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CHOICES

Second Quarter 1994



World events shaping future U.S. ag trade

4

Protecting our food and water

10, 15, 20

Findings

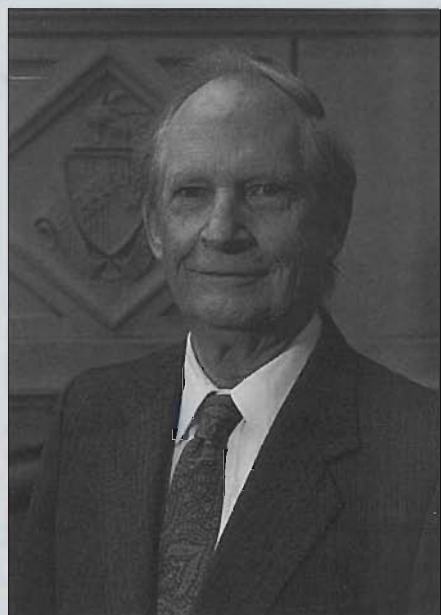
What agricultural and resource economists are finding about food, farm, and resource issues.*

- Pollution, such as that sometimes caused by irrigation runoff, may be best controlled by cooperation among the polluters, rather than through taxes or regulation, as shown in a case study from California—say Loehman and Dinar.
- Privatization of Mexico's communal *ejido* system of land ownership will be most successful on irrigated lands with modern social and economic infrastructure, but continuation of communal ownership may be most successful for dryland agriculture—say Thompson and Wilson.
- The use of new classes of livestock growth promotants will likely improve beef and pork quality and reduce prices for consumers, shift some consumption from chicken to beef and pork, and increase profits of producers who adopt promotants early—say Buhr and Hayenga.
- Now, even more than even a few years ago, hog breeders value and pay premiums for loin eye area, backfat, average daily gain and feed conversion characteristics of boars, characteristics which help bring higher quality meat at lower prices to consumers—say Walburger and Foster.
- For a representative Michigan cash grain farm, elimination of deficiency payments reduces nitrate leaching more than a tax on nitrogen, a tax credit on biologically fixed nitrogen, a rotation payment, or the Integrated Farm Management Program option, but farm income also declines—say Swinton and Clark.
- A policy to increase normal flex acres from the current 15 percent to 35 percent would cause midwestern corn-soybean farms and southeastern cotton farms to plant more soybeans, but the cotton farms incur considerably higher expected losses—say Duffy and Taylor.
- Record keeping significantly increases milk production per cow and education increases DHIA record keeping on California dairy farms—says Zepeda.
- Although reduced Oregon timber harvest, to save the Northern Spotted Owl, may produce environmental benefits, employment in rural communities could be reduced by up to 5 percent and in urban areas by up to 1 percent—say Waters, Holland and Weber.

*Findings are taken from recently or soon-to-be published research in the *American Journal of Agricultural Economics*, *Journal of Agricultural and Resource Economics*, *Review of Agricultural Economics*, *Journal of Agricultural Economics Research*, *Journal of Agricultural and Applied Economics*, *Agricultural and Resource Economics Review*, *Land Economics*, *Journal of Environmental Economics and Management*, *Agribusiness—An International Journal*, and other journals which publish the research findings of agricultural and resource economists. Abbreviated citations are found on page 44.

ON OUR COVER—Are those storm clouds moving in to disrupt the wheat harvest, or is a ray of sunlight peaking through to brighten this farmer's day with his son? Often regulations, competition, and other forces bring a cloudy outlook for producers and others in the food and fiber industry, but new ways of producing, processing, and marketing bring some sunshine, too, as told by the authors in this issue.

China's Rural Reforms: Is Success Wanting?



D. Gale Johnson

D. Gale Johnson is professor of economics at the University of Chicago and Fellow of the American Agricultural Economics Association. He has visited China almost every year since 1980, giving lectures, attending conferences, and visiting villages. Johnson authored "The People's Republic of China: 1978-90," a monograph on the economic reforms. He is currently working on a paper on alternatives to the current Chinese population programs.

The first decade—1979–88—of the Chinese rural reforms was remarkably successful. Farm production increased annually by 6.2 percent, three times the rate of the previous two decades. Real per capita incomes of the farm population doubled between 1978 and 1988 after twenty years of near stagnation. The wide gap between urban and rural incomes narrowed significantly until 1985, but increased again by 1988.

The rapid growth of rural incomes was due primarily to three factors: the increases in real output prices during the early years; the incentive effects of the abolition of the communes and the introduction of the household respon-

sibility system; and the rapid growth of nonfarm employment in rural areas. In 1978, 31.5 million rural people had nonagricultural jobs. By 1983, 86.1 million (22 percent of rural labor force) had such jobs. These jobs were created by local people in response to the removal of most restrictions on economic activities. A major restriction remained largely unchanged—permanent migration from rural to urban areas is strictly limited.

The narrowing of the gap between urban and rural incomes was halted about 1985. The official estimates of per capita consumption show that in 1992 urban consumption was 3.1 times rural consumption, higher than the 2.9 in 1978. Based on annual income surveys, real urban incomes increased by 44 percent from 1988–93 while rural incomes increased by only 12 percent.

What happened? Since 1988, real farm output prices have been declining. Partly this has been due to a positive policy change—the elimination of most food price subsidies for urban consumers. The per capita income elasticity of demand for grain is now estimated to be negative. Supply grew faster than demand.

But the major factor was the slowdown in creating rural nonfarm jobs. From 1984 to 1988, 8 to 12 million new nonfarm jobs were created annually; since 1988, no more than 3 million have been created annually. The rural labor force grows at approximately 10 million annually. The output of rural industry continues to grow at a rapid pace, but not employment.

The growing disparity between urban and rural incomes was emphasized at a policy conference in Beijing in December 1993. The depth of policy makers' concern was evident in the proposals they presented. One proposal was to significantly modify or eliminate the household registration system to permit

rural and urban migration. It was argued that migration was needed to eliminate the huge disparities between the country and the city. Another recommendation was that the land-use rights be allocated for a period of thirty years and not made subject to reallocation due to demographic change within the village, thus enhancing the value of property rights. The third was that there be a social security system for the elderly.

If these three policy changes were carried out, combined with a significant effort to increase rural educational opportunities for girls, the major sources of conflict between rural people and governmental population controls would be eliminated. The increase in a family's land when a child is born acts as a pronatalist subsidy. The failure to provide financial means for old age results in strong son preference, as a son becomes the only secure means of care as one ages. One of the important sources of declining fertility in a developing country is rural to urban migration, since the migrants soon adopt the fertility behavior of the urban area. And finally, there is ample evidence that providing secondary school education for females results in a striking reduction in fertility.

If these measures were carried out, China could rather quickly reach and maintain replacement levels of fertility without governmental intervention, other than the provision of family planning services. Coercion would not be required. The tensions that now exist in the rural areas, which have resulted in riots and other forms of resistance, represent serious problems for the government. Eliminating the tension over population control would reduce overall tensions significantly.

D. Gale Johnson

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