CHINA'S NEW AGRICULTURAL POLICY

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INTRODUCTION

THE THIRD Plenum of the Eleventh Central Committee of the Chinese Communist Party (CCP), held in December 1978, adopted resolutions that marked a new departure in post-1949 Chinese economic history. One of the most important resolutions relating to the economy prior to that time was that of May 1958 which determined the policy of the Great Leap Forward, overturning the decision of the Eighth National Congress of the CCP of August 1956 and containing elements paving the way to the subsequent Cultural Revolution. Another such resolution was, of course, the one launching the Cultural Revolution, made in August 1966 by the Eleventh Plenum of the Eighth CCP Central Committee. The decision of the Third Plenum of the Eleventh Central Committee reversed these two earlier resolutions.

One of the most important elements of the resolution of the Third Plenum of the Eleventh CCP Central Committee was agricultural policy. In the opinion of the present writer, the most important factors determining how the Chinese economy will fare in the 1980s will be agriculture and rural communities and the military. Let us therefore consider here how this major shift in agricultural policy is likely to affect the development of the Chinese economy in this decade.

I. THE BACKGROUND AND CONTENT OF THE NEW AGRICULTURAL POLICY

The Third Plenum expressed a clear sense of crisis concerning the serious state of Chinese agriculture at that time. To quote from its resolution: "The plenary session holds that the whole Party should concentrate its main energy and efforts on advancing agriculture as fast as possible because agriculture, the foundation of the national economy, has been seriously damaged in recent years and remains very weak on the whole" [1, 1978, No. 5, p. 12]. The resolution goes on to say that the rapid development of the economy as a whole and a steady rise in the standard of living of the people are dependent on the restoration and speeding up of farm production. On the basis of this awareness the Third Plenum passed two draft resolutions: the "Decisions on Some Questions Concerning the Acceleration of Agricultural Development (Draft)" and the "Regulations on the Work in the Rural People's Communes (Draft for Trial Use)." The first of these two draft resolutions was farther discussed at lower levels and then passed as a final resolution by the Fourth Plenum after some revision. The second, how-

ever, has not yet been formally adopted. Considering the situation prevailing up until 1982, one can surmise that the reason that it has not been adopted is that opinion has been divided concerning the people's communes themselves.

The policy decided by the Third Plenum has been followed with some revision. The following are the main characteristics of the new agricultural policy, with the revisions taken into account.

A. *Institutional Aspects: Expansion of the Decision-Making Rights at the Lower Level and the Experiment of AIC Complexes*

The main aspects of agriculture which require decisions include allotment of manpower and draft animals, production facilities, funds, produce, and materials, the types of crops to be grown, the acreages to be devoted to each, and the species to be selected. Formerly it was the managing committees of the people's communes that made most of these decisions. In most cases, actual production was arranged and carried out by the production teams on the basis of orders from the people's communes passed down through the production brigades. The respective spheres of control of the people's communes, production brigades, and production teams was clearly defined, but it often happened that at the time of production drives or under circumstances such as developed during the Cultural Revolution in the second half of the 1960s the higher organizational levels assumed most decision-making rights and fell back on administrative orders. When this went too far and roused the dissatisfaction of the production teams, the Central Committee reacted by admonishing the higher organizational levels for infringing upon the authority of the teams. The decision of the Third Plenum was aimed at formalizing this position.

However, shortly after that decision was made, systematic change overtook it. This change consisted of the introduction of the production responsibility system and the system of production by individual farmers on a contract basis, systems which were initiated in Anhui Province in 1978, when it was experiencing severe drought. At the time, conditions got so bad that local cadres decided to let peasants work the fields as individuals rather than abandon them altogether since the production teams and other entities were not able to cope with the situation. Things developed from there. At first individual farmers contracted to undertake particular farm chores, but in 1979 the arrangement of having individual farmers undertake all of the work on particular fields on a contract basis for an entire year began to be adopted. This arrangement, which had earlier appeared temporarily in the "adjustment process" of the people's communes in 1959, is called the *baochan daohu* ("allotting production by household") system. In the contracts concluded between the production teams and the individual households the amounts to be retained by the collective (i.e., delivered to the production team), to be paid in agricultural taxes, and to be delivered to the government as commodity grain or other products are stipulated. In return, the production team provides the necessary production materials, and the remaining part of the produce can be freely disposed of by the contractor as his own income.

By the end of 1980, 60 per cent of the production teams in Anhui Province

had adopted this form [10, 1981, No. 2, p. 19]. And it is estimated that by the first half of 1982 two-thirds of the production teams throughout the country had introduced it.

What the form amounts to is a rejection of farming based on administrative orders in favor of farming on the basis of contracts between the state and individual farmers.

Another change in the system has been the organization of "agricultural-industrial-commercial (AIC) complexes." Experimentation with this organizational form started with state farms in the fall of 1978. Up until that time, all state farms were operating at a deficit because as a rule they were only allowed to produce farm produce and not to process it despite the fact that the price system favored processing and put agricultural production at a disadvantage. With the organization of AIC complexes, it became possible for the same entity to engage in agriculture, industry, and commerce. In other words, agricultural entities are now able to acquire the value added in the agricultural produce processing and distribution stages. By 1981, 44 per cent of the state farms throughout the country under the control of the Ministry of State Farms and Land Reclamation had organized such complexes [20, p. IV-21].

As for people's communes, which have a collective ownership system, those engaged in farming near large cities are presently trying such entities on an experimental basis. Among those that have been visited by foreigners or reported in the overseas press are the AIC complexes in Chongqing City and in Jianding County, Shanghai Municipality. It is of particular importance that both are organizationally separate from the power structure of the people's communes themselves. In the case of the people's communes, political power and management apparatus overlap, but the AIC complexes are distinguished structurally by having management apparatus alone.

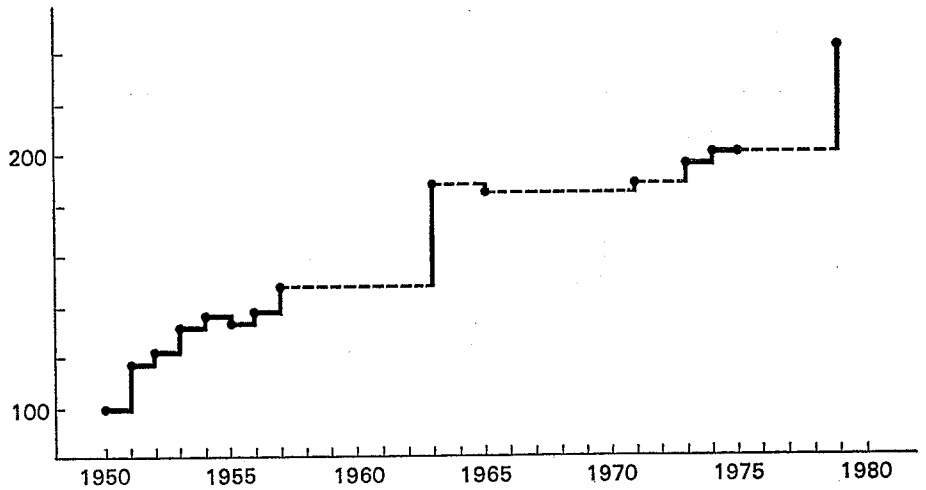
What both of these changes in the system have in common is reduction of the involvement of administrative orders in agricultural management to the minimum. It should also be stressed that the introduction of the production responsibility form has substantially increased the right of individual farmers to make decisions regarding production, thereby enhancing the relative importance of the individual farmer in agricultural operations. It should also be noted that this aim has been a major factor behind the trend for dissolution of the people's communes that began in 1981.

B. *Distribution Aspects: Major Concessions to Farmers by the Government*

There have been three major concessions in the area of distribution: (1) a raising of the prices to farmers for crop deliveries made to the government, (2) expansion and reinforcement of private plots, and (3) the granting of reductions of or even exemption from the industrial and turnover tax and from crop delivery quotas in certain cases.

The first concession began with a 24.8 per cent hike in the prices the government pays farmers for their crops, starting with the summer crops of 1979. As can be seen in Figure 1, from the 1950s to 1963, such prices had been raised

Fig. 1. Index of Government Prices for Purchase of Agricultural Products (1950=100)



Sources: [17, 1957, No. 16, p. 5] for 1950–56; [20, p. VI-24] for 1957, 1965, 1975, and 1979; and [13, p. 97] for other years.
Note: The data in [13] are calculated with 1952 as the base year; they have been adjusted by multiplying by 1.216. The period indicated by the dotted line has no published figure.

fairly rapidly, but in subsequent years the hikes were hardly large enough to make any difference. The average hike in 1979 of 24.8 per cent can be considered all the more significant in view of the fact that even before 1963 the average annual hike was only about 5 per cent.

The second concession was expansion and reinforcement of the private plot system. With the successful introduction of higher-level cooperatives in 1956, the percentage of farmland designated as private plots was set at 5 per cent. However, in the process of establishment of people's communes, private plots were in many cases eliminated. Also, although private plots nominally remained in existence during the Cultural Revolution, one of the criteria for judging a village to be "advanced" was the working of such land by collective labor. During "revolutionary" periods, then, the farming of private plots has been strongly discouraged, but with the emergence of elements standing less to the left, the situation has been reversed—as it is today.

With the new agricultural policy, the acreage allowed to private plots has been increased to 10 per cent of the total. Furthermore, the limit has been raised to 15 per cent in the case of areas with low productivity, ethnic minority areas, border areas, etc. This approach was first implemented by Zhao Ziyang, presently the Chinese Premier, when he was Party Secretary in Sichuan Province, and later it became national policy. Not only was the area of private plots expanded, but cultivation of cereals on them—previously prohibited—became permissible.

The expansion of private plots inevitably led to the appearance of free markets in rural communities. Not only were such free markets encouraged, but it even

TABLE I
GOVERNMENT INVESTMENT IN AGRICULTURE

(%)

	Investment in Capital Construction
1953–57	7.6
1959	10.3
1966–78	10.0
1950–79	11.2
1978	10.7
1979 (estimated)	14.0
1982–84 (planned)	18.0

Sources: [8, 1960, No. 1, p. 29] for 1953–57 and 1959; [15, Oct. 20, 1979, p. 2] for 1966–78; [20, p. IV-142] for 1950–79; [15, June 29, 1979, p. 3] for 1978 and 1979; and [15, Oct. 6, 1979, p. 1] for 1982–84.

became possible to engage in cereal transactions in them. Since prices in the free markets are higher than official prices, there is all the more incentive for farmers to participate in them. Furthermore, it should be noted in this connection that the increase in the acreage of private plots has stimulated the growth of side businesses run by the farmers.

The first concession mentioned above, i.e., the hike in prices at which the government buys farm produce, has benefited those farmers who are able to sell a portion of their agricultural production. Considering, however, the fact that commodity grains account for only 20 per cent of total production on a nation-wide basis, it is clear that the majority of farmers are still not able to sell any of their production, and expansion of the percentage of private plots has meant more to the lower strata of farmers, enabling them to receive a more favorable distribution. This is significant when we note that the Third Plenum pointed out that there are about 100 million people in China below the poverty line.

The third concession was reduction of and even exemption from the industrial and turnover tax in rural areas and delivery quotas in certain cases. A provisional bill regarding enterprises operated by people's communes and production brigades that was promulgated in July 1979 provided for such reductions and exemptions for those enterprises. Furthermore, existing small iron ore mines, coal mines, power plants, and cement factories were exempted from the industrial and turnover tax for a period of three years from 1978, new enterprises were given an initial three-year exemption from taxes, and enterprises in the ethnic minority areas and border areas were exempted for a period of five years.

As for reduction of delivery quotas, this concession was granted to areas producing rice and other major cereals where per capita production of grain is 200 kg or less and areas producing other minor cereals where per capita production thereof is 150 kg or less.

C. *Increase in Government Agricultural Investment*

The third feature of the agricultural policy adopted by the Third Plenum was an increase in agricultural investment by the government. The plenum decided

to raise the part of the capital construction expenditures devoted to agricultural investment to approximately 18 per cent for the period 1982–84. As can be seen from Table I, government investment since 1949 may be devided into three stages. In the first stage, up to 1957, agricultural investment represented a little over 7 per cent of capital construction expenditures. In the second stage, extending over a period of twenty years between 1959 and 1978, the figure was approximately 10 per cent, and in the third stage, i.e., since the Third Plenum in 1979, it has been over 14.15 per cent although there is some uncertainty with respect to 1980 since statistics are not available. In any case, it is clear that one of the main elements of the agricultural policy adopted by the Third Plenum is greater reliance on government investment in agricultural construction.

II. SIGNIFICANCE OF THE NEW AGRICULTURAL POLICY: A COMPARISON WITH THE AGRICULTURAL POLICY OF MAO ZEDONG

Chinese agricultural policy from the introduction of cooperatives in 1956 to the Third Plenum of the Eleventh CCP Central Committee may be seen as "Mao Zedong's agricultural policy." During that period, this agricultural policy appeared in its most typical form during the three-year Great Leap Forward that began in 1958 and again during the Cultural Revolution starting in 1966; it was continued under the leadership of Hua Guofeng. In this section let us consider the significance of the agricultural policy of the Third Plenum from four angles: (1) The position of agriculture in the national economy; (2) The role played by collective labor investment by farmers; (3) The effects of government concessions to farmers in terms of distribution policy; and (4) The structure and features of agricultural investment.

A. *The Position of Agriculture in the National Economy*

In Mao Zedong's agricultural policy the agricultural sector was considered the supporting basis for national economic construction. In other words, it was treated as the major source of capital accumulation for national construction. While the resources of rural communities were channeled to the cities and industry by a number of routes, the government asked the rural communities to undertake local construction by themselves without central government help in view of the shortages of economic surplus. In return, however, the party and the state gave the hardworking farmers moral support and encouragement as well as public recognition. This was the least expensive way in which the party and state could recompense farmers for their contribution to the development of the national economy.

There are two main channels whereby the government received the resources of rural communities: the first channel was that of agricultural taxes and the price margins inherent in the system of compulsory deliveries to the government, while the second channel was through sales to farmers of equipment and materials for agricultural production ("scissors" trade between the agricultural and industrial sectors through which the state absorbs resources).

The first channel was initially established in the USSR by Stalin in the late 1920s and early 1930s. In China's case, the CCP levied agricultural taxes during the Yan'an days (1936–47) for economic support of the liberated zones, and even after liberation of the whole country such taxes were the most important source of accumulation during the early 1950s. Although the agricultural taxes on subsidiary agricultural produce were lowered to about 6 per cent after 1970, in 1953 they were a high 12 per cent [12, p. 208].

The system of compulsory deliveries of agricultural product started in November 1953, and after the establishment of cooperatives the state got a better and better deal with respect to distribution thanks to this system. Before the establishment of cooperatives individual farmers had the right of final disposal of their harvested crops, but this right was taken over by the cooperatives. The cooperatives distributed the remaining portion of the produce for individual consumption only after first retaining agricultural taxes, the fund for the collective, and production costs.

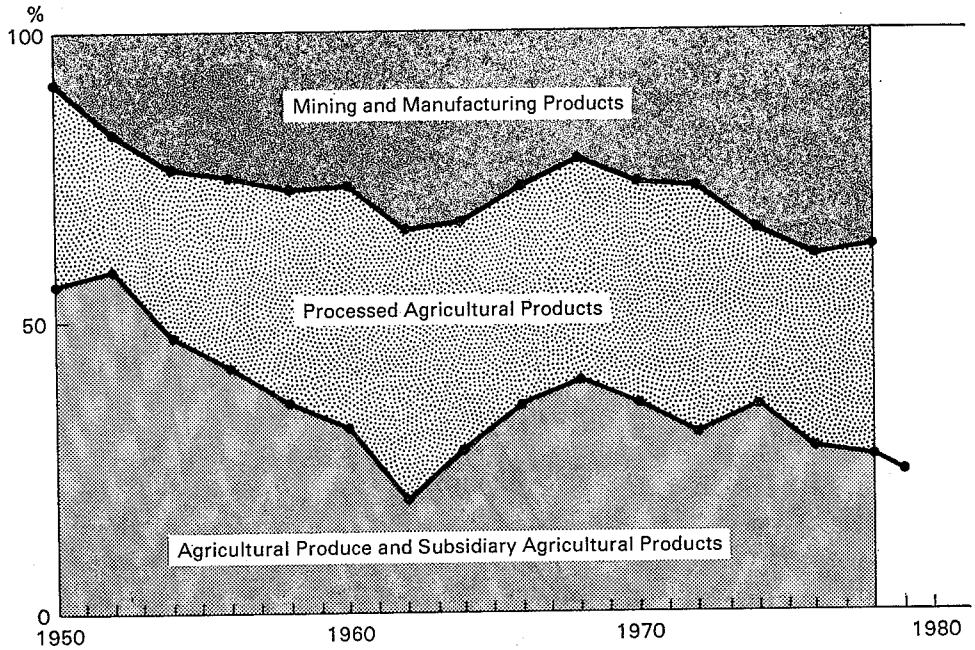
The state processed the agricultural produce delivered to it in government-run industries and sold the products to the people. While the agricultural produce to be processed was sold to the state at low prices, the products of such processing were sold to the people at high prices, with the state making enormous profits on the difference. In this connection it can be noted that during the period of the First Five-Year Plan, for 1953 to 1957, the state accumulated 25 billion yuan in the foodstuff and textile industries alone. This amount is comparable to all investments in industry during that same period [12, p. 8].

In order to establish this accumulation mechanism, the state has applied the policy of having handicraft industries and small factories using agricultural produce as raw material suspend operations or be merged [12, pp. 51–55].

Since the prices at which the government buys the agricultural produce from farmers have been steadily raised, the scissor price gap has been reduced. Nevertheless, the general opinion of Chinese economists is that this price gap—a relic of the past—continued to exist up to 1978. The question remains, however, whether or not the hikes in prices for agricultural produce since 1978 were substantial enough to wipe out such transfer of resources from rural communities to the cities. This matter requires study in detail, and is a task that the present writer has not yet been able to complete. Considering the fact, however, that state finances began to show a large deficit after the nearly 25 per cent hike in such prices in 1979 (as will be further discussed later), it is fairly safe to conclude that the state, at least until that time, had been accumulating resources from the agricultural sector.

The government's acquisition of agricultural produce in large quantities and at as low prices as possible was for the purpose of accumulating capital through foreign trade. Figure 2 indicates the percentage of exports accounted for by agricultural produce and processed agricultural products. During the period of the First Five-Year Plan, such items accounted for approximately three-quarters of all exports. Although there was some decline in the 1970s, the percentage still remained at 60–75 per cent.

Fig. 2. Percentage of All Exports Accounted for by Agricultural Produce and Processed Agricultural Products



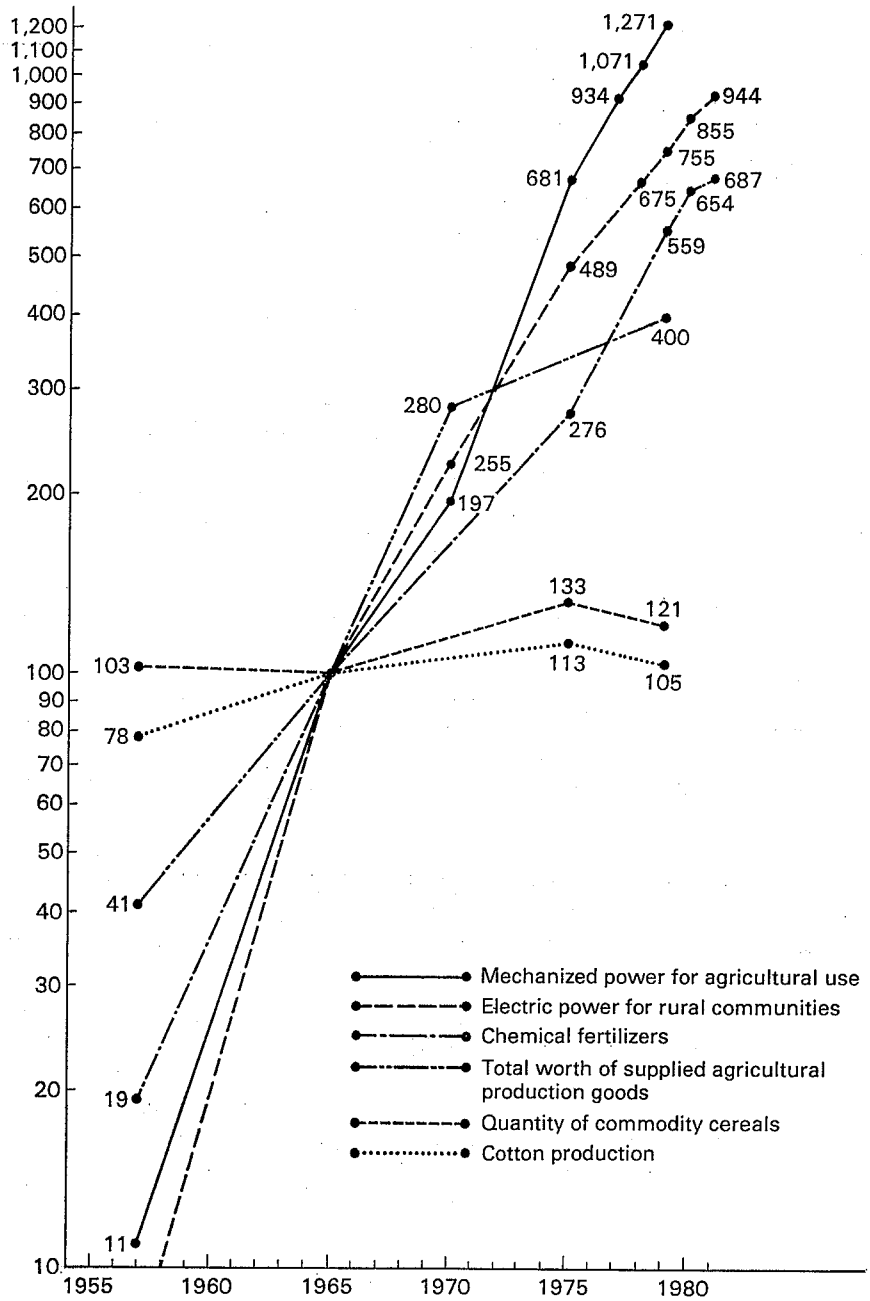
Source: [9].

Note: Agricultural produce and subsidiary agricultural products include cereals, cotton, edible oils, eggs, poultry, livestock, fishery products, vegetables, fruit, raw lacquer, and medical herbs, whereas processed agricultural products include processed cereals, processed edible oils, processed food items, woven goods, processed livestock products, handicraft products, etc.

As was mentioned above, the second channel through which the government acquires resources from agriculture is the selling equipment and materials for agricultural production (or agricultural production goods) to the farmers. Figure 3 shows the trends of agricultural investment over the years. It also gives figures for the total sales of agricultural production goods, mechanical power for agricultural use, chemical fertilizers and electric power in rural communities in terms of input-related statistics. The base year, assigned an index level of 100, is taken as 1965. In that year, total sales of agricultural production goods were 2.2 times what they were in 1957 and in subsequent years they rose still more sharply, to quadruple the 1965 figures by 1979. The sharpest rise, however, was that of mechanical power for agricultural use. In terms of statistics concerning the quantity of such machinery owned, there was an approximately 9-fold increase between 1957 and 1965 and a fantastic 1,217.6-fold increase between 1965 and 1979. This is clear evidence of the fact that there was a tremendous increase in agricultural input starting in the second half of the 1960s.

What about the prices at which agricultural production goods were supplied? The overall price index indicates that the price level declined from 100 in 1950

Fig. 3. Contrasted Increases in Agricultural Inputs and Quantity of Commodity Agricultural Produce



Sources: [20] and the official economic reports for 1980 and 1981.
Note: The quantity of commodity cereals is calculated using the net commodity rates in [17, 1957, No. 19, p. 31] for 1957, [16, p. 18] for 1965, and [14, 1981, No. 9, p. 10] for 1979.

TABLE II
PRICE INDICES FOR AGRICULTURAL PRODUCTION GOODS SUPPLIED IN HANSHOU COUNTY, HUNAN PROVINCE

Item \ Year	1957	1965	1972
Superphosphate	100	70.6	70.6
Urea	100	75.7	68.1
Pesticides and related agricultural chemicals	100	51.9	43.5
Sprayers	100	100.0	86.1
Pulverizers	100	82.8	75.0
Hand tractors	100	92.6	88.9
Fuel oil	100	84.6	74.4

Source: [13, p. 105].

to 60–70 in 1970 [12, p. 208]. This information is, however, insufficient to serve as a basis for the conclusion that there was a sharp decline in the prices for supply of agricultural production goods, for there is a considerable difference in composition of the agricultural production goods between 1950, 1965, and more recent years. In order to compare the prices of the two accurately, it is necessary to make a detailed study of what weighting should be applied, the pricing of new products, etc., and this is a task that the present writer has not yet completed.

Nevertheless, Table II gives a supplementary indication of the situation with respect to the lowering of the prices of agricultural production goods in terms of indices for some such goods in the case of Hanshou County in Hunan Province. The largest decline in price was for agricultural chemicals, 56 per cent, and the smallest was for hand tractors, 11 per cent.

It is clear that the supply prices of agricultural production goods were lowered. One should also note, however, that the quantity of supply of agricultural production goods sharply increased, as indicated in Figure 3, whereas there was only a very small corresponding increase in sales of agricultural produce to the government. The index for the quantity of commodity cereals rose from 100 in 1965, as the base year, to 132.5 in 1975, but was only 120.5 in 1979. As for cotton, the most important market crop with a commodity rate of approximately 90 per cent, its production quantity index only rose to 113.3 in 1975 (105 in 1979) from 100 in 1965, the base year. In other words, there were only slight increases in those crops that could be sold. When this fact is coupled with the increased production inputs, it becomes clear that there was a sharp rise in the marginal cost of agricultural production between the second half of the 1960s and 1978, contributing to a situation in which increased production did not result in increased earnings.

According to the sample survey of 2,165 production teams, the production cost of grains per mu (0.0667 hectare) increased from 26.2 yuan in 1965 to 40.5 yuan in 1977 [11, 1978, No. 12, p. 18]. This kind of increase in production costs was reported in 1979–80 in many localities.

From the above it is fairly clear that rapid increase in modern agricultural inputs did not bring about a corresponding rise in productivity, at least not one

anywhere near commensurate. Accordingly, one can say that the input of agricultural production goods produced in the urban industrial sector has had the effect of transferring rural resources to the cities. (The reason why modern input has not brought about a higher increase in productivity than its own rate of increase is a subject which will have to be treated elsewhere since it goes beyond the scope of the present paper.)

What new policies are included in the agricultural policy of the Third Plenum with regard to the two channels of transfer of resources from rural communities to the cities that we have discussed? As we have already seen, they are a substantial increase in the prices that the government pays for the agricultural produce delivered to it by farmers and an increase in the subsidization for agricultural production materials.

Subsidization had already been implemented since the 1960s. For instance, lower electricity rates were applied for agricultural use than for urban industry and general consumers. It appears that since 1979 there has been a widening of the scope of agricultural production materials qualifying for subsidies or price reductions. On March 22, 1982, *Renmin ribao* announced that government expenditures for improvements to the people's livelihood during the three-year period from 1979 to 1981 totalled 140 billion yuan. The third item in a list breaking down the gross figure reads as follows: "Price subsidies for petroleum products and electric power for agricultural use, and coal for consumer use, meat, eggs, poultry, imported cereals, cotton, sugar, chemical fertilizers, agricultural chemicals, etc. amounted to 34.1 billion yuan."

In the past the government used a part of the funds of its large surplus from domestic sales of imports for protection and fostering of domestic industries such as the chemical fertilizer industry. Although imported fertilizers were cheap, the supply prices of such fertilizers were set high so that the government could pocket the difference and use it to subsidize small local chemical plants. Such local plants (and others with large equipment costs such as cement plants and steelworks) needed such subsidies from the government or local people's communes in order to cover their deficits. Other items were also used to contribute to the government's financial revenues in much the same way. Thus we can interpret the lowering of prices of such import as being a facet of the new agricultural policy, or policy which considerably constricts the two channels by means of which the government had been making large profits.

B. *The Role Played by Collective Labor Investment on the Part of Farmers*

If agriculture is the sector supporting the national economy by providing the cities and industry with resources, what about rural construction itself? The most important feature of Mao Zedong's agricultural policy was the mobilization of farmers by the party for the purpose of having them undertake rural construction on their own. This explains the party's hurry to organize cooperatives and people's communes. The people's communes can therefore be described as organizations to aid the conversion of the labor of the farmers into fixed assets and at the same time to act as social receptacles for absorption of the excess manpower of rural communities.

Most of the rural mobilization of the farmers took place during periods when there was little or no work in the fields and was for the purpose of irrigation and water conservancy construction work, structural improvement of land, afforestation (early spring and fall), and road construction. At first it was mainly based on the voluntary participation of the farmers, but during the Great Leap Forward in 1958 and 1959 there was mass mobilization on a semi-compulsory basis making use of social consciousness (village community spirit). The scope of the mobilization went beyond the principle that those who reap the benefits should do the work, the farmers often being made to undertake construction work in other communities than their own, perhaps even separated from them by mountains or rivers. Instead of paying them for their work, the party and the state lauded the farmers for their spirit of sacrifice.

Let us take a look at the results in terms of irrigation. By 1979, 308 large reservoirs (with the capacities of over 100 million cubic meters), 2,100 medium-size reservoirs (10–100 million cubic meters) [14, 1980, No. 3, p. 42] and 82,000 small reservoirs (under 10 million cubic meters) with a total water storage capacity of 400 billion cubic meters were completed with such mobilized labor. It was also used to increase irrigable acreage from 23.45 million hectares in 1954 to 61 million hectares in 1959 and 40 million hectares in 1979 [14, 1980, No. 8, p. 4]. (The larger figure for 1959 than for 1979 is attributable to changed definition of irrigable acreage as well as to exaggeration in the earlier year.) In the thirty-year period from 1949 to 1978 the total amount of investment in basic irrigation and water conservancy works is said to have been 130 billion yuan, state expenditures accounting for 76 billion yuan and expenditures by people's communes and farmers for 54 billion yuan [5, Nov. 8, 1980, p. 2]. The figure for expenditures by people's communes and farmers includes funds, materials, and labor, the largest portion being represented by labor at a calculated rate of 0.4–0.6 yuan per man-day.[1] This is the calculation given by the present authorities. That rate of payment for labor, however, is only a quarter to one-half of the wage rate for urban workers. If we assume, instead, that one man-day of such labor was worth one yuan (the wage rate for casual workers in cities and workers in urban cottage industry), the figure of 54 billion yuan expended by farmers would be doubled. According to the Chinese, 80 per cent of all such irrigation and water conservancy works were started during the Great Leap Forward of 1958–59.[2]

If one assumes that one man-day of such irrigation and water conservancy work by mobilized farmers is worth 0.5 yuan and that over the thirty-year period in question the average labor force in rural communities was 270 million, one gets a figure of twelve to thirteen days of semi-compulsory labor a year per person for irrigation and water conservancy work alone. If mobilization for other kinds of work is also included, participation in semi-compulsory labor amounted to nearly twenty days a year.

Such semi-compulsory labor is the main factor which contributed to the building

[1] Explanations given on June 17, 1982, by a visiting Chinese Mission on Farm Mechanization at the China Japan Association on Economy and Trade.

[2] See footnote 1.

of present-day China from a state of poverty. Thanks to such mobilization of labor by various means, including the administrative orders of people's communes, it has been possible to accomplish construction in the rural area, an area which accounts for a large part of the country as a whole.

One of the biggest changes in the new agricultural policy is the domestically and internationally announced decision to do away with such collective labor. With the decision to give production teams a freer hand and with the increasing prevalence of the system of production by farmers on a contract basis, the right to make decisions regarding the use of labor has been transferred from the people's communes to the production teams and individual farmers. Since labor mobilization can only be accomplished now by economic means (with compensation), it will cost a good deal in future.

There are other attendant problems which are already in evidence. Although the rate of increase in population declined to 1.17 per cent in 1979, it went up again to 1.2 per cent in 1980 [2, 1982, No. 8, p. 25] and 1.4 per cent in 1981 [1, 1982, No. 20, p. 24]. Part of the explanation for the increase in population growth lies in the fact that, although there was rapid progress in mechanization of agricultural work in the second half of the 1960s and during the 1970s, draft animals and human labor still acount for most of the work done by farmers. Hence the policy of holding down population growth received a setback as the value of human labor began to be appreciated again along with the spread of the system of production by individual farmers on a contract basis. Furthermore, there were reports from all over the country during these same years of declining school attendance and a sharp rise in the dropout rate as yet another phenomenon resulting from the system of production by individual farmers on a contract basis.

With the change to a system in which the interests of one's own family and of the production team (the former natural hamlet) are accorded much importance, farmers cannot be expected to participate in work beyond these confines any longer unless they are well paid for it.

C. *The Significance of the Change in Terms of Distribution*

The collective labor that farmers used to have to participate in had the effect of holding down the level of consumption in the national economy as a whole. With the collectivization of labor, the right to dispose of the fruits of labor was taken from the individual farmers and vested in the production teams. Only after the production teams deducted the portions for agricultural taxes, collective funds, and the quota for compulsory delivery to the state and subtracted production costs, did individual farmers get their share. Accordingly, it was possible to hold down increases in that share as long as the strength of public authority was maintained.

Participation in semi-compulsory collective labor also had the effect of holding down personal consumption. As we have noted, up until 1978 farmers probably participated in nearly twenty days of semi-compulsory labor a year on the average. If we maintain that those days were indeed paid for, who paid for them? One can only say that payment was included in the overall share of production that

went to individuals. From the viewpoint of the production team, payment was made, together with payment for other work, with the income from agricultural produce, while from the viewpoint of the individual farmers, the mobilization represented intensification of labor and thus a cut in the rate for each day's work. In any case, it was thanks to this system that such a great deal of rural construction was accomplished under Mao Zedong's agricultural policy while inflation was for the most part avoided.

It would appear that under the new agricultural policy the number of AIC complexes has been increasing. Let us consider what effect this will have on distribution of the fruits of labor. In this connection it is first necessary to understand what kind of distribution system was operative in the past within the enterprises run by people's communes and production brigades. In fact, what it amounted to was a levelling of wages within and between production teams. Let us assume that there are two production teams, A and B, with different productivities for agricultural work (and hence different wages for a day's work) and that an enterprise run by the people's commune employs one worker from each of them, i.e., worker X and worker Y. Let us further assume that worker X, from production team A, which is the poorer of the two, is more skilled than worker Y and also has more seniority. In the enterprise run by the people's commune, worker X gets a higher rating than worker Y. The wages, however, are paid to the production teams instead of directly to workers X and Y themselves. Production team A pays worker X an amount obtained by multiplying the point-value of the production team by the number of labor points assessed him in the enterprise. In other words, the wage actually turned over to the worker is that of the production team that the worker belongs to and not that of the enterprise run by the people's commune that he is now working in. This being the case, worker Y, although less skilled and with less seniority, might earn more than worker X even though the points assessed him in the enterprise are lower than those assessed worker X, provided that the daily wage in production team B is higher than that in production team A. This results in the levelling of wages between and within production teams. The AIC complexes do not have any social administrative powers, and therefore their employees are probably not paid in this way but paid individually based on their performance in the complex. From the point of view of the production teams, however, such a wage system introduces a wage gap between those of their members working in enterprises and those doing agricultural work.

With the new agricultural policy, which severely limits the labor allocation rights of people's communes and production brigades, it has become extremely difficult to mobilize farmers for collective labor. This results not only in a decrease in such labor but also in removal of the restraints on rises in consumption, because the collective must pay for whatever labor it does manage to mobilize. If an alternative way is not found to keep consumption by the Chinese rural population which represents 85 per cent of the total population, within reasonable bounds, consumption could rear its head like a great monster, threatening the economy as a whole. In fact, there are already signs of this happening.

Since 1980 there has been a building boom in rural communities, especially in suburban areas where the farmers can find a ready sale for all their produce. Whereas in 1978 and 1979 only 200 million square meters per year of housing floor space was built in rural communities [15, May 6, 1981, p. 1], the figure rose to 500 million square meters in 1980 and 600 million square meters in 1981 [1, 1982, No. 20, p. 24]. Will the party and the government be able to find a means of coping with the demands of this kind of consumption spree?

D. *The Characteristics and Significance of the Agricultural Investment Structure*

Agricultural investment can be classified into two categories on the basis of the lead time involved, i.e., the time that it takes for the investment to bring about a production increases. The lead time is particularly long in the case of irrigation and water conservancy works, basic land improvements, afforestation, soil improvement, etc., afforestation, for instance, taking decades even in temperate zones. Investment in fertilizer, agricultural chemicals, seeds, etc., on the other hand, takes effect the very same year, provided that the agricultural infrastructure and water conditions are adequate.

Mao Zedong's agricultural policy placed emphasis on investment that pays off in the long run, such as irrigation and water conservancy works and basic land improvements. By combining investment by the state with collective labor, very impressive results were obtained. The accomplishments in irrigation and water conservancy that we have already noted were made possible by such an agricultural policy. In the last few years, however, there has been considerable criticism to the effect that dams built under Mao Zedong's agricultural policy have produced reservoirs filled with sand and mud instead of reservoirs filled with water.[3] Where such things occurred, criticism is justified since it concerns wasted effort. The achievements of the long-term investment under Mao Zedong's agricultural policy, however, cannot be denied.

In contrast to Mao Zedong's agricultural policy, the point of departure of the new agricultural policy is a cutback in long-term investment. When the present premier, Zhao Ziyang, was Party Secretary in Sichuan Province, he published an article in *Hongqi* [19] that advocated that agricultural investment should be for construction of *agriculture and not just fields.* Needless to say, this was a criticism directed at the Dazhai model under Mao Zedong's agricultural policy. To quote from the article:

> What should our agricultural construction consist of at the present time? We must start with production needs, doing first what is most urgent and what will produce the quickest results. . . . We must now cut back slightly on investment for construction of irrigation and water conservancy facilities where possible and use the funds saved for other urgent undertakings. We have made very little progress in the basic development of the science and technology of agriculture.

He also stated that agricultural construction must be based on policy and on science. It is clear that what he meant by "policy" is the new agricultural policy

[3] See, for example, [18].

and not Mao Zedong's agricultural policy. He emphasized science, for instance, by pointing out the Japanese technique of improving soil fertility with earth worms. This call for adherence to policy and science was repeated as one of the ten principles for economic construction set forth by him in his speech before the National People's Congress in December 1981.

Specific steps were first taken in 1980 to curtail agricultural investments involving long lead times. In Shandong Province, for instance, government investment for irrigation and water conservancy construction was cut by 47.4 per cent, resulting in cancellation of forty-six among a total of seventy projects cancelled in the category of projects costing one million yuan or more [15, No. 20, 1980, p. 2]. In the case of Guangxi Autonomous Region, fifty-eight projects were cancelled in that category, many of them also involving irrigation and water conservancy. Furthermore, the local government expressed the intension to systematically reduce small irrigation and water conservancy works throughout the autonomous region [15, Dec. 8, 1980, p. 31].

As indicated by the above examples, the new agricultural policy clearly gives priority to investment in areas in which recovery of the investment is fast. This is the inevitable result of abandonment of the method of accumulation pursued during the Mao Zedong period, a method that has been most important in terms of accumulation in the national economy.

As for the future, it should be remembered that investment in fertilizers, agricultural chemicals, new varieties, etc., in which investment recovery is rapid, only yields results if the agricultural infrastructure is properly maintained. If the land and irrigation improvements achieved under Mao Zedong's agricultural policy are allowed to waste away, agricultural development is later bound to grind to a halt.

III. EMERGING CONTRADICTIONS OF THE NEW AGRICULTURAL POLICY

How the Chinese economy fares in the 1980s will still depend a great deal upon agriculture. Accordingly, one can be either optimistic or pessimistic about the overall economic prospects, depending on one's opinion of the new agricultural policy. The key point in making a judgment in this regard is whether one considers the relationship of agriculture to the national economy as being that of a goose that lays golden eggs or that of a money eater. In my opinion, it has become the latter on account of the new agricultural policy, and I am therefore not optimistic about the growth of the Chinese economy during this decade.

Let us now consider the impact that the new agricultural policy has already had on the national economy.

A. *Chinese Agriculture—A Sector Permanently Requiring Subsidies?*

Since adoption of the new agricultural policy agricultural production has been making fairly good progress. Although production of cereals has only risen 6.6 per cent in four years (approximately 1.6 per cent a year, this rate being even

TABLE III
BREAKDOWN OF GOVERNMENT EXPENDITURES FOR NONPRODUCTIVE PURPOSES, 1979–81

(Billion yuan)

	Government Expenditures
Additional government expenditures to cover hike in prices for agricultural produce	44.2
Reductions and exemptions of various rural community taxes	7.8
Subsidies for agricultural production goods, etc.	34.1
Construction of urban housing	15.2
(direct government expenditures thereof	5.0)
Hike in workers' wages	30.0
Wages for formerly unemployed youths who are newly employed	10.5

Source: [15, March 22, 1982, p. 1]

lower if one discounts the bumper crops of 1979), great progress has been made in the production of cotton, vegetable oils, and other economic crops. This difference has probably been largely due to the effect of a larger hike in the supply prices for such market crops than in those for cereals. In other words, the government's concession to farmers in distribution policy has had its effect.

The cost at which this has been achieved, however, is in enormous government subsidies to agriculture. In the three-year period from 1979 to 1981, the government is reported to have spent 140 billion yuan for nonproductive purposes, the breakdown being given in Table III.

The figure for such expenditures relating to agriculture and subsidies for agricultural production goods comes to the enormous amount of 86.1 billion yuan, or an average of 29 billion yuan a year. Since the scale of government finances over the past three years has been about 110 billion yuan, agriculture-related subsidies have accounted for nearly 30 per cent of the total, and that does not include agricultural investment proper.

Since 1979 the government has been running a deficit, and a deficit is expected for 1982 as well, for the fourth year in a row. The main reason for this deficit is the present "money-eating" nature of the agricultural sector, and the reason why agriculture has become a "money eater" lies in the fact that the method of accumulation adopted in Mao Zedong's agricultural policy has been abandoned and the restraints on rise in consumption have been lifted.

B. *China—A Permanent Large Importer of Cereals?*

In 1981, contracted imports of cereals amounted to 15 million tons, and there has also been a gradual increase in imports of maize. Should this be interpreted as a passing phenomenon or a permanent trend? For several reasons, I think that China will be a permanent large importer of cereals.

Table IV gives the statistics for import and export of cereals in past years. Although statistics concerning China's cereal exports in 1980 and 1981 are not available, one can be sure that such exports are gradually declining. As for

TABLE IV
CEREAL TRADE STATISTICS

(1,000 tons)

	Imports			Exports			Balance
	Wheat	Minor Cereals	Total	Rice	Minor Cereals	Total	
1952			15	192	122	314	+ 299
1954	21		21	293	1	294	+ 273
1956		2	89	988	15	1,074	+ 985
1958	127	31	170	1,265	33	1,299	+ 1,129
1960			28	1,174	132	1,478	+ 1,450
1961	4,092	1,446	5,601	444	33	598	− 5,003
1963	5,455	65	5,617	640	112	862	− 4,755
1965	5,774	138	6,024	753	264	1,017	− 5,007
1967	4,133	160	4,354	1,198	91	1,312	− 3,042
1969	3,928	6	3,939	811	20	831	− 3,108
1971	3,022	107	3,135	924	116	1,043	− 2,092
1973	5,982	1,658	7,642	2,142	61	2,210	− 5,432
1975	3,339	95	3,459	1,440	181	1,621	− 1,812
1977	6,900		6,900	700	100	800	− 6,100
						over	less
1978	8,074	1,324	9,398	1,100		1,100	− 8,298
1979	8,710[a]		12,355[a]	1,053[b]		1,542[b]	−10,813
1980	1,170[c]		13,500[c]				
1981	1,300	590[d]					

Source: [13, p. 296, p. 300].

[a] From [7, p. 28].

[b] From [7, p. 11].

[c] From the reports of U.S. Department of Agriculture.

[d] Maize only.

cereal imports, they passed the 10 million ton mark in net terms in 1979, the year that the new agricultural policy was launched.

There are three reasons why I think it is very likely that China will become a permanent large cereal importer: (1) The policy concession that the government has made to farmers in connection with delivery quotas; (2) The increase in urban population resulting from the new agricultural policy; and (3) The change in the structure of consumption.

In connection with the first point, the Third Plenum of the Eleventh Central Committee of the CCP decided to maintain the delivery quotas throughout the 1980s at the same level as for the period 1971–75. Its resolution regarding the acceleration of agricultural development also included the provision that rice-producing areas with annual production of less than 200 kg per capita and areas producing minor cereals with annual production of less than 150 kg per capita were to be exempted from the delivery quota system. As a result, there has been a sharp decline in the rate of shipment of cereals to the cities, i.e., in the cereal commodity rate. In 1953–57, the period of the First Five-Year Plan, this rate stood at about 17 per cent [17, 1957, No. 19, p. 31], but it declined to 12 per cent in 1979 [14, 1981, No. 9, p. 10].

TABLE V

TRENDS IN PRODUCTION AND CONSUMPTION OF MEAT AND ALCOHOLIC BEVERAGES IN CHINA

(kg)

Year	Meat (Pork, Goat, Mutton, Beef)			Alcoholic Beverages		Per Capita Meat Consumption in the World	Per Capita Meat Consumption in Japan[b]
	Per Capita Gross Production	Per Capita Consumption in Cities	Per Capita Consumption in Rural Communities	Per Capita Gross Production[a]	Per Capita Consumption in Rural Communities		
1952	5.95[c]			1.12			
1957	6.25[c]			1.34			
1965	7.7[c]			1.29			8.8
1970							13.4
1975	8.74[c]			2.17			17.9
1977	7.55[d]					23.5[e]	20.3
1978	8.15[f]	15.5[d]	5.91[g]		1.22[g]		
1979	11.0[c]	19.0[d]	6.51[g]	2.99	1.42[g]		
1980	11.5[h]						

[a] [20, p. VI-21] plus population data.
[b] [6, p. 240].
[c] [20, p. VI-12].
[d] [14, 1981, No. 11, p. 34].
[e] [14, 1981, No. 1, p. 24].
[f] [14, 1980, No. 2, p. 34].
[g] [20, p. VI-25].
[h] [14, 1981, No. 7, p. 53].

TABLE VI
CHANGE IN FOOD STRUCTURE

(1,000 tons; %)

	1952	1957	1978
Total	154,400	185,477	306,529
Rice	68,450 (44.3)	87,277 (47.1)	134,090 (43.7)
Wheat	18,100 (11.7)	23,650 (12.8)	62,120 (20.3)
Sweet potatoes	16,650 (10.8)	21,900 (11.8)	31,085 (10.1)
Minor cereals	51,500 (33.3)	52,650 (28.4)	79,234 (25.8)

Sources: [3, p. 105] for the figures for 1952 and 1957, and [4, p. 130] for the figures for 1978, with some adjustment on the basis of import and export figures.

Notes: 1. The figures are for apparent consumption (imports and exports included).

2. Sweet potatoes have been converted to cereal equivalents at the rate of four to one. [20, p. VI-31] gives a conversion rate of five to one. This conversion rate may have been used for the production figures for 1978.

Since individual farmers have now acquired the right to decide on how to dispose of their crops as a result of introduction of the production responsibility system, it will be even more difficult to raise delivery quotas.

Another problem exacerbated by the new agricultural policy is the increase in urban population. It is a well-known fact that under Mao Zedong's agricultural policy, and particularly during the Cultural Revolution, urban youth were required to serve as workers in rural communities for certain periods of time. This resulted in a levelling off of the population of large and medium-size cities. In 1977 and 1978, following the arrest of the Gang of Four (October 1976), urban youth that had been forced to leave the cities returned in large numbers, and particularly after the resumption of university entrance examinations. In fact, 20 million are reported to have done so.

Also, with the loosening of the control of the people's communes in rural communities, there began an influx of farmers into the cities as well. Consequently, the total population of China's large and medium-size cities increased 11 per cent in the two-year period of 1980 and 1981 [1, 1982, No. 1, p. 14]. Since such cities have strictly applied programs for holding down natural population growth, most of that 11 per cent increase can be considered to have resulted from social movement. We have already described the people's communes as means of organizing farmers for the purpose of converting collective labor into fixed assets, as well as a social receptacle for absorption of excess population. The new agricultural policy adopted by the Third Plenum in 1979 weakened these functions of the people's communes, and this hastened the exodus of rural people to the cities in 1980 and 1981. Hence the outlook for a steady increase in the amount of food required by the cities.

TABLE VII
GROWING DEFICIT IN GOVERNMENT FINANCES

(Billion yuan)

	Annual Revenues	Annual Expenditures	Balance	Method of Dealing with Deficit		Domestic and Foreign Loans
1977	87.45	84.35	3.10			
1978	112.11	111.09	1.02			
1979	110.33	127.39	−17.06	Foreign loans	3.53	3.53
				Funds carried forward from previous surplus	8.04	
				Increased issuance of bank notes	9.02	
1980	108.52	121.27	−12.75	Foreign loans	4.30	9.17
				Government bonds issued in 1981	4.87	
				Increased issuance of bank notes	8.00	
1981	105.86	108.58	− 2.72	Borrowing from local governments	7.50	15.50
				Foreign loans	8.00	
1982	110.45	113.45	− 3.00	Scheduled domestic bonds	4.00	9.00
				Scheduled foreign loans	5.00	

Sources: [1, 1979, No. 29, p. 17] for 1977 and 1978; [1, 1980, No. 39, pp. 11–12] for 1979; [2, 1981, No. 52, pp. 17–20] for 1980 and 1981; and [1, 1982, No. 22, p. 17] for the planned figures for 1982. The figure for borrowings from local governments is from [1, 1981, No. 11, p. 18].

Note: Annual revenues reported seem to include the foreign loans. Thus the financial balance does not coincide with the figures in the column for the method of dealing with deficit. The reasons for the remaining discrepancy are not identifiable.

Finally we cannot overlook the fact that change in the structure of consumption is also increasing the demand for cereals. Consumption of meat and alcoholic beverages is increasing sharply, as can be seen from Table V. In the cities, meat consumption will no doubt pass 20 kg per person per year in 1982, which is about the same as meat consumption in Japan. Meat consumption in rural communities is about a third of that in the cities. If it too increases, the result will be a major change in the supply and demand situation with respect to cereals, for increases in meat production will increase the demand for cereals to be used as fodder. Perhaps the maize imports of 1981 are an indication of the beginning of this trend. In any case, increasing demand for meat and alcoholic beverages is bound to have a significant effect on the demand for cereals.

Table VI shows the structure of consumption of cereals. It can be readily seen that the rate of consumption of wheat is rising fast. Whereas it was only 11.7 per cent in 1952, by 1978 it was up to 20.3 per cent. On the other hand, there has been a steady decline in the percentage of the total represented by minor cereals, sweet potatoes, and other tubers. In 1952, it was 45 per cent, and today it is about a third, which is still quite high. But with the changing structure of consumption of cereals, the share represented by wheat can be expected to continue to increase at the expense of these other foods.

It is for these three reasons, then that China can be expected to become a permanent large importer of grains.

C. *Permanent Government Deficit Financing and Permanent Dependence on Foreign Debts?*

Table VII summarizes Chinese government finances since 1977. As we can see, they have been running a deficit for four years in a row—since the Third Plenum of the Eleventh Central Committee. In 1979, the deficit was 15 per cent of government revenues, and although it was hoped that a balance between revenues and expenditures would be restored in 1981, the effort failed. A deficit of approximately 3.0 billion yuan is expected in 1982.

As we have already seen, the main reasons for this deficit are the concessions the government made to farmers and the new agricultural policy, which has converted the agricultural sector from a major source of accumulation in the national economy to one requiring the greatest support in subsidies. IN took several years for the advanced capitalist countries to absorb the rise in oil prices that resulted from the first oil crisis in 1973. Some countries accomplished this by raising taxes, others by issuing government bonds, and still others by relaxing curbs on inflation, which amounts to the robbing of the general public. In China's case, the new agricultural policy adopted by the Third Plenum of the Eleventh Central Committee has raised the prices of agricultural produce and removed the restraints on consumption by the rural population, which accounts for 85 per cent of the total national population. The shock suffered by the Chinese national economy as a whole on account of the increase in consumption by the rural population is comparable to that experienced by the advanced capitalist countries on account of the oil crisis. Likewise, it will take several years to a decade to absorb this shock and return the Chinese economy to a normal state.

This is the first time since the birth of the New China in 1949 that government finances have shown a deficit four years running. This state of affairs is symbolic of the serious effect the new agricultural policy is having on the national economy as a whole.

Although the present government leadership has abandoned the former main means of accumulation in the national economy, it has not found an effective substitute. One possibility is heavy industry, which in Mao Zedong's days always ran a deficit and depended on support from both agriculture and light industry, but it is by no means certain that heavy industry can accomplish a significant amount of accumulation. Once the products of the sector become internationally competitive, heavy industry is capable of internal accumulation, but that stage has not yet been reached.

This being the case, the only answer at present is more reliance on domestic and foreign debt. If we look at the column "Method of dealing with deficit" in Table VII, we see that the 17.06 billion yuan deficit of 1979 was covered by issuance of 9.02 billion yuan of bank notes, the use of 8.04 billion yuan carried forward from the surplus of the year before and the incurring of 3.53 billion yuan of foreign debt. Approximately 9.20 billion yuan of the deficit for 1980 was covered by a combination of foreign loans and government bonds (issued

in 1981). It was announced that the 1981 deficit was reduced to 2.72 billion yuan, but actually this was only an apparent reduction, the dependence on domestic and foreign loans amounting to 15.50 billion yuan. Looking at such debt alone, one cannot help getting the impression that China may become a chronic borrower: 3.53 billion yuan in 1979, 9.20 billion yuan in 1980, and 15.50 billion yuan in 1981.

CONCLUSION

The new agricultural policy of China can be compared to Khrushchev's agricultural policy in the Soviet Union. The latter marked the turning point in Soviet economic history at which agriculture became the biggest burden of the Soviet national economy. Although there are differences between these two agricultural policies, they are also similar in many respects.

Besides the three newly emerging contradictions connected with the new agricultural policy of China that we have already considered, others are developing as well. Urbanization will continue to go forward, and unemployment, which is already a very serious social problem, can be expected to get worse, for the people's communes are losing their role of social receptacles for providing employment to the excess worker population. At the same time, the working population is growing at the annual rate of 3–3.5 per cent as more than 25 million youths join the work force each year. How and where can they be provided jobs?

The present government leadership will have to do something about this and other problems, and soon. They are problems of their own making that have arisen as a result of abandonment of Mao Zedong's agricultural policy of organizing excess labor force for the purpose of accomplishing accumulation.

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