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Peasant Entrepreneurs in China's "Second Economy": An Institutional Analysis*

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The promotion of a market-oriented economic policy in China after 1978 set the stage for explosive growth in the number of peasant households shifting from subsistence agriculture to production for the marketplace. Though peasant households continued to produce quota grain for the state and used the free markets as an outlet for their sideline production, some households began to specialize in producing commodities primarily for the market. These entrepreneurial households seized on local and extralocal market opportunities and invested household savings or loans to open up a diverse range of petty commodity production. Peasant entrepreneurs drew primarily on labor power within the household, but as some businesses expanded, they began to hire kinsmen and fellow villagers. Rather than expend labor on less profitable grain production, many of these "specialized households" (*zhuanye hu*) chose to rent their land, negotiated share-cropping arrangements, or lent their land to kinsmen or neighbors who agreed to assume responsibility for the contracted grain quota. Some pooled their capital and labor power to form joint-stock companies or small private cooperatives in their villages and nearby marketing towns. Such private ventures have contributed significantly to the rapid pace of rural industrialization following market reforms. Many also specialized in commercial activity as merchants, distributors, peddlers, and shopkeepers. Their activities have sparked the beginnings of a commercial revolution in rural China. This article seeks to identify the institutional context that promotes or inhibits the rise of such peasant entrepreneurship in China after market reform.

Despite the far-reaching institutional transformation of agriculture since 1978, there have been important areas of continuity with the past. Though the commune system has been formally abandoned, many of the bureaucratic features of the Maoist era continue to persist as politi-

cal institutions that shape the dynamics of state intervention. What effect has the persistent bureaucratic cast of Chinese agriculture had on the transition from hierarchical coordination of economic action to increased reliance on the market? What forms of state intervention promote or discourage market action and the rise of entrepreneurship? This article focuses on one aspect of this dynamic, the effect of state microinterventions on the emergence of peasant entrepreneurship in China. We advance the argument that direct bureaucratic microinterventions, whatever their intent, whether to promote economic growth or to constrain market action, have the effect of discouraging entrepreneurship despite the existence of market opportunities.

This hypothesis was originally suggested by J. Kornai's work on the dilemma of partial reform in socialist economies, based on experiences in Eastern Europe.¹ It is also familiar, of course, in the form of "market distortions" from economic writing in Europe and the United States over the last 2 centuries. However, as we examined these perspectives more closely, it became clear that the meaning of "intervention" in economic writing refers to constraints on the free performance of the market, especially administered prices. In contrast, the kind of intervention analyzed in this article refers to the still-present "movement" (*yundong*) activity of the Chinese bureaucracy and its cadres. The "movement" to eradicate bourgeois thought in Chinese universities following the Tiananmen massacre and the suppression of the student-led pro-democracy movement is an example of this type of state intervention. Such bureaucratic mobilization is a form of grass roots politics through which Leninist states generate and sustain mass support for their policies.² This is a kind of intervention not discussed, to our knowledge, in the conventional economic literature (or in Kornai). Kornai's analysis of bureaucratic microinterventions focuses on the socialized state sector of the economy, specifically on consequences of a "soft budget constraint" on the performance of the socialist firm.³ Our analysis examines the effect of turbulence caused by bureaucratic mobilization on private enterprises in the "second economy." By second economy we mean the entire range of economic activity outside of the formal, centrally planned economy, including private construction, manufacturing, commerce, transport, handicrafts, repairs, services, and moonlighters whose off-hours work is for private gain.⁴ The Chinese economic reform proceeded rapidly in agriculture after 1978 but faltered in the cities.⁵ As a result the Chinese second economy is predominantly rural in composition, and its basic units are the peasant household firms.

This article is an account of our conceptual exploration and analysis of the impact of persistent mobilizational approaches to intervention on the emergence of peasant entrepreneurship. It is also a demon-

stration of a new technique of field research that makes possible the study of such phenomena.

Reform of the Rural Bureaucracy

Although the commercialization of agriculture has progressed rapidly since 1978, the change in the rural bureaucracy is still at an early stage. Chinese reform leaders recognize the necessity of organizational reform of local government and have already carried out sweeping changes that have led to the abolition of the commune system. Yet a review of institutional change of local government suggests that the prereform rural bureaucracy remains largely intact despite organizational reforms aimed at expediting market reforms and personnel changes involving lateral transfers, retirements, and the recruitment of younger and better-educated rural cadres.

First, the county government appears to have experienced relatively little organizational change.⁶ In recent years, the policy of decentralization of financial controls has strengthened the planning autonomy of the county government by cutting vertical ties that previously subordinated the county economic commission to provincial control. Its planning and economic commissions are the primary bodies involved in coordinating economic activity in the county.⁷ As a result the county government has come to assume a more important role in local mobilization for economic development, giving rise to more emphasis on achieving vertical integration within the county. However, only about 20% of village and township enterprises fall under the jurisdiction of the county economic commission, while the remaining are privately owned and depend on market or semi-market allocation.⁸

The newly established township government, which constitutes the lowest level of the formal state structure, reflects extensive organizational changes in line with the shift to greater reliance on market coordination. Unlike the former commune administration, the new township government is not supposed to exercise direct management over economic matters. Instead new corporate entities now manage the collective enterprises formerly administered by the commune and brigade.⁹ Yet, there remains considerable overlapping of ties between the township government and the new corporations. Frequently the same cadres who are most influential in the township government also hold prominent positions in the new township corporations. Thus despite efforts to separate economic management from local government, these changes have been largely superficial in regards to the aim of separating economic management from the exercise of political power. Moreover, though a goal of institutional reform was to allow village governance to be more autonomous of the state, in practice the township government is responsible for supervising village cadres, for main-

taining law and order, collecting taxes and quota grain, and implementing the policies of the party and state. Finally, many of the same cadres who had served in the former commune administration remained prominent in the new township government.

At the village level, the institutional reforms have had a greater impact. Many production brigade offices now are empty buildings, falling apart from neglect and lack of use. Village cadres have little direct control over the management of economic activity since collective enterprises have been leased to private parties, equipment sold off, and land assigned to individual households. But village cadres still influence the economy through their power to negotiate contracts and leases, and their role as middlemen and brokers in local economic transactions. Nonetheless, the power of village cadres has shrunk considerably from the heyday of collective agriculture under Mao.¹⁰ Though the team in many areas continues to exist on paper as an organizational entity, it does not appear to have specific responsibilities or activities.

Apart from local government, another organization that exercises vertical control is the Communist party. Despite reforms to decentralize economic control, the system of political control remains highly centralized in China. Each successive level of the party organization from the county down to the village is expected to abide by directives promulgated by the party. The township and village party committees are expected to carry out the party policy without modification. In practice cadres exercise considerable discretion in shaping local priorities, according to which they commit organizational resources in implementing party policy.¹¹ In recent years, however, a weakening grip over economic resources and widespread demoralization among basic-level party cadre have made it more difficult to enlist the enthusiastic support of village party members for implementing party policies.¹² Notwithstanding evidence of diminished organizational capacity, the rural party apparatus still constitutes an organizational force that enables the state to reach down to the village level when it seeks to mobilize support for its policies.

Overall the institutional reforms carried out since 1978 resulted in a discernible turn away from the mobilization style of bureaucratic action of the Maoist era toward a bureaucracy that approximates aspects of legal-rational procedures.¹³ This institutional change, however, is still at an early stage and has been very uneven. Maoist organizational culture, characterized by periods of mass mobilization to accomplish political and social goals, was built up over a long historical experience and is deeply rooted in the Chinese socialist bureaucracy.¹⁴ As a style of bureaucratic action, it may be difficult to jettison, despite reform leaders' efforts to create a more modern and professional rural bureaucracy. The reliance on mobilization techniques in the recent

campaign to implement stricter compliance to family-planning policy reflects the continuing appeal of the mobilizational approach. In the past, mass mobilizations have invariably spilled over to the economy and have been associated with radical efforts to remake rural economic institutions.¹⁵ This association is not likely to fade quickly from the minds of peasants, however powerful the appeal of profit from private entrepreneurship in a rapidly expanding rural market economy. There is a tendency for bureaucratic mobilization, even when directed at achieving social and political goals, to have the effect of increasing the intensity of state microinterventions in economic activity.

Peasant Participation in the Market: The Relevant Theory

The research question that we distill from all of this now can be stated: peasant entrepreneurs who specialize in commodity production and trading in the free market have multiplied in the 1980s on a broad scale,¹⁶ but the proportions from different villages vary. How can we account for variations across villages?

The commercialization process in China, as everywhere, involves both individual and organizational factors, and the relevant theory mentions both kinds. First, it is reasonable to expect, and Schultz's work has elaborated the idea, that education increases the likelihood that peasants will produce for the market.¹⁷ Literacy is certainly a useful asset even at this level of transaction, but schooling may also be expected to enlarge the peasant's horizons and his knowledge of possibilities. A comparable factor is the availability of savings. Even the petty operations typical of agrarian regions require some capital. Given the scarcity of credit from banks and even from family members, it is reasonable to assume that these funds will usually be personal.

Accounts of entrepreneurship usually ignore individual determinants. Following Schumpeter, most economists assume that it is a talent like singing, distributed randomly. Papanek's study of entrepreneurs in Pakistan makes this assumption because for him the main question is whether rewards are available for outstanding performers. The market does the rest. He adds that a number of noneconomic preconditions must exist: "(1) A government and civil service able to maintain law and order, to prevent massive capital flight, to enforce import controls, and to provide reasonably adequate overhead facilities; (2) at least a very small proportion of the population accustomed to responding to market incentives; (3) a value system and institutions that were not so hostile to entrepreneurial activity that only a strongly deviant group could be prepared to undertake it."¹⁸ All these conditions hold for China, so that leaves the economic incentives. These are more likely if the potential entrepreneur has access to the market and enjoys nonrandom assets such as education and personal wealth.

The hypothesis that market access encourages entrepreneurship

implies that institutional constraints on such access or on the functioning of the market will limit the number of entrepreneurs. The negative effects of state policy, particularly on freely set prices, have been documented in detail,¹⁹ and V. Nee has reviewed the responses of peasant entrepreneurs to the absence of an institutional framework of property rights, civil law, regulations, norms, and procedures within which market transactions can take place.²⁰ Such constraints still exist in China and presumably apply fairly evenly across villages. Therefore, as important as they are, they cannot explain variations by village. So we turn to the part of the institutional framework that does vary by village: the local activity of the rural cadre. This type of state-sponsored activity is not usually considered an intervention in the market. A broader theory seems required, and for this we draw on Douglass North's extension of neoclassical theory which proposes a new and more comprehensive role for political and economic organization. Arguing that neoclassical theory ignores the need to reduce transaction costs, he postulates that institutions accomplish this by (a) establishing a set of constraints on behavior in the form of rules and regulations, (b) by imposing a set of procedures designed to detect deviations from and enforce compliance with the rules and regulations, and (c) by articulating a set of moral and ethical behavioral norms to reduce enforcement costs.²¹ These rules, procedures, and norms are embodied in property rights, the state, and ideology, all of which are required over and above the institution of the market itself.

This perspective introduces a positive role for institutions. Virtually all advocates of the market mechanism acknowledge the need for infrastructure and for government action to insure political and physical security. Likewise, the organization of cities has been invoked to account for the increased efficiency of the market in some regions.²² But North has surely moved beyond these discussions of market-facilitating or reinforcing factors. Despite the high level of abstraction, his theory provides us with the concepts needed for interpreting what goes on when cadres attempt to mobilize local populations in support of economic reform or other state policies.

Imagine what peasants must think when they listen to the exhortations of local cadres, who only a short time before preached the virtues of collectivism but now urge peasants to enrich themselves by pursuing private entrepreneurship oriented to the free market. It must surely cross the minds of some that such a reversal could be changed yet again, possibly in the near future. Many peasants remain uncertain about the future of the market reforms.²³ Such doubts must be heightened by the fact that the peasants do not own the land assigned to them. So the effect of the cadres' efforts to whip up support for economic reform through familiar mobilization techniques could be just the opposite from the announced intent. Instead of greater enthusiasm

for private enterprise, their urgings could produce wariness. Perhaps the peasants remember all too well the many policy reversals of the past decades.

According to North, what could convince peasants is the creation of stable and routinely functioning institutions that embody the kinds of understandings and behavioral constraints that reduce transaction costs over the long term. Without such stable expectations, the entrepreneur has difficulty even in identifying new opportunities, let alone making the calculations of profit and loss necessary to determine whether a particular effort is worth the risk. Thus, an expanded neo-classical framework can provide the conceptual basis for understanding how mobilization efforts can backfire. It enables us to make sense out of the paradoxical fact—which will be demonstrated—that high levels of direct and activist party support for the new economic liberalization work against the prospects of peasant entrepreneurs.

It might be objected that exhortations and instructions in favor of market reform are consistent with North's emphasis on the "rules of the game," and superficially that is true. However, the distinction between direct and indirect support is crucial. As already argued, direct exhortation is not reassuring. What counts is embedding the rules of the game in legal, administrative, and bureaucratic forms that imply long-term commitment to market reforms.

Testing the Bureaucratic Mobilization Hypothesis

Our test of the working hypothesis that the appearance of peasant entrepreneurs in Chinese villages can be explained by differences in average income, education, market access, and, negatively, the degree of bureaucratic mobilization uses the village, not the individual, as the unit of analysis. We examined a sample of villages selected from two periurban counties in Fujian province.²⁴ The two counties differ in their administrative and political background. Longhai county has had a long history of administrative competence and exemplary support for current party policies. Today Longhai's political proficiency is expressed by its zeal in promoting market reforms. Longhai county officials project the image of hard-working and dedicated bureaucrats eager to do what they can to create a supportive environment for market-oriented economic activities at all levels of the county. As it was an exemplary county during the collectivist era (1956–80), so today provincial and national leaders visit Longhai county to study examples of successful private enterprise and privatization. Tongan county, on the other hand, has lived in the administrative shadow of Xiamen city, and for periods was governed by the city administration which has left Tongan's county government with a weaker history of political and administrative competence.

The villages in the sample were randomly drawn from a total of

620 central places, excluding towns, military settlements, and urban centers. The number of households per village ranged from 71 to 930, with a mean of 449. In each of the villages, half-day open-ended interviews with the local cadre were conducted in order to gain a comprehensive account of the changes in local government and village conditions since the start of economic reform. These interviews provided detailed histories of the institutional transformation of agriculture since 1978.

The systematic data used in this study were collected with the aid of a standardized questionnaire from village cadres, usually in a group that included the party secretary, vice-party secretary, village head, accountant, and clerk, often referring to their records. The technique of data collection has been called the "informant survey" and is appropriate and adequate for comparisons of village units such as these.²⁵

The level and type of entrepreneurship in a village was measured by the following questions: How many households have private businesses in nearby marketing towns and/or the county town (TOWNSHOPS)? How many specialized households does the village have that engage in the production of commodities for the market (PRODUCT)? How many specialized households does the village have that are engaged in commerce (SHOPS)?

These estimates were then standardized by number of households. As shown in table 1, some villages had maximum proportions for TOWNSHOPS and PRODUCT up to one-third of households. At the same time, about a third of the villages had none of the three types of household enterprises. Because of the large number of cases with no enterprise, values were logged (with 0's set to .01) resulting in a reduction of the skewness coefficient as shown in the last row of table 1.

In addition to analyzing the three types of peasant entrepreneurship separately, we combined them into a summary score by adding the z-scores for each of the component variables. This composite measure of household enterprises is shown in the fourth column of table 1, where, by definition, it has a mean of zero. The summary measure is justified by the moderately high intercorrelations of the three component variables, ranging from .44 to .66.

This study focuses on the household enterprises that were both successful and visible enough to have been noticed and counted by village cadres as "specialized households" whose income derived primarily from transactive exchanges in the marketplace. The informant estimates of the number of enterprising households are probably biased toward counting larger and more visible household enterprises. Overall, the cadres classified about 9% of the households in the sample as specialized households that operate household enterprises. This contrasts with over 19% of household heads who reported they had invested savings or loans to establish petty commodity production or

TABLE 1
DESCRIPTIVE STATISTICS FOR FOUR MEASURES OF HOUSEHOLD MARKET PARTICIPATION AS
ESTIMATED FOR VILLAGES ($N = 29$)

	SHOPS	TOWNSHOPS	PRODUCT	ZSUMMARY*	INCOME
Mean	.02	.03	.04	.00	189
SD	.03	.07	.07	2.58	51
Minimum	.00	.00	.00	1.67	104
No. of 0's	10	8	11		
Maximum	.10	.34	.32	9.02	308
Skewness	1.87	3.38	2.95	2.64	.63
Skewness after trans- formation	1.52	2.25	1.98	Not logged	

* ZSUMMARY = summary score formed by adding the standardized (z -scores) of the three separate variables.

commercial activity in recent years. We do not know, however, how many of these households have failed in their businesses or how many have continued at a low level of activity. Virtually all households are engaged in petty commodity production for the market, so a bias toward the more visible specialized households would work to ensure a more accurate measure of peasant entrepreneurship, one that counts only those households that have clearly shifted from farming to commodity production or commerce.

The descriptive statistics for average income of the villages as of 1980, the approximate beginning of liberalization, are also shown in table 1. Income is derived from the household survey ($N = 624$) and presents no special problems. The household survey was based on a random sample of households drawn from each of the 30 villages of the Fujian rural survey.

Three other independent variables are factor scores derived from the informant estimates of average education of the villagers, of the distances to different types of markets, and of the number of meetings convened in the township and county governments that were attended by village cadres. Confirmatory factor analysis is appropriate for constructing these indices because it combines a number of separate informant estimates of these already identified dimensions into a single and more reliable indicator. The final scores are linear combinations of the item weighted by their correlation with the cluster of items (i.e., the factor). The technique further insures that each factor is empirically distinct and uncorrelated with the others, a definite advantage in regression analysis based on only 29 cases (one missing case). The results of the factor analysis are shown in table 2.

The level of educational attainment in a village, EDUCATION, is a factor score that combines the percentage of school-age peasants

TABLE 2
FACTORS RESULTING FROM THE ANALYSIS OF 10 COMPONENT VARIABLES

	EDUCATION	MOBILIZATION	MARKET
JUNIOR1	.90	-.01	-.18
JUNIOR2	.86	.38	-.10
PRIMARY2	.83	-.01	-.27
PRIMARY1	.81	-.42	-.23
TOWNMEET	.06	.83	-.05
COUNTYMEET	-.14	.72	.30
DMARKET	-.28	.08	.81
DCOUNTY	-.06	.11	.80
DCITY	-.35	-.22	.74
CADRE	-.08	-.44	-.32
% of total variance explained	31.2	18.0	22.0

NOTE.—Variables (see text for extended definitions) with factor loadings of .50 or above define the factors. JUNIOR1, percentage of middle schooling 10 years before survey; JUNIOR2, percentage middle schooling at time of survey; PRIMARY2, percentage primary schooling at time of survey; PRIMARY1, percentage primary schooling 2 years before survey; TOWNMEET, town meetings; COUNTYMEET, county meetings; DMARKET, distance to local market; DCOUNTY, distance to county market; DCITY, distance to city market; and CADRE, percentage cadres.

who graduated from primary school 10 years before the survey and in 1985, the time of the survey, and who graduated from junior middle school 10 years before and in 1985. The aim was to measure the average educational levels of the village that pertain to the age groups that are most likely to provide peasant entrepreneurs.

The market access (MARKET) variable was constructed to measure the physical proximity of market opportunities to the village.²⁶ It is a factor score that combines three locational measures of market access: the distance to the standard marketing town, the distance to the county town, and the distance to the nearest city. Our assumption in creating the MARKET variable is that these three market levels constitute the major opportunities for peasant entrepreneurs. Villages that are closer to all three levels have reduced costs and enjoy better access to informal market networks that provide current market information and to the social contacts that facilitate the negotiation of business deals.

Our measure of the bureaucratic mobilization factor (MOBILIZATION) combines the following variables: the numbers of times in a year that village cadres were called to the township for meetings, the number of times in a year that village cadres were called to the county government for meetings, and the ratio of cadres in a village to the number of households. Contrary to our expectations, the village cadre ratio correlated negatively with this factor; villages with proportionately fewer cadres tended to have more meetings.

The more significant question refers to the content of the meetings. Bureaucratic mobilization in the Maoist era typically involved calling village cadres to meetings in the township and county governments to give them detailed directions for policy implementation in their villages. When cadres returned from these meetings, they were expected to mobilize villagers to carry out the instructions they received from their bureaucratic superiors. It is an approach to grassroots politics that seeks to elicit participatory involvement in the implementation of central directives. How can we be sure that the cadre were encouraging economic reform? We are assuming that public discussions by the cadre must conform to party policy, but, of course, we do not know what went on in private negotiations between cadre and peasants. The questionnaire provides some evidence: the bureaucratic mobilization factor score correlated .24 with a dichotomous variable that summarized cadre opinion to the effect that economic reform was their primary task.

As a test of the individual-level (but aggregated) variables, we regressed the four measures of household enterprises on the three predictors of market participation: average education, household income, and market access, as shown in table 3. The results are readily summarized: only access to the market makes a significant contribution to the prediction of the four household enterprise measures. In a separate analysis (not reported here) the village education and 1980 mean household income variables have significant positive effects on the determination of the mean 1984 household income after market reform. But these same variables appear not to have a significant effect on the level of peasant entrepreneurship across villages. This fact notwithstanding, the finding for market access supports the view that once the restriction on market participation is lifted, larger proportions of households in villages located closer to the market centers respond to the opportunity to establish private household businesses.

The North-inspired institutional perspective is examined quantitatively in table 4. This test uses the market access factor score that proved itself in table 3, but it must now be reinterpreted as reflecting the village-level advantages that are associated with physical proximity. In table 3 we emphasized the advantages of market proximity for individual households. The alternative interpretation emphasizes the village-level institutional arrangements such as information networks, transportation conditions, and long-term village alliances that sustain trust (and cut transaction costs). In other words, there is more to distance than individual advantage.

The bureaucratic mobilization index is by definition a measure of organization, and the place of this phenomenon in China's institutional structure has already been discussed. It is a formal variable—the content of the meetings is not specified other than the general fact that

TABLE 3

REGRESSION ANALYSIS OF FOUR MEASURES OF HOUSEHOLD MARKET PARTICIPATION USING INDIVIDUAL-LEVEL PREDICTORS

	INDEPENDENT VARIABLES			<i>R</i> ²
	MARKET ^a	EDUCATION ^a	INCOME	
1. Log SHOPS	.41*	-.10	.05	.06
2. Log TOWNSHOPS	.45*	-.15	-.23	.11
3. Log PRODUCT	.40*	-.15	-.04	.08
4. ZSUMMARY	.45*	-.13	-.13	.10

^a Factor score.

* Significant at the .05 level or better (one-tailed test). Numbers are partial regression coefficients (betas).

they include discussions of economic reform—but it is the formal dimension that is required by our hypothesis.

The third variable is county location, coded 1 for Tongan and 2 for Longhai. This variable was included in preliminary analyses as a control on context, and it still serves that purpose, but it is now possible to make a post hoc interpretation, in line with North's theory. The fact that the villages in Longhai county have higher proportions of entrepreneurs may reflect the institutional arrangements specified by North's theory. It is reasonable to suppose that these institutions, insofar as they penetrate the local organization, function more strongly at the county level. Village-level organization is simply too weak and variable to perform functions like rule definition, monitoring, and insuring compliance. Meanwhile, we have positive evidence that these functions are embodied more strongly in the social structure of Longhai county than in that of Tongan. We noted earlier that Tongan county has been administered by the Xiamen municipal government, and this legacy has resulted in a county government with a lower level of political and administrative competence. Longhai county by contrast has a national reputation as an exemplary county.

Table 4 shows the regression of the four estimates of household enterprises when analyzed by these three variables. The market access index is a positive predictor as before, and Longhai county location is also positive. The bureaucratic mobilization factor is a significant negative determinant of peasant entrepreneurship rates in all but one equation. The equation in which bureaucratic mobilization does not have a significant effect on the level of household enterprises concerns the large-scale versions of the generally acceptable "sideline production." Perhaps this form of market participation is more adapted to the economic environment and is therefore less affected by cadre activities. On the other hand, bureaucratic mobilization has a significant negative effect on commercial ventures that prior to market reform

TABLE 4
REGRESSION ANALYSIS OF FOUR MEASURES OF HOUSEHOLD MARKET PARTICIPATION
(*N* = 29) USING STRUCTURAL MEASURES

	INDEPENDENT VARIABLES			<i>R</i> ²
	MOBILIZATION ^a	MARKET ^a	COUNTY	
1. Log SHOPS	-.50*	.35*	.39*	.34
2. Log TOWNSHOPS	-.51*	.31*	.34*	.30
3. Log PRODUCT	-.28	.35*	.31	.17
4. ZSUMMARY	-.50*	.35*	.42*	.36

NOTE.—Numbers are standardized partial regression coefficients (betas).

^a Factor score.

* Significant at the .05 level (one-tailed test).

were “alegal,” if not illegal. For this reason private merchants, traders, and shopkeepers can be expected to be more wary in responding to any intensification of the village political and moral climate than production-oriented entrepreneurs.

Discussion and Conclusion

This report on peasant entrepreneurs in 29 villages in two southeastern Chinese counties has focused on the negative impact of continuing Mao-era mobilization practices. The central finding is that the proportion of entrepreneurial households is lower in those villages that have high levels of cadre activity in the villages. This relationship holds independent of the degree of market access and of county location, both of which have positive relationships.

It is appropriate at this point to mention a major objection that some might make to our interpretation of the key finding. Could it not be that local government turned to mobilization methods in the lagging villages in an attempt to get them moving? The question concerns the direction of causality and implies that the low levels of entrepreneurship in some villages elicit extra effort on the part of the township government. In cross-sectional research like this, direction of causality is always an open question, and it cannot be definitely answered here with the data at hand. We can only note that the negative impact of bureaucratic mobilization holds within each county despite their different institutional environment. That is what the control on county context implies. We note further that bureaucratic mobilization has significant negative effects on economic activities that are more sensitive to turbulence caused by bureaucratic mobilization, whereas it does not appear to have the same impact on production-oriented enterprises. Finally, given the lack of legitimacy of commerce in the prereform period, it seems unlikely that cadres would go out of their way to prod these villages to encourage more households to pursue private

commerce. In fact, they probably had their hands full with the many villages where merchants and traders leaped feet first into the new market arena. They could not have had much time for lagging villagers.

A second question is embedded in our interpretation of the positive effect of location in Longhai county. What exactly goes on at this level? North's theory turns on the reduction of transaction costs. In his discussion of the state, North deepens this idea when he identifies two ways that the "rules of the game," as embodied in a constitution or a body of unwritten customs, work. These charters specify "the fundamental rules for competition and cooperation which will provide a structure of property rights . . . for maximizing the rents accruing to the ruler"; second (and within the framework of the first and more general task) they "reduce transaction costs in order to foster maximum output of society and, therefore, increase tax revenues accruing to the state."²⁷ Thus reducing transaction costs is only possible if the fundamental rules for the competition and cooperation have been set. North is not talking about market efficiency in the usual sense. That results from the proximity and better information of the traders, and Schultz has identified the city, especially industrial cities, as the chief facilitators of this type of efficiency.²⁸ For Schultz, urban-industrial organization increases the efficiency of product and factor markets, and for that reason agriculture in proximity to such urban centers is more profitable. Although the two kinds of efficiency overlap, it would seem that North is more concerned with the factors that insure that the market functions at all.

It is North's conceptualization of the fundamental role of the state that is at issue here, especially in our interpretation of the negative impact of bureaucratic mobilization. In his view, market efficiency occurs within the framework of the "rules of the game," and, logically, rule definition must be prior to efficiency. It is here that we believe the bureaucratic mobilization variable articulates with North's theory. Our argument is simply that these cadre-led meetings, even when they exhort the peasants to become more entrepreneurial in the marketplace, muddy the waters of stable economic understandings that are embedded in institutional arrangements. As we noted, these bureaucratic disturbances are all the more unsettling given the fact that the fundamental rule of the game, according to North, is not yet in place. That "rule" is private property.

This elaboration of North's argument turns on the distinction between rules of the game embedded in stable institutional arrangements versus those that are enunciated by local cadres. There can be little doubt that the latter is a weaker form of social context than laws and procedures that have acquired legitimacy over time by virtue of their contribution to the economy. In a country like China, where the relevant laws and other institutional arrangements are not yet in place, the

lack of credibility of the local cadre is accentuated. More generally, cadre “noise” reduces the predictability of economic activity, and it is for this reason that the entrepreneurs stay home. This mechanism does not deny the role of infrastructure and efficiency, as reflected in the market-access variable and also in county location. It simply reminds us that roads and bridges, the policing of weights and measures, and the increased efficiency of economic transactions still omit what is fundamental to economic life: the possibility of calculating future profits.

Appendix

The Methodology of Informant Surveys

In view of the novelty of the data-collection technique used in this study, some additional comment on the informant survey is in order. It is a rapid, low-cost data collection technique for gathering information about social units larger than the family but smaller than a province. It depends on one or a few informants in each village who respond to survey-type questions about the village, not about themselves (except as control variables). Unlike key-informant interviewing, which is an exploratory technique typically employed in one village and with a range of specialized informants, the informant survey uses a questionnaire that is administered uniformly across villages. If the questions refer to institutions and patterns in the village, as this one does, then structural comparisons are possible. The data are then analyzed statistically, but inasmuch as the unit of analysis is the group, not the individual, new types of indices are both needed and encouraged. Thus, we used factor scores in this study in order to capture the different aspects of bureaucratic mobilization that could not be comprehended by a single question.

Asking informants questions that require them to aggregate individual or household characteristics, as was done here for education and entrepreneurship, may sometimes overextend the technique. Most informants cannot make judgments about such things as nutrition levels, infant mortality, or average personal satisfaction. On the other hand, many informants, especially in small villages, can estimate percentages (possibly in the form of “none, some, most, or all”) of houses with windows, solid floors, etc. Alternatively, one can ask for raw numbers and calculate the percentages, allowing for error. In the present study, the cadres were well informed about the topics under discussion, and in many cases they consulted extensive village records. Still, one can expect measurement error, even after constructing composite scores. The only recourse then is to assume that measurement error is random and that any correlations that are found hold despite such error.

In reply to the specific question of whether one can trust the informants, there are a number of replies. First, there is no reason to believe that they are any less trustworthy than household heads. Village leaders are probably sensitive about certain political areas, just as households are sensitive about income and sex, but that is not an objection in principle. The questions in informant surveys are usually quite nonthreatening, and, in the case of village leaders, one must ask why a village leader would want to distort or lie about such topics as how many meetings the local cadre has held in the last year.

Note also that most informants respond in the presence of other villagers, so misrepresentation is risky, even if the village leader is clever enough to think of the "wrong" answer on the spot. If anyone is going to lie, it would be the isolated household head who is asked about things that cannot be checked. Like household heads, village informants may have systematic biases. However, it is a task of analysis, when the requisite data are available, to identify and control on these. For a fuller discussion of this technique, see Frank W. Young, "The Informant Survey as a Method for Studying Irrigation Systems," *Journal of Asian and African Studies* 20 (1985): 56–71.

Notes

* We thank Thomas Lyons, David Weakliem, and Martin Whyte for comments on an earlier draft.

1. Janos Kornai, *Contradictions and Dilemmas: Studies on the Socialist Economy and Society* (Cambridge, Mass.: MIT Press, 1985).

2. See James R. Townsend, *Political Participation in Communist China* (Berkeley: University of California Press, 1967).

3. Janos Kornai, "'Hard' and 'Soft' Budget Constraint," *Acta Oeconomica* 25 (1980): 231–45.

4. See Istvan Gabor, "The Second (Secondary) Economy," *Acta Oeconomica* 22 (1979): 291–88; and David Stark, "Bending the Bars of the Iron Cage: Bureaucratization and Informalization in Comparative Perspective" (paper presented at the eighty-second annual meeting of the American Sociological Association, Chicago, August 1987).

5. Susan Shirk, "The Political Economy of Chinese Industrial Reform," in *Remaking the Economic Institutions of Socialism: China and Eastern Europe*, ed. Victor Nee and David Stark (Stanford, Calif.: Stanford University Press, 1989).

6. Y. H. Kueh, "Economic Planning and Local Mobilization in Post-Mao China," *Research Notes and Studies*, no. 7 (Contemporary China Institute) (1985).

7. Located in country towns, the county government administers on average about 25 townships (*zhen* and *xiang*).

8. Kueh, "Economic Planning and Local Mobilization in Post-Mao China."

9. Vivienne Shue, "The Fate of the Commune," *Modern China* 10 (1984): 259–83.

10. See Victor Nee, "A Theory of Market Transition: From Redistribution to Markets," *American Sociological Review* 54 (1989): 663–81; and Victor Nee and Su Sijin, "Institutional Change and Economic Growth in China: The View from the Villages," *Journal of Asian Studies* 49 (February 1990): 3–25. The market transition theory maintains that the more complete the shift to market coordination, the less likely that economic transactions will be embedded in networks dominated by cadres, and the more likely power—control over resources—will be located in market institutions and in social networks (*guanxi*) of private buyers and sellers. Above the village level we expect cadres to continue to dominate economic activity because market transition had been partial or incomplete at these levels. Overall, at the village level where markets rather than collective institutions coordinate the economy, cadre power has declined. But in villages where collective institutions remain strong, cadres can be expected to continue to have a dominant role in economic activity.

11. For a provocative discussion of the extent of local autonomy in Maoist

China, see Vivienne Shue, *The Reach of the State* (Stanford, Calif.: Stanford University Press, 1988).

12. Gordon White, "The Impact of Economic Reforms in the Chinese Countryside," *Modern China* 65 (1987): 411–40.

13. Martin K. Whyte, "Who Hates Bureaucracy? A Chinese Puzzle," in Nee and Stark, eds. (n. 5 above).

14. Martin K. Whyte, "Bureaucracy and Modernization in China: The Maoist Critique," *American Sociological Review* 38 (1973): 149–63.

15. See G. William Skinner and Edwin Winckler, "Compliance Succession in Rural Communist China: A Cyclical Theory," in *A Sociological Reader on Complex Organization*, ed. Amitai Etzioni (New York: Holt, Rinehart & Winston, 1969), pp. 410–38; and Franz Schurmann, *Ideology and Organization in Communist China* (Berkeley: University of California Press, 1968).

16. Estimates of the number of peasant entrepreneurs fluctuate from as high as 14% to 2.3% depending on the definition of what constitutes a "specialized household" (*zhuanye hu*). See Victor Nee, "Peasant Entrepreneurs and the Politics of Regulation in China," in Nee and Stark, eds. (n. 5 above).

17. Theodore W. Schultz, *Transforming Traditional Agriculture* (New Haven, Conn.: Yale University Press, 1964), p. 175.

18. Gustav F. Papanek, "The Development of Entrepreneurship," in *Entrepreneurship and Economic Development*, ed. Peter Kilby (New York: Free Press, 1971), p. 327.

19. Theodore W. Schultz, ed., *Distortions of Agricultural Incentives* (Bloomington: Indiana University Press, 1978). For analyses of such distortions in Chinese agricultural development, see Nicholas R. Lardy, *Agriculture in China's Modern Economic Development* (Cambridge: Cambridge University Press, 1983), and "Dilemmas in the Pattern of Resource Allocation in China, 1978–1985," in Nee and Stark, eds. (n. 5 above); Dwight H. Perkins, *Market Control and Planning in Communist China* (Cambridge, Mass.: Harvard University Press, 1966).

20. Nee, "Peasant Entrepreneurship and the Politics of Regulation in China."

21. Douglass C. North, *Structure and Change in Economic History* (New York: Norton, 1981), p. 18.

22. Theodore W. Shultz, *The Economic Organization of Agriculture* (New York: McGraw Hill, 1953).

23. In the Fujian household sample ($N = 624$) 52% of households expressed uncertainty about the fate of market reforms; whereas 31% believed that market reforms were stable.

24. This study focuses on a random sample of 30 villages in two counties, Longhai and Tongan, in Fujian province. These counties have historically been commercially oriented rural districts serving the urban centers of Xiamen (Amoy), Zhangzhou, and Chuanzhou, popularly called the "Golden Triangle of Minnan." Both counties exhibit surprising diversity in geographical conditions so that villages in hilly and mountainous locales, in fertile alluvial plains, and along the seashore are included in the sample. Another feature of both Longhai and Tongan counties has been the rapid increase since 1978 in the production of cash crops for export. It is the proximity to urban markets that has resulted in more rapid commercialization there than in the hinterland areas distant from urban centers. Commercialization in Longhai and Tongan counties has also been marked by rapid growth in the size and number of rural markets. The revitalization of rural markets is largely a product of the post-Mao market reform.

25. See the methodological Appendix for a description of the informant survey.

26. The county classifies the local market as a primary level market. The next level is the standard market town where a greater variety of goods is sold and where a number of permanent shops are located. An intermediate marketing level appears in the towns and county towns that feature specialty markets and a more comprehensive array of shops and retail outlets. These local markets, however, have been bypassed by an increasing number of peasant entrepreneurs who now send their products directly to the urban markets, to nearby cities, to other parts of Fujian province, and to other marketing regions of the country. Thus peasants participate in multilevel marketing systems. Whereas virtually all peasant households use the local markets to market sideline products and purchase goods for household consumption, peasant entrepreneurs produce mainly for the larger and more diversified markets of the county town and the nearby cities.

27. North, p. 24.

28. Schultz, *The Economic Organization of Agriculture*.

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