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“Crossing the river by touching the stones.”

Deng Xiaoping, Chairman of PRC in 1978-1989

After the establishment of the People’s Republic of China in 1949 under the rule of Chairman Mao, this vast country with a predominately rural population went through *the Great Leap Forward (1958-1962)* and *the Cultural Revolution (1966-1976)* until Chairman Mao died in 1976. In these 27 years, China’s economy and society were severely disrupted by the unrealistic production pledges made by the local bureaucrats under the need to demonstrate communist ideological alignment, that “peasants were only worrying about the production requirements, which all of them knew were impossible to achieve, and were not doing any actual work”(Lu 2007, p. 134). Despite the industrialization efforts, agriculture still employed 71% of the total workforce and was heavily taxed; only 20% of the population was under social safety nets (World Bank 1996). This essay examines the key development moment of China with a regional focus in Anhui province under such historical context, which is the Contract by Farmers in the Xiaogang Village, where 18 farmers secretly decided to divide the village’s communal lands and farm as individuals, as opposed collectively as required by government policy:

“We distribute land to households, to which the head of each household has agreed by signing his signature or affixing his seal. If this works, each household pledges to pay its share of the required agricultural tax in grain to the State and not to ask for the money or

grain from the state anymore. If this does not work, we cadres are willing to be condemned to prison or even death, and commune members collectively pledge to raise our children to the age of 18” (Wu 2005, p. 111).

The success in grain output as a result of this Contract with Xiaogang Village in the following year set an example for the economic potential for contracting lands to individual outputs to the CCP, which could be characterized as having an experimental and incremental nature in its reforms (Sachs and Woo 2001). This event thus became a pivotal moment in China’s breakthrough in its economic reforms, as the Anhui Provincial Committee of the CPC designated this practice of “contracting output quota to each household” as an official experiment in 1979. Subsequently, this event paved the way for China’s *Reform and Opening Up*, which brings the country from “a planned economy under the law of exchanging value”, to “a socialist market economy with Chinese characteristics”.

Table 1, The Evolution of Reform Objective, Sachs and Woo 2001

<i>Period</i>	<i>Desired Endpoint Upon Completion of Reform</i>
Pre-1979	A planned economy under the law of exchange value.
1979 to October 1984	A planned economy supplemented by market regulations.
October 1984 to October 1987	A planned commodity economy.
October 1987 to June 1989	An economy where the state regulates the market and the market regulates the enterprises.
June 1989 to 1991	An economy with organic integration of planned economy and market regulations.
1992 to present	A socialist market economy with Chinese characteristics.

I’ll first discuss the basic conditions in rural China, especially in the Xiaogang Village, before the event and how that pushed the 18 peasants to be willing to do such experimentation

with the bet of their lives under that political context. Second, I would look at the direct impact of this event both in terms of a statistical boost in agricultural production and also serving as a successful prototype to convince the regulators to promote such policies to other regions of the Anhui province, and eventually the entirety of China. Last, I would examine the long-term impact of the incident in raising living standards and shifting China to a pro-market policy.

First, the eighteen peasants choosing to sign this contract of distributing land to each household was primarily due to desperation and the direct threat of starvation from the failure of the collective farming system that was currently implemented in the village. Starting in 1958, the collective farming system was implemented in Fengyang county, which is the county that Xiaogang village belonged to, and this became a political movement that was critical and undeniable under CCP's communist rule (Lu 2007, p. 123). Lu argued that the "collective canteen" that came along with the collective farming system led to an irrational belief in the near-future realization of communism among Chinese peasants. This also leads to decreased productivity and rent-seeking due to the lack of an incentive system (Lu 2007, p. 126).

Moreover, the natural disaster in Fengyang county in 1960, along with the nationwide "Three Years of Natural Disaster", placed the residents under existential threats of survival. The net agricultural production decreased by 63.5 percent from the previous year, and the livestock production decreased by 43.4%. and the harvest that was supposed to last for half a year would only provide enough food for a week for each household (Lu 2007, p. 133). In 1969, some villages in Fengyang country has more than 37% of their population migrate out to seek refugee due to starvation; the worst case was in 1973 has more than 80% of their entire population migrated out to seek refuge. The villagers of the Xiaogang Village realized that "if we maintain

the current collective farming organization, the only future is death for them all.” (Lu 2007, p. 168-170).

The institutional innovation carried out by farmers in Xiaogang Village is a forced survival strategy. The choice made by the farmers in Xiaogang Village is naturally the most beneficial to them and the most conducive to promoting their products. However, in the institutional background at that time, their choice was also the riskiest under political suppression. Xiaogang people made a choice that was not consistent with the political narrative at that time, obviously taking the greatest risk. Their innovation is the choice of maximizing risk, and while the expected return is only for food and clothing, their innovation eventually pivoted the economic reform of China by serving as a successful prototype (Lu 2007, p. 182).

Second, the direct impacts of this Contract by Xiaogang Villagers mainly include the boost in agricultural production and the village serving as a successful prototype for the experimentalist Chinese government that eventually encouraged the promotion of “contracting output quota to each household” to entire China. The production of 20 households in the Xiaogang village in the year 1979 equates to the sum of production of the five years between 1966-1970. As argued by Lu, the direct gains from this experimental contrast include 1) an increase in agricultural productivity, where the production of wheat increased by more than 70%; 2) an increase in living standards, that the food that gets distributed to each person increased from less than 3kg to more than 75kg for the half a year; 3) people started to actively participating in production activities and found their fulfillment through it (Lu 2007, p. 188-189). As further argued by Thomas B. Wiens from the World Bank, “a series of good harvest, climaxed by an extraordinary record harvest of grain, cotton, and most other crops in 1984 provided convincing proof of the efficacy of these policies (Reynolds 1988, p. 84). The general

welfare in basic needs of the peasants in the Xiaogang village was finally fulfilled, and they are finally alleviated from worrying about starvation.

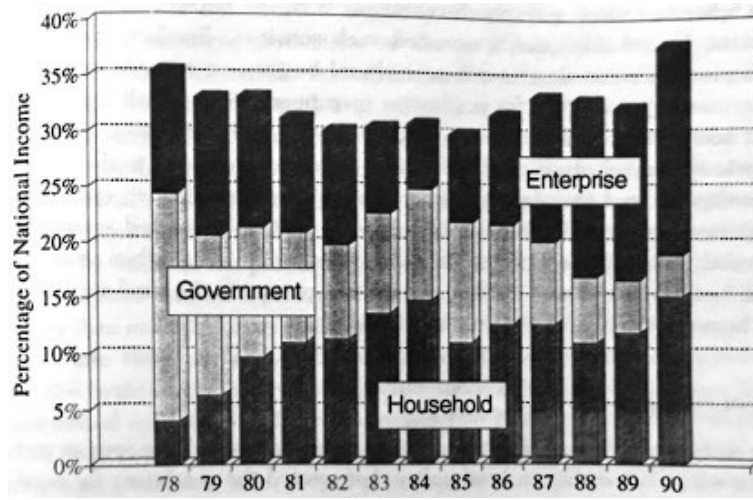
Furthermore, the success of the Contract of Xiaogang village assessed the feasibility of this “contracting to individual household” mechanism to governing individuals and make it spread quickly across Anhui province as well as the country. As argued by Naughtun, Wan li, the leader of Anhui tacitly supported and protected – if not sponsored – the initial moves to adopt family farming. His subsequent promotion to the Vice-Premier in charge of rural work further served as a subtle signal of the central CCP’s attitude toward agricultural reform (Naughton 1995, p. 141). The Third Plenum shortly after this event reorientated China’s policy to an increase in the flow of resources toward the agricultural sector and adopted a 20% increase in agricultural procurement prices with decreased prices for agricultural raw materials (Naughton 1995, p. 75). By the end of 1978, 1200 production teams were doing such practice, and the number reached 38,000 production teams in 1979, accounting for about 10 percent of the production teams (Wu 2005, p. 112). The farm household had become the fundamental unit of management and production in the agricultural sector by 1983 after the implementation of the “production responsibility system” in an attempt to improve incentives at each level of the rural economy (Reynolds 1988). It is worth noting that, without this switch to household farming, those areas outside the small village of Xiaogang Village will stay extremely vulnerable to natural disasters and corruption that could eventually lead to another *Great Chinese Famine (1958-1962)*, where at least 36 million population died from starvation.

Table 2, Rural Household Responsibility System, (Naughton 1995, p. 141)

Percentage of households participating at year-end.	
1979	1%
1980	14%
1981	45%
1982	80%
1983	98%
1984	99%

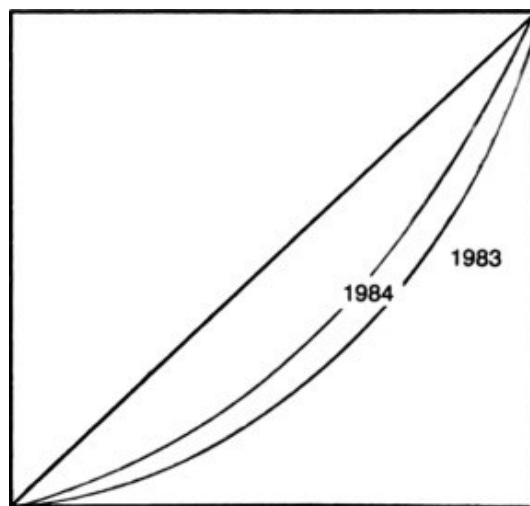
Third, the long-term impact of this event goes beyond alleviating people from threats of starvation but also reliving labor forces from agricultural production so China could move toward industrialization, increasing the number of commercial goods, as well as allowing households to have saving for reinvestment. The labor force that engaged in agricultural production dropped from 78% to 54% from 1978 to 1994 (Sachs and Woo 2001). Naughton argued the reorientation theory towards the agricultural sector allowed the increase in agricultural goods production, subsequently permitting a rapid expansion in consumer goods industries, and thus permitting city and countryside to absorb the excess labor through the production of commercial goods, thus further allowing continued growth despite the energy bottleneck (Naughton 1995, p. 78). Grain, meat, fish, fruit, and vegetables as well as most other farm products were allowed to be freely marketed by the end of 1985 (Reynolds 1988, p. 85). As a result, this induced a substantial increase in living standards, reversed the decades of stagflation, and legitimized Deng Xiaoping's rule. Further argued by Naughton, total household savings jumped from 7% of household income in 1978 to 17% in 1982; disposable national income jumped from 4% to 11% (Naughton 1995, p. 142).

Table 3, Sources of National Saving from ESSRRI 1987 (Naughton 1995, p. 143)



On a grand scheme, the population of Anhui province increased from 47.13 million to 51.56 million between 1978 to 1985; GNP per capital almost doubled from 1978-1985; institutions of higher education increased from 2.9 per ten-thousand people to 5.7 per ten-thousand people; Doctors per 1000 population increased from 0.88 to 0.91 (National Bureau of Statistics of China 2021, p. 476, 478, 498); the distribution of wealth through indication of retained profits also became more equal as shown by Table 4. Thus, we could clearly see an overwhelming comprehensive increase in the living standards of the Anhui population after the Contract of Xiaogang Village.

Table 4, Lorenz Curve of Showing Per Person Retained Profits in 308 Enterprises 1983-1984
(Chinese Economic System Reform Research Institute and Reynolds 1987, p. 103)



In sum, the Contract of Xiaogang Village, with its roots in peasants' innovation out of desperation from decades of stagflation under Mao's rule and natural disasters, had an immense impact in alleviating the population of starvation, accelerating the agricultural reform thus the economic reform of China, which subsequently awarded people in the Anhui province more freedom and choice and increased their living standard in every aspect.

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