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The State, the Market, Economic Growth, and Poverty in China

John A. Donaldson[1]
Singapore Management University

The reform of agriculture in China is cited by scholars advocating economic growth through market reform. Such scholars argue that this aspect of reform has been characterized by the liberalization of markets for agricultural commodities, which spurred production, increased rural incomes, and reduced poverty. This view exaggerates the roles played by open markets and economic growth in that reform. This article argues that the role of the state in redistributing public assets, establishing institutions that supported markets, and designing and implementing poverty reduction policies also reduced poverty in China. I conclude that scholars, not just in China's case but also more generally, should examine the economic and political effects of various possible relationships between state and market. I offer this as one way forward in deepening our understanding of the role of politics and policy in promoting development and reducing poverty.

Socialism means eliminating poverty. Pauperism is not socialism.

—Deng Xiaoping
Building Socialism with Chinese Characteristics

Does economic growth help reduce poverty? If so, does it do so through markets or through state intervention? This article addresses these questions by focusing on one crucial aspect of China's reform era: the de-communalization and reform of agriculture in China, which commenced in 1978, a mere two years after Mao's death. This is commonly cited by scholars advocating economic growth through market reform because this case purportedly displays the benefits of growth and market for the poor (e.g., Nee 1996; Perkins 1991; Zhou 1996). Such scholars argue that this aspect of reform has been characterized by the liberalization of markets for agricultural commodities, which in turn spurred production, increased rural incomes, and reduced poverty. While these reforms undoubtedly reduced poverty at an impressive—even unprecedented—rate, this view

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exaggerates the roles played by open markets and economic growth in that reform. In this study I argue that the role of the state in redistributing public assets, establishing institutions that supported markets, and designing and implementing poverty reduction policies both on the central and local levels also contributed significantly to poverty reduction in China. First, the argument—as it is applied to China—that the market and growth are not only essential to poverty reduction but can also accomplish this without state interference is reviewed. The second section focuses on the surprisingly large role of the Chinese state in agricultural reform. The third section presents evidence that casts doubt on the direct role of economic growth in reducing poverty in China. The fourth section reviews antipoverty policies that the Chinese state implemented during the post-Mao reform era. I conclude that as a way out of a simple zero-sum notion of "state-versus-market," we should instead examine the economic and political effects of various possible relationships between state and market. I offer this as one way forward in deepening our understanding of the role of politics and policy in promoting development and reducing poverty.

Examining the Argument: Market and Growth as Key Drivers for Poverty Reduction

The debate on whether the state or the market is superior to developing or sustaining a robust economic growth has raged for centuries. In the past few decades, this state–market debate has stalemated, or perhaps just gone stale. Advocates of "market-led" development, arguing that the state impedes efforts at development, favor the comprehensive restructuring and reducing of state institutions to allow market forces to increase the productivity and growth of the economy unfettered by often inefficient and politically biased state interference (e.g., Bates 1981; Bhagwati 1985; Krueger 1990; Lal and Myint 1996). Opposing the market-led group, advocates of "state-led" development reject the market for its favoring the interests of the wealthy and its being ineffective or counterproductive for equitable development (e.g., Evans 1995; Gerschenkron 1962; Kohli, Moon, and Sorensen 2002; Wade 1991). The state should therefore proactively attempt to correct market failures or pursue goals that the market cannot, or will not,

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accomplish. Fortunately, most scholars now recognize that framing the debate in zero-sum terms is outdated (e.g., Kanbur 2001; Putterman and Rueschemeyer 1992). Those who might have sided with the state-led development position are now focused on ways that the state can best alter the market to achieve most just outcomes. Most scholars who lean more to the market-led development position realize that the state plays a crucial role in setting up markets. In fact, extreme voices have been quieted to such an extent that two participants proclaim, "the smoke has cleared in the state–market battle. The extreme positions are deserted," (Lipton and Ravallion 1995, 2572).[2]

While this recognition is crucial, today scholars struggle to discover theoretically useful ways to reconcile the role of the state with the role of the market in an analytically useful manner. The market is nearly inevitable and often helpful; the state is equally so. How can we deal with them analytically? This issue remains vitally important for helping to devise effective ways of developing economies. If the state and market are not zero-sum, can we combine them in an analytically meaningful way that helps us understand their roles in poverty reduction?

One approach to answering this question is to examine instances of successful poverty reduction.

The debate surrounding agricultural restructuring during the post-Mao reform era (1978-present) in the People's Republic of China, often cited as an unprecedented success story for rural poverty reduction (World Bank 2001; Zhang, Huang, and Rozelle 2003), reflects the problems related to viewing state and market as zero-sum and the tensions that remain among advocates on both sides of the issue. The reform initiative, which included the elimination of communal agriculture to a new system centered on "household responsibility," began in the early 1980s, lifting tens of millions of farmers out of poverty (World Bank 2001; Zhang, Huang, and Rozelle 2003). Advocates of market-led development ascribe this striking result to the withdrawal of the state implicit in de-communalization and the subsequent entry of the market (e.g., Nee 1996; Perkins 1991; Zhou 1996). State-led development advocates counter that the role of the Chinese state remained crucial to that result (e.g., Shue 1990; Sicular 1995; Zweig 1997). However, the state-versus-market lens that has been adopted to analyze this case misses the main story, which is the much more nuanced relationship between the state and market. Focusing on

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this relationship not only helps us to understand this important period of China's reform, but more generally may generate new hypotheses on how the state and market can be linked in other contexts.

Market-led development advocates who cite agricultural restructuring as an example of market-oriented reforms that reduce poverty make a two-fold argument. First, in relaxing the control the state holds over rural residents during the communal system, the Chinese government allowed market forces to determine prices, increasing incentives for productivity in agriculture and spurring economic growth.[3] Second, they argue that the resulting rapid economic growth directly benefited poor farmers and reduced poverty (World Bank 2001; Zhang, Huang, and Rozelle 2003). On the surface, there is much evidence to support this set of arguments. Agriculture did grow, with record harvests not only spurring the rural sector but also literally feeding urban growth; the government used the more plentiful food as an incentive for increased productivity in industry (Parish 1985). Moreover, during the initial period of post-reform economic growth between 1978 and 1984, rural poverty did decline especially rapidly. Many argue this growth was central to poverty reduction not only during that six-year period, but even until today. The World Bank, for instance, in a comprehensive survey of rural poverty in China during the 1980s and 1990s, found that for each one point of gross domestic product (GDP) growth in China, rural poverty declined .8 percent (World Bank 2001). Linxiu Zhang, Jikun Huang, and Scott Rozelle (2003) similarly found a .98 correlation between economic growth and poverty reduction in the country. Ravallion and Chen (2007), while noting that the relationship between economic growth and poverty reduction has declined over time as inequality has increased, nevertheless conclude that "periods of higher economic growth tended to be associated with higher rates of poverty reduction" (12). These studies' conclusions are consistent with those in other contexts that find a strong and direct link between economic growth and poverty (e.g., Dollar and Kraay 2002). China, as a large and reforming communist state, is highlighted in this way as a prime example supporting the market-led development side of the debate that shows that market forces are superior for reducing poverty.

However, the actual story of what reduced poverty between 1978 and 1984 and beyond is much more complex. In this article I counter

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this set of contentions by arguing, first, that rather than representing a withdrawal of the state, the state's role in the economy did not so much decrease but alter in form, creating a new relationship between state and market that required the establishment of additional institutions and government programs. Second, countering the claim that economic growth reduced poverty directly, I respond that while economic growth and poverty are often associated, examining this relationship in aggregate is not as helpful as recognizing and studying exceptional periods, and examining the specific causal linkages between these two factors. Third, while poor rural residents did benefit from economic growth, they also benefited directly from government programs and initiatives designed to increase production and reduce poverty. When these programs were scaled back, the pace of poverty reduction slowed dramatically despite continued economic growth. In sum, with rural reform, market incentives were crucial to both increasing productivity and reducing poverty, but without the state facilitating and altering market forces by, for instance, changing price or supply to achieve particular goals and implementing antipoverty efforts, these gains would not have been nearly as dramatic.

Destructing Communes and Implementing the Household Responsibility System: The Shifting Role of the State

During the entire nearly 30-year-long reform period starting with the rise of Deng Xiaoping as China's unquestioned leader, the breakup of the communes and the decollectivization of farms was the one radical change in government policy with the most extensive impact on the lives and livelihoods of farmers, both poor and nonpoor. Between 1979 and 1984, the Chinese government, under political pressure from farmers and local governments, gradually but steadily broke up the old communal system that has been in place since the mid-1950s, dividing the land surprisingly equitably among rural residents and signing long-term leases (although not ownership rights) with them.[4] For the first time in decades, the government devolved planting and other major decisions to the household, the most local of units (Chung 2000; Zweig 1997). The change was extraordinary. In 1978, nearly all planting decisions were made by commune authorities. By 1984, 96 percent of all farms were held by private producers, with planting and other decisions

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made primarily by the families that controlled them. The number of agricultural products subject to government procurement declined from 113 in 1978 to 38 by 1984, although importantly, procurement of major products such as grain and tobacco continued (Fan, Zhang, and Zhang 2002, 53). With the combination of newly endowed rights to land, individual incentives linking work to reward, increases in government procurement prices, and favorable weather, agricultural production rose 6.6 percent on average each year between 1978 and 1984 (Yao 1999). Farmers, no longer obligated to produce grain first, increasingly grew more profitable, traditional cash crops. While some feared that the reduction in scale of Chinese farms would undermine rural livelihoods (e.g., Hinton 1991), the policy spurred the agricultural sector such that it not only more than compensated for technical inefficiencies related to land fragmentation (Carter and Estrin 2001), but also grew faster than the industrial sector and narrowed for a time the urban–rural rich–poor gap (Whyte 1986, 113-14). Poverty declined quickly in many areas of the country, particularly in coastal regions.

Although market forces and market-set prices increased in importance, even as the role of the state in making micro-level planting and distribution decisions waned, the role of the state was far greater than that prescribed by market-led advocates. Under the new system, the government assigned each family the responsibility of producing government-established quotas, which the state then purchased at set prices that increased steadily over the first few years. While the state would buy grain produced above the quota, it also permitted such above-quota production to be sold on local markets. State purchases of grain—especially government purchases at the set above-quota price—proved to be particularly crucial to reducing poverty during this period. While Perkins (1991) and Lardy (1983) specifically deny a place for procurement prices in explaining rising farm incomes, research by many scholars, including Claude Aubert (1990), Unger (2002), and Terry Sicular (1995), find that incomes derived from the state's quotas and procurement system during the 1978-84 period were distributed more to the poor than to other groups.[5]

While the quota prices, including the above-quota price, were below the market price during nearly all periods since the reform was implemented, government purchases proved essential for production increases and falling poverty rates between 1978 and 1984. Quotas also

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allowed the government to adjust purchase prices to increase production. In initial years, for instance, the government bought commodities at prices 50 percent over quotas prices; when this policy was rescinded a few years later, the rate of poverty reduction flattened out (Unger 2002). However, benefits to the farmer went far beyond being based on the level of quota prices. First, as the reforms were phased in, farmers faced risks that came with the vagaries of the market. The state guaranteed payment for products at the quota price and was compelled by policy to purchase all the grain that farmers offered at the above-quota price, providing a dependable market and thus mitigating risks faced by farmers (e.g., Sicular 1993, 70). Second, guaranteed purchases lowered transaction costs for farmers, allowing them to sell to a single, easily available purchaser rather than having to search for buyers on the open market (Wu and McErlean 2002). Finally, quotas provided a buffer against falling market prices, creating a price floor for many commodities, which was especially important when production peaked, for instance, in the early 1980s (Sicular 1993, 66).

In addition to these causal mechanisms, other evidence bolsters the argument that state purchases were important for reducing rural poverty during this period. First, grain production and poverty reduction rates closely followed government procurement patterns. As the quota price was slashed between the mid-1980s and early 1990s, grain productivity declined, as did the rate of poverty reduction (Garnaut, Cai, and Huang 1996; Parish 1985). In response, the government reversed course and increased procurement prices several times—40 percent in 1994 (when procurement prices exceeded international prices) and 42 percent in 1995 (Fan, Zhang, and Zhang 2002; Findlay 1997)—and grain production and farmers' livelihoods increased apace. Second, many farmers continued to sell their grain produced above the quotas to the state despite being permitted to sell elsewhere (Sicular 1993). Third, evidence that the free market played a significant role during this period is weak. Between 1978 and 1984, when poverty rates declined the most and production increased, the proportion of grain production sold on the free market never exceeded 10 percent. By contrast, between 1985 and 1987, when grain production declined and poverty reduction stagnated, the percentage of grain production sold on the free market increased, ranging between 16 and 21 percent (Aubert 1990, 17). Moreover, market liberalization in the prices of farm inputs during the mid-1980s further exacerbated farmers' production costs and contributed to declining grain production and stagnating poverty reduction rates (Sicular 1993, 71). Overall, quantitative analyses that isolate factors that contribute to agricultural production conclude that quota prices were responsible for between 16-22 percent of farming growth output during this period and interacted with changed incentive structures to increase agricultural production rapidly (Lin 1992; McMillan, Whalley, and Li 1989). Moreover, this increased agricultural production was the primary determinate of rural poverty reduction during this period, with economic growth in the agricultural sector having an impact on livelihoods four times greater than growth in the industrial or service sectors (Ravallion and Chen 2007). As Ravallion and Chen (2007) conclude, changes in procurement prices not only reduced rural poverty, but also made poor rural residents less poor. Therefore, although the agricultural reforms were based on increasing the range of market choices for farmers, enhancing the efficient selection of agriculture production, and allocation of key inputs, the government's role was also a significant determinant of the subsequent levels of grain production, which in turn reduced poverty.

Another crucial element to the poverty reduction in this period was the free and equal distribution of land to rural households based on family size. Land usage rights could not be bought and sold, and if abandoned would be returned to state control and reallocated. While farmers did not own the land they were allocated, long-term leases provided incentives for them to improve and irrigate land and to increase productivity. This is remarkable because in instances where they are not imposed from the outside, as in the cases of Taiwan and South Korea, the majority of land reform programs have largely failed to benefit poor farmers, with many scuttled by the resistance of local elites, the successful co-opting of government, and over-bureaucratization (Inayatullan 1980; Lal and Myint 1996). Land in China in this way became like a form of insurance. Farmers could undertake productive but risky endeavors, such as migrating to cities for work, with the land in typical years providing at least a subsistence income to fall back on (Zhang, Rozelle, and Huang 2001). The relatively equal distribution of land was a notable factor ensuring that growth in the agricultural sector benefited the poorest (Khan and Riskin 2001).

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In the process of agricultural reform during this period, what role did the government play *vis-à-vis* the market? One was a traditional role that even most advocates of market-oriented reforms willingly concede is crucial: establishing institutions and enforcing contracts and laws. In this case, the implementation of the household responsibility system for agriculture in China placed heavy demands on local governments for reasonably fair reallocation of collectively owned land to households, including the resolution of disputes. It was only a strong Chinese state that was able to prevent many of the problems that derailed earlier, even earnest, attempts at land reform. Central and county governments played an extensive role in ensuring compliance with the policy and ensuring systematic implementation throughout the country. Establishing new markets, largely closed for decades, also demanded significant government capacity. Overall, the state took an active role, yet one that might be best described as "market facilitation."

On the other hand, the importance of the state went far beyond the implementation and enforcement of a fundamentally market-oriented policy. A second role of the state was much more interventionist in affecting production levels through the use of state procurement. Grain production during this time period followed the levels of pricing for the production quotas closely, with higher prices encouraging higher grain yields and raising incomes (Aubert 1990). When the government's procurement price increased, as during the 1978-84 period, the lot of farmers improved, but when procurement prices were subsequently cut, poverty reduction slowed or stagnated. Moreover, ensuring fair allocation of land based on household size rather than on local power required an active government. For instance, utilizing a party institution from early revolutionary days, the center sent work teams to villages to deal with specific problems and to negotiate production contracts (Unger 2002). County governments also played a primary role in disbanding the communes and reallocating the land to rural residents. Because the county government is positioned two levels above the village, local power dynamics were muted. However, enduring a relatively fair redistribution required significant state capacity and institutionalization (Unger 2002). Moreover, the local state remained active during this period in organizing and unifying plowing and irrigation, and providing farm inputs, as well as through encouraging sales through various programs that awarded subsidized or scarce

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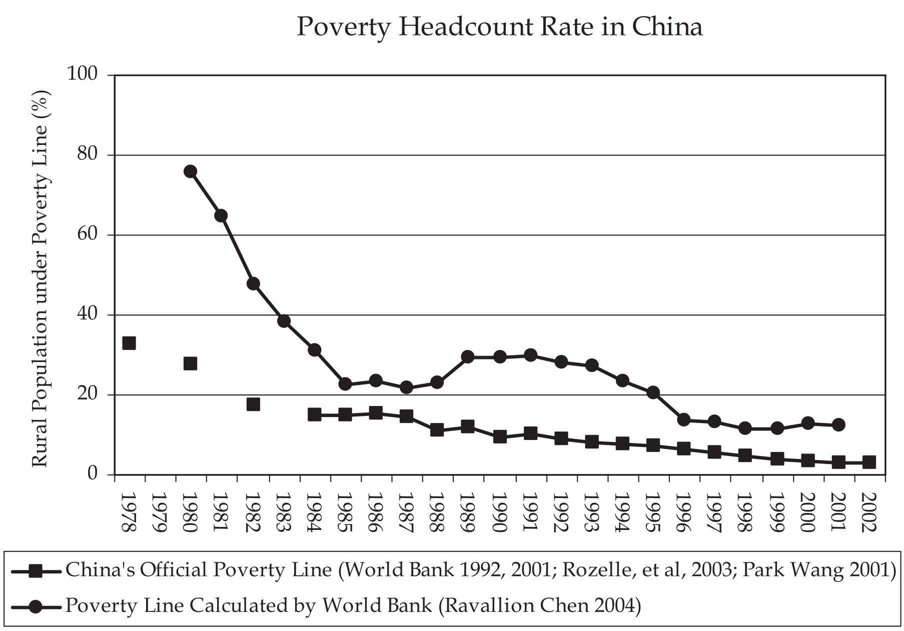
inputs in exchange for fulfilling state quotas (Sicular 1993, 55, 57). Thus, the role of the state—a far more proactive state than most market-led development theorists would advocate—was important to adjusting market forces in ways that reduced poverty.

Economic Growth and Poverty Reduction in China

What of the second claim that economic growth varied directly with changes in poverty rates? On this issue, one fact is noncontroversial: income poverty declined radically in China since Deng Xiaoping took the helm in 1978 (Figure 1). Various studies (Park and Wang 2001; Ravallion and Chen 2007; World Bank 2001; Yao 2000; Zhang, Huang,

Figure 1. Poverty Headcount Rate in China



Sources: Park and Wang (2001), Ravallion and Chen (2007), Rozelle and others (2003), and World Bank (1992, 2001).

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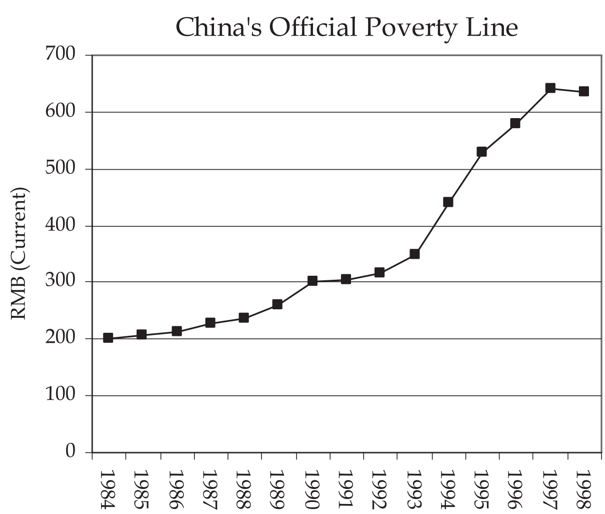
and Rozelle 2003) have attempted to measure China's poverty by applying various poverty standards, especially the international poverty line of US$1 per person per day or China's much-lower (and probably too low) poverty line (Figure 2). Despite the differing results, each of these studies concludes that overall, poverty in China has declined during most periods since 1978.

A comparison of China's declining poverty rates with the country's rising GDP per capita suggests that in the aggregate, China's poverty rates are closely and inversely linked with China's growth rates. Nevertheless, economic growth and poverty reduction do not appear to be linked in many periods, as a comparison of four indicators (poverty rates, GDP, the rich–poor gap, and growth rates in GDP/capita in Figures 1 and 3–5) suggests. These four indicators (as reflected in Figure 1 on poverty rates, Figure 3 on GDP/capita, Figure 4 on GDP/capita growth, and Figure 5 on the rich–poor gap) show that declines in poverty rates were not uniform but changed at rates during different time periods in ways that contrasted with economic growth rates.

Figure 2. China's Official Poverty Line



Source: Rozelle and others (2003).

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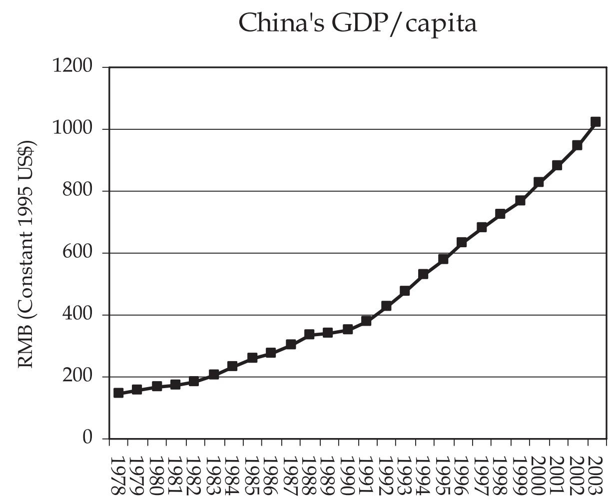
Figure 3. China's Gross Domestic Product (GDP)/Capita



Source: World Bank. "World Development Indicators." http://ddp-ext.worldbank.org/ext/DDPQQ/member.do?method=getMembers&userid=1&queryId=135

According to most measures, China's headcount poverty rate declined most rapidly from 1978 to 1984, from 260 million to 128 million people based on China's official statistics, before flattening out between 1984 and 1989, when the official statistics place the poverty headcount rate at 106 million. In the 1990s, poverty rates declined steadily once again, especially after 1993.[6] Thus, although China's poverty rate declined from 1978 to now, it did so more rapidly in some periods and less rapidly in others—and even increased in some periods according to some measures.[7]

The changes in poverty rates during certain periods were not synchronous with economic growth rates. Between 1978 and 1984, rural poverty decreased rapidly, even as the pace of economic growth during much of this time was slowing. Whereas poverty reduction slowed and the rich–poor gap increased starting in 1984, the rate of GDP growth that had begun in 1978 accelerated in 1982, peaking in 1984 and 1985 when GDP per capita grew 13.2 and 12.1 percent, respectively.

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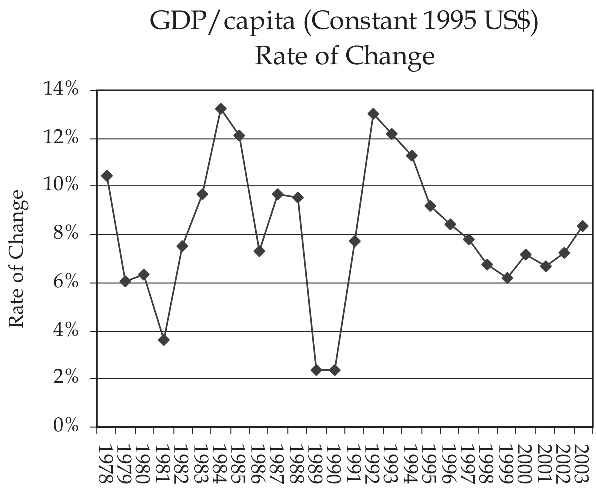
Figure 4. Gross Domestic Product (GDP)/Capita Rate of Increase



Source: Author's calculations.

Moreover, as poverty began to decline again in the early 1990s (especially 1993), the rate of increase for per capita GDP had already slowed. Thus, during three different periods (1978-84, 1984-89, and much of the 1990s), economic growth and poverty reduction were not closely associated. Further, time lags between the effects on economic growth and poverty cannot explain at least the first two periods, since the poverty reduction was not preceded by rapid economic growth. Certainly, growth expanded and poverty declined during most periods in the reform era. Yet the two factors were not as systematically related as some argue, as during a number of periods, economic growth and poverty reduction were not associated.

Overall, economic growth did not to help China's poor as much as it did everyone else. Throughout the 1990s, the rich and poor gained from growth at different rates. As one World Bank report concludes (Chen and Wang 2001), the income of China's richest 1 percent grew four times as fast as that of other groups. During this period the income of the richest 20 percent increased by 6.9 percent per year while the income of the bottom half grew at 4.9 percent each year (Chen and

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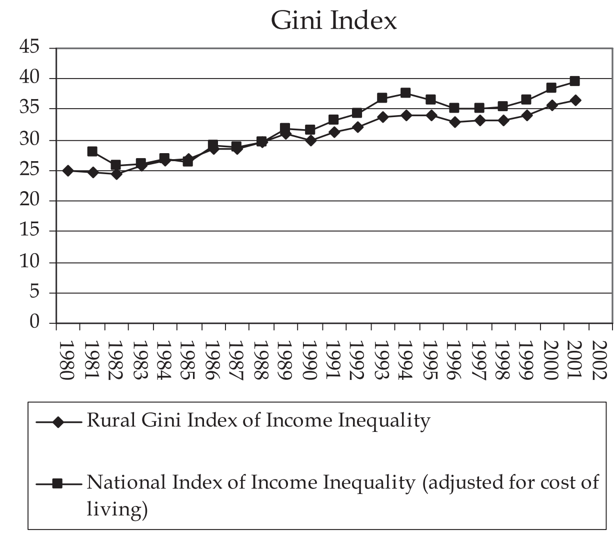
Figure 5. China's Rural and National Gini Index



Source: Ravallion and Chen (2007).

Wang 2001). During other periods, particularly between 1978 and the mid-1980s, economic growth was biased toward the poor, as when the government redistributed land usage rates and raised procurement prices, and other times economic growth was skewed away from the poor, such as when the government reduced spending in rural areas in the mid-1980s and shifted its attention from rural restructuring to urban reformation (Khan and Riskin 2001). As two surveyors of China's poverty rate conclude, "[h]ad a larger part of the growth in GDP been passed on to the households in the form of a rise in personal income, China's performance in poverty reduction would have been better," (117). The overall conclusion is not that economic growth and poverty reduction are not associated—they often are. However, understanding the linkage between economic growth and poverty reduction in China and elsewhere requires disaggregating the periods and tracing the actual causal connections—if any—that linked the growth with poverty reduction. Ravallion and Chen (2007) have recently started this process,

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identifying economic growth in the agricultural sector, for instance, as being especially crucial for improving the incomes of the poor.

The Government Role in Reducing Poverty

Finally, in addition to implementing the household responsibility system, central and local government organs in China designed and implemented antipoverty programs at different time periods between 1978 and the present that reduced poverty significantly. Overall, these programs, which included subsidized loans, work programs, and other grants, helped to reduce rural poverty by providing loans for much needed capital improvements, jump-starting local production, directly hiring millions of rural residents, and otherwise altering the market. To underscore the primary role played by the state in reducing poverty, this brief overview highlights four overlapping periods during the post-1978 reform era in which the state implemented key poverty-reduction policies.

Early Reform Era (1978-84)

Central government ministries implemented programs that specifically targeted poor areas even from the early years of the reform program. The government made nine years of formal education compulsory in 1978, an unrealistic ideal that has yet to be achieved throughout China even today (Unger 2002). Nevertheless, according to official statistics, illiteracy rates declined from 48 percent in the 1970s to less than 10 percent by 1997 (Fan, Zhang, and Zhang 2002, 22-3). The Ministry of Public Health also implemented programs designed to improve education and health in poor areas, although some argue that these programs only partially compensated for the end of the "barefoot doctor" system that provided health care to rural areas before 1978 (Hussain 1990; Piazza and Liang 1998). Moreover, the government focused on bringing electricity to rural areas and subsidizing grain production to support poor rural areas (Fan, Zhang, and Zhang 2002; Park and Rozelle 1994). In 1982 the State Council implemented the Sanxi Agricultural Construction Fund, which provided development aid grants to 47 counties in Gansu and Ningxia as part of a special Ministry of Finance (MOF)-administered Development Fund for

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Underdeveloped Areas (Kuchler 1990). While these programs exemplify the state's role in poverty reduction, they were more *ad hoc* than efforts in later periods.

Deepening Poverty-Reduction Programs (Mid-1980s)

Concerned by slowing poverty reduction rates in the mid-1980s, China's central government established an array of formal antipoverty initiatives for poor rural areas, an effort that required an extensive network of new institutions. In May 1986, the State Council established the Leading Group for Economic Development in Poor Areas (LGPAD)[8] to oversee and coordinate antipoverty programs, in part through its executive agency, the Poor Area Development Office (PADO), which established branches in provinces, prefectures, and counties throughout China. In addition, many township-level governments also assigned an official to work with county-led PADOs on poverty reduction (World Bank 2001). That year, the central government also designated 331 counties (about 12 percent of the country's total) as poor based on a cut-off point of RMB 150 (for most 2
counties), RMB 200 (for selected minority or old revolutionary base areas), or RMB 300 (for special cases, including pastoral and semi-pastoral counties).[9] Supplementing this monetary income standard, the central government also considered counties with per capita grain production under 200 kg per capita as poor counties (World Bank 1992, 117).[10] For designated poor counties, the central government earmarked special funds. Provincial governments supplemented this central list with an additional 368 counties based on their own poverty lines (Fan, Zhang, and Zhang 2002). Therefore, between the national and provincial lists, counties designated as poor approached 700, about a quarter of China's counties, which received central and local support primarily through three programs described later.

In spite of various challenges, including the difficulty of targeting and leakage of funds to other priorities or to official corruption, this program benefited targeted counties. One study concluded that economic growth in designated counties exceeded growth in non-designated poor counties by 2.3 percent in 1985-92 and by 0.9 percent in 1992-95, with a 12.5-percent return on investment for 1985-92 and 11.6 percent for 1992-95 (Park, Wang, and Wu 2002). Another carefully controlled study found a 1.1 percentage point increase per year in

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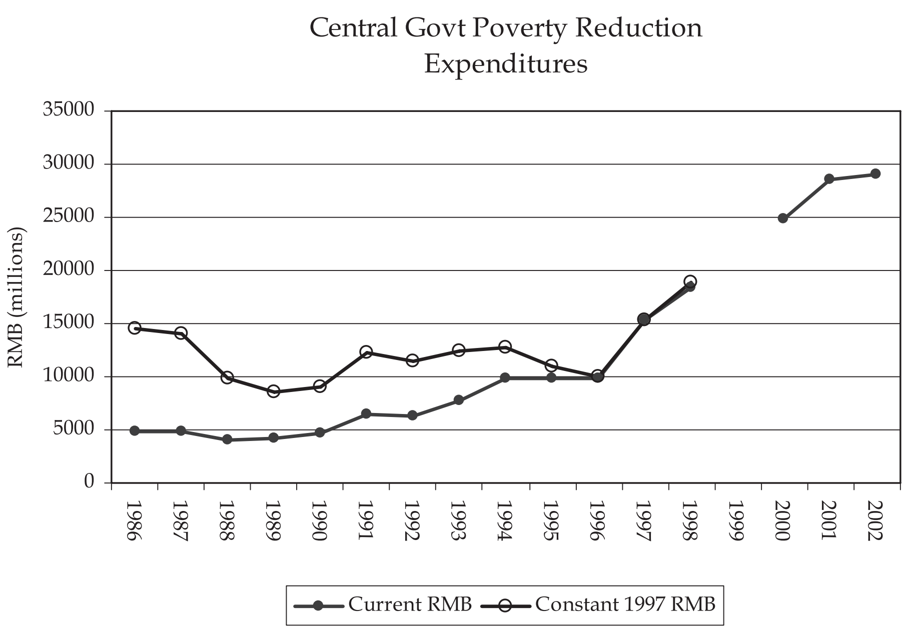
consumption between 1985 and 1990 and a marginal return on investment of 12 percent for money spent on projects in these areas (Jalan and Ravallion 1998, 81). Thus, although these programs (like most poverty-reduction policies in other countries) targeted the poor imperfectly, they did contribute to rural poverty reduction.

To support poor counties, the central government implemented three core poverty-alleviation programs: subsidized loans through the Agricultural Bank of China, the Food-for-Work program through the State Development Planning Commission, and development grants through the MOF (World Bank 2001). The center funded these programs, with matching funds expected from provincial and local governments. In real terms, overall funding levels fell gradually and did not achieve previous levels until 1996 (Figure 6).[11] The funding levels of these three programs also varied a great deal over time (Figure 7).

Figure 6. Central Government Poverty Reduction Expenditures



Source: World Bank (2001) and State Council LGPAD (2003).

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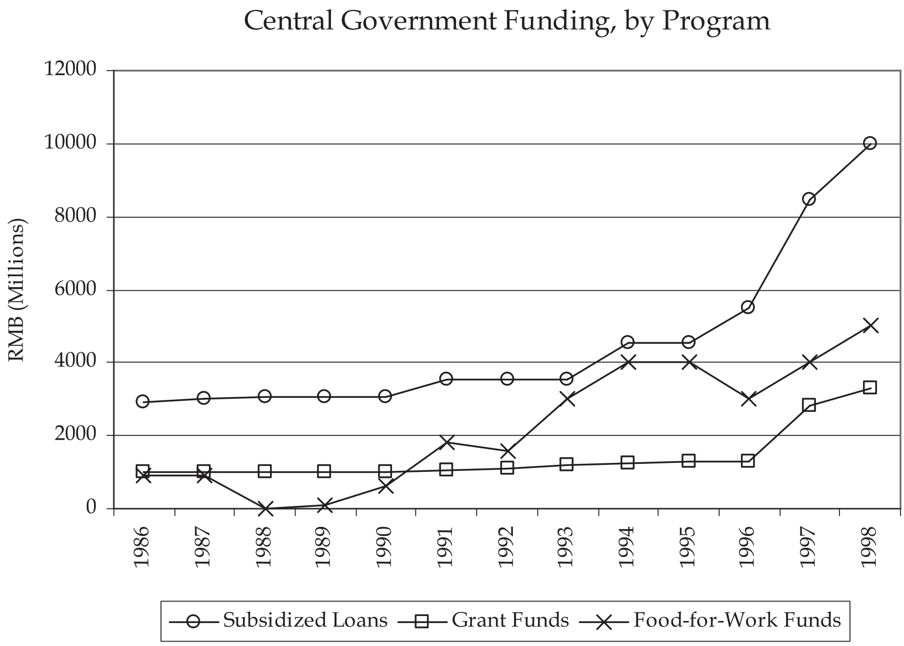
Figure 7. Central Government Funding by Major Antipoverty Program



Source: World Bank (2001, 43).

Subsidized Loans. Viewed as the flagship of China's poverty reduction efforts, the government intended the subsidized loan program to provide poor families with inexpensive loans to invest in productive agricultural assets. While this program did benefit many Chinese families, it is difficult to find an expert with an overall positive evaluation of the program (World Bank 2001, 46). Originally oriented toward direct lending for household agricultural production, in 1989 governments at all levels refocused the program on promoting town-and-village enterprises before reverting in 1996 to the original focus on households (Zhang, Huang, and Rozelle 2003) shifts that correspond with a slowing and subsequent accelerating of the pace of poverty reduction. During periods in which households were targeted, surveys suggest that most loans were indeed directed to poor rural households.

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However, while the program was designed to target the agricultural production of poor rural households, many loans either subsidized primarily direct, unsustainable household consumption or were diverted to middle-income farmers, dampening their ability to reduce poverty long-term (Park, Wang, and Wu 2002). Moreover, some local governments, which consider most poor people risky investments because they are perceived, often incorrectly, as less capable at successfully managing agriculture projects, channeled loans toward the relatively well-off and local businesses. In the late 1990s, poverty-alleviation loans were systematically diverted to capital-intensive enterprises of a kind that hired few poor people (World Bank 2001, 47-8). Researchers estimate that total losses from this program have been substantial (Zhang, Huang, and Rozelle 2003). Still, these problems have to be weighed against the significant number of families that the program helped escape from poverty.

Food-for-Work. More clearly successful is the Food-for-Work program implemented by the State Planning Commission. This program was designed to provide rural employment to poor people, employing them for labor-intensive antipoverty projects promoting drinking water, land improvements, and local road construction. By the early 1990s, the government diversified the program to include water conservation, education, and health. A World Bank (2001) study concluded that although many poor villages could not participate in Food-for-Work opportunities, the program did predominantly reach poor rural residents in those areas in which it was implemented, in part because remunerations were modest enough to support self-selection. The Food-for-Work program is also praised for successfully constructing large amounts of rural infrastructure, including 131,000 km of rural roads and 7,900 bridges, and for providing 20 million people with drinking water between 1985 and 1991 (Zhu and Jiang 1996). Overall, the effect of the Food-for-Work program on poverty is threefold: providing needed financial support for the working poor, constructing vital services for poor areas, and developing marketable skills for participants.

Despite this success, China's Food-for-Work program faced several problems. Most provinces and counties provided insufficient matching funds, often far less than the program required. As a result, program officials were sometimes compelled to purchase construction materials

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on their own, reducing the amount of funds available to compensate labor. Thus, an estimated 40 percent of the participating labor force was obtained for free or on a noncash basis, as local governments in rural areas maintained a "work day contribution system," a throwback to the communal era in which each household had to fulfill quotas for labor contributions (World Bank 2001, 50). In addition, the program was implemented in a top-down fashion, and community needs were sometimes not addressed (for instance, work focused on terracing instead of an alternative, expressed community need such as road construction), and some projects (such as the construction of rural post offices) had little direct effect on poverty (Zhu and Jiang 1996). Finally, the expansion of the program in the mid-1990s increased the difficulty and complexity of administering and monitoring the program (World Bank 2001, 51). Nevertheless, even when rural labor was unpaid, many poor rural communities benefited significantly from drinking water and rural infrastructure created through this program, and many rural residents learned transferable, marketable skills.

Development Grants. The development grant program, administered by the MOF, is the most poorly studied of the three programs, although one report noted that development grants are "highly progressive" and have effectively reduced poverty (Park, Wang, and Wu 2002, 139). Nevertheless, the value of grant funding declined in real terms from the late 1980s and did not again reach its 1986 value until 1998 (World Bank 2001, 51).

Seven-Year Plan (1994-2000)

By 1993, the central government, facing widening gaps between rich and poor, had redoubled its efforts, designing the "Seven-Year Priority Poverty Alleviation Program" to eliminate poverty among China's remaining 80 million poor people calculated based on China's low poverty line over the subsequent seven years (i.e., by 2000). The plan, nicknamed "8-7" (i.e., 80 million people, seven years), implemented several priorities, including land improvement, strengthening poverty-related institutions, establishment of a new monitoring system, improving access to migration opportunities, continuing investments in agriculture, supporting town and village enterprises and constructing infrastructure (including roads, drinking water, and electricity), and

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increasing investments in human capital, education, and disaster relief (Piazza and Liang 1998, 262-3; World Bank 2001, 41). The strategy focused specifically on the problems facing the agricultural sector in mountainous regions by supporting land development and small-scale water conservation projects as well as improving techniques in food production, animal husbandry, forestry, and raising cash crops (xxv). Poor provinces adopted similar plans during this period to focus on local needs.

The 8-7 Plan (the first sentence of which, “Socialism will abolish poverty,” echoes Deng Xiaoping’s quote that begins this paper) supported its ambitious list of priorities with additional funding. It was not until the 1996 National Poverty Reduction Conference that the State Council significantly increased funding under the 8-7 Plan in an effort to achieve poverty reduction targets before the 2000 deadline (World Bank 2001, 41-2). The plan also linked government and party organizations with poor areas, charging most such organs with supporting a specific poor area by, for example, posting cadres temporarily to the areas to act as advisors and raising money from government employees for support and development of those areas. Similarly, wealthier provinces and cities were assigned a poor province “partner” whom they were expected to help with financial support, personnel training, expert advice and other forms of assistance. According to government statistics, by 2000, this aspect of the 8-7 Plan involved 138 government units that posted temporarily more than 3,000 officials to poor areas and channeled funds to poor areas amounting to RMB 14.9 billion (State Council LGPAD 2003).

In May 2001, after the seven-year period of the 8-7 Plan had passed, China’s government convened a working conference to evaluate the program’s success and map the next stage in China’s poverty-reduction efforts. From this process, the government formulated the “Outline of China’s Development-Oriented Poverty Alleviation in Rural Areas (2001-10).” By the end of 2001, the conference concluded that the total number of people living under China’s poverty line (which is far lower than international standards) totaled 30 million, or less than 3 percent of the population. These people were characterized as living in inhospitable geographic areas dispersed primarily throughout China’s western provinces, home to 61 percent of China’s poor people. The program also targeted an additional 60 million people classified as "low-income" (under RMB 865 per capita). The strategy focused on ensuring that the remaining poor have sufficient food and clothing, further improving the living conditions of poor people who had recently emerged from poverty, and intensifying infrastructure construction.

Development of Western China (Late 1990s)

Despite the impressive pace of poverty reduction, China's economic growth post-1978 benefited primarily the wealthier and better-positioned coastal areas. China's central leaders anticipated this. When Deng Xiaoping discussed the reform era that he had started decades earlier, he noted that some areas would "get rich first," but that by the turn of the century, the central government would have to ensure that other areas caught up. Deng proved prophetic as regional imbalances increased markedly, with China's coastal provinces growing much faster than central ones, which in turn grew faster than Western ones (Tian 1998, 199-200, 211-12). To respond to the widening gaps in regional development, China's central government shifted attention toward China's western interior, inaugurating in late 1999 and early 2000 a plan to "Open up the West." Although this wide-ranging plan involves specific goals (ensuring equity, attracting foreign investment, constructing infrastructure, promoting sustainable development, and staving off nationalist sentiments among China's ethnic minorities), the plan is vague and its progress has been mixed. Moreover, central government financing for most items, save infrastructure development, has been modest. The bulk of support was intended to be sourced from private and foreign investment, which has so far been limited (Goodman 2004; Holbig 2004). "The program's first three years witnessed the funding of 36 large-scale infrastructure projects with investment over RMB 600 billion (US$72 billion), while China's banking sector provided some 600 billion *yuan* in loans to target provinces" (Lu and Neilson 2004, 1). Despite its accomplishments and disappointments, judging the overall effect of this policy—which in September 2003 was extended in modified form to the industrial rustbelt in Northeastern China—remains premature.

Local Government Initiatives

China's local governments at all levels also implemented antipoverty programs. Although the central government allocates

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significant resources to antipoverty programs, each program is implemented differently in different provinces (Zhu and Jiang 1996). For instance, Food-for-Work, the largest central program, is distributed directly to provincial planning commissions, and provinces have leeway in the use of these funds (Park *et al.* 1996). Analysts researching the Food-for-Work program's implementation in Shandong, Sichuan, and Ningxia observed that funds were applied for different purposes in each: for capital construction in Shandong, mainly for relief in Ningxia, and a combination of both in Sichuan (Zhu and Jiang 1996). Zhang, Huang, and Rozelle (2003) also noted differences in implementation and policies in the Shaanxi and Sichuan provinces. By 1996, the year provincial governors were first held personally responsible for reducing poverty in their constituencies, 23 provinces had already implemented their own programs for poverty reduction, typically through a combination of subsidized credit and grants. Provincial support for these programs approximately matched that of the central government (World Bank 1992, 122). In fact, despite the recentralization of finances in 1994, sub-national governments in 1999 were responsible for nearly two-thirds (64 percent) of total government expenditures in China, 89.3 percent of total spending on "culture, education, science, and health," and 98.9 percent of total spending on "social relief and welfare" (World Bank 2002).

In addition, many local governments had also adopted innovative measures to tackle poverty. These had taken a variety of forms, including development-based initiatives (such as spurring rural tourism or building roadway), or more direct antipoverty programs such as micro-credit programs. For instance, in one dry county of the northwestern province of Gansu, the government encouraged farmers to pave their backyards with cement inlaid with a receptacle that would catch rainwater that ran off the farmers' slanted roofs. This helped farmers address one of their most urgent problems: access to sufficient water. The ground of one township in the remote, mountainous southwestern province of Guizhou is so rocky that most agricultural production is not viable. Instead of implementing more traditional antipoverty programs, the local government organized farmers to abandon efforts to plant grain and to instead plant grass that can grow between the rocks in the soil. A micro-credit program was then instituted under which farmers could purchase and raise cattle, feeding them with grass and hay.

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In fact, local governments play a primary role in poverty reduction. Many of these programs take place well below the provincial level. Indeed, despite acute budgetary and staffing problems, counties have been called the "most important administrative level for generating revenues, making local investments, and providing basic services," and by the late 1980s, counties were given more discretion in using their funds (Park *et al.* 1996). County-level PADOs, banks, and planning and economic committees are responsible for identifying and designing most poverty-reduction projects, often with the assistance of outside technical agencies (World Bank 1992, 122-3). While academic and other reports (e.g., Kahn 2006; O'Brien and Li 2006) have highlighted local [3] abuses from local government officials, the many effective poverty-alleviation programs implemented by a proactive and innovative government receive little attention.

Despite these positive programs, China's central government has also adopted and strictly enforced many policies that hurt the economic interests of the rural poor. For instance, China's household registration system ties farmers administratively to their home areas, restricting freedom of movement. Although the system's hold over the peasant has diminished—both through policy reform and via nonenforcement—household registration restrictions have prevented many rural residents from benefiting directly from the growth in the coastal areas (Wang 2004). Further, rural residents have long been denied the welfare benefits (such as public housing and education) that have been provided to urbanites (Wong 1998). Moreover, the tax burden on the peasant has until recently been highly burdensome, with residents of some of the poorest provinces paying some of the highest tax rates throughout the 1990s (Yep 2004). Nevertheless, the overall role of the government in ensuring poverty reduction has been positive, with central and local authorities playing roles in reducing rural poverty both in coastal areas where economic growth is rapid as well as in remote areas of China's hinterland.

In spite of this, few poverty-alleviation programs have been unqualified successes, as reports of diversion of funds for various purposes, ranging from the legitimate to the illegitimate, are not uncommon. Moreover, program targeting has been weak for many reasons, including incentives for officials to target the wealthier or more accessible of poor areas in order to increase chances of noticeable

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success. In some cases, overly zealous government officials forced farmers to implement poorly designed programs, with disappointing, and in some cases disastrous, results (e.g., Zhang, Huang, and Rozelle 2003). Overall, the most effective programs—such as the Food-for-Work program—appear to be those that work with the market, creating jobs and applying labor to building infrastructure that improves basic living standards (e.g., by improving access to water) and brings impoverished areas closer to markets. This marks a major distinction with prereform antipoverty policies—such as the barefoot doctor system—which, although extensive, were not typically linked with market forces. Despite helping many farmers emerge from horrifying living conditions and often exploitive relationships with local landed elites, pre-reform programs left poverty at a very high level by 1978, whether measured by China's low poverty line or by the higher international poverty line. The reforms and antipoverty efforts begun in 1978 reduced this poverty substantially.

Conclusions

Undoubtedly, the role of the state has diminished from the overwhelming, overarching interference in even minute decisions made on commune-era farms. From the early 1980s, farmers could make planting and other decisions for the first time in decades. However, even as farmers' decision-making powers have increased, the activities of the state have not declined proportionally. A closer look provides more support for the idea that the role of the state has instead shifted to other vital roles, establishing new institutions and adopting new functions that both facilitate and alter market forces. We know from the lessons of the state–market debate that a one-sided sentiment in favor of the market misses the critical role of the state. In China's case, marketizing the countryside did not merely involve the withdrawal of the state, but the active contribution of the government at all levels to set up the Household Responsibility System (Chung 2000; Unger 2002; Zweig 1997). This strategy, although not formally transferring property rights to the formerly collectivized peasantry, nonetheless amounts to a comprehensive reform of land ownership since it has granted rural households the ability to control their own small plots of land over long periods. Whereas other reforming states have privatized land by selling

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it to the highest bidder or merely handing it off to the wealthy, a strong state was required for China to ensure that land was allocated relatively equitably, not based on price or wealth, but on residency. The Chinese state during the early periods of reform also played an active role in purchasing most grain production, thus providing farmers with a stable and nonmarket outlet for agricultural products. Further, the government has implemented numerous antipoverty programs through an extensive administrative network that reaches down to local areas. True, the main role has shifted from one of making most planting and marketing decisions to one that is more complementary to market forces. This is a proactive and powerful role nonetheless. As David Goodman (2004) argues,

> [w]hile two decades of economic reform had certainly seen an emphasis on the importance of market forces, this had not been an exclusive demand of the central leadership . . . As with the introduction of economic liberalism in Britain during the 19th century, a balance has been established between state and market with specific roles ascribed to each, rather than the replacement of all state economic activity by the market. (319)

Thus, the reforms conform neither to the market-led development nor to the state-led development positions.

State involvement in most economies—for good or ill—is nearly inevitable. All but the most extreme scholarly positions recognize this, but little work has been devoted to how to integrate state and market in an analytically useful way. Focusing on the state's relationship with the market can be helpful for analyzing the effects of state activity on the economy. If the state can be seen as adopting one of three relationships,[12] that of replacing, altering, and facilitating the market, the market-led development theorists focusing on the post-1978 reforms in China could be seen as arguing that the state in the early days of reform shifted from "replacing" the market to "facilitating" it. Even facilitation requires the establishment of myriad institutions as well as a state that is active and involved in all aspects of economic life.[13] However, far beyond facilitating the market, the Chinese state achieved most gains in poverty reduction when it "altered" the market through establishing quotas, ensuring fair distribution of land rights (which has recently seriously broken down) and implementing a set of antipoverty

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measures. The market-led development side uses China as a central example of the value of the state withdrawal from the economy, and in this way (perhaps inadvertently) perpetuates the misconceived state–market dichotomy and obscures the central importance of understanding the relationship between state and market. What actually occurred is far more nuanced. Understanding poverty reduction, in the specific case of China and also more generally, requires replacing a zero-sum approach to analyzing state and market with a focus on the relationship between them.

Notes

[1] The author thanks Riccardo Pelizzo, Melinda Poh, Michelle Pereira, Kaleng Wong and three anonymous reviewers for their assistance and support.

[2] Perhaps Lipton and Ravallion's conclusion is hasty. One year after they published these comments, economist Deepak Lal and Hla Myint (1996) published their landmark research that fits neatly with a zero-sum conception of state versus market. While remnants of this zero-sum view remain, most scholars are trying to look beyond it.

[3] Sociologist Victor Nee, for example, argues, "[t]he role of markets in China has steadily increased since 1978 and the agricultural sector has undergone the most dramatic shift in reliance on market coordination. In 1980, the state instituted the household responsibility system which is in many ways similar to private farming in a market economy, with the household leasing its land and paying delivery quota as rent . . . This change in ownership structure returned to peasants incentives in line with their traditional preferences for household production and eliminated the 'free rider dilemma' that had plagued collectivist agriculture. This shift resulted in dramatic increases in per capita income in the 1980s . . . The correlation between increases in per capita income and the transition from redistributive/collective agriculture to household commodity production is striking" (Nee 1989, 664).

[4] Studies undertaken by Unger (2002) and Cheng (1998) confirm that plot size or quality distributed to local officials did not significantly differ from the average, indicating a relatively equitable distribution process. However, Cheng finds that officials commanded greater access to agricultural inputs, such as seeds and fertilizers.

[5] Writing about China's rural economy of the early 1980s, Perkins (1991) discusses the role of state subsidies for grain prices. However, he argues that the market was the primary driver behind rural growth, but notes directly afterward the problem of massive state deficits that accumulated as prices paid by the state to farmers exceeded those paid to the state by urban residents. He apparently does not give any credit for rural poverty reduction to an expensive, government-managed system that created incentives for farmers to grow and sell grain and for urban residents to purchase more grain surpluses than they otherwise could afford (526-7).

[6] After comparing several Western and Chinese measures of China's poverty rate over time, two economists conclude, "[a]ll estimates agree that there was a spectacular reduction in poverty in the early 1980s. All estimates other than the official poverty count show little or no progress in poverty

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reduction in the late 1980s. Reductions in the official count are almost certainly due to insufficient inflation of the poverty line in 1988 and 1989. In the early 1990s, Khan and the World Bank show little decline until after 1993. The official poverty count falls steadily throughout the 1990s" (Park and Wang 2001).

[7] One of the major sources of discord between changes in poverty rates as measured by China and by international standards is that China's (much lower) poverty line was not adjusted fast enough to keep up with rapid inflation during the mid-1990s, making poverty rates appear artificially low (Park and Wang 2001).

[8] In 1993, the name of this organization changed to the "Development-Oriented Poverty Alleviation Leading Group" (State Council LGPAD 2003).

[9] For much of the 1990s, RMB was set at approximately 8.2 to the U.S. dollar.

[10] How well did this list actually cover the poor? Most counties included in the initial list were indeed poor, living in areas with severe geographic and environmental problems, below average levels of irrigation, fertilizer use, and poor infrastructure. However, for political reasons, counties designated poor on the national level were spread throughout the country, a decision that benefited many relatively well-off provinces, while forcing some poorer provinces to add to their provincial lists some counties that under objective standards should have qualified for inclusion on the national list (Piazza and Liang 1998, 264). This problem was partially addressed when government officials adjusted county lists in 1993 and 2001. Nevertheless, experts estimate that a minority of the people within poor counties were poor (i.e., below China's poverty line), and more than half of China's poor people lived outside these designated poor areas, scattered among China's other counties (Park, Wang, and Wu 2002; Riskin and Li 2001). For these reasons, World Bank (2001) researchers suggest that China shift its focus to townships, one administrative level below the counties.

[11] The data for this chart has two sources, one (World Bank 2001) for the years 1986 to 1998 and the other (State Council LGPAD 2003) for 2000 to 2002, leaving a gap.

[12] There are many more possible relationships than these three that the state can adopt *vis-à-vis* the market. These include predation (Evans 1989) or (rarely) near-total withdrawal.

[13] Advocates of the "facilitation" position—unlike that of extreme pro-market theorists—agree that the government has an active and appropriate role, even under *laissez-faire*, as liberal economist David Henderson (1986) emphasizes, "The message [*laissez-faire*] conveys is not that governments should be inert or indifferent. Its emphasis is a positive one . . . In any case, liberalism is not to be identified with hostility to the state, nor with a doctrinaire presumption that governments have only a minor role in economic life. On the contrary, the liberal view of the state, both internal and external, is strongly positive" (98-9).

About the Author

John Donaldson is an assistant professor of Political Science at Singapore Management University. He studies local governments and rural poverty reduction in Southwestern China. His research has appeared in the China Quarterly and International Studies Quarterly.

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