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China Takes Steps to Slow Urban and Rural Wealth Gap

By JOSEPH KAHN

BEIJING, Feb. 2 - Chinese officials are promising to slash taxes on peasants and increase farm subsidies to improve the lot of 800 million rural residents left behind in the fast-growing economy.

The measures, described by policy officials this week, are designed to slow the surging wealth gap between urban and rural residents, a major source of social discontent and perhaps the greatest challenge for the ruling Communist Party.

China's rapid economic growth has generated widespread prosperity and lifted average per capita incomes past \$1,000 annually, pulling the country out of the ranks of the world's poorest developing countries in a single generation.

But the benefits of that wealth have fallen disproportionately on urban residents, a point of severe stress for a society that once preached egalitarianism.

Last year, average urban income was 3.2 times higher than that in rural areas, one of the biggest urban-rural divides in the world, statistics released in January show. China keeps its rural and urban populations distinct through population controls, classifying most rural residents as peasants even when they migrate to cities to find work.

The gap in living standards is actually greater than the income figures suggest because urban governments and companies often offer health, housing, education and retirement benefits that are not widely available in the countryside.

Many developing countries experience rising inequality in the early stages of industrialization. China's transition has proven especially volatile, however, because the authoritarian government has injected hundreds of billions of dollars into developing urban coastal areas while maintaining tight controls over farmland and peasants to ensure steady supplies of grain and surplus labor.

Local corruption, unpaid wages for migrant workers and forced requisition of farmland for development are among the biggest causes of popular protests and even riots in some areas, police statistics show.

The new agricultural policy marks the second straight year that Prime Minister Wen Jiabao has devoted his first major initiative of the year to addressing rural problems. Officials say the measures have proven effective in boosting rural incomes.

But analysts said the government's policies have tended to emphasize short-term steps to subsidize grain production and cut taxes while avoiding more fundamental changes, such as giving peasants greater control over their land.

Chen Xiwen, the government's top rural policy official, said this week that by year end, 24 of China's 31 provinces and metropolitan regions will eliminate the basic agricultural tax imposed on all rural families since socialist collectives were dismantled in favor of private farms in the early 1980's.

The remaining parts of the country will phase that tax out over the next several years, faster than the five-year schedule announced last year, Mr. Chen said. Experiments in reducing or abolishing other taxes assessed on farmers, like those for non-grain commercial crops and livestock, are also being accelerated, he said.

Canceling the agricultural tax should put about \$4 billion back into the pockets of the 800 million people who are considered peasants under China's population control system, or roughly \$5 per farmer per year.

That does not amount to a windfall for farmers, who had an average per capita income of \$353 last year. But it would address one of the most conspicuous inequalities in Chinese society by ending broad mandatory taxation on the rural majority. Urban residents do not pay taxes unless they earn over \$1,200 annually.

Mr. Chen said that early rounds of tax reduction, a new grain-planting subsidy and dramatic increases in market prices for wheat, corn and rice boosted farm incomes last year at the fastest pace since at least 1997.

"If we continue to have policies that raise farmers' incomes, they will have greater incentives and their outlook on life will become much better," he said at a press conference.

Adjusted for inflation, income for rural residents grew by 6.8 percent in 2004, the State Statistics Bureau reported. Still, that fell short of the 7.7 percent increase in urban incomes, meaning that the urban-rural income gap continued to widen.

Mr. Chen said the government plans to protect farmers' land-use rights and invest more in irrigation and infrastructure to further boost the farm economy. But he acknowledged that it would be difficult to maintain the pace of growth in rural incomes achieved in 2004 because the market prices of grain were not likely to increase rapidly for a second straight year.

Outside experts said the government has not yet shown a willingness to level the playing field between urban and rural residents through bolder policy changes.

"The measures they have taken are all good things to reduce the disparity," said Li Ping, China

representative for the Seattle-based Rural Development Institute.

"But the government cannot indefinitely increase subsidies or allow the grain price to keep rising. So these measures are not really sustainable," he said.

Mr. Li and other experts say one potential key lies in creating a market for farmland that resembles the one for urban land. That way, they say, some farmers could realize profits from selling land rights while others could acquire more efficient farms.

The 321 million hectares of land currently used for agriculture around China might have a market value of \$500 billion if the rights to the land could be bought and sold, even if the land remained purely agricultural, Mr. Li said. He based the estimate on comparisons with Indonesia and India, developing countries that do have a market for rural land.

Urban Chinese can buy and sell property. But rural land is distributed based on 30-year contracts and remains firmly under the control of local authorities, who can requisition it or redistribute it largely at will.

Late last year, the government issued a new policy that aims to protect farmland and to ensure that farmers get more compensation if their land is seized. But local governments still exercise far more control over land than they do in countries that recognize property rights. Selling land has become the most important source of revenue for local governments, Mr. Li said.

"The central government realizes that secure land use rights are the most important tool in boosting the rural economy," he said. "But they still have a long way to go to address the underlying problems."