

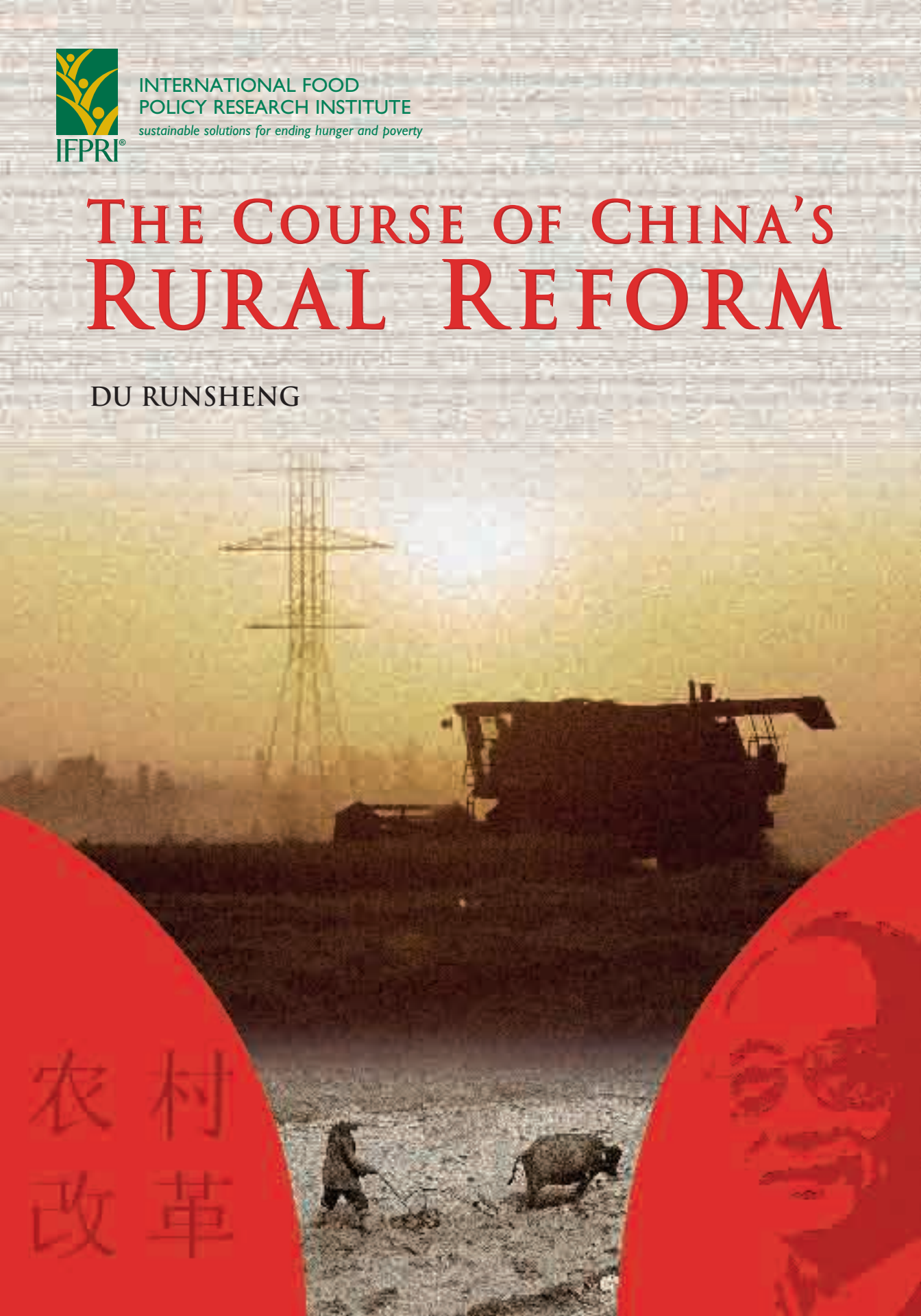


INTERNATIONAL FOOD  
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# THE COURSE OF CHINA'S RURAL REFORM

DU RUNSHENG

农村改革



# INTERNATIONAL FOOD POLICY RESEARCH INSTITUTE

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# THE COURSE OF CHINA'S RURAL REFORM

*Du Runsheng*

*Du Runsheng held the post of secretary general, Rural Work Department, in the Chinese Communist Party (CCP) Central Committee at the time the nation was founded. Concurrently he was deputy director of the Agriculture and Forestry Department of the State Council. After the Third Plenum of the 11th Central Committee of the CCP (1978), he held the post of director, Rural Policy of the CCP Central Committee, and director of the Rural Department, Research Center for Rural Development (RCRD), State Council, where he was mainly responsible for China's rural economic reforms and development policy research. Du was often asked by the leadership to draft rural-related policy documents for the Central Committee of the CCP and the State Council. He worked in particular on the drafting of "No. 1 Documents," which were issued continuously for five years by the CCP Central Committee, and which made outstanding theoretical and practical contributions, deepening rural economic reform and setting up the rural household contract responsibility system that advanced the market reform of the rural economy.*

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## REFORM WAS FACILITATED BY CRISIS

For more than 20 years after the victory of the Chinese Revolution, radicalism was ascendant and private ownership of land was illegal. The peasantry became estranged from the land, so that when the Cultural Revolution ended, China's economy had been placed in difficulty and an agricultural crisis induced. The population had grown, and food was in short supply. Per capita grain production never averaged much above 300 kilograms. Of the 800 million peasants, 250 million were impoverished. The nation as a whole could not achieve self-sufficiency in grain and required massive imports.

A turning point took place in 1978 with the Third Plenum of the 11th Central Committee of the CCP, which reestablished the emancipation of the mind, the intellectual approach of seeking truth from facts, and the materialist philosophy proposition that practice is the sole standard of truth. It acknowledged that socialism means development of the productive forces, moving together toward wealth. The policy of making class struggle the key link was abolished, and the focus of Party work shifted to modernization. All of these changes liberated people from the previous ideological and institutional environment, providing the possibility of founding a new environment and new institutions.

Over the 30 years following the founding of the nation, an unfair pattern of holding resources had arisen, fostering the rise of vested interests. These interests tended to be conservative, holding back reform in the name of

socialist ownership. The system itself suffered from inertia. Institutional economics speaks of institutional "path dependencies." The Chinese system had been following its accustomed path for a long time, and these conservative interests wanted to keep following it. They feared that order would fall into chaos if they left the old track. And the equation of socialism with the system of public ownership, which had been in existence for so long, was decisive. Then peasants in Yongjia County in the region of Wenzhou, Zhejiang, and in Fengyang County, Anhui, seeking to end their food shortages, implemented a policy of contracting collective land to families. Because it violated what Mao Zedong had advocated, contracted production operated by peasant households had been a forbidden practice.

When I first proposed the household responsibility system (HRS), I was criticized as follows: Chairman Mao had been dead only a few years. Supporting the HRS, a system he opposed, meant forsaking his principles. This was the severe environment that reform faced at first. Our support of the HRS, of institutional innovation, and of transformation of the agents of the rural microeconomy would inevitably involve adjusting a number of interests. To avoid risk, it was necessary to carry out trials first. Also, the HRS could not move ahead on its own. It had to do so in connection with other institutions and be realized in the course of reforming the institutional environment as a whole. But this institutional reform is not something that could be accomplished in one fell swoop. To carry out reform, a strategy of gradual advance was unavoidable.

## THE CAUSE OF REFORM MUST STRIVE TO REDUCE RESISTANCE

All land and labor resources in China were held by hundreds of thousands of people's communes. On its appearance, the HRS policy shook the people's communes to the core. This assault on communal ownership was sure to encounter enormous resistance. The greater the impact, the greater this resistance would be. Hence, to promote the HRS and ward off its early demise, resistance to it had to be reduced as much as possible and facilitation boosted.

Three measures to reduce resistance were conceived: First, the reform would not initially call for abandoning the people's communes, but rather would implement a production responsibility system within them. This approach enabled many who would have opposed the change to accept it.

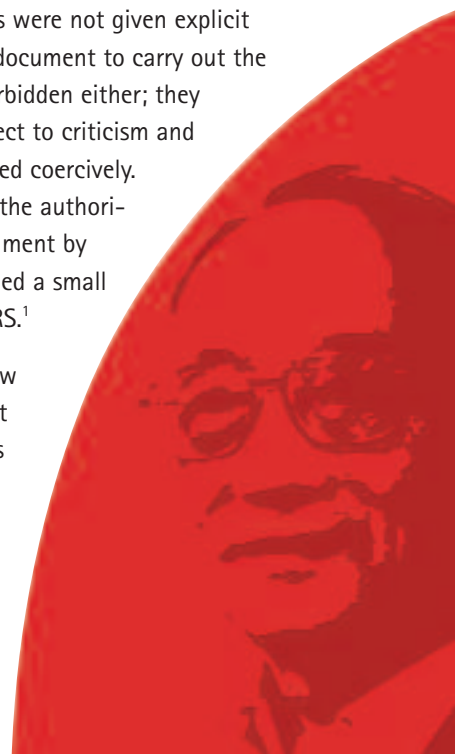
Second, the responsibility system could take a number of forms, among which the populace could choose. One did not impose one's own subjective preference on the populace but respected its choice. Later, it seemed that the masses were bent on choosing the household contract form. A popular saying to explain the system was "Household contract—keep straight on and don't turn back, hand over enough to the state, keep enough in the collective; whatever is left over is your own." The ideas were easy to understand, and the interest allocations were clear. The idea of letting the populace choose for itself also paid off in terms of checking the feasibility of reformers' initial positions.

Third, the reform began in a limited region, where it received popular support, and then widened step by step. In the spring of 1979, the newly established National Agricultural Commission convened a conference with the seven major agricultural provinces in Beijing's Chongwenmen Hotel to discuss the responsibility system issue. Anhui was already experimenting with the HRS, but five of the seven provinces at the meeting disagreed with Anhui's approach. When CCP General Secretary Hua Guofeng held a Politburo meeting to hear the report, he spoke of how Hunan villagers exchanged labor to help each other every sowing season or harvest, and he supported persisting with the collective approach. But he expressed approval for solitary households in mountainous areas, for whom collective activities were difficult, to adopt the HRS. The Central Committee relayed the "Summary of Discussions on Rural Work Questions" from the National Agricultural Commission's Party group, which continued to stipulate that "there will be no HRS" and "there will be no dividing the land to go it alone." Although people in areas with solitary households were not given explicit permission in the document to carry out the HRS, it was not forbidden either; they would not be subject to criticism and struggle or corrected coercively. Once transmitted, the authorization of this document by Hua Guofeng opened a small window for the HRS.<sup>1</sup>

In 1980 the window grew wider. At that time, those regions

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<sup>1</sup> For more information about this period, see Kathleen Hartford, "Socialist Agriculture Is Dead, Long Live Socialist Agriculture! Organizational Transformations in Rural China," in Elizabeth J. Perry and Christine Wong, eds., *The Political Economy of Reform in Post-Mao China* (Cambridge, MA: Harvard University Press, 1985).



with severe rural poverty became a heavy burden on the state. More provinces were moving from grain self-sufficiency to grain deficits, and fewer provinces had grain surpluses. The state held a long-term planning conference, and Yao Yilin, then director of the State Planning Commission, raised with me the question of how to reduce the problem of food shortages in impoverished regions. I suggested trying the HRS. If the peasants could solve the food problem themselves, they would no longer depend on purchased grain. Once land was contracted to a farmer, he could depend on his own land for food. Yao Yilin thought this made sense and reported as much to Deng Xiaoping, who agreed and declared, "Hardship regions are allowed to carry out the HRS. If it turns out to be mistaken and they come back in, it's nothing special. Rich regions that have enough to eat do not need to start right away."

In 1980, after the central leadership was reorganized on a collective basis, the top central leaders, including Deng Xiaoping and Hu Yaobang, consistently supported allowing different areas to adopt different forms of the agricultural production responsibility system. It was then proposed to divide them into three types of areas: impoverished areas would carry out the HRS; advanced ones would adopt specialized contracts with wages linked to output; and intermediate regions could freely choose. In the autumn of 1980, the top leadership held a conference of Party

Committee first secretaries of major provinces and cities to discuss the responsibility system, producing the "No. 75 Document," namely "Some Problems in Further Strengthening and Improving the Agricultural Production Responsibility System."<sup>2</sup> The tests had proved instantly effective. By the second year the impoverished areas had food to eat, and other areas too saw increased production. These facts convinced most people and opened the way for rural reform.

## THE CENTRAL COMMITTEE'S FIVE "No. 1 DOCUMENTS"

In late 1981 the Central Committee held a national conference on rural work. Soon after the meeting, the Central Committee's No. 1 Document for 1982 (namely the conference summary) was drafted and officially affirmed that management of the land by peasant households under the contract system would replace unified collective management by the people's communes. HRS, after 30 years of being proscribed, henceforth became central government policy. Reactions from the populace and cadres were excellent. Party Secretary Hu Yaobang said that the rural work document should again be placed "No. 1" the next year. For the next five years, the Central Committee's No. 1 Documents were all devoted to agricultural issues.<sup>3</sup> Topics for investigation were arranged early in the year, the findings were summarized in the autumn, and the document was drafted in the winter and sent out early the next year.

<sup>2</sup> See [http://news.xinhuanet.com/ziliao/2005-02/04/content\\_2547020.htm](http://news.xinhuanet.com/ziliao/2005-02/04/content_2547020.htm).

<sup>3</sup> Whereas these policy documents had in the past been numbered chronologically each year, in 1981 the Central Committee began to use the label "No. 1 Document" to show that a policy was a top priority. After five years, the Committee returned to a chronological numbering system, and the label "No. 1 Document" indicated no special priority.

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The first No. 1 Document, issued in 1982, pointed out that HRS was a legitimate policy reform and that this practice, along with other reforms, had been warmly welcomed by the populace and taken up nationally. This reform was the self-perfection of the socialist system; it was different from the private farming of the past and was not something to oppose, like capitalism. Public ownership of land and other means of production would be unchanging for a long time to come, as would the responsibility system. At the time peasants in many regions were worried, given that rural policy had been very changeable in the past (the Guangdong peasants were afraid of "relaxation in the first year, tightening up in the second, eating the words in the third"). They were also concerned it was a temporary, "expedient" measure. Hence the phrase "unchanging for a long time" had the greatest impact on people's minds, and it was said that the No. 1 Document gave the peasants a "sedative."

Another main point of the document was its respect for people's choices: the populace was allowed to choose freely to suit different areas and conditions. Why it was not imposed as a unified solution? As recognized by institutional economics, forming a stable system must be a process in which the populace chooses for itself. This process includes different sides in mutual dialogue that leads to coordination and integration, according to the requirements of the interests and political pursuits of each side. Given that the Party wanted to give the populace a free choice, we did not need to turn this practice into a law of the state for the time being. We had to treat the law as the outcome of a social choice and eventually provide legal guarantees in the form of law. We

needed to allocate one or two years to promote this change in society, and later it would become a national law. Such a process would help the country absorb the advantages of both public ownership and individual management. The document also proposed sorting out the field of distribution, bringing unified purchasing and marketing within the reform agenda, and carrying on the reform of the price system at a steady pace. It also re-endorsed the development of diversified management of the rural economy and enterprises run by commune and production brigades. It proposed the new concept of specialized households, encouraging individuals and the private sector to engage in specialization and growth, and setting up a professional division of labor. For more than 20 years long-distance trading had been forbidden, as had privately operated or contractual procurement, in essence restricting the circulation of resources. The first No. 1 Document was rich in content, but more importantly, it abolished the forbidden area of HRS in the name of the Central Committee. When delivered to the Central Committee leaders for examination and approval, Deng Xiaoping said after reading it, "I completely agree." Chen Yun told his secretary to make a phone call, saying, "I've read this document. It's fine and will be supported by the cadres and people."

After its release, HRS spread nationwide, liberating both land and labor. In 1978, China's grain yield was approximately 300 billion kilograms. Over more than 20 years of collectivization, the state purchased between 30 and 35 billion kilograms of grain annually. The latitude for state procurement was so small that even if the state increased procurement by

only 10 percent, peasants were not able to meet their grain rations. With system reform, grain output increased to 400 billion kilograms by 1984. At the same time, the value of gross agricultural output grew by 68 percent and the peasants' average income per person grew 166 percent. This achievement, which attracted worldwide attention, convinced cadres who held opposing views and unified the way people thought.

Closely following this reform, the comparative advantage of plentiful labor was enhanced by allowing the countryside to establish industry and commerce. The sudden appearance of new rural enterprises, together with foreign and private firms, formed a large non-state economic bloc, rectifying the overly simplified economic form that was a weakness of the public ownership system, and opening huge new sources for growth in peasant incomes. These changes inspired confidence and impelled economic reform throughout the nation.

The 12th National Party Congress was held in September 1982. In his Work Report, Hu Yaobang stated on behalf of the Central Committee that the various forms of the production responsibility system established in recent years in the countryside had liberated the productive forces and needed to be maintained for a long time. They could only be gradually improved on the basis of people's practical experience; in no way should they be rashly changed against the wishes of the people, nor should they be reversed, he said. Reporting to the Fifth National People's Congress on behalf of the State Council, Premier Zhao Ziyang reaffirmed that the output-linked contract system "effectively

displays the superiority of the socialist economic system in rural China in the present stage."

In the same year, to consolidate and expand on the achievements of rural reform, in a speech written for the 12th National Party Congress on "Historic Shift in Rural Work," I gave an account of how household output contracting and household work contracting could embody the unification of public and private benefits and of near-term development and the distant goal of modernization. I said that the peasants required the present policies to be stabilized so that they could do well for several years and that I hoped the Party and the government could accept this request. It would help the peasants to escape the difficulties of their self-sufficient economy, by allowing them to produce commodities, to increase their cash income, and to seek their own all-around development.

I gave another speech entitled "Policy Must Continue to Bring Things to Life." While visiting Fujian, I had toured a chicken hatchery where 14 people had each invested 2,000 yuan. The workshop was 100 square meters and hatched 1.2 million chickens annually. Nearby there was a state farm, also with a chicken hatchery, where they had invested several hundred thousand yuan, but hatched only 500,000 chickens per year. I used what I had seen to show that at China's stage of economic development, keeping up economic growth and achieving overall benefits would be very difficult if investment depended only on government (central, or town and village) and if making a living depended on compensation according to work alone in this kind of simplified economic structure.



I argued for a basic structure of coexistence of a variety of economic forms, with public ownership in charge. I also argued for permitting distribution according to the factors of production invested, in addition to distributing income to citizens according to their work. That is, people should receive dividends according to the capital, land, and technology invested, in order to encourage them to increase savings and investment to make up for the shortage of state investment. I raised these issues in view of some disagreements from below about, for example, whether to allow private purchase of tractors and cars, operation of long-distance transport, and formation of partnerships to build fishponds with dividends paid according to stock held.

Here is an anecdote: A leading cadre in Hubei once drove after a private tractor driven by a peasant. When he caught up with him, he blamed the peasant, saying, "If I hadn't been chasing you in a car, you might have gotten away." The peasant replied, "Right! You know a car is faster than a tractor, I know a tractor is faster than an ox cart—so how come you can buy a car, but I can't buy a tractor?" The leading cadre couldn't answer. Party and government cadres claimed that tractors were producer goods, so they could only be publicly owned and could not be bought privately. Hence the No. 1 Document for 1983 (namely "Some Issues in Current Rural Economic Policy") proposed a further goal to strive for: the "Two Shifts and Three Bits." The two shifts were to shift agriculture from economic whole or part self-sufficiency to comparatively large-scale commodity production and to shift from traditional to modern agriculture. All levels of leading cadres in the Party and various

government departments were supposed to make every effort to achieve three "bits": a bit more liberation of ideas, a bit bolder reform, and a bit more realistic attitude, to help speed up the two shifts.

In 1983 the pace of rural reform accelerated, and the changes it caused in economic life became more obvious. Household contracting spread to virtually all villages, and rural workers were liberated from their state of being left unused, as the approaches to commodity production were actively expanded. The marketed proportion of agriculture grew from the 51.5 percent of previous years to 59.9 percent. Output value reached 275.3 billion yuan, an increase of 129.9 billion yuan, or 90 percent, over 1978 levels.

In 1984 we proposed freeing up channels for trade so that competition could boost development. Whereas the first two No. 1 Documents had tried to solve problems of the micromanagement of agriculture and rural industry and commerce, in this case the target was fostering market mechanisms.

Developing commodity production requires free trade and fluid factors of production like capital, land, and labor, and these ideas came into conflict with government policy. In the preceding 20 years a system of unified and fixed state purchases had been carried out in the countryside. Besides mandatory state purchase of three items (grain, cotton, and oil), this system also applied to

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another 132 items, including live pigs, eggs, sugar, silk thread, silkworm cocoons, yellow-bluish dogbane, flue-cured tobacco, and aquatic products, which were purchased by assignment (that is, purchased amounts were subject to quotas, but at a relatively fair market price). It included virtually all agricultural supplementary and local products. For many items purchased by assignment, the quantity purchased accounted for more than 90 percent of the ultimate output. In fact rural product transactions were monopolized by the public sector. The mobility of capital, land, and labor was institutionally limited by public ownership of the means of production and by the organization of people's communes, as well as by the enforced separation of city and countryside.

Following a thorough investigation, the Central Committee Rural Policy Research Department, which I directed, put together a written suggestion proposing a Central Secretariat conference to discuss this problem. Besides describing the situation, we stated that to help rural people develop commodity production and climb out of poverty, the rural economy urgently required relaxation of government

monopolies, controls, and other regulations that had formed over many years and that were preventing peasants from entering the market. Specifically, we suggested the following:

- (1) The period of land contracts should be extended to 15 years, during which paid transfer of land use rights should be permitted.
- (2) The free flow of rural

private funds should be allowed, combining the cooperative joint stock system with the buying of stock to earn dividends. (3) The peasants should be allowed to go to the cities to seek work, do business, and run enterprises and to be responsible for procuring their own grain ration at market prices. (4) Private individuals should be allowed to run enterprises and hire staff and management. (5) State-operated businesses and state-operated supply and marketing cooperatives should gradually open up to market transactions, withdraw from their market monopolies, change their form of service, and return supply and marketing cooperatives to private operation.

Most of the leading comrades in attendance expressed support. Of the proposals, items 1, 2, and 3 passed without objection. Item 5 called for a reform of trade, marketing and sales, and financial agencies to occur all in one step with a reconsideration of the state monopoly on purchase and sale of grain. In the first step toward item 5, nearly all mandatory purchases were abolished, with only the grain, cotton, and oil monopolies retained. On the question of employees in item 4, Hu Qiaomu raised the issue of how to deal with party members who were also employers. After discussion there was still no consensus, and a conclusion proved hard to reach. It was agreed by all that issues that were unclear could be laid aside for later review and handling. This was also a new policy. In the past, firms of eight or fewer employees were ruled not to be capitalist, whereas firms were implemented for firms of more than eight persons. After the meeting Deng Xiaoping was asked for instructions, and he said, "Don't be eager to set limits. Look at it again after three years." All of these principles were to form the contents of the No. 1 Document for 1984.

“[Leading cadres and government departments] were supposed to make every effort to achieve the three ‘bits’: a bit more liberation of ideas, a bit bolder reform, and a bit more realistic attitude.”

In 1985 the tasks were to adjust production structure and abolish unified purchasing and marketing. With simultaneous reform of the rural economy's microeconomic management agencies and macroeconomic market environment, China had seen fast growth of agricultural production in 1984. Regarding food grain, that topmost of top priorities, the situation changed from "when you hold grain, your heart feels no pain" to "grain supplies higher, but hard to find buyers." Following an observation trip to the country with Hu Yaobang, I concluded that the cheapness of grain was hurting the peasantry. On the basis of the existing structure of agricultural production, it was impossible to carry out the task of doubling their income, and a new production structure needed to be built. The main issue was that reform of the agricultural procurement system lagged behind the new requirements for rural economic development, causing various provinces to want to guarantee the area sown to grain and obstructing peasants' arrangements for cultivation to meet the needs of the market. For example, even Hainan proposed being self-sufficient in grain, when in fact planting tropical cash crops, which could be exchanged for imported grain through foreign trade, would have been more worthwhile and more popular with the peasants. Increasing production of some goods for foreign exchange in China's southern region and bringing in grain from outside the region would help the North raise its grain yield and increase its income. Then the two regions could both make the most of local conditions.

Everyone was clear on this principle. The problem was that the monopoly procurement institutions in agriculture had been around for

a long time. Inertia was strong, and change was difficult. Fortunately, just then the decision on economic reform emerging from the Third Plenary Session of the 12th Central Committee was favorable toward reconstructing the urban and rural relationship, and reform of the system of unified procurement and adjustments to the industrial structure were made central agenda items of the rural reforms in 1985.

In support of these reforms, we proposed a range of tasks like developing forestry, enhancing transport, supporting rural enterprises, encouraging technological progress, promoting free movement of talented people, enlivening financial markets, perfecting the rural cooperative system, strengthening the building of small cities, and developing the foreign trade-oriented economy. The No. 1 Document for 1985 was entitled "On 10 Policies to Further Enliven the Rural Economy."

In 1986 we increased investment in agriculture and adjusted the urban-rural relationship and the industrial-agricultural relationship. In 1985 the uniform grain procurement system had been changed to contract purchasing. Beyond the contract, purchases negotiated with the government changed to market purchases. Of 132 agricultural products that had been subject to state procurement, only silk thread, medical materials, and tobacco stayed that way, whereas transactions and price setting for the rest were through the market. This reform was originally a thorough one with straightforward goals. Problems arose, however, from raising the grain purchase price without correspondingly raising the price at which it would be sold to city people. Thus the more grain production increased, the greater the financial

subsidy, and massive increases of grain bought at higher prices created a burden too heavy for the state finances to bear. Given the state's inertia in maintaining the distribution of interests—and thus in maintaining the superior status of urban non-agricultural groups—the state sought to lighten its financial burden by reducing the preferential trade terms for the peasants. The concrete measure was a ruling in 1985 to cancel the policy of paying 50 percent more for the grain procured beyond the contract amount and to instead purchase all grain at an increased average price. Although in static terms “three in the morning and four in the evening” is no different from “four in the morning and three in the evening,” dynamically this change greatly weakened the role of the procurement policy in stimulating increased grain production. The comparative advantage of sowing farmland with grain dropped, making the peasants who had already shed their collective fetters unwilling to plant more crops. Peasants in Hebei said planting a mou (Chinese unit of land) of wheat was inferior to driving a small flock: the “two types of households” (specialized and primary households in agriculture production) were no match for the burdens caused by the “three households” (referring to three government agencies: industry and commerce administration, taxation, and public security). Many peasants began to diversify their farming activities, start businesses, or leave for the city to work.

The injury to the peasants' interests was reflected immediately in reduced supplies of grain and other agricultural products, producing fluctuations in agricultural, and especially grain,

production from then on for years. There were different views at that time about whether this situation was a result of reforms not going far enough or going too far. It was argued that the potential of the HRS had dried up—hence the fluctuation in grain production. Events were to prove this viewpoint wrong.

After developing for several years, supply and demand relations in the national economy changed. Restricted by the Engels coefficient,<sup>4</sup> the growth of residents' expenditures on food was slow, but market exchanges displayed rising costs for agriculture and the margin from trade dropped. In view of this, rural work deployment at the end of 1985 emphasized “putting the status of agriculture in the national economy straight.” The top leadership's No. 1 Document for 1986 (namely “On Deployment of Rural Work in 1986”) made a commitment to increase investment in agriculture and water facilities and to guarantee a rise in grain production to 450 billion kilograms, starting with the Seventh Five-Year Plan. Part of the income tax turned in by town and village enterprises was assigned for use in supporting agriculture, stabilizing prices of agricultural inputs like chemical fertilizer, diesel oil, agricultural chemicals, and machinery, and guaranteeing that original subsidies would not vary. These funds have also gone to strengthen technical support of agricultural and rural enterprises and to support grain and export commodities, mainly by introducing new varieties and improving infrastructure. They have also been used to implement the Spark Program, which supports the technological change of rural enterprises by,

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<sup>4</sup> The ratio of food spending to overall household expenses.

for instance, designing 100 kinds of complete technical equipment, establishing 500 demonstration enterprises, and promoting them nationally after they yielded practical results, as well as supporting large numbers of technical training and administrative personnel.

In setting out the status and function of agriculture in the national economy, the document stressed agriculture's indispensability as an industry that provides food needed by all human beings. Moreover, in contemporary China agriculture was the physical foundation that 900 million people depended on for survival and development, and thus was also the economic bastion of the nation's social stability and unity. Yet agriculture was a vulnerable industry, hampered by both natural disasters and market competition. A suitable environment advantageous to its gestation and growth, and systems that guaranteed support, needed to be created for it. These were precisely the topics in need of more work after the problem of micro-level agency had been solved by the rural reforms.

## POLITICAL REFORM ADMITS OF NO DELAY

Further reform of Chinese agriculture involves reform of the urban state-owned economy and of the political system. To use a phrase of that time, regarding China's rural reform, all "cheap" methods had been exhausted. If the deep structure was left untouched, no further progress could be made. For just this reason, the historical mission of the series of No. 1 Documents on rural reform was brought to a halt. China's rural reforms were by no means complete but had to seek a path of

advancement through the overall reform of the national economy.

Reviewing more than 20 years of rural reform in China, there were no major deviations, only a relapse in understanding initiated by the June 4, 1989, "disturbance." This temporary blockage to understanding was fortunately unable to change the institutional foundation of land management by household contract. All statesmen in power need to treat food security as vital to overall stability. The idea that "first there must be food to eat, next one must build" had become a consensus for a great many leading cadres. In the urban reforms commencing in 1984, market adjustment mechanisms were prepared for introduction. In 1984 the system of price setting by the state changed to a system of price setting by the market. The Central Committee reexamined the decision on this matter at the 1987 Beidaihe meeting. But that year saw poor harvests, price rises, and panic buying in the cities, and people's minds fluctuated. Another factor causing popular dissatisfaction was widespread corruption. Reform of the price mechanism had to be temporarily put aside.

If we had achieved systems of economic and political democracy on time, then when reform led to an essential adjustment of interests, society would have had a stronger mental and physical coping capacity. But in this area knowledge is easy, and practice difficult.

In 1992 Deng Xiaoping traveled to the South and gave

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a series of speeches that prevented reform relapse and made the reform agenda clearer. The new Central Party Committee General Secretary Jiang Zemin visited Anhui, announcing that the family contract system would not change. The central government made the decision that contracts for land last for 30 years. If needed, this period could be extended further.

There have already been 25 years of rural reform. How will reform deepen, and how will the land system be improved? In particular, how can the family contract system for public land be perfected, maintaining the intimate relationship between peasants and the land, while exploring mutual cooperation and strengthening market competitiveness? These are important questions.

Compared with economic reform, political system reform lags behind. There is a lack of democratic surveillance, which leads to polarization and inequitable distribution. The fruits

of reform fall into the hands of the privileged, affecting the income earned by the populace. Moreover, opportunities to own resources are unfairly distributed. The right to control a huge amount of public property is not accompanied by adequate surveillance and democratic participation. In a time of economic transition, there is an inevitable appearance of working for one's own interests under the guise of working for the public, and thus, of the erosion of resources. Political system reform must therefore be initiated, carrying forward democracy, implementing the rule of law, respecting the various rights enjoyed by the people, and guaranteeing that the masses can equitably enjoy the outcomes of economic restructuring. Decisionmaking regarding important matters touching the interests of the populace should be guaranteed to be public, just, and equitable. Therefore, government function must be regulated by law and a service government must be established.

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