was passed along across the country, individual households contracting production quotas had increased dramatically. At the time of the springtime plow that year, there were about three million farmers from two million villages in the country that shifted from contracted production quotas to household groups, transforming the collective land ownership system into production brigades (or teams), and the commune model was contracted to 5–6 individual households. For farmers who had long suffered from the practice of everyone "taking food from the same big pot" in terms of income distribution, the basic means of production now finally became "visible and tangible." They were very satisfied with this new arrangement.

Suddenly, on March 15, *People's Daily* published a letter from a reader named Zhang Hao as headline on the front page, with an editor's note, both of which criticized the transformation of the responsibility contract system of production into individual households because it infringed upon the "three and a half levels of ownership accounting," shaking up and damaging the "three-level system of ownership with the production team as the basic ownership unit." Therefore, it had to be corrected. This happened at a time when the Third Plenary Session of the 11th Central Committee of the Communist had already put forward the concept of emancipation of the mind, and engineering the economic reform and opening up to the world was already underway. If this had happened 1 or 2 years ago, one could have not escaped to be labeled as "anti-Party and anti-socialism." But as this was not the case, a common letter from a reader caused quite a stir of ideological arguments across rural areas in China.

Shandong Province immediately sent many task groups to correct the errors, causing a dramatic decrease in the number of individual households that contracted production quotas. It even almost completely disappeared in some places.

Publishing this letter from the reader, in addition to posting a controversial editor's note, was not an ideal situation for *People's Daily*. Eighteen years after this incident, the magazine *Spring and Autumn Annals* carried an article titled "'Zhang Hao Letter Incident' almost suspended individual household contracted production quotas," written by Li Kelin, then director of the Rural Affairs Department at the *People's Daily* in 1997, which disclosed the story of how the reader's letter became a public ordeal.

She wrote, "In the first spring following the Third Plenary Session of the 11th CCC, the National Committee of Agriculture held a symposium that hosted leaders from various agriculture sectors, focusing on how to implement relevant resolutions

made at the Third Plenary Session and its resulting 25 policy measures. The newspaper office sent me to the symposium as an attendee and requested constant reports back to the office. In the pre-editing meeting on March 14 (a daily meeting held by the newspaper office), the deputy editor-in-chief who chaired the meeting disclosed that a leader from the agriculture sector of the central government wrote a letter to the newspaper’s chief, and attached a letter from a reader in Henan Province, describing chaotic situation in rural areas where farmers were snatching away cattle and farming tools. Production teams in some places broke up, producing a rather big impact on the consolidation of the collective economy. The leader requested the newspaper to publish the letter on the front page, together with a commentary that was to be changed according to his instructions.

“As a common practice, when the general editorial office received this type of letter, it would be dispatched to the departments for processing. That letter should have been handed to our Department of Rural Affairs. But the deputy editor-in-chief on duty said that we were pressed for time, and there was no need to send the letter to the department, that we should let the general editorial office process it directly. I thanked the deputy editor-in-chief from the bottom of my heart. This man always bore responsibility without a grudge; he had just saved the Department of Rural Affairs from many troubles.

“They changed the instructions letter from the leader into an editor’s note and published it that evening, but no one could have foreseen the eventual prominence of the affair, or simply that the front page would be so frightening.”

Li Kelin continued, “Looking back to the situation at that time, I remember asking the deputy editor-in chief why the draft wasn’t processed through our department. He said the letter was unnerving and that he understood the mentality of the Department of Rural Affairs (in regards to their fervent opposition towards the “left”), so sending it down the pipeline would’ve resulted in too many twists and turns; allowing the general editorial office to deal with it directly was more time efficient. I asked him whether the director of the chief editor’s office dealt with the letter in the way he did because he was unfamiliar with issues in the countryside. The deputy editor-in-chief answered, ‘No, even if he did not understand them, I did. But coming across that kind of situation was hopeless. Even if there was disagreement, the letter had to be published. My character is just too weak.’ He laughed bitterly.”

This summarizes the publication of “Zhang Hao’s letter.” This text clearly demonstrated that Zhang Hao’s letter and the editor’s comment in the *People’s Daily* on March 15 reflected the mentality of leaders at the Ministry of Agriculture. They even rejected the last “also permitted” that the Third Plenary Session approved. Eliminating “leftism” was indeed a difficult task.

However, the error of “correcting errors” was boycotted in many other places. As mentioned in the previous chapter, Anhui Province was able to stand against the current. Head of the Anhui Provincial Party Committee, Wan Li, said, “What’s wrong with three and a half levels of production? And why does it necessarily have to be three instead of four? I personally believe that five levels would be even better! Each family and household calculating and budgeting meticulously would result in even faster development in production.” Among the maelstrom, only

certain counties such as Huoqiu experienced a formidable impact, while the rest of the province continued to implement the “Six Guidelines,” moving along in the general direction of nationwide improvement. The system of work contracted to groups flourished and farmers’ enthusiasm ran high. In reality, some places pushed the group production organizing method under the light and kept the household units in the dark, but it was evidence of a gradual increase in the use of the household responsibility system. Under Wan Li’s influence, cadre leaders in the countryside adopted the attitude of turning a blind eye and were resolute about standing on the side of the peasants, foregoing rigid supervision in order to let farmers explore and create through practical experimentation. Some reported use of the household production system in Shan’nan Commune of Feixi to the central government, motivating Wan Li to directly request permission for Shan’nan to become an official pilot site. It was evident he believed that reform of the commune system required grassroots efforts first. He was determined to persist in this principle until the very end and waited for the final verdict after putting the idea into practice. The household responsibility contract system and its repeated disasters were once again allowed to grow healthily on a large scale and under new historical conditions. A certain motto began to echo throughout the Chuxian prefecture of northeast Anhui Province, and a clear trajectory took place, helping Chuxian become the cradle of rural reform, “Better groups than teams, better households than groups; production contracted to the group is unstable; production contracted to the household is unstoppable.”

Sichuan, a major agricultural province with the largest population, was once aptly named “Land of Abundance,” but after experiencing 10 years of chaos during the Cultural Revolution, it unexpectedly became a place with severe grain shortages. After implementing the new policy, the situation of production changed quickly. Food production, animal husbandry, sideline production, and the fishery industries were all booming. In 1979, pig population reached about 45 million, a more than 40 % increase from 1976, while cocoon production reached about 1.3 million piculs, jumping from fourth place in production in the domestic economy to first. The whole agricultural production growth rate was rising at an incredible speed, with national averages far higher than the period of stagnation left behind by the Cultural Revolution. After the Zhang Hao Letter Incident, Sichuan encountered ideological confusion, which the Provincial Party Committee responded to by issuing a “Notice Regarding the Rewards and Punishment of the Rural People’s Commune Production Team to Establish and Improve the Responsibility System” (referred to as 12 Regulations). The notice affirmed that the previous approach adopted by each province to “divide work by groups, set work and production, and award overproduction” was an effective way to overcome equalitarianism and to act in accordance with objective economic laws, and these requirements should continue to be resolutely implemented. The notice also pointed out that certain areas were more in favor of allocating land to households and implementing the household responsibility system, so it was crucial to avoid the “anti-rightist, tilting backward” approach to criticism. Already established task groups were to become a new

accounting unit, and if people did not agree to change, then the focus should rest on allowing temporary attempts for a year rather than confrontational corrections. In this way, the farmers and government officials implementing both the group and household responsibility contract system could ease their tensions and gain more confidence in continuing the experiment. The Provincial Party Committee even announced that each area could, at most, expand farmers’ allocated plots of land by 15 %, depending on local conditions. It was this kind of flexibility and willingness to adjust that was truly effective in mobilizing the farmers’ sense of work ethic.

In the hearts of the masses rests a justice beam. Cadres who work for the peasants and who speak out for the interests of the peasants will receive their love and esteem in return. Back then, there were four widely popular proverbs about eating rice and grains—anyone who is a bit older will still remember it like it was yesterday.

The poorer the region, the more necessary it was to take initiative and implement reforms. In fall of 1978, 60 % of the production teams in Guizhou Province spontaneously took up the group responsibility contract system with extremely effective results, and farmers were very enthusiastic. Following the Zhang Hao Letter Incident, some cadres began to waver, asking around about the “new spirit of the central government.” Some even attempted to correct the “bias,” causing losses in production. *Guizhou Daily* published a short opinion column, “The Surname of Group Contract Production is ‘Socialism’, Not ‘Capitalism’.” The farmers saw this as a treasure, cutting out the piece to keep in their pockets. Upon meeting cadres who were convicted of correcting the “bias,” the farmers would begin to debate, “So is your logic correct, or the newspaper’s?” The “open road vs. log bridge” conflict had reached a sharp peak. Guizhou is a remote and impoverished province where the people’s communes and the previous three levels of production were clearly in contradiction to the “open road.” After a period of protracted struggling, many government leaders felt that they had to face reality and that if the majority of peasants were in support of the group—or even household responsibility contract system—then even the “log bridge” must be crossed, or else there would be no other options. Chi Biqing, First Secretary of the Guizhou Provincial Party Committee, stated, “In the past year, the situation in the countryside has been a tug-of-war match, with a vast troop of farmers on one side and us cadres on the other.” He decided to stand on the other team’s side. In March 1980, the Provincial Party Committee finally announced that agricultural management can be done through group contracting, and afterwards, many production-associated responsibility systems recovered and developed in succession. The results of the practical implementation were fruitful and transcended the expectations of many. Pile by pile, news about agricultural production levels breaking historical highs continuously rushed in, which gave way to new forecasts absent from previous years. That year, total grain output in the entire province reached over 6.48 billion kg, an increase from the 285 million kg of last year, making that year the second highest yielding year since the founding of New China; rapeseed reached a new record high of 145 million kg; over 4.6 million heads of pigs were bred, an increase of 15.8 % from the previous year and also a record high; the per capita grain appropriation of

farmers was 282 kg, a growth of 16.3 % from the previous year; per capita net income reached 167 yuan, an increase of 123.1 % from the previous, a historical high. “There is food in our hands, no fear in our hearts, and we are standing on solid ground, bursting with happiness.” Even the poorest of poor provinces now held a completely different head-to-toe outlook on the “open road vs. log bridge” conflict.

However, given China’s enormous size, economic development was not balanced, resulting in a wide range of differences in the rural areas. Attitudes towards reform, as well as outcomes, varied all across the board. A common understanding nonetheless remained; the poorer the region, the more necessary the reform. There were extremely poverty-stricken areas in every province, leading to some very active and progressive rural reforms in certain counties, but due to local officials—especially those at the top—holding inconsistent attitudes, advancement was also inconsistent.

On January 23, a meeting of the Sha’anxi Provincial Committee of the CPC decided that they “must continue to implement the concept of commune, production brigade and production teams own all, with production teams as the base.” This was certainly a preference for the people’s commune and an opposition against the household responsibility system.

First Secretary of the Shanxi Provincial Party Committee, Wang Qian, said in January, “Dazhai grew up under the guidance of Chairman Mao, and Shanxi is still determined to ‘Learning from Dazhai’.”

Another First Secretary of the Provincial Party Committee said in spring of 1979, “We must continue to adhere to the basic lessons of ‘Learning from Dazhai’.”¹

Other main leaders of some provinces avoided this sensitive issue as much as possible by not responding to whether to fix farm output quotas for each household but by boldly saying, at most, “We can experiment with all different solutions.”

As long as farmers participated in this experiment, the results always favored groups over teams and households over groups. This was proved effective every time, without exception. In Lan’an County, the juncture points between Anhui Province and Jiangsu Province, Liucheng Village in the former and Xiahu Village in the latter, were situated at polar ends of the reform. Historically speaking, Liucheng is poor and Xiahu is wealthy, but a miraculous change occurred in 1980. After implementing the household responsibility system, the production output in Liucheng Village doubled in only a year. The storehouse was full of grains, poultry was bred in flocks, and within a 3-month period, five Jiangsu women were married into the village. The farmers of Xiahu Village blamed the local cadres for forcing them to adhere to the option of the grassroots people’s communes, saying, “Go and see for yourselves! We want to walk the log bridge, even if we tumble and fall!”

On March 1, 1979, according to the advice from the CPC Central Committee, the State Council made provisions stating that from March onwards, the purchasing price of 18 major agricultural and sideline products, including grain, cotton, oil, and

¹ Taken from the *People’s Daily* of that time.

pig, would be gradually improved. According to this provision, the total index of the national agricultural and sideline products in 1979 increased by 20 % on average, and if exceeded, a 50 % increase was to be added on top of this baseline. This measure effectively mobilized the enthusiasm of the peasants to develop, produce, and sell. Due to the increase in the purchasing price of main agricultural and sideline products, farmers’ income increased by 10.8 billion yuan that year. State purchase quotas in poor areas were low, while genuine efforts at the household responsibility system would yield sales of overbought grain, allowing farmers to gain more. More and more areas turned from using group output quotas to the household responsibility system, whether in an upfront or sly fashion, and production rates were significantly increased in places that were adamant about adhering to the household responsibility system. The “three duties of the team” in many poor areas were quick to alter their strategies. Factors from both sides mutually benefited each other, producing a sharp change in the countryside, and the people’s commune system became more difficult to promote as a trend.

The Fourth Plenary Session of the 11th Central Committee of the CPC was held in September 1979. In accordance with reflections from a period of practical experimentation, the session modified and then officially passed the “Decision of the CPC Central Committee on Accelerating the Development of Agriculture.” Wan Li continued voicing concerns at small group discussions and later went to Hu Yaobang, advising him to remove the “two unpermitted.”

Hu Yaobang replied, “I will work on it.” Hence, the official final document corrected the “two unpermitted” into one “unpermitted,” one “do not”—that is, “dividing land for individual work is not permitted; do not implement the household responsibility system except for the case of specified sideline productions with unique needs and individual households in remote mountainous areas.” In terms of the household responsibility system, “unpermitted” was changed into “do not,” with a slightly gentler tone of recommending rather than admonishing. For exceptional situations, the door was opened ajar. According to later sources, a central leader who was entrusted by the Central Committee to honor Wan Li’s suggestion had done this, but after considering the opposing parties’ viewpoints, he painstakingly racked his brains to come up with this ultimate sentence. Wan Li was not satisfied by this, because although “do not” held a somewhat warmer connotation, it was still a no, whereas in Anhui Province, the household responsibility system had already spanned a discernibly large area, so without clear approval from central policies, his job would be hard to do.

However, there was nonetheless a small opening in the door, allowing “household responsibility, contracted payment” to become an impetus for millions of farmers. Eventually, they jammed their way through the cracks of the crevice, and the household responsibility system became a historical tidal wave.

2.1.3 Major Conflict Resulting in Major Development

In 1980, the household responsibility came from behind the shadows and into the spotlight with more and more areas of the nation implementing this new method. It stirred up countrywide debates and concerns, but also achieved major national development. During January of that year, the State Agricultural Commission held a conference on the management of the rural people's commune, which estimated that full implementation of the household responsibility system in rural production teams accounted for about 1 % of the total production teams. However, reality stood far beyond that percentage, and as for partially using the household responsibility system on certain crops, the numbers were even higher.

According to Xinhua News Agency, the statistics from each provincial division showed the following.

About 10 % of the production teams in Guangdong Province were implementing the household responsibility system, and it was mostly concentrated in the counties of Huiyang, Meixian, Hainan, and Zhanjiang. Huiyang accounted for about 35 % of the total production teams, while the other areas stood at about 20 %. In Wenchang, Wuhua, Heyuan, Zijin, Yangjiang, Qiongsan, Tunchang, Puning and other counties, fixed output quotas for each household production team accounted for about 40–60 %.

Anhui Province's use of the household responsibility system accounted for about 23 % of the production team. There were more in Feixi, Fengyang, Dingyuan, Wuhu, Lai'an, and Xuancheng, with some counties reaching over 80 %.

In the 53 counties with 47,849 production teams in the Inner Mongolia Autonomous Region, those using the household responsibility system were calculated to be 13,894, accounting for 29 % of the total. Wuyuan County in 1979 had more than 70 %, and did not budge in the face of several attempts by the League to "rectify" the county.

There were about 10 % of the production teams using the household responsibility system in Henan Province.

Guizhou, Yunnan, Gansu, Shandong, Hebei, and other provinces each had a batch of production teams who were also engaged in the new system.

The same went for Zhejiang and Jiangsu provinces, although the numbers there were lower.

The suburbs of the three municipalities directly under the central government, Beijing, Tianjin, and Shanghai, as well as the three northeastern provinces and Hunan and Hubei provinces were places where the household responsibility system was absent.

That year, in late February, the Fifth Plenary Session of the 11th Central Committee finalized Hu Yaobang as general secretary and Wan Li and others as secretaries of the Central Committee's secretariat. This outstanding group of older generation of proletarian revolutionaries entered the Party's leadership strata with collective vigor, and it is doubtless that they were conducive to the progress of reform and opening up. Hu Yaobang's character was cheerful and ebullient, and while comparatively young, he was a seasoned Red Army soldier who had

participated in 25,000-km Long March. He was 33 years old in 1948 when he became director of the Political Department of the North China Field Army 18th Corps, authored a new version of the “Three Character Scripture” and was very well liked among the other soldiers. In the Red Army, he was popularly labeled as a young general with talent and a thirst for knowledge. For a long period of time after the establishment of New China, Hu Yaobang retained the post as First Secretary of the Communist Youth League. He demonstrated strong creative abilities and was often praised by Mao Zedong. In confronting issues behind the “two whatever’s,” his charisma and courage received even further recognition from the whole Party. From the beginning to the end of his career, he served as executive vice president of the Central Party School, Minister of the Central Organization Department, and Minister of Propaganda. He made outstanding contributions to ideological liberation through organizing, planning, and discussing around the criterion of truth; he pushed aside all obstacles and difficulties through batch after batch of injustices and misjudged cases. He claimed, “All lies, all proceedings and conclusions that are not correct, no matter what, under whatever circumstances, or from whichever level, peoples, or groups, must be corrected.” As general secretary, he took a resolute stance on supporting rural reform. During the “open road vs. log bridge” debates, when the country was unsettled about which direction was ideal, the task to expand the range of the household responsibility system became more urgent, and there were discussions throughout the Party, government departments, and even the entire country. Some said it was good, while others said it was terrible; each had his or her justifications and no one could convince the other. Also, it seemed that higher-level leaders in the ranks of government officials had greater ideological resistance, while central government departments and provincial leaders remained skeptical about using the household as the basic production unit. Some even exclaimed, “I want to keep the integrity of a revolutionary in my later years. I’m resolutely opposed to the household responsibility system, opposed to individual production!” Hu Yaobang and Wan Li traveled out to a number of provinces in the northwest and northeast provinces to patiently persuade and explain the situation to each place.

The *Rural Work Communication* sponsored by the State Council on the second and third issues in 1980 respectively published articles titled “Dividing land and laboring individually must be corrected” and “Does the household responsibility system support public ownership and distribution according to work amount?” The former mainly criticized the concept of dividing land and labor, which would lead to polarization, while the latter pointed out that household responsibility system as a method of production was neither based on public ownership nor distribution according to work and thus was actually falling back on dividing land and laboring individually.

In the birthplace of rural reform, Anhui Province, there were also inconsistency and relapses after Wan Li was appointed to hold office elsewhere. From April onwards, the Provincial Party Committee held meetings in the cities of Bengbu, Wuhu, and Chaohu, while extending the scale of these discussions to the Provincial Party Committee’s standing committee. At these meetings, the main individual representing the Provincial Party Committee was responsible for attaching

“economic nationalism,” “opportunism,” “syndicalism,” and other major relevant concepts to the household responsibility system. He said that some cadres only held immediate and nearsighted interests in focus, so he advocated, “Movements are everything and ideologies are not worth mentioning. Although the household responsibility system has increased production, it is not a direction, and cadres above the county level should keep a sober mind and not commit the error of opportunism.” He accused that fixed output quotas for each household was not the right path, and neither was work contracted to households, so perhaps both systems would eventually collapse. He even threatened that sooner or later, if that day came, they would all have to take a very hard hit. Hence, in meetings mentioned above, the entire mood towards provincial rural reform suddenly turned cold, people became uncertain, and potential threats were internalized. At the time, the Chuxian was implementing the household responsibility system on the largest scale and thus burdened the greatest pressure. Even in that area, the “open road vs. log bridge” which seemed no longer a question was questioned once more. Misunderstandings of and disagreements on the household responsibility contract system once again flooded the stage.

Some believed, “The key part of the household responsibility system is ‘division’, and not ‘responsibility’. It is not different from dividing land and laboring individually, which not only means receding to capitalism, but to a feudal system, to thousands of years back.”

Some believed, if the new system became the norm, then “people’s goals will be scattered, each pursuing his journey onward. There would be no collective management, basic construction could not be done, scientific farming would not be given a chance, and socialism in the countryside will be destroyed.”

Still others believed that the household responsibility system “was wonderful when looking at production outputs, but hateful when looking at the direction of the nation” and that “farmers only appreciate immediate results so pleading for the household responsibility system was the farmers’ selfish and backwards ideal. They would give up socialism as the nation’s compass.”

At this critical moment, going by China’s conventions, the supreme authorities had to step up and make a decision. This figure was Deng Xiaoping, whose controversial leadership was marked by his “three ups and downs.”² On May 31, he made an important speech titled “On Questions of Rural Policy” and

² The first down was in 1933; Deng Xiaoping followed the correct line represented by Mao Zedong and opposed the “left” land-distribution policy, but he was removed from the post of Director of the Propaganda Department of the Jiangxi Provincial Party Committee by the provisional central leadership. On June of the same year, he was sent to the General Political Department to serve as its secretary general, and this was the first “up.” The second down and up was in 1966. No sooner had the “cultural revolution” been launched than Deng Xiaoping and Liu Shaoqi became its chief targets. Deng fell out of favor and was criticized and purged from his offices, but he returned in 1974 as vice premier, vice chairman of Communist Party. Again, he was dismissed in 1976, but in the same year after Mao’s death, he was restored once more to power. This was the third downs and ups.

charismatically approved of the peasants’ creativity in Anhui’s Feixi and Fengyang counties, while also reassuring the masses that they should not be concerned about the household responsibility system. He emphasized, “Generally speaking, the main obstacle in dealing with current problems in the countryside is an insufficient amount of ideological freedom.” This was the biggest support ever received by the household responsibility contract system. Prior to this, Chen Yün, then-vice chairman of the CPC’s Central Committee, also enthusiastically said to Wan Li at one of the major meetings, “I completely support your way of doing things in the area of rural policy.”

Prefectural Party committee leaders in Anhui’s Chuxian never once faltered on the new system, and after hearing Deng Xiaoping’s words at the meeting in Chaohu City, their confidence burned even stronger. Secretary of the prefectural Party committee, Wang Yu, took a risk by openly defending the household responsibility contract system, especially when tensions were running high at the meetings. Many ideological divergences could not be resolved. In the end, a top official in the Provincial Party Committee who supported the new system concluded the meeting with a re-recitation of Deng Xiaoping’s speech, and the discussions came to a hasty end.

In mid-June, a leader in the central government wrote “A Letter Regarding the Current Reform in the Countryside,” sent it to Wan Li, and copied it to Hu Yaobang. The memo summarized the experiences of Mengjiaping of Mizhi County in northern Shaanxi, i.e., using the system of fixed output quotas on the basis of individual labor, and advised the State Agricultural Commission to organize cadres down in local counties to investigate and research more about the household responsibility system and to act on the content of Deng Xiaoping’s speech.

At the end of August, after approval by the National People’s Congress, leadership in the State Council was adjusted, removing Hua Guofeng from his position as premier and Ji Dengkui, Wang Renzhong, and Chen Yonggui from their positions as vice premiers. Instead, Zhao Ziyang became premier of the State Council, while Wan Li was vice premier and doubled as director of the State Agriculture Commission.

Wan Li’s situation at the time was far from a relaxed state. Rather, he felt more mental burden. The fact was that Anhui had been Wan Li’s familiar territory, and despite contradictions with the central government, he was able to take alternative approaches to mitigation and eventually end the day on his note. However, Beijing was much more complex and more difficult to deal with. He doubled as head of the Agriculture Commission, but, along with the Ministry of Agriculture, these representatives openly rejected the household responsibility contract system. Among senior cadres, many could agree on the “two whatever’s,” but once the rural reform came up, it immediately caused schisms. During the communalization period, peasants were soldiers, while the families of army men worked the fields. In the household responsibility system, who would be substituting whom, in plowing land? Wan Li was also worried about this problem and conducted a specialized research into it. He discovered that it wasn’t a problem at all, and a rise in production after implementing the new system would mean even greater benefits

and care for the army families. But the army still heard rumors that the household responsibility system will shake the morale of the troops and be the catalyst for their collapse. A teacher heard and believed this view. He did not believe that whatever Deng Xiaoping said could not be questioned. Because of this, he attended a meeting of the central government for the purpose of writing on the bulletin, "I oppose Wan Li's household responsibility system." The many angles of resistance couldn't force Wan Li to retreat, yet he stepped through the ranks from a province and knew well that without the support of the Provincial Party Committee, practically nothing could be accomplished.

Many years later, he recounted, "I had a big problem on my hands when I first started working for the central government in early 1980, entering the secretariat and being placed in charge of managing rural affairs. At the time, the revolutionary spirit was still going strong and people's mentalities were animated. Redressing miscarriages of justice made people feel hopeful for China. However, the mentality formed under the system of planned is stagnated. Judging generally from the work in the countryside, peasants asked for reform and some areas were quick to respond, but for the most part, the highest-level authorities were still implementing what was left of 'Learning from Dazhai'. They resisted rural reform, and especially the household responsibility contract system."

Once more, he sought out Hu Yaobang and sincerely said, "The farmers' movement is positive and it was a way out for agriculture, but central documents never once gave affirmation. Their justifiable actions, receiving no supports, are now illegal. This could not go on!"

From the September 14–22, just after the shift in central leadership appointments, the first secretary from the Party committee of each province, city, and autonomous region convened for a panel discussion on the topic of the household responsibility system's problems. The meeting produced much controversy. In the beginning, only a small number of people such as Ren Zhongyi, Zhou Hui, and Chi Biqing, members of the 12th Central Committee of the CPC, expressed clear approval, while most remained silent. There were nonetheless some who pointed out harsh criticisms. Vice director of the State Agricultural Commission, Du Runsheng was entrusted by the central government to write a special report, which he summarized and explained. Amidst the heated debate, he wisely selected a juncture point that would bring the two sides together; the household responsibility system had a major influence on impoverished areas urgently in need of solving heat and hunger problems. These two issues were the most pressing headaches faced by provincial government leaders. No one who opposed the new system could deny that switching to household production output was the only answer. In his speech, Du Runsheng quoted hard evidence from field research, gave a rather objective analysis, and won the conviction of many. The discussions continued, and finally, there was a general consensus that the household responsibility system was necessary, at least for solving the problem of food and clothing with expediency. Policy exceptions could be used in extremely poverty-stricken areas, so there was no danger of restoring capitalism. The meeting successfully passed the "Some Problems in Further Strengthening and Improving the Agricultural Production Responsibility System," which became 1980s "Document No. 75."

It emphasized promoting accountability to suit measures under local conditions, provided a classification guide, and “allowed various forms of business transactions, various labor organizations, and a variety of payment methods to exist at the same time,” “not rigidly adhering to a pattern, not rigidly abiding by uniformity.” In poor and backward areas, the household responsibility system achieved forming a connection with the masses, improving production, and solving the problem of food and clothing. Document No. 75 did not reach the thousands of miles it expected to, but it was a significant first step in the process of rural reform, and it inspired hundreds of millions of farmers to act upon change. Restricted by specific conditions at the time, the document did not directly state that fixed agricultural output quota for each household was the default responsibility system of socialist agricultural production. At the meeting, Yang Yichen, secretary of Heilongjiang Provincial Party Committee, and Chi Biqing, secretary of the Guizhou Provincial Party Committee, once again launched into an argument over the “open road vs. log bridge.” The day Du Runsheng gave his speech, another deputy director who was more senior and has more experience than Du Runsheng said in a well-presented and measured tone, “Today, you spoke well, and every sentence possessed logic, but you only represented yourself, not the Commission, because the Party committee has not had a discussion yet.” Although the words were reserved, the essence of it still concerned the open road vs. log bridge battle, and the subtext was your direction may not be correct.

Document No. 75 was a product of temporizing differences, and it bore the scars of many opposing views, simultaneously claiming that the household responsibility system “will not leave the tracks of socialism,” but unable to confirm that it was “the responsibility system of the socialist collective economy”; it did not reject the system and highlighted its importance in rescuing poor areas, while also stating that it “must be implemented under the directives of production teams,” and it would be a “socialist commercialism and the collective economy would be absolute winners.” Everyone found evidence that supported their views, and hence, it continued to be accepted.

In mid-November, the *People’s Daily* gave a full page to reflect upon the spirit of Document No. 75 in the form of a policy and theory-based essay, “The Open Road and Log Bridge.” The paper opened with the conversation between the two Provincial Party Committee secretaries and expounded the necessity of development and of why the household responsibility system came into existence. The repercussions were immense, with farmers welcoming it and some, disposed of “leftist” thinking, who vehemently opposed it. At meeting of politics and law work in one province, some attendees accused the author of this paper as a so-called “instigator” and proposed investigating who was legally responsible. On the Yangtze River side, a leader responsible for agriculture in a big city even announced at a general cadres assembly, “Whoever continues to do the household responsibility system had to be expelled from the Party if they are a member of the Communist Party and had to be removed from office if they are not. The doors of public security bureaus are wide open and no one hopes that people will go in, but we certainly could not stop those who are determined to squeeze their way through.” Although these counterflows

and bubbles now look ridiculous, they fully show the difficulty and complexity of the first steps towards reform in rural areas.

Nonetheless, practical results were always the most persuasive. 1980 had an average harvest, and by the year-end, the statistics showed that the production team's output neither rose nor fell; implementation of fixing output quotas for each group resulted in an increase of 10–20 % in production; the household responsibility system raised production from 30 to 50 %. “Better groups than teams, better households than groups,” this motto was proven true in Anhui in 1979, and a year later, it was proved true again for the entire nation.

2.2 From “Unpermitted” and “Do Not” to “Conditionally Allowed” to “Completely Allowed”

In 1981, the long and tumultuous waves of reform in China's countryside turned from a downward to upward trend, finally becoming mainstream and widely accepted. Stirs in rural activity were like streams of spring water leaking into a river, and the billowing river rushed these tiny streams out of the valley. The open road vs. log bridge debate propelled the major development of fixing farm output quotas per household on a national level. More and more people looked upon the spring water in the streams with admiration, and those accused of being seduced by capitalism were able to lay their anxieties to rest. Document No. 75, passed through not long before, unfixed restrictions on using the household responsibility system, albeit with conditions, but it nonetheless affirmed its necessity in transforming the production landscape of poor rural areas.

2.2.1 Why the Household Task Responsibility System Was Most Popular

Since then, all types of household responsibility contract systems quickly evolved and were continuously perfected, reflecting each area's adaptability and superiority. Among these, fixing output quotas to household units developed most quickly and changed the most as well. Firstly, it broke through the initial assumption that only remote mountainous areas and extremely backward, poor regions would use this system, as its popularity gained momentum in more places; secondly, fixed output quotas per household then turned into contracted tasks per household, about which people from Fengyang County said, “Give enough to the country, keep enough for the group, and the rest is for ourselves.” This “responsibility contract system” was most clear about responsibility division, was the most direct in providing benefits, and had the easiest procedures. It was also most suitable for production levels, peasants' cultural levels, and the management abilities of local leaders in the

majority of areas, and hence, it received the most enthusiastic support. However, canceling the aggregated accounting and distribution of production teams also received severe criticism. In the eyes of the opposition, people’s communes were the temples of a socialist country, and the household responsibility system was only a makeshift stratagem for curing poverty that will one day be put away. They declared with confidence, “Fixed farm output quotas per households will be fast in the first year, slow in the next, and dead in the third; raise production in the first year, level out in the second, and give nothing in the third.” Farmers were still more inclined to believe “rather groups than teams, rather households than teams, no stability without the household responsibility contract system.” The 1980s was an era of reform and peasants suddenly emerged with more intelligence, learning how to say “power is not truth,” “regulations are not truth,” and “frameworks are not truth.” When denounced and stopped by cadres in the process of selecting their household responsibility system of choice, they forcefully retorted, “Even Chairman Mao made mistakes, so how can you be right every time?” In reality, people’s communes, at their roots, betrayed the desires of the farmers. Output quotas by households appeared over and over again in the process of communalization, proving that the family unit remains an inextinguishable feature in the Chinese civilization’s thousands of years of plowing land. The wide-scale use of people’s communes was beyond its historical stage, denying the use of family production before its time, ultimately bringing about its own rejection. Ever since the establishment of the Communist Party, the “grave problem of farmers’ education” had always been emphasized, guiding farmers down the road of socialism. Now, it was the opposite, with farmers pushing the Party down the road of reform, letting all varieties of the household responsibility contract system blossom and their contents diversify. The general path of this evolution leaned towards the Fengyang style “responsibility contract system.” The farmers felt a special kind of affection for this most direct, most beneficial form of responsibility system, but support from government officials changed without prediction, if leaders consistently claimed that the direction and journey was headed in the wrong direction and severely punished or restricted farmers, then it could’ve continued for a while, but that which is yearned for by the public, that general trend, could only be subdued for a little while.

2.2.2 Government Leaders Were Still Crucial

Zhou Hui, the First Secretary of the Inner Mongolia Autonomous Region, visited the then-president of the Party Central Committee, Hua Guofeng, for a long discussion. They knew each other from long ago. In the 1950s, Hua Guofeng was the provincial Party secretary of Hunan Province, and Zhou Hui was already the second in power there, as secretary of the Standing Committee of the Provincial Party Committee. In 1959 at the Mt. Lu Meeting, Zhou Hui, in the spirit and conscience of the Party, refuse to listen to Mao Zedong’s advice to expose Peng

Dehuai and Zhou Xiaozhou, was criticized relentlessly, becoming a powerless, right-wing opportunist, and was then banished to sit cold as the deputy director of the Ministry of Communications. Separated for 20 years, after many groundless talks, the relationship between the two individuals was reversed. Although the subordinate had become a “wise leader,” the reunion was able to maintain honesty and friendship, with more freedom to chat about common experiences from the past, their common old acquaintances, dead or alive, all of which helped Zhou Hui leave a better impression on Hua Guofeng. Zhou Hui was always frank and to the point, a characteristic that was honored by his nickname, “the Cannon.” Seeing that the other party wasn’t treating him like a stranger, he took the truth out of his heart, and with a changed tone, no longer referring to the other as “Old Hua,” he cleared his throat and said, “Comrade Hua Guofeng, there was no experience to be gained from the Great Leap Forward, let’s not speak of it. We are still stressing ‘Learning from Dazhai’ in agriculture and the whole country is trying to popularize Dazhai County. Can this work? You convened the Dazhai County meeting, producing a document saying, ‘The transition to group production accounting represents a general trend’, but does that conform to the actual situation? Now you are the Chairman, and you’re enveloped by ‘the joys of spring’ everywhere you go, but can you see the truth?” Hua Guofeng heard a kindness in Zhou Hui’s sincere comment and did not mind this thinly veiled disapproval, but after all, coming from a position of high office, it was difficult to truly internalize.

Zhou Hui set out to lead as an example by personally taking part in uncovering and understanding the real situation in the countryside. As soon as he came into office, he traveled with light luggage and few staff, usually only with the secretary and some guards. Like a cruiser running on the open plains or rugged mountain road, Zhou Hui visited the leagues³ of Ulanqab, Bayannur, Xilingol, and Ihju in Inner Mongolia and dozens of communes in counties and administrative regions. They saw the backward, the poor—the true situation. An elderly peasant with wrinkles on his face like the pattern on walnut shells said, “The Communist Party is good. They don’t beat people, yell at people, exploit, or force, but one condition is wrong, which is that they keep the people from filling up their stomachs.” These words kept Zhou Hui up all night. He repeatedly thought, “It was frightening how poor the people are! They’re starving to death, so what do ideologies matter? Can fleeing from famine and begging for food be called socialism?” “Big production brigades could not manage, communes could not, I also could not, and I see that the state could not either. Who can manage and care for the situation then? Only farmers themselves. We can only let go and let the farmers fend for themselves.” He made speeches all along his journey, “If you’re going to starve to death, you better try to find a different route first. If to fix production to groups did not work,

³ Leagues are the prefectures of Inner Mongolia. The name comes from a kind of ancient Mongolian administrative unit used during the Qing Dynasty in Mongolia. Mongolian Banners (county-level regions) were organized into conventional assemblies at the league level. During the Republic of China era, the leagues had a status equivalent to provinces.

then try the household responsibility system.” This was at the same time when the central government introduced “Document No. 49” in 1977, which continued demanding for “Learning from Dazhai,” to “apply an enthusiastic attitude” towards “the transition to group production accounting” and “allow around 10 % of production teams to finish this transition this winter and next spring.” Neighboring provinces were beating gongs and sounding drums, rushing to be the first, raising the torrents of the “Transition Wind.” Zhou Hui tried going against the current, going with it, but ultimately maintained his standards. He believed that the worst situation is it’ll happen once more, but then be forever removed. Before the first working meeting of the 11th Third Plenary Session, he was shooting off his idea in small groups, in the cafeteria, calling everywhere, “The farmers could not afford to keep suffering. Return the rights to produce and operate back to the farmers; give the household responsibility system a proper household registration; respect farmers’ decisions; the advantage of socialism is not hungry stomachs.” His speech was published on the conference bulletin, causing dissatisfaction from members of the Politburo and a letter to the central government asking for a chance to debate with Zhou Hui, but his words resonated in a positive tone with many others as well. According to intense reactions from the meeting, the original draft of the document was finally overturned, and the new draft was a solid document reflecting the truth, yet could not betray the inertia of the “left,” therefore continuing to categorize the household responsibility contract system and land division by individual labor under the “two unpermitted.” Zhou Hui was extremely displeased and complained to the comrade in charge of the draft, but to no avail. He then angrily said, “Now that you holding the pen would not write, we are writing by doing the real work with real actions.” A year later in 1980, Document No. 75 was revised and put in a good word for the household responsibility system, claiming that it was effective in solving the problems of food and clothing in poor areas. Zhou Hui happily expressed, “Is there any place in Inner Mongolia that is not a poverty area?” Therefore, in accordance with the characteristics from different agricultural and pastoral areas, he researched many different methods of actively engaging in this.

The situation in Heilongjiang Province was not the same at all. First Secretary Yang Yichen was an old veteran comrade and suffered much during the Cultural Revolution. After the crush the Gang of Four, he backed bringing order out of chaos, actively redressed the wrongdoings in the justice system, and was opposed to the “two whatever’s.” However, he held on to the belief that the direction of socialism was “large in size and collective in nature” and that the people’s commune was the result of many years of struggles and should not be carelessly thrown away. Heilongjiang was rich in cultivated land resources, and its stage of agricultural mechanization was relatively high. He also saw that the commune system had many disadvantages, and the reform must be carried on, but he thought that the way out was mechanization, which would increase the level of productivity. He visited the USA once, fully realized the power of mechanization, and believed even more firmly in his point upon returning. Because of this, during a meeting of first secretaries from each province and region in September 1980, he objected to the

household responsibility system from beginning to end and emphasized that the country should not abandon the open road for the log bridge, which resulted in the famous debate with First Secretary of the Guizhou Provincial Party Committee, Chi Biqing. Heilongjiang had equally as many poverty areas, and aside from farmers, even some among the prefectural and county-level cadres began to show support for the household responsibility system, especially since news about major transformations from the new system drifted in from provinces and regions nearby. Only because of Yang Yichen's ability to wield some leverage was the issue able to remain tempered. When the meeting in Beijing was taking place, he received a telephone call from the general office of the Provincial Party Committee informing him that provincial rural affairs meeting was once again hit by the waves of the household responsibility system. Prefectural Party committee secretary of the Hejiang area spoke about his views and investigations into the production quotas per household structure, which made an echo throughout and received extensive empathy. This secretary even agreed to have military record of the progress, as long as he could be allowed to implement the household responsibility system, even promising to increase the turn over number of foodstuff by over 500 million kg. He was willing to accept any consequential treatment if this was not accomplished. Discussions were splitting in all directions at the meeting, and all were waiting for this head figure to return and slap down a decision on the table. Yang Yichen felt that the situation was growing grim, so as soon as the meeting ended, he immediately flew back to Harbin, and when the plane landed, he did not go home nor go back to the Provincial Party Committee, but went directly to the meeting to hear reports. In calmness and silence, no one was able to guess whether or not his attitude had changed after coming back from the meeting in Beijing. Once the military record was mentioned, he finally outlived his patience and roared, "Other places have seen good results with the household responsibility system, yet we're still not allowed to use it. What military record? Nonsense! You don't care for losing your head, but I do." The crowd grew completely still, as if ice water washed over them. No one dared to speak. Afterwards, Yang Yichen also took a step back and agreed to organize a visiting delegation to learn about the reform experiences in some other provinces and regions. The proposal was determined after the field observations, causing Heilongjiang Province to be a year later than other places in practicing the household responsibility contract system.

Shanxi was the base camp for Learning from Dazhai, and although leaders in the Provincial Party Committee expressed support for a discussion over the current truths and values, when in reality, they followed closely after Hua Guofeng and Chen Guiyong's ideological insistence on the "two whatever's," including one particular stipulation that other provinces did not have ("all records established by Dazhai and Xiyang cannot be surpassed"), even though no official document enforced it. Therefore, attempting to bring order out of chaos and correcting mistakes made in previous legal cases drastically slowed down while rural reforms became more difficult. Against everyone's assumptions, even in the backyard of Learning from Dazhai, there were people who had chutzpa, and they secretly

introduced the household responsibility system. The incident happened during the start of 1978. Nineteen households from the people’s communes in Nanguo Village, Wenxi County, unexpectedly and secretly used fixed production quotas per household. Back in Shan’nan in Feixi County, the household responsibility system had been ongoing for about 9 months, whereas Xiaogang Village in Fengyang County began contracting work to households for at least 10 months prior. County Party secretary Zhang Shixian received news of this and went for an inspection to find out that the yield per one *mu* of land doubled. He then gave his support, promoted the highly coveted results, and, patting his chest, said, “I’ll be responsible if there’s a mistake.” A year later, at the beginning of 1979, 877 production teams popularized Nanguo’s methods, causing a loud stir. A Provincial Party Committee leader was extremely vexed, and even though the circumstances did not allow him to arbitrarily force Zhang Shixian to leave his government post, Zhang Shixian was still at the Party school to be “educated.” However, after a short period of time, this committee leader himself was facing difficult times. Some newspapers in Beijing continuously revealed that Dazhai and Xiyang were faking production numbers and facts. The Provincial Party Committee had no choice but to publicize the serious mistakes in surveying the process of the Dazhai experience and transfer the leader out of Shanxi. Huo Shilian took over as the First Secretary of the Shanxi Provincial Party Committee and the situation quickly changed. The household responsibility contract system became a trend that could not be halted and that continuously expanded. Wenxi County’s setbacks allowed it to develop faster, and in the spring of 1981, it reached a 67 % implementation rate.

Rural reform in Fujian Province began with a relatively dull start, but when Xiang Nan went to serve as First Secretary of Provincial Party Committee, the situation opened up with relative ease.

In 1981, the wave of fixing production quotas for each household surged forward. It gradually becomes the mainstream, but new problems came out again. A handful of local cadres still held on tightly to traditional notions. They first disagreed and continued to resist and later “released the flocks” and completely let go. Some allowed the local cattle to die from labor exhaustion, some places sold off their tractors, and some places even demolished production teams’ public housing down to the single brick. This was the problem of leaders and their work ethic, not an innate issue with the household responsibility system, yet it became an excuse to attack it. “Is the household responsibility system a form of collective production, or actually a regression to dividing land and working individually?” A debate that seemingly subsided was raised once more.

Wan Li was acutely aware that the problem occurring down below had its root up top, so he started to adjust the leadership at the Ministry of Agriculture and asked Lin Hujia to be the minister because he had a wealth of experience in rural affairs and had worked as a leader in the three municipalities directly under central government of Beijing, Tianjin, Shanghai.

On March 31, 1981, Wan Li criticized some cadres at a meeting of the leading Party group at the Ministry of Agriculture. He said, “After the Central Working Conference, the whole Party has been exerting extra efforts to eliminate the poison

of the 'left', trying to bring along order to ideological and economic aspects. If we don't eliminate 'leftist' thinking, then the agricultural industry cannot be saved. When No. 75 was being drafted, I suspected that some cadres responsible for the rural population would experience mental roadblocks. Now, it seems to be true. Some comrades in charge of agriculture are still each singing their own tunes, without a common language among us. Not long ago, someone from the Ministry still said that central decision-making is now 'anti-Dazhai', is a problem about 'the direction, the path', and it means 'dividing land for individual labor' and implementing 'capitalism'. It was these thoughts that have yet to turn around. After the conference, each province has written a very good report, but I've yet to read one from the department in charge of rural affairs. Advice from the world of theories to economic theory have all been well-put, but some cadres in the Ministry of Agriculture simply cannot be convinced, not even by the boundless facts that came from practical experience. I don't know where they got such strong vigor. Whatever opinions you have, whatever advice, we can discuss and try to unify them."

When some officials blatantly put forth their differing views, Wan Li responded, "Self-sovereignty, the responsibility system, the principle of material interests"—all three we can say are combined values of the Party and they're useful towards agriculture, towards all types of economic activity, but the specific methods must begin with reality. No matter how many slogans socialism collects, if your solutions are disconnected from the interests of the masses, then letting each person do his best and distribution according to labor are all empty words. The Ministry of Agriculture is under the State Council, not free to do whatever it wants. If we could not solve this problem, we could not work. In the past, the whole nation was Learning from Dazhai, but now things all changed, including "semi-workers" who are now engaging in professional contract, and people aren't suffering so much under hardships, but some leaders still haven't transitioned well from Learning from Dazhai.

"Some comrades aren't considering the problem from the strategic height of the relationship between the Party and the farmers. They're not thinking about the last 30 years, during which the task of staving off hunger in the rural population could not even be accomplished. Now that there's a light of hope in solving this, we've hit an ideological brick, anxious and worried. In their heads, there is only an abstraction of the farmer. They don't even care for hungry stomachs."

He followed with more sincere words and wishes, "All these years of 'leftist' thinking is very common and no one can deny that they weren't influenced by it. 'Leftist' ideology exists at different levels in the minds of our comrades. There are no differences here; it was only a matter of how much or how little. The trend is developing underway, we've spent years clearing up confusions, farmers are no longer following blind orders, and this all means that we must change our understanding." Lastly, Wan Li noted, "Some people take their salaries, fill up their bellies, and depend on old experiences and objective thinking to do work, giving both short and long talks on theory in Beijing City. This cannot go on. You must go

down to the countryside to see for yourselves, conduct some field research, or else it will be difficult to achieve ideological understanding.”⁴

Later, the State Agricultural Commission was changed to CPC Central Rural Policy Research Office, while the State Council Rural Development Research Center was simultaneously established, two brands, one team, with Du Runsheng as the director. He served as general secretary of the Central Committee Rural Work Department during the Deng Zihui era, possessed a wealth of practical knowledge, held a strong grasp of theoretical foundations, and was relatively skilled at harmonizing relations among various aspects and parties. The main purposes of the Rural Policy Research Office and the Rural Development Research Center were to keep abreast of rural affairs, formulate rural policies, and coordinate relationships between relevant rural leadership departments. It was only a research institution and think tank; they did not manage people, finances, and materials and did not directly issue orders, but it was entrusted by a central policy draft document to coordinate all relevant relationships, therefore playing a genuinely comprehensive guiding role in the process of rural reform.

2.2.3 Large-Scale Countryside Investigation

Between spring and summer of 1981, Du Runsheng organized 17 joint-investigation teams from cadres at relevant rural population departments, on behalf of the State Agricultural Commission. The trip was led by the minister and deputy minister as they went out to China’s northwest, southwest, east, and central south, to survey a total of 15 provinces on the status of the household responsibility system. The investigation lasted nearly 2 months, with myriad staff, breadth and depth, and rich first-hand materials. Nothing like this was done before. The common experience was, finally, awareness of the actual situation, and due to this, ideology among the cadres became more unified, and the problems revealed themselves, naked and unadorned by bias. However, the debate was still not completely eliminated. Some, who were suspicious about the “lump-sum appropriation operation” method (or “all-around responsibility system”), asked, “At least the household responsibility system still has a production team with uniform distribution, but engaging in the all-around responsibility system means no collective rights, so how will it be different from laboring individually?” On the other hand, the research team that went to Anhui Province provided a rather startling report; they claimed that the household responsibility system was “twilight for the farmers and hope for all of China.” Many members from this group came from the “China Rural Issues Research Team,” which was nongovernmental and spontaneously created, with about ten individuals who participated. Almost all were part of the “old three

⁴ See *Wan Li’s Talks on Rural Reform and Development*, 1996, China Democracy and Legal System Publishing House, pp. 113–116.

generations” (junior and senior high school graduates of 1966–1968) who worked in the countryside for years before returning to the city to earn a university degree. They were deeply pained and passionate about rural problems and organized each other around like-minded individuals. At that time, most of the research members had not yet obtained their status as official cadres, and their participation in the first ever large-scale investigation was a platform of their prominent skills. Their behavior was very different from that of bureaucratic government officials, and they displayed a desire to seek out the truth on top of strong theoretical foundations. At times, their words were electrifying, and it would be impossible not to sit up straight and pay attention. Several of them later became important experts and scholars on China’s rural issues. Their judgments back then truly did emanate clarity and wisdom.

Of course, the practical experience itself was most convincing. The household responsibility system really was “twilight for the farmers and hope for all of China.” All the blind order giving, all the rumble, and all the big iron rice bowl—they were all flushed away by the household responsibility system. Poor and backwards areas that formerly relied on long-term food distribution from the government took on an especially apparent change from its roots and immediately leaped into the ranks of high national contribution. These fundamental alternations were not simply occurring in a few communes, but rather across entire counties and regions. Shangqiu in Henan Province and Heze in Shandong Province were two among the vast, poverty-stricken areas with large populations. In 1980, they experienced a relatively good crop year, but the actual harvest wasn’t a result of favorable weather. The farmers said that it wasn’t irregular to have such natural condition, so why did this year have a good harvest? It was a matter of the working peoples. “People worked with enthusiasm, weather conditions helped a little, and policy changes brought a rich harvest of grains.” This was a fair opinion from the peasants. The vast rural areas began entering a historical period of change, and everyone could feel it. The poorer the areas had been, the greater change took place. The most drastic change is that farmers had more grains now. Cadres who had frequently gone down to countryside had never seen each family store this much food and grain. Numerous villages underwent drastic changes in the first year and double its totals in the next. Farmers could not wait to build new houses. After completing the task of purchasing beyond the state quota, there was food of tens of thousands pounds that did not have enough storage space. It was all ultimately packed away into the thatched cottages of the inhabitants. Many people’s houses were fully occupied by a thick grain bin, and the farmers had to make the bed between the grain stacks. At the mention of this, they would laugh merrily and say, “Things are great now. We sleep and we don’t even realize the sun is already up.” Grains increased, so did income, and quality of life became noticeably better. Places that started implementing the household responsibility system earlier on mostly had sties full of pigs and sheep, flocks of chicken, and ducks. “Grass is collecting in mounds, grains are filling up the storage, geese are forming flocks, the pond is covered by ducks, chickens are lining up outside of their cages, and the pigs are growing as big and healthy as cows.” A lot of places invariably made the same report, “With the household responsibility system, we went to the market as many times as we did before;

there was enough excitement for all, enough work to be done, and no loss in food grain.” The advanced communes and brigades only stood for 15–20 % throughout the county. On one hand, the commune members saw that teams produced high yields and families grew richer and recognized the advantages of working as a collective, but they were still unwilling and unconfident to use the household responsibility system. On the other hand, they saw that this method was beneficial and lent ample room to use one’s own talent, and thus, commune members were envious. Members of communes and production brigades that fell into mid-level circumstances were keen on experimenting. The material gains and interests had more magnetism than any and all policy measures and administrative orders. At the beginning of 1981, then premier of the State Council once believed that China’s countryside could be divided into three categories, areas where collective economy was relatively solidified, medium-level areas, and poverty areas. The original hypothesis was to restrict the household responsibility system only to the last of the three, while medium-level areas could use the production-related laborer contract system, and areas cemented in collective economy would continue abiding by collective unified management and distribution. This approach was labeled the “three cuts of the knife.” Some places misunderstood this type of production method and thought that “contracting jobs along specialized lines, linking payment to output, and the production-related laborer contract system” was an advanced form of the responsibility system and that the household responsibility and the all-round responsibility systems were rudimentary, or even unlawful, and would sooner or later be eliminated. Therefore, some work units disregarded their conditions at the time and directed themselves towards the former. Some grassroots cadres formulated endless designs in hopes of “guiding” or “transitioning” the household responsibility contract system into the “contracted jobs along specialized lines and production-related laborer contract system” and attempted to make it “standardized.”

In reality, rural areas all over the country were applying the responsibility system of paying remuneration according to output in all forms by various methods. Some were concentrating on the production team responsibility contract system, others were using the laborer responsibility system, and yet others the household responsibility system. Some contracted jobs along specialized lines and some took a combination of techniques. What was supposed to be the justification for choosing one system versus another? Who was supposed to decide this? Some made a few stipulations for the output-based payment responsibility system, mountain regions can use the household contract system, hilly areas can use the laborer contract system, and flatland areas can only distribute labor to production teams. Many problems arose from carrying out and observing these regulations. Hard policy guidelines existed at the top, but every level at the bottom acted according to sets, and the masses held strong opposing views. The central government did not allow the “one cut of the knife,” but is the “three cuts of the knife” somehow acceptable? Although the flatlands had relatively good conditions, but some parts were still poor, and food and clothing problems remained unsolved; following the same line of logic, not all mountain regions were ideal for implementing the household responsibility system or the lump-sum appropriations method. The decision to

shape the responsibility system into “one cut of the knife,” “three cuts of the knife,” or even “five cuts” had to be left up to the people themselves, rather than the product of rigid policies from the government and, even worse, the result of blind commanding. Vice minister of the Ministry of Agriculture, Zhao Xiu, stated, “In our investigation, the choice of the form of responsibility system was discussed, deeply internalized the concept that the adaptability of various types of responsibility system has an objective pattern that does not change according to the people’s will.” The process of establishing and improving the production responsibility system involves constantly overcoming the influence of “leftist” ideology, disposing metaphysics, and, instead, seeking truth from facts. System of production responsibility of different forms has to undergo the test of practice and the comparison and selection of the masses in observation of it. The people said it best, “The quality of any form of the responsibility system is indicated by the belly.” Efficiency, or the lack of it, would eventually be revealed through whether or not the people were eager to work. Many comrades have also talked about their experiences in observing the shift from one form of the responsibility system into another; if it was the government officials who called for change, people instinctively believed it to be a policy change; if, however, it was the initiative of the masses to change, then that was seen as improvement. This proved that in setting the variation of the responsibility system, it was necessary to promote democratic measures and allow the masses to decide for themselves. Some places refused the household responsibility system from the very beginning; now, they did not ask about their specific regional qualifications and simply used nothing other than the household responsibility system. This kind of action neither conformed to objective reality nor did it win the approval of the people and their needs. Du Runsheng later said at a meeting, “The household responsibility system is a sign that represents the mobilization of the peasants, which was brought on by the forces of production. They’ve already put forth the desires of economic reform. This is not a historical trend that we can turn our backs to.”

Before and after the summer harvest, there were 1.61 million production teams nationwide that entered the ranks of the household responsibility system, taking up 32 % of the total number of production teams. Guizhou had the highest proportion at 80 %; Gansu was runner-up at 66 %; Anhui, 55 %; Henan, 53 %; and Inner Mongolia, 50 %. These places undoubtedly had more advantages, while the majority of areas in the northeast, central north, central south, and central east had 3.42 million production teams that continued insisting on “the team as the base.” The villages that conducted the household responsibility system were scattered within large collective that was people’s communes, and they seemed to be at a disadvantage, but for those who knew the truth, this tug of war hitherto unknown had approached a turning point, and the advantage would soon tilt towards the household responsibility system.

2.2.4 1982: Advancement of the Household Responsibility Contract System

Based on the information that arrived, at the Rural Work Conference in the winter of 1981, it was clear that nearly all places were championing for groups rather than teams and households rather than groups, and they believed that only the household responsibility system would bring stability. A consensus was reached during the discussion; the household responsibility system had to be given a proper socialist “permanent resident registered card.” The minute of meetings was sent out as “Document No. 1” in 1982, and it attracted the most amount of attention because it admitted that the various types of responsibility systems implemented thus far were all production responsibility systems for the socialist collective economy. It included contracting seasonal jobs and paying remuneration based on quotas, contracting jobs along specialized lines, the production-related laborer contract system, the household responsibility system, work contracted to households, and work contracted to groups. In other words, the household responsibility system finally had a socialist “identity registration,” and formerly taking it to mean individual labor on allocated land was a misunderstanding.

1982 can be seen as the year of full-scale advancement for the all-round responsibility system. After Document No. 1 was issued, work contracted to households (as well as the all-round responsibility system) received approval from the central government and rapidly expanded from poverty-stricken areas to various types of other regions, setting the trail ablaze in an unprecedented manner. However, was the all-round responsibility system suitable for economically developed areas, irrigation districts where water conservancy facilities were near perfect, and grain-producing areas that were heavily tasked with large quotas for state requisition purchases? Relatively affluent areas had more developed local economies, a higher level of production, and a higher level of income for the farmers. Because of this, some of the fundamental contradictions in the original collective economic model were hidden. For instance, although the “iron rice bowl” was attached to egalitarianism, developed areas had relatively more food, on one hand, causing the masses to be displeased and, on the other, causing some local cadres to resist parting with those circumstances. Therefore, they were not as willing to put the system of contracted labor and payment by output into practice.

In 1982, after Document No. 1 was issued, the household responsibility contract system in Jiangsu Province experienced a new breakthrough and progress. The all-round responsibility system swept through the north Huai area, while parts of the collectives in central and southern Jiangsu also began using the method of contracting work to labor system. In summer, development of the production team in implementing the responsibility contract system had reached 80 % in the whole province, among which the most widely used systems of work contracted to labor and household showed the highest growth rates. Many farmers and grassroots cadres in the developed areas of southern Jiangsu witnessed their northern counterparts making a spurt of progress, which invigorated them with the determination

to learn how to be “the first warrior to eat crab” and try out the responsibility contract system in wealthier places. Luoshe in Wuxi County and Queqiao in Wujin County were among the first communes that participated in the pilot, later followed by Yixing, Jiangyin, and other counties. Upon the foundation of work contracted to labor, these places explored characteristics that were more suitable for economically developed regions and used the “contracting specialized undertakings and distributing income according to contracted work” in an entirely novel form. Farmlands of provisions were contracted according to the number of people, responsibility cropland contracted according to the number of labors, while the feed field according to the number of pigs. Agriculture, industrial, and subsidiary sectors would operate in a comprehensive way; contracting jobs along specialized lines, work division, the all-round responsibility system combined with small-scale allocation, and a reasonably balanced payment of those engaged with farming, industrial manufacturing, and sideline production, all prevented farm members from loss and was a step forward beyond the combination of the collective-based and the household-based operations. This approach received the affirmation and encouragement of central government leaders, and thus, the forbidden area that specified “developed areas cannot engage in household contract” was once again broken through. As the most developed region of Jiangsu Province, the Yangtze River Delta fully implemented the household responsibility contract system. More than 99 % of the province’s production teams were engaging in either lump-sum distribution or work contracted to households.

Foshan Prefecture of Guangdong Province is located in the Pearl River Delta, adjacent to Hong Kong and Macao, and includes 13 counties and cities with a population of nearly 7 million and 6.8 million *mu* arable land. It was one of the most fertile regions in the country and had rich natural resources and a developed economy. Not only was it a major commodity grain base for Guangdong Province’s economy, but it was also the hub of commercial crop production and export processing. The rural economy was developing very fast, but in the 20 years of national cooperatives, due to the impact of “leftist” errors, agricultural production experienced many twists and turns, and income was rising very slowly. Regional statistics showed that grain yield per *mu* remained at around 500 kg over a long period of time and per capita income around 120 yuan. When the 11th Third Plenary Session produced a plan for the reform and opening up, policies had to be specially tailored for Guangdong in order to allow the rural economy in the Foshan to develop faster. Team-operated sideline industries and the per capita income of the corresponding members more than doubled within 3 years, breaking the historical record. It would not be an exaggeration to say that the policy outcomes of the 11th Third Plenary Session gave rural economic development in Foshan its “golden age.” This golden age, however, was not strongly correlated to the responsibility contract system. Rather, due to the rapid improvement in Foshan’s rural economy, there were three fears that could be summarized from uncertainties about the responsibility contract system, especially about the “double contracting”: fear that economic development would slow down; fear for a drop in the continuous high crop production; and fear that the pillar of commune and

brigade-run enterprises would collapse. Many still thought that the household responsibility contract system was only produced out of a matter of expediency for curing problems of warmth and hunger and was the only choice for poverty-stricken areas. Foshan's circumstances were so ideal and it was experiencing such high growth, so why take the risk? Therefore, in 1980, when the household responsibility system became the focal point of countrywide debate, only a few production teams in a small sprinkling of counties in the Foshan were pilot locations, while the entire region did not emanate much commotion. In 1981, when “double contracting” was already displaying its authority in almost all parts of the nation, only Shunde, Zhongshan, Doumen, and a handful of other counties had progressed relatively quickly. The entire prefecture's implementation rate for “double contracting” was merely 12.7 %.

Foshan was not different from other well-off areas. Its economic development was unbalanced; as with other places under similar circumstances, it had weak spots in its production system and its production brigades that lagged behind. The household responsibility contract system was first introduced in the places mentioned above, with its significant advantages attracting a large number of farmers, providing a constant opening up for their own development. Many production brigades in Shunde County had some remote ponds with low yields that would not rise no matter what. They gave work contracted to households a try, and it truly did the trick. The output per *mu* rose from 30 or 40 kg to 200 or 400. The backward became the advanced and now held enough conviction to fully promote the all-round responsibility for pond fish production. After the previously stagnant communes of Banfu and Nantou in Zhongshan County began using the work contracted to labor method and “double contracting,” their production output surpassed even the most advanced brigades, sending a shock through the whole county. In 1981, natural disasters forced the region to cut down production, yet the few production brigades that used “double contracting” did not reduce at all, did not reduce much, or reduced harvest instead of production. The power of “double contracting” shook up the area, but since cadre leaders had not solved their own ideological obstacles, the household responsibility contract system was still limited to cash crops. In the autumn of 1981, the national rural situation came to a new development. In the Huiyang Prefecture east to Foshan; under the guidance of the prefectural Party committee person in charge, Du Ruizhi, “double contracting” had reached more than 80 %. The results were extremely desirable, and the Foshan leadership deeply felt their tardiness in enacting the responsibility system and was now motivated to catch up with the pace of other places. In November, the Provincial Party Committee leaders came around to convey the spirit of the National Conference on Rural Work, helping cadres at all levels to further clarify the socialist nature of the household responsibility contract system and its great impact on the development of agricultural production. Ideological concerns were removed, leaders' ideas were unified, awareness levels were improved, and the household responsibility contract system extended rapidly in the scope of development, 70 % in 1982 to 95.8 % in early 1983.

Although Foshan's implementation of the household responsibility system had a late start, it learned from experiences elsewhere and was able to catch up from behind.

1982 was the first year wherein Foshan City began to comprehensively use the household responsibility system. Atop the foundation of three consecutive years of major development, this year presented an even bigger award. The door flew open for agriculture, the industrial sector, and finance and trade, and a new phase was beginning for state-owned enterprises, collectives, and individuals. Total agricultural output growth was 16.75 % over the previous year, at a growth of 500 million yuan; even with a reduction in planting area, the total output of rice grains was 500 million kg more than the previous year, now with the new total over 2.7 billion kg per *mu*, with every *mu* producing nearly 600 kg. This was yet another new historical record. Average production outputs per *mu* in grain, sugarcane, pond fish, and peanut production also contributed to creating new record highs. Fruit and livestock production significantly developed over the previous year, and fiscal revenue reached 715 million yuan, up to 12.7 % from the previous year. Per capita income of all commune members in the area reached 463 yuan, 112 yuan more than last year. Shunde County surpassed Nanhai County, its per capita income reaching over 700 yuan, ranking first in the province; the per capita savings of farmers in the whole area amounted to 208 yuan, becoming the champion of the country. Foshan boasted four counties with industrial and agricultural output value over one billion yuan (Shunde County was the highest, reaching 1.38 billion yuan), 10 collective communes with output value over 100 million yuan (Shunde County's Guizhou commune was the highest, reaching 160 million yuan), more than 100 production teams with average per capita income of 1000 yuan or more (Nanhai County's Longtou production group's Dongsu group was top, amounting to 3402 yuan), and over 10,000 "households with 10,000 yuan." There was a school of production development everywhere, and prosperity was evident in farming, forestry, animal husbandry, sideline occupations, and fishery. The market was thriving, the economic was active, and people's hearts were pumping with excitement. Although problems here and there still existed, the rural economy in the Foshan area was now following a trajectory that hadn't existed since the founding of the nation.

Heilongjiang Province held its suspicions of the household responsibility system for 4 years, but when Document No. 1 was sent down in 1982, an investigating delegation returned to the province and discovered a turnaround in the situation. Their propaganda and advice were no longer needed because the Provincial Party Committee leaders had already "released the brake and let the water in." Towards the end of 1983, the province that was the last to start implementing the household responsibility system finally advocated its expansion, reaching 80 % of its production teams. That year, Heilongjiang's total agricultural production soared beyond 10 billion yuan, food and grain production over 15 billion kg, and per capita income over 300 yuan, reaching these three major goals that had been striving for throughout the province at one stroke. Thus, in the field of agricultural production, no one was ever again able to determine what type of area was not suitable for the household contract management system. In 1983, the national proportion of double

contracting to the household accounted for more than 95 % of all production systems.

2.3 New Developments in Marx's Theory of Cooperatives

People's attitudes towards contracted production to households, and therefore the household responsibility system, gradually shifted from opposition, suspicion, and anticipation to supporting and embracing these new systems that increased the economic efficiency of production by way of motivating farmers. The results were unexpected. Farmers were satisfied, urban areas were satisfied, and the state was satisfied—everyone at all levels was highly pleased. Even those who were conservative and held biases were convinced and inspired. However, it is by far not enough to view the profound significance of the household responsibility system simply through this one aspect.

Issued by the central government in 1983, Document No. 1 pointed out that the household responsibility system was “the great invention of Chinese farmers under the guidance of the Party, and a new development in the practice of Marxism and the theory of cooperatives in our country.” Among central government documents, it was extremely rare to see high praise given to the creations of farmers' practical experiences and being credited for a new development in Marxism. Unfortunately, this important judgment was never fully elaborated. Later on, after the concept of the initial stage of socialism was raised and the goal of a socialist market economy was established, there was very little explanation given on part of the farmers' achievements, and this point slowly grew less significant and less clear as time went on. In reality, it was precisely practices in rural reform beginning with the household responsibility system that compelled the Party to gradually accept that the overall goal of economic reform should be the establishment and perfection of the socialist market economic system. The starting point of the transition from a natural to a seminatural economy to a modernized market economy reform began with the development of people's communes, which then grew into contracted production to households. Therefore, it was not a small change and small reform but a fundamental change, a systematic change, and a change in the form and essence of the form of realization of the ownership system. The people's communes were the base organizational unit of the planned economic system, and contracted production to households was in reality the creation of a dynamic cell carrying the market economy within a closed off universal planned economy. By breaking through the fixed mentality of “large in size, public in ownership, and pure in the ownership of socialist economy” and breaking through the rigid unitary nature of public ownership, the method of contracting production to households won a decisive victory in exploring a new form of the public ownership system. It formed a body of beneficial recipients and a reliable pillar of strength within the reform and became the propelling force for a series of changes and improvements in the countryside

and even the whole nation. This point is worth solemnly emphasizing and writing large volumes about.

2.3.1 *Evolution of the Marxist Theory of Cooperatives*

Marx's theoretical contribution was revealing the objective law that capitalism will inevitably be extinguished and socialism will inevitably be victorious. The economically developed capitalist England stood at the center of his analysis of a capitalist society. In the England of those times, the majority of small peasants had been eliminated during the process of capitalist accumulation and had become agricultural wage laborers. Agriculture was indistinguishable from industry and had also been highly socialized. Therefore, Marx seldom directly studied issues on how to carry out the socialist transformation of agriculture after the proletariat seized political power. Later, after researching the situations of peasants in Western Europe, and particularly in France, he wrote *Conspectus of Bakunin's "Statism and Anarchy,"* which discussed peasants as private landholders in a majority of places, and emphasized that they could not be offended or forced, that their ownership rights could not be denounced and abolished, and that many modifications had to be directly made to allow farmers to do more, in order to attract them towards reform and "encourage private ownership of land to transition towards collective ownership."⁵ These notions can be described as Marx's viewpoints on the theory of agricultural cooperatives and its supporting principles.

In Engels' letter to Bebel on January 20, 1886, the concept of agricultural cooperatives was mentioned for the first time and positioned as an intermediate phase in a country's economic transition. Engels also perceived agricultural cooperatives as being established upon a society's "total ownership of the means of production," while simultaneously being an economic organization with its own "special interests."⁶ In the year before he passed away, Engels completed *The Peasant Question in France and Germany*, which was a programmatic piece of work regarding Marxism and the problem of peasants. His writing highlighted how we may foresee the perishing of the small peasantry, but nonetheless, we cannot use personal interventions to accelerate their demise. When the proletariats control national power, violence should not be used to deprive small peasants (with or without compensation) in the same way large landowners had treated them. Our conception of the tasks of small peasants is to first combine their private production and private ownership into the production and ownership of cooperatives, not through violence but through demonstration and offerings of assistance.⁷ It is

⁵ *Marx and Engels Selected Works, Volume III*, p. 287. The People's Publishing House, 1995.

⁶ *Marx and Engels Selected Works, Volume IV*, p. 675. The People's Publishing House, 1995.

⁷ *Marx and Engels Selected Works, Volume IV*, pp. 497–500. The People's Publishing House, 1995.

worth pointing out that Engels mentioned ownership by cooperatives and not the collective; cooperatives are the transitional phase towards collective ownership. He then went on to say, "We, of course, are decidedly on the side of the small peasant; we shall do everything at all permissible to make his lot more bearable, to facilitate his transition to the cooperative should he decide to do so, and even to make it possible for him to remain on his small holding for a protracted length of time to think the matter over, should he still be unable to bring himself to this decision."⁸ Here, Engels clearly stated that cooperatives can only use the principle of voluntary decision on behalf of the peasants, cannot force them to go against their will, and cannot use external interference on them. The common concept behind guiding farmers towards the road of socialism is to establish cooperatives, but the approach towards small peasants had to be different from that towards bigger peasants and certainly different from the deprivation approach used on big landowners. Cooperatives must always adhere to the principle of voluntary willingness and equality, must not offend farmers, and must not violate the will of farmers by using forceful meddling in the structure of their property relations; only through demonstration can peasants be attracted to join cooperatives without sacrificing their interests.

Lenin's thoughts on agricultural cooperatives can be roughly divided into two stages, namely, the period of "wartime communism" and the period of "new economic policy." In the first stage, Lenin believed that communist production and distribution could quickly be realized right after winning the revolution. Developing agriculture communes in the countryside would be a main priority objective. Despite strong support from all aspects, agricultural communes did still not develop considerably, mostly because they could not adapt to the level of development in agricultural productivity at the time and also had some serious inherent weaknesses. First, all means of production and livelihood were fully under public ownership, and commune members did not own any private property; second, implementing the collective life tore families apart; third, mobilizing the enthusiasm of peasants was impossible under an egalitarian distribution system. Practice and application proved that this way of establishing agricultural communes was wrong, and Lenin severely criticized himself more than once, publicly admitting that reality had shown that they made a mistake.⁹ In 1921, the decision to abolish the "surplus grain collection system" was issued at the 10th Congress of the Soviet Union. Instead, a "grain tax" was applied, marking the beginning of the "new economic policy" period, as well as a turning point in Lenin's perspectives on cooperatives. After setbacks from the "wartime communism," on top of practical experiences gained from the "new economic policy," Lenin's conceptual understanding of agricultural cooperatives became clearer and more complete and was reflected in his 1923 essay, *On Cooperatives*, which he dictated while he was ill.

Its main points were as follows:

⁸ *Marx and Engels Selected Works, Volume IV*, p. 500. The People's Publishing House, 1995.

⁹ *Lenin Selected Works, Volume IV*, p. 569. The People's Publishing House, 1995.

1. Cooperatives are an important part of the construction of socialism. Cooperatives are placed on par with and argued alongside socialism numerous times throughout the essay.
2. Priority had to be given to developing the circulation sector in cooperative undertakings. Emphasis should be placed on using rural cooperatives as a type of “commercial organization” to gather the peasantry together and tie “private interests, private business interests” together with the interest of the state and on permitting “private interests” to be the foundation of cooperatives and to use cooperatives to achieve a combination of private and common interests. Private interests should follow common interests, but private interests should not be abolished and certainly should not be deprived.
3. A thorough transformation of the small peasantry takes a long time and “requires a whole historical era; under the best circumstances, our transition through this era will still take ten to twenty years.”
4. Government finance, the economy, capital, and various other aspects must support the development of cooperatives; “a social system of any type can only be produced from a certain level of financial support.”
5. A special position for cultural education should be provided and emphasis should be placed on the relationships between the cooperatives system, peasantry culture, and civilization, and make the popularization of rural cultural education as one of the two “main epoch-creating tasks.”¹⁰ These points showed that Lenin had pushed Marx and Engels’ theory of cooperatives one major step forward.

Stalin continued to carry out the new economic policy after Lenin’s death and was extremely cautious on the issue of agricultural cooperatives. Before long, however, he formulated “leftist” policies that betrayed the fundamental principles of the cooperatives system. For example, he drove down the price of agricultural products and widened the “price scissors” between agricultural and industrial productions. The result was a class of unsatisfied farmers and the “Georgia riots.” Afterwards, there was no choice but to alter to implement the “September concession policy” at the 14th Congress of the Soviet Union (Bolsheviks) in April 1925 and to expand the range of the new economic policy and improve the material and cultural lives of the peasants. By 1928, the face of agriculture in the Soviet Union had changed, and the output of main agricultural products and number of livestock greatly exceeded the highest recorded levels from the era of Tsarist Russia. In the meantime, due in part to defeating the opposition party, and because the domestic economic situation improved and international order was relatively stable, Stalin again proposed to change the policy on limiting wealthy peasants into a more “leftist” policy of altogether eliminating them; during the 15th Congress of the Soviet Union (Bolsheviks) in 1929, it was decided that agricultural collectivization would become the basic task of the countryside. This meant collectivization—not

¹⁰ *Lenin Selected Works, Volume IV*, pp. 769–773. The People’s Publishing House, 1995.

cooperatives or cooperativization—and it meant establishing a type of economic unit of collective farm village. Comprehensive collectivization took only 6 years to complete, and the amount of households in collective farms increased from 1.7 % in 1928 to 83.2 % in 1935, nearly quadrupling every year. From this high speed one-sided pursuit emerged severe coercive orders, which brewed dissatisfaction and resulted in revolt from the peasants as well as a significant decrease in production. Up until the eve of World War II, the output of major agricultural products and the number of livestock did not return to those of Tsarist times. Because “leftist” policies from the comprehensive collectivization period had not receded and in fact continued in a number of ways, agriculture in the Soviet Union only produced a noticeable increase in production during some stray years. General development had been slowed, and even the Soviets themselves had to admit “collective farming is not a rose.”

The unique feature of agricultural collectivization in the Soviet Union was the collective production, labor, and management of and allocation to the peasants on the basis of public ownership. This form of highly centralized collective farm model has been considered the only correct model in socialist agriculture. Throughout the course of time, it became an ideological pattern that was too resilient to break. However, upon reviewing the form and developmental history of the Marxist theory of cooperatives, the collective farm model does not conform to the original intentions of Marx and Engels and, more so, does not conform to Lenin's thoughts in his later years. This model replaced the concept of cooperativization with collectivization; it went against the wishes of farmers by using administrative orders for its establishment; it did not follow the lower-to-higher gradual transition principle; and so on. More than 70 years of practical experimentation in the Soviet Union proved that the collective farm model stifled the initiative of farmers, harmed their interests, and is not conducive to the development of agricultural production. Similar long-term practices in other socialist countries have also fully proved this point.

2.3.2 Application and Development of the Marxist Theory of Cooperatives in China

China was far more backward than USSR up to the October Revolution. The entire countryside was a sea of small rural economies, “there was not more capitalism, there was less,” and there was hardly enough time to build a new democratic society before hurriedly turning to the efforts of constructing socialism. Practical experimentation has provided a clear answer as to whether this was beyond the appropriate stage in history or not.

During the early days of cooperativization, Mao Zedong attempted to avoid imitating the Soviet Union's collective farm model. He began with the reality of China's deteriorated economy and overwhelming peasant population, focusing on

developing an effective rural-based mutual assistance organizational model by first pooling lands for semi-socialist elementary communes and caring for the private interests of farmers in order to win a certain level of victory over them. 1955 was the year of cooperatives and communization, when grains and the output of agricultural products reached record highs. It was also the year that farmers feel most nostalgic towards. However, following closely afterwards was the peak of tumultuous advanced cooperativization period. Land dividends were canceled, livestock and large farm tools were given a fixed price and included in the communes, and account payments were recorded, but the money was not given. Material benefits that land reform peasants received were confiscated once again from the “public.” After this high peak, steps were taken in 1956 too quickly and demands were made too impatiently, the methods were too slovenly, and form was too simple and lacks variety; in fact, it was a mirror of the Soviet Union’s collectivization practices. In 1958, “leftist” errors developed even further, making “publicly owned” an absolute. There was widespread establishment of people’s communes throughout the country, and the Communist wind began to blow, attacking the enthusiasm of farmer while seriously damaging productivity.

After 1961, the people’s commune system was adjusted many times, for example, through making improvements on how to divide small accounting units; on the concept of “commune, production brigade, and production teams own all, with production teams as the base”; and on the equalitarianism approach. However, the changes were not enough, mostly because the collective farm model was not completely abandoned and, rather, was further solidified. In the decade long era of chaos, Lin Biao and the “Gang of Four” took advantage of Learning from Dazhai to promote an extreme leftist path and even suggested the wrong slogan of “using dictatorship to do agriculture.” In the end, agricultural production worsened and the entire national economy was on the brink of collapse.

At the Third Plenary Session of the 11th Central Committee of the CPC, conclusions were made about both the positive and negative sides of previous experiences. A decision was made to accelerate agricultural development, which openly pointed out, “Whether our policies suit the needs of developing productivity depends on whether they can mobilize the farmers’ enthusiasm for production.” The first step in rural reform began precisely from this basic rationale. Previous restrictions were not removed because as soon as a problem arrived, the first thing done was to consider whether it was right or wrong and whether it was in the essence of socialism. There was always unsettling fear about abandoning conventions. Now, increasing productivity and giving full rein to the farmers’ proactive attitudes were placed as top priorities, which helped turn the situation around. The gradual spread and popularization of the contracted production responsibility system was also the gradual liberation of people’s mentality, freeing them from rigid conventions. It was a process of supporting farmers’ creations, destroying, and even completely replacing the original fixed model. It was the slow establishment and constant improvement of a new model that suited the reality of China’s countryside. The main objective of socialism is to improve productivity, while the key to developing agricultural productivity rests upon maximizing the

enthusiasm of farmers. Any type of management system or mode of operation must be decided upon full consideration of whether it is conducive to the development of production and whether it contributes to farmers' eagerness to labor. This is the basic principle underpinning Marxist ideology. In March 1983, at the commemoration of the 100-year anniversary of the death of Karl Marx, Hu Yaobang said in his report to the assembly, "In our agricultural system, we decisively addressed the long-standing issue of misconstruing socialist public ownership and big production, and overcame the serious mistake of the 'eating from the big pot' equalitarianism through creating professional contracts and using the co-production remuneration method as the main features of the agricultural production responsibility system model. Based on the specific situation in China, the vast majority of rural areas have truly realized the Marxist doctrine of allocation based on labor, and truly realized the principle of combining state, collective, and individual interests." "We abandoned old models that did not suit the situation on the ground and were imported from foreign countries, and we discovered a new model that is favorable for China's current agricultural conditions, and was produced on Chinese land." Therefore, it is perfectly reasonable to say that the contracted responsibility system was the invention of the basic principle behind the Marxist doctrine, as well as China's specific practical experimentation. Moreover, it was a new contribution to and development of the Marxist theory of cooperatives.

2.3.3 Theoretical Significance of the Household Responsibility System

The success of the household responsibility contract system has enabled us to once again recognize the importance of family management and the necessity of giving full play to its role under new historical conditions.

For the longest time, the collective farm model influenced us to believe that the bigger the production unit of organization, the better, and the higher the level of public ownership, the better, and so, attempts were made to make a gradual transition along the production team—brigade—commune model. Therefore, people's attitudes regarding family management were rooted in rejection, denial, and elimination. But in truth, family production organizations with the household as the core unit had not only existed under the circumstances of a natural economy with low productivity but had also persisted with exuberant vitality within modern agricultural industries experiencing developed productivity. In presently developed capitalist nations such as the United States and countries in Europe, family farms are still the main form of organization in agricultural production. The proportion of family farms is 80 % in France, 89 % in U.S. and 91 % in Japan. Following developments in productivity, the number of family farms has continually dropped, while the scale of production has continually increased, but mostly in terms of lands and assets and not in production organization units.

Why is agricultural production suitable for family management? It is mainly because agricultural production is different from industrial production. (1) The main subject of agricultural labor is biology, which has its own laws of growth and development. The economic reproduction of agriculture must rely on the natural reproduction of biology. Agricultural products are also different from industrial products in that they are indecomposable living organisms, and the growth of each stage is continuous in time and cannot be interrupted, so the achievement of agricultural labor can only be shown in the final product. Therefore, agricultural production requires fixed personnel who observe the entire process of crop growth and management from beginning to end, unlike in industry where different types of production can be done at the same time. (2) The basic means of agricultural production is land. Land is the irreplaceable material foundation for crop growth since crops are grown on vast areas of land. Therefore, agricultural labor must be transferred, altered, and dispersed alongside the crops that are distributed on different areas of land. Land is also where people reside, and therefore, agricultural production is generally linked with family organizations. This is also unlike industrial production, which can be centralized and completed in a fixed factory setting. (3) The growth and development of crops require certain natural conditions; agricultural production is contingent upon the differences and changes in natural conditions, such as in soil, fertility, season, temperature, light, rain, and pests. It is also contingent upon the flexible organization and arrangement of production, unlike industrial production, which must be steadily implemented in accordance with certain procedures and fixed modes of operation. Without taking into the considerations above, one cannot pair measures to local conditions, or do the right thing at the right time, or grow crops based on their natural capacity.

Family is the social cell established on the basis of blood relations and marriage. These relations are most intimate among each other and perform many social functions such as production, consumption, birth, education, and culture. At the same time, the members of the family also differ on various levels and aspects including gender, age, physical strength, and skills. This diversity is very suitable for the numerous special needs of agricultural management. Because of the influence of traditional culture, family has ingrained with permanent stability in China. Family management has accumulated a wealth of experiences throughout its long history in traditional agriculture and had once achieved a very high level of development. Even within a highly centralized collective agricultural system, families managed private plots as a small form of supplementation. Despite various limitations, they fully displayed the conscientious work ethic, enthusiasm, and creativity of farmers—this presents a striking contrast to the slack, irresponsible, and negative attitudes found in the economies of “public ownership.” The success of the household responsibility contract system was not only the result of exploring the existing production potential of an ancient form—family management—but also because it transformed into a new management model in a certain stage of the cooperative economy. Indeed household contracting can be seen as one stage within the cooperative economy. Through contracts, families became independent operational units, engaging in independent operational activities under the control and

coordination of upper level management, while concurrently taking on the operational duties of those at the top in order to gain corresponding economic benefits. Therefore, it is fundamentally different from the individual small farmer economy that existed prior to cooperativization. Under new historical conditions, it supported the development and deepest foundational elements of the cooperative economy and would be destined to play an irreplaceable role in the long-term construction of socialist agriculture with Chinese characteristics.

The first step in rural reform was to use contract production to households—in essence the combination of centralized and decentralized—and the two-level operational household responsibility contract system to replace the people's commune system. This marked a breakthrough in the one-dimensional public ownership system and was an important victory in exploring new ways of realizing public ownership. Its theoretical significance was profound:

1. An effective model for implementing public ownership for China's level of productivity in rural areas in the primary stage of socialism was discovered. On one hand, it maintained agricultural land ownership as the basic means of production, while also separating ownership and management rights so that through contracting, farmers could be fully autonomous in production operations. This directly helped tie together means of production and laborers. Laborers could then be responsible for their own profits and losses and arrange production and their own work hours, and family members could appropriately divide labor according to the characteristics of all ages and both sexes and develop household sideline production and a variety of businesses, etc., all of which greatly improved everyone's enthusiasm and agricultural labor productivity rates.
2. Household contracting allowed farmers to transition from ordinary laborers into an operational entity, which in reality implied creating a market economy cell inside a planned system. Its existence and development inevitably led to a series of subsequent changes, most notably an irreversible economic restructuring that aimed for the ultimate goal of a socialist market economy.
3. Allocation within the household responsibility contract system was based on the Fengyang people's method of "giving enough to the country, keeping enough for the group, and having the rest for ourselves," which was not only reflected in the principle of more labor and more harvest, but more importantly, it gave farmers the right to manage surplus production. This was a breakthrough in the old inflexible rule that individuals could only own living and consumption materials, not the means of production. Families now had the function of accumulation and farmers could have their own assets. This was conducive to a portion of skilled craftsmen and management talent getting rich first, and it also encouraged major development in the rural commodities economy.
4. The combination of the centralized and decentralized, as well as the two-level operational system, was flexible and conducive to breaking the conventions of the public ownership system's incompatibility with the private ownership of laborers. They set the first successful example of a mixed economy that fused

together public-private ownership and laid a first step for the formation of an economic system based primarily on public ownership, with a variety of ownership systems that could develop in tandem with each other.

Ownership is the basis of the relations of production, but it cannot be used to explain all the conundrums found therein. For a long time, we tended to simply attribute the relations of production to ownership and rarely studied the specific problems caused by them, such as the formation of production organizations and operational models. The Resolution on Certain Questions in the History of Our Party since the Founding of the People's Republic of China adopted by the Central Committee of the CPC mentions: "There is no rigid pattern for the development of the socialist relations of production. At every stage our task is to create those specific forms of the relations of production that correspond to the needs of the growing productive forces and facilitate their continued advance." The household responsibility system was the specific mechanism that suited the needs of China's agricultural productive forces and also facilitated the continued advanced of productive forces. It did so by uniting the cooperatives and commodities economy, which in turn breathed life into the rural economy and caused fission within the cell of this market economy—the family. Farmers no longer arranged their economic activities around planned tasks but rather around market demands and gradually freed themselves of being tied to one county or one village. They moved towards the market, participated in market competition, pursued greater economic efficiency by creating the circulation and optimal combination of productive factors, and promoted the development of lateral ties with nonagricultural industries.

2.3.4 Let Some People and Some Areas Get Rich First

The household responsibility contract system intimately combined farmers' autonomy, rights, responsibilities, and benefits in production and operation, consequently increasing enthusiasm for production and labor productivity. Surplus labor began to appear, and more capital was put into the hands of farmers, who were then free to develop family sideline businesses and carry out a variety of operations. Generally speaking, every contracting household is initially a "small but complete" production unit that plants crops, breeds pigs and chickens, and concurrently runs family handicraft industries. The responsibility economy based on household operations became one with household sideline production. In some families, a portion or even the main portion of labor force was divided out of contracted fields. Some focused only on family sideline production, a pattern that gradually changed the subordinate status of household sideline businesses within the overall production system. They became a prominent sector that supported many others. Unsurprisingly, those who were most talented in labor, technical skills, and management selected tasks that allowed them to maximize their advantages and expand their production. As time went on, these categories of tasks slowly became "main industries," and the

corresponding households became “key households.” “Main industries” became “professional industries,” which then strongly promoted social work division and the development of commodity production. Due to limited family labor and capital, specialized households often organized themselves into an association in order to meet the needs of production development. “Small and professional” thus became “small and associated.” However, this type of association was established on the grounds of voluntary participation and mutual benefit and adopted the contracting method to realize economic cooperation. In the majority of cases at first, each family was the self-operational unit and assumed sole responsibility for their own profits or losses, so it was therefore “associated but not combined,” or “associated but not merged.”

Rural reform has proven that single-crop farming and equalitarianism do not translate into common prosperity but general poverty; only diversified farming, the division of work and industry, and development of the commodity market economy can truly lift a society out of poverty. In other words, only by allowing some people and some areas to get rich first can the population achieve general wealth. This was a new policy completely different from that of the people's commune period.

Document No. 1 in 1982 stressed the need to fully implement the guiding principle of “never slackening grain production and actively developing a diversified economy.” It pointed out, “Only through developing social division of labor on the foundations of a variety of businesses can human resources in the countryside be mobilized.” In a period of merely a little over one year, the professional responsibility contract system was implemented, a large number of specialized households was developed, many breeding experts and individuals skilled in cultivation, and all kinds of skilled craftsmen emerged, opening up a new sphere of production that looked towards development in socialization and professionalization. “The development of household sideline production and specialized households can make full use of fragmented material and financial resources, and personnel with technical expertise. This is a major pool of economic resources. For household sideline production and specialized households, active policy support must be implemented. Assistance and guidance must be provided in all aspects of capital, technology, supply, marketing, and so on.”

Document No. 1 in 1983 again reiterated that the “guiding principle of never slackening grain production and actively developing a diversified economy” must be implemented on the ground. It required agricultural, forest, animal husbandry, and the fishery industry to follow the principle of matching one's measures to local conditions, using their strengths, and be appropriately centralized, in order to form a production base for batches of commodity production. The document further pointed out, “China's rural productivity level is still relatively low and commodity production is underdeveloped, allowing a certain degree of circulation and a variety of combinations in capital, technology, and labor favorable for the development of the socialist economy. Therefore, we should distinguish and treat some new economic phenomena emerging in the countryside with different approaches. For example, labor exchange between rural households, economic cooperation among seasonal workers, professional workers, technical workers, and so on are all

considered mutual aid or technical cooperation between masses of labor and had to be allowed. Individual commercial households and experts in the planting and breeding industry in the countryside who want to hire help and train apprentices can refer to some Council Policy Stipulations of the State Council on the Urban Nonagricultural Individual Economy. (According to provisions, 2–3 helpers and 3–5 apprentices were allowed.) Individual farmers' or households' purchase of processing machinery for agricultural and sideline production and small tractors and small motor boats used in production and transportation are beneficial for the development of rural commodity production and for a dynamic rural economy and thus have to be allowed; in principle, large- and medium-sized tractors and vehicle also should not be prohibited for private purchase at the present stage."

In 1981, specialized households that engaged in a variety of businesses and became wealthy through hard work rapidly appeared in villages where the household responsibility contract system was implemented quite early on; as the policies unraveled, even more of these households appeared in 1982; by 1983, the speed of development soared, and statistics at the end of the year showed that specialized households accounted for 13.6 % of all rural households in the nation's countryside. Following their lead, specialized villages that focused on production in specific sectors also began to emerge; upon this, some areas then formed specialized towns, counties, and markets of various forms and scales. In these places, there were more farmers who did not till the land than those who did. Specialized households were no longer the same traditional self-sufficient and self-contained farmers. Their labor productivity, land productivity, and commodity rates were all much higher than those of the average household, showing great superiority and strong vitality. They became the driving force behind rural commodity production. In some places, the commodities that a specialized household provided would far outweigh the production of a brigade, or even several brigades from before. For example, in Fuzhou City, Fujian Province, there were more than 2400 specialized households that raised ducks, resulting in a total of over 320,000 feeding ducks, accounting for 87 % of the city's total number of ducks, and providing about 4.7 million kg of duck eggs per year, which was still over 6.2 times more than the amount purchased from the state in 1978. Based on the urban population, these figures meant 6.75 kg of eggs per person. In Nanping City, 489 households specialized in breeding pigs, which only accounted for 1.56 % of the total number of pig-breeding households, but still resulted in selling up to 42,000 heads of commodity pigs in 1983, 56.8 % of the total number of sales. This was more than the total number of pigs sold from the 17,000 and more ordinary pig-breeding farmers.

However, many people were still influenced by a "leftist" mentality and were "green with jealousy." They lacked a clear understanding about the historic transition in the countryside and about the necessity of and improvements in commodities production and had the habit of using old perspectives to view new phenomenon. Therefore, some saw the farmers' response to the Party's call to action and way of doing things according to reform agenda as "polarization"; they regarded the very few people who violated the law and made exorbitant profits as mainstream among specialized households and accused them of being indecent, vague, and neither fish

nor fowl and that they were “making money on the side roads, accumulating wealth through impure methods, and creating adversities for the country and the masses.”

In November 1983, at a nationwide rural work meeting, Wan Li especially pointed out, “At the moment, there is not enough liberation of thought, which has been strongly displayed through the attitudes towards letting a portion of farmers get rich first. Some worry that the countryside will then be ‘polarized’, but there is no evidence of this. The current gap in the level of wealth in rural areas is only a matter of some getting rich first and others getting rich later and not the result of a portion of people depriving the other portion of people. The farmers who got rich first following the Third Plenary Session mainly did so by working hard. This is reflected most prominently in the specialized households and key households that emerged in recent years. And which farmers comprise the specialized households and key households? Ying County in Shanxi Province investigated 20,989 specialized households in the entire county and discovered five groups of such people, one of which were head cadres of big or small brigades, or commune members who had once been cadres. They had a certain amount of experience with operations and management, quickly absorbed the Party’s policies, took action early, and became wealthy households in the countryside fairly early on. These households stand for 43 % of all wealthy households. Second are intellectual youth and demobilized military men who returned to their hometowns. Their education level was generally junior high school or above, they had knowledge and vision, and they were also quick to accept policies and learn technical skills. They stand for 42 % of the total. A third group was skilled craftsmen who were proficient in a particular line of work. After being contracted labor, they fully utilized their hands and feet to find a way to get rich and displayed their skills in all areas of production and processing. They account for about 9 % of wealthy households. Fourth were the capable people who were adept at accounting and operations and were able to resist pressure from criticisms during the time of ‘leftist’ mistakes. They survived the storm, had many insights about that world, created many wide social networks, had broad visions for the future, and were accurate in their approaches towards a variety of operations. These people got rich quickly and accounted for 5 % of wealthy households. In terms of those with this or that kind of serious problem, or those who violated the law in operations and management, they constituted less than 1 % of the total amount of households. Ying County’s materials, as well as investigative reports from other counties, all showed that of the farmers who got rich first, an overwhelming majority was those who were proficient at integrating various factors of production and those who were the most active and most dynamic. They were the leaders of a group of cultural and artful developmental productive forces who were aware of the economy and thus became the backbone of the developing commodity production. Even though their economic conditions, political conditions, social experiences, and specialization tasks differed, along with discrepancies in their levels of wealth and progress, the accumulation of their common experiences is appropriately captured by the phrase ‘achieving prosperity through industriousness.’ Industriousness included eagerly researching and studying science and technology, including skillfully mastering all types of information, and improving

management, coupled with the courage to open up new operation projects and not being afraid to take risks, not afraid of breaking into sweat—these were the main sources of newfound wealth among farmers. As for the minority of people who were drilling unreasonable loopholes into the current prices and the system, who used crooked ways and fished for ill-gotten gains, as well as a few grassroots cadres who abused their power to seek personal gains, and who deliberately kept the gold for themselves and even obtained large loans and materials through all kinds of illegal means, such examples existed in each place and should be prevented and corrected in time.” He also emphasized, “We must be apt in our guidance of the portion of farmers that get rich first, because our goal is to use them as demonstration for pushing forward the development of the entire rural economy and achieve the final result of common prosperity. This year, some provinces summarized the general experiences of specialized households and key households, and filtered the main characteristics of their essence, recognizing the following three categories: one is a model of achieving prosperity through hard work; second is the pursuers of science and technology and demonstration, and disseminators of knowledge and information; and third is advanced individuals who constructed socialist careers in the countryside. My commendations are made from a positive stance with correct methods. I do not approve of setting ratios, pooling together numbers, or creating a large number of specialized households and key households. Farmers who took the first steps to become rich through hard work, as well as specialized households and key households that have grown in the process of the countryside’s achievements in prosperity since the Third Plenary Session must be affirmed and protected. This is the way forward. It is precisely them who have inherited and carried forward the fine tradition of Chinese farmers, while adopting some new qualities under the socialist system of commodity producers, that they are worthy of studying and reviewing, worthy of us to help them further improve and make contributions to the construction of a Chinese style modernized socialist agriculture sector. First, we must confirm that they presently embody advanced production forces in the countryside, that they are forerunners in the broad masses of farmers seeking common prosperity, and that they are activists following our Party’s in-depth reform of the rural economy. When we say we must further liberate the mind, treat farmers correctly, and be grateful for, absolutely protect and encourage the enthusiasm of farmers, we need to start with treating this portion of farmers who are getting rich first correctly; if we protect and secure the enthusiasm of this group of farmers, then all farmers, including those who are currently in difficult situations, will have something to anticipate and the goal of common prosperity will no longer be miles away.”

After reforms in the countryside, following the spread of the household responsibility system and the rise of specialized households, circulation and the optimal combination of the factors of production were created. The development of lateral ties with nonagricultural industries was promoted, and commune- and brigade-run enterprises broke the limitations of the “three local principles” (referring to obtaining raw materials locally, processing locally, and selling locally) and burst through the old traditional belief that “the city develops industry, and the

countryside develops agriculture”; China’s rural economic structure gradually changed; the collective economy was consolidated and strengthened; funds were provided for the development of agriculture; employment expanded, the income of farmers increased; a large number of products were provided to society, activating the market; some even entered the international market; new sources of wealth were opened up for the country, increasing financial and foreign exchange income, creating many cultural and welfare services, and creating the conditions for the renovation and construction of small townships. Commune- and brigade-run enterprises and specialized households that grew among the farmers blended together with the individual and private economies. After 1984, they were called “town-village enterprises” with main features including small amounts of investment, rapid turnover, low costs, and high efficiency, which provided major growth in the rural commodity economy and therefore became another unexpected form of major encouragement following the contracted production to household system. It was yet another meaningful impetus for the half self-sufficient countryside to transition towards agricultural modernization and urban-rural integration.

2.4 Highlights in the Consecutive Nature of Rural Reform: Five No. 1 Documents of the Central Government

The early 1980s of the last century were the golden age of rural reform as history made a sharp turn. In every aspect, what all people were doing was practically only what was repeatedly criticized 20 or 30 years ago. The debate on the criterion for truth was in essence a universal enlightenment campaign that brushed aside the dogma of the “left” and the cult shrouded in layers of fog. It is as if everyone awakened from a dream and had escaped from confusion into elation. After the Third Plenary Session of the 11th Central Committee, the Party’s theories were linked to real situations in the rural areas and came into closer contact with the masses, while criticism and self-criticism and healthy traditions and behaviors were also recovered and carried forward in some ways. One by one, the miscarriages of justice that once struck people’s hearts with fear were vindicated; 500,000 people who were wrongly classified as rightist intellectuals were rehabilitated; millions and millions of landlords and wealthy peasants were removed of their labels. The political environment was more open in guiding an active mentality. In 2–3 years, the total number of new newspapers and publications more than doubled from the previous times. There was more information and more criticism and suggestions, and the former dreary and depressing atmosphere had been cleared away. Hidden in the thousands of years of cultural history of unremitting self-improvement, a firm and indomitable national spirit rose up again and became a great motivation for advancing the progress of history. In the spring of 1978, the Science and Technology Conference was held on an unprecedented scale. Deng Xiaoping jubilantly declared scientists to be “chief of the logistics department.” All scientists, and even

those who had nothing to do with science, celebrated with fanfare. Science had finally made its way up on the agenda and displayed its full advantages in the country's economic development. The hundreds of millions of farmers were happy because nothing was better than the five continuous No. 1 central-level documents from 1982 to 1986. Although people had a vague memory of the contents of these documents, and even the topics, they would still never forget them. Why did the government circulate the No. 1 Document, and why for five consecutive years? It happened accidentally, but became an unwritten consensus of the Secretariat of the Central Committee and became the biggest annual expectation of hundreds of millions of farmers.

The central government's No. 1 Document of 1982 was a document that attempted to rectify the status of contracting production to households. It confirmed that this system was one that was gladly accepted by the masses as a type of socialist agricultural responsibility system. The document admitted to the masses' right to freedom of choice and emphasized that no top-down model could be used to force the masses. The experiments in each area concluded that "contracting did the trick," while impoverished areas were able to satisfy demands for food by the second year after implementation, and production increased in general in other areas. In 1981, the surreptitious tide of contracting production to households in China's countryside gradually turned into an advantage and formed into a surging mainstream model. The rural areas became like countless creeks brimming with spring water and flowing into magnificent rivers, and the billowing rivers drove tens of millions of streams out of the canyon. . . . The debate between the open road and the log bridge encouraged a major national development in the contracting production to household method. More and more people looked on with admiration towards the rush of spring water in those streams. The psyche of the farmers, previously doused in fear and panic for being blamed for the restoration of capitalism, had virtually disappeared.

From then on, various forms of the system of contracted responsibility linking remuneration to output developed with great speed were being perfected everywhere, and the idiosyncrasies of local adaptability and advantages were being realized. Among these, contracted production to households developed the fastest and changed the most.

One of the most important lines in the Document No. 1 of 1982 was, "The current responsibility systems in rural areas, including contracting work for fixed rate salary, professional co-production contract payment, co-production policy on the basis of working hours, allocation of production responsibility on the basis of family, group, and so on, are all production responsibility systems under socialist collective economy. No matter what methods are used, as long as the masses do not request any changes, there should be no changes." Such a sentence in Document No. 1 received cheers from the hundreds of millions of farmers. Hu Yaobang was exuberant and said that it would be ideal if each year's No. 1 Document could be approved by the members of the Secretariat in a similar fashion, mainly, quickly form an unwritten consensus. He also mentioned that a rural work conference must

be held at the end of every year with the issuance of a Document No. 1 at the beginning of the next year in order to show continuity and authority.

The five successive No. 1 Documents of the central government were all policy documents related to rural reform, but not all of them touched on theoretical problems. From the draft on "Several Views on Accelerating the Pace of Reform" (1978) to its "official publication" (1979) on the 11th Third Plenary Session and then to Document No. 75 in 1980, the Party Central Committee's attitude towards household responsibility system went from "not allowed" to "not wanted," and then ultimately deemed it as "an effective path to solving the problems of food and clothing." The Central Committee also pointed out, "For production teams that were 'relying on loans for production, on buybacks for food, and on welfare to live', the masses have lost confidence in the collective and thus asked for contracted production to households, so we should agree to their requests and allow contracted production to households and allocation of production responsibility on the basis of family." These three changes allowed the government to inch closer to the demands of the masses while adhering to socialist positions. For example, contracting production to households that were not "large in size and public in nature" was still not permitted. The first No. 1 Document of 1982 addressed this major obstacle: in addition to listing "nine types" and "other" "forms of responsibility systems," it also included "contracted production to households" and "allocation of production responsibility on the basis of family," which, according to the words of the farmers, was equivalent to giving "double contracting" a "socialist registered permanent residence" identity. At the time, the Xiaogang style all-round contracting system (namely, the household responsibility system) already displayed an inherent unique superiority that some people regarded as the "twilight of the countryside." There were many other complimentary opinions worth mentioning, but the document only listed what was allowed and did not include anything else. Such prudence turned out to be apt in later practices because hundreds of millions of farmers felt overjoyed, which was reflected in the minds that were set at ease throughout all corners of China. Therefore, 1982 was the year when the all-round responsibility contract system marched into the nation. In June, the household responsibility system already cover 67 % of the Chinese rural area, and at the end of the year, and this number grew to 95 %. The attitude of the central government became even clearer.

In March 1982, the central government decided to remove the National Agriculture Committee and replace it with the Rural Policy Research Office and soon afterwards also established the Rural Development Research Center of the State Council. Two institutions, one group of troops, and Du Runsheng were the directors of them all. Not long after the institutions were created, seven research teams were sent out across the country to examine the new problems and conditions within double contracting to households. They immediately began drafting the next No. 1 Document. I was once a council member of the Agricultural Materials Study Office of the Secretariat of the Central Committee and also participated in the drafting of the second Document No. 1. I also held a concurrent post as the deputy director of the Rural Development Research Center, and around half a year later, I moved to the Central Rural Policy Research Office along with my colleagues

in order to fully engage ourselves in rural investigation and research. We wrote and edited the No. 1 Document continuously in circles. During this period, we also produced other written materials and articles and went down into the countryside to conduct more field research, especially whenever we encountered any problems. In those years, Mr. Du was not yet very old. In the Taihang Mountain area in 1943, I listened to his report, learned about some of his accomplishment, and developed a great amount of admiration for him. After we began working together, I felt his kindness towards people, saw that he worked conscientiously but not without humor, and drafted documents by abiding the principle of taking experiences from the masses and giving back to them. This gradually became the working style of the Central Rural Policy Research Office and the Rural Development Research Center, helping everyone in different positions realize that their best efforts were needed for the completion of Document No. 1.

The atmosphere of the drafting process for the second No. 1 Document was completely different from that of the first. A year ago, there was still a loud debate over whether or not household responsibility system can be claimed as a form of socialist collective agricultural operations. Some even said they could no longer keep drafting the document. But after a year's worth of education through the practices and lessons provided by farmers, there was unanimous agreement on giving the household responsibility system the highest praise, and the richest, most colorful, and most important line was household responsibility system "is the great creation of Chinese farmers under the leadership of the Party, and it is the newest development in our country's practice of Marx's theory of cooperatives." There was virtually no argument before it was passed through the agency. In the history of the Party's official literature, this was a high acknowledgement of the peasants' practices, especially as it pointed out that it was a development in the Marx's doctrine of the cooperativization theory. I, like many of my comrades, were very excited at the time and thought it to be not a trivial matter, that it was in fact a theoretical breakthrough.

There were no arguments and debates when the draft of the second No. 1 Document was being finalized at the Central Rural Policy Research Office. The statement mentioned above was preserved. Everyone agreed that this viewpoint was revolutionary, as well as accurate and upheld by solid judgment. Written into Document No. 1, it could thoroughly solve the problem of fixing either a "capitalist" or "socialist" surname to household responsibility system from a higher level of authority. The difficulty was that the document did not have sufficient space for a detailed elaboration of the rationale and directly adopted this perspective, which would potentially make it difficult to be approved by the central government. Later, this proved to be an unnecessary worry.

During the Party Central Committee's approval process of the second No. 1 Document, I attended the meeting as a working staff member. To our surprise, it was successfully passed through with only some comments pointing out specific edits, but the line we worried about the most was not questioned by anyone. I had suspected that some of the senior comrades that maintained their own views on the household responsibility system would speak up, but the atmosphere of the meeting

was relaxed and lively. No one attempted to pick a fight. It was only towards the end of the meeting that Bo Yibo expressed quite emotionally some thoughts to the effect of, "I have repeatedly thought about the relationship of household responsibility system and cooperativization. It was not that I never had any doubts, and at the very beginning, I accepted it only as a makeshift solution for solving urgent problems. But I feel more and more that with the development of its practice, the power of household responsibility system had always been underestimated. I realized that I was also subconsciously bound by old conventions." At this point, Bo Yibo stopped for a moment, and with enunciated Mandarin that bore a Dingxiang, Shanxi Province, accent, he declared, "I want to say something here, please do not record it and do not publicize it. I personally believe that 'the two-tier scheme that combines centralized management and decentralized management on the basis of household responsibility contract system' is not only the great invention of farmers' practices in our country, but is also the new development of Marx's theory of cooperatives. In reality, it has addressed a fundamental problem that international communism has not been able to solve for a long time." It was unlikely that anyone recorded these words, but it left an imprint on everyone who was present at that meeting because the whole room fell into a silence. Mr. Bo spoke with great sentimentality, and all those listening were touched.

The incident passed like so. In 1982, the all-round contracting system grew onto a nationwide scale with an irresistible force. The critics "fell to one side" and crowned the system with an economic term: "the two-tier scheme that combines centralized management and decentralized management on the basis of household responsibility contract system." It was considered to have "fame that followed merit," with a more clearly defined position in the system and an alluring brightness. This was what some people intimately felt in their hearts but could not openly say, and those who stubborn clung onto the "large in size and public in nature" kind of socialism were forced to hold their tongues. Of course this was only temporary, as when the changes became obvious, they would voice their opinions once more. At the time, positive energy was exuded from all places, but who initially said those words? No one knows. The phrase "the two-tier scheme that combines centralized management and decentralized management on the basis of household responsibility contract system" was captured by the economist Lin Zili, but was he also the one who concluded that it was the "new development of the Marx's theory of cooperatives in our country" and wrote it into Document No. 1? I cannot remember. At the time and for many years afterwards, from what I know, no one raised this question about the origin of the phrase, and I had never given much thought about it either. So many people participated in the surveying, drafting, revision, and discussion and review of the first, second, and third drafts onwards of the five No. 1 Documents that through all the back and forth editing and erasing, no one can remember who said what, who changed what, or who finally decided which would be the final words. Either way, this sentence is quite good, quite scientific, and gave ambition to the household responsibility system and gave heroism to the reform and opening up. Everyone agreed and everyone was happy. Who said it first? Who wrote it into the document? For those who were passionate about rural

reform, such details were not important, and what's important was the high praise that Document No. 1 gave to the household responsibility system, which subsequently gave rural reform a foothold.

Theories originated from practice, and reform practices pushed forward the development of theories, while innovation in theories then guided the practices of reform. Lin Zili was an economist who had always attached importance to research and analysis and was an independent thinker. In 1979, after a long period of scrutiny, he gathered some critical views regarding the socialist planned economic system and systematically put forth an overly clear opinion, "The development of a commodity economy is a natural process in history which cannot be blocked or 'restricted' by any person or any social institution; currently, the state-owned economy must be based on the premise of separating management and ownership rights; enterprises must become the entities of operations and management, namely the production of commodities. Accordingly, the planned economy and directly commanded plans must transform into an indirect market mechanism to realize a guidance-oriented plan; the spirit of the commodity economy exists in pricing, which means there must be free competition that allows producers to engage in broad and equal competition." In short, he believed that a socialist commodity economy was suitable for the economic model constructed under China's modernization and wrote an article on the subject that was 40,000 characters long. Lishu from the Chinese Academy of Social Sciences greatly admired the piece, considered it to be an enlightening piece of work, and decided to publish the 40,000-character article in the October issue of *Chinese Social Science*. The sample had been printed, but when it was published it was removed by Hu Qiaomu, who believed that the article discarded classical ideology and rebelled against the orthodoxy. It wasn't until 1980 that select viewpoints from the article were published in *Guangming Daily* and the academic journal *Economic Research*. The opinions received many responses from those in the field of economics, and it slowly turned into a consensus among more people. The "CPC Central Committee Decision on Reform of the Economic Structure" was produced from the 12th Third Plenary session in 1984. Hu Yaobang personally led the drafting process, while many economists, including Lin Zili, also received invitations to participate. This was the first central government resolution regarding comprehensive reform. It validated the concept of a "socialist commodity economy"; it validated the inevitable natural historical process of the development of a commodity economy; it confirmed the separation of ownership and management rights; confirmed that enterprises must become autonomous, self-financing commodity goods producers; and confirmed the gradual expansion of guidance-oriented economic planning and the gradual narrowing of mandatory plans. Relevant documents from 1985 also approved the establishing and developing integrity of the market economic system, which included the production elements market and reaffirmed that economic macro-regulation should largely be indirect, specifically through regulations implemented by non-directives and through market mechanisms.

The second No. 1 Document gave a scientific Marxist evaluation of "contracted production to households" and was one of the most important institutional

breakthroughs and innovations. The document also pointed out “two transformations,” which was promoting the transformation from self-sufficient and half self-sufficient to large-scale commodity production and the transformation from traditional agriculture to modern agriculture. An extremely stubborn traditional concept was also dissolved, namely, “Only a planned economy can be socialist, and a commodity economy or market economy is incompatible with socialism.”

The 14th CPC Central Committee in 1992 confirmed the overall objectives of reforming the socialist market economy. It was a major milestone in the country’s journey of reform and opening up, but it was dug up from the soil by the hundreds of millions of farmers who had begun practicing the household responsibility system as early as a decade prior and laid its foundation.

The subject of the third No. 1 Document in 1984 was “Notice Regarding Rural Work for 1984,” which stated from the outset that rural work that year would focus on increasing productivity, remove certain factors that impede circulation, and develop commodity production on the basis of stabilizing and perfecting the production responsibility system.

That year, the all-round contracting system had unified the country, and the weather was favorable with fewer disasters.

Grain production grew by over 40 billion *jin*, in total reaching an unprecedented 814.6 billion *jin*; cotton production grew by 32.42 million piculs, in total also reaching an unprecedented 125.16 million piculs.

Other agricultural products also enjoyed large harvests, and agricultural production reached exceptional heights. This implied that China had basically solved problems of food and clothing. That year was also the 40th anniversary of the United Nations Food and Agriculture Organization. The premier of the State Council issued a written statement announcing, “China’s grain production has been greatly increased in recent years, but still lags behind compared with developed countries. Alongside the development of the food industry and livestock and poultry and aquatic products, food consumption demand will also increase. Therefore, sufficient food supply will continue to be a problem that must be addressed in the future.” This announcement caused surprise and even shock in the West. Had China indeed solved its food shortage problems? It was extremely unexpected.

Food shortage has been a historical problem in the country. After the founding of New China, there have been immense pressures stemming from population growth and food-related issues. United States Secretary of State Dean Acheson predicted that China would not be able to feed its population of more than 500 million people. In the 1950s and 1960s, we overemphasized the role of people in production but overlooked people’s role as consumers, and had wrongly criticized economist Ma Yinchu’s reasonable proposals on controlling population growth. Before China’s liberation, birth rates were high, mortality rates were also high, and population growth had been slow; after its liberation, China experienced low mortality rates and people’s lives improved, which was good, but which also formed an explosive force in population growth and quickly pushed the figure past the one billion mark. The already existing trend of more people, insufficient land, and short grain supplies was exacerbated. In the 28 years from 1949 to 1977, grain production

per *mu* hovered around 100 kg for 14 years and around 100–150 kg for 8 years. In 1958, total grain output reached 200 billion kg. It took China 25 years to exceed the 250 billion kg scale. Only in 1978 did grain production reach 300 billion kg. Moreover, a portion of the increased production in part comprised of reclaimed land, grass, forests, and building croplands around lakes and the ocean. The result was that food supply did not increase much, while severe damages were made to natural resources, and the ecological environment as natural disasters continued unabated. In the 1950s, an average of 329 million *mu* of land was affected by natural disasters, and in the 1960s, this figure rose to 517 million. In the 1970s, it was estimated to be around 569 million *mu*. Therefore, the 30 or so years prior to China's reform and opening up was characterized by an acute shortage of supply that drastically shot up and down. The 3 years of difficulty had reached a climax when endemic diseases became very common, and the number of unnatural deaths seeped into the millions. China became the only country in the world where food had to be purchased with food stamps, and there were more than 250 million chronically hungry, half-starving people in its impoverished areas.

From 1979 to 1984, food production rapidly and significantly increased year by year, and it took only 6 years for total production to increase from 300 billion kg to more than 400 billion kg. Cash crops, livestock, aquatic products, and other agricultural goods increased to an all-time high.

The household responsibility system caused a surge in grain production and provoked people to seek a preliminary understanding that the core issue within food shortages was how to properly treat the problem of farmers.

Then, I would like to now discuss the food problems following this period of time.

The sudden drop in food production in 1985 and the instability that followed gave the "opposition party" of household responsibility system something to voice against. However, the shadows of the problem had emerged as early as 2 or 3 years earlier. Because farmers always acted in accordance with their personal interests, and in particular their immediate interests, gaining some autonomy necessarily expanded the scale of relatively high-yield crops and reduced low-yield food crops. There was a reduction in the area of grain fields wherever there was a place that implemented contracted production to households, but because rural reform was making great strides forward in those years, there would be places with large increases in food production every year, especially in the poor areas that used contracted production to households. This compensated for the portion of grain fields that were reduced in area size. Therefore, the decline would not affect the overall national rate of food production growth. In 1983, the household responsibility system was popularized throughout the country, and food production reached its peak in these 6 years beginning in 1984. However, the trend of ever shrinking farmland areas did not slow down and was in fact exacerbated due to other factors. Within 1 year, there was a reduction of 60.58 million *mu* of arable land. The problems began to unravel. More importantly, the "dual-track system" in grain procurement policy was introduced. Grain prices became a mixed price of "inversed 70–30" as the prices of production materials rose. All this addition and

subtraction created too big of damage to the interests of farmers, which was especially reflected in new commodity grain-producing areas that suffered. The advantage of growing crops was not only small but had even become a negative thing. This was the reason behind three consecutive years of decline in grain output and why the figures went up and down. Although the policy at the time did give some consideration to the interests of farmers, for example, by taking measures in “reducing purchases, reducing prices, and more transparency in raising prices,” the main purpose was still aimed at increasing and guaranteeing food supply for urban cities. Emphasis was put on using top-down administrative measures to control the land area of grain fields and ensuring the fulfillment of procurement tasks, as well as to implement a chief executive responsibility system, and so on. These were all old methods from the period of the planned economy, but they were still used well into the late 1980s and afterwards. Although they were somewhat effective, there were limitations as well. Restoring grain production rates was slow, and increased production did not equal increased income, causing farmers to grow even more exasperated.

In 1985, grain output unexpectedly fell to around 28.45 billion kg and continuously fluctuated for the 3 years of 1986, 1987, and 1988, never being able to surpass the production levels observed in 1984. Only in 1989 did it continue to rise, but “issuing IOUs” then immediately appeared, which was worse than the “difficulties in selling.” Opinions of censure were heard without end. Growth in the 1990s was different from the continuous growth of the early 1980s. It was more volatile, with an overall increasing trend, but an average growth rate. There was some movement, but the movement was not so big. Food production ebbed and weaved like the ups and downs of a pudding, which made people “worry less and then worry more.” Each time, the ups and downs caused by economic and social turmoil would generate strong reactions and debates. The arguments of each side had its legitimate points as well as one-sided arguments. With regard to the historical turning period, an event that consumed and involved the entire nation’s urban and rural population was indeed very difficult to understand so clearly and comprehensively at the time. But several rounds of up and down chaos contained extremely valuable experiences and lessons that would repeatedly emerge. A thorough observation and in-depth analysis can thus contribute to a better understanding of the crux of the grain problem and to finding ways to fundamentally resolve the issues properly.

Therefore, up until the 1990s, farmers’ loud call to attention towards their excessive burdens was finally answered and the state allocated more funds to set up a special grain reserve system. It also established regional wholesale grain markets, but the problem was still not entirely resolved. However, that is another story. In 1984, it would have been impossible to foresee how these complex changes would play out. The all-round responsibility contract system was being fiercely promoted from discussions around the country. There were no time limits on contracts. Each place had its own policies, some were 3 years, some were 5, but since farmers were afraid of policy changes, they always wished for longer contracting periods. Some said, “The kindness of the Communist Party is like the sun, shining brightly wherever it goes; the policy of the Communist Party is like the

moon, different on the first of the month than on the fifteenth.” In order to dissolve farmers’ anxieties, the third No. 1 Document officially announced, “Extend the period of contracted land, encourage farmers to increase investment, cultivate soil fertility, and implement intensive farming. Land contract period shall be 15 years and above.” The first No. 1 Document put the hat of “socialism” on the all-round contracting system, and hundreds of millions of farmers were reassured. But now, they were given long-term reassurance. The image of a powerful China and “socialism” had nestled deep into people’s hearts. Later, even before the 15 years were up, the contracting period was officially increased to 30 years. Since an approximate figure could not completely solve farmers’ problems, an extension was required.

The fourth No. 1 Document of “Ten Policy Measures Regarding Further Invigorating the Rural Economy” in 1985 showed that some basic breakthroughs had been completed in rural reform on the basis of the household responsibility contract system. “Unification of the whole country” was consolidated and gradually improved. Hundreds of millions of farmers became independent commodity producers and operators, and the rural commodity economy had an extremely promising space for development. Detailed policies about further activating rural economy arrived just in time and were quite exhaustive. Everyone’s focus was on the first item of this fourth No. 1 Document: reform of the state monopoly on purchase and marketing in grains.

The document stipulated, “Starting from this year, other than in a few special sectors, the state will not issue farm produce purchase tasks to farmers. Contracted purchase and market acquisition will be realized according to different conditions. State purchase of grain and cotton is abolished and changed into contract mandatory. The commerce department will negotiate before planting season and sign purchase contracts.” “State purchases will be gradually cancelled for pigs, aquatic products and vegetables in large- and medium-sized cities as well as in industrial and mining areas. They will go on the free market, engage in free trade, abide by market conditions, and pricing will be based on quality.” “Other state purchase and acquisition products need to be categorized and gradually opened according to different regions.” “No unit is allowed to issue prescriptive production plans to farmers.”

It is clear to see that this was another key initiative since rural reform began. Deng Xiaoping once lauded it as “quite a brave step,” but it also became a significant example of how the No. 1 Documents slowly began malfunctioning, despite receiving approval from the hundreds of millions of farmers.

Why? This issue is of major importance and goes far back into history.

With an ongoing dramatic growth in agricultural products for years, the urgency of reforming the circulation system became increasingly prominent, even though the policy in recent years had been gradually unfixed and the number of agricultural products directly controlled by the country was greatly reduced to 38 from 183; in 1983, according to the spirit of the No. 1 Document, circulation was allowed to be conducted through multiple channels; it encouraged various commercial organizations, including private traders, to operate and complete state purchase products and

non-planned products; purchase and marketing were carried out by negotiations and pricing was determined according to the market, but the problem of “difficulty in selling agricultural products” worsened. This problem also happened to the tangerines market of Sichuan, in jute and ambry hemp in Guizhou, as well as pigs and eggs in other provinces. In 1984, the problem was expanded to major grain-producing areas and a national “grain crisis” broke out. Commercial grain departments reported an emergency that “the acquisition cannot be afforded, stored, transferred and sold.” Immense amounts of capital were occupied by overstocked agricultural products, which became a crucial factor in rising inflation rates. Some goods and materials that were in shortage were also trapped due to blocked circulation channels and insufficient capacity in transportation, thus causing a fake “surplus.” “The good go rotten; the fresh become smelly and the alive end up dead.” It seemed that the patchwork feature of the reform could no longer adapt to the development of the situation at the time. A thorough reform in the long-standing state monopoly of the purchase and marketing system became imperative.

However, this was unbelievably hard to thoroughly change. The system was not a simple imitation of the Soviet Union; instead, Chinese people created it domestically, after making exhaustive studies. It was the foundation for monopolizing all agricultural and sideline product resources and it was the impregnable fortress for the dual urban-rural structure.

The state monopoly on the purchase and marketing system, carried out since 1953, was the result of a supply and demand contradiction development in New China and a strategic choice that was used to solve the conflict between China’s specific industrial pattern and weak agricultural foundation. It was a resigned choice between two types of “bombs.”

The grain market during the 3 years of the recovery period was a free market. Other than agricultural tax (taxes paid in grains), farmers’ grain could be sold freely on the market. In addition to state-owned grain companies and supply and marketing cooperatives, private grain suppliers could also operate in the grain market. In the first half of 1953, the grain supply and marketing contradiction was further compounded. Mao Zedong required the Financial and Economic Commission of the Central People’s Government Council to propose countermeasures. Eight solutions were provided after several months of surveys. Only requisition by purchase was conducted in rural areas while rations were not placed in cities, which were still operating under the free market; no changes were made and purchase and marketing remained free; “timely preparations were not made.” Free purchase was allowed first before requisition by purchase could be conducted in major grain-producing areas; cash purchase was initiated and the designated quotas had to be achieved. This was a strongly emphasized but not mandatory approach; contracted purchase in advance was quite effective but less confident when it came to completing purchasing tasks. Unification was not conducted and some places acted by their own accord; there was requisition by the state in rural areas and rations were placed in cities.

After weighing the advantages and disadvantages back and forth, Chen Yun eventually negated the first seven solutions and selected the eighth. He then wrote a

report and submitted it to the Political Bureau of the CPC Central Committee. On October 2, an enlarged meeting of the Political Bureau was held, during which Chen Yun said, "I am now carrying a load of 'explosives'. In the front is 'black explosives' and at the back is 'yellow explosives'. If grain cannot be produced, the entire market will experience fluctuation; if the method of state monopoly of purchase is adopted, farmers may object. But one of these options must be chosen and both of them are dangerous." At that time, given the shortcomings of the state monopoly on purchase and marketing impeding production enthusiasm, local riots were a cause for concern, but things would have been worse if Chen Yun's method was not taken, since imperialism would then dominate. It was unanimously acknowledged that the state monopoly of purchase and marketing was meant to serve as the circulation system for national industrialization goals. The set of methods was not learned from the Soviet Union but created by Chinese people themselves. At the initial stage of national industrialization, it clearly played a positive role as it stabilized the supply of agricultural products, guaranteed supply for city-towns, maintained the stability of overall price levels, satisfied industrialization demands for agricultural products, and accumulated funds for industrialization, thus forming a relatively complete system. However, at the same time, it discouraged farmers and suppressed the development of agriculture and the rural economy as a whole. The problem grew more severe later on. The long-term predatory-style operation overloaded agricultural operations and led to the poverty of hundreds of millions of farmers. There was a supply shortage in agricultural products, which became the greatest barrier in general rural economic development.

In contrast to the household responsibility contract system, the circulation system reform was no longer confined only to rural areas and was instead intertwined with urban reform, involving the vested interests of producers, operators, consumers, the countryside, and various local places. That is why it encountered the boycott of outdated concepts and forces of habit for many years. The relations were complicated and the tasks were even more arduous.

The implementation of the state monopoly on purchase and marketing was a great event related to international people's livelihood and was eventually determined after weighing up many advantages and disadvantages. Its reform was equally a big matter in the national reform process and was decided through trade-offs, but could not be settled right away, and thus turned into a resigned "dual-track system."

In the circulation system reform of 1984, quite a few people advocated abolishing the state monopoly on purchase and marketing since the grain supply was abundant at the time. Governmental departments such as commerce, finance, industry, and commerce, as well as macro decision-making institutions, were opposed to this. For years, low-price grain supply had been the core factor in stabilizing the economic situations of townships. Chaos would occur if this guarantee was lost and there would be unpredictable consequences.

The intention was quite apparent. Agricultural products were in shortage before the problem of food and clothing was solved and the demand for agricultural products was simple as well. On the whole, the situation of oversupply would not

happen; after the food and clothing problems were addressed, people's demands were constantly changing and becoming more diversified. Shortage and surplus overlapped. As the state monopoly on purchase was abolished, the government's administrative control no longer played a regulation role in the production, circulation, and consumption of agricultural products; instead, these things were mainly determined by the price of agricultural products. Therefore, the role of the market became prominent, yet the feature of China at the time happened to be a low degree of market cultivation. Many years of a state monopoly on purchase and marketing not only thoroughly eliminated the original private commercial system but also changed commercial behavior patterns and rules. All aspects, from the operating bodies, forms of organization, infrastructure, to ideological concepts and supporting policies, were not easily adapted. Farmers simply broke away from the deficient but habitual state monopoly of purchase and marketing. When they faced a risky market, information was transmitted fast enough, farmers' reactions were slow, and they were at a loss for what to do; the local fiscal system often caused shut downs and segmentation, and unreasonable barriers and arbitrary charges hindered normal exchange of agricultural product between different places and thus made it hard for regional advantages to develop; state-owned commercial supply and marketing cooperatives were simply agencies for completing government purchases and distributing agricultural products. They became accustomed to carrying out monopolized operations within their own sectors. Therefore, competition did not make sense to anyone. Usually, purchase price competition would be seen among agricultural products that were difficult to acquire. When these were oversupplied, it became difficult to shoulder the economic function of agricultural product macro-control that was stressed by the country. Hence, although the state monopoly on purchase and marketing was abolished in 1985, the circulation problem was not truly solved, and the reform in agricultural product pricing was reduced into an impasse. What had to be "unfixed" had been unfixed and some even "took the return path" (grain, cotton, and oil); some products that were open to the free market had problems such as too rapid of an increase in pricing and big market fluctuations. The country was still unable to escape the vicious circle of "vitality after release, chaos after vitality, seizing back after the chaos, dead circulation after seizing back, release after dead circulation, and chaos after release."

In order to stabilize the supply of agricultural products and avoid sharp changes in the interest distribution among various parties, the "dual-track system" was adopted in 1986. On one hand, direct government control was partially or wholly maintained for agricultural products with special significance, such as grain, cotton and oil, according to the principle of "combing regulation and release"; on the other hand, the government's indirect or market regulation was implemented for other agricultural products. The idea of the "dual-track system" was to maintain some old interest relations and mitigate contradictions in the changes in the pricing, with the aim of overall stability in trade. There was also a focus on adopting new allocation principles for the new national income and on establishing new economic relations and interest relations while expanding the latter. Old relations had to be

replaced with new ones in order to truly realize the goals of the reform. Farmers vividly recall the grain purchase and “dual-track pricing system” as “partially dead and partially alive.” The effects of the actual implementation were not ideal; normally, what had to be “stable” could not be stabilized while what had to be “alive” could not be saved. There were still many problems, which were reflected in the following aspects:

1. The purchase system was detached from the sales system. On one hand, state-monopolized purchase became mandatory, which dramatically reduced the amount of grain contract orders, and the mandatory price in contracts gradually adjusted accordingly; on the other hand, basically no changes were made in the grain sales system. Hence, a “double upside-down” phenomena occurred in grain purchasing and marketing; first, the number of state-monopolized purchases was greater than the mandatory amount, and the difference was usually about 25 billion kg; second, the price of the state-monopolized marketing was lower than the market price. Every year, state agencies had to provide up to 40 billion yuan of grain and oil subsidies for urban cities, which accounted for one sixth of the overall fiscal expenditure and became a heavy burden. Urban consumers became dependent under the state-monopolized marketing system and were accustomed to enjoying the special treatment given to them through low-price agricultural products. They took this for granted and showed a low tolerance for price fluctuations. The low-price grain supplied to cities under state-monopolized marketing was a great waste, a waste that reached up to 2.5 billion to 3 billion kg every year according to the statistics. It became quite common for grain ration coupons to be used to trade non-staple food substance or daily necessities.
2. The purchase and allocation system for bulk agricultural products was obviously not helpful to grain-producing areas. It was absolutely necessary for the country to get a hold of a certain amount of grain reserves. The problem was that in 1985, when the central government reduced contracting mandatory purchase tasks in different provinces, it did not consider original foundations and did not make relevant reductions according to different proportions; instead, identical proportions were used, resulting in various degrees of burden across provinces. For instance, the proportion of nationwide regular mandatory purchase tasks accounted for 12 % of the grain output on average, but in some places such as Liaoning, the proportion was about 35 %. As for some major grain-producing areas in southern China, such as Jingzhou, Hubei; Changde, Hunan; Yichun, Jiangxi; and Chuxian, Anhui, mandatory purchase tasks had always been heavy and became even more unreasonable after the adjustment. The problem was more severe in the allocation system. According to the regulations, when grain was transferred from producing areas to selling areas, the price of commodities could not be “transferred from face value to negotiated price,” while the selling areas that supplied grains to residents could “transfer negotiated prices to prices at face value.” In this way, the selling areas supplied grains with negotiated prices to residents, which was both convenient and a bargain. As a result, they

did not rush to transfer grain to producing areas according to schedule, and producing areas shouldered all the funds, interests, and fees. At the same time, according to the grain fiscal responsibility system back then, even if producing areas made transfers as schedule during harvesting years, only local level fiscal agencies were able to bear financial burdens. Subsidies were not provided through central finance. For instance, grain preserves in Jilin were worth 10 billion yuan, and at different levels, its interest rate was financed as high as one billion yuan. Whoever wanted to transfer those grains would be stuck in a rotten situation.

3. The pricing system for agricultural products was extremely unreasonable. This was mainly reflected in the following aspects: the purchase contract price was much lower than the market price and was in fact a kind of “over-quota tax” paid by farmers to the country, in addition to the agricultural tax. The rate of exchange in industrial and agricultural products was reset. In 1978, the grain to fertilizer price ratio was 1:1.4. From 1979 to 1983, it increased to 1:1.5 and decreased to 1:1.05 in 1989, which was lower than the level from before the reform. The price hike of agricultural products lagged far behind the rising price of agricultural means of production. The internal price ratio of agricultural products was imbalanced. The price and comparative benefits of bulk agricultural products were obviously below those of oil plants, sugar crops, flue-cured tobacco, fiber crops and wool, and so on. All these fully demonstrated that farmers’ loss in crops was not solved by the “dual-track system” and also showed that the transformation into a market economy system from the “dual-track system” was a considerably important topic related to deepening rural reform, promoting stable agricultural and overall rural economic development.

Reform in the circulation system had to experience a process of “opening up, rising prices, production developments, stable prices, and a bit of decrease after increase.” Fruits, aquatic products, and other agricultural products entered a stage of sustainable and stable development because they were completely open to the market and were integrated into the market economy track. Grain was a special commodity deeply tied to the national economy and people’s livelihood and thus was not completely opened up. The transition of “partial stability and revitalization” was planned, but in the end, leeway was growing narrower. Therefore, it was hard to prevent price distortion and the pains of rising and falling prices, as well as frequent shocks to the market.

The “dual-track system” was reasonable and necessary to some extent as part of the transition during the reform period, but it was not thorough and had potential dangers. Whether the expectations of the “dual-track system” could be realized or not depended on whether or not mutual infringement between the two systems could be effectively restrained. Such mutual infringement was quite likely to happen and the track of direct government control was usually synonymous with low prices. The power of control that low-price materials possessed served as the hotbed for various privileges and corruptions. Two different prices existed for the same grain and the differences abetted the violation and illegal behaviors

throughout the grain circulation system, thus causing chaos in management. Government grain subsidies were lost through various illegal channels. In particular, some privileged groups with vested interests would inevitably resist the expansion of market regulation in the name of “guaranteeing supply” and “stabilizing the market”; the longer time went on, the more prominent the shortcomings. What’s worse was that these phenomena would even submerge any of its positive significance.

The difficult part of reforming the agricultural product circulation system was the backward economic system reform and political system reform in the cities. If the reform in supplementary aspects, such as the urban corporate system, salary system, financial system, and foreign trade system, were not well conducted, then reform in the circulation system would be an isolated force obstructing deeper reform efforts. It was not something that could be addressed by Document No. 1, since that was only focused on rural reform and development. The cheers for Document No. 1 were gradually replaced by complaints and disappointment that arose from the friction between the new and old systems.

The fifth No. 1 Document was titled “On Deployment of Rural Work in 1986,” but rural work became more difficult to do in 1986 than in the first few years since the No. 1 Document of the previous year did not fully solve the difficulties of circulation. Farmers always acted according to their immediate interest. When they suffered from losses in growing grain, they applied their autonomous operating rights to grow whatever could earn them money. The grain output in the summer of 1986 was reduced, and the price of grain on the agricultural market increased. The purchase of grain in big cities and areas lacking grain was all the more impacted by the rising price in the market. However, state grain departments still made purchases based on contracts signed in the previous year. The more grain farmers provided, the greater their losses. Hence, they did not follow the rules. A great reduction in grain output occurred after autumn, and the situation grew more severe. The conflict of interest between the country and farmers, as well as cadres and the masses, reappeared. The mandatory purchase task of 150 billion kg in 1 year was quite demanding. Farmers were averse to “mandatory contracted purchases” at the very beginning. The previous No. 1 Document stipulated: “mandatory contracted purchases are a must,” Now it was further satirized as a “planning assignment” and “an unequal treaty” by farmers.

In the 1980s, the relationship among the farmers, the Party, and the country was relatively healthy. It was greatly restored from previous times of turmoil and was growing more intimate than ever. In a few places, problems existed in individual policies, and the working style of cadres was not satisfactory, but more people dared to express dissatisfaction. Farmers were such this way. They carefully paid the “national tax” while complaining. In those years, “food and clothing” were no longer a problem. The major difficulty was insufficient income. After the household responsibility contract system, the reluctance to keep grains under direct state control, and the active development of multiple types of operations that replaced the previous “grain-oriented” hard guidelines, farmers’ family sideline businesses flourished. Countless professional households, household workshops, canteens, and

small stores emerged, and rural economy came into full swing, which brought about an increase in income.

The prosperity of family sideline production and the emergence of national township and village enterprises must be attributed to the No. 4 Document of 1984.

What was the No. 4 Document? It was the fourth official policy document issued by the Central Committee in 1984. The Ministry of Agriculture, Animal Husbandry, and Fishery (Ministry of Agriculture) wrote a “Report on Opening up a New Page of Commune and Brigade-Run Enterprises” according to the requirements of Document No. 1. It confirmed that township and village enterprises are “an important part of multiple operations, an important pillar of farmers’ production, an important channel for the masses to realize common wealth, and a new important source of national fiscal revenue”; it also suggested that the name of commune and brigade-run enterprises during the people’s commune period should be changed to “township and village enterprises.” In addition, the document legitimized professional households, small individual workshops, small stores, and individual enterprises growing out of the joint cooperative economic entities that emerged from the prosperous rural reform. Some supportive and encouraging measures were taken. The Central Committee held that this development was quite good and did not issue any comments for this central document that was essentially derived from the agricultural No. 1 Document. Almost all departments owned this important piece of policy paper. The Central Committee approved some parts and did not approve other parts. The contents and functions were quite different as well. The No. 4 Document was very effective and became a milestone that marked the notable development of township and village enterprises.

China’s township and village enterprises, different from both state-owned enterprises and general small- and medium-sized enterprises in foreign countries, were new socialist phenomena with Chinese characteristics. It grew out of the proactive and creative behaviors of hundreds of millions of farmers who were making progress in the nation’s industrialization efforts. Therefore, they were also considered yet another great creation of Chinese farmers, following the household responsibility contract system.

China’s economic system would overcome all obstacles to develop itself, and it was aided to a great extent by the rapid development of township and village enterprises. If it can be said that the household responsibility system opened a gap in the “unified” planned economic system, then rural industry and other nonagricultural industries were greatly developed by farmers themselves through township and village enterprises. It irreversibly moved the reform towards a market economy, opened up an industrialization path with Chinese characteristics, and became an immense impetus for the development of the market economy. Deng Xiaoping spoke highly of it and called it “a suddenly rising new force.”

Plenty of family sidelines production and handicraft workshops with numerous individual peddlers and small stores in village bazaars existed in China’s rural areas throughout history. After the socialist transformation of the means of production and ownership in the 1950s, rural industry and commerce declined dramatically.

For a period of time since then, there were almost no nonagricultural industries in the countryside.

In March 1984, the No. 4 Document of the Central Committee officially changed the name of commune and brigade-run enterprises into “township and village enterprises,” whose scope expanded to the cooperative enterprises that were jointly operated by some commune members, as well as other forms of cooperative industries, and individual enterprises from town (including village and district) commune and brigade-run enterprises. The No. 4 Document stressed that the development of township and village enterprises was the only road to revitalizing the rural economy, and new parameters based on “proactive support, reasonable planning, correct guidance, and strengthened management” had to be adopted. Township and village enterprises, with multiple elements, forms, and layers swiftly gained further development. In 1983, the total output value of commune and brigade enterprises reached 191 billion yuan, twice the growth of 1979, with an annual growth rate of over 20 %. However, compared with the period after 1984, this was only the beginning of the strengthened economy flexing its muscles. In 1986, the impetus for developing township and village enterprises became more aggressive, and it was called “a suddenly rising new force,” as inspired by Deng Xiaoping.

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Chapter 3

Exploration and Development Among Difficulties and Setbacks (1985–1991)

The period from 1985 to 1991 could be called a phase of exploration in all-around reforms in China. It had characteristics different from the previous phase. If to take the first step to break through the constraints is most difficult, it is even more uneasy to carry on reforms deeper in every walks of life throughout China, which has such a great population, a poor and backward economy, and a severe disparity among different regions, to realize its transition to a modern country. The overall objectives of reform were still unclear and subject to disputes. The old system suffered violent smashes, and some part of it had been destroyed, but it still possessed power and continued to cast its influence. The new system was yet to be organized in a systematic way. The conflicts, frictions, and clashes between the old and the new could be seen everywhere so that mistakes were unavoidable in decision-making. During this period, the reform of the state-owned enterprises didn't won great breakthrough. The decrease in agricultural production in 1985 and the 3 years' lingering at the low level overshadowed the joy brought about by rural reforms, and the prevalence of corruption was also concerned about. On the other side of the story, the emergence of village and township enterprises instilled huge vigor to the reform. Although the irresistible strong momentum became weakened, "development is of overriding importance," and the practice proved that as long as we abide by the principle of reform and opening up, keep economic growth and ensure that the achievement of reform be shared by the masses, the reform would win the people's support, keep going in spite of all difficulties, and be carried out in one field after another in a pioneering spirit. The years from 1985 to 1991 witnessed so many hardships and twists and turns in this course that it would be better to discuss the problems of varied types rather than chronologically.

3.1 Planned Commodity Economy or Planned Economy of Commodity

The household responsibility contract system enabled farmers to obtain autonomous rights in production, distribution, labor allocation, and disposal of residual products. It allowed them to accumulate family property and turn into property owners with a certain degree of independence from the members of a commune. Driven by personal interest, and as long as the conditions permitted, farmers would always consciously or unconsciously do things according to the rules of the commodity economy, constantly expanding the scope of reform in practice and changing the rural industrial structure. In crop farming, they proactively developed economy crops that produced higher benefits than grain; in agriculture, they made greater efforts to develop forestry, husbandry, and fishery, which produced higher benefits than the planting industry; in rural areas, they actively developed the secondary and tertiary industries that also brought about more output than in agriculture alone. Farmers who broke away from the commune system had created diversified economic objects and forms in various industries and fields based on the household management of production. They cultivated the commodity market and presented a prosperous countryside. Rural reform, since the beginning, had been market oriented, even though this could not be written into the initial reform documents. It would have been impossible to do so. Although indistinct in the eyes of many cadres, it was a development trend that could not be transferred away by any one person's will. Such trends required the reform to be advanced cautiously and proposed more explicit reform goals and more systematic reform solutions, meanwhile encountering unexpected complications. To name a few, unfixed agricultural product prices faced intense market fluctuations and caused common anxiety among producers and consumers; frictions after farmers' entry into nonagricultural fields were intensified; the pressure of supply for urban industrial raw materials increased; problems of agricultural production conditions and capital shortage grew more prominent; and reforms in the circulation field, pricing system, financial system, and state-owned enterprises came across greater complications than during the times of rural reform and were caught in a floundering dilemma.

3.1.1 Deepening Reform Required New Concepts and Theoretical Innovation

Success in rural reform profited from discussions of the truth criterion. Such discussions emancipated people's ideology from the fundamental opinions of historical materialism and broke through the mist of personality cults, thus escaping beyond the trappings of the people's commune system. To let reform enter the overall planned economic system would have been impossible at that time without

further ideological emancipation and breakthroughs in the traditional concepts of the commodity market, which were formed during the planned economy period. In order to deepen the reform, new concepts and practical development had to be in place to support the accompanying theoretical development. Only theoretical innovation could truly guide further reform.

For a long time, we simply equated socialism with public ownership, stressing the idea of “large in size and collective in nature,” as well as the degree of purity in a socialist economy. There was a false understanding that the more this was so, the more socialist the system would be; socialism had been located at a position opposite to the commodity market, which made China’s socialist construction deviate from a correct direction towards the commodity market economy and socialized mass production development. Therefore, these beliefs were also delaying the nurturing of social productive forces. Rural reform, after all, was just the breakthrough stage of overall national reform. The problems that had been solved already were only within microcosmic rural operations and management systems. Now, reform had been deepened, and they challenged the planned economic system, along with traditional commodity and market concepts to undergo complete makeovers.

The practices at the time required a new ideological emancipation movement to solve the problem of treating commodities and the market under socialist conditions and to develop a genuine socialist market economy. Disputes about such problems encountered more obstacles and lasted longer than discussions about the truth criterion.

Marxism theorists believed that society under a commodity economy did not exist in socialism ideology, a point that was highlighted in several of Marx and Engels’ classic works. Lenin restored commodity exchange at a later stage of development and turned farmers into commodity producers. Stalin promoted “left” economic policies for a long time and admitted in his later years in *Issues of the Soviet Union’s Socialist Economy* (1952) that the law of value played an important role within a certain scope. He still maintained that the relations of commodity production and exchange did not exist in the state-operated economy and that the means of production were not commodities. Such a theory produced extensive and far-reaching influence over socialist countries, including China. The Great Leap Forward in 1958, for example, only stressed a subjective initiative without considering objective economic laws. One of its ideological roots was such a theory. In the following year, Mao Zedong emphasized the importance of law of value in the Zhengzhou Meeting, but he did not truly learn from the painful lessons of violating the law of value and eventually became more “left” by being inclined to eliminate the commodity economy completely.

As early as in late 1950s, the shortcomings of planned economic system were revealed. Chen Yun proposed “three subjects and three supplements” (or three majors and three auxiliaries) which referred to, regarding state operations and collective operations as the main force and private operations as its supplement; planned production as the main force and free production permitted by national plans as its supplement; and the national market as the main force and a free market

led by the state as its supplement. These opinions were criticized as the right-leaning ideology of “sole responsibility for profit or loss, free market, private plot, and each household on its own” at the Beidaihe Meeting in 1962. Until around summer or autumn of 1978 when a State Council meeting on discussing pertinent theories of the time was held, many economists denounced the “leftist” opinion of eliminating commodity economy relationships, Sun Yefang stated that law of value reigned first among all laws and Xue Muqiao stressed that transportation for sales over a long distance had to be redressed and circulation had to be activated through the market. Deng Xiaoping noted all these opinions, while Li Xian’nian also played a positive role in the reform and opening up.

In the beginning of the 1980s, certain breakthroughs were made in rural reform; the rural commodity economy was in full swing and the role of the national commodity market was strengthened. At the same time, some negative phenomena also occurred and people began to worry. Politicians and theorists who had held different opinions about the role of the market blamed these events on an overemphasis on commodity, currency, and value and put forward the slogan of “defending the purity of Marxism” and launched the so-called objection to spiritual pollution movement to limit the development of market forces. In April 1981, a policy research department in the central government issued an internal document that categorized economists into four types, according to their attitudes towards the planned economy and the market economy. In the first category, views about conformity to planned economy were included. Ideas of economists like Xue Muqiao, Liao Jiji and Lin Zili, who maintained that the macro-economy had to be regulated by the planned economy while the micro-economy had to be regulated by the market, and that even national plans had to be regulated by the market, were categorized into the fourth type. Such categorization was often adopted during the Cultural Revolution, and its implications were obvious. The problem was that the maker of the documents did not seek truth from facts and interpreted ideas out of context or confused one thing with another. Lin Zili once pointed out at an internal meeting that his opinions were put together by three sentences from different places, and were not consistent with his original intention. The instructive opinion at that time was that although commodity production and exchange still existed in China, our economy should by no means be generalized as a commodity economy, or otherwise, the essential difference between a socialist economy and a capitalist economy would be distorted. A time-consuming controversy between socialists and capitalists had since then continued. With changes and development in the economic and political situation, people were ideologically confused time and again. Influenced by such theories, many articles published in major newspapers and periodicals from 1982 to 1983 criticized the “wrong opinion” in highlighting the law of value and the role of the market in a system of planned economy and market regulation. Some articles made it explicit: “planned development of the national economy is a basic economic characteristic of the socialist economy” and “the abandonment of the planned economy is bound to lead to anarchy in social production and damage in socialist public ownership”; “the implementation of mandatory planning is the fundamental symbol of a planned socialist economy

and an important reflection of China's socialist ownership by all people in production organization and management"; and "the cancelation of mandatory planning, cancelation of direct management of production and distribution in production goods and consumption goods, which are related with national economy and people's livelihood, as well as direct command of key enterprises, will make it hard for the country to grasp necessary economic forces to guarantee that national economy develops healthily according to the requirements of the society as a whole, thus being unable to avoid chaos in economic life and unable to guarantee the socialist direction of the overall economy."¹ Perspectives about commodity production and exchange could be seen everywhere in newspapers then, because it indeed existed on a large scale in real life. However, the "commodity economy" was still not allowed, and even such "views which doubt, negate, or even weaken socialist planned economy" with the opinion that "enterprises have the right to produce, exchange, and conduct economic activities on their own" were seriously denounced and could not be "treated lightly."

Much of the "objection to spiritual pollution movement" was put to an end after a few months, and varying opinions could no longer be freely published. Xue Muqiao was forced to make self-criticisms against his will at the Economic System Reform Theory Symposium, which he hosted. He had to repent for his suggestion that "most of the planned regulations must be realized through market regulation." Liu Guoguang was blamed as well for remarking that the country should "gradually narrow the scope of mandatory planning and expand the scope of instructive planning" in an article published in *People's Daily*.

3.1.2 Controversy over Fishpond Contracting

By contrast, the situation in rural areas was quite different. After building a solid foundation for fixing farm output quotas to households, the commodity economy developed rapidly, while specialized households surged forward and employment operations jumped forth. Chen Zhixiong, a member of the sixth group of the first brigade in the Shapu Commune of Gaoyao County of Guangdong Province, contracted eight *mu* of fishponds in 1979 and raised fish for sales. With 2 years of efforts, in 1981, the contracted area grew to 487 *mu*, covering three brigades, with an investment of 2800 yuan. He and his wife worked together and hired five full-time workers and 1000 part-time workers. The total annual output value was 114,600 yuan, and total income was 97,600 yuan after production costs of 17,000 yuan was deducted. Therefore, workers' salaries were 8000 yuan, accounting for 8.2 % of total profits; the total contracting fee was 65,060 yuan, accounting for 66.7 % of total profits; and the income of the Chen family was 24,540 yuan,

¹ See foreword of *Collected Works of Planned Economy and Market Regulation (Volume I)*, Red Flag Press.

accounting for 25.1 % of total profits. With this, new development surged ahead in 1982.

The Gaoyao County Party Committee leaders were brave enough to free their minds and were realistic. They had always encouraged and supported Chen Zhixiong, the big contractor. The provincial agricultural committee leaders and provincial committee leaders also approved his initiative.

On May 29, 1981, an article titled “A Controversy over Fishpond Contracting” was issued in *People’s Daily* to introduce Chen Zhixiong’s collective fishpond contracting method. It stated, “Some people support it and some doubt it. The focus of the controversy is whether the employment operation is exploiting cheap labor or not.” “Is contracting across units feasible or not?” Hence, the special column “How to View Chen Zhixiong’s Fishpond Contracting Issue” was posted in *People’s Daily* and was open to discussion. By August 30 of the same year, 21 articles had been published within 3 months, and in the end, the article “Further Emancipating the Mind and Reinvigorating Economy” by Beijing readers She Danu and Huang Keyi was presented as the conclusion of the debate. In the article, a positive answer was given to the question, “Is contracting across units feasible or not?” As for the first question, it held that “the income of Chen Zhixiong is higher than others mainly because he has worked harder than others, which cannot be criticized.”

But this was not the end. In January 1982, someone from Guangdong Academy of Social Sciences did a survey and reported that Chen Zhixiong’s contracting was no longer based on individual labor but on large-scale operations supported by hired labor. Its capitalist nature was very apparent and a few issues had to be brought to light:

1. Once large contracting was developed, some farmers would be forced to lose their land and could only go out to make a living or be hired, and large contractors took this advantage to make a fortune.
2. As the total contracting fee accounted for a greater proportion in the total income of the production unit, the principle of distribution according to work would lose its foundation.
3. It dealt a blow to grain production.

The survey report titled “A Batch of Large Contracting Households Based on Hired Labor Appeared in the Shapu Commune of Guangdong” was published on January 17, 1982 by Xinhua journalists in *Domestic Trends Press Proof*. This attracted great attention from high-level central leaders. Hu Yaobang, Wan Li, Hu Qiaomu, and Du Runsheng each provided comments. Hu Yaobang stated on the day of the release of the “internal reference” on January 17, “Comrade Runsheng, please remind Guangdong Provincial Committee to pay attention to this.” Du Runsheng said on January 19, “Comrade Ruizhi and Zhongyi, please deal with the issue carefully.” Hu Qiaomu’s tone was completely different in his comment made on January 18. He wrote a letter to Ren Zhongyi and copied it to Hu Yaobang, Wan Li, and the national agricultural committee, “Attached is a document. I don’t know whether it is true or not. If it is true, what is the opinion

of the provincial committee? Personally, what was said in the document deviates from the socialist system and had to be explicitly stopped and corrected and announced in the entire province. Provincial Committee, please consider it seriously because it is related with the general situation in the rural social system.” Wan Li forwarded the letter to a comrade who was in charge of rural matters in a central research department and added, “Please investigate this. Farmers’ enthusiasm towards developing the commodity economy had to be cherished and protected. We should not simply confine them to old framework.”

Four instructive comments were made about one document. They were mild, serious, determined, and with some clear-cut different inclinations. A seemingly small incident fully demonstrated that deepening the reform and development of accompanying practices entailed a necessary breakthrough and innovation in theory; otherwise, the results would likely be chaotic.

3.1.3 Significant Breakthrough in Theory

In October 1984, the Third Plenary Session of the 12th CPC Central Committee put forth the Decision of Economic System Reform, which clearly stated that the “socialist economy is a planned commodity economy.” The Decision was a framework document that guided not only China’s economic system reform but also the construction of socialism with Chinese characteristics. It was neither confined to individual argumentations of Marxism nor constrained by dated experiences and old conventions. In theory, it made a great breakthrough, proposed a series of new and correct judgments, and went beyond many of the wrong traditional concepts, elevating people’s understanding of scientific socialism to a new level. The document’s special significance was that it broke away from the old concept of putting the socialist planned economy and commodity economy opposite of each other and established a balanced stance on the fact that the socialist commodity market economy must be fully developed at a certain historical stage of socialism.

The Decision explicitly affirmed that China’s socialist economy was a planned commodity economy based on public ownership. It served as a theoretical pillar for correctly recognizing problems existing in China’s original economic system, clarifying the direction and channels of the reform, and developing a socialist political economy. Specifically, it cleared up the following important issues.

First, the commodity economy is the component of substantial economic relations that are inherent in socialist economy. It is not only a means for accounting and measurement, and not only a tool for “serving” the plan, but mostly, it was not the remnant or trace of capitalist economic relations, as had been previously suspected. As a part of core economic relations, it originates from the fundamental features of labor in a socialist society. Owing to such features, the production and economic interest links between laborers must be materialized via commodity economy relations.

Second, the commodity economy is the economic relations that exist in full in various fields of socialist production. It is the relations of commodity exchange between the state-owned economy and collective economy, and so it is with enterprises inside the state-owned economy; both consumer goods and means of production are commodities.

Third, the commodity economy and planned economy are not opposite to each other. Neither of them is subsidiary to the other. The commodity economy can be planned or unplanned. The fundamental features of the socialist economy or capitalist economy cannot be defined solely by the planned economy or commodity economy themselves.

Fourth, planning is conducted under the conditions of the commodity economy, and the objects of the plan are commodities, rather than pure products without attributed value. The role of planning cannot replace the law of motion of the commodity economy. Both mandatory planning and instructive planning must be in line with practical conditions by using the law of value.

The Decision, which developed Marxist theories with a new angle, was successful in being announced firstly because of the development of practice, foresight, and wisdom in some theorists and politicians. In the summer of 1984, Ma Hong, then president of the Chinese Academy of Social Sciences, was assigned to organize scholars Zhou Shulian, Zhang Zhuoyuan, and Wu Jinglian of the academy to write an article, which helped to reverse popular convictions about the commodity economy. The article was submitted to some revolutionists of the older generation for opinions, and it was highly appreciated. Before and after, the State Commission for Restructuring the Economic System convened seminars to study these opinions. Afterwards, the then premiere of the State Council wrote a letter titled “Opinions on Three Problems in Economic System Reform” to the Political Bureau of the Central Committee on September 9 and discussed issues such as the “planning system,” “price reform,” and “state functions in leading the economy.” He remarked in the letter, “Planning has come first and the law of value is secondary, which is not quite accurate and should not continue to be adopted in future. . . . The socialist economy is a planned commodity economy based on public ownership. The plan had to be realized through the law of value, which shall serve the plan.” Deng Xiaoping and Chen Yun, respectively, gave approval on September 11 and 12. Only with this was the Decision successfully released despite of objections. Yet, many comrades could not completely let go of traditional ideology, so the Decision (Draft) not only maintained the concept of a “socialist planned economy” but also added the adjective “planned” before “commodity economy.” Some leaders at the meeting held their doubts. Therefore, following the explanation of the socialist commodity economy, another sentence was added, “Under China’s socialism, the labor force is not a commodity and all state-owned enterprises and resources such as land, mines, banks and railways are not commodities either.” After such modifications, the Decision was eventually passed.

Deng Xiaoping said the Decision was the political economy with a combination of basic principles of Marxism and China’s socialist practices. He also mentioned,

“The economic system reform document is good because it explains what socialism is. Some are reminiscent of our ancestors and some are new ideas.”

The Decision of the Third Plenary Session of the 12th CPC Central Committee made it clear that the socialist economy was equivalent to the planned commodity economy and limited the market in the scope of commodity market on the whole but excluded the market of factors of production. The National People’s Congress was held in September 1985, and quite a few representatives put forward the issue of “gradually improving the market system” according to demand. They stressed the development of four major markets, commodity, capital, labor service (or labor force), and technology, thus pushing people’s understanding of “commodity economy” closer to the scientific concept of market distribution of resources.

Both practical work and theoretical studies were expanded further according to the opinions of the Decision. People’s recognition of socialism and national conditions were strengthened. The 13th National People’s Congress of the CPC fully illustrated the concept of the “primary stage of socialism” once adopted in the historical problem resolution of 1981 in 1987 and clearly proposed “one center and two basic points” as the basic path in the primary stage of socialism. The report of the 13th National People’s Congress did not mention the planned economy and went beyond the old framework of separating planning and market at the initial stages of reform. Instead, it emphasized, “Both planning and the market cover all of society in function. The new economic operation mechanism, generally speaking, had to be a mechanism of ‘state regulation of the market and market-leading enterprises’.” According to Wu Jinglian and Gong Yuzhi, it was only one minor step from confirmation of market economy with state regulation.²

After the Third Plenary Session of the 12th CPC Central Committee and the 13th National People’s Congress, a market orientation of reform was more explicit, motivating leaders at different levels to be more open in ideology and more daring in their actions. The studies on economic theories were quite dynamic, leading some economists to gain different ridiculous nicknames for their distinct opinions. Wu Jinglian was called “Market Wu”; Li Yining, “Sharing Li”; You Lin, “Planning You”; Yang Peixin, “Contracting Yang”; and so on. In August 1987, some young and middle-aged scholars gathered together on Mogan Mountains of Zhejiang Province and provided some good suggestions on full economic system reform, which showed that studies in this regard were being carried out. Some comrades suggested that the adoption of socialist market economy should make reform goals clearer while others did not agree. It was common for key theory issues to be accompanied with different opinions, and people should have been allowed to retain their own ideas. The problem was that some people always “crossed the line,” linked one thing with political line at every turn so as to provoke controversy, and attempted to turn the “planned commodity economy” into “planned economy with commodity” through disputes over “primary,” “auxiliary,” and “how to combine” and returned to the old planned economic system.

² See *Hundred Year Tide*, 1998, p. 2.

Just as the reform was gaining momentum and problems were being endlessly discussed, Wan Li's speech at the National Scientific Work Symposium on August 15, 1986, was published in *People's Daily* where he remarked, "Democratization and scientification of decision-making is an important topic for reform of the political system." It was nothing less of a forceful blow to the "leftist" dogmatic group that intended to cross the line. The article clearly pointed out, "In socialist society, leaders at different levels are public servants of the masses and people are masters of the country. It all the more requires and may help realize true democratic and scientific decision-making, in order to reflect the national interest and public interest. . . . However, due to the influence of a feudal society of thousands of years and a small production economy, backward science, culture and education, an imperfect legal system and problems in the quality of cadres and a lack of a democratic working style, it is still common today for leaders to make decisions based on their experiences only. Wrong decisions cannot be corrected in time. Only when big problems happen can some people make it up or bring order out of chaos, which may come too late."

According to the article, "In a modernized society, science and democracy are inseparable. Scientific decision-making means democracy first. Without democracy, thoughts cannot be expanded and the free airing of views cannot be realized, thus preventing the development of scientific decision-making." The article further emphasized that "leaders should respect people's rights to fully express their opinions, to not be afraid of different opinions and even argument from the opposition. As the old saying goes, 'Blame not the speaker; be warned by their words.' This is true but still a bit negative. The positive saying had to be, 'The speaker has merit while the listener gains benefits.' Some leaders like to regard their competent research departments as tools for providing the 'theoretical basis' for their decisions. Such so-called 'scientific decision arguments' are more deceptive and dangerous, and even worse than having no proof."

The article added, "In order to build a democratic, equal and round-table style political environment, the policy of the 'A Hundred Flowers Blossom and A Hundred Schools of Thoughts Contend' must be unswervingly followed. The policy had to be a firm strategy that China's political life, ideology and cultural construction must abide by. It is a significant symbol of a high level of democracy in socialism. The policy could not be implemented partly because the political issue was usually understood as 'anti-Party', 'anti-socialism' and 'anti-revolution' in the past, which generated serious side effects." Then, it went on to briefly state, "All political and policy issues had to be studied and may be discussed before the final decision. . . . The policies determined by the leading departments had to be carried out. If researchers still have different opinions, they should propose and discuss them through normal methods and means, and re-examine it through practice. . . . If political issues cannot be contended inside the masses and only leaders are allowed to have the say, then a 'high level of democracy' would surely be out of the question. In my opinion, we should encourage freedom of speech, lift the ban, and put the freedom of speech in place in the constitution. As long as the guiding path is right with logical administration and harmonious people and prosperous

industries, a socialist power with a population of a billion cannot be easily destroyed only by some impolite words or instigations. Chairman Mao once told the story of *Farewell My Concubine* and said that the sky will not collapse if people are allowed to speak up while a farewell will be inevitable if people are not allowed to talk. However, this was easier said than done. He happened to have come across the same problem.” This speech had a strong impact on reality and at once triggered proactive responses within the literature, arts, and intellectual circles. However, due to different reasons, many obstacles came up between the time of the speech and the release of the article. After the release, the article did not receive support from relevant departments. Even the word “political system reform” was rarely seen in newspapers.

3.1.4 *Continued Disputes*

Vague reform goals were bound to cause hesitation in both policy-making and in people’s actions. No breakthrough was made in the reform of state-owned enterprises for a long time; attempts to deepen rural reform stagnated; accumulation of varied contradictions and imbalance in proportions triggered severe inflation, thus forcing improvement and rectification in the national economy. Some people took this advantage to compound the controversy and restore the slogan of “planned economy as primary and market economy as secondary” in a disguised form.

In particular, after the political disturbance of 1989, some people directly linked the issues of planning versus market with the basic socialist system and said it was an issue of “either socialist or capitalist.” They asserted that the “socialist economy can only be a planned economy” based on the evidence and words that were adopted to criticize the “commodity economy theory” at the beginning of 1980s and that “orienting reform goals towards the ‘market’ confused the economic category of the capitalist mode of production with the economic category of the socialist mode of production.” They further alleged that “market orientation is equal to capitalist orientation,” “market economy is equal to capitalism,” and “market economy seeks to cancel public ownership, that is, the leadership of the CPC will be negated and socialist system will be rejected; capitalism will be advocated.” Hence, “marketization” was deemed as argument in favor of “bourgeois liberalization” and an important piece of the “peaceful capitalist evolution” puzzle. At that time, an official in the propaganda department even proposed to conduct the “second order out of chaos” on the inside. Such organized and large-scale criticisms about market economy theories caused great ideological chaos among cadres and the masses. Everyone was at a loss.

Echoing these issues, the attacks on the household responsibility contract system and township and village enterprises were sometimes severe, sometimes weak in rural areas. Some people published articles pointing out that the household responsibility contract system was a kind of economic relationship that “resisted mass production,” “rejected modern material technology,” “protected traditional small

production and encroached on social mass production in an objective way,” “led to the concussion and vacillation of the national economy under the disturbance of inflation,” and even “lost its original scientific nature and superiority after transient miracles.” In 1989, one responsible individual from a certain province offered a most poignant opinion, “The lingering of the grain issue in recent years has actually been hesitation over the correct path.” It was quite influential within the leadership for a time and became one of the theoretical bases for promoting the socialist education movement and opposing peaceful capitalist evolution in rural areas.

Deng Xiaoping once talked about two leaps in rural areas; abolishing people’s communes to implement household responsibility contract system was one that had to be kept permanent; in the future, there would be another leap, which was to carry out moderate-scale management and develop a collective economy. This was no doubt correct thinking. However, the second leap was built on the first leap rather than a pure restoration of the abolished form. Therefore, he stressed that the household responsibility contract system “had to be kept for a long time” and the second leap was “a long process.” Its significance was that it took long to let farmers make their own decisions, operate independently, and develop commodity production in the market economy environment. These were necessary conditions for the establishment and consolidation of the socialist system. To advocate that households must possess independent rights was by no means to advocate firming over the natural economy of small peasants. Whether it was at the primary stage of socialism or further down the road, agricultural management patterns had to be both decentralized and unified, which must be set up according to practice. It was up to the public farmers to explore, create, and make choices. Some people repeatedly preached scaled operations and claimed, “Negating fixed farm output quotas to households with scaled operation is the dialectics of development and the negation of negations. Rural development is sure to follow the trend of being ‘join—part—join’.” In other words, household operations were still expedient, and rural economic development started from “joining” and ended with “joining.” The “parting” meant that household operations were just a temporary transition. Such views did not come from a deep understanding of the two leaps but were affected by the dispute of socialist versus capitalist that were always tugging back reform achievements.

The dispute over socialist or capitalist reached its climax in 1991. In March of that year, an article titled “There Must Be New Concepts for Reform and Opening up”, written by Huangfu Ping and published on *Jiefang Daily* in Shanghai, indicated, “Some people are always equating the planned economy to socialism and market economy to capitalism, and maintain that the soul of capitalism must hidden behind market regulation. With the deepening of the reform, more and more comrades started realizing that planning and the market are just two different means and methods of allocating resources rather than the marks of two different social systems. There is planning in capitalism and there is market in socialism as well.” “As the reform gradually deepens and the opening up process expands, we should prevent certain ‘new ideological stagnation’ . . .” This article touched a sore spot of some critics of the market economy, so it was soon removed and chastised.

Even after learning that the point of view in this article was in line with the spirit of Deng Xiaoping's speech to a person in charge in Shanghai, how could they still blame it? It was surely to defend the so-called purity of Marxism. The planned economy was socialist, while the commodity economy was capitalist. Even if China was at the primary stage of socialism, there must be exception, and the "planned commodity economy" must be turned back into "planned economy with commodity." As much as commodity production and exchange existed, the subject remained a part of the planned economy. If such theoretical barriers could not be removed, the reform would stop and even go backwards, thus eventually causing contradictions and accumulating shortcomings. From the late 1980s to the early 1990s, China's reform continued to face great institutional and ideological pressure, and could only develop and explore within the clashes of institutions and ideologies, both old and new. Old and new concepts collided into a furious storm. However, the tide of reform could not be resisted forever.

3.2 The Crux of the Grain Problem and the Way Out

For China, a country with the largest population in the world, grain has always been a special production with strategic significance, directly related with safety and danger of the people. Its importance is self-evident. In 1949, US Secretary of State Acheson asserted, "the food problem of the people is the problem of the Chinese government." He implied that New China would be unable to solve the problem of food for its population of over 500 million people. Historical facts, however, already announced the invalid nature of Acheson's prophecy, even though it was undeniable that China had faced great pressure from the population and problems in grain production for a long time. A mechanism that guaranteed the supply and demand balance had not been established, and agriculture and grain were not made into modernized industries. Products to develop the rural economy and the overall national economy in a coordinated and synchronized way had to be coordinated with the ecological environment to realize sustainable development.

3.2.1 *The Core Issue*

In the near 50-year history of New China, the grain issue made people anxious not only because of supply shortage but also because it was caused by insufficient and ineffective demand. The general situation was a supply shortage and uncertain rise and fall, or more accurately speaking, under the context of grain shortage and insufficient supply, insufficient supply and relative supply surplus caused by insufficient demand alternated back and forth.

The three decades before the reform were characterized by critical shortage, insufficient supply and its fluctuations, and even drastic ups and downs. The

situation in the 3 years of hard times (1959–1961) reached a peak. China became the only country in the world where people could only buy grains with tickets. The 250 million people in needy areas suffered from semi-starvation.

From 1979 to 1984, grain output increased dramatically year by year, increasing to over 400 billion kg from 300 billion kg. Economy crops, animal by-products, aquatic products, and other agricultural products shared dramatic growth as well, registering the highest level in history and initially addressing the problem of food and clothing of the country. However, in the wake of all this, the relatively regional and structural surplus on the low level occurred. The echoes of “difficulty in selling grains” rang incessantly.

In 1985, grain output unexpectedly decreased by 28.45 billion kg. It lingered at the same level in 1986, 1987, and 1988, without any breakthroughs compared to 1984. It only ascended in 1989, but then the new “difficulty of selling” and “issuing IOU” was worse than previous problems.

Different from the successive growth of the early 1980s, the growth since the 1990s was volatile. The general trend was upwards, but the rate was low with little fluctuation.

Grain production was so indefinite, which was very worrying. Every rise and fall triggered economic and social vibrations, strong responses, and varied disputes that had their pros and cons. It was indeed hard to see through the big matter so obviously and comprehensively related to the population of the entire country at such a historical turning point. However, extremely precious experiences and repeated lessons were obtained and learned. Comprehensive observation and in-depth analyses were helpful to locating the core of the grain problem and thus discovering a channel for fundamentally resolving the problem.

Grain was the most important necessity and one that no one could fall short of. However, it is still not a real commodity in socialist China even today; instead, it has been an “article of tribute,” a welfare, and relief product. Agricultural tax paid in grain was a perfectly justified obligation and a social responsibility for farmers who were producers. It was a kind of contribution to the country. Grain could therefore be regarded as “articles of tribute” in this way. For urban consumers, grain was a welfare product that everyone could take and use; as for consumers who lacked basic purchasing power, grain was a kind of integral relief product.³ These different functions changed with changing situations and had to be adjusted. Some factors were weak, some strong, and some might exist for a long term. In any case, these factors made grain production and consumption more complicated than other products. People were under an illusion and saw things but not other people. Farmers who produced grain were ignored, and complex changes between producers and consumers and operators and managers at different periods were overlooked.

³ Chen Jian. *Agriculture, Reality and History*. People’s Publishing House, 1991, pp. 34–53.

3.2.2 How to Treat Farmers in Reality

The grain issue, fundamentally speaking, was about how to treat farmers correctly. When New China had just come into being amid the flames of war, it was in a state of devastation, and a thousand things were waiting to be taken care of. The first priority was to increase grain output, which surpassed the highest historical level in 1936 within 3 years only. How come? Land reform was conducted nationwide and farmers became owners of land so their enthusiasm was at an unprecedented high. However, the good times did not last long. The “foundation of foundations” was not seized for further development. With mistakes in the population policy, population grew out of control, and with large-scale industrial construction, the pressures of grain production were growing greater. China’s agricultural resources were in short supply and the per capita cultivated land was only equal to one third of the world’s average level, while its water resources only equaled to one fourth of the world’s average level. The natural disasters were frequent, and objective constraint factors became more and more acute. More importantly, the instructions of ideology and policy began to deviate, and the outstanding manifestation was a sacrifice of farmers’ interest to realize industrialization. The government often orally stressed that agriculture was the foundation for national economy and that economic construction had to be arranged according to the sequence of agriculture, light industry, and heavy industry. It had always been believed that industrial departments produced higher benefits, and resources must be concentrated to develop industry. It was demonstrated in all policies that farmers’ interests had been continuously harmed for a long time. Controlled procurement and distribution made farmers provide the initial capital accumulation for industrial development by way of mandatory exchanges of unequal values. After the commune system was implemented, the land and property allocated to farmers during the period of land reform were taken by the collective from advanced cooperatives to people’s communes; a series of systems such as household registration confined farmers to the narrow cultivated land and deprived them of the freedom to migrate and choose professions. Nominally, they were masters of the country, but they could only provide grain and other agricultural products to cities and industry at a lower price in the industrialization and modernization process. Any ideas or measures to increase income, improve standards of living, use talents, and change their identities would be criticized and attacked as a new move in heading towards capitalism and class struggle.

As farmers’ initiatives and most of the population became discouraged, the industrialization process lost its most extensive and most important source of labor. The policy of suppressing agriculture and sacrificing farmers’ interest would inevitably lead to a decline in agriculture and to poverty; farmers’ poverty and low purchasing power caused an overstock of industrial products. The inefficiency of industrial departments and sluggish economy formed a vicious circle that did not operate by anyone’s will. Rural reform was forced out of the shortcomings in the planned economic system, and farmers, who were suppressed most in the old

system, took the first initiative. Rural policy after the reform was the product of painful lessons and emphasized the protection of farmers' interests and improvement of farmers' enthusiasm. In the end, grain output was miraculously increased, and so it was with industrial crop, animal by-products, aquatic products, and other agricultural products as well. Rural areas were thriving prosperity. In addition, the increase in farmers' purchasing power quickly broadened the capacity of the domestic market. Some industrial products that had been stored for a long time were sold out, which promoted the development of the urban industry and double output in the national economy, a goal that was reached far ahead of its due date. People began to view China in new light.

In terms of grain production, before the rural reform, it took 9 years for the total output to increase to 200 million tons from 100 million tons (1949–1957); it took 21 years to increase to 300 million tons from 200 million tons; and after the reform, it only cost 6 years to reach 400 million tons from 300 million tons. The total output was over 400 million tons and the per capita was 400 kg, which marked a new phase and a new level. This meant that the problems of food and clothing that had impacted the entire country for a long time was basically solved and a “shortage economy” no longer existed. Everyone, ranging from the government to farmers and urban residents, was satisfied. Hence, the household responsibility contract system, which had been blamed previously, kept its stance and was universally acknowledged and lauded. Looking back, the grain growth miracle in the 6 years was attributed to the release of long-suppressed potential, which came about by certain restorations and compensations, as well as multiple comprehensive factors. The most prominent aspects were as follows:

First, the central leaders made up their mind to reduce the state purchase quotas and imported some grains, thus letting farmers rehabilitate.

Second, the price of grain was increased dramatically, and for any surpluses, 50 % more was added. In addition, subsidies were provided for farm-oriented production goods, and the “scissors difference” was bridged between industrial and agricultural product prices, thus bringing about great tangible benefits to farmers, especially farmers in needy areas with low state purchase quotas.

Third, effective water conservancy works constructed during cooperative and commune periods did not play an important role due to weak enthusiasm from farmers. Some were abandoned and even damaged. Most of them were not well utilized during that period.

Fourth, 13 chemical fertilizer plants introduced during the “Cultural Revolution” doubled the chemical fertilizer investment.

Also, some technological factors such as large-scale promotion of hybrid rice and corn made strong contributions. As a result, it was absolutely one-sided to give the credit to household responsibility contract system for the great output growth from 1979 to 1984. Yet, the key role of the reform is undeniable.

The distinct comparison between grain production before and after rural reform revealed an important issue, which was proposed in “On Coalition Government” and was discussed but not fully expounded in “On the Ten Major Relationships” by Mao Zedong, which dealt with the relationship between industrialization and

development of agriculture, protection of farmers' interests, and the enhancement of farmers' initiatives. In other words, the realization of industrialization did not only mean claiming grain, agricultural products, and funds from farmers but also helping farmers improve agricultural productivity and the commodity rate of agricultural products, increase farmers' income, transfer agricultural labor force, and enhance farmers' purchase power. "Farmers are the predecessors of workers." "Farmers are the main subjects of China's industrial market." They could not only provide rich grains and industrial raw materials but also absorb a large amount of industrial products. Hence, the first half had to be emphasized for the sake of grain and industrial raw materials; the second half had to be highlighted as well so as to transfer agricultural labor force, enhance farmers' purchase power, and expand the capacity of rural market. Only in this way could the system go beyond a dual structure and form a virtuous circle, thus widening its development path.

However, after the Third Plenary Session of the 11th CPC Central Committee, we put it into practice but failed to be aware of it in consciousness. Even after the Third Plenary Session of the 12th CPC Central Committee, when it was proposed that the socialist economy was a planned commodity economy, quite a few government leaders still could not get rid of the old concept of emphasis on cities and industry and neglected rural areas, agriculture, and farmers' interests. The first step of rural reform only made farmers gain a few benefits, and there was still a long way to go before realizing a well-off society. A vice premier in charge of finance and economy said, "Farmers are the greatest beneficiaries of reform. Now they should make some contributions." The rural policy in the early 1980s learned from the lessons of the past and valued agricultural development on the whole, but this was not completely so. For instance, in the planned economy period of the past, the government provided low-price farm-oriented production goods for farmers while stipulating low-price state purchase. The annual agricultural investment accounted for 11 % of the entire expenditure. After the reform, the grain output continued scaling. Some who were innocent and some who were biased advocated that the fixing of farm output quotas on household basis had basically addressed China's grain problem. Farmers had to become the subjects of agricultural investment in the future. The government investment in agriculture decreased to 5 % in early 1980s and 3 % in late period from the past annual average level of 11 %. In 1985, the grain output declined, and the fixing of farm output quotas on household basis was to blame for destroying collective production. Fragmented land turned into the biggest barrier to agricultural growth. Such opinions did not cease until the decrease in grain output, and the "three years of wandering" began.

In fact, there were already signs that appeared 2–3 years earlier that forecasted the sudden drop and wandering at the low level in grain production. Because farmers always acted out of the sake of their interest, especially their immediate interests, when they gained autonomous rights, they were sure to increase industrial crops with higher benefits and reduce grains with lower benefits. As long as the fixed farm output quotas on household basis was used in a certain place, the grain field areas were more or less cut down. However, rural reform was forging ahead during those few years, and every year, the system was carried out in each large

area. Grain growth was dramatic, which compensated and covered the reduced part of the grain field, thus holding back its influence on the growth speed of grain around the country. In 1983, the system was spread throughout the entire country, and in 1984, grain growth reached its climax within those 6 years. However, the trend of grain field decline did not change and was strengthened because of other factors. 60.58 million *mu* of cultivated land was cut down in a year, so the problems were exposed. What's more, with the announcement of "dual-track approach" of the grain procurement, the grain price followed the "reverse 3–7" rule and the price of production goods kept rising. It greatly damaged the interest of farmers, especially for those new grain production areas. Grain engagement brought losses rather than interest. It was the major reason why grain output lingered for 3 years after decreasing in 1985. The coping measures then took into account farmers' interests and offered "controlled sales and procurement and price increases." However, the major purpose was still to add grain supply and ensure urban supply. Therefore, the top-down administrative means were adopted to control the grain field area, ensuring the completion of order tasks and implementation of chief executive responsibility system. These were still old methods from the planned economy period. Their application in the late 1980s was still effective but in a limited way. Accordingly, the grain output was recovered slowly, and their income did not increase despite of output growth, which made farmers all the more dissatisfied. In the 1990s, farmers' cry for help from the excessive burden became louder, and many began to pay attention. The situation took a turn for the better. The central government allocated multiple funds, established special reserve system for grain, and set up regional grain wholesale market. Therefore, the fluctuation had been small since then, but the problem was not completely solved.

3.2.3 *Where Is the Way Out?*

Relations among the grain producers, consumers, and the government changed before and after the problems of food and clothing were solved. Before, grain was in severe shortage and all three groups had to ensure an increase in grain output first in order to strengthen total supply. Afterwards, a conflict emerged: the central government wants grains, while farmers want money. For farmers, grain was not a problem, and what they cared more about was the growth of total household income. Given the low profit made from grains, they intended to transfer labor and funds to producing goods with better benefits, which was a natural choice to make and they could not be blamed for it. For many years, consumers had been accustomed to low prices so they were unwilling to cancel the state monopoly on selling at low prices and consequently losing their welfare; more importantly, reform in state-owned enterprises and other aspects of cities was not being carried out. Many government departments were worried that raising grain prices would disturb social stability and so they were firmly opposed to the cancelation. As a matter of fact, harvest was reaped for several successive years in the early 1980s.

Relative grain surplus appeared for the first time in China, and overall supply and demand were basically balanced. It was a favorable opportunity for relaxing the control of grain prices, gradually promoting grain on the market and cultivating market mechanisms for grain production. If the government had the courage to take this step, a new pattern might have formed in spite of potential problems. However, influenced by the traditional concept of emphasizing cities and industry, the reform was only partially completed. A good opportunity was lost, which is lamentable to this day. Due to the insistent nature of the state monopoly on marketing, the reform was forced to go backwards and thus became distorted. Farmers sold grain according to order contracts, which was both a contract task and obligation. The order contracts were mocked as “planning assignment” and “unequal treaty” as well as being a mandatory low-price purchase. In order to cut down on huge national subsidies for urban consumers, the government conducted a “dual-track” system and changed two purchase prices into a mixed purchase price. Government subsidies for urban consumers were transferred to farmers as a burden. The sales price was raised twice, respectively, in 1991 and 1992 to achieve equality. The difference between the mixed purchase price and the market grain price continued as grain production costs continued to increase. Farmers suffered great losses. It was without a doubt that “difficulty in selling grain” brought trouble and pains to farmers, but the “dual-track system” caused even more severe losses to farmers, especially to those who were not fully removed from poverty. Trade and grain departments, affected by traditional concepts and driven by interest, did not cooperate in time. When the purchase should have been strengthened, they instead increased imports and dumped the inventory; when they were supposed to stabilize the grain price, they instead reduced imports and expanded the inventory, thus worsening the situation at hand and raising grain prices until they became the source of increased inflation.

It must be noted that less attention was paid to the balance of interest among different parties, including farmers and grain producers. The short-term acts in the macro decision-making system and the formalism in practical work were derived from traditional concepts, and the incentive structure came from the planned economic system. The old system of division between the urban and rural, blocked segmentation, and rural obedience to cities were all factors that formed out of historical inertia and played a resolute and even dominant role. Some reform measures failed to consider the balance in urban-rural interests and overall coordination in the country’s economic development. Although emergency situations were relieved, these habits presented obstacles for the next steps in the overall reform.

With the development of the commodity market economy, the secondary and tertiary industries in national economy quickly grew stronger and snatched resources away from grain production, thus jumpstarting the value of land, labor, and grain planting funds and exacerbating differences in the income between grains on the one hand and industrial crops, forestry, animal husbandry and fishery, and of course the secondary and tertiary sectors on the other hand. The contradiction between increased output and constant income grew more prominent. In the

meantime, numerous scattered small household farm operations amplified the grain shortage or surplus and intensified the entire economic fluctuation. No matter how much grain was held by the government, it was hard for them to deal with alternating situations of “difficulty in buying” and “difficulty in selling.” Immense expenditure in the regulation of the grain market overwhelmed government finance.

In the face of dual pressure from a demand in increase in agricultural products by the government and a demand in increase in income by farmers, the country could not repeat the mistake of making farmers sacrifice again; neither could it count on national finances to fundamentally solve the grain problem. It was indeed important to develop production and increase total supply, but the government could not continue to focus on agriculture and grain separately. It had to gradually reduce and even discard old approaches of the planned economy and administrative intervention. It had to take new measures that were in line with the laws of economics. It had to advocate the commercialization of grain production and marketization of operations and the implementation of high production and quality and efficiency according to actual conditions. Meanwhile, more importantly, it all had to originate from the real situation and China’s national conditions. It had to clarify that the increase in farmers’ income and transfer of agricultural labor force would be key to rural development. Besides, the government also had to establish a new strategy centered on total agricultural output and support the sustainable and rapid development of the entire national economy that was supporting the persistently growing agricultural economy; it had to liberate the farmers who accounted for the majority of the population from cultivated land and to transfer them out, in order to make it possible for farmers who stay behind to conduct substantial operations; large-scale operations would enable a technology-driven agricultural system; and wide space was provided for farmers’ pursuit of modern technological equipment, which went hand in hand with the development of the secondary and tertiary industries that would attract great attention to the quality products produced by industries with clear advantages. For a long time, China’s five-year plans only covered the index of grain growth but not the index of farmers’ income growth, which was an error in the guiding ideology. Through practical lessons and repeated suggestions from different places, this was altered starting from the 8th five-year plan, which was an indication of progress. At the end of the 1990s, only about 15 % of China’s farmers achieved over 30 % of the commodity rate. For 85 % of farmers, land still served as the main guarantee for survival. Hence, at the end of the last century and the beginning of this one, China’s policies and related work had to be oriented towards these farmers. Great efforts had to be made to adjust the rural industrial structure and labor force structure to enable 85 % of farmers to improve their commodity rates and increase their monetary income. Only in this way could the country discover the fundamental solution to the problems of agriculture and farmers and locate the fundamental path towards steady grain output.

One way out was to accelerate reform in the grain purchase and sales system and to transform grain into semi-commodities, to step by step move grain away from being articles of tribute, welfare, and relief until full commercialization was

possible. This would mold agriculture and grain production into an effective modern industry out of a nascent sector.

A unified domestic market had not yet been formed and the market system was still being improved; the number of consumers who lacked basic purchasing power was still considerable; needy areas required more support and assistance; and grain sale prices had to be liberalized, and grain commercialization had to be stimulated to gradually realize the due value of grain as a commodity in market circulation. At the same time, the form of material welfare allowances had to be changed into monetary allowance for urban consumers with low income, so as to constrain grain demand by purchasing power, for it to become an effective demand, and to control unreasonable expansion. In this way, grain supply gradually grew according to market demand while simultaneously setting a balance in supply and demand at all levels.

Lifting the ban on grain sales relieved a heavy burden for the country and helped remove a major dilemma. However, this did not mean that the country would not pay for the financial expenditure used for grain purchase and sales; instead, it implied that the country had to shoulder more important responsibilities and adopt new policies and measures. For example, the reverse grain allowances could now be transformed to grain reserve funds, which was a good opportunity for the country. It was suggested that the national grain reserve department made imports and exports according to supply and demand in order to stabilize the price of grain; finally, food and grain safety indexes had to be established based on China's national conditions, and on the food consumption structure of the Chinese people; there had to be proactive participation in international trade and focus on steadying development of national agriculture and self-supply should be regarded as the crucial principle underlying both import and export. All these required the further deepening of state-owned grain enterprise reform and truly realization the separation of enterprises from bureaucratic administration.

Second, the central government had to broaden its vision, take into account the whole scope of national land mass, and set up a large agricultural production system accordingly. Attention had to be turned to the 9.6 million km² of land and ocean from the 1.8 billion *mu* of cultivated land. Visions of how to excavate greater resources and greater agriculture and food had to be established.

Major efforts had to be made to develop mountain farming. Mountainous land areas accounted for 69 % of the national terrain and had to be the new point of growth in China's agriculture. It was the "second battlefield" in agriculture and the heart of improving poorer fronts. Hope and potential were to be uncovered in the mountainous regions. In the past, grain production in mountainous regions with slopes of over 25° caused severe water and soil loss. In recent years, with small river basins as units, the country embarked on a path of ecological agriculture and carried out comprehensive three-dimensional development plans. Ecological forests were built on mountaintops, converting the land above the 25° slopes into forests and pastures and developed sloping fields below 25° into terraced fields for economic forestry or multiple industrial croplands. Arable lands at the bottom of mountains were transformed into grain fields with high and stable yields,

thus resulting in healthy economic, social, and ecological benefits. The “four wastes” (wasted mountains, wasted slopes, wasted ditches, and wasted beaches) of the Loess Plateau areas, such as Shanxi, Shaanxi, Inner Mongolia, and the hilly areas in the Yangtze River basin of South China were auctioned, and the development of mountainous areas was sped up. The Ministry of Forestry implemented comprehensive development pilot counties in mountainous areas and provided valuable experiences for similar regions seeking reconstruction. For example, the three-dimensional development of Jingshan County in Hubei not only accommodated the local surplus labor forces but also absorbed a large amount of labor forces from other places. The implementation of overall operations in agriculture, forestry, animal husbandry and fishery, and obedience to the path of the planting and breeding industries was integrated based on the principle of ecological agriculture. This was expected not only to change the face of impoverished mountain areas but also to fundamentally solve the problem of water and soil loss, to improve the ecological environment, and to eventually build green mountains and blue water. In particular, solving the water and soil loss problem on the Loess Plateau and the middle and upstream of Yangtze River was of great significance to controlling and reducing the sediment deposit in the two basins.

Courtyard agriculture had to be developed. China had 240 million farmers, and each household had approximately one third *mu* of homestead. This totaled to over 60 million *mu* around the country and was equal to the area of a medium-sized province. The development of local planting and breeding industries in residential areas could not only satisfy demand but could also provide commodities for the market, increase household income, and create wealth by using surplus labor and time. The income of some local courtyard economies accounted for over one third of total household income, which was quite considerable.

In addition, the development of grassland and water agriculture was of great importance to improving people’s food consumption structure, enhancing levels of health, alleviating the pressures of grain supply, and building the ecological environment. This had to be further promoted on a larger scale.

Third, the government had to advance the industrialized operation of agriculture, develop staple products, materialize moderate-scale operations, and make each product become part of a longer industrial chain and a stable market. Agriculture is often seen as a weak industry with low benefits. However, the comprehensive economic benefits of agriculture are not low. In the planned economic system of the past, agriculture was segmented into a number of procedures, and comprehensive benefits could not be returned to the planting and breeding parts of the process, which farmers were directly engaged in. This led to lower and lower benefits. As a result, the key to the industrialized operation of agriculture was to introduce large modern industrial and commercial enterprises to the field of agricultural development and give it a leading role as the core and impetus for certain industrial projects. Simply speaking, agriculture had to be developed through industrialized methods. Based on domestic and international demands, primary products had to be transformed into finished products. Great efforts had to be made to promote the storage, processing, and packing technologies for agricultural products, including

food and fiber products, in order to improve product quality, build brands, and fully utilize the advantages of China's labor resources to enhance domestic market competitiveness and the market share of such products.

The selection criteria for projects and leading enterprises had to be strict; increased market capacity was required, and products had to have promising domestic and international markets; they must possess economic, social, and ecological benefits, and those with good economic benefits but were useless in relieving poverty for farmers or would destroy ecological environment could not be included; a certain industrial scale had to be achieved within a certain time; and the industrial chain had to become longer. The development of a project was expected to motivate an industry, and it had to be done in one step, covering all steps from base construction, planting, and processing to marketing; products had to involve science and technology contents and transform science and technology into direct productivity through project implementation; and enterprises had to have a powerful leading body and a smart financial team. Most of all, a hasty start had to be avoided.

The purpose of industrialized operations was to organically combine capital- and technology-intensive production activities (enterprises) and labor-intensive production activities (rural bases) and to organize farmers scattered throughout the rural bases to realize production in large scale and achieve profits thereof. In this process, the most important thing was how to deal with the relations between enterprises and farmers and how to coordinate the interests of both parties, make enterprises and farmers become an integrated community, and return some of the added value in processing and circulation back to farmers. In theory, farmers needed the marketing network, technology, and capital, of companies, and companies needed rural land with cheap labor forces. This type of cooperation offered mutual benefits for both sides. Many "company-plus-farmer" projects experienced obvious success. Yet, China's degree of market cultivation was low, and the quality of farmers in more impoverished areas was low. Some modern enterprises were worried that rural areas fell short of the legal systems and administrative environment that protected contracts. There was fear that farmers would violate legal agreements, so there was trepidation about engaging in rural development. More appropriate solutions had to be explored for the problems uncovered in practice.

The industrialized operation of agriculture in China involved many steps including raw material bases, processing and deep processing, marketing, and capital management which would be the main priority. The Yunnan 18 Project in recent years was quickly launched, and its development was smooth mainly because capital was well managed. Attention was paid to external increments, and the stock was revitalized in this way. The per capita resource reserve in China was extremely limited and its control power was already distributed throughout different industries and departments. If stock revitalization was emphasized, it would mean that the power and interest of some industries and departments would have been deprived, thus causing many conflicts and disputes and making it hard to advance relevant work. On the contrary, if an incremental introduction approach were adopted instead, no big changes would have taken place in the original

arrangements in finance and interest. Moreover, with the introduction of increments and its enlargement, the stock adjustment was naturally driven to become adapted to the requirements of the market economy.

Fourth, the country had to give science and technology a proper place in the strategy of creating thriving agriculture. It had to truly turn agriculture towards the path of relying on the progress of science and technology and improving the quality of laborers. The urgent affair at the time was to transform available suitable technology into productivity, expand the coverage of suitable technological sections in agriculture, build the single technologies that existed at the time into comprehensive technologies based on pronounced problems in agricultural, and enhance the transformation rate of scientific research achievements. For example, in the planting industry, the government had to promote favorable products with high output, good quality, and strong resistance against stressful environments in order to comprehensively control plant diseases and pests, balance fertilization, strengthen the utilization of fertilizers, use efficient irrigation, increase water utilization rate, enlarge the area of relay strip intercropping, as well as improve cropping indexes. The end result was raising the yield of each unit area and total yield on a larger scale. In the breeding industry, it would introduce new animal species and boost technologies for improving fodder return rates, crop rates, and reducing death rates, so as to bridge the distance between the contribution rate of China's science and technology to agriculture and more advanced international standards.

The government had to exert all efforts to promote biotechnology, produce ecological food and ecological fiber products, and bring about pollution-free agricultural products. Ecological technologies such as bio-fertilizers, bio-fodders, biopesticides, biological prevention and control, biological energy sources, and ecological environment purification all had to be adopted to fundamentally overcome the shortcomings of "petroleum agriculture" and make new contributions to improving human health levels and make room for the new technology revolution centered on the twenty-first-century biotechnology.

The advantages of multiple disciplines should be included to form a joint force so as to seize the commanding heights of high-tech agriculture in China. The leading international standards should be met through introducing, digesting, and absorbing advanced foreign technologies, including cell and embryo engineering technology, transgenic technology, clone technology, molecular marker technology, and aerospace radio technology related to animal and plant breeding, as well as artificial climate technology, soil-less culture technology, automatic control technology, and robotics, in relation to animal feeding and crop cultivation.

Various resources from the field of biology had to be used to develop new agriculture, including prairie culture, desert culture, and the flora and the worming industry. Not only did natural conservation areas have to be established, but there also had to be diversity in available organisms, and endangered guard animals and plants had to be protected. The country also had to use modern science and technology to create new species and increase diversity in organisms. New resources in biology had to be developed, and biological products that could satisfy human material and cultural demands had to be increased, including food, health

preservation, clothing, industrial raw materials, and environmental beautification, so as to let agriculture perform functions in a wider scope of sectors.

The government had to strengthen the promotion of scientific research achievements and link them to productivity. Therefore, the promotion methods for agricultural technology had to be improved, including improving county-level promotion centers, town-level promotion stations, village-level farmers' technology associations, pilot science and technology households, and farmer technicians (or "green certificate" holders). The county-level agriculture technology centers combined experimentation, demonstration, promotion, and training, and improved farmers' technological capacities in the process of applying agriculture technology. The promotion department for scientific research achievements carried out a policy of "remunerated service," but it regarded this service as its tenet rather than as its profit. It basically belonged to public interests, and the country should have provided necessary support.

At the time of writing this book, China's population has already reached 1.2 billion. Every year, this number grows higher and the area of arable land reduces while demand rapidly increases. The grain issue has been a top priority throughout history and still cannot be overlooked. Meanwhile, it should be noted that the potential of grain production in China is also quite significant, as medium- and low-yield fields occupy two thirds of the current cultivated land and are waiting to be transformed; there is still a gap between global levels of per unit area yield; the average multiple cropping index is 156 %. An increase of 1 % point is equal to the increase of over 15 million *mu* of sown area; the proportion of science and technology in grain production stands at only about 40 % and requires urgent improvement; and the farmland under irrigation accounts for only 50 %. Agricultural infrastructure is poor, and the ability to fight against natural disasters has been weakened. These weak links were where potential lies. As long as the guiding ideology is clear, the policy is correct, investment increased, agricultural production conditions and ecological environment perfected, and grain supply dramatically augmented, then it is completely possible to satisfy the constantly growing demands through domestic supply. In terms of the grain issue, blind optimism was wrong while pessimism is not groundless.

3.3 Township and Village Enterprises: Immense Impetus for the Development of the Market Economy

China's township and village enterprises were different from both state-owned enterprises and foreign middle- and small-sized enterprises. They were new products of socialism with Chinese characteristics and reflected the proactive and creative actions of hundreds of millions of farmers who took the initiative to participate in the industrialization process of the country. Hence, township and

village enterprises were known as another great creation of Chinese farmers in the wake of the household responsibility contract system.

China's economic system reform was constantly strengthened as it overcame all obstacles, mostly due to the rapid development of township and village enterprises. If it can be said that the household responsibility contract system opened a door in the planned economic system, then township and village enterprises relied on the force of farmers in the opened planned economic system, quickly developed rural industry and other nonagricultural industries, and encouraged reform to move towards market economy in an irreversible way.

3.3.1 Unique Path of Emergence and the Development of Township and Village Enterprises

The appearance, formation, and development of China's township and village enterprises were unique. They were the inevitable outcomes of the market-oriented reform in the original planned economic system. The new phenomenon opened up another path of industrialization with Chinese characteristics and became an immense impetus for developing the market economy.

Township and village enterprises were formerly known as commune and brigade enterprises. Before and after New China was founded, plenty of family sideline production and handicraft workshops had existed in the rural areas of China throughout history. There were numerous individual peddlers and small shops in rural market towns. Through a socialist transformation of the system of ownership of the means of production, rural industry and commerce declined dramatically. For a time, nonagricultural industry did not exist at all in the countryside.

In the Great Leap Forward of 1958, due to the demands of producing steel and agricultural mechanization, rural people's communes began to set up and operate agricultural machinery and repair enterprises one after another, and these were named "commune and brigade enterprises." Therefore, a batch of machine manufacturing industries that were different from the traditional handicraft industry came into being. However, under the highly centralized planned economy and the people's commune system, commune and brigade enterprises followed the three strict principles of using local materials, processing goods locally, and selling locally. The government took most of the agricultural raw materials that could be processed in the form of unified and fixed state purchases. The three principles prohibited the development of a commodity processing industry in rural areas while guaranteeing capital accumulation for the government's industrialization plans. With such policies restraining nonagricultural industry development in rural areas and the transfer of rural surplus labor to nonagricultural industry, the constantly growing rural labor force had to be confined to the diminishing cultivated land. This led to plenty of idle rural resources and impeded the growth of rural economy and any potential for increase in farmers' income. Mao considered commune and

brigade enterprises to be where “the great hope of China’s rural areas lies.” In the two decades before reform in 1978, there were over one million commune and brigade enterprises with 28 million laborers, accounting for 9.3 % of the total rural labor force; 49.31 billion yuan of output value was created, accounting for 24.2 % of total rural social output value; and therefore, the industrial output value was 38.53 billion yuan, accounting for 9.1 % of the national total industrial output value.⁴ It did not show any appeal in the overall national economy.

This situation changed after 1978. The household responsibility contract system, which was “farm output quotas on the basis of households,” the “household-based contract system,” or “all-round contracting,” replaced old principle of “commune, production brigade, and production teams own all, with production teams as the base.” There was a famous saying among Fengyang farmers who created the all-round contract, “all belong to farmers after submitting to the country and collective.” The deep meaning of this saying was slowly being understood. It quietly opened a small door in the strict unified planned economic system and eventually evolved into a starting point for the China’s groundbreaking changes.

Under the planned economic system, the allocation of resources was made solely according to the unified national plan, and rural production factors were not allowed to circulate independently. Two aspects restrained the circulation of factors:

First, the government restricted the autonomous operation in rural collective economic organizations through its purchase monopolies, so as to prevent capital investment from flowing to nonagricultural industry with higher profits and to ensure the completion of production, state purchases, and fixed state quotas tasks in basic agricultural products, such as grain, cotton, and oil.

Second, in order to ensure the completion of state purchase and fixed state quotas tasks, the method of class struggle was adopted to prevent farmers from being engaged in family sideline production or migrating elsewhere to use new skills as opposed to cultivating land, thus depriving farmers of allocating their own labor time. The limit on the circulation of production factors worsened the allocation of rural resources, suppressed, and discouraged any enthusiasm for production in rural collective economic organizations and in farmers. The greater degree of state monopoly, the fewer the agricultural products, and this became a vicious cycle that resulted in long-term shortage.

The central government relaxed its policies in the collective economy to make way for the household responsibility contract system; farmers had the autonomous right of production and the free disposal of some products from collective economic organizations. In the past, under the commune system, agricultural products were allocated by the collective, commune members only received the consumption means of livelihood, and no one was allowed to possess production resources. Under the household responsibility contract system, the two became mixed together. “All belongs to farmers apart from what’s submitted to the country and collective.”

⁴ *China Rural Economy Statistics 1949–1986* compiled by the Planning Department of Ministry of Agriculture, China Agriculture Press, 1989, p. 186.

Farmers could dispose of their own goods, outside of certain quotas submitted to the country and collective. Therefore, the higher the labor productivity, the greater the agricultural product, and the more what farmers can dispose, the more benefits they can receive. The autonomy, freedom, and new benefits greatly encouraged farmers while the vicious circle between the state monopoly and diminishing amounts of agricultural products transformed into a benign cycle that facilitated the development of the rural commodity economy. The household responsibility contract system directly reformed the microeconomic system in agriculture, but it was actually related to reform in the rural financial system. The reform in business operation modes led to changes in the way how capital was accumulated and transformed farmers into commodity producers and operators who assumed sole responsibility for their profits or losses. Farmers gradually became the subjects of market economy. Looking at the circulation and changes in rural production factors, the historical background and conditions for the rising of township and village enterprises are particularly notable. Specifically speaking, its features were reflected in the following:

First, rural surplus capital quickly increased. Before the reform, farmers were as poor as a church. According to the statistics of 1978, each household owned on average 3.64 rooms with a value of no more than 500 yuan; at the end of the year, each household had a deposit of 32.09 yuan; material reserves such as surplus grain and livestock were very few; households had a small amount of farm tools. In that year, farmers owed a high amount of debt to national banks, credit cooperatives, and commune and brigade collectives. The people's communes had a total asset of about 1400 billion yuan in which real estate accounted for 85.7 %. The per capita annual net income of farmers was 133.57 yuan, an increase of 60.62 yuan compared only to 1957. Over 200 million people did not have enough to eat and wear.⁵

The reform performed the function of accumulation in the household economy, and an internal incentive mechanism took shape. Within just 5 years, by 1984, according to the sample survey of National Bureau of Statistics of 67,000 households, the productive fixed assets of each household reached an average of 579.93 yuan. Based on this, the productive fixed assets of all farmers had to be around 109 billion yuan, which was 128 %, equivalent to the productive fixed assets that the three levels of collective economic organizations accumulated in 23 years' time.⁶ Collective property greatly increased rather than decreased after the reform. At the end of 1985, cash and deposit fixed assets owned by the rural collective were 27.44 billion yuan and 113.583 billion yuan after debt was deducted. The total assets of both the collective and farmers witnessed great growth, and there was now the capacity to invest in the nonagricultural industry.

Second, surplus labor sparked free circulation. After the reform, agricultural labor productivity rapidly improved; at the same time, surplus labor increased day

⁵ Refer to *Reform Faces Institutional Innovation 1988*, p. 65. Shanghai Sanlian Bookstore.

⁶ Refer to *China Statistical Yearbook 1985*, p. 147 and 159. China Statistics Press.

by day, satisfying the demand of the prosperous development of the nonagricultural industry and fully activated the overall rural economy.

At the beginning of the 1980s, with deepening reform efforts, “leftist” rural policies were gradually corrected, and the fixed separation in the dual urban and rural household registration systems became more flexible. Labor forces could circulate goods in a relatively more free form, based on production demands. The guideline of “taking grain as the key link” was changed into “maintaining grain production under all circumstances and developing multiple operations.” This powerfully promoted the division of labor and business in rural areas. A great batch of specialized households came into being as demanded, and they set labor productivity and commodity rates far higher than common households. The scale was constantly expanded through “small but specialized” and “specialized but united” micro-systems. Farmers chose what to invest according to their own volition and developed individual enterprises, as well as cooperation enterprises or partnership enterprises. In some regions with a strong collective economy foundation, the two levels of the town and village introduced urban equipment and technologies with urban advantages, or provided supporting coordination work for urban industries. They opened a number of new industrial enterprises of different scales that absorbed more rural surplus labor.

Third, the market constantly expanded and grew. The improvement of agricultural labor productivity and the commodity rate of agricultural products boosted the development of rural division of labor and business, along with more exchanges between agricultural products and different regions. The more agriculture was involved in commodity circulation, the more farmers demanded processed manufactured goods for individual consumption, subsequently resulting in more demand for agricultural production goods and labor forces. This was bound to constantly expand the agricultural product exchange market, industrial consumer market, agricultural production goods market, and the labor force market.

In the past, priority was given to the development of heavy industry in China, and light industry was not well developed, especially goods for everyday consumption. Most of these industries were labor intensive and required lower level technology. The rural population was huge, the purchase power increased quickly, and the demand was great, thus allowing many small enterprises to surge forward. The rural markets that were quite desolate before the reform blossomed, and a batch of new towns emerged and became new points of growth in the comprehensive and sustainable development of the rural economy. The old three principles that limited the development of commune and brigade enterprises were canceled, and various activities were carried out to gradually form a pattern focusing on public ownership with multiple economic ingredients and coexistent forms, thus generating competitive market subjects and allowing the market to play a greater role in the allocation of resources.

Starting from 1982, the five No. 1 Documents of the central government instructed the deepening of rural reform. In March 1984, the Central Committee of the CPC and the State Council forwarded the “Report on Turning a New Page of Commune and Brigade Enterprises” by the Ministry of Agriculture, Animal

Husbandry, and Fishery, issued as the No. 4 document. It officially decided to change the name of commune and brigade enterprises into “township and village enterprises,” and its scope was extended to cooperation enterprises of some commune members, other forms of cooperation industries, and individual enterprises from the previous towns (including districts) and village enterprises. The document fully approved township and village enterprises and stressed that development of township and village enterprises was an inevitable method of revitalizing the rural economy. It emphasized the policy of “proactive support, reasonable planning, correct guidance, and strengthened management.” Township and village enterprises with multiple ingredients, forms, and layers had gained swift development since then. In 1983, the total output value of commune and brigade enterprises reached 191 billion yuan, an increase of a few times more than in 1979, with an annual growth rate over 20 %. Compared to the development after 1984, this was only the beginning.

It was not hard to conclude that the appearance and formation of China’s township enterprises were, on one hand, different from state-owned enterprises that had the mark of ownership by people in the cities. They were not invested by the state, and their products were not marketed by the state. They were started by rural collective economic organizations and farmers themselves and were a kind of non-state economy; on the other hand, they were different from foreign small- and medium-sized enterprises that revolved around farmers working in cities with bankruptcy; and instead, the collective economic organizations and farmer-run factories in the villages regarded agriculture as the parent body and continued to stay intimately connected with agriculture.

China’s township and village enterprises are rooted in agriculture from the very beginning. They regard farmers as subjects, and share a “blood relationship” with agriculture and rural areas.

China’s agriculture developed into modern agriculture from traditional agriculture, and rural areas turned to all-round development from a closed and dull economy. It gradually cooperated, combined, and integrated modern industrial production. It was a unique path that avoided capital competition, rural bankruptcy, and abject poverty among farmers. Based on China’s actual conditions, we “deemed agriculture as the foundation,” kept a foothold in agriculture and rural areas, and extended it to different aspects of the social economy; also, we made contributions to socialist modernization through full development and, meanwhile, strengthened the vitality and strength of rural economic development, which in turn stabilized and intensified the agricultural foundation. The formation of a benign cycle in the rural economy, the good treatment of urban-rural relationships, and the bridge and bond of the industrial and agricultural relationship—these were all reflected in township and village enterprises. There were two key points here, first, sticking to the agricultural foundation and, second, keeping a foothold in rural areas and instructing farmers to open up and extend in wider production fields. The combination of the two was the feature of converging the essential structure and products of township and village enterprises with distinctive Chinese characteristics.

3.3.2 Reasons for the Sudden Rise of Township and Village Enterprises

As new products of the reform, township and village enterprises encountered immense obstructions and difficulties during its development and had to make its way through an arduous process. This was because it was a new phenomenon that had innate weaknesses such as shortages in capital, technological, and talent reserves, scattered geographical distribution, and repeated construction. In the development process, demerits occurred in many places, such as occupation of too much cultivated land, severe environmental pollution, and a large gap between workers and farmers, which was censured. Whenever any problem arose in economic and social life, people always attacked township and village enterprises first without forethought, such as “gaining victory amid chaos,” “exploiting an advantage,” “squeezing out major projects with minor ones,” “elbowing out the advanced with backwardness,” as well as being the “source of all unhealthy tendencies.” In particular, in 1985 when grain output decreased and the 3 years of wandering period began, township and village enterprises provoked clamoring from the cities. Some people thought farmers abandoned farming for the sake of profit. It had to be stressed that “the rural economy cannot be stable without agriculture.” The government was advised to strengthen the education of farmers and the change of policies for township and village enterprises that once caused them enormous stress. However, the development of township and village enterprises did not stagnate at all but was rather greatly expedited. In 1988, the total output value of township and village enterprises around the country increased to 645.9 billion yuan, five times greater than the 101 billion yuan in 1983, with an average annual progressive growth rate of 40 %. The number of absorbed rural surplus labor every year was about 10 million. In 1988, the number of employees engaged in township and village enterprises was up to 95.45 million, almost equivalent to the total staff of state-owned enterprises. In as short as a few years, the output value of township and village enterprises caught up with and even surpassed agricultural output value and became a major part of farmers’ income growth. Further, under the circumstance of fluctuated grain and cotton production, farmers’ income could still increase with an average annual progressive growth rate of 5 %. Although the rate was lower compared to the previous stage, farmers were basically satisfied because the base number was larger. At the same time, the agricultural product supply in cities did not experience obvious shortage; instead, vegetables, fruits, aquatic products, and animal by-products showed a large increase. The manufactured goods for daily use produced by township and village enterprises were diversified and varied, and the market gradually grew more prosperous. Township and village enterprises made such great contributions to the reform and development but were blamed and attacked so much, which reflected how indomitable the “leftist” ideologies and different traditional concepts formed under the plan system were. Deng Xiaoping fully approved township and village enterprises and called it “a suddenly rising new force.”

Why was it called “a suddenly rising new force”?

It is because New China had always pinned the hope of national industrialization on urban large- and medium-size enterprises owned by all the people. No one thought an unexpected and incomparably bold and stubborn fresh force would occur halfway.

Why could township and village enterprises, derived from rural areas, overcome difficult times and again experience rapid development, while no breakthroughs were made in the reform of state-owned enterprises for a long period of time?

Farmers in southern Jiangsu said it well, “Our township and village enterprises were born in midst of discrimination, grew amid suppressions and became stronger amid criticism. What we rely on is not national planning but market mechanisms.”

First, although township and village enterprises faced problems such as a late start, small scale of operations, poor equipment, and low-level technology, they had autonomous rights and participated in market competition as operation subjects that assumed sole responsibilities for profits or losses from the very beginning. State-owned enterprises exceeded township and village enterprises in all aspects, but they had a fatal weakness, which was human resources, financial and material resources, as well as production, supply, and marketing, all of which was intervened too much by superior administrative departments and fell short of due autonomous rights in production management. Since the reform, as much as they had nominal rights, they were hard to be carried out in reality. The labor and salary systems were also extremely unreasonable. The old systems of “a secure job” and “eating from the same big pot” could not be easily changed. Surplus staff became the redundant burden of enterprises that was hard to remove (20–30 % more was estimated and 20 % of retirees were also the responsibility of enterprises). There were many contradictions; large internal friction, unmotivated staff, and the role of excellent talents could not be given full scope to. There were no “secure jobs” in rural areas and the “eating from the same big pot” was reformed. Township and village enterprises naturally had to organize production and engage in operation activities according to market demands; capital investment could be made according to the market profit margin. It had the competition mechanism of survival of the fittest and abilities of strong self-discipline, self-regulation, self-accumulation, and self-development. They hired staff according to their demand, and workers could come and go with flexible salaries and cadres could be promoted or demoted. The profits were used for asset appreciation and expansion of operation scales; in case of losses, they could improve their technology and management through production suspension and switch to other productions, thereby creating conditions for further development; even if they were knocked down and had to shut down, farmers would not have the government to blame. Different from state-owned enterprises, township and village enterprises were not admitted by the national plan so they could not “wait, rely on, and request anything” and could only rely on themselves. In the end, difficulties become the impetus for them to grow amid market competition. In this sense, farmers were baptized by the market economy before urban citizens.

Second, the product structure and technology structure of township and village enterprises were helpful to giving scope to advantages and avoiding disadvantages. China is a country characterized by a large population and insufficient land. Rich labor force resources have always been its greatest advantage, while capital shortage is its biggest weakness. In the past, China depended on a planned system to motivate all resources in order to give priority to the development of a capital-intensive industrial system. The organic composition of heavy industry is high and the job positions are few, while capital turnover rate is low. The products of township and village enterprises were produced according to market demands, and most of them were goods for everyday consumption, light industry products, and labor-intensive products which required less capital and lower levels of technology. They produced fast and sold fast, helping to absorb plenty of rural labor forces, accumulate capital, improve technology, avoid disadvantages, and make the most of its advantages. Wenzhou in Zhejiang Province rose up with luxury through small articles of daily use items made of leftover and waste materials, as well as through the household industry and private enterprises, thus forming 14–15 national professional markets. The button market of Qiaotou Town of Yongjia County accounted for about 80 % of national button sales revenue and is known as the largest button market in the Far East.

The rules of the market economy required allocation of all kinds of resources to industries with the highest profits. Township and village enterprises made use of China's abundant labor forces and developed labor-intensive products and enterprises with limited capital, raw materials, and other resources, thus gradually improving technology, scale of production, and quality standards. Hence, the "snowball" was able to roll at a surprisingly high speed, and technology and management increasingly advanced. Quite a few have grown into modern enterprise or enterprise groups with moderate size and standards.

Third, township and village enterprises were the outcome of the reform and opening up and rose out of the planned system. The deeper the reform, the more open the reform and the more developed it became. Township and village enterprises assumed sole responsibilities for their profits or losses and organized production according to market demands from the very beginning. They purchased raw materials from the market and sold products through the market. The Chinese market was very narrow, so naturally, non-planned prices were created. The development of township and village enterprises greatly promoted the circulation of production factors and increased in horizontal links, further highlighting the role of the market. Economic efficiency was greatly enhanced, the number of resources increased dramatically, and everything outside the planned system is growing, thus forcing reform in the resource allocation system and macro policy environment. The planned allocation and distribution systems were universal and had to be changed into a dual-track system to continue moving forward on the track of the market economy. Township and village enterprises had the autonomous right so they could conduct production according to their own conditions. The increase in products was bound to amplify the sales revenue outside the plan; the increase of production led to searching and purchasing of raw materials outside state planning.

In this way, the more developed the township and village enterprises were, the more they were not constrained by the planned system, and the greater the blow of market economy to the planned system, the larger the proportion of the market economy was to the national economy. In other words, the market economy had no option but to expand. Moreover, state-owned enterprises were undergoing reform to become operation objects with veritable assumptions of having sole responsibility for profits or losses. Eventually, the planned economic system gave way to the new system of a socialist market economy.

All in all, the development of township and village enterprises meant deepening the reform and expanding the opening-up process; the development of township and village enterprises was an important force pushing the birth, establishment, and evolution of a market economy.

3.3.3 The Township and Village Enterprise Model and Its Challenges

Different patterns formed during the development process of township and village enterprises. The most outstanding patterns were in southern Jiangsu, Zhujiang, and Wenzhou. What they had in common is a large population but less land, and township and village enterprises had become the main pillar of their economy; most of their local labor forces turned to nonagricultural industries and plenty of external labor forces were employed; the per capita income growth of farmers was quite big, almost up to a well-off level; the industrial structure was constantly being improved; and the pattern of high-speed and coordinated development in the primary, secondary, and tertiary industries had taken shape. Below, the southern Jiangsu and Wenzhou models are compared.

Seventy percent of Wenzhou is mountainous areas and its population is 6.8 million. The per capita cultivated land is only 0.4 *mu* and the traffic is quite inconvenient. On the whole, it was a poor area. Township and village enterprises in Wenzhou could develop rapidly and keep growing despite setbacks time and again: firstly, its rural household industries produced various small goods around the entire region; secondly, it had a professional purchase and sale force of 100,000; and thirdly, it boasted of a great batch of well-known national professional markets, and a dozen of them were most prominent. The foundation of a household industry, the backbone of purchasers and sellers, and the bond of market can sum up the Wenzhou model. Its core can be said to be the “able man economy.” Every household runs an enterprise and every household has able men. Batches of the most dynamic purchasers and sellers as well as entrepreneurs of different levels who emerged successful later on were all able men.

Southern Jiangsu is a wealthy place at south end of the Yangtze River. Its rural economy has always been strong; education is quite developed, and people’s cultural qualities and technological abilities are high as well. Township and village

enterprises started earlier there; influenced by both Shanghai and medium-sized cities such as Suzhou, Wuxi, and Changzhou, its overall advantage of a strong foundation was being increasingly displayed at the time. In fact, the core of the southern Jiangsu model was also an able man economy. What was different is that southern Jiangsu relied on a particular type of able men. As long as each village had an “able man,” township and village enterprises could be developed and villagers could work in such enterprises. They could not be developed if there was no “able man.”

The “able man” has two features: first, he works hard with a pioneering spirit, can take the first step in the market economy, and has some management skills and, second, he has the spirit of utter devotion—dedicated to villagers, other people, and society at large. In the southern Jiangsu model, enterprises were held in the name of collective, and it was easier for them to gain the support of leaders at a basic level, such as through loans and land occupation on one hand. On the other hand, with the leadership of the “able man,” enterprises were well operated, rapidly developed, and grew with doubled scale and had especially outstanding advantages.

However, since the 1990s, with the expansion of the corporate scale, the small collectives became big collective and were closer to the concept of “whole people in a small scale.” Therefore, some advantages of township and village enterprises in its initial period, such as the demotion or promotion of cadres, flexible salary, and employment or dismissal of workers, were not functioning very well anymore. It was hard for cadres who had the powers of human, financial, and material resources to change in their ideology, and shortcomings of the unclear division of functions among Party, government, and enterprise went even farther than state-owned enterprises. Due to implicit property rights and short-term behaviors, the momentum was usually insufficient, and they even made mistakes in decision-making and were thus trapped in dilemmas. Looking at the Wenzhou model, its property rights were explicit and it had fewer short-term behaviors. In recent years, Wenzhou has started to conduct a shareholding system or shareholding cooperative system, adopting advantages of the southern Jiangsu model and maintaining the feature of clear property rights. Many places in southern Jiangsu paid great attention to such changes and have been concluding lessons; solving problems in the development; realizing institutional innovation; expanding the proportion of non-collective capital, such as foreign investors and personal capital in township and village enterprises; transforming them into mixed ownership enterprises; giving freedom to the private economy; and truly regarding rural individual management enterprises as an important part of township and village enterprises.

In recent years, the unfixed policies of the past and unsound laws and regulations have been slowly reformed. Faced with an open market, the advantages were obviously weaker than before. Even in some places with earlier developments in township and village enterprises, due to rising labor price and greater demand in investment in environmental protection and pollution treatment, and thusly growing expenditure, enterprises became less vigorous and weaker amid competition with lower returns. Meanwhile, township and village enterprises had turned into an important part of growth in the national economy. The rural entrepreneur

Lu Guanqiu made a good point, “It was great that township and village enterprises are well developed and it would be horrible if township and village enterprises stop.”

Township and village enterprises are rooted in rural areas. On one end, it was linked with the market, while on the other end it was related to thousands of households. Its further development should still come from the concept of “agriculture” and the rural market. Township and village enterprises had gone through many twists and turns in the market first and then accumulated rich market experiences and set up diverse market networks. In the meantime, it was linked with farmers from thousands of households in a complex way. If their vision was broadened, they could open up in the industrialization operation of agriculture and reform in systems, take farmers as shareholders or commune members, and build an operation mechanism with integration of trade, industry, and agriculture and an interested community. Given the features of local resources, they could center on characteristic industries to seek corporate development, focus on large enterprises and brand products with a strong driving force, and develop a characteristic regional economy through the construction of professional markets and small commodity markets. In this sense, their prospect is still considerably promising. Small towns were the main carriers of corporate development. The cultivation and expansion of small towns mainly depend on the development of township and village enterprises and emergence of industrial communities. Nowadays, the country is focusing on strengthening the infrastructure construction, developing high-tech industries, and conducting agricultural infrastructure construction and residential construction, all of which are great opportunities for township and village enterprises to distinguish themselves. For instance, residential construction only can drive the development of over 50 sectors, such as buildings, building materials, and light industry. All of these can provide a steady flow of technology, information, and talent for township and village enterprises and are helpful to the implementation of a sustainable development strategy.

3.4 Comprehensive County-Level Reform and Blessings Amidst Misfortunes

3.4.1 The Third Stone?

Reform was forced and a new way came around when there was no way out. “Passing the river by touching the stones” was right and this was the only way. The first stone was correct and it was fixing farm output quotas to households. It was because of this stone that breakthrough was first made in rural reform, and the enthusiasm of millions of farmers was motivated and the grain and agricultural product supply made a fundamental comeback. Next, the second stone emerged. It was township and village enterprises. Production factors started circulating and horizontal links developed rapidly. The rural economy, which had been a pool of

stagnant water for many years, showed unprecedented dynamism and prosperity, thus expanding the social division of labor, stimulating the formation of new industries, promoting the transfer of rural labor forces and population, and posing challenges to the economic and social dual structure of the urban-rural dual structure. However, how was the country to move forward? Where was the third stone?

With the development of the rural commodity economy, many new contradictions and problems were exposed and were waiting to be addressed, such as the urban-rural relationship, worker-farmer relationship, government-enterprise relationship, and cadre-masses relationship, as well as preproduction, in-production, and after-production service problems that were occurring in agricultural production; stagnant water conservancy, transportation and communications infrastructure, “difficulty in buying,” “difficulty in selling,” market information failure, unreasonable industrial structure and production layout, technological promotion, inadequate training and education, and many other issues abound. These could not be solved by farmers, production teams and villages. Reform practices objectively required and called for comprehensive county-level reform. Otherwise, rural reform could not experience in-depth development, and economic development would be restrained. Even worse, the reform achievements were threatened to be swallowed by a backward traditional system.

As a relatively independent administrative unit, the county has outstanding features in terms of administration and its economy. The county is the urban-rural combination part and is of regional economy in nature. On one end are rural areas and the other end is the city. It includes many aspects such as agriculture, industry, commerce, finance, culture, party, and policy and is a basic unit with complete social and economic functions. The county is not a “cell” but a “cell aggregate” which transcends the functions of the “cell.” The county is both an executing organization and a decision-making organization. Within certain scope, the county has independent decision-making power. County-level organizations and departments correspond to central and provincial organizations and departments of similar kind, yet its economic functions are fragile, distorted, and incomplete.

Whether viewed in terms of lines or blocks, county is the combination part of macro-economy and micro-economy and a significant intermediate step of commodity economy development. Since the implementation of cooperatives and commune systems, China’s urban and rural economies have been in a separated state. The entire economic management system is the form of adaptation to product supply system and distribution system. County-level system derives from such economic management system, and the top and down share the same shortcomings such as excessive organizational scale and deviation from actual demands, overlapped organizations and deviation from function requirements, leadership management functions and service object deviation, and overstaffing and local financial resource deviation, thus causing superfluous staff, inefficiency, and barriers to the development of urban-rural commodity production.

Microeconomic effects reflected in household operations are extremely apparent. However, due to low level and small scale, it was hard to realize a new leap in

professionalization and socialization. Farmers regarded household operations as the foundation but meanwhile wanted to jump out of this narrow circle to raise funds, exchange technologies, develop market in a wider space, restructure all kinds of production factors in a larger scope, and form new social productive forces. Yet, such dynamism in the rural microeconomy and such internal impulses of farmers to develop commodity production were not in line with and even acutely contradicted with the macroeconomic structure, urban-rural economic relationship, industry and agriculture relationship, and corresponding management systems, all of which were built a long time ago. Given this, at the National Rural Working Meeting of 1981, Wan Li pointed out the importance of comprehensive county-level reform and emphasized that county-level leaders should adapt to the situation, refine their ideology, and command the general rural economy with the view of commodity economy rather than serving as “agricultural secretary” and “grain county magistrate” only. Nonetheless, it was universally believed at that time that reform breakthrough had been made in rural areas, urban-rural reform had been integrated, and the attention had turned to cities. It turned out that no breakthrough progress was made in state-owned enterprise reform, and varied economic systems floundered, encountered setbacks, or were hard to overcome. Now looking back, the county was the urban-rural continuum and the weakest link of the old system. If county-level reform was regarded as the third stone and was attached great importance to in a strategic sense, a different situation may have emerged.

If the comprehensive county-level reform could be successful, the microscopic dynamism triggered by household operation would be amplified and promoted to the overall dynamism of urban-rural market economy within the entire county and would make the county fully coordinate its economic operation at a regional economy level, further maintaining its foothold and materializing the comprehensive development of urban-rural economy. By doing so, the central and provincial governments could have time to focus on solving more macroscopic problems, and the market orientation reform may form greater impetus and obtain larger progress. The problem was proposed and contemplated by leaders. However, there was not enough focus. It was unfortunate that county-level reform did not become the third stone and did not play a greater role in the reform process. However, about a 100 out of 2400 counties total did attach great importance to county-level reform, carried it out to the end, made achievements, and acquired experiences that are surely still quite useful. This was the blessing amid misfortunes.

3.4.2 Exploratory Local Pilots

At the beginning of 1980s when the household responsibility contract system was promoted, some provinces already set out to explore county-level reform. At the end of 1979, the Anhui provincial government chose six different types of counties for the fiscal responsibility system pilot. However, later on, no leader continued the pilot reform. The Sichuan government selected several different types of counties

for pilot as well. Some leaders adhered to it step by step and promoted individual and local reform to coordinate comprehensive reform. These initial pilot places were Guanghan, Xindu, and Qionglai, which had completely different geographical and economic conditions. Guanghan is located at the north of a flat land encircled by hills; characterized by large population, less land, and poor natural resources; but developed transportation and good industrial foundation. Therefore, they started from industry, drove the small projects with larger ones, and facilitated agriculture with industry. The efforts of the country, collective, and individuals were pulled together to present a prosperous urban-rural economy. Xindu is only 18 km away from Chengdu and it is an urban suburb. Considering this feature, Xindu aimed at the demands of the Chengdu market and spared no effort to develop daily necessities such as food, clothing, daily use items, the planting industry, as well as diversified operations. Small enterprises gained brisk development. Qionglai is located at the southwest margin of the Sichuan Basin, covering more area among hills than on the flat land. Its foundation is poor and the area size is large. It was a famously poor county, but its natural resources were abundant and potential was great. Before the fixed contract system, the county provided seven million yuan worth of subsidies for the county within 3 years. After the fixed contract system, the county used its rich resources, started from diverse operations, and set up joint operation companies with production-supply-marketing combination and integration of agriculture, industry, and commerce for agricultural and sideline products according to the principle of specialization of work and thus formed several characteristic commodity bases. At the same time, it explored some possibilities in agricultural, industrial, and commercial integration. At the end of 1984, the number of pilot counties was increased to 33 from the initial three. There were diversified patterns, means, and features, and counties with earlier comprehensive reforms that basically accomplished the synchronized development of grain, industrial crops and diverse operations, agriculture, industry and commerce, national finance and taxation, collective accumulation, and individual income. The total output value of industry and agriculture and farmers' per capita income in the earliest pilots of Guanghan, Xindu, and Qionglai had doubled or were close to doubling. Although the majority still had a long way to go compared with coastal developed areas, they were much higher than the average number of the provinces and even the whole country, which mainly benefited from comprehensive county-level reform.

The common feature of comprehensive county-level reform in Sichuan Province at that time was the three contracts from the province to counties, namely financial contract, grain contract, and contract of major agricultural and sideline product purchase base. The key was financial contract. Concretely speaking, an appropriate contract base for the entire county's economic tasks was negotiated according to the production, profit, and financial indexes realized in the previous 3 years. Then, it would be contracted to the agricultural, industrial, financial, and cultural units in a systematic way that would adopt the task contract, fund contract, profit contract, and financial submission contract on different levels according to conditions and features of different organizations and staff to further carry out work on the basis of

the responsibility system that related production and profit to the salary of each staff member. Meanwhile, the economic responsibility systems stipulated that both lines and blocks would be implemented to form a top-down cohesive and supplementary responsibility network with mutual promotion and mutual restraint. The reward and punishment for each cadre and worker were not only determined by the quality of their work but also the completion of their contracted tasks from the superior unit. Guided by the shared goal of completing contracted tasks, the production responsibility system of commune members, economic responsibility system of workers, operation responsibility system of businessmen, and technological responsibility system of technicians were combined to motivate the enthusiasm in all aspects, and the situation of “eating from the same big pot” started changing. After the implementation of the three contracts, especially financial contract, county-level autonomy and dynamism were obviously strengthened, and the combination of responsibility, power, and profit was upgraded to the county and ran through other internal components and intermediate links. Chain and comprehensive changes took place in corresponding management system, economic structure, and labor force structure. The prominent and rich changes included three aspects: it went beyond the boundary of state-owned, collective, and private ownerships; it broke the management system with segmented departments; it went beyond the administrative barrier of urban-rural separation. The dynamics of the contract economy, once confined to a micro level and constrained, was suddenly released and expanded. The relationships of different lines and blocks that could not be well addressed in the past were now being treated appropriately.

3.4.3 “Set Stage for Opera Performance” and “Refusal to Dismount After Decoupling”

Following Sichuan, quite a few counties in other provinces made new progress in the comprehensive county-level reform and clearly accelerated economic growth. Quite notable ones included Yuanping and Xixian of Shanxi, Haicheng of Liaoning, Lixian of Hebei, and Fuyang of Zhejiang. Yuanping expanded its contract experience through a “setting stage for opera performance,” which gave rise to great attention around the country. The so-called “setting stage for opera performance” was to go beyond the urban-rural and ownership boundaries, adopt varied ways to raise production development funds, and combine scattered and isolated production factors into realistic productivity; in expanding contract system, communes and brigades withdrew and retained what contractors submitted to the collective, used the collective production capital that was not contracted, organized new production projects, started different economic entities, and then subcontracted out in order to constantly strengthen production strength. In the first half of 1984, supported by national credit and loans, the private funds totaled 9.212 million yuan, 619 new economic entities were established, and 12,000 agricultural laborers were hired.

Yuanping, as the pilot county for comprehensive reform in Shanxi, provided 30 categories and 79 articles in terms of reform solution, mainly including:

1. Going beyond the original organizational setting and regional boundaries to set up an agriculture socialization service system
2. Separating government functions from enterprise management to let enterprises make their own operation decisions
3. Reforming the circulation system to establish an open circulation network
4. Reforming the outmoded conventions and customs of economic management and supervision departments
5. Allowing shareholding and dividends to accumulate social funds
6. Reforming labor, human resources, cadre, and salary system
7. Reforming intermediate education organizations to strengthen vocational education
8. Streamlining organizations
9. Breaking the closed state and carrying out open operation
10. Accelerating county construction and driving economic initiatives in the entire county

Through over a year's worth of efforts, Yuanping presented a completely different situation; in 1984, its total agricultural income reached 260 million yuan, doubled in comparison with the previous year; rural per capita income was 406 yuan, an increase of 61 % compared with the previous year; the total industrial output value rose by 24 % compared with the previous year; its profit increased by 105 %; and the financial income showed an increase of 26.8 %; and even further progress was made in 1985 and 1986.

The changes in Yuanping were rooted in the reform, especially in the cadre and human resources systems, which enabled a batch of excellent talents with true skills to serve as leaders. This greatly boosted reform in all aspects in addition to the development of commodity economy. In terms of cadre selection, the "closed way" was changed into "open way" to expand horizontal and vertical links of talent development; diversified channels, levels, perspectives, and approaches were applied to "let winds come in from different directions." The county committee invited more than 100 old cadres, 123 cadres with technical college degrees, and 320 cadres with technical secondary school degrees for symposiums at different times and asked them to recommend talents who could be included in leadership team and advocated "volunteering." After the candidates were initially confirmed, the list of names was printed out to solicit opinions of the masses. After several "screenings," major leader candidates at different levels were determined and were then organized into a "cabinet." The masses called such method "mutual calling between soldiers and generals" which changed the past pattern of selecting cadres in a small scope and followed the principle of employing or appointing people according to their merits. The old employment standards were transformed into new standards, which revolved around maintaining the standards of the revolutionary, young, and professional cadres without being confined to a certain type. Preference was given to cadres who took the lead in reform and those who were "by the book

and hierarchy oriented” and followed the beaten track were not selected. Able men who had shortcomings but possessed a sense of responsibility and practicability were hired, while mediocre men and apple-polishers were discarded, thus bringing about new work style among cadres.

However, the county’s reform encountered many difficulties in this process, and long-standing malpractices could not be completely changed. Some problems that had been half solved had to be laid aside, and many undue censures and criticism were received. The working teams and examination teams checked repeatedly but ended up with nothing and “no evidence being found.” This made me exhale with heavy sentiment, as those doers were treated worse than observers and observers were even worse than troublemakers. It was not an isolated phenomenon in a certain place or unit; instead, it was the encounter of almost all reformers. It happened to show the importance and urgency of political system reform, especially cadre personnel system reform.

The key to the rapid development and great effects of comprehensive reform in Yuanping was a leadership team which “shared the same destiny with reform.” In the past, only 1 out of 13 county standing committee members held a technical college degree. The newly organized county standing committee and deputy county chief included 15 staff, 13 of whom were college graduates and seven of whom obtained such technical titles as engineer, agronomist, and doctor in charge. There were also talents who excelled in operation and management. The average age fell to 36 from 52, and the youngest cadre was only 27 years old. The team members were full of vitality and were united. This was the turning of a new page.

Chuxian Prefecture in Anhui Province, where the “great contract” originated, governed seven counties with a population of 3.6 million. They paid great attention to the follow-up work of the household responsibility contract system and constantly improved the system of “combining centralization and decentralization and doubling operations.” The reform was being strengthened. Grain output maintained substantial increases for 8 years in succession, and the overall rural economy developed in a sustainable and coordinated way. It rose to the second place from the last in terms of economic strength among all prefectures (cities), only second to the provincial capital of Hefei. Chuxian mainly benefited from an emphasis on comprehensive county-level reform and the combination of external experience and local conditions to boost economic development with reform. It was a needy area with a weak foundation for township and village enterprises. It was a bit developed after the “all-around contract,” and the total output value was only 172 million yuan in 1983. In 1984, the central No. 1 and No. 4 Documents stressed the strategic significance of township enterprise development and brought about a cognitive leap of faith; harvest was reaped for years in a row and surplus labor and capital constantly increased; and the objective and subjective conditions for great development of township and village enterprises matured. At that time, the experiences of the “setting the stage for opera performance” in Yuanping of Shanxi was spreading. They invited the leaders of Yuanping County to hold symposiums and mobilization meetings, which facilitated the development of township and village enterprises. At the beginning of the initiative in Yuanping, the Party and

government offices participated in the “stage setting,” but it was likely to cause such shortcomings as “government run,” abuse of power, and competition for benefits with people. The Central Committee timely instructed corrections after discovering this, which was considerably necessary. Yet, in some places, it was actually believed that the initiative was completely wrong and successively refused. In Chuxian, it was not thoroughly rejected; instead, they proposed the slogan of “refusing to dismount after decoupling and scaling new heights.” Government organizations that cooperated with farmers and villages to run enterprises must be separate from them but could not withdraw funds. They had to provide strong assistance for enterprises and thus avoided radical changes. In that year, the total output value of township and village enterprises was more than doubled at 419 million yuan, which was a big step forward. The “Leiguan dried salted duck” of Leiguan town of Lai’an County was selling very well on both sides of the Yangtze River since its appearance in 1862 (during Emperor Tongzhi’s ruling period in the Qing Dynasty). It was said that the Nanjing salted duck originated from this. “Setting stage for opera performance” reminded people of the traditional specialty, and four units including county government office raised 240,000 yuan and started Leiguan Dried Salted Duck Factory with Leiguan County in June 1984. Three months later, the official announced withdrawal and the factory faced a shutdown. After an “emergency treatment” and some studies, the joint operation was changed into an independent operation of the town. Xie Kangcheng, a descendent of the Xie family with traditional skills, was invited to serve as the factory director and strengthened the work guidance. The factory was put into production in October, the peak season for duck processing. At the end of the year, the number of processed salted ducks was 13,000, and 11,000 yuan was earned. The supply fell short of demand. In 1985, they conducted a compensation trade of Huainan Coal and Mining Bureau who provided 700,000 yuan to set up an 80-ton refrigerator and a cooling tower. The number of processed salted ducks was about 50,000 with a profit of over 60,000 yuan. In 1986, it joined with over 30 specialized salted duck processing households to set up a “salted duck processing united corporation” which promoted the great development of the breeding industry and processing industry as well as grain production of the entire town. Relying on a competitive product, a great batch of surplus labor forces found a way out. The town made proactive efforts to feather processing and duck can manufacturing so as to gain more economic benefits. However, from the perspective of the whole nation, as the gravity center of reforms shifted to the urban area, county-level reforms, which were not deemed as a key link in the comprehensive economic reform, didn’t receive due emphasis and therefore were not carried on based on the experiences drawn from rural reforms. No new achievement was made. The county would put it aside and tried to avoid it even if they continued to conduct a general comprehensive reform. As the economic reform gradually strengthened, many shortcomings in the political system became more and more exposed and were barriers to the ongoing development of the overall reform. In some places, the county Party committee undertook the entire process, with the county-level people’s congress, county government, and county political consultative committee actually working

for the county committee. The masses complained, “As the county Party committee waved its hand, the government acted, while the people’s congress put their hands up and the political consultative committee applauded.” This seems ironic but actually tells the essence of the problem at the time. In quite a few counties, the minority of leaders who promoted or demoted whoever they wanted would naturally determine cadre selection. If leaders were bent on reforming, they would use, support, and protect talents who were keen on reform; if leaders wanted to be “officers content with the status,” they preferred using mediocre people who did not ask for any trouble. Whether a county’s comprehensive reform could be successful or not was not up to whether the county leaders were determined, talented, persistent, and courageous; instead, it hinged on whether superior leaders fully trust, support, and protect them. To reform is to explore and to sprint forward, and it is impossible not to offend some people. Indeed, some reformers who were universally acknowledged as those with track records of actual performance were dismissed for no reason. This was a mournful situation that deserves in-depth consideration as well.

3.4.4 The Shandong County-Level Reform That Surpassed Its Predecessors

Starting from the late 1980s, economic growth in Shandong witnessed rapid progress, and its rural economic development was prominent, thus making it an exemplary model in the country. Surely, it resulted from many aspects, but it was inseparable from the provincial leaders’ attention towards the strategic position of counties and key role of the rural commodity economy.

In April 1987, Liang Buting, secretary of the Provincial Party Committee, put forward three questions for rural reform in Shandong while visiting Qingzhou and Zhucheng. First, how should county-level autonomous rights be expanded and how should county-level management be strengthened? Second, how can the county Party committee overcome the shortcomings of fragmentation and organize departments to do a good job in the rural commodity economy with the macro-control of the Central Committee? Third, how to set up and improve the economic structure of rural trade (commerce), industry, and the agriculture? He believed that in the province-city-county governance, the role of county should be especially emphasized, such as to give full scope to its development and to give autonomy to the county so that it could exercise the administration of the economic affairs in accordance with local conditions and practices. To enhance the leadership of the county and solve the problems like unbalance of power and duty and passivity, Shandong Province issued Opinions of Trial Implementation of Enhancing the County Leadership in July the same year, enforcing the power of the county level over the administration of human resources, economic affairs and properties.

Since 1987, Shandong Province not only began to attach importance to county-level reform but also used the exemplary case in county-level reform and development to encourage the rural work throughout the province. The Party committee organized a series of ad hoc meetings and seminars to help the county to summarize the experiences from the comprehensive reform and to improve public awareness of it. Here it is necessary to mention the Society of Shandong County-Level Economic Affairs Management, which was the first nongovernmental academic group committed to such research, and it contributed a lot to the reform. Usually, it is on the basis of their choice of cases, preliminary survey, and reasoning that leaders on the provincial level made decisions and implement them in the large scale.

3.4.4.1 Zhucheng ad hoc Meeting in Summer of 1987

The county had 1.06 million people and owned over 1.2 million *mu* of cultivated land. The county Party committee carefully studied the central No. 1 Document of 1984 and decided to start from the development of the breeding industry according to the spirit of overlooking the overall rural economy and not only serve as “agricultural secretary” or “grain county magistrate.” They set up a series of service systems with foreign trade leadership and made agriculture, industry, and commerce coordinated, thus improving agricultural comprehensive benefits and strengthening the dynamism and impetus of rural economy development. Its experience was summarized as the “organization of commodity production chorus.” After the meeting, it gained further development and gradually evolved into an integration of trade, industry, and agriculture. One coordinated process (poultry raising) was developed into a dozen of processes and boosted the great development of the entire county’s grain and cotton production, township and village enterprises, and agriculture dependent on foreign exchange earnings. Seventy percent of farm households had products to be exported. For years in succession, the purchase value of exported agricultural and sideline products and related fabricated products exceeded 200 million yuan. The county’s economic income showed a progressive increase of 16.7 % every year on average.

3.4.4.2 Laiwu Seminar in the Summer of 1988

The population and cultivated land of Laiwu were similar to those of Zhucheng, but the reform focus and mentality were different. Its goal was to strengthen town-level service functions through administration streamlining and power delegating, which solved the contradiction of fragmentation at the basic level and expedited the development of rural commodity economy. In the past, the industrial and commercial station, staple food control office, taxation office and veterinary station of industrial and commercial department, taxation department, and transportation department usually stressed their department interests without taking farmers into

account. Some even “controlled, suppressed, and plundered” farmers and “did not do anything for the masses without being bribed and only blindly did things after being bribed.” Therefore, the superior organizations “should govern” but “couldn’t see,” while town leaders “could see” but “couldn’t govern,” so a laissez-faire pattern developed. In 1986, Laiwu delegated the power of the county to different town governments that planned production, supply, and marketing as a whole. The power was delegated and administration was streamlined, thus enhancing efficiency and powerfully promoting the development of the entire county’s commodity economy. Take animal husbandry for example. The output value increased each year and increased to 230 million yuan in 1989 from less than 100 million yuan in 1986, accounting for 35.4 % of the total agricultural output value.

3.4.4.3 Shouguang Seminar in the Winter of 1989

The county had a population of 960,000 and about one million *mu* of cultivated land. After the great development at the primary stage of rural reform, it regarded vegetables as a breakthrough to facilitate the entire county’s commodity economy development. Its feature was that it attached great importance to the cultivation of market and deemed the construction of the market, especially the wholesale market, as the focus of good services and the improvement of commodity economy operation mechanism; emphasis on production and contempt for circulation was changed into focus on circulation and production as well as market regulation, thus building a new situation for a balanced and coordinated economic development in the county. Up until 1989, grain output showed an annual progressive growth of 5.4 % for 10 years in a row and the total industrial and agricultural output value almost quadrupled; the financial income had exceeded one million yuan for 3 years in a row, reaching 140 million yuan in 1989.

3.4.4.4 Zhaoyuan Seminar in the Spring of 1990

The county is medium scale with a population of over 500,000; its feature was to rely on supply and marketing commerce departments and regard science and technology as the guide to establish a service system with agricultural and commercial cooperation. It set out on the reform of the circulation system; provided a series of services such as market information, production, processing, storage, and sales, developed multilayer professional service systems, and solved difficulties and problems met by farmers during commodity production in a timely and effective manner. In 1989, the total social output value of the entire county was 3.1 billion yuan, the national income was up to 920 million yuan, and total rural income reached 1.55 billion yuan, a respective increase of 136.6 %, 76.9 %, and 112.8 % compared to 1986. The county’s mountainous area is large and was poor in the past. In 1989, the urban-rural residents’ deposit balance was 610 million yuan,

and financial income registered at 60.99 million yuan, an increase of 161.8 % and 61.5 % compared with 1986.

3.4.4.5 Muping Seminar in the June of 1991

With a population of 577,000 and 714,000 *mu* of cultivated land, Muping is one of the relatively developed counties in the east of the Jiaozhou Bay, and a county where township and village enterprises were well developed, but the development was unbalanced and grain output production “declined” for a time. In 1986, with lessons learned, the county established six service systems including agricultural science and technology management, agricultural machinery management, water conservancy management, supply of production materials for agricultural purpose, fruit industry technology, and animal epidemic prevention. Different systems, with the help of county-level departments, were given full scope in playing their “leading” roles. The town-level and village-level organizations and staff participated and organized into different systems with various layers, penetrating into the grassroots level. With the guideline of “running entities with services and in turn improving services” for towns and villages, reasonable fees were recharged and services were paid. At the same time, the methods of contracting teams and temporary post taking were adopted to assist and develop needy areas. Grain production started recovering in 1987 and turned to stable growth. The county’s economic development was gradually balanced and coordinated, and export-oriented economy was all the more full of vitality. In the recent 4 years, the county’s exported commodity purchase value has increased to 207 million yuan from 104 million yuan with accumulated foreign exchange earnings of 134 million USD.

3.4.4.6 Construction of Mountainous Areas, Poverty Relief, and the Development Meeting of Shangting District, Zaozhuang City, in May 1992

The Shangting District had a population of 420,000 and is located at the southwest feet of the Yimeng Mountains. 88.6 % is mountainous area with over 5000 hilltops. Until 1984, the total agricultural output value of the entire district was 178 million yuan only with per capita income of 153 yuan. Three fourths of its population led a life below the poverty line and it was one of the poor counties and districts, which needed key national support. The new leading team formed in 1987 proposed the thought of “starting with high standards and realizing leap development.” The district leaders led cadres to station in the mountain areas and helped over 7200 people from 59 villages in deep mountains move out; they set themselves as an example to mobilize all people in the district to open up, build roads, and prevent floods by water control. Besides, they spared no effort to organize basic agricultural construction and chose the courtyard economy of households for development and construction breakthrough according to such conditions as many mountains, large

area, rich resources and labor forces but lack of capital and poor foundation. With full planning, continued planting, key processing, and professional, social, and commodity production, the district raised to a higher level after 3 years' successive arduous efforts. At the end of 1991, the total industrial and agricultural output value reached 995 million yuan, 5.6 times greater than the previous 3 years, and an average annual progressive growth rate of 20.8 %; financial income was up to 14.26 million yuan, 3.3 times greater and an average annual progressive growth rate of 18.7 %; the rural per capita net income was 562 yuan, 3.67 times greater; and an average annual progressive rate of 20.42 %. In this poor mountainous area without high-end hotels and computerized telephone, export-oriented economy had grown out of nothing and witnessed prosperity. Eighteen foreign exchange earning enterprises and joint ventures were founded with an accumulated utilization of 21 million USD in terms of foreign investment.

In addition, Shandong provincial government successively held the Laixi ad hoc meeting, Changyi seminar, Pingdu ad hoc meeting, Yangxin seminar, Sishui seminar, and Changle seminar, and concluded the experiences of Zhoucun, Laiyang, Quanxiang, Gaotang, Jiaonan, Huantai, Yanzhou, Yicheng, and Zhangqiu. It can be noted from the brief analysis above that the reforms of these counties were different in many diversified aspects such as the main focus, commodity production breakthrough point, and service system organization. Such diversity was inevitable because China's rural areas are a vast territory with unbalanced development and completely different conditions. Rather than blindly following instructions from superiors and external experiences, they started from their own practical conditions, analyzed local circumstances, and definitely would have and did have different approaches, choices, and characteristics in both their work and in the reform. Such diversification fully demonstrates that the leader cadres of these counties concluded experience and lessons of previous times, and they became more mature, practical, and realistic with a greater cognition of Marxism.

The common experience among these counties was quite outstanding. Reform and development added radiance and beauty to each other, which was mainly reflected in the following three aspects:

First, the county-level economy had shown the trend of sustainable, stable, and coordinated development. Despite different characteristics and approaches in different counties, the common thing was that they captured the key link of the socialized service system establishment. Hence, different means came to the same end, the double operation of household responsibility contract system was gradually improved, and the enthusiasm about household operations and the superiority of collective economy were both given full scope to ensure not only higher speeds but also greater benefits. Regarding major aspects of rural economy such as grain production, diversified operation, township and village enterprises, foreign exchange earning agriculture, and agricultural development, different counties set out from different perspectives so some were outstanding while some were not so satisfying. However, through several years' development, they became more balanced and comprehensive. In particular, grain production decreased dramatically in 1985, which was followed by 3 years of wandering, but these counties had been

growing steadily. Some counties showed downward trend for a time, but they soon turned the situation and caught up. In terms of total industrial and agricultural output value, gross national product, agricultural labor productivity, commodity rate of agricultural and sideline products, financial income, and total rural savings deposit, they outdistanced ordinary counties and primarily form relatively reasonable industrial structure and labor force structure.

Second, the stable and united political situation was strengthened. Economic development was smooth; people lived and worked in peace and contentment; preproduction, in-production, and after-production difficulties were solved; surplus labor forces were arranged; the ways to wealth were diversified; therefore, the relationship between cadres and the masses were improved and grew more intimate; and furthermore, it was easier to carry out the Party's policies. In recent years, the rural burden has been heavy and farmers complain a lot. Cadres in quite a few places have not performed well enough in daily work, which often causes frictions and disputes. In these counties, owing to rapid economic development and increasing income of farmers, their contradictions were a bit alleviated, and relatively, farmers would not complain so much. At present, the problem of weak and slack medium and basic organizations in rural areas was quite common; these organizations even paralyze in some places, and in some, the number was even up to over 30 %. However, in terms of these counties, basic organizations were quite sound, and cadres at the basic level can stick to their posts and work in a proactive way. The problem of paralysis did not exist or basically did not. The social security order was well maintained.

Third, the construction of a spiritual society was sped up. Economic development was quite smooth, and the county, town, and village economic strengths were quite outstanding, thus laying a material foundation for spiritual society construction; with balanced economic development, more and more early rich people kept driving those who were left behind. Farmers were motivated to pursue common prosperity, and the ideological and political work was more convincing. As the economy stepped onto the right track, leader cadres did not have to worry about the food and expenditure problems of the entire county; instead, they had more time and efforts to take care of other things. For instance, the construction of a spiritual society was truly on the agenda and was strengthened through practice. In these counties, the promotion of practical technologies was universally emphasized through a solid network. Shouguang County set up a vegetable research institution; education funds were abundant; the faculty quality was high; enrollment rate of school-age children was above average; and vocational education was quite outstanding. One third of middle schools in Laiwu were changed into vocational schools; cultural facilities such as the newly built cultural center, stadium, cinema, and theatre were put in place; medical health and social security work were being institutionalized; and family planning work, which was the biggest headache for cadres at the grassroots level, was being better carried out than other counties. In particular, most exciting were the changes in the general social mood. The phenomena of arguing back and forth over trifling matters were increasingly reduced. The slogan "I will develop as long as agriculture is developed and my village and I

share the same destiny” enjoyed popular support. Unconscious influences were growing stronger.

In the late 1980s, national grain and cotton production hovered at an unimpressive rate, but these counties did not linger, or at least did not linger for a long time, and soon turned the rates into stable growth; the problem of paralyzed and semi-paralyzed organizations at the grassroots level of rural areas was quite severe, but it basically did not exist in these counties; the phenomena of arguing over small matters among provinces, cities, and counties were quite prominent, but this was eliminated or was in the process of being eliminated in these counties. With such a distinct contrast, people had to exclaim, “the landscape here is unique!”

Why was this so?

On one hand, it was because of the right decision of local county leaders; on the other hand, provinces provided favorable external environments for county-level reform and its development. A main characteristic was to start from practical conditions, “sing local opera,” “build a microclimate,” reduce frictions, digest contradictions with proactive and progressive methods, change instruction ideology and then functions of different departments, improve different links in the chain, strengthen service functions, facilitate economic development, make new systems change in a qualitative way based on quantitative changes, and then expect results. Zhucheng had been changed into a county-level city that was the bellwether of county-level reform and became an outstanding performer of county-level economic development. Zhucheng advocated a “commodity economy chorus”; “integration of trade, industry, and agriculture”; and “industrialized operation of agriculture” first and mustered up courage to implement the shareholding cooperative system in state-owned enterprises, which powerfully promoted the marketization of county economy. For 20 years, it maintained a momentum of fast and sustainable development. In 1991, its gross domestic product quadrupled. In 1992, it further accelerated, and the third twofold was materialized within 3 years. In 1997, the gross national product of the entire city was 8.2 billion yuan. Calculated at a comparable price, it was an increase of 9.7 % compared with the previous year; the total financial income reached 430 million yuan, including the local income of 270 million yuan, with respective growth rate of 32.9 and 35.4 %. County-owned enterprises were combined into 37 enterprises, and the total funds increased to 815 million yuan in 1997 from the 239 million yuan of 1992, with a growth rate of 241 %. Tax revenue rose to 255 million yuan from 71.6 million yuan, an increase of 3.56 times. These numbers fully demonstrated the mutual support of county-level reform and development and of the enormous energy and growth potential of the county-level economy. At the national level, there were some counties that gradually deepened reform and had sustainable economic development, in addition to the developed coastal regions, but the numbers were few and with fluctuations. However, one after another appeared in Shandong and has grown stronger like the brightness of stars. Small county-owned enterprises, the construction of small towns, and development of industrialized operation of agriculture in the entire province pushed the reform forward in a powerful way.

3.5 An Export-Oriented Economy and the Tide of Migrant Laborers

One of the key features of China's reform was that it was closely related with opening up the nation. To reform meant reforming not only the superstructure and ideologies that were not suitable for productivity but also forces of habit and regulations that impeded and prevented China from going out into the world. Hence, the opening-up process can also be deemed as reform. The two of them are inseparable and two sides of the same issue.

Today, the world as a whole is an open place with a unified international market. With advanced development in the world's new technological revolution, an increasingly deepening international division of labor, and a constantly expanding international market, the economic relations between countries have become more and more intimate and interdependent. Any country's open economy, however, will still be constrained by various domestic and foreign factors. It is not up to anyone's subjective will; rather, everyone must conduct open policies as a plan step by step, with a gradual maturity of various subjective and objective conditions.

3.5.1 Township and Village Enterprises in the Export-Oriented Economy

In 1979, the Central Committee of the Communist Party of China decided to carry out "special policy and flexible measures" in Guangdong and Fujian. By 1980, four special economic zones, including Shenzhen, Zhuhai, Shantou, and Xiamen, were successively established; in 1984, 14 coastal cities, Shanghai, for example, were economically liberalized; in 1985, the Yangtze River Delta, Pearl River Delta, and southern Fujian Delta economic zones were set up; at the end of 1987, the number of opened cities and counties in coastal area reached 270, covering about 160 million people; in the same year, the government decided to establish Hainan as China's largest special economic zone and implement more special policies; in 1989, the Central Committee approved the establishment of the Shanghai Pudong Development Zone; and at the same time, opening up in coastal areas was further expanded to opening up in borders of the north, northwest, and southwest of China. In the last period, inland provinces, as the "second gradient" of China's opening up, successively took measures to accelerate the process and gradually formed a hierarchical and fully open pattern, which greatly boosted China's economic development. Meanwhile, we also made some mistakes beyond our endurance, which made us realize that the degree of economic openness must be in line with domestic economic conditions. Consequences such as idle technology and debt would be caused if we are eager to reach results and introduce from other countries blindly without giving any thought to our national strength. However, one should not give up eating for the fear of choking or work behind closed doors. Just like the other reforms, economic

openness is aimed to improve the socialist system rather than to negate it. Socialism and capitalism have fundamental differences as well as historical links. After the October Revolution, Lenin proposed to construct socialism with capitalism, which was a pioneering opinion in historical materialism. Reform practices tell us that one important aspect of improving the socialist system is to develop and expand foreign economic relations, learn about useful things in the process of capitalist development, and build socialism with these tools. We must study all the advanced aspects of capitalism. Only when we are brave and adept at learning from capitalism can we overcome it and bring about socialism with Chinese characteristics.

A planned economy is basically an introverted economy where foreign trade is subject to state monopoly. Agricultural products are supposed to comply with domestic demand. If the supply is sufficient, exports can be made; otherwise, it will be used to satisfy domestic demand first. In the late 1950s and 1960s, in Pearl River Delta of Guangdong, neighboring Hong Kong, a batch of farms and factories that provided agricultural products to Hong Kong were once established, but then vanished during the 10-year chaos. In the 1970s, Foshan was designated as the first export production base by the Ministry of Foreign Trade of the People's Republic of China and obtained certain foreign exchange retention from the sales revenue of export commodities, thus motivating local farmers to support the export-oriented economy. In 1978, there were in total 17 production bases that specialized in producing exported agricultural products. They undertook one fourth of the province's agricultural export production. However, the proportion in the overall economic export was still insignificant.

After the Third Plenary Session of the 11th Central Committee the policy of opening to the outside world and invigorating the economy at home was implemented all over the country. More favorable special policies were announced in Guangdong, which took on a prosperous front. The total export commodity purchase value increased to 4.8 billion yuan from 2.8 billion yuan in 1978; overseas sales revenue increased by about 50 %. At the same time, foreign investment reentered Guangdong, and in 1980, foreign investment amount exceeded 200 million USD, which was mainly used for small township and village enterprises. Later on, policies such as the agency system and double foreign exchange rate were not well treated and development was blocked. At the end of 1984, then premier of the State Council pointed out, "In order to make inroads into the international market, the export bases of agricultural products and processed products must follow the demand of export markets and change their production structure. For these areas, the priorities of policy have to be trade, industry and agriculture, rather than agriculture, industry and trade. They should not plant or process according to their own will and look for export markets for the remaining products. Instead, they should arrange planting and processing plans based on the demands of the international market." Since then, foreign trade, through Guangdong's development strategy, became the core and mainstream of economic development and was elevated from being in a subordinate position of serving industry and agriculture to a pillar and mainstream sector to economic growth. Export processing zones in different places in the province grew rapidly, just like bamboo shoots after a spring

rain. The export value of Guangdong ranked fifth in the country in 1984 at 2.5 billion USD; it increased to seven billion USD in 1987, taking the first place with a growth rate of 180 %.

The export-oriented “three-processing and one-compensation” principle played an important role in the rapid economic development of Guangdong, which went on for several years in succession. The so-called three processing and one compensation referred to processing materials, sample order and assembling materials supplied by clients, and compensation trade. It can be seen as the “short, safe, and quick” project of rural economic development. In the process of transforming to an export-oriented rural economy, both agriculture and township and village enterprises faced the problem of how to make products adapt to international market demand. If raw materials, technological equipment, and sales channels were not introduced by foreign countries, it would be hard to form new productivity and enhance foreign exchange earning abilities by solely relying on one’s own efforts. “Three processing and one compensation” happened to bring about three factors that could be combined with our advantageous land and labor forces to invest in export. It was extremely convenient for rural township and village enterprises to give full scope to their advantage of having a flexible mechanism. Take Dong’guan and Bao’an of Guangdong for example. The two counties whose economy caught up later relied on “three processing and one compensation” to gain rapid advancements. In 1987, their respective total income reached 1.63 billion yuan and 880 million yuan, an increase of 11.5 times and 4.3 times. Among rural and village enterprises, over 40 % of them are enterprises engaged in “three processing and one compensation.” The accumulated processing fees in 1979 and September 1987 were, respectively, 341 million USD and 261 million USD. Farmers’ per capita annual income was, respectively, 193.3 yuan and 129 yuan in 1978 and 1039 yuan and 850 yuan in 1987. In the Pearl River Delta, it could be seen everywhere that foreign-exchange-earning agriculture growth surpassed general agricultural growth, export-oriented township and village enterprises’ growth overtook general township and village enterprises, and the growth of “three-processing and one-compensation” enterprises exceeded other export-oriented enterprises. It had become a rule. Certainly, “three processing and one compensation” was the first step in the export-oriented development of Guangdong without which sustainable growth and shocking changes in the economy of the Pearl River Delta would have been out of the question.

“Three processing and one compensation” first occurred in the Pearl River Delta adjacent to Hong Kong and Macao. This was not accidental. Enterprises engaged in “three processing and one compensation” at an early stage were introduced through relatives and friends during the opening-up period by folks living in Hong Kong and Macao; the predominant geographical location and the unique genetic connection of being the hometown of overseas Chinese played a considerable role. Meanwhile, most of the “three-processing and one-compensation” enterprises’ orders came from small- and medium-sized enterprises in Hong Kong and Macao, which extended some part or most of their processes to the Pearl River Delta after receiving foreign processed orders. Usually, the last step was still completed in

Hong Kong in the end. The re-extension of such small- and medium-sized enterprises was quite limited in both scale and technology. Most of them were labor intensive with shabby production equipment, low technological structures, and short payback periods. Moreover, the production, supply, and marketing were all constrained by foreign parties, and enterprises were actually the workshops of foreign companies. “They are controlled by both parties but both are invisible.” They had factories, labor forces, and products but fell short in equipment, technology, raw materials, and sales channels. No wonder some people thought that “three processing and one compensation” was the special product of Pearl River Delta and could not be repeated or be successful in other places. In fact, inevitable essential causes hid behind the fact that “three processing and one compensation” occurred in the Pearl River Delta first. First, there was a gap between the low-cost labor forces of the delta and increasingly expensive labor forces in Hong Kong and Macao; second, after the reform and opening up, the Central Committee approved special policies in Guangdong and the investment environment increasingly improved. In terms of practice, clients who were favored by geography and genetic connection at the early stages were growing diversified, and more and more investors from various countries with developed industries participated. The “Four Asian Tigers” gradually became involved, and both sides of the Taiwan Straits start communicating. The introduction of joint ventures maintained a steady growth. Some places shifted their focus from solely relying on “three processing and one compensation” to combination of “three-processing and one-compensation” and self-supporting industries and from sporadic and low technology to systematic and moderate technology so as to realize reasonable industrial structure through the screening of randomness of product structure. Also, old products were constantly updated, and new products were developed.

The practice of the Pearl River Delta proved that “the journey of a thousand miles starts with one step.” It is wise to attract foreign investment with geographical advantages and traditional external contact channels, set out from processing but did not stop, and start from labor-intensive projects and continued to move towards the goal of developing self-support industry and establishing local industrial system and reasonable industrial structure. As for technology, it is advisable to develop from low to high, with a focus on moderate technology and then a transformation to higher-level precision and advanced technology, and emphasize on but without limitation to “three processing and one compensation.” Climbing towards a new stage through “three processing and one compensation” was an important experience of the export-oriented economy in Pearl River Delta. From 1989 to 1991, the agricultural output increased, but income stayed at the same level; township and village enterprises were discouraged; and farmers’ income was basically stagnant. However, the situation was entirely different in some coastal areas. In these coastal areas, there was sustainable economic development and market prosperity, as well as sustained increase in farmers’ income with even greater increments. The export-oriented economy started earlier with diversified forms and rapid development in Guangdong and especially in the Pearl River Delta. In recent years, “three processing and one compensation” has spread to different places of the province.

The pattern of an export-oriented economy was basically formed after rounds of governing, rectifying, screening, and improving. It embodied the following aspects:

First, the opening-up process to the outside world extended from the special economic zones, border areas, coastal cities opening to the outside world, and the Pearl River development zone to poverty relief and other development zones. It was opening up on a comprehensive scale.

Second, foreign trade export value had taken the first place in the country for years. In 1991, it reached 13.688 billion USD, accounting for about one fifth of the country.

Third, the proportion of industrial products export in the total industrial output value stayed at 30 % for 3 years in a row from 1989 to 1991. Technology-intensive industries increased and high-tech zones were constantly built.

Fourth, other types of industrial output values led by foreign-funded enterprises accounted for more than one fourth of the total industrial value of town or above. The value climbed to 28.79 % in 1991, four times greater than the national average 6.73 %.

Fifth, the foreign investment in actual use reached 14.434 billion USD within 13 years from 1979 to 1991, one fifth of the total national foreign investment in actual use that year. Of course, the export-oriented economy of Guangdong was not perfect, and most products were still labor-intensive and were medium- and low-end goods on the international market; direct economic exchanges with foreign countries were still rare and most of them still needed to go through Hong Kong; we did not know how to use some means of international exchanges. Even so, under the push of export-oriented economic development, the overall transformation of the national economy into a market economy system greatly accelerated. The further expansion of opening up to the outside world dramatically promoted the deepening of reform, a transformation of government functions, and better adaptation of the township enterprise mechanism to the laws of the market economy. In order to accommodate changes in international market, different mechanisms of export-oriented township and village enterprises in the Pearl River Delta were improved:

First, the operational mechanism of independent management and flexible decisions, which enabled them to grasp the market opportunity, took the lead in switching to other productions, adapt to market changes, and obtain better benefits.

Second, the risk mechanism with sole responsibility for profits or losses. Corporate interests echoed with risks and were tied by the interests of the staff, which strengthened the staff's sense of responsibility for standing together with the enterprise regardless of the situation.

Third, competitive mechanism of survival of the fittest. Neither enterprises nor their staff had back roads and routes of retreat, so they had to go all out to enhance their product quality and technology and business operations.

Fourth, the incentive mechanism with reasonable distribution. While sticking to distribution according to work, they adopted distribution forms such as capital investment, technology shares, and profit sharing according to contributions and give ample rewards to scientific and technical personnel who made special contributions.

Fifth, mechanism of self-accumulation, self-development, and self-discipline, which motivated enterprises to put economic benefits first and to carefully pick investment projects, accelerated corporate capital construction, strengthened operation management, and saved costs.

Sixth, a simplified and flexible management mechanism. With high work efficiency, quite a few export-oriented enterprises introduced modern management means, such as computer-aided management, which further enhanced scientific truth and efficiency in the comprehensive abilities of enterprises in market competition.

All these mechanisms were improved and strengthened by the development of the export-oriented economy, which became the impetus for township and village enterprises to reach new heights.

The gap between coastal areas and inland areas was mainly about township and village enterprises, especially about export-oriented township and village enterprises. The development speed of the export-oriented economy mainly depended on the scale and effects of foreign investment and foreign exchange earnings from exports. In terms of the two aspects, in the 1980s, the Pearl River Delta took the lead, and with the coming of 1990s, Shanghai Pudong became the new focus of the country. With a strong economic and technological foundation and high-quality personnel, southern Jiangsu again demonstrated its trend of surpassing the former. Rapid development was seen in the coastal area of Fujian, the Shandong Peninsula, Liaoning Peninsula, and Bohai Bay area which lost no time to conduct infrastructure construction, improve investment environment, and enhance working efficiency so as to attract foreign investment.

3.5.2 Openness and Development of the Inland and Borderland

The focus of export-oriented economy is inevitably coastal areas, but the openness and development of inland and borderland should not be overlooked. China's inland and borderland border on North Korea, Russia, Mongolia, Kazakhstan, Afghanistan, Pakistan, India, Nepal, Bhutan, Sikkim, Burma, Laos, and Vietnam. The economies in most of these countries are backward, and some are even poorer than China's borderland areas. There are over 30 nations in China's borderland areas. They share similar languages and customs and have had contact through trade since ancient times. In recent years, they have spared no efforts in conducting and expanding border transactions and combined them with coastal openness in its overall strategy. The development of the rural export-oriented economy took on an unprecedented new situation.

In terms of market features, coastal areas were mainly about openness related with introductions, that is, introducing capital, advanced technology, and operation management methods of developed countries to change industrial structure,

improve technological level, and market our products to the outside world. Although the Western market capacity is large, competition is also intense and they have small demands for primary products with low prices and high risks. What the borderland areas faced were mainly countries with underdeveloped economies or incomprehensive development and, thus, exuberant demand for China's manufactured goods and middle- and low-level goods for daily consumption. The market was promising with great potential. For instance, the Sino-Burmese border transaction was not only about Burma but also the larger Southeast Asian and South Asian markets. The foreign trade value of Ruili in the Dehong Autonomous Prefecture of Yunnan had shown substantial increase for years since the mid-1980s, which drove the development of the entire county's economy, improvement of the industrial structure and people's livelihood, and realization of an increasingly prosperous front. In quite a few places, barter exchange was adopted, and great economic benefits were reigned in. Valuable raw materials, such as teak and gems, were imported from Sino-Burmese border, and middle- and low-level goods for daily consumption are exported and RMB settlement is adopted. It was helpful to both parties which fell short of foreign exchange, especially to China. The "three processing and one compensation" was adopted in coastal area, while "three exports and one compensation" was implemented in borderland area. Great achievements were made in labor service, technology, and equipment export. If coastal openness and borderland openness could integrate for horizontal alliance, complement each other's advantages, and "import on the east and export on the west," then 32 national key land ports in the frontier area and about 200 local ports, as the window and hubs, could breathe new vitality and gain rapid development, thus finally changing the economic situation between the south and north as well as the east and west and putting remote inland provinces in a important strategic position in China's pattern of full openness.

At the beginning of the 1990s, according to Deng Xiaoping's suggestion, China successively established a batch of national high-tech industrial development zones to combine export orientation with high technology, which became an increasingly important role in introducing foreign advanced technologies, accelerating the adjustment of industrial structure of national economy and cultivating new growth points. The total technological, industrial, and trade income of 53 national high-tech zones reached 330 billion yuan within less than 7 years starting from 1991. The tax and profits amounted to 32 billion yuan and the foreign exchange earnings from exports exceeded 5.5 billion USD; the average growth rates of the four indexes were, respectively, up to 85.4 %, 91 %, 73.5 %, and 91.6 %. The number of large enterprises with an output value of over 100 million yuan increased to the current 390 from merely 39 in 1992, and the number of enterprises with an output value of over one billion yuan was 38. The per capita output value of a 1.3 million employed population was 170,000 yuan in high-tech zones, far greater than the per capita production rate of China's industrial enterprises.

The position of high-tech zones was more outstanding in the regional economy. The total output value of the Suzhou High-Tech Zone accounted for 33.2 % of Suzhou's total industrial output value; Qingdao High-Tech Zone, 16.6 %; Xi'an

High-Tech Zone, 14.3 %; and Harbin High-Tech Zone, 14 %. The industrial base of Beijing was large, and the total industrial output value of high-tech zones reached 10 % of the total of Beijing.

The total infrastructure loan provided for national high-tech zones during the 8th five-year plan was only 1.25 billion yuan; the setup funds of some high-tech zones were only a few dozen million yuan. Fifty-three high-tech zones occupy an area of 676.16 km² in total with less than 13 km² for each zone. These indexes showed that the country and local places obtained immense economic and social benefits with smaller investment.

3.5.3 Core of the Rural Issue and Transfer of Surplus Labor Force

Before and after the 1990s, a great batch of surplus labor forces transferred from rural areas to township and village enterprises, “three-processing and one-compensation” enterprises, and other nonagricultural industries in coastal area, and the number increased year by year, which attracted attention. Fundamentally speaking, the tide of migrant laborers is the historical trend of farmers’ requirement for further increase in income and living standard improvement. In places where township and village enterprises started earlier with rapid development, local surplus labor forces were still unsatisfied despite of their high salary, which was quite tempting to many rural surplus labor forces. They turned to making a living in cities and coastal areas after failing to find an appropriate job in local places. Hence, the tide of migrant laborers actually reflected the imbalance of China’s rural industrial development and farmers’ feedback on information of the labor service market.

Rural reform and development should rely on farmers’ enthusiasm and creativity. Fixing farm output quotas on household basis was started by farmers first and later supported, instructed, and improved by the Central Committee. It turned out to be successful. Historical changes took place in rural areas, so it was the same with township and village enterprises, which was also a success. Quite a few rural areas were in an economic boom. Now, farmers were no longer satisfied with only enough food and clothing; they required higher income and living standards. They wanted to be engaged in nonagricultural industries and move to foreign places, which was a major historical trend. They could only be approved rather than disapproved; they could only be guided rather than being suppressed. It was an issue of fundamental attitude towards how to treat farmers.

People called inland farmers who worked in coastal areas were following “blind flow,” which was and still is wrong. The goal of farmers had always been explicit, that is, a pursuit of higher income. The floating population increased rapidly. Some people say it was 60 million and even more, which indeed caused severe problems, especially intense pressure on transportation and a change in social order that

cannot be ignored. Some people were worried, which was not groundless. However, no matter in which way, we should first realize that the tide of labor force migration is an objective and irresistible trend. Only when we admit and approve it can we treat some inevitable problems in a correct way, put our heads together to solve them, turn pressure into motivation, and promote deepened reform and development of market economy. A leader from Kuche County in southern Xinjiang said that at the beginning of the 1960s, many “blind flows” came to Xinjiang, and later, they noticed that it was not right to call them “blind flows” because they were actually an important new force in the building of Xinjiang. They were mainly engaged in tooth filling, glass repairing, and shoes spiking. Many of them came from counties far away from the inland, and Wenzhou people accounted for a large proportion. The market would not have been prosperous without them, and the service industry would not have been complete. Therefore, gratitude had to be extended to these “blind flows” because they helped the market flourish in remote frontier areas and made life more convenient for others.

The core of the rural issue was the transfer of surplus labor forces. It was closely related with such issues as employment expansion and increase in grain output but stagnant income. After the issue of food and clothing is basically solved, what farmers sought out was monetary income rather than agricultural product increase. Township and village enterprises were the major source of increases in farmers’ income. In some places with developed township and village enterprises, including some inland counties, the output value of township and village enterprises had surpassed agricultural output value and became the pillar of rural economy. In particular, most of the new growth points were derived from township and village enterprises. Hence, farmers pinned their hope on the development of township and village enterprises.

To review fluctuations in agricultural production and changes in farmers’ income since the reform would be helpful in analyzing causes in the tide of migrant laborers that began in the 1990s.

From 1979 to 1984, after the first steps of reform, agricultural products enjoyed dramatic growth for years in succession. Together with the rise in prices, farmers’ income rose unprecedentedly with an annual progressive growth rate of 15.1 %. When farmers were happy, the country was satisfied and everybody felt the same.

In 1985, grain production decreased, which was followed by 3 years of wandering. However, owing to the rapid development of township and village enterprises, farmers’ income did not decline but showed an upward trend with a sustained annual growth rate of 5 %. Therefore, it was still satisfactory for the most part.

From 1989 to 1991, after a series of policies, the grain production was well conducted, and a super harvest was reaped in 1990. However, various factors hindered the development of township and village enterprises. In the end, the agricultural output increased, but farmers’ income was stuck with an annual growth rate of 0.7 %. This number meant that there was negative growth in many places. On the contrary, in coastal areas, especially the Pearl River Delta which depended on the rise of an export-oriented economy such as the “three processing and one compensation,” township and village enterprises reached a new height, improved

their level of technology, and expanded their scales of operation, thus driving the ongoing development of national township and village enterprises.

It can be noted from the analysis that the relationship between farmers' income and agricultural production growth was less and less closer than the relationship between farmers' income and township and village enterprises. At the same time, due to different foundations for the development of township and village enterprises and different changes, the gap between coastal areas and middle and western regions was getting larger. On one hand, the income growth of inland farmers was stagnant nationwide, so they wanted to go out for a living; on the other hand, although the technology level of township and village enterprises in coastal area improved, some labor-intensive products were being knocked out and the ability of absorbing labor forces declined, the development momentum was still great, labor forces were still in shortage, and salary increased as well. The push and pull triggered the tide of labor force migration on a large scale at the beginning of the 1990s. It can be regarded as the inevitable outcome of system reform, changes in urban-rural economic patterns, and enlarged regional gap, or in other words, further development of market economy requires further circulation and optimized combination of production factors. It was not only helpful in promoting the formation of a unified national labor force market and the market allocation of resources mechanism but also helpful in addressing the problem of stagnant income growth. According to statistics, the annual income of each laborer in Sichuan was over 2000 yuan; in 1997, the number of migrant workers and merchants increased to 4.5 million and in that year, about 14 billion yuan was remitted back, and over 20 billion yuan was brought back home during the New Year. Yet, the local financial income of Sichuan in that year was only 17.31 billion yuan. What a great treasure it was! In the mid-1990s, Sichuan called for "return of labor forces back to build their hometown." 430,000 people came back to run factories, which boosted the development of private economy of Sichuan and provided an important channel for reemployment of laid-off workers from state-owned enterprises. The number of migrant workers increased year by year, and so it was with income. As the local saying went, "As long as one person works outside, the entire family can get rid of poverty." Many statistical materials show that the number of China's rural surplus labor forces reached 120 million at that time and would be up to 200 million at the end of the twentieth century. Looking for a way out for such a huge population of surplus labor forces was a complicated and arduous historical task that we are bound to face for a long time. If it is well solved, it can become a new pushing force for reform and development; if not, it will disturb agriculture, rural economy, and even the overall national economy and directly affect social stability. Hence, the transfer, development, and utilization of rural surplus labor forces are the key global and strategic issues that have to be included in the economic and social development planning of governments at different levels and brought to the agenda of leaders so that they can be resolved through different channels and approaches.

3.6 Regional Disparity and Poverty Relief

The ideal of socialism is to realize common prosperity. The actual conditions of China are poverty, backwardness, and an imbalanced economic development. Before the reform, affected by the “leftist” ideology, we ignored reality, broke away from the practical conditions, and tried to pass the primary stage of socialism of poverty and an extremely imbalanced development within a short time so as to rush towards common prosperity. In the end, it backfired and turned into common poverty. The traditional idea was to walk side by side and hand in hand; nobody was allowed to take the lead and get rich first; those who became rich first destroyed common prosperity and deviated from the socialist path. However, history relentlessly announced that differences exist in an objective way, and the doctrine of nonrecognition is not feasible. Only when we admit differences and are not afraid of a lengthened gap within a certain period can the gap be gradually narrowed and eventually be eliminated; only when some people and regions are allowed to get rich first can the gap between the poor be changed into the gap between the rich on the way to common prosperity, and eventually, through this method, the dream of common prosperity would come true.

3.6.1 How to View Regional Disparity

Certain aspects of history have caused the imbalanced rural economic development in China. Under the common circumstances of poverty caused by the equalitarianism of “eating from the same pot,” urban and rural differences were obvious, while it was not so much so between middle and western regions and eastern coastal areas. People were already accustomed to many poorness and severe poverty problems. After the reform and opening up, unprecedented fundamental changes took place in the rural areas of the country, and progress was made in different places. Yet, as the economy in eastern coastal area maintained a high speed of growth, the speed in middle and western regions was relatively much slower. A big gap occurred between the two regions in terms of economic development; moreover, it increasingly exploded and turned into a major issue that influenced the general picture.

In 1987, *China Youth Daily* published *Exploration of Western Poverty* with this eye-catching title in succession. It was an earlier report on the poverty issue in China. One of the articles in the series pointed out, “Poverty is the outcome of backward socialist productivity and class oppression. As one of the motivations that made Marx and Engels work out the well-known ‘The Communist Manifesto’ over one hundred years ago, it was under such spiritual instruction of the ‘Manifesto’ that made Chinese Communists realize the dream of letting the masses be the master of the land, even if after arduous struggles. At that time, almost everyone believed that poverty, together with bourgeoisie, would be buried. As time went on,

another three decades passed. Poverty and some other accompanying negative phenomena still existed in our socialist country without class oppression.” Before and after the mid-1980s, China’s poverty issue fell into two aspects:

First, the economic income of a small portion of poor households could not meet their basic survival demands; their food and clothing issues were not solved. With insufficient amount of food to eat, not enough clothes to wear, and a short supply of housing, they were not able to ward off the wind and storm. They were called the “three insufficient households” and it was “abject poverty.”

Second, some low-income households and poor places were still backward and the gap between them and developed areas was expanding in terms of social and economic conditions. This gap led to “relative poverty.”

In the second half of 1987, seven comrades, including Jiang Yaohua and Sun Deguang from the Institute of Geographic Sciences and Natural Resources Research of the Chinese Academy of Sciences conducted a 9-month survey and interview and produced the report *China’s Poor Regions and Their Openness*, which was the first book about poverty relief and development. Based on plenty of exhaustive and scientific materials, it comprehensively analyzed the natural, social, economic, and ethnical features of the country’s poor places, categorized 664 poor counties of the country into six types and 21 subtypes, and pointed out conditions, advantages, existing problems, causes for poverty, development directions, and relief strategies. The report can be deemed as one of the initial important achievements in poverty relief through technology by the Chinese Academy of Sciences.

Based on a map of China, if you cross a line from the south of the Hsingan Mountains, Bashang Plateau, Tai-hang Mountains, Wushan Mountains, Wuling Mountains, to the Miaoling Mountains, you will find that this is a line of watershed between the rich and poor areas. Over 86 % of the poor counties in the country are located west to the line and form a distinctive contrast with the poverty areas dotted like hills on a big plain or islets against the vast ocean in the east.

If analyzed from the perspective of geography, geomorphology, and natural resources features, the 18 poorest places in the country can be divided into the following types: the connection belt between the east and the west, the Karst Mountain area in the southwest, the dry land in Inner Mongolia, hilly and mountainous area in the east, the gully area on Loess Plateau, and the mountainous regions of Tibet.

When the consumption levels of per capita of 275 yuan and 370 yuan were used for the upper and lower limits of abject poverty standards by the World Bank in 1985, 210 million people fell into the category of the poor population, accounting for 18.8 % of developing countries with a population of 1.2 billion in total; the number of Chinese people living in abject poverty was 80 million, accounting for 12.6 % of the 640 million poor people in developing countries.

Roughly speaking, the majority of the west of the Beijing-Guangzhou geographic line can be called the middle and western regions whose population occupies 64 % of the total and whose territorial area accounts for 89 % of the total. Over 80 million people fell below the poverty line and over 70 million came

from these areas. If the middle and western regions do not develop, stability is out of the question for China, and the southeast coastal areas cannot maintain sustainable and rapid development.

There are ten provinces in China's western regions. Other than Xinjiang, per capita income of these provinces is below the average. Guizhou has the lowest with a per capita GDP of 1232 yuan, accounting for 46.2 % of the national average number of 2663 yuan, one eighth of the per capita GDP of 11,700 yuan in Shanghai, which was the highest. The economic gap between the west and the east has constantly been widened. Take GNP for example, the east accounted for 53.8 % in 1990 and increased to 58.3 % in 1991 with an increase of 1.5 percentage points on average every year. Yet, in the west, GNP proportion decreased by 0.5 percentage points every year on average from 1991 to 1993. According to the survey materials of the Development Research Center of the State Council, China had 587 poor counties in 1993, and 515 were located in the middle and western regions, which accounted for 87 % of the total. These poor counties were distributed in the southwest and northwest high elevation areas, especially in the transition belts with an abrupt slope from the plateau to the plain. The mountains were high and steep in these areas with severe water and soil loss. Natural disasters were frequent, ecological balance was weak, transportation was inconvenient, development cost was high, while investment benefits were poor. As a result, the economy was extremely backward.

The enlarged gap between the west and the east in terms of economic development was caused by many factors. In a narrow sense, there were three reasons. First, China's productivity had always been concentrated in the southeastern coastal areas ever since ancient times. Second, according to the national industrial vertical labor division and layout, processing-leading industries were mainly located in coastal areas, while resource development industries were distributed in the western regions. For a long time, the price of basic products severely deviated from their true value, thus leading to the stagnant development of western regions. Third, since the reform, township and village enterprises in eastern coastal areas developed rapidly, and the industrial structure was constantly being adjusted. They were adept in using the preferential policies of the country, applying the market mechanism in a flexible way, taking the lead in developing industries with high return on investment, and building up China's domestic and foreign investment hotspots. The "fly-away" of capital, personnel, and enterprises from inland made the problem of insufficient capital and personnel problems in middle and western regions more prominent, thereby worsening their economy. The latter factor is especially significant.

To some extent, the growing economic development gap between the middle and western regions and the east mainly resulted from the nonagricultural industrial growth gap and especially the industrial growth gap. In other words, the economic difference between the east and the middle and western regions was mainly reflected in the development degree of township and village enterprises, which in essence demonstrated the contradictions and gap between industry and agriculture. Such economic gap caused by the development degree of township and village

enterprises equally existed in the east, middle, and west regions and provinces as well as counties. Shandong had three obvious categories: first, the Jiaodong Peninsula in the east including Qingdao, Yantai, Weihai, Zibo, Weifang and other coastal developed areas; second, the west, including Binzhou, Dezhou, Liaocheng, and Heze as well as some mountain counties in Linyi; and third, the middle area between the two categories above. Since ancient times, the rural economy in the east has been more developed than the west. After rural reform, the gap was once narrowed. In 1984, the per capita income of rural areas in the east was 400 yuan, and it was 300 yuan in the west with a difference of about 100 yuan. In 1991, the number reached 1000 yuan in the east, while it remained 500 yuan in the west, with a difference of 500–600 yuan. It was because the east seized the opportunity to develop township and village enterprises, and the secondary and tertiary industry accounted for 80–90 % of the total rural economic income. The status of regarding the primary industry as the core was thoroughly changed and historical transformation in economic structure was realized. However, in the west, the primary industry accounted for 70–80 % of the economic structure; the secondary and tertiary industries were underdeveloped; and farmers bore the heavy burdens with their low income. The middle area was in a transitional period. With the gradual expansion of the secondary and tertiary industries, its economy was recovering and stepping towards rural industrialization. The economic gap between South Jiangsu and North Jiangsu is quite large as well, and the area on both banks of the Yangtze River was somewhere in between. The Pearl River Delta of Guangdong Province is known as the “golden delta.” Some areas in the northern Guangdong mountainous areas, which are less than 200 km away, are as poor as or even poorer than some places in the middle and western regions. Therefore, regional disparity was and still is an issue caused by universal factors.

How to look at the widening gap between different regions?

One view is that the economic disparity between the middle and the west and the east of China has existed for a long time and imbalanced development is an inevitable outcome of rapid economic growth. The faster the national economic growth, the greater the economic growth between regions, which was in line with the law of correlation between economic growth and regional economic imbalance. This law shows that at the primary and middle stages of industrialization, a country usually concentrates capital in favorable regions. Only in this way can rapid growth be realized on the whole. However, at the same time, the differences in regional economic strength and per capita output value will necessarily be expanded, which has been proved by regional economic development in the industrialization process of many countries. The increasing developmental imbalance among regions is the unavoidable side effect of high-speed economic development. It has to be noted that major factors causing large economic disparity will exist for a long time. As long as the national economy continues growing stronger and appropriate measures are taken, imbalanced regional development will not lead to instability in the country.

3.6.2 Policies and Measures for Poverty Relief and Development

Since the beginning of the 1980s, the Party Central Committee and the State Council strengthened poverty relief and development work. Earlier in 1982, central finance and economics group decided to govern the “Three Xi Places” (Hexi Corridor and Dingxi of Gansu and Xihaigu of Ningxia) where the ecology was severely damaged and farmers suffered from hunger and harsh cold. Within 10 years, the central government allocated 200 million yuan every year to solve the problems of water and soil erosion and food and clothing shortage. In February 1986, three investigation groups led by general secretary Hu Yaobang went to Guangxi, Yunnan, and Guizhou to visit farmers whose food and clothing problems were not yet addressed. In June of that year, an economic development group under the State Council targeting at the issues in poor areas was officially established to increase poverty relief investment and to formulate a series of favorable policies for poor places to recuperate. These measures involved reduction and abatement of agricultural taxes, exemption from energy and transportation key construction funds, setting up special funds for the development of poor places, and handing out a batch of soft loans and subsidies for interest loans. More importantly, traditional spotted relief efforts were changed into an open plan poverty relief effort, that is, there was a transformation into a spirit of a more powerful self-dependence and perseverance function in poverty relief plans, thus changing the poor and backward fronts.

The State Council instructed related departments to cooperate with provinces and autonomous regions to adopt a method of fixed points and provide key support, including helping introduce advanced technology and equipment; developing township and village enterprises; exploring mineral resources; promoting different practical technologies; activating commodity circulation; providing consultation and technology services; giving priority to regional backbone projects, which could drive economic development; and building basic infrastructure, which had important influences on the follow-up development of poor places and projects that improved agricultural production conditions and the ecological environment. This greatly changed the poor and backward status of these areas. From 1978 to 1985, China’s rural absolute poor population was reduced from 250 million to 125 million and kept reducing.

Poor places are distressed usually because of closed transportation networks. Since the winter of 1984, the country spent 3 years in relieving people in disaster zones by giving them employment and helping poor places repair highway and water conservancy projects with inventory grain, cotton, and cotton cloth equal to 2.7 billion yuan. By the end of 1987, 120,000 km of road construction and repair were completed, including 70,000 km of newly built roads. A great batch of newly built and rebuilt small water conservancy facilities were put into use. The drinking water problem of nearly 10 million people was resolved. After over 4000 km of roads were repaired in poor areas in Gansu Province, 15 towns that were previously

closed were opened through new road networks, and transportation conditions were improved in over 400 towns. Difficulties in crossing the river were solved for 100,000 people, thus accelerating economic development in those places, greatly increasing the net income farmers, and helping them step onto the road of poverty alleviation and wealth.

The fundamental initiative of poverty relief can be found in intelligence development and human talent training. In recent years, different technological and talent advantages in different forms have been used to train talents for poor places and improve the quality of laborers and managers, in which gratifying progress has been made. First, vocational education and technical training were conducted for junior high school and senior high school graduates, and service men were transferred to civilian work so that they could grasp one or two types of special technical skills. Second, professional colleges and science and technology units were entrusted to train special technical talents for poor places. Third, cadre training centers in poor places of the country trained county-level leaders for poor places in batches. In 1991, initiated and sponsored by the China Foundation for Poverty Alleviation, poor places in the south of Shaanxi and developed areas in the south of Jiangsu organized cadre exchanges in a systematic and organized way at the provincial, county, and town levels, making a positive impact on improving the abilities of cadres. The Organization Department of the CPC Central Committee and the State Council Poverty Relief Group approved of and promoted the initiative, which has now been expanded to 29 provinces, cities, and autonomous regions, impacting about 10,000 cadres. The two-way communication facilitated changes in certain notions and in a renewed ideology; it trained about 20,000 human talents for poor places, built new or revitalized old township and village enterprises, and boosted the economic development of poor places. The abilities of cadres of developed areas were greatly enhanced; the local economy was further developed, and a number of projects with western and eastern cooperation were introduced or developed.

After 7 or 8 years of efforts, the impoverished population was reduced from 125 million to 80 million. This number, on one hand, reflected immense achievements in poverty relief work and, on the other hand, showed more arduous tasks in future. The remaining population, which has not gotten rid of poverty and lingered at the danger line, was mainly distributed in deep mountainous areas, cold highland areas, remote areas and minority areas with shortages in farm land, resource scarcity, drought and water shortage, inconvenient transportation, and weak social development. These factors meant that poverty relief work had entered the hardest and most crucial stage. Therefore, starting in 1994, the State Council formulated National “87” Poverty Relief Crucial Program and decided to spend 7 years solving the food and clothing problem of 80 million people by the end of the twentieth century.

Eighty percent of the population lives in western regions, and most of them are concentrated in southwest and northwest regions. To thoroughly solve the food and clothing problem in these poorest places and help them get rid of poverty is to gradually narrow the gap between eastern and western development. Making full

use of the program was a serious matter of the country. It had to emphasize on a principle of level responsibility and focus on provinces under the leadership of the Party Central Committee and the State Council; meanwhile, they had to mobilize all social forces to proactively participate in the poverty relief and development work, to fight against poverty, and to make their contributions to common wealth and inspire the whole nation.

At the beginning of 1994, the China Youth Development Foundation announced the initiation of “Project Hope” aiming to help dropout students in poor places. This project was extensively sponsored and funded. Over 200 million yuan was spent in 5 years to set up thousands of Hope Schools. The working staff in the foundation supported the ambitious cause established with their love, sense of responsibility, and dedication as well as conscientiousness and selflessness to provide social care and solicitude for dropout students. When publicizing the audit results, the State Auditing Administration spoke highly of the staff and maintained that it was “a trustworthy project.” The absence of corruption was in itself a source of hope.

In March 1994, Wu Renbao, Party branch secretary of Huaxi Village of Jiangyin County, Jiangsu, national model laborer, excellent Party member, and a representative of the National People’s Congress, responded to the call for “mutual help between the east and the west as well as common well-being” and implemented the “87 Poverty Relief Crucial Program.” They held a novel training class in the village. Among outstanding town Party committee secretaries and township heads, junior college graduates accounted for 42 %; senior high school and technical secondary school graduates occupied for 50 %; and junior high school graduates took up 8 %. All fees were shouldered by Huaxi Village. Wu Renbao paid attention to practices and stressed application and practicality. He maintained the vivid description of the training class: the course was about the socialist market economy; the class was the factory and the market; the teachers were workers and farmers. The training lasted for 6 months and was divided into three stages. First, there was learning about how Huaxi Village got rid of poverty and overcame difficulties, and how it stepped towards wealth and became “the hope of socialist villages”; second, there was studying corporate management knowledge and the Huaxi experience by traveling around with salesmen, learning about the market, doing business, and sharpening training abilities required by market economy development; third, there was working in the factories, working in specific positions, and being familiar with the systems and methods of the Huaxi corporate management. After the training was over, each person could send 30–50 people to work for 2 or 3 years and continue to learn demanded skills. In this way, they could broaden their views and earn money to set up factories after their return. Step by step, Huaxi Village helped lift 10,000 people and their families out of poverty. In the middle of March, during the National People’s Congress, Wu Renbao held a symposium with national well-known model laborers, including Shi Laihe (from Henan), Ni Zhenliang (from Beijing), Li Guilian (from Dalian), Chang Zonglin (from Shandong), and Lu Zhimin (from Jilin), and shared his opinions and approaches, which were warmly welcomed by the people. All of them were prepared to join poverty relief actions. Lu Guanqiu, director of the joint factory of Zhejiang’s Hangzhou and a famous farmer

entrepreneur nationwide, proposed the “Go West” program and made up his mind to invest 100 million yuan in the region. The project was being negotiated. These excellent farmer entrepreneurs not only had a sense of historical responsibility but also possessed the foresight and sagacity and realized that poor places do not have to be permanently poor. The resources contained in the underground of poor places far exceed developed areas. Some resources such as waterpower and solar energy resources were extremely abundant. It was a place of treasures to be developed with investment and profit. The degree of social development was quite low in the middle and western regions, and a natural economic pattern had been maintained. It was certainly hard for such a large closed system to be in line with modern social civilization and the modern market economy. However, the middle and western regions were not destined to be permanently backward. With advantages in labor resources and natural resources, little investment risks, and great market potential, their improvement was just a matter of time. As long as they are brave enough to do things according to economic rules, and with the support of eastern regions’ capital and technology, they may walk towards the middle and western regions and will catch the first worm and go onto a combined path of eastern and western advantages.

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Chapter 4

A New Stage of Reform, Opening Up, and Development (1992–1998)

4.1 Full Transition to a Socialist Market Economy System

At the 14th National Congress of CPC held in October 1992, the goal of the socialist market economy reform was established, marking China's reform and opening up fully transformed to market economy system. Over 10 years of practice, exploration, rise, and fall finally brought about an unprecedented consensus that "the socialist market economy system can be combined with the basic socialist system."

In March 1993, the First Plenary Session of the 8th National People's Congress recorded "socialist market economy" in the solemn constitution. Since then, the socialist market economy has become an irreversible trend.

4.1.1 *Theoretical Cornerstone for a Socialist Market Economy*

At the beginning of 1992, the deliverance of Deng Xiaoping's Talks in South China was an immense cyclone dispelling dark clouds in the atmosphere and removing people's doubts and confusion. It provided a complete strategic ideology for China's reform, development, and stability in the 1990s for quite a long time and laid a theoretical cornerstone for China's socialist market economy. The Talks in South China scientifically concluded the historical experiences and practical new experiences of New China, and its contents are considerably rich in content. Its main ideas are as follows.

First, it stressed that the Party's basic line for the entire historical period of socialism would remain constant for a 100 years. China would only come to a dead alley if it failed to conduct socialism, reform, and opening up and improve people's livelihood. It clearly pointed out that at the entire primary stage of socialism, the

Party would always carry out the basic line without a slight of fluctuation. Anyone who wanted to change the basic line would be defeated so long as the masses do not agree.

Second, it emphasized that to reform was to emancipate productivity. “In the past, it was incomplete to develop productivity under socialist conditions. Productivity emancipation and development had to be both considered.” The speech highlighted that “development is of overriding importance” and that the country must maintain the principles of the “three useful,” that is, abiding by the principles of being useful to developing productivity, strengthening comprehensive national strength, and improving people’s living standard. In this way, productivity standards were combined with the concept of the country and the concept of the masses, turning into a complete and unified standard for judgments between the right and wrong.

Third, it underlined that we had to be vigilant of rightist deviations but mainly prevent “leftist” deviations. The influences of “leftist” deviation were deep-rooted. History has proved that since the founding of New China, whenever “leftist” ideology and approaches appeared, the economy declined. Hence, if “leftist” deviations cannot be restrained, the reform and opening up is out of the question, and it would be impossible to truly give scope to the superiority of socialist system. Yet, it had been long believed that “leftism” was about a matter of approach and rightist thought was about direction, that being “leftist” was better than being rightist, but the speech pointed out that following “leftist” thought caused more harm.

Fourth, it stressed that we should consciously learn from beneficial experience of capitalist-developed countries. Reform is closely related with opening up and the two mutually promote each other. In the past, capitalism was regarded as a plague, which was quite horrible and even “socialist reform was preferred to capitalism seedling.” After the reform, the attitude was changed to some extent, but the boldness of “copying” fell short. We only attached importance to introducing equipment and learning technology but were afraid to learn and use management experiences, thus leading to disputes over socialist or capitalist plans and the market, which have lasted for many years. The speech explicitly pointed out that both planning and the market are economic means, rather than the essence of a social system. Capitalism can utilize them and so can socialism. They will serve those who can make the best of it. The problem that had long been argued was finally answered in a lucid form.

After an extensive promotion, learning, and discussion period, the Talks in South China had become the consensus of the people by laying a theoretical cornerstone for the socialist market economy. People started reading the first draft. On one hand, they were extremely excited to see the hopes of the reform and opening up; on the other hand, they were worried about whether some new breakthrough ideas would still be maintained in official document. Later on, the final document was delivered, and some of the most important speeches were not deleted, but there was still uncertainty about their adoption into the Party’s resolution.

In the middle of April, while the entire country was still learning and discussing Deng Xiaoping’s speech, Qiao Shi, a member of the Standing Committee of the

CPC Central Committee Political Bureau, released a speech and pointed out that Deng Xiaoping's speech was "strongly pertinent" and aimed towards "problems and ideological tendencies which the Party should note and prevent." What were these problems and tendencies? Qiao Shi explained, "We need to be alert of the rightward deviation but should mainly prevent 'leftist'." He further touched upon the Party's history of "leftist" deviations and stressed that we should take history as a mirror because "rightist" can also spell an end to socialism as it was with "leftist."

Soon after, on April 25, Tian Jiyun, vice premier of the State Council and a member of the CPC Central Committee Political Bureau, made another long speech at the Party School of the CPC and triggered an enthusiastic response.

Tian Jiyun said, "The fundamental problem is to develop the economy. The collapse of the Soviet Union cannot be absolutely regarded as the mistake of one or two people. This aspect is surely important but the essential reason is that that model of socialism did not create higher productivity levels than capitalism, did not bring happiness to people, and lost the support of the masses.

"We must break the deep-rooted 'leftist' restraint in order to accelerate the pace of the reform and opening and economic construction. However, this is impossible if we just indulge in empty talk instead of clearing away 'leftist' things and not cementing Comrade Deng Xiaoping's speech of being vigilant of the right-leaning and prevent "leftist" issues. The old "Leftist" habits are deeply entrenched and the hindrance against the reform and opening up mainly comes from such old habits. 'Leftist' ideas were demonstrated in many aspects, when you want to publicize more about reform and opening up, they will say it will destroy the hard-won good situation and the achievements in the improvement and rectification will be lost without thinking about how the good situation is shaped; the good situation was brought about by reform and opening up. If you want to use more foreign capital, they will say that more foreign-funded enterprises mean more capitalism, which will threaten our country's socialist nature. If you allocate one piece of land to foreign contractor for development, they will say that it is equal to giving away national sovereignty and humiliating the country. When you intend to develop some township and village enterprises, they will oppose by saying that township and village enterprises are the sources of unhealthy tendencies and will erode the quality of our cadres. Township and village enterprises are regarded as the threat to socialism. If you plan to develop some private enterprises and individual households, they will say it will change the socialist nature. When it comes to the factory director responsibility system, they will say it weakens the Party's leadership. When it is believed that the household responsibility contract system must remain in place, they will say that it is not helpful to the collective economy development and common well-being. Someone made a great summary of all this: foreign-funded enterprises are a hotbed for a peaceful evolution; township and village enterprises are the sources of unhealthy tendencies, and the rural household responsibility contract is the root for the collapse of the collective economy. They almost deny all the most basic and essential concepts that emerged since the reform and opening up. For some people, while enjoying the benefits from the reform and opening up, they still abuse them and cannot get used to them. They

are still attached to the shortage economy of the 1950s and 1960s. Some are still reluctant to leave the guidelines of class struggle and think that without conflict between the masses and cadres, socialism cannot be attained. All in all, the barriers of old ‘leftist’ habits imposed on the reform and opening up cannot be underestimated. According to the ‘leftist’ deviation, everything has to be either socialist or capitalist. There is nothing in between. ‘Leftist’ things are ubiquitous and it has a revolutionary hue, with a statement of revolution with great deception and harm. This is so in both the Party’s history and real life. Hence, in my opinion, getting rid of ‘leftist’ restraint at the upper levels is a key topic. Reform and opening up is just idle theorizing without changing the true situation. A question mark would have to be drawn for the last period of the reform and opening up if this problem cannot be solved.

“While eliminating the ‘leftist’ influences, we also have to stay alert to those opportunists. Such people are unsteady and adept in playing tricks, and take any opportunity to stand against the reform and opening up. Once these people grasp onto national power, it would be a disaster to the country and people.”¹

During this period, many economists published articles to expound on the issue of the market economy.

Following this, the political report draft of the 14th CPC National Congress was passed around for review in the central organizations and among provincial, municipal, and district leaders in order to solicit comments. On June 9th, Jiang Zemin made a speech to provincial student cadres at the Party School of the CPC Central Committee and proposed the concept of a “socialist market economy.” He stated that at the upcoming 14th NPC, an outline about the economic system reform that the majority agreed on must come to form. He himself was more inclined to the wording of “socialist market economy.” It was the first time a major leader expressed transformation towards the market economy. It can be deemed that the concept of socialist market economy had been basically agreed upon among the highest-level decision-makers.

In the end, the 14th CPC National Congress, held in October 1992, passed a resolution and confirmed that socialist market economy was the demonstration of socialism with Chinese characteristics in an economic system. In March 1993, the First Plenary Session of the 8th NPC put down “socialist market economy” rather than “planned economy” in its formal documentation. In the constitutional amendment, three other items, including “primary stage of socialism,” “reform and opening up,” and “responsibility system led by household contracting” were included, which marked China has fully transformed to a socialist market economy system.

¹ Tian Jiyun *Situation, Challenge, Task*. Party School of the CPC Central Committee Press, 1996, pp. 385–387.

4.1.2 Prosperous Development of a Pluralistic Economy

The 14th CPC National Congress confirmed the model for achieving the goals of the reform. The establishment of strategic goals removed people's doubts, instilled immense vitality into reform, and guided the reform, opening up, and development to new round of peak achievements. As it was marked by Deng Xiaoping's Talks in South China at the beginning of 1992 and the 14th CPC National Congress, China's reform and opening up and modernization entered a new stage of development; the socialist market economy system was regarded as the general goal for economic system reform. There was vigor all around the country, and inspiring significant achievements were made in all aspects. A head start was made for reaching an even higher level in China's economy.

In 1992, gross national product (GNP) increased by 12.8 % from the previous year; the production of major agricultural products such as grain and cotton as well as forestry, animal husbandry, and fishery continued to grow. Township and village enterprises maintained a dynamic momentum, and the rural economy was in full swing. Industrial production increased rapidly, and benefits stably recovered. Causes such as science and technology, education, culture, health, and sports gained greater development. The income of both urban and rural residents increased significantly and actual living standards continued improving.

In 1993, growth based on 1992 continued, and some key reforms adapted to the market economy were successively announced. In that year, GNP increased by 13 %. It was the time when the national industry, especially the township and village enterprises, made great progress. The total industrial output value at the village level and above reached 3507.4 billion yuan, a growth of 23.6 % from the previous year; the realized taxes and profits of the year was 218.8 billion yuan with an increase of 23.6 % than the previous year. That year was an important period when agriculture transformed to "high yield, quality, and efficiency." As much as reduction of output appeared in the three main types of crops, including grain, cotton, and oil, the output value of agriculture in total still rose by 3.7 %. The per capita income of urban and rural residents reached 2,225 yuan with a growth of 21.86 % than the previous year. More importantly, in 1993, considerable progress was made in the construction of China's main market, and the market system was developing towards standardization and diversification. The whole country had 2000 means of production markets, over 1800 agricultural by-product wholesale markets, more than 3600 small commodity markets and over 3700 industrial product wholesale markets, as well as about 10,000 professional markets like traditional Chinese medicine materials markets, and 80,000 urban and rural peddlers' markets. The production factor market also maintained swift and vicious development.

The year of 1994 was another year of high growth. Breakthrough development was made in macroeconomic reform; opening up to the outside world was further expanded in terms of both width and depth; the national economy continued to develop swiftly; comprehensive national strength showed new improvements.

According to the figures announced by the State Statistics Bureau, in that year, GNP increased by 1000 billion yuan, which was the first time that it went beyond 4000 billion yuan, at 4380 billion yuan, and calculated by comparable prices, it increased by 11.8 %. Agricultural production overcame natural disasters and harvest was reaped. The agriculture added value rose by 3.5 %. The total grain output in major agricultural products reached 449.6 billion kilograms with a reduction of 11.9 billion kilograms compared to the previous year. The total cotton output was up to 4.25 million tons with an increase of 500,000 tons. Oil plants, meat, and aquatic products maintain high yield, while yield reduction occurred in sugar, sesame, and tobacco; the benefits of industrial enterprises turned around, and the added value of that year was 1840 billion yuan, with a growth of 18 % than the previous year; there were fewer demands for investment and the investment structure was improved. Key construction was strengthened, and the number of newly started projects decreased by about 20 % than the previous year. Market supplies were sufficient, and the market of commodities of consumption was vibrant. Some of the agricultural by-products were greatly demanded but not in shortage, so products out of stock or competitive purchase didn't appear. The import and export volume amounted to 23.5 billion yuan, 20 % up from the previous year; a trading surplus began, which reversed the pattern of import growth being higher than export in the first 2 years. Urban and rural residents' living standards continued improving. Urban residents' per capita living expenditure income was 3150 yuan, and rural residents' per capita net income was 1200 yuan. With the factor of rising prices excluded, these values increased by 7.8 % and 5 % compared to the previous year. Urban and rural residents subscribed about a hundred billion yuan worth of government bonds. Saving deposits increased dramatically, and the newly increased savings rate exceeded the total new savings rate from the previous 2 years.

The growth rate of GNP in 1995 was 10.8 %. In other words, after rapid development and a farewell to shortage, it was another high growth year that leaped out of the already high base number. The momentum of development was not lost. Large-scale construction and rapid and immense changes were just surprising. All cities and villages were changing their situation day by day. 250,000 basic construction projects were built during the 8th five-year-plan period, including 809 large projects. The floor space area completed reached 6.4 billion square meters. Project contracting and labor service cooperation were conducted in over 160 countries and regions. The total contract value extended to over 30 billion USD, a growth that was twice higher than that during the 7th five-year-plan period. In 1995, the GNP was up to 5760 billion yuan, and the original goal of doubling than 1980 in 2000 was realized 5 years in advance. The development strategy of "developing the country through science and education" was confirmed, and 160,000 national scientific research achievements were obtained within 5 years. Various education businesses gained swift development. Primary school education was popularized in regions whose population accounted for 90 % of the total population, and obvious progress was made in the 9-year compulsory education.

China's social productivity, comprehensive national strength, and people's living standard were greatly improved.

If the national economic growth rate at 10 % in 1995 was a slight and stable fall compared with 11.8 % of last year, then the economic trend in 1996 could be regarded as stable rise. The regulated rise in the prices of coal, electricity, oil and agricultural products increased the production cost of industrial enterprises, but the macroeconomic aggregate index remained steady. The key to healthy economic growth was to solve more and more accumulated difficulties in the microeconomy, especially problems existing in state-owned enterprises. Entering the 1990s, great changes took place in the domestic market. Consumers' requirements for product quality, level, performance, and assortment obviously improved; the update frequency of domestic consumption goods clearly went up; the gap between domestic market and international market was significantly narrowed. Under such circumstances, township and village enterprises and foreign-funded enterprises proactively adjusted production structure and carried out corporate restructuring and transformation through corporate bankruptcy, new construction and update in equipment, technology, and process, thus strengthening adaptation to rising consumption ability of the city and enhancing product competitiveness; state-owned enterprises proceeded slowly, but it was still hard for them to turn the trend of declining benefits.

The reform made a persevering step: led by a switch of the corporate operation mechanism, large and medium state-owned enterprises restructured the entire economic system; in terms of price reform, the market force determined the price range and degree and expanded in an unprecedented way; in regards to ownership, the entry of the private economy, cooperative economy, shared economy, and foreign funds hit a record high, and types of ownership were more diversified on the whole; as for financial reform, the stock market and mixed securities transactions became the most appealing new phenomena in China's economy; in terms of market cultivation, market forces covered almost all aspects, including means of livelihood, means of production, technology, capital, labor service, and real estate.

At the same time, an unprecedented climax in the opening up process extended from south to north, east to west, and coastal to the borderland: at the northeast, eastern, and southern parts of Liaoning Province to Korea Peninsula and Japan; at the north, vast borderland, including Heilongjiang and Inner Mongolia Autonomous Region to the Far East of Russia; and at the southwest, connected by Guangxi and Yunnan provinces and Southeast Asian countries; the openness of the southeast coastal areas was more closely related with the entire world through Hong Kong SAR and Taiwan.

In that year, newly constructed cities were scattered in all places, including five riverside cities, 13 borderland cities, and 18 provincial capital cities; at least 34 ports would be successively opened. A new layout of comprehensive openness emerged in China.

The new round of peaks in the reform, opening up, and development climax was prominently demonstrated in foreign economic relations. In terms of the methods of foreign investment introduction, the focus was transferred from borrowing to

attracting foreign direct investment. Driven by the openness of the Shanghai Pudong Development Zone, the Yangtze River area took on an unprecedentedly dynamic trend. The amount of new foreign investment in 1992, 1993, and 1994 respectively was increased by 125 %, 171 %, and 158 % compared to previous years. The number of newly registered foreign-funded enterprises reached 153,600 by 1994. The Annual Report on World Debts issued by the World Bank pointed out that China was the largest country in foreign capital inflow in the world in 1993.

Amid a series of key reform measures issued in 1994, one important aspect was to further reform the foreign economic system so as to help expand foreign transactions, attract more investments, restore China's position in General Agreement on Tariff and Trade (GATT), and meet the standards of the world economy. The unification of exchange rates was conducted since the New Year, thus setting up a single administrative yuan floating exchange rate system based on market exchange rates and creating conditions for the free exchange of yuan. The State Council decided to form policy-based import and export credit banks to support foreign trade development in financial trade transactions.

Township and village enterprises played an increasingly important role in the development of export-oriented economy. In 1993, the proportion of foreign trade export trade volume of national township and village enterprises increased to 45 % in 1993 from 29.5 % in 1981. In 1992, newly set up township and village foreign-funded enterprises possessed three characteristics. First, the investment regions expanded to inland and frontier provinces from coastal areas; second, investment subjects became more diversified, ranging from Hong Kong SAR, Macao SAR, and Taiwan of China to Europe and America as well as Southeast Asian countries; third, investment scale increased and project levels were enhanced. In 1993, the number of newly approved foreign-funded enterprises in Suzhou was over 1200 with an average investment volume of 1.4 million USD. The great development of township and village enterprises' export-oriented economy was also manifested in active border trade, especially trade between China and the Commonwealth of the Independent States, Vietnam, Korea, and Burma. Quite a few township and village enterprises go abroad to set up factories overseas and directly participated in international market competition. By the end of 1993, 105 enterprises or offices had been established in 36 countries and regions. In 1992, No. 19 Document of the State Council put forward the policy of "endowing import and export rights on qualified township and village enterprises and enterprise groups." By 1993, 156 enterprises had gained independent import and export rights as well as favorable economic benefits. All in all, opening up to the outside world shaped a general pattern of moving from the coastal to riverside, borderland and inland, as well as from ordinary processing industries to basic industry and infrastructure. The development of foreign economic relations helped China's economy transform from a semi-closed status to a more open status and enter the world's economic stage. These enterprises promoted adjustment in industrial structure and strengthened overall benefits of national economy; meanwhile, it helped in the deepening of economic system reform, accelerated the progress of modernization, and brought the comprehensive national strength to a new level.

While the world economy was stagnant, China maintained rapid growth and became one of the countries with the rapidest economic development in the world. Moreover, the prospects became more promising, and there was a great market potential. In this way, developed countries have to look at China with new eyes. They successively adjusted policies and tried to enter and expand the Chinese market. China's international status was constantly improving, and its development in the world economy was no longer insignificant.

4.1.3 Rise of the Joint Stock Cooperative System

With the development of the socialist market economy, the joint stock cooperative system started springing up in rural areas around the country. Among the earliest were Wenzhou of Zhejiang Province and Tianhe District of Guangzhou Province. They showed up in the mid- and late-1980s but did not attract enough attention. At the beginning of the 1990s, they were quickly popularized around the country. By the end of 1993, over two million corporations had been in place, accounting for about 10 % of all township and village enterprises. Some provinces and cities were developed to a great extent and became major pillars and market competition subjects of rural economy, constantly expanding out into a wider field. Its characteristics were as follows: first, expanding from township and village enterprises to agriculture, forestry, animal husbandry, by-products, and fishery; second, extending from collective ownership to multiple ownership (including state-owned enterprises, individual enterprises, and private enterprises); third, expanding from assets demutualization to production factors (such as land) demutualization; fourth, expanding from community joint stock cooperation to cross-community joint stock cooperation as well as from southeastern coastal area to central and western regions; fifth, operation organizations grew from small ones into larger ones.

The rise of joint stock cooperative system at the beginning of the 1990s was by no means accidental but was the inevitable outcome from China's rural economy transformation towards a socialist market economy. The market economy development required the market to be completely independent with explicit property relations, enterprises to have certain scale and provide stable bulk products, and economic organization to be established. Farmers' household operation scale was very small with a low commodity rate; the scale of most of township and village enterprises was not large. Community cooperation organizations established during rural reform were tightly closed, which was not helpful to the circulation of production factors and market allocation. Hence, joint stock cooperation came into being and flourished and became a kind of system innovation that reflected the willingness of hundreds of millions of farmers as well as a major historical development trend.

Some comrades thought that joint stock cooperative systems were two different kinds of systems. The features of joint stock system were as follows: (1) capital union, (2) profit-oriented, (3) one stock share one ticket, (4) dividends by stock

(capital), and (5) public accumulation not retained. The features of cooperative system were (1) laborer union; (2) aimed to serve community members; (3) one person one ticket; (4) allocation by labor, contribution, or transaction; and (5) inseparable public accumulation retained. As a result, the combination of the two would make it neither fish nor fowl. Such opinions were not groundless. However, China's economic and social conditions were especially complicated so some nondescript but vigorous new occurrences could break through the soil. We should not rush to make judgments or conclusions; instead, we should observe, instruct, and improve, and go for diversification and then standardization. They may become new things in the socialism with Chinese characteristics. The household responsibility contract system was like this, so it was with joint stock cooperative system. It was a typical corporate system that was suitable for rural township and village enterprises during farmers' practices in the socialist market economy. It not only absorbed the basic principles of public ownership, including public accumulation, distribution based on labor, and common pursuit of welfare, but also used the advantages of the joint stock system, including clearly established ownership, an open union, assembled scale, and shared risks, thus forming a kind of economic organization form with special organizational functions and independent status. Practice has shown that it mainly had the following features: (1) In terms of property subject, the property subject of rural collective enterprises turned explicit from vagueness. Labor subjects were the same with assets subjects, which strengthened the master position of staff, maintained the integrity of collective economy, and protected farmers' common interest. (2) In terms of development momentum, external administrative compulsory mechanism of collective enterprises turned into internal interest incentive mechanism, motivated enterprises and staff's accumulation motive, and constantly pursued maximized corporate collective interest. (3) In terms of corporate operation, the single administrative supervisory management mechanism was transformed into the operation mechanism of self-management, sole responsibility for one's own profits or losses, self-development, and self-restraint, thus facilitating rationalization of corporate behaviors. (4) As for corporate management, government enterprise, ownership, and right of management were changed into separation between government and enterprise, separation of two rights, which helped with democratic and scientific corporate operation. (5) In terms of corporate investment, investment subjects became diversified and were helpful to realizing the marketization of capital stock equity and factor stock equity. (6) In the aspect of distribution system, it not only inherited the reasonable core of traditional public ownership, distribution based on labor, but also broke the way of single distribution, introduced the active part of dividends by stock and formed a double distribution system with combination of the two, thus helping realize labor efficiency and maximized benefits. All in all, the joint stock cooperative system was subordinate to the traditional cooperative system, and it innovated the system while inheriting original parts. Therefore, a new economic organization form that was different from traditional cooperative system in both content and form came into being to provide an optional model for the property rights system reform and the construction of township and village enterprises.

When the joint stock cooperative system emerged on a large scale, farmers started fully intervening in the market operation of agricultural products on a large scope and at a much higher level. By 1997, the total social consumption retail sales realized by urban and rural peasant markets accounted for over 60 % of the total social consumption retail sales in which agricultural and sideline products occupied 30 %, and the same proportion was less than 10 % in 1978 including 6.8 % of agricultural and sideline products. In terms of the rural direct retail sales for cities, it was only 3.11 billion yuan in 1978, and it reached 367.45 billion yuan in 1997. The absolute value was 118 times greater than the former.

The development of the market economy brought about great historical structural changes in China’s agricultural distribution. The grain transfer from the south to the north was reversed. The number of labor forces engaged in agricultural production was reduced to 70.4 % of the total rural labor forces in 1979, including less than 50 % of labor forces in the planting industry. The employment ratio in nonagricultural fields already reached 29.4 %. One third of the farmers’ net income came from nonagricultural industry, and farmers became the important new force in the industrialization progress. In 1997, the structure of rural total output value was as follows: the primary, secondary, and tertiary industry respectively accounted for 24.4 %, 62.9 %, and 11.4 %, that is, the output value of nonagricultural industries already reached 74.3 %. The ratio of 7 to 3 from 20 years ago was changed into the present ratio of 3 to 7. It was of important significance to the overall national economy growth.

4.2 Economic Bubbles and “Soft Landing”

The establishment of goals of the socialist market economy reform was hard-won, but it did not mean that the goals were completely realized. The establishment of the socialist market economy system would suffer from more and greater resistance and difficulties. The old system and old concepts shaped under such a system were severely struck and even negated, but they still played a dominant role. The new system was not set up yet, or, rather, it was newly built. It was not sound and carried with it many loopholes. More importantly, a switch in the system was bound to lead to adjustments in networks of interests of different parties, thus causing complicated contradictions. Mistakes in some judgments and policies compounded contradictions and difficulties. Since 1992, unprecedented prosperity has appeared and has been accompanied by new problems. During the transformation period, the dregs of society gained an upper-hand as people traded power for money and showed little concern for morality. Various forged and fake commodities permeated the market. Such negative phenomena were interwoven and corruption became aggravated, and these were the factors that influenced stability. The most prominent were inflation, financial chaos, rising prices, and worsened public security. The painful transformation process was extremely worrying.

4.2.1 Economic Bubbles and Inflation

The direct reason for inflation was the growing financial deficit and fiscal difficulties that resulted from poor economic benefits and too many economic bubbles, as well as a serious debt chain from state-owned enterprises. Therefore, fiscal revenue decreased, and it was hard to reduce indexes, thus resulting in deficit. At the time, the fixed assets of state-owned enterprises were no more than 3000 billion yuan, but their debt to banks was up to over 2000 billion yuan. Quite a few enterprises suffered from losing assets and from insolvency, while management became accustomed to extravagance and waste. The phenomenon of “rich monks in poor temples” began to infiltrate the economy. Unprofitable enterprises could not maintain normal production, and some could not even pay their employees and had to borrow loans from banks. Banks knew that these loans would not be recovered, but they have to lend anyway; otherwise, workers would take their troubles to the streets. Such “stability and unity loans” usually turned into bad debts and dead loans. They accumulated and could not be easily eliminated.

The core of corporate reform was the problem of ownership and property rights. Enterprises did not have ownership, property rights, and responsibility mechanisms that were directly related to interest. Financial growth could not be materialized. For many years, they tried to avoid this contradiction or to postpone it, but contradictions became more and more severe. Now, they proposed to establish a modern enterprise system, to carry out shareholding reform, and to invigorate large enterprise while relaxing control over small companies with the aim of solving the problem of property rights and system transformation. In other words, to thoroughly change the pattern of “five people eating three people’s meal quota” and enhance efficiency, redundant staff had to be laid off or branched off, causing them to suffer from the pains of restructuring. Since 1993, corporate reform has entered a crucial stage when laid-off employees in industrial enterprises surged and become the most acute social problem. Under such circumstances, it was much harder for farmers to find a way out and into the cities. The problem of the rush of migrant workers weakened. In fact, the contradictions were not alleviated. Rural and farmer problems were dispersal and appeared less urgent when the staff lay-off problem became less urgent.

Reforming the decentralization of power and transferring profits motivated enthusiasm for local construction, but due to the lack of a self-restrain mechanism and unrestrained zero-benefit investment, the investment scale was too large and repeated constructions were too numerous, thus leading to rising inflation rates and prices. From 1992 to 1993, prices increased by 13 %, and it was worse for agricultural and sideline products, causing social unrest. Some places engaged in fraudulent practices in order to pursue achievements in their careers as officials. The phenomenon of “cadres providing the figures and figures bringing about cadres” became a vicious cycle, which became the bubble economy. Although a great number of skyscrapers were built, economic benefits descended in succession. China’s financial reform lagged behind for a long time. There was no distinction

between policy banks and commercial banks with weak ability and less experience in using financial means, such as loan and interest rate to raise funds and to finance and conduct macro-regulation. Securities shares and the futures market were even more incomprehensible. The stock market was extremely unstable with volatile rises and falls, as well as high risks, which the government took a prudent attitude towards. The stock market establishment had to strictly follow the orders of the government, and only Shanghai and Shenzhen were given official approval. Problems were noted immediately upon the pilot. On August 7 1992, the Shenzhen government announced the issuing of new share draw tables. Within 3 days, millions of people from the country gathered in Shenzhen, and hotels were filled to their maximum capacity. Many people had to stay outdoors. On the morning of the 9th, five million draw tables were sold out in 2 hours because most of them were divided by local officials or given to their families and friends. People who rushed to purchase the forms were extremely angry after learning about the internal deals and started demonstrations to demand fighting corruption. The police and people clashed together. Some more “chaotic parts” existed there because of unimproved systems and rules and some by people’s violation of those rules. The abuse of power for personal gain and power-for-money deals gave rise to plenty of corruption cases, severely unfair distribution, and distorted authority capital, which triggered strong dissatisfaction from the public.

In China, the problems of using a sweeping approach and rushing into mass action had become inertia. Old habits die hard. The original purpose of the construction of development zones was to introduce capital and technology and develop the nonagricultural industry. Some major results had indeed been achieved. However, in quite a few places, it turned into opportunities for some cadres to embezzle cultivated land and hit a jackpot. They concealed the true state of affairs from those above and below them, made unrealistic comparisons, followed suit, and speculated at all levels and in all places. Some people turned good things into the bad. According to the statistics of 1993, these “opportunities” covered over 60 million *mu* of cultivated land, most of which was not developed. There were no projects, and the land was abandoned, thus making the agriculture sector, with its acute people-land contradiction, more damaged than before, and another disaster ensued.

The capital city of Beijing announced that starting from May 10, 1993, grain coupons would not be used anymore for the purchase of grain and foods made out of grain. The reform in grain purchase and sale started in 1985, but the resistance was too strong at the time, so the changes were not implemented. Only a “dual-track” system with the combination of planning and the market was conducted, but the “market” track was not conducted smoothly. Farmers said, “Contract order was more unified than monopolized purchase.” In 1988, the government was determined to deepen the reform and prepared to “make it done through pricing.” It failed to foresee the panic purchase that caused prices to soar. The government had to cancel the policy and promote indexed deposits to pacify the people. In the end, the policy was aborted, leaving behind the highest inflation recorded, at 18.8 %. The grain price reform has since been carried out successively around the country since

1990. Cities went first and then rural areas. In this way, the progress was slow, but risks were reduced. It became a spent bullet by the time when it was implemented in Beijing. Even so, the response was still considerably strong. At the time, prices were already going up. The National Bureau of Statistics announced that the price index of 35 large and medium cities in the country in quarter one rose by 15.7 %. Ordinary people in Beijing started purchasing gold jewelry and high-end electrical appliances. It could be said that “the wind sweeping through the tower heralded a rising storm in the mountains.” To fully liberalize the grain price at this moment would only make things worse. According to the government’s forecast on May 10, the average price of state-owned store grain and oil increased by about 23 %. This included ordinary flour, rice, and peanut oil which were used by Beijing people on a daily basis. As a matter of fact, the price increase of quality rice and flour on the market was already higher than that degree. The price increase was even larger for the price of foods made out of grain oil raw materials. According to past experiences, amid the rise and fall of overall prices, the rise and fall of agricultural and sideline products accounted for at least 60 %. Would the dramatic increase of the grain oil price add fuel to the fire in the overall price increase? In May, the living index rose by 19 % in 35 large and medium cities of the country and then exceeding 20 % in June. Hence, the atmosphere became tense, and people feared that inflation would stage a comeback.

4.2.2 Farmers’ Burdens Remained the Same Despite Reduction Policies

Over the ten decades of the reform and opening up, the trends of economic marketization, industrial comprehensiveness, township urbanization, population mobility, and modern concepts appeared in rural areas in the 1990s. Rural reform launched a historical wheel of transformation from a product economy to commodity economy and traditional agriculture to modern agriculture. After becoming independent commodity producers and operators, farmers’ creations brought in wealth dozens of times greater than in the past, and the market kept expanding. Market prices took up over 80 % of the total national agricultural product purchase value. The country arranged ten unified planting and monopolized purchases amid thousands of agricultural and sideline products and formed an agricultural and sideline product market system based on the primary farmers’ market and was led by the wholesale and professional markets. That “stability, wealth, and business are out of the question without agriculture” was contemporary farmers’ deep understanding of the overall rural industrial system. The rural economy constantly developed and changed. The Party’s thoughts, which instructed the main direction of rural reform and promoted economic development, remained the same after twists and turns. As much as the household responsibility contract system encountered suspicion and even blame time and again, it was

loyally adhered to. As a result, rural areas were more or less steady, and agricultural production maintained its development momentum.

However, how scattered farmer management should adapt to the market demands remained a long-standing problem. Fluctuating prices, difficulties in sales, and white paper debts discouraged farmers again and again. What’s worse, farmers’ burden was too heavy. The Party Central Committee and the State Council repeatedly required reductions in their burden, but nothing had been achieved. They even clearly stipulated that the total taxes must be lower than 5 % of farmers’ total income in the previous year; otherwise, farmers would have the right to refuse to pay it. The call for the “alleviation of farmers’ burdens” rose and fell in an unbroken line.

Why was this so? In short, the prerequisite for income increase did not exist, and factors for income reduction were constantly overlaid.

For over 10 years, the growth of the rural economy mainly depended on township and village enterprises, so it was with the increase in farmers’ income. Township and village enterprises had survived and grown with the support of national policies amid the crack of planned economy and the emergence of market economy. The annual growth rate was over 40 % on average, and the highest was 70 %. Agriculture was fed through “compensating and building agriculture by industry.” The numbers were far greater than the national investment in agriculture. More importantly, it had created a number of nonagricultural job positions, absorbed plenty of rural surplus labor forces, transferred to nonagricultural field, and increased farmers’ income. Farmers who went to industries or businesses not only made profits but also broadened their horizons, learned skills, and became active participants who got rid of poverty in rural areas. However, with the gradual establishment of the market economy system, township and village enterprises encountered severe challenges. The original mechanism advantages were lost, most of the favorable policies were canceled with the growth rate being reduced to about 20 %, and the ability of making profits and absorbing surplus labor forces was much weakened. If the reform and restructuring were not made in time to realize strategic transformation, rebuild a new mechanism and innovate in advantages, it would be hard to enhance the overall quality of township and village enterprises and prevent their decline. This was the most important factor influencing the rural economy and the income of farmers.

After the problems of food and clothing were solved, farmers began to pursue monetary income, but they could not earn much money by cultivating land and sometimes they even suffered from losses. Land in some places was left uncultivated. Although grain had a protection price, the price was not appropriate, and farmers were unwilling to sell extra grain to the grain departments which in turn sold the grain based on normal market prices. The grain could not be sold if the prices were too high, but they did not allow private grain vendors to purchase grain from farmers for fear that it would cause chaos in the grain market. Those who were grieving were still the farmers.

The phenomenon of fees being greater than taxes is quite universal, and the burden items outside the 5 % proportion were too complicated, including joint

defense fees, agricultural machinery management fees, broadcasting fees, cable television building fees, toilet and running water improvement fees, tomb flattening and land restoring fees, and conscription fees for young people. The net income figures of farmers in some places were faked, which increased farmers' burden base and aggravated their load; administrative organizations at different levels were too heavy to move; the problems of bureaucracy were severe; economic growth indexes were somewhat high; and various tasks were too intense. Many projects above the town level increased the burden on people at the basic level and on farmers to some extent.

In the early autumn of 1994, Lester Brown published his research report "Who Will Feed China?" in *World Watch*. It predicted that China's grain output would reduce by about 20 % in 2030 and the population would increase to 1.6 billion. Upon these figures, China would have to import about 340 million tons of grain. The number was equal to the total grain output of China in 1978, three fourths of the total grain output in 1989, and two thirds of the total grain output in 1993. Brown stressed that even if China had the financial resources to purchase these grains, the world could not provide it. Hence, he asserted that no one would be able to feed China.

Brown's conclusion surprised the entire world. Quite a few related personnel and experts of China refuted. In the summer of the next year, Brown received an invitation from the Development Research Center of the State Council to debate with a number of Chinese experts on this issue, and Brown eventually admitted that China's grain gap was smaller than what he forecasted.

Reform practices have proved that Chinese people, with 7 % of the world's cultivated land, feed 22 % of the world's population. As much as there are many difficulties in increasing grain output, the potential has always been great and channels have been plentiful. They had to be neither too blindly optimistic nor too pessimistic. Chinese people are confident in themselves. Now it was universally believed among people who study rural issues that the most important lesson so far was to actually alleviate farmers' burden and increase their income. Hence, first, we had to modernize our understanding, overcome the narrow theories from the past by discussing agriculture for agriculture and grain for grain, regard the improvement of farmers' income as the starting point for rural policies, transform agriculture from inefficient industry into an efficient industry, synchronize the development of agricultural modernization with rural industrialization and town urbanization, pay attention to reasonable utilization of resources, build a favorable ecological environment, and guarantee sustainable development, agriculture, and rural economy. Only when farmers' income is increased and purchasing power is enhanced can effective demands be generated to expand the market and turn the socialist market economy onto a path of virtuous cycles and away from economic bubbles.

In the early 1990s, among economic tides, agriculture appeared cold. There was no obvious progress in deepening rural reform, and some places satirized that agriculture showed three characteristics. The Central Committee held high-level meetings every year, but few new measures could be generated. There were more slogans than actions, thus making the countryside become "slogan agriculture";

local governments followed suit without studying detailed measures for practical conditions. They simply tried to deal with their superiors, thus creating “superficial agriculture”; farmers suffered from losses in growing grains so they were unwilling to produce extra amounts, thus allowing the countryside to become a “grain ration agriculture.” Increase in farmers’ income was slow, but their burdens were constantly aggravated in multiple respects. The white paper phenomenon was common, and paying for products bought from farmers actually became a good deed. Zhu Rongji once personally said to the people’s deputies of Hunan that he forbid “issuing white paper” and would not allow capital to be used for the purchase of agricultural products to be embezzled. He mentioned the words “heavy burden” and “seething popular discontent” at a press conference in 1998 when he was first elected as the premier. People believed that this demonstrated that high-level leaders who keep a cool head are confident.

4.2.3 “Soft Landing,” Achievements in Improving and Strengthening Macro-control

In the summer of 1992, some economists proposed the issue of “overheated economy.” In the second half of the year, economic growth was further accelerated, and on average, GNP, industrial output value, and fixed assets respectively increased by 12 %, 20 %, and 36 %. These figures reminded people of the conditions in 1988. In that year, GNP increased by 11.2 % than the last year, 17.7 % for industrial output value, and 25 % for fixed assets investment. By comparison, in 1992, the increment of these major economic indexes surpassed the year of 1988. It was believed that “the situation is unprecedentedly severe” because the “overheated” economy was criticized. China would not be able to bear it but for “quick-freezing” measures. Therefore, a series of “emergency brake” was issued, thus causing great economic turmoil and great losses to ordinary people. Hence, in 1992, was it too heated to be unbearable for China? Were emergency brake and quick-freezing needed?

The theoretical circle had different opinions about it, and it was widely discussed by the media.

There were generally three opinions. First, they steadfastly maintained that the economy was already overheated; second, the economy was not overheated; third, most of people were inclined to compromise such as “vigilance against overheat,” “prevention of overheat,” “overheat symptom,” and “partial overheat.”

Ordinary people usually regarded “overheated economy” and “inflation” as the same thing. The rapid growth in 1988 still remained fresh in their memories. First, they were called to pass the crucial stage quickly, and “it was better to have short and sharp pains than long and dull pains.” While people were expecting the reform to succeed in one stroke and bring about new breakthroughs, they were then suddenly thrown into the “tide of rush purchase.” Suddenly, an “emergency brake” came into

being. “Rectification” replaced “acceleration”; “stability” replaced “crucial stage.” Prices soared and everything fell into a dilemma. The fluctuated situation and reversed policies were scarring, even up to today. People were afraid that inflation would befall again and money would become “worthless,” “a long low tide” after “a short climax.”

At the 14th CPC National Congress in October 1992, Zhu Rongji was elected as a member of the CPC Central Committee Political Bureau. Nominally, he was still the vice premier, but the heavy economic tasks of the State Council were assigned to him. Although he did not mention “overheated economy,” he indeed said something in October 1992 that could only have been said for 1988: the economy grew at an overly fast speed; the structural contradiction was more prominent; transportation was extremely tense; prices of the means of production skyrocketed.

As much as the scholars’ opinions about overheated economy expanded to disputes of practical economic workers, attracting the attention of highest-level leaders, public domestic opinions still took an extremely prudent attitude. In June 1993, Zhu Rongji served as the president of People’s Bank of China at the same time. He presided over a meeting and adopted 16 powerful measures to strengthen macro-control, restrain inflation, and remove economic bubbles, thus getting rid of various negative phenomena caused by overheated economy. National financial work meetings were held in 1993, 1994, and 1995 respectively, and national financial-specialized meetings were convened to rectify financial order, strengthen financial discipline, prevent and resolve financial risks, carry out financial reform, and strengthen financial management, thus forming a financial pattern in which the central bank was regarded as the supervisory organ, national policy banks and state-owned commercial banks as subjects, and with the coexistence of multiple financial organizations and coordinated division of labor. The National People’s Congress and the State Council successively announced the Notice on Firmly Curbing Indiscriminate Collection of Funds and Strengthening Bonds Issuance Management, Corporate Bonds Control Regulations, Temporary Approaches to Forbidding Securities Fraud, Law of Commercial Banks of the People’s Republic of China, Law of Negotiable Instrument of the People’s Republic of China, and other related laws and regulations in that period. The framework of China’s financial laws and regulations system was basically formed; it explicitly proposed appropriately fixed monetary and financial policies and stressed that economic means and policies had to be repeatedly applied against inflation; within 3 years, loan rates and deposit rates went through four rounds of slight upregulation and three rounds of slight low-regulation, which effectively adjusted the structure of money supply amount, investigated and treated a batch of illegal financial organizations, and maintained normal financial order. All these efforts prevented complete chaos and the situation gradually turned around.

In the planned economy period of the past, China’s economy fell short of vitality, experienced secular stagnation, and were reduced in severe shortage, but it still fluctuated, became alive after unfixed measures, turned chaotic after vitality, levied taxes, and then unfixed after dying, thus following the vicious circle. After the reform and opening up, the commodity market economy developed

prosperously, and the situation improved at a fundamental level. However, in the late 1980s and at the beginning of the 1990s, the forces of planned economy operations and mental inertia were still strong, the general goals of socialist market economy reform were not yet established, and economic regulation still relied on administrative means and old means of planned economy. These traditional means were usually accompanied by subjective randomness and did not necessarily conform to the objective rules of economic operation. Being not strong enough or too strong discouraged the entire economy. It might have been effective at that time, but it actually laid barriers for further reform and development, thus making progress more difficult. Negative influences of the “emergency brake” after 1988 were quite strong. The macro-regulation in 1993 mainly depended on economic, financial and legal means rather than unconditional “emergency brake.” “Step-by-step brakes” were conducted. Micro-regulation on loans and interest was conducted in phases and appropriately tightened. Moreover, in the process of macro-regulation, system innovation was used to solve the structural contradictions and laid a foundation for the establishment and improvement of the new socialist market economy system. In the first few years, the financial cycle was quite disordered. Increments of inflation once surpassed 18 % and 20 %. For a time, prices rose dramatically and corporate benefits dramatically decreased. Economic bubbles covered up the illusory economic prosperity and cause panic among people. Within 3 years, macro-regulation slowly paid off, became better in 1994 and much better by 1995. The problem was basically solved in 1996, thus avoiding the pains of 1988. The “emergency brake” reduced inflation to about 3 % in half a year but caused stagnation and even negative growth of economy, as well as common reduction in market sales. This was the so-called fatigue and weakness. It seemed improved by this time. Inflation slowed, prices steadily fell, and the quality of economic operations was enhanced. The inflation rate was about 10 % in 1994, and the economic growth rate gradually declined to 10 %. The high growth rate and moderately high inflation coexisted. In August 1995, a report from the representative office the World Bank in China said that a “soft landing” in China’s economy was realized. In September 1996, China joined the Bank for International Settlements, which marked the country’s economic strength and financial reform as becoming increasingly approved by the international community. On December 1, 1996, People’s Bank of China declared that convertible yuan under current accounts would be implemented.

The “soft landing” not only reflected that China’s economic strength and comprehensive national strength improved but also showed that the abilities for macro-control were enhanced and that it was at last able to adapt to the conditions of the market economy and promote its orderly, healthy, and sustainable development.

4.3 Before and After the 15th National Congress of the CPC

4.3.1 *Deng Xiaoping Did Not See the Return of Hong Kong to China with His Own Eyes*

The year of 1997 was the first year after China realized its “soft landing.” People were ready to greet the return of Hong Kong and convene the 15th National Congress of the CPC with satisfaction. It was unexpected that Deng Xiaoping passed away, the biggest event of the year.

Deng Xiaoping died on February 19, 1997. The fall of the giant set the entire country into sorrow, and the whole world mourned deeply. The United Nations suspended the meeting that was being held, and all people stood in silent tribute with a flag at half-mast. China was the China of the world. Deng Xiaoping led China’s reform, opening up, and development, led it towards modernization, and made outstanding contributions to the great causes of world peace and human progress. The glory of his name has been recorded in history to receive eternal respect.

Deng Xiaoping was a great figure following Sun Yat-sen and Mao Zedong in Chinese history. His contributions were widely known when he was alive; after he died, people realized that his greatest contribution to our nation not only lay in the ideology and achievements he left behind but also consisted in how the people accepted his departure in a peaceful way.

It seems that he had taken this into account and had been fully prepared. On November 13, 1989 when Deng Xiaoping met with economic delegation of Japan, he said he would “resign one hundred percent.” The next day, *People’s Daily* published, “Deng Xiaoping meets with the last group of foreign guests.” Before this, he said to Henry Kissinger, “I have resigned. China needs to set up a system that abolishes the life tenure of leadership posts. China is quite stable now and I am assured.”

This is what he said 7 years ago. But in the 7 years and 3 months of transition since then, in the mental emancipation and reform and opening up in the recent 20 years, people would not quietly take his departure so well today.

The China that lost a great man was calm. Shanghai and Shenzhen Stock Exchanges picked up after a fall. On the 27th, the Chinese People’s Political Consultative Conference convened in a normal matter. After several days, the NPC proceeded as usual too. Everything went as it always had, and the country moved forward.

Deng Xiaoping had a wish before his death, which was to take a look at the returned Hong Kong even if he sat in a wheelchair. It was a pity that the wish was not realized although it was just a few months after his death.

However, despite Deng Xiaoping’s death, Hong Kong’s return was completely and smoothly realized according to the constructive conception of his “one country and two systems” policy. On July 1st, China restored the exercise of its sovereignty

over Hong Kong. The return of Hong Kong, as China's special administrative zone, carried out the "one country and two systems" policy, "self-governance," and high degree of autonomy. The original social system, economic system, and lifestyle maintained constant and so it was with its legal system.

China recovered in a peaceful way the land embezzled by imperialist countries and washed away the humiliation of the past 100 years, which proved that China had indeed changed. Both overseas and domestic Chinese all felt elated and proud.

Hong Kong is an important financial center, trade center, and shipping center in the Asian-Pacific region. As the world's third largest financial center following New York and London, Hong Kong owns over 500 international banks, and its trade volume on the foreign exchange market ranks 6th in the world. The daily turnover reaches 91 billion USD, taking the 5th place in the world. Hong Kong possesses superior geographical location, well-equipped port facilities, and vast economic hinterland of its motherland, thus becoming a well-known international business port and shipping center in the Far East. In 1996, cargo-handling capacity was up to 13.4 million containers and ranked first in the world for 5 years in succession. Additionally, Hong Kong is an international information center, a commercial center, a tourism center, and an important investment hub. For a long time, Hong Kong and the Mainland of China had been closely related and mutually dependent. The pattern of cooperation between the two regions was basically cemented, and the foundation for various economics and trade businesses was laid down a long time ago. After Hong Kong returned, it was bound to be further expanded and strengthened, as it forged towards a larger scale of operation, at a higher level. It was not only helpful to the prosperity of Hong Kong but also favorable to the mainland's transition to a socialist market economy.

After Hong Kong's return, it still maintained a great degree of autonomy in terms of political rights and rule of law. In 1998, the first legislative election was held, and citizens took an active part in it with high voter turnout. The annual report of Hong Kong Development Supervisory Committee under the European Union pointed out that Hong Kong had kept an open and transparent market and a government that managed finance in a prudent way, and it could be regarded as the model of Asia. Some people once complained that "the political environment was poor in Hong Kong and it was not suitable for investment" so as to trigger social fevers, but the fact was that after its return, Hong Kong still possessed an objectively open environment and favorable conditions that other Asian cities cannot compete with, stable politics, rule of law system, freedom of the press and fair competition, etc. The basic elements of this democratic system can help guarantee the rights and interest of investors and have boosted the stability and prosperity of Hong Kong.

4.3.2 New Theoretical Breakthrough at the 15th National Congress of the CPC

The 15th National Congress of the CPC held in October 1997 was another important milestone in the reform process.

The significant contributions of the 15th National Congress were to hold the high and great banner of Deng Xiaoping's theories and deem it as the whole Party's guiding ideology. At the same time, the meeting deeply analyzed the social contradictions at the primary stage of socialism; concluded the new experiences of the reform and opening up since the 14th National Congress; creatively applied, enriched, and developed the theory in practice; and most importantly, put forth some new breakthroughs in the ownership theory. It remarked for the first time that "nonstate-owned economy (township and village enterprises) was an important component of the public ownership economy," "nonpublic-ownership economy (individual private enterprises) is an important component of socialist economy" and confirmed "public ownership was the subject, multiple ownership economies develop jointly, which was a basic economic system in China's primary stage of socialism." The establishment of the key fundamental principle gave an overdue legal position to the private economy, such as through township and village enterprises and individual private enterprises, which could now play their important roles in a righteous way. It would undoubtedly generate great direct instructional effects and further promote the emancipation of the mind, bold exploration, deepening of the reform, and expanding the opening up process in the country. Since the reform and opening up, the proportion of private economy in national economy rapidly increased to about 30 % from less than 0.1 %. The number of employees rose to 170 million from the original 160,000. 60 % of high growth indexes of the national economy in those years benefitted from the private economy. These figures indicated that with the effective combination of social productivity factors in private economy and its new position in social productivity, the private economy played an immense driving role in China's economic development by constantly absorbing more social productivity factors from other economic forms in order to conduct new "restructuring." In short, it played a "productive relations adjustment role." The growth of the nonpublic ownership economy function was silent and unknown, but it indeed made people's lives more convenient and colorful.

Some economists held that the new theoretical breakthroughs at the 15th CPC National Congress resulted from further emancipation of mind. To deepen the reform and speed up development, mental emancipation had to reach new heights. The following three aspects were most important. First, we had to go beyond the ideological constraint of equaling ownership to realization forms of public ownership in order to break the thought of treating market economy and capitalist economy as the same matter. Only when new realization forms are built for public ownership can it be organically associated with market economy and become vigorous and leading economic relations; second, we had to transcend the concept of "fighting on two separate paths" between public ownership and laborers' private ownership so as to destroy the ideological constraint of public ownership being

incompatible with individual ownership and develop mixed economy with multiple ownership forms, that is, an economic form which includes both public ownership and laborers' individual ownership. Third, we had to go beyond the conception of absolute hostility between public ownership economy and capitalist economy so as to further break the ideological constraint of state-owned enterprises being unwilling to be merged and acquired by capitalist enterprises while going bankrupt and being merged. The two should develop in concerted efforts and coexist in key industries. Crucial economic fields still belonged to public ownership. Both were important components of the socialist market economy. All in all, we had to go all out to develop a mixed economy with multiple forms of ownership and learn to use private ownership to develop public ownership and capitalism to develop socialism.

4.3.3 Emphasis on Continuing the Promotion of Political System Reform at the 15th National Congress of CPC

Emphasis on further promoting political system reform was another outstanding contribution of the 15th National Congress.

The characteristic of China's reform was that rural reform went first and the urban areas went afterwards; economic system reform went first and political system reform went afterwards. The communiqué of the Third Plenary Session of the 11th Central Committee of the CPC pointed out, "Productive relations and superstructure which are in conflict with rapid development of productivity had to be reformed." It undoubtedly included both economic system reform and political system reform. At the beginning of reform when no complete breakthrough was made in rural economic reform, Deng Xiaoping made a long speech of Reform in the Party and Country's Leading Systems on August 18, 1980 at the enlarged session of CPC Central Committee Political Bureau. He systematically explained the instructive ideology and basic thoughts of political system reform. Just a few days after the speech, he received Italian journalist Oriana Fallaci's question of how to avoid or prevent the reoccurrences of such horrible things as the Cultural Revolution. Deng stressed, "The problem must be solved from the perspective of the system. Some of our past systems were actually affected by feudalism, including personality cult, patriarchal system or paternalism, and even life tenure in leadership posts. We are learning how to avoid repeating such phenomena and we are preparing to start from system reform. China has thousands of years of feudal society, and falls short of a socialist democracy and socialist rule of law. Now we need to carefully establish a socialist democracy system and a socialist rule of law. Only by doing so can the problem be addressed."² Deng Xiaoping paid great attention to political system reform at the very beginning and hoped that political system reform could advance together with economic system reform. At the time,

² See *Selected Works of Deng Xiaoping, Volume II*. People's Publishing House, 1994, p. 348.

such a trend had been demonstrated in great efforts in an attempt to bring order out of chaos, redress the wrong, highlight democratic centralism, abolish life tenure of leadership posts, etc.

However, the actual reform progress was not completely consistent with the original plan. The highly concentrated and unified planned economy system severely impeded the development of productivity and naturally had to be reformed first. The economic system reform started with the pilots for autonomy expansion of state-owned enterprises, but it unexpectedly backfired. The reform had been stagnant, but breakthrough was made in rural reform because of the proactive participation of farmers. This quickly developed throughout the entire country starting from individual provinces and regions, and inspiring achievements were universally obtained, which facilitated the development of productivity; led to a series of profound changes in economic life, social life, working style, and spiritual status; and gained resounding fame. When urban and rural reforms were integrated and reform focus was switched to cities, overall reform floundered. No breakthrough progress was made in state-owned enterprises for years. System reform in other aspects hovered or advanced before retreating again. Any part of the rural reform that was engaged in related urban departments could not be conducted any further. Although great ideas were formulated in the reform of grain purchase and sale system, a compromised solution had to be adopted in the end, thus giving up halfway. The reform was still on track, but it was incomplete. Rural economic system reform went first in rural areas so it was hard to issue supporting initiatives or it was hard to implement even if it was announced, thus forming the pattern of a “lame duck” that tottered and stumbled.

In 1986, the economic system reform gradually deepened, but the political system reform lagged behind. Deng Xiaoping once again emphasized the importance and urgency of political system reform. On June 10, when central-level comrades were reporting economic situation, Deng said, “Concerning the current situation, political system reform has to be conducted to adapt to the market. Reform should include political aspects which are to be regarded as a symbol for further reform. Political system reform was already proposed in 1980 but it was not concrete and now it has to be put on the agenda. Otherwise, huge organizations, overstaffing, bureaucracy, procrastination and the habit of passing the buck are bound to hinder the economic system reform and slow down the development.”³

On June 28, at the Standing Committee Meeting of CPC Political Bureau, Deng Xiaoping stated, “Political system reform and economic system reform have to be interdependent and cooperative. Without political system reform, economic system reform would not be smooth because the barrier of human factors would be on its way. Things need to be done by the people. When you advocate decentralization and he re-takes the power, what path are you left with? In this aspect, whether our reform can succeed still eventually depends on political system reform.”⁴

³ See *Selected Works of Deng Xiaoping, Volume III*. People’s Publishing House, 1993, p. 164.

⁴ *Ibid.*

On November 9, during the meeting with then prime minister of Japan, Nakasone Yasuhiro, Deng Xiaoping said more explicitly that the first goal of political system reform was to maintain the vitality of the Party and the country. "Vitality" mainly referred to young leader cadres. The second goal was to overcome bureaucratization and enhance work efficiency. The third goal was to motivate the enthusiasm of people at the basic level, namely, workers, farmers, and intellectuals.⁵

According to the suggestions and opinions of Deng Xiaoping, the Party Central Committee established a central political system reform discussion group and organized related theory workers and practical workers to conduct plenty of topic exploration and argumentation work. The country's academic circles carried out extensive discussions. The groups listened to opinions from different aspects, improved them repeatedly, and formed the preliminary plan of General Idea of Political System Reform whose major contents were incorporated into the report of the 13th CPC National Congress held in October 1987. The blueprint of political system reform was released then. The report mentioned, "To conduct political system reform is to promote the beneficial and abolish the harmful as well as to establish socialist democratic politics with Chinese characteristics. The long-range goal of reform is to set up a socialist political system with great democracy, complete legal system, efficiency and vitality. . . . The short-term goal of reform is to set up a leading mechanism which can help enhance efficiency, strengthen vitality and motivate enthusiasm of all aspects."

All these should have been able to keep the reform on a solid track. However, before long, it was put aside because of domestic and foreign political waves. For a while later, some people pinned one of the causes for "collapse of the Soviet Union and the tremendous changes of East Europe" on political system reform, which was forbidden as a topic of discussion. The major concern was that people were afraid it might affect stability and follow the same old disastrous roads of the Soviet Union. Some people once advocated the so-called new authoritarianism which was essentially to conduct the "separation of powers" or "liberalization" in the economy and "centralization of powers" or autocracy in politics, making political system reform stagnant and even strengthening the original highly centralized rule-of-man system that went against economic system reform, thus reducing everything down to a scenario of mutual disturbance and acute conflicts.

The 15th National Congress of CPC announced to "continue to promote political system reform," which changed the tedious atmosphere. Studies and discussions about this aspect picked up speed. More importantly, several months later, at the 9th NPC held in March 1998, the State Council reform solution was passed with an overwhelming vote of 97 %. In the past, institutional reform was conducted too, but usually it was regarded as administrative measures, which were fixed and repaired in the original framework, thus being unable to break away from the vicious cycle of "streamlining-swelling-streamlining-swelling." The formulation of the reform solution and the way of approval demonstrated a kind of systematic reform.

⁵ Ibid, pp. 179–180.

The key point of political system reform was the transformation of government functions and realization of enterprise separation from administration. First is separating the political social and economic management responsibilities from governments' state-owned assets management responsibilities. To put it simply, the official's role and supervisor's role had to be separated. Second is separating investors' ownership rights and enterprises' corporate property. The solution clearly limited the function and the power of government professional economic management departments, that is, it should formulate an industrial plan, instruct the adjustment of the industrial product structure, maintain equal order of the industry, and forbid direct management of enterprises. In this way, comprehensive economic department was restructured into a macro-control department to separate enterprises and governments in the investment system; professional economic and social management departments were streamlined; the execution and superintendent departments were strengthened; functions of departments were reasonably divided to avoid overlapping; the legal system construction in the administration system was intensified according to the requirements of rule by law; staff was laid off, and half of the administrative staff in the State Council organizations was reduced. The solution was being implemented, and the hindrance and difficulties were surely great, but it was supported by the people and cadres of the country. Therefore, it had a great chance to succeed. Reform was the self-improvement factor of the socialist system. Political system reform aimed at eliminating the shortcomings in rule of man system and creating breeding conditions for the rule of law. It will neither affect stability nor weaken the socialist fundamental system of people's democratic sovereignty. On the contrary, it will only improve and strengthen the foundational system, carry forward democracy, enhance people's enthusiasm and creativity, and further liberate and develop productivity.

4.3.4 Village Autonomy Worthy of More Attention

China is a country where the traditional "rule of man" system is especially deeply rooted so it is not easy to become a modernized "rule of law" country. The overturning of the "three big mountains," the founding of New China and the national land reform did not mean the feudalism was almost eliminated, and neither did it mean that capitalism was the greatest danger; it did not mean that we should focus on preventing the comeback of capitalism and criticism of bourgeoisie ideology. The slogan in the past was "revitalizing the proletariat and destroying the bourgeoisie." Even in rural areas where commodity economy did not exist, the "tail of capitalism" was cut. Some places even treated feudalism as a proletarian ideology to denounce bourgeoisie and capitalism. It was this thought that influenced feudalism and forces of habit, such as a patriarchal system, the will of leading officials, one person alone having the say, life tenure, seniority, a sense of hierarchy, and religious denomination. All these have long been permeated with "leftist" ideology and became great ideological barriers in reaching modernity. Jiang Zemin

pointed out while talking about problems existing in the primary stage of socialism in the report of the 15th National Congress of CPC, “decadent ideas of feudalism, capitalism and small production force of habits still have an extensive influence on society.” Therefore, different from the concepts in many other documents, the feudalist ideology was not treated as the “remnant” and was put before the influence of capitalist ideologies. According to the observation of Ren Zhongyi, it was mentioned for the first time in the past few decades at the Party’s Second Plenary Session of the 7th CPC National Congress. Surely it was not just ranking or text processing; instead, criticism of feudalism was consciously highlighted in order to inspire thoughts on socialist democracy and people’s positions in a socialist society.

A socialist society has to be a society with all-round development, and the major subject of such development is people, the primary factor in social productivity. The development of modern productivity is first and foremost the improvement of people’s modernization quality. People’s all-round development is the supreme goal of social development. The fundamental task of socialism is to create highly developed social productivity through all effective economic means; the establishment and realization of this fundamental task submit to and serve the highest goal of socialism, that is, gradually realize people’s all-round development and “each person’s free development is the condition for free development of all people.” Socialist democracy, scientific education, and improvement of people’s quality are extremely important tasks and goals of socialist modernization.

Some people maintained that China’s overall economic level was not high and in particular, in rural areas, the food and clothing problem of hundreds of millions farmers was just solved and illiteracy proportion was large while democracy seemed more remote. As a matter of fact, in rural areas, economic system reform was conducted first and political system reform followed in the wake as well. Responsibility contract system transformed farmers to commodity producers and operators who grasp the autonomous right from members of the commune. They could dispose their own labor time and surplus products, and households had the function of accumulation. Next, the people’s commune system with “integrated politics and commune” was abolished, and restrained labor forces and other production factors started circulating freely, thus initially forming the pattern of commodity market economy. Rural reform was actually the combination of economic and political system reforms. Universally acknowledged success was achieved in rural reform, and hundreds of millions of farmers gained autonomy, benefits and freedom, which, as it were, were decisive factors. Urban reform and political reform lagged behind. Frictions between old and new systems and concepts collided severely, and the corruption increasingly ran wild. The rural areas were affected, and quite a few local organizations at the basic level were paralyzed or semi-paralyzed. The feudal patriarchal clan system revived. The gangster organizations and local vicious power acted in collusion and “some policemen” even shielded gambling, prostitute, abduction, and trafficking of women as well as drugging. Local masses were controlled in panic, and they choked with silent fury. In case of some exposed cases, potential social crisis already existed. However, on the other hand, in some other places, economic development and spiritual

society construction moved forward hand in hand. A great number of socialist new villages, which could not be imagined, were set up, and a beautiful urban-rural integration prospect was demonstrated. Starting from village autonomy in 1987, with over 10 years' unremitting efforts, important progress and rich experience were obtained. About 600 million people in different provinces, cities, and districts participated in three rounds and even four rounds of direct election in 930,000 voting stations. A great batch of just and capable farmers became leaders, and a batch of incompetent ones were knocked out. According to statistics of Ministry of Civil Affairs, in the village committee election, about 15 % of the previous committee directors failed. Over 70 % of the new village committee members graduated from junior high school or above; the proportion of the Party members was 71 % in Liaoning, 82 % in Hebei, and 91 % in Shanghai. The average age of committee directors was 39 in Shandong, 40 in Jiangsu, and 41 in Henan.

By democratic practices, farmers built many unexpected creations. The most popular was "mass election." By the so-called mass election, when the preliminary candidates of village committee were nominated, superior departments and village election leading groups did not set the tone and gave the nomination right to every villager. Each villager got a piece of white paper and villagers filled in the candidate. Village committee was a pure self-governed organization, but quite a few local leaders still adopted the old cadre appointment system, village committee candidates were nominated by village party branch and then submitted to the town for approval, or were directly examined and elected by the town Party committee and government; village committee directors did not provide a margin and only set one or two margins among village committee deputy directors and members. Such approach of "appointment" was strongly rejected by voters. Lishu County of Jilin took the lead in "mass election." With the features of openness, equality, democracy and transparency, it was well received, and became the major trend. In the fourth election in Jilin, 60 % of the counties adopted "mass election," and the number was 76 % in Gansu and 100 % in Xiangtan City of Hunan. Through the practices of village autonomy, a new political force rose in rural areas. The new generation of village cadres stood out in village autonomy, and formed a tripod with the past appointed village cadres and traditional clan forces. It could be assured that since farmers could well manage a village, in future they would be bound to manage a town and a county. Democracy at the basic level would lay a foundation for democracy at the higher level. Full participation of farmers in democratic politics and sharing of democratic achievements would inevitably improve their political quality, political ability, and confidence and provide continuous driving forces for the future autonomy at the basic level and even the high-level democracy.

4.3.5 Promoting the Rule of Law and Containing Corruption

Socialist modernization construction is not a pure economic growth process; instead, it is a social progress process with economic construction as the center

and interaction of economics, politics, and culture. Hence, comprehensive reform has to be carried out to strengthen socialist democracy and spiritual society construction and boost full social progress. We are a developing socialist country where the socialist market economy system is not completely established yet and social transformation task launched by market economy has not been finished. Numerous unbalanced factors exist in the economic development process, and social contradictions are still complicated in social transformation. The backward political system reform compounds a series of political shortcomings, such as bureaucracy, power-for-money, and abuse of power for personal gain, cadre privilege, and favoritism. The corruption constantly spreads and has been intensified, thus constituting a grave threat to the reform itself. The containment of corruption determines the success of China's modernization.

It is completely wrong to ascribe corruption to reform, but it is undeniable that economic system transformation is a long-term and painful process. Corruption is the neoplasm of power and not unique in a certain period. Amid the crack of new and old system transition, corruption becomes even more violent, and plenty of available opportunities for power-for-money turn into the goal of illegal users of power and non-power holders to collide and divide up social resources, thus affording more opportunities for corruption. Unsound socialist market economy system, multitrack of economic operation, and disordered market are the major conditions for breeding of corruption.

The constant spreading and intensification of corruption don't mean that the Party and government take it as it is; neither does it mean that there's no law for regulation. Since reform and opening up, given the lesson learned from the Cultural Revolution, great attention has been paid to legal construction. With years of efforts, China's legal system has taken shape. In order to solve the corruption problem fundamentally, we should deepen economic system reform, reorganize the distribution relation, sort out the distribution order, continue to promote political system reform, strengthen rule of law in different aspects, readjust the national power structure, transform government functions, and regulate and limit political power. A true rule of law country would not allow anyone to go beyond or stand above the law; the focus of rule of law does not lie in how to improve the government system or enhance the power; instead, governments and officials must abide by the law as well, execute power according to law and implement "governance under law." Compared with administrative means, legal means, and severe crack-down of corruption, the more effective channels are to carefully promote political system reform, transform government function, carry forward socialist democracy, put into practice civil rights, and strengthen opinion supervision in order to eliminate corruption and realize political integrity. In other words, the fundamental way of combating corruption is to change "rule of man" to "rule of law."

Rampant corruption has seriously damaged the image of the Party and government in people's mind, covering the hope with a shadow. Anti-corruption is essential to the Party and the country. As a long-term arduous fight, it will run through the entire process of reform and opening up and has to be attached great

importance to. Alarm bells must ring. We should not avoid contradictions or fear difficulties; neither should we break away from the reality nor rush for quick results. Rather, we should resolve the current problems and eliminate the root, govern in a comprehensive way, and focus on prevention. The so-called temporary solution is to investigate the current or future corruption, punish it in accordance with the law, and remove the negative influences brought about by corruption as much as possible. By a permanent cure, we need to find out the source of corruption, trace by hard and thorough search, and take a drastic measure. The basic work is to strengthen education, to teach Party members and cadres to build a spiritual Great Wall that repels the corrupting influences, and to instruct, regulate, and guarantee healthy development of market economy based on laws and regulations. Since the reform and opening up, 400 disciplines, regulations, measures, and legal systems have been formulated. As long as leading departments, discipline inspection departments, and law enforcement departments “act by law, execute law in a strict way and punish violators in a determined way,” corrupt officials will have no place to hide themselves.

Press supervision is one of the most powerful measures to ensure correct execution of public rights, promote rule by law and combat corruption. Article 41 of the Constitution stipulates, “Citizens of the People’s Republic of China have the right to criticize and suggest state departments and civil servants.” The report of the 15th National Congress of CPC stressed “the role of supervision by public opinions” and to “strengthen the supervision of cadres at different levels especially leader cadres, prevent the abuse of power and severely punish violation and corruption brought by the misuse of law.” Journalism units such as newspapers, magazines, and TV have extensive social relations and advanced, direct, open, and transparent spread means, and play a critical role in supervising cadres and containing corruption. However, some cadres are afraid of disclosing the dark side and fall short of powerful support for criticism reports. Some places even stipulated that the criticism contributions of magazines must be sent to the superiors before they can be published. Even if they are published, the truth is covered. As time passes by, they report only what’s good and conceal what’s unpleasant, pretending that everything goes well. As a result, degraded atmosphere and masses’ aversion arise. People gradually lose trust in the press, and their dissatisfaction cannot be vented, instructed, and alleviated in time. By accumulation, it became a social factor that affects stability. Now it is time to present thorough changes.

4.3.6 Synchronized Economic Growth and Economic Transition

Compared with the past, the feature of the 1990s was synchronized economic growth and economic transition. Moreover, as time passed by, market economy

conditions were better adapted to, and experience was accumulated in macro-control, which moved towards maturity.

The macro-control from 1993 to 1996 eventually curbed inflation because the government timely adopted moderately tight fiscal and monetary policies, thus realizing the economic “soft landing.” Favorable status of “high growth and low inflation” turned up in 1996 and 1997.

However, in the second half of 1997, Asian financial storm happened. Some people thought that China escaped the crisis because its capital market was not open yet. It was indeed justified. The unopened capital market was one of the defense lines, which warded off external shock. What’s more important is that earlier attention was paid to the problem of bubble economy and necessary macro-control measures were adopted in time. In particular, in recent years, the central government has made greater efforts to fight against corruption, held national specialized meetings for several times in succession, deepened financial reform, reorganized financial order, and prevented financial risks, thus eventually alleviating complicated contradictions to some extent. China stood the test of the Asian financial crisis. In 1998, its GNP reached 7955.3 billion yuan with a growth of 7.8 % than last year. Much as dramatic fall happened in foreign trade export, the exchange rate had been stable and yuan did not depreciate, which made active contributions to Asia and even the world’s financial and economic stability. The image of a rising responsible power attracted the attention of the entire world.

China kept its currency value while maintaining economic growth at a certain speed in the Asian financial storm, but we had to be aware that negative influences of the storm over China’s economy had to be reckoned with. For example, the withered Asian market and the depreciation of some countries’ currencies reduced China’s foreign trade export to an extremely difficult and unfavorable position; concern over RMB depreciation and insufficient effective demands on domestic market would greatly reduce the amount of foreign direct investment. The international financial market was in turmoil, and some financial institutions that depended too heavily on foreign loans might be forced to confront payment crises. All these would become important factors that constrained China’s economic growth. Concerning this, in 1998, the government changed the continuous tightened policy of the first few years into proactive fiscal policy, enlarged the investment scale of fixed assets, improved domestic investment rate, and taken some unfixed financial measures to facilitate domestic demand. However, in the transition process, some means and influences of planned economy were still hard to completely eliminate. Regarding economic growth as an index “which must be achieved” is one of the fundamental approaches and essential features in the left planned economy during the transition process. At the beginning of 1998, it was emphasized that the 8 % growth must be made. Different places and departments deemed it as their central task, which caused certain negative influences.

The good news is that the central economic working conference held in 1998 confirmed economic growth rate as a prediction index rather than an index “which must be achieved.” By doing so, China’s economic development is built on a healthier, more stable and more reliable foundation which demonstrated key

progress in transition to the market economy system. In 1999, no hard and fast rules were stipulated for economic growth, but the policy goals and means were explicitly aimed towards improvement of economic development quality, adjustment of economic structure, moderate expansion of domestic demand, and comprehensive and gradual use of moderately unfixed monetary and proactive fiscal policy. Although the economic growth rate was only 7.5 %, on the whole, balance was made in different aspects, thus creating favorable conditions for medium- and long-term development, which was reflected in 2000. In that year, major economic indexes no longer declined and gradually recovered and economic operation quality was enhanced to some extent. Some economists pointed out that the foundation for economic upturn was not solid enough and existing problems in the transition process had to be addressed as much as possible so as to make socialist market economy grow in a sustainable, rapid, and coordinated way.

In 2000, China successively signed related agreements with the USA and EU. Much as some aspects still needed to be negotiated, China's entry into the WTO could be expected soon.

Accession into the WTO exerted significant influence over China's reform and opening up process. It was not only a hard-won opportunity but also a severe challenge. We must speed up the pace of transition, perform duties in a down-to-earth way, and activate enterprises and the overall economy. After entry into the WTO, China would fully integrate into the tide of economic globalization and connect with the world's economy in a deep way, which objectively requires changes in the relation between the government and the market and enterprises, standardization of government management, and improvement of quality of governance. In particular, it requires discarding the traditional old concept of regarding governments as the center; governments should consciously shoulder the responsibilities of providing services and information for domestic or local markets and enterprises and coordinating social order. The direct control and direct operation in the past had to be transformed into the management model focusing on indirect regulation, that is, the government uses legal means and economic leverage such as exchange rate, tax rate, and interest rate to provide unified plans and information instructions, provide services, investigations and inspections to let enterprises gain full autonomy in all aspects of production and operation.

4.4 Small Towns and the Urbanization Path with Chinese Characteristics

The Third Plenary Session of the 15th Central Committee of CPC held in October 1998 stressed that small towns construction was a great strategy. According to the meeting, the development of small towns is helpful to relative concentration of township and village enterprises and transfer of rural surplus labor forces on a larger scale, to the improvement of farmers' living standard and enhancement of their

quality, and to increase income, domestic demand and growth of national economy. Therefore, it was a great strategy about rural economic and social development. Earlier at the beginning of 1983, Professor Fei Xiaotong put forward “small town and big issues” which was paid great attention by the Party Central Committee at that time. The development of reform practices has fully proved that the development of small town is indeed a general big issue for establishment of socialist market economy system. It was involved with urban-rural relations, urbanization guidelines, agricultural modernization, rural industrial structure, household registration system reform, basic education and vocational education, as well as environmental protection. The core is the way out for especially large quantity of rural surplus labor forces. For these problems, many people have conducted in-depth studies in the past years, and a number of consensus have been made. The big issue is turned into a great policy and strategy. With the new great development, it will become a path to urbanization with Chinese characteristics.

4.4.1 Characteristics of China’s Industrialization and Urbanization

The level of industrialization and urbanization is the symbol for a country’s modern civilization and social progress. Modernization process is an industrialization process and the process of urbanization as well. In western developed countries, with acceleration of the urbanization progress, the population flows to big cities. The overburdened cities encounter a series of problems which are hard to solve, which is called “metropolis disease.” Facts prove that big city model is not helpful to people’s living and working in peace and contentment; neither is it in line with China’s national conditions.

After the New China was founded, China’s industrialization has taken a counter urbanization path under the traditional planned economy system. From 1949 to 1979, the urbanization rate only increased by 8.3 percentage points with an annual growth of 0.28 percentage points, 20 percentage points lower than countries of similar development level. In the end, about 200 million urban residents flooded in 220 cities. In particular, 20.4 % of the population lived in 45 big cities where the population swelled. They encountered problems, which only occurred in late industrialization period of western countries during its low development level period. Moreover, 80.6 % of the national population were scattered in rural areas and became poor people who were excluded outside the industrialization progress. In the lengthy history of China, rural areas and towns have gone through vicissitudes, but there are still a number of well-known towns. During the people’s commune period when the grain was taken as the key guideline, they were almost depleted and farmers’ economic activities could only be conducted within designated administrative borders and towns’ emissive power was gradually weakened.

After the reform and opening up, the pattern was significantly adjusted. Township and village enterprises rose out of a sudden, and rural industrialization progress went beyond the system of urban-rural separation. The hometown of Professor Fei Xiaotong in the south of Jiangsu is the cradle of the first batch of township and village enterprises. At the beginning of 1980, there were quite a few township and village enterprises in that area. Different from agriculture running, industrial production entails such conditions as energy, transportation, market, and warehouse so central areas in villages, which have convenient transportation and are easy to distribute, must be sought. Naturally small towns became the focus. The people flow and material flow increased and drove the development of small towns. Towns have always been the circulation and administration centers of rural areas. Besides, with industrial production and different industrial personnel serving production, they were indeed qualified to absorb a number of people. It was because of such circumstance that he proposed the proposition of “small town and big issue” from the perspective of population distribution and triggered people’s extensive exploration and studies on China’s urbanization path.

The starting point for China’s urbanization is quite low compared with both developed countries and developing countries. In 1990 when the 9th nationwide census was conducted, the country’s urban population already reached 290 million, but the urban proportion was only 26.23 %, a big gap from developed countries and some developing countries. At the same time, the number of rural surplus labor forces, which had to be transferred, increased dramatically. At that time, it was already 120 million. According to forecasts, by the end of the twentieth century, 200 million people would leave traditional agriculture and flow into cities. Hence, the employment pressure was quite large and labor force transfer became the priority, which was related with the country’s destiny. If a way out for such a huge population wasn’t found, the entire society could not be stable and other issues would be severely affected as well. At present, China has over 200 large and medium cities, including 32 super-large cities with a population of over one million, 31 large cities with a population of 500,000 to one million, and 141 medium cities with a population of 200,000–500,000. If these people flow to large and medium cities, 20 more cities of over one million population or 30–40 cities with a population of 500,000 to one million must be established. Considering the basic investment in the production and living of a city’s population, the country needs to invest 9600 trillion yuan. It was obviously impossible. Fortunately, 55,000 small towns emerged during the reform in 1980s, including 15,000 organic towns (excluding 371 county-level cities and including 2000 administrative towns), over 37,000 towns where town governments were located and thousands of state-owned agriculture, forestry, animal husbandry and fishery bases. The ratio between large, medium, and small cities of the country was 1:1.7:3.3, showing that a relatively reasonable framework was initially formed.

The overall urbanization level of China is low, but the proportion of population in large cities is higher than that in developed countries, such as Japan, Britain, and Italy. In recent ten plus years, due to large urban population base, pressure from the natural population growth and mechanic population growth

brought about by industrialization has been increasing. Every year, about four million people wait for employment, and there are over ten million surplus labor forces from state-owned enterprises. Hence, except some special industries, the ability of absorbing rural surplus labor forces is considerably limited. The transfer of rural labor forces in some developing countries of the world mainly relies on several large cities, thus causing distorted “overly” urbanization, leading to many new shortcomings and being unhelpful to urbanization and healthy development of national economy. According to international lessons and its own experience, China should pin the hope of rural surplus labor forces transfer on the development of small towns.

Rural reform established the leading position of rural households; the “sudden rise” of township and village enterprises promoted rapid development of rural commodity economy to make small town construction surpass the past reform and system limitations and enter a “golden period” with full prosperity, and the amount constantly increases nationwide and several clusters of small towns even emerges in coastal area; economic vitality is increasingly strengthened and surrounding rural development is stimulated, thus giving full scope to the bond and bridge function between urban and rural areas; a great batch of rural surplus labor forces is attracted to be engaged in secondary and tertiary industries, which opens up an extremely important new channel for the transfer of rural labor forces and “nonagriculturization”; traditional economic and social structures are gradually changed to incorporate different urban and rural production factors and ease the contradiction of low agricultural income caused by enlarged price scissors between agricultural and industrial products, thus turning into material and regional carriers for narrowing urban and rural differences and establishing new urban-rural relations.

Many experts share the same opinion that China’s urbanization should take a path of large scope dispersion and small region concentration, that is, to conduct a reasonable layout in rural areas, to plan the construction of industrial communities, and then to develop small towns and guide plenty of population and labor forces to small towns. It was unrealistic to focus on large-and-medium-sized cities given financial resources of the country. Urbanization construction should take the path of combination of large, medium, and small cities with medium and small cities, especially small towns as the center.

4.4.2 Upgrading Small Town and Township and Village Enterprises

Township and village enterprises and small towns are closely related and mutually dependent. The development of township and village enterprises must be sped up in order to expedite the rural urbanization progress and transfer more rural surplus labor forces. Some people wondered why township and village enterprises failed to

absorb more surplus labor forces and why the development of small town was emphasized.

The answer is quite simple. It was the demand of market economy development and the demand of further development of township and village enterprises as well.

Most of the industries of township and village enterprises are rural industries, which are established outside the national plan by farmers and rural basic organization based on the agricultural contract system and their own strength as well as the market mechanism. They are growth points and active promotion forces for market economy. It has overcome varied difficulties with indomitable vitality, developed swiftly, thrived, and created immense wealth. In 1994, the output value of township and village enterprises accounted for about half of the country's total social output value. It has made remarkable contributions to digestion of agricultural surplus labor forces and increase in farmers' income. It provided over 100 million jobs for farmers.

However, township and village enterprises have their congenital weaknesses, that is, scattered layout and small scale which gravely affect their scale benefits, competitiveness, clusters, and radiation abilities. Take Suzhou, Wuxi, and Changzhou, which have the most developed township and village enterprises, for example. At the end of 1993, in these three cities, there were 11.3 township and village enterprises in each square kilometer of land on average. Each enterprise had only 19.2 employees and total fixed assets value of 247,000 yuan on average. As to township and village enterprises in inland and remote provinces, the scattered and crude status and backward technology are not hard to imagine. Failed to adapt to the intense competition caused by market economy development, quite a few township and village enterprises were successively knocked out, and the existing survivors were trying hard to change their situation, accelerate innovation in property right and institution innovation through such means as stockholding system and joint stock cooperative system, improve technology, scale and level, and strengthen vitality so as to form group and intensive production operation. The market economy rule is that production factors keep flowing to places with great profits and benefits, which is the fundamental reason why small town construction has thrived for years. The setup of township and village enterprises in small towns can reduce their costs in production, technology, communications, and information, enhance their labor productivity, and help adjust structure based on the trends of market economy development for further improvement and faster development. Yet, the other side of enhanced technology, scale, and level of township and village enterprises is that their ability of absorbing rural labor forces is greatly reduced since most of them are transformed into technology-intensive and capital-intensive ones from labor-intensive forms. From 1984 to 1988 when township and village enterprises emerged on a large scale, with extensive operation, they digested up to 10–12 million rural labor forces ever year. Later on, due to changes in township and village enterprises and macro-environment, the annual output value growth increment was still large, but the number of absorbed forces decreased to 2–3 million. In 1992, the total output value of township and village enterprises in the country was doubled than 1988, but the number of employees only increased by 10.9 %

compared with 1988. The number of absorbed rural labor forces per 10,000 yuan of fixed assets investment was reduced to 1.7 from 3.1.

Hence, the future way out for rural surplus labor forces will be development of small towns in addition to further development of township and village enterprises. The process of township and village enterprises' flow to central towns is bound to drive surrounding rural labor forces, capital, technology, and other production factors to separate from villages and flow to central towns. In particular, the accelerated development of the tertiary industry can become new "impounding reservoir" of taking in rural surplus labor forces. The tertiary industry in small towns usually focus on commercial service industry which is characterized by little investment, quick effects, and low technical requirements, so it was a suitable approach for new farmer entrants to make a living. With improvement and development of township and village enterprises, the tertiary industry will develop in a vertical way starting from the commercial service industries, such as transportation, information communications, foreign investment introduction, technical consultation service, science and technology, and culture and education, thus gradually forming a comprehensive service system which provides stronger functions for township and village enterprises. So to speak, the suddenly rising township and village enterprises laid a solid material foundation for the development of small towns whose development gradually changed the scattered pattern of township and village enterprises, greatly enhanced their cluster effects and radiation ability, and made them develop in an orderly way. The two complement each other and bring out the best in each other.

Since the reform and opening up, the newly emerging small towns based on the development of township and village enterprises have been different from traditional towns. They have gone beyond the original nature of being agricultural and sideline product trading venues; instead, they are gradually turning into a center for farmers to run factories, stores, and service industry on a collective or individual basis. They can directly purchase raw materials from far-away places and provide semifinished products and consumption goods for them after the manufacturing process. As a matter of fact, they have become part of the larger market and built business relations with large and medium cities. In other words, they have possessed city functions to some extent. Despite of lack of unified plan, unreasonable small town layout and structure, chaotic buildings, and waste or faulty parts, it had to be approved that at present China's new small town is the demonstration of rural urbanization following rural industrialization and a milestone for farmers stepping on the industrialization and urbanization path in China's social modernization process.

4.4.3 From Urban-Rural Separation to Urban-Rural Integration

The development of small towns is a great strategy and the dynamic process of rural areas being transformed into towns and farmers into urban residents. The process intertwines and operates in a synchronized way with rural industrialization, farmers to workers and urban residents, and the inevitable outcome of urban and rural economic development and rural social progress. Its basic driving force is rural industrialization. In turn, the small town construction will greatly boost the development of rural industrialization and rural social progress. China is a traditional agricultural society, and farmers are the source of poverty. To let farmers get rich, the number of farmers must be cut; China's modernization is out of the question if farmers are not transformed into nonfarmers. It is the key to modernization construction.

The sudden rise of township and village enterprises breaks the dual structure, but due to scattered enterprise distribution, over 90 % of migrant workers still live in rural areas and it did not bring social and economic activities as well as clusters of population. Although the added value of township and village enterprises account for three fourths of rural society, rural labor forces still linger at agriculture, and the proportion of national agricultural population remains over 75 %. In other words, China's rural population cannot be transferred to towns for employment and living during the industrialization. Such backward urbanization has generated long-term harmful influences over the optimization of rural industrial structure and employment structure as well as reasonable population distribution.

To thoroughly solve the dual urban-rural structure problem, China must work on industrialization and urbanization path with Chinese characteristics, go with the historical development trend, and accelerate the small town construction. Now the role of small town development is getting clearer. First, it was helpful to creating new economic growth points. With small towns, commodity distribution places are in place, which can help activate the circulation and serve as carriers for development of the tertiary industry. Second, it was helpful to development and upgrading of township and village enterprises. Development of township and village enterprises based on small towns can improve the layout of township and village enterprises and promote township and village enterprises' development in small towns. Third, it is important for the prosperity of the tertiary industry. After township and village enterprises flow to small towns, the demands for commercial service industry increase and the tertiary industry can thrive. The larger the service scope, the better the benefits. Quite a few farmers can be attracted to small towns, and many surplus labor forces can be employed. Fourth, it helps with mutual promotion between industrialization and urbanization. The combination of rural industrialization and urbanization, economic development, and social progress can improve farmers' quality, increase their income, and enhance their living standard; that is, farmers don't have to go to large cities. They can enjoy city civilization and better cultural and educational conditions in small towns. Fifth, it is in favor of

expanding domestic demand and pushing coordinated development of the entire national economy. On one hand, it can amplify demands for related industries, such as building and building materials, and boost industrial structure adjustment; on the other hand, it can greatly change farmers' way of consumption and obviously improve rural population's purchase power. At present, the TV retention rate in cities exceeds 90 %, while it is only 10 % in rural areas. When farmers are transformed into small town residents, their purchase power will be raised to a new level. The acceleration of infrastructure construction through central funds allocation is indeed an effective way of expanding domestic demand, but attracting rich farmers to small towns and developing small towns by relying on farmers' strength may be a more reliable and effective channel of expanding domestic demand. All in all, development of small towns can boost new socialized division of labor and show the possibility of solving such problems as rural land, population, burden and pollution in a package, as well as the strategic vision of sustainable development. Given China's special national conditions, we should think outside the box. The food and clothing problem would not be solved if only grain is focused; the focus has to be switched to satisfaction of farmers' requirements. When the grain output is improved so it is with the agricultural products, shortage will be soon addressed. At present, the greatest resources of China are people, and the most insufficient technology and capital. Development of small towns is actually to transform rural areas to cities and farmers into nonfarmers. Those surplus parts can be reduced and insufficient can be compensated. In this way, many contradictions will be readily resolved. To put it simple, when the nose of an ox is led, the ox will move forward.

Entering 1990s, with the establishment of the general reform goal, the market mechanism has been gradually strengthened and dotted small towns emerge in different places of the country. Its investment, industry, development, and job positions are basically realized through farmers' strength. There are four kinds in general. First, the type of decentralization of power and transfer of profits under the system of "municipally affiliated county"; second, the type of establishing "development zones" and "new industrial zones"; third, original towns into "organic towns" and "county-level cities" through declaration to gain greater autonomy for development; fourth, farmer towns like Longgang of Wenzhou. All these emerging small towns are products of market economy development in the transition from the old system to the new system. It not only reflects the historical trend of farmers' longing for urbanization and new creations but also brings about certain spontaneity and blindness and still carries the traces of old systems such as urban-rural separation and regional blocking.

According to people's common sense, what is above the county is city and what's below it are rural areas. However, before the rural organic towns, all counties followed related rural policies and regulations. After the establishment of towns, the central area of towns follows the urban regulations, and areas under the town belong to the scope of rural policies and regulations. Land policies are different in urban and rural areas. Although by concepts, statistics and regulations are only aimed to nonagricultural population of organic towns, plenty of economic

population in towns is agricultural population. In addition, a great number of agricultural populations are engaged in nonagricultural fields. It demonstrates the inconsistency in policy and chaotic management. According to standard explanation, small towns refer to rural organic towns. From the perspective of development, it should include county-level cities and numerous rural market towns (places where the town governments are located). The rural market towns, organic towns, and county-level cities can be combined to form a systematic network. Only in this way can the whole process of small towns' development be explicitly studied.

The promotion of rural urbanization by developing small towns did not mean that the development of large and medium cities can be ignored or the rural areas can be abandoned. Different experts have different definitions of urbanization. Sociologists maintain that urbanization refers to the process in which people's behavior models and production means are transformed to urban communities from rural communities as well as varied social consequences rising from it; demographers hold that urbanization is the process of rural population being turned into urban population; economists think that urbanization indicates the process and mechanism of transforming rural economy with great changes in industrial structure, employment structure, and consumption ways to urban economy. Hereby, rural urbanization not only represents population transfer but also implies connotative transformation, that is, transformation of rural industrial structure, employment structure, and consumption ways. In other words, in addition to agriculture, the secondary and tertiary industries had to be developed in rural areas to make the labor forces in these two industries account for the majority and farmers' material and cultural life border on or reach the material and cultural living standard of urban residents.

Despite great differences and problems in small towns, on the whole, they take on a universal prosperous and an uplifting front. They are exploring the scattered and vigorous productivity in rural areas, bring them together, transform them into immense economic energy, expand, and spread them so as to boost sustainable development of the overall national economy. Long'gang of Wenzhou is mainly built by farmers without spending money of the country, thus being called the first farmers' city in China. Before 1984, it was just six little desolate fishing villages with only 4000 people. According to the spirit of the central No. 1 document of that year, local government took a bold move to go beyond the old systems and policies under the planned system such as urban and rural household registration management, land management, labor employment management, grain and fuel supply; to stuck to unified plan, unified land acquisition, unified development, and transfer and management; to encourage farmers who got rich first to manage their own food, residence, profession, and health care; and to explore the new town construction. Within 10 years, it grew into a new small city with a population of over 130,000 permanent residents (the floating population is more), an annual output value of 1.32 billion yuan, and market transaction value of over 687 million yuan. Now, it has skyscrapers and prosperous streets, and its per capita income is far greater than the provincial and national average level. It has driven surrounding rural areas

towards common prosperity and made significant contributions to urban-rural integration.

4.4.4 The Prospect of Rural Urbanization

At present, China's urbanization progress is at its crucial stage and its marks are as follows: first, the national urbanization rate reaches 30 %. According to the world standard, an urbanization rate between 30 and 60 % represents rapid development; second, the national nonagricultural employment rate is up to 51.5 %, that is, the proportion of labor forces engaged in agriculture will keep declining; third, influenced by the two conditions above and calculated by the cultivated land per labor of pure agriculture, China's cultivated land per capita will gradually increase. At the same time, China's agriculture population, total rural households, and total rural population will descend rather than ascend. A proper way to embrace the historical changes and deal with difficulties in reform and development will gain more opportunities and initiative power for China in the future cross-century development.

The dual urban-rural separation structure has caused great barriers to China's modernization construction. Since the reform and opening up, the dual structure has been greatly corrected; the urban-rural difference is still being revised. Greater efforts are made to develop small towns and let farmers work and live as well as develop secondary and tertiary industries in small towns, thus promoting further emancipation and development of rural productivity. It was not enough to conduct just product and industrial structure adjustment in rural reform and development today; neither is it enough to raise it to regional economic restructuring. Instead, urban-rural relations and urban-rural population structure had to be adjusted nationwide. Now, many problems existing in the modernization progress are caused by slower industrialization than urbanization. In China, the shortcut of speeding up urbanization is to develop small towns, hold on to the "nose of the ox," and make China's rural areas gradually realize wealth, prosperity, and civilization in the process of urban-rural integration. It had to be a great strategy and the main line of the next rural reform and development as well.

At present, China's market system is not well cultivated and severely impedes the marketization progress of the rural areas. Construction and development of small towns can help improve the market cultivation degree and include the closed and scattered rural markets in the national market system; change the urban-rural separation pattern and form a unified, open, competitive, and orderly market system as soon as possible; smoothen the goods circulation; make farmers reasonably share the market interest; and create conditions for integrating with the international market. Small towns can weaken nonmarket factors in economic construction; promote comprehensive and multiple integrations in such aspects as society, economy, and culture between urban and rural areas; and push rural industrialization to rural urbanization and urban-rural integration, thus fundamentally changing the

pattern of drain of rural urbanization resources and slower population urbanization progress than the nonagricultural development.

Among the current small towns, a great number of organic towns have good foundations and development potential. In particular, the central towns in over 2000 counties are political centers in the first place. Since the reform and opening up, different aspects such as economy, society, and culture have developed to a certain level, and it can be said that they are prototypes of modernized cities. They should make the most of urban facilities and varied advantages to optimize production factors and attract rural technology and economic talents to distinguish themselves in small towns. Small towns are located at the end of cities and beginning of villages so they have certain advantages of rural areas and certain functions of cities. They can be regarded as the bond between large and medium cities and rural areas so as to gradually connect urban and rural markets with gradually strengthened economic radiation and driving forces; make the primary, secondary, and tertiary industries thrive jointly; narrow urban and rural differences; and adjust industrial structure. They are scattered in rural areas, so the better they are constructed, the greater their attraction to surrounding rural surplus labor forces. They can become the habitat of rural surplus labor forces and the forward position for transition to urbanization.

In recent years, while paying attention to the construction of large and medium cities, urban construction departments start focusing on consolidating and improving the current small towns; set up a batch of new small towns with high starting points, good social benefits, and economic benefits on this basis; and slowly building an urbanization system which deems the central cities as the support, counties as the leader, and small towns as the network. Some people ignore the unbalanced rural economic development and are stubborn to implement “one village and one town” or pull up seedlings to help them grow through administrative means, which are all unfeasible. Practices have proved that the construction of small towns should highlight collective accumulation and individual funds raising, but the country should provide a unified planning, strengthen instruction, and management; set up a multiple investment system with joint investments of the country, local places, collective, and individuals; strictly control the reduction in cultivated land; designate basic rural land protection zones; and gradually achieve joint development between different regions. Urban and rural landscapes, reasonable layout, supporting facilities, convenient transportation, complete functions, and beautiful environment are the ideal urbanization path with Chinese characteristics.

China is undergoing an urban construction tide. Some people said that architecture is “concrete music.” A building is just a note or a musical phrase. Only a complete street scenery and an entire town can bring about beautiful melody and play either soft or enchanting or magnificent movements. It not only requires careful design and construction of designers and architects but also entails the macro-concept and overall grasp of the chief designer and chief architect. Many past urban constructions have failed and left irretrievable regrets, most of which are caused by administrative intervention. Upon the occasion of the new tide, we should remember the old lessons, try to “present the same standards for different governments,”

make each city have its own characteristics while being coordinated and harmonious, and form a certain landscape as well as obtain extension and stability amid development and make the offspring feel proud.

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Chapter 5

Conclusion: Facing Challenges in the New Century

Standing at the threshold of the twenty-first century, we invariably feel proud for the rise of the New China and deeply feel the severe challenges of the new century.

The twenty plus years of reform and opening up is still not over yet. This period is the period of China's rapidest development in history and the period when people gain the most benefits and greatest social progress. It brings order out of chaos in terms of policies in the previous 30 years and washes the humiliation imposed on the nation over 150 years ago. More importantly, it clarifies that China's social nature is the primary stage of socialism for a long time and the market economy system has to be established and improved, thus making China's modernization progress take a decisive step. Only when it is set in the historical background of ancient feudal society and semicolonial and semifeudal society and compared with the first 30 years can the far-reaching significance of reform and opening up be fully demonstrated.

Some characteristics have been shown in the reform process of China, including rural areas first, market orientation, opening to the outside world, and progressive method. Each aspect is permeated with profound experience lessons, which are worth ruminating repeatedly.

The first reform breakthrough in rural areas once again manifests the special importance of rural problem in China. Whether farmers can be treated correctly or not is the key to the success or failure of revolution and construction. China's revolution turned the tables, used the few to defeat the many, and defeated the strong with the weak because it concluded the lessons of setbacks and failure, satisfied farmers' requirements for land, and adopted the strategy of surrounding the cities from the countryside. However, before long after the victory, they made the mistake of sacrificing farmers' interest to develop industry, caused economic and social dual structure, and actually turned farmers into second-class citizens, thus causing de-motivation. Therefore, lessons were learned again, order was brought of chaos, farmers were given full freedom, and their creation was respected. The situation was quickly changed, and the food and clothing problem was basically

addressed. Later on, new stage changes showed up. Farmers' requirements turned to income increase. Due to lack of profound and timely cognition of changes, it was inevitable that deviation or insufficiency happened in detailed farmer policies. The Third Plenary Session of the 15th Central Committee of the CPC held in 1998 and the Fifth Plenary Session in 2000 reiterated the significance of agricultural, rural, and farmer issues and stressed that the first thing was farmers' income increase and the second was rural stability. Only when farmers' income increases can the rural areas truly stay stable. Stability is out of the question without income increases. Hence, we must reduce farmers' burden, adjust rural expenses of taxation, conduct village autonomy, and strengthen efforts in anti-corruption.

Market orientation ran through the entire reform process and was constantly disturbed and impeded by "leftist" ideology and forces of habit. It was not until 1992 at the 14th National Congress that the Party established the general economic reform goal of socialist market economy. However, afterwards, there were still many difficulties. Rural reform was market oriented in the first place, and the household contract system brought about a great batch of market economy subjects; township and village enterprises which rose suddenly by relying on the market mechanism became the major impetus for great development of China's commodity market. Although market was again regarded as equal to capitalism and criticized, as the danger of making a comeback, more and more people realize through practices that commodity market is a great achievement of human civilization. At the beginning, products became commodities and then labor forces became commodities; in the end, property right became commodities as well, which is irresistible historical rule and ladder of social progress. Any attempt to artificially transcend the commodity market development stage is just a fruitless illusion and is bound to be punished by history. In the end, they have to retake this path.

Opening up to the outside world and seclusion are completely opposite guidelines. The latter has a foothold in the dull agriculture economy, which centers on grain and is the root for China's poverty and weakness; the former focuses on the development of commodity market and is the way to modernization. In the past two decades, from establishment of special economic zones, opening of coastal area, and riverside and inland opening, a pattern with multiple layers and comprehensive openness has been formed. Introduced capital, talents, technology, and management experience constantly increased, which promoted reform and development and narrowed the gap between China and Western developed countries. Besides, it quietly changed economic structure, social structure, and ideology, which did not go with the market economy, thus changing Chinese people's rigid and absolute way of thinking in the past for a long time. For instance, in case of introduction, digestion and innovation had to be paid attention to. In case of export increase, domestic demand had to be expanded; while urban consumption was developed, farmers' purchase power had to be enhanced, thus launching rural markets with the greatest potential.

The progressive method is totally different from "shock therapy" of the former Soviet Union. Movements were constant in the first three decades of the New China. The fight against the enemy during the war period was swift and violent, and organization discipline and obedience to leaders were stressed. In the peaceful

construction period, the same old ways of doing things had shortcomings and suppressed democracy and personality development. Therefore, the vicious styles of working, such as sweeping approach and a gust of wind, are still difficult to abandon. Given so, “looking before leaping” is emphasized in reform to gradually promote other flexible methods, so the social concussions are small and can help with sustainable economic development. The negative sides may be that it worsens deep contradictions, compounds the new and old system friction, intensifies the inertia forces in the old system and causes “system adhesiveness” status, which leads to lasting reform, lengthens the transformation process, and brings about uncertain risks. Any development shall experience a process from quantitative change to qualitative change, so both quantitative accumulation and qualitative leap deserve attention, and progressive development should combine with rapid reform.

Observing China at the turn of the century, it was as if you climbed onto a big hill and looked back. Endless mountains have been left behind, and the towering peaks smile down at us. Sit for a rest and appreciate the scenery? Or keep climbing to overcome the peak?

Mankind has experienced over 5000 years of agricultural economy and about 300 years of industrial economy. At present, science and technology deeply influences mankind’s civilization progress with unprecedented forces and unimaginable speed. In particular, since the 1990s, “informationization” and globalization have arrived, scattered in the world, and pushed mankind to a brand new economic era—the era of a knowledge-based economy.

The knowledge-based economy is not only an emerging industry but also the symbol of an era. The manufacturing technology developed from the past manual manufacturing, mechanical manufacturing, and automated manufacturing to information manufacturing; that is, workers instruct workshop production through computer and network; labor forces which are directly engaged in production are greatly reduced. Most people spend most of the time in knowledge production and communication. In the era of knowledge-based economy, fundamental changes take place in mankind’s way of obtaining “materials.” Surely it was not to weaken industrial and agricultural economy; rather, it boosts further modernization and knowledge of industry and agriculture. In the past, “labor productivity” or “labor productivity” growth rates were used to measure a country’s economic ability. In the era of knowledge-based economy, the more important thing is creativity or growth rate of creativity. Without new knowledge, new technology, and products, the higher the “labor productivity,” the more there will be accumulated products, and the greater the waste and the worse the losses.

In the era of over 5000 years of agricultural economy, China is a leading country with an ancient civilization; in the era of the recent 300 years’ industrial economy, China lost two transformation opportunities due to its closed state. It was until recent 20 years that it caught up. It was not bad. In the two decades, its pace has been fast with an economic growth speed of about 10 %, ranking first in the world; the poor population has been reduced to less than 50 million from 250 million; 200 million people have realized to lead a well-off life in China’s southeast coastal areas. These can be called miracles. However, we should not forget that our foundation is too

poor and population is too large; per capita national income is 580 USD only, ranking the 100th in the world. The number in the USA is 20 times greater. We are still a large but poor and weak country.

The realistic economic power can be analyzed with such factors as per capita GNP, foreign trade, and enterprise quality, but these can only show a country's current economy. The future long-term development had to be measured by technological reserve, science advantages, education status, mechanism, system, legal consciousness, and rational spirit. All economic achievements come from advanced technology. Science is the root of technology; education is the basis of science and technology; mechanism and system are soil required for science, technology, and education; and ideology is the key to everything. If we don't keep working hard and lay a good foundation on a deeper level, our distance from developed countries is bound to widen again in the twenty-first century.

Scientists divide the world into five categories according to comprehensive science and technology input, science and technology output, and influences of science and technology over society. First, science and technology superpower, such as USA; second, science and technology power, such as Japan, France, Germany, Britain, etc.; third, medium science and technology countries, such as Canada, Italy, Russia, and Australia; fourth, developing science and technology country; fifth, underdeveloped science and technology countries. China is listed in the fourth category and parallel with India and Brazil. Some people may disagree. China made an atomic bomb, a hydrogen bomb, and man-made satellites in the 1960s and 1970s as well as trained so many scientific research workers. Should not it be already considered a science and technology power? The facts are not so. In the era of a knowledge-based economy, knowledge is the core of economic development and funds used in science and technology research, and development, education, and training have become new knowledge capital and go beyond traditional production capital. Just take a look at the proportions of research and development in GNP, 2.8 % in the USA and 3.1 % in Japan and China maintained at 0.5 % for 3 years in succession; the proportions of education funds in GNP, 7 % in the USA, 6 % in developed countries on average, 4 % in developing countries on average, and about 2.8 % only in China. Now, are we still qualified to be labeled a science and technology power?

Science and technology are not tools that can be used immediately when it is needed. It originates from a certain social environment. Science needs democracy and technology needs the market. Science regards universities as the center and technology deems enterprises as subjects. Science requires free air, while technology needs the environment for making profits. The social structure of developed countries is that enterprises are the center and governments serve enterprises. It can be called an enterprise society or the "enterprization" of society. China is still a major administrative society where administrative power penetrates into different fields of the society and severely constrains social forces especially enterprises' growth and cultivation. Is it still a science and technology power? Recent years' high growth of China basically belongs to "increase input types." In particular, it depends on capital investment to bring skyrocketing capital and reduced benefits.

Such growth on the basis of plenty of raw materials and energy consumption reaps lower benefits and leaves hidden dangers for future economic development. Can it still be regarded as a science and technology power?

The knowledge-based economy is a globalization economy. Any country and nation will face the challenge of knowledge-based economy. China's transformation to industrial economy from agricultural economy is not completed yet. It still develops itself and builds its future mainly through cheap labor forces and land, energy, and mineral resources. Hence, the knowledge-based economy still poses rigorous challenges to us, and the two possibilities of either being a later-comer or lagging behind once again. We have no reason to be satisfied and no time to rest. Only when we double our efforts and keep climbing can we reach the peak and witness the infinite scenery of "seeing everything so small."

Afterword

Since the 1980s, I have published several books on rural issues. *Contemporary Chinese Rural Reform* has taken the longest time and the greatest efforts, but it had a bit difficulty in its release. Two years ago, the manuscript was completed and sent, but nothing was heard of after half a year; it was still the same after over a year. It was not the author's fault, so the author had to let it be delayed. I would like to extend my gratitude to Zhejiang People's Publishing House for its support and help. It was because of it that the book was eventually published. Although a bit late, the author still feels gratified. Before and after 1998, quite a few books on reviewing rural reform were released. At present, the enthusiasm has withered, but the countryside, agriculture, and farmers are still fundamental difficulties related to the country's future and destiny. Its severity and urgency are attracting more and more attention. If this book can be a reference when people are discussing rural issues, then it would be the author's greatest delight.

I am much obliged to Mr. Yu and Mr. Du for their prefaces for this book. These two venerable old comrades, who are about 80 or 90, still make a living by writing and unremittingly conducting studies. Their careful and precise pursuit of learning and inexhaustible industrious spirit will always be what I should learn from. The encouraging words in the preface make me feel abashed; their opinions about rural reform are worth our attention and further meditation.

My thanks also go to comrade Li Zhizhi for his letter. He is my old colleague and old friend whom I have known for 40 years. He has profound ideology, a sharp vision and amazing speech, and has earned my deepest respect. A few years ago, I suddenly received a letter from him in which he seriously suggested that I write such a book. I did not give an answer immediately. At the beginning, I was afraid that I could not finish it and later on, my concern was that it may not be published. Now, I fear that it may not live up to his expectations. However, that short letter of his has been a force of encouragement on the inside.

I would like to extend my gratitude to other comrades such as Li Yu, Han Gang, and Li Chunlin who have provided practical and effective help to me on different

occasions and in different aspects and promoted the release of this book. Their passion, earnestness, and deep friendship have been etched into my mind.

Only few days are left in the year of 2000. A new century and new millennium will start, and I will turn 80 years old. Upon the occasion of saying farewell to the past and looking forward to the future, I have mixed feelings. Should my health conditions permit, I still want to look around some places and continue to produce a piece that I am willing to and able to write.

December 24, 2000

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