From 1980 to 2010, China reduced the number of people in poverty by 90 percent. Although there are many debates about how to estimate the World Bank’s poverty line in a non-market economy like China’s, alternative indicators of poverty, such as childhood stunting due to malnutrition, also show that China’s progress since 1980 in this regard has been dramatic. China alone accounted for more than half of the global decrease in extreme poverty from 1990 to 2015, an essential contribution to the success of the United Nations Millennium Development Goal of cutting extreme poverty globally by half during this period.

How did China achieve this? Can other developing countries replicate China’s success? Nara Dillon, senior lecturer in the Government Department at Harvard University, explained how China’s food subsidy programs in the Maoist era paradoxically created radical inequalities in a communist country, and how the reforms from the early 1980s rectified policy failures and generated widely shared economic gains through the most progressive policies in the history of the PRC. She ended her talk with some general, but qualified, lessons for other developing countries to learn from China.

Dillon first emphasized the regressive nature of China’s consumer food subsidies during the 1950s and 60s. An important policy mechanism that the state used to generate a Stalinist industrialization from a primarily agricultural economy was the “price scissors,” by which the central economic planners used its price setting authority to set prices of agricultural products artificially low, subsidizing urban consumers at the cost of keeping farmers’ living standards at mere subsistence levels. Then the state used the government budget to further reduce food prices, thereby further transferring economic gains from rural areas into investment in urban industries. These measures diminished farmers’ production incentives and created a heavy fiscal burden for the central government, which peaked in 1981. As a result, rationing of essential food stocks became a durable feature in China.

Prioritizing industrial production over agriculture development was a common strategy in all former communist countries. But Dillon pointed out that China was unique in two respects. Since the Sino-Soviet split in the early 1960s, China was cut off from trade not only with the West but also with the Soviet Union, while several Eastern European communist countries
benefited greatly from the Soviet foreign aid and subsidies. Moreover, compared with these Eastern European countries, China was much more agricultural-based in the 1950s and much less industrialized. Consequently, the price scissors had a disproportionate impact in China; the scale of extreme poverty and hunger in China became calamitous by the late 1970s.

To revitalize farm production, China began to decollectivize rural land in 1980. This led to an equitable distribution of land, ensuring that the gains from the subsequent agricultural production boom were widely shared. China also expanded agricultural markets in the early 1980s. Farmers were allowed to sell their surplus products in private markets and make additional income. At the same time, the government also raised agricultural procurement prices significantly. As a result of eliminating the distorting “price scissors,” agricultural production and farmers’ incomes surged throughout the 1980s.

As food prices rose, China experienced an overall rapid inflation, which motivated, in part, the massive protests of the June 4th movement in 1989. Beginning in 1990, the Chinese government revived grain reserves to moderate annual grain supplies and provide a cushion to reduce price fluctuations. These reserves later expanded to include other basic necessities in the Chinese diet, such as vegetable oil and frozen pork.

In 1992, China followed a suggestion by the World Bank and began to provide income subsidies to needy groups. These cash subsidies ameliorated the negative impact of food price rises on the poor. From 1993 to the late 1990s, China gradually liberalized all food prices. In 1997, China introduced producer subsidies to farmers in order to motivate them to provide stable supplies.

After Hu Jintao came to power in 2002, he placed poverty alleviation as one of his top priorities and expanded pro-rural progressive welfare programs, including the implementation of the national rural health-insurance program. Over the past two decades, China has had not only numerous anti-poverty campaigns, but also introduced new urban welfare programs, such as the universal social safety net coverage to include laid-off workers from state-owned enterprises as well. These new welfare programs not only help further reduce poverty but also boosted China’s overall human capital, essential for long-term economic growth.

As a consequence of all these concerted efforts, China weathered well the global food crisis of 2007-2008, when grain prices on the world market rose 50 percent. In addition, protests in China over price increases were localized, unlike those in the Arab Spring of 2011, where the rising price of bread resonated with all ordinary people and sparked uncontrollable protests, threatening the stability of a number of regimes. Thus, Dillon concluded that China’s food subsidy reforms during 1990-2010 were very successful in achieving the Chinese regime’s economic and political goals.
Dillon attributed China’s success in combating poverty to having followed a middle road between complete market liberalization and a complete rejection of the economic efficiency argument which the World Bank promoted, and which underlined the Washington Consensus. Dillon cautioned that some features in China’s reforms may be unique to China, such as its long history and strong governing capacity for managing food reserves as a cushion to weather fluctuations of harvests. In addition, China’s equitable land distribution was unusual and enabled widely shared improvement in the standard of living of all rural people as agricultural production expanded. These preconditions may not exist in other developing countries, but Dillon believed that the principle of limiting the degree of pro-urban bias in economic development would help reduce extreme poverty in other capitalist developing countries.

To Dillon, China’s success in poverty reduction illustrates that promoting agricultural development and improving social welfare are complementary, rather than inhibiting, to overall economic development, since such policies can contribute to the goal of increasing the prosperity of the society as a whole. Even if the exact combination of China’s policy mix is not applicable to other countries, Dillon believed that China’s approach of gradual liberalization of agricultural markets while paying particular attention, through progressive policies, to the needs of those who are most vulnerable to economic shocks and most likely to experience extreme poverty, is worthwhile for other countries to learn.