A New Perspective to Solve the Issues Concerning “Agriculture, Rural Areas, and Farmers” - Economics Analyses and Policy Proposals

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Currently, the consciousness of solving the issues concerning “agriculture, rural areas, and farmers” from their outside is getting more and more fierce, which has caused “overemphasis on urbanization, neglect of rural development.” If the unhealthy trend cannot get rectified in time, not only the knot of “agriculture, rural areas, and farmers” will be hard to solve, but also the “Dual Economy” of city and country will get into vicious cycle and develop in an abnormal way under the new situations. Motivated by this concern and after insight research, the author wrote this paper, which draws three basic but should not be neglected conclusion with the reference of some similar international practice and the employment of related theoretical frame of development economics.

Keywords: Agriculture, rural areas, and farmers, A new perspective, Economics analysis, Policy proposal

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I. Introduction

In recent years such an acknowledgement seems to have been reached in Chinese academy: The solution to the issues concerning “agriculture, rural areas, and farmers” lies outside the countryside. Hence an overemphasis on “transfer labor, advance urbanization” has been prevailing among theorists and governmental policy-
making departments. As early as 1980s, scholars began to do research on how to transfer the surplus rural labors, and put forward some suggestions, such as "local-transfer model," "outside transfer model" and "multi-transfer model." In the 1990s, scholars shifted their attention to the migrant workers in cities and called for the abolition of institutional obstacles and various discriminations. At present stage, there emerges a strong voice, saying that the urbanization process should be quickened with the goal that by the year of 2010, the level of urbanization will be 45% throughout the country.

It is true that the previous research work has produced some very valuable achievements, but both the theory and practice have been trapped by the overemphasis on urbanization. Urbanization, modernization, industrialization, non-agriculturalization, city suburbanization, all are extending, which has greatly damaged the countryside. Just as some scholars said: "Currently China is in the

1Representative works are: Zhu (1983), Hu (1983), Wang (1985), Guo (1986), Zhao (1984), and Mi (1988), etc. The above-mentioned scholars analyzed causes and means of the rural surplus laborers transfer from a variety of viewpoints. There key points are to successfully fulfill the transfer from agricultural population to non-agricultural population, we have to greatly develop commodity economy within rural areas, encourage township enterprises, develop more small-size cities and towns so that large rural laborers away from soil can be absorbed.

2Representative works are: Song (1985) suggested to "combine farmers' employment with population migration and urbanization" from the perspective that "transfer" and "migration" should be carried out at the same time. While Li (1987) proposed that the transfer of labors from rural areas to urban cities was a shared feature of global urbanization. Cai (1985) argued that we should distinguish the agricultural surplus laborers from rural surplus laborers, the former of which belonged to the first level and can be best reemployed with the "away from soil but not from hometown" model, and the latter of which belonged to the second level and can be employed within "away from soil and from hometown" model, and etc.

3Representative works are: Fu (1982) thought that there are two means to absorb and transfer the surplus rural labors in China, internal and external transfer, the latter of which can be further subdivided into macro, neutral, and micro types. Feng and Jin (1988), however, argued that the local transfer emphasized micro economic efficiency, while outside transfer on macro economic efficiency, etc.

4Representative works are: Ke and Li (2001), Lu (2004), Li and Tang (2004), and Yu (2002), etc.

5Currently, China's urbanization is merely 30.9%.
'five-izations period'. None of the five can really benefit without impacting agriculture, impinging countryside, or harming farmers' interest." (Huang 2004, p. 157).

These phenomena are really worrisome. The international experience tells us that many developing countries "have suffered a vicious cycle due to their overemphasis on developing urban industries and other non-agricultural industries and neglect of the rural economy in a rather long time of development. As a result, various economic elements in the countryside are allured to move to the cities and therefore the rural development is unfathomably damaged. The long recession of the rural economy, in return, curbs the development of urban cities, and furthermore, hinders the entire social progress. Meanwhile, the aftermath of the swelling expansion of cities are insufficient housing, traffic problem, tension between supply and demand, severe pollution, deteriorated public security, and so on. The morbidity of cities and the recession of rural areas are closely interrelated, serving each other as cause and effect, forming the deformed dual economies of urban and rural areas." (Xu 2003, p. 34). Evidently, this turns out to be just the opposite of the intention of the reform and opening policy, which therefore truly deserves our due attention.

II. Economic Analyses and Policy Proposals

A. No Neglect of the Development of Rural Economy in the Process of Urbanization

a) The Revelation of Lewis' Dual Economic Model and Its Development

The dual economic model established by the Nobel Prize winner and prestigious American development economist William Arthur Lewis has obtained a classic position in the field of economics. In 1954, he clearly outlined the duality of developing countries' economy in a paper entitled "Economic Development with Unlimited Supplies of Labor." He held such a belief that one characteristic of undeveloped countries was that "small, capitalist sectors" (The capitalist sectors have nothing to do with social systems or ownerships, but refer to the modern industrialized sectors which employ worker, produce profits and reproduce capital.) coexisted with large, yet backward traditional agricultural sectors or...
"self-employed agriculture." One solution he proposed was that economic development should change this dual structure by means of expanding industries with the "unlimited supplies of labor" from the traditional agricultural sectors which can in return gain efficiency after its successful labor transfer. The essence of Lewis’ dual model is to expand industries and reduce agricultural departments under the condition of unlimited labor supplies. Chinese economy is a typical “dual economies,” having abundant surplus labors in the countryside which, in this sense, is in the condition of “unlimited supplies of labor.” Just due to this superficial similarity, many Chinese scholars consciously or unconsciously copied Lewis’ labor transfer model and simply thought that as long as the laborers can be transferred, the dual economies can be transformed into the unitary economy.

Later, American economists Ranis and Fei emphasized the significance of enhancing agricultural productivity (in both processes of economic shifts, including a shift from agricultural economy to dual economies, then the other one from dual economies to modern economy, the acceleration of agricultural productivity is the very prerequisite). They insisted that “Any undeveloped economy that intends to speed up its industrialization will unavoidably encounter enormous difficulties, if it ignores the necessity of agricultural revolution which should be done beforehand or at least at the same time as those in other sectors. Therefore, we should be strongly conscious of the fact, that whatever success standard that is simply reflective of the labor absorption capacity in industrialized sectors is purely an index of the labor release capacity in agricultural sectors.” (Fei and Ranis 1992, p. 12).

As a matter of fact, in the book entitled “The Evolution of International Economic Order” published 1978 (Lewis 1984), Lewis himself repeatedly demonstrated the significance of agriculture in developing countries, pointing out that this was an important, yet easy-to-ignore fact. Agricultural revolution is the prerequisite of industrial revolution, and thus must take place not later than industrial revolution; industrial development is conditioned by agricultural production situations, and thus the size of industrialized sectors is the function of agricultural production situations. For instance, the late 18th century industrial revolution started from Britain which had the highest agricultural productivity:
in Western Europe and North America where agriculture was undergoing revolutionary changes, industrial revolution also rapidly expanded; in the countries where agricultural productivity was low and the scale of industrialized sectors were small, industrial revolution was also progressing slowly.

b) Policy Choice for Strategic Rectification

Some common international practice shows that, when a nation's individual GDP reaches 800-1000 Dollars, namely when it enters the middle stage of industrialization, its industry begins to compensate its agriculture.

Since a long time ago, Chinese financial policies have been favorable to the cities. Calculated according to WTO agreements, Chinese financial support to agriculture from 1996 to 2000, including the outlay for supporting the development of destitute areas and the price subsidy of grain, cotton, oil, and sugar, is 108.3 billion Yuan, 126.7 billion Yuan, 182.6 billion Yuan, 170.9 billion Yuan, and 2,200 billion Yuan separately, which takes 4.9%, 5.3%, 7.4%, 7%, and 8.8% of the gross agricultural product in each related year. In comparison, the number should be about 30-50% in developed countries, and 10-20% in developing countries, if calculated in the same way. Among the 12 "Green Box" measures allowed by WTO rules, China has taken six of them (ordinary service expense of the government, food security storage, domestic food supply, natural disaster supply, ecological environment protection, and regional development supply). Presently the "Yellow Box" subsidy of the Chinese government takes only 3.3% of the gross agriculture products, 5.2% less than the negotiated percentage of 8.5 (Chinese Research Group of the Situation of "Agriculture, Rural Area, and Farmer" Problem 2004, pp. 125-6). It is obvious that the government should adjust the cities-favorable financial policy, increase investment in agriculture and rural areas, and make effective plans for the coordinated growth in both the cities and the rural areas.

"The Resolution of improving the socialist market economy of CPC Central Committee," which was passed in the Third Session of the 16th Central Committee of the Communist Party of China in 2003, first put forward the strategical ideology of "the coordinated growth in both the cities and the rural areas." Further points were stated in the Central Committee Economic Meeting held in Beijing from
December 3, 2005 to December 5, 2005: There would be no change of the executed policies and no reduction of the benefit for farmers. Starting from the increasing of the integral productivity of agriculture, more powerful measures should be adopted to strengthen the construction of rural infrastructure and to improve the production and living conditions in the countryside. Generally speaking, China has now developed to the stage of driving agriculture with industry, driving the development of rural areas with the power of cities. We should conform to this trend, regulate the pattern of our national income distribution self-consciously, and support the development of "agriculture, rural area, and farmer" situation actively. More attention should be paid to agricultural development from an overall point of view. All the members of the Communist Party and the whole society should be aroused to support agriculture. What does such a clear voice implicate? It shows that the Chinese government will place more emphasis on the development of rural economy in order to solve the problem of "agriculture, rural area, and farmer."

B. In the Process of Transferring Rural Surplus Laborers, We "Must Not Ignore" the Establishment and Development of the Market of Transferring the Right of Farm Land Use

a) "The Hypothesis of Zero-Value Rural Labor" Does Not Conform to the Chinese Situation.

Lewis' model of labor is based on the hypothesis that there is concealed unemployment in the agriculture of developing countries. In these countries, as the population increases very fast, the labor supply in agriculture is comparatively too much according to the supply of capital and land. Thus effective productivity of the labor force is rather low. It is even zero or negative. This viewpoint of concealed unemployment is also called "the hypothesis of zero-value rural labor." If the rural laborers with zero contribution are transferred to other industries, under the condition of no change of other elements, there will be no influence on the agricultural output. "The hypothesis of zero-value rural labor" has been criticized by some scholars. One of the most representative criticisms is from Theodore, W. Schultz, the famous American economist. In his "Transforming Traditional Agriculture" (Schultz 1987), on the one hand, he pointed out that the above hypothesis
had no reliable theoretical foundation; on the other hand, he challenged that hypothesis with experiences and facts in some developing countries. Among them, an incident in India was one of the most powerful evidences he had provided. In 1918-9 influenza exploded in India. At that time about 20 million people died, which was about 6% of the Indian population in 1918. Among them the death rate of the rural laborers was about 8.3%. Then what was the impact of abrupt reduction of rural laborers on the agricultural productivity? If we adopt “the hypothesis of zero-value rural labor,” there would be no decrease of agricultural productivity in spite of losing that part of laborers. However, the fact was not in favor of that idea. The data shows that, as the rural laborers were reduced by 8%, the Indian planting area in 1919-20 was 10 million acres smaller than that in 1916-17, with a reduction rate of 3.8%; at the same time, the agricultural productivity was decreased by 3.3%. The reduction rate of the planting area is small in the areas of low death rate, but big in the areas of high death rate (Cai 1990, pp. 11-4).

The Chinese situation can be stated as “the restriction of resource, and the antagonistic relation between the cities and the rural areas.” Facing the fierce conflict between people and land, responses have been made through the family-contract responsibility system, such as sharing the land equally in order to help settle down the massive rural laborers. For such a long-term and relatively stable pattern of element distribution, the transferring out of a part of laborers and the redistribution of elements will inevitably cause a time lag, thus a temporary reduction of output.

Thus, the problem of “how can we shorten this time lag” can not be neglected in the process of urbanization.

b) Establish the Land Market for Its Fluent Timely Transfer

At present Chinese agriculture is in the process of transferring from the traditional agriculture to the modern agriculture. With the speeding up of market-orientation, urbanization, industrialization, and modernization in rural areas in recent years, more and more rural surplus laborers are transferred to other industries.

Nowadays in China “there are 600 million laborers in rural areas. While only 100 million of them are needed for agricultural production, the absolute surplus laborers are 400 to 500 million.” (Wen 2004, p. 14). If we adopt “the hypothesis of zero-value rural
labor," there would be no decrease of agricultural productivity in spite of transferring the surplus part of laborers out - many scholars in Chinese academic field hold this viewpoint - this is in fact a big mistake. Since the 1980s, there have been some noticeable phenomena in the countryside of the developed seaside areas in China: With the development of non-agricultural industries there, a large number of farmers turned to the secondary and tertiary industries, which became the major source of their income, while the agricultural income became insignificant to them. Thus, the farmers, who earned their living mainly through non-agricultural industries, had no interest in cultivation. This had such aftereffects as the waste of farm land and the phenomenon of diversified management, aging problem and feminization. Later, this phenomenon appeared all over the country with the transfer of rural laborers. In recent years, the supply of grain has been in short compared with demand.

This shows that if no timely corresponding reform on Rural Land System was made to reduce the time lag of factors reallocation with the shift of the rural excess labor force, the agricultural development will be severely affected despite the excess labor force in our countryside.

The similar case had occurred in the course of agricultural modernization in developed countries, for example, the phenomenon of diversified management, aging problem and feminization was very serious in the post-war France and Japan. Their measures to settle this problem deserve our learning. France passed related laws and founded companies of Land Reforming and Farmer Reemployment (companies making use of national funds to purchase land and then after renovation transferring it to farmers who needed it). 1962 saw the passing of Complementary Laws of Agricultural Guides which stipulated the policy of issuing life annuities for farmers who had terminated farming (Xie et al. 2000, p. 82). This policy, on the one hand, solved the aging problem and prevented the feminization of agricultural population, compelling them to give up their farms which were taken over by strong young laborers, and on the other hand, it facilitates the promotion of diversified management and land consolidation. In Japan this problem was settled through land leasehold, entrusting management and land marketing. The experiences of these two countries can be summarized as one point: Taking effective steps and maintaining
the timely, smooth circulation of land.

Similarly, China should develop land-use circulation market as soon as possible. On this point, some scholars think that the current land market cannot develop in a healthy way because of farmers' lack of property rights under the collective-owned land system. So they advocate the land privatization which is considered to be able to promote land price with the increase of land property stability. The farmers can acquire the needed fund and go to make a living in cities and towns by selling out their land. This may benefit the flow of labor force and may promote the speed of land circulation consolidation as well (Yang 1994). But the author's standpoint here is very obvious: Giving the land reforming option to the farmers. Up to now, the mass farmers have founded varieties of land use systems such as land stock-joint system, substitutive farming system, and land leasing system, among which land stock-joint system is the most representative one. “As a substitute, this system can be regarded as the realization of collective-owned land system under the circumstance of market economy. It is not incompatible with the existing national laws and policies, and therefore easy to be accepted by our government and also simpler to be operated than land privatization system.” (Niu et al. 2004 p. 63). To stabilize land use or to operate it flexibly is a precondition for the healthy development of land market. Land use rights maintaining to be changeless indicates no change forever. There had been successful international cases of such similar property management long before. For instance, since 1066 in Britain, all the land had belonged to the king (the whole country) in law. Individuals and private organizations only had the right to land use (Balchin and Kieve 1982, pp. 6 and 122). But they had the freehold rights of land, that is, had the freedom to dispose the land as long as they would not violate any land laws and land planning rules as well as other people's interests. Though China's land management system shares some similarities with Britain's national-owned land system and authorized land-renting system, yet the land users in Britain have the freehold rights of land. This is the key for the development of land market and for the good circulation of land use, worthy of being learned.
C. No Neglect of the Expanding of the Employment Space within Rural Areas in the Course of Reallocating the Excess Laborers Both in Cities and Countryside

a) Excess Labor Force Existing Both in Cities and Countryside

According to Lewis Labor Force Shift Model, if more salary is offered by a non-agricultural industry than farming, the excess laborers will flow into cities and towns continuously. Economic development course is actually one driving rural excess labor force to cities and towns. In fact, this assumption does not conform to China's actual situation. The unemployment and under-employment phenomenon exists not only in countryside, but also in cities. So the economic development is presupposed by the employment of the excess labor force both in countryside and cities. The rate of urban population is much higher than that of the employed in industries.

The American economist Michel Todaro built the Rural and Urban Labor Force Shift Model. The starting point of this model is that the policy of rural labor force shift to cities was made in accordance with the optimization of prospective earnings. It gives an answer to why the excess laborers in countryside neglect the risk of urban unemployment and covert under-employment and continues to shift to cities.

b) Expanding the Employment Space within Rural Areas, Developing Township Enterprises on a Large Scale

Then how to solve this problem? Todaro proposed the economic developing strategies beneficial to employment of laborers through eliminating the distortion of element price. He maintained that labor supply in developed countries was much richer, and therefore the price was relatively low; on the contrary, capital supply was not sufficient, and therefore its price was relatively high. So in order to reduce the capital-intensive industries of twisted element price, these countries need to develop labor-intensive industries, encourage comprehensive development in the countryside and absorb more rural excess laborers.

Experiences of the international countries demonstrate that the industrial structure of those countries or regions which have a larger population but are poor in land size and capital must undergo the transfer from the resource-and-labor-intensive economy to the technology-intensive economy. This is the general law for
industrial development. Japan sustained 80 years of labor-intensive industrial development, and Taiwan of China 40 years. Korea maintained 20 years of labor-intensive strategies for products export.

For a long time, China was lagged behind in science and technology, lacking capital for construction, but richer in labor force. At present, China is in a transitional period to the metaphase of industrialization. The labor force is still characterized by infinite supply, and the contribution of labor-intensive industries to the economic development as well as its great potential has not been entirely exploited.

In view of these points, the author claims that China should exert the comparative advantage of factors of production, develop labor-intensive township enterprises on a larger scale, and expand the employment space within rural areas. This is the very important strategy to transfer rural excess labor force.

First of all, the government should establish favorable policies and markets for the development of labor-intensive industries, offering legal guarantee for its sound progress, maintaining its legal rights and interests, broadening the Revenue Authorizations, the Examine and Approve Authorizations as well as administration regulations, and encouraging non-public-owned economy to develop labor-intensive industries on a larger scale as well.

Second, the traditional labor-intensive industries are to be innovated with such advanced soft factors as human capital, information and technology.

It should be encouraged to use high-level factors such as manpower capital and information technology to develop new labor-intensive industries and find in technology-intensive industries those sections and working procedures which could be replaced by intensive labor.

Third, reasonable financing channels should be developed actively. The capital support for labor-intensive industries, including financial support and credit support, should be strengthened. An effective system adopted by many countries, namely, to provide subsidy for those labor-intensive corporations which have provided considerable jobs, is a successful experience worth our borrowing. The government should set up special funds to support the technological researches and developments needed by the labor-intensive corporations.
In addition, comprehensive developments in countryside should be carried out to open up the employment space in agriculture itself.

(1) Enhance the infrastructural construction in agriculture. So far, the situation that agriculture in most villages of China still depends on the weather has not yet changed fundamentally. Infrastructural construction is needed urgently. This project will absorb a large number of surplus labor forces in rural areas.

(2) Promote the development of agriculture rigorously. "Although there is only 130,040,000 hectares farming land in our country, the area of grass land is 400,000,000 hectares 313,330,000 of which can be used directly. Furthermore, there are 263,290,000 hectares land of forestry, 9,350,000 hectares water area of aquaculture, and 108,000,000 hectares wasteland. Of the wasteland, 35,350,000 hectares could be used for farming, and 53,930,000 for forestry. Therefore, the land area that could be used in this century is at least over 910,680,000 hectares, among which the farming land only accounts for about 14%. However, the present land used for agriculture in our country is limited to farming land. By 2001, the national productive value of farming industry accounts for as high as 55.25% of the total value of farming, forestry, stockbreeding and fishery." (Hu 2004, p. 87). Obviously, if we develop the resources mentioned above in a comprehensive way, the surplus labor forces that could be absorbed will be considerable as well.

(3) Enforce agriculture industrialization energetically. Agriculture, which centers on animal and plant, is the summation of all contents in the three fields of before, during and after production. Through the extension of industrialized chain, a large number of surplus labor forces in rural areas could be absorbed, which has been proved by many examples all over the country. Beijing Dafa Zhengda Ltd. is a typical example. The product structure in this company is centered on chicken, and extends continuously in industrialized chain. Now more than 100,000 people are directly or indirectly engaged in a long-term way with the company's production and operation along its industrialized chain. The company has supported the development of over 70 stockbreeding associations, signed contract with over 5,000 stockbreeding farmers and 180,000 cultivating farmers. The productive value for these breeding farmers is 910 million Yuan, and their net income is 67.5-90 million Yuan. The annual income of those associations is
8.4 million Yuan (Huang 2004, p. 188). This mode of industrialization not only absorbs largely the local rural labor forces, but also becomes an important way for local farmers to increase their income and make money.

III. Final Remarks

It must be stressed here that a correct understanding towards the three basic arguments that allow no neglect is needed.

A. About the Neglect of Economical Development in Rural Areas

Some scholars think that we have not ignored the development of rural economy. The issue of grain supplies has always attracted the attention from all social circles in China and has quite often become the topic of front page news. Without any doubt, this is an issue which has strained the nerves of various people and occupied a rather significant position in government strategy all the time. The key point is that why this issue is still an intractable problem afflicting China. The reform of China was started from the countryside, but compared with the economic reform and urbanization process of cities, the rural economic development has always been overlooked: The systems which block the agricultural development are still not eliminated, and there remains a lot of deep-seated contradictions that restrict the development of agriculture and rural areas. If we overlook this in our process of promoting urbanization, a malformed and morbid "new binary economy" is sure to be generated, which is the absolute opposite of what we want.

B. About the Neglect of Cultivating and Developing the Turnover Market of the Farmland Access

Most scholars may think this phenomenon does not exist. The reasons are as follows: First, many modes of land turnover have already appeared in various places; second, there are countless books and papers on land turnover now. However, all these do not mean that along with the transfer of a large number of rural labor forces, the market of land turnover has already been cultivated in advance and caught up with the situation in time. In fact, many
places still lag far behind. This is clearly proved by two phenomena which are quite common to see all over China: First, lands lay idle; second, more and more old men, women and children are taking the place of men in agriculture production. This may also be an important cause of the “demand exceeding supply” in grain production in recent years.

C. About the Development of the Interior Employment Space in Rural Areas

Undoubtedly, it is the universal rule worldwide to transfer the surplus rural labor forces into the cities. But the crucial point is that in both rural and urban areas of China there is a large amount of unemployment and employment deficiency. It is because of such a special background situation of China that this paper points out that we should actively develop the employment space in rural areas instead of passively waiting for the development of cities and industries.

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The Following-up Investigation Program Team on Problems of “Agriculture, Rural Areas, and Farmer” in China. and The


