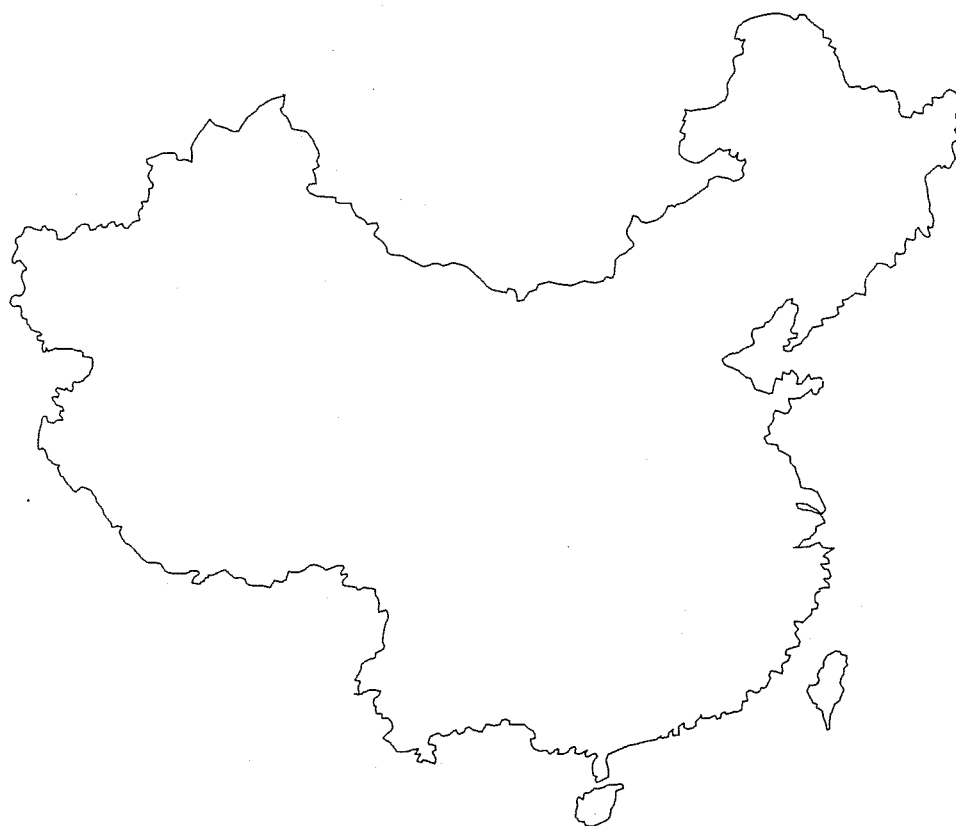


M. A. PAPER

CHINA'S RURAL SURPLUS LABOUR

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I. Introduction

1. The Purpose of the Research

China is the most populated country in the world. According to the latest census, taken in July 1, 1990, China has 1,133.7 million population which accounts for one fifth of the world's population.¹ About 74 percent of China's population live in the rural areas in 1990.² Agriculture has been the predominant feature of China's economy throughout history. Agricultural development is a very important component of China's development strategy which aims at transforming China from a traditional agricultural country into an advanced industrial country. Since the establishment of the People's Republic of China, China's agriculture did make significant progress such as in land reform and collectivization from the period of 1949-1957. It also suffered from some policy mistakes in the late 1950s to 1970s which resulted the stagnation of agricultural development. The most recent far-reaching economic reforms started in rural areas since 1978. The institutional changes of decollectivization have brought agricultural development to some extent and have had important effects on social and economic development. Unfortunately, high rural unemployment and underemployment persists because of the increase in rural surplus labour. This paper will examine the evolution of rural surplus labour and causes of it. It will also examine the government policies and make some comments and suggestions on those

¹ World Bank *World Tables*, Washington D. C., 1992.

² World Bank *China: Strategies for Reducing Poverty in the 1990s*, Washington D. C., 1992.

policies.

2. The organization of the Paper

In order to understand the rural labour surplus and its importance to China's economic development, some background review is needed. A discussion will follow on the reasons why surplus labour exists in China from a historical and current point of view as well as the effects of the rural surplus labour. Finally, there will be an examination of the government policies and some comments and suggestions on future policies.

II. Background Review: China's Agricultural Development

Since the establishment of the People's Republic of China (PRC) in 1949, China's agricultural development has achieved some successes and experienced some failures. During the past four decades, China's agricultural development has gone through three stages: land reform, collectivization, and decollectivization (the household responsibility system).

The land reform took place during the 1949-1952 period. The target of the land reform was to change ownership of land. Farmland is the most important factor for Chinese farmers, and land ownership exerts a powerful motivational influence on farming population which constitutes the majority of the Chinese population. It is vital for the government to have farmers' support. This consideration could be regarded as the direct reason for the 1949-1952 land reform which provided farmers with their own land to operate.

China's traditional agrarian structure was made up of small peasant farms on land often owned and leased by landlords. From 1840, China entered a semi-feudal, semi-colonial and semi-capitalist society, but agriculture still maintained its feudal characteristics. Mao Tse-tung, the most famous and long-period Chinese leader, had once written an article "Analysis of the Classes in Chinese Society"³ in which he described the Chinese society and classified the Chinese peasants into "the landlord class",⁴ "the owner-peasants"⁵ (the middle

³ Mao Tse-tung *Analysis of the Classes in Chinese Society (1926)*, in *Selected Works of Mao Tse-tung, Volume I*, Peking (Beijing): Foreign Language Press, 1967.

⁴ *ibid.*, pp. 13.

⁵ *ibid.*, pp. 15.

peasants), and "the semi-owner peasants and the poor peasants",⁶ and further stated "The overwhelming majority of the semi-owner peasants together with the poor peasants constitute a very large part of the rural masses."⁷ By 1949, Chinese farmers were distributed into three groups: poor and landless peasants, about 60-70%; middle peasants, about 20-30%; rich peasants and landlords, about 10%.⁸ The land reform changed this ownership radically: 47 million hectares (705 million *mu*)⁹ of farmland, which had been owned by the landlords, were allotted to 300 million peasants who were poor and landless. The land reform benefited those 60-70% poor and landless peasants. After the reform, each household owned on average about 0.8 hectare (12 *mu*) of farmland, 0.47 head of draught animals and 0.41 ploughs. The reform increased incentives for the mass of farmers. Between 1949-1952, grain output increased by 48.2%, and socio-economic conditions were improved.¹⁰

During the land reform, a co-operative organization called the "Mutual Aid Group" (MAG) appeared (1950-55). This group was established on the voluntary participation of three to five households, which merged their capital goods for mutual assistance, but the

⁶ *ibid.*, pp. 16.

⁷ *ibid.*, pp. 16.

⁸ Kenneth R. Walker *40 Years On: Provincial Contrast in China's Rural Economic Development*, *The China Quarterly*, London: School of Oriental and African Studies, December 1989. pp. 448-480.

⁹ 1 hectare = 15 *mu*.

¹⁰ Zhou Taihe *The Reform of Economic System in Contemporary China*, Beijing, 1984. pp. 24-26.

ownership and management of each farm remained in the hands of the individual household. The advantage of MAG was co-operation. In 1952, about 40% of all farmers joined MAGs, and by 1954 the figure was 58.3%.¹¹

Inspired by the advantages of co-operation, a collectivization type organization called the "Elementary Agricultural Producers' Co-operative" (EPC) began to emerge (1952-57). Without impairing private ownership, this type of co-operative merged farmers' land, capital goods and labour. Income distribution was based on each household's share of the land, capital goods and labour contribution. By 1955, about 14.2% of all farmers were included in EPCs.¹² This type of co-operative generated some distribution problems because it was difficult to measure the quality and quantity of labour contributed.

From late 1955 to 1958, policy-makers launched a campaign to collectivize agriculture. The changes went too rapidly. Within only two years, a new organization called the "Advanced Agricultural Producers' Co-operative" (APC) included 96.2% of all farmers (1956-57). In just a few months, it was replaced by the "People's Commune" (1958-84). By the end of 1958, all farms were collectivized.¹³

¹¹ see table 2.1.

¹² see table 2.1.

¹³ see table 2.1.

Table 2.1

Composition of Rural Organization

(% of total farmer households)

Period	M.A.G. ¹⁴	E.P.C. ¹⁵	A.P.C. ¹⁶	People's ¹⁷	Others
1950	10.7	-	-	-	89.3
1951	19.2	-	-	-	80.8
1952	39.9	0.1	-	-	60.0
1953	39.3	0.2	-	-	60.5
1954	58.3	2.0	-	-	39.7
1955	50.7	14.2	-	-	35.1
1956	-	8.5	87.8	-	3.7
1957	-	1.3	96.2	-	2.5
1958	-	-	-	100	-

Source: Zhou Taihe *The Reform of Economic System in Contemporary China*, Beijing, 1984. pp. 24-26, 253-261.

Both advanced co-operative and commune systems were regarded as forms of collectivization, and the commune existed until 1984. Under the commune system, there was a three-level rural management system. This system was composed of the commune, the production brigade and the production team. The commune was playing the local government role, the production brigade was an economic unit, and the production team was a production unit.

The key feature of the commune was collective ownership. Collectivization changed private ownership into collective ownership. Farmers lost their private ownership of lands

¹⁴ M.A.G. = Mutual Aid Group

¹⁵ E.P.C. = Elementary Producers' Co-operative

¹⁶ A.P.C. = Advanced Producers' Co-operative

¹⁷ People's = People's Commune

and capital goods; they became the members of the commune. According to commune principle, all assets of a commune belonged to its members. Every member of the commune had equal rights to the assets. This is collective ownership.

Another feature of the commune was "equal pay for equal work". The work-point system was the basis of income distribution. This system was a typical egalitarian one. Anybody who worked was given the same amount of points, and at the end of the year, the remuneration was based on the amount of points accumulated. As was mentioned, it was very difficult to evaluate the quality and quantity of the labour contributed by each farmer. This problem was not solved for almost two decades when rural reform occurred. Farmers under this system lost their incentives of working hard, resulting in low productivity, low efficiency and a decrease of agricultural output.

From 1952 until 1978, there was some development in agriculture. For example, during that period, the government invested in agricultural development 170 billion *yuan* (RMB), of which 60 billion *yuan* were spent on capital construction¹⁸ such as reservoirs, fertilizers and tractors. As a result, about 80,000 reservoirs were built and more tractors were used in production. Farm conditions also improved, but compared with the significant progress in industry, agricultural development was far behind. The share of agricultural output in China's "Total Industrial and Agricultural Output" was decreasing. In 1952, the agricultural share was 58.5%, but by 1978 it was only 25.6%.¹⁹

¹⁸ Lin Justin Yifu *Institutional Reform in Chinese Agriculture: Retrospect and Prospect*, in James A. Dorn and Wang Xi (edit) *Economic Reform in China: Problems and Prospects*, Chicago: University of Chicago Press, 1989. pp. 149-164.

¹⁹ see table 2.2.

Table 2.2

Composition of Agricultural Output

Period	Gross Output of Ind. and Agri. (100 million <i>yuan</i>)	Gross Output of Agriculture (100 million <i>yuan</i>)	% of Agri. in Total Output
	(1952 Price)	(1952 Price)	
1949	466	326	70.0
1952	827	484	58.5
1957	1,241	537	43.3
	(1970 Price)	(1970 Price)	
1975	4,504	1,285	28.5
1976	4,579	1,317	28.8
1977	5,067	1,339	26.4
1978	5,690	1,459	25.6
1979	6,175	1,584	25.6
1980	6,619	1,627	24.6

Source: *Almanac of China's Economy, 1981*.

Du Runsheng, one of the Chinese senior leaders at State Council, admitted that "because priority in economic development was given to industry (especially heavy industry)," there was a great decline in agriculture. He also noticed that "between 1965 and 1977, average net income of farmers increased by only one *yuan* per year", and the "price system put agriculture and farmers in a disadvantageous position".²⁰ Because farmers were in that poor position, they really wanted to change and to get rid of poverty. That was the direct reason why China's economic reform started from the rural areas.

In 1978, a new form of agricultural production based on the household appeared. This was the starting point of China's economic reform. This new form of production was

²⁰ Du Runsheng *Advancing Amidst Reform*, in John W. Longworth (edit) *China's Rural Development Miracle*, Queensland: Queensland University Press, 1989. pp. 1-10.

later named the "Household Responsibility System" (HRS), and was supported by the top-level political leadership.

The household responsibility system is characterized by the following aspects. The people's commune (from 1984 changed to township government) assigns an allotment of land and capital goods to each farmer's household according to the number of the household. Then both sides sign a contract which stipulates the amount and length of land to be used and the sum of agricultural taxes to be handed over to the state as the implicit rental of using the state's land. The households then organize production with their own available means of production, and make their own decisions as to what to produce and how to produce.

The period from 1978 to 1984 can be viewed as the first phase of rural reform targeting the institutional change, that is, from collectivization to decollectivization, from a highly centralized collective management to a decentralized household responsibility system. By 1983, the farm households became the fundamental unit of management and production in the agricultural sector, with a framework of collective or state ownership of land and fixed assets. Reforming of the farm price structure to provide higher income and greater incentives for production, and reducing administrative control over production decisions were the pre-conditions for the success of the production responsibility system. A major adjustment in 1979 increased average procurement prices by 25% for grain, 40% for oilseeds, 17% for cotton and 37% for pigs.²¹

²¹ Jiang Jinyong and Luo Xiaoping *Changes in the Income of Chinese Peasants since 1978*, in John W. Longworth (edit) *China's Rural Development Miracle*, Queensland: University of Queensland Press, 1989. pp. 174.

From 1984, the government launched the second stage reform. The main theme of the second-stage was to establish a market system, that is, totally abandoning the state procurement system and adopting the market mechanism by way of readjusting the production structure in rural areas. The rural factor market was opened. Transactions of agricultural factors such as hiring labour, sub-leasing land and lending money at higher interest rate were legalized.

The government rural reform strategy and policy can be summarized as follows:

Period	Strategy	Policy
1979-84	Restructuring rural economy through institutional changes	<ol style="list-style-type: none"> 1. H.R.S. 2. Reform commune 3. Specialization household 4. Price, tax and quota adjust.
1985-date	Restructuring rural economy through market and price	<ol style="list-style-type: none"> 1. State purchase contract 2. Price 3. Diversification

Source: Bruce Stone *The Basis for Chinese Agricultural Growth in the 1980s and 1990s: A Comment on Document No. 1, 1984, The China Quarterly*. London: School of Oriental and African Studies, March 1985. pp. 114-121.

Still in progress, China's rural reform has brought her agriculture to a new level, but there are still some problems unsolved. One such problem is the rural surplus labour, to which the remainder of the paper will be devoted.

III. China's Rural Surplus Labour

For a relatively long period, from the 1950s to 1970s, the problem of rural surplus labour was not given much attention. In the 1950s, during the period of collectivization, some co-operatives found the surplus labour. Mao Tse-tung described as "The experience of these two co-operatives shows that under present conditions of production there is already a surplus of roughly one-third of the labour-power. What required three people in the past can be done by two after co-operative transformation, an indication of the superiority of socialism. Where can an outlet be found for this surplus labour-power of one-third or more? For the most part, still in the countryside."²² But Mao believed that it would not be a problem if the labour intensive farming and diverse production was carried on. He wrote, "Some places did find a surplus of labour-power for a while following the co-operation, but that was because they had not yet extended the scale of production, initiated diverse economic undertakings or started intensive cultivation. For many places, the labour shortage becomes evidence as production grows in scale, the number of undertakings increases, the efforts to remake nature become more extensive and intensive and the work is done more thoroughly."²³ "As the scope of production expands, the number of undertakings increases and the work is done more intensively, there is no need to worry about labour-power not being put to use."²⁴

²² Mao Tse-tung *Selected Works of Mao Tse-tung, Volume V*, Peking (Beijing): Foreign Language Press, 1977. pp. 269.

²³ *ibid.*, pp. 268.

²⁴ *ibid.*, pp. 269.

Under this guidance, the Chinese authorities carried on a policy of intensive farming which they believed would solve the surplus labour problem. In the late 1950s, there was a development of rural small industries called "five small industries" following the "Great Leap Forward". Whether these small rural industries were aimed at solving surplus labour or not was not clear, but it is believed that they did absorb some rural surplus labour. Unfortunately, these small industries did not last long. After suffering the 1959-1962 famine, most of them disappeared.

In the late 1960s and 1970s, influenced by the "Cultural Revolution", there was a movement of "Learn from Da-tsai". (Da-tsai was a Brigade located in Sanxi Province, it was appraised as a model of agriculture because Da-tsai claimed its development coming from learning Chairman Mao's works and criticizing capitalism.) Therefore, the major aim of agriculture was the promotion of agricultural production by "mass criticism and repudiation" and to check any "capitalist tendencies", and to cut "capitalist tails" in the agricultural sector.

As a result, over the period from the 1950s to 1970s, the steady population growth, the sharp decline in the available arable land per capita, the continuous increase in the total horsepower of agricultural machinery and the consumption of electricity, chemical fertilizer and insecticide per *mu* of arable land, all combined to produce a formidable army of surplus agricultural labour. Conservative estimates suggest that one third of the total agricultural labour force, in general, and 40% in some regions, was superfluous.

The question of rural surplus labour did not attract world attention. For a long time, China was regarded as unique in the ability of absorbing an increasing amount of labour.

According to Eddy Lee, "On overall employment generation, the record has been

remarkably good. In the first place the commune system guaranteed employment and thereby also an entitlement to collective output. Whether this represented 'full employment', measured either by resulting marginal productivity of (and returns to) labour or by the amount of work available throughout the year, or instead represented the outcome of a working-sharing arrangement is difficult to tell. However, there are indicators that system has been remarkably successful in absorbing the huge increase in China's rural labour force in the post-liberation period."²⁵

Thomas G. Rawski wrote, "China's undeniable success in absorbing new cohorts of rural workers, however, has brought with it a substantial decline in the marginal product of labour. Although the rising number of workdays per farm labourer has prevented output per man-year from decline, both output per man-day and total factor productivity in agriculture were considerably lower in 1975 than in 1957."²⁶

According to Rawski's estimates, the number of persons employed in the rural economy increased from 231.5 million to 238 million between 1957 and 1975. At the same time, the number of days worked per employed person also increased substantially, from 159 to 206 days per year. Output per man-year also was estimated to have increased from 232 *yuan* in 1957 to 255 *yuan* in 1975. These are, by any standards, stupendous achievements in labour absorption (or employment generation). At the same time, however, it is important

²⁵ Eddy Lee *Employment and Incomes in Rural China*, in Keith Griffin (edit) *Institutional Reform and Economic Development in the Chinese Countryside*, London: Macmillan Press LTD, 1984. pp. 132-175.

²⁶ Thomas G. Rawski *Economic Growth and Employment in China*, Oxford: Oxford University Press, 1979. pp. 90-91.

to note that according to Rawski's estimates, the output per man-day declined from 1.46 *yuan* in 1957 to 1.24 *yuan* in 1975. From an overall viewpoint, this process could be seen as one whereby labour was mobilized for tasks with a low and declining, but positive, effect on farm output, a sensible policy if the opportunity cost of this labour was low. From the peasants' point of view, the falling value of each workday brought about by a rising man/land ratio meant that, with migration and private plots closely restricted, increased collective labour was the only way to protect existing living standards. To attain higher income, extra work was unavoidable.²⁷

Why did the surplus labour problem not receive much attention before? One of the explanations was that the Chinese government carried on a policy based on Marxist political ideology which insisted that everyone should have a job and equal income. Under the egalitarian income distribution, the peasants did not work to their full potential and therefore much more manpower was used than actually needed. The authorities believed that the economic development depended critically on increasing the agricultural labour force, or in other words, raising rural employment participation so that agriculture could generate the economic growth needed for the economy. Under this egalitarian policy, the Chinese authorities were pursuing an agricultural development strategy that maximized labour use. The primary vehicle was to raise the labour intensity of farming. There was a great debate about labour intensive farming. In the 1950s, there was a mechanization movement, and in the 1970s, there was a great effort made by the government to achieve mechanization. Until 1978, when rural reform started, labour intensive farming was still the

²⁷ *ibid.*, pp. 90-91.

major type of farming in rural areas. Under labour intensive farming, much more labour force was used than needed. It seemed that everyone got work to do, but underemployment was hidden. Another explanation was that China carried on a residence permit system. The growing peasantry population was restricted in rural areas, so, there was no large migrations. The common sense that the surplus labour force would flow out did not happen in China because of the permit system. The Chinese authorities did not allow migration which would have exposed the rural surplus labour problem. As a result, from the 1950s to the 1970s, China's surplus labour problem did not attract much inside or outside attention.

The picture of China's unqualified success in avoiding unemployment eventually brought some doubts and arguments. In the mid-1980s, some Chinese scholars began to examine and question the rural employment situation and they concluded that the rural surplus labour situation was worse than before and the amount of surplus labour was at a substantial level. The important research works are: Zhao Lukuan and Yao Yuqun, "Some Questions Concerning China's Labour Resources" (Inquiry into Economic Issues, No.12, 1983); Xiong Yu, "The Population, Social and Economic Issues Discussed at the Annual Session of the Council of the Population Association of China" (Population Research, No.2, 1983); Li Muzhen, "An Analysis of the Population of Cities in China" (Population and Economics, No.4, 1984); Zheng Zonghan, "On Small Towns" (Social Science in China, No.4, 1983). Their research works presented the astonishing finding that about 30-40% of rural labour was surplus. Based on a 1986 employment base of 380 million workers, this suggests that between 114 million and 152 million farmers were surplus to the needs of agricultural production. A recently-issued report on rural development by the State Council's Rural

Development Centre and the Rural Development Research Institute of the Chinese Academy of Social Science concluded that if no measures are taken to deal with the problem of underemployment, the surplus rural labour will swell to 250 million by the year 2000.²⁸

Why did the rural surplus become obvious in the mid-1980s? There are three explanations. First, when the household responsibility system was carried on, the individual household seeking efficient production, cutting the number of labourers in the fields, thus producing a noticeable surplus labour. Secondly, the rural industry also sought efficiency and began to layoff surplus labour. Rural industry played the important role of absorbing surplus labour in the late 1970s. A great amount of the rural surplus labour generated by the population growth was absorbed by rural industry. When the rural industries began to layoff, the labour force which was absorbed by them again became the surplus labour. Why did rural industry begin to layoff in the mid-1980s? This was mainly because of the competition from urban industries. Following the economic reform, the responsibility system was also carried on in the urban industries. Urban industries have more advanced technologies and equipments. When they were freed from the planned production, they were obviously in an advantage position to produce what market needed. They could easily drive rural industries out of the market. The rural industries had no ability to compete with them and had to cut production, resulting the layoff. Thirdly, following the reform, the rural factor market opened in the mid-1980s, the sub-leasing land and the hiring of labour became legal, and those who came forward to seek jobs in the labour market were obviously unemployed.

²⁸ CBC NEWS, reports on rural unemployment problem in China, January 29, 1993.

IV. Measuring Rural Surplus Labour

Chinese scholars have tried to measure the rural surplus labour and to define the underemployment in some ways. These efforts were summarized by Jeffrey R. Taylor in three methods.²⁹

The first is the "Experience Method" (*jing yan fa*), which has been used for a long time. In this approach, rural production team leaders would estimate average labour requirements for the production work of their villages, and simply compare these estimates with actual labour hours to derive surplus labour statistics. The popularity of this approach has fallen in recent years, since the implementation of the production responsibility system has shifted the focus from production teams to the labour requirements of individual households. Households differ markedly in labour use, complicating the task of estimating labour requirements for a village as a whole. The approach is thus regarded as reliable for measuring surplus labour only in small areas that have relatively good statistics.³⁰

The second, and more commonly used, is the "Estimation Method" (*gu suan fa*). In this approach, rural surplus labour is calculated by first determining overall labour requirements for a benchmark year (in terms of land/labour or labour/equipment ratios), and then comparing this with actual labour used. This approach unfortunately fails to take into consideration changes in the rural structure of production that could legitimately

²⁹ Jeffrey R. Taylor *Rural Employment Trends and the Legacy of Surplus Labour, 1978-86*, *The China Quarterly*, London: School of Oriental and African Studies, December 1988. pp. 749-752.

³⁰ *ibid.*, pp. 749-751.

increase overall labour requirements per hectare of land. There is, moreover, an unstated assumption that underemployment is minimal in the benchmark year, which is rarely true. Benchmark years are traditionally drawn from the early 1950s, and the labour absorption policies discussed earlier had not been fully implemented during this period. Finally, the underemployment rate calculated using this approach is very sensitive to the source on uses for China's actual rural labour force. As noted by Chinese scholars, the 1982 population of rural labour was significantly higher than the rural labour force total from annual labour force report. Assuming that underemployment population is 100 million, a surplus labour rate is 25% by using the census data, compared to a rate of over 30% by using the regular labour data.³¹

The third approach is the "Labour Norm Method" (*lao dong ding e fa*). The amount of surplus labour is determined by first calculating overall labour requirements, obtained by dividing the sum of labour days required to grow individual crops (or perform other tasks) by the average annual labour days available per worker. This quotient is then subtracted from the actual rural labour force to yield an estimate of redundant workers. An early and influential example of this approach is a study by Song Linfei, in which he estimated that 56.8% of the labour force in Taigu County, Jiangsu Province was not required for farming.³² These individuals, he stressed, were not at all surplus labour, some engaged in rural sideline and non-agricultural activity. Subtracting this number from the estimated total

³¹ *ibid.*, pp. 751-752.

³² Song Linfei *Surplus Labour in Rural Areas and Its Employment*, *Social Science in China*, Beijing: Social Science Publishing House, No.5, 1982. pp. 121-133.

not needed in farming, a total of actual surplus labour occurred which was 31% of the county's rural labour force.³³

The most impressive of these efforts is the 1987 finding by analysts at the System Resource Institute of Chinese Academy of Science that 32.2% of China's rural labour force was surplus in 1982.³⁴ This conclusion was based on a sample survey of 1,400 counties spanning all 29 provinces, which was jointly undertaken in 1984 by the Ministry of Agriculture and the Ministry of Commerce. Labour requirements were estimated for over 31 rural activities and adjustments were made to account for the effect of multi-cropping on labour use.³⁵

There is an urgent need to search for a scientific method by which to accurately determine the extent of the surplus labour force. In China, the calculation is quite rough. The standard arable land per capita and per agricultural labourer is determined by the results of sample surveys or historical references. The 1952 standard arable land per agricultural labourer is sometimes used for this purpose. The present estimate of the number of surplus labourers is determined by comparing standard arable land per agricultural labourer with that obtained by dividing the country's total arable land by the national total agricultural labourers. As the figures on the standard arable land per agricultural labourer varies from low 6 *mu* to high 12 *mu*, and so as the great difference in

³³ Jeffrey R. Taylor *Rural Employment Trends and the Legacy of Surplus Labour, 1978-86*, *The China Quarterly*, London: School of Oriental and African Studies, December 1988. pp. 752.

³⁴ *ibid.*, pp. 749-752.

³⁵ *ibid.*, pp. 753.

the estimated total arable land in China from the lowest 1,450 million *mu* to the highest 2,200 million *mu*,³⁶ the current estimation of China's surplus rural labour is far from precise. Nevertheless, the estimation of the general trend and direction shows consistency. At present, besides lack of consensus on the basic figures, a commonly agreed upon ideal scientific method for calculating the surplus rural labour force is also missing. It is imperative that we search for such a scientific and practical method.³⁷

³⁶ Chen Jiyuan *China's Transfer of the Surplus Agricultural Labour Force*, in John W. Longworth (edit) *China's Rural Development Miracle*, Queensland: University of Queensland Press, 1989. pp. 213.

³⁷ *ibid.*, pp. 213-214.

V. Historical Review of Rural Surplus Labour

There is commonly believed that in China at least 30% of the rural labour force is surplus labour. Why does such a large amount of rural surplus labour exist in China? There are several reasons.

1. Huge Agricultural Population and Labour Force

China is the most populous country in the world. The latest 1990's census shows that China has 1,133.7 million people, compared with 1949, when there were only 541.6 million people. In just 40 years, China has doubled its population.³⁸ The huge population becomes a heavy burden for China's economic development. In the 1950s, due to the improved living condition, there was a baby-boom, and there was no control of population in this period. Ma Yincu, a famous demographic, advocated the control growing population in the mid 1950s, but his idea was not accepted by the Chinese authorities. Instead, the authorities believed that "the more the people, the higher the strength". The second census taken in 1964 showed that China's population had increased by 200 million within 15 years. The Chinese authorities realized that the population was a problem and began to take control. The major method of control is controlling the birth rate. This is very difficult to carry on in the rural areas. For many years, Chinese rural farming depended on the size of labour force. Males were the major labour force. In order to carry on production, farmers needed more male labour force. This generated a high birth rate. Furthermore, due to the Chinese tradition,

³⁸ see table 5.1.

it is believed that males play a key role in the reproduction of generations. Thus males will carry on the family names and continue the family tree. Since it was important to have a male child who could carry on the family name, the tradition also fostered a high birth rate. Therefore, the pace of population growth in the rural areas was very fast and accounted for about 74% of China's total population in 1990. This percentage is much higher than that of most other countries including India (60%).³⁹

Table 5.1 **Chinese Population - Urban and Rural (1949-1990)**

Period	Total Population (million)	Urban Population (%)	Rural Population (%)
1949	541.67	10.6	89.4
1954	602.66	13.7	86.3
1959	672.07	18.4	81.6
1964	704.99	18.4	81.6
1970	829.92	17.4	82.6
1975	924.20	17.3	82.7
1978	962.59	17.9	82.1
1981	1,007.02	20.2	79.8
1984	1,034.75	23.1	76.9
1985	1,054.44	23.7	76.3
1989	1,127.00	26.2	73.8
1990	1,143.00	26.5	73.5

Source:

1. *Statistic Yearbook of China, 1989.*
2. World Bank *China: Strategy for Reducing Poverty in the 1990s, 1992.*

The rural labour force is also in a high percentage of the total national labour force.

³⁹ Chen Jiyuan *China's Transfer of the Surplus Agricultural Labour Force*, in John W. Longworth (edit) *China's Rural Development Miracle*, Queensland: University of Queensland Press, 1989. pp. 211.

In 1949, it was about 91.5%, and it was about 74% in 1986. The proportion of the rural labour force is not only higher than that of developed countries, but also higher than some developing countries such as India (69%), Thailand (68%), Burma (66%).⁴⁰ About 77% of the rural labour force is engaged in agricultural production, only 23% in non-agricultural production. Of the 77% in agricultural production, 96% is engaged in farming.⁴¹

Table 5.2 **Agriculture Labour Force Indicator**

Period	Total Labour Force (million)	Rural Labour Force (million)	% of Total Labour
1949	180.82	165.49	91.5
1955	223.28	195.26	87.5
1965	286.70	235.34	82.1
1975	381.68	299.46	78.5
1978	398.56	303.42	76.1
1979	405.81	305.82	75.4
1980	418.96	313.71	74.9
1981	432.80	322.27	74.5
1982	447.06	332.78	74.4
1983	460.04	342.58	74.5
1984	475.97	353.68	74.3
1985	498.73	370.65	74.3
1986	512.82	379.90	74.1

Source: *Statistic Yearbook of China, 1987.*

Rapid growth of the rural population and labour force exceeded the labour absorption capacity of the rural economy, thus leading to a substantial increase in

⁴⁰ *ibid.*, pp. 210.

⁴¹ *ibid.*, pp. 210.

underemployment in the 1980s. The worsening rural surplus labour is thought to be the obstacle for reducing poverty during the second half of the 1980s.

The commonly used method of measuring surplus labour is to define the labour force that can be removed from agricultural work in the peak period without reducing agricultural output. According to this method, Li (1986) and Zhang (1987) estimated that there was about 100 to 120 million surplus labour force in the rural areas, and there will be 200 million surplus labour to the rural needs by the year 2000. These estimations were based on the experience of the 1980s during which between 46-52 million people were drained out of agriculture, especially out of cultivation. Chen (1988) also considered that about 30-40% of agricultural labour force was surplus.⁴²

Fang (1990) considered that a rural labourer normally could till 15 *mu* of arable land and the mainland rural area needed only 100 million workers. With the holding of rural labour force of 390 million, this meant the current surplus labour force should be more than 200 million instead of 100 million. This explained the year of 1989 twice more big influx of over million workers into the cities. The seriousness of the situation could be further demonstrated by the fact that from 1986 to 1990 an addition around 20 million new members of the labour force was reported in the rural area each year. In 1989, the official rural unemployment rate was 4%, this figure would be considered as a satisfactory employment condition in any of the developed countries. However, in China, because of the huge population, a 1% increase means an increase of 10 million unemployment workers, a

⁴² Chen Chaoze *Internal Migration in Mainland China: the Impact of Government Policies, Issues and Studies*, Taipei: Institute of International Relations, August 1991. pp. 47-70.

4% increase means 40 million unemployed.⁴³

2. Limited Arable Land

China is known for her area of 9.6 million square kilometres, which is slightly larger than the United States. Most parts of China are in the north temperature zones, with a small portion in the tropical and subtropical zones. The arable land accounts for 99.33 million hectares (approximately 1,490 million *mu*) which make up only 10.4% of China's total land.⁴⁴ The ratio between cultivated land and uncultivated land is 1:9. The per capita average of cultivated land is 1.49 *mu*, which is about 36% of the world average (4.2 *mu* per capita), about 48% of that of developing countries (3.1 *mu* per capita), and only 18% of that of the developed countries (8.2 *mu* per capita).⁴⁵ China's arable land per capita is at an extremely low level. The problem is that it is very difficult to farm this limited arable land and feed the huge population. A more serious problem is, during the past four decades, the limited arable land has been decreasing, while the population has been increasing. Worldwide, the arable land both in developed and developing countries increased during the post-war period, with China being the only exception, it decreased. From 1957 to 1985, the total area of arable land in China has declined from 1,667 million *mu* to 1,452 million

⁴³ Fang Shan *Mainland China's Worsening Unemployment Problem, Issues and Studies*, Taipei: Institute of International Relations, August 1990. pp. 10.

⁴⁴ China Financial and Economic Publishing House *New China's Population*, New York: Macmillan Publishing Co., 1988. pp. 3.

⁴⁵ Chen Jiyuan *China's Transfer of the Surplus Agricultural Labour Force*, in John W. Longworth (edit) *China's Rural Development Miracle*, Queensland: University of Queensland Press, 1987. pp. 210.

mu, a net reduction of 215 million *mu*, or about 8 million *mu* per year.⁴⁶ But the same period has witnessed a rapid growth in the agricultural population and a corresponding increase in the agricultural labour force. As a result, the average arable land per agricultural labourer declined substantially from 9.35 *mu* in 1952 to 4.87 *mu* in 1981, the cultivated land per capita reduced from 2.82 *mu* in 1952 to 1.49 *mu* in 1981.⁴⁷ A World Bank country study found that the losses of land from 1959-1978 were about 1 million hectares (15 million *mu*) per year.⁴⁸ A recent study by Smil Vaclav found the similar fact that the average loss between 1957-1990 was almost 1 million hectares (15 million *mu*) per year. During the 1980s, the average loss was about 0.4 million hectares (6 million *mu*) annually.⁴⁹

⁴⁶ *ibid.*, pp. 210.

⁴⁷ *ibid.*, pp. 210.

⁴⁸ World Bank *China: Long-term Development Issues and Options*, Washington D.C., 1985. pp. 44.

⁴⁹ Smil Vaclav *Mainland China's Agricultural Prospects: Some Fundamental Limitations, Issues and Studies*, Taipei: Institute of International Relations, June 1991. pp. 45-67.

Table 5.3

Changes of Arable Land and Labourer Uses

Period	Arable Land per capita (<i>mu</i>)	Arable Land per Agricultural Labourer (<i>mu</i>)	Labourers Used on Land per <i>mu</i>	Yield per <i>mu</i> (<i>jin</i>)
1952	2.82	9.35	1.226	176
1957	2.59	8.69	1.228	195
1965	2.14	4.64	1.633	217
1970	1.84	5.45	1.938	268
1975	1.63	5.08	1.972	313
1980	1.52	5.00	2.034	364
1981	1.49	4.87	2.107	-

Source: Fang Shan *Mainland China's Rural Surplus Labour, Issues & Studies*, Taipei: Institute of International Relations, April 1988. pp. 56.

It seems that there is no way to stop the further loss of arable land to accommodate huge population growth (150 million during 1990s). The reason for the loss of arable land are complicated. First, the development of industry and urban construction, transportation, water conservation occupied arable land. The second reason is the rural housing construction. Chinese farmers had built quite a lot housing since 1980s, and had used a lot of good arable land. Thirdly, bad management resulted in specialization, alkalization and the advance of desert.

3. Underemployment

A number of China studies placed the rural underemployment at 30-40% of labour force. Zhao and Yao (1983) placed underemployment in 1983 at one third of the rural labour force. The sudden reappearance of the rural surplus labour in China astonished the

world. Because, for a relatively long period, about three decades, insiders and outsiders were enjoying the report that the unemployment and underemployment was declining in China. The fact is that underemployment never really disappeared in China. It simply was under-reported and was hidden in relation to achievements in agriculture. As Liao and Wen (1982) pointed out, collectivization did little to improve labour use:

"After agricultural co-operativization, some co-operatives experienced labour shortage, but the absolute majority still had a surplus of labour. Based on a survey of more than 26,000 agricultural co-operatives in 1955, the average number of labour days per worker was only 96. In Xianghe and other places in Hebei, the agricultural labour surplus during 1955 to 1956 was approximately 26%. In 18 agricultural co-operatives in Yanggao, Lingqiu and three other counties in Shanxi province, approximately 30% of the labour force were without work. In 18 agricultural cooperatives in Neijing county of Sichuan province, surplus labour constituted 35% of the total."⁵⁰

Other studies confirm this record. A study published in 1957 used 1955 survey data to demonstrate that peasants in selected co-operatives in four provinces were without work 17-35% of the time.⁵¹ An editorial in 1958 indicated that 10-20% of workers in various counties were underemployed.⁵² There was a reference as well that the surplus labour in the rural areas was a problem throughout the Culture Revolution (1966-1976), making it

⁵⁰ Liao Tianping and Wen Yingqian *The Theory of Two Classes of Production and China's Population Problem*, Guangzhou: Guangdong People's Press, 1982. pp. 68.

⁵¹ Li Yuancen *Problems of Surplus Labour in Our Country's Agriculture at the Present Stage*, *Education and Research*, No. 2, 1957. pp. 20-22.

⁵² *To Compile and Implement the Second Five-Year Plan, It Is Necessary to Oppose Conservatism and Waste*, *Planned Economy*, Beijing, No. 3, 1958. pp. 3.

difficult to absorb urban youths sent to the countryside as part of the "rustication" campaign.⁵³ In short, the rural underemployment disappeared in neither print nor reality during the period when labour absorption measures were being pursued.

4. Restriction of Internal Migration

For many years, internal migration was restricted by the internal residence permit system with the rationing of grain and accommodation, which limited the rural-to-urban migration. This is one of the reasons why rural surplus labour continued to exist. With decreasing cultivated land and increasing population, farmers were forced to make a living from tilling the soil than it is necessary. In the capitalist development model, development was followed by a population growth, and migrants were drained from rural areas to urban areas becoming a cheaper labour force for urban industrial development because industrialization needed a greater labour force. This did not happen in China, not only because of the restriction of migration, but also because there was surplus labour in the urban areas. The period from 1966-1976 was a typical one. The urban industries could not absorb such great numbers of youths reaching the working age (they were born at baby-boom period 1950-1955), so, the authorities had to send them to the countryside as "Receiving Re-education from Peasants". By nature, it is the underemployment problem. The Chinese authorities strictly controlled urban in-flows through administrative measures such as the residence permit system, the urban grain rationing system and urban housing

⁵³ Sun Xin *Causes and Resolution of the preliminary division of China's Rural Surplus Labour Force*, *Journal of Lanzhou University*, Lanzhou: Lanzhou University Press, No. 1, 1984. pp. 107.

rationing system. As a result, they successfully banned the rural-to-urban migration and kept the growing population in the rural areas. As we can see from table 5.1, the size of the rural labour force increased from 165 million in 1949 to 380 million in 1986, and has never been less than 74% of the country's total work force. They were kept in the rural areas, and this resulted in the increase of the labour/land ratio and serious underemployment problem.

VI. Effects of Rural Surplus Labour

For a long period of time, the excess rural surplus labour was kept in the rural areas. To some extent, this large amount of rural surplus labour generated some serious adverse effects.

1. Low Productivity

Development theory tells us that economic growth depends critically on productivity growth. The growth of average income per capita will be almost entirely determined by growth of average productivity per worker. World development history indicates that the increase of agricultural labour productivity came from the movement of labour out of the agricultural sector into other sectors which reduced the labour to land ratio, and the more use of modern technology.

The productivity in China's rural areas remained extremely low. The ratio of labour to land was very high by international standards. Since too much labour was put into land, and the more labour used than it was necessary, this resulted in the low output per capita. By 1978, the gross output value per capita was only 684 *yuan*, the nation's per capita grain availability was only 320 kg, and the annual income per capita in rural areas was only 133.57 *yuan*.⁵⁴ The marginal productivity of Chinese farmers was also very low. Because farmers were poor and ingenious, they even kept their children out of school in order to raise their

⁵⁴ Lu Wen *Development Strategy in Rural China*, in John W. Longworth (edit) *China's Rural Development Miracle*, Queensland: University of Queensland Press, 1989. pp. 164.

income. The rural labour with very low marginal productivity was an under-utilized resource. The slow growth rate of agricultural production was far below the increasing demands of the society. The annual growth rate of the total agricultural product in the period between 1953 to 1978 was 3.2%, that of grain was 2.4%, cotton was 2%, oilseeds 0.8% and that of red meat was 3.6%. If these calculations were on a per capita basis, grain production rose only by 11% in the same period, oilseed and cotton dropped by 25.6% and 0.065% respectively, and the per capita income increased by only 70 *yuan*. The return on public investment in the rural sector was also very poor. The total capacity of farm machinery in the above mentioned period grew by 638 times, agricultural electricity by 505 times, fertilizer by 112.3 times and irrigated area by 2.25 times. In the meantime, the total agricultural output value increased by only 1.3 times, grain by 86%, cotton by 66%, oilseed by 22.4%.⁵⁵

The extremely low rate of productivity growth in agriculture was due to several reasons, but the large amount of surplus labour was one of the major causes. The policy of storing the surplus labour force inside agricultural sector rather than outside caused inefficiency. The popular Chinese saying "what three persons can do uses five persons to do it" reflects the inefficiency and low productivity.

2. Low Income and Living Standards

For nearly 30 years until the rural reform in 1978, the income of Chinese farmers remained at a very low level. In the early days after the New China was established, the lack of capital for industrial development forced the State to take the capital from agriculture.

⁵⁵ *ibid.*, pp. 164.

The channel was through the State purchase at an extremely low level. This policy maintained the low wage expenses and cost of raw materials for its major industries and created the super-profits and the necessary construction funds for its industrial development. Through this system, the State monopolized all marketable agricultural and its sideline products and transformed the agricultural surplus into industrial accumulation. From an historical point of view, the Chinese farmers did make a great contribution to China's industrialization. Unfortunately, China's development strategy which gave priority to heavy industry was never challenged nor readjusted until economic reform. This resulted in the formation of an uneven structure in the national economy and weak rural economic development.

The major distribution form during the collective period was the work-point system. The commune used this system instead of money as the unit of account. The work-points were earned against each day's work, but the value of the work point in terms of money was not known until the end of the year. The value was determined at the end of the year by dividing the net distributed collective income by the total amount of workpoint earned by all who participated in collective work. Thus, the average value of a workday was sometimes referred to as being equivalent to a wage rate, but it was different from the cash-based wage system. The unknown value of workpoint affected the individual's decision on the amount and quality of work provided to the collective work. The same workpoints were earned for different intensities of work or different productivity. The total amount of workpoint could be "inflated" by the less hardworking or less productive labourers, thus lowering the value of workpoint in the final distribution. The greater the effects, the lower the supply of quality

work, since it lowered the expected return.

The income level of farmers under the commune system was very low. In 1957, the average farmers annual income was 73 *yuan*, and it was only 134 *yuan* in 1978, in constant term, it was only 118 *yuan*.⁵⁶ The income of Chinese farmers was among the lowest in the world. The national average consumption expenditure per capita of farmers also remained at low level. It was 62.90 *yuan* in 1952, and by 1978, was 116.06 *yuan*. Taking off the inflation factor, the actual real increase was only 35.70 *yuan* or 1.37 *yuan* per year.⁵⁷ This could hardly mean any improvement at all in their living standards. Even in 1978, access to adequate food and clothing was still a problem to as many as 200 million farmers throughout country. If we considered the income and consumption levels between different regions, we found the income and consumption levels in the central and the western part of China were extremely low. They lived in absolute poverty. The low income was due to the stagnation of output, and the rapid growth of population. The increasing population meant that the demand for labour was constant, but the supply of labour was increasing, this generated surplus labour force.

⁵⁶ see table 6.1.

⁵⁷ Jiang Jinyong and Luo Xiaopeng *Changes in the Income of Chinese Peasants since 1978*, in John W. Longworth (edit) *China's Rural Development Miracle*, Queensland: University of Queensland Press, 1989. pp. 171.

Table 6.1

Average Net Income Per Capita Annually (1954-78)

Year	Income at Current Price (yuan)	Income at Constant Price (yuan)	Income index at Constant Price	Price index
1954	64	64	100	100
1957	73	72	113	101
1962	99	77	120	128
1963	101	83	130	121
1964	102	88	138	116
1965	107	95	148	113
1976	113	102	159	111
1977	117	103	161	114
1978	134	118	184	114

Source: Zhu Ling *Rural Reform and Peasant Income In China*, London: Macmillan Press, 1991. pp. 180-181.

When the commune was replaced by the household responsibility system, the income level for farmers improved. We can see from table 6.2 that there was a great increase in average farmers' income from 1978 to 1986. The annual growth rate of peasants net income per capita increased by 15.53% in normal price, 13.1% in constant price.⁵⁸ During the same period, there was a high inflation rate about 13%, so, any increase of farmers' income is in doubt.

⁵⁸ see table 6.2.

Table 6.2

Peasant Income per capita (1978-86)

Period	Income in Current Price	Income at 1978 Constant Price	Change in Amount (yuan)	Change in %
1978	133.57	133.57	--	--
1979	160.17	--	26.60	19.91
1980	191.33	184.45	31.16	19.45
1981	223.44	--	32.11	16.78
1982	270.11	--	46.67	20.89
1983	309.71	265.00	39.66	14.68
1984	355.33	308.95	45.56	14.71
1985	397.60	350.09	42.27	11.90
1986	423.76	357.57	26.16	6.58
Growth Rate Annually	15.53%	13.10%		

Table 6.3

Farmers Consumption per capita (1978-86)

Period	Consumption in Current Price	Change in Amount (yuan)	Change in %
1978	116.06	--	--
1979	134.51	18.45	15.90
1980	162.21	27.70	20.59
1981	190.81	28.60	17.63
1982	220.23	29.42	15.42
1983	248.29	28.06	12.74
1984	273.80	25.51	10.27
1985	317.42	43.42	15.93
1986	356.95	39.53	12.45
Growth Rate Annually	15.08%		

Source: Y. Y. Kueh *Food Consumption and Peasants Income in the Post-Mao Era*, *The China Quarterly*, London: School of Oriental and African Studies, December 1988. pp. 635-670.

These changes were due to several reasons, but mainly to the household responsibility system which gave farmers incentive to raise the production level, and also to the weather and the changes of input and output price especially by the sharp increase of procurement price. In 1979, the state raised the purchase price of 18 agricultural and sideline products.⁵⁹

Table 6.4 **Change of State Procurement and Farm Input Price**

Period	State Procurement Price Index	Percentage Changes	Farm Inputs Price Index	Percentage Changes
1978	100	--	100	--
1979	122.1	22.1	100.4	0.4
1980	130.8	7.1	101.4	1.0
1981	138.5	5.9	103.1	1.7
1982	141.6	2.2	105.1	2.0
1983	147.8	4.4	108.3	3.0
1984	153.7	4.1	117.9	8.9
1985	166.9	8.6	123.6	4.8
1986	177.6	6.4	125.0	1.1

Source: Y. Y. Kueh *Food Consumption and Peasants Income in the Post-Mao Era, The China Quarterly*, London: School of Oriental and African Studies, December 1988. pp. 635-670.

The improvement of farmers' income can be explained from four periods. From 1979-1981, the price policies which increased in the price of agricultural products had a direct effect on both the growth of farmers' income and the changes in the distribution of national income among urban and rural areas. According to Jiang (1987), the price increase

⁵⁹ see table 6.4.

contributed an additional 45 million *yuan* to the farmers income in 3 years (1979-1981).⁶⁰ The readjustment of China's development strategy provided a favourable market condition for the agricultural sector. At the same time, the urban demand increased sharply due to the increased employment. The overall contribution to national income among urban and rural areas reflected the change. The rural contribution to the total national income increased from 39.4% in 1979 to 44.9% in 1981, while the rural consumption portion of the national income increased from 42.6% in 1979 to 46.2% in 1981.⁶¹ From 1982-1984, with the household responsibility system carrying on, the income rose with the increase of production. The fundamental institutional change of the rural structure resulted in changes in the property rights and in the distribution of economic benefits and the financial interest in the rural areas. Freed from the mandatory planning and the administrative control over the production, the rural areas saw a steady development of the commodity economy, then gradually formed a commodity market. The unprecedented enthusiasm brought production to a new level. During this period, the State agricultural investment was reducing, but the total agricultural output was increasing. The income for farmers increased from 270 *yuan* in 1982 to 355 *yuan* in 1984.⁶² From 1985, the rural development focused on non-agricultural production. The rural reform has exposed the formerly invisible surplus rural labour force which was kept on China's limited arable land during the past three decades.

⁶⁰ Jiang Jinyong and Luo Xiaopeng *Changes in the Income of Chinese Peasants since 1978*, in John W. Longworth (edit) *China's Rural Development Miracle*, Queensland: University of Queensland Press, 1989. pp. 174.

⁶¹ *ibid.*, pp. 174.

⁶² see table 6.2.

Farmers practised the self-determined transfer of labour from farming into the secondary and tertiary industries. The transfer of the labour force within rural areas gave a rise in the rural production. The proportion of agricultural production in the total rural gross output declined from 68.56% in 1978 to 32.41% in 1985, while non-agricultural production (sideline production) rose from 31.44% to 67.59%.⁶³ This brought another increase of income for farmers.⁶⁴ Since 1986, China's agriculture fell into stagnation. The farmers' income also stagnated at 600 *yuan* level since 1988.⁶⁵ One of the explanations was the increasing amount of the rural surplus labour.

3. Income Inequality

It is true that after the land reform in the early 1950s and the subsequent agricultural collectivization, the income inequality reduced sharply. When Keith Griffin and Kimberley Griffin visited China in July and August 1982, they did not expect the growing income inequality. So, they concluded that the income inequality between rich and poor farmers was decreasing, and there was no tendency that income inequality would increase, because they saw the growth of income for those poor farmers following the household responsibility system. The Griffin's view has a time limitation. The period they examined was just the beginning of the rural reform, the institutional reform was still in the progress, there was

⁶³ Jiang Jinyong and Luo Xiaopeng *Changes in the Income of Chinese Peasants since 1978*, in John W. Longworth (edit) *China's Rural Development Miracle*, Queensland: University of Queensland Press, 1989. pp. 177.

⁶⁴ See table 6.2.

⁶⁵ *China News Digest*, January 3, 1993.

no rural factor market, the rural surplus labour was not exposed enough. It is the fact that following the rural reform, Chinese farmers' income has increased dramatically. However, the income inequality problem has increased as well.

As Chossudovsky noted, "income inequality has existed historically within the People's Commune despite the application of 'equalitarian' policies".⁶⁶ But since the rural reform, Chinese government adopted a policy called "Allow some peasants to become rich first". China Daily explained this policy as: "The first objective is to wipe out egalitarianism and carrying out of the socialist policy of distribution according to work. To bring general prosperity to all peasants is our general objective. To allow some of the peasants to become well-to-do is our strategic way to reach that goal. To allow some of the peasants to become better off first, we can on the one hand encourage the poorer peasants. On the other hand, it will enable the more prosperous peasants - who have experience in crop production, sideline production and various trades - to share those experiences with the poor peasants."⁶⁷ Chossudovsky observed that "Rich peasants are now viewed as having management and scientific abilities. Their entrepreneurial skills are not seen as the basis of social division but as contributing to the promotion of the peasants' general prosperity and to the upward social mobility of the poor peasants. According to the CCP Central Committee, the rich peasants are the agents of socialist construction in China's countryside. They are disseminators of science and agro-techniques as well as advanced builders of

⁶⁶ Michel Chossudovsky *Towards Capitalist Restoration: Chinese Socialism after Mao*, New York: St. Martin's Press, 1986. pp. 52

⁶⁷ *China Daily*, June 15, 1984. pp. 1.

socialism."⁶⁸

Under this policy, rural inequality increased between 1978-83. There was an increase of income for the richest 10%, while there was a decrease for the poorest 40% of peasants. The China State Statistic Bureau's unofficial Gini coefficient for the rural income increased from 0.21 in 1978 to 0.26 in 1984, to 0.31 in 1990, indicating a substantial increase of income inequality during these years.⁶⁹

Table 6.5 **Rural Income and Gini Coefficient (1978-1990)**

Period	Rural Income per capita at Real Term (yuan)	Rural Income per capita at Nominal Term (yuan)	Gini Coefficient
1978	134	134	0.21
1981	202	223	0.24
1984	311	355	0.26
1985	324	398	0.26
1989	313	602	0.31
1990	319	630	0.31

Source: World Bank *China: Strategies for Reducing Poverty in the 1990s*, Washington D. C., 1992. pp. 23, 32.

The income gap between rich and poor peasants was widened. The government authorities admitted the fact, but they argued that was only a short-run effect, in the long-run, all peasants would be better off. "While some peasants are leading a better life, the

⁶⁸ Michel Chossudovsky *Towards Capitalist Restoration: Chinese Socialism after Mao*, New York: St. Martin's Press, 1986. pp. 59.

⁶⁹ World Bank *China: Strategies for Reducing Poverty in the 1990s*, Washington D. C., 1992. pp. 34.

differences among the peasants are increasing. For some time this trend will continue. But from a long-term point of view, the gap between the better-off peasants and relatively poor ones is narrowing. Because the general income level of the peasants is rising, their scientific and cultural level is also rising and sidelines have provided poor peasants with more chance to move up."⁷⁰

The impoverished peasants are being pushed off the land into sidelines or rural industries as a result of the communist party's policy of promoting the rich peasants-entrepreneur.⁷¹ Some farmers became the wage labourers who sought to be hired by the specialized household or the rural industry owners. The reform generated a rural labour market - the rural workers who provided their labour for wages. Distribution was totally changed. The egalitarian workpoint system disappeared, instead, the distribution was based on the ownership of the means of production.

In general, the high income groups are in transition from a command economy to a commodity economy. They have a strong sense of market, information and technology. They have a sharp consciousness of what they have to produce and what new technology they have to obtain. So, their returns are generally higher than those in the low income group. The low income group are still keeping their traditional way of farming. They are less sensitive to the market, information and technology. Due to the poor financial situation, the low income farmers can not afford new technology, or their regions are backward, they are

⁷⁰ Michel Chossudovsky *Towards Capitalist Restoration: Chinese Socialism after Mao*, New York: St. Martin's Press, 1986. pp. 60.

⁷¹ *ibid.* pp. 60.

far from modern market and lack of information and transportation. Therefore, the income gap between rich and poor was enlarged and inequality is more obvious in China.

4. Underdevelopment and Poverty

For years, Chinese farmers lived in poverty. Since the establishment of the new China, great efforts have been made by the government to reduce the poverty and to reach income equality. It is the fact that China has made great progress in reducing the absolute poverty over the last four decades. Perhaps the most telling indicators of improvement in the overall Chinese population is the increase in life expectancy at birth, other indicators in table 5.6 also show the tremendous improvement.

Table 6.6 China Social Development Indicators

Period	Life Expectancy at Birth (years)	Infant Mortality Rate under age 1 per 1,000	Adult Illiteracy	GNP per capita 1988 US\$
1990	70	29	27	370
1988	67	58	31	330
1950-55	34	236	80	--

Source: World Bank *China: Strategies for Reducing Poverty in the 1990s*, Washington D. C., 1992. pp. 1.

However, there are still many Chinese people living in poverty. According to the World Bank estimates, the number in absolute poverty in 1978 was 260 million. Following the economic reform, it reduced to 97 million in 1985. In other words, the absolute poverty population reduced from one third of the total population to one tenth of the total

population.⁷² But the reduction of poverty was not sustained during the second half of the 1980s. During 1985-1990, the number of poor stagnated between 96-103 million⁷³ which means that the population living in absolute poverty remained roughly constant. Most of the population in absolute poverty live in the rural areas.

Table 6.7 **Income and Poverty Indicators**

	1978	1981	1984	1985	1989	1990
Income per capita	Total					
Annually (yuan)	100%					
100 and less	33.3	4.7	0.8	1.0	0.6	0.5
100-150	31.7	14.9	3.8	3.4	1.3	0.9
150-200	17.6	16.0	9.4	7.9	2.8	2.2
200-300	15.0	34.8	29.2	25.6	10.9	9.5
300-400		14.4	24.5	24.0	15.6	14.4
400-500	2.4	5.0	14.1	15.8	15.6	15.1
500 and over		3.2	18.2	22.3	53.2	57.4
Average	134	223	355	398	602	630
Poverty Line (yuan)	98	158	179	190	262	275
Food Expenses (yuan)	74	105	112	120	165	173
Food Budget Share	0.75	0.66	0.63	0.63	0.63	0.63
Population in Absolute Poverty (million)	260.5	194.3	88.7	96.4	102.5	96.8
% of Rural Population	33	24.3	11.0	11.9	12.3	11.5

Source: World Bank *China: Strategies for Reducing Poverty in the 1990s*, Washington D. C., 1992. pp. 23.

⁷² World Bank *China: Strategies for Reducing Poverty in the 1990s*, Washington D. C., 1992. pp. ix.

⁷³ *ibid.* pp. 5.

The Chinese State Statistics Bureau concluded in 1986 a similar result, that on average, the peasants need a net disposable income of 200 *yuan* (RMB) per head annually to meet the lowest minimum requirement to maintain a basic living standards (poverty line). So, we can define the farmer "absolute poor" with an income level of 200 *yuan* or less per capita; "fairly poor" with 200-300 *yuan* income per capita; "middle" with income between 300-500 *yuan* per capita; "rich" with income over 500 *yuan* per capita.⁷⁴ According to the national sample survey conducted in 1985, the absolute poor farmers accounted for 12.3%, and the fairly poor accounted for 25.6%. Putting very poor and fairly poor together accounted for 38% of Chinese farmers, the rich accounted for about 10%, the remaining 50% were the middle level income.⁷⁵ The income for those absolute poor and fairly poor farmers is at such a low level that they do not even have adequate consumption to maintain a subsistence level and simple production. They have not escaped from poverty and do not have the capability to expand their production. Their incomes are still unstable and they are very vulnerable to any adverse influence from the market and nature. This situation reflects that Chinese rural economy is still in the sort of traditional economy and underdeveloped.

The underdevelopment and poverty are due to several reasons. In China, the income of a rural household depends to a considerable extent on the size of its labour force, including children. This remains true in a modified form in rural China, where there is an

⁷⁴ Kenneth R. Walker *40 Years On: Provincial Contrast in China's Rural Economic Development*, *The China Quarterly*, London: School of Oriental And African Studies, December 1989. pp. 448-480.

⁷⁵ Jiang Jinyong and Luo Xiaopeng *Changes in the Income of Chinese Peasants Since 1978*, in John W. Longworth (edit) *China's Rural Development Miracle*, Queensland: University of Queensland Press, 1989. pp. 183.

additional, extremely powerful link between household size and household income. At the age of sixteen, the child enters the labour force and is entitled to share work opportunities and income. Economic returns are therefore guaranteed. In rural areas, there is much greater scope for labour utilisation whether within the collective or the household sector. Especially when the household responsibility took power, farmers even stopped their children going to school and kept their children in farming in order to raise income. This resulted in the low entry to school, even low entry of primary school in rural areas. In the long-run, this will maintain the underdevelopment situation because of the low literacy.

The educational level in the rural areas is generally very low. According to an investigation conducted in 312 brigades and 2,347 production teams in 18 provinces in 1980,⁷⁶ 25.4% of the rural labour force was illiterate, of which 21.1% was semi-illiterate, 31.5% received primary school education, 16.8% received junior high school, 5.2 received senior high school, and only 0.037% received college education.⁷⁷

The cost to the couple or to the household of producing additional labour force is very low, but the expected returns are generally high. This is partly due to the high degree of self-sufficient economy, and also due to the absence of a social security system in Chinese rural areas. The Chinese farmers depend on their children's support in their old age. So, in China, as in the rest of the poor world, children are viewed as sound insurance policies, even if the premiums to be paid are so low, and the returns unwritten. The returns are further

⁷⁶ Huang Heching and Wang Kuo Chen *Having a Correct Understanding of the Rural Labour Force in Our Country*, *Journal of Nanjing University*, Nanjing: Nanjing University Press, No. 3, 1983. pp. 9.

⁷⁷ *ibid.*, pp. 20.

guaranteed by the absence of the option of out-migration for children once they grow up. When they are guaranteed employment in the countryside, the incentive to migrate is very low. Additionally, even after children are married, Chinese parents generally manage to retain a very high degree of control over them. Especially in regions where there is a housing shortage, married children are clearly dependent upon their parents for accommodation.⁷⁸

The Chinese farmers are generally engaged in simple farming, they do not need much professional knowledge and techniques. Farmers are not very sensitive to new technology and mechanism because of the traditional style of farming. During the period of collectivization, the State put great effort into raising the use of mechanization and technology. When the household responsibility system was in power, some farmers returned to the traditional farming because they either lacked of skills to manoeuvre these machines or did not want to pay the cost of maintaining these machines. It is the fact that the use of machinery has declined, especially those capital intensive machines such as big tractors and harvest machines. This resulted in the decline of the Chinese agricultural machinery industry during 1980s.

The low level of consumption, the low level of education, the tradition of having more children, and the reluctance of accepting new technology are the main obstacles to China's rural development, thus making the transfer of surplus labour more difficult.

⁷⁸ Ashwani Saith *China's New Population Policies*, in Keith Griffin (edit) *Institutional Reform and Economic Development in the Chinese Countryside*, London: Macmillan Press LTD., 1984. pp. 188-189.

VII. Evaluation of Government Policy

It has already been indicated that during the period from 1950s to 1970s, the surplus rural labour force was not given much attention, and the authorities believed that there was a shortage of labour in agriculture. Under this consideration, there was little being done concerning to deal with the rural surplus labour. With the development of rural reform, institutional changes and growth of farm labour productivity, the surplus labour suddenly becomes conspicuous. The Chinese authorities and farmers suddenly realized their potentialities and the pitiful smallness of the existing space. They have spontaneously begun to seek a way out. Economists also started to do some research on how to solve the huge amount of surplus labour.

Looking at the past decade, the government policies of solving surplus labour were not clear-cut. However, the government has tried to work out some policies to solve the problem.

1. Not Leaving Land nor Native Place

This policy can be summarized as internal adjustment to absorb surplus labour. Actually, this policy has been used by the government for a long time to keep the rural labour remained in the rural areas.

The key point of this policy is the adjustment of internal structure of farming. Since the 1950s, the Chinese authorities were pursuing a policy that raises the labour intensive farming by promoting multi-cropping, intercropping, and deep ploughing that maximize

labour use. Recent adjustment is made to reduce the land and labour inputs of grain crop production, while expanding the land and labour inputs of labour intensive economic crop production. In such a way, the same area of arable land can absorb more labour. China used to be a country with agriculture as the foundation. Farming structure with particular stress on grain production was due to the fact that China has too many people, little land and low labour productivity. In 1952, grain farming accounted for 83.1% of the total value of agricultural output while the land for grain production was about 87.8% of total farmland. At the same time, about 87.5% of the population lived in rural areas.⁷⁹ This rural economic structure fully demonstrated how the demand for grain had restricted the overall rural economic development and the labour force in rural areas. In the past four decades, the grain problem was not solved, but the labour force accumulated in the rural areas as a result of the authorities' mistakes in economic development. In 1978, the farmland for grain production still accounted for 80.3% of total farmland, the rural population made up 82.1% of total population. From 1979 to 1984, grain output rose by 22% on an annual average basis, while the farmland for grain production reduced by 4.5%. Meanwhile, the farmland shifted to cash crop production was 6%.⁸⁰

Another feature of not leaving land nor native place is to develop farmers' part-time production. It has been a long tradition that farmers use their farming spare time to do some sideline production because the income from grain production is not enough for their

⁷⁹ Feng Lanrui and Jiang Weiyu *A Comparative Study of Modes of Transference of Surplus Labour in China's Countryside*, *Social Science in China*, Beijing: Social Science Publishing House, September 1988. pp. 65.

⁸⁰ *ibid.*, pp. 65.

living. This tradition was prohibited during the People's Commune period because this kind of production was viewed as "capitalist tails". When household responsibility system is carried on, the part-time business again becomes active. Some of the family members take up the farm work, therefore freeing other to engage in industrial, commercial, transportation and other sideline work. In this way, huge surplus labour was shifted unconsciously from farming within the family.

The not leaving land nor native place policy has some advantages. First, the surplus labour is conveniently and easily shifted. It can be organized by the thousands of family household themselves. Not only is the surplus labour shifted, but also the labour is efficiently used in farming. As a result, labour productivity is greatly increased. Secondly, it requires no investments from society, and farmers need just a small amount of investment. Thirdly, it helps to obtain the economic benefits of farmers. According to Feng and Jiang, farmers receive an income about 85 *yuan* from grain farming per *mu* while receiving about 172 *yuan* from cash crop farming per *mu*. In terms of the average income of each day work, a farmer receives 4.9 *yuan* for grain farming, 8.4 *yuan* for farm product processing, 8.6 *yuan* for commercial business, and 15 *yuan* for transportation.⁸¹ So, the shift of the surplus labour helps farmers to gain more benefits.

But this policy has some limitations. First, adjustment of the production structure farming is quite limited. As the Chinese arable land is constantly reduced, the population is still growing, grain output is just enough to meet the minimum level of consumption requirement. It is not easy to change the land to cash crop farming, because, the

⁸¹ *ibid.*, pp. 66.

precondition of using land is to meet the government grain production requirement. It is difficult to raise the output level because of the inadequate techniques and machines. Secondly, with the household as a basic operational unit and with manual operations as the basic mode of production, it is difficult to form an appropriate scale of agricultural operation, or introduce modern techniques of production. Thirdly, due to the above mentioned limitation, the ability of sideline production to absorb the surplus labour force is rather limited.

2. Leaving Land but Not Native Place

This is the main policy of solving the surplus labour practised in the rural areas since the rural reform. This kind of policy focuses on the local absorption of the surplus labour. The absorption is through the rural enterprises. Instead of moving surplus to other places, the authorities encourage farmers to set up their own enterprises to engage in industry, transportation, building and commerce. It is the fact that the rural industry did absorb a vast amount of surplus labour. By the end of 1985, the rural enterprises throughout the country amounted to 11 million, absorbing 64 million labourers, which is about 15% of total rural labour force. The annual output reached 248.1 billion *yuan* accounting for 40% of total social output value of rural areas. During the period from 1979 to 1985, the rural enterprises absorbed farmers at a speed of 11.5% annually.⁸²

The farmers who are working in the rural enterprises are leaving the land, but they are still remaining at the same place. Thanks to the rural industries, the serious surplus

⁸² *ibid.*, pp. 68-69.

labour was eased, as was the pressure on the government.

Why could the rural enterprises absorb such a lot surplus labour? Most rural enterprises are labour-intensive industries. They do not use modern technology and high quality means of production. Generally speaking, their productivity are low, but they play the role to which no other modern industry can compare, and their role should not be underestimated in the China's economic development. First, they partly solve the unemployment problem for those surplus labour, greatly boosting the economic efficiency in rural areas. This is especially true in the areas with much labour force and little land where the surplus labour problem is more serious and unsolvable by family itself. Take Suzhou for example, the density of population in this area is 627 per square kilometre. This area used to grow double crop of rice. Farmers filled ponds with earth, destroyed mulberry trees to create farming land, built dikes to reclaim land from lakes. They put all manpower into grain production, but their income per capita remained at 100 *yuan* before 1979. After rural enterprises developed, by 1985, the per capita income reached 700 *yuan*, while the farming population reduced to only 55% of total labour force.⁸³ Secondly, labour is substituted for capital. The rural area has an unlimited source of labour. It is easy for the rural enterprise to get cheap labour carrying on production instead of using capital inputs. Especially in building enterprise, they use labour instead of modern equipment. The equipment and technology they used is relatively backward, but it is well suited to the skills and managerial level of the labourers. Thirdly, the development of rural enterprises relieves the contradictions between industry and agriculture and between town and country,

⁸³ *ibid.*, pp. 68.

providing some transitional and progressive links for the evolution from agricultural society to modern society. At the same time, it also provides for farmers to familiarize themselves with commodity production, to develop their sense of competitiveness, and to enhance their ability to adapt to modern society.

There are some restriction of this type policy. First, China is a vast country with extremely uneven economic development from region to region. Most successful rural enterprises are close to urban cities, because there are some favourable condition there. They can benefit from urban economic radiation, technology, markets and information. But a large part of the rural areas are in the central and western parts of China which make up 86.6 % of China's area and 58.7% of China's population,⁸⁴ they are far from urban cities. Although some areas have relatively good conditions for farming, due to the heavy population and limited arable land, there still exists a large amount of surplus labour. It is very difficult for them to set up rural enterprises, because they lack of information, market and technology. Their products are not in good quality, lacking in marketability, and even are difficult to be shipped out. Some enterprises even go bankrupt the moment they start. It is the most difficult for central and western China to solve rural surplus labour through a rural enterprises channel. Secondly, the rural enterprises themselves have some limitation to grow. On one hand, the rural enterprises did successfully absorb some surplus labour, but on the other hand, they had paid a high price, because they used too much labour and the backward technology, which lead to the low productivity and inefficiency. In 1986, the growth rate of total output for the rural industries dropped by 6% compared with the period

⁸⁴ *ibid.*, pp. 69.

of 1978-1985; the amount of labour shifted from farming to rural enterprises was reduced by 5 million, or in other words a drop of 30% over 1985. About 20% of rural enterprises suffered losses.⁸⁵ In order to avoid further loss, some rural enterprises began to layoff, or shut down. This adds another pressure of surplus labour.

3. Leaving Native Place but Not Land

The above two policies emphasis on absorbing surplus. The third policy - leaving native place but not land is a kind of transfer policy, which encourage farmers to leave their homeland temporarily or permanently to new areas and continuing farming.

In the late 1950s, 1960s and 1970s, the Chinese government tried several times to have farmers migrate from the density areas such as Hebei, Shandong, Jiangsu and Zhenjiang provinces to western China like Gansu, Ningxia, Xinjiang, or to northeast China such as Heilongjiang, Jilin and Liaoning. Some of the macro-level migration was successful, like migrants to northeast China. They settled there and continuing farming and became natives there. Others like migration to western China was not successful, because of the poor living conditions and weather there. Some migrants re-migrated to their native place.

The temporarily leaving homeland to cultivate land in other areas is new formula which appeared in the 1980s. Most of these farmers were either from poor natural condition areas or from high rural surplus labour areas, where they did not have much to do even during the busy farming seasons, or they earned less than their earnings hired in other areas. The areas that needed labour force were the areas where the rural industries were very well

⁸⁵ *ibid.* pp. 70.

developed. Most of the farmers in these areas were engaged in the rural industrial work, they did not have enough time to take care of their farmland. Therefore during the farming seasons, they hired temporary labour in order to relieve their problem and secure their economic returns.

The Government authorities were in support and in assistance of this kind of shift of labour force. Feng and Jiang (1988) gave us an example. In Taizhou, Zhenjiang Province, most of the land is mountainous areas and arable land per capita is less than one *mu*. Since there are no other outlets of production, farmers' income are very low. However, in neighbouring villages of Ningbo's suburban counties, commodity economy is well developed and 60-80% labour force is engaged in rural industrial work, leaving part of the farmland uncultivated. The local governments of the two areas adopted a series of policies to encourage the flow of farmers. These resulted a positive effects, the farmers from poor areas earned two or three times than what they earned in their homeland, and rich areas farmers could concentrate on rural industrial work and increase their income as well. This kind of shift not only solved the poor areas' income problem, but most importantly, it solved the rural surplus labour problem. Leaving native place, but not land has helped the movements of labour force in rural areas.⁸⁶

This policy has some limitations. First, it is very difficult to migrate farmers from one area to another. The cost of such migration is very high. The most difficult factor is the traditional conservative view of homeland among Chinese farmers, they are never willing to leave their native place. Secondly, for temporarily shift, it depends on the rural developed

⁸⁶ *ibid.*, pp. 69-70.

areas's demand of labour force, unfortunately, this kind of demand is rather limited. Very few areas apparently show their shortage of labour force, most areas still have surplus labour problem. Thirdly, this kind of policy is an internal absorption mode within the agricultural sector. Under the current situation, it will not lead to optimal solution.

4. Leaving Both Land and Native Place

This simply means the migration to cities and towns. For a long time, the government policies have banned this kind of movement by using an urban residence permit system and grain, housing rationing system. Although under government planning, there was some migration to cities to satisfy the industrial needs of development, the effect related to solve rural surplus labour was rather limited. However, the trend of leaving land and native place are very strong. There is a large amount of this kind of migrants which is known as China's "floating population". The 1990's census indicates that there were 30 million of floating population in July 1990.⁸⁷

The farmers who left both land and their native place are mainly engaged in two kinds of work. One is working in the service sector in urban areas as maids, tailors, housekeepers, or to open restaurants, make furniture, or undertake small-scale commerce business. Farmers engaged in these activities are playing a role of fulfilling the needs for urban tertiary sector. Another type is working in the industrial sector as contract workers, construction workers and some heavy jobs with low-technique requirements.

⁸⁷ World Bank *China: Strategies for Reducing Poverty in the 1990s*, Washington D. C., 1992. pp. 31.

Why did the urban areas admit rural labour force? First, years of irrational urban industrial structure, high population accumulation and low consumption for urban economic development have hampered the development of the urban tertiary sector, causing a lack of necessary service facilities and personnel engaged in the urban service sector. Second, the number of new entrants to urban labour force has greatly limited by the State planning. The urban industries could not get the labour force they wanted, so they hired the rural labour to meet their needs. Third, influenced by the traditional employment view of "a job for life", young city dwellers would rather wait for the good occupation, thus, leaving the bad job (usually hard, heavy, dirty jobs with less skills) unoccupied. The rural surplus labour are generally less-educated, unspecialized and wanting high earnings. So, both urban employers and rural surplus labourers found the job fitting their needs. Finally, following the economic reform, urban industry structure changed. Some young people were attracted by the new industries, causing the traditional industries vacancies. This provided a chance for farmers to fulfil the needs of some traditional industries.⁸⁸

The transfer policy is related to the development of small towns. Following the economic reform, the Chinese government officially permitted farmers to be engaged in the service sector in urban cities and towns. In October, 1984, the State Council's "Regulations Concerning Co-operative Endeavour of City and Town Labourers" eased the barriers to urban migration. Farmers could migrate into small towns engaged in industry or service, but this did not ease the rural surplus labour problem. During the second half of 1980s, every

⁸⁸ Feng Lanrui and Jiang Weiyu *A Comparative Study of Modes of Transference of Surplus Labour in China's Countryside*, *Social Science in China*, Beijing: Social Science Publishing House, September 1988. pp. 69-70.

year, millions of farmers flooded into cities hunting jobs.⁸⁹ However, the urban cities's ability of absorbing rural surplus labour is limited, they can not provide the jobs for such a large amount of the rural surplus labour. Therefore, the rural surplus labour situation continues to be serious. Facing this situation, the Chinese government did not have any solutions, they just simply sent farmers back to the rural areas, even using the police force. So far, the government has not generated the proper policies to solve rural-urban migration problem.

⁸⁹ Ma Rong *Small Towns and Modernization, Social Science in China*, Beijing: Social Science Publishing House, March 1991.

VIII. Rural Surplus Labour Outlook - What can we do?

In China, agriculture is undergoing the transformation from traditional to modernized. An excessive surplus labour force in rural areas not only means that a longer period is required for agricultural transformation, but also extends tremendous difficulties in transferring the surplus labour to other sectors and to expand the operational scale of agriculture. It is a heavy, long-term task for the state to transfer a surplus labour force of more than 100 million from agriculture to other sectors. The high population and insufficient per capita income in agriculture resources result in the national economy's limited capacity to sustain fluctuations in agriculture, and provide very restricted room for manoeuvre. A unique mode of present transfer of surplus labour is through developing rural small enterprises while large enterprises can not absorb surplus labour. One of the central issues of China's agriculture transformation is the transfer of surplus labour, yet if labour is transferred and agricultural productivity is not improved, the transfer will not generate a positive effect for agricultural development.⁹⁰

1. Strengthen Rural Industry

The rural enterprises is a special form of the rural economic development. It can be said that it is the contribution of Chinese farmers to the economic development. In China, the rural industry did become an important component of the national economy. It is not

⁹⁰ Shao Ning *Development and Reform: China's Agriculture in the 1990s*, Social Science in China, Beijing: Social Science Publishing House, March 1992. pp. 16-22.

only providing the products to the economy, but also playing a key role of absorbing the rural surplus labour force. The role of the rural industry will never be forgotten. Since 1986, the rural industry fell into some problems such as low efficiency, low quality, lacking marketability. My view is that the Chinese government should help. I do not mean financial help, I recommend assistance in the technique and management training. The government should spend some money on teaching rural industries how to improve their efficiency, technology and quality. China is practising market socialism now. Competition becomes an economic phenomenon. Without efficiency and quality, the rural industries can hardly survive. The government should make efforts to create a good environment for further development of the rural industries, allowing them to go gradually beyond the range of the rural economy, and encouraging them to have a rational division of labour with the urban industries in big cities, and to establish horizontal economic ties with the urban industries so that the rural industries can become an important component of the urban industries. So, to solve rural surplus labour, we should first focus on the internal absorption within rural areas.

2. Urbanization

Urbanization of the rural population is the inevitable result of the shift of the rural surplus labour, or in other words, the process of shifting rural surplus labour is the process of urbanization of the rural population. The economic development of modern countries has demonstrated that the development of productivity, industrialization and urbanization is an inevitable trend.

China is a developing country with a socialist character, natural conditions, a history and cultural traditions, and a level of economic development which are all different from capitalist countries. According to Feng's view, urbanization of population, as the fundamental way to shift the rural surplus labour, is an inevitable trend of development of China's economy.⁹¹ Artificially separating the rural and urban areas and cutting the links between them is bound to lead to a distorted industrial structure, irrational distribution of factors of production and low economic efficiency. China has already paid a heavy price for this during the past four decades. Therefore, it is essential that urbanization of the rural population with Chinese characteristics be sought.

Urbanization occurring in major industrialized countries was due to the industrial expansion in the cities and there was tremendous need of labour force. It is different in China. However, urbanization is basically the result of the growth of rural productivity and the need of transfer the large amount of rural surplus labour.⁹² This feature determines the pace of urbanization in China. It should not go too fast. We should first consider the accommodation capacity of the urban industry when we want to shift the rural surplus labour to urban areas. We must not create a new problem when we shift surplus labour. The current urbanization policy focuses on development of small towns. Developing small towns has some advantages and disadvantages. From the short-run point of view, developing industries in small towns could not bring higher economic returns and efficiency than that

⁹¹ Feng Lanrui and Jiang Weiyu *A Comparative Study of Modes of Transference of Surplus Labour in China's Countryside*, *Social Science in China*, Beijing: Social Science Publishing House, September 1988. pp. 75.

⁹² *ibid.*, pp. 76.

in big cities. But in the long-term point of view, developing small towns could lead to more solid national economic structure and balanced growth of the national economy. China has a huge population and a poor foundation, the level of capital accumulation is still very low. This requires China to make a full and efficient use of the limited capital and resources in its process of urbanization.

3. Others

My solution to the rural surplus labour is mainly through further developing rural industries and urbanization, but, other ways to solve surplus labour within the agricultural sector such as intensive farming can also be considered as alternative ways. In the central and the western part of China, the economic development is at low level. Backward economy is the feature of these areas. For a relatively long period, we can not expect the fast economic development to happen in those areas. The way of solving surplus labour lies within their areas. Developing multiple cropping, sideline farming, and cashcropping can still be used as a major method of absorbing more labour force, but repetition of former mistakes must be avoided. In this kind of absorption, the key point is to raise productivity and reach economic efficiency. Another way of absorption of surplus labour is through the state planning macro-level migration. The government can arrange for some population from relatively density areas to migrate to those relatively less populated areas. This macro-level migration is more difficult and costly, but it is a positive way of transfer surplus labour.

VIII. Conclusion

China is the most populated country in the world, and about 74 percent of the Chinese population live in the rural areas. In the 1980s, following the rural reform, a large amount of China's rural surplus labour becomes an obvious obstacle for the Chinese agricultural and national economic development. However, this rural surplus labour problem did not receive enough attention for almost three decades before the 1980s.

The causes of China's rural surplus labour is rather complicated. The continuing growing population, the limited arable land and lost of arable land, the internal migration control and underdevelopment all combined to produce a formidable army of the rural surplus labour force. The commonly accepted estimation of the surplus labour is about 100-130 million, and it is still growing. It is projected that it will be 200 million by the year 2000.⁹³ How to solve this huge surplus labour now becomes an important issue of Chinese agricultural development.

The Chinese government has tried some policies to deal with the surplus labour problem. Encouraging internal adjustment to absorb surplus labour, promoting peasants to develop rural industries, managing macro-level migration to transfer surplus labour force to less populated areas or to cities and small towns are the major government policies. However, these policies have not been effective in solving the problem.

To solve the rural surplus labour problem, further developing of rural industries and

⁹³ Fang Shan *Mainland China's Worsening Unemployment Problem*, *Issues and Studies*, Taipei: Institute of International Relations, August 1990. pp. 10

urbanization can be considered as the positive ways, but we still need other ways to solve the rural surplus labour. Intensive farming and sideline farming can be viewed as the alternative ways.

The near future prognosis of the rural surplus labour problem is not optimistic, given the existing and still growing huge population and the Chinese economic foundation. Therefore, in the next two or three decades, China will still suffer the burden of the huge rural surplus labour. Seeking proper development strategies and policies to develop Chinese agriculture and to solve the surplus labour problem will be the major tasks for the Chinese authorities.

Appendix

Chronology of Major Agriculture Events

1978 Historical point:

The Third Plenary session of the 11th CCPCC
Announced new policies of Economic Reform and Open Door policy

February, 1978

Revised 1975's 10 years's plan. By 1985, target: grain production--400 millions;
85% of principal farm to be mechanized; gross value of agricultural output growth
rate 4-5% annually.

December, 1978

Raised the state farm procurement price by 25%.

March, 1979

Discussed the household production responsibility system.

December, 1979

Raised cotton price by 10%.

April, 1980

People's Daily confirmed PRS.

November, 1980

Report lost of 200 million arable land between 1957-77.

December, 1981

The State Council directive of control rural-urban migration.

January, 1982

CCPCC Document No.1 recognized PRS.

January, 1983

CCPCC Document No.1 fully advocated HRS.

January, 1984

CCPCC Document No.1 extended HRS for 15 years.

March, 1984

Village and township enterprise was named.

January, 1985

CCPCC Document No.1 replaced the compulsory state farm procurement with contractual purchase.

July, 1986

Du, Rensheng, Director of the Rural Development Centre of the State Council, called developing rural factor market.

April, 1987

The State Council Provisional Regulation on taxes for the use of arable land.

March, 1988

The Government report, agriculture target: 500 million grain production by year 2000.

May, 1988

Raised price for pork, vegetable etc.

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