

BOOK REVIEW

Agriculture in China's Modern Economic Development by Nicholas R. Lardy, Cambridge, Cambridge University Press, xiii + 285 pp.

I

It is well known that China effected a major change in its agricultural policy following the death of Mao Zedong in 1976, particularly after the Third Plenum of the Eleventh Central Committee of the Chinese Communist Party. Ensuing debates in and outside of China have sought the factors prompting this policy change in either the failure of the hitherto existing macro agricultural policy of the country or the micro instability and inefficiency of collective agriculture under the commune system, or both. In the book under review, Nicholas Lardy mainly pursues the first argument on the basis of various statistics and other empirical data on Chinese agriculture which have gradually been made available since 1977.

Because many more figures have become available since 1983 when the book was published, one is not so impressed at the beginning of 1986 by the materials utilized by the author. To take but one example, no estimates of the amount of foodgrains produced and sold are necessary today simply because the annual figures have now been publicized. Nor is the book completely free of factual errors. For instance, Lardy mistakenly points out that the "basic construction investment" includes increases in inventories but not investment outside the plan such as that financed from retained profits (p. 132). Nevertheless, his clear statement of the problems and firm framework of analysis, as well as the unambiguous and succinct manner in which he develops his argument are certain to stimulate readers. Even a number of newer empirical studies of Chinese agriculture have not tarnished the evidence and basic analysis this book provides. The book is indeed one of the "musts" for all students of the subject.

II

The author posits that slower growth of agriculture in China during the Mao period vis-à-vis other sectors of the economy, in particular the industrial sector, may have been due neither to land shortage nor to the relative decline in output in the face of increasing labor input (the so-called law of diminishing returns); rather, it may have been due to an agricultural policy that "has undervalued systematically the contribution that agriculture could make to modern economic growth" and that "has tended to be myopic and extractive rather than developmental" (p. 6). The author hypothesizes that distortions in the allocation of investment as well as the deliberate policy of inhibiting specialization and commercialization undermined efficient utilization of resources, which in turn invited slower growth of the agricultural sector and the resulting lower incomes accruing thereto. This hypothesis is subjected to close scrutiny empirically, revealing various adverse effects of direct or quantitative planning (Chap. 2), resource transfers from agriculture owing to pricing distortions and irrational sectoral allocation of investment funds (Chap. 3), and stagnating living standards in rural areas and growing urban-rural income disparities (Chap. 4).

The author argues that the past mistakes in agricultural policy in China in general were not the result of the undue influence of a small "leftist" group but of deliberate policy choice, originating with the introduction of the compulsory procurement of farm products in the fall of 1953 and the collectivization of agriculture in 1955-56. Although the decollectivization now pursued seems to be contributing to agricultural growth in the short run, the author asserts that sustained growth of this important sector of the Chinese economy can be attained only through lower prices for farm inputs, greater state investment in agriculture, and the promotion of intra- and inter-regional specialization (Chap. 5).

III

As can be amply seen from this brief summary of the book, Lardy consistently emphasizes the importance of price mechanism and market, while criticizing the previous policy system which nominally declared agriculture and the villages to be the foundation of China's economy while in practice priority was given to urban areas and industry. He is for a greater emphasis on agriculture in promoting modern economic growth. I basically agree with these points of view, and feel that the Summary at the end of Chapter 5 has a refreshing clarity of presentation.

Let me now deal with some of the hypotheses the author elaborates regarding the role of agriculture in economic development in contemporary China and the grave mistakes committed in that development process. One such hypothesis is concerned with the intersectoral transfer of resources between agriculture and industry where, the author maintains, in clear contrast to the views of Ishikawa and others in the West, actual transfer of resources from agriculture did take place through price effects or changes in the internal terms of trade. In certain respects this is a view closer to the official stance of China which maintains that the growing intersectoral price discrepancies effected a "transfer of value" which greatly contributed to the state budget and thus to the accumulation of investment funds.

There seem to be three levels of transfer of resources or funds between agriculture and other sectors. One is the net flow of funds out of or into the savings and investment account of the agricultural (or farm household) sector. Net increase of savings in agriculture by definition, is equal to the net increase of financial assets in the sector. The second level is the net flow of physical goods between the sectors. If one is to seek an analogy with international trade, this corresponds to the international balance of trade, while the first level can be likened to the balance of payments. Each of these two channels of transfer can be seen as resulting either from direct effects or from indirect price effects. The third level consists of what might be called the net flow of resources in the context of the theory of value, where the issue is the net intersectoral flow of the "value" of goods and services as measured by certain specified criteria. It is here that one could speak of a "divergence of price and value" or of "unequal exchange." Thus, even when all agree on the data under consideration, it is still possible to reach different conclusions depending on the level of the net resource transfer with which one deals.

The author of the book under review, noting the inadequacies of the available official data despite the great improvements of recent years, foregoes the attempt to estimate the net resource flow. Instead, he adopts the method of accumulating comparable data on several items of agricultural output and input. But, in practice, he seems to be dealing with the third level of the resource flow as outlined above. For

instance, he argues (marshalling empirical evidence in support) that domestic farm prices are relatively lower than the prices of manufactures in comparison with international price levels. Since the Ishikawa hypothesis deals with the second level of the resource flow, Lardy cannot really claim that he has successfully refuted Ishikawa's conclusions. At any rate, this reviewer would have appreciated a bold attempt at estimating the net flow of resources out of or into the agricultural sector even though attended by a number of difficulties.

Let me now touch on another of Lardy's hypotheses postulating a growing income gap between urban and rural areas. The declining average wage of state employees from 636.5 yuan a year in 1957 to 602 yuan in 1977, combined with the growth in collectively distributed income of rural commune members from 40.5 yuan to 65 yuan during the same period, may give a superficial impression of the urban-rural income gap being closed. But, as the author correctly points out, the per capita income of urban inhabitants actually more than doubled in this period, expanding the urban-rural income spread. Perkins and Yusuf (1984) go a step further to compare the consumption levels in urban and rural areas in 1977 prices on a per capita basis. Their results shows a 1.9-fold difference in consumption level in 1957, growing to a 3.2-fold difference in 1975 and a 3.1-fold difference in 1979. One should immediately note, however, that this growing urban-rural gap was not the result of any intentional policy to de-emphasize agriculture during the Mao period, but rather of restricting rural-urban mobility of population (also a form of negative allocation of resources) and of boosting accumulation of internal reserves in the urban sector through the adoption of a "rational low wage policy" in that sector, which in turn led to the suppression of prices for agricultural wage goods. So long as the real wage for urban workers declined, household income could be sustained only by having a greater proportion of the household labor force engage in wage-earning occupations. Thus, it was not merely peasants who were the losers during the Mao period. Urban workers also made due sacrifice for the cause of the state.

Finally, the author seems to look at agricultural collectivization rather negatively, as I do. But a question invariably arises: did the collectivized agriculture of the Mao period produce no positive results at all? How should one look at the collective investment by peasants—the construction of large-scale water projects for instance? Although the author makes no explicit statement on this issue, one could infer a more negative evaluation of collectivization on his part than is ordinarily the case because he postulates only a small state investment in agriculture and apparently sees collective investment as having no impact at all on the general trend. His estimate, based on the *Chinese Statistical Yearbook, 1981*, of the total internal reinvestment (including both fixed investment and additions to working capital) for the 1957–78 period is 75.1 billion yuan, an average of 3.6 billion yuan annually (p. 138). However, this accounts for only the "public accumulation funds" (*gongji jin*), specifically excluding the "accumulated labor" stemming from peasants' work without remuneration. In view of the marked paucity of data on collective investment in China generally, there seems to be a definite need to reexamine the estimates of total agricultural investment, including that made by Kang Chao.

(Katsuji Nakagane)