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# The Theoretical Foundation and its Mode Transformation of Rural Public Goods Supply in the Perspective of Organizational Competition

QI Xue-xiang\*

School of Public Administration, Sichuan University, Chengdu 600061, China

**Abstract** Theoretical expositions of public goods supply by the liberalism, new institutionalism and the school of public choice are conducted in the perspective of organizational competition. And the theoretical foundation of rural public goods is put forward. Then, the changes of the supply mode of rural public goods are discussed before and after the tax reform, that is, the "Community Cooperation" supply mode of rural public goods before the tax reform and the "Organization Cooperation" supply mode of rural public goods after the tax reform. Finally, the diversification of rural public goods supply in China in future is forecasted.

**Key words** Rural public goods, Organizational competition, Mode transformation, China

The foundation of building a prosperous society in an all-around way lies in the development of agriculture, the key of which is farmers, and the difficulties are in the development of rural areas. The insufficient supply of rural public goods has always been a bottle neck restraining the long-term development of rural economy, which directly determines the construction of a well-off society. After the tax reform in rural areas, contradictions between the affair power and financial power of local governments have become more prominent. The rural economic development and the improvement of living standards of farmers have also increased the farmers' demand for public goods, making the problems in supplying public goods more acute. Based on the knowledge of competitive organizations in rural areas, this research analyzes several modes of supply main body and compares them before and after rural tax reform from a theoretical perspective, in order to solve the problems of the shortage of rural public goods in China.

## 1 Theoretical foundation of rural public goods supply in the perspective of organizational competition

**1.1 Theoretical expositions of public goods supply by liberalism** Adam · Smith, a classical liberal economist in the Britain, is the pioneer of free market economy. He lashed out at the mercantilism theory in his book *The Wealth of Nations* in the year 1776, was against the government intervention in the economy, stressed the importance of free competition, and believed that the existence of state and government was the premise of free competition. Government plays a leading role in the aspects national defense expenditure, judicial expenditure, public project and public institution expenditure, and expenditure for maintaining the dignity of monarch. There are mainly

three functions of modern government. The first function is to protect the society in order to stop being violated from other independent societies. The second function is to protect the individuals in the society as far as possible in order to protect them from being invaded. In other words, judicial authorities should be established. The third is to construct and maintain certain public utilities and facilities, the profits of which can compensate the expenditures when they are operated by the society<sup>[1]</sup>. Among the three functions, the first two functions are the political functions of government to maintain the rule over the country; and the latter is a social service function. It is believed that it is necessary and effective for the state to offer public goods. Governments can transfer the costs by tax. As for the businessman, the operation cost is reduced due to the easy transportation. Thus, consumers can buy goods at a lower price; and the win-win situation of the three parties is realized. It can be concluded that Adam·Smith inherited the habit of liberalism, and at the same time believed that public goods still needed the guidance of government.

**1.2 Theoretical expositions of public goods supply by new institutionalism economics** The American economist Coase believed that tax collection or subsidy was not the best method to solve the problem of market externality. The supply of public goods could be diversified. In the book of *The Lighthouse in Economics*, Coase pointed out that since it was impossible to charge all the boats benefited from the lighthouse, any people or enterprise could not obtain profits from the construction and maintenance of lighthouses<sup>[2]</sup>. But definition of property ownership could save costs and the lighthouses could be provided by the individual. During the research on lighthouses in the Britain, Coase concluded that different from the concept of many economists, lighthouses could be provided by the individual in early period. At that time, the ship-owners could apply to the king to establish private lighthouses and to charge user fees. They also had the right to sell and transfer the light-

houses; and the function of government was only limited in the determination and lighthouse property rights. The use fees of lighthouses were collected by the agent. Property rights only played an important role in adjusting and using the nonprice<sup>[3]</sup>. Thus, Coase further pointed out that as long as the property rights were clear, any organization could provide public goods and governments should only define and protect the property rights. Thus, free trade in the market came into emergence, which is regarded as the original idea about public goods.

**1.3 Theoretical expositions of public goods supply by the school of public choice** Elinor Ostrom, an economics Nobel prize-winner, put forward the polycentric governance theory in the year 2010. When solving the public goods supply such as "tragedy of the commons", government and privatization are not the only solutions. There are effective supply mechanisms of social organizations outside the market and the government, which introduce multiple competitions into the public goods. In the book *Polycentricity and Local Public Economies*, Mr. and Mrs. Ostrom pointed out that public economy was not always an exclusive government monopolistic economy. It might be a mixed economy which individual could participate in it<sup>[4]</sup>. Except providing and producing public goods and services, governments also introduce individual competition and organizations competition. For instance, government makes contract with private companies in order to let them sweep away snow, maintain the streets clean, protect traffic lights and so on. In western countries with rapid process of democratization, early development of civil society, and developed social organizations, supply of public goods within community has been realized greatly. By buying the products of non-profit making organizations and offering special support funds, government has already met the basic demand of community residents. Meanwhile, Olsen, a famous administrative scientist in the United States, put forward the problem of hitchhiking in the process of public goods. In the book *The Logic of Collective Action*, Olsen pointed out that collective benefit had the public nature, each member could share the equal benefits no matter what they paid for the cost. Large group usually had more members and their unit share was relatively small. Therefore, hitchhiking could restrict the behavior of rational economic man and led to the dilemma of collective action. Only by carrying out selective excitation and punishing the hitchhikers, can we overcome this irrational predicament. As for the rural community with small scale, there are also severe problems of hitchhiking, because the quality of farmers is generally low. Professor Luo Xuefeng in Huazhong University of Science and Technology has discussed this problem in detail. In general, the multiple supply system of the school of public choice has become more and more popular in communities.

## 2 Mode transformation of rural public goods supply in the perspective of organizational competition

**2.1 The "Community Cooperation" supply mode of rural public goods before the tax reform** Traditional rural society

in China is a closed and a favor society, as well as a high autonomy and self-governing society. Taking society as the foundation, village collectives are formed. Family influence plays a leading role in the life and production of villagers and public goods cooperation is carried out within the range of village collective. Clan forces are highly developed in Jiangxi Province. In the Long Village of Jiangxi, large areas of mountain ridges still belong to the clans. Long Village sells the harvesting rights of oil poisson each year and can earn tens of thousands of RMB from it, which provides abundant capital for the construction of public welfare in villages. Besides, villages form the sense of community to protect the earnings of these mountain ridges, and strengthen the community by a series of festival events. Due to the clear history of villages, the traditional public guidelines and institutional arrangement can still exert their functions<sup>[5]</sup>. It is worth thinking that with the process of social modernization, the traditional mode has collapsed with the characteristics of autonomous cooperation. Since the foundation of new China, government has increased rural transformation, implemented village autonomy to get rid of the traditional power, aggregated the farmers in the villages, and offered public goods to grassroots local governments in a top-down way. After the year 1978, the transfer to non-collectivization has broken down the original foundation of collective agricultural organizations, the public goods have gradually shifted away towards a more market-based form. Individual undertakes some public goods with no difficulty in charge and a very small number of public goods are supplied by the individuals. As a rational economic man, the farmer goes after profits and avoid disadvantages when there is no external enforcement, is unwilling to provide free labor, and enjoys the benefits of public goods as a hitchhiker. Thus, the collective irrationality is caused and the collective assets are peculated. At that time, rural public goods were mainly provided by the rural government and farmers paid for the various taxes to cover the cost.

**2.2 The "Organization Cooperation" supply mode of rural public goods after the tax reform** After the tax reform, tax retention of grassroots governments is no longer existed. Contradiction between affair power and financial power has become more prominent, so that grassroots governments became more tired of adequate supply of public goods. Village collective adopts the method of "One Project One Discussion" during the capital and labor division of new public utility. And villagers' congresses or representatives of villagers decide through discussion. With the development of agricultural economy and the improvement of the living standards of farmers, demands for rural public goods have increased, which further exacerbates tensions. Some farmers sell their own public goods to others to earn the profits. This reflects that the state limits the spare social capital in rural development, so that farmers have to form their own economic cooperation organizations or contract the collective public goods in order to meet the needs of development. Practice shows that the distinct property right of public goods, like small water conservancy facilities, and the system

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and subjective factors, farmers' entrepreneurship is difficult. To improve the efficiency of farmers' entrepreneurship, first of all, we should change the concept of local leadership. Only leaders' great attention can guarantee farmers to really enjoy the preferential policies granted by the state; second, scattered and scanty resources severely hamper farmers' successful entrepreneurship. Through the integration of business resources, we can promote optimization of farmers' entrepreneurship in minority regions and promote success rate of farmers' entrepreneurship; third, establishing awareness of brand and characteristics and strengthening brand and characteristics of products is the innovative way to enhance the core competitiveness of farmers' entrepreneurship; fourth, we should help farmers in minority regions to emancipate the mind and establish awareness of market competition in order to promote the development of rural economic cooperative organizations, and thus promote the

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innovation of public facilities management have greatly stimulated the investment motivation of peasant households and other investment main bodies, so that the current water conservancy facilities can exert their optimal benefits. Besides, the rational price meets the needs of farmers for more water, reduces the economic burden of government and collective groups, decreases the financial pressure of villages and the cost sharing of farmers for public goods, and forms a multi-win-win situation. This also confirms that as long as the property rights are clearly defined, the enthusiasm of farmers can be mobilized. By excluding the hitchhiker, efficient use of resources can be realized.

### 3 Conclusion

The supply system of public goods in China is more than a single one; it is in fact a combination of relevant rules. Each component element in the system has many different selections; and each selection constitutes a new supply system of public goods. This feature of public goods supply system provides foundations for the further researches<sup>[6]</sup>.

At present, local governments in China, the major supplier of rural public goods, monopolize the production of public goods; and both market and the third sector play tiny role in the production of rural public goods. However, to pursue their own value goals and the maximization of economic benefits, local governments take the demand preference of farmers as the exogenous factor, which leads to the supply shortage and low benefits of public goods. And various social organizations are regarded as the effective factors of public goods supply. The market competition mechanism should be effectively combined with the bottom-up participation of citizens, which can appropriately reflect the grass-roots farmers' demand for the interests, can correctly provide effective public goods, and can set up a "bridge" between the government and the market. Therefore, government, market and social organization should be combined organically within the supply system of public goods, ex-

scale development and standardization of business; finally, strengthening the construction of the industrial chain, is the core work of ensuring sustainable development of farmers' entrepreneurship in minority areas.

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ert their own advantages, coordinate their interests, regulate the supply mode, and supply public goods with economic benefits. Development of social organizations has greatly enhanced the structural basis of civil society. The Twelfth-five Year Period has entered into a critical stage of reform in China with the transformation of government functions as the key, which provides important historical opportunity for the development of non-government organizations. Governments at all levels should change to public government from all-powerful government. At the same time, social organizations should make up for the vacuum zone in market after the withdrawal of government power, and organize the scattered farmers by interests in order to better express their will, protect their interests, participate in governance, and implement interaction.

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