

# WHEN SHOULD COLLECTIVE PROPERTY RIGHTS BE BETTER DEFINED? EVOLUTION OF INSTITUTION LAND OWNERSHIP IN RURAL CHINA

Z. Liu<sup>1</sup> and B. Tang<sup>2</sup>

<sup>1</sup> Department of Building and Real Estate,  
The Hong Kong Polytechnic University, China. Email: samson.liu@polyu.edu.hk<sup>1</sup>

<sup>2</sup> Department of Building and Real Estate,  
The Hong Kong Polytechnic University, China.

## ABSTRACT

Since 1949, China's countryside has undergone tremendous changes in terms of institution land ownership due to different political and economic reasons. The most significant institution is the emergence of rural collective and collective land tenure. For a long time, the collective ownership over rural land under the socialist ideology has been seriously criticized by scholars. Some argue that its ambiguous property rights constitute an obstacle against economic growth. However, the past experience indicates that such collective property rights are not always well defined because maintaining the clearness of definition will inevitably increase transaction cost. Thereby to what extent property rights should be explicitly set depends on how much benefit can be brought by the change. To better understand the status quo of collective-owned land, this study presents a historical picture of the evolution of land ownership in rural China, dividing the whole process into four stages - cooperativization, collectivization, decollectivization and shareholding reform. These four stages represent the rise, expansion, reduction and adjustment of collective land ownership in responding to diverse social context and economic development level. Currently shareholding reform over the collective land ownership appears to offer a good direction for the local government to solve the problems and conflicts as the non-agricultural sector is taking off. Nonetheless, such reform is still debatable and its prospect remains doubtful.

## KEYWORDS

Land ownership, rural collective, property rights, China.

## INTRODUCTION

This paper gives a brief overview of institutional change and ownership evolution in China, structured by four stages of the social evolution which are cooperativization, collectivization, decollectivization and shareholding reform. There are no explicit chronological boundaries between every two of them since that they are closely related to or even overlap each other. The collective ownership is the backbone of such process. Our task is to describe the defining features of the rural collective in different social, economic and political context through time from the perspective of local governance and property rights. Both the governance theory and notion of property rights admit the plurality and variety of their application so that they can jointly offer a flexible framework for discussing the variation of rural organizational change. According to Chhotray and Stoker (2009), governance theory attempts to find out a way for people to construct collective decision-making. To their minds, there are four elements about the basic definition of governance- "rules", "collective", "decision-making" and "no formal control system can dictate", emphasizing the importance of formal and informal rules, outcomes taken by a collection of individuals, micro and macro element of decision-making, and anti-dictatorship attribute if governance system. In property rights economics, Demsetz points out that it contains a bundle of rights and later scholars disaggregate such bundle into rights control, income, and transfer (Demsetz, 1967; Walder and Oi, 1999). Deriving from the mentioned concepts, several questions are set out as follows:

*Who dominate the changes?* Why they have such authority? What purposes are the decisions made for? What rules are decision-makers following? How such decisions are made? What problems does the governance system have?

*Who control the property rights during the changes? Who have the ownership of rural asset? Who have the right to assign the ownership? How the income are managed or shared? Who have the right to transfer the property rights to other parties? What problems do such property rights arrangements have?*

These questions come up for providing a platform for elaborating the overview of organizational changes in rural China.

## **COOPERATIVIZATION**

Before the People's Republic of China was founded, the system of private ownership of land was still being used in rural areas. As the one of the most essential means of production, land ownership is always the key issue in countryside. Until the land reform in 1950s, landlords, who comprised less than 5 percent of the total population, was taking possession of almost 40 percent of the country's arable land most of which are productive fields, while the poor peasants making up more than 50 percent of the total population was merely holding land for cultivation with the proportion of less than 15 percent, some of them even did not have their own land and could only be hired by others (Chen et al, 2009; Huang et al, 1992). For arousing the farmer's enthusiasm for work and stabilizing the rural society, land reform eliminated the tenancy and hired labor, broke the power of the rich, and roughly equalized the per capita land area (Selden, 1997). By the spring of 1953, China mainland had completed the reform in most regions but private land ownership preserved.

In fact, as early as the 1920s, farmers had begun to join cooperatives for winning security, obtaining financing and technology, and improving their competitive positions in the market and in bargaining with the state (Bergmann and Ogura, 1985; Selden, 1997). By the end of the year 1951, there were already 4.675 million mutual-aid teams set up for the members to exchange labor and coordinate the use of farm tools and draft animals, containing 21 million households which were about 19.2 percent of the amount (Selden, 1997; Chen et al, 2009). With further official prodding by the central government, mutual-aid teams were extended to cover 39.9 percent of the rural households one year later (Chen et al, 2009). Meanwhile, it should also be noticed that not all the households participated the teams voluntarily in that some of them might be forced to join to fulfill the target set by government at higher level (Chen et al, 2009).

Mutual-aid team is solely the beginning of cooperativization. In late 1953, the central government decided to turn to develop the more ambitious agricultural cooperative, the first stage of which was the elementary agricultural producers' cooperative (EAPC) (Selden, 1997). Different from the mutual-aid team, agricultural producers' cooperative was larger and more comprehensive, reducing the scope of private sector and the market (Selden, 1997). The same as the previous experience, EAPC was soon replaced by the advanced agricultural producers' cooperative (AAPC) when the former one had been introduced to some regions for only 2 or 3 years. The cooperativization campaign of upgrading EAPC to AAPC spent less time than the state government estimated. Within one year, 96.3 percent of peasant households had joined agricultural producers' cooperatives and 88 percent had joined AAPC, which means by the end of 1956, cooperativization of the rural organization had been fundamentally realized (Chen et al, 2009).

As a major policy direction, cooperativization rendered gigantic changes in rural China. Such changes were mainly presented in three aspects. First, the ownership of land, farm tools and equipments were converted from private to public. Second, individual households weren't able to distribute the agricultural income since the mutual-aid team merged into producers' cooperatives. Last but not least, basic accounting units which were closely connected to income flow shares had also been extended from households to cooperatives. When cooperativization was finished, peasants had turned in almost all of their assets to the cooperative and state intervention became the dominant force in rural areas.

## **COLLECTIVIZATION**

In spite of fanatic centralization of authority and collectivization of rural assets had already reflected on advanced agricultural producers' cooperative, there was no sign that state government intended to stem the tide of higher level of collective agriculture. Thus, the pattern of comprehensive people's commune as a fusion of political, social, economic and governmental functions was raised to hit the more ambitious target of realizing communism ahead of time. In the early 1950s, township (xiang) was the basic local administrative form in the countryside. But a few years later in 1958, it began to be supplanted by the new people's commune which was mainly comprised agricultural producers' cooperatives in the previous township. Referred to the documents offered by the central committee of CCP (1958), the scale of the commune was suggested to cover the whole administrative township area, containing around 2,000 households. The CCP even estimated that there might be

united communes based on the units of an entire county (Central Committee of CCP, 1958). It only took a few months for the whole country to be generally communized in the enthusiastic political atmosphere. By the end of September of 1958, 23,384 people's communes-joined by over 112 million rural households accounted for 90.4 percent of the amount- were founded and 94 counties had also established united communes or county-level people's commune (Chen et al, 2009). Averagely there were about 4,800 households in each township-level commune, implying that the degree of commune development had far exceeded CCP's expectations.

As plenty of discourses conclude, the nature of people's commune were referred to be "zheng she he yi" and "yi da er gong" (Kojima, 1988; Wan and Cheng, 2001; Chen et al, 2009). The former slogan meant the commune was an organization with dual functions of administration and production while the later one emphasized in its large scale and collective ownership of property. Communization had resulted in a heavy burden on the local state because that the commune not only needed to exercise the previous township's power, but also directly manage specific villages since the administrative structure of "village" had been abolished. However, this arrangement enabled the government to control rural teams and brigades as other state-run enterprises (Shue, 1984). According to Mao Zedong (1958), "the people's commune is fantastic because it can combine the activities of industry, agriculture, business, education and military, which is convenient for the leadership."

The People's Commune represented the peak of China's power centralization. Theoretically, collective economy should only be regulated through indirect mechanism or control levers rather than receiving orders as state-run enterprises (Shue, 1984). Commune cadres, however, tended to impose the command from higher level government on peasants because their posts were actually assigned by the state without any means about democratic election and their wages were supported by national finance. So from the perspective of personal interests local officials had nothing in common with peasants and the execution of the central plan came first in their political life. Leaving the commune as a source of agricultural surplus extraction, local government even burdened the teams and brigades with more expenditure of public services (Feng, 1980; Cai, 1981; Shue, 1984). As a result, the working efficiency of commune cadres was lowered and gave bad impact to the local governance.

The commune system was detrimental to the management of common goods either. Legally speaking, people's commune was the representative of all its members and the agent who substantially owned the public property. In fact as the operator of specific productive activities, peasants didn't have enough incentive due to the absence of private property rights. In a people's commune no one could claim the control of the assets, member were solely production line worker under the egalitarian work point system. Despite some of the households had chances to transfer their surplus in the market, such business was still on a small scale and free trade was underdeveloped.

## **DECOLLECTIVIZATION**

In the late 1983, people's commune was administratively abolished, symbolizing more spaces for the growth of the responsibility system. Practically patterns of the responsibility system were diversified since the answers to the questions of what responsibility to be contracted and what unit was suitable to take the responsibility were variable. For the first question, the key factor is the linkage between peasant's income and productive output. At the early stage the way of awarding fixed amount of work points for a set job was the only acceptable system that didn't link income to output (xiaoduan baogong) (Zweig, 1983). The reservation of work point system was inevitably the obstacle to decollectivization. The calculation of individual peasant's work point was heavily depended on the working hours or days while the quality and attitude of work would merely slightly influence the scoring. Thereby strong and skillful farmers gradually lost their incentive showing that work point was failed to simulate them to work hard. To avoid egalitarianism, fair measurement of "a set job", which would definitely be output-oriented, must be introduced.

The facts of minimization of accounting unit in the pre-reform era proved that the smaller the accounting unit was, the more robustly collective economy preformed. Before the status of household responsibility system was confirmed, production team had been the smallest decision-making unit for more than a decade. Although teams were not as large as communes in scale, conflicts among members about distribution were still taking place from time to time. As soon as the commune collapsed and the economic reform began, household responsibility system became the peasants' first choice. Since then peasantry were allowed to contract a piece of collective-owned land for cultivation as long as their yields meet fixed quotas. At first the product of the family farm was still control by the team through work point system (baochan daohu). This unwelcome continuation of commune institution was soon removed while the work point system came to its end. Rural households were

eventually enabled to fully control their residue after producing certain amount for compulsory supply or sale quotas to the state. The number one document of CCP central committee in 1982 officially encouraged autonomous household agricultural production.

In addition to the agricultural production, non-agricultural activities, mainly the rural industry, developed rapidly after the economic reform. As the local administrative form of township (xiang) was reestablished in the early 1980s, a new style of local organizations noted as township and village enterprises (TVEs) evolved from the former commune and brigade enterprises. Just as its name implies, TVEs referred to the enterprises that were absolutely or partially owned by the township or village, which could also be seen as “rural collective”. Yet the TVEs were no longer directly manipulated by the state or Party like their predecessors. Instead they were controlled and managed by the local government (township or county) and village government bearing not only the economic function like industrial growth, exports, income generation but also the responsibility of guaranteeing employment and welfare, and promoting agricultural development (Selden, 1997). By 1992, the share of industrial output provided by rural enterprises-township, village, joint and private enterprises-had increased to 38.7 percent, including 24.8 percent generated by the TVEs (State Statistical Bureau, 1993).

There was no doubt that local governments had great influence on TVEs’ decision-making process. Similar to enterprises in the other forms, operation of TVEs also had to depend on managers hired by the townships or villages. Although managers might routinely siphon off large sum of the profits from the companies (Selden, 1997), basically they were merely renter or contractor of the collective assets (Oi, 1997). The local governments, however, were the ones who have power to make final decisions. Scholars have analyzed the role local states played in TVEs from different prospective. For instance, Oi (1997, 1999) regards the arrangement of economic and political power that leads successful rural industrialization as local state corporatism to describe how the village, township and county level government exerted their impact on the economy. Pei (1997) argues that officials of the township and village government were also owners of the TVEs as their identity of local residents. So he indicates that the horizontal personal connection of the officials might bring the TVEs a great help. Even though there might be divergence or contradiction between the above consensuses, their analysis suggests that rural collective was still the predominant force in terms of local governance in the context of a more marketized environment.

## **SHAREHOLDING REFORM**

The emergence of household responsibility system and TVEs grant peasants greater autonomy and incentive to engage in agricultural and industrial production, whereas the problem brought by “collective” and “collective ownership” still exist. Who have the right to use or manage the collective assets? How do the collective industrial sectors allocate their profit and who bear the risk? Does everyone in the collective have the right to share the residual? Can the property owned by the collective be transferred? Is privatization proceeding in rural China? When decollectivization is almost finished, the answers to these questions remain equivocal. At the same time, shareholding reform, a new form of organizational change emerged in the urban areas. Inspired by such institutional arrangement, shareholding reform began to be introduced to the rural area in the late 1980s and subsequently resulted in the establishment of shareholding cooperative.

The definition of shareholding cooperative in rural China is complicated. In general it refers to a system which has some features of both shareholding company and rural cooperative. Practically its development may vary over time and across regions (Vermeer, 1999). However, shareholding cooperative falls into two categories: shareholding cooperative enterprises (SCEs) based on the firms and rural shareholding cooperative (RSCs) based on the rural communities. In nowadays these two types of shareholding cooperatives have already been applied widely and they have made great impact on political, social and economic development.

During the past decades, SCE has diversified and now it is playing a more and more important role in China’s collective economy. Although it may be impossible for us to define SCE accurately, there are several basic principles that we can follow. First, SCE includes labor cooperation and capital contribution, which means that the shareholders must be the employees of the company; second, workers’ wages are in accordance with their work contribution and shares; third, SCE advocates democratic management such as the introduction of voting system (Li, 2005). Actually the execution of the above principles is loose and some of them have failed to be complied with (Li, 2005). For example, for the reason of political protection and preferential treatment of collective enterprises, some private enterprises also “pretend” to be SCE (Vermeer, 1999; Li, 2005). Therefore the term shareholding cooperative enterprise is virtually a misnomer rather than the combination of shareholding company and cooperative because it is missing attributes of either of the two fashions (Vermeer, 1999).

Shareholding reform took place not only in the rural enterprises, but also in rural communities where its influences were even more comprehensive. One of the most important characteristics of this kind of rural shareholding cooperatives (RSCs) to distinguish from the SCEs is the object of the reform. In RSCs, it is the whole village rather than a single enterprise to whom the factors of shareholding are introduced. In other words, the task of the reform is to change the entire rural collective into a shareholding cooperative.

Although there are distinctive features between SCE and RSC, it is not difficult to find out that shareholding system is introduced to solve the problems brought by the vague collective ownership in both rural enterprises and communities. With SCE, managers and employees have more incentive to strive for better performance of the company while the local state is also benefited from the growth. At the level of the whole community, RSC partially guarantees the villagers' right of sharing the collective income in order to stabilize the society and prevent the conflicts in the countryside. Compared to the SCE, the purpose of RSC is mainly for social and political concerns rather than economic reasons. So far no sign shows that shareholding reform has intensified the privatization in rural China. In contrast, the power of the collective is still dominant during the decision-making process.

## CONCLUSION

Despite ambiguity remains, we can't deny that clarification of collective ownership during the RSC era is deeper and broader than any other stages in the transformation. The number of the shares incontestably determines how much collective profit a shareholder can get and this arrangement also for the first time allows nearly all the villagers to enjoy the fruit of the local growth. Perhaps one may argue that it signifies the reemergence of egalitarianism (Unger, 2002), I tend to believe that it is a source of the well-being for the farmers especially when the urban-rural disparity in China is gradually widened in nowadays.

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