

# ***China's Land (re) Distribution and Economic Development***<sup>1</sup>

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This essay addresses the issues of how land redistribution was evolved and its effects on the economic development in contemporary China, particularly in the recent economic reforms. The essay focuses on the relationship between state power and property rights, inspired by the ideas from Barzel and Sen. A concept of “hierarchical rent sharing” by the authors was used to explain some important institutional characteristics that shape the policies and practices in land redistribution in China.

## ***State power structure and land rights arrangements in China's history***

Ever since 219 BC, China has maintained a number of important features of its state power structure and property rights arrangements. The rulers of the empire with highly centralized state power tended to allocate land to the maximum number of independent peasant cultivators. State did not want land ownership to be too

concentrated, as this was conducive neither to the central revenues or its authority. The state supported equi-partition of land among a household's male descendants rather than primogeniture, a succession arrangement which has come to have profound and far-reaching impacts on Chinese society, because it was conducive to supporting gentry stratum based on small and medium landowners, and curbed the political and economic power of the aristocracy and big landlords and also inhibited large-scale land operation.

China's land system is historically a major institutional reason for the high level of development of China's traditional economy. But with economic prosperity and a growing population, none of China's major dynasties, could avoid their predestined downfall due to civil strife. Rather than stimulating positive change in China, the early exchanges and collisions of the civilizations of China and the West impelled China to duplicate the original cyclic mode on a larger scale. After the Qing government being forced to open treaty ports to the West in the middle of 19<sup>th</sup> century, the capitalist economy developed rapidly in the coastal cities. The rural crisis however was exacerbated. The main cause for this crisis was not the concentration of land ownership, but the deteriorating environment of rural governance, especially the failure of the gentry stratum to become a positive force for reforming regional or grassroots governance.

China's rural crisis in the first half of the 20<sup>th</sup> century provided the conditions for revolutionary armed separatism. CCP's leader Mao Zedong successfully used this opportunity to achieve a revolutionary strategy of the countryside surrounding the towns. The 1947-1952 land reforms helped the CCP took over the state power, its most far-reaching impact was the total overturning of the social foundation of China's traditional rural governance, shaking the legitimacy of private property. China's state power gained unprecedented capacity of mobilization and organization in

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the countryside; comprehensively intervening in all rural economic and social life.

### *The large scale of social experiments by Mao and the formation of hierarchical property rights and social entitlements*

The unprecedented state power allowed Mao to conduct large scale social experiments in China. In 1958, not deterred by the lack of success of agriculture collectivization, Mao created his own socialist model to speed up economic development. Although millions of people died of famine caused by the campaign for People's Communes, China did not return to the models prior to collectivization, but gradually evolved unique rural governance and property institutions.

With the failure of the Great Leap Forward and communization, Mao recognized the need for property rights. Given the arrangement of "integrating administration jurisdiction with economic entity" resulted from the compulsory agriculture collectivization, China formed the concept of hierarchical property rights. Under this concept, within the unified administrative and economic entity of the People's commune, a three-level hierarchy of ownership of all economic resources would operate, and in which land was the main asset primarily owned by production team, the smallest unit for collectivized farming.

The relationship between the hierarchical property rights is conceptualised by the authors as a relationship of "hierarchical rent-sharing" consisting of two basic rules. The first rule was "horizontal exclusiveness" which means the upper level was not allowed to redistribute assets and income directly across units at same lower level, however, vertically the upper level in the hierarchy has certain rights, directly deriving some economic rents from the proceeds of lower level operations. The

second rule is that every level has the right to carry out relatively independent economic activities at its level. Proceeds of operations at each level must in the first instance be shared with those higher, but not necessarily with those lower.

A social contract was formed under the hierarchical rent-sharing system: the peasants' land rights became an institutional arrangement defining their social status. A person was born into an agricultural production team, his welfare would depend on the agricultural output or other operating income of the land owned by this team. A basic principle in the hierarchical rent-sharing system was that the peasantry had no share in urban land rents and they had no freedom of movement to the city.

The high-level units had privileged access to economic, political and social welfare resources distributed by the state. However, higher-grade unit had more restrictions to their market entitlements than low grade ones, while the latter had relatively greater rights to autonomy in disposing of resources.

Hierarchical property rights and hierarchical rent-sharing, were to have profound effects on China's economic development. The arrangement gave a great power to the state to concentrate economic rents and to allocate resources to the projects with high political priority, rapid industrialization. At same, these arrangements provide basic economic security for everyone. While under this system the social entitlements of people of different status were unequal, as an institutional arrangement it reduced demands on the central administrative capacity, giving local governments greater discretion to develop its own industrial capabilities.

### *The failure of collective agriculture and the reforms*

Not all collective agricultural units were failed. For those units that have opportunity to generate more cash income through industrial activities the “work point system” applied for internal income distribution may produce sufficient incentive for collective farming. However, most rural collectives could not have industrial opportunities so they were vulnerable to falling into “collective poverty trap”. Without large cash income, to earn more work points was meaningless for families with a larger workforce and this created a vicious circle. As the decline in the collective’s output resulted in per capita income dropping, the proportion of products subject to equal per capita distribution increasing; marginal income of reproduction exceeded that from labour, thus increasing the collective’s predicament. While Mao Zedong mobilized the entire peasantry to continually improve the conditions of basic agricultural production, more than one third of the rural population falling into the collective poverty trap.

The failure of collective agriculture not only caused serious rural poverty, but also forced China to import food massively from abroad, totally hampering its economic development. China’s post-Mao leaders recognized the need for reform, but in its early stage they were unsure about the political and social risks that restoration of family-operated agriculture would bring.

To reduce the risks for change, a decentralized reform strategy was developed by Deng Xiaoping to encourage local initiatives and regional competition. The de-collectivization of agriculture with household contracting as the basic model spontaneously occurred in some areas first of all. In three years 1981-83, from the poorest hinterland, household contracting, as a reform measure lacking legitimacy, gradually developed into a leading reform measure that was accepted in most localities. This process was driven mainly by the regions that practiced it first having great success. The two important reform measures, namely higher prices for above-

quota grain procurement by state and the fiscal decentralization not only further promoted agricultural de-collectivisation, but also had far-reaching effects on the evolution of the social contract in China’s reform process.

Although the household contracting reforms were radical in nature, it did not touch the boundaries of production team based land ownership formed in the collective era, and touched even less on the unequal social entitlements. The main changes brought to the Chinese social contract were: (1) de-collectivization of the hierarchical ownership and rent-sharing relationship, renewed legitimacy of private property for most assets other than land; (2) monetization of hierarchical rent-sharing; and (3) territorialization of social entitlements. The essence of the reform measures was to introduce more market entitlements into the rent-sharing system, without changing the existing social entitlement system.

Agricultural land was divided among the peasants within the borders of the original production team, with absolutely no respect for historical private property rights. The land redistribution also reflected the voluntary principle, as thousands of villages maintained collective agriculture. For those villages that redistributed the farm land, equality of land rights was the only acceptable principle, however, there was much irrationality in the modes and patterns of redistributing agricultural land in today’s terms, given the political constraints of the time.

The evolution of China’s agricultural land system following household contracting can be summarized in following features: (1) land ownership is in great legal ambiguity to avoid giving peasants of ultimate disposition rights over the land, and to prevent development of a market in agricultural land bringing about large numbers of landless peasants. (2) many regional differences occurred in China’s rural land policy and practice. Three very different policies actually exist. First, the

government clearly announced it would maintain the initial land distribution pattern intact, without considering any changes in family size. The second was in the other extreme, local governments using all means to promote land being concentrated in the hands of a few peasant households. The third arrangement was in between, having to keep adjusting the land with demographic changes in the family, so that the distribution of land to maintain the principle of internal equality of rights to collective land. The three rules for redistributing agricultural land in different areas reflect the same tendency of local governments to control as much agricultural rent as possible at minimal political and administrative cost in accordance to different geographic conditions.

Under decentralized fiscal system, the Chinese local governments were highly motivated to maximize short term rent from all investments. There has been fierce competition between local governments to attract more external, above all foreign investment. In the competition, the local governments soon realized that an important way of attracting foreign investment was to share the local rents with the foreign investors. Turning arable into industrial land and leasing it cheaply for foreign investors, became an important way of attracting investment widely used by local governments.

In attracting foreign investment, the coastal provinces have institutional as well as geographic advantages, as they allow more overseas direct investment in the countryside, direct using collectively owned farmland and employing large numbers of low-cost rural laborers, while the hinterland provinces, make more use of the low compensation approach to nationalize collective arable land coercively. As a result, more peasants in the coastal areas are advantaged, making them more dependent on workers from outlying rural areas. Those peasants who have been forced by governments to nationalize their land at low cost have however suffered great loss.

### *The shortfall of China model and the value of China's experience*

As China turned into the largest exporter of manufactured goods and changing the pattern of international trade, the biggest winners in this unexpected development are not the Chinese peasants. The land distribution system perpetuates China's historical traditions under modern technological conditions, which is to use of state power to maintain structures of agricultural organization and rural society based on the small peasant. However, the belief that the only solution for China is to privatize land ownership is an oversimplified idea.

The case of China for land redistribution shows that a state system in which political power was highly centralized can allow land rights to be dispersed, and for a certain degree of economic prosperity to be achieved. However, the allocation of land rent induced by the centralized state power drove people to devote major resources to the pursuit of monopoly power and social privilege, suppressing the growth and innovation of a cooperative order and making the economic prosperity ultimately unsustainable.

China's current land system is the product of more than half a century of searching for path of rapid modernization. For other developing countries, China's most valuable experience therefore lies not in its specific institutional choice, but in its maintenance of autonomy in collective learning.