

SOCIALIST China has embarked on a momentous legal exercise. The legislature is currently arguing over a new law on inheritance, the details of which will fundamentally affect property rights. The social and economic institutions of a quarter of the world's population is undergoing a metamorphosis. Crucial for their future prosperity is the law of land tenure. Under chairman Deng Xiaoping, free market principles are being adopted in the countryside. Peking, however, could make serious mistakes if it does not think through its current problems. For example, under the Central Committee's circular labelled Document No. 1, 1984, land can be transferred from one household to another. There is a risk that this could lead to a private market in what is supposed to be socialised land. If this happens, it would both offend the socialist philosophy and seriously retard the growth of a free market industrial sector based on capitalist principles.

FRED FOLDVARY reports from San Francisco:



● Communist Party Chairman Deng Xiaoping

Land tenure deal boosts output

THE "Weekly Letter" of the Federal Reserve Bank of San Francisco offers economic news, analysis, and statistics on diverse economic topics, with emphasis on the U.S.A. but also on world-wide issues.

The issue of Jan 18, 1985 by Hang-Sheng Cheng is on "China: A Visitor's Report". Of special interest is the observer's views on the moves towards a freer market in China.

Observation that a reduction in trade restraints leads to greater prosperity has been well demonstrated in China. But what about the land?

The new policy is to distribute land to farmers through long-term leases, depending on the number of persons in each household. The farmer pays economic rent in kind by turning a fixed amount of produce over to the state. The amount is subject to negotiation between the farmer and

the authorities. Any surplus beyond this is kept by the farmer to consume or sell in the open market.

This constitutes a type of land reform, reversing the previous socialist policy.

Land is leased from the community, but for a fixed rent rather than by the sharecropping system of paying a percentage of the crop. This leaves a great incentive for the farmer to increase production and enjoy the fruits of his labour.

The new land-tenure system has fuelled a surge of productive effort in the farms in China. There are now many "10,000-yuan (about US \$4,000) households". Farm income now compares well to that of urban labour.

Chinese farmers now enjoy the best of all worlds: land is available at market rents, free from any speculative excesses, and there is liberty to produce for the market.

The movement towards a free market economy still has a long way to go. Many commodities are still controlled by the state and many prices are still rigidly subsidised. A dual exchange rate system has caused much confusion and has created a black market. China still has a "ponderous bureaucracy". Price controls cause shortages, and political clout is necessary for business success in many cases.

However, much progress has been made over the last four years. Hang-Sheng Cheng concludes that the "Chinese economic reform is undoubtedly the world's largest controlled economic experiment", and "the world holds its breath in watching the manoeuvre".

