

Rural Poverty in China: Problem and Policy

by

Gregory C. Chow, Princeton University

CEPS Working Paper No. 134
September 2006

Acknowledgement: I would like to thank Harvey Lam, Jianping Mei, Yan Shen, Xiaobo Zhang, participants in the conference on *Economic Development of Western China* organized by George Tolley at the University of Chicago, and attendees at my lecture in the *Contemporary Issues in the Chinese Economy Series* sponsored by the Department of Economics and Finance at the City University of Hong Kong for helpful comments. I also would like to thank both the Center for Economic Policy Studies and the Gregory C. Chow Econometric Research Program at Princeton University for financial support in the preparation of this paper.

Rural Poverty in China: Problem and Policy

Abstract:

This paper describes the economic conditions of rural China regarding poverty. By dividing the problem of rural poverty into three components it explains why rural poverty is China's No. 1 economic problem in spite of the significant improvement in the living standard of the rural population. After discussing the solution proposed by the Chinese government it raises two policy questions, one concerning a proposal to eliminate the operational functions of township governments in the streamlining of the local government structure and the second on the possibility of controlling the abuse of power by local party officials that infringes on the rights of the farmers. A comparison with the conditions in India is provided.

1. Introduction

China's rapid economic growth in the order of 9.4 percent per year since economic reform started in 1978 is well recognized. Many observers also agree that the momentum for further growth in the foreseeable future is assured. The large amount of wealth created and the insufficient attention given to the welfare of residents in the rural regions have created a large income gap between the urban rich and rural poor as well as opportunities of exploitation of the latter by local government and Communist Party officials. Hence the country's leaders now consider the number one economic and social problem to be rural poverty despite the substantial improvement in the living standard of the rural population in recent years.

In section 2 of this paper, I will examine the economic conditions of the rural population, its absolute improvement, its relative status as compared with the urban population and the increase in disparity in per capita consumption between regions. In section 3, I will divide the problem of rural poverty into three components and explain why it is the number one problem in spite of the improvement in economic conditions of the poor. Section 4 is a description of government policy to solve the rural poverty problem. Section 5 discusses two policy issues concerning the government's solution, one on the policy to eliminate the functions of township governments in five years and the second on the protection of the

farmers' rights to keep the land contracted to them. Section 6 is a brief discussion of the poverty problem in India by comparison. Section 7 concludes.

2. Statistics on Rural Poverty and Economic Disparity in China

In this section I examine three kinds of statistics on rural poverty and economic disparity in China. One is the means of per capita disposable income and per capita consumption of urban and rural residents and their rates of change. The second is the change in the lower tail of income distribution of rural residents through time. The third is measures of dispersion of per capita income or consumption across provinces.

2.1 Trends of Per Capita Income and Consumption of Urban and Rural Residents

Table 1 shows annual per capita disposable income of urban and rural residents. The ratio of urban to rural per capita income decreased from 2.57 in 1978 to 1.86 in 1985 showing the initial benefits of agricultural reform through the household responsibility system of assigning land to individual farm households. However, the ratio increased in favor of the urban residents afterwards, rising steadily from the late 1980s to 2003 when it reached 3.23. Thus income disparity between urban and rural residents has increased steadily since the middle 1980s.

Table 1: Annual Per Capita Disposable Income of Urban and Rural Residents (Yuan)

<u>Year</u>	<u>1978</u>	<u>1980</u>	<u>1985</u>	<u>1989</u>	<u>1997</u>	<u>2002</u>	<u>2003</u>
Urban	343.4	477.6	739.1	1374	5160	7703	8472
Rural	133.6	191.3	397.6	602	2090	2476	2622
Income Ratio	2.570	2.497	1.859	2.282	2.469	3.111	3.231
Urban CPI	100.0	109.5	134.2	219.2	481.9	475.1	479.4
Rural CPI			100.0	157.9	322.3	315.2	320.2

Source: *China Statistical Yearbook 1999* Table 10.1 for years up to 1985; *China Statistical Yearbook 2004* Table 10-1 for income data beginning 1989, Table 9-2 for the urban and rural consumer price indices (respectively, with 1978 = 100 and 1985 = 100).

Concerning the improvement of per capita income in real terms for the rural residents we record the consumer price index for rural residents in the last row of Table 1 which shows

an increase from 100.0 in 1985 to 320.2 in 2003. In 2003 prices, the per capita income of rural residents in 1989 was $602(3.202/1.579)$ or 1220.8 yuan. This amounts to an exponential rate of increase from 1989 to 2003 of $(\ln 2622 - \ln 1220.8)/14$ or 0.0546 per year, or by 5.61 percent per year, a fairly substantial rate of increase. A similar calculation for urban residents shows per capita real income increased from 1374 $(479.4/219.2) = 3005.0$ yuan in 2003 prices in 1989 to 8472 yuan, implying an exponential rate of increase of $(\ln 8472 - \ln 3005)/14 = 0.0740$, which is two percentage points higher than the rural figure.

On per capita consumption, Table 2 provides annual per capita living expenditure of urban and rural households for 1989, 1997, 2002, and 2003. The ratio of urban to rural expenditure increased from 2.351 in 1989 to 3.351 in 2003, showing a very large increase similar to the increase in the income ratio in Table 1.

Table 2: Annual Per Capita Living Expenditure of Urban and Rural Households (Yuan)

<u>Year</u>	<u>1989</u>	<u>1997</u>	<u>2002</u>	<u>2003</u>
Urban	1211	4186	6030	6511
Rural	515	1617	1834	1943
Ratio	2.351	2.589	3.288	3.351

Source: *China Statistical Yearbook 2004*, Table 10-1.

In 1989 real per capita consumption in 2003 prices for rural residents was $515(320.2/157.9) = 1044.4$ yuan. This gives an average exponential rate of increase of $(\ln 1943 - \ln 1044.4)/14 = 0.04434$ from 1989 to 2003, a very high rate of increase by comparison with other developing countries. In 1989 real per capita consumption in 2003 prices for urban residents was $1211(479.4/219.2) = 2648.5$ yuan. This implies an average exponential rate of increase of $(\ln 6511 - \ln 2648.5)/14 = 0.06425$ from 1989 to 2003, also two percentage points higher than for rural residents.

Thus the data show that urban-rural income and consumption disparity has increased, but the rural residents have enjoyed a fairly substantial rate of increase in both income and consumption, to the order of 5.5 and 4.5 percent per year respectively, even though these are two percentage points below the corresponding figures for urban residents.

There are some other aspects of consumption not measured in the above statistics on per capita consumption expenditure. First, per capita education expenditure provided by the government for urban residents was higher than for rural residents. Second, land was available for rural residents to build their own houses. As a result, living space per person available for rural residents in their own housing was more than housing space for urban residents for many years. Third, medical care for urban residents provided by the government under an insurance system was better than for rural residents. Only 22.5 percent of rural people are covered by rural cooperative medical care insurance system while the vast majority of urban residents receive adequate medical care, with some eighty percent of medical resources concentrated in cities. In terms of infrastructure, supply of running water is less adequate in rural areas. More than 60 percent of rural households do not have access to flush toilets. Six percent of villages are still beyond the reach of highways. Two percent of villages have no electricity supply. Six percent of villages do not have telephones. Some 150 million rural households face problems in fuel supply. However, incorporating these elements of consumption will not affect the general conclusions reached above concerning urban-rural comparison of per capita income and consumption.

2.2 Percentage of Rural Residents with Per Capita Income below the Poverty Line

Since the poverty problem may not be a problem among all rural residents but among the poorest of them, we have provided in Table 3 the left tail of the per capita annual income distribution of the rural residents. If we draw the poverty line in 2003 as having income below 600 yuan we find 3.47 percent below it, or about 28 million out of a rural population of 800 million, still a substantial number of people. (The 28 million figure is consistent with the official statement in 2005 that 26 million rural people living in poverty and nearly 20 million urban people living on the government's minimum allowance). In 1990 when the rural CPI was about half of the 2003 CPI, the percentage of households with per capita income below 300 yuan was 8.64. In 1985, when the CPI was about a third, the percentage of households with per capita income below 200 was 12.22 percent. Thus the percentage of rural population remaining below the poverty line of 600 yuan in 2003 prices has

decreased substantially from 12 percent in 1985, to 9 percent in 1990 and to 3.5 percent in 2003. In 1985, the Chinese farmers were by and large happy, as their economic conditions had improved significantly after the introduction of the household responsibility system of private farming.

Table 3: Percentage of Rural Households in Different Income Ranges

<u>Income</u>	<u>1980</u>	<u>1985</u>	<u>1990</u>	<u>1995</u>	<u>2000</u>	<u>2002</u>	<u>2003</u>
< 100	9.80	0.96	0.30	0.21	0.31	0.40	0.49
100-200	51.80	11.26	1.78	0.36	0.20	0.19	0.18
200-300	25.30	25.61	6.56	0.78	0.43	0.28	0.31
300-400	8.60	24.00	12.04	1.47	0.69	0.50	0.52
400-500	2.90	15.85	14.37	2.30	1.01	0.79	0.78
500-600		9.06	13.94	3.37	1.37	1.25	1.19
600-800		8.02	20.80	9.54	4.44	3.62	3.25
< 800	98.4	94.76	69.79	18.03	8.45	7.03	6.72
< 600	98.4	86.74	48.99	15.21	4.01	3.41	3.47
< 500				11.84	2.64	2.16	2.28

2.3 Inequality in Wealth Distribution

As a third kind of statistics we examine the distribution of income across provinces by considering the standard deviation of the natural logarithm of rural consumption expenditure per capita, treating consumption as a measure of permanent income or wealth. In 1981 this standard deviation computed for the 28 provinces then in existence was 0.2612, as compared with 0.3475 in 1998 for the same 28 provinces (See Chow (2002, p. 169)). Thus consumption inequality among provinces increased between these two years, at the average rate of $(0.3475-0.2612)/17 = 0.00508$ or about half of a percentage point per year. To see whether the increase in consumption disparity has slowed down I have computed the same standard deviation for 1993, using data on page 281 of *Statistical Yearbook of China 1994* and obtained 0.3370. The average rate of increase in the standard deviation in the five years from 1993 to 1998 is $(0.3475-0.3370)/5 = 0.0021$, much slower than 0.00508. Thus the rate of increase in disparity slowed down in the late 1990s but was

still in the range of 2 tenths of one per cent per year. The same standard deviation for 2004 is 0.3731 (based on data in *China Statistical Yearbook 2005*, Table 10-26 for the same 28 provinces), suggesting that the increase in dispersion has continued between 1998 and 2004 at the average rate of $(0.3731-0.3475)/6 = 0.0064$ per year. This agrees with the continued increase in income disparity up to the present as found in section 2.1 and shows in addition that the rate of increase in disparity was even higher in the last six years from 1998 to 2004 than in the five years from 1993 to 1998 and also in the 17 years between 1981 and 1998 (with possible errors due to the omission of Hainan, Chongqing and Tibet in the calculations for 1998 and 2004).

A related question is whether rural per capita consumption increased in the poorest provinces and at what rate. From Chow (2002, Table 9.2), the three provinces with lowest consumption in 1981 were Gansu, Yunnan, and Qinghai, with per capita rural consumption of 135.23, 137.75, and 141.68 respectively. From Chow (2002, Table 9.5), in 1998 these three provinces had per capita rural consumption of 939.55, 1312.31 and 1117.79 yuan. The general retail price index given in Table 9-2 of *China Statistical Yearbook 1999* is 110.7 in 1981, 128.1 in 1985 and 370.9 in 1998; the general consumer price index for rural areas is 100.0 in 1985 and 319.1 in 1998. To approximate the increase in consumer prices for rural areas we assume the same proportional increase in these two indices between 1981 and 1985 to obtain a value of 86.4 for the latter index in 1981. The increase between 1981 and 1998 in rural consumer prices from 86.4 to 319.1 is a factor of 3.69. The increase in the nominal value of per capita consumption is $939.55/135.23=6.95$ for Gansu, 9.81 for Yunan and 7.89 for Qinghai. If we consider the two other poorest provinces as of 1998 among the original twenty eight, namely Shanxi and Guizhou, with consumption per capita of 1056.45 and 1094.39, and consider their improvement from the 1981 values of 147.78 and 162.51 in Chow (1992, Table 9.2), we find factors of 7.15 and 6.73. Thus Guizhou is the province having the smallest increase in rural consumption per capita between 1981 and 1998. The improvement in real consumption during this period is only a factor of $6.73/3.69$ or 1.82. In terms of exponential rate of increase per year between 1981 and 1998, Guizhou experienced a rate of 0.035.

To summarize our discussion on disparity as measured by the dispersion in rural consumption per capita among provinces, the disparity has increased at the rate of about half a percentage point per year between 1981 and 1998, but the rate of increase has slowed down to 0.2 of a percentage point in the last 5 years of this period. There have been significant increases in the level of real consumption per capita in all provinces in the mean time. Even Guizhou, the province with the slowest rate of increase among the original 28 provinces, experienced an average exponential rate of increase of 0.035 per year.

3. Three Components of the Problem of Rural Poverty

I have divided the problem of rural poverty into the following three components:

The first is the income gap between the urban and rural residents. From the data presented in the previous section it is clear that the problem of rural poverty is not due to the low income level of the rural population, nor to a small rate of increase in income. Per capita income of rural residents has increased fairly rapidly, in the order of 5.5 percent per year since 1989, and the percentage of rural residents with income below the poverty line has declined rapidly. It is true that the gap in per capita income between the urban and rural residents has widened but the rate of increase in the latter has been so rapid that the rural population, on average or as judged by the poorest among them, is so much better off economically than before. If one uses income as the sole measure rural poverty the problem has to be viewed either as (1) the deterioration of the *relative* income of the rural residents in spite of the rapid increase in absolute income, or (2) possible social discontent created during a period of improvement in income level which enables the poor to express their discontent. These two interpretations explain a part of the problem of rural poverty but are not sufficient to explain the seriousness of the current problem which is accounted for by the following two components.

The second component is the unfavorable treatment by the central government for the rural residents as compared with the urban residents. The inadequacy of government provision for the rural residents will be detailed in section 4 when government policy to remedy the situation is discussed. First, the government has spent less on infrastructure investment in rural areas than in urban areas. It invested only a limited amount to improve agricultural

productivity. Second, it provided less welfare benefits including health care and education subsidies to rural residents. Although much labor mobility was allowed for farmers to move to urban areas to find work those working in the urban areas are subject to discrimination under the government policy (introduced in the 1950s) of separating the residence status and thus the entitled benefits of the urban and rural populations. The migrating workers do not have residence permits in the cities and cannot receive the services provided such as health care and schooling for their children. Third, although the Commune system was abolished, procurement of farm products by government agencies has continued and the procurement prices were often set below market prices. In the mean time the farmers were not allowed to sell their products to private traders as private trading and transportation of grain were prohibited. Thus the market economy does not function in the distribution and pricing of grain for the benefit of the farmers.

The neglect of the central government in dealing with the rural problems is probably not by design but a result of the historical development of economic reform. The initial success of the privatization of farming in the early 1980s that improved the economic conditions of the farmers was a result of market forces at work and not of government intervention. The strategy of “letting some people get rich first” resulted in the income gap between the urban and rural population. The historical entitlement of welfare benefits provided to the urban population who had the required residence permits excluded the rural population—this was inherited from the period of economic planning and not a new policy favoring the urban population while the collapse of the commune system took away similar welfare benefits to the rural population. Finally, the need to deal with other important reform problems concerned with the state enterprises, the banking and financial system, and the open-door policy together with the human and financial resources required to accomplish them (including resources for the building of infrastructure for the special economic zones as a part of the open-door policy) has also contributed to the neglect of the rural population. When the Chinese government realized the seriousness of the relative poverty problem facing the farmers perhaps valuable time had been lost. The problem is called the san-nong (three-farm) problem that covers farming, rural areas, and farmers.

The third, and very important, component of the san-nong or three-farm problem is that the farmers' rights have been violated by illegal activities of local government officials. This component is not poverty in the narrow sense of low income *per se* but is concerned with the economic welfare of the low-income farmers when their property rights are violated. The most disconcerting example is the confiscation of land from farmers for urban development while many farmers receive a compensation that is arbitrary and well below market price. Second, many farmers and other rural residents are not paid, or not paid on time, for work performed such as wages for public work and for teaching in public schools. Third, farmers are subject to illegal levies. The levies include the increase in reported acreage of the farmer's land that is subject to tax over the acreage actually used, special tax for growing commercial crops other than grain and livestock's, fees for schools, road construction, and other services provided by the local government. One reason for the extra levies is the tax reform of 1994 which increased the proportion of government revenue paid to the central government (from 22.0 percent in 1993 to 55.7 percent in 2004) at the expense of provincial and local governments. Another reason is the central government's policy to assign the responsibility of providing "compulsory education" of nine years and adequate healthcare to local governments.

Concerning the violation of the farmers' right to the use and transfer of land, a Chinese official in charge of rural policy Chen Xiwen (2006, p.37) writes: "It is stipulated in our Constitution that in rural China, ...land is collectively owned by farmers but contracted to individual households. However, at the grassroots level, few officials have read this provision, ... Therefore, some grassroots officials constantly make troubles with farmers' land, causing endless land contract conflicts. Because of this, the Rural Land Contract Law was passed in March 2003 in which there are two basic regulations: (1) during the contract period, the contract granting party shall not be allowed to take back the contracted land; and (2) during the contract period, the contract-granting party shall not be allowed to adjust the contracted land. Neither regulation, however, has been well implemented."

As head of the Institute for the Study of the San-nong Problem of the Central Party School, Zeng Yesong (2004, p.43) states the problem of the lack of basic rights on the part of Chinese farmers as follows: "Farmers in many places have limited right to information.

Policies of the central government fail to reach the farmers. In some provinces policy documents to reduce taxes on farmers were not distributed to them. In some places, farmers were mistreated because the matter was not handled on time. They even suffered from subjugation which forced them to report to authorities above. However, many people in the government above believed only in the officials below and not in the farmers. They found small excuse to imprison the farmers, and even persecute those who dared to report to officials above. This not only deprives the farmers of their right to speak out but also interferes with their human rights.”

In a popular book well-known Chinese authors Chen and Wu (2005, pp.108-9) provide a dramatic illustration of the extortion of illegal levies in a village. The village Party secretary led a group of several armed tax collectors to each house to collect a “school construction fee” of six yuan when all school buildings were in good condition. When one housewife did not have the money to pay, the collectors took away a television set. After returning home and finding out this incident, the husband was brave enough to visit the county Party secretary to file a complaint but he was ignored. When the village Party secretary found out this visit, he went back to the house for a second time to take away a bicycle. This story illustrates the lawlessness and abuse of power of local Party officials, and that the “three-farm” problem is not a problem due to extreme poverty at least in this case since the farm household has a television set and a bicycle but to the violation of the farmers’ rights.

All through much of Chinese history local government officials considered themselves a class above the farmers and having the authority to rule over them. The abuse of power under the PRC is worse because the officials are given even more power to control the activities of the citizens. Some well publicized stories of the abuse of power by local Party and government officials are documented in Chen and Wu (2005) which also describes the multi-level bureaucracy in the village-township-county governments that protects each other’s interests and positions and fails to carry out policies of the central government to benefit the farmers, a point also stated in Zeng (2004, p.43) quoted above. Chapter 1 of Chen and Wu (2005) tells the story of citizens of a village sending representatives to report to the county officials the illegal levies and false financial accounting by village officials

who later mistreated one of the representatives, sent policemen to put him to jail and eventually beat him to death (though perhaps not intentionally). This story corroborates with Zeng (2004, p.43) on the violation of the farmers' human rights by local government and Party officials.

The abuse of power by local officials is known to be fairly wide-spread, as stated in the writing of the three authors quoted above and evidenced by the large number of demonstrations and protests by the farmers reported in the news media. Zhang (2006, pp. 19-20) quoted (1) statistics provided by Han (2003) that some 34 million farmers have lost their land to local government land taking and (2) statistics provided by the Ministry of Construction to show that, between January and June 2004, 4,026 groups and 18,620 individuals had lodged petitions over allegedly illicit land confiscations, compared to 3,929 groups and 18,071 individuals for the entire year of 2003.

4. Solution Proposed by the Chinese Government

Realizing these problems the central government has given the agriculture sector much attention in recent years. In 1993, the "three-farm policy" was introduced to improve agriculture productivity in farming, promote economic development of rural areas, and increase the income of farmers. It includes increasing capital investment in rural areas and helping the farmers to use better technology and better method for farming, reducing corruption and misbehavior of local government officials, and economic assistance to farmers. The development of the agricultural sector was the first important task mentioned in Premier Zhu Rongji's work report of March 2001 to the National People's Congress.

In February 2004, the State Council announced a set of policies to improve the living conditions of farmers that include the following:

1. Support the development of agricultural production in grain producing areas to increase incomes of the farmers. This includes providing incentives to farmers, improving method of production as well as the quality of land, and increasing government investment in agriculture.

2. Change the structure of agricultural production by improving output mix, management, and technology.
3. Develop industrial and service industries in rural areas, including the encouragement of township and village as well as private enterprises. (Township and village enterprises, perhaps involving less capital than those that flourished in the 1980s and of more primitive nature that is tied to agricultural production, did not develop in the very poor regions probably because of lack of human capital among the residents and lack of incentives on the part local government officials to promote them.)
4. Assist the farmers in moving to urban areas to find work by reducing various levies collected from them by city governments and by giving responsibility to the latter for the training of the incoming farmers and for the education of their children.
5. Establish market mechanism for the distribution and marketing of grain by allowing more distribution channels including collectives and by the promotion of farm products.
6. Build infrastructure for rural areas, including water supply, roads, and electricity in poor areas.
7. Carry out reform in rural areas including the tax system.
8. Continue to improve programs to reduce poverty by subsidies and other means.
9. Strengthen the leadership of the Communist Party in putting the above policies into practice.

One important step was taken in 2005 when the Central government decided to abolish all taxes to farmers. This policy seemed to be a good move if one compares the costs and benefits of taxing the farmers. The benefits are small since such taxes accounted for only about just over one percent of total government revenue. The costs of taxing farmers are much larger, as the tax increases their discontent which might lead to social instability and provides an excuse for local government officials to impose illegal levies. Although some local officials might continue to impose such levies, the policy of allowing no tax to farmers makes it more difficult for them to do so.

On February 21, 2006 and for three consecutive years (according to *People's Daily Online* of February 23, 2006), the Central Committee of the Chinese Communist Party and the State Council issued its most important "Number 1 Document" on the subject of agriculture, farmers, and countryside development. This document is more comprehensive and systematic than the previous two. Agriculture and rural areas are to receive higher fractions of national fiscal spending, budgetary investment on fixed assets and credits. In 2005, over 300 billion yuan (37.5 billion U.S. dollars) from the budget of the central government was allocated to support rural development, a 50 percent increase from the 2002 figure when the price level was stable. In addition to direct financial support, the government announced the abolition of agricultural tax as of January 1, 2006, which totals 22 billion yuan (2.75 billion dollars) in the previous year. The evolution of government policies to deal with the san-nong problem between 2004 and 2006 illustrates the use of experimentation and observation in revising and improving policies, termed "crossing the river by feeling the rocks" by China's reform leader Deng Xiaoping.

The 2006 Number 1 Document covers:

1. Infrastructure building that will include the provision of safe drinking water, clean energy supply (by the use of methane, straw gasification technology, small hydropower, solar energy, wind farm, and upgrading of power grids), and the construction of country roads.
2. A national support system for agriculture and the farmers consisting of :
 - (1) direct subsidies to grain production (to be raised to 50 percent of the grain risk fund used to stabilize market price) and to grain farmers for the purchase of high-quality seeds and farm machinery,
 - (2) improvement of agricultural production and marketing,
 - (3) facilitating the migration of rural labor by removing discriminative restrictions on migrant workers on urban job markets and providing them with a social security system gradually, possibly with guarantee of subsistence allowances in rural areas (insurance for occupational injuries to cover all migrant workers),

(4) increase in funding for the rural compulsory education system, and reduction or exemption of tuition for students included in the system in western areas, to be extended to all rural areas,

(5) the training of farmers to make them well-educated and technologically literate with basic knowledge in management, with 100 million to be trained by 2010, including 50 million in agricultural technology and another 50 million in other sectors,

(6) a social assistance program covering 50 million people and four areas (regular social assistance providing minimum living subsidies to poor urban and rural residence, emergency assistance for people suffering for disasters, temporary assistance to low-income migrants to urban areas, and social assistance from donations, with the total of assistance amounting to only 0.02 percent of GDP),

(7) more financial support for the new rural cooperative health care system (since rural residents, who account for some 60 percent of the nation's total population, only have access to 20 percent of the country's medical resources) both from the central and local fiscal systems in 2006, to cover almost all the rural areas in 2008. The plan is to cover 40 percent of China's counties in a new government-backed medicare cooperative program for farmers in 2006, and to promote the program to all the rural areas in the next few years. Under the plan the government will allocate 40 yuan for every account of farmers who pay ten yuan each, and set up a clinic in every village in the near future,

(8) rural financial reform for community financial institutions in order to provide agricultural insurance and easily accessible loans to rural households and small and medium business enterprises.

3. Streamlining the functions of the multi-level government system (central, provincial, county, township and village) by elimination of the operational functions of *township* governments within five years and in the interim changing their functions from engaging in investment and operation of their own projects and production of grain to creating a favorable environment for the farmers, while the

finance of *counties* will be placed under the direct control of the provincial governments or of the villages themselves.

4. Village planning that is environmentally friendly, by remodeling existing houses rather than constructing new ones, efficient use of land, energy and materials for the construction of farm housing and the preservation of ancient villages and residence.

The “three farm” policies announced above were incorporated in the 11th Five-Year Plan passed by the National People’s Congress on March 14, 2006 under the heading of “building a new socialist countryside” and “according to the requirement of advanced production, improved livelihood, a civilized social atmosphere, clean and tidy villages and democratic administration.” The budget allocated for these policies amounted to 339.7 billion yuan from the central government in 2006 as compared with 297.5 billion yuan from the central government budget in 2005 spent on agriculture, rural areas and farmers, the latter being an increase of 34.9 billion yuan from 2004.

In summary, the policies of the central government aim mainly at redirecting economic resources to the rural areas (items 1 and 2 listed above) and also at streamlining the structure of local governments (item 3).

5. Two Policy Issues in the Solution of the Chinese Government

This section raises two questions concerning the solution of the Chinese government outlined above, one on the streamlining of the local government structure and second on the possibility of enforcing a policy to solve the third component of the three-farm problem.

The first question is concerned with item 3 of the 2006 Number 1 Document to streamline the multilevel local government structure by eliminating the operational functions of township governments in five years. The main purpose of this policy is to eliminate the taxation power of local governments at both the county and the township levels and thus to

reduce the opportunity and power of corruption on the part of county and township level government officials. However there may be difficulty in implementing this policy. Township governments have been in existence for many years and played an important role in recent Chinese history. In the form of Communes before economic reform, they provided healthcare and education and directed construction projects for the rural population. In the 1980s and early 1990s they established township and village enterprises that propelled China's rapid economic growth. A number of questions can be raised concerning the policy to eliminate the township governments in five years and to take away the financial authority of county officials.

Where would the township government officials go five years from now? Supposedly some are due to retire and others will work in departments of the county governments above. In the interim if they are not allowed to operate enterprises how would they find sufficient financing for their government and what incentive would they have to create a favorable environment for the farmers as they are supposed to do? Why should they be treated differently from other government officials and even university administrators who are allowed to operate enterprises to generate additional income for their units and even for themselves? Resistance by the officials in the township governments whose power is taken away and by officials in the county governments whose financial authority is taken away may present a serious obstacle to the implementation of this policy. These are natural questions to ask when such a bold move is proposed to change the local government structure. I assume that the Chinese leadership has considered these questions carefully and found solutions to them. It will be interesting to observe the implementation of this policy in the next five years.

The second issue concerning the official solution is the absence of any provision to deal with the third component of the "three-farm problem," namely, to protect the rights of the farmers to keep the land contracted to them, to be free from illegal taxation and to receive wage payments due to them. In fact illegal land seizure is the major cause of rural discontent. The government is certainly aware of this problem as stated in Chen (2006, p. 37) quoted above. As pointed out earlier, the National People's Congress passed the Rural Land Contract Law in 2003 which stipulates that during the contract period the contract-

granting party shall not be allowed to take back the contract land or to adjust the contract land. However the local officials who confiscated the land for economic development disobeyed this law. The strict enforcement of this law is therefore essential. As Premier Wen Jiabao stated on March 14, 2006, strict enforcement of existing policy must be strengthened to protect the farmers' rights at a time illegitimate land seizures have fueled protests in the country side (see *New York Times*, March 14, 2006. p. A5).

Therefore, the problem of illegal land seizure boils down to a problem of law enforcement. It can be considered a special case of the problem of corruption when a Party or government official takes advantage of his economic or political power to extract payment from the Chinese people. The extent of this case of corruption, as corruption in general, increases when the official has more power relative to the people being exploited and when the economic gain is higher. The degree of discontent increases when the exploited are poor and cannot afford to pay. In the present case, the extent of economic abuse is large because the peasants have very little power relative to the village Party secretary and the economic gain in using the land for economic development can be great. There is much discontent because many farmers are poor and cannot afford to give up their land without adequate compensation.

From the above observations, the problem of land seizure will become less serious if the farmers have more power to protect themselves or if the Party secretary is deprived of his power to extract money from the farmers, and if the economic gain from land seizure is reduced. The degree of discontent will be reduced as the farmers get richer. If rural economic development succeeds the farmers will become richer; they will have more power to protect themselves and they can more easily afford to give up their land with less compensation. The local government officials will also have more revenue from taxation but they may desire and be able to extract even more as the price of land goes up.

A key to the solution of this law enforcement problem lies in the ability to take away the power of village Party secretaries to exploit the farmers economically. The leadership in the central government and in the Communist Party has difficulty in disciplining the rank and file Party members who have established power locally, as shown by the failure to

control the wide spread corruption in China (see Chow (2006) for a discussion of corruption). This explains partly why an explicit policy to discipline the local Party officials is not a part of the No. 1 Document in dealing with the three-farm problem. Instead, the government's approach to protecting the farmers' rights is to extend democracy in rural areas and to organize farmers' associations for self-protection, as stated in the 11th Five-Year Plan and in Zeng (2004, p. 338). The possible shortcomings of this policy are the following. First, building democracy at the grassroots level will take too long for the solution of the current three-farm problem which is urgent. Second, providing law and order is a responsibility of the government and should not be relegated to the people's associations. Third, if currently elected village heads are not able to protect the farmers' rights how can we expect future elected officials to do so?

An effective policy to enforce the law to protect the farmers' rights can be made up of two parts. The first part is a more strict discipline to be applied to Party officials who violated the farmers' rights to land use (or rights to compensation for unpaid wages and for illegal tax levies) and failed to provide them with suitable compensation, together with a commitment of central government to compensate by using its own funds if the local government fails to do so. In 2005, about 45,000 Party members were expelled for misbehavior. The present case of abuse of power can be treated as a most serious offense leading to the loss of Party membership. Since public democratic elections in Chinese villages are wide spread, an offending party secretary can be replaced by the elected village head to serve as the chairman of the most powerful village committee. There is sufficient fund in the central government budget of 340 billion yuan in 2006 allocated for solving the three-farm problem to set up a guarantee, during the next few years and in cases where the local governments fail, to compensate the deserving farmers among the 34 million who lost their land.

The second part is to allow the news media to report cases of abuse to a larger extent than is the case at present. To implement the above policy of applying strict discipline a major requirement is to be able to identify cases of abuse. There are two channels to accomplish this. First, the local courts can identify possible cases of violation that are brought to their attention. Second, the farmers can appeal to the news media if it has sufficient freedom to

publish cases of violation of the farmers' rights. At the present time such freedom is restricted. It is recognized that in China the degree of freedom allowed for the news media is a very important matter for the Party leadership to decide. However, if the leadership desires to solve the third and very important component of the three-farm problem it has to allow more freedom of the press to report cases of abuse openly. If the court realizes the existence of the two parts of the proposed policy stated above it would tend to be fair in deciding on what the farmer deserves in each case.

One might be concerned that this policy could lead numerous farmers to file illegitimate claims, but this is unlikely to happen. Ordinary farmers are in no position to file an illegitimate claim against the more powerful Party officials; they would assert their rights only when injustice is done to them. Furthermore the news media and the courts will render judgments and the farmers in general do not dare to take the risk of filing illegitimate claims. If the claims turned out to be too numerous to handle one solution would be to settle them in an order based on the claimant's income, with the cases of the poorest farmers to be resolved first.

The announcement of such a policy would boost the confidence of the farmers and the Chinese people in general in the central government and would help alleviate the problem of social discontent in rural China. The determined execution of this policy would also set an example of the central government's ability to eliminate one aspect of corruption. The problem of corruption as a whole is not easy to solve but the successful exercise of discipline in one specific and important case would serve as a first step forward in reducing the degree of corruption. This policy could be an important addition to the policies announced by the State Council on February 21, 2006 as stated above.

Why is such a policy not a part of the 2006 No. 1 Document? Perhaps the central leadership recognizes that the violation of the farmers' rights as stated has occurred partly because local government officials need to finance economic development and other responsibilities such as the provision of compulsory education and healthcare that are assigned to them by the central government itself. If this is the case the central government should provide more funds for such local programs, as it is currently doing to some extent,

but in no case should it allow lawless behavior to spread widely. Preserving law and order is a very important function of the Chinese government and should be on top of its list of priorities. Although one cannot expect that the above policy to enforce an important law to protect the rights of the farmers will be implemented successfully in all parts of China within one or two years, its successful implementation in substantial parts of the rural areas within several years will be a great step forward in solving a very important component of the san-nong problem and in “building a new socialist countryside” in China.

6. Comparison with India

When we compare the problem of rural poverty in China with that of India, three important propositions can be made. First, China has made much progress in solving its economic problem of poverty as compared with India. Second, in India the problem of income inequality and relative rural poverty does not exist because there has been no rapid economic growth in certain regions, at least until 2003. Third, the abuse of power by local officials and the resulting discontent of the rural population is not a serious problem in India. I will elaborate on these statements below.

Table 4 (see www.indiastat.com) shows the fraction of rural and urban population below poverty line in selected years in India. The data support our first statement by showing the large fractions of both the rural and urban population remaining below the poverty line in 1999-2000 and the fairly slow reduction in these fractions through the years, in contrast with the statistics shown in Table 3. Since the contrasts in the data are so great the statement is valid even if the definition of poverty line is different for the two countries. Second, if this fraction is used to measure income status (instead of mean income) there does not exist a large income gap between the rural and urban population as it does in China. Note that the fraction below poverty line for the urban population is only slightly smaller than for the rural population. As of 1999-2000, India was still a very poor country as judged by the large fractions (27.1percent for rural and 23.6percent for urban) of its population below poverty line.

Table 4: Incidence of Poverty in India

Population below the Poverty Line
(as per Expert Group Methodology) in India

Sector	<u>1973-74</u>	<u>1977-78</u>	<u>1983</u>	<u>1978-88</u>	<u>1993-94</u>	<u>1999-2000</u>
Population (millions)						
Rural	261.3	264.3	252.0	231.9	244.0	193.2
Urban	60.0	64.6	70.9	75.2	76.3	67
Total	321.3	328.9	322.9	307.1	320.3	260.2
Poverty Ratio (%)						
Rural	56.4	53.1	45.7	39.1	37.3	27.1
Urban	49.0	45.2	40.8	38.2	32.4	23.6
Total	54.9	51.3	44.5	38.9	36.0	26.1

Source: Rural Development Statistics 2002-03, National Institute of Rural Development.
Year: Period of fiscal year in India is April-March. E.g., year shown as 1990-91 relates to April 1990-March 1991.

As is well-known, India did not experience a rapid economic development between 1978 and 2000. This is seen by the fairly slow reduction in the fraction of population below poverty line and by the relatively small rates of growth, relative to China, of India's per capita Net State Domestic Product (NSDP) in constant prices in recent years as shown in Table 5. From the *World Development Indicator* database, one finds that for the year 2004 China's per capita GDP was 5,495 in PPP (international \$) while India's was merely 3,115, showing China has gone much further in its development path than India.

Table 5: Growth of Per Capita NSDP at 1993-1994 Prices in India

(as on 30.11.2004) from 1994-95 to 2003-04

Year	<u>1994-1995</u>	<u>1995-1996</u>	<u>1996-1997</u>	<u>1997-1998</u>	<u>1998-1999</u>	<u>1999-2000</u>	<u>2000-2001</u>	<u>2001-2002</u>	<u>2002-2003</u>	<u>2003-2004</u>
India	4.9	5.2	6.1	2.6	4.4	4.3	2.4	4.5	1.8	6.5

Source: Central Statistical Organization (see www.indiastat.com).

On the third statement that the abuse of power is primarily a Chinese problem, one can cite a number of factors special to China. As pointed out earlier, the abuse of power by local officials who consider themselves rulers over the peasants has its root in Chinese history and the power has increased by the authority given to them by the PRC government. The peasants now have higher income and more economic resources, including the right to use public land, creating opportunities for the bureaucrats to exploit. If the economy were not rapidly growing the market value of the land for use in urban development would be much lower and less worthy of illegal confiscation. All these factors do not exist in India.

7. Conclusion

In this paper I have examined three kinds of statistics on rural poverty and suggested that the problem of rural poverty has three components: income disparity, policy neglect of the central Party and government leadership, and violation of the rights of the farmers by local party officials. After studying the proposed solution of the government I have raised one set of questions concerning possible difficulties in the implementation of the government policy to take away the taxation power of county governments and to eliminate the operational functions of township governments in five years and in the interim not to allow them to operate enterprises as they have been accustomed to do. I have also suggested a policy to protect the rights of the farmers to the use of land contracted to them, to compensate them for the illegal seizure of their land by severe punishment of party officials who violate these rights, and by exposing the violations by giving the news media more freedom. Although the solution of the san-nong problem may take some years economic forces will naturally enrich the farmers in the future as in the past, if social discontent does not seriously interrupt the economic process under a government policy that protects the basic rights of the farmers against infringement by the local officials.

References

- Chen, Guidi and Wu Chuntao (2005). *Zhongguo Nongmin Diaocha (China Farmers Survey)*. Taipei: Dadi (Great Earth) Publishing Company. (In Chinese).
- Chen, Xiwen (2006). “Conflicts and Problems Facing China’s Current Rural Reform and Development,” Chapter 4 in Dong, Song, and Zhang, eds. *China’s Agricultural Development: Challenges and Prospects*. Hampshire: Ashgate Publishing Limited.
- Chow, Gregory C. (2002). *China’s Economic Transformation*. Oxford: Blackwell Publishing Company.
- Chow, Gregory C. (2006). “Corruption and China’s Economic Reform in the Early 21st Century,” *Journal of International Business*, 20, 263-80.
- Dong, Xiao-yuan, Shunfeng Song, and Xiaobo Zhang (2006). *China’s Agricultural Development: Challenges and Prospects*. Hampshire: Ashgate Publishing Limited.
- Han, Jun (2003). “Jiang Tudi Nongmin Jiti Suyou Dingjie Wei An Gufen Gongyouzhi” (Chinese Collective Land Ownership into Shareholder Ownership), *Zhongguo Jingji Shibao (China Economic Times)*, November 11, 2003. (In Chinese).
- Zeng Ye Song (2004). *Xin Nong Lun (New Farm Treatise)*. Beijing: Xin Hua Publishing Company. (In Chinese).
- Zhang Xiabo (2006). “Asymmetric Property Rights in China’s Economic Growth,” DSGD Discussion Paper No. 28, January 2006. Washington, DC: International Food Research Institute, Development Strategy and Government Division.