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The Crafting of the Dengist Rural Development Strategy in Post-Mao China: 1978-88

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Abstract

From the late 1970s for almost a decade post-Mao China witnessed momentous rural reforms. The focus on rural development emerged as it was no longer tenable to raise agricultural production with efficient costs and obtain a higher proportion of it for urban industrial supplies without attending to the peasants' interests and aspirations for a better standard of living. Any further muddling through the situation could have been politically costly for the party state. Post 1978, under Deng Xiaoping's leadership a new rural development strategy was therefore devised, which was markedly different from the earlier Maoist strategy. This paper explores the course of the rural reforms since the Third Plenum that witnessed swift de-collectivization once reforms in the commune system were initiated and examines the party-state's response to reforms induced emergent problems, to finally argue that under Deng's leadership, the new framework of rural development that was instituted was informed by a logic of privatization, within the socialist economy that Mao had built. Contemporary China's economic rise can be traced to these reforms.

Keyword: Agriculture, de-Collectivization, Peasants, Post-Mao, Privatization, Rural Development.

INTRODUCTION

From late 1970s for almost a decade China witnessed an increasing concern and engagement of its party-state with rural development. The focus on rural development emerged as it was no longer tenable to raise agricultural production with efficient costs and obtain a higher proportion of it for urban industrial supplies without attending to the peasants interests and aspirations for a better standard of living. Moreover, any further muddling through the situation could have been politically costly for the party state. Post 1978 a new rural development strategy was therefore devised, which was markedly different from the earlier Maoist strategy.

The shift in the development strategy came not because central leadership had become more sympathetic to the concerns of rural-interests groups or rural representation had increased in policy circle. Those responsible for effecting change were not a radically new group that clearly represented peasants interests (Oi, 1995). A change in rural development strategy favouring peasants interest was instituted for systemic reasons (White, 1993). But then, systemic reasons alone cannot explain the change, for those reasons were already present during Hua Guofeng interregnum (1976-78), yet the rule did not mark any major departure from the Maoist political economy/developmental model (Riskin, 1987). It required the genius of Deng Xiaoping leadership to grasp the systemic problems and provide systemic solutions (White, 1993). Thus, the real departure came from the Third Plenum.

This paper explores the course of the rural reforms since the Third Plenum, and the rationale of the changes in policy and institutions during the first decade of Post-Mao reforms. It begins with delineating the issues before the policy makers, and proceeds to examine the changes in macro-economic policies and rural institutions for addressing the issues. Further the paper looks at some of the problems that arose in the course of early reforms particularly with the onset of de-collectivization process, and the state's response to the emergent problems, to finally argue that under Deng's leadership a new framework of rural development was instituted informed by a logic of privatization, within a socialist economy.

Issues on the table of policy makers

To put it pithily, the issues before the policy makers were mainly related to increasing inefficiencies and sluggishness in agricultural growth , difficulties in procurement of foodgrains and other products, and the low and stagnant standard of living of the peasants. According to one estimate, between 1957 and 1977, total per capita income of peasants measured in 1977 yuan ,rose only from 102.8 yuan to 113 yuan or about 0.5% per year (Wong, 1985).

Failures of improvement is peasants' standard of living had left them dissatisfied and peasant-party-government relationship had come under palpable strain (Oi, Reform and Urban Bias in China, 1995). Difficulty in procurement of grains was one manifestation of the growing tension between the peasant and the party-state. Kenith Walkar (1984) shows that between 1953-57 and 1977-80 procurement declined as percentage of total output from 17.1% to only 14.7%, although there was an increase of 50% in absolute amount procured.

In any case peasants were chaffing under the commune system- its many institutional restrictions. As White points out, 'Peasants were under three kinds of subordination: [1] subordination to the over-riding priority of national (and regional) industrialization, through mandatory procurement quotas at very unfavourable prices,[2] subordination to the primacy of accumulation over current consumptions enforced by the communes high investment regime, and [3] subordination of households to collective accumulation , enforced by the basic accounting units' (White G. , 1987). They were also disgruntled because their economic freedom was circumscribed in many ways: the system of household registration (Hukou), restrictions on private-production, household sidelines, private exchanges, restricted markets, private consumptions and so (White, 1993, p. 98) . Institutions that were supposed to work for rural development in peasants interests had turned into state's vehicles for facilitating surplus extraction from the country side for industrial development.

Moreover, peasants felt that although they had significantly financed and laboured for the development of the agricultural sector, the gains of the growth thus realised were disproportionately taken away by the state through what Jean. C. Oi called, 'defining the surplus' (Oi, 1989), leaving little for them.

Such dissatisfaction in turn had affected peasants' production and work incentives, which in turn became one of the important reasons for sluggish agricultural growth. To be sure there were other factors for sluggish growth such as misallocation of resources stemming from direct planning in agriculture and the concomitant policy of 'taking grain' as the key link (Lardy, 1983), but peasants lack of incentive was fundamental. It was mainly because of weak production and work incentives of the peasants that China had failed to take advantage of the productive opportunities which had been created during the Maoist era through investments in infrastructure, irrigation, and modern inputs.

By the time the Third Plenum was held, China found itself in a situation where realising agricultural growth commensurate with input application and investments had become increasingly difficult, and the agricultural growth rates were neither adequate for the expanding requirements of the urban populace, nor to fulfil the consumption needs of the rural population itself, which nudged the state countenancing difficulty in procuring enough foodgrains to resort to food imports (Lardy, 1983).

For getting out of this vicious circle built into the situation wherein low standards of living created low production and work incentives, which in turn negatively affected improvements in productivity and pulled back growth in real incomes, the reform leadership adopted a new approach towards the rural sector. Unlike the earlier approach, which was extractive , the new approach was developmental- 'instead of 'draining the pond to catch the fish, the better way was to tickle the trout out of the water' (White, 1993).

Strengthening Production Incentives: Macro-Economic Policy Changes

The reforms began with strong focus on strengthening the production and work incentives of the peasants. This required changes in both the macro-economic policies as well as rural institutions. Over a period of ten years many more reforms were effected giving rise to a distinctively different framework of rural development.

One of the important decisions that Third Plenum took was the decision to increase the procurement price for agricultural products. Procurement prices were sharply raised across the board. The quota price for grains was raised by 22% and that of oils crops, sugar crops, cotton, animal products by 26%,22%, 28% and 23% respectively over the 1977 level (Sicular, 1993). Little later in early 1980s quota prices for livestock products , fruits and economic crops were also adjusted. These quota prices revisions were taking place after 10 years.

In 1979 bonuses for above quota deliveries too were increased- 30% for grains and oils , and 50% for cotton (ibid,57). Price bonuses were increased for other farm products as well. For peasants the effective prices improved further due to several 'encouragement sales' programmes (*Jiang Shou*) which offered peasants low priced inputs for delivery of farm products to the state (ibid,63).

The government also carried out reforms in the production and commercial planning within the basic system of direct planning , under which mandatory product targets were sent down from the central planners to the production team, and mandatory procurement system, till 1984. The number of farm products and the number of targets of production planning , including mandatory targets, under production planning were cut down. . In 1985 the central government did away with mandatory productions targets. (ibid,53).

Other targets were to serve only as 'guidance' targets, to be set keeping in mind local conditions of soil and weather, and economic interests of the peasants (ibid,53). This was done to promote regional specialization, improve allocative efficiency, and help producers raise their income through economies of comparative advantage.

The scope of procurement planning was also reduced gradually. First, quota for grain and some other products, were lowered. National grain quota and tax saw reduction by 20% between 1978 and 1982 (ibid,63). Such reduction allowed collective units to reallocate some sown areas away form grains to more profitable economic crops, and enabled peasants to receive higher prices from selling a higher proportion at above -quota prices. Second, the number of farm products under planned procurement was reduced from 46 to 22 in late 1982 and to 12 in 1984 (ibid,63). The number of products outside

mandatory procurement plans thereby, increased for sale in local markets. From early 1978 government had started encouraging revival of rural fairs . Thus, it further strengthened peasants opportunities to raise their incomes.

Institutional Reforms

The Deng leadership took up reforms in the commune system. The reforms had become necessary in order to improve labour management, supervision and payment system so that rewards could be as closely ties as possible to the labour and quality of labour put in by peasants. The problems in communes had emerged due to 'commandism' and 'egalitarianism', which were not intrinsic but were consequences of state's extractive macro-economic policies. As state's macro-economic policies began to change , it was only natural that 'commandism' and 'egalitarianism' would be subjected harsh repudiation.

Institutional reforms began with strengthening the functional autonomy of the production teams (the basic unit of production and distribution). The Third Plenum strictly forbade the communes and brigades to commander resources of the production teams without their consent and compensation. This meant the earlier hierarchical relations within the commune were now to be replaced by contractual relation. Second, the production team was made the basic accounting unit once again supervening the decisions of many communes taken during the cultural revolution decade to make brigade the basic accounting unit. Third, the average size of the collective unit was reduced. This was done by increasing the number of Production Teams. By 1981 the number of Production Teams increased by 25% over 1978 (Khan & Lee, 1983). The size of collective unit was reduced because it was noted that problems of labour management/supervision and related problems of devising suitable payment system were more than the advantages of the economies of scale (ibid,102). Fourth, and by far the most momentous reform was the institutionalization of the Production Responsibility System (PRS), for obviating difficulties related to organization of labour and finding appropriate system of rewards for work within the commune. The PRS could to link payment and production as directly as possible. Under PRS the responsibility for the output would be with a group, or a household or an individual, who would have to bear the consequences of both the shortfall or over fulfilment of a norm that was a reasonable. This would take care of the problem of supervision, labour management, input application and work and production related decisions.

The PRS assumed a variety of forms. Under the '*baochan daozu'* system work-points, inputs and output would be agreed to by work groups and the Production team , and there could be bonus for over fulfilment. Planning, control over tools and draught animals irrigation, farmland construction, and distribution of income remained in the hands of the Production team, except that the division of work points among the members of the work group was now left to the group (Riskin, 1987). *Baochan daozu* , till September 1980, when Document No. 75 was circulated and permitted other forms, was the only officially approved form of PRS. Contracting of output between production team and individual households was not officially permissible. The government Regulation said: "It is forbidden to fix output quota or to distribute the land according to the individual households"(ibid,286)

From Reforms in the Commune to De-Collectivization

Even before the Third Plenum met in 1978 in some parts of China peasants had devised some locally convenient different forms of organization. This experimentation with forms paved the way for the

introduction of contracting to individuals , and individual households, which later became the most pervasive form of PRS. The central government gave approval to household responsibility system (HRS) via Document No.75, in September 1980., but it was only for those areas ,poor and backward, where population had lost confidence in the collective. The Document No.75 , however, also approved such cases of household contracting 'where household contracting had already been carried out and found satisfactory'. After the release of this document, HRS spread very rapidly. If prior violations could be condoned, why not the future ones? By November 1983, according to Beijing review 98% of all accounting units had adopted the HRS (ibid,290). In its swiftness of adoption it was comparable to the high tide of socialism. There is, however, a debate if this was a top down process or a bottom -up one. Document No.1 of 1983 and 1984 not only ratified the emergence of HRS as a universal type but also made explicit the Party's endorsement of HRS as a framework of production that was to stay for the good.

There are many and differing explanations for changes in the policy from initial prohibition to sanctioning /ratifying developments that had already taken place to explicit promotion of household contracting system. One explanation for this obviously is the reported groundswell support for the HRS, which the reform leadership possibly couldn't ignore. This explanation seeks to reconcile a bottom up process with a top-down process, referred to earlier. Another explanation is related to lack of consensus within the reform coalition: while 'conservatives' still maintained the collective framework to be valid but in need of some reforms within he commune system, and 'radicals' advocated that income distributional forms should be commensurate with the levels of the forces of production and that a suitable form that enthused peasant to produce more was also the advanced socialist form. With the ascendency of the 'radicals' in political setup; the cautious initial endorsement of only production responsibility gave way to open encouragement to HRS. There is yet another explanation, that views the changes in policy in terms of state's perception of how the form of institutions is related with states prospects of obtaining the required marketable surplus. In this view that institutional form is best that yields the maximum in a given situation (condition), appropriable marketable surplus for the state (Naughton, 1995).

In the main there were two forms of HRS : [1] *baochan daou* (BCDH)- 'contracting output to household' and [2] *baogan daohu* (BGDH) –'contracting everything to the household'. In the first type BCDH the household would contract to the team to farm a particular area of land and a proportion of the output in return for an agreed work-point payment. The land was allocated according to the number of people in the family often weighted according to the number of labour powers.

Under this system each family would be given a share in good , average and poor land. The division of fields in family strips physically resembled the medieval manor system. Family could retain any surplus after meeting its contract obligation of supply with production team for its own dispossession, and in case of not fulfilling the contract (i.e. deficit) the household was to be penalised. Current inputs (fertilizers, seeds, pesticides) could either be provided by the team or by the household itself-usually it was the household. As for collectives assets such as large implements, draught animals, machinery these could either be collectively managed or could be divided among the families or groups of families . Plans, for planting, irrigation and some other services were under the control of the team. And the value of work points remained as before, dependent on the total team net income.

The second form BGDH, was a more radical system. Under this form collective management was done away with, and so was system of work point distribution. It resembled the first in the method of land

distribution. As for draught animals, farm tools, and other equipment the households divided all of these things amongst themselves. In few cases families shared the draught animals. There were also cases where each household would have its own draught animals. The Team retained planning authority in setting sales quotas and tax obligations for households. After meeting its sales and tax obligation and paying a contribution to the team to maintain some collective services, the household had freedom use the output as it wished. While planning production households could keep in mind its sales quota obligation, consumption requirements and capacity to produce beyond quota obligation for higher , whereas in the BCDH, there was collective arrangement of distribution even as privatization of production took place, In the case of BGDH, there was both privatization of production as well as distribution. Of the two forms, BGDH emerged as the dominant form. It spread rapidly after 1981 and emerged as the main form of PRS.

Collectives through control over sales quota, and collective assets such as irrigation and other resources could still, theoretically speaking , exercise power and direct production. But that was not to be. Very soon collectives became empty shells of their former selves.

BGDH, has been likened to tenant farming with the collective and state as the landlord by a number of analysts (Riskin ,1987 ; Khan & Lee, 1983). Peasants obtained control of land at a fixed rent (agricultural tax plus contribution to collective plus the tax implicit in low-priced quota sales). As every household had a right to land, BGDH was also a guaranteed tenancy. Another notable feature was that as access to higher prices from increasingly above quota, higher levels of negotiated and free market sales was possible only at increasingly higher levels of output , the increased productivity could bring households a more than proportional increase in income.

Emergent Problems in the Midst of Rural Reform

Peasants responded enthusiastically to the macro-economic policy and institutional reforms. There was a phenomenal spurt in agricultural productivity and output across the crops, beyond expectations of the policy-makers. The board improvements in output of both grain and non-grain crops rebuffed Maoist grain self-sufficiency policy. But there was also worries as the rate of marketing of foodgrains through state channels had increased only modestly in response to the new changes, there was a decline in net sown area between 1979 and 1982 by 6 % (Riskin, 1987), and quota fulfilment had declined because of quota evasion from 94.6% in 1979 to 80% in 1981 (Sicular, 1993). Peasants evaded quotas by clever devices such as saving outputs from several harvests and then delivering it together, or several households combining their outputs and then transferring it to one for turning in to the state. All these tactics were fetching above quota price benefits. In some cases quota evasion took the form of switching land from crops with relatively high quota to those with low or no quota (ibid,65).

The state responded to the emerging situation by sending down injunctions that grainland planted with low-yielding but high income economic crops should be returned to food production (Ash, 1992). The government also opened up a new price counter of "negotiated price" for above quota sales in order to shore up the profitability of agriculture and maintain state procurement. This was especially relevant for areas where the new sidelines were doing very well and with opening of markets policy makers feared transferring of resources away from agriculture (Sicular, 1993). As a result, grain sown area stabilised by 1983-84 and state succeeded in the procurement of foodgrains. Between 1977 and 1984 state procurement of foodgrains had doubled (ibid,64).

The success on the agricultural front however created new problems for the state, as it was under obligation to buy all that peasants wanted to sell at above quota prices. Once peasants started offering ever increasing supplies, the government was caught a conundrum between its obligation to peasants to pay above quota prices on one hand and heavy financial burden of procurement and maintenance of foodgrain stockpiles , and even budgetary loss on state commercial activities as retail prices remained the same, on the other. Subsidies for grain, oil-crops, oils, and cotton continued rising and were equal to 12% of the government revenues in 1980 and 17% in 1982 (ibid,66). One way to deal with loss was to increase the state retail price, which had remained unchanged since late 1960s, but the regime was reluctant as it could upset the urban workers. Yet it could not ignore the rising subsidies because it was impairing state's capacity to raise the level of investment in the rural sector, and it made the reform leadership look at government's commercial policies and procurement system for mitigating its subsidy burdens.

The new situation threw up some new areas of concern. For raising agricultural growth state price incentive was no longer the lever. For pushing growth, as Ash points out , reforms in market , relaxation of procurement planning ,and circulation system were needed (Ash, 1992). At the same time the de-collectivization process had created new set of problems. For instance the distribution of collective land among the households under HRS, given the fact of adverse land man ratios, had led to situation where each household received only a small piece of land (1.5 acre) , and that too fragmented into tiny plots (9) on average. Further, the rules governing land contract did not permit peasant to rent or buy or sell or transfer or abandon the contracted land and hire other people to cultivate it either. Land consolidation for modernization was thus effectively ruled out. Further, the uncertainly of the HRS, the short-ness of the tenure and the risk that a tract of land may not be reassigned to the same household in the next contract reduced incentives for investment in land improvement such as maintenance of land fertility. In fact, there was a predatory use of land by its new occupiers, who afraid, it would be taken away again, treated it as a short-run asset and failed to replace soil nutrient or to invest in improvement (Bill Brugger, 1994).

Further as BDGH spread across countryside, question related with the future management and ownership of the collective means of production emerged. There was lot of confusion as the process of transition was very swift. The collapse of commune precipitated collapse of such specialised offices as water conservancy management. In July 1982 water conservancy system remained in existence in only half of the communes (Kojima, 1993).

Two other issues created anxiety for the reform leadership. The first was the 'rediscovery' of labour in the agricultural sector, occasioned by the efficient labour use on family farm under the HRS. The rural labour surplus was estimated to be between one-third to one-half of the total labour force in many areas (Lin, 1983). As such an enormous surplus could not have been accommodated in the urban sector, and therefore, their placement had to be found within the rural sector- "leave the land but not the village" (Ash, 1992).

The other worry was decline in investments. The increase in state investments in agriculture from a low of 10.7% in 1978 to 14% in 1979, could not be sustained. As against a proposed increase to 18% during 1980-82, the actual allocation was in the range of 6-7% due to 21% decline in the state construction budget in 1981 (Stone, 1984). The long term investments by collectives had started to decline with the onset of de-collectivization, as labour accumulation, access to surplus via work-point system, and collective retention for productive investment became difficult and threatened (Watson, 1989). Private investment in farmland also did not pick up contrary to expectation with increase in peasants income.

State's Response: Towards a New Framework of Rural Development

In the main the Deng Xiaoping's leadership paid attention to three interrelated areas for further reforms : [1] Strengthening of the HRS for agricultural development, [2] Development of commodity production so that peasant could make a smooth transition from 'producing for the state solely' to 'producing for the market' , and [3] Diversification of the rural economy.

For strengthening HRS for agricultural development, the policy makers took note of the problems arising from the fact that under HRS land had become highly fragmented due to the egalitarian land distribution principle, and was therefore coming in the way of efficient resource utilization , household level investments in agriculture and more generally in raising the level of productivity. In light of the above, reformers responded with new regulations in Document No. 1, 1983 and Document No.1,1984 (Riskin, 1987) . First, the contractual tenure under HRS was increased from 3 to 15 years, with a promise to recognise 'inheritance right. This would put an end to predatory use of land , and encourage peasants to invest in land. Second, it permitted households to enter into land subleasing arrangements so that households short of labour interest, skill could transfer land or parts of its holding to households willing to have more land than initial allotment. Third, it permitted households to hire labour , besides voluntary swapping, to work on farm -a need likely to grow with growth in sub-leasing arrangements. Thus , by allowing land sub-leasing 'rights' and private hiring of labour , the reformers prepared the ground for developing specialized production in agriculture and the development of 'cooperative economy'. It provided the opening for concentrating land in hands of those who had management skills for farming, thereby improving the prospects for better utilization of scarce resources in agriculture and gains in productivity. As the land lease market would reflect the scarcity value of land, it was likely that the leased in land would be put to use in much more efficient and productive ways than it would have been otherwise possible.

With regard to the declining investments in agriculture, in part a consequence of de-collectivization, the reformers strategy for stepping up investments comprised the following: First, it removed impediments to household level investments, such as the short duration of tenure for contracted land, fragmentation of land holdings and the small operational-scale of the post-card size farms.

Second, the leadership sought to reallocate part of enterprise profits to farmers through rural industrial subsidies to farming (Ash, 1992). There were two ways to extend these subsidies : *Yigong Bunong* ('using industry to subsidies agriculture') and *Yigong Jiannong* ('using industry to build up agriculture'). These were not mutually exclusive, although each had a distinctive policy thrust. The former emphasised the distribution of cash, or material benefits, to farmers in order to improve their immediate circumstances by raising their relative income. The latter had the purpose of transferring resources for agricultural investment and capital construction.

Third, for financing agricultural development, Agricultural Bank of China (ABC) was made the main purveyor of credit after it was reestablished in 1979 to specialise in the mobilization of rural savings and provision of credit to the rural economy (Riskin, 1987). The importance of the ABC in financing rural development can be gauged from the the fact that as against the investment requirement of the rural economy (including the non-farm sector) estimated to be between 71000-71500 billion-yuan for 1985-2000, state's plan was to provide only a minor share of this , perhaps 1/5 (ibid, 310). A great bulk of the requirement then obviously had to come from the saving of rural enterprises, households and collectives either invested directly or intermediated by the banking system.

House-based farming, as centre piece of the new institutional set up in agriculture needed more reforms in market and planning for commodity production. This lay in the logic of HRS. HRS was introduced because problems of labour supervision and just rewards/compensation under group farming had proven to be unsurmountable. Household based farming was considered best from the point of view of maintaining peasants incentive for production as its rewards depended on results and it could be held directly responsible for the results. Obviously then households would be result oriented seeking to enhance productivity through supply of labour in 'efficiency units'. In order to maximise rewards households needed production autonomy so as to use its resources optimally. Production autonomy entailed freedom to decide on cropping intensity, the crop mix, sown acreage to different crops, technology, input application etc. All this made necessary relaxation in production and procurement planning and associated market reforms.

The central government also headed towards these reforms spurred by the difficulties and challenges it faced in early 1980s to mandatorily purchase foodgrains of bumper harvests in a situation where glut of grain in market had pushed prices downwards, and the government had to step in purchasing all that peasants had to offer at above-quota price. It dawned on policymakers that the procurement system which was appropriate for conditions of scarcity was no longer compatible with changed situation of relative abundance. The glut on the market revealed the undesirability of continuing with production planning , and the under developed nature of market. Henceforth, peasants should be encouraged to produce for the market rather than simply producing for the state. Accordingly, government changed policy. Document No. 1, January 1985 forbade units to set mandatory production plans for peasants, and it also announced that state will largely abandon monopolistic procurement of agricultural products (Riskin, 1987). This implied freeing market and encouragement to commodity production. As regards grains and cotton, state would obtain what it needed through signed contracts with households or through purchases in markets (Ash, 1992). As for other products-pigs, vegetables, aquatic products quotas were abolished, and these could be freely sold in markets.

The third prong of the reforms for rural development was government's encouragement to diversification of rural economy. Besides its potential for increasing peasants incomes, employment generation, and rural industrialization and commodity production, diversification was required for agricultural growth itself. Only when diversification provided employment and income alternatives that land concentration and consolidation in hands of efficient farmers through land lease market would be possible. Second, with the undermining of collective accumulation strategy, and state's increasing resources constraint to finance agriculture development, rural non-state actors were being looked upon to finance and supplement State's investment. For this to happen development of non farm sector was very central.

State's encouragement towards diversification of rural economy took many routes. Quite early in the reforms the government recognised domestic sidelines as a legitimate sphere of activity and encouraged its development. It expanded the area allotted to private plots for sideline activities, and encouraged production of variety of goods through reestablishing rural fairs. This encouragement to change production orientation from self consumption to production for market, helped prepare grounds for diversification of rural economy (Croll, 1987). The second kind of activity and form that state encouraged for diversifying the rural economy was 'economic associations', which had emerged in the midst of de-collectivisation. State had little role in their emergence, but once they

came on the scene state not only recognised them, but encouraged them grow and spread. They emerged in every conceivable type of production and services. Most of them were small scale formed by coming together of independent households to make up for the lack of resources within. Some of them were large joint ventures with collective units where collective units would supply resources and households would bring in skills and organization. Many contracted for the use of collective resources such as ponds, mill, orchards, or factory.

Another route to diversification which the government followed was through policies to promote specialized production. Such policies followed review of the previous policy of regional self-sufficiency (Croll, 1987). Government encouraged specialization in commodity production at both inter-regional and intra-regional levels. The Central DocumentNo.75 of September 1980 established 'specialized households' as an official form of 'responsibility system', allowing some households to pursue full time non-agricultural sideline activities. A few months later the reform leadership vide central Document No.13, March 1981 legitimized sideline production by permitting 'private' people to withdraw totally from collective labour and work exclusively on 'private plots'. These 'specialized households' were entitled to state-supplied 'award grains', team allocations of fodder land or free-grain , and access to bank loans.

The introduction to HRS provided the boost to diversification of rural economy as control over labour had passed down from team leaders to household heads who would now allocate labour within household as per income/welfare maximising considerations. It many cases the skilled and able bodies were assigned to develop sidelines.

The government's reforms in the commercial sector also contributed to diversification. Initially private transactions were limited to local exchange between producers, but after Document No.1, 1983 long distance trade was permitted (Riskin, 1987). Peasant households were allowed to own trucks, and vehicles for commerce. Private purchase of large-scale producer's good was permitted and so was hiring of labour. Further, Document No. 1 1984 permitted free flow of peasant investments in various kinds of private and cooperative enterprises (ibid,289). Aiding the expansion of private sector of specialized households, domestic sidelines, economic associations was banking system reoriented to provide development finance. ABC was made the main purveyor of credit(ibid, 310). Private enterprises, economic association and specialized households, got a major boost to expand their business, even though access to credit was not easy and often required intermediation of local cadres. This had given rise to '*guahu*' wherein private enterprises got registered themselves as 'collectively owned' with full concurrence of the local officials who received management fee and perhaps a share in the profit. This practice began in early 1980s when de-collectivisation gave rise to private enterprises but with a yet no clear legal/legitimate status.

Government helped diversification further by reorienting and departing from policies for rural industrialization pursued during Maoist era. In 1960s and 1970s a network of 'five small industries' were created in the countryside to provide machinery, fertilizers, building materials, and energy. Designed to subserve agricultural sector, rural enterprises were overwhelmingly concentrated in heavy industry, replicating state owned enterprises in miniature. While such industrialization served the production needs of the agricultural sector well , it created little employment , and hardly produced articles of mass consumption. It processed very little of agricultural produce. Despite significant rural industrialization the rural population overwhelmingly remained engaged in agriculture. One can say China was following a restrictive model of rural industrialization.

During the reform era a crucial change in approach came about. It was related to abandoning the restrictive model of rural industrialization, and allowing commune and brigade run enterprises to process all agricultural and side-line products suited to being processed there. For this state monopoly on purchase of agricultural materials was relaxed. Once rural industries began agricultural processing, they were simultaneously encouraged to produce for consumer markets , and more generally were set free to engage in whatever form of profitable activity they could find. For helping rural collectives make transition to profitable lines of production, the State Council's 'Resolution on some questions concerning the development of enterprises run by people's communes and production brigades' of 1979 gave a variety of tax concessions including two to three years of tax holidays. It also increased five-fold the income which such enterprises were permitted to earn tax free. By virtue of their tax exempt status, rural enterprises came to enjoy a significant cost advantage over urban state-owned enterprises in many industries The Regulation, thus, provided great inducement for setting up new enterprises and also giving old ones new identity. Many of the defunct farm machinery repair, and manufacturing plants were induced to retool and enter the markets for consumer appliances , such as electric fan, bi-cycles, washing machines, refrigerators, where profits were extremely high and there was huge excess demand in early 1980s. Others became suppliers of machinery and equipment for the rapidly growing rural enterprises sector. Further, reform leadership made available easy flow of credit to Commune/Brigade enterprises, and Township village enterprises at cheap subsidized rates. Earlier rural enterprises were weak and lowly claimant on budgetary allocations, but post the Third Plenum, reforms in the financial sector had the effect of shifting investment fiancé to the banking system. This made rural enterprises eligible for credit from Agricultural banks and Rural Credit Cooperatives.

Feature of the Post-Maoist Framework for Rural Development

Over the ten years a new framework for rural development emerged, which was markedly different from the pre-reform period. Some of the salient features of the new framework are discussed below.

1. The new framework was based upon a different assumption about the motivational foundation of the producers. Whereas the Maoists had relied upon 'socialist consciousness' of the masses and ideological exhortation and honorific incentives to motivate the workers in production, the reformers gave paramount importance to material incentive to spur individuals to act in accordance with national plans. The reformers' economic reform paradigm attempting a transition from planned command economy to planned guidance economy with production structures geared increasingly towards market could not have worked without clearly accepting material incentives as a fundamental assumption. Market socialism required more of Adam Smith's 'economic man' than of Mao's 'socialist man'. The emergent framework of rural development was founded on the above assumption.
2. The new framework accorded an increasing role for market in the development of socialist economy. Market was no longer the anathema that it was for the Maoist, whose major objection stemmed from the ideological premise that market was the 'noxious carrier' of capitalism and they were intrinsically related. For reformers the role of market was seen as a necessary instrument for efficient economic management.
3. There was marked strategic preference for diversification of the rural economy. In the pre-reform (Maoist) framework, the rural economy's major orientation was towards grain production

following the principle of regional self-sufficiency in grain. Even the rural industrial development was geared to production of producer goods and was promoted with a view to develop agricultural production. Thus, the opportunity for considerable diversification of the economy that was possible if production orientation included mass consumption goods was lost. The new framework', on the other hand promoted a much diversified rural production structure. Signalling the policy thrust towards diversification at the macro-economic level was the abandonment of the principle of regional self-sufficiency in favour of the principle of comparative advantage. At the local level the thrust could be seen in the government's encouragement to 'specialized households' and the non-state sector in general.

4. The new framework of rural development permitted and encouraged different forms of ownership system in the rural economy. This was quite unlike the Maoist framework, which had even frowned upon the domestic sidelines as 'tails of capitalism'. Different forms of ownership were encouraged because the reform leadership's major concern was with developing the forces of production.

The binding principle of the new framework was the reformer's increasing dependence on private motives and the 'logic of privatization' for rural development (Kelliher, 1991). Such attentiveness to private motives and the 'logic of privatization' was born of reformer's realization that party-state control over the rural economy in its pervasive and intrusive manners during Maoist era had stifled development, produced disincentives for peasants diligence, and the institutions created for exercise of control were fettering further rural development (White G. , 1991). If peasants were given freedom, and were left to their own devices, they could turn around the dismal situation. Acting on this believe, the powers of unwieldly administrative organs (commune) were cut, and primary productive resources , such as land were put into private hands (family farms), public enterprises (CBEs) were either leased or sold off to private investors, and management was passed on to immediate producers (Peasant entrepreneurs and farmers). Concurrently the reform leadership freed markets, expanded its scope for allocation of good, labour, and income. The reformers followed this logic because granting significant economic powers to private rural citizens promised to invigorate the rural economy and place it on a higher growth path.

That the reform leadership was following the 'logic of privatization' can be seen in the following instances (i) the evolution of the 'responsibility system' of the early years into a new system of semi-permanent family farms; (ii) the approval to the emergence of a 'quasi-commercialized' system of land tenure (land lease-market) and private hiring of labour; (iii) to open encouragement to rural entrepreneurs to privately own the means of production; and (iv) the encouragement to growth of the product and factors markets.

There was however a limit to following the logic of 'privatisation'. As a result reformer's new initiatives to solve the problems that had emerged in the midst of the reforms however, always didn't have the desired effects. For instance, the reformers had hoped that with the diversification of rural economy and permission being granted for and sub-leasing, the process of land concentration in the hands of efficient fanners would start. But that did not happen. Neither did peasant's investment into agriculture nor that of the local government (behaving as entrepreneurial state) pickup. The reformer's also couldn't put in place a system for rural infrastructure development as local government's were not too much interested. Labour accumulation mechanism practically remained defunct and market framework was in any case in appropriate for such work. Even the bold initiative of abolishing mandatory

procurement system and substituting it with voluntary contracts had to be withdrawn for all practical purposes as the state encountered difficulties in procuring grain supplies. The new contract remained voluntary only in name as peasants complained of 'coercion' and, as a consequence the peasant-state relations were strained.

Conclusion

In the second half of the 1970s there was considerable disquiet and discontent among the Chinese peasants. This was related to many kinds of institutional subordination, that curbed their freedom, consumption, and compelled them to lead a stagnant, poor quality of life. At the same time the agricultural and non-agricultural rural economy had entered into crisis of growth, plagued by inefficiencies, institutional barriers, and motivational problems of the peasant producers. As a consequence , party-state relations with the peasantry had come under strain even as it was finding difficult to sustain industrial growth and overall economic development due to problems in the rural sector. After Mao, it was under Deng Xiaoping's leadership that the systemic crisis of rural development was addressed. The reform process began with shoring up production incentives to peasants, improving their income earning opportunities through institutional changes. In the process of reforming the commune system, the logic of events led to de-collectivization which in its train generated new kinds of problems and challenges , such as fragmentation of farming, debasement of collective assets, decline in capital formation, loss of labour accumulation , maintenance of collective assets, and many other. The Dengist leadership responded to these challenges creatively and relying on the logic of privatization, notwithstanding its limitation, helped craft a new framework of rural development that promised to usher in significant improvement in peasants welfare along with dynamic growth of the rural economy founded on efficient agriculture and significant diversification of the rural economy. This paper thus explores the course of rural reforms unfolding itself through the interplay of statist policies, rural institutions and peasants and producers calculus of interests and advantages under expanding market socialism.

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