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Edited by
Allen Maunder, Institute of Agricultural Economics, University of
Oxford, England
and
Ulf Renborg, Department of Economics and Statistics,
Swedish University of Agricultural Sciences, Uppsala

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INSTITUTE OF AGRICULTURAL ECONOMICS
UNIVERSITY OF OXFORD

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Gower

AN XI-JI*

Pricing System Reform for Agricultural Products and Price Policy Adjustment in China (1979–1984)

Since 1979 the Chinese government has initiated a broad range of economic reforms among which pricing system reform for agricultural products has been a fruitful one. The aim of the reform has been to move from a rigid quota system with government fixed prices toward a market system with government induced economic planning. In the period 1979–84 the reform went through its first stage and began the second stage in 1985 of changing the model of price formation and decision from administrative channel to market mechanism. At the same time the Chinese government has successively adjusted the price policies, mainly raising agricultural prices in relation to prices of industrial produce and modifying relative prices among agricultural products. The price policy adjustment has not only occurred at the same time as the pricing system reform but both also affected each other.

Together with the completion of the household responsibility system in the countryside, the pricing system reform and price policy adjustment have given a vigorous push to agricultural production. Between 1978 and 1984 the national total grain output increased from 304.7 million tons to 407.1 million tons at an average growing rate of 4.9 per cent per year, that of cotton from 2.2 million tons to 6.1 million tons at an average growing rate of 18.8 per cent per year and that of edible plant oil from 5.2 million tons to 11.8 million tons at an average growing rate of 14.6 per cent per year. Besides the influence on agricultural production the reforms have tremendous impact on a broad range of national economy items mainly including income redistribution among various occupations, government budget balance and the steps taken for overall economic system reform. Along with the impact mentioned above it is nevertheless not easy to differentiate the impact of pricing system reform, price policy adjustment and the household responsibility system. In the following paragraphs I will try to focus on three problems concerning pricing reform and price adjustment:

*Presented by Professor Yan Rui-Zhen

1. The contents and processes of pricing system reform and price policy adjustment;
2. The result of the reform and adjustment in the first stage;
3. A prospect of further reform and adjustment in the coming second stage.

I THE CONTENTS AND PROCESSES OF THE PRICING SYSTEM REFORM AND THE PRICE POLICY ADJUSTMENT

Within the past six years, China's pricing system reform and price policy adjustment for agricultural products had three aspects, namely gradually weakening the state monopoly in agricultural products purchase; gradually adjusting prices of agricultural products; and gradually strengthening the functioning of market co-ordination.

Gradually weakening the state monopoly in agricultural products purchase
The state had had a monopoly in the purchase of major agricultural and sideline products in China since 1953. The different commodities under state purchase could be as many as 180. The government set the production plan and purchase plan every year and set up the procuring price. In the 1950s when this system began, the varieties and quantities of the state procurement set by the government was, by and large, in accordance with the natural and economic endowment of different regions and production units, and procuring prices were close to market prices. So, in that period under the specific situation, it played an important role in guaranteeing an adequate supply of basic living stuffs to the people and the drawbacks were not so prominent. But, with the development of the economy and the increase of the varieties of commodities under state procurements, the state procurement plan began to deviate from the natural and economic conditions of different localities. Hence it impaired the advantage of specialisation of different regions in production, ran foul of the principles of labour division and comparative advantages. The procuring prices were often too low, far from the level determined by supply and demand, to give any incentive to the peasant for increasing production. Further, because most of the major agricultural commodities were in the hands of the government, the integral connections between commodity, money and price were vanishing, so that some commodity exchange assumed a barter form. For example, in order to encourage the hog or cotton production, the government had to sell the 'bonus grain' to peasants who were engaged in hog or cotton production as feedgrain or food. ('Bonus grain' is the grain sold back to peasants by the state at a low price). According to government documents, claims for 'bonus grain' such as raising pigs, growing cotton, etc. might run up to 210. Only 'bonus grain' alone might account for 24 per cent of the total state grain purchase at the year. Besides 'bonus grain', there was 'bonus fertilizer' etc. These further distorted prices and disturbed the adjustment of supply and demand.

As can be seen from the above, state monopoly in agricultural products purchase had many problems. It hindered the optimal allocation of resources, reduced economic efficiency and the necessary incentives for peasants to produce, and hence was one of the main sources of agricultural commodity shortage over a long period.

In order to reverse the situation, the government has done a great deal to weaken and even get rid of the state monopoly system in agricultural products purchase since 1979, which was a part of the overall economic reform. The government accordingly took several steps:

First, the varieties of commodities under state procurement were reduced. Up to the first half of 1984, the varieties of commodities under state procurement had been reduced from 180 to 39. Again, in the second half of the year, they were further reduced to 21. Beef, mutton, fresh eggs and fruit were free of the state procurement plan. From the beginning of 1985, the state procurement of agricultural products as an economic management system has ceased to function. In its place was a system of contract system and market price combination.

Second, while the varieties of commodities of state procurement were reduced, control over the commodities still under state procurement was lessened. For example, the market exchange of 'first category' crops (grain, cotton, oil-bearing crops) had long been considered illegal. But after 1979, except for cotton they could be freely sold and bought in the markets after the state quota was fulfilled. In 1982, the grain sold through market channels accounted for 10 per cent of the commodity grain in the whole country and together with the grain sold to the state at bargaining price accounted for 30 per cent of the commodity grain in that year. This largely changed the situation of state monopoly in grain markets.

Third, the quantity of state procurement was reduced for compulsory delivery at low price. Again, taking grain as example, the quantity of compulsory delivery (planned quantity) in 1979 decreased by 8.6 per cent compared with 1978. It decreased 12 per cent in 1981 from 1978. Delivery actually fulfilled also declined, actual delivery in 1981 was only 64 per cent of that of 1978. Compulsory delivery at a low price was reduced, while grain sold to the state at increased price and bargaining price increased, the quantity sold to state in total having increased. The total sales of grain to the state in 1982 increased by 86 per cent. Up to 1983, the situation of supply and demand of grain had been fundamentally changed. As for the peasants, the state purchase of grain has become a subsidy instead of a burden for more than 20 years (at an increased price and bargaining price). The implication of this change will be discussed below.

The three steps mentioned above not only reduced state monopoly system in agricultural products purchase, but also promoted the prices of agricultural products and peasant income. Hence it changed the relationship between agricultural and industry in the national economy.

Adjusting agricultural prices

The state procurement prices of agriculture and sideline products being lower than market prices (open market or black market) had been a long-term phenomenon. Peasants who solely depended on sales to the state could barely maintain their production. Since 1979, the government has increased the state purchase prices and adjusted the relative prices among different agricultural products. A multi-price system was set up for major agricultural products such as grain and cotton. There were procurement price, over-quota price, bargaining price and market price. This changed the price policy for agricultural products as follows:

First, there was a substantial increase in procurement price. Grain procurement price in 1979, for example, increased by 20 per cent from 1978, while over-quota price even rose to 50 per cent over the already increased procurement price. Procurement price for cotton increased by 15 per cent, over-quota price was 30 per cent over procurement price. In northern cotton growing regions, there were even some additional subsidies on the price. Procurement price of hogs increased by 26 per cent and those for other agricultural and sideline products increased by between 20 and 50 per cent. Since 1979 an additional increase in procurement prices for main agricultural products was enforced each year.

Second, in the total government purchase of agricultural products, the part purchased at procurement price decreased while the part purchased at over-quota price and bargaining price increased. In the years 1978–81, the part purchased at procurement price in total purchase of grain decreased from 84 to 50 per cent. Grain purchase at bargaining price accounted for only 3.6 per cent of the total grain purchased in 1978, while it rose to 19.4 per cent in 1982, and the bargaining price level was very close to that of market price. Prices of cotton and edible oil were in the same situation. Altogether, the general price index for agricultural products in 1981 increased by 38 per cent from 1978. There were successive increases in the ensuing years for grain; in 1982, 1983 and 1984, the price was increased by 2.2, 4.4 and 4.0 per cent respectively. Since 1983, the over-quota price level has risen above the local market price; that means it has become a support price.

Strengthening the functioning of market co-ordination

Free marketing had been tightly controlled in China for a long time and grain, cotton and edible oil were not allowed to be sold in the market. But the government commercial department could hardly provide adequate supply of goods for the people, especially among different regions in the countryside. This handicapped the regional division of agricultural production and specialisation, and also handicapped the economic development of both urban and rural areas. Since 1979, as an important step of agricultural price system reform, the control over the free market has been relaxed. Free markets rapidly developed within a few years. The number of free markets, in both urban and rural areas, increased from

38,000 in 1979 to 48,000 in 1983, and, at the same time, the turnover more than doubled. From 1982 to 1983, the turnover of pork increased by 36.6 per cent, those of beef and vegetables increased by 20 per cent respectively. In 1983 the total turnover of the free market already accounted for 10.2 per cent of the total turnover of the retail goods of the whole country. There were some slow increases in the free market prices which corresponded to prices in state retail markets. Generally speaking, it favours the peasants when the free market prices are higher than the state retail market price. It opened a new channel for peasants' products and hence promoted agricultural production and specialisation.

With the further development of the national economy, the free market has recently shown some new features. The major characteristics are: the size of the market continues to increase, small ones become big ones, big ones grow into towns and cities. The structure of the free market is also changing: from purely agricultural market to market for both agricultural and industrial goods; from retail market to market at both retail and wholesale; from small quantity transported on foot and shoulder to large quantity dependent on modern transportation. A new marketing system is emerging, it will share the responsibility of developing the economy with the state market.

II ACHIEVEMENTS AND PROBLEMS OF PRICING SYSTEM REFORM AND PRICE POLICY ADJUSTMENT FOR AGRICULTURAL PRODUCTS

Pricing system reform itself is not the object but the vehicle to achieve the faster and better development of the national economy and the Four Modernization. The achievements and problems are viewed from this standpoint.

The achievements of the pricing system reform and price policy adjustment
A great deal has been accomplished in the past six years. During that time the foundation has been laid for the second stage of agricultural price reform and a basis provided for overall price reform. National economy has been developed and income distribution adjusted by means which can be summarised as follows: increase of peasant income; rise of living standards; stimulating agricultural growth and re-vitalising the market economy. Generally, a new incentive system has been provided for the peasants and the rural economy, and the priority of agriculture in the national economy has been recognised.

First, the increase of peasant income. From 1978 to 1984, the net income of the average person in agriculture increased from 133.6 yuan to 355.5 yuan, an increase of 2.7 times. The sources of income increase include increasing agricultural produce; developing non-agricultural production and service industry; increase of agricultural prices and others. Among them, increase of agricultural prices is a major source of the increased income. In three years from 1978 to 1981, the net income of

the average person in agriculture increased by 68 per cent, of which 65 per cent was accounted for by price increase (including procurement price, over-quota price and bargaining price). With the rapid expansion of agricultural production, the peasants depended more and more on greater production to increase their income in the years following 1981 but price increase was no longer the most important factor. In the period 1980–3, price increase still accounted for 21 per cent of the increase in peasants' income. There was even a 4 per cent increase in agricultural product prices in 1984 (current price, factors of inflation not eliminated).

Second, the peasants' living standard has risen while their income increased. From 1978 to 1981, the consumption expenditure of the average person in agriculture increased from 116.1 yuan to 190.8 yuan (living standard increased 64 per cent). In 1984 it again increased to 273.4 yuan, an increase of 2.35 times compared with 1978 (in current prices). Of the peasants' living expenditures, part was directly from their own production, such as foodgrain, vegetables, meat, eggs, cotton and edible oil. But the peasants' income structures and consumption structures are changing. From 1979 to 1983, the part directly from peasants' own production in total expenditure decreased from 57.9 to 24.1 per cent, while the part of cash spending increased from 41.1 to 75.9 per cent.

Third, investment in production was also increased. Production expanded and productivity increased. The following is the use of modern inputs in China in recent years: from 1979 to 1984, the total power of the agricultural machinery in the whole country increased from 182 million hp to 265 million hp, a rate of 45.6 per cent; chemical fertilizer increased from 10.86 million tons to 17.73 million tons, a rate of 63.4 per cent; electricity used in the countryside increased from 28.27 billion KWh to 46.2 billion KWh, an increase of 63.4 per cent. This provided the physical and technological conditions for the rapid development of agriculture in recent years.

Because of the successive good harvests and commercialisation of agricultural production, the total purchase of agricultural products in 1983 was 2.27 times that of 1978, even when inflation is allowed for, the increase is still 53.5 per cent. It provided more consumer goods in the market, easing the tension of the supply of basic living commodities, especially foodstuffs, and greatly changed the contents of the food basket. In addition, it indirectly influenced the development course of industry through multiplier effects. The economy in both urban and rural areas is thriving. Under the state monopoly system, the relation between price and production and supply was distorted. The government fixed price could not give signals of scarcity and abundance of commodities to peasants and consumers. And so, increase in price did not necessarily affect production and market supply. After the reform, price and production and supply was positively related. Taking 1978 as base period, state purchase prices of agricultural products increased reaching 141.5 in 1982, while output of major agricultural products also

presented an increasing trend, agricultural product purchase index rose to 186 in 1982. It rose again in 1983 and 1984.

Problems in pricing system reform and policy adjustment for agricultural products

Agricultural price reform, as a dramatic diversion from an economic system in China, is unprecedented. It is not easy to change an old marketing system, which people have long been used to, to a new system in a short period of time. Obviously many problems will be encountered. And the price policy adjustment itself is very delicate and sensitive. Price change will affect every part of the national economy; industry v. agriculture, production v. marketing, capital accumulation v. social consumption: all of these important economic relationships are going to be adjusted in the economic movement. It concerns very much the economic relations among peasants, workers and government budget balance, concerns the interests of everyone in the country. And price policy adjustment has to be done in the process of pricing system reform, while it has in return to give a push to the pricing system reform. These dual reforms, conducted in a vast country like China where the economy is backward, natural and eco-social endowments are very different among regions, and there are so many people, cannot be expected to be perfect. According to the above analysis, the pricing system reform and price policy adjustment were successful, the process went smoothly and quite quickly. But some problems also arose, such as the emergence of some new imbalances in the agricultural production structure, increase of budgetary subsidies and government budgetary burdens, the lag between wage adjustment and agriculture price adjustment.

First, imbalance in agricultural structure. The recent adjustments in relative prices of different agricultural products affected agricultural structure. From 1978–83, crop production in total value of agricultural output (not including industries run by communes) decreased from 71.3 to 66.7 per cent, while the proportion of forestry, husbandry and fishery rose from 28.79 to 33.3 per cent. Agricultural structure began to move to a way of comprehension development. But the problem is that some economic crops, such as tobacco, cotton and oil-bearing crops, expanded too abruptly and too fast. In 1982, the planting area of economic crops had already reached 100 million mu (1/15 hectare) of grain production area and greatly surpassed the government's crop planting structure adjustment plan. Increase of intensity of cultivation of economic crops is also higher than that of grain crops. The result is a surplus of edible oil and cotton, especially cotton for which there is no market at home and abroad and storage is very costly. Surplus of cotton has much to do with the unreasonable price relationship between grain and cotton. In 1983 in Shandong Province, a major cotton production region, cost-profit rate was 22.7 per cent for wheat, 53 per cent for corn, and as high as 124.9 per cent for cotton. The profit in growing one mu of wheat is 16.35 yuan, corn is 24.13 yuan, while cotton is 133.74 yuan. Karl Marx said, 'If

supply and demand determined market price, then on the other hand, market price ... also determines supply and demand.'¹ The high price of cotton made the cotton production increase abruptly. So, price adjustment should be flexible and state price should change with the changes in situation. If the price policy is rigid and slowly responsive, many problems will arise.

Another problem in agricultural production structure adjustment is that animal husbandry production did not develop fast enough. Husbandry was 13.2 per cent of the total value of agricultural output in 1978, but it was only 14.79 per cent in 1983. On the other hand, many regions in 1983 and 1984 had much surplus foodgrains coupled with a serious shortage of meat and eggs. The supply had to come from other regions and rationing still prevailed. Many factors are to blame for this phenomenon, but the relative prices of grain, hogs and eggs, fixed by government agencies, are the major ones. It made the hog industry a profitless business. In some regions, the hog industry stopped growing in accordance with the increase of demand, or even slowed down.

The second problem is the range of price subsidy expansion and the increased budgetary burden on government.

The price policy for agricultural products in recent years includes the price difference between state purchase and sale. Price subsidy is part of state economic planning. According to the experience, price subsidy as an expedient within a certain range for agricultural price adjustment has played a positive role. But problems arise when price subsidy lasts too long and in a wide range. When the government control gets loose some people will make use of the price differences to carry out malpractices. For example, in some places the purchase at procurement price is unreasonably reduced and purchase at over-quota price and bargaining price is over-expanded; some peasants deliver products of low quality to the State at procurement price, while they take high-quality products to market, and so forth. Government budgetary subsidies therefore faced an unexpected increase.

Another problem is that 'bonus' materials sold to the peasants at low prices are ever-increasing, as mentioned above; the low price 'bonus grain' alone accounted for 24 per cent of the total government grain purchase. 'Bonus fertilizer' is also given to some production that does not need fertilizer at all and this leads to misuse of a valuable resource. Foodgrain sold back to the countryside has also unduly increased. So, government budgetary subsidies greatly expanded, accounting for more than 30 per cent of the government budgetary revenue and seriously affecting the government budgetary balance. This is one of the main sources of inflation.

The third problem is that price adjustment is not well co-ordinated with adjustment of the workers' wage.

Workers' wages in China have been increasing in recent years. The price of foodgrain which is the most basic living stuff is unchanged; the consumption of meat, eggs and vegetables are subsidised to different

degrees; the price of industrial consumer goods in daily use is either unchanged or reduced. The increase of the average wage per worker and per household are generally greater than that of the retail price index of the whole country. All of these are important in stabilising or improving the workers' living standard. But sometimes price changes are not favourable to the workers in cities, especially large and medium-size cities. Increase of the retail price of vegetables, meat, eggs, poultry and fish greatly outstrips the rise in wages. It makes a big difference in some years. For example, average wage rates of workers in 1981 increased by 1.5 per cent, while at the same time, the price of foodstuffs like vegetables, meat, eggs etc. increased by 13.8 per cent. In 1983 again, the average wage rate of workers increased by 3.5 per cent, while prices of fresh vegetables, fresh fruit and aquatic products increased by 12.7, 14.7 and 13.4 per cent respectively. These data come from the publications of the State Statistics Bureau and do not include various illegal price increases. In workers' expenditures, food accounts for a large proportion, while foodstuffs like meat, vegetables, eggs, etc. account for more than half of the expenditure on food. So, any delays between price reform and wage adjustment pose a problem for workers, especially those who have little bonus and subsidy and those whose cash wages have remained unchanged for a long time. This finally will reduce the market demand and affect production. In the long term, money, prices, wages and so on under a market economy are flexible, ever-changing and cannot be fixed at one level for ever. So, in price and wage system reforms, directly connecting workers' wages with a living expenditure index is a good way to prevent price increases and workers' real incomes from being unco-ordinated.

III A PROSPECT OF FURTHER AGRICULTURAL PRICING SYSTEM REFORM AND PRICE POLICY ADJUSTMENT

On 25 March 1985, the Central Committee of the Party and the State Council, published 'On Ten Policies to Further Vitalize the Rural Economy'. According to this document, beginning from this year, the government will not give the peasants any compulsory delivery quota. Agricultural products will be purchased by contracts in markets. Up to this point, the state monopoly in agricultural product purchase has ceased to exist and pricing system reform has entered a new stage. The new system of contract purchase and market purchase has some new characteristics. Only three of these will be briefly discussed here: the nature and development of the new pricing system; changes and evaluations of the multi-price system; budgetary subsidies – subsidies on the difference between purchase and sales prices and general price subsidies.

Nature and development of contract purchase and market price system

Contract purchase prevails in grain and cotton marketing after compulsory delivery was abandoned. In principle, the relationship between the farmers and the state commercial departments is no longer one of giving

and taking, but one of sellers and buyers based on bilateral negotiation. Any agricultural products other than grain and cotton can be freely sold and bought in the market, price being dependent on the quality. Grain and cotton beyond the amount of purchase contract can also go to the market. This is the basic feature of the new price system. But, is this system the same as the free market system conducted by an 'invisible hand'? Of course not. This is because the government has macro-economic control of all the economic policies, including price policy, taxation policy, subsidy policy, finance policy and monetary policy, which enables the government in the macro-sense to incorporate the open market into the state economic plan.

What is the difference between this new system and the co-called 'mixed economy' of free market and government intervention prevailing in many capitalist countries? There is a difference. First, the state may make use of the weapon of economic legislation to adjust the direction of economic development, promoting economic activities that are deemed to follow the line of socialism and preventing economic activities that are considered unhealthy in China. This has already attracted some attention in recent years. Second, there is a huge commercial system in government's hand that directly participates in marketing activities. It can lead the market on to the track of economic planning by selling and buying in the free market. This agricultural product market and price system embody the principle of a socialist-planned market economy.

It takes time for this system to reach maturity. Compulsory delivery cannot immediately be completely eliminated for some commodities in some places. Some preparations are obviously necessary. The contract system can be improved only step by step. Nevertheless, contract purchase should be clearly distinguished from state monopoly in practice. The position of state commercial sectors has changed, it is doing business with farmers, co-ops, corporated and private commercial sectors. It also takes time for them to be adapted to the new environment. Moreover, the state commercial department assumes the task of market adjustment according to the economic plan after it changed into relatively independent accounting units. It plays dual roles in the course of movement of the economy. Problems certainly will arise, solutions can only be found in practice and so far there are no precedents. New commercial channels other than the government commercial system also have their own ways of development. Economic legislation should be greatly strengthened, but it may not be made perfect in a short time. And the old information system no longer exists, while new ones are yet to be set up. We mentioned above several problems that may arise in the development of the new price system. How these problems are going to be solved will have a great impact on the future of the new system itself and on the national economy as a whole.

Changes and evaluations of the multi-price system

The co-existence of procurement price and added price for over-quota

purchase in China can be traced back as early as the 1960s. But the multi-price system was configured only after 1979. Take grain as an example. There were procurement prices, over-quota prices, bargaining prices and market prices. On the selling side, there were foodgrain rationing prices, bargaining sale prices, market prices, bonus grain sale prices (to the peasants only) and selling back to the countryside prices etc. This author pointed out in a research report about multiprice that the development of the system follows a certain process. Its basic nature is to use a special method to increase the purchase price of agricultural products, encourage agricultural production and increase peasants' income under the condition of maintaining the monopoly system and with the consumers' price in cities unchanged.² The difference between the purchase price and retail price (in cities) is to be covered by government subsidies.

According to the experience of recent years, this system has shortcomings as well as merits. First, under state monopoly in marketing, the multiprice system prevents the production plan from being actually practised; regional distribution of agricultural production can be discrete, social economic efficiency can be low. Second, as mentioned above, it creates pseudo supply and demand and hence increases the price subsidies. This is one of the reasons for the heavy budgetary burden on the government in recent years. This author made the following suggestions in May 1983: incorporate procurement price and over-quota price into one price; abandon bargaining price and various bonus price; gradually abandon the practice of grain sold back to countryside.

However, I do not agree with the opinion that 'Multiprice for commodities is not a success. It has negative effects on producers, traders and consumers, and is not in accordance with the law of value.'³ It totally denies any merit of the system. Now, with the pricing system reform in its second stage, the multiprice system will finally vanish. But as a historical experience, one should try to be realistic in evaluating it. In fact, the multiprice system, as a price policy under state monopoly marketing, played a positive role, as we have mentioned above. Moreover, after 1979 the multiprice system in fact became a transitional form from the old system to the new. It follows the line of higher and higher price levels for agricultural products and looser and looser government control till enforcement of a free market with government macro-planning: procurement price – added over-quota price – bargaining price – market price. The experience of the past six years tells us that in the process of economic reform, any evaluation of price policy cannot be separated from the reform itself. How to closely connect economic reform with economic policies is still an urgent and complex problem for China and it requires constant attention.

Subsidy problem (from subsidies mainly on difference between purchase price and sale price to general subsidies)

Budgetary subsidy is a problem related to the one discussed above. With the expansion of budgetary subsidies in recent years, it has become a major

concern in China's finance and economy. In particular, the subsidies on price difference between government purchase and sale of agricultural products not only distort the relative price among various commodities, conceal waste and mismanagement, add to the budgetary burden on government and impede the economic reform but might also be unavoidable under state monopoly of agricultural marketing.

Now that the agricultural pricing system is being reformed, the problem of subsidies on price difference between purchase and sale is automatically solved once for all. But it does not mean the elimination of all budgetary subsidies or price subsidies. For example, the selling prices of grain and cotton prevailing now in the open market are lower than the contract purchase prices set by the government. Hence it is a kind of price subsidy by nature, but is no longer the subsidy on price difference between purchase and sale under state monopoly. It can be called support price. And, beyond the contract purchase price, there is a guarantee price (original procurement price in compulsory delivery), at which the government is obliged to purchase grain when it is in surplus. This is a specific price policy in the new price system and it is likely to exist for a long time and no longer a mere method of transition. This subsidy can avoid the problems with the subsidies on price difference between purchase and sale and contain the range of subsidies within government planning. But as to the problems of how to subsidise, how much to subsidise and when to subsidise etc., these are new problems facing China. Flexibility and constant study is needed.

NOTES

¹Karl Mark, *The Capital*, vol. III, p. 213 (Chinese edition).

²An Xi-Ji, 'A Possible Solution to Present Grain Price Problem', unpublished research report, Beijing Agricultural University, May 1983.

³Wu She, 'Trend, Problem and Solution of Grain Commodities', *Agricultural Economic Problems*, vol. 2, 1985.

DISCUSSION OPENING I – HAROLD BREIMYER

When I first studied economics, more than a half century ago, courses of study began with the history of economic thought and economic history and continued with what was called 'comparative economic systems'. Formal theory followed, and it was almost free of mathematical baggage.

The papers of Drs An Xi-Ji and Yan Rui-Zhen are of the category of comparative economic systems. All the Western world is fascinated by the changes in economic policy that are being made in the People's Republic of China. Dr Xi-Ji's paper of price policy and Dr Rui-Zhen's more comprehensive paper therefore interest us all.

Moreover, the papers are excellent. I like the candour. The gains made in agricultural production are recounted but also there is the warning that it is not possible to allocate accurately the credit for that performance.

Credit must be divided among pricing system reform, price policy adjustment, and changes in the household responsibility system. Elsewhere we even find a subtle suggestion that the weather may have helped. Dr Rui-Zhen's paper is less guarded in its favourable account, but it is more a descriptive than an evaluative paper.

In my country, the United States, it is fashionable to say that the People's Republic of China is moving fast towards our US style of capitalism. Our political stand is more friendly towards the People's Republic than towards a number of other socialist countries. In March 1985 the Central Committee and State Council of the People's Republic liberalised further the pricing and delivery system for a number of farm products. 'But,' Dr Xi-Ji asks rhetorically, 'is this system the same as the free market system conducted by an "invisible hand"?' His answer: 'Of course not'.

It is interesting to note two separate explanations of how the economic system of the People's Republic of China differs, both generally and in agriculture, from that of many capitalist countries. I find the first explanation not highly convincing, but the second full of wisdom.

The first explanation is that the government of the Republic – I quote Dr Xi-Ji – 'has macro-economic control of all the economic policies, including price policy, taxation policy, subsidy policy, finance policy, and monetary policy ...'. My response is that a similar macroeconomic control is held, at least potentially, by the Governments of France, Japan, Canada and the United States of America. My country practises all those economic controls, even as it suggests that it does not – or minimises what it does.

Both authors add a second explanation of differences between China and the West that is more convincing. It is that the People's Republic remains a planned economy. Open market activities are incorporated into the state economic plan. Dr Xi-Ji even uses the language of 'the weapon of economic legislation to adjust the direction of economic development ...'. Dr Rui-Zhen refers to a 'planned commodity economy' and adds that it is a 'collective economy'. Moreover, 'the nature of socialist collective ownership' has *not* changed.

All of which invites a comparison between what Dr Xi-Ji calls 'this new system' of the People's Republic of China, and the 'so-called "mixed economy" ... prevailing in many capitalist countries'. As I said above, it is refreshing that both authors tell us that their country remains socialist, and socialistically planned. Here I offer my personal comment that Western nations would be well advised to admit that their mixed economies, though not planned, include a powerful economic role for central government. That role might be played better if its players were quicker to admit they were playing it.

I make only one observation about China's new system as described by Dr Rui-Zhen. Peasant households are to be paid on the socialist principle of 'equal pay for equal work'. First of all, I did not know that to be a distinctively socialist principle. Second, that should not be regarded as

identical with reward according to value of product; in farming, at any given time and place, the correlation between effort and volume of production is not necessarily close. It makes a difference whether reward be calibrated according to input or output.

Both papers are a significant contribution to knowledge about comparative economic systems.

DISCUSSION OPENING II – G. H. PETERS

In commenting on the two papers which have been so neatly presented by our single speaker my aim will be to concentrate on pricing policy for agricultural products. Before turning to that in a somewhat critical manner it should, however, be said how willing our Chinese colleagues have been both to present information and to openly reveal the nature of some of the mistakes which they have made and the problems which they still have. They have also been too modest. It is all too easy for the outside observer to fail to realise how dramatic the post-1978 changes have been, both in the reorganisation of the entire work situation of the farmer following introduction of the responsibility system and in allowing market forces to play an increasing role in the resource allocation process.

There is clearly a close relationship between the responsibility system and the pricing of products; which itself is now in a process of amendment. When the household rather than the commune assumed the responsibility for *its own* self-supply and production for the non-agricultural sector, the household was nevertheless still constrained. The contract eventually handed down to it through a complex administrative process ultimately directed from the centre, specified *quotas* for delivery. There was, however, a complication over prices mentioned by Professor Xi-Ji (see page 452). I will very quickly summarise and raise queries as I proceed.

- (a) The procurement price was a state-fixed price for *quota* governed output.
- (b) To encourage effort an over-quota price was also available at which additional output could be sold, the proceeds from which would accrue to the household.
- (c) There was then a further opportunity to use the 'free markets' (which are essentially *locations* at which products can be sold by farmers to the community at large) at a price determined by the local forces of supply and demand. The 'free markets' provided what Westerners would describe as a 'free market' and I put it that way simply to emphasise what can often be a confusion between single and plural usage.
- (d) This appears simple until one realises that a 'bargaining price', dependent on the state purchasing agencies rather than the 'free market' has also been mentioned. With the new change in the

system this appears to be of growing importance. The question essentially is – *who* bargained and *with whom*?

The changes of March 1985 then appear. As a linked development between the responsibility system and the market system *compulsory delivery* is to be abolished. On pp. 457–8 it is stated that the relationship between farmers and the state commercial departments is no longer one of giving and taking, but one of buyers and sellers based on bilateral negotiation. This is hard to understand. Apart from difficulty in grasping the way in which a *state* can *bargain* with a farmer (unless the farmers are grouped into co-operatives of large scale) I am confused by the denial that the ‘invisible hand’ is at work because the *government* has macrocontrol of price policy. I could understand a system of state *fixed* prices, with the decision of *how much* to contract at those prices being left to the farmer as a means of further developing household responsibility rather than being in part governed by a compulsory quota. Additionally it is easy to see how the state fixed prices under macrocontrol could be *altered* from time to time to reflect both needs and farmers’ willingness to supply. Unfortunately the discussion becomes even more difficult on p. 459 where the author disagrees with the view that the ‘multiprice’ system is *not* a success and by the admission that ‘to closely connect economic reform with economic policies is *still* an urgent and complex problem’ (my emphasis). When I had the opportunity to visit China two years ago I was impressed by the sheer ingenuity of the multiprice system – and I felt that I understood it!. What I cannot *now* grasp is the way in which it will ‘vanish’ and be replaced by a bargaining system. It will be recalled that I mentioned this in connection with my query about the role of bargaining in the multiprice situation, and here it appears again. The speaker would perform a great service to us if he could, perhaps, elaborate on these issues in greater detail.

GENERAL DISCUSSION* – RAPPORTEUR: AKE ANDERSON

- Q. Please discuss inflation in China. What has been the rate of inflation?
- A. The inflation rate during the last two years has been between 2 and 3 per cent but has recently increased considerably. The inflation is caused by holding down state-fixed consumer prices while raising prices to producers, hence raising their incomes. One result is a large budget deficit in China of 3 billion yen.

Q. What do you mean by the term ‘household’?

*Much of the general discussion on the two papers from China was in the form of question and answer. In view of the interest in the subject and thanks to the careful recording of the rapporteur, this is reproduced verbatim (Ed.).

- A. It is the same in China as elsewhere. It is the members of an immediate family living in the same residence, usually a mother, father, their children, and often grandparents.
- Q. You talk of growth rates. Are you using physical or monetary terms?
- A. In the papers the terms are identified as physical or monetary when they are used.
- Q. Some regions in China are richer or poorer than others. As a result of the rapid growth in your agriculture since 1979, have these regional differences increased or decreased? Why have some regions developed less rapidly? What are you doing to help the poorer regions?
- A. While income has risen in all regions since 1979, the income gap between richer and poorer regions has increased. Generally the regions nearer the urban areas in the east have had the greatest income growth. This is because of the higher value of the products they produce (including high-valued fruits and vegetables for urban markets) and greater opportunities for shifting excess labour to production of industrial and consumer goods. The poorer regions are those furthest inland, away from urban areas, and producing lower value goods.
- Q. The rapid change in agriculture must be creating stress on farm families. Are excess workers being forced from traditional agriculture that they know and like into other occupations? Are they being forced on other regions? What is being done to ease this adjustment stress on families?
- A. Families have not been broken up or moved. Usually they remain in the same village. The co-operative initiates new activities, such as manufacture of consumer products or industrial parts, to employ the workers freed from agriculture.
- Q. As you have moved to the 'household responsibility system' has the number and role of collectives declined? How many collectives are left?
- A. The rural reforms have not changed the number of collectives. It is simply that within them, family households now have more individual responsibility and more opportunity to reap the rewards of their efforts.
- Q. You point out that food price subsidies in China have been growing and are now quite large. Why is this? Is the objective one of using food price subsidies to redistribute income to urban consumers?
- A. The food price subsidies have created a large budget deficit, which contributes to our inflation. These subsidies are being re-examined. Urban wage rates have not increased as rapidly as rural incomes,

therefore the subsidised food prices have helped to equalise the situation of urban peoples.

- Q. How does the State make policy decisions regarding taxes, producer prices, etc. What is the decision-making process and who is involved?
- A. Since 1979 the government has increased the state purchase prices and adjusted the relative prices among different agricultural products such as grain and cotton. It is a result of taking into account reports from the collectives during earlier years. Earlier we had four prices: procurement price, over-quota price, bargaining price, market price. This system did not work well and was abolished from the beginning of 1985. Now the government has strengthened the functioning of the market. I refer to the paper by An Xi-Ji, presented today.
- Q. You speak of China moving to a 'market' economy, yet you still refer elsewhere to China having a 'planned' economy. How do you use these two concepts, and is it consistent to speak of having both a 'planned' and a 'market' economy?
- A. Yes, it is consistent. The 'market' is a part of the planning process and an element in the framework of the plan.

Final remarks: Some participants in the general discussion have asked about the possibility of China becoming self-sufficient in food. We are not there yet but moving steadily in that direction. I refer to the figures in the presented papers. Our big problem is the shortage of cultivated land and overpopulation in agriculture. Only when a large number of people gradually separate themselves from land and engage in a variety of specialised types of production outside farming, will it be possible to improve our standard of living considerably.

Participants in the discussion included J. B. Wyckoff, N. Westermarck, J. Klatzmann, Todor Popov, Azai Shankar, Per Pinstrup-Anderson, Robert G. F. Spitze and Solomon Belette.