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CHINA'S RURAL DEVELOPMENT MIRACLE

WITH INTERNATIONAL COMPARISONS

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39

REFORMING THE MANAGERIAL SYSTEM OF STATE FARMS

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INTRODUCTION

China's state farms were established after the founding of new China. The original settlers were cadres and soldiers transferred from the army. These people were joined by school graduates recruited from cities and towns, cadres transferred to lower level activities or sent to do manual labour and some immigrants. The state farms were based on large scale land reclamation projects.

There are now 2000 state farms in China, with a population of 11 million people and 5 million farm workers. They manage more than 4.4 million hectares of cultivated land, 13.17 million hectares of grassland, and 1.74 million hectares of forest. The state farms have made great contributions to opening up and making use of previously uncultivated land resources; to establishing large scale agriculture and animal husbandry; to the extensive application of scientific agricultural technology and the modernization of agriculture; to the rational distribution of the national population; to the economy and culture of borderlands; and to the strengthening of frontier defence. However, because of the old-fashioned managerial system, the rate of development of the state farms has not been as rapid as it could have been.

Since 1979, state farms have examined their historic experience and learned some lessons. They have gradually reformed the old managerial systems. The main feature of the reforms has been the elimination of over-concentration and rigid centralization. The aim now is to give state farms greater autonomy with respect to managing rights and to invigorate the enterprises of state farms. The results of these reforms are remarkable. For instance, before reform the whole state farm system had deficits for twelve consecutive years which totalled 3.7 billion yuan. In the eight years since reform, state farms have earned a profit totalling 5.5 billion yuan of which 4.12 billion yuan has been handed to the government.

The results of the last eight years have proved that the changes introduced have been successful. The four main features of these reforms will now be briefly discussed.

MAKING THE STATE FARMS FINANCIALLY INDEPENDENT

Prior to 1979 all the revenues and expenditures of state farms were under government control. All state farms' profits were handed to the government, and they could be subsidized if there was a loss. This brought about some malpractices. The leaders of state farms had neither responsibility nor motivation. It did not matter whether their management was good or bad. No one was keen to make an effort at management since everything depended on the arrangements made by higher authorities. State farms were hampered by this rigid managerial system and there was a general lack of enthusiasm and initiative in production. They become a heavy burden on government finance and the suggestion that state farms were superior production units became an empty boast. People had different opinions on this in the early years and 'centralized control over the revenues and expenditures' was still treated as an immovable sacred principle of socialist state farms. However, since 1979, with the elimination of the 'left' ideological trends, people's understanding has gradually changed. At the same time the government decided to reform thoroughly the 'centralized control over the revenues and expenditures' managerial system and to introduce a financial contract system for state farms.

Since state farms in different regions have different historic situations, production conditions, and business opportunities, the government needs to deal with the various types of state farms in different ways and to devise different financial contract systems. For most state farms, the approach should be that each state farm is an independent accounting unit responsible for both its own profit and loss. These farms can keep profits for themselves but will not be subsidized if they make a loss. For the state farms which are highly profitable, the government can establish annual quotas with the understanding that once the contracted amount has been paid to the government, the farm can keep the surplus to themselves. These state farms will not be subsidized if their operations become unprofitable. For state farms with poor production conditions and for state farms which are temporarily loss-making operations, the approach should be to subsidize them according to a yearly quota. If after the subsidy they make a surplus, they should be allowed to keep it for themselves. If on the other hand their losses exceed the agreed subsidy, then the subsidy will not be increased. These farms should be required to make up their deficits within a definite time.

The key point of this financial contract system is self-responsible for both profit and loss. After the introduction of this new financial contract system, state farms need not hand in all their profit to the government, and they cannot 'be paid expenses by government and be compensated by government if there is a loss'. Government's 'big pot' cannot be shared any more and state farms now have some real pressure to perform. Because they have proper autonomous rights in financial management, state farms now have greater motivation and vitality. Farms with very different economic conditions have all changed from the previously passive situations to active operation and production. They have improved their management and expanded their production thus increasing their surpluses like a 'rolling snow ball'. Prior to 1979, the state farms had deficits for twelve years straight. After the introduction of the financial contract system in 1979, they immediately turned losses into profits, and the total profit generated that year was 0.39 billion yuan. They have been netting profits continuously now for

eight years. The reform of the financial managerial system has made a major contribution to this success.

INTRODUCTION OF STATE FAMILY FARM RESPONSIBILITY SYSTEM

Our state farms historically were organized like industrial enterprises with a tiered salary system for various grades of farm workers. 'No matter whether crops grow well or not, workers can get salary every month'. As this kind of distribution was supported by government, no one was concerned about social accumulation (investment) provided the salary was paid every month. This system became a significant symbol of the superiority of socialist state farms. It enabled farm workers to hold the 'iron bowl' and to 'share in one big pot' provided by the government.

State farms are enterprises engaged in agricultural production. Agricultural production has characteristics of decentralization, flexibility, slow growth and long production cycles. If the salaries of agriculture workers are not linked with quantity and quality of agricultural and animal husbandry products, it is good neither for arousing farm workers' enthusiasm nor for improving the economic efficiency of state farms. In the mid 1950s some state farms tried to reform the original salary system by introducing a quota, contract and reward responsibility system. They stressed that farm workers' payments should be connected to output, with proper reward and punishment. These state farms obtained remarkable results. But because of the interference of the leftist movement, this reform was finally cast aside and all state farm workers still held an 'iron bowl' to 'share in the one big pot'. In 1979, as discussed above, the government began to implement a financial contract system for state farms and to lay the foundation for the promotion of an economic responsibility system which would introduce distribution according to work. After 1979, the state farms in all regions re-introduced responsibility systems one after another, with the quota, contract and reward responsibility systems as the main components. Tasks were assigned to groups and the responsibility for these tasks to persons. Workpoints were accounted according to results while reward was according to workpoints. There was no longer egalitarianism in distribution. Round about 1981, state farms adopted the successful experience of rural reform in the rest of the rural sector and the system of payment among households was further improved. 'The quota, contract and reward responsibility system' was modified to a family or person output-related system of contracted responsibility. From the autumn of 1983 on, the new system was based on the family farm output-related system of contracted responsibility. State farms encouraged workers to use state-owned productive resources such as land, forest, grassland and water under long-term contracts. These contracts were between the state farm and individual households. Under these contracts the households could implement family management and in return they had to make payments according to quotas. Each household was responsible for its own profit and loss under the unified leadership, programming and management of the state farms.

The family farm output-related system of contracted responsibility is one combination of centralization and decentralization decision-making. It combines the superiority of the state farm organization in the fields of pre and post-production service with the enthusiasm of family farms' decentralized manage-

ment in the production phase. Implementation of the family farm output-related system of contracted responsibility has initiated family farming and aroused family enthusiasm. Labour productivity and rate of land utilization by the family farms have increased respectively by 20% and 30%. Especially when there is a natural disaster, family farms play a significant role in combating the disaster, protecting the harvest and increasing output.

ENCOURAGING COLLECTIVE AND PRIVATE ECONOMY WITHIN STATE FARMS

For a long time, the structure of our state farms has been a homogeneous state-owned economy. It was deemed incorrect for state farms to allow cooperatives and private enterprises to operate within the boundaries of the state farm. So, the proportion of collective economy and individual economy in state farms was very small.

The unifying of state farms with the state-owned economy was inflexible and lacking in vitality. There were a lot of things both in production and in the daily life of the people which needed to be done, but state farms, on one hand, were unable to do them, while on the other hand, collectives and individuals were willing but were not allowed to undertake these tasks. This not only affected the life of workers and their family members, but also did not make rational and good use of ample natural and labour resources in state farms. This situation seriously affected the development of production and construction and the improvement of economic efficiency of state farms.

After 1979, leaders at all levels from the Party Central Committee down to the local level recognised the above problems. The Party Central Committee pointed out that collective economy and individual economy are necessary and complementary to the state-owned economy. Departments responsible for state farms obviously decided that state farms could use many kinds of economic forms and managerial structures. Family members can cultivate a small area of land for private use, raise a little poultry and livestock and manage household sideline production. Labourers who engaged in collective and individual management could enjoy the same political rights and social status as farm workers, etc. Following the successful development of 'specialized households' in the countryside, some state farms have allowed workers with professional skills to go in for individual commercial management and to develop individually-managed small scale poultry farms, aquatic product farms, fruit and horticulture farms, brick and tile plants and stores. These policies and measures have eliminated people's prejudice against the collective economy and individual economy and have been welcomed by the mass of workers. As a result there has been a rapid development of cooperative and private enterprises within state farms. For example, during 1983 the state farms in Heilongjiang Province developed 2,861 collective enterprises employing 107,000 workers, which was 12.1% of the total number of workers on these state farms.

Some people have been concerned that the development of collective economy and individual economy inside state farms will weaken the state-owned economy. Eight years' practice has shown that it is good for the development of the state-owned economy to let various state-owned, collectively owned and individual enterprises divide the work, support one another and cooperate closely under the

domination of a state-owned economy. The development of enterprises inside state farms has provided surplus labour with opportunities for employment. It has also let state farms concentrate funds, labour, techniques and talented persons on operating and developing the state-owned economy.

INTEGRATION OF AGRICULTURE, INDUSTRY AND COMMERCE

Agricultural products processing is an extension of agricultural production. In the past, the economic system in our country has departmentally separated these two aspects of agriculture. State farms could only cultivate land to provide industrial departments with cheap raw materials. They were not allowed to process agricultural products. Nor could they operate commercial services. This kind of departmentally separated economic system lasted for over twenty years, and the development of the state farms was seriously restricted. In addition, there existed the 'scissor-shaped difference' between industrial and agricultural prices. The farms were forced to market their agricultural products at prices lower than their real value and they had to purchase the means of production at prices higher than their real value. This made it difficult for state farms to finance investment to extend production by relying on their own accumulation. Some farms could not even maintain their existing assets. In order to change this situation, state farms in Xingjiang Autonomous Region established industrial and commercial operations in the early 1950s. They compensated their losses in agriculture with profits from industry and commerce and used the net surplus to improve farm production conditions and to expand agricultural production. These state farms earned profits for twelve years from 1955 onwards. But during the ten year 'cultural revolution' this successful experience of combining agriculture, industry and commerce was severely criticized and state farms were forced to restrict their activities to cultivating land and marketing cheap raw materials. As a result, they had serious deficits for the next ten years.

In 1978, our country entered a new stage of development. People eagerly wanted to reform economic management and to change the long term deficit situation which existed on state farms. In December of that year, the Party Central Committee analyzed the historical evidence on the successful experience of comprehensive state farms which had integrated agriculture, industry and commerce. At the same time they looked at the integrated ventures initiated by the city of Belgrade in Yugoslavia which combined agriculture, industry and commerce. As a result the Central Committee decided that state farms should 'establish the state farm agribusiness as soon as possible'. Many provinces, cities and autonomous regions gave a warm answer to this decision and actively began to make experiments. Chongqing City in Sichuan Province took the lead by organizing the twenty-six farms, two companies and two tea processing plants which were subordinate to the city into the Changjiang State Farm Agribusiness. They produced the raw materials, they processed these products and they marketed them themselves thus making production, processing and marketing a coordinated process. After three years their total value of production of industry and agriculture increased 1.32 times, profit increased 141 times, tax handed to the government increased 1.44 times, and yearly average income of workers increased 69.2%. People have come to realize by making experiments the truth of the saying 'no steadiness without agriculture, no richness without industry and no

vitality without commerce'. State farm agribusinesses have sprung up like mushrooms. By the end of 1984, state farms all over the country had combined agriculture, industry and commerce production and had successfully popularised the concept of state farm agribusiness.

For eight years, state farm agribusinesses have been developing and flourishing. It has fundamentally improved the economic situation of state farms. It has enabled state farms to increase their profits by processing and marketing agricultural and animal husbandry products, to increase the accumulation of investment funds, and to improve the efficiency of agricultural and animal husbandry production. Because state farms have found new productive activities, their surplus labour has found employment and this is a good way to increase overall labour productivity. Cooperation between several units to raise investment funds has enabled projects which are difficult to establish by one unit to be established to extend the scale of production and to strengthen managerial ability. By processing and marketing their own products directly, state farms can decrease intermediate links and losses in storage and transportation and make things more convenient for the masses and generally enliven the market. It is good to increase profits both for the enterprises as well as for the society. State farm agribusinesses can link up with peasants living outside the state farm and can encourage them to provide raw materials of agricultural and animal husbandry products for processing and marketing. The state farm can then return a part of the profit of processing and marketing to these peasants. This integration of the state farms with the surrounding countryside can increase peasants' income, speed up development of the rural economy and build closer relationships between state farms and peasants.

CONCLUSIONS

The above mentioned reforms have enabled state farms in our country to shake off the old restrictions and to reappear as flourishing entities in the new atmosphere. The superiority of state farms as a form of economic organization is beginning to be demonstrated. The reform of state farms in China has made gratifying advances, yet it is tentative. Some problems have not yet been dealt with adequately. We are willing to exchange information and experience and to cooperate closely with one another and with agricultural economists in other countries to find the best managerial system for state farms so that they can improve their economic performance and hence make a proper contribution to the revitalization of the rural economy.