

Rural Economy at a Dead End: A Dialogue on Rural China, Peasants and Agriculture

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China and India: Latecomers to the Road of Modernization

He Qinglian: The human race experienced a number of social changes in the last century. Among them, only two great changes produced a lasting impact. First, the political system of democracy has emerged as the generally accepted model for political governance around the world. Second, the class of small peasants has decline and perhaps even begun to disappear. The latter change has permanently severed the historical umbilical cord that for generations has linked humankind with its past. What cannot be ignored is that a certain relationship exists between these two drastic social changes. Ultimately, politics is nothing but the sum total of all the social relationships of humankind. The characteristics of the people will determine the nature of their government, and the nature of the government will determine the characteristics of its people.

From day one, the human race has had to depend on mother nature for most of its material needs: a civilization founded on agriculture depended on land; a nomadic tribe settled near pastures and water; and an economy based on fishing and hunting relied on fish in the water and prey in the hills. Even when history had progressed to the era of Adam Smith, nothing had changed. That is why Adam Smith referred to land as "mother of all wealth." On the eve of World War II, only two countries in the world, the United Kingdom and Belgium, had a fishing and agricultural population that made up less than 20 percent of their total population. At that time, whether the small peasant class would ultimately be destroyed became a highly controversial "theoretical issue." Western theorists used the statistical data of that time to refute the Marxist view that "capitalism had destroyed the small peasant class."

After the World War II, however, most countries gradually adopted economic

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development as a major theme in their national policy. This sped up industrialization and the massive movement of the agricultural population away from the countryside to various modern economic units in the urban economy. The world then entered an age of rapid development, so rapid indeed that the majority of the population never really understood the significance of the changes they experienced. By the late 1980s, even Bulgaria, a bastion of the small peasant class and the least developed country in Europe, saw this class diminish to less than one third of the total population. Among the Asian countries, Japan's agricultural population fell from 52 percent in 1947 to 23 percent in 1989.[1] However, by the end of the last century, there remained three large regions in the world where the population still consisted mainly of the small peasant class. They were China, South Asia and continental South-east Asia, as well as Africa south of the Sahara Desert. Most the world's so-called "low-income economies," according to classification by the World Bank, were confined to these three regions.

Cheng Xiaonong: The 20th Century was an era in which mankind explored models of social progress and development. During this process, China underwent huge upheavals and changes, suffering hardship after hardship. Even now, China is still in the midst of an exploratory period in terms of systemic transformation and modernization. Behind closed doors, the Chinese people may be able to forget the chaotic days of the "Great Leap Forward" and the "Cultural Revolution," and cheer themselves hoarse over the long awaited and eye-catching progress achieved over the past 20 years. Nonetheless, when they open their "windows" and observe what has been happening around the world, there in fact are not that many successes to gloat over. The "success" which is most often mentioned seems to be that "China has been able to feed one fifth of the world's population with its limited per capita farmland." As a matter of fact, towards the end of reign of Emperor Qianlung in the Qing dynasty, China topped the world's agricultural production while simultaneously feeding a third of the world's population. [2] During that same period, England was saddled with an overpopulation that Malthus had called disastrous. Had this overpopulation not been relieved by the immigration to North America, internal strife would have become rampant, and England would have never been able to expand its territorial domain to become the awe-inspiring "empire on which the sun never sets." Thus, if "success" were to be measured by "the number of people fed," then would China not have been a more "glorious" success during the period from the early to mid-Qing dynasty under the reigns of Kangxi and Qianlung? If we are to take a measure of the progress in China today, the country may be able to pride itself on the flourishing economies of a few urban centers; but if we are to judge progress by the living conditions of a majority of the people, then social progress in China today simply cannot be divorced from the context of rural issues.

He: If we observe carefully, we will find that two gigantic countries in Asia have not fully enjoyed the great achievements of 20th Century civilization. Their small peasant class has survived with extraordinary persistence, though also with great difficulty. They are India in the South Asian subcontinent and China in East Asia. No matter how hard their governments try, the small peasant class still makes up more than 70 percent of their respective populations. This means that the historical umbilical cords that link these two countries to their pasts have not been completely severed.

When comparing these two countries, we will find many stark similarities. First, both have a history that stretches back thousands of years; they both once stood head and shoulders above the rest of the civilized world; and are among the world's four great ancient civilizations. More strikingly, however, is that both historical cultures, in the process of being absorbed into their modern equivalents, have not been transformed into a spiritual resource but instead have become heavy baggage standing in the way of modernization. Second, both countries are superpowers in terms of population. China's population size tops that of all other countries, while India has the "honor" of being number two. China can perhaps find solace in one place: It is reported that because India's birth control policy is not as stringent as that of China's, India may take over China as the world's most populous country in 20 years. As a result of the pressures arising from overpopulation, people with higher education in these two countries often move out by way of overseas studies in search of a better living. In China, people from the grassroots may even adopt high-risk means of illegal immigration. For emigrants from both countries, the United States is the pre-eminent choice since protection of immigrant rights is enshrined in its Constitution. Among overseas students in the United States, Chinese ranks highest in number, with Indians in second place. Currently, many on the technical staff of American hi-tech companies are Indian and Chinese. Furthermore, while the two countries have different political systems, they are similarly enmeshed in overwhelming corruption. Year after year, both countries, according to the "International Transparency Organization," are two of the most corrupt countries around the world. In India's case, corruption is well known to the world due to the country's free press. This phenomenon has been well documented in works such as *Asian Drama: An Inquiry into the Poverty of Nations and the Challenge of World Poverty* by Swedish Economist Gunnar Myrdal. China, on the contrary, has "wisely" insisted on only a partial opening-up, and has so far avoided becoming a classic example of international studies on corruption.

One other phenomenon common to both China and India is that while a few major cities enjoy a high level of prosperity, the majority of rural and peripheral areas lag far behind. However, in the last 20 years of reforms in China, a small number of newly developed townships have emerged, whereas in India such newly developed townships still number in the few. For religious reasons, main roads in Indian cities are littered with foul smelling dung left by sacred cows. As a result, the Chinese can point at their few "window dressing" model cities and proudly pronounce that these "showcases of modernization" are much cleaner and comelier than their Indian counterparts. For instance, Shenzhen won its title as "Garden City of the World" by "wisely" forbidding the judges involved to go anywhere near the smelly Shenzhen and Xinzhou Rivers. On the other hand, India does not even have one "showcase of modernization" worth a title. It can be said that the state of the population and resources in China and India is such that, as they enter the 21st Century, these two pre-modern societies must continue to be wagged by the mammoth tails of their "small peasant class."

Cheng: Unlike South Asian and African countries, China undertook catastrophic experimentations in its modernization process during the past 50 years. Despite this, it

has not been able to extract itself from the laggard country category. China has experimented with agricultural collectivism, even in its most extreme forms of “militarized operations” and “messing together.” It was only after paying a heavy price of losing tens of millions of lives that China, forced by the tremendous pressures of reality, retreated once again to the model of individual agricultural operations. The pressures created by China’s large population also meant that it could not proceed with agricultural modernization; otherwise, the peasants removed from their land would have no place to go. During this period, China had practiced industrialization in the style of the “Great Leap Forward,” moving close to ten million peasants from villages into cities. It also tried the “five minor industries in every township” scheme that flourished all across the land. Then it turned to the modernization model of village and township enterprises, naming it “to leave the land but not the homeland.” Finally it even opened doors that have been locked for so many years to Hong Kong and Taiwan financed enterprises. All these were done for one reason alone: to find a way out for the tremendous labor surplus from the rural areas.

Although the systemic change of rural reforms carried out in the early 1980s produced a one-time outcome bringing short-term prosperity to the rural economies, it soon became a thing of the past. The expansion of urban economies was never able to fully absorb the hundreds of millions of excess rural laborers. Technological advances meant that enterprises were soon in the transition from labor-intensive models to technology- and capital-intensive models. Demand for labor from enterprises was diminishing and, at any rate, the low-grade laborers from traditional rural areas, who had no modern technical training at all, could not meet the skill requirements of the technological age. Beginning in the latter half of the 1990s, job allocation for university graduates became more difficult by the day, and China suddenly found itself faced with the early arrival of the phenomenon of a “surplus intellectual workforce.” To avoid painting themselves into the corner of “to graduate is to be unemployed,” many university students chose to follow the path of “research” to enhance “employability.” In the past four years, the number of students opting for “research” has increased annually by 30 percent. Some people have been referring cynically to this phenomenon as “a temporary suspension of three years from employment.” In fact, the large increases in the intake of undergraduate students among universities in the past two years appear to have served a similar function. These circumstances have once again brought to the forefront the various social conflicts caused by what is commonly called “the three agro-issues,” namely issues related to rural China, peasants and agriculture. Once again, society is made to feel the “age-old pains” of China’s modernization process. And all researchers genuinely concerned about the reality in China must sadly admit that “the three agro-issues” still pose a fundamental challenge during China’s course of modernization.

He: In China’s several-thousand-year history, peasants have always made up the majority of the population. When peasants are taken care of, the country is taken care of. The most basic approach to pacify the peasant population has always been to “oblige the peasants back to the field,” to allow them to farm. However, now that farming has become an enterprise with marginal benefit or even negative value, those who

have been farming for generations suddenly are realizing that they cannot make enough of a living even if they farmed well. In fact, this realization has led some to the preference of farming less. Many peasants from the food-basket area around Hubei, Hunan, and Dongying Lake (which has been described as “when Hu and Guang ripe, the country is bountiful”) have left their farmland barren to earn a living by engaging in various types of activities away from their home villages. [3] In Hunan Province’s Lian Yuan City, the total farmland in Jin Jia Village, Feng Ping County, is only 869 Chinese acres, or 0.72 Chinese acre per capita, which is 0.08 Chinese acre lower than the basic subsistence level. Since farming cannot support their living, villagers left one after another, leaving almost 130 Chinese acres of farmland abandoned. [4]

A writer once made a record of the gross accounts of farming relatives in a village. A peasant family of four has six acres of farmland. Because of the natural climatic condition in the mountains, farmers rely on climate for their yield. In 1999, this peasant family only harvested a little more than 400 catties of half-kernel wheat. Last year was a little better: the same family harvested over 3,000 catties of wheat, which was sold at 0.34 yuan per catty for over 1,000 yuan. The purchase of fertilizers alone cost over 200 yuan. The family had to retain more than 2,000 catties for its own consumption. The remaining 1,000 or so catties would not even fetch them 500 yuan. In addition, each family member had to pay the authorities remittances and fees for village coordination, volunteer services, accumulated labor work, agricultural taxes and so on. Every person had to remit 153 yuan; therefore for a family of four the total came to 612 yuan. The cousin of the author exclaimed that after a year of hard work on the farm, the household income was still less than the expenses, as the family had to sell its pigs and use wages earned elsewhere to subsidize the payments to the authorities.

What really frustrate peasants is the special farm produce tax, which comes to 65 yuan per person. The local “officials” force peasants to farm 0.4 Chinese acre of peppers per peasant to assess the farming and forestry special produce tax. Even in a good year, the yield of a one Chinese acre of a pepper field is only over 300 yuan per catty. During a drought year, the field usually yields nothing. Nevertheless, the village government would still insist on collecting the pepper-growing special farm produce tax. Under such circumstances, peasants all want to be relieved from this field responsibility. [5] This situation exists in various degrees all across the country. Only in areas where the non-agricultural economy is highly developed do the peasants have a slightly greater resilience to shoulder such pressure.

Cheng: In reality, the decline in peasant income emerged quite some time ago. I discovered a thesis released in 1996 that analyzed the per capita actual income (i.e. income after deducting inflation and that can be compared on a year by year basis) of peasants from all provinces across the country between 1987 and 1994. The analysis showed that only peasants in the four provinces of Fujian, Guangdong, Zhejiang and Heilongjiang managed to have their actual income grow in a way that was somewhat comparable to the income growth of the urban population across the country. In the provinces of Guangdong and Zhejiang, where township enterprises are most developed and peasants are most affluent, the average income of their peasants in 1994 only reached

half that of the average income of urban residents across the country. In the five provinces and autonomous regions of Anhui, Xinjiang, Ningxia, Hunan and Guizhou, the situation was worse. In these areas, the average actual income of farmers in 1994 was either less than that of 1987 or remained the same without growth. [6]

Thereafter, peasants in more and more areas found their income growth trapped in a stagnant or declining state. Recently the State Statistics Bureau began to acknowledge that income growth of peasants has obviously declined, sometimes reaching only two to three percentage points. In fact, judging from some reports at the grassroots level, even these official figures were highly inflated. Many township and county heads often intentionally inflate the peasant income to dress up their results. Even when the peasants' farming income decline, some grassroots officials simply submit reports that applies the maximum yield for the number of fruit trees and maximum eggs that can be laid for the number of hens owned by the household so as to come up with a collection of peasant family income showing "growth." These officials do not care how many eggs the hens actually laid or how many fruits trees actually yielded. Experienced economic statisticians all realize that the statistics of peasant income prepared by the State Statistics Bureau tend to be overestimated. If these were used as the basis to project the consuming power of all the peasants across the country, there would be an obvious error of over estimation. This can in fact be judged against the fact that the demand for the peasant consumer market remains stagnant for many years.

Furthermore, in recent years there is a tendency for the cash income of peasants to decline year after year. The State Statistics Bureau, in order to "highlight" the growth of peasant income, preferred to use the index of "annual net income per peasant" instead of the index that compared "cash income per peasant." It is because by using the index of "annual net income per peasant," they can include, at a discount, all the produce that the peasants produced for self-consumption even though the amount of cash on hand had become less and less. As long as they could include, whenever needed, the staple data that peasants retain for themselves in the statistics, the officials could "come up" with a "one to two percent growth" in peasant income. Because the price of agricultural produce has declined time and again in recent years, peasants would suffer a great loss if they sell all their harvested crops. They have had to temporarily stockpile the produce at home. The more heavily a province depends on agriculture, the higher the proportion is this non-realizable "income" relative to the peasants' net income. Had it not been for the about 100 million peasants working elsewhere and brought some cash back to their families, it is doubtful whether many peasant families would be able to even have enough cash for the mandatory fees and remittances.

When the urban population is dreaming of a comfortable life style in the new century, probably not that many people realize that the rural economy is trapped in a dire state, and that as a result, our metropolitan exuberance is in fact very fragile. If we fail to identify the issues concerning the current state of modernization for some 900 million peasants in China, and if we look only at the activities in major metropolitan areas, we can easily misjudge the overall picture of China's economic situation.

He: Peasants unwilling to farm is a new problem that has never happened before in the history of China. This leads me to think about the fate of China's much revered study of history. The main categories of Chinese civilization can be grouped into four: *Jing*, *Shi*, *Zi*, *Ji* (Confucian classics, history, philosophy and *belles lettres*). The historical status of history is just below *Jing* (Confucian classics). The imperial advisor to the emperor had to provide advice on history as well as on *Jing* (Confucian classics). However, studies in this particular subject had been a total failure in the past two decades and are trapped in a wilting state beyond revitalization. The root problem probably lies in the traditional function of history on which it is based—"know your history so that you know the rise and fall of the nation"—has been lost. Contemporary society can no longer find any relevance in political experiences and administrative systems from history that would serve as reference. Therefore history has literally become "the study of dead things in the past." Take the issue of rural peasants as an example. The experience of "settling and pacifying peasants" acquired through the 25 dynasties probably does not provide any real relevance nowadays. Things and situations change; we have to rely on our own effort to search for solutions to the new challenges that come along in the new era.

The challenge posed by the "three agro-issues," i.e., rural China, peasants and agriculture, is not something that anyone engaged in the study of China issues can afford to avoid. If the "three agro-issues" are not satisfactorily resolved, even the most vibrant urban economy will become a floating oasis amid the economic sea of small peasants. When the strong wind and high wave come, the oasis would be toppled. This has been the bitter lesson that we have learned several times over from various major peasant-revolutions that have occurred in modern history.

Arbitrary Remittances Drive Farmers' Plight from Bad to Worse

Cheng: In recent years, what has been really heartbreaking is that corrupt rural officials have imposed a string of arbitrary levies that scrape clean the already meager income of peasants struggling for survival. The unreasonable burden that peasants have to shoulder has never been heavier. The situation is so severe that the media in China occasionally exposes some isolated cases. It is even said that the "three levies and five collections" are about to crush all the peasants.

He: The heavy burden on peasants is a very serious problem. The levies and taxes that peasants have to pay are far too heavy relative to their overall incomes. There are far too many fees and taxes and many of those are arbitrary. There is a saying in the rural areas, "The first tax is light, the second heavy, and the third is like a black hole." Here, the "third tax" refers to the arbitrary fees and taxes, to which peasants in many areas are opposing.

Why does the rural administration impose arbitrary fees? Although local authorities often use the pretext of subsidizing educational funding for locally run schools to justify an increase in taxes, taxes are raised to support the rural cadres in reality. The hierarchy of China's political authorities usually stops at the county level, as China's Open Door

Policy has disbanded the People's Commune. There often has not been a clear definition for organizational structure at the township level. As of now, governments at the rural levels have already evolved into the first level of authority that has real monetary power. It is currently expanding in an altered format to the village level. Responding to the enormous bureaucracy of the central, provincial and county governments, the township government likewise expands year after year and has also established various organizational departments. These departments in turn have generated a string of business units and affiliated enterprises, large and small, supporting more and more people who do not have much real work to do. They all carry the banner of serving the peasants, but in reality it is simply a pretext that allows them to collect money from the peasants to support their own living. These people form an enormous established interest group. Even at the village level, many people are trying, through relationship manipulation, to join the privileged group to become government officials who "bear no official title." *The China Economic Times* published a letter written by an old farmer to the central leadership, which said that two decades ago, there were only 30 government officials in the village where he lives. Now there are more than 300. Where does money come from to support this ever-expanding team of government cadres? Ultimately, they scrape it from the peasants.

In some areas, they set up some form of a "levy card" system for the peasants with a view to make the remittances more transparent so as to minimize arbitrary levies. In 1997, Tong Zhou City of Jiansu Province conducted a specific research on farmers' encumbrances. Director for the Peasant Office at that city pointed out that the increase of encumbrances in absolute terms that farmers have to bear has been huge in recent years. Many rural areas include many service charges and other fees in the levy card — such as joint defense security fee, farm machinery maintenance fee, fees for listening to broadcasts, the personal portion of collaborative medical fees, tap water supply installation fee and cable television installation fee — those should not have been included in the first place. This has far expanded the amount that peasants would otherwise have to bear in accordance with properly decreed regulations.

Cheng: The crux of the problem in reality is not entirely due to local governments acting outrageously. Another reason is that the central government scrapes too much and disregards the financial difficulties at the grassroots level. After the implementation of tax reform in 1994, the central government is obviously financially much better off and is having less constraints when spending money. But the share of financial resources of local authorities contracted in relative terms, and their financial income became insufficient to support the ever-expanding team of officials at the provincial, county and township administration. In the past few years, more and more counties have found their financial situation to be so tight that it was difficult to pay wages on time. Under the collective system, local authorities without sufficient revenue would obviously lead the provincial government to squeeze the county government, and the county government in turn would squeeze the township government. In the end, both the county and township governments do not have sufficient income to cover all their expenditures. Then, the county and township governments would inevitably pass on a large portion of their daily expenses to the peasants, and use the remittances and encumbrances outside the tax

system to force the farmers to support the local officials.

Although some rural governments have tried to “downsize,” the number of officials has not been reduced. “Downsizing” has meant reclassifying many of the administrative organizations to generate pretexts for new fees in the financial budget to become “self-supporting.” On the surface, this reduces the number of party and government officials and organizations that are being supported under the category of listed expenditures. At the same time, however, it creates many organizations that rely on arbitrary charges or unjustified fines for survival (such as the family planning office at the township level, justice office, civil administrative office, etc.), and legitimizes the actions of those organizations scraping money from the general public under the pretexts of providing management and public services. These organizations were originally indispensable departments required within the administration for public services delivery. The reason peasants have to pay taxes is to support the operation of these departments. Since these departments have financial support, there is no reason why they have to levy further charges when delivering such services. At best, they should only charge a minimal service fee for cost recovery, which is common among countries with normal standard practices. However, some provinces in China have “reformed” these indispensable departments for service delivery into quasi-governmental organizations totally depending on fee collection for survival, so that they could save the regular tax revenue to support surplus organizations and government officials that have no legitimate reason to collect fees. This is asking for the public for the impossible. They are using the community’s need for services as a mechanism to pass on the cost for public services delivery, and to collect the disguised “public services tax” from the peasants. At the same time, they have “coerced the good to become bad,” inducing these service-delivery administrative organizations to scrape people’s means in the name of providing services. As a result, some organizations distort their basic responsibilities of providing services into taking advantage of and blackmailing peasants simply to increase the income of their officials or boosting the funding for extraneous items such as motor vehicles or cellular phones. Many strange and unimaginable phenomena have then emerged. For example, the justice office now thinks that the more dispute cases it has in the rural areas the better; the civil administrative department wishes that there were more divorce cases, because only then would they be able to “generate more income.” The most absurd is that the family planning office on the one hand hunts down women for sterilization operation, and on the other hand wishes that they would be caught pregnant in violation of the family planning policy. When there is gambling in the village, the township police would be smiling to themselves because only then would they be able to impose heavy fines on the peasants and make more money for the department. These practices have become increasingly common over the past five years. In 1996, some scholars overcame the barriers and obstacles posed by rural cadres and conducted an in-depth research into the various villages inside Henan Province. They discovered many incidents of this kind. [7]

As long as the huge team of public servants in and out of establishment exists, the local authorities will inevitably try every means to apportion the expenditures. The central government clearly understands the situation and instructs to ban levies and encumbrances as such. In reality they are only putting up a show, knowing too well that

the ban is useless. In addition, the enormous number of cadres at the county and township levels in and out of establishment not only need to spend and be fed, but also want to keep up with the consuming level of the public servants in the coastal and prosperous regions. Not only do they want to lead a comfortable life but also to climb one step up the living standard for the new century. For instance, in the 1970s and 1980s, rural heads usually lived in the locality of their offices. They could either walk or bike home. Nowadays 90 percent of the rural heads across the country live in the county town. They employ state vehicles to commute to and from work between the county town and the government office, incurring annual costs in purchasing, maintenance, chauffeur and gasoline up to hundreds of billion yuan. It is impossible for the grassroots level to include massive expenses as such in the existing budget, and more than half of the costs would undoubtedly be offloaded to the peasants under all kinds of pretexts. As a result, a substantial percentage of peasants' annual income is written off for the sake of "modernizing the transportation" of rural leadership. Two years ago newspapers such as the *China Reform Journal* criticized this phenomenon, while the central government made an appeal to address the issue of "private use of public vehicles." Nevertheless, once the issue touched on the immediate interests of the cadres at various levels, such calls for reform deteriorated into its usual "all talk but no action" and vanished without a whimper at the end.

At the rural level, the number of public servants currently released from work and rely on "three levies and five collections" has peaked at 1.4 million [8]. Even if new cadres were not recruited from among the peasants, just those discharged from the military and those graduating from high schools, universities as well as training and technical schools would require job allocation and add over one million people to the work force. According to the analysis of Zhang Peisen and Liu Zuo at the Scientific Research Institute of the State Administration of Taxation, the arbitrarily raised funds, imposed fines, collected fees and apportioned remittances amount to 10 percent of the GDP in as early as 1996, which is more or less equivalent to the amount of the country's properly decreed taxation. [9]. In the past five years the ratio has sharply increased. A large portion of this alarming burden has rested on the shoulders of the peasants. As a result, the financial burden of the peasants since early 1990s has intensified every year. According to statistics, the average taxes and collective cost recovery and the like for an individual peasant has increased annually by 18 percent from 1990 to 1995, 100 percent higher than the growth of peasant income in the same period. [10]

Jin Qing, Author of *China by the Yellow River*, records in his book the words of Liu, owner of an apple orchard who has "a lucrative brain as well as some thoughts" in Tai Kang County, Henan Province. "The taxes are plenty and heavy. Encumbrances come in so many different names that no one can make head or tail of them. In reality, the rural cadres never explain clearly which is what to the peasants, and the burden is unbearably heavy. As soon as the summer and fall harvests are done every year, the rural cadres would bring along the public security people from the local police station to the village, demanding levies and pressing the common folks out of breath. I can say that, in recent years, the country folks have been living in terror and fear." [11] These words sound as if the clock has turned back to the times of the Republic of China but in reality reflect the

thinking of the poor Chinese peasants. Regrettably the media in China can rarely publish voices of this kind.

He: The rural survey team of the State Statistical Bureau released a survey result in 1999. Out of the net income of the peasants across the country, an average of 5.2 percent is for the state and collective agencies. The ratio of other encumbrances out of net income is: 3.5 percent for the eastern provinces, 7.3 percent for the central provinces, and 5.5 percent for the western provinces. The more the region is economically underdeveloped, the heavier is the burden of encumbrances on the peasants. [12] The state stipulates that the levy of “three levies and five collections” must not be over 5 percent of the peasant’s net income in the previous year. For peasants in comparatively affluent regions, there is not much of a problem paying at this level and people may not feel much burdened. For example, half of the peasants in the Guangdong area no longer engage in agriculture, and taxes at this level cannot be counted as heavy to those “privileged peasants.” [13] However, 52 percent of the peasant families in China now are still at the basic subsistence level and can barely feed and clothe themselves. For these low-income families, the portion kept from their harvested crops is already huge and strap cash income. The 5 percent tax of net income may account for a substantial portion of their cash income. As a result, the tax that is not a burden to the peasants in economically developed regions is in real terms more than half of the peasant families across the country can shoulder.

The Economic and Finance Working Committee of the Standing Committee of Tong Zhou City’s People’s Congress in Jiangsu Province once produced a very conscientious document called the “Investigative Report on Encumbrances on Peasants in the City.” Since the writer of the report is conscientious and down to earth, the report contains more than the usual clichés and actually describes the arbitrary fee collection over and beyond the “three levies and five collections” clearly decreed for rural regions. The report sent a very important message: it is not only the township and village governments that add encumbrances to the peasants. According to the report, statistics from 12 townships illustrate that the absolute value of peasants’ encumbrances on average increased 40 percent in 1997. In extreme cases one saw an increase of 74.6 percent, which was around 20 percent higher than the average increase in per capita net income. The encumbrances that some peasants bore were several times higher than that of the previous year. This was mainly due to a few reasons. First, the figures for peasant net income were highly inflated, which increased the coefficient for the actual encumbrances as well as the burden of the peasants. Second, many construction projects undertaken by higher levels of rural governments also extend encumbrances to the grassroots level and peasants to various degrees. Take roadwork as an example. Each township has to shoulder tens of thousands of yuan and in some cases even close to a million. Some townships would collect expenses to replace labor work, whereas some would collect encumbrances according to the number of laborers or headcounts in the household. Third, there are too many encumbrances beyond the scope decreed by the official documents, such as donations of all kinds, target for “double modernization,” remaking of rural drinking water systems, fees to remove graves for farmland restoration, conscription fee for youths of appropriate age, joint defense security fee, education collection and advancement of capitals and so on. Although these items are mostly good and practical items for the benefit of the people,

they demand financial capabilities well beyond that of the local administration and generally require compulsory apportion in order to implement. [14]

The Tong Zhou City's People's Congress can be described as caring enough to pay attention to the benefits of the peasants, but some local authorities are so greedy that they are merely ruthless and lawless. For example, in Zong Yang County of Anhui Province, the Qian Pu Township administration even illegally set up a local "private tax" in order to rip people off. Regardless of income, the "individual income tax" is compulsory and collected according to headcounts; regardless of production of special farm produce, "special farm produce tax" is collected. When there are no other pretexts available, the officials even are brazen enough to add an item called "other income tax." [15] Regrettably, these are not isolated cases.

Many local governments at the village and township levels, on the one hand, keep themselves busy collecting various kinds of fees and taxes illegally, exploiting ordinary folks. On the other hand, they float many loans and accumulate debts. This situation has become so severe that it has seriously impeded the healthy development of local economies in the rural areas. According to the results of surveys on indebtedness in the entire province of Hunan, the total debt of Hunan's village and township governments in 1998 reached 5.93 billion *yuan*, 88.4 percent of all local governments were in debt that year, with an average amount of debt at 2 million *yuan*. These debts had been primarily caused by illicit expenditures such as private embezzlement of public funds. The funds were appropriated for one project to boost another entirely unrelated program, such as the purchase of lavish luxurious cars, payment of excessive taxi fees, "talking" fees with call girls and the like. [16]

At the moment peasants who rely on agricultural income in many areas simply cannot afford to pay the encumbrances. More than often they have to find other work to pay these charges. This not only demonstrates that rural agriculture has found it difficult to support the enormous expenditures incurred by the rural administration. It also indicates that many encumbrances of inland rural administration have stretched to the coastal regions because of rural labor mobility. In other words, rural administration relies on the taxes drawn from rural laborers undertaking non-agricultural activities to maintain its expenditures. It has been reported that the reach of some rural cadres of a certain village in Hubei Province's Jian Li County has been extended to as far as a garbage village in Haikou City, Hainan Province. The cadres pressed for the remittances from village residents that have moved their households to Haikou to glean and collect garbage for survival. [17]

Because of the unbearable burden, there have been several peasant protests opposing arbitrary levies and fees. Confrontation between the peasants and the local governments has grown more and more acute. Amid the confrontation a new kind of "peasant leaders" have also emerged: advocates for the local peasants' benefits and interests. [18] Last year an article in the [Guangzhou-based newspaper] *Southern Weekend* created a stir. It reported that the publisher of the *Collected Essays on Rural Development*, a magazine in Jianxi Province, produced a supplementary issue entitled *The Working Manual to Reduce Encumbrances on Peasants*. The issue compiled a collection of all the central

government's official documents on agricultural policies to help peasants understand what fees are mandatory and what fees are arbitrarily collected by the local authorities. Nonetheless the supplementary issue was categorized as "reactionary publication" by the local government. In the end the chief editor of the publication had to leave town to hide from the government. [19] In the city of Chongqing, Sichuan Province, up to 100 residents of Yu Sha Village in Wu Xi County have fled to the mountains to escape taxation, and a peasant woman committed suicide because she could not bear the financial burden. [20]. These are obvious illustrations that arbitrary fees and levies in rural China have become a tyranny fiercer than the tiger.

Cheng: In recent years, the biggest dilemma facing rural cadres on the grassroots level is the conflict between encumbrances and their opponents. The harder life becomes for the peasants, the harder is the rebound against the encumbrances. In order to reap enough benefits from the peasant household, many rural authorities keep teams—for example, "Crops Collecting Teams"—to serve as a "secondary police force" to force payment from the peasants. Between the rural authorities and the peasants a "vicious cycle of positive and negative feedback" occurs: the more the peasants are against the encumbrances, the more the cadres in the rural administration need to recruit collecting teams to impose encumbrances. This in turn increases the encumbrances and fees, resulting in stronger opposition from the peasants. The more conflicts there are between peasants and the rural administration, the more likely it is for higher levels of governments to increase the number of grassroots cadres and strengthen the function of the local authorities. This would inevitably increase the encumbrances that are already placed on the peasants' shoulders, creating more and sharper conflicts between the peasants and the rural administration. This vicious cycle of government-driving-people-to-poverty will only make both sides suffer. As the peasants gradually come to understand the parasitic and predatory nature of their administration and affiliated organizations, the tensions will inevitably accumulate and come to a breaking point. One would be hard-pressed to find any positive effects out of such a process.

What are the root causes for peasant poverty?

He: According to statistics made public by the government, peasant income has grown very little since 1997. In 1998, peasant cash income registered zero percent growth for the first time since many years. [21] A report in 2000 by the rural survey team of the State Statistics Bureau indicates that while per capita salary incomes reached 16,641 yuan and 14,054 yuan for residents of Shanghai and Beijing, respectively, the annual net income per capita for rural residents in 1999 was merely 2,210 yuan. Among such peasants, 52 percent are rural families who had less than 2,000 yuan of annual net income per capita, the amount necessary on the most basic subsistence level. In addition, 26 percent of the rural families had an annual net income per capita between 2,000 and 2,999 yuan, which allow for some amount of surplus and savings beyond basic subsistence. [22]

Thus, it can be seen that approximately 40 percent of the total rural population are families at the basic subsistence level. Some attribute poverty in rural China to the

excessively heavy burden imposed on peasants. In fact, this is only one side of the problem. Even if reform of the taxation system in the rural areas were fully implemented, it would only serve to partially alleviate the burden on the peasants but not solve the root problem of rural poverty. The root causes of poverty for Chinese peasants as a whole lie not in the excessively heavy encumbrances but in low output per capita and low surplus per capita.

China is a huge agricultural nation and people would probably feel self-satisfied just by looking at total figures made public by the various relevant governmental departments. For example, when looking back at the Ninth Five-Year Plan period, China's agricultural production capabilities have steadily improved and some newspapers have reported that our country's annual grain output has reached 504.88 million tons, with the basic average level kept at more than 500 million tons. The annual average output for oil-bearing crops, sugar-yielding crops, meat, aquatic products are respectively 23.20 million tons, 89.68 million tons, 53.53 million tons and 37.30 million tons. In terms of total output, our country's agricultural outputs rank first in the world. [23] What issue does this "number one ranking" raise? Comparing the level of economic development in various countries is not a "who is bigger" game played with total outputs. Ever since demography became a field of study, people have known that a country's social wealth and economic strength should be measured in terms of its wealth per capita and production rate per capita. If, we try to calculate an average output based on China's total population or agricultural population based on these total outputs, then we cannot dodge the fact that the output of our country's individual agricultural laborer is very low. Take grain for example. Over 300 million laborers produce 500 million tons of grain, and the grain output per capita is only 3,000 catties, of which more than two-thirds is used to feed 900 million people in the rural population. The surplus grain that each rural laborer can afford to put to sale is only several hundred catties. Those "grandiose" total outputs cannot dissimulate the true picture that China is an agriculturally weak country. Having tremendous total outputs and little surplus per capita has always been an outstanding issue.

Since the reintroduction of the small peasant economic system 20 years ago, the ensuing release from the old system trammel have once brought prosperity to agricultural sectors. From 1979 to 1984, the gross domestic production ratio of agriculture was higher than that of 1978 by several percentage points. This in reality reflects the rebound of the production force that had been held back during the era of the people's commune. Since the mid-to-late 1980s, various malpractices that have plagued the agricultural sector gradually emerged into public view, including backward means of production, severe diminishing of marginal remuneration when the yield per acre reached the highest level, low production rate per laborer, backward and obsolete form of rural social organizations, etc. As a result, agriculture in China once again gradually showed a sense of fatigue, with its proportion in the gross domestic production sliding to only 18 percent in 1998. [24] Relevant materials have shown that such proportion remains unchanged in recent years. In the meantime, however, the state can no longer get much revenue from the agricultural sectors. In 1999, the state's finance arm collected 100 billion from the rural areas through various channels, [25] while the total financial revenue of the state for the same year exceeded 1,000 billion [26]. In other words, the primary industry of agriculture that takes

up most of China's labor force only contributes one tenth of the state financial revenue as its share of contribution to society. In fact, the meager revenue from agricultural taxes is far less than the financial investment in agricultural, forestry and water projects. Since the reform, the economic system in rural China has by and large been restored to the normal state in which market regulation dominates. In terms of economic capabilities and technology, it is not impossible for China to undergo modernization in agricultural production. The traditional household-based, small-peasant farming model is still practiced due to pressure from excessive population.

Cheng: Any social distribution and redistribution can only be made on the basis of surplus. The low-efficient output of agriculture in China makes it difficult for peasants even to maintain their basic subsistence. The rural population, which makes up 70 percent of the total population, and the rural labor force, which makes up 50 percent of the country's working age population, would find it impossible to feed themselves through the agricultural sector that produces merely 18 percent of the GDP. Mr. Wen Tiejun, an agricultural expert, pointed out that with the increase in population, 900 million peasants could only maintain their basic subsistence with 0.1 hectare of farmland per head. In 1998, the net output value from agriculture reached 1,383 billion, but the output value per capita is only 1,537 yuan. After deducting two-thirds for self-consumption, the actual income is only about 500 yuan. We can therefore conclude that after deducting the fixed costs and cost of active labor, the income per Chinese acres from most crops of conventional agricultural sectors is in the negative. There is no surplus for agriculture. However, the rural superstructure established during the 1980s when peasants' income increased must rely on agricultural surplus to maintain; hence the phenomenon of excessive and arbitrary fees and charges are instituted in a manner of "drying a pond to catch fish." [27]

He: Actually, the fact that agricultural sectors in China do not produce any surplus is not a new problem. According to the concept of "moderate population growth" advanced by Edwin Cannon of the Cambridge School, there should be an appropriate ratio between the labor force and farmland acreage. He pointed out that during any certain period of time, the population farming on acreage and obtaining the maximum production rate is certain. In other words, in a fixed period of time with other conditions unchanged, revenue will increase in proportion to the labor input increase; but, when labor is increased to the maximum earning yield, there is no increase of earning yield. The population commensurate with the maximum earning yield point is the optimal population for the society. When the increase of labor exceeds this point, the earning yield decreases proportionally, which leads to the decrease in degrees of marginal rates of return. In his book entitled *Peasant Economy and Social Change in North China*, Chinese American scholar Philip C. Huang makes use of the data gathered from North China to specifically discuss the concept of the "high level balance pitfall". The implication of this concept is that excessive labor surplus in China causes intensive farming to reach a state of shrinkage in marginal return. My book entitled *Population: the Sword of Damocles hanging on China* also discussed this issue. In particular, I cited the narration of Bao Shicheng's *Agricultural Administration in Prefectures and Counties*, in which he said that "when farming a paddy field or a dry farmland, apply manure to the field will result in the

increase of one *dou* (one deciliter) of grain. Adding one more laborer would result in the increase of two *dou* of grains. Bao Shicheng said that to farm one Chinese acre of paddy field requires 8 to 9 laborers. If the yield per Chinese acre is 1.5 *shi*, then, adding one more laborer will only increase the output by 1/30. It is more or less the case in multiple cropping. Double cropping a paddy field only yields 20-30 percent more than single cropping. That is to say, in as early as Qing Dynasty, people had realized that the yield per unit acreage could not be increased in the same proportion as the labor force.

Compared with the modernization of other agricultural countries, China is characterized by a rather unique phenomenon: while the total farmland in rural areas and farmland per capita have decreased, the number of rural households is increasing. That is the complete opposite to the international trend of growth in per household acreage under cultivation. In 1978, the acreage under cultivation in China was 99,938.5 kilo-hectares, with 1,030 square meters per capita, 5,730 square meters per household. In 1995, while the cultivated area has decreased by 4.5 percent to 94,970.9 kilo hectare, farmland per capita sharply decreased by 24.3 percent to only 780 square meters. Acreage per household also sharply decreased by 28.8 percent to 4,080 square meters. [28] This astonishing decrease directly led to the diminution of household farming and the increase of rural surplus labor. The shrinkage in farming scale is turning farther and farther away from the acreage under cultivation per peasant required by modern agriculture.

Some people have made such comparison: by the current German nourishment standard, a German peasant on the average produces enough food for the consumption of 55 people. In China, 65 percent of its labor force (28 percent of its total population) are engaged in farming, which means that a Chinese peasant on average can only feed less than four people – equivalent to the number of people in his household – but the calories and protein intake is much lower than the German level. This calculation is based on an average Chinese family of four. In fact, the average number for a rural family usually is more than five. I would like to add one more point; if one is to calculate the ecological cost required for feeding Chinese peasants, it should be said that they are the most expensive labor force in the world. For example in the Liangshang Region, it is necessary to weed out grass and trees on several hills before one can grow potato for food and fuel to feed people. When some environmentalists conducted an investigation tour to the Southwest and Northwest regions and saw this, they just blurted out: “people are tantamount to a grass-cutting machine.” So emphasizing our country’s cheap labor force is misleading. When measuring the price of labor, one should not merely take into consideration the paltry wages a laborer might get but must calculate the actual cost to maintain people’s livelihood and the cost to the entire economy.

From the above analysis, it can be seen that the root causes for poverty in rural China arise from the low production rate of farming and the small amount of per capita surplus. “Excessive and arbitrary charges imposed on peasants” are like salt on existing wounds. Our drive to aid the poor for all this time in reality is similar to breastfeeding those who live with terrible natural conditions. In other words, the state helps poverty-stricken people maintain their basic subsistence through financial transfer. In light of the present conditions in rural China, we can only come to one conclusion: under the circumstance

where rural farming has not made any big revolutionary change, it is not possible to root out the causes of poverty in rural China even if excessive and arbitrary charges on peasants were alleviated.

Where is the way out for the rural surplus labor force?

Half of the past 50 years have been spent on carrying out forced collectivization of peasants, causing low yield in agricultural production and aggravated poverty in rural areas. In the meantime, strict control on residential permit and migration has enchained peasants to the village where their ancestors have lived. They can only eke out a poor existence in dire poverty. In the early 1980s, as [nationwide] rural reform abolished the People's Commune, which highly restricted peasants' economic and personal freedoms, agricultural production quickly increased and peasants indulged themselves somewhat in the small-peasants-dream of a bucolic life that they had once lost. However, the severe imbalance between population and natural resources--which is severe for China--has once again revealed itself. With agricultural income decreasing and heavy encumbrances aggravating difficulties, more and more peasants are compelled to find their living elsewhere. The successful transformation of the Chinese society now hinges on finding a way out for surplus labor in the rural areas.

He: The extraordinary increase in population has almost nibbled away the fruits of economic growth in China for the past 300 years. The People's Commune system of distributing grain according to headcount has greatly stimulated peasants' desire for birth. In the earlier stage of reform, after the household contract responsibility system was introduced, the aroused enthusiasm for production led to an increased agricultural production rate. Everybody was lulled into believing that there was no more population crisis. Later when the problem was identified, it was believed that the urbanization of population would gradually narrow down the polarization between the urban and rural economies. I remember reading a book entitled *On Dual Economies* by an American development economist. The booming township enterprises that absorbed rural surplus labor heightened everybody's expectations. The so-called "trio employment model" for Chinese peasants – working in agricultural sector, township enterprises, and migrant worker working across the regions – was formed at that time. This model was regarded by everyone as a long-term and effective channel to absorb rural surplus labor.

In 1998 when it was still not very difficult to get a job in the cities, a survey conducted in 38 counties and municipalities showed that peasants who left their land to seek jobs elsewhere made up one-sixth of the rural labor force. In the lower-income counties or municipalities, peasants who left their land to seek jobs elsewhere made up 20 percent of the rural labor force, equivalent to 85 percent of the local non-agricultural working population. In the high-income counties, the labor force from elsewhere was 28 percent of the local workforce, 67 percent of the workers in the local township enterprises. During the period from 1989 to 1996, these migrant workers sent to their families a total of 34.8 billion yuan. Among 22 low-income counties, the funds brought home up to 4.5 billion yuan in 1996. From 1989 to 1996, the funds remitted back home reached 22 billion yuan.

[29]

Looking at the entire nation, one third of the workforce from the rural areas works in the non-agricultural sectors in 1998. Among them, 57 percent of the peasants' income comes from the agricultural sectors, while as high as 43 percent thereof derives from the non-agricultural sectors. [30]

Many peasants from the economically developed areas have bid farewell to their land. For example as early as 1996, 55 percent of the workforce in Zhejiang Province is engaged in non-agricultural sectors. In 1998, the income per capita for those shifted to the tertiary industry has exceeded 8,000 yuan, among which income per capita for those working in the transportation sector and commercial and restaurant sectors has exceeded 10,000 yuan, four times that for their counterparts working in the agricultural sectors. [31]

Cheng: The situation in China is different from that in other developing countries. Because of a huge population base and high rural population growth, the urbanization process at a normal speed cannot solve the issue of employment for rural surplus labor in China. In other developing countries that underwent the urbanization process, the rural labor force gradually shifted to economic sectors in the cities. However, in China, even the economic sectors in the cities are in the dilemma of not being able to fully absorb the urban labor force. Thus, the rural labor force to a great extent has to pin their hopes on finding employment in township enterprises, making it the rather important aspect in the trio. And the absorption of the rural surplus labor by the township enterprises is an achievement in China's economic reform worthy to be proud of.

1996 was the year when Chinese township enterprises absorbed most numerous rural labor force that exceeds 130 million people. [32] Afterwards, various drawbacks of the township enterprises, especially the ever-increasingly acute issues of environmental and sustainability, emerged. The enterprises were being transformed from extensive management to intensive management, going through the process of readjustment, contraction, reorganization, transformation of system and elimination. Under these circumstances, the township enterprises in recent years have been compelled to close down or to lay off their workers in succession. Not only are they not able to absorb any new labor force from the rural areas but they also have to disgorge labors by the dozens or millions. For that vast number of low-quality rural laborers who have had to leave their land but not their homeland, this is no longer a hurdle-free road. During the three years after 1996, the growth rate of the township enterprises was lower than 18 percent. In 1997 it was 17.8 percent, in 1998 17.5 percent while in 1999, the figure has fallen to 14.2 percent. In the meantime, the ability to absorb the rural surplus labor is tapering off. In the three years after 1996, the number of people working in the township enterprises is decreasing by five million each year. As a result, the number of people actually working in township enterprises at the moment is well below 120 million. [33]

When the township enterprises were getting rid of rural laborers, the cities were also narrowing their doors. Prior to the mid-1990s, the government had been providing bank loans to support those state-owned enterprises noted for their low efficiency, lack of vitality and high wastefulness. The government managed to temporarily maintain

economic growth and urban employment rate and avoided the thorny issue of reform for state-owned enterprises, because it might have caused headaches in aspects such as ideology and social control policies. Nevertheless, this expediency has planted the hidden plight for the financial systems, which might collapse because many banks are beset with bad debts. In the latter half of 1990s, to prevent the financial systems from collapsing, the government had to abandon some policies of protecting state-owned enterprises, as a result the state-owned economic sectors immediately fell into a predicament from which they cannot extract themselves. State-owned enterprises had to lay off their worker and staffs by hundreds of thousands. In order to alleviate the pressure on the cities for employment, the four cities that absorbed the most numerous rural laborers, Beijing, Shanghai, Guangzhou and Shenzhen, promulgated some regulations requiring their enterprises. It is required that when recruiting new employees, local residents should be recruited by a certain percentage, thus diminishing the chances for outside laborers to get jobs.

The decline of township enterprises is not only the result of the cyclic change of economic situation. A deeper cause lies in the system itself. In the past 20 years, the “hand” of the local governments has been instrumental in the rapid development of township enterprises, which was once seen by some scholars as the advantage in the model of Chinese township enterprise development. Now it can be seen that this “hand” has also caused the blinding and uneconomical nature of the enterprises. Once the nationwide “bubble economy” disappeared, township enterprises that once climbed aboard the bandwagon of bubble economy would find it hard to subsist. There was the “model of South Jiangsu,” once praised as the paragon of success for township enterprises, is now showing a picture of dilapidation. Cadres at the grassroots level in southern Jiangsu Province also have to admit that this road for development has its limit and they too have begun to reflect and self-examine.

Some economists have proposed the development strategy of “developing small towns, accelerating the urbanization process so as to absorb the rural surplus labor.” This strategy, however, is not of much help given the great and urgent pressure the cities and countryside are facing. Moreover, the central government focuses the limited urban development funds on a few big cities designed to be “showcases” in its attempt to attract more foreign investments. But, when the governments at the provincial and county levels of inner China are strapped for funds, it is futile to pin the hope on the possibility that local funds will be diverted to develop medium and small-sized towns. Under this circumstance, if one pressured rural governments at the county and municipal levels to develop small towns, the burden of raising development funds will inevitably be shifted on to peasants, thus aggravating the situation in which peasants are already suffering from excessive charges. It would also make it easier for rural officials to line their own pockets through under-the-table dealings while contracting out urban utility projects. As a result, those small town projects that begin with fanfare might peter out towards the end. With a few roads, fancy hotels and landscaped strips but no enterprises that can subsist and develop and offer employment to rural surplus labor. And while peasants are made to suffer more from the rip-off, rural officials’ purses will bulge bigger. The outcome of the development projects of more than a few inner counties has proved this.

The core issue for developing the economy and expanding job opportunities lies in the development of enterprises. However, it is precisely on this point that no one in China, from the top levels to the grassroots, is willing to do a profound self-examination of the system with which the state-owned and township enterprises are operating. Therefore, no feasible and promising enterprise development model has been summed up from the experience and lessons of the past 20 years. This, in fact, has fully reflected the drawback inherent in the model of incremental reform characterized by shortsightedness, conservatism. If this is the common shortcoming among the power-greedy officials, then the true intellectuals should not “dance to their tunes” by presenting a false picture of peace and prosperity. Though China has so many famous economists with grandiose academic titles, it is regrettable that most of them are only keen on “presenting memo to the throne” and “receiving attention from the emperor.” Very few of them dare to confront this realistic issue and to tell the truth.

Disparity between the Urban and Rural Goes Back to Square One

Cheng: In developed and industrialized countries, differences between town and country, together with the shrinking of the class of small peasants, have disappeared after urbanization. Things are different in developing countries. Excess rural labor constantly moves to cities whereas high-level development in the cities is done mostly at the cost of declining rural areas. This is especially the case in Asian countries. Governments of some developing countries often take pride in having cities with tens of millions of residents. Quite a few municipal governments in China have also listed as a modernization objective in their urban development plans to build large cities with millions of residents. It is worth noting that the rapid mechanical growth of urban population often plunges urban development into extreme chaos, resulting in the “urban disease” in developing countries. A large number of temporary and illegal buildings have appeared in many cities. There are no drainage systems around those buildings and piles of garbage have become scars on the faces of the cities. Urban transit systems cannot match the growth of populations, and outdated transit systems make it more difficult for residents to commute to and from work. Links between town and country are fragmented. As soon as you leave a city, you will see that rural streets are so bumpy that it is difficult to travel on.

Governments of some developing countries like to use high-rise buildings and luxuriously decorated hotels in their cities to form various “windows of modernization” and show off their level of modernization to the international community as “achievements” of their countries. However, no matter how beautiful these “windows” are, it is an undeniable fact that as long as you go to the rural areas, you will find it full of gaping wounds, bleeding and difficult to heal. For the recent 10 years, urban construction in China has been advancing by leaps and bounds, which seems very exciting if China is viewed from this perspective. China as it is now in the 21st century has a few modern and flourishing urban “windows”, such as the four most bustling cities: Beijing, Shanghai, Shenzhen and Guangzhou. From the perspective of residents in those cities, the quality of their life has reached the stage where attention is devoted to taking care of their health, looks and weight. More and more people own personal computers and have Internet access. Signs

of internationalization in those cities have become more and more obvious. To tens of millions of residents in those cities, the new century seems to mean a comfortable lifestyle much like the one enjoyed by the developed countries. This is certainly appealing and gives people confidence in and beautiful dreams about the future. To match the vision of those urban residents, the media have depicted a new-century blueprint of “buying cars and living in new homes,” which has made even some Taiwan residents envious. Besides, there are early signs of urban-rural integration in coastal regions of Southern Jiangsu, Eastern Zhejiang and Guangdong. However, modernization in China has not reached the vast inland countryside and small towns at all.

In recent years, the media in China have focused on the above-mentioned “windows” regions in their reports on the “excellent situation” in China. It is as if the image of China has been reduced to merely the image of a few cities. After visiting Beijing, Shanghai, Shenzhen and Guangzhou, a foreigner may think this is China in the 21st-century. If the Chinese themselves think this is the case, they are deceiving themselves as well as others. From a more objective perspective, the vast inland countryside actually reflects the main problems in China because, after all, the majority of the Chinese population live there. The population in the prosperous regions in China is only tens of millions and, no matter how prosperous these regions are, they cannot bring about the development of the national economy. The inland has more than 90 percent of the entire Chinese population. Not only does the rural area have no place in the “prosperity in window dressing,” but most residents in medium-sized and small towns cannot see the “dawn of the new century” with respect to their personal development. In those medium-sized and small towns, monthly income of many families is only about a few hundred yuan and they can manage to eke out a living only because prices are low. However, unemployment rate is rising and young people do not have good job opportunities. Looking around, you will see local enterprises in a bad shape and the only way to make a living is to find a way to get a job in a government agency.

At the moment, the gap between town and country is widening again and has returned to the 1978 level when reform just started. During our 20-year reform, the difference in income between town and country has shown a saddle-shaped pattern. There was a big gap at the end of the 1970's, which was reduced in the mid 1980's but widened again in the late 1980's. The gap became obvious in 1999. During that year, the nominal growth rate of farmers' cash income was 1.9 percent while the annual growth rate of urban residents' income was 7.9 percent. While the difference in income growth between town and country was obvious, the State Council raised salaries for urban officials and employees in October, which further widened the gap between town and country. Upon calculation, an urban resident's income today is equivalent to the combined income of 2.7 farmers. If factors like household population structure, spending patterns and charges are taken into account, the household burden coefficient for a rural laborer is higher than that of an urban laborer. While an urban resident's income is for consumption only, part of the income of a farmer's family has to pay for production and operation costs as well as investments. Furthermore, one third to one fourth of a farmer's income will be taken away by various fees and charges. So the difference in consumption level between town and country is obvious. According to the data published by the State Statistics Bureau

with respect to average annual living expenses, close to eighty percent (79.8 percent) of residents in China's rural area spent less than 2,000 yuan on average for their household living expenses with three tiers – 500-999 yuan, 1,000-1,499 yuan and 1,500-1,999 yuan. Only about twenty percent (20.91 percent) of them spent 2,000 yuan or more for their annual household consumption expenditure. Among them, 4.39 percent spent 2,500-2,999 yuan, 4.07 percent spent 3,000-3,999 yuan, 1.65 percent spent 4,000-4,999 yuan and only 2.44 percent spent 5,000 yuan or more.

He: The poverty of rural China is also shown in consumer market shares. The direct consequence of a re-widened gap between town and country is the shrinking of the rural consumer market. The rural population makes up 70 percent of the national population but only 40 percent of the durable consumer products market and 20 percent of the urban and rural savings. At the same time, main durable consumer product industries across the country have an excess of production capacity at 50 percent in general. Take color TV sets as an example. While all urban households now have TV sets, only 10 percent of the rural households have them. According to another set of data from the State Statistics Bureau, during the period from 1995 to 1999, the Engel coefficient for urban residents dropped from 49.9 percent to 41.9 percent while, for rural residents, it fell from 58.6 percent to 52.6 percent. The reduction rate of the latter is two percentage points less than the former. [38]

Cheng: I have calculated the data from the *Annual Statistics of China 2000* and found that in 1999 the consumption per capita for approximately 700 million rural residents in 20 provinces in China's inland was only 574 yuan. The consumption per capita for approximately 260 million residents in coastal provinces and urban suburbs was 1,603 yuan. In comparison, the consumption per capita for urban residents in Beijing, Shanghai, Guangdong, Jiangsu and Zhejiang, who together make up only 4.9 percent of the national population, was 11,819 yuan. In other words, one fourth of the consumer products across the country were sold to less than 5 percent of the national population, while rural residents in inland provinces, who make up 56 percent of the national population, purchased less than one seventh of the consumer products across the country. In fact, half of the urban population living in the richest cities in those two cities and three provinces belongs to low-income families and does not have strong buying power. Therefore, data about the average buying power in those richest cities only reflect the super buying power of about tens of millions of the Chinese elite population. Obviously, about 1 to 2 percent of the national population is currently at the top of the income and consumption pyramid. The commodity advertisements in the national media are basically for those people. The per capita buying power of rural residents in inland provinces, who make up the majority of the national population, is only one twenty-fifth of the former. This is a picture of the urban-rural gap in today's China and the gap is widening.

The widening of the urban-rural gap is related to the policies, which are biased toward cities. In recent years, there have been basically no more measures truly beneficial to farmers while policies to make a few urban residents' good life even better have been introduced one after another. For example, the government constantly uses its financial resources to raise salaries for urban residents who work for state-owned organizations in

the name of increasing domestic demands. In fact, half of the citizens residing in the rural area can only manage to eke out a living and they need more help than those who work for state-owned organizations. However, when the government increases income for the citizens, those it intends to take care of before anyone else are always government officials, who have fairly good salaries supplemented by additional income and more benefits. The 800 million poverty-stricken farmers have been quietly “forgotten.” But when the government mentions the increase of consumer product sales, they recall farmers and want them to spend more money. Its purpose is not to let farmers live a better life but to reduce inventories in state-owned enterprises in cities. Some urban-based economists call for the opening-up of the huge rural market and ask farmers to consume more, so that products from state-owned enterprises in cities have markets. When they are suggesting how to dig deeper into farmers’ empty wallets, they are too lazy to think seriously why, for so many years, the rural market has not been able to expand and, to the contrary, it is gradually shrinking.

The tendency of some Chinese scholars to be biased towards cities is actually a reflection of the same tendency of the government. Not only do they seldom care about poverty-stricken rural residents who make up the majority of the population, but they also do not think about the cause of the farmers’ poverty. When people are talking about the new century image of a few cities, very few of them mention that the immediate issue in China is not to make a few large cities even better. If we save some of the urban construction funds in a few large cities, construct fewer super high “century buildings,” build fewer “round-the-city highways” or new subway lines and invest less in luxurious lighting along main boulevards, and if we instead invest the funds in the inland in the development of the rural areas, it will benefit the rural population, which is tens times larger than the urban population, and its economic collateral effect is immeasurable. At least, we will not have to ask urban residents to donate for the “Hope Project” to fund the “compulsory” elementary education of rural children on behalf of the government, which according to the Constitution should have funded such education. Having fewer of the aforementioned investments in the cities will not affect the prosperity of these cities; at most it means fewer halos on the “windows,” which are already bright enough. The reason that such a simple idea does not have a “market” is because it does not add brightness to the “windows” and “faces.” Since the rural area is not a “face” and is not a political “base,” the difficult situation of rural residents is not so “important.”

Since the beginning of the 1990’s, 800 million farmers have rarely had active spokespersons in the policy research circle and have not drawn any well-deserved attention during the policy-making process. This is in very sharp contrast to the situation in the 1980’s and one of the reasons that the age-old “three agro-issues” are difficult to resolve. Among the experts and scholars who studied Chinese reform in the 1980’s, one of the strongest teams was a group of middle-aged and young economists affiliated with the Rural Policy Research Office led by Du Runsheng. They did researches perseveringly year in and year out and maintained a front-line perspective to observe the rural issues. They won the leadership position in both policy research and scholarly discussions and drew attention from the academic circles abroad. However, at the end of the 1980’s, this team was intentionally broken up and its members were repeatedly criticized. After that,

although a few scholars persisted in studying the three agro-issues and had many results, they were no longer supported by strong teamwork and their research results were not taken seriously. During the three agro-issues policy discussions, the decision-makers turned to and relied on administrative and technical officials. These administrative and technical officials, however, have the characteristic of following the opinions of their superiors in every respect and often disrespect academic criterion necessary for down-to-earth, objective and systematic researches and policy studies. As a result, the quality of policy research regarding the three agro-issues in the 1990's obviously deteriorated. It is no good for China to have lost a strong team in the study of the three agro-issues. What is more, the three agro-issues in the 1990's became more complicated than before; they were not only economic issues, but also social issues; they were even related to political reform. After 10 years, the problem is finally exposed. Looking at the difficult situation faced by today's rural area, we can only see analyses made by a few scholars and piecemeal reports by some journalists in the Chinese media. We can no longer see systematic, comprehensive and persuasive analyses and researches based on down-to-earth and first-hand researches as we saw in the 1980's, let alone any benign interaction between such researches and policy-making with respect to the three agro-issues.

There will be no solution to the problem of random collection of fees and taxes without political structural reforms

Cheng: The effect of the one-time economic reforms of 1980s in the rural areas cannot possibly maintain any long-term sustained growth and prosperity in China's rural economy. Some economists believe that once a market mechanism is introduced into the countryside, a reasonable rural economic system will naturally fall into place and therefore lead to the "fast track" of smooth future development. But reality has shown a totally different answer. One specific reason for the widening gap between urban and rural areas is that once the rural economic reforms have made some initial achievement, policies started to tilt more favorably towards cities. This in turn has helped speed up the transfer of resources to the urban development and increase exploitation of the farmers. First, during the second part of 1980s, financial resources were brought in to raise salaries of urban residents, increase price subsidies, and depress prices of agricultural products for the benefits of urban consumers. Later on, during 1990s, state-owned enterprises were allowed to raise the prices of their monopolized products on a large scale, which meant that all the benefits farmers received earlier on from increased prices of agricultural products were gradually taken back by state-owned enterprises as a result of higher farming costs. During the period of "bubble economy," monopolized rural financial institutions moved large sums of farmer's savings to urban real estate and stock markets, and as a result, employees of those financial institutions gained a great deal at the expense of those peasants. A side effect is that the residents in the "prosperous areas" also benefited, directly or indirectly, to a smaller or larger extent. Of course, the prosperity of urban areas also has to be with the injection of foreign investment. Huge amounts of foreign investment concentrated in a few metropolitan areas are bound to create some prosperity, but the inland rural areas are excluded from such opportunities.

He: To be honest, I do not agree totally with what you have said. China's rural poverty is not the result of favorable policies to cities. It is a fact that some policies are tilted towards the cities. But even if the government is more considerate of the countryside in distributing resources, the state of backwardness in the countryside and poverty of farmers will not be changed much. As a matter of fact, the root of the poverty problem in rural areas is the severe lack of balance between population and resources, too little farmable land against too many people, low productivity and low surplus income. The phenomenon of "random fees and taxes" only serves to make things worse. As long as there is no revolutionary progress in the agricultural production, even if rural taxation reforms are perfectly in place, it will only lessen peasants' pressure, not eliminate the pattern of "breast-feeding the rural areas," let alone solve the rural problems once and for all. The ultimate solution is to modify the unbalanced ratio between population and resources.

Besides, the huge pressure of China's enormous population is already forcing us to overuse our natural resources. Some environmental experts have pointed out that 38 percent of China's land is already in danger of desertification, and many "poverty-stricken" areas are no longer habitable. To go to those regions to solve poverty problems is merely helping a certain group of people maintain a low-level livelihood at very high costs.

Cheng: That's a long-term goal, which doesn't conflict with trying to reduce severe pressures of the rural areas in the short term. At the present time, China is facing a hard but important task, and that is how to ease the worsening economic crisis in the countryside through further rural structural reforms. The problem of "three *nongs*" ("*nong yie*" – agriculture; "*nong cun*" – countryside; "*nong min*" – rural residents, peasants, or farmers) is probably one of the most daunting challenges China has ever faced in the present century. Of course, the long-range solution to the "three *nongs*" problem is in the development of rural economy. But most of the lengthy, well-developed theories have not presented any short-term solution. Most of the measures offered by the authorities have been suggested by Chinese scholars in recent years and quoted many times in official documents. Those measures have not proven to be effective in the past, [39] and will have a hard time convincing people that they can produce miracles now. The most urgent need is to do something to make sure farmers can somehow manage to survive, either by increasing their income or reducing their financial pressure, or by doing both at the same time. In any case, some measures have to be implemented to alleviate the present rural crisis.

During the negotiations with the U.S. government over China's entry into WTO, the Chinese government insisted that the subsidy rate to their farmers should not be lower than 10 percent, while the US government suggested a rate no higher than 8 percent. The Chinese government at the time put on an attitude as if to say that China would rather delay entrance into WTO than back down on their demands. The difference in 2 percent appeared to be vital to the protection of China's agriculture. As a matter of fact, the Chinese government could never afford such funds to subsidize agricultural products. Some experts even calculated that even if China did agree to the U.S. demand of 8 percent

subsidy rate, they would have no financial power to back it up. The present subsidy rate Chinese government offers to agricultural products is a mere 3 percent. After that, they have no actual means to increase it to any higher percentage. Obviously, with such restraints on the size of the purse, expecting the government to raise subsidies for agricultural products to protect farmers' interests would be like "trying to quench your hunger by drawing a pancake on paper"--not possible at all. Last year Premier Zhu Rongji suggested a rise in the grain prices as a protective measure, [40] while in fact there is little possibility for raising prices with the present financial limitations on the government part. Especially considering the fact that most of the subsidies to farm products have ended up in the pockets of those in the monopolized, state-owned commercial sectors, benefiting employees of co-op stores and other areas dealing with grain products. It has not done much to help improve peasant income. What we should pay more attention to is the fact that there is hardly any room for further price rises in agricultural products. Recently Huang Jimu, from the Chinese Academy of Agricultural Science, did a detailed analysis of the costs and prices of China's agricultural products and drew an alarming conclusion. He discovered that most of China's agricultural products are already priced above the average price level of the international market, and most products cost more than those in developed countries. [41]

So it seems that there is little hope for China's farmers who might expect higher returns in the future as a result of higher prices. Even if the Chinese government can indeed maintain the current market prices of domestic agricultural products and make considerable efforts to reduce or at least buffer the shock of lower-priced imported products, it is unlikely that the farming income of Chinese peasants will experience any noticeable improvement. However, can they possibly reduce taxes for farmers?

He: During the Qing Dynasty, both Emperor Kanxi and Emperor Qianlong tried to implement a policy where each province would rotate to enjoy a year's reduction of taxes. And the richer areas in the South East region generated enough income through exports of silk, tea and chinaware to help the emperors pay for the reduction of taxes to the farmers. In present-day China, the same southeastern region is much richer than inland areas, but does the government have the ability to maneuver centrally controlled funds to reduce taxes in inland areas? The problem is that although the central government collects plenty of taxes every year, it seems to have an empty wallet all the time and even runs up debts. In order to sustain urban prosperity and avoid large-scale sliding of the economy, the majority of the central government's expenditure relies on borrowing every year. As a result, it has no ability to pump any more money into the countryside in the central and central-west regions.

Cheng: Since there is no way the government will be able to reduce or suspend taxation on its farmers in a long time to come, and they can hardly offer any valid policies or viable measures to improve farmers' income, then alleviating the unreasonable burden on the Chinese rural population becomes a key issue. China's reforms began in the rural areas in the first place, but twenty year later, China's farmers have ended up in such dire straits, causing the low growth and economic slowdown for years. But it is a shame that in the mainstream topics in China, words like "further rural reforms" seem to have long been

forgotten, as if after the initial reforms in the 1980s, the rural structure has already been smoothed out and no longer deserves any attention. Even if there is some occasional mention of related subjects, it will only be addressing certain isolated policies, not a comprehensive assessment of the extreme predicament in China's rural areas. And in order to cover up the true picture in the countryside, the central government's Central Department of Propaganda even went so far as to ban all media from reporting on problems in rural areas in May this year.

In the past ten years, the central government has repeatedly issued orders to stop random collection of fees and taxes from farmers, but they have only been temporary measures that only touch on the symptoms rather than take care of the root of the disease. So they have done nothing to eliminate the problems. Recently, the central government tried to push through experimental reforms in certain provinces to change the form of "fees into taxes," but had to abandon the attempt because of fierce resistance from local governments. The purpose of turning "fees into taxes" had been to increase proper taxes while reducing various fees. But the actual result was that while proper taxes increased and the expenses and consumption from local government officials ate up part of increase, at the same time, the "hard budget" in education was still up in the air. Local government officials purposefully kept this "gaping gap" to hold against the central government. Their reasoning was this: since the central government could not allocate large sums of funding to supplement the basic educational projects in the countryside, then they had to allow the local officials to collect various fees on farmers in the name of "rural educational projects." Of course those so-called educational fees would be used for the consumption of those officials. (In fact, even if the central government did have the financial means to supplement rural education, expenses under this name would have become a bottomless hole when managed through the corrupt rural structure.) The failure of the attempted "fees turned into taxes" reforms illustrates once again that because the legitimacy and actual operation of the central government regime depend on the interest groups in various local governments, the central government has lost their ability to reform local governments and their officials. This situation is not going to be changed through the individual effort of any one individual leader.

Those relatively familiar with the rural areas in China will see clearly that to alleviate the unreasonably heavy burden on farmers, efforts have to be made to streamline the structure and cut the number of local officials and their expenses. Not long ago a Chinese scholar suggested the possibility of returning to the pre-1949 rural structure based on the unit of villages only, abolishing the two-tier structure of villages and townships, and installing village heads elected by villagers. Only suggestions like this truly address the root problem. It is only when they can reduce the huge number of grass-root officials, who have been well kept by fees and taxes from farmers, and start democratic elections for those above the level of village heads, can the problem be resolved from the very root. Apart from this, there seem to be very few effective ways to address this issue. However, to implement such drastic measures as to rule out random fees and taxes is easier said than done. Under the present rural structure, obviously no further progress can be made in taxation reforms.

