



A Study Of Peasants Income And Consumption In The Post-Mao China: 1978-88

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China witnessed momentous changes in the countryside after the Third Plenum in December 1978 as major changes in public policy and institutions unfolded. There were changes in macro-economic and sectoral policies as well as reforms in the commune administration to deal with excesses committed during the cultural revolution decade, and bring dynamism to the rural economy. By 1984 the process of de-collectivization had set in and very soon it swept Chinese countryside as a whirlwind. With the onset of reforms the rural economy posted impressive growth in agriculture and rural industrialization. Did the growth translate into better incomes and consumption, and how was rural income distributed are pertinent questions to ask given the fact that although there was hardly any significant intra village rural inequality, the peasants were unhappy over their nearly stagnant income and consumption level despite agricultural sector and the rural economy generating enough resources for China's heavy industrialization- led economic development. This question is also important because the Deng Xiaoping regime had recognized the peasantry's unhappiness and discontent as a reason for adversely affecting their work -incentive and declining productivity in agriculture and also as an important factor in straining Party-state-peasant relationship This paper, drawing upon literature of rural reforms in China, deals with the impact of changes in policy and institutions on the income and consumptions levels of the Chinese peasantry during the first decade of post- Mao rural reforms, i.e., 1978-1988. Additionally, this paper looks at the impact of growth on poverty and the distribution of rural income.

Condition of the peasantry and rural reforms since the Third Plenum.

On the eve of the Third Plenum, peasants were a dissatisfied lot. Disquiet among the peasants had set in during the cultural revolution decade. There were many reasons for this. First, they were unhappy about many institutional restrictions on them under the commune system. According to White 'Peasants were under three kinds of subordination: [1] subordination to the over-riding priority of national (and regional) industrialization, through mandatory procurement quotas at very unfavourable prices,[2] subordination to the primacy of accumulation over current consumptions enforced by the communes high investment regime, and [3] subordination of households to collective accumulation , enforced by the basic accounting units' (White, 1987). Second, there was disgruntlement because their economic freedom was circumscribed in many ways: the system of household registration (Hukou), restrictions on private-production, household sidelines, private exchanges, restricted markets, private consumptions and so (White, 1993, p. 98) . Third, peasants felt that although they had significantly financed and laboured for the development of the agricultural sector, the gains of the growth thus realised were disproportionately taken away by the state through what Jean. C. Oi called, 'defining the surplus' (OI, 1989), leaving little for them. According to one estimate, between 1957 and 1977, total per capita income of peasants measured in 1977 yuan, rose only from 102.8 yuan to 113 yuan or about 0.5% per year (Wong, 1985). Near stagnant income and consumption levels of the peasants had started to affect production incentives of the peasants as well as efficiencies in production. Their relations with the party-State also got strained, though there may not be overt expression of displeasure or protests. One manifestation

of the strain was the difficulty that the government faced in procuring grains. Kenith Walker (1984) has shown that despite increase in foodgrain production by 50 percent between 1953-57 and 1977-80, procurement declined as percentage of total output from 17.1 percent to 14.7%.

Against such a context of strained peasant and party-state relations, increasing inefficiencies in agricultural production, declining production incentives of the peasants, near stagnation in peasants' income and consumption the Deng leadership initiated many reforms for improving the conditions of the peasantry, and boosting rural development. One of the important decisions that Third Plenum took was the decision to increase the procurement price for agricultural products. Second, the scope of procurement planning was also reduced gradually. Third, the Deng leadership initially took up reforms in the commune system for improving labour management, supervision and payment system and for dealing with the bane of 'commandism' and 'egalitarianism' that had crept in during cultural revolution. Fourth, the most momentous reform was the institutionalization of the Production Responsibility System (PRS). The PRS assumed a variety of forms. The central government initially gave approval to household responsibility system (HRS) via Document No.75, in September 1980., but it was only for, poor and backward areas, where population had lost confidence in the collective. But as the Document No.75, also approved such cases of household contracting 'where household contracting had already been carried out and found satisfactory', it opened the doors for the HRS to spread very rapidly. As reforms unfolded Deng Xiaoping's leadership paid attention to three interrelated areas for further reforms : [1] Strengthening of the HRS for agricultural development, [2] Development of commodity production so that peasant could make a smooth transition from 'producing for the state solely' to 'producing for the market', and [3] diversification of the rural economy.

Impact on Peasant's Income and Consumption

The cumulative effect of these reforms was an increase in agricultural growth rate, more output, diversification of products, and overall boost to non-farm economic activities. Alongside this economic growth, the income and consumption of peasants also saw a significant improvement. Nominal net income per head of Chinese peasantry increased, on an average, by 16% per year from 1978 to 1986, and 15% per year from 1978-88 (Kueh, 1993). In real terms (at constant 1978 prices) the rate of increase during 1978-86 was 13% per year. By any standard, this suggests a most impressive performance. In current prices it increased from 133.57 yuan per head to 544.94 yuan per head (Kueh, 1993).

A better view of the benefits of growth can be seen from a comparison of peasants per capita net income before and after the reform. The comparison shows that 65% of households in 1978 had per capita net income of less than 150 yuan, and only 2.4% had per capita incomes of more than 300 yuan; but in 1988 only 2 % of households had per capita incomes of less than 200 yuan, while more than 80% of households had per capita income higher than 300 yuan (Lin, 1994, p. 59).

As the per capita peasant income increased, a change in the composition of household income was also noted (Ibid,p.56). In 1978, 85% of the income was derived from agricultural production. This share dropped to 63.5% in 1988. Meanwhile the share from non-farm sources, including rural industry, transport, construction and commerce increased from 7% in 1978 to 27.3% in 1988. The diversification of the rural economy thus, was an important and additional factor in the rural per capita increases in income. It also became a source of rural income inequality, as we shall see later.

Chinese peasants whose consumption in the past decades was severely depressed, saw a significant jump with increases in their income. A rough indication of the increases in the consumption level can be seen in the per capita consumption expenditure over the period and also from the increase in the ownership of consumer goods. In Kueh (Kueh, 1993), the increase in per capita consumption expenditure is given. In current prices it steadily 'increased from 116 yuan in 1978 to 476.66 yuan in 1988 (Kueh, 1993).. The increase in ownership of consumer durable is given below in the Table I. The figures are from SSB, Chinese Social Statistics, section 4 as cited in Nolan and Sender (1992),

Table 1- ownership of consumer durables per hundred people in rural China

	1978	1985
Bicycle	4.3	23.5
Sewing machines	2.4	8.7
Radios	5.1	21.1
Cloths	-	-
Watches	4.0	38.4
T.V Sets	0.1	6.6

This increase in enjoyment of consumer durables became possible because the Deng leadership allowed rural economic specialisation and diversification (Kueh, 1993, p. 229). Further, the reformers also pursued a deliberate policy to increase the supply of consumer goods as part of the incentive structure. Thus, the consumption of the peasants increased, otherwise increase in income alone would not have made that possible. (Nolan P, 1991).

Changes in Peasants Consumption Pattern

With an increase in consumption level of the peasants, the consumption pattern changed significantly. Y.Y Kueh measured the changes in consumption pattern in terms of elasticity of 'peasant consumption of goods and other daily necessities with respect to income or total consumption expenditure' (Kueh, 1993).. These elasticities measured the different responses of 'consumer demand to increase in income and show the direction and intensity of changes in consumption pattern' (Kueh, 1993, p. 246). Such an exercise revealed the following:

(1) Consumption expenditure on non-staple food, housing and 'other' items such as fuel, household utensils, TV sets, radios, watches etc. accelerated with income rise (expenditure elasticity was consistently higher than unity).

(2) Elasticity of 'staple food consumption' was , 'as expected, smaller than unity (0-36 in 1980)' (Kueh, 1993). It declined markedly, reaching exceptionally low level of (0.1 1) in 1987.

(3) 'Housing expenditure elasticities' were 'consistently much higher than those' of non-staple foodstuff and whenever possible, peasants were 'prepared to squeeze the consumption of high protein items' in order to make cash available for building new houses elasticity improved significantly (Kueh, 1993). It indicated a building boom in rural China, 1978-88.

(4) The expenditure elasticities in the 'others' category (luxury item) were consistently lower than those of housing and fell exactly between those of 'non-staple food (greater than unity) and clothing (smaller than unity, but still quite high compared with the estimates for staple food' (Kueh, 1993).

As Kueh infers from above 'the urge to improve diet' was stronger than satisfying 'the demand for 'luxury' goods. But beyond the satisfaction of basic clothing needs, peasants became increasingly interested in medium class (*Zhongdangci*) or even high class (*gaodangci*) commodities' (Kueh, 1993, pp. 244-245).

From the above it may, however, not be inferred that there was 'saturation of foodgrain consumption' and hence the 'diversification of consumption spending (Kueh, 1993, p. 245). Peasants diet in 1978 was a simple combination of foodgrains and vegetables. After 1978 much of the increase in grain production was converted into meat, poultry and notably wine (Kueh, 1993, p. 248). Consumption of poultry increased by 18% between 1978-88., Meat consumption (pork, beef, and mutton) by more than 9% per year between 1978-86; and aquatic product consumption grew at 9% for the same periods.. These annual growth rate figure are, however, highly deceptive. First, the high growth rates were based on very low consumption base level. Secondly, when we examine the data in terms of quantity consumed per head, the inadequacy of consumption level become

more than obvious. For instance, in 1988 meat consumption amounted to 11 kg/head/year, that is less than a kg/head/month. Adding the quantity consumed of aquatics and poultry, monthly per capita consumption was still a little more than a kg, roughly equivalent to a medium-sized chicken, scarcely adequate to meet the needs of even a child (Kueh, 1993, p. 250).

Moreover, following initial dietary improvements in the mid-1980's, there was a slowdown in peasant intake of all major non-staple foods. The absolute consumption levels of high-protein foods such as meat, fish, poultry were still meagre for peasants. Against this backdrop, the evidence of declining Engel's ratio didn't imply that peasants' food consumption had reached saturation level. It only implied that peasants' income had reached a level at which peasants considered it worthwhile, albeit temporarily—to shift consumption towards non-food expenditure, especially housing. Kueh opined that peasants could show renewed interest in improving their food consumption standards after the rural housing boom was over.

Rise in rural income differentiation

The period of rise in the income and consumption of the peasants was also a period of increase in rural inequality (Adelman & Sunding, 1987) (Putterman, 1993) (Bramall & Jones, 1993) The rising rural inequality however, was not frowned upon by the party-State. Instead, it was welcomed by reformers as functionally necessary for rapid growth and material incentives. Still the pertinent question to ask is, what was the degree of inequality, and what were the sources of that inequality? There are many studies exploring these questions. Here in this paper, the discussion draws upon two different sets of data. First, official data of the State Statistical Bureau (SSB), and another unofficial, called 'Alternative data'.

SSB's data was drawn over a period of time from 1977 to 1991 (Bramall & Jones, 1993). In 1977, it covered 3,646 households from 17 of China's provinces and by 1991 its coverage had expanded to '67,410 households from 30 province equivalents (Bramall & Jones, 1993). Based on that data SSB calculated Gini coefficients, and also the quintile ratios for China and a few other developing countries (Bramall & Jones, 1993). These are summarized in the Table II as cited in Bramall and Jones (1993) :

Table II: 'Trends China's Rural Income Distribution, 1978-90'

	Rural Coefficients (net Peasant income)	Gini per	Households surveyed	Comparative quintile Ratios (ratio of Income share of top to bottom 20% of households)	
1977	n/a		3.646	China 1980	3.2
1978	0.212		6.095	China 1990	5.5
1979	n/a		10.282		
1980	0.237		15.914	Brazil 1983)	26.1
1981	0.239		18.529	India 1983)	5.1
1982	0.232		22.775	Bangladesh (1985/86)	3.7
1983	0.246		30.427	Malasia 1987)	1 1. 1
1984	0.258		31.375	Taiwan 1985)	4.5
1985	n/a		66.642	South Korea 1985)	7.2
1986	0.280		66.836		
1987	0.300		66.912		
1988	0.300		67.186		
1989	0.316		66.906		
1990	0.315		66.478		
1991	0.310		67.410		

From the Table it may be seen that 'the extent of rural inequality, as measured either by Gini-coefficient or the quintile ratio, shows a definite increase during the course of the 1980s', but it was not 'extreme by the standards of other developing countries' (Bramall & Jones, 1993). A study by Khan (1992, p. 69) and a World Bank report, more or less endorsed the SSB conclusion, although they calculated a higher rural Gini coefficient than the SSB did (Bramall & Jones, 1993). Although the Gini by late 1980s was not extreme, the rising trend and rapidity of that rise was alarming.

Chris Bramall and Marion. E. Jones (1993) also found that the official data understated the 'true degree of income inequality'. First, the SSB definition of income was rather narrow. It did not include in the estimates of per capita income the imputed value of rural housing. If the estimates of per capita net income had included the 'imputed rental value of rural housing' and 'self-consumed farm products valued at market prices' (Bramall & Jones, 1993); it could have raised the "average per capita income in the sample by 35%" and 'generate a rural Gini co-efficient of 0.333 compared to an official figure of 0.300' (Bramall & Jones, 1993). Second, the SSB surveys were restricted to farm households and excluded the non-farm households. Such an exclusion could not matter much in the late 70's as their numbers were very small, but not after 1978. With rapid diversification of rural economy, the numbers of non-farm households grew rapidly and became large. As they were also high income households the effect of exclusion of non-farm households was that it narrowed income inequalities (Bramall & Jones, 1993, p. 47). Thus, the Gini coefficient based upon data collected by SSB significantly understated 'the true degree of inequality in China during the 1980s' (Bramall & Jones, 1993)..

Besides the SSB, 'alternative data' came from large scale surveys were conducted by the Rural Policy Research Unit of the CCP and the Rural Development Research Centre of the State Council in late 1984 and early 1985 (Bramall & Jones, 1993). This survey was 'larger than that of SSB for 1984', its 'income concept was much broader' and it also 'sampled a much wider range of households' (Bramall & Jones, 1993). Bramall and Jones compared 'income distribution derived by the SSB and the alternative survey in 1984' and found that as against only 4.6 % of sampled households in the SSB survey being below the poverty line of 150 yuan, the alternative data showed that figure to be 16.3% (Bramall and Jones (1993, p. 48). Similarly, whereas the alternative survey showed 'per capita income in 25.3% of households exceeding 500 yuan', the official survey put that figure at only 18% (Bramall & Jones, 1993). As a result, SSB calculated a modest Gini of 0.26, whereas it was 0.40 for alternative survey (Bramall & Jones, 1993).. Thus, while the official data showed the growing income differentiation to be of a modest nature, the alternative data showed a far more worsening of income differentiation.

Inequality Within Chinese Villages

Early reports of the rural reforms from village studies on trends in income distribution by and large showed income differentiation taking place at a rather high speed. For instance, in Jiangsu's Suqian county in 1982, about 3,400 households out of the 200,000 total, earned more than 1000 yuan, but at the same time 5% of the households got less than 100 yuan per capita (Wei, 1983). In March 1983, William Hinton found a peasant in Fengyang County, Anhui, who owned two tractors, each of which could earn 1000 yuan per month, and another person trading in reed mats in the North-east earning 20000 yuan a year, and his after tax income was fourteen times, the county's average income (Hinton, 1983). In light of the facts that (a) there were no longer ceilings on peasant income as it used to be in the pre-reform period (implicit in the practical application of the work point distribution system), (b) the scope of market had widened, and (c) there was increasing diversification of the range of economic activities and the techniques of production, the widening of income differentials within any given village was almost inevitable. In addition, when we consider the fact of increasing privatization of the means of production in the hands of few households there remains little doubt about the trends in income differentiation at the village level.

More specifically, there were four factors behind the growing income differentiation in the countryside: 'inequality within the farm sector, inequality within the non-farm sector, the share of the population within each of these sectors, and the intersectoral difference in income' (Bramall & Jones, 1993, p. 52).

As regards income distribution within the farm sector, farm income was distributed more or less evenly. Even the alternative survey data on Zhejiang province in 1986 showed the Gini for farm income to be a mere 0.04 (Bramall & Jones, 1993, p. 52). Studies in other parts of China showed similar results (Ling, 1991), (Ogdard, 1992). According to Chris Bramall and Marion Jones, 'it reflected the relatively egalitarian nature

of the de-collectivisation settlement of 1982-83, which allocated land and means of production not to a small number of efficient farmers but instead on a per capita basis' (Bramall & Jones, 1993). Peter Nolan and John Sender also make the same point: 'Had growth maximization indeed been the Chinese government's overriding goal, the contracting out of farmland might have been better arranged on a Stolypin-type basis of "betting on the strong". In fact, 70% of farmland was distributed simply according to household size; a further 21% was distributed on the basis of a combination of household size and the number of workers in the household' (Nolan & Sender, 1992, p. 1284). Secondly, under de-collectivisation land was allocated to each household in such a way that each received scattered parcels of land of varying qualities across the village and that 'made the concentration of land and hence the exploitation of any potential economies of scale almost impossible' (Bramall & Jones, 1993) (Nolan & Sender, 1992). For instance, in Anhui households 'typically received 7.8 plots, each of only 0.74 mu in size' (Bramall & Jones, 1993). Further, the low rate of profit in farming nudged the most enterprising households to move out into non-farm production, where returns were very high. All these factors combined to keep farm income inequality in a very narrow range.

Compared to generally egalitarian income distribution among farming households, income distribution among non-farm households was extremely uneven. As Bramall and Jones show the Gini for income from collectively owned enterprises, non-crop agricultural activities such as animal husbandry, fisheries etc, and household industry, transport, construction, services was 0.37, 0.21, and 0.43 respectively (Bramall & Jones, 1993). The significantly high Gini for income from household industry etc is evident from the fact that whereas 'the richest household received on average 272 yuan per head from non-agricultural production', 'the poorest received virtually no income at all from this source' (Bramall & Jones, 1993, p. 54). In Wenzhou prefecture in 1984-85, large income difference was seen between workers (800 yuan) hired by large labour-hiring households, and the employer households (50,000 yuan to 150,000 yuan) (Bramall & Jones, 1993). Zhejiang may not be a representative province because of the prevalence of private enterprises but even in provinces or prefectures where collective enterprises were pre-dominant, the income distribution was no less inegalitarian than in the private sector. According to Bramall and Jones (1993), Gelb found that in Wuxi county (Jiangsu) where the local government was committed to egalitarian income distribution and enforced widespread wage controls, 'the pay distribution in private enterprise doesn't seem to be less equal than in community enterprises' (Gelb, 1990). Another evidence for widespread income inequality within non-farm sector is found in Odgaard (1992).

The growing importance of the non-farm sector in the rural economy also contributed to magnify non-farm inequalities. As Bramall and Jones point out the growing importance of the non-farm sector in the rural economy was evident from an eleven-province survey that showed that 'the percentage of gross peasant income derived from farming declined from 57% in 1978 to 26% by 1986' (Bramall & Jones, 1993). The rich as well as the poor provinces had the same trend- for instance, 'in Ningxia (poor) the farm share declined from 73% to 47%', and 'in Jiangsu (rich) it fell from 47% to 12% by 1986' (Bramall & Jones, 1993, p. 56).

Another factor in intra-local rural inequality in the 1980s was the effect of substantial difference in income generation between farm and non-farm sectors. As Bramall and Jones point out based on the data of the alternative survey, 'gross income per labour day from crop farming was a mere 4.9 yuan across China', while it was 8 yuan from Commerce, food processing, and 'above 15 yuan from transport and other processing industry' (Bramall & Jones, 1993, p. 58).

Poverty Alleviation in the Countryside

The increasing income differentiation in the Chinese countryside was, however, accompanied with substantial reduction in income based poverty level. According to one estimate by Riskin (1990), 'the number of rural Chinese below the poverty line of 200 yuan in 1986 prices fell from 200 million in 1979 to 70 million in 1986'. For Sen (1991), "this (was) a striking decline of which there are few parallels."

Five geographical and climatic regions-the North China Plain (71 poor counties); Yunnan and Guizhou in the South West (66 counties), North West Loess Plateau (48 counties); the South East Coast of Fujian province (11 counties) and Sinking province (8 counties)' had high concentration of rural poverty (Lardy, 1983). These five regions contained 204 chronically poor counties, more than 90% of the total (Lardy, 1983). At the level of *xian*, 'just five provinces (Guizhou, Gansu, Hunan, Shandong and Yunnan) contained over 64% of China's poor *xians*' (Nolan & Sender, 1992). Guizhou alone contained 20% of such *Xian* and '41% of Guizhou population lived in' poverty (Nolan & Sender, 1992).

Rural poverty in these regions was mainly a consequence of the resource endowment and other natural constraints. But as Lardy points out, the poverty could as well have been policy-induced. The policy induced poverty 'hypothesis' has much merit given the fact that some of the counties were able to rapidly escape from poverty after 1984 when economic policies changed.

One such case is that of Shandong. Poverty in Shandong, as Lardy points out, was of recent origin. In 1956-57, the average annual per capita collectively distributed income in the province was above the national average. At that time it was a major cotton producing area and 3/4th of the cotton procured from the province came from four North-Western Prefectures-Hoste, Techou, Liaching and Huimin. These prefectures subsequently witnessed economic slide-down when policy changes began to emphasise self-sufficiency in grain production. Consequently, it altered the cropping pattern and the four prefectures lost out on comparative advantage in cropping pattern. By 1978, the average collectively distributed income of 20 million peasants in these four prefectures slumped down to only 46 yuan (below the poverty line) and in 47% of the Production Teams, CDY was less than 40 yuan i.e. equal to only 54% of average peasant income for all of China.

But after 1978 there was remarkable recovery in cotton production; and overall agricultural output and income posted impressive growth. This was on account of the shift to a more rational cropping pattern made possible by the leadership decision to abandon the past policy of grain-self-sufficiency at provincial and local levels. Consequently, peasant's income increased from 46 yuan (less than 2/3 of the national average) in 1978 to 57 yuan in 1979 and to 87 yuan (almost 10% above the national average) in 1980.

The remarkable turnaround in the case of Shandong does not suggest that all or even most of rural poverty existing in North-China plain or elsewhere was policy induced and hence easily ameliorated. As E Croll (p.113) points out that State Council's Regulation on Aiding Poorer Areas in 1984 recognised that although there had been improvements in the standard of living, generally there were still great regional disparities in economic development because of the differences in material condition, natural conditions, employment opportunities and the implementation of new policies. For instance, poverty situation in the area known as Huaipai in Anhui, where poverty dated back to second half of 19th century due to hostile agro-climatic conditions, by and large, remained the same during the reform decade despite the policy changes.

The point, however, is that to the extent rural poverty was policy induced, the policies, through facilitating economic growth in these regions, mattered a lot in poverty alleviation and that too in a very short span of time. By 1981, the number of chronically poor counties had come down from 221 in 1978 to only 87. The re-emergence of more specialised production of non-grain crops was among the most critical elements since much of the poverty in the late 1970's was in areas that had engaged in specialised production in the 1950s. But other supporting factors were also important; in fact specialised production couldn't have been possible without such decisive state actions as increased supplies of foodgrains to poor *xians*, reduction in compulsory grain purchase quotas, tax reduction and exemption for poor areas. More generally, it can be said that the reduction in poverty was a result of the reform policies which allowed both the rich and poor areas to benefit from improved work incentives and from the advantage of specialisation and exchange.

Households in poorer regions also benefited from the growth in advanced areas through a number of 'spread effects' (Nolan & Sender, 1992). With easing of constraints on labour mobility, labourers from poorer regions began to migrate to well located areas in search of employment and income. According to one estimate Pearl River Delata area (Guangdong Province), a rich area, had by 1986 over three million outside workers (Khan & et.al, 1992). Sixty per cent of them were from the mountainous poor *Xians*, within the province (Vogel, 1989, p. 266). Sons from the mountainous *xian* would typically send half of their incomes to their parents in the mountains, 'thereby doubling income of their parents' (Vogel, 1989, pp. 266-67).

The reduction in income poverty in China during the reform decade was an achievement of great significance, given the fact that lack of income often drastically constrains the lives that people can lead (Dreze & Sen, 1995, p. 70). But this finding needs to be supplemented with further information about what happened in matters of living conditions eg. mortality rates and related indicators. The point is that income as conventionally measured clearly omits or undervalues services that are crucial to human well being and this compromises it as a yardstick for measuring poverty (Riskin C., 1993, p. 126). "Poverty line" method of evaluating well being or welfare can 'be inadequate since deprivations can take many different forms- as various inadequacies of basic capabilities that relate to many different causal factors (such as public health services and social insurance system) in addition to private income' (Dreze & Sen, 1995). In this context it is worth bearing in mind the distinction that Sen and Dreze (1989) have drawn between growth mediated and

policy mediated welfare. Further it may be noted that even within the income-centred perspective, the head count measure is insensitive to the levels and inequalities of income below the poverty line and a more distribution-sensitive evaluation of poverty may be necessary for a further understanding of even income deprivation.

Concluding Observation

Since the Third Plenum in 1978, major changes took place in the policies and institutions as China transitioned from a Maoist command economy to an embryonic social market economy, affecting the lives and well being of the peasants of China. Output, employment, real income grew rapidly, which enabled peasants to enjoy improved diets, have more housing space to themselves and use new items/articles of consumptions. There was a significant improvement in the per capita income of rural population, across regions, poor and rich counties etc. The rise in income however, led to increasing income differentiation. This was both in the spatial as well as intra-regional terms. While official data of SSB indicated that the income differentiation was moderate, and the World Bank Report too found income inequality to be moderate compared to Gini of rural income in other developing countries, studies based on 'Alternative data' suggested rural income differentiation to have become very significant in the 1980s in both the intra-regional as well as spatial terms. Within villages the most important cause of rising income differentiation was the process of rural economic diversification and specialization with the result that the share of income in gross income from agriculture started to decline, while that of income originating in non-farm sector began to increase, along with the fact that returns on production in non farm sector compared to that in agriculture was several times more. While increasing income inequality was an undeniable reality and something of a new experience for the peasants, it was accompanied with increase in per capita consumption and decline and decline in poverty ratios. Peasants in regions which had been adversely affected by public policy and had fallen below the poverty line saw a remarkable improvement in their economy and easily crossed the poverty line, thereby overcoming policy-induced poverty. Others escaped poverty as a result of 'spread effects', expansion of market and state's poverty alleviation measures. Yet, a question may be asked following Amartya Sen: did rise in income and consumption generally enhance welfare? It may be argued that while peasants to be sure benefited from growth mediated welfare, but lost on distribution/ policy mediated welfare with the undermining of the collectivist institution in the countryside (Sen, 1992). Another point of ponder that was emerging by end of 1980s was the rapidly growing income differentiation both spatially and intra-regional terms, and its likely societal and political fallout.

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