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Institutional Change and Economic Growth in China: The View from the Villages

VICTOR NEE and SU SIJIN

THE MAOIST ERA of egalitarian collectivism has decidedly come to an end. Although some villages persist in developing cooperative enterprises, the collective is being transformed from a dominant organizational form to one that plays a subsidiary role to the private household sector. In effect, the collective has been relegated to the position formerly held by the private sector. Everywhere the emphasis is on economic growth based on household production and marketlike forces. What is the relationship between these institutional changes and economic growth?

This article argues that institutional arrangements favorable to economic performance provide effective incentives through a structure of property rights that brings private returns more in line with social returns. By private returns we mean the gains or losses to an individual in economic exchanges. Social returns are the social gains or costs to society as a whole. This institutional perspective is part of a broadly based, new institutionalism in the social sciences (North and Thomas 1973; North 1981; Williamson 1975; Langlois 1986; Meyer and Rowan 1977; Granovetter 1985; DiMaggio and Powell 1983; Friedland and Robertson forthcoming; Stark and Nee 1989; March and Olsen 1989; Piore and Sabel 1984; Moe 1984). The new institutionalism grows out of a dissatisfaction with neoclassical formulations of a frictionless world, posited as devoid of institutions, in which perfectly operating markets are the engine of change. The institutional approach instead focuses its analysis on institutions, defined as the formal and informal constraints that structure human interactions. In the analysis of economic action, institutional theory maintains that institutions in the aggregate result in higher or lower transaction costs (i.e., costs over and above production costs) and thereby shape the structure of incentives. In an economy, the higher the cost of transacting, the lower the level of its efficiency and performance. Therefore, institutional arrangements, whether they result in higher or lower transaction costs, explain the diverse performance of economies (North forthcoming).

We extend institutional theory to an analysis of recent developments in China,¹ demonstrating the relationship between the institutional transformation of Chinese

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agriculture and economic growth, which is defined here as an increase in per capita income for the rural population. In rural China state-guided economic reforms resulted in changes in the institutional arrangements that determine the structure of property rights and incentives. They include decollectivization and the implementation of the household responsibility system (Tsou, Blecher, and Meisner 1982; Nee 1986; Hartford 1984), the shift to increasing reliance on market coordination (Nee 1989b; Sicular 1984), and the rise of new economic institutions and regulations that define and specify the way peasant households cooperate and compete in the rural economy (Nee 1989a).

The reform of the commune system sought to adapt the institutions of local government to the needs of a marketlike economy (Shue 1984). The collectivization of agriculture culminating in the establishment of the people's commune brought the agricultural sector firmly under the state's control (Shue 1980; Parish and Whyte 1978; Chan, Madsen, and Unger 1984). Decommunization, on the other hand, sought to take the state out of the direct management of economic activity. Under collective agriculture, cadres maintained a near monopoly control over the management and allocation of economic resources (Schurmann 1968:chap. 7). After decollectivization, control over agricultural production shifted to the individual peasant household. Where once cadres presided over the distribution of rewards, household income now largely derives from marketlike transactions. Village cadres have attempted to exercise control over the commercialization of the rural economy (Oi 1986), but as the direct control of economic allocation by cadres has declined, so has their capacity to act as middlemen or gatekeepers. Thus institutional changes implemented in the course of economic reform have brought about a reduction in the power of village-level cadres (Nee 1989b; White 1987; Latham 1985). However, the attempt to reduce bureaucratic micro-intervention in economic activity does not appear to have been effective at the township and county levels (Wong 1986). In the institutionalist perspective, direct bureaucratic microintervention is an important cause of higher transaction costs (Nee and Young forthcoming). The reduction of cadre control over economic activity therefore lowers transaction costs and enhances economic performance.

Since 1978 state-guided economic reform has sparked a rapid growth of markets. The number of private markets doubled from 1978 to 1985, rising from 33,302 to 61,337; price control was sharply reduced in scope from 111 to 17 categories of commodities, accounting for only 30 percent of purchases; and the value of market transactions approached half of the total purchase value by 1985 at 70,500 million yuan, up from 23,500 million yuan in 1980 (Watson 1988). Whereas the collective or redistributive sector accounted for 66.3 percent of household income in 1978, it dropped to 8.4 percent by 1985 (State Statistical Bureau 1986:583) and income from cooperatives accounted for a mere .9 percent. By contrast, income from household commodity production grew in the same years from 26.8 percent to 81.1 percent of

at Santa Barbara and co-sponsored by Xiamen University. We report on findings from interviews with village-level cadres conducted from June through August 1985 in Fujian Province. The village cadre interviews are part of a larger study, the Fujian Rural Survey Project, which sought to collect systematic data on the effects of economic reform on villages and households. Unlike previous studies of Chinese villages (Parish and Whyte 1978), the Fujian rural survey is based on a probabilistic sample selection process. First, we selected thirty villages (5 percent village sample) randomly from two rural counties (Longhai and Tongan) chosen for their diversity in geographical and socioeconomic characteristics. Second, we selected randomly about twenty to twenty-five households from each of these villages. In addition to the structured village and household questionnaires, Victor Nee, Su Sijin, and Dai Yiling conducted open-ended interviews with village cadres, lasting from three to four hours, in each of the thirty villages. Close to verbatim notes in Chinese were written down for these interviews.

peasant household income. Thus within a span of seven years, China's rural economy moved from a centrally planned economy to a mixed economy characterized by a rapidly growing market sector. Market reform in the urban economy, however, has largely stalled (Lin 1989; Shirk 1989).

After meeting its stipulated sales quota, the peasant household is now able to sell its products at market or negotiated prices, permitting peasant households to retain a greater share of the surplus than they could under the collective economy, when prices were fixed administratively by the state at below-market prices (for a discussion of the collective period, see Lardy 1983). For this reason, the transition to market coordination has resulted in more effective incentives for peasant households (Nee 1989b) and dramatic increases in per capita income in the 1980s. From 1978 to 1987 mean per capita income increased about 250 percent for rural households, rising from 134 to 463 yuan. (If inflation is taken into account the increase in per capita income is closer to 190 percent.) In recent years growth in per capita income has slowed considerably. According to the State Statistical Bureau, rural per capita income in 1988 was projected at more than 520 yuan, but this represents only a 2-percent increase over 1987 after adjusting for inflation (*People's Daily*, January 3 and 14, 1989). The increase in household income is broadly based, leading to a decline in rural poverty. Whereas 33.3 percent of rural households had per capita income of less than 100 yuan in 1978, only 1 percent of households remained at these subsistence levels by 1985 (see Riskin 1987:306–7). Moreover, the expansion of markets has opened up new avenues of mobility through private entrepreneurship. As a result the determinants of socioeconomic mobility have changed to reflect the greater influence of market forces. The fruits of peasant entrepreneurship can be seen in the rise in per capita income: peasants earning over 300 yuan increased from only 2.5 percent in 1978 to 62.1 percent in 1985, with 18 percent reporting over 500 yuan (State Statistical Bureau 1986:583). (Adjusting for inflation does not qualitatively change these comparisons.)

Just as it was short-sighted to predict the demise of the peasant household economy following collectivization in the 1950s, it would be mistaken to interpret the shift to household production as foreshadowing the demise of the village corporate economy (Oi 1989). Instead the collective is changing to assume more of the qualities of the prerevolutionary corporate village in South China, in which lineages owned and managed communal property and provided limited welfare functions to villagers (Freedman 1958). In these capacities, the collective is part of the village-level institutional arrangement in which property rights are embedded and transaction costs are structured and reproduced. At the system level, the role of the state in creating formal constraints and their enforcement characteristics through new regulations, establishing market structures, and redrawing the boundaries of state and society is analyzed elsewhere by Victor Nee (1989a).

Our aims are to provide a description of institutional change at the village-level, demonstrate how institutional changes promote economic growth, and identify the parameters and tensions among the redistributive and market forces that constitute the current institutional structure of the rural economy. Our analysis of the theme of institutional change and economic growth draws extensively on the accounts of "grass-roots" cadres (village officials). In the past analysts have had difficulty in assessing the reliability and accuracy of explanations offered by local observers, particularly those who might have an interest in giving a biased account. Do local practitioners, such as village cadres, have an accurate understanding of their social and economic world, specifically the marketlike forces that are shaping the economic future of their villages? A unique feature of the field research we conducted in Fujian was the simultaneous

collection of ethnographic and quantitative data.² For this reason, it has been possible for us to test the accuracy of the models of economic growth proposed by cadres in their interviews with data collected in separate questionnaires at the village and household levels. To do this we use the tool of multivariate regression analysis.

Debate on the Effect of the Household Responsibility System

How have rural cadres responded to the institutional transformation of the agricultural economy? Some scholars point to the opposition and foot-dragging of rural cadres in the early stages of the reform (Zweig 1986). They observe that rural cadres have gained little from economic reform and have had much to lose (Latham 1985; Unger 1985). Others emphasize the problem of guile and opportunism in the response of cadres to economic reform (Liu 1983–84). It is likely, however, that rural cadres have been more supportive of economic reform than many have realized, especially after the initial period of uncertainty about the long-term prospects for structural reform. Had the problem of cadre opposition and malfeasance been rampant, could economic reform in agriculture been as successful as the record indicates?

Not surprisingly, cadres talked about the strengths of the agricultural collectives, although not as extensively as they did about the weaknesses of the collective. In all but one village, cadres emphasized that the collective system was superior when it came to constructing and maintaining public works such as irrigation systems and roads. Cadres said it was easier to mobilize labor for public-works projects under the collective system because household income and the labor force were controlled and allocated by the production team and brigade. As one village cadre told us, "It's not like before. We don't have access anymore to the household's labor and income. Not much money goes through our hands anymore. How can we get the funds and labor we need to get the job done?" Cadres believed that peasants were less inclined to listen to them than before, and they complained that programs like family planning were even more difficult to implement now that peasants were more independent of the collective. Many cadres wrung their hands about what they perceived as the state of disrepair of local irrigation systems, power stations, and roads. They worried that without the proper maintenance of these public facilities, it would be difficult to sustain continued growth in agricultural production. They observed that the neglect of public works was most serious in poorer villages. Indeed, as we traveled from village to village in the course of our fieldwork, we were struck by the poor maintenance of village facilities. Some cadres wondered whether the current high-growth rates could be sustained for long.

Village cadres expressed concern about the growth of inequality under the household-responsibility system. These cadres pointed out that under the collective system, even the poorest households were entitled to an equal allocation of grain. They worried

² Our aim is not to portray Fujian as representative of the mean for China as a whole. Rather our purpose is to estimate the effect of some covariates on economic growth at the village and household levels using a probabilistic sample. Although Fujian is in our view nonrepresentative of the means and variances for all of China, this does not affect estimates of structural parameters (e.g., the effects of covariates on economic performance). For example, we are interested in whether or not access to urban markets has an impact on the rate of economic growth at the village level, not in whether the mean distance from urban markets in Fujian is representative of villages elsewhere in China.

that without the insurance provided by the collective, poor households would be bereft of needed social services. One cadre spoke at length about the problems faced by households experiencing serious illness. He feared that if a serious illness struck, it could have devastating consequences without the guaranteed grain allocation and medical insurance that the collective used to provide. As one cadre who bitterly opposed decollectivization exclaimed, "What is good about the responsibility system? The rich are getting richer, while the poor are left without being properly taken care of." About 10 percent of the cadres were highly critical of the household-responsibility system for exacerbating the problem of social inequality.

Village cadres talked at greater length about the weakness of the collective and the strengths of the household-responsibility system. For the most part, they concentrated on listing the problems of incentives and allocative inefficiency associated with collective agriculture.

A criticism of the collective frequently mentioned in cadres' accounts was allocative inefficiency under collective ownership. Invariably their point of reference was the economizing traits of individual households. One cadre recalled, "Before when I spread fertilizer in the fields, I didn't pay much attention to the instructions on the package. I just spread as much fertilizer as I thought was right. I always thought I could get more fertilizer when what I had was used up. People used to complain that I used too much fertilizer, but since I didn't use the collective's fertilizer on my own field, why should I care about what anybody said? Now it seems strange to me, but I've noticed that whenever I use fertilizer or insecticides on my own assigned land, I try to save whatever I can. I always think that fertilizer is expensive so I use it carefully." Cadres pointed out to us that the production cost for grain per *mu* was about 80 yuan under the collective, whereas it has dropped to about 50 yuan under the household-responsibility system.

A pervasive criticism of the collective era was the perceived problem of poor management. Cadres said it was impossible for the team leader to keep on top of all of the details concerning soil conditions and production schedules to the same extent that household farms could. Moreover, cadres pointed out that few collectives practiced good financial management. The collective system did have accounting regulations, but either these were not carried out or there were no audits to check on the accuracy of the account books. As a result, it was possible to embezzle collective funds and property.

Cadres focused their talk on the problems of incentives in the collective system. As an example, some recalled how members of the production team typically stood around at the start of the workday waiting for others to assemble and to receive their instructions for the day from the team leader. They noted that there was no penalty for tardiness and that the same people were always late. The time spent waiting to get the day started did not seem too long then, but from today's vantage point, it seems that a great deal of time was wasted in the mornings. Moreover, they noted that people often chatted and joked with one another while they worked. Cadres observed that in the past the busy season (*nongmang*) lasted about a month, whereas under household production the agricultural tasks associated with the busy season were completed in about a week's time. When asked for an explanation, cadres pointed to the low value of workpoints, the narrow range of their distribution to individuals, the lack of sufficient rewards for hard work, and the lack of adequate sanctions for slacking. Cadres said in the collective system it was common for people to rationalize low individual output. A typical attitude was "I can still get about the same income as the dedicated team members, so why should I work harder just to get a few more workpoints?" Cadres emphasized that the crux of the problem was insufficient rewards in

the collective system for hard work and inadequate sanctions for poor quality work. Their comments on the problems of the collective incentive system sounded very much like manifestations of the "free-rider" dilemma. In the collective, high productivity benefited all members of the production team. Knowing this, each team member had an incentive to shirk hard work when working for the collective and to put maximum effort into the household economy centered on the private plot and animal husbandry.

Among the cadres we interviewed there was a strong consensus that market incentives were highly effective in motivating people. In almost every village, cadres mentioned how struck they were by the greater productivity of household production when compared to work in the collective. Some cadres observed that they themselves responded positively to the new market-driven incentive system. As one admitted, "Well, nowadays I am working for myself, too. I know how hard I should work. When you see other people get rich, you ask yourself, 'Why can't I work harder?' You really feel motivated to work hard when you can see the results."

According to Mancur Olson (1971), collective action in any setting is difficult to sustain if its results can be enjoyed by all participants. For collective action to be sustained, effective sanctions are needed to constrain shirking, and "selective" incentives to reward participation. Within relatively small work groups like the Chinese production team, in principle shirking can be curbed through group sanctions (see Homans 1974) and performance rewarded through differential assignment of workpoints. In practice, however, because the free-rider problem was not resolved in the Maoist collective, it exacerbated underperformance due to factors external to cooperative farming. There are a number of probable extrinsic reasons why the free-rider problem could not be resolved, including the influence of egalitarianism on actual workpoint assignment, the reinforcement of peasant reliance on individual household strategies by the failure of the Great Leap Forward, and the effect of state procurement policy on collective income (Nee 1985; Lardy 1985). However, an adequate explanation for why the free-rider problem was not resolved must also take into account the question of ownership. Compared to the factory regime in capitalist economies (Burawoy 1979), cadres in the collective have decidedly weaker incentives to monitor shirking. Even if the team leader receives the highest workpoints in the production team, the difference in rewards for the team leader and members pales by comparison to that for management/owner and workers in the capitalist firm. The rationalizing drive of the capitalist firm is not likely to be evident in the socialist collective precisely because cadres do not have the same interest as capitalists in achieving gains in productivity and efficiency. Instead, the structure of incentives tends to encourage shirking among cadres, as suggested by the admission that cadres tried to get what they could from the collective enterprise by assigning higher workpoints and easier tasks to themselves and family members.

If cadres were less than dedicated in punishing shirking and if problems of poor management were endemic to collective farms and enterprises, then it was even less likely that ordinary team members could be expected to maintain high work norms through group sanctions. In fact, the structure of ownership and incentives tended to encourage shirking by ordinary team members. If peasants were slow in assembling for work in the mornings and the quality of performance was lower than expected, what could be done to remedy the problem? Because the value of workpoints was low, the differential assignment of workpoints could not adequately compensate higher performance, especially when grain was distributed on an egalitarian basis. Nor did efforts to emphasize nonmaterial incentives succeed in overcoming the free-rider problem except during short-lived mass-mobilization campaigns. Nonmaterial incentives required enormous amounts of cadre activism to mobilize peasants through personal example,

exhortations, and ideological sanctions; such incentive systems were more successful in model villages like Dazhai where cadres gained high payoffs from political capital. Finally, the lack of demonstrated economy of scale in rice agriculture (Barker and Herdt 1985) was itself sufficient cause for underperformance, because the transaction costs associated with the free-rider problem could not be compensated for by increased economies of scale.

Overall, cadres neither gave unqualified approval of the household-responsibility system nor rejected the collective system outright. Instead the positions articulated in the debate over the legacy of the collective appear to be based on practical reasoning and an assumption that the institutional framework of household commodity production would continue to be framed by both redistributive and market considerations. Although cadres gave the collective high marks as an institution that promoted more equality in distributive results and more attention to maintaining public works, they seemed convinced that as a production system the collective was deeply flawed.

Commercialization of the Rural Economy

The growth of markets and economic institutions specializing in market transactions in rural Fujian has been dramatic in recent years. Not only has there been a rapid expansion of existing markets, but we also observed new marketplaces everywhere we traveled in the Fujian countryside. Before 1978 it was rare to find markets in the natural village (*cun*). Rural markets were periodic and restricted to approved locations, usually in the standard marketing town. By 1985 most villages in our sample ran their own daily markets, often straddling the main roadway servicing the village. A secondary level of markets, located in the administrative village (*xiang*) or marketing town (*zhen*), has grown rapidly, offering a wider array of commodities and manufactured products. These markets are open every day of the week, and unlike the "morning markets" their shops are open all day long. The shift from periodic to daily markets is an important indication of commercialization. It facilitates the flow of products and the expansion of commodity production. A tertiary level of markets, located in the county towns, features both large comprehensive markets and specialty wholesale markets. As in the standard marketing town, markets in the county town have grown rapidly since 1978 and play an important role in linking rural and urban markets.

Accompanying the growth in rural markets has been an increase in the variety of economic institutions that link villages and peasant households to cities such as Xiamen, Zhangzhou, and Chuanzhou. This can be seen in the rise of subcontracting by factories (*wei gongchang jiagong chanpin*) to peasant households. In subcontracting arrangements, factories negotiate with peasant entrepreneurs to produce parts or assemble finished products for the factory. These arrangements often involve legally binding contracts that stipulate the amount the household earns for processing a product unit, the expected time of delivery, the terms of credit extended by the factory, and the terms of sale of finished products either back to the factory or directly by the peasant entrepreneur to the customer. They allow factories to utilize the cheap and ample surplus labor available in the villages. By subcontracting work to peasant entrepreneurs, factories are able to reduce production costs: not only is the cost of labor lower than for urban workers, but the costs of fringe benefits such as housing, bonuses, vacation leave, health care, and pensions are also eliminated. Moreover, subcontracting arrangements provide a broader marketing outreach for urban factories in cases where peasant entrepreneurs purchase parts from the factory and then assemble and market the finished products. For the peasant entrepreneur, these arrangements provide the opportunity

to get out of agriculture and manufacture products at low levels of risk since credit, material, and technology are provided by the factory. For overtime the subcontractor establishes an informal affiliation with the factory. But because there is a large supply of peasant households eager to establish subcontracting arrangements and because the factory controls the supply of component parts and supplies, it maintains a dominant position in the relationship. Factories have been known to terminate outstanding contracts unilaterally or delay payments to the subcontractor.

Another economic institution that has reemerged in recent years is the private trading company (*maoyi gongsi*) or sales department (*xiaosou jingli bu*) operated by both private merchants and village-level initiatives in rural Fujian. The trading companies are legally registered companies that compete with state-operated trading companies in the movement of goods. They either specialize in one line of commodities or trade in a wide range. Some companies specialize, for example, in selling construction materials on the market, allowing firms to bypass bottlenecks in the availability of construction material from state-allocated sources. Some handle the sale of agricultural products like grains, peanuts, soybeans, and local specialty products to urban markets. Trading companies often enter into long-distance arrangements whereby they buy and sell goods across provinces and even regions. Transactions involving trading companies tend to be somewhat formal because they typically involve legal contracts between buyers and sellers. The spirit of the trading company is conveyed in the remarks of one trader, "We simply focus on market price. The same product sells for different prices from place to place. What we want to do is buy these products in places where the prices are lower and sell them to places with higher prices." In light of their capacity to promote long-distance trade and the flow of commodities, trading companies are a central economic institution of the marketlike rural economy.

Not only are trading companies involved in long-distance trade, but private merchants and peasant entrepreneurs have also sought to sell their products in distant markets to gain higher prices. Although they may also engage in transactions across provincial boundaries, the character of their transactions is more informal and often does not involve legal contracts. Instead, transactions are based on the reputation of the trader and take place within informal networks. Traders in some villages travel frequently to cities like Shanghai to make business deals and transport local products to sell in urban markets. Some travel to remote areas like Musijia in the northern tip of Heilungjiang Province to engage in trade.

Commercialization has stimulated the rapid expansion of commodity production for the market. In sharp contrast to the Maoist emphasis on self-sufficiency in grain production, the rural economy has become increasingly diversified as households and collective enterprises have specialized in producing a wide array of agricultural and nonagricultural commodities. The most common form of private enterprise is the household enterprise or specialized household (*zhuanye hu*). The household enterprise typically is a family business that draws its labor power from the household unit and immediate relatives, but increasingly it has grown in size and scale with some emerging as small privately owned factories employing up to one hundred workers in the informal labor market. Another common organizational form has been the joint-stock company established through efforts to pool capital, labor, and expertise from several or many households. Like the specialized households, the joint-stock companies are private firms that facilitate growth through the pooling of private capital. The proliferation of such economic institutions centering on the marketplace, and the resulting institutional arrangements that specify and define how entrepreneurs, traders, and peasant households cooperate and compete in a marketlike economy, is the essence of the current commercial revolution.

To illustrate the breadth of rural commercialization in Fujian, we focus on a village in which 50 percent of the households are specialized households. Although this village is a statistical outlier, it provides a revealing example of the diversity and scale of newly emergent peasant entrepreneurship. Huanan (fictitious name) is an administrative village of 970 households located within two kilometers of the Longhai county town and has excellent water transportation to both Zhangzhou and Xiamen, located across the bay. In Huanan 10 percent of the households are directly engaged in commerce. About 42 households run small vegetable stands in the county town; 29 households run small shops in the surrounding natural villages, which include grocery stores, tobacco stands, tea shops, and small bars and food stands; and 11 households have established larger shops—department stores, restaurants, and fruit stores. Up to 10 percent of Huanan households specialize in animal husbandry and fishery. Many of these households have raised milk cows to produce fresh milk for the urban market. Another 10 percent of Huanan's households are involved in the highly lucrative transportation business, which requires a high initial investment to purchase trucks, tractors, and boats. The rapid growth of the transportation business was stimulated by a construction boom at all levels of the urban hierarchy. The remaining households specialize in business activity requiring fewer initial capital outlays, such as fishing, vegetable farming, and the crafts (carpenters, stonemasons, plasterers, bamboo craftsmen). In addition to household enterprises, Huanan also has a number of collective enterprises. For example, a village-run construction company bids on construction contracts in the nearby cities. And there are six joint-stock companies that pursue many similar lines of business but on a larger scale involving more substantial initial capital outlays.

Although Huanan village has the highest number of specialized households of any village in our sample, it represents the shift away from a sole reliance on agricultural production to a diversified commercial economy in which economic activity not related to agriculture is the most rapidly expanding sector. Virtually every peasant household now derives a part of its income from nonagricultural activity. The movement out of a sole reliance on agriculture is a direct result of the increased allocative efficiency resulting from commercialization. Because this area contains some of the lowest per capita land ratios in China (.87 *mu* for the sample), surplus labor in agriculture, already a problem before market reform, grew rapidly following decollectivization as agricultural production became more efficient. Moreover, because of the high costs of modern inputs, agriculture proved less profitable than nonagricultural production. Commercialization provides peasant households incentives to pursue income-earning activity where the economic returns are the highest.

Determinants of Economic Growth in a Market Economy

Although cadres no longer direct productive work, in many villages they appear to take an active interest in promoting economic growth. Cadres in these villages advise peasant households about market trends and profitable lines of businesses, and they often seek to develop new collective enterprises to promote growth and employment in their villages. As one cadre told us, "Who said that cadres nowadays have less work to do than under the collective system? The cadres in our village frequently get together to talk about how to develop specialized household production and how to help low-income households get rich. We often talk about our village's situation and in detail about every household to see what kind of rural industry we can establish here, what

kinds of private cooperative (*lianheti*) we can start up, what products and businesses will be appropriate for this and that household.”

Many cadres were eager to tell us which factors they thought promoted economic growth in their villages and which were responsible for individual household affluence. They spoke as seasoned practitioners whose familiarity with the local setting often provided them with surprisingly astute observations and insights. They appeared to have a broad and informed view of their village. Although at the time of the interviews what the cadres told us seemed plausible, we could not assess the extent to which the causes of growth identified by village cadres in fact reflected underlying socioeconomic processes in the rural economy. It was clear that the cadres had only a rudimentary background in the economics of markets, yet they appeared to speak with the confidence born of careful observation of the local scene.

In reviewing our interview notes, we approximated composite models of economic growth at the village and household levels based solely on our interviews with village cadres. It is not that cadres thought in terms of formal models, as though they were amateur social scientists; rather we inferred the models from the observations made by local cadres about the factors that influenced growth in their villages. Thus, in this article we are describing in formal terms the implicit or underlying models that cadres used in understanding what factors were responsible for inhibiting and promoting economic growth.

At the village level the cadre model of economic growth emphasizes the importance of the natural-resource endowment, the quality of the transportation system, and the proximity of market centers. Cadres in Longhai County stressed the importance of local specialty crops and marine products for their village's prosperity. In mountainous villages cadres complained about the poor roadways that linked their villages to the outside world. They said it was not only difficult to bring in essential products but also costly to transport cash crops to outside markets. As a result they complained that their villages benefited little from the economic reforms. In other villages that were far from market centers, cadres underscored the quality of their transportation service as a critical factor in overcoming the physical distance to markets. In villages that straddled major market towns or were within close proximity to the town and city markets, cadres talked at length about the convenience of being so close to the marketplace. Peasants in such villages had access to current market information and were better able to take advantage of opportunities offered by changing conditions. Many households opened up shops and enterprises in the nearby marketplace; some subcontracted for new township enterprises. They said it was cheaper for households in villages like these to bring their products to the marketplace.

At the household level the composite cadre model of income during the collective era emphasized three characteristics: the number of workers in the household, technical knowledge gained from work experience, and household sideline production. According to the cadres, new factors in addition to the above determinants appeared after market reform and produced differences in household income in their villages. These new factors were capital for investment and private entrepreneurship.

In testing the composite-village growth model, we use as the dependent variable the growth of mean per-capita income from 1980 to 1984 in each of the thirty villages reported in the household survey. The independent variables in the model include the following. To examine the effect of natural-resource endowment on village growth, we use a dummy variable of whether the village has a local specialty crop or aquatic product. We measure the quality of transportation by a composite variable made up of measures of road quality, availability of river and sea transport, proximity of bus and railway stations, and whether the village is located in mountainous, hilly, or level

Table 1. Regression Analysis to Test the Composite Cadre Model of Village Economic Growth

Independent Variable	Unstandardized Coefficient	T-Ratio
Specialty product	11.204	.780
Transportation	47.247***	4.193
Distance to marketing town	.742	.663
Distance to county town	.048	.122
Distance to urban center	-.467*	-2.052
Intercept	57.562	
df	23	
Adjusted R ²	.595	

*p < .05

***p < .001

NOTE: The dependent variable is the growth of mean per-capita income from 1980 to 1984 in each of the thirty villages reported in the household survey. R² is the amount of variability in the dependent variable that is accounted for by the combined effects of the independent variables.

land. To test the effect of proximity to markets, we use variables measuring the distances in kilometers to the standard marketing town, the county town, and the nearest urban market (Xiamen or Zhangzhou).

The results of the regression analysis reported in table 1 are striking. Multiple regression is a statistical procedure for assessing the net contribution of each independent variable in predicting a dependent variable. The regression coefficient (unstandardized) is an estimate of the structural parameter of the effect of an independent variable on the dependent variable. The T-ratio is a test statistic; in general for a one-tail test, a T-ratio greater than 2 indicates a statistically significant effect. In sociological analysis it is important to find out whether a given variable makes a statistical difference when other relevant variables are held constant. If so, substantive interpretation can proceed. The composite model inferred from cadres' observations of what factors determine village economic growth explains 60 percent of the variance in the sample. This is to say that only 40 percent of the variation in the rate of economic growth is not directly accounted for by the composite cadre model. Looking more closely at the results of the regression analysis, we note that a very important factor influencing economic growth is the quality of transportation serving the village ($p < .001$).³ Although cadres emphasized the importance of natural endowment, particularly the presence of a specialty crop in the village, the regression analysis shows that this factor is not a statistically significant determinant of village growth. Although cadres

³ A one-tailed test is used to determine whether the null hypothesis can be rejected. Thus, for example, if $p < .001$ (***), this indicates that if the null hypothesis is true, there is only a .1 percent chance that the results of the regression analysis will occur. So we assume the results have a high probability of being real rather than due to chance. Similarly if $p < .05$ (*), this indicates that if the null hypothesis is true, there is only a 5 percent chance that the results reported will occur. In general this is the lowest level at which sociologists believe a null hypothesis can be safely rejected. The null hypothesis is the alternative hypothesis to the hypothesis being tested. For example, the null hypothesis for a hypothesis positing a positive effect of cadre activism on economic growth would be "cadre activism does not have an independent effect on growth."

Table 2. Regression Analysis to Test the Composite Cadre Model of Household Income

Independent Variable	Unstandardized Coefficient	T-Ratio
Adult laborers	120.412***	4.237
Age	43.950	1.507
Age squared	-.483	1.493
Entrepreneur	412.940***	3.524
Sideline income	.798***	21.091
1980 household income	.620***	10.548
Intercept	- 855.560	
df	450	
R ²	.695	

***p < .001

NOTE: The dependent variable is reported household income for 1984. R² is the amount of variability in the dependent variable that is accounted for by the combined effects of the independent variables.

believed that the distance to markets was a critical factor in determining the rate of growth, they were not discriminating enough in their assessments of which level of market made the difference. Access to the local marketing town and the county town markets does not appear to have a significant effect on economic growth. Instead it is the urban market that appears to have the most important effect on stimulating economic growth in the villages. The effect of access to this market is significant ($p < .05$), suggesting that the further away a village is from an urban market, the slower its rate of growth. The utility of transportation for villages not located in close proximity to the urban centers is more clearly understood in light of the effect of cities on stimulating rural growth. Distant villages can compensate for distance by having access to better transportation. Overall the findings reported in table 1 suggest that access to or the proximity to urban markets are the decisive determinants of economic growth in the Fujian sample.

Of particular interest is the strong resemblance between the composite cadre model and the model of agricultural growth developed by Theodore Schultz (1953). Schultz maintains that economic development occurs within locational matrices in a particular economy. These locational matrices, he argues, are primarily industrial-urban in composition and are not situated in rural or agricultural centers. For this reason, the parts of agriculture situated more favorably in relation to industrial-urban centers experience more rapid growth, whereas areas in the periphery grow more slowly, because of the greater efficiency of product and factor markets in and near industrial cities. We note that Schultz's urban growth hypothesis provides an explanation for the findings reported in table 1. It was not so much the presence of local specialty products or the proximity of rural marketing centers such as the standard marketing town and the county town but the proximity and ease of access to industrial-urban centers that determined the differential growth rates experienced by villages after market reform.

In order to assess whether village cadres have a comparable understanding of the determinants of household income growth, we now turn to the household-survey data. We operationalize the composite cadre model of growth in household income by using the following independent variables: the number of adult laborers in the household,

the age of the household head, whether the household has started a private business, the amount of income derived from sideline production, and the household income reported for 1980 as a measure of the household's economic well-being before market reform. Our dependent variable is the reported household income for 1984. The results of our regression analysis reported in table 2 parallel those in table 1. Although the amount of variance explained by the composite cadre model is close to the model of village growth, we do not put too much stock in the high R-square or explained variance, since much of this stems from the effect of sideline income, which is highly correlated with total household income. Yet the finding on the effect of sideline income tells us that the most important determinant of income change since market reform has been the rapid expansion of household commodity production or sideline income (standardized coefficients: sideline = .601; labor = .128; 1980 income = .301; entrepreneur = .094).

We focus our interpretation instead on the effects of the other exogenous variables. As expected, the number of laborers in a household has a highly significant effect on the household income. Likewise, households that were financially better off before market reform have benefited more from the shift to a greater reliance on markets, as is evident in the effect of 1980 household income on subsequent earnings. These families were more likely to have savings to invest in private enterprises. We see the importance of this factor in the very significant effect of the dummy variable for peasant entrepreneurship on growth in household income ($p < .001$). Households that were prosperous before market reform have been more successful at diversifying their household economy away from a sole reliance on grain production to establish new income streams based on cash crops and a diverse array of nonagricultural commodities and services. Moreover, many of these households have become specialized households, whether as entrepreneurs or traders, in the rapidly growing rural markets. These findings suggest that village cadres have a good grasp of the impact of marketlike forces on economic development in their villages.

Many cadres told us that they still have a meaningful role to play in promoting economic growth and prosperity in their villages. The roles that they described, however, were closer to those of agricultural extension workers in the United States than to their former roles under the collective system. Many cadres said that if they could provide good advice and guidance, households would be in a better position to take advantage of new opportunities opening up in the marketplace. Cadres said they advised households on what lines of businesses were likely to prove profitable and what commodities were likely to be in demand. For households that lacked savings and resources to start up household enterprises but had surplus labor power, cadres said they tried to provide information on employment opportunities outside of the village. However, in some villages cadres sought to develop village-run enterprises to provide employment for villagers and adapt collective institutions to the new market conditions. In some villages cadres organized construction teams and contracted work outside of the village. In some villages cadre passivity after decollectivization was also evident. As one cadre remarked to us, "Now that production is done on a household basis, I have a lot of work to do of my own. How can I spare time to think about other households? Each household should take care of its own business. It is none of the other households' concern."

Although we do not have a direct measure of cadre activism in promoting economic growth, we do have a number of indicators from the village survey. Village cadres reported on how many township and county meetings they attended in a year. If past patterns of mass campaigns are still applicable, one can argue that village cadres are more likely to have higher levels of activism the more frequently they are called up

Table 3. Regression Analysis to Test the Effect of Cadre Activism on Economic Growth

Independent Variable	Unstandardized Coefficient	T-Ratio
Transportation	43.221***	3.983
Distance to urban center	– .404*	– 2.017
Cadre activism	.120	.608
Economic growth as top priority	3.439	.206
Intercept	67.768	
df	24	
Adjusted R ²	.597	

*p < .05

***p < .001

NOTE: R² is the amount of variability in the dependent variable that is accounted for by the combined effects of the independent variables.

to attend meetings in the township and county governments. Our bureaucratic-mobilization variable attempts to measure cadre activism in implementing state goals according to the mass-line approach. Based on confirmatory factor analysis, this variable is a factor score composed of the number of meetings held per year in the township and county government involving village-level cadres and the density of cadres in a village. In the village questionnaire we asked cadres to list their most important responsibility. We created a dummy variable of all villages where cadres listed economic growth as their top priority. Thus it is possible to test the effect of cadre activism, at least tentatively, by asking whether our best indicators of cadre activism have an independent effect on promoting economic growth.

Table 3 shows that the quality of the transportation system and locational variables indicating the distance from urban markets have their expected effects. However, none of the measures of cadre activism reveal statistically significant effects. On the basis of these findings we can say tentatively, at least, that despite cadres' belief that they play an important role in their village's economic growth, their actual impact on growth may be illusory or marginal. What seem to matter more in determining the rate of growth in the Fujian sample are structural constraints that shape the flow of opportunities in the rural economy, where market institutions have a more decisive influence on economic growth. Moreover, the structural constraints that determine the rate of economic growth are similar to factors that shape the differential rate of growth throughout the world. In this sense the processes that gave rise to rural development in China following market reform are not unique but conform to the predicted pattern of agricultural growth modeled in Schultz's locational hypothesis.

If our model of village economic growth emphasizes proximity and ease of access to the urban market, a skeptic might ask why we make so much of the institutional arrangements in which the marketplace is embedded. If economic growth is mainly a function of location, what do the other economic institutions described earlier have to do with Schultz's urban growth model? The clue lies in the importance of the quality of transportation servicing a village. In part transportation is also a local variable. But insofar as the quality of roadways, bus lines, and railways results from human effort, the transportation variable points to the importance of nonmarket factors that determine rates of economic growth.

Table 4. Effect of Urban Proximity on Household Income, 1980 and 1984

	Before Market Reform		After Market Reform	
	Unstandardized Coefficient	T-Ratio	Unstandardized Coefficient	T-Ratio
Distance to urban center	-.731	- 1.046	- 11.036***	- 6.440
Income, 1975	1.012***	24.659	—	—
Income, 1980	—	—	1.202***	15.819
Intercept	393.288		1759.854	
df	489		501	
R ²	.577		.379	

***p < .001

NOTE: Regression of household income on distance to city. A lagged income variable is used in this analysis. When lagged income variables are utilized, the regression analysis points to net returns of the exogenous variables on change in the dependent variable between Y_1 and Y_2 . The structural equation model is: $Y_{i2} = {}_b Y_{i1} + {}_{b1} X_1 + {}_{b2} X_2 + U$, where Y_{i2} is 1980 household income before market reform and 1984 household income after market reform, while ${}_b Y_{i1}$ is the lagged income variable (1975 and 1980 household incomes respectively).

In making our case for the importance of institutional arrangements within which market transactions are embedded, we first point to the limitation of neoclassical theory, which leaves social structure out of its models. As Douglass North puts it, "From the viewpoint of the economic historian this neoclassical formulation appears to beg all of the interesting questions. The world with which it is concerned is a frictionless one in which institutions do not exist and all change occurs through perfectly operating markets. In short, the costs of acquiring information, uncertainty, and transaction costs do not exist" (1981:5). Following this line of reasoning, we note that economic institutions such as subcontracting between factory and peasant household, trading companies, informal traders and brokers, labor-contracting companies, and a variety of peasant enterprises including specialized households and joint-stock companies constitute the institutional framework within which rural and urban trade is embedded. Without trading companies, peasant-household enterprises would experience higher transaction costs in moving their products to the larger and more diverse urban markets, whether nearby or in distant regions. Trading companies promote the flow of commodities across space, stimulating the production of commodities. Similarly, subcontracting arrangements reduce peasant entrepreneurs' transaction costs in gaining access to credit, technology, and supplies, and they lower transaction costs for urban factories that seek access to surplus labor in the villages. The rise of village-based construction companies reduces the transaction costs involved in labor migration to urban informal-sector labor markets, allowing peasants to bid on lucrative construction projects in the cities. Competitive bidding by specialized households that invest in transport vehicles helps to lower the transportation costs involved in rural-urban trade. And finally, the rapid growth of markets at all levels must be seen as the central institutional change in market reform. In these ways the newly emergent economic institutions centered on transactive exchanges constitute elements of the institutional framework that lower the transaction costs involved in trade between the village economy and industrial-urban markets. These institutions promote growth by providing

a more efficient economic organization for the conduct of rural-urban trade, which our analysis has shown is the primary cause of economic growth in the agricultural sector.

Other important evidence around which we build our case for an institutional focus in any analysis of conditions giving rise to economic growth in China is reported in table 4. If a village's locational position in relation to industrial-urban centers is all that matters in determining rates of growth, then we would expect that distance from an urban center would be a significant determinant of growth before economic reform as well as after. Yet in table 4 we see that before the institutional transformation of agriculture, a village's distance from the city had no significant effect on changes in household income; only after the implementation of market reforms in agriculture did distance from an industrial-urban center have its expected effect on the rate of growth. This is not to say that suburban communes (see Skinner 1978:791–92) were not more prosperous than outlying ones, but only that their rate of income growth was not any faster. Overall this finding underlines the importance of an institutional approach to a theory of economic performance.

The Changing Role of the Collective

Thus far our discussion has focused on the role of economic institutions in the determination of growth. If we stop here, we would convey the impression that economic growth only requires institutions oriented to lowering transaction costs in the marketplace. Yet such a view would be myopic, especially in a state-socialist society, where the state plays a dominant role in shaping the constraints on development in both society and economy. Elsewhere Victor Nee (1989b) has analyzed changing state boundaries and dynamics of intervention in economic reform from the perspective of an institutional theory. In this section we focus on the transformation of the agricultural collective to an organization that resembles the village government before collectivization. We describe how the village as a corporate entity has persisted despite the weakening of the collective. This, we suggest, is reflected in peasants' preference for a village redistributive economy that provides for the welfare and governance needs of the village.

Two contrasting images of the corporate village reflect the continuum in the fate of collectives in Fujian. In one village a newly constructed three-story building, well maintained and regularly used as a center of administration and social activity, was the pride of village cadres. In this village cadres continued to organize a range of activities, including collective enterprises and social programs, and actively advised villagers on how to develop their household economy. In another village the dilapidated brigade headquarters, surrounded by overgrown weeds, with cobweb and dirt-strewn rooms, projected an image of the collective as an institution of a bygone era. The slogans of the past, now fading and crumbling with the building, served as reminders that this building was once a center of village activity. In this village collective activity essentially collapsed after the introduction of the household-responsibility system, and there was no subsequent effort to revive the collective. A village cadre told us as he waved his hand in the direction of the brigade headquarters, "It used to be a place where people came every day. At night they would gather here, drinking tea and chatting. Peasants came here to discuss workpoints and to check about the points they earned that day. It was a place where quarrels took place. They often squabbled over workpoints, especially when someone else got one point higher than everybody else. It has been a long time since anyone has used this building. No wonder the gateway is covered by overgrown weeds. This place was quickly forgotten."

Our overall impression in visiting the villages in our sample was that the collective had weakened considerably. In a few villages the collective persisted as a viable redistributive economy, but in more than 50 percent of the villages there was no evidence of any collective activity, whereas 35 percent reported some collective activity, although of a limited nature and at levels far lower than before decollectivization. In the villages where the collective had collapsed, public and welfare services, such as aid to the impoverished and health insurance, were no longer provided by the village, and public works—irrigation and roadways—were not being kept up.

Yet it would be a mistake to interpret the decline of the collective as evidence that peasants and cadres no longer believe in cooperation to accomplish social and economic goals. Seventy-six percent of the household heads in the survey agreed that each household should contribute to the village welfare funds to guarantee subsistence to poor households, although only 13 percent said that they preferred collective farming over household production. Similarly, in about 70 percent of the villages, cadres affirmed the importance of maintaining the collective. Cadres thought that the collective could still play an important function in the village, especially if they could lead the collective in being more effective in promoting economic growth. As one cadre said, “If you handle it wisely, the collective can help to make the economy thrive. It was a mistake in the past to depend only on collectivism and totally neglect the role of individual households. Now it would also be unwise to discard the collective and overemphasize the household. Agriculture covers a wide variety of activities. From a village’s standpoint, villagers still need the collective for public works like irrigation, infrastructure construction, rural industry, and even medical care.”

The level of activity and services provided by the collective appears to be correlated with the village’s level of economic development. In richer villages the range of activities supported by the collective includes not only welfare support and maintaining village roadways and schools but also installing tap water, increasing the supply of electrical power, providing day-care service, contributing to the local middle school, building a village movie theater, and providing village scholarships for local students to enter middle school, technical colleges, and universities. The sources of funds to support village projects come from three categories: the public welfare fund, the public accumulation fund, and revenues from collective enterprises and assets. As one cadre said, “If household income increases and the village-run enterprises are well managed, we certainly will be able to and will want to improve public works and the welfare system.” Or as a cadre said in a poorer village, “Who wants to attend to public works when there isn’t money in the village to do the job?”

To illustrate the correlation between the strength of the collective and the level of economic development, we refer to one village where per-capita income increased from 130 yuan before the responsibility system to 600 yuan in 1985 and the total income from collective enterprises was 40,000 yuan in 1984. In this village the collective established a mutual-aid association in recent years to assist impoverished households and the families of PLA dependents and martyrs. Direct financial assistance was provided to forty-five households (about 10 percent of the village). The collective also organized villagers to contribute labor to help households short on labor power during the harvest and planting season. It provides tuition for all school-age children, including boarding expenses for students attending middle school in the nearby town. As a cadre in another village explained to us, “When the economy has grown to a certain level, people want to see more recreational facilities and welfare services provided by the collective.”

Early scholarly accounts of the household-responsibility system projected an image of the village reverting to a Hobbesian community of individualistic households. Cer-

tainly this image is in accord with social conditions in villages where collective institutions collapsed after decollectivization, as was evident in at least 50 percent of the villages in this sample. Yet villagers came to realize that village institutions were needed to sustain a moral economy that could provide subsistence guarantees for the most needy families and maintain essential public goods. Perhaps for these reasons, villages that could afford it continued to support the collective as a central village institution.

Institutional reform of the rural economy has brought about important changes in the cadre's role. After the implementation of the household-responsibility system, control over production, labor allocation, and investment decisions shifted from the collective to the household. Although cadres still play a role in the negotiation of household contracts and in the contracting of collective enterprises, the scope and centrality of their role within the village have been sharply diminished. No longer are cadres in charge of managing the entire range of economic activity, as was the case in the prereform collective; instead their functions in the village today involve responsibilities more traditionally associated with village government. They are supposed to take care of some of the welfare needs of villagers; they are expected to assist the township government in dealing with practical problems of governance; they are in charge of solving problems related to the use and maintenance of public facilities (the irrigation system, roads, and the village school); they are frequently asked to mediate in civil disputes and problems arising from family planning; and they serve to transmit information between local government and peasant households.

In some villages, however, when cadres were asked to give an account of what they actually did in the village, their responses indicated that they were cadres more in name than in substance. In these villages in particular, cadres complained that they benefited little from the household-responsibility system, that nobody wanted to listen to them anymore, and to add insult to injury, that people criticized them for not doing their jobs well. During the collective era cadres benefited from their control over the collective economy. Not only could they assign higher workpoints and preferred jobs to their immediate family members, but they also profited from small privileges such as banquets and preferential access to collective resources. Having lost power and privilege, cadres frequently complained to us about their double bind. As we interpret it, today cadres must work on their own assigned fields just like everybody else, but in addition they are expected to serve the public interest without many of the benefits that formerly came with cadre status. For some cadres, serving as village cadres was perceived as a burden that detracted from their pursuit of their own household's economic interests. As one cadre, in a village where cadre morale was noticeably at a low ebb, told us, "Nowadays, if you don't work, you have nothing to eat. I have tons of work to do for my family. How can I have energy to take care of the village's affairs? Besides, if I do a good job for my family I'll earn more, but a good job for the village earns me nothing. Why bother?"

Accompanying the weakening role of village cadres has been the relative strengthening of the power of the township (*xiang*) government. In effect, some of the authority formerly assumed by the brigade has been transferred to the township government. This was most evident in the enforcement of the state's family planning program. In many villages the family planning effort appeared to be nonoperative. Cadres said that they were reluctant to assume an active role in enforcing the then-stringent family planning policy. Instead family planning was usually imposed through the direct actions of the township government. Whereas in the past the village cadres treated the commune cadres with great deference, today the township cadres have a harder time gaining compliance from the village cadres. This change largely stems from the decline

in the perceived benefits that village cadres derive from the subcounty government. Because the value of their status has declined in the village, cadres are less concerned about losing that status if they offend the township government. Moreover, in a number of villages cadres were elected to their position by fellow villagers rather than appointed by the township government, and therefore they were more responsive to village sentiment.

Although the relationship between village cadres and the township government has weakened somewhat since decollectivization, the relationship between the township and the village has been established on a more direct and formal basis through the household contract system. The responsibility system established a contractual relationship between state and village that stipulates obligations and rights within the terms of the contract, limiting the power of the township government to intervene directly in the economic activity of peasants. With greater autonomy in economic action has come more autonomy in other realms of village life. This is evident in the more diverse mix of social and economic institutions that now constitutes the social order of the villages. Increasingly the township has assumed the task of governance while the collective has acquired roles traditionally associated with Chinese corporate village institutions.

What is the future of the village collective? Inasmuch as there is a correlation between the strength of village institutions and economic development, we speculate that the transition from a redistributive to a market economy stimulates a demand for village institutions that focus on providing subsistence guarantees and maintaining public works essential for continued economic growth. It is in this capacity that the corporate village is likely to persist, not as an entity in charge of agricultural production and economic allocation. In Fujian, where significant assets and properties are still held by the collective, a redistributive economy continues to provide the mechanism for ensuring subsistence guarantees to the poorest households. In affluent villages, households contribute enough resources to the village funds to support social services, education, and other public needs. We predict that the collective will be rebuilt as a central village institution when villagers come to realize the continuing need for a village organization in charge of dispensing welfare and services to the village and maintaining public works to sustain economic growth.

Conclusion

Economic growth, defined here as increases in per capita income, largely stagnated in rural China from 1956 to 1978, during the era of Maoist egalitarian collectivism (Travers 1984). In this period per capita income for peasants remained essentially flat, while returns on agricultural investments declined steadily through the 1960s and 1970s (Lardy 1983). To be sure there was growth in the factors of production—land reclamation, infrastructure construction, and population growth—resulting in overall (extensive) growth (Perkins and Yusuf 1984). But economic growth—the sustained increases in per capita income—remained an elusive goal for Chinese peasants. It was not until the institutional reform of agriculture resulted in more efficient economic organization that economic growth ensued. This involved the restructuring of property rights through decollectivization and the rise of economic institutions based on transactive exchanges. These institutional changes created an incentive to channel peasant-household economic efforts into activities where the private gains to the household were more in line with the social benefits of its productive work.

We have argued that the causes of economic stagnation from 1956 to 1978 were inextricably linked to the issue of incentives. Although factors external to the agricultural collective also inhibited growth, North and Thomas rightly insist that "if a society does not grow it is because no incentives are provided for economic initiative" (1973:2). In this view even if state procurement prices for agriculture were set higher and the state somehow invested more in agriculture, the structure of property rights and incentives in the collective would still mitigate against entrepreneurship and therefore economic growth. In the institutional framework of the agricultural collective, the private returns for entrepreneurship were diluted by the free-rider problem. Because economic growth would benefit all members of the collective there was little incentive for peasant households to be enterprising; instead, there was an incentive to shirk hard work.

The transition to a marketlike economy stimulated the rapid growth of economic institutions centered on transactive exchanges. They constitute core elements in the institutional framework that help to specify and define the way in which peasant households and firms compete and cooperate in the rural mixed economy. Fundamentally they have resulted in the lowering of transaction costs in rural-urban trade. The growth of this trade since 1978 in turn has restored the expected relationship between urban markets and rural economic growth. Villages serviced by good transportation systems and located near urban markets have experienced more rapid economic growth than villages located in the periphery, as predicted by Schultz's locational hypothesis. Similarly, market reform has resulted in changes in income determination for peasant households. Peasant households with financial resources to invest that have established household firms or expanded sideline production have experienced more rapid growth in household income.

The role of the state in setting up the household-responsibility system has changed property rights from the collectivism of the past. By establishing a contractual relationship between state and village, thereby limiting the arbitrary power of the state in directly intervening in economic activity, the state has sought to specify and define a new set of norms, or operating procedures, that have redrawn the boundaries among state, society, and economy. Taking the state out of direct control over agricultural production and economic transactions has lowered transaction costs and paved the way for consolidating property rights that are more favorable to economic growth.

As a redistributive institution the collective has both economic and moral bases in the village. Villagers continue to believe that the village should provide for the needs of the weak and poor and that every household in the village should continue to contribute to a safety net that provides for subsistence guarantees. In spite of such broad-based sentiments in support of a village welfare system, in most villages social services have deteriorated since decollectivization. Yet villages that have adequate accumulations from contributions and revenues have continued to offer social and welfare services. Although household contributions are important for a minimal level of welfare services and public works, the ability of villages to support a higher level of public service is largely contingent on revenues derived from collective properties. In 1985 only farm implements were sold to individual peasant households, whereas collective enterprises, buildings, orchards, and tea gardens were retained as communal property. Rather than sell off major assets, the collective leased them to private bidders on a contractual basis. Since 1985, however, increasing numbers of collective enterprises and assets are being auctioned off to peasant entrepreneurs. The more communally owned property that is sold, the less likely the collective will persist as a redistributive institution. Based on trends we observed in the Fujian sample, poorer villages are more likely to sell off collective properties, whereas richer villages are more likely to

continue to develop collective assets. Without a village-wide institution capable of enforcing continued household contributions to welfare funds and organizing collective action for the public good, the conditions for sustained economic growth may in the future be undermined by a deteriorating rural infrastructure.

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