

Analysis of China's Farmers' Income Level: before and after the Reform and Opening up

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Abstract: The paper analyzes the reasons for the fluctuation of China's farmers' income level before and after the reform and opening up. It's shown that the impacts of national policies on farmers' income are very obvious. A key policy implication is that in order to increase farmers' income, the Government need to increase more financial supports for agriculture, rural areas and farmers.

Keywords: Farmers' income ; Financial support; Policy analysis

1. Introduction

After three decades of reform and opening up, China's economic and social development have undergone a remarkable change. But agriculture is still the weak link in the national economy. The slow growth of farmers' income and rural economy has become the key restricting for China's health, stable and high-speed economic development. To this end, China's government has introduced policies to strengthen agriculture and benefit farmers. In support of the policy, China's agriculture and rural economy, as well as farmers' income level has a certain degree of growth. However, the overall level of farmers' income is still low, and the gap between urban and rural income is still expanding. Why China's farmers' income is so low and what causes this happen? This paper, on the basis of previous studies, analyzes the causes of changing in farmers' income before and after the reform and opening up.

2. China's farmers' income: before the reform and opening up

Before the reform and opening up, China has solved the problem of setting peasants masters of political rights from the founding of P.R. China. (Zheng, 2008). However,

as for the material interests of farmers, although it had got the same height of the national attention, in the strategic objective to achieve industrialization, the nation adopted plunder policy for agriculture and peasants. Meanwhile, in order to protect the actual effect of this policy, government established economic and social dual structure system for urban and rural. This system is very inefficient to increase farmers' income. The per capita net income of farmers from 1957 to 1978 before the reform increased on average by only 2.8 RMB per person per year, the poverty-stricken population reached 2.5 billion. According to Zheng (2008), the main reasons for this problem are: firstly, in order to transfer agricultural surplus to the industrial countries, government implemented the "scissors policy" which caused a large difference between the prices of industrial and agricultural products. The State purchased and sold agricultural products with artificially low price, and raised the prices of industrial goods. As a result, this caused unequal exchange of industrial and agricultural products and the interests of farmers were plundered. Secondly, under the dual system, farmers had no other way to increase their income. Restricted by the People's commune system and rural household registration system and the State monopoly for purchase and marketing system of agricultural products, farmers were bundled tightly with

land and agriculture. They can only engage in agriculture, and cannot be engaged in the secondary and tertiary industries. As a result, farmers' income had been greatly restricted in the agricultural sectors which had been already deprived by industrial sectors. Thirdly, economic performance of rural collective was quite poor. With the characteristics of highly centralized, unified management, uniform distribution, the people's commune system suppressed farmers' production enthusiasm and creativity. The "free-riders" were serious. Pay and rewards cannot match. The cost of management and supervision were quite high. All of these led to the low efficiency of the rural collective. So it was quite difficult for farmers to obtain the expected income from the collective economic organizations.

3. China's farmers' income: after the reform and opening up

In 1978, rural in China implemented reform as a symbol of the household contract responsibility system. The reform caused profound changes in the economic and living conditions of farmers and caused continuous growth of farmers. Calculated at constant prices of 1978, China's rural per capita net income increased from 133.6 RMB in 1978 to 981.2 RMB in 2007, increased of 6.34 times with an average annual growth of 7.2%, as shown in Figure 1. Although from the perspective of number, farmers' incomes had a growth all of these years except in 1989, from the perspective of rate of increase, the growth of farmers' income in China is not average, with obvious stages and volatility characteristics. Divided in accordance with the major fluctuations stages of the growth of farmers' income, the reasons that caused the changes in farmers' income were quite different, but overall, China's national policies, especially agricultural policy has a very strong correlation with farmers' income.

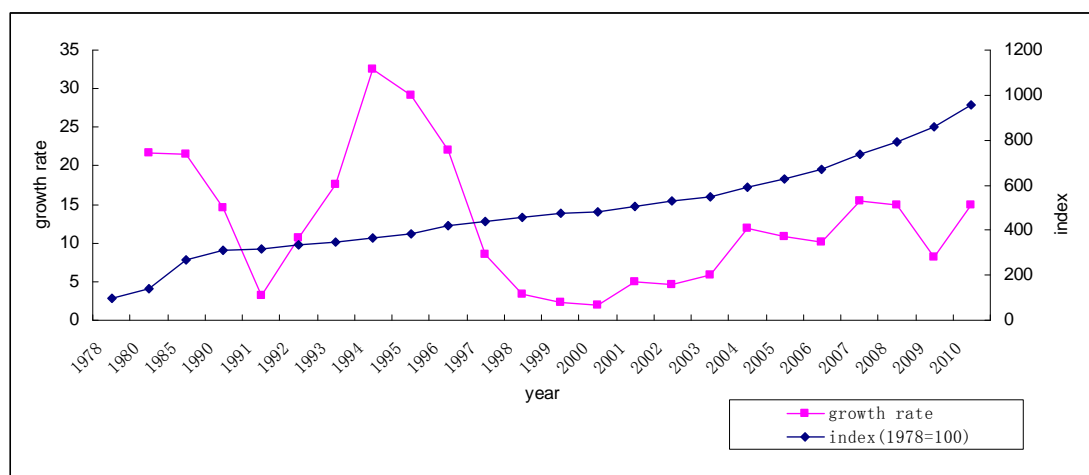


Fig1. Index and the growth rate of China's rural per capita net income: 1978-2010

3.1 The rapid growth phase: 1978-1985

At the beginning of reform and opening up, rural productivity repressed for many years massive released by the household contract responsibility system. The growth rate of farmers' income reached 10 or more percent during seven consecutive years, with annual average of 15.2%. In addition to the household contract responsibility system, the rapid growth of farmers' income was also closely related with the nation's other agricultural policy. At this stage, mainly agricultural policies implemented by the national included the rising of the purchase price of agricultural products, and the

adjustment of agricultural structure.

As for the adjustment of the policy of the state monopoly for purchase, the country on one hand to adjust the cardinality of food procurement, on the other hand, significantly reduced the number of state monopoly's products, and expanded the number of overbought. At the same time, the State also significantly increased the number of proposed structure of the food. The substance of this policy was to increase farmers' income by selling more high-priced grain to the country.

At the meantime, in 1979 and 1980, the state substantially increased the purchasing price of the 18 kinds of grain, cotton, oil, livestock, aquatic products,

forest products, agricultural and sideline products to stimulate the output of agricultural products. As a result, farmers' income had been grown directly. Improvement of purchasing price of agricultural and sideline products were also the important cause in the increase of farmers' income in this stage. Lin et al (1994) 's study shown that the for total agricultural output in 1978-1984, the conventional trends contributed 30%, the household contract responsibility system contributed 42%, and increasing prices of agricultural products contributed 15%, another 13% were not be explained factors.

Addition, the state also adopted other measures to enhance the agricultural self-development capacity, and enhance the agricultural self-development capacity, such as reducing some of the poor farmers' agricultural taxes, increasing investment in agriculture, controlling the prices of agricultural means of production and reducing the cost of production of agricultural products.

Overall, this stage is the stage that farmers' income grew most rapidly and also the period that the income gap between urban and rural residents was floor. However, although the State relaxed the agricultural restrictions, and increasing the investment in agriculture, it was only the recovery investment and far from meeting the needs of agricultural development.

3.2 fluctuations phase: 1986-1991

At this stage, the growth rate of farmers' income had a significant decline than that of the previous stage, with the average growth rate of 3.8%. Besides the growth rate fluctuated widely, such as the growth rate reached 6.4% in 1988 and growth negatively in 1989, and from 1990 to 1991, the growth of farmers' income was almost at a standstill.

The reasons for farmers' income growth sloppily was that, first, the stimulating effects of the household contract responsibility system had been basically weaken (Lin, 1994). And second, agricultural productivity released in last phase significantly increased the agricultural production, and caused a low-level of relative surplus and low market prices of agricultural products. Third, because of lack of storage facilities and poor circulation and other issues, it was difficult to transfer agricultural products to consumers. Forth, with the early growth of farmers' income, a variety of charges were also increasing, farmers

faced more and more heavy burden.

As for national policy, faced to the downward production, the State timely adjusted agricultural inputs policy and established special funds. In the early years, the growth rate of national fiscal expenditure on agriculture was quite high, with an average annual growth rate of 14.58%. However, the fiscal inputs were still not enough, especially the local governments with the consideration of local interests, had not enough corresponding increase in financial support for agriculture. At the same time, to subsidy the difference of high-purchasing price and low-selling price made country's serious financial burden, and also restricted the stability of the national financial investment in agriculture. After that, the government significantly cut the fiscal expenditure on agriculture, which led to a decline in agricultural disaster risk-resisting ability, as well as the reduction and fluctuations of farmers' income.

3.3 recovery phase: 1992-1996

At this stage, the growth of farmers' per capita net income rebound, with the average annual growth rate of 5.7%. The main reasons for the growth of farmers' income are: First, with the promoting of market reform in price management system, a long-term deviation of the prices of agricultural products had been a certain degree of corrective. The rebound in prices of agricultural products improved the benefit of farmers. Second, during this period, China carried out the reform of the grain circulation system, which promoted food production and stabled food prices. In the stimulus of policies, both the agriculture production and farmers' income increased. Third, the rapid development of township enterprises absorbed a large number of rural surplus labor force, and caused a substantial increase of farmers' non-agricultural income. At the same time, township enterprises also increased the fiscal capacity of local governments, as a result, the investment from local government increased.

But at this time, the progress of agricultural marketing system reform was still slow. There was still a large gap between the agricultural products' purchasing price and the market price. Meanwhile, with the rising of agricultural production materials price, the farmers faced too heavy tax burden and had limited the farmers' reinvested production. These weakened to some extent the

improvement of farmers' income.

3.4 decline phase: 1997-2000'

At this stage, the growth of farmers' income declined year after year. In 2000, the growth rate declined almost 2 percentage points. The mainly reasons for the decline are: firstly, the demand and supply situation of agricultural products transferred from overall shortage to overall balance with certain structural and regional relative surplus. All of these led to a large number of agricultural prices continued to decline. Secondly, the Asian financial crisis led to the economic downturn. Township enterprises gradually entered the stage of restructuring and technological upgrade, as a result, the absorptive capacity of them for rural labor force declined. Correspondingly, farmers' non-agricultural income declined. Thirdly, the reform of state-owned enterprises led to increase the number of laid-off workers in urban areas. In order to reduce their own stress, Many cities had issued a series of policies restrict migrant workers; migrant farmers blocked and further reduced farmers' non-farm industry revenues.

3.5 restore growth phase: 2001- present

At this stage, the farmers' income got a resumption of growth, with the average annual per capita net income increased by 6.4%, in which, from 2006, the farmers' income growth rate remained at 7%. In the macro context of the rapid growth of the national economy as well as the central government paid much attention on the "three rural" issues, the farmers' income out of the preliminary low-level growth track had been significantly improved.

During this period, the main reasons for the income grew steadily and rapidly are: First, the sustained and rapid development greatly enhancing the financial capacity of the country, as a result, the State's investment in agriculture and rural economic increased significantly; Second, the tax fee reform, health care reform, rural compulsory education reform, and the implementation of the preferential agricultural policies also reduced the burden on farmers. Third, a variety of supporting agriculture subsidies intensified. The country had implemented a variety of agricultural subsidies. Farmers' agricultural-income had increased steadily. Fourth, the environment of the migrant farmers got further improved.

The emphasis on the training of migrant workers and improvement in their legitimate rights increased the non-farm income of the farmers.

4. Conclusions

From the analysis for the changes and reasons for China's farmers' income, we can get the following revelation:

First, China has adopted different fiscal agricultural policies at different times and different stages of development. Since China's agriculture is not entirely the market mechanism, the impacts of national policies on farmers' income are very obvious. The first four stages of financial supports for agriculture policy are largely based on yield as the main target. Farmers' interests were not to be taken seriously, and then farmers' income appeared decline in the successive years. After entering the new Century, increasing the farmers' income became the core objectives of the agricultural policies, and around this goal, the State had adopted a series of preferential agricultural measures, as a result, farmers' income had been a new round of growth.

Second, the fact that the main source of income of farmers' still farm-income shows that it is crucial for agricultural growth for farmers' income. Farmers' income from agriculture comes from the sales of agricultural products in the market; therefore, it is important to improve agricultural markets, prices of agricultural products and agricultural production to increase farmers' income. From this perspective, the fact that the price of agricultural products lower than market prices and the price of agricultural continued to rise will conducive to the improvement of farmers' income.

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