

Critical Issues Confronting China Lecture Series featuring Bill Bikales – From Poverty Eradication to Common Prosperity: Reflections on Recent Poverty Achievements and Implications for the Next Phase of Development. October 27, 2021

– All right. Good afternoon. Good evening, to those of us joining from other parts of the world. Welcome to the this week's session in the series, Critical Issues Confronting China. I'm Michael Szonyi, the Director of the Fairbank Center for Chinese Studies. I'm joined by Bill Overholt, one of the members of the committee that has been overseeing the Critical Issues Confronting China series over the last year. The series, as returning audience members will know, is intended to bring studies of academic rigor to the political, economic security, social, and other challenges facing China at this current moment. These issues are, of course, of great significance to China. At this moment, they're also great significance to an audience in the United States, and to the world as a whole. We are very lucky today to have as our speaker, Bill Bikales, who I will introduce in a moment, someone who has been studying deeply for many years one of these critical issues. A few words on format. We'll follow our usual format. Bill will speak for perhaps 45 minutes or so, although he's warned me that his material is rich. But we'll try to leave plenty of time for questions. This is a webinar format. So we'll ask you to submit your questions in the Q and A section rather than in the chat, or by raising your hands. I will then make a selection of those questions and pose them to Bill. We apologize in advance if we are unable to get to all of your questions, we've had, as some of you will know, very lively discussion. But we'll do our best to get to as many questions as possible. Bill Bikales is a Harvard-trained economist and Asia specialist. He currently heads Bikales Advisors in Washington, DC, an economic and political advisory service. He served for a number of years as principal economist for Southeast Asia at the Asia Development Bank. And he's also led a number of highly successful policy programs in China, in Mongolia, and also in the Ukraine. His particular focus is economic and political development trends in China and Mongolia. He is the recent author of a report, Reflections on Poverty Reduction in China, which I learned a great deal about. I think you will, too. If you read the report, it is generating considerable interest and indeed, some controversy. His talk today will draw from that report, but extend it as well. As many of you will know, the elimination of extreme poverty, the eradication, I guess, of extreme poverty in China was announced earlier this year to great fanfare. Bill will have some comments on that. But as talked today, we'll also reflect on poverty reduction in light of the newest grand policy initiative of Common Prosperity. So his talk today is entitled, From poverty eradication to Common Prosperity; Reflections on recent poverty achievements and implications for the next phase of development. Bill, thank you so much for joining us here at the Fairbank Center. We look forward to learning from you over the next hour and a half.

- Thank you so much, Michael, and greetings to everyone. It's a great pleasure and a great honor to be here today, especially given that this series is done in honor of Ezra Vogel. I never actually studied with Ezra, but I interacted with him frequently. And both he as a person and his work have inspired me throughout my career. As Michael mentioned, this presentation is largely based on a paper that I recently authored that was financed by Swiss Development Cooperation. And it's readily available on the Internet. Now, I will move to my PowerPoint presentation. Which, here we go. So I changed the title slightly, but it's basically as Michael said. As attention to poverty reduction in China intensified over the last few years, the need for objective, balanced analysis, evidence-based analysis has also grown. I'm a great believer in Goodhart's Law, that when an indicator becomes a target, it loses its value as an indicator. That's a slight paraphrase. And this is quite applicable now to discussions of poverty in China, because the campaign to eradicate poverty has been such a high-profile one, has received so much attention, which raises risks of distortion, both on positive and negative sides. So my goal is simply to give praise where praise is due, criticism where criticism is due, acknowledge where we're not certain about some questions. And then, based on the analysis of what has been taking place, identify some key new or current or post-Xiaokang poverty challenges, and discuss their implications for the new Common Prosperity Agenda which is being formulated and revealed as we speak. Here is an outline of my presentation. I cover a lot of ground here. So inevitably, I'll have to be brief on some of the topics and focus a bit more on some of the others. Look forward to discussion at the end if people have questions or want more details about some areas where I move too quickly as I present. I should warn all participants. My practice, generally, is not to read my slides out loud. So I will assume that when I put a slide up, that you will start reading it and I'll generally read some key points from it, highlight some others, and hope that you will be able to follow along when I do this. So first topic that I'd like to look at is, issues with counting poverty reduction starting from a base year of 1978, which is, as we know, the most common narrative. There's common frequent discussion of poverty reduction, sometimes called the poverty reduction miracle in China since 1978, how many hundreds of millions of people have been lifted out of poverty. I find that narrative problematic in a number of ways. And I'd like to discuss that. In order to understand why poverty reduction has been so successful since 1978, it's important to have an accurate picture of poverty at that time. I emphasize this because, one reason, the reason why 1978 is often used as a base year is in order to imply that all the achievements in poverty reduction have been a result of the reform and opening-up policies that were launched in that year. But I don't think that's correct. I think we do need to look first at the legacy of the Mao years that preceded reform and opening-up. So I have two slides on Mao's legacy. One focusing on more negative aspects of the legacy, as you can see here. There are several that are presented, all

important ones, but I'd like to highlight two key legacies that had a negative impact on poverty. One is this dualistic urban-rural structure, which is highlighted here, the second to last bullet point. When the hukou ecosystem was set up and cemented very firmly in place under Mao, and along with it, a strong urban bias in investment and price policy. And secondly, Mao's belief that ideology rather than material incentives were the right way to motivate farmers, in particular, workers, more generally. Both of these had very negative impacts on income, and therefore led to higher rates of poverty most certainly. But it's also important to note some positive aspects of Mao's legacy, as I highlight here. People's communes that were not very successful in terms of economic results, but they did provide low quality but basic rural education and health services to poor peasants who historically had been denied them. This was historic, providing education, raising literacy rates, providing health services, public health services to eliminate diseases that had been endemic for millennia. This was a major achievement. You see how rapidly rural education expanded, even during the Cultural Revolution. Mao also, during the Mao years, effective governance institutions were established. There was a strong state. That might seem a bit ironic when we think of the turbulence of the Cultural Revolution period, but even the Cultural Revolution was a sign of how much Mao could influence events from Beijing. There was a strong Party-led governance framework in place. And very importantly, there was a major redistribution of land ownership under Mao. It was a violent one, many people were killed. But the outcome, nevertheless, in terms of impact on rural poverty, was quite positive. This is a table that shows, in some detail, the results of the land reform in the early Mao years. Most critically, we see that the poor farmers, who made up over 50% of the total farming population in rural areas, had their share of total land rise from only 14.3% to 47.1, nearly commensurate with their share of the population. Their per capita cultivated land rose from under one mu per head, to 12.5. This was a major, major achievement. And when we look at China in 1978, we see some of the results of this mixed record of positive and negative legacies inherited from the Mao years. If we focus only on GDP per capita, which is what drives income-based poverty measures, we see that in 1978, China was incredibly poor, was poorer than some of the other poorest, low-income countries in the world. Even slightly poorer than Malawi, Bangladesh. You see the numbers here. However, as a result of those improvements in public services in poor rural areas, there's a totally different picture when we look at life expectancy, when we look at secondary school enrollment, we could look as well at some other key social indicators. China's life expectancy at birth in 1978 was incomparably better than that of the other low-income countries that are listed here. China's secondary school enrollment, similarly, incomparably better. Just compare China with Chad. Income basis, Chad seems to be better off. But look at life expectancy, nearly 66 versus 44. Look at secondary school enrollment, which in Chad was negligible. In fact, we see that China's social indicators were actually better than even

Thailand's, although Thailand's economic growth had been far better, stronger and sustained in the previous years than China's had. So, the frequent use of 1978 as a base year, this implication that all the poverty reduction that took place in the ensuing years was due solely to reform and opening-up is very misleading. And we can see two reasons. Number one, as we've just seen, by 1978, several key preconditions for poverty reduction were there. Equitable land distribution has been identified over and over as one of the keys to the East Asian economic growth model. Other countries that achieved that sort of equitable distribution were much more likely to grow well than countries that did not. Education levels were higher. Health levels were better. These were essential conditions for poverty reduction and they were already in place, although income was low. Using 1978 overstates the impact of reform and opening-up in another way. And that is, we have to keep in mind that in 1978, income poverty levels were artificially high because Maoist ideology rejected material incentives for production and suppressed income. Martin Ravallion, in a very recent paper, estimated that roughly two thirds of poverty reduction after 1978 was simply due to reversing those bad Maoist policies, simply due to allowing peasants to do what they know how to do, but hadn't been allowed to, i.e., grow more, use their land better, be more productive, by allowing them to keep more of what they grew. So simply getting out of the way in those first few years made a major contribution to poverty reduction. Another fundamental issue about using 1978 as a base year is the one I touch on last here. And the next slide goes into it more. And that is, this strange idea of taking one line and applying it over a 42-year period to measure poverty trends over that time. In this, I'm relying primarily on a paper by Chen Shaohua and Martin Ravallion, which I cite below here. If we apply the current line, which is what China's official data do to assess how much poverty has changed, or if we apply the World Bank's \$1.90/day purchasing power parity-based poverty line, essentially, the entire countryside was poor in 1978. Now that's true in a sense, but at the same time, we have to keep it in perspective. Clearly, what it meant to be poor in China in 1978 is very different from what it means now in 2020. And it's a strange approach to take one line and apply it over such a long period of time. The much more common global practice is to, as countries develop and poverty lines are adjusted higher and higher because the view of what it means to be poor changes, measure poverty in any year according to the line of that time. As we see here, China's poverty line has changed twice after the first official line was set in 1985. It was changed again in 2000 and then changed again in 2011. And the paper by Chen and Ravallion found, for example, that from 1985 to 2019, if you measure poverty in the beginning and the end by the existing lines at the time, poverty decreased by only 140 million, rather than the 650 million that would be suggested by applying that World Bank line across the whole period. This is important to keep in mind as well. So those are my issues about using 1978 as a base year, questions to keep in mind. Now I'll just touch briefly on another theme. And that is,

looking at the period from 1978 to 2012, and looking, tracing very simply, the shifting balance between growth-driven poverty reduction and policy-driven poverty reduction. I call it here, lifting people out of poverty, or having people emerge from their own initiative from poverty. This is a somewhat controversial term, lifting out of poverty. There's a lot of debate among observers that it seems to deny agency to the peasants themselves if you claim that the government or the Party has lifted them out of poverty. I should mention an interesting note that was authored by Rob Schmitz, a journalist who works for National Public Radio, who did some investigation and found that actually the phrase, lifting out of poverty, really has no Chinese language equivalent. The Chinese official publications in English frequently use that phrase, or presumably in other Western languages as well. But in Chinese, there's no equivalent to it. They say, "Poverty has been reduced. Poverty has been alleviated." But there's no phrase that means lifting out of poverty. Of course, they do take credit. They do believe the Party deserves a lot of the credit for what happened. So again, I'm doing this in one slide. And this has been the topic, not only of presentations, but of whole books. Take a look at this slide, just to see what I'm referring to, just tracing the shift from the really growth-driven poverty reduction in the early years of reform and opening-up. There was no real national poverty reduction strategy. The leaders were very concerned with reducing poverty, but they believed the way to do that was simply allow growth to take place, and allow economic development to take place. And they were right. This led to enormous reductions in poverty due to increases in rural income. Then gradually over this period, rural income growth slowed, urban income growth began to be the main source of Chinese overall economic growth and development, and the need for programs to address the issues of poor rural areas was recognized. And the program started to be set. And this started in the mid to late 1980s. Some of these programs were more successful, some were less successful, but the trend of widening gaps continued. And it really was after 2002, when Hu Jintao became the leader of the Party, that there was really a pretty dramatic shift of more policy-driven attention to rural development and to poverty reduction. So under Hu Jintao in this period, there were a number of very meaningful initiatives under this overall rubric of the new socialist countryside. For the first time, nine years of compulsory rural education were free. Before that, even in poor areas, families had had to pay for their children to attend even primary school. There were a number of other rural public services, the elimination of the agricultural tax and so on. So what we are seeing is a shift in the central role that growth was playing in driving poverty reduction to a more balanced role of growth on the one hand, and government policy on the other. But I think it's safe to say that, as of all the way up to 2012, it was still growth that was driving poverty reduction, most of all. Then 2013, and Xi Jinping's coming into office as the head of the Party at the 18th Party Congress, and a big change took place in this pattern that I've just discussed. In 2015, Xi identified elimination

of poverty as a key criterion for achieving the Xiaokang Society. This was remarkable. And I want to give credit to him and the Party for this change. Because until that time, when people discussed what would it mean to achieve Xiaokang, it was always focused on GDP. It's gotta be doubled and then doubled again, and then doubled again. Many of you remember how closely that number had been tracked over time. Will China succeed or not in doubling the right number of times by 2020 so they can achieve Xiaokang? Xi said something quite different. He said, "The key criterion is not just growth," which of course has to continue. But he says, "We are a socialist country. This socialism in China means we have to eliminate poverty as well." And over this period of Xi's term in office until so far, this became very closely associated with him, and really, a very high-profile target. The poverty situation before Xi took over as General Secretary is described in this slide. The key point worth emphasizing is that, in 2011, I'm sorry, the poverty line was raised again to 2,300 yuan in 2010 prices. For the first time, the official poverty line in China was now higher than the World Bank's global line. Before that, it had been considerably lower. Then, just to describe quickly the approach that was taken towards poverty reduction in order to achieve this goal that Xi Jinping had set, I list here this massive campaign, a number of key points about this massive campaign that was launched under the Party under Xi Jinping's leadership. He defined his approach, a new and precise targeted approach to poverty alleviation and reduction. And you can see here, this was a campaign. This was in many ways, almost a Mao-like campaign. Sending work teams to the countryside, to each poor county, then to each poor township, and even down to the village level. Starting by counting the number of poor people, registering them, identifying key villages, townships, counties that were considered seriously poor. Massive mobilization of human and financial resources, which we'll discuss in a bit. But key point then for our discussion is the last one on this slide. That is when in 2016, the 13th Five-Year Plan was set. It formally set the target of eradicating poverty by 2020. And it defined that as raising above the poverty line, the income of the remaining registered poor households. This is a very specific definition of poverty, and we'll discuss that further as we go down. But if you take a look here, also quite interesting, the binding and indicative poverty target in the 13th Five-Year Plan. I've encircled in red the binding targets. I think most are aware of the difference between them. These are the ones that absolutely had to be met. You'll see, again, the focus is on building on that initial census that had been done by sending out those work teams. Villages that had been registered as poverty villages, originally 128,000 of them, all had to have their hat taken off, as the Chinese expression is, emerge, no longer be labeled as poverty villages, same for the 832 poverty counties. From a human rights point of view, a somewhat more problematic binding target of the number of people who would be moved under relocation-based poverty reduction, one of the key methods that was used, basically 10 million people. This goal was not offered to 10 million people the opportunity to

move. This goal wasn't, make sure that 10 million people move to much better places where they will be happy and have a very comfortable and good life. The goal was, move 10 million people. And it was a binding target that had to be met. This effort to eradicate poverty was identified as one of the three great battles to be won. The rhetoric around poverty eradication was highly marshaled, it was a war, and it was a relentless drive to achieve victory in this battle, whatever the cost. And Xi was very closely associated with it personally, and regularly issuing these strong exhortations. The other two great battles, most of you know, were reducing financial risk and improving the environment. Those were important too, but they were a little more amorphous. They were binding environmental targets to be sure, but really, the clearest great battle to be won to achieve Xiaokang, the one with the most high-profile target was eradicating extreme poverty. I do want to mention, because it's quite praiseworthy and quite important, that although income poverty was the main focus of this poverty reduction campaign, there were also non-income dimensions of poverty that were targeted. So this famous expression about So eliminate the two worries and guarantee the three services. This was a constantly discussed and worked on part of the campaign, making sure that people not only had income, but had food, had clothing, and access to education, healthcare and housing. The resource mobilization that was organized to achieve these goals was staggering. You can see this and you can see the contrast between government spending of 1.6 trillion yuan in these years, compared to only 204 billion yuan during the whole previous poverty reduction campaign. That was just part of what was mobilized during the last eight years. Enterprises invested. There were all sorts of other investments that took place as well. Assignment of counterparts, wealthy areas, enterprises, government ministries, all assigned poor areas that they needed to help. I was working in the UN in China in this time. Our counterpart was the Ministry of Commerce, the agency I worked. Ministry of Commerce had a county, a poor county in Hunan that they were responsible for assisting and they wanted us to help out. So this was really, everyone was called on to participate in this. The last point here on this slide is critical. The capacity to mobilize resources in this way, this campaign approach, is a great source of pride, and is cited by the leadership as an example of the capacity of the current institutions to accomplish remarkable things. But at the same time, I would argue it also demonstrates the limits on the usefulness of this approach, because inevitably, questions arise about cost-effectiveness when so much money is thrown at this target in such a short time, and also, about sustainability. This is not a sustainable long-term approach. In any case, in November 2020, Xi Jinping issued what I now call his eradication proclamation, that extreme income poverty had been eliminated as according to the current definition. And it's worth taking a moment to acknowledge the historic significance of that. Even though I will indicate I have some skepticism about the accuracy of the claim, this was a remarkable historic moment. It is barely 100 years since the famous book was written in the West, China: Land of

Famine. And now, China had basically announced that it was saying goodbye to poverty, that famine, floods, poverty were going to be a thing of the past. And whatever standard one uses and whatever quibbling I might have about some of the claim, this is certainly a remarkable achievement. So, now the quibbling. Has absolute income poverty actually been eradicated? Well, I make three points here. There's no question that the lives of tens of millions of rural poor people have been improved. Working at the UN and discussing with other colleagues, we all have projects in poor areas where we found this. And I'm not saying that we caused it. Far from it. In fact, an issue for agencies, such as UN agencies who were doing poverty alleviation work during this period, was, can we make any difference, given how much the government is already doing on its own? What added value do we have? We found everywhere that we were working that lives were improving dramatically. Second, I do have to note that there's no statistical evidence to contradict the claim that all of these poor households have been lifted out of poverty, but at the same time, the actual data on poverty reduction is pretty sparse. Where were all those poor people originally? How many were reduced? What is the situation of other households? That's hard to find. Third, most importantly, as remarkable as these achievements have been by any normal global practice, what has been done in China is not the same thing as the eradication of extreme poverty. This is based on the difference between a static definition on poverty and a dynamic one. So the goals that China set were having identified the poor households in that initial census, they were all going to be lifted out of poverty by 2020. But there was little factoring in of the dynamic nature of poverty, which has been recognized globally as a critical factor, critical characteristic of poverty. It's not just chronically poor people who have to be raised out and then kept out, there's a constant churning. People go into poverty and out of poverty. They're new poor every year, not just the ones that were registered two years earlier and so on. So as China, through this period, year after year, set targets and met targets for reducing, for lifting out of poverty those registered poor households, inevitably there were new poor households that were emerging, and it's not clear at all that these were being captured in this work and in the statistics. And events in 2020 made this very clear when COVID hit. Because as COVID hit China and incomes plunged in the first quarter, really first half of 2020, the government announced very firmly, "COVID will not prevent the realization of this critical Xiaokang goal of eradicating poverty by the end of the year." But it became clear that what that meant was the last 5.51 million registered poor who were still there at the end of 2019, were going to be lifted out of poverty. And none of the other registered poor were gonna be allowed to fall back in. But there was relatively little, actually very little attention to providing income support to other vulnerable households who weren't in that group of previously or currently registered poor. UN did some household surveys at that time, together with the Chinese government. And this was a finding that was very clear when we went into poor areas. If you were

a registered poor household or had ever been, you received a lot of support to make sure that COVID didn't keep you or push you back into poverty. But others who also had great needs, but who had never been included in the registered list received much less support. Gavekal Consultancy did a very interesting paper. We won't go into it in detail here 'cause of time concerns. But basically, it compared the household income support that China gave in the first quarter of 2020, with the household income support that the US gave in the second quarter of 2020 when COVID hit in the US. And you can see that in China's case, the impact on household income of government support was very small, much, much smaller than it was in the US. The point is not to judge, which is better, which is worse. The point is simply to say that, this is not what we'd expect in a country, I mean, in China's case, in a country that had announced that it was determined that despite COVID, they were going to eliminate income poverty by the end of the year. If poverty were defined by the normal global sense of including all households, much larger income support would've been needed. In fact, China's COVID poverty response reflects some systemic challenges. And that is, poverty is seen only as rural in China. By definition, China, poverty is a rural phenomenon. But some of the most vulnerable groups who were hit hardest by COVID were in urban areas. Some of the ones listed here, migrant workers especially, the ones who were still there. I lived in Beijing through COVID. I, like many people, saw shop after shop, hair salons, all sorts of small businesses, shuttered as a result of the lockdowns that took place. That had a dramatic effect, which has been documented on the income of the migrant workers who were still there. Gig economy workers, food delivery people and so on. But their income, their poverty, is simply not included in any official statistics. So when I express my skepticism about whether income poverty has actually been eliminated, it's because of this failure to take into account the dynamic nature of poverty, failure to adequately identify people who, because of any sort of shock, COVID being the most extreme one, have fallen into poverty after that initial census and registration of poor households had taken place. So moving ahead, a new poverty reduction agenda. I see three main threads here, redefining poverty and addressing structural causes and expanding social protection. As we've seen that China's poverty line has been adjusted upward twice before. Now, at this point, it would be totally appropriate to set a new poverty line for China. It should include urban people, which it never has before, now that 64% of the population are urban residents, including many vulnerable groups. It could be a higher absolute income baseline, or it could be other type of line, relative, looking at your income compared to the median household income in the society. Or it could be a multidimensional one. So that's one, redefine poverty. Include urban, and set a new line that's more appropriate for a country which is almost an upper-income country, as China is. Second, instead of this top-down and targeted approach, look at the deeper underlying structural causes of poverty. So, urban-rural gaps. The hukou system has long, in my view, ceased to serve any positive purpose. And

however, as the 2020 surveys, there were still over 770 million people with rural hukou, nearly 55% of China's population. Inter-regional gaps persist and this drive for innovation by development could widen them. Gender gaps are a very serious challenge in China. Although labor force participation and wage gaps are not greater than they are in other countries, they're widening in China, not shrinking, and for the reasons that I list here. The professions that women are channeled into, and other factors. Aging population presents another set of structural poverty challenges, the need for better care for older people. And then also, the need for better education for younger people as the workforce shrinks. But choices have to be made between investment in elite institutions, which will create the engineers and scientists that technological innovation require, or much greater investment in rural education. And another structural cause of poverty is the lack of progressivity in China's fiscal system, both on the revenue side, which is heavily dependent on the value added tax, and on the expenditure side, which tends still to give too little funds to local governments in poor areas to fund their social services. So there's discussion about a property tax. That would be a positive step. But a progressive personal income tax that would allow redistribution from wealthy to poor areas would be a very important step. Third, the need for robust, well-funded social protection systems. The second point here quoting the IMF 2021 Article IV report, IMF is usually quite diplomatic when they find something that they're not happy with. They said progress has not been as great as had been hoped and so on, but for social protection, they said systems are still woefully inadequate. They need to include migrants and they need to include other groups who are excluded now. Now, as we move into Common Prosperity era, I'm afraid my assessment is, although it's still early, there's little sign to date that the Party is ready to include these priorities that I've identified in this new Common Prosperity agenda. So far, it seems the official line is simply, poverty has been eradicated, and they're resisting setting a new line that would say that, well now, they are still poor by a new definition. So although there had been a lot of discussion in advance of the 14th Five-Year Plan of relative poverty as a new priority and setting a relative poverty line, I see no sign that that's taking place yet. There had also been discussion in our meetings with the leading group on poverty reduction about including urban poverty in their mandate. But now they've been redubbed the Rural Revitalization Agency. So the view that poverty is rural, they're doubling down on that. Ministry of Civil Affairs, who manage the social assistance program, are looking at near poor. That's something like raising a line. But they have a limited mandate and limited funding, and technically, they are not the poverty reduction organization. And there's really no sign that a large increase in social protection is coming. Quite like Senator Manchin in West Virginia, it seems the Party does not seem to want to create an entitlement society in China, and there's concern that too much spending on social services would do that. In terms of hukou reform, the leading expert on hukou in the US,

Kam Wing Chan in the University of Washington, he observed, as you can see here, that hukou reform has actually regressed. And then the share of population who live in urban areas but have rural hukou has been increasing since 2014, when the hukou reform agenda was announced. In terms of gender imbalances, gender inequity, declining fertility rates are a very hot topic in China today, and they seem to be leading to even greater emphasis on women's roles as mothers and caregivers, which does not bode well for chances of addressing the structural gaps to women improving their economic status. So I will stop here. Assessing whether the Common Prosperity agenda is likely to address the challenges that I've identified here, it's still early. But there certainly are signs that the Party has learned the wrong lessons from the poverty eradication campaign. And that top-down and possibly unsustainable measures narrowly targeting individuals and sectors are going to be relied on. The pressure on wealthy to contribute to charity has been identified over and over as one key part of Common Prosperity. That is not a substitute for progressive fiscal reform. And in my mind, the key test over the coming years will be hukou, serious hukou reform and better abolition. Because how can you really have Common Prosperity in China when the country is still divided so sharply between its two groups, urban hukou and rural hukou? Thank you. I'll stop here and welcome questions, comments, corrections, additions, and so on.

- Thank you so much, Bill I'm pausing for a moment just because I actually have been typing throughout, and I want to get your last line down, 'cause I want to use it. Thanks, Bill, for just a terrific and illuminating presentation. One of the factors that Ezra always talked about when we were identifying possible speakers, or when he was identifying together with Bill Overholt and Bill Schell, potential speakers, was the question of a balanced presentation driven by data rather than partisanship. And I think you've really done a splendid job today as I knew you would, in offering us a balanced, but still illuminating and very thought-provoking presentation. As you said yourself a few minutes ago, the point is not to judge what is good or bad, but to look carefully at what the data tells us. So this is just tremendous. I have a whole bunch of questions. Before I ask my first question, let me remind the audience, I see we have more than 60 people viewing online, to submit your questions in the Q and A. I'm sure Bill Overholt has questions too, but I'm gonna start with, well, let me start with one broad question and if there's time, we'll come back to me. So I'm very much in favor of this question or this idea of challenging the conventional periodization and challenging the wisdom of 1978 as the dividing line from which to measure. It's actually something that I'm working on in my own project on rural China in the 20th century. One thing I am finding and I'm curious whether you think this applies also to the question of poverty and poverty alleviation, when you get rid of 1949 as a baseline, and when you get rid of 1978 as a baseline, and you look say, at 1900 to 2020, there are a whole bunch of measures in rural China where the issue becomes much more, or

the way of understanding it, becomes very helpful to think of it in terms of, basically, global convergence, or the convergence between China and global norms, global averages. It's true of literacy rates, for example. It's true of consumption. It's true of fertility. How does China look over the long-term, in terms of the relationship between its poverty alleviation, or the lowering of poverty, sorry, not poverty alleviation, lowering of poverty alleviation and global trends.

- That's-

- [Michael] Not a small question, I'm sorry.

- Not a small question. And I'll come at it from a slightly different angle. And that is, China still insists, and to some justification, that it's a developing country. So China wants to be seen and treated as a developing country in a number of respects. And therefore, I'll answer your question by saying, compared to a lot of other developing countries, compared to countries that were at a similar place where China was even as recently as 1949 in terms of poverty, China has done quite well. Compared to, for instance, other upper-middle income countries, even in Latin America, China's poverty reduction is impressive. Where China's record is less impressive is when you compare with the relatively small number of countries, such as Republic of Korea, such as Thailand, and some others who have emerged, who have done more and started earlier and reduced poverty in a more impressive way. So I can't go back to the year 1900 in my mind. That would need data that I don't have. But when I look back just at the last 70 plus years, I think, and this is something that Martin Ravallion has been looking at also, you'd say that China has done well compared to many, but could have done much better based on how well other countries have done. And it's still far behind some because of the time that was lost in terms of poverty under Mao.

- Thank you. So another way of questioning the notion of the miracle, I think, is one way to interpret that answer.

- [Bill Bikales] Yes.

- So we've got a couple of, Bill Overholt, do you wanna pop in with the next question?

- I echo Michael, this is a wonderful talk. I learned a lot. And I agree with virtually all of your analysis. There's one point I'd like to follow up on, and that's the distinction between policy-driven reduction of poverty and the period when they were just getting out of the way of the peasants. K. Jo wrote a book saying, had nothing to do with policy, it was the peasants, and particularly the female peasants, that drove China's success. And I guess I have a question. I mean, Xi was more extreme than anything you've said. But there's a

moral valence applied to getting out of the way that's different from going in and doing great stuff. And I have a question about that because it seems to me that how much you get out of the way is very difficult and very controversial. And for instance, India's never figured it out, most developing countries haven't. And somebody like Ronald Reagan thinks that government ought to get out of the way a lot more than most democrats. And it seems to me that they got it about right. And in fact, they calibrated so much in so many ways that they could have gotten wrong. So I wonder if it isn't more fair to say, well, the kinds of policy that were successful changed according to exactly the periodization you used, but maybe, they get credit for policy-driven reduction of poverty in that period in 1978 to '85 too.

- Well, yeah, it's a fair point. At the end of the day, if policy hadn't changed then what occurred could not have occurred. At the same time, I think there's a strong case to be made that in those first few years, a lot of what was happening was occurring, first, spontaneously at the grassroots, the first experiments with what became the household responsibility system and similar, really were, that's been well-documented, spontaneously emerging at the local level. And I think the way I put it during the talk is how I do think of it. And I said, these are people, the peasants, I use that word without any pejorative meaning, it's a word with good Chinese history and I don't see it as a bad word at all, peasants knew how to grow more. They knew how to work harder in order to produce more. They had a lot of knowledge about increasing their production. But they simply needed to be allowed to keep a bit more of what they produced in order to give them the incentive to do that. So in those first few years, certainly there were policymakers who were well aware of the need to spread these models and to encourage a new mindset at the Party and government leadership at various levels to allow these changes to take place. But I think if I had to choose between one or the other, I would say it was primarily a matter of getting out of the way for those first few years. But that was just a brief period. And after that the challenges became, the need for more proactive government policy became greater, steadily greater and greater.

- There is, as you know, an enormous debate about the origins of 1978, whether it was top-down or bottom-up. I'm not sure what the get of the way answer, how that sits in that binary. But that's a question for another day. We have a question from another expert in welfare and poverty in China, my colleague, Nara Dillon, who asks, who thanks you for an interesting overview and asks, do you think the rural revitalization agency will lead to structural solutions for rural poverty, or at least some more lasting development or welfare programs for the rural poor?

- I doubt it, to be frank. These are people I, as you, I've worked with for a long time. My concern is their mandate has always been pretty narrow. That LGOP came out of the Ministry of Agriculture.

Originally, it was housed in the Ministry of Agriculture for a long time. Their focus has been agricultural development and increasing agricultural incomes. And they don't really have the capacity, but they don't have the mandate. Because if they did, the capacity would probably be assigned to it. To look at broader social issues is my sense. They are still very focused on agricultural growth and output. So, I hope I'm wrong. But it's not my sense.

- So we have a question from Lauren Sullivan, who asks about the impact of allowing peasants to buy land, but I think, Bill, you'll probably agree, this situation's a little more complicated than that. So rather than asking that question, might I ask you to comment on the impact of changing land rights in the countryside on rural poverty? I suppose Mr. Sullivan's question might have been, what if they allow the peasants to buy land? But I think a more interesting question might be, how are land rights changing in the countryside and what's the impact of that on poverty?

- Yeah. That is a big question. I don't see much sign that there are going to be major changes in this policy in the next few years. I could be wrong, of course. As I have indicated, 55% of China's population still has rural hukou. And out of those people, there are at least over 500 million who are actually still living in the countryside. And it's hard to imagine how China can continue to grow as an upper, become an upper-income country and then become ... Upper-income is still low compared to most really advanced economies. How China can continue to develop and reach levels more like even South Korea today, let alone other more advanced economies without reducing the number of people who are doing farming, who are living in rural areas and relying on agriculture and related connected services for their main source of income, it's just hard to imagine that. So inevitably, one part of reducing the number of people who are engaged in agriculture for their main sources of income, inevitably, it will have to entail land rights, reforms, the ability to buy and sell land, the ability and for people to sell their land to get some money to allow them to move and go into some other areas, and for others to put together larger scale agricultural activities. So over the medium to longer term, land rights reform is going to be necessary if poverty is going to be sustainably reduced going into the future. That would be my view. Although I don't see a sign it's ... Well, let's see what comes out of the next party congress. Sorry, I can't hear you.

- Yeah, I'm back. Lane Wong asks you to stretch. She wants your assessment of Common Prosperity on the rich and entrepreneurs business circles, and indeed the whole of the economy. So asking a lot, for an economist to describe a policy that is nascent, but what do you think Common Prosperity is going to do?

- Yeah. Clearly, there is a danger that instead of focusing on the deep structural causes of poverty that I've mentioned, the causes of

inequality, looking from the point of view of why are poor people poor, there's a danger that Party will instead target wealthier groups and say, "The problem is you've got too much money. The problem is you're not paying enough taxes." That might be true. The tax part. The problem is, "You are the problem," rather than the structural issues that I identified. And I'm not the only one who's concerned about that. Clearly, this seemingly haphazard way in which some of the policies this summer were released targeting different companies, different sectors, pressuring individuals who are wealthy, that they have to donate more to charity. I mean, these are worrisome signs. The real way to reduce inequality is to sustainably address the obstacles to growth and incomes, and at the grassroots level and the poor level, the poor household level, not to target wealthier ones. So rich entrepreneurs are probably not sleeping too well these days, right now, but I hope they'll be able to sleep better later.

- A wish we no doubt all share. But I guess, I hope that that peasants in distress, I'm more anxious that peasants in distress will be able to sleep well than that rich entrepreneurs, but in an ideal world, all of them, I suppose. We've got time for one or two quick questions. Abdul Sufi actually asked a question that follows nicely from your comments just now, lots of countries have poverty reduction policies. How does ideology, she says, or they say, Marxist ideology, but how does ideology in general, I think, differentiate China's poverty reduction policies from those in non-socialist countries.

- Interesting. That's a very interesting question. And of course, China does present this in terms of socialism with Chinese characteristics, which is a quite protean concept, which can adjust in many ways. And as I sort of hinted, there are some ways in which the approach to poverty reduction reminds me of some US conservative right-wing approaches. You don't want to rely too much on entitlements, on social assistance and transfers, 'cause people then will become lazy and dependent. You want to encourage and support productive activities by people. You want people to have incentives, to get jobs, not to just cash their welfare checks, and so on. So in some ways, there's that common ground between the two. But I think it is impressive to me that, as I said earlier, that Xi, more than I've heard any American leader, perhaps Lyndon Johnson, perhaps FDR, but FDR was president in a time of such terrible economic crisis, Xi has emphasized that in China, a socialist China, the existence of widespread extreme poverty is unacceptable. That it's just not consistent with Chinese vision of socialism. Whether that's Marxism or not, I can't comment. But it's impressive to me. And I dearly wish in that sense, that some American politicians would learn something from it. Not saying adopt Chinese practices full whole-hog, obviously, but just recognize that a just society has to take that into full consideration in its policies.

- Thanks so much. We've actually had a number of really interesting

questions come in in the last few minutes, asking you to parse the data on urban poverty on what the rural hukou actually means, the intersection between ethnicity and poverty, which is a huge and fascinating question. But I'm afraid we are outta time, and we will have to wrap things up. I think it's probably an indicator of how much interest there is in the topic that your answers to questions generated new and intriguing questions. I apologize that we won't have time to ask Bill to respond to them all. Let me close simply, Bill, by again, well, expressing my regret that I cannot now take you out for a nice lunch which would've been delightful, 'cause I would certainly like to keep this conversation going, to thank our audience members for joining us and for your informative and interesting questions, but mainly to thank you, Bill, for a truly outstanding presentation from which I think we all learned a great, great deal. This is a hugely important topic that affects the future of China, and therefore the future of the world. So thank you very, very much, Bill.

- You're very welcome. And folks, my e-mail is there. Feel free to pop me a line if you want to continue discussion. These are topics that I'm deeply concerned with and will continue to be.

- Thank you, Bill. I believe that Critical Issues goes on hiatus next week, and then we will be back in two weeks on November 10th, with Naima Green-Riley, speaking about China's position in the world. So please join us for our next event. Thanks, everybody. Be well and hope to see you here again soon. Thank you.